SPEECH OF
SHRI VISHWANATH PRATAP SINGH,
MINISTER OF FINANCE,
INTRODUCING THE BUDGET FOR THE YEAR 1986-87*

Highlights

— *Setting up of the Small Industries Development Fund*
— *Introduction of Indira Awas Yojana*
— *Acceptance of Chakravarty Committee Recommendations*
— *Setting up of a National Open University and Model Schools*
— *The Goal of "Health for All" Adopted*
— *The Ganga Action Plan Launched*
— *Setting up of the National Wasteland Development Board*
— *Setting up of Power Finance Corporation*
— *Amendment in Gift Tax Act Proposed*
— *Introduction of MODVAT Scheme*
— *New Scheme of Excise Concession for Small Scale Units*

Sir, I rise to present the Budget for the year 1986-87.

The Budget is a powerful tool for achieving our socio-economic goal as laid out in the Plan. Our Prime Minister, Shri Rajiv Gandhi, reminded us not so long ago:

> "Development must be accompanied by equity and social justice—by removal of social barriers that oppress the weak. This is the essence of our concept of socialism."

These objectives have guided the formulation of this Budget.

The economic developments in the current year have been described in detail in the Economic Survey, which was placed in the House earlier this week. Therefore, I will confine my remarks to a few key feature of our economic performance.

* *Lok Sabha Debate*, 28.2.1986, cc. 295-342.

Growth in GNP in 1985-86 is expected to be between 4.50 and 5 per cent, which is close to the target envisaged in the Seventh Five Year Plan. This is a distinct improvement over the 3.50 per cent growth estimated for 1984-85. In contrast to the disappointing agricultural performance in 1984-85, when net output is estimated to have declined by 1 per cent, growth this year is anticipated to be about 3 per cent. Foodgrains production had fallen to 146 million ton in 1984-85. Despite drought in several parts of the country, we expect food output to be about 150 million ton in the current year.

After a slow start, industrial production has picked up and the rate of growth in October and November 1985 exceeded 8 per cent. For the financial year as a whole it is expected that the growth rate will be close to 7 per cent. The acceleration in growth of industrial output largely reflects higher product in the manufacturing sector, which had shown low rates of growth in the previous three years. It is heartening that the production response to changes in industrial policy has been positive.

An important priority of the Government is to improve the functioning of the infrastructure sectors. I am glad to inform the House that in the first ten months, thermal power generation registered an increase of more than 15 per cent over the corresponding period of 1984. Railway freight has also recorded a commendable increase of 9 per cent in the first eight months of this financial year. This is double the annual average rate of increase during the Sixth Plan. Despatches of coal increased by 10 per cent in the first eight months.

The increase in the Wholesale Price Index in the current year up to 8 February 1986 was 3.4 per cent as against 5.4 per cent last year. Among items of particular interest to the consumer, the largest increase in wholesale prices has taken place in wheat, pulses, fruits and vegetables, eggs, fish, meat, sugar and gur. On the other hand, prices of rice, condiments and spices, tea, coffee and edible oils have remained stable or have actually declined.

The House will recall that the last Budget ushered in major reforms in our system of direct taxes. At that time, many a prophets of doom had prophesied that revenues will fall and buoyancy of the tax system, such as it was, will be further eroded. Exactly the opposite has happened. Collections from major taxes have increased by 22 per cent over the previous year, which is the highest increase in a decade. Collections have also exceeded Budget Estimates by a large margin. What is even more pertinent is the 36 per cent increase (over Budget Estimates) in personal income taxes. In the current year, we have succeeded in reversing the declining trend in the ratio of direct taxes of GNP.

This is a testimony to the soundness of our strategy of increasing revenue yields through a combination of reasonable rates, simpler procedures and strong enforcement of tax laws. We have raised more from the rich by way of income-tax, and not less. The proof of fiscal policy is, not in empty theorising, but in the revenue that it generates.

The Government has launched an intensive drive against smugglers, black marketeers and tax evaders. There cannot, and will not, be a compromise on this score. Those who abuse the nation's trust must be dealt with firmly and with full force of the law. Considerable success has already been achieved in curbing the growth of black money, and Government will spare no effort to root out this evil.

However, I do not propose to dwell only on the strong points of our economic performance. I would like to take this opportunity to highlight some of the policy issues and to seek the advice and support of this August House in coming to grips with them. Let me, therefore, share with you a short list of key problem areas on which we, in the Government and the Parliament, must take urgent action, both through his budget and by other means.

The budget is now under severe pressure to meet the growing burden of expenditure on account of interest payments, defence, subsidies and assistance to States. An important issue before us is to find sufficient resources for financing the public sector Plan. This is not a partisan issue or the problem of a particular Government in power and I believe that a frank debate is essential for the long term economic health of our nation. In a nutshell, the core of the problem is simply that internal generation in public sector enterprises is not measuring up to the task of financing a Plan of the size that is essential for our development.

The severity of the problem can be illustrated by the experience of the current year. The Seventh Plan visualises that 53 per cent of the Central Plan will be financed through resources of public enterprises, and 47 per cent will be financed through the budget. In the first year of the Plan, in view of the paucity of internal resources, the budget had to finance 66 per cent of the Central Plan, and not 47 per cent. We have been successful in increasing tax revenues sharply, and beyond Plan targets, But higher revenues have been more than offset by increase in food and fertiliser subsidies and assistance to States. The higher budgetary support to the Plan, therefore, had to come from additional domestic borrowings and higher level of deficit financing.

Collectively, we must address ourselves to the basic issue of raising resources for the Plan without fueling the fires of inflation. The plan is not something abstract. It is more schools, more roads, more irrigation, more jobs, in a word more development. I embodie the hopes and aspirations of our people for a better future. We cannot slacken our efforts to implement it fully.

Public sector has a key role in bringing about the transformation of our economic structure. We must work hard to strengthen it. A number of public sector units in this country are functioning very efficiently and producing surpluses for reinvestment. These units provide irrefutable evidence that the public sector can perform as well as the best, given the right set of circumstances. Unfortunately, there are also a number of public enterprises whose losses have become a drain on the resources of this nation, which could have otherwise been used for the greater benefit of the common man.

The Government for its part will be taking steps to improve the working environment of the public sector enterprises, and improve their profitability. But beyond that, we must involve workers and the management in the task of revitalising the public sector. This, if any things, is the need of the hour.

We also have to find a way of reducing the non-Plan expenditure, however, painful it may be. Subsidies serve an important social purpose, and constitute a legitimate charge on society's resources. However, the question that we must ask ourselves is: how fast and how far they can be allowed to grow without cutting into resources for investment in our future. Food and fertilizer subsidies have now reached Rs. 3,700 crore and have increased by over 40 per cent per annum in the last three years. Even with buoyant tax revenues, this order of increase is simply not sustainable. At present rates of growth, these subsidies would have reached Rs. 14,000 crore by the end of the Seventh Plan. At this rate, total subsidies would exceed Rs. 41,000 crore for the plan period. This is equal to the entire Central Plan for the first two years. To put it in another way, this amount would be sufficient to provide one deep tubewell and one primary school building in each village of the country. The issue is what balance to strike.

The Government is initiating a process of thorough review of our expenditure policies and procedures. We have to cut every rupee of wasteful expenditure, get more out of every rupee of essential expenditure, and improve efficiency all round. A full debate on what we can and must do to reduce expenditure is necessary and I would like to invite the suggestions of the hon'ble members on these issues.

There has been a healthy debate in the country regarding the impact of administered prices on the inflationary situation. When all other prices are changing, some changes in administered prices are necessary and inevitable. But, the Government accepts the view that as far as possible there is need to stabilise the prices of critical commodities. In order to clarify the issues involved, and to initiate an open debate on the appropriate approach, the Government will present a policy paper on administered prices to Parliament.

The balance of payments is another area of concern. As I had pointed out in my Budget speech last year, some of the factors that have worked in our favour in the Sixth Plan will not operate with the same vigour in the Seventh Plan. As anticipated, growth of oil production, which had shown an increase of 18 million ton in the Sixth Plan has slowed down. The world environment for trade and concessional assistance continues to remain unfavourable. Against this background, it is essential to strengthen further the measures to conserve scarce foreign exchange. In particular, we must pursue a concerted programme for energy conservation, and develop indigenous sources of energy. In the current year alone we are likely to pay nearly Rs. 1,100 crore more for oil imports. The net foreign exchange outlay on this account may exceed Rs. 4,600 crore as against about Rs. 3,500 crore in the previous year. Can we afford this?

In order to overcome domestic shortages, we also had to import large quantities of sugar and edible oils. Policy initiatives have already been taken to encourage higher domestic production of sugar and edible oils. These have begun to yield results. The potential for further expansion of output of oil seeds, particularly minor oilseeds, is immense. Later in my speech, I propose to announce a package of incentives, which will provide support to domestic cultivators of oilseeds. Our farmers have responded magnificently to the task of increasing yields and absorbing new technology. As a result of their effort, we are now self-sufficient in foodgrains. As Indiraji so rightly observed:

> "In a country where half the national income comes from farming, agricultural self-reliance is the basis of all self-reliance."

Export growth is essential to pay for our vital imports without getting into a debt trap. The international environment for our exports, however, continues to be unfavourable with the intensification of protectionist tendencies and a low rate of growth of the world economy. This makes it all the more necessary that greater impetus is given to industries which have made important contribution to our export effort. Several steps were taken in the last budget for export promotion. I shall be carrying this process further in the current year's budget. Separately, the Reserve Bank of India is announcing further liberalisation of pre-Shipment credit facilities for exports.

