

SPEECH OF  
SHRI MORARJI R. DESAI,  
DEPUTY PRIME MINISTER AND MINISTER OF FINANCE,  
INTRODUCING THE INTERIM BUDGET FOR THE YEAR 1967-68\*

**Highlights**

- *Substantial Increase in Assistance to States*
- *Unauthorized Overdrafts by States not to be Allowed*
- *Cooperation of the States to pursue Sound Financial Policies*

Sir, the presentation of the Budget is an important occasion when the Government comes to this honourable House for approval of its proposals for expenditure and mobilization of resources during the coming fiscal year. On this occasion, however, we are meeting under special circumstances. As honourable members are aware, a Vote on Account for enabling the Government to carry on its business during the financial year 1967-68 has to be considered and passed before 31 March. But the new Government at the Centre and the honourable members assembled here, cannot, between now and the end of March, give full consideration to the budgetary requirements for the whole of the coming year. The Government, therefore, wishes to bring before this honourable House in a few weeks' time a Budget outlining the proposals for the full year, 1967-68. The usual Economic Survey will also be presented to the House together with the final Budget.

My purpose today is a limited one. I propose first to present the Revised Estimates for the current year in the usual way. I propose also to present the estimates of Government receipts both Revenue and Capital, for the year 1967-68 at existing rates of taxation and on the basis of indications available at present regarding non-tax receipts. As far Government expenditure during 1967-68, I shall seek a vote on account for a period of four months only. The estimates of expenditure for 1967-68 as a whole that I shall be presenting today are tentative and have been limited strictly to resources that are now in sight. These will be revised appropriately in the Budget to be presented later in the light

---

\* Lok Sabha Debate, 20.3.1967, cc. 430-446.

of a thorough review of requirements and resources that we propose to undertake in the meanwhile. I shall introduce a Finance Bill today which merely seeks to continue the existing tax structure for a further year.

### **Economic Conditions**

Even for my limited purpose, it would be appropriate to draw the attention of the honourable members to a few salient features of the current economic scene. The initial year of the Fourth Plan which is now drawing to a close has proved disappointing in many ways. Economic conditions caused concern not only because output was low and the foreign exchange situation disconcerting but also because prices have continued to rise rapidly despite a slackening in the pace of monetary expansion. Honourable members are aware that unfavourable weather conditions have plagued the Indian economy for the second successive year; and the drought has overshadowed the economic scene for the past many months. Our present difficulties should not obscure altogether the strength and resilience that the Indian economy has acquired over the three Plan periods. But our policies and expectations in the short-run must necessarily be based on a realistic assessment of the current situation.

Although agricultural output is likely to show some recovery, compared to the rock-bottom levels of 1965-66, recent estimates are far less optimistic than earlier predictions. Production levels in the current year will, it is feared, remain far below the bumper harvests of 1964-65. Total foodgrains production during 1966-67, for example, may be as low as 76 million ton as against 89 million ton in 1964-65 and 72.3 million ton in 1965-66. The failure of the monsoons has wiped out incomes and purchasing power in large parts of the country and has created a serious supply problem not only in respect of foodgrains but also many raw materials. Once again, we have had to step up imports at the expense of our slender foreign exchange reserves and with the help of food assistance from friendly countries. Further substantial imports are, however, still urgently needed to tide over the period before the arrival of the new *kharif* crop. The question of food aid to India is to be discussed at a meeting of the Aid India Consortium early next month. However, the available supplies will also have to be distributed equitably; and we propose to evolve soon an agreed policy in this regard in cooperation with State Governments. Meanwhile, the programme to raise sharply the availability of fertilizers and high yielding seeds, to strengthen farm credit and to promote agricultural research is making reasonable progress.

The growth of industrial output had slowed down considerably in the final year of the Third Plan. In the current financial year also production has increased rather slowly. The index number of industrial production showed an increased of 2.6 per cent during April-November 1966 over the corresponding period of the preceding year. The slackness in industrial growth was a widespread phenomenon and there was, in fact, an absolute drop in production in many agriculture-based industries, such as cotton textiles, *vanaspati*, jute, etc. On the other hand industries catering to the requirements of agriculture—such as those producing diesel pumping sets or pesticides—have fared quite well. The failure of monsoons affected industry in many ways. First, agricultural raw materials were scarce and their prices were high. Secondly, farm incomes were low and consequently the effective demand for manufactured consumer goods was depressed. Thirdly, high prices of food diverted urban purchasing power away from manufactured articles. Fourthly, economy measures introduced by Government designed to limit monetary expansion at a time when food was scarce, created areas of depressed demand for certain categories of manufactures, for example, railway wagons and machine tools.

