SPEECH OF DR. MANMOHAN SINGH, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1991-92*

Highlights

— *Need for Macro-economic Adjustment Emphasised*
— *Structural Reforms in the Industrial Policy*
— *Trade Policy Reform*
— *Liberalising the Policy for Foreign Direct Investment*
— *Reforms in the Financial Sector*
— *Promoting Investment for Non-Resident Indians (NRIs)*
— *Need for Adaptive Planning Process*
— *Development of Human Resource*
— *Establishment of National Renewal Fund*
— *Setting up of National Foundation for Communal Harmony*
— *Promotion of South-South Cooperation*
— *Establishment of Rajiv Gandhi Foundation*
— *Setting up of the Settlement Commission*
— *Encouraging Development of Tourist Infrastructure*
— *Re-introducing the Interest-Tax*

Budget, 1991-92

Total Receipts	**—**	**Rs. 1,03,698 crore**
Total Expenditure	**—**	**Rs. 1,13,422 crore**
Deficit	**—**	**Rs. 9,724 crore**

* *Lok Sabha Debate*, 24.7.1991, cc. 271-330.

Sir, I rise to present the budget for 1991-92. As I rise, I am overpowered by a strange feeling of loneliness. I miss a handsome, smiling, face listening intently to the Budget Speech. Shri Rajiv Gandhi is no more. But his dream lives on; his dream of ushering India into the twenty-first century; his dream of a strong, united, technologically sophisticated but humane India. I dedicate this Budget to his inspiring memory.

The new Government, which assumed office barely a month ago, inherited an economy in deep crisis. The balance of payments situation is precarious. International confidence in our economy was strong until November 1989 when our Party was in office. However, due to the combined impact of political instability witnessed thereafter, the accentuation of fiscal imbalances and the Gulf crisis, there was a great weakening of international confidence. There has been a sharp decline in capital inflows through commercial borrowing and non-resident deposits. As a result, despite large borrowings, from the International Monetary Fund in July 1990 and January 1991, there was a sharp reduction in our foreign exchange reserves. We have been at the edge of a precipice since December 1990 and more so since April 1991. The foreign exchange crisis constitutes a serious threat to the sustainability of growth processes and orderly implementation of our development programmes. Due to the combination of unfavourable internal and external factors, the inflationary pressures on the price level have increased very substantially since mid-1990. The people of India have to face double digit inflation which hurts most the poorer sections of our society. In sum, the crisis in the economy is both acute and deep. We have not experienced anything similar in the history of independent India.

The origins of the problem are directly traceable to large and persistent macro-economic imbalances and the low productivity of investment, in particular the poor rates of return on past investments. There has been an unsustainable increase in Government expenditure. Budgetary subsidies, with questionable social and economic impact, have been allowed to grow to an alarming extent. The tax system still has many loopholes. It lacks transparency so that it is not easy to assess the social and economic impact of various concessions built into its structure. The public sector has not been managed in a manner so as to generate large investible surpluses. The excessive and often indiscriminate protection provided to industry has weakened the incentive to develop a vibrant export sector. It has also accentuated disparities in income and wealth. It has worked to the disadvantage of the rural economy. The increasing difference between the income and expenditure of the Government has led to a widening of the gap between the income and expenditure of the economy as a whole. This is reflected in growing current account deficits in the balance of payments.

The crisis of the fiscal system is a cause for serious concern. The fiscal deficit of the Central Government, which measures the difference between revenue receipts and total expenditure, is estimated at more than 8 per cent of GDP in 1990-91, as compared with 6 per cent at the beginning of the 1980s and 4 per cent in the mid-1970s. This fiscal deficit had to be met by borrowing. As a result, internal public debt of the Central Government has accumulated to about 55 per cent of Gross Domestic Product (GDP). The burden of servicing this debt has now become onerous. Interest payments alone are about 4 per cent of GDP and constitute almost 20 per cent of the total expenditure of the Central Government. Without decisive action now, the situation will move beyond the possibility of corrective action.

The balance of payments situation is most difficult. The current account deficit, which was about 2 per cent of GDP for several years, is estimated to be more than 2.50 per cent of GDP in 1990-91. These persistent deficits, which were inevitably financed by borrowings from abroad, have led to a continuous increase in external debt which, including Non-resident Indian (NRI) deposits, is estimated at 23 per cent of GDP at the end of 1990-91. Consequently, the debt service burden is estimated at about 21 per cent of current account receipts in 1990-91. These strains were stretched to a breaking point on account of the Gulf crisis last year. The balance of payments has lurched from one liquidity crisis to another since December 1990. The current level of foreign exchange reserves, in the range of Rs. 2,500 crore would suffice to finance imports for a mere fortnight.

The price situation, which is of immediate concern to the vast mass of our people, poses a serious problem as inflation has reached a double digit level. During the fiscal year ending 31 March 1991 the whole sale price index registered an increase of 12.10 per cent, while the consumer price index registered an increase of 13.60 per cent. The major worrisome feature of the inflation in 1990-91 was that it was concentrated in essential commodities. The prices of these commodities rose in spite of the three good monsoons in a row and hence the three successive bumper harvests. Inflation hurts everybody, more so the poorer segments of our population whose incomes are not indexed.

There is no time to lose. Neither the Government nor the economy can live beyond its means year after year. The room for manoeuvre, to live on borrowed money or time, does not exist any more. Any further postponement of macro-economic adjustment, long overdue, would mean that the balance of payments situation, now exceedingly difficult, would become unmanageable and inflation, already high, would exceed limits of tolerance. For improving the management of the economy, the starting point, and indeed the centre-piece of our strategy should be a credible fiscal adjustment and macro-economic stabilisation during the current financial year, to be followed by continued fiscal consolidation thereafter. This process would inevitably need at least three years, if not longer, to complete. But there can be no adjustment without pain. The people must be prepared to make necessary sacrifices to preserve our economic independence and restore the health of our economy.

In the macro-management of the economy, over the medium-term it should be our objective to progressively reduce the fiscal deficit of the Central Government to move towards a significant reduction of the revenue deficit and to reduce the current account deficit in the balance of payments. It is only such prudent management that would enable us to curb the exponential growth in internal and external debt and limit the burden on debt servicing, for the Government and the country, to manageable levels. Indeed, we must make a conscious effort to reduce the internal debt of the Government and the external debt of the nation, so that we rely more and more on our own resources to finance the process of development. During the period of transition it shall be our endeavour to minimise the burden of adjustment on the poor. We are committed to adjustment with a human face. It will also be our endeavour that the adjustment process does not adversely affect the underlying growth impulses in our economy. We do not have time to postpone adjustment and stabilisation. We must act fast and act boldly. If we do not introduce the needed correctives, the existing situation can only retard growth, induce recession and fuel inflation, which would hurt the economy further and impose a far greater burden on the poor.

Macro-economic stabilisation and fiscal adjustment alone cannot suffice. They must be supported by essential reforms in economic policy and economic management as an integral part of the adjustment process, reforms which would help to eliminate waste and inefficiency and impart a new element of dynamism to growth processes in our economy. The thrust of the reform process would be to increase the efficiency and international competitiveness of industrial production, to utilise for this purpose foreign investment and foreign technology to a much greater degree than we have done in the past to increase the productivity of investment, to ensure that India's financial sector is rapidly modernised, and to improve the performance of the public sector, so that the key sectors of our economy are enabled to attain an adequate technological and competitive edge in a fast changing global economy. I am confident that, after a successful implementation of stabilisation measures and the essential structural and policy reforms, our economy would return to a path of a high sustained growth with reasonable price stability and greater social equity.

Thanks to the efforts of Pandit Jawaharlal Nehru, Indira Gandhi and Rajiv Gandhi, we have developed a well diversified industrial structure. This constitutes a great asset as we begin to implement various structural reforms. However, barriers to entry and limits on growth in the size of firms, have often led to a proliferation of licensing and an increase in the degree of monopoly. This has put shackles on segments of Indian industry and made them serve the interests of producers but not pay adequate attention to the interests of consumers. There has been inadequate emphasis on reduction of costs, upgradation of technology and improvement of quality standards. It is essential to increase the degree of competition between firms in the domestic market so that there are adequate incentives for raising productivity, improving efficiency and reducing costs. In the pursuit of this objective, we have announced important changes in industrial policy which will bring about a significant measure of deregulation in the domestic sector, consistent with our social objectives and the binding constraints on the balance of payments.

The policies for industrial development are intimately related to policies for trade. There can be no doubt that protection was essential in the initial phase of our industrial development, so that we could go through the learning period without disruption. The past four decades have witnessed import substitution which has not always been efficient and has some times been indiscriminate. The time has come to expose Indian industry to competition from abroad in a phased manner. As a first step in this direction. The Government has introduced changes in import-export policy, aimed at a reduction of import licensing, vigorous export promotion and optimal import compression. The exchange rate adjustments on 1 and 3 July 1991 and the enlargement and liberalisation of the replenishment licence system constitute the two major initial steps in the direction of trade policy reform. They represent the beginning of a transition from a regime of quantitative restrictions to a price based mechanism.

After four decades of planning for industrialisation, we have now reached a stage of development where we should welcome, rather than fear, foreign investment. Our entrepreneurs are second to none. Our industry has come of age. Direct foreign investment would provide access to capital technology and markets. It would expose our industrial sector to competition from abroad in a phased manner. Cost, efficiency and quality would begin to receive the attention they deserve. We have, therefore, decided to liberalise the policy regime for direct foreign investment in the following manner. First direct foreign investment in specified high priority industries, with a raised limit for foreign equity at 51 per cent, would be given prompt approval, if equity inflows are sufficient to finance the import of capital goods at the stage of investment and if dividends are balanced by export earnings over a period of time. Second, foreign equity, up to 51 per cent would be allowed for trading companies primarily engaged in export activities. Third, a special board would be constituted to negotiate with a number of large international firms and approve direct foreign investment in selected areas; this would be a special regime to attract substantial investment that would provide access to high technology and to world markets.

