SPEECH OF
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MINISTER OF FINANCE,
INTRODUCING THE INTERIM BUDGET FOR THE YEAR 1971-72*

Highlights

— *Country-wide Programme of Employment oriented Productive Works*

— *Setting up of Industrial Reconstruction Corporation*

— *Provision in the Budget to support Country-wide Employment Generating Programme*

— *Accelerating the Momentum of Growth to provide for the Needs of the Weaker Sections of the Community*

Sir, I rise to present the Interim Budget for the year 1971-72. The people of India through their representatives in this honourable House have reposed their overwhelming confidence in the Government led by Smt. Indira Gandhi. Those of us who are privileged to belong to this Government and the Party it represents know well that we shall vindicate the verdict of the people only to the extent that we redeem our promise to promote the well-being of the poor and the unemployed in this land.

Introductory

Economic policies in the country have already been given a new and bold orientation towards growth with social justice in the recent past. Our task now is to reassess the entire range of our policies so as to give them a sharp focus of effectiveness, to translate these policies into concrete programmes of action and to implement these programmes with speed and determination. Only so can we accelerate the process of growth, reduce disparities in income, wealth and economic power, generate employment on a massive scale and avoid pressures on prices or balance of payments of the kind which generate internal tensions and increase our dependence on external credits.

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* *Lok Sabha Debate,* 24.3.1971, cc. 116-130.

The Budget of the Central Government is a powerful instrument for achieving our basic objectives. Within the few days that the new Government has been in power, it has obviously not been possible to subject our budgetary position and policies to a searching and comprehensive review. We propose, therefore, to present the Budget proper for 1971-72 in the next session of the Parliament so that the Government and the honourable members have adequate time to review and assess the full implications of what is required at this crucial juncture in our economic history.

My purpose today is a limited one, *viz.,* to propose a vote on account which can be passed before 31 March so that the Government can carry on its business during the early months of the next financial year. The Finance Bill I shall introduce later today contains no new tax proposals.

On the expenditure side, we have taken care to provide for Defence, normal administration, assistance to the States and the Central Plan on a scale which would permit all necessary and worthwhile activities to go forward during the initial period of the vote on account. Even at this stage we propose to provide for some new and significant initiatives such as a country-wide programme of employment-oriented productive works so that their implementation can begin in right earnest. Before the presentation of the Budget proper next May, we shall review the entire position, including the scope for additional mobilization of resources, with a view to provide for a sizable increase in outlays on development and social welfare. The estimates of Plan expenditure, which I shall be presenting today, are tentative; and it will be our endeavour to ensure that the momentum of planned development is accelerated significantly from year-to-year.

Economic Conditions

Economic conditions in the country have been, on the whole, favourable during the past 12 months. A detailed survey of the economic situation will be presented to the next session of the Parliament. The honourable members would, however, permit me to outline briefly the strengths and the weaknesses of the Indian economy during the past year.

For the second year in succession, the over-all rate of growth of the economy is expected to measure up fully to the targets set in the Fourth Plan. National income in real terms which had increased by about 5.5 per cent in 1969-70 is expected to register a further increase of a similar order in 1970-71.

Agriculture

Agricultural growth has been an important contributory factor to the overall growth of the economy. The production of foodgrains which had recorded an increase of 5.8 per cent to 99.5 million ton* in 1969-70 is expected to increase by another 5.5 per cent to 105 million ton in 1970-71. Despite progressive decline in imports, it has been possible to build up a sizeable stock of foodgrains in the hands of the Government which at present amounts to more than 5.50 million ton as compared to less than 4.50 million ton a year ago. The large availability of foodgrains has also been reflected in a reduction of foodgrains prices.

With the exception of sugarcane, however, the production of commercial crops notably cotton and oilseeds, has been inadequate; and this has had adverse effect on industrial production and prices. We have attempted to restrain the resultant increase in prices of major agricultural raw materials by restraint on credit and speculative activity and by larger imports. Our agricultural scientists have achieved some success in evolving new programmes for raising the productivity per hectare of commercial crops. It is necessary to extend this process not only for price stability and reduction in the reliance on imports but also for improving living conditions for most of our poorer farmers in dry areas. I can assure the honourable members that oil promising programmes for increasing yields per hectare in respect of commercial crops will receive our maximum support, both financially and otherwise.