The Government will keep external borrowings at prudent levels, consistent with our debt-servicing capacity. Our record in this respect has been enviable. And we intend to keep it that way.

Over the past year, the Government has taken wide ranging steps to modernise the economy, accelerate industrial growth, encourage more economic scales of production, upgrade technology and promote rehabilitation of enterprises facing temporary difficulties. Although the full effect of these recent initiatives will take time, as I said earlier, these have already had a favourable impact on manufacturing output. However, overall industrial growth still remains below our full potential. Aside from further measures to promote overall growth in industrial output and employment, we have to devote special attention to the domestic capital goods industry. This industry, has been painstakingly built over decades and makes a valuable contribution to our self-reliance. It deserves our full support. I shall be making certain proposals in order to provide further encouragement to the growth of the capital goods industry.

Small-scale industry has played a vital role in increasing our exports, generating employment opportunities, and reducing the concentration of economic power. It has been truly said that, "great engines turn on small pivots". In order to provide a focal point for co-ordinating financial assistance to this sector at the apex level, it is proposed to set up a separate special fund, called the Small Industries Development Fund in the Industrial Development Bank of India (IDBI). This Fund will also be charged with the responsibility of providing refinancing assistance for development, expansion and modernisation of small-scale industry. I also propose to announce a new scheme for excise exemption for small-scale industries which should considerably facilitate their growth.

Agriculture is at the centre of our development strategy. The quality of agricultural performance is the single most important factor in reducing the incidence of poverty in rural areas. Through sustained and prolonged efforts we have become a surplus producer of wheat. But, as our heavy imports of sugar and edible oils testify, production of some important crops remains inadequate.

Correcting this imbalance in cropping pattern will ease the pressure on our balance of payments and lead to better use of our agricultural resources. To ensure that our approach is not *ad hoc*, we must work towards evolving a longer term policy, which takes full account of regional differences in yields of different crops. In particular, the reduction in uncertainty and instability in agricultural prices will provide more assured incomes for farmers, and thus, encourage production response in desired directions. With a view to providing protection to farmers, last year, a comprehensive crop insurance scheme was introduced. This year, such a scheme will also be extended to fruit cultivation. As a further step to reduce uncertainty, I am glad to inform the House that my colleague, the Hon'ble Minister for Agriculture, has already initiated work on the formulation of a longer term price policy for important crops in consultation with agricultural experts and scientists.

Broad-based agricultural development provides the most effective way of tackling our central problem of poverty. But we must also recognise that the fruits of development do not always reach the poorest sections of our society, especially in regions where agricultural development is lagging. For them the best hope for higher incomes and better living conditions lies with the major anti-poverty programmes of Integrated Rural Development Programme, National Rural Employment Programme and Rural Landless Employment Guarantee Programmes. These programmes are at the forefront of our assault on poverty and for many millions they represent the difference between the despair of destitution and the hope of gainful employment. In the next year's Budget, I shall be proposing an increase of nearly 65 per cent in the allocation for these programmes. The programme for housing for Scheduled Castes and Scheduled Tribes, announced by me last year is also being strengthened.

Many of the programmes for the welfare of the poor and the needy are the gifts of our late Prime Minister Smt. Indira Gandhi to the nation. It will be a fitting tribute to her memory to name the new Housing Scheme for Scheduled Castes and Scheduled Tribes as "INDIRA AWAS YOJANA".

It is only proper that the banking system, which is the repository of peoples' savings, should use these savings to further our national objectives, particularly in respect of poverty alleviation and rural development. I am glad to inform the House that in the year 1985, the advances of public sector banks to the priority sector reached 43.40 per cent as against the target of 40 per cent. Under the Integrated Rural Development Programme, banks have advanced loans of Rs. 3,100 crore to 16.5 million persons below the poverty line during the Sixth Plan. In the Seventh Plan, the target of the number of beneficiaries is 20 million. Of them six million will belong to Scheduled Castes and Scheduled Tribes.

It is also necessary to use our social banking and insurance infrastructure for tackling the problem of urban poverty. Rickshaw-pullers, cobblers, washermen, porters, barbers, hawkers, sweepers and cart-pullers are among the particularly disadvantaged. The Government proposes to introduce a new scheme which will provide loans through the banking system with a subsidy component, so that the repayment burden on beneficiaries is effectively reduced. The scheme will provide for purchase of equipment and loans for working capital for the self-employed, such as, rickshaw-pullers, cobblers, washermen, barbers, hawkers and cart-pullers. Details of this scheme are being worked out in consultation with the Reserve Bank of India, and will be announced separately.

I also propose to introduce a new Scheme for accident insurance for the benefit of Municipal sweepers and Railway porters. This Scheme, the details of which will be announced separately by the Life Insurance Corporation, will provide Group Insurance through the Workers' Unions. The scheme will provide life insurance cover of Rs. 5,000 with 8 double accident benefit to the members of a union, provided 75 per cent of the members agree to join the Scheme.

In the last Budget, I had introduced a Personal Accident Insurance Social Security Scheme for the poor families in 100 districts of the country. As the Scheme has been widely welcomed, I propose to extend it now to 200 districts. The Scheme will cover the risk of death by accident in respect of earning members of poor families in rural and urban areas comprising landless labourers, small and marginal farmers, traditional craftsmen, small traders and others. The entire cost of this scheme is borne by the Central Government.

The true asset of our country is its labour. It was in recognition of this that last year, I had announced a series of measures for the benefit of industrial and other workers. These included measures to give workers' dues the same priority as secured creditors in the event of closure of companies, the increase in the limit on the salary or wages on which bonus is payable to employees from Rs. 750 per month to Rs. 1,600 per month, the introduction of a stock option scheme and increase in the monetary ceiling on the exempt amount of retrenchment compensation from Rs. 20,000 to Rs. 50,000. These proposals were implemented during the year. In addition, the eligibility limit for bonus payments which was Rs. 1,600 earlier was raised to Rs. 2,500. We have also increased the industrial D.A. for public sector employees for Rs. 1.30 to Rs. 1.65 per point increase in the Consumer Price Index.

It is necessary to improve the return that workers and employees earn on their hard earned savings. I, therefore, propose to increase the interest rate on contributions to the Provident Fund. The rate of interest on General Provident Fund for Government employees is being raised from 10.50 per cent to 12 per cent. To benefit other workers covered by the Employees Provident Fund, Coal Mines Provident Fund Act and the like, interest on Provident Fund accretions invested in Special Deposits with Government is being raised from 11 per cent to 12 per cent. The pattern of investment is also being changed to permit the funds to invest up to 85 per cent of the accretions in Special Deposits with Government as against the existing limit of 30 per cent. I also propose to increase the interest rate from 10 per cent to 12 per cent on Public Provident Fund which is intended for the self-employed persons and those not covered by other provident fund schemes.

The expansion of housing is essential for the welfare of workers and their families. I, therefore, propose to considerably liberalise the depreciation provisions in respect of outlays on workers' housing. Government will encourage all industrial units, large and small, to pay special attention to this area. The Housing and Urban Development Corporation has been playing an important role in building houses for economically weaker sections, and providing housing loans at low rates of interest. The Government will expand assistance to the weaker sections for housing.

In view of the role of construction activity in creating employment opportunities, while meeting an important and universal social need, Government will consider suggestions for giving a boost to this activity. We have to ensure that housing scarcity is reduced by increasing the supply and availability of houses. Tax concessions, which merely increase the demand for house without increasing their supply, are unlikely to be helpful. There are several financial and non-financial factors inhibiting construction activity, and it is necessary to have a thorough debate on these. The Government would welcome suggestions from the hon'ble members and the public on this question.

Among developing countries, India has the distinction of having one of the highest rates of savings. This is a tribute to the habits of hard work and thrift of our people. An important objective of Government policy in the last few years has been to provide opportunities for investment of these savings in productive channels, particularly financial assets. These policies have proved remarkably successful and today nearly 65 per cent of household savings are being invested in financial assets as against only 46 per cent in 1979-80. The household sector accounts for over 80 per cent of our national savings and the substantial increase in the holding of financial assets augurs well for the future development of our financial and capital markets.

There is considerable interest among small investors in investing in shares quoted in the Stock Exchanges with a view to getting the benefit of capital appreciation. Most however, lack the necessary expertise and are also subject to exploitation by unscrupulous elements. In order to provide a channel for such investors, it is proposed to set up a new mutual fund in the public sector as a subsidiary of the Unit Trust of India. Investment in units of the proposed mutual fund would qualify for exemption of capital gains under Section 54-E of the Income Tax Act subject to certain conditions. This will be in addition to the already existing facility of investment in the Units of the Unit Trust of India.

An important innovation to tap people's savings, particularly rural savings, for public sector projects was announced by me last year. Public sector companies in Telecommunications and Power sectors have been permitted to raise funds from the public through a new series of bonds. These bonds provide an attractive rate of interest and are quoted in the Stock Exchange. As a further innovation, in the next year, the Government will introduce another series of Public Sector Bonds with a tax free return. In addition, other benefits, such as Wealth Tax exemption will also be available. I am sure that people will respond enthusiastically to this opportunity for contributing to the country's development.