For the founding fathers of our Republic, a public sector that would be vibrant, modern, competitive and capable of generating large surpluses was a vital element in the strategy of development. The public sector has made an important contribution to the diversification of our industrial economy. But there have been a number of shortcomings. In particular, the public sector has not been able to generate internal surpluses on a large enough scale. At this critical juncture, it has, therefore, become necessary to take effective measures so as to make the public sector an engine of growth rather than an absorber of national savings without adequate returns. This has been widely accepted, but thought and action in this regard are still far apart. To bridge this gap, the portfolio of public sector investments would be reviewed so as to concentrate the future operations of the public sector in areas that are strategic for the nation, require high technology for the economy, and are essential for the infrastructure. In order to raise resources, encourage wider public participation and promote greater accountability, up to 20 per cent of government equity in selected public sector undertakings would be offered to mutual funds and investment institutions in the public sector, as also to workers in these firms. Public enterprises which are chronically sick and which cannot be turned around, will be referred to the Board for Industrial and Financial Reconstruction (BIFR), or to a similar high-powered body to be set up, for the formulation of revival or rehabilitation schemes; a social security mechanism will be created to fully protect the interests of the workers likely to be affected by the rehabilitation packages of the BIFR. Autonomy in management, and corresponding accountability, would be provided through a system of memorandums of understanding between the Government and public sector enterprises.

Our banking system and financial institutions are at the very core of the financial infrastructure in the economy. The widening and deepening of our financial system have helped the spread of institutional finance over a vast area and have contributed significantly to the augmentation of our savings rate, particularly financial savings. This has been a most commendable achievement, but our financial system has developed certain rigidities and some weaknesses which we must address now. The objective of reform in the financial sector would be to preserve its basic role as an essential adjunct to economic growth and competitive efficiency, while improving the health of its institutions. In this task, it is essential to ensure capital adequacy, introduce prudential norms and improve profitability of our commercial banks and financial institutions. There are no magic solutions. These are complex issues which need careful consideration. Therefore, I propose to appoint a high level committee to consider all relevant aspects of structure, organisation, functions and procedures of the financial system. This Committee would advise the Government on appropriate measures that would be needed to enhance the viability and health of our financial sector so that it can better serve the needs of the economy without any sacrifice of the canons and principles of a sound financial system.

Interest rates are a crucial dimension of the financial sector. In the formative stages of the development of credit markets, administrative intervention in interest rates is both necessary and desirable. At the present stage of our development, however, we can begin to relax the degree of intervention and impart a greater flexibility to the structure of interest rates. The Reserve Bank of India has already taken an important step in this direction, by stipulating a floor rate of interest and providing freedom to commercial banks to charge interest rates above the floor level based on their perceptions of risk. The Government proposes to extend a similar freedom to term-lending financial institutions, where the minimum interest rate would be 15 per cent, and these Institutions would be free to charge an interest rate in accordance with their perception of the creditworthiness of borrowers. With the exception of tax free bonds for the public sector, it is also proposed to remove all restrictions on interest rates for debentures, both convertible and non-convertible, floated in the capital market. The interest rate on such debt instruments will hereafter be governed by market forces, and the credit rating of such debt instruments will become an integral part of the capital market process. In consultation with the Reserve Bank of India, the Government would continue to watch the structure of interest rates. Recently, interest rates payable on bank deposits have been increased. I now propose to do a similar thing with regard to interest rates payable under the small savings schemes. Our ultimate objective is to achieve a significant reduction both in the nominal and the real interest rates. This would be possible if the rate of inflation is reduced significantly over the next three years.

While presenting the Budget for 1987-88, our former Prime Minister, the late Shri Rajiv Gandhi had assured this House that for a healthy growth of capital markets, for protecting the rights of investors and for preventing trading malpractices the Government would set up a separate Board for the regulation and orderly functioning of the Stock Exchanges and the securities industry. Although the Board was set up, legislation to give the Board adequate powers was unfortunately not enacted. This shall now be done forthwith and full statutory powers will be given to the Securities and Exchange Board of India for administering the relevant provisions of the Securities Contracts (Regulation) Act and the Companies Act. Transferring these powers from the Controller of Capital Issues and the Government to an independent body would enable it to effectively regulate, promote and monitor the working of the Stock Exchanges in the country. A comprehensive package of reforms relating to trading on the Stock Exchanges, including a system of national clearing and settlement and setting up of a central depository, is also under active consideration.

In regard to Mutual Funds, some progress towards evolving a competitive structure has been made in the last few years with encouraging results. For many investors, mutual funds are a more suitable investment vehicle than direct ownership of shares. The Government is already giving tax incentives for equity-linked savings schemes offered through mutual funds. The Government has now decided to further promote the development of mutual funds by throwing the field open to the private sector and joint sector mutual funds. In order to safeguard the interest of the investing public, and to encourage a healthy growth of the capital markets, a comprehensive set of guidelines is being evolved for the operation of all mutual funds. Consideration will also be given to enactment of legislation for this purpose.

A comprehensive review of policies and procedures bearing on Non-Resident Indian investments shall be carried out and further relaxations made in order to remove all procedural difficulties and impediments to the setting up of industrial and other ventures by Non-Resident Indians. New sectors shall be made available to NRIs for investment on a non-repatriation basis, including housing, infrastructure and real estate development. For example, at present, NRIs of foreign nationality are required to obtain specific permission under section 31 of the Foreign Exchange Regulation Act (FERA) to acquire residential property. It is now proposed to provide general exemption from this provision to such persons. However, rental income and proceeds from the sale of such housing will be non-repatriable. For facilitating interaction with the Central Government to serve as a focal point for NRIs, Government proposes to establish a Chief Commissioner for Non-Resident Indians. I would urge State Governments, also, to establish an office of a Commissioner for Non-Resident Indians.

I believe that the time has come to evolve a more transparent institutional mechanism for fixing tariffs and domestic prices in sectors where there might still be need for protecting Indian industry against foreign competition and for the determination of administered prices, particularly in the area of public utilities. For this purpose, we propose to restructure the Bureau of Industrial Costs and Prices and to transform it into a Tariff Commission.

As we enter the last decade of the twentieth century, India stands at the cross-roads. The decisions we take and do not take, at this juncture, will determine the shape of things to come for quite some time. It should come as no surprise, therefore, that an intense debate rages throughout the country as to the path we should adopt. In a democratic society it could not be otherwise. What can we learn from this debate? The most important thing that comes out clearly is that we cannot realise our goal of establishing a just society, if we abandon the planning process. But India's future development depends crucially on how well the planning process is adapted to the needs of a fast changing situation. I believe that without an intelligent and systematic co-ordinated resource use in some major sectors of our economy, development will be lopsided. It will violate deeply cherished values of equity and it will keep India well below its social, intellectual and moral potential. But our planning processes must be sensitive to the needs of a dynamic economy. Over-centralisation and excessive bureaucratisation of economic processes have proved to be counter productive. We need to expand the scope and the area for the operation of market forces. A reformed price system can be a superior instrument of resource allocation than quantitative controls. But markets can only serve those who are part of the market system. A vast number of people in our country live on the edges of a subsistence economy. We need credible programmes of direct government intervention focussing on the needs of these people. We have the responsibility to provide them with quality social services such as education, health, safe drinking water and roads. In the same way the development of capital and technology intensive sectors, characterised by long gestation periods, such as transport and communications and energy will need to be planned with much greater care than ever before. The control of land and water degradation, which threatens the livelihood of millions of poor people in this country, will also require effective Government leadership and action.

The challenge that we are facing is without precedent. In its initial stages, the Industrial Revolution in the western world concentrated on the creation of wealth, unmindful of the social misery and inequity which characterised this process. The democratisation of the polity came much later. The socialist experiment in charting a new path for accelerated industrial transformation of an under-developed economy and polity did achieve considerable success in developing technological and military capabilities, accumulation of capital for rapid industrial growth and human resources development, in countries such as the USSR. But recent developments have shown that this approach too suffered from major weaknesses, particularly in its allocative efficiency, in the management of technical change, control of environmental degradation and in harnessing the vast latent energy and talents of individuals. In India, we launched an experiment under the leadership of Pandit Jawaharlal Nehru, an experiment which sought to unite the strengths and merits of different approaches to accelerated development of our backward economy. We have achieved considerable success in the field of development, modernisation and greater social equity. However, we are yet far from realising our full potential in all these areas. We have to accomplish the unfinished task, while remaining steadfast in our allegiance to the values of a democratic system.

At the same time, we must restore to the creation of wealth its proper place in the development process. For, without it, we cannot remove the stigma of abject poverty, ignorance and disease. But we cannot accept social misery and inequity as unavoidable in the process of creation of wealth. The basic challenge of our times is to ensure that wealth creation is not only tempered by equity and justice but is harnessed to the goal of removal of poverty and development for all.

For the creation of wealth, we must encourage accumulation of capital. This will inevitably mean a regime of austerity. We have also to remove the stumbling blocks from the path of those who are creating wealth. At the same time, we have to develop a new attitude towards wealth. In the ultimate analysis, all wealth is a social product. Those who create it and own it, have to hold it as a trust and use it in the interest of society, and particularly of those who are under-privileged and without means. Years ago, Gandhiji expounded the philosophy of trusteeship. This philosophy should be our guiding star. The austerity that Gandhiji practiced and preached is a necessary condition for accelerated economic development in the framework of a democratic polity. The trusteeship that he prescribed for the owners of wealth captured the idea of social responsibility.

In highlighting the significance of reform, my purpose is not to give a fillip to mindless and heartless consumerism we have borrowed from the affluent societies of the West. My objection to the consumerist phenomenon is two-fold. First, we cannot afford it. In a society where we lack drinking water, education, health, shelter and other basic necessities, it would be tragic if our productive resources were to be devoted largely to the satisfaction of the needs of a small minority. The country's needs for water, for drinking and for irrigation, rural roads, good urban infrastructure, and massive investments in primary education and basic health services for the poor are so great as to effectively preclude encouragement to consumerist behaviour imitative of advanced industrial societies. Our approach to development has to combine efficiency with austerity. Austerity not in the sense of negation of life or a dry, arid creed that casts a baleful eye on joy and laughter. To my mind, austerity is a way of holding our society together in pursuit of the noble goal of banishing poverty, hunger and disease from this ancient land of ours.

Let me now turn to fiscal adjustment during the current financial year. The beginning of any attempt to correct the fiscal imbalance in the economy must be directed at a reduction in expenditure and an increase in income of the Government, so as to reduce the fiscal deficit. In the medium-term, however, our fiscal regime would be sustainable only if revenue receipts not only meet revenue expenditure but also provide a sufficient surplus to finance capital expenditure that does not yield direct economic returns as such, as in defence or in social sectors. Even this would not suffice if investment expenditures in the Budget do not earn an adequate return. The elimination of structural imbalances in our fiscal system would require a reduction both in the fiscal deficit and in the revenue deficit as a proportion of GDP. The Union Budget for 1991-92 is an essential first step in this direction.

