SPEECH OF SHRI MORARJI R. DESAI, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1962-63*

Highlights

- *Strengthening Indian Banking System*
- *Widening the Cumulative Deposit Scheme*
- *Abolition of Expenditure Tax*
- *The Drugs Act to be Redefined to Rectify Anomalies*

Sir, a little over a month ago, I had presented in the last Session of the Second Lok Sabha the statement of the estimated receipts and expenditure of the Government of India for the year, 1962-63 and obtained a vote on account. Today I rise to request this House to consider and approve these estimates, with a few small variations which I shall explain later, for the year as whole.

While presenting the Interim Budget, I had reviewed the economic conditions in the year 1961-62. I had referred to the sizable increases in production, both industrial and agricultural, the restoration of a measure of stability in the price level, the favourable trends in external aid for the fulfilment of our plan as well as the seriousness of our foreign exchange situation. It is not my intention to cover the same ground again as there is relatively little that is new which I can add to what I said in my Budget Speech last month and to what has been stated more fully in the Economic Survey, both of which are being circulated with the Budget papers today.

For more than a decade now, economic policy in the country has been geared to the implementation of successive Five Year Plans of development. In retrospect, the First Five Year Plan seems to have been a modest affair, but it laid the foundation of further effort. We launched on a bigger and bolder programme in our Second Plan with its emphasis

* *Lok Sabha Debate,* 23.4.1962, cc. 577-602.

on the development of basic and heavy industries. Though we faced many difficulties—particulary foreign exchange difficulties—in its implementation, there is no doubt that the Indian economy has emerged greatly strengthened by it. Indeed the success of our efforts seems to have led to a world-wide recognition of the value of planning as an instrument for the uplift of the less-developed countries.

Our Third Plan, which was launched a year ago, aims at raising our national income in real terms by some 30 per cent over the five years. It also has to take us appreciably closer to the objective of a self-generating economy which can continue to develop at a satisfactory rate without external aid. The Plan envisages an outlay of Rs. 7,500 crore in the public sector. This figure is about two-thirds higher than the corresponding one for the Second Plan. The total investment of Rs. 10,400 crore that we seek to achieve during the Third Plan equals the actual investment undertaken during the first two Plan periods put together. Even with this increase in the size of our Plan, we are unable to accommodate all the legitimate aspirations of our people for more schools and roads, for more power and drinking water, for more transport and employment opportunities. Many worthwhile and desirable projects both public and private, cannot be taken up because we could not make provision for them in our Plan for lack of resources. It is, therefore, of the greatest importance that we should do everything possible to mobilize and harness the resources which will help us to reach the goals that we, as a nation, have set for ourselves.

The most critical shortage which we face and which operates as a major limiting factor in everything that we do is of external resources. The Economic Survey has dwelt at length on our difficult foreign exchange position during the first year of the Third Plan. Despite the availability of substantial external assistance and the assurance of aid to cover a large part of our project requirements, the ways and means position in regard to foreign exchange remains acutely difficult. Our foreign exchange reserves have declined to very low levels and the need for conserving foreign exchange by the strictest watch on imports and by limiting our demands within the resources in sight is greater than ever today. Beyond a point, however, economy in imports of essential requirements becomes self-defeating in that it inhibits domestic production, raises prices, and in consequence, leads to a fall in exports. Further, shortages in the key sectors cannot but weaken and slow down our Plan.

The assistance which we receive from friendly countries and institutions is, therefore, of critical importance. At the same time, without belittling in any way the value of this assistance, we must recognize that ultimately it is only through increasing our exports that we can find the external resources for our development and for repaying the loans and credits which we receive. I shall later outline some of the fiscal measures which I propose to adopt to help our exports.

It is important to remember that increased exports and economy in imports which are necessary in view of our foreign exchange situation must mean a restraint in domestic consumption. A degree of control over domestic consumption is implicit in our effort to step up investment to substantially higher levels than we have achieved in the past. In the ultimate analysis, it is not money, but men and materials which pay for a Plan. The resources we need may be measured and expressed in terms of money, but they represent in reality the extent to which we can employ current production for increasing our productive capacity in the future rather than for meeting the needs of current consumption.

Thus, our effort to provide resources for the Plan, the exports to earn the foreign exchange and the saving to provide the investment, inevitably lead to a measure of restraint in current consumption. We can achieve it somewhat painlessly through voluntary savings. We can do it with a certain sense of social obligation through taxes. Or we can bring it about through an inflationary rise in prices which hurts the common man and benefits only the speculators and profiteers.

