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

Highlights

— *Need to limit the Central Outlays strictly within the Resources Emphasised*

— *Selective Relaxations in Industrial Licensing*

— *Relaxation in Quantitative Import Restrictions*

— *Extension of Tax-holiday Concession*

— *Interim Report of Bhoothalingam Committee*

Sir, on the 20th of March this year, I presented to this honourable House an Interim Budget for the year 1967-68. In presenting that Budget, I had occasion to remark that a number of difficult and even conflicting considerations had to be taken into account in framing the Budget for the current year. There was not enough time in the last Session of Parliament either for honourable members or for the Government to review the situation fully. I was against this general background that it was purposed to present a fuller picture of Government's budgetary as well as general economic policies in the current session of Parliament; and it is for this purpose that I stand before the honourable House today.

The areas of immediate concern in the economic field are easy to define.

First, there is the serious situation created by the drought concerning food supplies in general and the well-being of the people in the scarcity affected areas in particular.

Second, the steady rise in prices which has been with us now for more than three years has to be arrested in the shortest possible time.

Third, there is need to revive industrial activity, particularly in a number of capital goods industries which are suffering from lack of demand.

* *Lok Sabha Debate,* 25.5.1967, cc. 920-962.

Fourth, recent adverse trends in exports have to be reversed as soon as possible.

And finally, these immediate problems must be tackled in a manner which gives us confidence that we can look forward to a long period of satisfactory growth with reasonable price stability and increasing the claims' of national security and social justice.

Food Situation

The average production of foodgrains during the last two seasons has been 17 per cent below the level reached in 1964-65. This sharp decline in output has meant loss of income for farmers in many parts of the country. Our first concern in this situation has naturally been to prevent undue hardship to the vulnerable sections of the community by provision of work and incomes and by substantial distribution of foodgrains through public channels. It is, I think, a matter of gratification for the country and for our friends abroad who have rendered us valuable help at this difficult juncture that despite the sharp reduction in output, a major calamity has been averted. I can assure the honourable House and the people affected in all scarcity areas, and particularly in large parts of Bihar and eastern Uttar Pradesh, that we shall spare no effort or money to ensure that relief measures and public distribution of foodgrains will be continued and extended to the extent necessary during the lean months still ahead of us. I propose to make a substantial additional provision of Rs. 38 crore in the Centre's Budget for the current year for supporting relief measures and assisting the scarcity affected States. This is in addition to the provision of Rs. 37 crore already made in the interim Budget. Honourable members would agree that relief to the people in the scarcity areas should be the first charge on any resources that we, at the Centre, can spare even in our present difficult conditions.

We have already imported 3.5 million ton of foodgrains during the first five months of 1967. Another 2.6 million ton are expected to arrive after the end of May. Of this, total of some 6 million ton, a little over one million ton represent purchases of roughly equal quantities of rice and wheat from our own resources; the balance consists of PL-480 supplies from the United States and assistance from a number of other countries notably Canada, the Soviet Union and Australia. Subject to appropriate matching, the United States has indicated its willingness to provide another 3 million ton of foodgrains; and of this 1.5 million ton are expected to be authorized shortly. A considerable part of the purchases we have authorized from our own resources is in the expectation that appropriate assistance will be available from other countries in a form which will relieve our general balance of payments position. Apart from these purchases, we also have to spend large amounts of our own foreign exchange earnings for meeting freight payments on foodgrains supplied on concessional terms. Nevertheless, to the extent necessary, arrangements for further imports from our own resources will be made to prevent a breakdown of the public distribution system.

The availability of rice around the world is extremely limited; and even such quantities as are available can be had at prices much higher than those for other cereals. Our public distribution system will, therefore, have to rely primarily on wheat and milo. While supplies of wheat can be supplemented appreciably by imports, the supply of rice has to depend essentially on internal procurement. I am happy to say that all State Governments, whether surplus or deficit, are cooperating in the task of procuring internal supplies of rice, wheat and other foodgrains. To facilitate this effort, we have increased procurement prices and have maintained and indeed strengthened zonal restrictions between States. Whatever may be the merits of the system of free distribution and free movement of grains in normal times, it is obvious that in the present circumstances, the public distribution system and the zonal restrictions will have to continue.

Honourable members are aware that the present system of distribution of foodgrains imposes a heavy burden on the financial position of the Centre on account of the subsidised rates at which we supply imported foodgrains to State Governments and others. This subsidy is expected to cost as much as Rs. 118 crore to the Central Government in the current year. Despite the difficult budgetary situation, we have for the present thought it prudent to continue the Central subsidies on foodgrains. It is our policy, however, to reduce and eliminate this subsidy as soon as circumstances permit. The large expenditure on food subsidies is one of the main reasons why it has been difficult for us this year to provide for important developmental needs. Any sustained erosion of development outlays through a policy of subsidizing consumption, however essential, cannot but have serious repercussions on our ability to provide the same essential consumer goods in the years to come.

In addition to the subsidy given by the Centre, some State Governments also are subsidizing foodgrains. In our Federal Constitution, it is not for the Centre to decide what the States should do in matters like this. But it is my duty to make it clear that if any State Government wishes to subsidize foodgrains, over and above the substantial subsidy given by the Central Government, it will have to do so on the basis of its own resources and without counting on any additional Central assistance for the purpose.

Agricultural Production

Honourable members are aware of the steps we are taking to increase agricultural productivity on a sustained basis in connection with what has come to be known as the new agricultural strategy. But there is urgent need also to take immediate steps to ensure that the next *kharif* crop turns out to be as good as possible. It simply will not do to rest content with the hope that after two severe droughts, weather conditions, are bound to take a turn for the better in the coming season. Whatever the weather conditions, immediate steps have to be taken to make sure that programmes like minor irrigation and provision of better seeds and more fertilizers, which can make the maximum impact on the crop prospects for the coming year, are proceeded with on an emergency basis. That is why, even in the interim Budget, we had sought to provide the full needs of agriculture for the current year. On a review of these needs, some additional provision for Land Mortgage Banks has been found necessary; and I propose to provide Rs. 5 crore more for this purpose. I propose also to increase Plan assistance to the State Governments from Rs. 535 crore provided in the interim Budget to Rs. 590 crore. It is essentially for the State Governments to decide how best to deploy their resources. But, I hope that they will earmark a large part of the total resources available to them for securing an immediate increase in agricultural production. We are currently providing nearly 300 million dollars for import of fertilizers as against less than 100 million dollars only three years ago. Correspondingly, fertilizer credits are also being substantially enlarged.

The drought has affected severely not only the food situation but also the supply position in regard to a number of other essential products such as raw jute, cotton, oilseeds and sugar. Arrangements have had to be made for substantial imports of both raw jute and raw cotton and we shall make provision for additional imports in order to sustain both exports and internal consumption. In the case of raw jute imports, the subsidy to maintain the competitive position of the Indian jute industry has been continued in the current year. We shall review the position regarding both imports and subsidy in the light of the prospects for the coming crop. In the meanwhile in order to encourage domestic production, the minimum support price for raw jute has been raised from Rs. 35 per maund to Rs. 40 per maund.

