



“Union Budget 2010 suffering from Major Flaws”*

Summary of the Public Speech

“There is a paradigm shift in the budget presented by Finance Minister on 26th February, 2010. It has a right bias towards agriculture, social sector, school education, infrastructure, the poor and down trodden and the growth of Indian economy” said **Prof. J.D. Agarwal, Chairman & Professor of Finance, Indian Institute of Finance**, while delivering a Public Lecture on “Analysis of Union Budget 2010” at India International Centre, New Delhi.

According to Mr. Pranab Mukherjee “there is nothing which is flawless in democracy so we need to find flaws in whatever we do. The same holds true in case of Union Budget” There are many good points which may turn it to be an excellent budget yet it suffers from some major flaws said Prof. J.D. Agarwal.

“It is my endeavour to present the impact of various budget proposals and the possible alternative strategies. Hundreds of alternative solutions are feasible to achieve the given goals so long as one is very clear about goals, their priorities and the route one intends to adopt” said Dr. Agarwal There is a mismatch between the challenges outlined by the Finance Minister, the budget proposals and challenges the economy is currently facing. According to Prof. Agarwal, the major challenges before the economy and the government are : controlling inflation, reducing unemployment, growth with sustainable development particularly in the countryside, maximizing agricultural productivity & rural development, banking & financial institutions reforms, tax reforms, fiscal consolidation, curbing parallel black economy and reducing the widening inequalities of incomes and wealth.

India lives in villages and is dependent on agriculture said Prof. Agarwal. Its engine of growth and development has its center of epic in rural India. So long as the quality of life of the people living in villages, their income level, productivity of human resources and the natural resources spread through the length and breadth of India is not harnessed properly, India cannot claim to have developed irrespective of success stories from trade, business, stock markets and scientific field etc. While there is an emergent need for a balanced growth in every sector of the economy, the agriculture & rural sector has not been given its due share in Union Budgets in the past as much as it has been focused by Mr. Pranab Mukherjee in his proposals felt Prof. Agarwal.

Nine percent growth envisaged by Finance Minister may be a reality unless natural or man made disasters occur in India or world economy. In India the environment at all levels is very competitive. Growing in India is a compulsion for survival. The family commitments and the future needs compel every individual / organization to work and work very hard to grow. It is only when people don't get opportunities, or state through its regressive policies or through excessive controls, licensing and now in the name of regulation does not allow organisations to grow and the growth is affected adversely opined Prof. Agarwal.

* *Brief Summary of the Public Lecture delivered at India International Centre, Delhi on 4th March 2010 on “Analysis of Union Budget 2010” by Professor J.D. Agarwal, Chairman & Professor of Finance, Indian Institute of Finance, Delhi & G-Noida, INDIA. jda@iif.edu; www.iif.edu*



He emphasized that if the government removes hindrances and creates an environment for growth, India would certainly grow and achieve a double digit growth rate as India's economic fundamentals are strong, people are hardworking and intelligent.

Speaking on Foreign Direct Investment, Prof. Agarwal said that in consolidating growth, government plans to raise Rs 25,000 crores this year and budgeted to raise 40000 crores next year. Indeed it is a good strategy. In the budget proposals the government has referred to improving the investment environment. India is at present getting 30 billion dollar worth of FDI. Given its economic fundamentals it has the capability to get atleast 45 billion \$. India needs to have a more appropriate strategy to create necessary investment environment in the country.

The Finance Minister has also referred to improving the banking and financial institutions with the focus on rural sector. While the suggestions are laudable, however, the present state of banking and its branches and the loan disbursement in the rural sector is miserable feels Prof. Agarwal. Out of 9000 branches of private banks only 1138 are in villages with a total loan portfolio of 513593 crores, only 7353 crores have been disbursed in villages. Even the branches of PSU banks excluding State Bank of India have out of 40000 branches only 13000 branches in villages. Banks in India whatever branches they have in villages mobilise resources and fly them to urban centers. According to him, the finance Minister did not pay enough attention to the collection of NPAs, which is becoming a major drain on the resources of banks in India, affecting the efficiency of banks and the interests of stakeholders.