All savings strengthen our Plan, whether they are large or small, whether they are put in banks, or in insurance policies, or in Government securities, or in our Small Savings Schemes, or in Provident Funds. If the volume of savings is adequate, the task of ensuring that they are allocated between different sectors and fields of developments according to the priorities in our Plan should not be too difficult. By controlling non-Plan investment, as well as through proper fiscal and other policies, we can channel the flow of savings into the public sector and the private sector, into industry and agriculture, into transport and power, into education and health, according to the priorities and allocations in the Plan. The important thing, however, is to raise the level of savings in the country to an adequate level.

The banking system has an important role to play in this. A couple of years ago, there had been signs of a lack of confidence, particularly in some of the smaller banks. I am happy to say that as a result of various measures which we have taken, including the schemes of deposit insurance which came into force at the beginning of this year, our banking system stands greatly strengthened. The Governor of the Reserve Bank, with whom I recently discussed the matter, mentioned with special satisfaction the fact that the smaller banks will, in his judgment, continue to play a useful and important role in our economy. The State Bank has been opening branches in semi-urban and rural areas. The Reserve Bank is making special efforts to facilitate the availability of credit at low rates of interest to agriculture.

Although considerable progress has been made in all these directions and bank deposits are steadily on the increase, the banking system does not find it too easy to meet all the demands for funds which are generated by our growing industries and rising levels of production. It seems to me desirable that industry in the private sector should exercise a greater measure of restraint in relying on bank finance. I say this not because I want to slow down the development of the private sector which is as much a part of our Plan as the public sector, but because private industry has available to it another source of finance which has, in the recent past, become exceedingly important. I refer to finance in the shape of equity capital. There was a time when it was difficult to get a new issue subscribed and only big commercial houses could afford to set up major enterprises. This situation is fast changing. The public at large, even people with modest incomes, are now investing in shares. This is a healthy sign which we must encourage. Government have, therefore, been encouraging existing companies, which wish to branch into new lines of production, to start new companies. Further, in the floatation of new companies, there should be the maximum opportunity for public participation. It seems also desirable that new companies should aim at raising a larger proportion of the capital they need through equity shares, rather than by loans, as they did in the past. The pursuit of these policies will mean that the ownership of private industry will become more wide-based and the concentration of economic power will be reduced.

The banking system also provides finance to the public sector. Apart from the investments which it makes in Government securities, public sector undertakings draw upon the banks to meet their requirements of working capital. Life insurance like banking is yet another source of finance for our development. The Life Insurance Corporation is a major investor in Government securities. It also contributes to the development in the private sector. It is making special efforts to popularize insurance in the rural areas through its Janata Scheme and is using Panchayats and Cooperative Societies in order to spread insurance in the villages.

In the effort to mobilize savings for the public sector, I attach the greatest importance to the Small Savings movement. During the Second Plan period, the net collections from small savings, including Prize Bonds, amounted to nearly Rs. 415 crore, which was roughly 9 per cent of the total outlay in the public sector in the Second Plan. The Third Plan target for net collections from small savings is Rs. 600 crore. We had, accordingly, budgeted last year for a net collection of Rs. 105 crore from small savings. But, judging from the progress of collections during the year, the revised estimates presented last month came down to Rs. 95 crore and I would not rule out the possibility of actuals being even lower. Clearly, we shall have to redouble our efforts to make the Small Savings Scheme a success, particularly in the rural areas. I would invite the cooperation of every Member of this House in this great task.

The Government must, of course, for its part, do a great deal too. We have to improve our selling arrangements as well as service to the small saver. We must devise new schemes to suit his needs. This is engaging my urgent attention at the moment. I can make one announcement straightaway. At present, contributions to Provident Fund and to life insurance policies are, within certain limits, eligible for a rebate on income-tax. However, for those who are not salaried workers or wage-earners, there is no scheme of Provident Fund. The opportunity for life insurance is also subject to medical checks. To make available some kind of an arrangement analogous to a Provident Fund for people who are self-employed and not salaried workers. I propose to extend and modify the Cumulative Time Deposit Scheme run by the Post Offices. At present mostly deposits can be made under the scheme for a period of 5 or 10 years. We shall now introduce, in addition, a 15-year account with a maximum monthly deposit limit of Rs. 300. The existing limit of a maximum monthly deposit in a 10-year account will also be raised from Rs. 100 to Rs. 200 per month. At the same time, the contributions made to the 10 and 15 years accounts will be allowed to earn a rebate of income-tax as in the case of life insurance premia and contributions to recognized Provident Funds and subject to the same limits.