Industry

During the year as a whole, industrial production is expected to increase by roughly 6 per cent. The improvement in performance has been shared not only by capital goods industries, particularly machinery and machine tools, but also by important intermediate goods industries such as aluminum, nitrogenous fertilizers, petroleum products and heavy chemicals and by a wide range of consumer goods industries. The performance of new industries and the small-scale sector has also been encouraging. Nevertheless, the fact remains that the tempo of industrial production in the country needs to be substantially accelerated and to this end the supply of both agricultural and industry raw materials, particularly steel, needs to be rapidly increased. It is with this end in view that the Government proposes to speed up the completion of the Bokaro Steel Plant, to improve the performance of existing steel plants both in the public and the private sector and to set up three new steel plants in the southern States. Preparatory work on these new steel plants

* One ton (also known as metric ton) is equal to 1,000 kg.

is proceeding satisfactorily. Here again, we shall not allow their progress to falter as a result of financial constraints.

New industrial investment propositions approved during 1970 have been much larger in magnitude than during the corresponding period in the preceding year. Production of capital goods within the country is increasing and so are the applications for the import of capital goods. We shall endeavour to accelerate this process of industrial investment so that more employment opportunities are created and there is no shortage in the coming years of key commodities.

The honourable members are aware that during the last year we have taken a number of important policy decisions regarding industrial licensing, control of monopolies and greater emphasis in the policies of the public financial institutions towards assisting the backward regions and the newer entrepreneurs and towards participation in the management and the profitability of the larger units they might assist in the national interest. The vast potential for further industrial growth which has been created by our efforts over the past two decades cannot be exploited fully without bringing in a larger number of smaller people within the network of initiative and enterprise. When large new investments or expansion of existing large units become necessary in the over all interests of the economy, it shall be our endeavour to reconcile growth and efficiency with reduction in the concentration of economic power by an imaginative and flexible use of the concept of the joint sector and by the expansion of the public sector.

Prices

In the latter part of 1970, the price situation in the country became a matter of concern as the wholesale price index from week to week remained higher by as much as 7 per cent or more when compared to the corresponding week in the preceding year. During recent weeks the general price index has shown an increase of 4 per cent or less as compared to the corresponding weeks in 1970. Even so, the price situation warrants continued vigilance and we propose to take vigorous measures to ensure a reasonable degree of stability in the prices of essential goods which enter into mass consumption.

The phenomenon of rising prices has been a matter of concern all over the world and there is hardly any country which has been able to avoid at least a moderate increase in prices of 3 to 4 per cent per annum in recent years. We cannot, however, ignore the implications of an unabated price increase, particularly its effects on the standard of living of the fixed income groups and the weaker sections. It is now generally recognized everywhere that without an active policy of restraint on wages and prices and, therefore, on incomes, we cannot avoid a price spiral which moves continually upwards from one industry to the other. In our circumstances, the shortage of some key new raw materials which we can relieve only to a limited extent by larger imports has also been a major contributory factor. Efforts to increase production in key areas is, thus, an essential part of any price policy. Any attempt to accentuate unavoidable shortages in the short run by speculative activity will also have to be resisted firmly.

The overall growth in money supply has also been larger than what is warranted by the growth in production. The budgetary deficit at the Centre has been of the same order as set in the last Budget. However, commercial banks borrowing from the Reserve Bank remained at unusually high levels for most part of the current year. It was against this background that the Reserve Bank raised the Bank Rate from 5 to 6 per cent early in January and took simultaneously a number of measures to encourage savings and assist deposit mobilization and to discourage bank borrowing from the Reserve Bank except for priority purposes. These measures together with the tightening of selective controls on advances against commodities in short supply have already had a salutary effect.

Financial Institutions

The honourable members would be happy to know that an impressive beginning has been made with the achievement of the objectives that we had in mind when we took the eventful step of nationalizing fourteen major banks in the country. For example, in the first seventeen or eighteen months of nationalization, *i.e.,* between 19 July 1969 and end of December 1970, the public sector banks, *i.e.,* the fourteen nationalized banks and the State Bank of India and its seven subsidiaries, opened, on an average, as many as 145 new branches per month as against 80 per month during the first six months of 1969 and 47 per month during 1968. Roughly 70 per cent of these new branches have been located in centres which had no banking facilities at all so far, the bulk of them being in the rural areas. The Lead Bank Scheme for the intensive development of banking in over 330 districts of the country is making satisfactory progress. Survey reports on about 80 districts have already been prepared and many more are nearing completion. The results of the surveys are being pooled and centres for new branches are being allotted continuously to the commercial banks. The record of the new branches opened in mobilising local deposits and in utilizing them for productive purposes in the same areas has been particularly commendable.