In respect of raw jute and cotton as well as oilseeds, it is of the utmost importance to step up research and other activity for increasing per acre yields. The future of many of our important export industries will turn heavily on the efficiency with which we produce the raw materials for them. It is gratifying that industry is becoming increasingly conscious of this need; and at a later stage, I will have occasion to refer to a change in our tax that I propose to introduce for encouraging research activity in general by our industry.

The decline in sugar production this year has been particularly sharp. There is not escape from a reduction in the internal consumption of sugar; and the present controls on price and distribution will have to be maintained in order to distribute the shortage equitably. We shall keep the situation under review and take whatever steps are necessary to increase the output of sugarcane in the next season and to keep its diversion to other uses within reasonable limits.

Price Stability

In the wake of the recent drought, there has been a sharp increase in prices. To some extent, upward pressure on prices was exerted also by devaluation. A situation in which prices have risen by as much as 46 per cent over a period of three years naturally creates apprehensions about further inflation; and this, in turn, depresses savings and encourages unproductive investments in land, urban property, gold and commodities. Curbs on such investment become, therefore, more important than ever. Again, in a period of inflation, prices increase at an uneven pace for different products and services and this raises many difficult problems of adjustment of relative prices.

In addition to these standard concomitants of inflation, we have to reckon with special complications when the primary impetus for the rise in prices comes from a sudden and sharp decline in output rather than from an excessive increase in demand. It is not always possible to reduce demand swiftly in the face of a sudden decline in output; and it becomes necessary to spread the process of adjusting supply and demand over a period of time and with the help of larger imports. But foreign exchange earnings from exports also get adversely affected as a result both of the fall in production and the rise in prices; and this makes it difficult to augment domestic availability by larger imports. Again, the necessity to put an end to the inflationary psychology and the adverse effect of the decline in production on governmental revenues requires a restraint on public and private expenditure; and this in turn tends to depress demand conditions for specific industries. Similarly, when crops fail and there is extensive loss of real incomes, there is a tendency for consumer demand to be depressed and for raw material costs to increase so that some industries get caught in a real squeeze. What I have just said describes in essence the kind of difficult and complex situation which we are facing today. There are no perfect answers to deal with a situation of this character; and I can only indicate to honourable members the lines along which we propose to move in the coming months to reconcile, as best as possible, the different elements in the present situation in the light of our general policy objectives.

We consider it of the utmost importance that our primary concern at the present moment should be to put an end to the psychology of inflation. Continued and large budgetary deficits over the past few years have contributed to this psychology. I propose, therefore, in the present Budget also to limit the outlays of the Central Government strictly within the resources which can be mobilized in a non-inflationary manner.

Equally, we must avoid a repetition of the situation, in which the State Governments can shift their budgetary burdens to the Centre by resorting to unauthorized overdrafts from the Reserve Bank. In order that the task of avoiding overdrafts may not prove impossibly difficult for the State Governments, I propose to help them in advance to a greater extent than was possible in the interim Budget. Taking account of both Plan and non-Plan requirements, the assistance now being proposed for the States is Rs. 98 crore more than in the interim Budget. I am well aware that this does not meet all the needs of the State Governments; but I hope that they also will do their part for meeting their needs. This is not the time when either the Centre or the States can afford to give up or erode important sources of revenue. If some concessions are to be given, say, to very small farmers, they will have to be made up—and indeed, more than made up—by higher levies on better-off farmers. It is sometimes suggested that if the Centre cannot help in any other way, it should help by postponing recovery of interest and amortization charges from the State Governments. While we are prepared to discuss all problems with Chief Ministers and others, I hope it is clear that if we are to help the States more in one way, we will be able to help them less in other ways.

I am well aware that avoidance of deficit financing is neither a necessary nor a sufficient condition for price stability in all circumstances. Over a period, some expansion in money supply is necessary to accommodate the needs of growing production. Nevertheless, in the present circumstances, it is desirable that Government should not appropriate any part of the permissible limit of monetary expansion. This will allow a larger expansion of bank credit to agriculture and industry to facilitate higher production. The new agricultural strategy and the immediate programmes for increasing agricultural production that are so vitally important require a substantial increase in credit. It is equally important to ensure that private industry is not inhibited from increasing production by undue limitations on the availability of credit. Some restraint on private credit, particularly for speculative and unproductive purposes, will, of course, be necessary. But apart from its psychological importance, the avoidance of deficit financing by the Government would place the Reserve Bank and the banking system in general in a better position to meet the genuine credit requirements of agriculture and industry, whether public or private.

The question of adjustment in relative prices raises difficult social and economic questions. When costs have risen, some adjustment of prices becomes unavoidable if production is not to be affected. Similarly, when real incomes are eroded by increases in the cost of living, some compensation to the lower income groups becomes not only unavoidable but also necessary in the interest of maintaining social harmony and good industrial and service relations. At the same time, the process of prices chasing costs and costs chasing prices cannot be allowed to go unchecked. For this reason, Government has endeavoured to stagger adjustments in relative prices without ruling out such adjustments altogether; and the same discriminating policy will have to be adopted for some time to come with a somewhat greater accent against upward revisions either in wages or in prices.

Considerable concern has been caused rightly in the country by the recent deterioration in industrial relations. At a time when some hardship is unavoidable and when it is of the utmost importance to increase efficiency and production, such deterioration is particularly regrettable. I would, therefore, appeal most earnestly to employees and employers to solve their mutual problems in a spirit of give and take. Any further deterioration in industrial relations can only spell greater hardship for the vulnerable sections of the community.

Revival of Industrial Production

The growth of industrial output has slowed down considerably over the past two years. There has been a modest revival since October last. Nevertheless, industrial production in general has by no-means been buoyant and several industries are actually experiencing a decline in production and an increase in excess capacity.

The situation that prevails at present cannot be described as one of general recession. In such a situation, one would expect to find excess capacity all round and, therefore, the possibility of increasing output by general stimulation of demand. There is obviously no immediate possibility of increasing agricultural output merely by stimulating demand. Even in regard to industry, the emergence of sizeable excess capacity is concentrated in capital goods industries, notably, railway wagons, machine tools, textile machinery, castings and structurals. Among consumer goods industries, difficulties are felt particularly by the weaker cotton textile mills which have been in need of rationalisation and more efficient management for quite some time. Policies which are designed to stimulate demand in general are clearly out of place in the present situation when availabilities of basic consumer goods and agricultural raw materials cannot be increased significantly in the short-run. At the same time, there cannot be any question that whatever can be done has to be done to revive industrial production.

Basically, Government's approach to the revival of industrial production consists of a number of ingredients.

For the priority industries, we are continuing the liberal import policy; for other industries producing essential consumer goods also, the import requirements of raw materials and components will be met on a more liberal basis.