The Third Five Year Plan lays considerable emphasis on realizing adequate surpluses from public enterprises and envisages a contribution of Rs. 450 crore from this source in addition to the sum of Rs. 100 crore to be raised by the Railways. We must get an adequate return on the vast amount of capital we are investing in our Railways, power plants, irrigation works, fertilizer plants, steel plants and the like. By making past investments pay for future investments, the rate of economic growth can be accelerated. This is the experience of all countries irrespective of whether they rely mainly on the public or the private sector for development. The private sector in India is already relying, to a considerable extent, on the ploughing back of the profits and savings in the corporate sector for its expansion. The public sector must do the same if it is to play an increasing role in the development of our economy. This means not only efficient and economical operation of public sector plants, but also a policy of charging a proper fee or price for the services and products supplied by the public sector. Betterment levies, water rates, electricity charges, railway freights and the like cannot be determined on the philosophy of 'no profit and no loss', but on the consideration that all these services and facilities need to be enlarged and their users must pay more for these things today in order that there may be plenty of them tomorrow and the day after. Our price policy must ensure that investment in key and basic industries earns a good enough return to make higher investment possible. Situations may, of course, arise in which a certain industry or a service needs to be subsidised. But even subsidies can only be given out of surpluses arising somewhere else. Whenever we accept the need for a subsidy at anyone place, we should remember that it will call for bigger surpluses elsewhere.

I should now like to give an account of the Budget Estimates for 1962-63.

In the Budget presented on 14 March 1962, the revenue receipts were estimated at Rs. 1,305.87 crore and expenditure at Rs. 1,369.33 crore, leaving a deficit on revenue account of Rs. 63.46 crore. As a result of the changes that have since been made, the revenue deficit, on the basis of existing taxation, is now estimated to go down to Rs. 60.78 crore.

I should now like to explain briefly some of the important variations.

Apart from the changes which are really a regrouping of certain Demands for Grants following the recent reorganisation of certain Ministries and which have been referred to in the Explanatory Memorandum, there are five items which account for an increase in the estimates of revenue expenditure. The largest of these is on account of the increase in dearness allowance. The last Pay Commission had recommended that whenever the working class consumer price index remained, on an average, 10 points above 115 for a period of 12 months, Government should review the question of increasing the dearness allowance. As this condition was satisfied during the period November 1960 to October 1961, it has been decided to increase the dearness allowance of employees drawing basic pay below Rs. 400 per month. The increase will range between Rs. 5 and Rs. 10 with suitable marginal adjustments and will be given with retrospective effect from 1 November 1961. As this decision was taken only a few days ago, it has not been possible to work out the additional requirements under each Demand. Accordingly, a lump-sum provision of Rs. 7.38 crore has been included as a miscellaneous item in a single Demand which will be surrendered at the end of the year and the Ministries will be expected to go in for supplementary grants, to the extent necessary, during the course of the year.

I have already referred to the importance of increasing our export earnings. The promotion of sales abroad is a costly business. Apart from the expenditure on staff which Government employ, both at home and abroad, for this purpose and the money which they spend on participation in fairs and exhibitions abroad, industry itself must spend a great deal more for this purpose, and be prepared occasionally to incur a loss. In deserving cases, it may be necessary for Government to provide financial assistance to industries when they are in no position to carry the whole burden of promotion themselves. It may also be necessary to make grants to organizations set up by Government or industry for promoting exports. I am, therefore, providing a sum of Rs. 1 crore for export promotion and development.

The Government of India have been examining for some time now the difficulties experienced by industries located at great distances from the coal fields—more particularly industries in the southern and western regions—in obtaining adequate supplies of coal. In addition to the measures already taken for stepping up the movement of coal by sea to these regions, we have now decided to make available additional import of furnace oil, to the extent possible, with our limited foreign exchange resources. To facilitate the use of furnace oil by industries located at some distance from the ports, we propose to make a reduction in the cost of transport of the furnace oil from the ports to the points of consumption. The arrangement briefly will be that in accepting consignments of furnace oil from various ports, the Railways will recover from the consignor or the consignee, as the case may be only half the freight charges which are leviable in accordance with the normal tariff rates in force at the time of booking, subject, however, to the net minimum charge in force at the time. The difference between the amount recovered from the consignor or the consignee and the full freight applicable will be made good to the Railways by a subsidy. A provision of Rs. 25 lakh is being made for this purpose.