It must be recognised that the necessary reduction in the fiscal deficit, during 1991-92, is a stupendous task. The Interim Budget presented to Parliament in March 1991 estimated the fiscal deficit at Rs. 38,475 crore. But this estimate was based on assumptions about certain decisions that have not been implemented. The postponement of the regular Budget has made a formidable task even more difficult because almost four months of the financial year have now elapsed without any effort at fiscal correction. Indeed, past trends in revenue and expenditure suggest that without any corrective action on our part, the fiscal deficit during 1991-92 could well reach a level of more than Rs. 52,000 crore. The difference between the two sets of figures provides the real measure of the fiscal correction needed during the current financial year.

According to provisional data available, the more narrowly defined budget deficit, as measured by borrowing through short term Treasury bills, for 1990-91 at Rs. 11,430 crore was significantly higher than the revised estimate of Rs. 10,722 crore, largely due to a substantial revenue shortfall, particularly in corporation tax revenues. This highlights the handicap with which we begin. Let me now present the scenario for 1991-92.

The increasing levels of non-plan expenditure, financed through borrowing, have led to an exponential increase in interest payments by the Government. The revised estimates for interest payments during 1990-91, at Rs. 21,850 crore, accounted for as much as 38 per cent of the net revenue receipts of the Central Government. Interest payments during 1991-92, estimated at Rs. 27,450 crore, constitute 42 per cent of the net revenue receipts of the Central Government at existing rates of taxation. If the present trends continue without any correction, then interest payments could well account for more than 50 per cent of the next revenue receipts of the Central Government by 1994-95. These magnitudes and proportions only serve to highlight the gravity of the situation and the acute need for a substantial adjustment in non-plan expenditure over the next three years.

The revised estimate for total non-plan expenditure in 1990-91 was Rs. 76,761 crore. In the normal course, even with the strictest scrutiny but in the absence of specific measures for reducing expenditure this non-plan expenditure would have increased to a level of Rs. 89,000 crore in 1991-92. Any attempt at fiscal correction during the current financial year can be meaningful only if non-plan expenditure is reduced by at least 10 per cent from the level it would otherwise reach.

The single largest component of non-plan expenditure is interest payments. Even if there is a drastic reduction in Government borrowing during this year, interest payments would still be in the range of Rs. 35,000 crore in the next financial year. The exponential increase in interest payments can be brought under some measure of control, by 1994-95, only through a strict discipline on Government borrowing for a period of three years.

The second largest component of non-plan expenditure is the allocation for the defence sector, where the provision in the revised estimates for

1990-91 was Rs. 15,750 crore. No attempt at containing non-plan expenditure can succeed if defence is to be excluded. At the same time, it is absolutely essential to ensure that a quest for economy in expenditure does not in any way compromise national security. We must, therefore, seek to limit expenditure without diluting the efficiency and effectiveness of our defence services. Keeping in view all these considerations, it has been decided to provide an outlay of Rs. 16,350 crore for defence in the current year.

Honourable members are aware that export subsidies have been abolished with effect from 3 July 1991. The export sector is being adequately compensated through the adjustment in the exchange rate and the expansion of the Replenishment Licensing System which have implemented at the beginning of July. Consequently, it is now necessary to provide only Rs. 1,224 crore for export subsidies in the budget estimates for 1991-92, as compared with the earlier estimated requirement of Rs. 4,200 crore, yielding a saving of as much as Rs. 3,000 crore during the remainder of this year.

In so far as fertiliser subsidies are concerned with effect from this evening, low analysis fertilisers such as calcium ammonium nitrate, ammonium chloride, ammonium sulphate and sulphate of potash will be free from price and movement controls. There will be an increase of 40 per cent, on an average, in the price of all other fertilisers. In addition, in respect of single super phosphate, there shall also be a ceiling on the subsidy per ton payable to producers so as to move towards total deregulation in the next few years, this should act as an incentive for all high cost units to reduce costs and improve efficiency. The necessary notifications in this regard are being issued separately today by the Ministry of Agriculture.

The economic rationale for an increase in the price of fertilisers is so obvious that it does not need to be stated. Nevertheless, I would like to draw the attention of the House to the fact that there has been no increase in fertiliser prices since July 1981. In these ten years, there has been a continuous increase in the procurement prices of paddy and wheat, as also in the market prices of other crops, received by the agricultural sector. Farmers will be compensated for the proposed increase in the price of fertiliser through suitable increases in procurement prices.

We would continue to ensure that 50 per cent of the plan resource are invested in the agricultural and rural sector. The provision for the continuing schemes for assistance to small and marginal farmers for dug wells and shallow tubewells would be doubled. The ceilings on assistance in difficult areas, where the water-table is very low, would be removed.

Similarly, the provision for assistance for fresh water and brackish water aqua-culture and for oilseeds and pulses production would be substantially stepped up. New schemes are being drawn up to popularise small tractors and matching implements, drip and sprinkler irrigation in areas where water is scarce, and quality seeds in low yield areas. Another new scheme that would be implemented from this *kharif* season is for providing assistance to State Governments, co-operative societies, and farmer groups to provide blanket plant protection cover on payment of a small fee in large identified areas under cotton or pulses. It would also be possible to demonstrate the advantage of integrated pest management in these areas. In order to safeguard any possible loss in production because of increase in fertiliser prices, and any decline in consumption, the credit structure would be strengthened to ensure adequate availability of credit particularly to the small and marginal farmers. Simultaneously, soil testing laboratories and farm advisory services all over the country would be strengthened to ensure efficient use of fertilisers and popularise the use of bio-fertilisers. We would also identify a few irrigation projects that can be completed in this very year and ensure that these are provided the necessary funds. The other new initiatives, also would not be starved of funds. As far as possible our emphasis will be on provision of quality services to our farmers and not on hand outs and subsidies.

The sugar subsidy which is costing the Exchequer about Rs. 350 crore per annum is indeed an aberration, which crept into the system from January 1990, when the increase in the levy price paid to producers was not matched by a simultaneous increase in the issue price for consumers in the public distribution system. Small quantities of sugar are made available, mostly in metropolitan and urban areas, under the public distribution system at Rs. 5.25 per kg. Whereas the price that most people pay in the market is around Rs. 10 per kg. Government has decided that this subsidy should be abolished forthwith. Consequently, the issue price of sugar under the public distribution system will be increased by 85 paise per kg. to Rs. 6.10 per kg. with effect from this evening. At the same time, the public distribution system is being strengthened to serve more effectively the weaker sections of our population, particularly the rural poor, having special regard to their basic needs for foodgrains such as rice and wheat. The provision for food subsidies in the current year is being stepped up to Rs. 2,600 crore, as compared with only Rs. 1,800 crore provided in the interim budget and Rs. 2,450 crore provided in the revised estimates for 1990-91.

As a result of the exchange rate adjustment, at the beginning of July 1991, there would be an increase in the rupee value of the import bill for crude oil and petroleum products. It is, therefore, necessary to raise the prices of petroleum products for domestic consumers. This would also help to restrain the growth in consumption of petroleum products. The price of motor spirit, domestic LPG and aviation turbine fuel for domestic use would be raised by 20 per cent. The prices of other petroleum products, excluding diesel and kerosene for non-industrial use, would be raised by 10 per cent. The price of kerosene, for non-industrial use, would be reduced by 10 per cent which means a 50 per cent roll-back in relation to the increase in the price that came into effect on 15 October 1990. Even in a most difficult financial situation, this is being done to protect the poor for whom kerosene is an essential source of light and fuel. While there will be no increase in the price of diesel, I would endeavour to protect the interests of the farmers who use diesel for this purpose. I shall hold discussions with State Governments. The proposed increases in the prices of petroleum products will come into effect from this evening, and the necessary notification in this regard is being separately issued by the Ministry of Petroleum and Natural Gas.

For non-plan expenditure, excluding interest payments, defence, and major subsidies, the total provision in the budget estimates for 1991-92 is Rs. 28,073 crore, reflecting a reduction of Rs. 1,538 crore compared with the provision in the revised estimates for 1990-91. If we take into account the fact that no separate provision has been made for the payment of additional instalments of dearness allowance by Ministries and Departments in the current year, the total reduction in such other non-plan expenditure will exceed Rs. 2,000 crore. In recent years, it has been the usual practice to issue instructions to Ministries that such additional requirements should be accommodated within the approved budget estimates. This has invariably, resulted in some programmes on the plan side being deprived of adequate resources. It is my intention to effect maximum possible economies in the non-plan administrative expenditure. Therefore, all Ministries have been requested to prioritise their activities so that those which figure at the bottom of the list can be abridged, while those which have outlived their utility can be abandoned altogether. This exercise has already been initiated by all Ministries and is expected to be completed by the end of August 1991. With this approach, the proposed reduction in other non-plan expenditure, which I am promising to the House, would be brought about in a more meaningful manner without leading to a reduction in the provision for plan programmes.

There is one large component of non-plan expenditure that is a burden on the Exchequer. I refer to the Government's obligation under the Rural Debt Relief Scheme. Unfortunately, there was a gross under-estimation of the total fiscal liability under this scheme which was introduced last year. In addition to the sum of Rs. 1,500 crore provided in the revised estimates for last year, we have to provide Rs. 1,500 crore in the current year. But this is not all. We may need a similar provision in the next year, as well.

As a result of the major adjustments in the sphere of expenditure, which I have outlined in my speech, the budget estimate for total non-plan expenditure in 1991-92 stands at Rs. 79,697 crore. It is simply not possible to reduce interest payments in the short-term. The provision for non-plan expenditure, excluding interest payments, in the current year represents a reduction of 4.90 per cent compared with the provisions in the revised estimates for 1990-91, and a reduction of almost 15 per cent in relation to what we would have had to provide this year, but for the specific correctives that are being introduced. We have, thus, more than fulfilled our commitment to reduce non-plan expenditure by 10 per cent, which was stated in our Party's election manifesto.

The election manifesto of the Congress Party identifies areas for special emphasis in our strategy of development. These include a substantial augmentation of employment programmes, the construction of dwelling units for the weaker sections of our society, an expansion of the programme for irrigation wells and so on. This would need a change in, and some reorientation of, plan priorities, with a shift towards investment in rural areas and expenditure on programmes designed for the benefit of the poor. Our strategy would, of course, be reflected in the Eighth Five-Year Plan, which would now commence on 1 April 1992. It shall be our endeavour to finalise the Eighth Plan document by the end of this calendar year, so that the Annual Plans for 1992-93, as well as the budgets of the Centre and the States for that year, reflect the changed priorities.