Despite the difficult budgetary position, it is proposed to provide additional sums beyond what was already provided in the interim Budget for the developmental and other needs of both the Centre and the States.

To the extent possible, additional outlays are being directed to the capital goods industries which are in need of some impetus to demand.

It is my intention also to explore all avenues of stimulating investment and developmental outlays as soon as the basic supply conditions in regard to essential consumer goods show some improvement. Planning for a revival of investment activity whether in the public or in the private sector should, therefore, receive no set-back.

As already mentioned, avoidance of deficit financing will make it possible to ensure that production is not held back for want of credit.

To some extent, the present difficulties of the capital goods industries spring from the fact that the expectations on which the earlier investments were made have not materialized. In such a situation, industry will have to show considerable initiative in diversifying production in the light of changing circumstances. Government also has a responsibility to facilitate this; and to this end, selective relaxations have already been made in respect of industrial licensing. The decontrol over the pricing and distribution of steel should also go some way in facilitating this process of adjusting the pattern of production to the changing pattern of demand both in respect of steel production as such and in the large number of industries using steel.

Again, larger exports offer a way out of the present difficulties of many of our engineering and other industries. An increase in exports of our newer products is vitally important from the point of view of achieving a sustained increase in our total export earnings; and the present situation offers a welcome opportunity of redoubling our efforts in this direction. The subsidies that we provide on the export of engineering and other products should help in this direction. Wherever necessary, we will support the effort of industry to increase exports of capital goods by suitable credit arrangements also. But industry also will have to adjust its pricing and other policies in relation to export orders if they are to do their part in counteracting current recessionary trends in a constructive manner. At a time when excess capacity exists, it should be in the interest of the industry concerned to seek actively new outlets for its products even if this has to be done without covering in full the normal share of fixed costs.

In short, the present industrial scene is compounded of a number of complex elements and no single or simple answer will suffice to transform it. The approach I have described is calculated to make the maximum impact on industrial recovery without jeopardizing the chances of restoring price stability.

Export Promotion

The question of export promotion is, of course, relevant not only to industries suffering from lack of demand at present but also to the general run of our economic activities and policies. It cannot but be a matter of great concern that the momentum to our export earnings, which was witnessed during the early years of Third Plan, has not been sustained. The performance of exports during 1966-67 has been particularly disappointing. Of late, there have been signs of a modest recovery in export earnings. With the revival of agriculture and industry, and continued efforts to explore markets for them abroad, some further improvement in export earnings can be expected.

Nevertheless, it would be necessary to exercise a restraint on domestic demand for products which can be exported in larger quantities. Equally, export duties have to be revised if such a revision becomes necessary in order to maintain the competitiveness of our major export industries.

Quite apart from this, a major break-through in export earnings can be expected only on the basis of modernization and rationalisation of our established industries, and a judicious expansion of capacity both in agriculture and industry in directions where we have a long-term competitive advantage. From time to time special arrangements will have to be made to make sure that industries and activities with an export potential are given the highest priority in the location of scarce resources. Export industries are now able to import their raw materials and component requirements for export production from the cheapest source and with the least administrative intervention. In regard to capital goods imports, foreign exchange releases for other purposes and rupee finance as well, export industries will have to be given a preferential treatment.

Promotion of tourism has a great potential for adding to our foreign exchange earnings. I propose, therefore, to announce some measures later to help the tourist industry. We also propose to take steps to present the leakage of tourist earnings to unauthorised channels which still takes place.

A hospitable environment for private foreign investment in priority areas has also a considerable bearing on promotion of exports. It is generally recognized that private foreign investment can make a valuable contribution to reducing our reliance on imports, particularly when it brings with it know-how and sophisticated techniques as well as capital resources. But foreign investors can also bring with them knowledge of foreign markets and the organization and other resources to exploit them. As they get to know our own country and potential better, they help promote our exports. We should, therefore, welcome private foreign investment particularly when it can assist our export effort.

I cannot help emphasizing that the restoration of general price stability is an imperative necessity not only for maintaining social harmony but also for under-pinning and strengthening our export promotion efforts and indeed our efforts to reduce the reliance on imports. Honourable members may rest assured that we are determined to do all that we can to maintain the external value of Indian rupee so that distortions of the kind that led to the devaluation last June, and the necessity for sharp adjustments in the internal economy that followed from it, are avoided.

While everything possible has to be done to promote exports, it has also got to be recognized that only those exports, which can hold their own in the long run, should receive the maximum encouragement so that we do not waste our scarce resources for propping up export earnings which are bound to prove short-lived. An environment of stability, whether in respect of the general price level or the frame-work of promotion measures, is absolutely vital for a steady increase in export earnings. A climate of expectations in which export industries seek to neutralize all their inefficiency and disadvantages by budgetary support cannot be conducive to enduring and sound export promotion. It should, therefore, be perfectly clear that while the Government would be prepared to allocate scarce resources on a priority basis for the export industries, this preference will have to be justified increasingly in terms of the efforts of the industries themselves to increase their efficiency and profitability.

Import Policy

What I have just said applies equally to industries which compete with imports. We have built up considerable capacity for producing a large variety of goods in the country over the last ten to fifteen years. Through import restrictions as well as high tariff duties, we have sought to protect domestic industry from competition from producers abroad who have the advantage of long experience and trained labour force, not to mention the advantage of easier access to capital and even raw materials. It is generally recognized that domestic industries in developing countries require some protection against foreign competition. However, the development of industries behind protective walls can lead to distortions and waste of scarce resources unless industries, which have already been established for some time, became progressively more efficient. In short, a competitive environment is as vital for the healthy promotion of import substitution as it is for the sound promotion of exports. That is why we have relaxed quantitative import restrictions in a selective manner. This policy will be continued and strengthened as circumstances permit, particularly when it is important to provide a spur for domestic industry to increase its efficiency.

We recognize that Indian industry has still a long way to go in the direction of diversification and efficient production. Not all the disadvantages from which our industry suffers can be removed over a short period. Again, as some industries have to be exposed more and more to international competition, others will emerge and get established and would require protection in the initial stages not only by way of tariffs but also by way of quantitative restrictions. What we need, therefore, in regard to import policy is not some rigid approach, which tends to justify all restrictions for all time, or its antithesis in which all restrictions are sought to be abolished on a particular day. What is required is a deliberate and discriminating policy in which the frontiers of protection keep on moving from time to time and from commodity to commodity; so that, by progressive stages, protection is removed from some commodities while it is introduced in the case of other commodities which begin to be produced in the country.