An additional provision of Rs. 99 lakh has been made to accommodate the proposals approved after the earlier estimates were framed mainly for the purchase of stores and equipment required by the Survey of India.

Lastly, the estimates of Defence Services show an increase of Rs. 2.70 crore on account of the decision to revise the pay scale of Service Officers with retrospective effect from 1 April 1960.

As against this increase in estimates of Revenue Expenditure, I propose to transfer Rs. 15 crore from the profits on coinage operations outstanding under suspense. Prior to 1956-57, the net profit on coins put into circulation representing the difference between their face value and the cost of their metallic content, was kept under a suspense head, the transfer to revenue being limited to the net expenditure in the year on the running of the Mints plus a stabilized credit of Rs. 45 lakh. This arrangement was revised in consultation with the Comptroller and Auditor General and with effect from 1956-57, the actual profits on coinage and loss on destruction of uncurrent coins are adjusted directly as revenue or expenditure. The amount outstanding under the suspense head was intended to be utilized as a deficit neutralization reserve and accordingly, a sum of Rs. 10 crore was transferred to revenue in each of the years 1959-60 and 1960-61. The balance at credit under the suspense head at present is a little over Rs. 47 crore and I feel it would be reasonable to transfer Rs. 15 crore from the suspense head to revenue receipts. After taking this transfer into account, the revenue deficit will go down by Rs. 2.68 crore.

On Capital account, the estimates presented last month provided for an expenditure of Rs. 1,188 crore for Capital Expenditure, including loans to State Governments and other parties. The loan requirements of Hindustan Aircraft Limited have since reduced from Rs. 2.50 crore to Rs. 1 crore, but this saving will be offset by an increase of Rs. 1.50 crore in the Defence Capital Outlay. In addition, a sum of Rs. 95 lakh is required for the purchase of bonds of the value of 2 million dollars to be floated by the United Nations Organization. The original estimates had provided for a loan of Rs. 9.88 crore to the Railway Development Fund from the General Revenues which the Railways would not now be requiring. After taking into account the effect of the transfer of profits on coinage, the Capital Budget will show a deterioration of Rs. 6.07 crore which will be counterbalanced to the extent of Rs. 2.68 crore by the improvement in the Revenue Budget. In the net, the overall deficit will increase from Rs. 147 crore estimated last month to Rs. 150 crore.

I come now to my taxation proposals. Before I refer to them, may I repeat what I have stressed from time to time that taxation policy no longer serves the sole objective of raising resources for the Exchequer. In a planned economy, it must also serve the wider objectives of augmenting savings, promoting exports, of bringing about a better balance between the supply and demand for individual commodities and indeed of social justice in distributing the rewards and sacrifices implicit in planned progress. Further, all these objectives have to be reconciled with an eye not only to the immediate future but also to the long-term perspective we have kept before ourselves. No less important a consideration is that the administration of the tax laws should cause the minimum of vexation both to the tax payer and to the tax collector and one thing that should not be taxed is people's patience.

Corporation and Income-Taxes

I shall begin with the direct taxes. I propose to increase the rate of tax on Indian companies from 45 per cent to 50 per cent while the rate of tax on foreign companies will continue at 63 per cent generally. For this purpose, the rate of income-tax applicable to all companies is being raised from 20 per cent to 25 per cent, the rates of super-tax being suitably adjusted. This will mean that the State will now get half the profits of joint stock companies as against 45 per cent in the recent past. I, however, propose to exclude earnings from exports from this increase. This is necessary because profit margins on exports are relatively low and we want to give every inducement to trade and industry to sell abroad.

It will be necessary, with the increase in the level of corporation tax, to make some reduction in inter-corporate taxation because when one company pays a dividend to another, the same profit is liable to corporation tax twice. In the case of Indian companies, the rate including super-tax applicable to dividends received from Indian subsidiary companies registered before 1 April 1961 will continue at 30 per cent, while that on dividends received from all other Indian companies will be reduced to 35 per cent. Indian companies in which the public are substantially interested and whose income does not exceed Rs. 25,000 will continue to get a further concession of 5 per cent. In the case of foreign companies which have not made the prescribed arrangements for the declaration and payment of dividends within India, the rate applicable to dividends received from Indian subsidiary companies registered before 1 April 1961 will continue at 30 per cent; on dividends received from a non-subsidiary Indian company registered before 1 April 1959, it will be reduced from 63 per cent to 50 per cent while on dividends received from other Indian companies, it will be reduced from 40 per cent to 35 per cent. As a result of these changes, corporation tax will yield an additional revenue of Rs. 10.25 crore.

