SPEECH OF
SHRI YESHWANTRAO BALWANTRAO CHAVAN,
MINISTER OF FINANCE,
INTRODUCING THE BUDGET FOR THE YEAR 1971-72*

Highlights

— *Thrust to the Public Sector Outlay for Generating Employment*

— *Setting up a Committee to Review the Self-Removal Procedure Scheme*

— *Introduction of Several New Items into the Orbit of Central Excise Taxation*

— *Introduction of an Excise Levy on a Number of Producer Goods*

Sir, on 24 March this year, I had presented to the honourable House an Interim Budget for 1971-72. I had then assured the honourable members that the Budget proper to be presented in the current Session will provide for a significant increase in the outlays on development and social welfare over and beyond what the Interim Budget had indicated. It is in fulfilment of this commitment that I rise before you, today.

Economic Conditions

Earlier this week, the Government have laid on the floor of the honourable House the Economic Survey for 1970-71. The Survey shows that the economy presents in general a promising picture indeed and that it is now better poised to tackle the tasks ahead than at any other time in recent years. We have once more been able to fulfil during 1970-71, the target set in the Fourth Plan with respect to the overall rate of economic growth. In agriculture, progress has been maintained; foodgrains production has continued to expand at a most satisfactory rate. In the industrial sector, lack of certain essential raw materials has hampered production in some areas and there is still under utilization of

* *Lok Sabha Debate,* 28.5.1971, cc. 347-378.

capacity in a few other areas. But, new grounds have been broken in our import substitution efforts, and recovery from the years of recession in the middle 1960's is considerable. Besides, the growth in the small-scale sector is most encouraging. Enough symptoms abound which indicate that once a significant improvement occurs in the scale of public investments, industry as a whole will surge forward. After a few initial set-back, there has been a remarkable spurt in exports towards the later months of the year. Better organization is, however, still the major outstanding task for both industry and exports. Apart from raw material shortages and procedural delay, we have also to face problems of low scales of operations and high unit cost in some industries. Cost reduction and improvement in efficiency are thus, vital for imparting a new dynamism to industrial growth and exports.

In agriculture too, there is yet no occasion to relent on our efforts. We must continue the search for high yielding varieties of paddy which will prove durable in our varying agro-climatic conditions. Irrigation facilities will have to be expanded to ensure the extensive propagation of double cropping. Our search for better pest-resistant qualities of seeds for millets must go on. The greatest area of responsibility will lie in improving the productivity per hectare of pulses and the cash crops including cotton, oilseeds and jute. During 1970-71, there was a marked stability occasionally, even a certain fall in foodgrain prices. In fact, but for the Government's price support operations intended to protect the farmers, there would have been a steeper order of decline in these prices. Despite this, there was an overall increase in the general price level largely induced by the shortage in the availability of commercial crops. Against this background, we cannot accelerate our rate of growth with price stability unless we raise the output of commercial crops.

On the external side, while we can take credit for repaying our outstanding obligations to the International Monetary Fund (IMF), our balance of payments is not as satisfying as it was at the end of 1969-70. Exports have shown a remarkable improvement. At the same time, with the rising tempo of industrial activity, imports have been going up. Outstanding import license suggest that there will be a further increase in imports during the current year. Because of shortage in steel, cotton, oils and oilseeds, we have had to plan for much larger imports than originally envisaged. Fresh aid allocations have declined during the past year even as the burden of debt servicing has continued to mount. Net aid available to finance imports has, therefore, shrunk. Thus, we can scarcely afford to relax in the matter of a prudent management of our balance of payments.

Reorientation of Policies

The massive mandate which this Government received from the people three months ago was a mandate for socialism, a mandate for rapid economic growth matched by increased social justice. There can be little doubt that social justice must begin with increasing the opportunities of job and work for everyone. A good deal has been done in the course of the past year to initiate measures for creating gainful work for the urban unemployed as well as the rural under-employed. During the past year, the nationalised banks have expanded their scale of operations so as to provide more credit to the hitherto neglected sectors and for purposes of self-employment. They intend to do much more in future. A crash programme for rural employment has been announced and the Government's broad objective is to ensure employment to at least one person in each family in all parts of the country. At the same time, the Government is determined that such schemes for creating employment do not take the form of *ad hoc* measures but contribute to the accretion of additional physical assets in the countryside in the form of new roads, land reclamation, land development, drainage, etc.

The honourable members will also remember that special works programmes were introduced last year to improve job opportunities in the countryside, particularly for the small farmers and in the backward areas. These schemes will continue. In addition, as I shall describe presently, we propose to make a special budgetary provision for assisting the educated unemployed in their search for a constructive opportunity to serve the nation.

The largest stimulus to employment can, however, come only by increasing the tempo of economic activity all round. It is, therefore, essential that expenditure under the Plan is maintained on projected levels and that no shortfalls occur. I am afraid that our performance in 1970-71 in this respect leaves much to be desired. While I am proposing to increase significantly the Plan outlays over what was allocated last year, the emphasis has to be even more on the timely implementation of Plan projects for which budgetary provision is being made.