Partly as a result of low domestic production, our exports also have not fared well during 1966-67. Preliminary data indicate that the foreign exchange value of exports shipments during April-December 1966 was about 9 per cent below that in the same period of 1965. Apart from domestic supply shortages, the export position during these months reflects the dislocation in trade that followed in the wake of the change in the exchange rate. Demand conditions in some of our major markets abroad have also been slack. These and other developments in world markets have tended to depress the value of our traditional exports, for example, tea, jute manufactures and cotton fabrics. On the other hand, these losses were offset to some extent by gains secured by such items as leather goods, footwear, iron ore, steel products and cashew kernels.

A deterioration in exports combined with rising debt service payments caused a depletion of our international reserves. Between April 1966 and December 1966, our foreign exchange reserve fell by the equivalent of about 18 million dollar despite a net drawing of 137.5 million dollar from the International Monetary Fund. It is also noteworthy that this loss was incurred during a period when imports were significantly lower than during the same period of 1965-66. The reduced import bill reflected the stringency of quantitative restrictions on most non-food items in 1965-66. Although, total imports were rather low, food imports increased substantially during the current fiscal year owing to the necessity of supplementing domestic supply. Imports of fertilizers were also substantially larger than in the earlier years. The liberalization of licensing policy has not yet had

an impact on the actual flow of imports, although there are indications of sizable orders having been placed against the larger volume of imports licenses issued this year. Since December 1966 there has been some improvement in foreign exchange reserves. A part of this improvement, however, is on account of temporary and reversible factors like an inflow of banking funds.

Honourable members will recall that in the last year of the Third Plan there was a partial pause in foreign aid. This interruption, together with general conditions in the country, has led to somewhat smaller disbursements of foreign assistance during the current year than was envisaged earlier. In all, Consortium countries pledged 900 million dollar for non-project aid during 1966-67. Against this pledge, firm commitments have been signed for 760 million dollar. The remainder is expected to be committed soon. Honourable members would appreciate, that in a continuing programme, a firm pledge of assistance enables us to license imports even in advance of actual commitment of funds so that, for all practical purposes, the Consortium pledge of 900 million dollar has been available to us for some time for backing our import programme. In addition, members of the Consortium signed several loan agreements relating to particular projects in the field of steel, power, railway, etc. Aid agreements were also signed with other friendly Governments—the Soviet Union, Yugoslavia, Hungary and Sweden. For this we are thankful to our friends abroad. I must also acknowledge gratefully the generous assistance received from a number of countries and international organizations for scarcity relief which has helped greatly in the difficult food situation.

The agricultural situation has not only led to a slow down in industry, an impairment of export capacity and a heavy bill for food imports but it has also aggravated the inflationary problem. Food prices rose at a more rapid rate during 1966-67 than in the previous year. The demand for compensatory allowances by fixed-income groups to protect their standard of living gained ground and put considerable pressure on Government finances. The index number of wholesale prices went up by about 17 per cent between 26 March 1966 and 18 February 1967.

Monetary expansion slowed down during the current year. In the current busy season, however, bank credit to the private sector has expanded more rapidly than in the 1965-66 busy season whereas deposit accrual to the banks has been on a smaller scale. The busy season has yet to run its course and in the prevailing price situation, it would be clearly necessary to keep a close watch on monetary developments.

The pace of the price increase is the most disturbing fact which Government will have to keep in focus in formulating its financial and

economic policies. What we have witnessed essentially is a spiral of rising prices where shortages and budgetary deficits have led to higher prices and higher wages and dearness allowances. This in turn has accentuated budgetary difficulties and has led to a further rise in prices. This process has to be halted by concerted action on many fronts. But, honourable members, I am sure, would agree that our first task in these circumstances is to restore financial and general economic stability, the need for which would be all the more clear from the brief review that I propose to make now of budgetary developments during the current year.

### **Revised Estimates 1966-67**

As in the case of general economic situation, the budgetary outlook during the current year has also been dominated by the setback in agriculture. On the expenditure side, considerable scarcity relief assistance had to be provided to the States to enable them to generate gainful employment and to extend other assistance to the population in distress. Large imports of foodgrains had also to be subsidized in order not to accentuate the price-rise. Even so, higher prices added to the burden of dearness allowance and necessitated increase in other Government outlay. Increased outlays on agricultural schemes were also undertaken in order to step up food production on an urgent basis.

On the receipts side the generally sluggish conditions in the economy have been reflected in lower tax revenue. The decline in non-food imports has meant lower collections under import duties. The Railways too have suffered from the recession in demand and the higher wage bill consequent on enhanced prices of food articles; they have for the first time in decades failed to earn the normal dividend.