I also propose to tighten the schedule of admissible entertainment expenses introduced last year. Though this will not bring any appreciable additional revenue, I expect it to restrain conspicuous entertainment at company expenses.

I have taken the opportunity of reviewing personal taxation of all kinds. I have come to the conclusion that while the richer sections of the community must pay more, there is room for some simplification and relief at particular points. Accordingly, it is proposed to revise the schedule of rates of income-tax and super-tax on individuals, Hindu Undivided Families and unregistered firms. The income-tax payers form a relatively well to do section of the society. In a population of 443 millions, they are under a million and thus are a microscopic group. It is only natural that they should bear a share of the tax burden in keeping with this privileged position. In this context, rates of income-taxes on corresponding incomes in different countries are often compared. This is, however, not meaningful as conditions differ widely. In any case, proper comparison can only be of the incidence of total tax burden on different groups with the same relative position in each society.

In the revised rate structure of income and super-tax the rate at the highest slab will be 72.5 per cent exclusive of the surcharges while the rate on incomes below Rs. 5,000 will remain unchanged. The intermediate slabs have been suitably adjusted to secure an even increase in rate. Honourable members will recall that various studies have stressed the fact that at intermediate and lower levels of income, our tax rates are comparatively low but in view of the limited span of income spread, they rise steeply. While this is to an extent inevitable in our circumstances, the changes I have proposed will bring about an improvement over the present position.

I am conscious that income-tax weighs a little more heavily on salaried classes than on others. I, therefore, propose to reduce the surcharge on income-tax on salaries, which also include pensions, from 5 per cent to 2.5 per cent leaving other surcharges unchanged. The rate at the highest slab inclusive of surcharges will be 87 per cent. It is proposed to raise the exemption limit for Provident Fund contributions and insurance premia to Rs. 10,000. As I have mentioned earlier, it is also proposed to liberalize and widen Cumulative Time Deposit Scheme with the benefit of income-tax exemption which can be taken advantage of by self-employed and uninsurable persons. These measures will give some relief to individuals without reducing the resources available for development.

It is also proposed to revise the structure of rates of tax on registered firms by reducing the limit for exemption, revising the number of slabs and the rates of tax and having higher rates for firms with five or more partners.

All these measures taken together are expected to yield annual revenue of a little over Rs. 15 crore.

Capital Gains

Capital gains are already taxable under our Income-tax Act. The incidence is, however, restricted in the case of non-company assessees to income-tax only, calculated in the prescribed manner. In an equitable system of taxation, capital gains realized during a short period and those not so realized require to be treated differently. It is necessary to secure broad equity in the treatment of different categories of tax payers. In a number of cases, it is not possible to establish certain incomes as arising out of business but they are nonetheless of a similar nature. Gains realized through purchase and sale of capital assets within a short period fall in this category. I have proposed that gains which result from disposal of capital assets within a period of one year from the date of acquisition shall be made subject to income-tax and super-tax like other ordinary incomes. Capital gains for assessees other than companies from assets held over a period longer than one year will be subject to income-tax at the rate of 25 per cent or at the rate applicable as if they were short-term gains, whichever is less. Long-term capital gains of companies will continue to be taxed at the rate of 30 per cent. This will yield a revenue of Rs. 50 lakh, half of which is expected to be realized from companies.

Expenditure Tax

I propose to abolish the five-year old Expenditure Tax with effect from the current year. When it was introduced in 1957, it was realized that it had no backing of historical experience. It was, however, hoped that the tax would be a potent instrument for restraining ostentatious expenditure and for promoting savings. While these are very desirable objectives, experience has shown that the existence of the Expenditure Tax has contributed little to them. The revenue from this source has remained conspicuously small. It has been argued that the incorporation of an Expenditure Tax in the tax structure would make the administration of income-tax a great deal more effective and would enable the rates of income-tax to be lowered suitably. Experience has not shown this to be the case. If the working of this tax had shown some promising results, it would have been worthwhile to continue and even extend it; but with the present experience, it is considered best not to continue a measure which, as a source of economic restraint, has been ineffective and as a source of revenue, unattractive. The basic objectives of the tax have to be achieved in other ways. This will mean a reduction in revenue of the order of Rs. 70 lakh during 1962-63.