At this point I would like to refer to a somewhat technical matter, which nevertheless has an important bearing on the impact fiscal management on the rest of the economy. This relates to the measurement of budgetary deficit. The Chakravarty Committee, which was set up by the Reserve Bank of India to review the working of the monetary system, has observed that the budgetary deficit, as conventionally defined in the Budget documents, does not accurately measure the momentary impact of the Government's fiscal operations. The Committee has, therefore, recommended that the budgetary deficit should include changes in the entire RBI credit to the Government including changes in RBI's holding of long dated securities. The Government proposes to accept, in principle this recommendation of the Committee. The modalities for effecting the change in the definition of budgetary deficit will be worked out in consultation with the Reserve Bank.

The Government also proposes to accept the Committee's recommendation for setting overall monetary targets, which can be monitored, and which will help bring about better co-ordination between fiscal and monetary policies, and make their overall management more scientific. There are certain technical difficulties in devising operational rules because of short-run volatility of monetary variables. An exercise to develop operationally meaningful targets will be undertaken by Government on an experimental basis in the next year.

I shall now turn to the Revised Estimates for 1985-86 and the Budget Estimates for 1986-87.

Revised Estimates for 1985-86

There were several important developments in regard to Budget Estimates for Revenue and Expenditure presented by me last year. As I mentioned a little while ago, tax revenues have exceeded Budget Estimates by a large margin. The Revised Estimates show an increase of Rs. 2,476 crore, which is 21 per cent higher than last year's tax realisation, and 10 per cent higher than the Budget Estimates for 1985-86. Direct Taxes will be 15 per cent higher than the Budget Estimates and Income-tax collections are expected to be as much as 36 per cent higher. This order of increase in Direct Tax collections is unprecedented. The Centre's share of taxes will increase by 19 per cent over 1984-85 and that of States by 30 per cent. Another heartening feature of fiscal developments is the sharp increase in Small Savings collections. These will be 23 per cent higher than the Budget Estimates and 32 per cent more than the previous year.

As regards other receipts, Non-tax Revenue will be 2 per cent higher and capital receipts including market borrowings, external assistance and small savings will show an overall increase of 8 per cent.

Taking advantage of buoyancy in tax revenues and satisfactory behaviour of other economic indicators, including the high level of food stocks, the Government decided to step up the Central Plan by Rs. 1,594 crore. The Revised Estimate for the Central Plan is Rs. 20,094 crore as against Budget Estimates of Rs. 18,500 crore. Budgetary support for the Central Plan has been stepped up by Rs. 1,484 crore or by 13 per cent. In the additional allocations, particular care has been taken to provide adequately for the infrastructure sectors like railways, steel and aluminium on the one hand and anti-poverty programmes on the other.

Several States continued to face problems of resources in the first half of the current year. A number of steps were taken to help them in overcoming these problems. I shall refer to them a little later.

Coming to non-Plan expenditure, additional provisions amounting to Rs. 440 crore were made for interim relief, liberalised *ad hoc* bonus, pensionary benefits and additional dearness allowance sanctioned to Government employees in the current year.

Defence expenditure is placed at Rs. 7,862 crore as against Budget Estimate of Rs. 7,686 crore. Interest payments are estimated at Rs. 7,400 crore, which is about 5 per cent higher than the Budget Estimate of Rs. 7,075 crore.

There was, however, substantial increase during the year on account of food and fertiliser subsidies. The Revised Estimates for these subsidies are Rs. 1,650 crore and Rs. 2,050 crore representing an increase of 50 per cent and 14 per cent respectively, over the Budget Estimates. Altogether, subsidies will be 24 per cent higher than the Budget Estimates.

The Revised Estimates for total receipts are Rs. 46,017 crore as against the Revised Estimates of expenditure of Rs. 50,507 crore, leaving a deficit of Rs. 4,490 crore. The Budget deficit is thus expected to be higher than the Budget Estimates. However, despite this, the rate of growth of money supply in the economy has been lower than in the previous year. The deficit has been absorbed by the economy without unduly aggravating the overall liquidity positions.

Budget Estimates for 1986-87

In framing next year's Budget Estimates, my first priority has been to provide adequately for the Plan. As the House is aware, the Seventh Plan envisages a total public sector outlay of Rs. 1,80,000 crore of which Rs. 95,534 crore has been earmarked for the Central Plan at 1984-85 prices. To finance this order of Central Plan, as pointed out in the document on Long Term Fiscal Policy, an outlay of about Rs. 18,000 crore at 1984-85 prices was required for 1986-87. At present prices, this is roughly equivalent to Rs. 20,000 crore.

The annual Plan discussions conducted by the Planning Commission with the Ministries, however, revealed that a much higher order of Plan outlay is required for 1986-87, in order to maintain the momentum of investment in the core public sector, and accelerate the implementation of anti-poverty programmes. It has, therefore, been decided to allocate Rs. 22,300 crore for next year's Plan. This constitutes a massive increase of Rs. 3,800 crore or 20.50 per cent over the Budget Estimates for 1985-86. Although this is by no means sufficient to fulfil all our needs, I believe that this order of increase will enable us to meet our urgent requirements. Taking the first two years together, we would have provided over 40 per cent of the Seventh Plan outlay in real terms at 1984-85 prices. This is substantially better than in the first two years of the Sixth Plan.

I am also happy to inform the House that the total Plan outlay of States for 1986-87 has been fixed at Rs. 15,880 crore, representing an increase of 21 per cent over the current year. For the Union Territories, the Plan outlay has been fixed at Rs. 872 crore compared with current years level of Rs. 640 crore. It is also a matter of satisfaction to me that the Centre provided substantial additional resources to States in the current year which has strengthened the financial position of States.

Compared with 1984-85, as I mentioned earlier, the States' share of Central taxes has gone up by 30 per cent. This reflects the sharp increase in the share of States as a result of the recommendations of the Finance Commission. I am glad that Centre's efforts to improve tax collections have also been of substantial benefit to States. There has been a steep increase in other forms of transfer of resources as well. The States' share in small savings has registered an increase of 50 per cent and the Centre's Plan assistance to States has increased by 38 per cent. In addition, the Centre has provided Rs. 722 crore as assistance to States for drought and flood relief. A medium-term loan of Rs. 1,628 crore was also provided to the States in order to clear their overdrafts with the Reserve Bank of India. I had made it clear that the Overdraft Regulation Scheme would have to be strictly adhered to in all circumstances and I am glad that the States have conformed to it. A problem that has bedevilled the fiscal picture for more than a decade has, thus, been solved. I should make it clear that this problem will not be allowed to recur.

Taken together, there has been a massive increase of as much as Rs. 7,542 crore or 51 per cent in Centre's transfers to States and Union Territories inclusive of assistance for Central and Centrally sponsored schemes in the current year as compared with 1984-85. In 1986-87, the budget estimates for total transfers to States on various counts is estimated at Rs. 20,708 crore which is 15.40 per cent more than the Budget Estimates for 1985-86.

Let me now deal with some of the important sectors in which the Annual Plan for 1986-87 will provide a major thrust. First and foremost, we propose to provide a quantum jump in the allocations for poverty alleviation programmes. The outlay for Department of Rural Development for 1986-87 has been fixed at Rs. 1,851 crore compared to an approved outlay of Rs. 1,239 crore for 1985-86 an increase of nearly 50 per cent. Hon'ble members will recall that during the current year, Government had announced schemes for construction of low cost rural houses for Scheduled Castes/Scheduled Tribes and bonded labour, distribution of foodgrains at a concessional price to the people in the Integrated Tribal Development Projects, extended coverage under nutrition programme for young children, pregnant women and nursing mothers and expansion of the coverage of the Rural Landless Employment Guarantee Programme and the National Rural Employment Programme by allocation of additional foodgrains. It is proposed to continue with these programmes during the next year also. An offtake of about 2 million ton of foodgrains is expected under these programmes in 1986-87. These programmes are designed to fulfil a commitment made by our Prime Minister, Shri Rajiv Gandhi.

Consistent with this Government's commitment towards the alleviation of rural poverty, greater emphasis has been laid on programmes which are of direct benefit to the weaker sections of the society, especially the Scheduled Castes and Schedules Tribes. The allocations and targets for some of the anti-poverty programmes in 1986-87 are:—

(1) National Rural Employment Programme will generate employment of over 300 million man-days in 1986-87 as compared to 253 million man-days in the current year. The Centre's outlay for this programme has been stepped up from Rs. 230 crore in 1985-86 to Rs. 443 crore next year an increase of 93 per cent.

(2) The Rural Landless Employment Guarantee Programme will generate employment of 264 million man-days next year as compared to 209 million man-days in the current year. The Central outlay for this programme for 1986-87 is Rs. 633 crore which is 58 per cent higher than the current year's Budget Estimate of Rs. 400 crore.

(3) The Centre's allocation for Integrated Rural Development and related beneficiary oriented programmes is Rs. 428 crore in 1986-87 as against Rs. 283 crore in the Budget Estimates in the current year—an increase of 51 per cent. In the first nine months of the current year 15.30 lakh families were assisted under the Integrated Rural Development Programme of which 6.30 lakh families belonged to Scheduled Castes/Scheduled Tribes. In the Seventh Plan, the Integrated Rural Development Programme is expected to assist nearly 20 million families.

(4) The outlay for housing schemes for Scheduled Castes/Scheduled Tribes and bonded labour is being enhanced from Rs. 100 crore to Rs. 125 crore. In 1985-86 projects worth Rs. 146 crore involving construction of 1.5 lakh houses have been approved. This important programme will receive a further boost.