As the Vote on Account had earlier been taken only to cover the expenditure in the first four months, this Budget has had to be presented before the end of July 1991. We have, thus, not had the time to reorient the Annual Plan for 1991-92 to reflect fully our various concerns. Moreover, this year's annual plan has had to be situated in the context of the massive fiscal correction that we have to put through. In fact, it was first felt that it would be necessary to effect a substantial reduction in budget support for the Central Plan and Central Plan assistance for the States. I am, however, happy to inform the House that with the substantial cuts proposed in non-plan expenditure, it is now possible to protect the flow of Central Plan assistance to States and Union Territories at the level of Rs. 14,710 crore, as reflected in the interim budget for 1991-92. The Central plan outlay would, however, show a modest increase at Rs. 42,969 crore with a budget support of Rs. 19,015 crore.

I am aware that in basic infrastructure areas such as power, coal, communications and petroleum, we will have to set our sights much higher. In the present situation, characterised by an acute shortage of foreign exchange it is in particular, imperative to augment substantially the domestic production of coal, crude oil, natural gas and electrical energy. Efforts will also have to be made on a crash basis for promoting utmost economy in use of energy through more efficient technologies in industry, agriculture, transport and domestic sectors. The transmission and distribution line losses would also have to be brought down drastically from the present high level of 22 per cent. We shall address ourselves to all these tasks once we are through with taking stock of the situation. It is my earnest hope that by then, thanks to the fiscal corrections now being put through the resources position would improve, giving us the necessary flexibility. For the present, it has been my endeavour to maintain essential investment through appropriate support for the Central Plan despite binding constraints on the Exchequer.

In preparing this Budget, I have sought to ensure that the burden of fiscal adjustment does not fall on State Governments. It is my belief that the Central Government must set an example by introducing fiscal correctives, and it is my hope that the State Governments would move in this direction as soon as possible. In particular, I would urge them to ensure prompt payment of dues owed by the State Electricity Boards to the National Thermal Power Corporation, Coal India and the Indian Railways. We cannot allow State level enterprises to become an instrument of unplanned and unauthorised transfer of resources from the Centre to the States. That is neither fair nor equitable. This practice must, therefore, stop forthwith. Simultaneously, State Governments must take effective steps to improve their fiscal performance and streamline the working of their public enterprises. They should not expect me to reward fiscal laxity by permitting them to have recourse to unauthorised overdrafts from the Reserve Bank of India. I want them to be an active partner in the accomplishment of the difficult task of restoring the fiscal health of the country.

The process of macro-economic adjustment, which is being initiated with this budget, would take at least three years to complete. This adjustment must have a human face. Therefore, during the period of transition we shall do everything that is possible to minimise the burden of adjustment on the poor. To some extent, the poor would be protected as the rate of inflation comes down. We shall make determined efforts to control inflation and the price rise. The fiscal strategy of this budget will make a major contribution in this regard. In addition, it will be our endeavour to provide protection to the poor in the form of enhanced outlays in the social sectors. Employment creation and poverty eradication in rural India will continue to receive the highest priority. At the same time, Government is committed to the uplift of the weakest and the most vulnerable sections of our society.

The plan outlay for the Ministry of Rural Development is being stepped up from Rs. 3,115 crore last year to Rs. 3,508 crore this year. Within this, the outlay for employment programmes alone is Rs. 2,100 crore. The various employment oriented programmes should make it possible to provide nearly 900 million man-days of employment. If, this year, we are not aiming at the target of 1,000 million man-days mentioned in our manifesto it is because the season when there is maximum need for such employment is already over. The Eighth Plan now under formulation will spell out a comprehensive strategy and programmes to achieve the long-term employment objectives, and targets such as those relating to the construction of irrigation wells, urban night shelters and Sulabh Shauchalayas, dwelling units for poor backward classes, Scheduled Castes and Scheduled Tribes in the villages, mentioned in our Party's election manifesto.

The provision for the rural water supply scheme is being stepped up to Rs. 758 crore, so as to make it possible to set aside Rs. 250 crore for ensuring complete coverage of' 'no-source problem villages' by the end of 1992-93. The earlier expectation was that these villages would be covered only by the end of the Eighth Plan period. The late Shri Rajiv Gandhi had attached great priority to this programme and had set up a Technology Mission for this purpose. The programme, which is now being named after Shri Rajiv Gandhi, will be accelerated. We will ensure that resource constraints do not stand in the way of achieving the target.

It is a matter of deep concern that we have still not been able to put an end to the dehumanising practice of manual removal of night-soil. The allocation for this programme has in the past been less than adequate. It has now been decided not only to accelerate the programme for the conversion of dry-latrines but also to step up the allocation for the rehabilitation and retraining of scavengers. Towards this end, the allocation for the programme has been increased by Rs. 25 crore and more funds, to the extent necessary, would be provided during the course of the year. Inclusive of the increased provision for this programme, the total outlay for the programmes of the Ministry of Welfare, which is concerned with the welfare of scheduled castes, scheduled tribes and other weaker sections of our society, is being stepped up from Rs. 364 crore in 1990-91 to Rs. 479 crore in 1991-92. The outlay for the Department of Women and Child Development, dealing with perhaps the two most disadvantaged segments of our population among the poor, is being enhanced from Rs. 330 crore last year to Rs. 400 crore this year. For Health and Family Welfare, I am providing a plan outlay of Rs. 1,051 crore in 1991-92 as compared with Rs. 950 crore in 1990-91.

The allocation of resources for investment in social sectors is of utmost importance for the development of human resources. In this context, there is no need for me to emphasise the importance of education, in particular, elementary education. Our efforts to restructure and revitalise the economy can succeed only if we invest in our people. Particular attention has to be paid to the provision of quality education to children belonging to the scheduled castes, the scheduled tribes and other economically and socially backward classes. Children who belong to the category of first generation learners need special care and attention. If the equality of opportunity is to acquire its true significance, quality education must not remain the exclusive privilege of the children of the rich. The Government is committed to ensure that, whatever be our constraints, the programmes of education will not be allowed to suffer for want of financial support. Every effort will be made to ensure that the constitutional directive of providing free and compulsory education up to the age of 14 years becomes a reality before we enter the twenty first century. In the sphere of higher education and technical education, more resources are needed for modernisation and diversification, but, at the same time, an effort must be made to secure optimum results from the existing investment in these institutions. The requirements of education are vast and we shall have to seek innovative ways of finding resources. Budget support provided by the Central Government and the State Governments are an important source, but cannot continue to remain the only source. I am raising the allocation for education from Rs. 865 crore in 1990-91 to Rs. 977 crore in 1991-92. This allocation is not commensurate with my deep commitment to education and the priority that is attached by the Government to the education sector. I would have liked to do more but we must learn to live with the constraints on the exchequer.

We have the third largest number of scientists and technologists in the world. Yet, technology development in our country has not been commensurate either with this number or the investments that we have been making in the science and technology sectors in our successive Five-Year Plans. This gap would have to be bridged through a suitable reorientation of the Science and Technology Policy and the way paved for relating science and technology more intimately to the requirements of our development, as well as for better upgradation, absorption, adaptation and assimilation of new technologies. This task has become imperative as we prepare ourselves to be an internationally competitive economy.

Government has also decided on five new initiatives. The first of these is the establishment of a Corporation for the welfare of the backward classes, a task that the Congress manifesto has included for completion within the first 100 days. The details of the structure and duties of this Corporation are being finalised by the Ministry of Welfare and will be announced before the end of this session.

Government will establish a National Renewal Fund, with a substantial corpus. The main objective of this fund will be to ensure that the cost of technical change and modernisation of the productive apparatus does not devolve on the workers. This fund will provide a social safety net which will protect the workers from the adverse consequences of the technological transformation. I visualise that this fund will grow in size and State Governments will also contribute to its corpus in due course. The fund will not merely provide ameliorative measures for the workers affected in the course of technical change but more importantly, provide retraining to them, so that they are in position to remain active productive partners in the process of modernisation.

The third programme relates to the care of children of families affected by communal riots. These riots are a blot on the fair name of our Republic. Our Government is deeply committed to the protection and advancement of all religious and cultural minorities. Effective steps will be taken to prevent recurrence of communal violence. At present there are arrangements to provide compensation of varying amounts to the riot affected families. But experience shows that such compensation does not always protect the interests of children of the riot affected families. These children then grow up into disgruntled and disorganised adulthood. They become an easy prey to the propaganda of anti-social elements and the obscurantist, fundamentalist forces of reaction. To protect the interests of such children, look after their welfare and in particular their education, the Government proposes to set up a National Foundation for Communal Harmony as an autonomous non-government organisation. The Central Government will make a significant contribution to this Foundation in 1991-92. I invite State Governments as well as industry and trade to make liberal contributions for this noble cause.

The fourth programme is to promote national integration through a scheme for enabling the youth of each part of the country to go in large numbers and work for short periods in other parts of the country, giving them an opportunity to mingle with people of different regions and languages. A similar step in this direction has already been taken in the Navodaya Vidyalaya Programme. This will now be strengthened and extended on a national basis.

The fifth programme relates to promotion of South-South cooperation. We as a nation are committed to close cooperation and sharing our development experience, knowledge and expertise with non-aligned and other developing countries. There is immense scope for Indian scientists, technicians, engineers, teachers, social workers and farmers to contribute to the development process in the third world. Our experience in various fields can be of great relevance and assistance to many developing countries particularly in Asia and Africa. It is our hope to arrange for participation of at least 500 volunteers in different nation-building task in selected developing countries in the coming year. The details of the programmes will be worked out and announced before the end of the session.

The House will also be pleased to learn that in acceptance of a recommendation of the South Commission presided over by Dr. Julius K. Nyerere, the former President of Tanzania, we propose to set up a National Committee under the chairmanship of the Prime Minister for mobilising public opinion in support of South-South cooperation and for advising our Government for devising concrete action programmes in this regard. This committee will consist of representatives of Government, trade and industry, trade unions and members of learned professions.

The Rajiv Gandhi Foundation has been established to perpetuate the memory of the great leader and to promote the ideals and objectives for which he lived and laid down his life. This Foundation, among other things, will lay particular emphasis on research and action programmes relating to the application of science and technology for development, propagation of literacy, the protection of the environment, the promotion of communal harmony and national integration, the uplift of the under-privileged, women and handicapped persons, administrative reforms and India's role in the global economy. As a homage to the late Shri Rajiv Gandhi and in support of the laudable objectives of the Foundation, Government has decided to contribute Rs. 100 crore to the Foundation at the rate of Rs. 20 crore per annum for a period of five years beginning from the current year.