Wealth Tax

It is proposed to increase the Wealth Tax rates by 0.25 per cent and 0.50 per cent on the two highest slabs and to revise the slab structure a little. It is also proposed to discontinue the exemption on shares held in new companies during the first five years allowed at present under the Wealth Tax Act. This is expected to yield an additional revenue of Rs. 2 crore per annum.

The net effect of all the changes in direct taxes in a full year will be an increase of Rs. 27.20 crore in our revenue.

Union Excise Duties

Turning to indirect taxes, it is only natural that a major share should come from the Union Excise Duties. I propose to revise the rates of excise duty on unmanufactured tobacco and cigarettes which would yield a revenue of Rs. 5.28 crore in a full year. While the general rates are being increased by only small amounts, it is proposed to re-classify tobacco granule (*rawa*) in keeping with its more general use and also to re-group cigarette price slabs.

I also propose to revise the general structure of duty on cotton cloth and yarn. The present rates of duty on yarn are 10 and 15 naye paise* per kilogram. The incidence of this duty per metre of cloth is less on superfine cloth as compared to coarse cloth. This is not an equitable position. It is proposed to revise the yarn rates in such a way as to achieve a slight progression in the incidence of tax according to the quality of cloth, maintaining the present duty on coarse yarn at 10 naye paise. The differential of 10 naye paise per kilogram in favour of yarn issued in hanks will continue. It is also proposed to step up the duty on processing of cloth, keeping in view the improvement in quality and price of cloth as a result of processing. Operations like mercerizing, shrink proofing and organdie processing substantially enhance the quality as compared to bleaching, dyeing and printing and should attract relatively higher rates of duty. With these two aspects in view and to secure that the common man has not to make anything more than marginal adjustment in his cloth bill on coarse and medium cloth which he normally uses, it is proposed to reduce the duty on grey unbleached cotton fabrics. It is also proposed to place units with 50 or more powerlooms on the same footing as composite mills. Rates of compounded levy on powerlooms units with looms from 5 to 49 are also proposed to be increased so as to graduate the increase in benefit with the reduction in size and to

* With the introduction of decimal system *w.e.f.* 1 April 1957, a Rupee is now divided into 100 Naye Paise. In the earlier system, a Rupee was divided into 64 Paise.

reduce the incentive for splitting of units, Units employing 4 looms or less will be exempt. As a result of these changes, the annual revenue from cotton cloth and yarn will increase by Rs. 12.10 crore.

It has been found by experience that match boxes of 50 sticks are being sold at 6 naye paise a box. As local taxes and conditions vary a little, the actual price to a retail dealer so works out that in several areas he cannot sell at 5 naye paise a box without incurring a loss, whereas at 6 naye paise a box he makes an excessive profit. In view of this, it is proposed to revise the duty fixed by notification so as to wipe out this unintended margin, the statutory rates remaining unchanged. This will yield a revenue of Rs. 1.99 crore per annum.

It is proposed to convert the duty on unprocessed woollen, rayon and art silk fabrics to a duty on yarn and processing, so as to release the powerlooms from excise control. The loss in revenue will be made good partly by an increase in duty on yarn and partly by a duty on processed fabrics. As a result of these changes, only a small number of units will need excise control in future. As a fair quantity of yarn is imported, these changes will result in a loss of Rs. 50 lakh in the revenue from excise duty but there will be a net increase in revenue of Rs. 1.16 crore on account of increased countervailing duty on yarn.

The present definition of patent and proprietary medicines which followed the Drugs Act has been producing some anomalies. The Drugs Act definition while suitable for medical purposes, excludes from the scope of patent and proprietary medicines quite a few preparations which are sold under proprietary names and marks and are priced accordingly. I have, therefore, proposed a more suitable definition. With this widening of the definition I propose to reduce the incidence of tax from 10 to 7.50 per cent by a notification and also to exempt totally certain highly essential drugs.

It is also proposed to alter the tariff item of asphalt and bitumen so as to include coal-tar, which is used for similar purposes. Coal-tar burnt in furnaces of plants producing it will be exempted by notification. It is also proposed to revise some of the exemptions which have either outlived their utility or have been found to be open to abuse. It is proposed to simplify the procedure for duty on copper and other alloys for convenience of smaller manufactures. It is also proposed to increase the duty on aluminum foil by Rs. 100 per tonne in order to discourage its internal consumption which creates a demand for the import of ingots. In order to encourage export of tea, it is proposed to increase the duty on loose tea by 5 to 10 naye paise per kilogram and to give a rebate of 15 naye paise per kilogram on its export.