The rural water supply continues to be part of the Minimum Needs Programme as well as Revised 20-Point Programme. At the beginning of the Sixth Plan there were 2.31 lakh problem villages out of which 1.92 lakh were provided with at least one safe source of potable water during the Sixth Plan period. In the Seventh Plan, priority will be given to provide drinking water to the remaining 39,000 problem villages. It is expected that these villages will be covered by 1987-88. A provision of Rs. 317 crore has been made for this purpose in 1986-87.

Agriculture and allied sectors enjoy a natural priority in all our development efforts. The total Central outlay for the concerned Departments has been stepped up from Rs. 2,207 crore in the current year to Rs. 2,838 crore in 1986-87 an increase of 29 per cent. This includes the outlay on the programmes of rural development, details of which I have just mentioned. As the hon'ble members know, the Central outlay of Rs. 2,838 crore will be in addition to the allocations made by the States for these sectors in their own plans.

The Fertilizer Plants at Hazira and Thal Vaishet have commenced production in the current year and will augment the production of nitrogenous fertilizers considerably. Production of fertilizers in 1986-87 is expected to go up to 6.90 million ton, which is an increase of 21 per cent over the current year. The provisions for Aonla Project of IIFCO and Vijaipur Project of National Fertilizers Limited the other major Gas based fertiliser projects next year are Rs. 205 crore and Rs. 180 crore respectively.

A major thrust in the Seventh Plan is development of Human Resources. This includes education, sports, youth affairs, health, family welfare, women's welfare, environment, art, culture and broadcasting. I propose to enhance the outlays for programmes in this sector from the current year's level of Rs. 1,236 crore to Rs. 1,733 crore for 1986-87 an increase of over 40 per cent.

Education, the hon'ble members will agree, is the main instrument of change. Accordingly, I propose to increase the outlay on Education from Rs. 221 crore in the current year to Rs. 352 crore for 1986-87. This implies an increase of over 59 per cent.

In the field of Education mention may be made of two schemes. It has been decided to set up Model Schools in every district of the country to provide education of high quality and excellence. I propose to provide Rs. 25 crore in 1980-87 for this scheme. For providing equal opportunities to the students in the remote and backward areas in the field of higher education, a National Open University has been set up for which I have provided Rs. 7.5 crore for 1986-87.

Radio and television are powerful vehicles for spread of information and education. Successful implementation of new concepts and special schemes like dissemination of knowledge in remote areas through Open University are also dependent on the spread of broadcasting. With a view to enlarging the broadcasting infrastructure, I propose to step up the outlay for the Ministry of Information and Broadcasting in the current year from Rs. 110 crore to Rs. 242 crore — an increase of 120 per cent.

The 'New Education Policy' will be presented by the Minister of Human Resource Development during this Session of Parliament. I believe, the Policy will give the highest priority to universalisation of primary education and to spread of adult literacy in 15—35 age-group within the shortest possible time. Stress is also being laid in the new policy on consolidation of secondary education and on launching a large programme of employment-oriented vocational education. Besides, scientific research and training of technical manpower will receive high priority. The Government is committed to implement the education policy as approved by Parliament.

We have adopted the goal of "Health for All" by the year 2000 A.D. This is sought to be achieved mainly by expansion of primary health care programmes, which as hon'ble members know, form part of the State Plans. I propose to provide Rs. 200 crore for programmes of the Department of Health during next year, of which Rs. 123 crore will be on programmes for control of communicable diseases. For Family Welfare programmes. I propose to provide Rs. 530 crore for 1986-87.

At forms and cultural heritage foster national integration as well as national development. I, therefore, proposed to increase the outlay of the Department of Arts and Culture from Rs. 19 crore for this year to Rs. 59 crore for 1986-87—an increase of more than 200 per cent. A new scheme is being launched for setting up zonal cultural centres to highlight the cultural kinships that exist among the States and people, as part of the composite Indian culture.

The Government is deeply concerned about the problems of pollution. A major scheme—the Ganga Action Plan—has been launched during the current year for prevention of pollution of river Ganga. This is an inter-disciplinary programme being implemented by the Central Ganga Authority. The proposed outlay for this scheme for 1986-87 is Rs. 52 crore as compared to the current year's level of Rs. 10 crore. The higher provision will cover a large number of action plan schemes covering sewage treatment to be implemented during 1986-87.

The Government has set up the National Wastelands Development Board with the objective of bringing wastelands under fuel wood and fodder cultivation. I propose an outlay of Rs. 15 crore for this programme for 1986-87. This will be in addition to the provision of Rs. 20 crore made for social forestry including rural fuel wood plantation.

A necessary feature of development process is the creation of needed infrastructure facilities in sectors like Coal, Power, Railways, Petroleum and Surface Transport which constitute the core of the public sector. In the Seventh Plan, the outlay on infrastructure accounts for Rs. 45,649 crore out of the total Central sector outlay of Rs. 95,534 crore, *i.e.,* nearly 48 per cent. I am proposing an outlay of Rs. 10,805 crore for 1986-87 as against Rs. 8,751 crore in the current year—an increase of 23 per cent—for Departments of Coal, Power, Petroleum and Natural Gas, Railways and Surface Transport taken together. This accounts for 48 per cent of the total Central Sector Plan outlay for 1986-87.

The outlay of the Department of Power is being stepped up from Rs. 2,090 crore in the current year to Rs. 2,575 crore in 1986-87. During the current year, the capacity for power generation in the country is expected to be augmented by more than 4,000 MW against the Seventh Plan target of 22,245 MW. Of the additional capacity likely to be created in the current year, 865 MW will be from the Central Sector projects. In 1986-87, the installed capacity is expected to further increase by about 4,000 MW. Thus, the first two years would account for 36 per cent of the Plan target.

The performance of power stations owned by National Thermal Power Corporation, a Central public sector undertaking, is a matter of satisfaction. In the first ten months of the current year, these power stations attained a Plant Load Factor of 67.9 per cent against the national average of 51.30 per cent.

A notable achievement in the current year is the attainment of criticality by Stage II of Kalpakkam Atomic Power Station of 235 MW on 12 August 1985. The commissioning of this plant marks the complete indigenisation of the technology for Natural Uranium Heavy Water Reactor. The year also witnessed the commissioning of one of the largest research reactors in the world—the 100 MW Dhruva at the Bhabha Atomic Research Centre. It is also a matter of great pride for us that with the Fast Breeder Test Reactor at Kalpakkam attaining criticality, we have joined the select group of countries which have made a major breakthrough in the Fast Breeder Technology.

An important project approved during the year in the power sector is the Mejia Thermal Power Station of DVC. The Project located in Bankura District of West Bengal—envisages creation of 630 MW capacity at an estimated cost of Rs. 566 crore. It is proposed to set up three power plants, one each at Kawas (Gujarat), Anta (Rajasthan) and Auraiya (Uttar Pradesh) based on Natural Gas, which together would create additional capacity of 1,500 MW. An outlay of Rs. 100 crore is proposed for these three projects during 1986-87.

Government have decided to set up a Power Finance Corporation. The Corporation will augment resources for financing of the power projects, including renovation and modernisation schemes. A provision of Rs. 100 crore has been made for renovation and modernisation in the Annual Plan for 1986-87 out of which Rs. 70 crore will be provided for the proposed Corporation.

An allocation of Rs. 3,300 crore has been made for the Ministry of Petroleum and Natural Gas for 1986-87. The production target for crude oil for the next year has been set at 30.21 million ton. A sizeable increase in despatches of natural gas is also anticipated. In 1986-87, the despatches are expected to be Rs. 4,677 million cubic metres which will be 28 per cent more than in the current year.

In the Indian context, Coal continues to be the most important primary source of energy. Keeping in view the increasing demand for Coal and the long lead time associated with development of coal mines, I am increasing the outlay for the Department of Coal from Rs. 1,102 crore in the current year to Rs. 1,350 crore in 1986-87, an increase of nearly 22.50 per cent. The target for production of Coal for 1986-87 has been fixed at 166.80 million ton which is 12.30 million ton higher than the anticipated production during the current year.

Despite impressive growth in the Transport sector, the capacity of the entire transportation system continues to fall short of demand, There is also an immediate need for replacement of the overaged and obsolete assets. Keeping this in view, a total provision of Rs. 3,875 crore has been made for the Ministry of Transport for 1986-87 inclusive of Rs. 2,650 crore for the Railways, separately provided in the Railway Budget. Railways' freight traffic target for the next year has been fixed at 294 million ton—an increase of 17 million ton over the target for the current year. The year also witnessed a remarkable improvement in the utilisation of assets and financial performance by Railways.

For 1986-87, I am proposing an outlay of Rs. 1,350 crore for the Department of Steel which includes Rs. 700 crore for the Visakhapatnam

Steel Plant. Hon'ble members will be glad to know that SAIL which had incurred a loss of Rs. 214.61 crore in 1983-84 has turned the corner. In 1984-85 the Company earned a nominal profit of Rs. 4.24 crore. In the current year, the profits are expected to be over Rs. 100 crore.

The outlay for Department of Atomic Energy has been raised from Rs. 495 crore to Rs. 550 crore and for Department of Space from Rs. 165 crore to Rs. 217 crore.

The proposed outlay for the Department of Telecommunications for 1986-87 is Rs. 915 crore. With a view to improving the operational efficiency of the Telecommunication network, the Government have decided to set up a public sector corporation to manage and operate the telephone services of the metropolitan cities of Bombay and Delhi. This Corporation will also raise funds through the issue of bonds.

