

March 5 News breaks. We analyze. You invest. Get Barron's Take.

More Than Meets the Eye at Cooper ...

Investors are overlooking the positive aspects of the contact lens maker's ... [More ▶](#)

BARRON'S

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)[Order a reprint of this article now](#)

THE WALL STREET JOURNAL

WSJ.com

OPINION ASIA | MARCH 1, 2010

India's Budget Bore

Friday's plan wasn't a disaster, but it didn't advance reforms, either.

By SUMAN BERY

Investors reacted with a yawn to Friday's budget presentation by Indian Finance Minister Pranab Mukherjee—the Mumbai market closed almost flat on the day. That was less an endorsement of the government's reform agenda and more a sigh of relief that the Minister was prepared to reduce the fiscal deficit after two years of a major expansion.

Mr. Mukherjee mostly accepted the recent recommendations of the 13th Finance Commission, a government committee that by law recommends reforms to the president. For the first time, Delhi has signed up to a fiscal adjustment path explicitly designed to cap domestic government debt, reducing fears of a clash between public-sector spending and the private sector's financing needs. That is what markets were probably initially cheering.

But in other ways the budget disappoints. Back in July, Mr. Mukherjee had optimistically promised that India's states would adopt an integrated goods-and-services tax by the start of the new fiscal year on April 1. A GST will be a major step toward integrating the domestic market and will allow a myriad of state and local taxes to be refunded to exporters, improving their competitiveness. But thanks to various constitutional and implementation problems, the tax's introduction has been postponed by a year.

Another measure unveiled last July was a complete reform of India's fiendishly complicated and exemption-ridden system of direct taxation. The intention was always to have the new direct tax code take effect from April next year; however it was widely expected that the draft legislation would be unveiled in this budget. Here, again, Delhi was forced to extend the time for consultation.

Equally worrying was the government's inability or unwillingness to deregulate gasoline and diesel fuel prices. Despite India's heavy and growing dependence on imported crude oil, the government doesn't automatically pass on price fluctuations to final consumers of gasoline, diesel, kerosene and bottled cooking gas. This creates huge problems for publicly owned energy companies, which are stuck paying the price differential, and for Delhi, which has to provide budgetary support by periodically issuing oil bonds. The price controls have also effectively shut down the private energy distribution sector.

I was a member of a government panel tasked at the time of the last budget to give policy makers ideas on how to fix these problems. For both fiscal and equity reasons we recommended a flexible pricing regime for petrol and diesel, with upward adjustment in the prices of kerosene (largely used for rural lighting) and bottled cooking gas, as had two separate panels before us.

The finance minister's response in Friday's budget was distinctly underwhelming: "decisions on (the panel's)

recommendations will be taken by my colleague, the Minister of Petroleum and Natural Gas, in due course." At the same time, he reintroduced customs duties on imports of crude oil that had been waived at the time of the surge in oil prices, as well as raised central excise taxes on gasoline and diesel by one rupee (two U.S. cents) a liter. The latter move was used as a trigger for an unprecedented walk-out by the opposition Bharatiya Janata Party and some members of the government's support base, even as the minister spoke.

What a missed opportunity. When the Congress Party-led government returned to power last May, investors were relieved that the government's former, antireform Communist allies were ejected from the coalition. Mr. Mukherjee is the Congress Party's most experienced minister. He was expected to explore the full potential of further liberalization, navigating as much as possible the complex waters of the Congress's coalition. And the political calendar could not have been more favorable, with the government reasonably certain to serve out its five-year term and no major state legislature election till the end of the year.

Economic reform in India remains a slow and fitful process, with considerable posturing and positioning by coalition partners and resistance by key policy makers in the core of the Congress Party itself. So investors are perhaps inclined to applaud Mr. Mukherjee for at least donning the mantle of fiscal restraint. But if he wants to hear market applause this time next year, the finance minister will have to move more aggressively to expand the liberalization that has already sparked significant growth.

Mr. Bery is director-general of the National Council of Applied Economic Research in New Delhi.

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com