The Centre has also had to incur substantially larger liabilities on behalf of the States than was envisaged at the beginning of the year. The net result is that despite economy measures undertaken by Government, the current year is expected to end with a much larger deficit than was envisaged initially.

Customs revenue will be Rs. 36 crore more than the Budget Estimate. This is after taking credit for sizable receipts under export duties levied after devaluation. Import duties show a shortfall of about Rs. 79 crore. Income-tax revenue shows a fall of Rs. 40 crore whereas excise duties are expected to yield Rs. 10 crore more. The States' share of Central taxes and duties will also be Rs. 12 crore more, mainly due to payments of arrears. The net tax receipts retained at the Centre will thus be slightly less than the Budget estimate, despite the large receipts of Rs. 117 crore under export duties.

The net budgetary receipts corresponding to loan assistance obtained from foreign countries and inter-national organizations will be Rs. 135 crore more. This, however, is due to the accounting difference made by the change in the exchange rate. In foreign exchange terms, disbursements of gross assistance have fallen short of earlier expectations. The rupees accruing from PL-480 imports from the United States of America will be nearly Rs. 93 crore more. Assistance of the value of Rs. 85 crore in the form of food-gifts from Canada, Australia, Soviet Russia and a number of other countries has also accrued to the Budget.

On the disbursement side, the purchase and sale of foodgrains and fertilizers account for a deterioration of Rs. 235 crore. The bulk of this—approximately Rs. 180 crore—is on account of the subsidy borne by Government on imported foodgrains and fertilizers.

During the year, provision had also to be made for a substantial increase in assistance to State Governments. Rs. 108 crore more were provided to enable them to undertake larger Plan outlays. Of this, Rs. 60 crore were for minor and major irrigation and rural electrification schemes in order to step up agricultural programmes, particularly of a quick yielding type. Additional scarcity relief assistance sanctioned to the States amounted to Rs. 40 crore. Special loans amounting to Rs. 113 crore had also to be provided to enable some of the States to clear their unauthorized overdrafts with the Reserve Bank, thus, adding up to a total of Rs. 261 crore by way of increase assistance to the States.

The Central Plan including the outlay in the Union Territories financed out of the Budget is expected to be Rs. 117 crore more than provided for in the Budget Estimates. This increase is accounted for by the need to provide more funds to public sector undertakings and larger assistance towards debenture programmes of land mortgage banks, agricultural credit stabilization funds, consumer cooperatives and family planning and additional outlays in respect of schemes of agricultural importance. An additional provision of Rs. 13 crore for the financial institutions has also been included here. Honourable members would appreciate that larger provision became necessary after devaluation in the case of many Plan projects and programmes.

On the non-Plan side, an increase of Rs. 29 crore occurs under defence, including border roads, due mainly to devaluation and dearness allowance increases. Similarly, interest charges show an increase of Rs. 48 crore. There are a number of other individual variations which taken together counterbalance one another and I shall not mention them.

The increase in expenditure might have been even more but for the economy measures taken during the year. The Budget grants were reviewed in the course of the year and sizable reductions were made in revenue and other expenditure. The savings located were of the order of Rs. 91 crore, which made it possible to absorb unavoidable additional requirement.

In the aggregate, the Revised Estimates show a deficit at the Centre of as much as Rs. 350 crore for the current year, as against Rs. 32 crore estimated at the Budget stage. The large budgetary deficit has been a matter of concern to Government as it must be to the House. I would, however, like to draw the attention of honourable members to the fact that but for the additional assistance to some of the States to clear their overdrafts and the subsidized sale of foodgrains and fertilizers, the deficit at the Centre would not have been materially different from what was originally anticipated.

The assistance of Rs. 113 crore to some of the States because of their overdrafts from the Reserve Bank has merely had the effect of increasing the deficit at the Centre. The financial position of the State Governments will not be clear till their budgets for next year are presented. And, I would like to remind honourable members that if there are some States which have contributed to the deficit at the Centre, there are others whose financial position has been sound. Indeed, it is likely that by taking on a substantially larger responsibility for assisting the States, the Centre has, during the year, improved the financial position of the State Governments taken together.