These changes in the existing excise duties will give a revenue of Rs. 20.74 crore in a full year.

I also propose to levy excise duty on some new items. It is proposed to levy a duty on jute manufactures in order to restrict their internal consumption and to encourage their exports. This will yield a revenue of Rs. 3.12 crore. It is also proposed to levy an *ad valorem* duty of 5 to 7.50 per cent on certain iron and steel products but to exempt wastages arising in the manufacture of these products from raw iron or steel. Net revenue as a result of this will be Rs. 6 crore. It is proposed to levy a duty of 5 to 15 per cent on electric cables and wires which will yield a revenue of Rs. 2.10 crore. It is proposed to impose a duty on specific acids and gases which will together yield a revenue of Rs. 1.64 crore. Other items on which I propose to levy an excise duty are plywood at the rate of 10 to 15 per cent, asbestos cement product at the rate of 10 per cent, tread rubber and latex foam sponge at the rate of 20 per cent, gramophones, gramophone parts and accessories and gramophone records at rates varying from 15 to 30 per cent. These items will yield a revenue of Rs. 2.30 crore. In the mineral oil section I propose to add a levy at 5 per cent on mineral oils and mineral oil products not otherwise specified. On the present production this will bring in a revenue of Rs. 26 lakh. The total revenue from the fresh levies will be Rs. 15.42 crore in a full year.

Customs Duties

The changes in the rates of excise duties and the imposition of fresh duties I have just described will yield a revenue of Rs. 7.25 crore on the Customs side from countervailing duties.

I propose to increase import duties on certain iron and steel items and on art silk yarn by 5 per cent. This will yield a revenue of Rs. 2.16 crore. The main items affected by the increase under iron and steel are structures, fittings for pipes and tubes, tin plates, steel ingots and manufactures not otherwise specified. In the case of tin plates, the increase will, however, be only 2 per cent. I also propose to impose an import duty of 25 per cent on stainless steel plates and sheets and rods and bars. This will yield a revenue of Rs. 80 lakh. Copra is subject to an import duty of 40 per cent standard and 30 per cent preferential but by a notification they have been reduced to 15 per cent standard and 5 per cent preferential. It is proposed to increase the notified rates to 25 per cent and 15 per cent which will still be well within the ceilings. It is found that as compared to Indian copra, there is a substantial price advantage in imported copra. It is also proposed to increase the duty on certain types of tools, excluding machine tools and agricultural implements, from 35 per cent to 50 per cent. This is in line with certain increases made last year. These two items will yield a revenue of Rs. 1.89 crore in a full year. It is also proposed to rationalize duties on a few items which will yield a small revenue of Rs. 7 lakh only.

It is proposed to raise the rate of import duty on cars from 100 to 150 per cent. The specific duty of Rs. 6,000 is, however, being done away with so as not to discourage import of small or used cars in genuine cases. Though there are no regular imports of cars, some cars continue to come into the country, on Customs clearance permits. As their number is small, their outside value is high and when they are sold, there are very large profits. The proposed increase in duty will reduce these profits and will make import of cars a little less attractive. The revenue from this will be about Rs. 25 lakh.

Having spoken so far about increases, I now refer to a substantial reduction. I propose to reduce the export duty on tea from 44 naye paise to 25 naye paise per kilogram. This will mean a loss of revenue of Rs. 4.10 crore. Taken with the proposed refund of excise duty of 15 naye paise per kilogram, this should provide a substantial incentive for export of tea.

These proposals on indirect taxes side will bring in a revenue of Rs. 44.50 crore in a full year. During 1962-63, their effect will, however, be for 342 days that is to the extent of 93.70 per cent.

Net Effect of the Proposals

These changes in direct and indirect taxation taken together will bring in a revenue of Rs. 71.70 crore in a full year, of which Rs. 44.50 crore will be from indirect taxation and Rs. 27.20 crore from direct taxation. Both direct and indirect taxation, thus, play a part in these proposals. This question of the respective roles of direct and indirect taxation is being raised on a number of occasions. There seems to be a feeling in some quarters that whereas direct taxes are progressive, indirect taxes are regressive in the sense that their incidence falls more heavily on the poor than on the rich. I am afraid this view that indirect taxes are regressive is not correct in our conditions. Whether indirect taxes hit the poor more than the rich or *vice versa* depends upon the kind of commodities that are subjected to indirect taxes and the rates at which they are taxed. No one would contend that excise duties on automobiles, refrigerators and air-conditioners, for example, hit the poor. Quite a number of items in our range of indirect taxes are such that they impinge more heavily on the upper middle and middle classes. We had this whole question analysed last year and our study shows that indirect taxes in India have been progressive in their incidence. That is to say, the higher the total expenditure of a family on an average, the higher the proportion of the total expenditure it pays in indirect taxes. Not only that, but the degree of progression also was shown to have increased as more and more articles not entering appreciably in common man consumption were subjected to excise duty.