A scheme for providing self-employment to educated unemployed was announced by the late Prime Minister, Shrimati Indira Gandhi, on 15 August 1983. For 1986-87 a provision of Rs. 103 crore has been made for this scheme compared to Rs. 65 crore in the current year—a step up of 58 per cent. For the Khadi and Village Industries sector is expected to increase from 37 lakh persons to 50 lakh persons.

Tourism promotes understanding and national integration. Tourism is also an important source of earning foreign exchange for the country. The Seventh Plan outlay on tourism at Rs. 139 crore is 93 per cent higher than the outlay for the Sixth Plan. For 1986-87, an outlay of Rs. 26 crore is proposed. With a view to encouraging tourism, further steps are being taken for improving the tourist infrastructure.

The hon'ble members will be glad to know that with the priorities assigned in the annual Plan 1986-87, implementation of the 20-Point Programme will gain further momentum. Compared to Rs. 4,900 crore in the current year, the outlay for this programme in the Central Plan for 1986-87 will be Rs. 5,998 crore—an increase of more than thousand crore.

Coming to non-Plan expenditure, I have provided Rs. 8,728 crore for Defence compared to Rs. 7,862 crore in the current year. The House will agree with me that in view of the pressure on our borders, there cannot be any compromise with our security.

Reflecting the increase in market borrowings and small savings mobilisation for development, interest payments will also increase to Rs. 8,750 crore against Rs. 7,400 crore in the current year. I am also making a provision of Rs. 1,750 crore for food subsidy and Rs. 1,950 crore for fertilizer subsidy and the total of the two is the same as in the Revised Estimates for the current year. Other non-Plan expenditure has been kept to the minimum. This includes a lump sum provision of Rs. 300 crore for additional dearness allowance to Government employees.

On the receipts side, I have assumed a 17 per cent growth in tax revenues over current year's Budget Estimates. In the estimates for non-tax receipts, I have taken note of the repayment next year of the instalments of compulsory deposit deferred during the current year as well as those falling due next year.

Under capital receipts, only a modest increase of 4 per cent has been assumed under market borrowings over the current year. Small savings collections, however, are expected to yield 10 per cent more than current year's Revised Estimates and 36 per cent higher than the current year's Budget Estimates.

The total receipts next year are estimated at Rs. 48,767 crore and the total expenditure at Rs. 52,862 crore leaving a gap of Rs. 4,095 crore at the existing levels of taxation.

I shall now turn to my taxation proposals.

In the last year's Budget, I had announced the Government's intention to formulate a Long-Term Fiscal Policy co-terminus with the Plan. I am glad that the Government has been able to keep this commitment. The statement of the Government's long-term fiscal intentions has, I am aware, greatly reduced the speculation and drama that has traditionally surrounded Budgets. I hope hon'ble members will agree that the loss in dramatic content has been more than compensated by the gain in imparting a stable framework, and much greater opportunity for open debate, in relation to Government's fiscal policies.

A primary thrust of this Budget is to implement the various element of the Long Term Fiscal Policy. In particular, I shall be proposing a major overhaul of our system of excise taxation, which will reduce the cascading effect of multi-point excise levies and help in reducing costs and prices to consumers. The Budget will strengthen the development of handlooms, improve the supply of cheaper cloth and lower duties on drugs and medicines and certain other articles of interest to consumers.

I also propose to liberalise the excise exemptions scheme for small-scale industry, which will encourage growth of this sector and create more employment opportunities. In order to promote self-reliance and encourage domestic production, I propose to provide substantial help to domestic production of edible oils and to the indigenous capital goods industry. Naturally, I shall also be making certain proposals for raising revenue, the burden of which will fall on the affluent sections of society.

I would be brief in setting out my proposals for direct taxes as these have been discussed in the Long Term Fiscal Policy. We are introducing legislation to give effect to the following proposals:—

(1) A funding Scheme is being introduced which will replace the scheme for Investment Allowance. Assessees will be allowed deduction to the extent of 20 per cent of the profits if these are deposited with the Industrial Development Bank of India, utilised for purchase of plant and machinery. Surcharge on companies which was largely being deposited with Industrial Development Bank of India, is being abolished from assessment year 1987-88, along with the introduction of the New Funding Scheme.

(2) Investment Allowance will not be available in respect of plant and machinery installed after 31 March 1987. The benefit of both investment allowance and the funding scheme will not be available in the same assessment year.

(3) I had earlier proposed in the Long Term Fiscal Policy that as part of the reform package, surtax on corporate incomes will not be charged from assessment year 1987-88. In interest of revenue, I am postponing giving effect to this measure by one more year.

(4) In regard to Capital Gains taxation, the date of determining the cost of assets is being advanced from 1 January 1964 to 1 April 1974 and a uniform rate of deduction at the rate of 50 per cent is being prescribed for long-term capital gains from buildings and lands and 60 per cent from other assets. Bonds issued by Industrial Development Bank of India and Bonds issued by other notified public sector agencies are also being added to the list of investment qualifying for exemptions from Capital gains. The limit for initial deduction is being increased from Rs. 5,000 to Rs. 10,000. The present period of one year for purchase of a residential house in case where the capital gains arise on sale of an old house is being increased to 2 years.

As promised in the Long Term Fiscal Policy Statement, I propose to introduce a system of allowing depreciation in respect of blocks of assets instead of the present system of depreciation on individual assets. Simultaneously, I propose to rationalise the rate structure by reducing the number of rates as also by providing for depreciation at higher rates so as to ensure that more than 80 per cent of the cost of the plant and machinery is written off in a period of 4 years or less. This will render replacement easier and help modernisation. Apart from those items which are eligible for 100 per cent depreciation in the initial year itself, there are at present different rates for plant and machinery. I propose to have only two rates of depreciation at 33.33 per cent and 50 per cent. Plant and machinery used as anti-pollution devices and those using indigenous know-how, are proposed to be placed in a block carrying the higher rate of depreciation of 50 per cent. Buildings meant for low-paid employees of industrial undertakings will be entitled to depreciation at 20 per cent as against the general rate of 5 per cent for residential buildings and 10 per cent for non-residential buildings.

It has been brought home to me that of late I am not very popular with housewives. Their support and sympathy, I cannot afford to lose. Therefore, I propose to raise the standard deduction from 25 per cent to 30 per cent of salary income. The ceiling will be increased from Rs. 6,000 to Rs. 10,000. The measure will benefit 3.50 lakh tax payers in the fixed income group. I am giving this benefit on the condition that it will be duly passed on to the housewives.

While the medical needs of some groups of salary earners are taken care of by the employers, there is no such provision in the case of other salary earners and of self-employed persons. In order to provide some relief in respect of medical expenses by such persons. I propose to allow a deduction out of the total income of such persons, subject to limits, of the amount spent by them on medical treatment or paid as premium on medical insurance policies taken by them with the General Insurance Corporation of India.

In line with the Long Term Fiscal Policy another major step being taken is to empower the Government with a pre-emptive right to purchase properties which are offered for sale in the market at the price agreed to by the transfer. To begin with, this provision will apply to properties valued at over Rs. 10 lakh located in metropolitan cities. An honest seller, wherever he may be, will not be hurt by this measure. For the rest, it is between them and the Income-Tax Department and God!

One of the vexatious problems in Wealth Tax has been the determination of the market value of assets. In order to eliminate the endless controversy and litigation arising out of this, we have decided to frame simpler rules for the valuation of assets such as shares, residential properties, commercial properties, jewellery, etc., and these will be notified by the end of March 1986.

In the Long Term Fiscal Policy I had announced the intention of the Government to retain Gift Tax, and review its provisions with a view to rationalising them. The following amendments are being made in the Gift Tax Act:

(a) The basic exemption limit will be raised from Rs. 5,000 to Rs. 20,000.

(b) Gift tax will be levied at a flat rate of 30 per cent of the value of the taxable gifts.

(c) The provision relating to aggregation of gifts will be deleted.

(d) Certain exemptions like those relating to National Defence Gold Bonds, 1980, gifts to the spouse, gifts of policies of insurance, gifts in the course of carrying on a business, etc. and gifts to any other person upto a maximum of Rs. 500 are being withdrawn.

There is at present tax deduction at source from out of winning derived from races and lotteries. I propose to tax these windfall profit at a flat rate of 40 per cent of the gross receipts. The exemption from income of a casual and non-recurring nature will simultaneously be raised from Rs. 1,000 to Rs. 5,000. Income from any winning from crossword puzzles, card games, other games of any sort or from gambling or betting of any form or nature whatsoever, races including horse races (other than income earned by owners of race horses by way of stake money) and winnings from lotteries will not be aggregated with other incomes. That is to say, losses, if any, from other business will not be allowed to be set off against winnings from race or lotteries.

It has been said that, “Whoever plays deep must necessarily lose his money or his character.” In depriving the lucky winner of his money, I would have contributed to the building of his character.

The above measure along with the withdrawal of certain other tax concessions in respect of inter-corporate dividends, will net additional revenue of Rs. 54 crore.

It is proposed that part of the benefit of tax deduction on export profits should be allowed to be transferred to the supporting manufacturers. This will help increase our exports.

The Long Term Fiscal Policy recognises the need to widen the tax base and to bring all persons who have income above taxable limit, into the tax net. For this purpose, it is necessary to carry out surveys. An amendment is being made to authorise the Income-tax authorities to collect certain information. We are also taking separate steps to strengthen survey, investigation and prosecution machinery of the Income-tax Department.