Controls

If Indian industry needs to be exposed to a competitive environment in relation to exports and imports, such an environment is all the more necessary as between different industries and between different units in the same industry. This is not the occasion for me to review the machinery of controls over investment, distribution and prices that we have been operating in India for several years now. Our approach in these controls has been pragmatic; and we have not hesitated to relax them or to intensify them from time to time in the light of changing circumstances. Basically, our approach to controls has also been positive; we have sought thereby to promote development by conserving scarce resources. A similar pragmatic and positive approach would be necessary even for the future. Where it is necessary to retain controls, it shall be our endeavour to administer them in a manner which minimizes delays and inconvenience and ensures equal treatment to all concerned. It has to be recognized, however, that controls are only a means to an end and that, by their very nature, they tend to introduce rigidities which often impair efficiency and initiative on the part of all concerned. Very often, the social objectives of controls such as maintaining a measure of equality between people with different initial advantages and prevention of an undue concentration of wealth and economic power can be achieved by other means which may have less inhibiting effect on productive efficiency. That is why, for sometime, we have been following a selective policy of relaxing controls.

This question has also been examined by the Administrative Reforms Commission and by a number of Independent experts. We propose to consider their recommendations carefully. I would only point out at this stage that there cannot be any question of our giving up the basic objectives behind the controls that we maintain. The question only is whether these objectives could not be better served by a different combination of policies in which controls play a less important part than today and other instruments, particularly fiscal and monetary instruments, play a more active part.

Long-Term Consideration

This brings me to some of the longer term considerations which have to be kept in mind even as we deal with our difficult short-term situation. Our immediate difficulties are essentially the result of two aggressions on our territory and two droughts. It is, however, important for us to enquire whether they do not signify something more basic in our plans and policies which also calls for a correction in emphasis if not in direction.

There is general agreement in the country that the highest priority should be given to agriculture and to family planning in our plans for the next few years. No one seriously questions also that as soon as possible, and consistent with the avoidance of inflation, programmes of social betterment should be pursued more vigorously. In this connection, next only perhaps to the importance of providing an adequate supply of foodgrains comes the necessity of enlarging greatly the facilities for drinking water all over the country. Improvement in the quality of education and the welfare of backward classes, particularly of scheduled castes and tribes, will also require more urgent attention than hitherto.

If I am not mistaken, the differences and the doubts that are often expressed about our plans relate mainly to two or three basic areas. There is, first of all, the question of the speed with which we can increase the rates of saving and capital formation in the country. Related to this is the problem of our ability to increase the productivity of such capital as we already have. Differences are also expressed about the proportion of available savings which should be invested by the private sector and the public sector in the light of their respective responsibilities and ability to invest the savings profitably. There is also some question whether consumer goods industry or capital goods industry should receive somewhat higher priority than in the recent past.

It is not my intention here to enter into a debate about the *pros and cons* of the issues around which difference and doubts of the kind that I have just outlined revolve. But let me say that if we have over-estimated in the past our capacity to save as a nation or our capacity to secure a certain return from the capital already invested, such an over-estimation was, in part, at any rate, intended as a spur to better effort on the part of all of us. Certainly, in future, we shall have to be more realistic about what we can do in regard to savings or the improvement in the efficiency of capital over any given period. But when all the care and caution have been exercised, we shall still have to make an effort to do a little more than what the prudent among us might regard as the maximum feasible. What is involved here are the hopes and aspirations of millions of our people; and it simply will not do to assume that what might be good and prudent for some of us for some time will also be good and prudent for the country as a whole for all time.

I do not think that there is also any scope for doubt about the importance of industries in Indian economic development. Under modern conditions even agriculture cannot be transformed without a corresponding growth in industries which either supply the requirements of agriculture or absorb its products. If we attach the highest priority to agriculture in the present circumstances, it is essentially because of our desire to be self-sufficient in regard to our food requirements. More generally, investments in agriculture at the present juncture are capable of making a striking contribution to both consumption and investment and to an improvement in the balance of payments. This does not mean, however, that industrial investment can be held in abeyance.

Whether we should make such investment as we make in industry primarily in consumer goods industries or in capital goods industries is also a question which cannot be decided on any *a priori* grounds. Obviously, increases in consumption provide the ultimate justification for all developmental activity; and the total volume of consumer goods we need will always be substantially larger than the volume of capital goods we require. At the same time, increases in consumption cannot be sustained without increasing the level of capital formation.

Perhaps in the past, our investment decisions have been guided more by a general consideration of our long-term needs rather than by a precise assessment of the relative rate of return in different activities. We will need to rely more, over the years to come, on an analysis of costs and benefits in different sectors and to guide our long-term strategy in the light of alternative course of action. But, I have no doubt that, barring marginal variations from time to time, the general trust of our developmental strategy will have to be on a broad front, comprising a wide range of agricultural and industrial activity. Mistakes certainly have been made and will perhaps also be made in future in regard to investment decisions by both public and the private sector. But, behind the mistakes and miscalculations that we might have made, there lay, I am sure, a genuine desire to speed up progress, to short-circuit the process of growth so that the trials and tribulations of our people would be short-lived. While we should certainly profit from our mistakes and be prepared to rearrange priorities at any given time in order to meet the exigencies of the situation in the short-run, it would not be prudent to dismiss the long-term requirements of the economy as altogether irrelevant.

I do not suppose that in any active democracy like ours, there would ever be complete agreement about the respective roles and abilities of the public and the private sectors. Both have an important role to play; and I can only say that, over time, their relative roles will necessarily be determined by their relative abilities. Without seeking to supplant the private sector, Government is committed to an expansion of the public sector; and to this end, we shall give the highest priority to the improvement of the management and efficiency of the public sector enterprises already created.

In keeping with the Directive Principles of our Constitution, Government is fully committed to the achievement of a socialist society within the framework of an actively functioning democracy. Much has already been achieved in this connection; and in the coming months, we propose to explore all possible avenues to make sure that the initiatives we have taken in this regard are pursued and implemented with vigour and that further progress is made without impairing the productive efficiency of the economy in general.

Budget Estimates for 1967-68

So much for economic policies both in the short and the long run. I shall now summarize briefly the Budget Estimates for 1967-68 as I now wish to present them and compare them with those given in the Interim Budget. But before I do so, I would like to refer briefly to the Revised Estimates for the year, 1966-67 about which some more information is now available.

Honourable members will recall that I had stated, while presenting the Interim Budget, that the Centre's budgetary operations for 1966-67 were expected to show a deficit of as much as Rs. 350 crore. Though full details are not yet available, I am glad to say that the deficit has turned out to be somewhat smaller than anticipated, namely, of the order of Rs. 313 crore. The improvement of Rs. 37 crore is the result of a number of factors of which I shall make only a general mention. The receipts from tax revenues have been of about the same order as estimated in the Revised Estimates; in fact, a shade better. External assistance has, however, shown a significant shortfall. But, this has been made up by savings under various items of expenditure. The foodgrains transactions have turned out to be better than estimated and this accounts to a large extent for the reduction in the anticipated deficit. The Budget documents repeat the Revised Estimates as presented earlier as the actual figures in most cases are not yet available.

Turning now to the Budget Estimates for the current year, I shall indicate the main changes in the Interim Budget which I presented in March last. I anticipate some shortfall in the revenue from Excise Duties on sugar on account of lower production. But I expect that this would be made up under other Receipts and have, therefore, not made any change in the estimates of Revenue Receipts.