Pending determination of the exact amounts that will be necessary for each of these new initiatives, a lump sum provision of Rs. 250 crore has been included in the plan outlay of the Ministry of Finance.

The budget provision for total expenditure in 1991-92 is Rs. 1,13,422 crore, of which Rs. 79,697 crore is non-plan expenditure and Rs. 33,725 crore is plan expenditure.

In the sphere of revenue receipts, at the existing rates of taxation, gross tax revenues are estimated at Rs. 66,218 crore during the current financial year, compared to Rs. 58,916 crore in the revised estimates of last year. The payment to States of their share of taxes is placed at Rs. 15,643 crore in 1991-92 as against Rs. 14,535 crore in the revised estimates for 1990-91. Thus, the net revenue receipts of the Centre, including non-tax revenue, are estimated to increase from Rs. 57,381 crore in 1990-91 to Rs. 65,524 crore in 1991-92.

In the sphere of capital receipts, market borrowings are placed at Rs. 7,500 crore this year, which is lower than Rs. 8,000 crore last year; this is part of a conscious effort to reduce the borrowing of the Central Government which would, in keeping with the past trends, have gone up by about 10 per cent. The net collections on account of small savings are estimated at Rs. 8,000 crore, which are at the same level as the Revised Estimates for last year. In addition, the Government has decided to disinvest up to 20 per cent of its equity in selected public sector undertakings in favour of mutual funds and investment institutions in the public sector, which is expected to yield Rs. 2,500 crore to the exchequer during the current financial year. This disinvestment would broad-base the equity, improve the management and enhance the availability of resources in these enterprise.

The net receipts on account of external assistance, excluding grants, are placed at Rs. 3,510 crore compared to Rs. 3,984 crore in the revised estimates of 1990-91. While the increase in the loan repayment and interest payment liabilities as a consequence of the recent exchange rate adjustments, is fully reflected in the budget estimates, the likely increase in the rupee value of external assistance following the exchange rate adjustments is still under assessment. To the extent that these receipts increase, there will also be a corresponding increase in expenditure when the assistance is passed on to the concerned projects or schemes for which such assistance is received. These changes, which will thus be budget deficit neutral, will be incorporated at the stage of revised estimates.

Taking into account other changes in Receipts and Expenditure, total receipts at the existing rates of taxation are estimated at Rs. 1,03,698 crore, while total expenditure is estimated at Rs. 1,13,422 crore. Therefore, without additional resource mobilisation, the budget deficit is estimated at Rs. 9,724 crore, the revenue deficit at Rs. 15,859 crore, and the fiscal deficit at Rs. 39,732 crore.

Honourable members would have observed that expenditure adjustment constitutes the core of the proposed fiscal correction during the current financial year. But the process of fiscal adjustment cannot be complete without revenue measures to increase the income of the Government. I now seek the indulgence of the House to present the reliefs, the incentives and the levies in the sphere of direct taxes.

The revenue from direct taxes, both as a proportion of GDP and as a percentage of total tax revenues, has registered a steady decline over time. This trend has to be reversed, so as to restore equity in and balance to our fiscal system. Resources for development must be raised from those who have the capacity to pay. For this purpose, we must place greater emphasis on direct taxes. This calls for increased rates wherever necessary and a better tax compliance. At the same time, rationalisation of the system, which reduces the maximum marginal rate of tax, simplifies the procedures, reduces the plethora of concessions, and brings the average rates of income-tax at various levels of income to more appropriate levels, is necessary. The time available before presenting the budget was simply not enough to formulate basic structural changes. Yet, I have made a conscious effort to move one step forward in this direction.

Nobody can deny the existence of large scale tax evasion, both in terms of income and in terms of wealth. Unless I find substantial improvement in tax compliance in the next few months, Government will have no choice but to take strong measures to make the tax evader pay a sufficiently high price for such delinquency. Before coming down heavily on tax evaders, I would like to give them a last opportunity to come clean. The black money so mobilised will be utilised for the achievement of social objectives such as slum clearance and low cost housing for the rural poor.

I propose to institute a scheme, under which any person would be allowed to make a deposit with the National Housing Bank on or before close of business on 30 November 1991. Thereupon, forty per cent of such deposit would be deducted and set apart as a special levy, which would form the corpus of a fund in the National Housing Bank. This fund will be utilised for financing slum clearance and low cost housing for the poor, in accordance with guidelines and priorities laid down by the Government. The depositor would be allowed to draw the balance amount in one or more instalments through account payee cheques for any stated purpose of his choice. There will be no lock-in period for this deposit. Persons making such deposits will not be required to disclose the source of funds from which the deposits are made. In other words, the monies deposited would be provided complete immunity from enquiry and investigation. The provisions of Direct Tax Laws would, however, apply to the net deposits after deduction of the special levy, from the date of the deposit. The levy itself would not be an allowable deduction in the computation of income of the person concerned. Necessary legislation in this regard will be introduced shortly in this session of Parliament. The details of the scheme and its date of commencement will also be announced soon.

The Income-tax Act contains a provision under which tax payers can avail of the facility of waiver of penalty and interest on the amount disclosed once in a life-time. To those who have already availed of this facility, I propose to give just one more opportunity to disclose their unaccounted incomes. The Finance Bill contains a proposal for making suitable amendments to section 273A of the Income-tax Act for this purpose.

The Settlement Commission was set up to provide an opportunity to assessees to declare their undisclosed income and wealth. Under the existing procedures, the Commissioner of Income Tax can, on certain grounds, object to admission of an application by the Settlement Commission. This results in unnecessary delay. This provision is therefore, being deleted. The Settlement Commission will, however, continue to call for and take into account the Commissioner's report, provided it is furnished within a period of six months.

Our election manifesto has promised that we will promote reinvestment of profits, by suitable tax exemptions, in areas where there is crying need for massive investment such as low and middle income group housing, highways, roads and bridges, non-conventional energy, school buildings and supply of drinking water. I, therefore, propose to make a provision in the Income-tax Act to provide deduction, in computing taxable profits of a tax-payer carrying on a business or profession, of the entire amount paid for financing projects or schemes promoting social and economic welfare. To ensure optimum use of scarce resources, I propose to set up a National Committee of eminent persons to identify areas requiring support and for recommending specific projects and schemes. A similar deduction will be allowed also in the case of tax-payers not carrying on any business or profession.

As a token of my commitment to education and research and in recognition of the significant role they have to play in our development process, I propose to extend certain tax concessions that will help in the funding of social science research and provide some incentive to authors and publishers.

At present, only tax-payers carrying on a business or profession get deduction for sums paid to any approved university, college or other institutions for research in social science related to the class of business carried on by them. I consider that there is a case for providing more tax incentives for social science research. I, therefore, propose to allow the same 100 per cent deduction in respect of sums paid for research in these areas whether related to business or not. I also propose to allow this deduction to tax-payers not carrying on any business or profession.

The role of books, particularly in the context of our National Literacy Mission as well as the National Education Policy cannot be overemphasized. To encourage publication of better and less expensive books and to give a fillip to the publishing industry, I propose to revive, with effect from the current accounting period, the deduction of twenty per cent of profits from publication of books for a period of 5 years. To encourage the publication of quality text books in various Indian Languages I also propose to revive the 25 per cent deduction from professional income of authors of text books in Indian languages. This will also be available for a period of five years, beginning with current income-earning period.

Off-shore country funds are emerging as important channels for attracting foreign institutional investment particularly from non-resident Indians. India made a beginning in this direction in 1989. Of late, however, there are signs of diminishing interest of foreign institutional investors in off-shore India country funds. The comparative national tax structure is one of the key factors affecting the direction of international financial flow. I, therefore, propose to substantially reduce the rate of tax on dividend income received by the off-shore funds from the units of UTI or other mutual funds and on long-term capital gains from such unit. On dividend income the proposed rate of tax will be 10 per cent as against the existing rate of 25 per cent. On long-term capital gains, I propose to have the same rate of 10 per cent as against the effective rate of about 45 per cent at present.

In the light of our deep emotional involvement with the struggle of the Black majority in South Africa and as a further affirmation of our commitment to South-South cooperation, I propose that donations to the AFRICA FUND be entitled to 100 per cent deduction under section 80G of the Income-tax Act.

The Government is committed to the welfare of our unfortunate handicapped citizens. In an effort to mitigate in some small measure their hardship, I propose to increase the deduction available under Section 80U of the Income-tax Act in respect of totally blind or physically handicapped persons, from fifteen thousand rupees to twenty thousand rupees. The benefit of this tax concession is also proposed to be extended to partially blind persons.

Promotion of housing activity ranks high in Government's socio-economic priorities. Towards this objective, I propose to extend the benefit of tax rebate under section 88 of the Income tax Act also to contractual schemes floated by public housing corporations like Housing and Urban Development Corporation Limited (HUDCO) and State Housing Boards along the lines of the Home Loan Account Scheme of the National Housing Bank. Further, the tax rebate under section 88 will also be available in relation to instalment/repayment of loans towards cost of land and also in cases where the house was purchased or constructed before 1 April 1987.

Our software industry has made considerable progress in recent years. However, there is still a vast unexploited potential for growth. It is time we make all-out efforts to capture the overseas software market. With this objective, I propose to extend the tax concession under section 80 HHC of the Income-tax Act to export of software. With this concession, the exports of this industry should register rapid growth.

I also propose to extend the concession under section 80HHC to the export of processed minerals.

I consider that scientific, technical and professional skills, knowledge and experience possessed by our professionals in various fields like architecture, accounting, etc., have an increasing capacity to earn foreign exchange for the country. Many of them carry on their professions as individuals or partnership firms. To enable them to benefit from the tax concession available under section 80-O, I propose to extend, to the non-corporate assessees, the concession presently available only to the corporate sector.

In order to encourage development of tourist infrastructure in regions where such facilities are almost non-existent today, I propose to exempt from Expenditure Tax for a period of ten years expenditure incurred in new approved hotels set up in hilly and other remote areas. I also propose to allow to such hotels a deduction of 50 per cent from their profits instead of the normal 30 per cent under section 80-I subject to certain conditions.

As a token of my appreciation of the role of a healthy capital market in the development of our economy, I propose to raise the basic deduction of Rs. 10,000 now available under section 48 of the Income-Tax Act in respect of long-term capital gains to Rs. 15,000.

As indicated earlier, I wish to take some positive steps to reverse the trend of decline in the proportion of direct tax revenues to total revenues. I, therefore, propose to raise additional resources this year through a greater reliance on direct taxes. I now turn to my proposals for ensuring better tax compliance and mobilising revenues through the imposition of additional taxes.