In the Long Term Fiscal Policy, I had indicated the outline of a National Deposit (New Series) for public discussion. I am grateful for the comments and suggestions received from the general public, experts and also many hon'ble members of Parliament. Suggestions have been received for liberalising its provisions as well as for making these more restrictive. In view of the importance of this measure, I have decided to refer this proposal to the Committee on Expenditure Tax for more intensive examination. I am asking them to submit their report on this aspect by May 1986.

The Long Term Fiscal Policy, has also proposed the creation of a Venture Fund to promote indigenous technology, to be administered by the Industrial Development Bank of India. It was proposed that as a source of funding this scheme, a small 5 per cent Research and Development levy will be imposed on all payments made for purchase of technology from abroad, including royalty payments, lump sum payments and payments for designs and drawings. A separate Bill to give effect to this levy will be introduced in Parliament.

We also propose to carry out the following amendments:

(a) Investment allowance and depreciation is claimed on the basis of actual cost. In the past few years a number of companies have been using an accounting practice of capitalising the entire amount of interest on the monies borrowed for acquiring of plant and machinery. This artificially inflates the cost of the assets and the net worth of the company. We are clarifying that the capitalisation of interest paid or payable will not be allowed after the asset is first put to use.

(b) The ceiling of investment in plant and machinery for the small scale sector is being raised from Rs. 20 lakh to Rs. 35 lakh, as mentioned last year and would be applicable to all cases where the previous year ends after the 17 March 1985. This enhancement will be relevant also for the grant of investment allowance and for reduction in respect of profits and gains from newly established small-scale industrial undertakings in rural areas.

(c) There is, at present, a great disparity between persons in receipt of house rent allowance and those provided with rent free accommodation. The former being worse off in the matter of payment of taxes. Amendments are being introduced to do away with the discrimination.

(d) At present notional income from self-occupied house is being taken into account for taxes. It is proposed to exempt such notional income.

(e) I propose to rationalise the tax deductible from the gross amount of incomes earned by way of royalties and fees for technical services by foreign collaborators at a uniform rate of 30 per cent.

We had initiated a simplification exercise in the last Budget which has been continued this year. It is proposed to bring out a comprehensive new Direct Taxes Code by June, 1986.

The total effect of those proposals will be a revenue loss of Rs. 33 crore and a revenue gain of Rs. 54 crore. The net increase in revenue will, therefore, be Rs. 21 crore.

I now come to my proposals relating to indirect Taxes.

An important item in our agenda for 1986-87 is to initiate reform in the system of indirect taxes. The first step was taken in the Winter Session of the Parliament when new Tariff Bills for Customs and Excise were introduced based on the harmonized system of classification. The new structure is scientific and international. In the second stage, the tariff structure with such amendments of duties, as will be carried out in this Budget, will replace the old *ad hoc* structure.

In excise taxation a vexatious question which has been often encountered is the taxation of inputs and the cascading effect of this on the value of the final product. The Long Term Fiscal Policy had stated that the best solution would be to extend the present system of proforma credit to all excisable commodities with the exception of a few sectors with special problems like petroleum, tobacco and textiles. This scheme, which has been referred as Modified Value Added Tax (MODVAT) Scheme-I shall stress MODVAT, not MADVAT—allows the manufacturer to obtain instant and complete reimbursement of the excise duty paid on the components and raw materials.

The MODVAT scheme provides a transparency which discloses the full taxation on the product and its introduction is an important measure of cost reduction. Amount of excise duty payable depends upon the value of the final product and the rate of duty. Introduction of MODVAT will decrease the cost of the final product considerably through the availability of instant credit of the duties paid on the inputs and consequential reduction of interest costs.

It would be noticed that the MODVAT scheme avoids the payment of duties on earlier duties paid. The payment of duty drawback will be swifter as the element of excise duty will be transparent. It will, therefore, benefit both the consumers and exporters.

However, in view of the novelty of the scheme, we have to hasten slowly and implement the MODVAT scheme in stages. As a first measure, I propose to introduce MODVAT scheme for all goods covered by 37 specified chapters of the Central Excise Tariff Act, 1985. The scheme as a result would cover products of chemical and allied industries, paints and packaging materials, plastics, glass and glassware, rubber products, base metal and articles of base metals machinery and mechanical appliances including electrical equipments, motor vehicles and certain miscellaneous manufactured products. This would imply that as long as the input and the final product are covered by the specified 37 chapters and the final product bears some duty of excise, credit of duty on the inputs covered by these chapters will be available.

The proforma credit given will cover both excise duty and additional duty of customs also known as countervailing duty. Set off will also be available for packaging materials, consumables, paints though these are not strictly raw materials. Items outside these chapters availing proforma credit and benefits of set off under any erstwhile schemes would be allowed to continue to get the relief to the extent the revised tariff headings permit. However, the MODVAT scheme and the erstwhile schemes to the extent they are continued, will be mutually exclusive.

The MODVAT scheme will be in force from 1 March 1986. Manufacturers who fulfil the requirement will be able to avail of proforma credit in respect of the permissible goods which have suffered duty of excise from 1 February 1986 and are either in the stocks or are received by the manufacturer on or after 1 March 1986.

As stated earlier, the introduction of MODVAT scheme will result in considerable reduction in the cost of final product and, therefore, to retain the collection of excise duties at the earlier level, the rates of duties on the final product have been suitably adjusted. After accounting for the set off, the duty rates have been rounded to the nearest step in the new duty structure. While all care has been taken to work out the incidence of set off benefit, the scheme being a new one, Central Board of Excise and Customs would take corrective steps wherever anomalies are noted.

In respect of Small Scale Industry, the objective of reform is to ensure that the scheme of concessions is a ladder and not a lid. That is to say, such concessions should facilitate and encourage healthy growth of the small-scale units and prevent unnecessary fragmentation and bifurcation of units. With this end in view, I propose to introduce a New Scheme of Excise Concessions for small-scale units. The proposed scheme will considerably enhance the scope of concessions available to the small-scale sector. Under the New Scheme, full exemption will continue to be available up to clearances of Rs. 7.5 lakh in a year, which account for nearly 85 per cent of the small-scale units in the country.

Under the chief existing scheme, excise duty is chargeable in slabs of 25 per cent, 50 per cent or 75 per cent of the duty rate up to a turnover limit of Rs. 40 lakh. After that, full duty is chargeable until turnover reaches Rs. 75 lakh. If a unit crosses this level it losses the entire exemption. It has been noticed that the present slab rate system has provided strong temptation for small-scale units to stay below a particular limit or to under-state their actual production. Under the New Scheme in respect of clearances in excess of Rs. 7.5 lakh the excise concession will be available at a flat rate of 10 percentage points below normal duty, subject to a minimum excise duty of 5 per cent. This concession will apply up to a turnover limit of Rs. 75 lakh. Thereafter the unit will pay normal duty but continue to enjoy the concessional rate on the first 75 lakh of turnover. However, this concession will be lost when the unit has crossed a turnover of Rs. 1.50 crore.

As a transitional measure and to overcome possible handicap in certain marginal cases, I am proposing that units in the turnover range of Rs. 7.50 lakh to Rs. 15 lakh may be allowed to pay concessional excise duty either at a rate of 10 percentage points below the excise duty rate or 25 per cent of the excise duty but not less than 2.50 per cent. The relief corresponding to this turnover range will also continue to be available to units with higher turnover for the prescribed period of one year.

An important feature of the new scheme is its universal applicability to all types of excisable goods with a few exceptions like cosmetics, TV sets, refrigerating and air-conditioning appliances, etc.

A new and major concession which is being allowed to the small-scale sector relates to grant of proforma credit under the MODVAT scheme. We are providing that proforma credit would be equal to the national normal duty even when the small-scale unit would have paid only concessional duty.

The introduction of this new SSI scheme from 1 March 1986 will mean a revenue loss of Rs. 75 crore.

In the last year's Budget, Special Excise Duty had been removed from as many as 100 items from the Excise Tariff. I now propose to remove the Special Excise Duty on the remaining 32 items of the old Tariff.

My next set of proposals relate to incentives for greater production of edible oils. It is well known that the potential of production of oils from rice bran, oil cakes, cotton seeds, tree oil seeds is not fully exploited. A big thrust to maximise extraction of such oils, especially edible oils from these source's is proposed to be accomplished by the following measures:—

(1) If minor oils like rice bran oil, *mahuwa* oil, water melon seed oil, *sal* seed oil and mango kernel oil are used by the *Vanaspati* units in excess of 3 per cent in the total oil mix, an excise duty relief of Rs. 100 per metric ton on *Vanaspati* will be given for each additional percentage of use of such minor oils.

(2) In case cotton seed oil is used in excess of 15 per cent in the total oil mix for *Vanaspati* production, a relief of excise duty to the extent of Rs. 30 per metric ton of *Vanaspati* for each additional percentage point of use will be given.

The maximum relief for the use of minor oils and cotton seed oil together will not exceed Rs. 1,000 per metric ton.

(3) The extent of relief in case of use in soap is being increased to Rs. 25 per metric ton for each additional percentage point of minor oils in excess of 3 per cent of such oils in the total oil mix. The relief now will be available for 10 additional minor oils apart from the 4 minor oils which enjoy the concession today at a lower rate.

(4) The excise duty on solvents is being brought to Nil from the existing Rs. 1,050 per kilo litre.

(5) Hardened inedible technical oils, fatty acids, soap-stocks and acid oils are being exempted from excise duty. This measure is expected to reduce imports and encourage the greater use of minor technical oils.