As regards foreign aid, honourable members will recall that I had provided for the utilization of Rs. 835 crore or 1,115 million dollar this year. Since then, the Aid-India Consortium met in Paris and we have had further discussions, including those with the President of the World Bank. In the Interim Budget, I had already taken credit for some disbursement from the 900 million dollars of non-project assistance that we expect to be committed this year. It would appear from recent discussions that the pace of disbursements from the new non-project assistance may be somewhat quicker. On the other hand, our experience during 1966-67 should warn us against too optimistic a view of aid disbursements. Taking everything into account, I have increased the earlier estimate of foreign aid utilization by Rs. 30 crore.

The changes made by the Railways in fares and freights will improve the position of their Funds which are deposited with the General Revenues by Rs. 7 crore.

Defence expenditure is also proposed to be reduced by Rs. 6 crore. In the Interim Budget, this expenditure was only 3 per cent higher than in 1966-67 in money terms. The cost of maintaining Defence Services and Defence supplies has gone up over the past 12 months as a result both of internal price rise and the change in the exchange rate. A substantial reduction in the interim provision for Defence, therefore, is not possible. Honourable members are aware that we are prepared to explore all possible avenues of reducing the tension on our borders and improving our relations with our two neighbours, China and Pakistan. But, as long as these efforts do not meet with a genuine response, we cannot allow our search for economies to come in the way of the needs of national security. But consistent with this, it shall be our endeavour to seek economies in this as in other fields.

Since the presentation of the Interim Budget, Government has reduced significantly the fertilizer subsidies particularly in the context of the higher procurement prices which are being offered for foodgrains. This, together with reduction in the purchase price of fertilizers is expected to benefit the current budget to the extent of Rs. 51 crore in comparison with the Interim Budget. Further, a saving of Rs. 7 crore will also be available in respect of the subsidy on sugar exports which are likely to go down in view of the reduction in sugar output.

I have already referred earlier to the additional provision that I propose to make in respect of some of the items included in the Interim Budget. Assistance to the States is proposed to be increased by Rs. 98 crore including Rs. 38 crore for the scarcity affected areas. I have also allocated an additional Rs. 45 crore for the Central Plan, over and above the provision of Rs. 1,176 crore made in the Interim Budget. Of this, Rs. 14 crore are for Transport, mainly roads, ports and shipping, Rs. 6 crore for Oil exploration and Refining, Rs. 5 crore for Bokaro Steel Plant, Rs. 4 crore for the Union territories and Rs. 3 crore each for Atomic Energy, Posts & Telegraphs and Family Planning. The rest of the provision relates to Education, Heavy Industries, Khadi and Village Industries, Chemicals and Tourism.

Mobilisation of Resources

In the Budget Estimates that I have just presented, the availability of resources will be higher by Rs. 101 crore and expenditures by Rs. 143 crore in relation to the Interim Budget. I should, however, explain that I have chosen on this occasion, for reasons of security, to mention some of the facts in Part B of the Budget Speech only.

On the Expenditure side, I have not so far provided anything additional for assistance to the financial institutions. In the Interim Budget, a provision of Rs. 30 crore was made for this purpose. This is sufficient for enabling these institutions to honour all their existing commitments as well as to meet disbursements on new commitments in respect of the priority sectors of fertilizers, alloy and tool steel and the like. However, some additional provision for these institutions is necessary if they are to play a reasonable part in supporting private investment activity and thereby helping the revival of the investment in goods industries. I, therefore, propose to provide an additional sum of Rs. 10 crore for the financial institutions. In a Budget of this magnitude, it is also necessary to make a provision for contingencies. Taking account of all the considerations, I estimate that the deficit of the Centre, without any further mobilization of resources, would be of the order of Rs. 68 crore.

By far the best way of mobilising resources is to economise on Government expenditure without sacrificing efficiency. I have already set in motion a thorough examination of the expenditure patterns of all Central Ministries. Already, some decisions have been taken which will reduce the strength of my own Ministry. Similar decisions in respect of other Ministries will be announced as they are taken. In respect of Government projects, the Bureau of Public Enterprises will keep constant watch in order to secure genuine economies. I do not propose, however, to take any credit at this stage for deduction in Government expenditure as a result of the economy drive that I propose to pursue vigorously. In matters like this, it is best to take credit for success only when success has already been achieved.

Better collection of existing taxes is also an important and indeed most equitable way of mobilizing additional resources. This is a continuing programme where constant endeavours have to be made to improve tax administration as well as tax laws. In this connection, we have been experimenting for some time with a new system of distribution of work in the Income-tax Department. Under this system, particular functions such as those assessment, collection, refunds, etc., are performed by the Income-tax Officers specifically entrusted with these functions. This experiment has shown encouraging results. To facilitate the extension of the functional system, I propose to make specific provisions in the law and I am circulating separately a detailed note on the subject for the information of honourable members. I propose, however, to take only a small credit for better collection of income-tax this year, as it is premature to expect any sizeable gain in the early stages of the operation of the scheme.

It is also desirable to rely to the maximum extent, on mobilization of private savings for meeting the requirements of the Government. In the present conditions in the country, however, it would not be prudent to take credit for anything more than what I have done in the Interim Budget under small savings, market borrowings and the like. At a later stage, I shall refer to one or two fiscal concessions which I propose to give in order to promote savings. But these measures are designed with an eye on the long run rather than on improving the budgetary position during the current year itself.

Export Duties

Coming to taxation proper, the most important changes involving a loss in revenue that I have to announce relate to export duties. Our exports of jute manufactures have declined in the recent past and some of the promising lines are being threatened with competition from substitutes. I propose, therefore, to reduce the duty on sacking (other than cotton bagging) by Rs. 150 per ton, on carpet backing and jute specialities by Rs. 300 per ton and on other hessians by Rs. 150 per ton. The effect of these reductions would be a loss of revenue of Rs. 13.50 crore in a full year.

A reduction of Rs. 7.50 per ton has been proposed in the export duty on Manganese are having 10 per cent or more but not more than 48 per cent of Manganese content mainly with a view to offset the effect of the recent increase in railway freight on manganese ore. A marginal reduction of Rs. 1 per ton is also being made in the export duty on iron ore fines (including blue dust). These changes will result in a loss of revenue of Rs. 83 lakh in a full year. A change is also being made in respect of the duty on tea to which I shall refer later.

Direct Taxes

In respect of direct taxes, I propose to give a number of selective and indeed minor concessions. The main concessions in respect of taxes on personal incomes are as follows:

(a) In our society, many of us have to maintain dependent parents or grand parents. I propose, therefore, to grant a fixed allowance of Rs. 400 for maintenance of one or more of the dependent parents or grand-parents in the case of resident individuals having a total income not exceeding Rs. 10,000. The tax relief on this allowance will be calculated at the rate of 5 per cent applicable to the initial slab of income. This allowance will be available only when the dependent parent or grand-parent does not have personal income exceeding Rs. 1,000 in the year. This concession is estimated to cost approximately Rs. 2 crore.