But honourable members, I am sure, would agree that a situation in which any State Government can run unauthorized overdrafts from the Reserve Bank without limit cannot be allowed to continue. Apart from adding to the deficit at the Centre, such a situation is not equitable between one State and another. In view of the seriousness of this problem, the Reserve Bank, in consultation with the Central Government, informed the States in December last that in case an unauthorized overdraft persisted in future, the Bank would issue a notice to the State calling upon it to take adequate steps to eliminate such overdraft within a period of three weeks failing which it would be open to the Bank to stop payments on account of the State. Simultaneously, the facilities for temporary accommodation were also suitably enlarged to give the State Governments greater flexibility in their ways and means position. It is my earnest hope that with these arrangements, we would begin a new phase in which deficit financing by the State Governments would be a thing of

the past. At the same time, honourable members, I am sure, would agree that the Centre also will have to set a better example of financial discipline if it is to enlist the cooperation of the States in ensuring the maintenance of sound fiscal and budgetary policies. At this stage, I can only assure the House that we are determined to pursue sound financial policies ourselves and to ensure the same in the States with the cooperation of all concerned, including the cooperation of the honourable members assembled here.

### **Budget Estimates 1967-68**

I shall now turn to the outlook for the next year. A number of different and even conflicting considerations have to be taken into account in framing the Budget for 1967-68. Plan outlays were restricted in the first year of the Fourth Plan and there is obviously need to resume the momentum of development as soon as possible. In any event, agricultural programmes, including minor irrigation, major irrigation works nearing completion, provision of credit and the like must be carried forward vigorously if the momentum already gained in the implementation of the new agricultural strategy is not to be lost. The same is true of the family planning programme as of industrial programmes, including production of fertilizers and pesticides which are so essential for underpinning our efforts for increasing the productivity of our land. Developments in other sectors also cannot be held back for long without jeopardizing the progress towards self-reliance.

In one sense, the present situation in which there are signs of a recession in demand and of excess capacity in many areas, notably capital goods industries and transport is propitious for a step-up in developmental outlays. Liberalization of imports and greater availability of non-project assistance should facilitate our task. On the other hand, the prevailing price situation and the very difficult supply position created by the second drought in succession make it obviously undesirable to step-up investment to the point when prices of essential goods come under further pressure.

Next year's Budget has necessarily to be framed in the background of the complex picture which I have just outlined. In order that both Government and Parliament may have adequate time to assess the situation fully, we have decided for the present to come to the honourable House with a Budget in which expenditures have been restricted to resources in sight at present. At the same time, I must respect, that this is only an interim Budget presented primarily for obtaining Parliamentary

Appropriations for expenditure during the first four months of the next year in terms of constitutional requirements. As I mentioned at the outset, Government expect to review the position shortly and bring forward such proposals for incurring additional expenditure and raising resources for the purpose as may be necessary and feasible in the present circumstances. At this stage, therefore, I shall merely indicate the basis on which the present Budget has been framed.

Next year's Revenue Receipts at existing rates of taxation are estimated at Rs. 3,071 crore being Rs. 214 crore more than the current year's Revised Estimates. The major increase occurs under excise duties, namely, Rs. 86 crore due mainly, to the expected off-take from the new oil refineries. Customs revenue is also expected to be Rs. 58 crore more mainly because of anticipated larger imports next year. Income tax is not likely to show an improvement of more than Rs. 15 crore because of the inadequate growth of industrial production this year, particularly in the agro-based industries. The rest of the increase occurs mainly under interest receipts, Rs. 37 crore. Of the total Revenue Receipts, Rs. 370 crore will be transferred to the States as their share of Central taxes and duties.

Credit has been taken for a market loan of Rs. 350 crore next year. Considering that the maturities next year are of the order of Rs. 255 crore, this will mean a net borrowing of Rs. 95 crore as against Rs. 81 crore this year. Some improvement has been assumed in view of the fact that the Reserve Bank has so far this year been a net seller of Government securities which is an encouraging feature.

Foreign loans other than PL-480 are placed at Rs. 835 crore or 1,115 million dollar gross which is significantly higher as compared to the current year's Revised Estimates of 800 million dollar. The bulk of the non-project assistance of 900 million dollar pledged this year is expected to flow in next year. Further non-project assistance and withdrawals therefrom should also be possible. The repayment liabilities next year are about Rs. 195 crore, thus, giving a net of Rs. 640 crore.

The rupee accruals in respect of PL-480 imports which are invested in the special securities of Government are expected to amount to about Rs. 285 crore. Assistance of 50 million dollar on account of the wheat gifted by Canada has been taken into account.

Next year's expenditure estimates include Rs. 969 crore for Defence as against Rs. 942 crore in the Revised Estimates, thus, showing a rise of Rs. 27 crore which is mostly accounted for by provision for normal increments and increased cost of stores and purchases. Border Roads account for a provision of Rs. 42 crore which is Rs. 4 crore more than the Revised Estimates.