(6) Plant and machinery as may be identified by the Department of Civil Supplies for improving the quality and increasing the production of solvent extracted oils or oilmeals, will be exempted from customs duty or excise duty, as the case may be.

(7) It is proposed to provide a cash compensatory support of 10 per cent of the f.o.b. value of oil meal exports.

The poorer sections of our society consume unrefined vegetable oils made from crushing of domestic oil seeds and it is proper that such oils continue excise duty free. We do not allow the use of crushed groundnut oil or mustard oil in vanaspati so that it remains available for direct consumption by the weaker consumers. There is, however, a production of less than 5 lakh ton of refined edible oils which is consumed by the affluent classes. In general, the prices of these refined oils are even higher than those of vanaspati and the commercial margins are high. I propose to levy an excise duty of Rs. 1,500 per ton on costly refined edible oils in line with the excise duty on vanaspati. However, to encourage the production of new refined minor oils, we propose to exempt from this levy refined oils from soyabean, rice bran, cotton seed and sunflower.

The total revenue gain on account of the excise duty on a few refined vegetable oils will be Rs. 80 crore in a year; while the total revenue loss as a result of the above described measures would be Rs. 82.20 crore. These proposals would, therefore, be revenue negative to the extent of Rs. 2.20 crore.

I have to announce the following measures which will help exports and export production:—

(1) Export duty on unmanufactured tobacco has lost its rationale. In order to provide a competitive edge to the unmanufactured tobacco in the international market and to ensure that the tobacco farmers are able to get a fair price. I propose to provide total exemption from export duty on this item.

(2) Garment industry is poised for rapid development and exports and we have recently conceded to them a drawback rate of 7.5 per cent. In view of the potential of this industry for exports and employment, it is proposed to further improve the general drawback rate to 10 per cent.

(3) It has been a long standing demand of the footwear industry that the scheme of excise concession to small-scale units of footwear production presently granted to units with 2 HP and 49 workers should be reviewed. The small units in case of footwear are the backbone of the production structure. It is now proposed to extend the general scheme of exemption to small-scale industries to the footwear sector also.

In view of the shortage in the available of wattle bark to our industry, the import duty has been reduced from 70 per cent to 40 per cent *ad valorem*.

The import duty on leather-shaving blades is being reduced from an average rate of 72.5 per cent to 40 per cent.

(4) Improvement in marine products export earnings will come about the modernisation of by plants to improve the quality of product and also by moving over to added value product. It is, therefore, proposed to reduce import duty on specified machines used in

processing and packing of marine products from existing rate of 100 per cent to 40 per cent (Basic and Auxiliary).

(5) We have a potential for development of exports of cigar, cheroots and cigarilloes. This would require development of production of branded products which will sell both in the domestic and in the export market. It is proposed to do away with the excise duty presently levied on branded cigars, cheroots, and cigarilloes. Excise duty on branded *Hukka* tobacco is also being abolished. I may confess that total excise collections on these items were insignificant. Those who cannot afford to smoke cigarettes can now turn to cigars and cheroots.

(6) Gem and Jewellary—A reduction of import duty in respect of 74 items of machines, equipment and tools is being made from the existing level of 40 per cent to 228 per cent *ad valorem* to 25 per cent. Arrangements are also being made to allow export of gem and jewellery through air mail and parcel post from Bombay and Jaipur.

The concessions given in the interest of exports will cost the Exchequer Rs. 12.94 crore on the customs side and Rs. 9 lakh on the excise side.

In the textile sector, considerable relief has already been provided in August, 1985 as part of the implementation of the first stage of Textile Policy. From a review made by the Department of Textiles it is observed that the market prices of fibre, blended yarn and fabrics showed a declining trend up to November 1985, though some increase was noticed in December 1985 and January 1986. On the production side, there has been an increase in production of blended yarn from 129.72 million kilograms during July-December 1984 to 146.72 million kilograms during July-December 1985. It may, however, take some time to realise the full benefits of the duty reliefs. Under the 'Sulabh' cloth scheme, National Textiles Corporation has been provided with duty free polyester fibre and production of such cheap blended fabrics would go upto 50 million meters in 1986-87.

The Textile Policy also aims at encouraging production of blended fabrics on handlooms. Government is considering a scheme whereby specified handloom organisations can be provided blended yarn made from duty-free polyester fibre. For the present I propose to fully exempt blended polyester cotton and polyester viscose yarn with certain polyester content supplied to specified handloom organisations. Duty is also being fully waived on processing of specified blended fabrics by specified handloom development organisations.

Handloom cess, which is now being collected at the rate of 1.9 paise per square metre is utilised for development of handlooms. I propose to raise the cess to 2.5 paise per square metre. The revenue gain of Rs. 3.23 crore from this measure will be utilised for setting up an Enforcement Machinery to ensure that the items reserved for the handloom sector are not encroached upon by other sectors of the textile industry.

I propose to extend exemption from excise duty to cover all shoddy woollen products. These will include blankets, melton cloth, shoddy shawls and other fabrics.

As a measure of relief to the woollen industry, I propose to reduce the import duty on raw wool from 40 per cent to 20 per cent *ad valorem*. To make up this loss and also to avoid assessment disputes, I propose to increase the import duty on wool waste and woollen rags from 10 per cent to 20 per cent.

As hon'ble members are aware, a reduced rate of customs duty of 25 per cent *ad valorem* was provided in respect of a few sophisticated textile machines in the year 1983. I propose to continue those reliefs for one more year. Moreover, in order to encourage domestic production of certain sophisticated textile machines, I propose to provide a reduced rate of customs duty of 25 per cent *ad valorem* in respect of components of such machines. This will involve a loss of Rs. 2.74 crore in a year.

To protect jute bag industry, I propose to levy duty on synthetic tapes at the rate of Rs. 10 per kilogramme where input duty relief will be available; on other tapes the duty will be Rs. 4 per kilogramme. This will also result in a revenue gain of Rs. 15 crore in a full year.

Our review of the earlier reliefs given during 1985 have shown that while reliefs were passed on by the fibre manufacturers, the blended yarn producers did not do so after an initial period of decline in prices. The prices of blended yarn produced by many of the important companies has gone up to or near the level prior to the grant of excise relief. I think it is necessary to establish the principle that if the spirit of reliefs given in the interest of consumers is not respected, the Government will withdraw the reliefs. I am reducing the reliefs given to the yarn producers roughly by about 50 per cent. On their future conduct will depend our further response.

The Government is also committed to increasing the share of additional duty (in lieu of sales tax). I propose to raise the additional duty of excise on cotton and man-made fabrics of value exceeding Rs. 50 per square metre by Rs. 2.50 per square metre. This will yield a revenue of Rs. 18 crore for the States.

The above proposals will lead to a gain of Rs. 55.83 crore in excise duty and a loss of Rs. 2.74 crore in the customs duties.

We have received a number of representations from associations of industries and from the concerned Ministries pointing out the need of certain rationalisation which are unimportant from the revenue angle but would remove difficulties for the industry or will bring down the leakage of revenue.

Paper industry has been representing that the scheme of relief to the paper units using at least 50 per cent unconventional raw materials does not encourage the mills to increase production. In the new scheme which I am proposing all paper mills whose clearances did not exceed· 24,000 ton in the previous financial year and which do not have a bamboo or wood pulp plant will pay duty at the rate of Rs. 650, Rs. 1,200 and Rs. 1,500 per metric ton for the successive slabs respectively. For paper mills with clearances exceeding 24,000 metric ton or larger paper mills having bamboo or wood pulp plant, the rate of duty will be 10 per cent *ad valorem* plus Rs. 850 per metric ton. Finer varieties of paper are being excluded from these reduced rates. These schemes will be in force from 1 April 1986 and will cost the Exchequer Rs. 6 crore in a year.

It is proposed to have a single uniform rate of excise duty of 30 per cent *ad valorem* in respect of 3 major thermo-plastics namely, Low Density Poly-ethylene, High Density Poly-ethylene and poly-propylene. The loss in excise duty would be Rs. 7.24 crore. We are, however, revising the customs duty suitably to make the step revenue neutral. There will be a revenue gain of Rs. 7.52 crore in customs duties. Engineering plastics are raw materials which will have an increasing use in India. It is proposed to have a concessional rate of 60 per cent *ad valorem* of customs duty (Basic *plus* Auxiliary) in respect of 4 such specified engineering plastics. The additional duty of customs as appropriate will, however, continue to be levied. It is also proposed to provide for uniform rate of excise duty of 35 per cent *ad valorem* in respect of plates, sheets, films and foils of plastic materials and these items are being brought under the general scheme of small-scale exemptions.

In consonance with the Drug Policy, I propose to exempt 23 specified Drug intermediates from the levy of additional duty of customs, thereby reducing the total customs duty on these to 110 per cent *ad valorem*. Revenue sacrifice will be Rs. 1 crore.

I also propose to exempt additional 41 life saving formulations from excise duty. This will cost the Exchequer Rs. 15 crore.

The total customs duty on additional five medical equipments of consumable nature is being abolished. In the last Budget exemptions from customs duty in excess of 45 per cent was provided in respect of 10 specified items of sophisticated medical equipments. I propose to enlarge this list substantially by adding 101 items of medical equipments and exempt them from duty in excess of 40 per cent *ad valorem*.

In order to encourage domestic production of medical equipments, I also propose to allow a concessional rate of customs duty of 40 per cent *ad valorem* in respect of components for manufacture of 15 identified medical equipments.

