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QUID PRO QUO IN PUBLIC FINANCE

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THE CONCEPT

ORIGINATING from 16th century Latin, signifying "something for something", the term "*Quid Pro Quo*" has been elaborated by the *Chambers Twenty-First (21st) Century Dictionary* to mean "something that is given or taken in exchange for something else of *comparable value or status*" (*emphasis added*). That is, the processor result of exchanging has to be equivalent or equitable in character. As applied to public finance, that concept implies that a Government must be able to provide to its people benefits which compare favourably with the resources raised by that Government through taxation or otherwise.

All this had been well accepted in a number of scriptures which illuminated ancient India. *Vidur Niti* and *Shanti Parva* asserted that taxes should be as low as possible. Honey bees, who suck juice of flowers without damaging or polluting the petals, were eulogised as role models for Governments embarking on taxation. It was also laid down that the State should prepare estimates of expenditure and receipts, and appoint persons to administer programmes accordingly. It was even suggested that, unless there is an emergency, the ruler should not "ask for wealth" and "demand taxes" from the citizens. However, the State could take deposits from the people; but, these were to be returned after the war. Thus, a perpetual or long-drawn state of emergency could not be bargained for by the ruler.

While making it mandatory for the Council of Ministers to have a Finance Minister, *Manu-smruti* sounded a note of warning that "If the King coercively collects taxes, his kingdom is destroyed." *Rig-Veda*, the oldest book, ruled that people should pay taxes to the State. But, it also ordained the King to be powerful, ideal in his life, and strong enough to penalise in disciplined citizens. The underlying theme was "happiness for all" emanating from an "economics of abundance".

In the context of modern democracies, the slogan "No Taxation Without Representation" triggered the War of American Independence, leading to the loss of a major colony on the part of British imperialists in 1776. Little did the American people realise at that time that even the so-called representative governments could throw massive resources down the drain in mis-adventures like the one against Saddam Hussain's Iraq spearheaded by the United States, in alliance, in particular, with Britain (beneath Bush-Blair Axzis), at the dawn of the 21st Century, in utter disregard of the "*Quid Pro Quo*" concept of public finance.

The Indian Scene

In striking contrast to the US onslaught on Afghanistan and Iraq in recent years, the Kargil War of 1999 was a most genuine excuse in India's self-defence against illegitimate enemy occupation carried out stealthily. So, the entire expenditure there on, as also the Central cess imposed in this context, stood perfectly justified. The voluntary response of the people by way of liberal donations for the Kargil Defence Fund was also praiseworthy. But, this patriotic sentiment stood marred by the fact that part of the money so revised, having been stuck up at the level of some of the intermediaries, could not reach the Central Government's destination (Prime Minister's Office or Military Headquarters) expeditiously enough (or, it could *never* touch its destination point). Even if

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these intermediaries were certain State Governments (who might have preferred to retain these funds for meeting State-level disasters and other emergencies), it was a violation of the "Quid Pro Quo" doctrine of public finance. In consequence, people, in future, may be less responsive towards such appeals for voluntary donations, even though public memory tends to be proverbially short.

Service Tax: Before the presentation of the Indian Union Budget for 2004-05 on the 8th of July, 2004, service tax at 8% already existed on a limited range of services. It was being trumpeted or TV by the Government of India that the amount so raised would benefit the people in a variety of ways, through expenditure on expansion of infrastructure and the like, much more than the sacrifice undergone in bearing it. The Chidambram Budget of July 2004 sought to impose redoubled sacrifice on the people, simultaneously, by *widening* the coverage on a wide variety of other services, and *deepening* the same with an enhanced rate of 10% (an additional two percent). All this was proposed to be implemented *retrospectively*, with effect from April 1, 2004. That is, the Finance Minister did not mind asking people to pay for the period during which they had, obviously, not received any benefit in lieu thereof, a patently unfair proposition more so at the hands of a Government drawing support from (rather, depending for its survival on) the Left Front! Apart from that, any retrospective implementation, in itself, means colossal administrative waste calling for a review of the contracts that had already taken place under the erstwhile tax regime (such as the issue of new insurance policies). The attempt to tinker with the service tax in mid-stream also led to the nationwide strike of trucks resulting in massive loss to both Government and the private sector, apart from fanning the fire of inflation to the detriment of people in general. Again, during the rest of the financial year ending on the 31st of March, 2005, no commensurate benefit to the people is likely to accrue in lieu of the enhanced burden of the Service Tax. This is clear-cut failure of the "Quid Pro Quo" doctrine of Public Finance.