To enable the Government to identify income earners, most of whom would not otherwise declare their income or would not declare their full income, I propose to extend the scheme of tax deduction at source to cover new areas of payments in the nature of commissions, interest paid by banks on time deposits and withdrawals from the National Savings Scheme. To minimise the inconvenience for small depositors, tax will be deducted at source only in respect of payments in excess of Rs. 2,500 per year. Those receiving payments in excess of the limit but not having taxable income will have the facility of collecting payment with no tax deduction by filing a declaration in the prescribed manner.

The present provision for off-setting short-term capital losses against income leads to tax avoidance. I, therefore, propose that any loss on transfer of a capital asset will be set off only against gain from transfer of another capital asset. This is only logical. It should also stop the practice of buying short-term capital losses being resorted to by some unscrupulous tax-payers.

Over the years, those with an instinct for gambling have increasingly patronised the races. I propose to withdraw the income-tax exemption of Rs. 5,000 in respect of earnings from races, including horse races. I am sure that persons who place bets will now also have the added pleasure of sharing their earnings from races with the Government.

Professor Kaldor once observed that no civilised society should have a maximum marginal rate of income tax higher than 45 per cent. We are firmly committed to a tax system which is simple, credible, yet progressive, in which people realise that honesty is the best policy. I expect to make a beginning in this direction as soon as we can overcome the present fiscal difficulties. I am confident that this process can be completed before the end of the five year term of our Government. Tax payers can help to accelerate the process of tax reform if all of them resolve to pay their income-tax dues fully and promptly. In the midst of a fiscal crisis, however, such a change is not feasible. We must wait for better times. The best I can do under the circumstances, is what I propose to do this year: keep the personal income-tax rate structure including the surcharge unchanged. That I have not added to the burden of the tax-payer, is in itself, a relief.

I have received several representations that wealth-tax rates need to be rationalised. I see considerable merit in these representations. However, taking into account the needs of revenue and also for want of time, I propose to make no change in the rate of wealth-tax.

For the purposes of levy of wealth-tax, the rules of valuation of assets aim at capturing their market value, or near about, as on the valuation date. I find that a distortion has crept into these rules. When an individual holds any asset in his name its valuation is at the market value. However, if a group of persons holds its assets through an investment company the taxable value of these assets gets reduced considerably because it is based on the book value and not on the market value. I, therefore, propose to remove this anomaly by providing that in valuing unquoted shares of an investment company, the break-up value of the share will be determined after revaluing the assets of the company at their market value.

I feel disappointed that the phenomenal growth in the output, value added and profits of the corporate sector, in recent years, has not been appropriately reflected in corporate tax collections. The experience of the preceding financial year, in particular, is a matter of serious concern. I am, therefore, raising the corporate tax rate for widely held companies, from 40 to 45 per cent. A corresponding increase of 5 percentage points from 45 to 50 per cent is being made in the corporate tax rate for closely held companies. I also propose to continue the existing surcharge of 15 per cent.

The traditional distinction in corporate tax rates between trading companies and industrial companies has outlived its utility. I, therefore, propose to remove this distinction.

I recognise that in the medium-term the rates and structure of corporate taxation have to be consistent with the needs of an economy aiming to become internationally competitive. I shall attend to this task as soon as we have overcome the present fiscal crisis.

In our economy, labour is abundant and capital is scarce. These economic realities have to be reflected in our fiscal policy. Yet, over the years, the Indian economy has witnessed a disturbing shift towards greater capital intensity in production. This has led to distortion and avoidable hardship in cases where labour is replaced, or employment potential reduced, by resort to capital intensive methods of production, even in cases where such a shift is not justified on other economic and technical considerations. Fiscal incentive have been conducive to such a shift. While there can be no compromise with the imperatives of technological upgradation and continuous modernisation, the tendency towards excessive capital intensity in our industry must be checked.

The rates for depreciation prescribed in 1987, in relation to plant and machinery, are far too generous and provide much more than is needed to compensate for wear and tear. These rates of depreciation do not reflect the true economic life of business assets. An asset would be almost fully written off in six years at, the present rate of 33.33 per cent applicable to the bulk of plant and machinery. I think an eight year period would be more reasonable taking into account the pace of technological change in India, the true economic life of the business assets, and the need to discourage tax induced replacement of assets. Therefore, I propose to reduce the general rate of depreciation for machinery and plant from 33.33 per cent to 25 per cent. I also propose to reduce the rate of depreciation for aeroplanes, motor buses, motor taxis and some other equipments from 50 per cent to 40 per cent, which would mean almost complete recoupment of cost in six, instead of five years. However, to encourage use of energy saving devices and renewable energy devices, I propose to continue to provide 100 per cent depreciation on such items of plant and machinery as also some others. Further, I also propose to restrict the rates of depreciation to 50 per cent of the normal rates of depreciation in cases where the asset is used for less than 6 months in a year.

Tax support to special institutions may be necessary in their nascent stage. However, it should not be extended in perpetuity. Such institutions must strive to become self reliant. The Industrial Development Bank of India (IDBI) has been enjoying complete tax exemption in respect of its income since its inception, unlike other public financial institutions. I propose to withdraw this tax exemption, which is no longer necessary.

In 1987, the Government had introduced a tax on ostentatious expenditure. It is in the form of a tax of 20 per cent of expenditure incurred in hotels where the room rent exceeds Rs. 400 per day. I propose to extend the coverage of this tax to the expenditure incurred in restaurants providing superior facilities like air-conditioning. This tax will be levied at the rate of 15 per cent of such expenditure.

In view of the binding fiscal constraints and the need to mobilise resources, I propose to revive the interest-tax which was first introduced in 1974 and withdrawn in 1978, re-introduced in a modified form in 1980 and finally withdrawn in 1985. I am enlarging, slightly, the coverage of this tax. The new tax will be levied on the gross amount of interest received by all banks, financial institutions and non-banking financial companies in the corporate sector on loans and advances made in India. These institutions would reimburse themselves by making necessary adjustments in the interest rates charged from borrowers. The proposed tax is expected to raise the cost of borrowing and yield revenue to the Government. It should, therefore, have both monetary and fiscal impact.

The proposed tax will be levied at the rate of 3 per cent of the gross amount of interest earned by banks, financial institutions and financial companies on loans and advances made in India. Interest received on transactions between the various credit institutions will be exempted from the proposed tax. The proposed tax will operate prospectively and interest accruing before 1 October 1991 will not be taxed. The proposed tax will be allowed as a deduction in computing taxable income under the Income-tax Act.

I do not propose to take up the time of the House with other minor changes in the Direct Tax Laws.

My proposals on direct taxes are estimated to yield a net revenue gain of Rs. 2,139 crore. Of this amount, Rs. 97 crore will accrue to the States.

Honourable Member of the House are aware that the balance of payments situation is exceedingly difficult. In order to attract larger inflows of foreign exchange, I propose to introduce two schemes.

Under the first scheme, I propose that remittances in foreign exchange can be made to any person in India. Even if the remittance is received as a gift by the donee in India, it would not be subjected to gift tax. The source of funds out of which the remittances are made would not be subject to scrutiny under the Direct Tax Laws and Exchange Control Regulations. In other words, I propose to provide immunity for such remittances under these laws. The provisions of Direct Tax Laws will apply in the normal manner to the rupee proceeds of these remittances. The scheme will come into immediate effect and will be open until close of business on 30 November 1991. The details of the scheme will be announced by the Reserve Bank of India. I also propose to introduce the necessary legislation in this regard as early as possible before this House.

Under the second scheme, the State Bank of India would issue India Development Bonds to be denominated in US dollars. These bonds will be available for purchase by non-resident Indians and their overseas corporate bodies. There will be no ceiling for investment in these bonds which will have a maturity period of five years. The bonds will be fully transferable among non-resident Indians. Interest from the bonds will be exempt from income tax. The bond itself would also be exempt from wealth tax until maturity. For the non-resident holder, the face value of the bond and the interest thereon would be repatriable with exchange rate protection. The bonds can also be gifted to residents, who would be provided with amnesty and immunity, as in the first scheme for inward remittances. Such amnesty and immunity will be available only to the first resident donee. The gift would be exempt from gift tax. The resident donee bond-holder would also be entitled to exchange rate protection, and the same exemption from income tax and wealth tax, until maturity, but the proceeds will be paid only in rupees in India and would not be remittable abroad. The bonds will be available for sale at all important branches of the State Bank of India abroad until close of business on 30 November 1991. The details of the scheme will be announced by the Reserve Bank of India. I would also bring before this House the necessary legislation at the earliest.

In formulating my proposals on indirect taxes. I have kept in mind the wider context. In keeping with the promises made in the election manifesto of our party, we have also to ensure that prices of essential commodities and goods used by the common man are kept well under check. Conspicuous consumption must be curbed and the burden of taxation should be borne by the more affluent sections of the society. In the light of these imperatives, I have attempted to structure the proposals for customs and excise levies in a manner that indigenous industries are encouraged, and, at the same time, imports of items required for export production are not thwarted. In the long term, if revenues are buoyant and tax compliance improves, I expect to bring down the rates of customs and excise levies. Even now, some moderation in import duties is being attempted and a more broad based effort may be attempted to streamline the structure and reduce the rates in the next budget. I have also tried to ensure that the proposed changes improve competitiveness of the industrial sector, particularly the export oriented industries.

It is my intention to rationalise and simplify the procedures, rules and regulations pertaining to indirect taxes, so that the delays in the system are eliminated, and the interface between the tax collector and the tax payer is reduced to the minimum. Given the paucity of time, it has not been possible to undertake such an exercise in this budget, but we should be able to formulate concrete measures soon as a part of structural reforms in the tax system.

Recent years have witnessed an excessive reliance on indirect taxes for additional resource mobilisation. This escalates costs, fuels, inflation and is regressive in its impact. Therefore, I have not relied on indirect taxes as the major source of resource mobilisation. Indeed, the overall impact of my proposals for customs and excise levies is revenue negative in so far as the Central Government is concerned.

In the sphere of customs duties, over time, the objective of protection for infant industries and the need to raise revenues have led to a situation where import duties prescribed for certain items are inordinately high and, in several cases, more than 300 per cent. As a measure of reform, I propose to reduce the *ad valorem* rate of basic plus auxiliary duties of customs to a maximum of 150 per cent where it is more than that at present, thereby eliminating the tariff peaks above 150 per cent. The only exceptions that would remain hereafter are imported alcoholic beverages and passenger baggage. The revenue loss on this account would be Rs. 132 crore in a full year.