In the 1985 Budget, we had given a total exemption from customs duty in respect of consumable goods imported for scientific research by public funded research institutions up to the value of Rs. 50,000. As a measure to encourage indigenous research and development effort, I propose to remove the ceiling. The revenue sacrifice would be Rs. 5 crore.

These measures will involve a loss of Rs. 28.24 crore in excise duties and Rs. 0.48 crore in customs duties.

Some of the other Rationalisations proposed are the following:

(a) I wish to give relief to some items of daily use of the common man. We are abolishing excise duty on stoves using kerosene and wood. The value limit of complete exemption in case of footwear is being raised from Rs. 30 per pair to Rs. 45 per pair. Excise duty is also being abolished on brushes, combs, umbrellas, chalks and similar other materials.

(b) The Long Term Fiscal Policy recognises that cesses levied as excise duties contribute to the multiplicity of taxes. As an endeavour to reduce the number of these cesses, it has been decided to dispense with the cess on cotton, copra and vegetable oils. The Ministry of Agriculture will take appropriate action in the matter. The loss to the Exchequer on this account will be Rs. 5.90 crore.

(c) Ship breaking industry is an important source of scrap for our steel industry. It is proposed to fix an effective rate of customs duty on ships imported for breaking up at Rs. 1,400 per LDT and to exempt them from the auxiliary and additional duties of customs. The effective rate of excise duty of Rs. 365 per metric ton would be available for materials obtained by breaking up of ships which have suffered the customs duty of Rs. 1,400 per LDT.

(d) In recognition of the vital role of newspapers, I am reducing import duty on 4 items of printing equipment. It is my hope that they will not accuse me of influencing the Press.

Some of the other amendments which are being made are the following:—

(i) The effective rate of basic customs duty on caustic soda is being fixed at Rs. 3,500 per metric ton, and we are exempting it from auxiliary and additional duties of customs.

(ii) Import duty in respect of Synthetic Organic Dye stuffs and certain other Dyes is being increased as a measure of protection, from 100 per cent to 150 per cent *ad valorem*.

(iii) The effective rate of basic customs duty on PVC resin is being fixed at Rs. 10,500 per metric ton.

(iv) We wish to encourage the production of iodised salt in the interest of implementation of the National Goitre Control Programme and, therefore, iodine imported for the production of iodised salt would receive the concessional rate of import duty 25 per cent *ad valorem*.

(v) Specific rates of excise duty are being introduced for manual typewriters and leather cloth.

(vi) The excise duty on marine plywood and aircraft plywood as an anti-avoidance measure is being increased from 10 per cent to 20 per cent *ad valorem*. Effective rates of excise duty for match boxes containing 300 sticks per box are being provided.

(vii) Exemption from excise duty is also being provided in respect of ores, slag and ash, wood pulp, inorganic chemicals used in manufacture of fertilizers, clinkers used in the manufacture of cement.

These measures will involve a revenue gain of Rs. 26.97 crore on the customs side and a loss of Rs. 3.44 crore on the excise side.

I will now come to important measures of resource mobilisation. My first proposal is to rationalise the structure of auxiliary duties of customs. At present, there are 11 slabs of auxiliary customs duties. While the specific duty on crude petroleum will remain as at present, it is proposed to reduce the existing 11 slabs into three slabs, namely, Nil, 25 per cent and 40 per cent. This will give us a revenue gain of Rs. 160 crore. However, removal of auxiliary duty from certain GATT bound items would mean a loss of Rs. 9 crore.

Earlier in my speech, I had referred to the importance of providing adequate support to our capital goods industry which is pivotal for self-reliance. With this end in view, it is proposed to increase the general machinery rate of basic customs duty by 10 per cent. A similar increase is also being made in the general project rate from 45 per cent to 55 per cent *ad valorem*.

As a complement to this, it is proposed to reduce the import duty on components of capital goods by 5 per cent. This will ensure that the import duty on components will now stand at 15 per cent below the import duty on the complete machines. This differential, as recommended in the Long Term Fiscal Policy, would go towards greater production of capital machines including computerised numerically controlled machine tools in India instead of their total imports. While the reduction in rate on components will lead to a revenue loss of Rs. 50 crore, the increase in machinery rate will give Rs. 1.24 crore and the revision of general project rate Rs. 120 crore.

In respect of 32 machine tools where domestic production has been established, the customs duty is being raised to 110 per cent. Again, 91 machine tools and instruments have been identified where there is negligible domestic production and it is proposed to reduce import duty on these machines to 35 per cent *ad valorem* (Basic *plus* Auxiliary). There will be a revenue sacrifice of Rs. 9 crore in customs duties.

At present there is a concessional rate of duty on the fuel efficient cars which comes to about 15 per cent *ad valorem* or loss. As I have mentioned earlier, full MODVAT will be extended to the automobile industry and the new MODVAT rates for fuel efficient cars would be 20 per cent *ad valorem*. I feel that such cars and their purchasers can bear an increase in the rate of duty by 5 per cent.

The current rate of duty for non-fuel efficient cars is around 25 per cent. The MODVAT rate of such cars would be 30 per cent. It is proposed to increase the excise duty on non-fuel efficient cars also by 5 per cent so that the final duty would be 35 per cent. A concession of excise duty was given for non-fuel efficient cars used as taxis. It is proposed to fix this rate at 30 per cent.

Under the new Excise Tariff, both the chassis of the vehicles and the body building of the motor vehicles are chargeable to excise duty. Full MODVAT is available for the chassis to the body builders in the final vehicle. Body building imparts an added value to the chassis and it is proposed to levy excise duty of 20 per cent on the final vehicle also.

The net gain of the revenue of the above proposals would be Rs. 40 crore.

The duty incidence on T.V. set has been rather low. Substantial concessions in customs and excise duties have been given in the past in respect of raw materials and components for the electronics industry in general. Duty is proposed to be enhanced from Rs. 900 to Rs. 1,500 per set in respect of colour TV sets of screen size exceeding 36 cms. This proposal will lead to a revenue gain of Rs. 48 crore in a year.

I also propose to provide for levy of additional duty of customs on TV sets imported as baggage. This increase would restrict the import of TV sets in baggage to some extent. The gain in revenue in the customs duties will be Rs. 30 crore in a year.

I propose to increase the duty on air-conditioners and replace the existing duty by a specific duty to stop evasion. It is proposed to levy a specific rate of duty of Rs. 8,000 per air-conditioner up to 1.50 ton capacity. The rate would be Rs. 10,000 per air-conditioner above 1.5 ton and up to 3 ton capacity and Rs. 15,000 per air-conditioner thereafter up to a capacity of 7.50 ton. A uniform duty of 60 per cent *ad valorem* will now be levied on all parts and accessories of refrigerating and air-conditioning machinery. The duty on compressors for air-conditioners would be specific at Rs. 4,000 per compressor. As we are extending full MODVAT relief to the industry, I propose to dispense with all end use exemptions except for Government hospitals. The special scheme of relief to small-scale units in this sector will continue. This measure will yield revenue of Rs. 25 crore.

Copies of notifications giving effect to the changes in customs and excise duties effective from the 1 March 1986, will be laid on the Table of the House in due course.

Apart from the above proposals, I have proposed some amendments in the Finance Bill seeking to effect some changes in the new Customs and Excise Tariffs. These changes are based on the feedback we have had from the trade and industry as well as the field formations since the enactment of these two tariffs and generally seek to preserve the position that existed under the old tariffs.

My proposals in respect of Customs and Excise duties outlined above are likely to yield additional revenue of Rs. 499.92 crore from customs duties and Rs. 253.78 crore from excise duties. The concessions and reliefs aggregate Rs. 93.11 crore on the customs side and Rs. 193.37 crore on the excise duty. The net additional revenue from customs duties, thus, would be Rs. 406.81 crore and that from excise duties Rs. 60.41 crore. In the excise duties, the Centre's share would be Rs. 24.19 crore and that of States Rs. 36.22 crore. In the total net additional yield of

Rs. 467.22 crore, Centre's share would be Rs. 431.00 crore and that of the States Rs. 36.22 crore.

I had earlier mentioned that the Budget deficit at the existing rates of taxes would be Rs. 4,095 crore. The proposed tax measures, taken together with reliefs, are estimated to yield net additional revenue of Rs. 445 crore to the Centre. This will leave an uncovered deficit of Rs. 3,650 crore. In relation to the size of our economy and the stock of money, the deficit is reasonable and non-inflationary. It is also significantly lower than last year.

With this, Mr. Speaker, I have come to the end of my task. My principal priorities in this Budget were to strengthen the public sector, to provide a further thrust to the anti-poverty programmes, to promote self-reliance and to provide relief to the common man. I have provided an increase in the Plan by 20.50 per cent despite resource constraints. We will be financing over 40 per cent of the Seventh Plan in the first two years in real terms, which is an achievement in itself. I have increased outlays for major anti-poverty programmes by nearly 65 per cent in keeping with our socialist goals. New schemes are being introduced for the benefit of rickshaw pullers, cobblers, sweepers, porters and others among the urban disadvantaged groups. Interest rates on Provident Fund contributions is being increased for the benefit of workers and the self-employed. I have provided tax relief to the fixed income groups. And I have given incentives for import substitution and export promotion, besides introducing several measures for rationalisation.

This Budget is just one step forward. Finally, in the immortal words of Mahatma Gandhi:

> "In times to come the people will not judge us by the creed we profess, or the label we wear, or the slogans we shout but by our work, industry, sacrifice …"

I commend this Budget to the House.