Weekly Notes

Central Aid to States

CENTRAL aid to the States presents an ever more chaotic picture. The difference in circumstances when a State gets a grant and when it gets a loan is too subtle for ordinary minds. "Relief of displaced goldsmiths" qualifies for grants while "rehabilitation of displaced goldsmiths in the States" qualifies for loans; "development of border areas" gets grants while "development schemes in border areas" get loans. Further, some loans and grants are for specific purposes while others—such as ways and means advances-seem to be largely a matter of expediency.

It is difficult to see the rationale of lending to States. Constitutionally it is doubtful if the Centre and the States are separate entities, and loans between them look like a game of taking money out of one pocket to put it into another and then making the other pocket give it back with interest. Even if they are treated as separate entities, lending is becoming meaning less. The States are expected to owe the Centre Rs 3840 crores at the end of the new financial year; and given the rate of increase of their indebtedness it is highly unlikely that they will repay much of their loans. The loans might thus turn out to be a bookkeeper's misnomer for grants.

There is little to be said for the idea that asset-creating expenditure should be financed from loans. Firstly, asset-creating expenditure will not necessarily generate revenue from which debt might be serviced. 11 the distinction between current and capital expenditure must be made in Government budgets, the latter should only cover the purchase of revenue-earning assets, and the Government should see to it that they then earn the revenue. Secondly, even if revenue is obtained by States out of their investment, it is open to question whether, in their present penurious condition, the Centre should insist on a share of that revenue in the form of debt services.

There is such similarity between the heads of expenditure of the Centre and those for which it gives States loans and grants that one begins to wonder if it is really necessary to finance the same things in so many different ways. It would simplify matters and perhaps aid national unity if we had public services and projects jointly financed and manned by the Centre and the States on a proportional basis; it would also assist in maintaining uniform standards all over the country and give States the incentive to raise more revenue in order to participate in more cost sharing schemes. Then, perhaps, the Finance Commission could be given the more interesting task of specifying the types of schemes in whose respect cost should be shared and working out the proportions of costs which various States should be required to contribute.

Import Entitlements on Way Out?

A *Correspondent writes :*

TAX credit certificates are to be issued upto a maximum of 15 ser cent on exports after February 28 this year. The amount of the certificates can be offset against the assessee's tax liability; alternatively, the assessee will qualify for refund. Assuming that a company qualifies for the maximum relief and is subject to the standard tax rate of 50 per cent, as much as 30 per cent of its export revenue would be free of tax. This is a substantiul concession.

This scheme raises three questions. Will it apply to all exports? Will it replace or supplement the import entitlements granted under export promotion measures? What will be the rates of deduction (or subsidy) for exports of various commodities and to various destinations?

It is widely believed that the tax credit scheme is meant ultimately to replace import entitlements which are proving rather expensive in terms of both foreign exchange and tax leakage. Import entitlements are available, in all, on only about one-fourth of total exports or about Rs 200 crores. The lax concession scheme would have to be so devised as not to suddenly upset the existing import entitlements, but to gradually replace it with a. tax subsidy equivalent to the existing (unofficial and unaccounted) premia *on* import licences which make exports worthwhile. It may not be possible to save the entire foreign exchange outgo of somewhere between Rs 80 crores and Rs 140 crores under entitlements at present because, for one thing, the guptas of established. importers have been slashed to the extent of imports under the entitlement scheme and these imports are necessary for increased production. Savings can be effected only by a more priority-conscious import policy which would mean starving some industries, if necessary.

Traditional exports did not, by and large, qualify for import: entitlements. In their case, the rates of tax subsidy will have to strike a balance between two considerations : they have to be low enough to avoid excessive loss of revenue and high enough, where feasible, to operate on price elasticities of external demand. True, during the last two years of booming exports, traditional exports have gone up without many crutches, but this happy trend may not continue. While the subsidies for traditional exports have to be lower than those for new commodities, the problem would be complicated during the transitional period by the continuation of import entitlements for new commodities.

It is also worth examining — though this will further complicate the scheme — whether the subsidy should be uniform for exports to all destinations or whether it should be confined to or weighted in favour of exports to the convertible currency areas. A uniform subsidy would be, of course, easier to device and administer but an ideal scheme of tax incentives should attach a premium to earning convertible foreign exchange.

Semantics on Deficit

THE Finance Minister's claim to have produced a Budget "which holds every promise of being a balanced one, if not a surplus one" has not gone unquestioned. Attention has been focussed on the fortuitous circumstances which have made the small surplus possible—e g, the teceipt of Rs 191 crores on account of PL 480 deposits—and on the concept of deficit most meaningful in the context of discussion of inflation.

What exactly constitutes a budget surplus or deficit from the point of view of changes in aggregate monetary demand in the economy? In the traditional budgetary parlance of this country, deficit or surplus is represented by the changes in the balance of outstanding Treasury Bills with the