Faster growth and greater social justice will be elusive goals unless pursued in a milieu of relative price stability. We can scarcely ignore the adverse effects of unabated price increases on both investment and income distribution. Inflation also dislocates attempts to increase the efficiency of production and to lower unit cost, which in turn affects exports. There is, therefore, need for continuous vigilance. The drive for a faster rate of growth in this sense, therefore, blends with the parallel goal of achieving price stability. In this task, we must also keep under examination the operation of the monetary forces.

Our procedure for formulating annual Plans is itself in the nature of a reassessment of Plan priorities and objectives. At the present juncture, when we have just received a new mandate, it is also necessary to make a fresh appraisal of the Plan as a whole. The emphasis from now on has to be on measures which will speed up the process of implementation of projects, foster the expansion of employment opportunities and reduce disparities, including regional disparities. The honourable members are aware of the various steps taken in recent years for encouraging growth, including growth of industry in the backward areas through allocation of Plan assistance and similar fiscal and other means. The same objective has to be kept in mind in the allocation of our foreign exchange resources including those mobilized through external assistance. Schemes intended for backward areas have to be given due consideration at the stage of the formulation of the Plan itself, so that in general allotment of internal and external resources under the Plan, the different parts of the country, and particularly the retarded regions, get their due share.

Our public sector enterprises have deepened and widened the industrial base of the economy and achieved certain basic social objectives; efficient performance on the part of these enterprises is crucial for the Government's overall development effort. The extent of buoyancy that can be added to the economy each year will be largely related to the ability of the public sector to implement the Plan proposals, administrative and procedural delays which hold back progress of these enterprises are thus matters of considerable concern. Similarly, the public sector has to yield a sizable surplus, since this surplus is a key source of future growth. During the past year, a number of steps have been taken to raise the general efficiency of public enterprises. Increasing attention is being devoted for the proper maintenance of inventories as well as of plant and machinery in each public sector unit, and towards tackling the problem of personnel management and industrial relations. In regard to the latter, we would certainly like to have the advice and counsel of trade unions. They have an equal stake in the efficiency of the public sector. I hope that, with their cooperation, it will be possible to initiate a new chapter of industrial relations in our public enterprises.

A large segment of the commercial banks is also now a part of the public sector. Here too, I would seek the cooperation of the trade union leaders to improve the efficiency of the banking system. A beginning was made recently when I initiated a dialogue with the employees and the management of the banks; our discussions covered such areas as credit planning and deposit mobilisation. I propose to continue this practice. The new Board of Directors, the composition of which will be announced soon and which will include representatives of the Award staff and officers, will, I hope, carry forward the task of improving the procedures and policies of the banks along the intended lines.

Each of the nationalized banks has been urged to have an annual credit plan which could ensure that the credit apportioned to the different sectors, and particularly the sectors neglected hitherto, is in conformity with their needs and at the same time within the norms of monetary expansion. The Committee appointed by the Reserve Bank of India to suggest credit schemes for promoting self-employment has made a number of valuable suggestions which are being given shape to by the commercial banks. Another committee which was asked to recommend a scheme of differential lending rates for helping the smaller borrowers and the weaker sections of the community has just submitted its report. A Credit Guarantee Corporation has been set up with effect from first April to underwrite the advances offered by banks to small borrowers. The honourable members are also aware that the Government have recently framed the guidelines for the conversion into equity of loans offered by the public financial institutions. These guidelines should go a long way to promote the establishment of a joint sector to which we attach considerable significance.

The honourable members, I am sure, are happy with our decision to take over, the business of general insurance in the country. This decision marks a culmination of the process which was started when we nationalised the Imperial Bank of India and the life insurance business and to which we gave a major thrust less than two years ago through nationalization of major commercial banks. With these measures, virtually all the savings of the people mobilized by financial institutions can be deployed in accordance with national priorities.

Revised Estimates 1970-71

In the Interim Budget, I had indicated that the year 1970-71 will close with an overall deficit of Rs. 230 crore. The Budget documents I am presenting today repeat from the Interim Budget the Revised Estimates for 1970-71, since actual are not yet available in most cases. According to the latest indications, however, the overall deficit for 1970-71, I am afraid, may be of the order of Rs. 270 crore.

While presenting the Interim Budget, I had occasion to express concern over the fact that a number of States were over-drawing their accounts with the Reserve Bank of India. I regret to say that despite the increased special assistance of Rs. 195 crore to the States during 1970-71, there has been no abatement in the States' recourse to overdrafts from the

Reserve Bank as will be evident from the fact that, at the end of last March, as many as 14 States had overdrafts aggregating to Rs. 260 crore. The special assistance to States, which was designed to help them to fulfil their targets of Plan outlays, is to taper off in the coming years. In this context, the problem of overdrafts assumes an additional gravity. I would appeal to the States to maximize their efforts for raising additional resources and to enforce the strictest discipline on the growth of non-Plan expenditure.