While appreciating, The Finance Minister's focus on agriculture growth as right and justifiable, Prof. Agarwal said that India's agriculture need much more attention by the central and state government. But much bigger attention needs to be paid to maximize agricultural productivity and natural resources available in rural India. Seeds, fertilizers, training , agricultural, equipment, soil testing, irrigation are the key to maximize agricultural productivity. An attempt needs to be made to create an environment in rural India by stopping the brain drain from rural India to Urban centers. Opportunities need to be created to utilize human resource particularly the disguised unemployment by developing alternate vocational employment like handicrafts, SSE, plantations and the work of rebuilding rural India. Good quality schools, vocational institutions and health centers need to be created in rural India so that the migration is reversed from urban to rural areas.

The proposals of 173000 crores to be invested in infrastructure are welcome and timely. In order to increase the productive capacity of India we need an excellent infrastructure by way of railways, roads, ports, power and irrigation. For that PPP should be encouraged. Prof. Agarwal feel a part of foreign exchange reserves may be utilized through the lending mode. An attempt should be made to maximize utilization of sanctioned loans from IMF, World Bank and ADB. Build Operate Transfer (BOT) model could be adopted as it has proved to be successful in many countries.

Incentives for hydro, nuclear and solar based projects should have been considered in addition to the proposals made by the Finance Minister as cheaper and quality power is the key to India's growth felt Prof. Agarwal.



While lauding the Finance Minister strategy of inclusive growth by enhancing the investment in social sector, Prof. Agarwal said that the allocations are very appropriate. The focus of increasing allocation to school education by raising it from 25338 crores to 33214 crores and for higher education from 14389 crores to 16690 crores is laudable. His strategy to reduce allocation for higher education, non planned from 6437 to 5694 crores and for UGC from 3977 crores to 3450 crores is also good. The institutions of higher learning who are old and matured should try to be self sufficient.

According to him, Public Private participation should be increased both at the school & higher education level. In any case the increase in the allocation for school education is necessary for implementation of RTE Act.

The plan allocation to Ministry of Family and Health Welfare being increased to Rs. 22500 Cr. is good said Prof. J.D. Agarwal. According to him, despite the best efforts of the government, health for poor, women and children is a nightmare. It has even become costly with the opening up of the economy. India needs good government aided health centres under Public Private Partnership (PPP) category. Non Government Organisation (NGOs) should be encouraged both in education and Health to participate with a strict regulation and control so that charity is not misused emphasized Prof. Agarwal.

The proposals of providing Rs. 66100 Cr. for rural development and Rs. 48000 Cr. for rural infrastructure programs and for urban development and housing are laudable. However encouraging cooperatives could provide a good solution to massive challenge felt Prof. Agarwal.

According to him, the Finance Minister has shown a human face to the budget by showing his concern by creating a National Social Security for unorganised sector workers and providing the benefits of Rashtriya Swastha Bima Yojana to National Rural Employment Guarantee Program (NREGA) workers and through contributions to New Pension Scheme (NPS).

The Allocations to defence are marginal opined Prof Agarwal. He strongly feels that larger allocations should have been made to set up Courts and appointment of judges to provide expeditious justice. Mediation centres need to be developed in addition to providing mobile courts, to help litigants in rural areas to provide justice at door step besides the setting up of the National mission.

Prof. Agarwal said that it is heartening to note that the fiscal deficit will be curtailed to 5.5% of the GDP as against 6.5 %. fiscal deficit for 2009-10. As a part of fiscal consolidation the government should try to maintain a tab of 5% fiscal deficit. In case government intends to spend more it should raise funds. The ratio of revenue/non-revenue earning of Government of India (GOI) is too high opined Prof. Agarwal. At present it is 5/1. It should not be more than 4/1 so that there is less burden on taxpayers and better compliances. Government need to search for better alternative non-tax revenues said Prof Agarwal.

While emphasizing on accountability, Prof Agarwal said that in case there are variances in the amount demanded, budgeted and actual spending is more than 10%, Finance Ministry



should seek necessary detailed explanation from the concerned department or the ministry. The budget should reflect a nearly realistic situation.