(b) At present we levy a surcharge on unearned income in excess of Rs. 15,000. I propose to raise this exemption limit to Rs. 30,000. In a sense, the principle of taxing income from investments at a rate higher than income from work runs counter to the desirability of increased savings. I have, therefore, sought to take this into account at least partially this year. This concession will mean a loss of Rs. 75 lakh.

(c) I propose that all tax-payers having dividend incomes not exceeding Rs. 500 during the year be allowed to exclude from their taxable income the whole of the dividend income received by them from Indian companies. This should encourage equity investment by tax-payers in the lower and middle income groups. The revenue loss of this measure is estimated at Rs. 1.5 crore.

(d) The present limit of the amount of approved savings in life insurance, Government and recognized provident funds and cumulative time deposits in Post Offices, which qualify for tax relief in the case of individuals and Hindu undivided families, is proposed to be increased from 25 per cent of the total income to 30 per cent of the total income. The monetary limits of Rs. 12,500 in the case of individuals and Rs. 25,000 in the case of Hindu undivided family will also be raised simultaneously to Rs. 15,000 and Rs. 30,000 respectively.

(e) Given our present need for resources, I have found it necessary to continue the Annuity Deposit Scheme. I have, however, made some marginal modifications in the Scheme. For example, people over the age of 60 need not make a deposit; at present the age limit is 70 years. Similarly, for all assessees, no penal tax will apply in case of shortfalls in deposits up to Rs. 100 or up to 10 per cent of the deposits required to be made.

(f) Indian scientists, professors and research workers who spend a part of the year in foreign universities or other educational or scientific institutions will be allowed, subject to certain conditions, to deduct from their taxable income, 50 per cent of the remuneration received by them from foreign sources.

I will now summarize some of the concessions—again, selective and minor—that I propose to give in respect of corporate taxation:

(a) As a measure of relief to small-scale industries in the corporate sector, I propose to extend the concessional rate of 45 per cent to widely-held domestic companies having total incomes not exceeding Rs. 50,000 as against Rs. 25,000 at present. This is likely to result in a loss to revenue of about Rs. 18 lakh.

(b) As a tourist promotion measure, I propose to extend the priority industry treatment to approved hotels run by Indian companies. Further, I propose to provide for the allowance of initial depreciation on hotel buildings constructed by such companies after 31 March 1967 in an amount of 25 per cent of their cost of construction. Some other relaxations are also proposed in favour of the hotel industry.

(c) It has often been represented that our present tax-holiday concession does not benefit adequately those undertakings for which profitability is usually low in the initial years. In order to make the tax exemption more meaningful in such cases, I propose to allow a carry-forward of the unabsorbed benefit of the 'tax-holiday' relating to the assessment year 1967-68 onwards, up to eight years from the year of commencement of the business.

(d) The existing tax law has certain features which inhibit desirable amalgamations of companies by attracting certain liabilities on such amalgamation. Merging of uneconomic units is desirable in order to improve productivity and realize economies of scale. I propose to facilitate this process by removing the existing disabilities in the matter in the law.

(e) The progress in resettlement of displaced persons from East Pakistan and repatriates from Burma, Ceylon and certain East African countries has been painfully slow. To supplement the efforts made in this direction by the State Governments, it is proposed, subject to some conditions, to allow industrial units employing such displaced persons and repatriates to deduct 50 per cent of their profits in computing their taxable income.

(f) I also propose to provide certain tax concessions to industries damaged or destroyed by enemy action or by natural calamities.

(g) In order to promote scientific research in our country, I propose to enhance the rate of development rebate on machinery and plant installed for scientific research after 31 March 1967, from the existing general rate of 20 per cent to the priority rate of 35 per cent. Further, the whole of the capital expenditure incurred after 31 March 1967 on assets used for scientific research will be allowed as a deduction in the year in which it is incurred.

The combined effect of the various concessions in direct taxes that I have listed will be a reduction in revenue of about Rs. 5 crore in a full year. I do not propose, however, to take any debit for this item as a reduction in revenue of this order should be made up by better tax collection assisted by the proposed extension over a wider area of deduction of taxes at source.

In addition to the changes in direct taxes which I have described, a few other changes are proposed in the Finance Bill which are intended either to continue the existing concessions or to clarify the intentions of the present law. I do not propose to describe these here as they are set out in detail in the explanatory memorandum on the Finance Bill.

Some time back, Government appointed Shri S. Bhoothalingam, formerly Secretary, Ministry of Finance, as a one-man Committee for recommending measures for simplifying and rationalizing the existing structure of direct and indirect taxation. Shri Bhoothalingam recently submitted his first interim Report, which relates exclusively to direct Taxes particularly income tax. Copies of this Report will be made available to honourable members as soon as possible. Apart from simplification and rationalisation, the Report also suggests a reconsideration of some of the policy aspects of the present tax structure. In a sense, major modifications in the tax structure should not be made in one area, without examining similar suggestions for application to other areas. It is also desirable that on substantive issues, this honourable House, expert public opinion and people at large should have an opportunity to express their views before

Government makes up its mind. I propose, therefore, to publish also the subsequent reports of Shri Bhoothalingam. It is my intention that the publication of these reports will provide an occasion for Parliament and for others to discuss some of the basic aspects of the tax structure so that it can be put on a sound and progressive basis as soon as possible. It is for this reason, quite apart from the difficult financial situation in the current year, that I have decided to restrict my proposals for modification in the direct tax structure to a minimum. It is my intention, however, to introduce even in the present Budget some of the measures of rationalisation and simplification which have been recommended in the interim Report.

One of the main recommendations is that changes in the tax laws and rates of taxation should be applied prospectively to current incomes. The existing practice of applying the rates of tax to incomes already earned in the past year, which has been followed over a long period of years, is not sound in principle. The Annual Finance Acts not only prescribed rates of tax but often provide incentives or disincentives in various directions. Such incentives or disincentives can obviously be meaningful only if they are applied prospectively. Apart from this consideration, it stands to reason that the tax-payer should know before hand his tax liability for any given income year. I propose, therefore, to apply the several measures for making changes in the tax laws as also in the tax rates, prospectively, to current incomes which will fall due for assessment next year, except where it is felt that a particular measure calls for retrospective application for special reasons. We also propose to consider seriously the recommendation about adopting a standard tax year co-terminous with the financial year.

Another measure recommended for simplifying tax calculations is the elimination of most of the areas in which calculations of rebates and reliefs have to be made at present by applying the average rate of tax on the total income. In these areas, I propose to make provisions for allowing a straight deduction of the whole or a specified proportion of the income qualifying for the rebate or relief in computing the taxable income. Similar provisions will also be made for calculating rebate of tax on charitable donations. Donations to the Prime Minister's Drought Relief Fund will be added to the categories of donations which at present qualify for tax relief without the operation of the ceiling limit of 10 per cent of the total income or Rs. 2 lakh, which applies to ordinary charitable donations.