Hon'ble members would also appreciate that in a country like India, the income-tax cannot be a mass tax. That would be administratively impossible and indeed irksome to the vast majority of the poorer people. At the same time, we have to tax at least to some extent, even those who are not covered by income-tax, for it would be equally impossible to meet all our requirements for both plan and non-plan expenditures without mobilizing a part of the incomes that accrue to the poorer sections of the community. Undoubtedly, the richer sections must carry an increasingly larger share of taxation and poorer sections must benefit progressively more through development. That is part of our concept of a socialist state.

I am aware of the wide-spread desire in this House and outside that the imposition and enhancement of excise duties should not lead to a general increase in consumer prices. In some cases, duties are imposed as there is a large margin of profit and it is considered desirable to reduce that margin. In others, for example, as in the case of matches this year, the duty is meant to take away the unintended margins of middlemen. In these cases there should be no increase in the price to the consumer. On the other hand, in a case like that of patent and proprietary medicines, where it is proposed to reduce the duty, there should be reduction in prices. In the case of cloth a part of the increase in the rates of duty on yarn and proposed fabrics can as well be absorbed by the industry. The duty on coarse and lower medium fabrics has been particularly so adjusted that there should be no increase in the prices of such cloth.

As regards the impact of these duties on exports. I should like to mention that it is proposed to give a consolidated refund of excise duties paid on the materials and intermediates used in the process of manufacture. There is, therefore, no reason why excise duties should impinge on export costs.

The taxation proposals outlined earlier would yield a total revenue of Rs. 68.88 crore during 1962-63. Of this, a sum of Rs. 60.80 crore will accrue to the Centre and the balance of Rs. 8.08 crore to the States as their share as a result of the recommendations of the Finance Commission accepted by Government. This share will go on increasing from year to year. The manner in which these gains to the States should be adjusted in keeping with the overall requirements of the Centre and the States for fulfilling their plans is under consideration. The Planning Commission intends to review shortly the financial position of the States during the current year in consultation with them.

Conclusion

As a result of the tax proposals I have placed before this House, there will be a net accretion of Rs. 60.80 crore to the Centre during 1962-63. This would completely wipe out the revenue deficit. The over-all deficit will consequently be reduced from Rs 150 crore to Rs. 89 crore and will be met by the expansion of Treasury Bills.

I cannot say that I am happy with the gap which still remains. It is my hope that as in the past with increased incomes and production and with a tighter check on tax evasion our taxes will bring in more than we are able to foresee at present. In this context, I would emphasize that we can no longer go along with outmoded concept of taxation being limited to what is needed to cover the revenue component of the Budget. In the context of the major development programmes on which the public sector is engaged and having regard to the possibilities and limitations of borrowing from the market it is essential that the Revenue Budget should provide a sizable surplus to sustain a part of the Capital Budget. In fact, during the Second Five Year Plan we achieved a revenue surplus of the order of Rs. 220 crore without which the upward pull on the price level would have been far greater. In putting forward my tax proposals, therefore, I have paid greater heed to the over-all target of taxation for the Third Plan which, as the House is aware, is Rs. 1,100 crore. The additional taxation levied at the Centre last year should yield a total of about Rs. 450 crore over the Five Year period. The taxes which I have proposed today will take us yet closer to our goal of raising adequate resources for our Plan. It is a matter of concern to me that progress in regard to additional taxation by the States has been slow and in 1961-62 the State Budgets provided for additional taxation with a five-year yield of about Rs. 100 crore only as against the target of Rs. 610 crore set in the Plan. I would earnestly request all State Governments to ensure that this shortfall is made up with speed and vigour.

Higher levels of taxation, no doubt, impose a burden of sacrifice on our people. The point to remember is that there are only two alternatives to such taxation-inflation or stagnation. Without the requisite tax effort we would have to face either an upsurge of prices which would impose a much bigger and much less equitable burden on the community or a prolongation of our poverty due to a slowing down of our development. It is against this background that I would ask the House to consider and support my Budget proposals.