Education Cess: A Cess of 2% on most of the taxes in the name of education, as proposed in the Union Budget for 2004-2005 presented on the 8th of July, 2004, is, in itself, highly pernicious. Such a Cess is looked upon as legitimate only in the event of an emergency like war. It is most unfortunate if it is levied for the fulfilment of such a primary, basic "peace-time" function of providing Education. Even more unethical is the fact that the Cess is to be levied *retrospectively* with effect from the 1st of April, 2004, while there appears to be no chance of any part of the amount so raised for being used to promote educational development during the financial year ending on March 31, 2005. It means that the Cess on Education would be used for meeting Government of India's *consumption expenditure*. This is wholly unjustified and contrary to the doctrine of *Quid Pro Quo*.

Even otherwise, the consumption expenditure of the Government of India has been very much on the higher side. According to the Budget Estimates of July 2004, *Revenue Expenditure* appearing at Rs. 3,85,493 crore is much higher than *Revenue Receipts* projected at Rs. 3,09,322 crore (and still higher than the Tax Revenue of only Rs. 2,33,906 crore). On the other hand, as against *Capital Receipts* estimated at Rs. 1,68,507 crore, *Capital Expenditure* appears very much lower at Rs. 92,336 crore for the financial year 2004-05. This is a dangerous abuse of earmarked funds. So to say, the Central Government is borrowing money to meet its consumption expenditure in a big way. When a frame borrows money and uses it for meeting expenses of marriage or death dinner, he becomes the subject matter of widespread criticism. But when the Government stoops down to something similar, it may not attract even a routine debate in Parliament House known for its sensitivity.

Rajasthan Government Budget, 2004-05

It is a matter of happiness that the Government of Rajasthan's Budget for 2004-05 presented on 12 July 2004 by the Chief Minister, Vasundhara Raje, herself, has tried to promote the concept of "Quid Pro Quo". *Revenue Expenditure* projected at Rs. 19,588 crore is only marginally higher than *Revenue Receipts* estimated at Rs. 17,384 crore. Likewise, *Capital Expenditure* projected at Rs. 17,063 crore falls only marginally short of *Capital Receipts* estimated at Rs. 18,933 crore.

Again, while the Central Budget has verged toward a vicious chain of complications, the Rajasthan State has opted for easing and simplifying the tax structure. Thus, 1.15% is taken to be just one percent, while 6.9% is rewritten as seven percent. As such, it becomes easier for a tax-payer to find out what precisely he is parting with and what substantially he is receiving in exchange from the Government. No only that, the burden of Turnover Tax and Entry Tax on Petrol/Diesel amounting to 28% has been lowered to 20%. In its own small way, it is an anti-inflationary policy which the Government of India, too, now has been forced to adopt in the context of the annual rate of inflation having jumped up from 4.4% for the week ending 17 April 2004 to 7.96% for the week ending 7 August 2004 (almost twice in some four months' time). According to an assessment appearing in *The Economic Times* of 6 August 2004, more than half the retail price of Petrol was going into Governmental coffers, mainly Central.

Another highly welcome step of the Government of Rajasthan is the lowering of Stamp Duty on the transfer of immovable property from 11% to eight percent. More importantly, this part of the 2004-05 Budget was implemented instantaneously. Half-a-century back, this rate in some of the States was at the low of two-and-a-half percent. Over the decades, it was raised sixfold or so, leading to gross undervaluation of properties for purposes of registration. As these malpractices multiplied, tax evasion and corruption attained new heights, thus generating immeasurable dimensions of black money.

However, the Budget of a State has its own limitations. Unless the Government of India is able to live up to the *Quid Pro Quo* doctrine, people in general may continue to feel that they are being incessantly duped in this game of public finance. According to an estimate by Rajiv Gandhi, who was India's Prime Minister during 1984-89, the benefit actually flowing to the people is no more than 15 Paise, out of every Rupee spent by the Government. There is no evidence to show that things have improved in this regard since then. Rather, there might have been a back-gear movement, so that the citizen's reduced pie may be no more than 10 Paise out of One Rupee spent by Government, during 2004-05 Budget year.

References

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