There is only one other significant change in respect of direct taxes which I might mention here. At present, tax is withheld at source in the case of Indian residents out of their income consisting only of salaries, interest on securities, or dividends. In order to improve and speed up the collection of tax, it is proposed to extend, in the case of residence, the requirement of deduction of tax at source to interest on deposits, loans or other borrowings as well as to fees for professional services and brokerage and commission payable by banks, companies and other organized entities. However, in order to avoid hardship, certain exemptions are being provided.

Posts and Telegraphs

As the House is aware, the Postal and Telegraph Branches of the Posts and Telegraphs Department have been working at a loss. Most of the services we provide on the Postal side are unremunerative. The cost of services has increased appreciably during recent years. To meet the loss partially, it is proposed to raise slightly the rate of postage on parcels, registered newspapers, book packets. etc., as also to raise the registration fee and fees for express delivery, insurance and air mail fee on packets. The additional annual revenue expected from these increases in the postal rates is about Rs. 1.84 crore. On the Telegraph side, it is proposed to raise the minimum charge on an ordinary Greetings telegram and the rate for Express Greetings telegram. The existing rate for non-Press inland telegrams will remain unchanged but the minimum charge will be for the first 8 words instead of first 10 words as at present. The rental for a teleprinter machine is proposed to be raised and revision is also proposed in the rental for part-time telegraph and teleprinter circuits other than those given to the Press. (Details of the principal changes in the Posts and Telegraphs tariffs are given in a separate memorandum.) These measures are expected to yield an annual revenue of Rs. 1.02 crore. Opportunity has also been taken to rationalize the tariffs for various telephone services and make certain minor revisions therein. The additional annual revenue from the various changes proposed in the telephone tariffs is expected to amount to Rs. 1.58 crore.

The proposed changes in the Postal, Telegraph and Telephone rates will not come into effect immediately. The dates from which they will be operative will be notified later. These changes will yield Rs. 4.44 crore in a full year and Rs. 3 crore in the rest of the current year. However, the Posts and Telegraph Revenue is not now expected to come up to the interim Budget Estimate. I am taking credit for an additional Rs. 1 crore only on this account.

Excise and Customs

I turn now to my proposals in regard to Union Excise Duties. The large number of changes that I have made in direct taxes will not make any significant difference to the Government's budgetary position. Import duties have been rationalized on a number of occasions in the recent past including at the time of devaluation last June. Honourable members will recall that although the import tariff was adjusted to take account of the higher rupee cost of imports, the total incidence of devaluation and import tariff was such as to increase substantially the rupee cost of all imports including the import of machinery, raw materials and spares. It is not desirable to give another jolt to the economy by any further increase in import duties. It is therefore inevitable that I should essentially increase the Union Excise Duties for raising additional revenues in order to balance the Budget after allowing for the effect of the reduction in export duties.

I have, however, endeavoured to adjust excise duties in such a way that apart from raising additional resources, these adjustments will be consistent with the requirements of the current economic situation. Thus, in the main, I have endeavoured to increase duties on those items where (a) it is necessary to exercise some restraint on domestic consumption in order to augment export earnings, (b) where high profits are made by industry and trade at present, or (c) where some increase in prices cannot be considered socially undesirable. In particular, I have sought to ensure that prices of essential consumer goods are not affected and that the demand for those industries which are already saddled with considerable excess capacity is not further depressed. Altogether, additional excise duties are proposed to be levied on only a limited range of selected items so that the price situation is not disturbed at many points. This explains in part the sizable increase that I propose in a few cases.

I propose to raise the excise duties on coffee and tea so that the internal consumption of these is restrained and more quantities are made available for export. These increases will yield a revenue of Rs. 8.40 crore in a full year without taking into account the revenue loss from reduction in the export duties on tea to neutralize the effect of the higher excise on export shipments. In the case of tea, the increase proposed is lower on cheaper tea than on the higher priced teas from Zones III, IV and V. Similarly, the increase on the cheaper *Robusta* or *Liberia* variety of coffee is less than on superior varieties like *Arabica*.

Another export item on which I propose to increase the duty is jute manufactures. The existing basic excise duties on hessians and other jute manufactures which are Rs. 250 and Rs. 125 per ton respectively are being raised to Rs. 375 and Rs. 175 per ton. The effect of this will be an additional revenue of Rs. 3 crore annually. As usual, the duties will be rebated on export shipments.

As for tea exports, the effect of higher excise duties on exports will be neutralized by a reduction in export duties by 24 paise per kilogram. While this will fully offset the burden of the excise duty increase on the higher priced varieties, the inferior teas from Zones I and II will have a slight edge over the others as the export duty reduction in their case will exceed the excise duty increases. While making this reduction in the export duty, the rate schedule is also being simplified and rationalized to obviate the practical difficulties in the present system of levy. The effect of the reduction proposed will be a loss of Rs. 4.68 crore annually so that in the net Rs. 3.72 crore would be realized from tea and coffee in a full year.

I propose to re-impose the duty on footwear and parts which have a good export potential. This duty was withdrawn by an exemption as a part of the Budget proposals of February 1965. As before, footwear made without the aid of power or in small power operated establishments will continue to be exempted. This proposal will yield an additional revenue of Rs. 2.75 crore annually.

It is necessary also to restrain the increasing consumption of cigarettes which cuts into the exportable surplus available of cigarette tobacco, an important foreign exchange earner. I, therefore, propose to raise substantially the duties on cigarettes which would yield a revenue of Rs. 28.50 crore annually. The increase proposed on higher priced cigarettes will be more than on the cheaper varieties. Some increase has been proposed also on cigars and cheroots, the yield from which will be about 1 lakh of rupees, I realize that the increase proposed is high. But honourable members and others can at least escape its incidence by reducing consumption and thus perhaps prolonging their lives in the bargain.

Honourable members will recall that at the time of devaluation, excise and customs duties on petroleum products were adjusted in such a way as to avoid any increase in their price. This step meant a considerable loss of revenue for the Government and was, in fact, on par with the subsidies given on foodgrains and fertilizers at the time for the same purpose. Subsidies on fertilizers have already been reduced. I see no reason why the prices of some of the petroleum products also should not be allowed to rise, reflecting the effect of devaluation. I propose, therefore, to increase the basic excise duty on motor spirit from Rs. 451.05 per kilolitre to Rs. 550 per kilolitre and on refined diesel and vaporizing oils from Rs. 441.05 to Rs. 461.05 per kilolitre. The excise duty on petroleum products not otherwise specified is also proposed to be increased from 10 per cent *ad valorem* to 20 per cent *ad valorem*. These increases on mineral oil products will yield a revenue of Rs. 25.60 crore annually. Honourable members would note that these changes will not result in any increase in the price of kerosene, or of diesel oil used by agriculturists or fuel oil which is used by industry. In fact, the increase in the case of refined diesel oil is also marginal of the order of 2 paise per litre.