In view of the deterioration in the fiscal situation last year auxiliary duty of customs was increased across-the-board, with effect from 15 December 1990, so as to mobilise additional resources. The increase was not quite rational and was asymmetric in its incidence. In some cases, the auxiliary duty went up by 20 percentage points—from 5 per cent to 25 per cent and from 30 per cent to 50 per cent, while in some others by just 5 percentage points *i.e.,* from 45 per cent to 50 per cent. This steep and uneven increase imposed a very high burden of duties on certain items, and also led to distortions in the over all rate structure. In order to remove the anomalies which had been created and rationalise rates of duties, I propose to give a duty relief of 10 percentage points to almost every item which suffered an increase of 20 percentage points. Moreover, on certain items, which are important from the point of view of environmental protection, export promotion, saving of foreign exchange and so on, I propose to roll back the rates to levels prevailing before 15 December 1990. These items include waste paper, wood in the rough, *jigat* used in the manufacture of *Agarbattis*, ethylene machinery for fuel injection equipment and certain items of machinery for printing and the newspaper industry. These proposals will result in a revenue loss of Rs. 472 crore in a full year.

The prevailing rates of import duty on capital goods for general projects and machinery are, in general, high. While I cannot make a substantial reduction at this stage because of the revenue implications, which are considerable, I propose to reduce the level of duties from 85 per cent to 80 per cent. *In tandem*, the rate of duty on their components is also being reduced by 5 percentage points from the existing levels of 65 or 70 per cent. This proposal would mean a revenue loss of Rs. 167 crore in a full year.

A technology upgradation scheme was launched in 1987 by the late Shri Rajiv Gandhi. Under this scheme, fiscal relief was provided on import of capital equipment for the manufacture of power generation equipment, paper machinery, textile machinery and many others to promote domestic production of such machinery. The scheme has been instrumental in bringing about considerable improvement in the quality of machines produced in India. In order to give a further thrust to the scheme, I propose to expand the list of machinery items which will now attract a concessional duty of 50 per cent. The revenue loss on this account is estimated at Rs. 5 crore in a full year.

We have recently taken several innovative steps to give an impetus to our exports. I would now like to outline some fiscal measures which will give a further boost to the export effort.

At present 100 per cent export oriented undertakings or units in a free trade zone are allowed to divert a certain proportion of their production to the domestic market. However, the present stipulation, that excise duty payable must be equal to the import duty has proved to be a deterrent. These units have to be fostered if they are to compete effectively in the international market: for this purpose they should not be prevented from creating a niche in the domestic market. Accordingly, I propose to reduce the excise duty on the goods, permitted to be sold in the domestic market under the scheme, to a level which would be equivalent to half the import duty leviable on such goods subject, *inter alia* to the condition that the duty would not be less than the excise duty levied on similar items produced in the domestic tariff area.

To promote the growth of the marine products Industry, fiscal relief has been given by way of customs duty concession on specified machinery items required by this industry. I propose to extend the duty concession to a few more items of such machinery. Out of my concern for the welfare of our fishermen, I also propose to fully exempt from excise duty specified yarns which are generally used for making fish-nets.

In order to encourage the growth of the finished leather industry and also as a measure of export promotion, I propose to reduce the basic and auxiliary duties of customs on polyurethane film and foil, as well as polyols from 150 per cent to 40 per cent. The duty on isocyanates is being reduced from 120 per cent to 40 per cent. The import duty on two important leather preservatives, namely, TCMTB and PCMC, is being reduced from over 150 per cent to 50 per cent. These preservatives will replace certain other chemicals which are suspected to have carcinogenic effects. I also propose to extend the concessional duty, available at present to specified capital goods required by the leather industry to a few more items of such machinery.

Synthetic cubic zirconium, which is the closest imitation of natural diamonds, has the potential to provide job opportunities for a large number of artisans. The jewellery made therefrom also has a significant export potential. In order to encourage indigenous manufacture of cubic zirconium, I propose to reduce the import duty on the raw materials *viz.,* zirconium oxide and yttrium oxide to the level of 40 per cent from the present level of over 150 per cent.

Our Government attaches the highest priority to agriculture. One of the promises made in our election manifesto is to provide a massive thrust to food processing and other agro-based industries, in an endeavour to increase the income of farmers, create employment opportunities, diversify the rural economy and foster rural industrialisation.

As an important step in this direction, I propose to exempt agro-based products such as sauces, ketchup, butter, cheese, skimmed milk powder, vegetable oils, jams, jellies and juices, canned fruits and dried vegetables, certain soya products, starches and preparations of meat and fish from excise duties altogether. I am doing so to promote the diversification of our agricultural economy, to increase the farmers' share of the consumer's income spent on processed agricultural products, to promote rural industrialisation based on agricultural produce and to encourage the adoption of modern post-harvest technologies. The measures I have proposed, I expect will also lead to some reduction in consumer prices of such products, providing relief to the harassed consumers in a period of rising prices. The revenue loss will be Rs. 84 crore but I am convinced that the overall gain to the economy will more than offset the loss to the exchequer.

As a relief to the agro-based jute industry, which has been beset with chronic problems, I propose to reduce the excise duty on products which contain a minimum of 35 per cent of jute fibre from Rs. 660 to Rs. 330 per metric ton.

At present a number of specified bulk pesticides and pesticide intermediates enjoy concessional import and excise duties. I propose to extend the duty concession to a few more bulk pesticides and pesticide intermediates. The proposals involve a revenue loss of about Rs. 11 crore in a full year.

There is a money credit scheme in vogue to encourage the use of minor oils for the manufacture of soaps. I propose to increase the money credit of Rs. 640 per metric ton that is currently available in respect of rice bran oil used in the manufacture of soaps to Rs. 1,000 per metric ton. In addition, I propose to include some more non-conventional oils and solvent extracted oils in the scheme. This would also help in generating more employment for our tribal women. These proposals involve a revenue sacrifice of about Rs. 10 crore in a full year.

The MODVAT scheme was introduced in 1986 to minimise the cascading effect of indirect taxes. The scheme has been well received by the industry, and there have been persistent demands for its extension to other areas. I propose to reintroduce the scheme in respect of aerated waters and also to extend it to cover man-made fibres and filament yarns in respect of their inputs. While extending the scheme to fibres and yarns, I do not propose to raise the duty on those fibres and yarns on which the duty was increased as recently as December 1990. On other fibres and yarns, the duty rates have been adjusted with a view to retaining the collection of excise duties at the earlier level. But duties on polypropylene monofilament and multifilament yarns are being increased to raise additional revenue. In respect of aerated waters also, I do not propose any increase in duty. The proposals involve a revenue loss of about Rs. 230 crore in a full year. I expect that the benefit would be passed on to the consumers in the form of reduced prices.

I propose to rationalise the existing excise duty rates on polyester blended yarns. As an anti-evasion measure, I also propose to charge additional excise duty on cotton fabrics containing 40 per cent or less of polyester at the same rates as applicable to cotton fabrics containing more than 40 per cent of polyester. The proposals involve a revenue gain of about Rs. 23 crore in a full year.

In our effort to make essential drugs available to the people at affordable prices, I propose to fully exempt five specified anti-epileptic formulations from excise duty. At present, some drug intermediates and bulk drugs carry a concessional rate of import duty. I wish to extend the concession to a few more drug intermediates and bulk drugs, and grant concessions in excise duties to a few more drug intermediates.

In keeping with our commitment to give special priority to cottage khadi and village industries, I propose to give some excise duty concessions to this sector. At present, footwear of value not exceeding Rs. 100 per pair manufactured in rural areas by registered co-operative societies, women's societies or by institutions recognised by KVIC, are fully exempted. I propose to raise the value limit of exemption to Rs. 150 per pair. Further, I propose to extend to synthetic detergents the benefit of full exemption from excise duty that is presently available to specified products when manufactured in rural areas by registered co-operative societies, women's societies, institutions recognised by KVIC, etc.

I would now like to outline some of the steps that I propose for the protection of our environment and for ecological security. In view of our dwindling forest cover, we must conserve our scarce resources. Therefore, as I have stated earlier, the import duty on waste paper and wood in the rough is proposed to be rolled back to the rates that were prevailing before 15 December 1990. I also propose to fully exempt from excise duty aluminium doors, windows and their frames so as to encourage the use of aluminium in the place of wood in construction activities. Fly ash is a pollutant. It can, however, be put to productive use in the manufacture of bricks and other construction materials. In order to encourage such use, I propose to fully exempt from excise duty various building components containing more than 25 per cent of fly ash or phosphogypsum. I also propose to exempt phosphogypsum which is one of the by-products of the fertilizer industry from excise duty to encourage its use by farmers.

Few would disagree that I am one of the most harassed Finance Ministers in recent times. To perform the onerous task before me, I need support from the Press. As a gesture of goodwill, I propose to exempt standard newsprint from import duty which is at present, Rs. 450 per metric ton. I have already proposed to bring down the rates of import duty on certain specified machinery and equipment required by the printing and newspaper industry to the levels that were obtaining before 15 December 1990. The monetary limit of duty free import of photographic goods by accredited cameramen of the press is being raised from the present level of Rs. 30,000 to 60,000. These proposals involve a revenue loss of over Rs. 9 crore in a full year. Let me add, Mr. Speaker, Sir, that I may reconsider these proposals after I see the editorials tomorrow morning.

Ever since my appointment as Finance Minister, I have had to spend long hours in office. This has quite naturally made my wife very unhappy. The House will agree that it is not good for the health of our economy if the Finance Minister of the country has strained relations with his own finance minister at home. I propose that the total exemption from payment of excise duty currently available to utensils made of aluminium, copper and stainless steel be extended to certain other household items particularly tiffin boxes.

The same consideration has induced me to propose a reduction in the excise duty on specified tableware produced by semi-automatic process from the present level of 20 per cent to 15 per cent. Mindful of the need for peace at home and also taking into account the labour intensive nature of the manufacture of glassware by the mouth blown process, I propose to reduce the excise duty on such glassware to 15 per cent uniformly. Some people may not applaud my action. But I am sure most housewives harassed by the ever rising price level will appreciate my action.