On Direct Tax front, The Finance Minister has been very kind to provide relief for tax payers said Prof. Agarwal. The people with income of Rs. 4 Lakh and above would get a benefit of Rs. 10,000 for each Rs. 1 Lakh additional income i.e. Rs. 10,000 on an income of Rs. 4 Lakh and Rs. 50,000 on an income of Rs. 8 Lakh and above. There was no relief for people earning 1.6 Lakhs who needed more care and attention particularly when food-grain inflation is about 18% and inflation is at 8.5% said Prof. Agarwal.

He welcomed the Finance Ministers proposals on reducing the surcharge on domestic companies from 10% to 7.5% and increasing the Minimum Alternate Tax (MAT) from 15% to 18%. "Increasing MAT by 3% would discourage tax planning and may give rise to tax evasion. The companies may tend to declare lower book profit" said Prof. Agarwal.

Commenting on Indirect Tax proposals, Prof. Agarwal said people in general including business and industry were wondering whether financial package may be withdrawn in the wake of exceptionally good industrial growth. Moderate increase in indirect taxes came as a big relief to business and industry. However, the tax proposals would fuel inflation technically as he states by 0.4% but practically by more than 2%. The proposals on indirect taxes including imposition of central excise tax on petrol and diesel has evoked strong reactions. Prof. Agarwal feels that Finance Minister could have avoided raising the central excise tax on petrol and diesel and instead could have thought of implementing partially Kirit Parekh Committee report. That would have helped oil companies to reduce losses and government to have more revenues at the existing excise rates without such strong reactions.

However, Prof. Agarwal feels special clean energy cess @ Rs. 50 per ton on coal to promote clean environment would put burden on railway finances, thermal power plants and the poor who do not have access to gas.



भारतीय वित्त संस्थान

Indian Institute of Finance

invites you to the Public Lecture on

Analysis of Union Budget 2010

by

Professor J.D. Agarwal

Chairman & Professor of Finance,

Indian Institute of Finance, Delhi & G-Noida

at India International Center, IIC Auditorium

40, Max Mueller Marg, Delhi 110003

on Thursday, March 4th, 2010

from 2:00 p.m. - 5.00 p.m.

RSVP : (Convenor)

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Dr. Agarwal is the founder Chairman & Director of Indian Institute of Finance & Editor-in-Chief of Finance India. He is a leading economist and financial expert. In the past he has taught at Shri Ram College of Commerce, (University of Delhi), Indian Institute of Technology Delhi, Ahmadu Bello University, Nigeria and Cleveland State University, U.S.A.

He is an original thinker, excellent orator and author. He is Visitor's (President of India) Nominee on The University of Delhi & The Pondicherry University Court.

He has written over 15 books (authored over 5,500 pages), edited over 93 volumes of Finance India (edited more than 25,200 pages), published more than 142 research papers, 500 case studies and working papers. He has been supervisor of several Ph.Ds, M.Tech (systems & management) dissertations, MBA & M.Sc. (Finance) dissertations and research projects by senior government officials sponsored by GOI on study leave at IIF. He has lectured in more than 500 MDPs and trained more than 10,000 senior executives from government and industry; delivered more than 400 Radio /TV talks/interviews on economic issues. He has organized/participated in more than 800 seminars and conferences world over, either as a keynote speaker, chairman of the sessions or as a participant. He has also assisted more than 100 Institutes/Universities/Organizations globally, as an expert.

He has contributed significantly to promote the field of finance in the last over three and a half decades through education and research. One of his most important contributions is to found the prestigious **Indian Institute of Finance** in 1987, without the government aid. His research, writings, speeches, talks and interviews on AIR and TV have had an important bearing on government policies including *change in the budget timing from 5 pm to forenoon*.

His students hold / have held ministerial positions in Government of India, State Govts., politics, judiciary, Bureaucracy, legal, media, accounting, economics, business and industry, World Bank and senior positions in academics as professors and deans internationally. He has won several citations and awards and quoted widely in national dailies. He is on the editorial board of several international journals. His current research interests are in the area of corporate finance, investment, public finance & international finance.