I come now to a few less essential items of consumption where there is scope for mopping up the high profits made or where even an increase in the price to consumers will not be a great hardship. The basic excise duty on artificial or synthetic resins and plastic materials is proposed to be raised from 20 per cent to 30 per cent *ad valorem* which will yield an additional revenue of Rs. 4.5 crore annually.

Production of rayon and synthetic fibres and yarn has increased and the margin of profit on these is also high. I, therefore, propose to make a substantial increase in the excise duties. The increase on cellulosic fibres and yarn, such as viscose rayon and acetate rayon will be lower than the increases proposed on non-cellulosic fibres and yarn, such as polyester fibre and nylon yarn. The effect of the increases proposed will be an additional revenue of Rs. 22 crore annually.

The excise duty on aluminium has remained unchanged since 1960 and there has been a substantial increase in the indigenous production in the recent years. I propose to increase the basic excise duty on aluminium ingots from Rs. 300 to Rs. 950 per ton, on plates, sheets, circles and strips from Rs. 500 to Rs. 1,450 per ton, and on foils from Rs. 600 to Rs. 2,000 per ton; the duties on pipes, tubes and extruded shapes and sections are also being raised from 10 per cent to 20 per cent *ad valorem*. These changes will bring in an additional revenue of Rs. 10.98 crore annually.

It is my expectation that in the case of aluminium, rayon and synthetic fibres, it should be possible for producers to absorb the increase in the excise duties without any increase in the prices charged to consumers. In any event, producers of these products will not be allowed to increase their present prices without prior consultations with the Government. If on examination, it is found that the additional excise duties cannot be absorbed by producers without a change in the price charged to consumers, we shall be prepared to take appropriate remedial action. However, it is our intention to make sure that to the maximum extent possible, the incidence of higher duties in these cases is absorbed in the profits made at present by producers and distributors.

The present structure of excise on cotton textiles allows such a high margin of preference to powerlooms that it encourages tax avoidance.

This has been pointed out by two successive Committees. I propose, therefore, to raise the excise duty on cotton twist yarn and thread which go into the production of fine and superfine fabrics in the powerloom sector. The increase will be mostly on sized yarn cleared in the form of sized beams required for weaving in the powerloom factories. Rates of duty on sized yarn of fine and superfine counts are proposed to be raised in such a way that the margin of difference in the excise duty between powerloom and mill-made grey fabrics of fine and superfine varieties is narrowed sufficiently. These changes will, however, not affect the handloom sector as the duty on hank yarn is not being raised. The duty on mill fabrics will also remain unchanged, as the increase in the yarn compounded duty is being offset by a corresponding reduction in the grey fabric duty so that the cumulative effect leaves the duty on fine and superfine grey fabrics unchanged. The effect of these changes will be an additional revenue of Rs. 7.8 crore annually.

The only new item on which excise duty is proposed to be imposed this year is rubber piping, tubing and belting. These are being added to the item of rubber products like latex, foam, sponge and tread rubber which are already excisable. The proposed basic excise duty on these new rubber products will be 15 per cent *ad valorem* which will yield an additional revenue of Rs. 1.98 crore annually.

Special excise duties will continue to be levied at the existing rates subject to modifications consequent on the changes proposed in the basic excise duties outlined earlier. The provision for levy of regulatory excise duty is in the same manner as in section 49 of the Finance Act, 1966 is being continued though here will be no levy of this duty at present.

The total effect of all the proposed changes in the excise duties will be an additional revenue of Rs. 115.52 crore in a full year out of which Rs. 22.98 crore will go to the States.

I have not proposed any increase in the import duties. But wherever excise duties have been increased or modified, the countervailing duties on imported goods equivalent to such increases will be chargeable in addition to the existing duties. In the case of imported aluminium ingots and wire bars, the increase in the countervailing duty will not be to the full extent of the excise duty increases but will be lower by Rs. 400 per ton. The increases in countervailing duties will yield an additional revenue of Rs. 7.33 crore annually.

I have already discussed earlier about the reductions in export duties. Taking into account the loss of Rs. 19.01 crore annually under these items and the increases on account of countervailing duties the net loss of customs revenue would be Rs. 11.68 crore in the full year. Taking excise duties and customs duties together, the total additional revenue in the full year will be of the order of Rs. 103.84 crore of which Rs. 22.98 crore will go to the States and balance will accrue to the Centre. However, during the current year, the changes in customs and excise duties will apply not for full year but only for little over ten months. During the current year, therefore, the additional revenue accruing to the Centre will be of the order of Rs. 68 crore. Changes in Posts and Telegraph rates will bring in Rs. 1 crore. The additional revenues of about Rs. 69 crore will more than cover the initial deficit of Rs. 68 crore. Essentially, therefore, the Budget that I am presenting now is a balanced one. Honourable members would also note that in addition to the substantially larger resources made available to the States from the Central Budget, the State Governments will benefit substantially to the extent of almost Rs. 20 crore by the taxation proposed here.

I am well aware that I have been able to balance the Budget primarily by keeping the Plan outlays strictly in check. The provision for the Plan in the Budget, for Central schemes, assistance to the States and to the financial institutions taken together, is not materially different from the level of the first year of the Fourth Plan. At a time when essential consumer goods are in short supply and when it is difficult to reduce subsidies, I could not have provided more for the plan without jeopardizing the chances of restoring price stability. Considerable restraint has also been exercised in regard to non-Plan outlays at the Centre, the bulk of which relate to interest payments which are contractual obligations and to defence.

To those who may have been looking forward to sizable reductions in taxation, I will say only this. As long as we in this honourable House remain responsive to the needs and aspirations of the poor and the downtrodden, there will always be need for the Government, no matter what its persuasion, to command a growing volume of resources from year to year. Some of the resources available to the Government at present, such as the counterpart of PL-480 supplies of foodgrains, etc., should not and indeed cannot continue for long. Before giving any tax concessions, therefore, I would like to be doubly sure that there is at least a reasonable chance of such a step contributing to larger revenues by stimulating activity or savings in general under the present circumstances, I see no clear prospect of this; but we will explore all possible avenues of putting our tax structure on a sound, stable and progressive basis. My main justification for the selective but sizable increases in excise duties is that these are necessary in the interest of exports and for avoiding too deep a cut in Plan outlays. Indeed, even as it is, I do not feel happy about not being able to provide more for the Plan than we did last year. That is why we propose to pursue a more positive policy of encouraging public and private investment activity as soon as the basic supply position in the country improves.

In the meanwhile, I can only hope that this Budget will contribute to the restoration of a climate of stability which is so essential for sound and sustained growth. We are determined also to redouble our efforts to provide a clean and efficient administration. I have every confidence that at this critical juncture, all sections of the community—farmers, workers, businessmen and leaders of public opinion—will give their best so that the spell of stagnation which has been cast upon us for more than two years now is lifted and we begin to move forward once again to our cherished goals.