The shift in emphasis in the matter of giving credit in favour of relatively weaker sections of the society which had hitherto been neglected by the banking system has been equally pronounced. Between June 1969 and November 1970, the aggregate number of borrowal accounts in respect of previously neglected sectors such as agriculture, small-scale industries, road transport operators, small traders and self-employed persons and professionals increased from a little less than 3 lakh to more than 11 lakh and the total assistance given to these sectors almost doubled. This process will gather further momentum with the formation of the Credit Guarantee Corporation of India Ltd. early this year. Small borrowers are also likely to benefit once the scheme of differential lending rates, the details of which are currently being worked out by a Committee, is introduced.

The honourable members would appreciate that the ability of the public sector banks to fulfil their obligations to the weaker sections of the community without neglecting the genuine requirements of all productive establishments would depend ultimately on the success in mobilization of deposits and on the ability to scrutinize the end-use of credit so as to eliminate all wasteful and unproductive borrowings. While the nationalized banks have made a good beginning in regard to both these objectives, I am deeply conscious of the fact that much remains to be done in this regard as also in respect of improvement of service to customers. We propose to increase greatly the facilities for meaningful training of employees and so to shape personnel policies as to bring about a greater sense of dedication and harmony among management and staff at all levels. The bank employees have been among the staunchest supporters of bank nationalization for many years and we, on our part, have not been slow in responding to their legitimate demands for improvement in emoluments and working conditions. I hope and trust that individually as well as collectively bank employees will play their part in the vital task of economic regeneration of the country.

The long-term financial institutions including the Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation, the Life Insurance Corporation and the Unit Trust of India have had another successful year. The honourable members are perhaps aware that a new Industrial Reconstruction Corporation with headquarters at Calcutta* is being set up. This Corporation is expected to play a significant part particularly in the Eastern region in and around Calcutta. Wherever possible, the Corporation will endeavour to rehabilitate industrial units which have recently closed down

* Now known as Kolkata.

or are facing the risk of closing down by reconstruction of the share capital, strengthening of management, diversification of products, improvement in technology and labour relations and provision of finance on suitable soft terms. I have no doubt that with the active cooperation and participation of all concerned, this Corporation will play a useful role in reducing unemployment as well as economic and social tensions in a vital area of the economy.

Balance of Payments

The honourable members would be happy to know that by the end of the current fiscal year, we would have repaid all the outstanding drawings on the International Monetary Fund (IMF) that we had to make during the critical years of 1966 and 1967. In addition, we have fulfilled our obligations in relation to an increase in our International Monetary Fund quota from 750 million to 940 million dollars. We have also been an important beneficiary of the scheme for the creation of Special Drawing Rights.

While the overall improvement in our foreign exchange position during the past two or three years has been unmistakable, I cannot help emphasizing that there is no room for complacency whatsoever in regard to our balance of payments. During the current fiscal year, for example, the improvement in our position *vis-a-vis* the International Monetary Fund will be matched by a corresponding decline in our own reserves including Special Drawing Rights so that, on balance, our total reserves position will show little or no improvement. There has also been a substantial increase in import licenses issued for the maintenance of the economy the full impact of which is yet to be felt. Much greater and continuing effort on a wide front would also be necessary if the target of a 7 per cent per annum increase in export earnings set in the Fourth Plan is to be realized from year to year. The outlook regarding the net inflow of foreign aid remains uncertain. This is particularly so in respect of readily usable aid such as non-project assistance and refinancing of our heavy debt repayments.

Against this background, it would be prudent on our part to seize every worthwhile opportunity for export promotion as well as import substitution and to exercise the maximum restraint on the imports and consumption of less essential items. This underlines once more the need for keeping a firm rein over costs and prices, and for the deployment of fiscal instruments to regulate consumption. The priorities in investment also have to be guided by the exigencies of the balance of payments.

Let us not forget that our objective is to combine growth not only with social justice but also with self-reliance. We have a long way to go before we can rest content with our achievement on anyone of these fronts.

Employment

By far the most urgent problem that needs our whole-hearted attention is the problem of unemployment. It is this more than anything else which poses a threat to the stability of our young democracy. There are indications that the employment situation in the country has improved somewhat in response to the revival of agricultural and industrial production over the past two years. But the fact remains that notwithstanding the rapid economic strides we have taken over the past two decades, the twin problem of mass poverty and unemployment remain as acute as ever. In large pockets, there has perhaps been a worsening of conditions. There can be no question that poverty and unemployment cannot be eradicated without a sustained process of growth. But there are several ways of achieving growth; and we have to seek out those which make the maximum impact on unemployment and mass poverty.