The purchase and sale of foodgrains and fertilizers account for a net expenditure of Rs. 159 crore because of the subsidized sale of imported foodgrains and fertilizers. Rs. 13 crore are also payable to the manufacturers of fertilizers as a subsidy on the imported raw materials used by them. On the basis of the economic cost to Government and the existing issue prices, the total food and fertilizer subsidies to be borne by Government next year amount to about Rs. 185 crore.

A provision of Rs. 105 crore has also been made in the next Budget for loans to States to enable them to purchase and distribute fertilizers, seeds and pesticides as against Rs. 60 crore in the current year. Other provisions include Rs. 13 crore for the Food Corporation as against Rs. 12 crore this year and Rs. 37 crore for scarcity relief assistance to States as against Rs. 70 crore this year, both loans and grants.

Non-Plan grants to States and Union Territories next year will be Rs. 241 crore of which Rs. 141 crore are granted under the Finance Commission's award and Rs. 16 crore in lieu of tax on Railway passenger fares. Non-Plan expenditure of the Centre under developmental heads next year is estimated at Rs. 183 crore as against Rs. 164 crore this year. The increase of Rs. 19 crore occurs mainly under Education, Scientific Research and Public Works. The total interest charges next year are estimated at Rs. 510 crore which is Rs. 47 crore more than the Revised Estimates. The administrative expenditure is placed at Rs. 164 crore as against Rs. 154 crore this year.

The need for economy has been taken into account in making the budgetary provisions for next year on the expenditure side. Provisions for payments of interest charges, transfers to States and Union territories under the Finance Commission's awards or similar arrangements or scarcity relief, assistance to neighbouring countries and obligatory payments like pensions, etc., hardly offer any scope for reductions. The increase in Defence expenditure next year has been restricted to the minimum considered necessary. The increase in administrative expenditure has been held at Rs. 10 crore of which Rs. 3 crore relate to Police and Rs. 2 crore to tax collection charges. I would, however, like to assure the House that the objective of the utmost economy in expenditure consistent with efficiency will continue to be pursued as a matter of the highest priority.

The resources for the Plan next year on the basis of the estimates just mentioned and a number of miscellaneous items not mentioned here are placed at Rs. 1,711 crore including Rs. 189 crore to be found by public sector undertakings from their own resources. Of these, Rs. 535 crore

have been allocated to the States for their Plan schemes and the balance has been retained for the outlay on the Central Plan including the Plan of the Union territories.

The provision for Central assistance to States include Rs. 172 crore for agricultural programmes and Rs. 145 crore for irrigation and rural electrification schemes. In addition, a provision of Rs. 8 crore has been made for similar programmes in the Union Territories Plan. The Central Plan also includes Rs. 51 crore for agricultural programmes and Rs. 25 crore for the Agricultural Refinance Corporation, the land mortgage banks debenture programmes and the Agro-Industries Corporations. Another Rs. 4 crore have been provided for transfers to States for building up agricultural credit stabilization funds. Thus, the Central Budget for the next year includes Rs. 405 crore for programmes of agricultural importance. In addition, as already mentioned, Rs. 105 crore have been provided for giving fertilizer credits to States. The Central Plan also includes a provision of Rs. 28 crore for family planning. Honourable members would like to note that in keeping with the priority we attach to agriculture and family planning, the requirements of both these as estimated at present have been provided for even at this stage when a final view on next year's Plan is not possible. For other sectors, the tentative Plan provisions now being made are indicated in the Budget documents.

Sir, I am well aware that the provisions which have now been included in the Budget for the requirements of the various Public Sector projects, the States and private industry through financial institutions are modest. At this stage, I can only say that the budgeted provisions will be reviewed to make sure that essential programmes do not suffer and quick results are obtained from investments already made or in progress. The major circumscribing factor is the availability of resources and it shall be our endeavour to explore all possible avenues of mobilising additional resources.

Our aspirations and hopes for economic well-being and a higher standard of living for millions of our people lie in accelerating the tempo of development. But, this has to be done without generating further inflationary pressures, and on the basis of a realistic assessment of the resources that can be mobilized in a non-inflationary manner. Government's energies will be directed towards attaining this objective in the shortest possible time; and I propose to present fuller picture of Government's budgetary as well as general economic policies at the time of the presentation of the final Budget in the next Session of the Parliament. I hope and trust that in the course of the debate on the present Budget, honourable members would have many constructive suggestions to make

about the future course of our policy. We, on our part, shall give every consideration to the criticisms and suggestions offered so that we can carve out a surer path out of our present difficulties. With this hope and assurance, I commend this Interim Budget to the House.

---