In keeping with the commitment in our election manifesto, I shall make every effort to ensure that indirect taxes do not unduly add to the prices of essential commodities. Of the items listed in the manifesto, at present, there is no excise duty on salt, cycles, newsprint, post cards, inland letters and envelopes, and certain varieties of stoves. Cotton sarees and dhoties attract only additional excise duty in lieu of sales tax which accrues wholly to the State Governments. I have earlier proposed to fully exempt edible oils from excise duty. Electric bulbs of up to 60 watts, are already exempt from excise duty, I now propose to fully exempt electric bulbs, of higher wattage, which presently attract a duty of Re. 1 per bulb, from the payment of excise duty. Energy efficient *chulhas*, too, would be exempted from excise duty. I also propose to reduce the excise duty on two-wheelers of engine capacity exceeding 50 cc but not exceeding 75 cc from 20 per cent to 15 per cent.

I recognise that the tax reliefs have given, by themselves, constitute only a small step towards the realisation of the objective mentioned in our manifesto in regard to prices of essential commodities. In pursuit of this objective, I propose to invite the representatives of industry and trade to sit together with our Government to work out modalities as to how best we can contribute to the realisation of the price objectives listed in our election manifesto, for the benefit of the common man.

In order to promote tourism which is an important means of earning foreign exchange, I propose to reduce the import duty on adventure sports equipment from rates ranging from about 100 to 300 per cent to 40 per cent.

In keeping with the recent exchange rate adjustments of the rupee, I propose to raise the baggage allowances including duty-free limits for bonafide gifts suitably; for instance, the general duty-free allowance for personal baggage is being raised from Rs. 2,000 to Rs. 2,400.

Let me now turn to the major proposals for additional revenue mobilisation.

At present special excise duty is being levied at the rate of 5 per cent of the basic excise duty. I propose to raise it to 10 per cent. Since the increase is only a percentage of the basic excise duty, the impact of the additional levy would be minimal on prices. For instance, in respect of any article on which the basic excise duty is say, 20 per cent, the increase would be only 1 per cent of the value. Tea, coffee, sugar, kerosene, matches, and *vanaspati*, being items of mass consumption would remain exempt from special excise duty; in addition, I am ensuring that the increase in special excise duty will not apply to diesel and two-wheelers. The proposal involves a revenue gain of Rs. 1,010 crore in a full year, a substantial portion of which will accrue to the States.

One of the promises made in our election manifesto is to evolve policies and measures to curb conspicuous consumption. In pursuance of this, I propose to increase the excise duty rates on refrigerators, air-conditioners including compressors, motor cars, audio and video cassette tapes, video cassettes, picture tubes, colour television sets, VCRs and VCPs.

I propose to increase the excise duty on refrigerators by amounts varying from Rs. 200 to Rs. 800 depending upon the capacity, and in the case of air conditioners, by amounts varying from Rs. 2,000 to Rs. 3,000. I also propose to raise the excise duty on compressors for air-conditioners of a capacity not exceeding 7.50 metric ton by Rs. 1,800. The expected additional revenue from these proposals is about Rs. 91 crore in a full year.

Motor cars at present attract excise duty at the rate of 50 per cent. I propose to increase the excise duty to 60 per cent. The duty on taxis at 30 per cent will, however, remain unchanged. The proposal will yield an additional revenue of Rs. 150 crore per year.

I propose to increase the excise duty on audio cassette tapes from Rs. 3 to Rs. 5 per sq. metre and on video cassette tapes from Rs. 10.50 to Rs. 15 per sq. metre. The estimated revenue gain from the proposal will be Rs. 29 crore in a full year.

As regards colour television sets, I propose to increase the excise duty by Rs. 500 and Rs. 750 per set, depending on the screen sizes. I propose to raise the excise duty on colour picture tubes as well. I am exempting all black and white television sets from excise duty and shifting the burden to picture tubes. I also propose to increase excise duty on VHS type VCRs and VCPs by Rs. 400 per set and Rs. 250 per set, respectively, and on other types of VCRs and VCPs from 25 per cent to 30 per cent. The revenue gain on this account is Rs. 66 crore in a full year.

Every Finance Minister has to do his bit to curb smoking which is injurious to health. I must also fall in line and add to the tax on cigarettes. In respect of non-filter cigarettes, I propose to raise the duties by Rs. 10 to Rs. 25 per thousand cigarettes depending upon the length. In respect of filter cigarettes, the increase will be between Rs. 35 and Rs. 125 per thousand cigarettes. However, filter cigarettes exceeding 85 mm will attract the ceiling rate prescribed in the excise tariff. This will give us additional revenue to the extent of Rs. 300 crore in a full year.

The excise duty on hand-made branded *biris* is Rs. 3.75 per thousand. Although the duties on cigarettes have been increased almost every year, excise duties on *biris* have remained unchanged since 1986. I feel that *biri* smokers should not be denied the opportunity of increasing their share of contribution to the national Exchequer. I accordingly propose to increase the duty on hand-made branded *biris*, other than paper rolled *biris* to Rs. 4.50 per thousand. Paper rolled *biris* will attract a duty of Rs. 10 per thousand. The present exemption on other hand-made *biris* would, however, continue. The expected additional revenue is Rs. 33 crore in a full year.

Pan masala not containing tobacco attracts a specific rate of excise duty. I propose to raise the excise duty on the same by Rs. 5 and Rs. 10 per kg. depending on its value. This involves a revenue gain of Rs. 4 crore in a full year.

The excise duty on sugar, which is levied on a specific basis, has remained unchanged since 1983 with the result that the *ad-valorem* incidence has come down as the price of sugar has increased considerably over this period. In *ad-valorem* terms, the present incidence of excise duty on levy sugar is more than the incidence on free sale sugar. In order to correct the situation, I propose to increase the excise duty on free sale sugar from the present level of Rs. 50 to Rs. 71 per quintal. This would mean an additional tax burden of 21 paise per kilogram of free sale sugar which costs about Rs. 10 per kg. in the market place. This proposal is expected to yield an additional revenue of Rs. 122 crore in a full year. I would like to make it clear that I am not proposing any increase in excise duty on levy sugar which is sold through the public distribution system.

I propose to exclude *khandsari* sugar from the list of items chargeable to additional excise duty. The State Governments will be free to levy sales tax on *khandsari* sugar, if they so desire.

Molasses which is a by-product of the sugar industry is presently subject to excise duty at the rate of Rs. 120 per metric ton. A substantial portion of molasses is used in the manufacture of liquor. In the circumstances, it can bear a higher rate of duty. Accordingly, I propose to increase the excise duty on molasses to Rs. 150 per metric ton. The estimated revenue gain from the proposal is Rs. 13 crore in a year.

The details of the revenue implications of the measures announced are given in the Explanatory Memorandum to the Finance Bill.

I have also proposed certain amendments in the Finance Bill seeking to effect changes in the Customs Act, and excise and customs tariffs. These include certain consequential amendments to the customs tariff based on the amendments to the Harmonised Commodity Description and Coding System which has been adopted by our country in terms of the International Convention on the Harmonised System. The amendments are merely enabling provisions and do not have significant revenue implications. Besides, there are proposals for amendment of some of the existing notifications. In order to save the time of the House, I do not propose to recount them.

The increases in excise duties will lead to a revenue gain of Rs. 1,799.00 crore while the reliefs will amount to Rs. 358.06 crore in a full year. The net revenue gain from excise duties is thus Rs. 1,440.94 crore in a full year, of which the States will get Rs. 750.04 crore leaving the balance of Rs. 690.90 crore for the Centre. The proposals in regard to changes in the customs duties imply a revenue loss of Rs. 822.52 crore and a revenue gain of Rs. 78.00 crore in a full year. The net impact of the proposals relating to customs duties is a loss of Rs. 744.52 crore in a full year. Thus, as compared with the additional net revenue of Rs. 696.42 crore from Customs and Excise duties, the States would gain Rs. 750.04 crore, while the Centre would lose Rs. 53.62 crore in a full year.

Copies of notifications giving effect to the changes in Customs and Excise duties effective from 25 July 1991, will be laid on the Table of the House in due course.

The proposals I have made in regard to direct taxes will yield Rs. 2,139 crore of which Rs. 97 crore will accrue to the States and Rs. 2,042 crore to the Centre. My proposals in regard to customs duties will involve a net revenue loss of Rs. 510 crore in the current year while those relating to Union excise duties are estimated to yield a net additional revenue of Rs. 988 crore in the remaining part of the current year of which Rs. 515 crore will be the share of States and Rs. 473 crore will be retained by the Centre. Taking both direct and indirect taxes into account, the net gain to the Centre in the current year is estimated at Rs. 2005 crore and with this, the budgetary deficit of the Centre for the current year is estimated at Rs. 7,719 crore, the revenue deficit at Rs. 13,854 crore and the fiscal deficit at Rs. 37,727 crore.

Sir, I have now nearly come to the end of my labour. Before I conclude, let me end on a personal note. Years ago, in a letter which Jawaharlal Nehru wrote to the young Indira Gandhi, he advised her that in dealing with the affairs of the State one should be full of sentiment but never be sentimental. But, the House will forgive me if on an occasion like this I cannot avoid being somewhat sentimental.

I was born in a poor family in a chronically drought prone village which is now part of Pakistan. University scholarships and grants made it possible for me to go to college in India as well as in England. This country has honoured me by appointing me to some of the most important public offices of our sovereign Republic. This is a debt which I can never be able to fully repay. The best I can do is to pledge myself to serve our country with utmost sincerity and dedication. This I promise to the House. A Finance Minister has to be hard headed. This I shall endeavour to be. I shall be firm when it comes to defending the interests of this nation. But I promise that in dealing with the people of India I shall be soft hearted. I shall not in any way renege on our nation's firm and irrevocable commitment to the pursuit of equity and social justice. I shall never forget that ultimately all economic processes are meant to serve the interests of our people. It is only through a commitment to social justice and the pursuit of excellence that we can mobilise the collective will of our people for development, to give it a high moral purpose and to keep alive the spirit of national solidarity. The massive social and economic reforms needed to remove the scourge of poverty, ignorance and disease can succeed only if backed by a spirit of high idealism, self-sacrifice and dedication.

The grave economic crisis now facing our country requires determined action on the part of Government. We are fully prepared for that role. Our party will provide an effective Government to our country. Our people are our masters. We see the role of our Government as one of empowering our people to realize their full potential. This Budget constitutes a vital component of a comprehensive vision, a well thought out strategy and an effective action programme designed to get India moving once again.

Sir, I do not minimise the difficulties that lie ahead on the long and ardous journey on which we have embarked. But as Victor Hugo once said, "no power on earth can stop an idea whose time has come". I suggest to this august House that the emergence of India as a major economic power in the world happens to be one such idea. Let the whole world hear it loud and clear India is now wide awake. We shall prevail. We shall overcome.

With these words, I commend the Budget to this august House.