It was with this end in view that the Government took a decision sometime back that new employment-oriented schemes should be taken up in each district in the country with a view to provide employment to at least one person in every family. Instructions have already gone to the State Governments to prepare schemes, which apart from creating additional employment opportunities would also add to the productive potential in each district. In the Budget for 1971-72 a provision of Rs. 50 crore is being made to support this country-wide programme of creating more employment opportunities with a productive bias.

The Committee which was set up by the Reserve Bank of India to review the special credit schemes of the commercial banks has offered a number of valuable suggestions for promoting and encouraging self-employment. The recommendations made by the Committee are receiving urgent attention and decisions thereon will be taken expeditiously.

Budgetary Out-turn, 1970-71

The Budget introduced last year by the Prime Minister provided for a substantial increase in Plan outlay at the Centre, massive assistance to the States for a similar increase in Plan outlay at the State level and a series of new initiatives in order to combine growth with a greater regard for the welfare of the most needy sections of society. During the year, we have honoured our commitments to the States and have indeed given substantial assistance in addition to what was provided in the Budget for urgently felt needs such as those for the improvement of living conditions in the Calcutta Metropolitan Area and for relief in the flood and famine-stricken areas in other States. The minimum pension as also family-pension for Central Government employees has already been increased. A similar scheme for family pension as well as lump sum payment in the event of death has already been introduced in respect of Industrial workers who are liable to pay contribution to the Employees Provident Fund at the rate of 6.25 per cent of their pay as well as for workers covered by the Coal Mines Provident Fund and Bonus Scheme Act, 1948. The newly set up Housing and Urban Development Finance Corporation has made a beginning with its activities and it shall be our endeavour to ensure that these activities gather rapid momentum so that there is visible improvement in some of our largest urban conglomerations. The nutritional programmes for children in tribal blocks and slum areas, extension of drinking water and special schemes for small farmers, marginal farmers and dry farming areas have been taken in hand. While the expenditure on selective rural works programmes in chronically drought affected areas is likely to fall short of the target of Rs. 25 crore because of the time taken in preparing and finalizing worthwhile schemes, the honourable members would note that outside this provision a sum of Rs. 100 crore has been provided for natural calamities relief as against the Budget provision of Rs. 50 crore only. Provision is being made in the Budget for the coming year for the continuation of these special schemes.

There is every reason to believe that the step-up in Plan outlay envisaged at the State level during the current year will be achieved and in fact, in several States Plan outlay will exceed the initial provision. The provision for special assistance to the States in a weaker financial position has been increased from Rs. 175 crore provided in the Budget to Rs. 195 crore which is being provided in the Revised Estimates. It is, however, a matter of some concern that despite the enlarged provision for special accommodation, a number of State Governments have continued to incur large overdrafts with the Reserve Bank of India, thus, adding to inflationary pressures in the economy. Considering the fact that funds to be earmarked for special accommodation are going to be smaller in the coming years as per the agreed pattern, it is vitally important that the State Governments, no less than the Centre, observe the strictest fiscal discipline and adopt all possible measures to raise and conserve resources.

As far as the Centre's Plan outlay is concerned, indications are that the actual expenditure in 1970-71 would show a substantial increase of the order of Rs. 180 crore over the actual expenditure in 1969-70. It is a matter of great disappointment, however, that the actual outlay in both the years is likely to show a significant shortfall in relation to the original Budget provisions. Many of the industrial projects in the Central sector, notably Bokaro Steel Plant, the fertilizer plants and petro-chemical projects have not been able to get into stride as rapidly as was expected. Clearly, we need to examine critically our present procedures for the scrutiny and sanctioning of major Plan schemes and to put greater speed in implementation. We propose to review the progress of major schemes included in the Central Plan so that the provision made for them in the coming year is as realistic as possible. Additional schemes particularly those which can be taken up quickly and which can yield quick returns and make an impression at the same time on the well-being of the poorer sections of the community will also be kept ready to make up for shortfalls which become inevitable. I would like to make it absolutely clear to the honourable members that while some re-adjustment of Plan priorities and re-arrangement of Plan programmes are obviously called for, there is no question whatsoever of reducing the size of the Plan. Quite the contrary is our intention.

In the Revised Estimates for the current financial year, tax revenues—particularly revenues under Income and Corporate Tax—are expected to show some improvement over the Budget Estimates for 1970-71. The Revised Estimates for the current year thus show a tax revenue of Rs. 3,198 crore against the Budget Estimates of Rs. 3,134 crore. There is likely to be a similar increase in non-tax revenue as well. This improvement under revenue receipts, however, will be offset by a reduction of about Rs. 26 crore under market loans and of nearly Rs. 50 crore under external assistance. I have already referred, briefly, to the position regarding expenditure in the current year on the Plan and by way of assistance to the States. On non-Plan expenditure, a major item of variation has been the incidence of the interim award of the Pay Commission which was accepted *in toto* by the Government. On the whole, and in part as a result of the incidence of the Pay Commission's interim award, the contribution of Public Sector enterprises to the Budget is expected to be of a lower order. Loans to some of these enterprises for meeting their cash loss and working expenses would also be some Rs. 30 crore larger than what was provided in the Budget. On balance, the budgetary deficit at the Centre in the Revised Estimates for the current year is now estimated at Rs. 230 crore, *i.e.,* roughly of the same order as the Budget Estimate of Rs. 227 crore.

Budget Estimates 1971-72

At existing rates of taxation, total tax revenue next year is estimated at Rs. 3,403 crore, of which the share of the States will be Rs. 850 crore. Non-tax revenue excluding food aid and PL-480 revenue grants is expected to increase from Rs. 908 crore this year to Rs. 966 crore next year. While receipts under market loans and small savings will show an increase, receipts under external assistance are expected to show a significant decline from Rs. 518 crore this year to Rs. 421 crore in 1971-72. The major part of this decline is accounted for by receipts under PL-480. Net receipts from non-project and project assistance also are likely to decline from Rs. 355 crore in the Revised Estimates this year to Rs. 324 crore next year.

On the expenditure side, normal administrative expenditure will show an increase of Rs. 15 crore over the current year's level. An additional provision of Rs. 65 crore is being made for expenditure on Defence both revenue and capital as compared to the Budget provision in the current year. The provision of Rs. 50 crore for employment-oriented schemes to which I have referred earlier; is for the time being treated as outside the Plan. Excluding this, the provision in the Central Budget for the Plan for 1971-72 will be Rs. 1,980 crore representing an increase of Rs. 74 crore over the Budget Estimates for the current year. This entire increase is by way of Plan assistance to the State Government and the Union territories, the provision for which is being increased from Rs. 711 crore in the current year to Rs. 785 crore in coming year. This is in accordance with the discussions held between the Planning Commission and the State Governments regarding their Plans for 1971-72. I have chosen to make full provision for Plan assistance to the State Governments can proceed with their Annual Plans for 1971-72 without having to wait for the Central Budget proper to be introduced next May.

The provision of Rs. 1,195 crore for the Central Plan proper next year is at the same level as in the Budget for the current year although in relation to the likely expenditure, the interim provision now being made would represent a significant increase. I have already made it clear that we have every intention of augmenting the provision for the Centre's Plan in the Budget to be presented in May. We shall also endeavour to make sure that the outlays provided for different programmes in the Central Plan proper are so scrutinized and re-arranged as to avoid the kind of shortfalls which have been a disturbing feature of the past two years. At the same time, the search for identifying areas for securing economies in non-Plan expenditure will be vigorously pursued.

The revenue account next year on present indications is expected to show a surplus of Rs. 114 crore. The fact that we can look forward to a revenue surplus next year without any additional taxation is an indication that the attempt to enlarge the tax base in the last year's Budget has met with significant success. And yet, this is only one part of the story. The capital account is expected to show a deficit of Rs. 354 crore, so that the overall deficit in the interim Budget is estimated to be Rs. 240 crore, or roughly of the same magnitude as in the Revised Estimates for the current year. Since a sizable increase in Plan outlay would have to be provided for in the Budget to be presented in May, and since it would not be prudent to enlarge the quantum of the budgetary deficit, the task of widening and deepening the resource base will have to continue. If the momentum of growth is to be improved and sustained, this is an obligation from which we can scarcely renege.

Sir, the brief outline of the interim Budget that I have just given is only a token of our determination to accelerate the momentum of growth and to provide for the needs of the weaker sections of the community. If it has not been possible in this Budget to give a more positive indication of our intention to increase Plan outlays and to enlarge the resources required for the purpose in a manner which serves at the same time our larger social objectives, the honourable members would appreciate that the Budget I have presented could not take into account the mainstay of all the Finance Ministers namely, the power to raise more revenues and redistribute incomes and wealth by suitable changes in the fiscal system. I hope to receive constructive suggestions during the coming weeks from all the honourable members and from the people at large.

The vitality of the political freedom we won and of the democratic institutions we gave ourselves has been demonstrated in recent weeks as never before. We are now engaged in a new struggle against poverty and injustice, I have no doubt that the people of India will once again prevail and we shall witness soon a new dawn of social and economic freedom in this great and ancient country.

Sir, with these words, I have the honour to commend this Interim Budget to the House.