Budget Estimates 1971-72

The honourable members will recall that in the Interim Budget I had provided a sum of Rs. 1,195 crore for the Central Plan for 1971-72, that is, at the same level as in the Budget for 1970-71. I had then stated that the provision for the Central Plan for a current year was to be augmented following a review of requirements and resources. I propose to raise the outlay under the Central Plan by Rs. 155 crore, that is, to Rs. 1,350 crore. This represents an increase of more than Rs. 300 crore over the likely actual level of expenditure in 1970-71. That more important areas where the budgetary provisions have been significantly raised over what was provided in the Interim Budget include shipping (Rs. 16 crore), ports (Rs. 13 crore), roads (Rs. 10 crore), mines and metals (Rs. 9 crore), health and family planning (Rs.12 crore), Posts and Telegraphs (Rs. 11 crore), agriculture (Rs. 32 crore) and food procurement (Rs. 18 crore). I had already provided in full in the Interim Budget the sum of Rs. 785 crore towards Central assistance for the Plans of the States and the Union Territories, as against a provision of Rs. 711 crore in the Budget for 1970-71.

For creating immediate employment opportunities, even a larger Plan outlay may not be enough in the short period. I have, therefore, decided to add a further thrust to the public sector outlay which could both generate additional employment and provide relief to the weaker sections of the community. For the crash programme for rural employment, a provision of Rs. 50 crore was already made in the March Budget. But the problem of unemployment is equally acute among our educated young men and women. We are determined not to permit them to be a lost and frustrated generation. We propose to assist them actively so that they might set themselves up in gainful creative endeavours which would at the same time accelerate the pace of economic progress of the country. To this end, in the Budget I am now presenting, we propose to allot a further sum of Rs. 25 crore for schemes specially designed to suit the educated unemployed including engineers and technicians. The details of these schemes are being worked out in consultation with the Planning Commission and the Ministries concerned.

The honourable members will be glad to know that the provision of Rs. 4 crore made in the Interim Budget for a nutrition programme for children is now being raised to Rs. 10 crore, and included in the Plan. I have no illusion that even this larger provision will mean much more than a beginning in the task of protecting and nurturing the health and welfare of the poor children. I do hope that, in this matter, we will be in a position to do substantially more in the coming year. I might also mention here that we propose to reserve 25 per cent of fresh admissions to public schools for meritorious candidates, who will be offered Government scholarships.

The special provisions made last year for improvement of slums are being maintained. The work of the Calcutta Metropolitan Development Authority will be pursued with vigour. I would also like to state here that the Government would consider sympathetically proposals for a similar improvement in living conditions for slum dwellers in other metropolitan cities and towns; if the State Governments and the municipal bodies could initiate viable schemes for this purpose, we will consider the question of financial accommodation.

Finally, I have to refer to the tragedy that has been enacted over the past two months in East Bengal representing some of the darkest episodes in human history. Already, some three million evacuees have crossed over the borders. In fact, by now this number is nearly 4 millions. It is our hope and endeavour that all these unfortunate people will be able soon to return to their homes and hearths in dignity and honour. Meanwhile, we shall do our utmost to offer succour and relief to all those who have taken temporary shelter with us. It will clearly be beyond our capability to meet on our own the financial burden involved. We regard it as the responsibility of the international community to share with us this burden. In the Budget, I have tentatively made a provision of Rs. 60 crore for providing relief to the evacuees from East Bengal. For the present, we have taken credit on the revenue side to the extent of Rs. 20 crore which we expect will accrue to the Budget by way of external assistance for the relief of the evacuees. In addition, it is our hope that substantial supplies from abroad will be available for providing relief without being routed through the Budget. The honourable members will note that the provision we have made will suffice only for a limited period and that a considerably higher order of assistance from the international community will be necessary.

Let me now sum up the overall budgetary picture as it emerges following the increase in the Plan outlay. The provision for employment assistance, and certain inescapable additions to the non-Plan items of expenditure since the presentation of the Interim Budget in March. Apart from the provision for evacuee relief, I might mention in particular the addition in the expenditure on account of food subsidy, which is now placed at Rs. 30 crore instead of Rs. 10 crore as indicated in the Interim Budget. On present reckoning the Revenue Receipts in 1971-72 are likely to be of the order of Rs. 3,562 crore. Expenditure to be met from revenue will amount to Rs. 3,587 crore. Thus, the revenue surplus, placed in the Interim Budget at Rs. 114 crore will not turn into a deficit of Rs. 25 crore. On the Capital side, the collections under the various small savings schemes are now expected to be Rs. 180 crore as against Rs. 155 crore indicated in the Interim Budget; correspondingly, however, loans to the States will also go up by Rs. 16 crore, so that the net increase under this head will be only Rs. 9 crore. I have, also taken credit for an additional accrual of Rs. 40 crore under PL-480 receipts representing largely the spill-over from 1970-71. Total capital receipts inclusive of loans and advances and transactions under various debt deposit heads are now placed at Rs. 2,024 crore and total capital expenditure, including loans and advances, is estimated at Rs. 2,396 crore. The Capital Budget will, therefore, show a deficit of Rs. 372 crore as against Rs. 354 crore in the Interim Budget. The over-all budgetary gap, taking Revenue and Capital accounts together, will now be of the order of Rs. 397 crore. This takes into account the effect on the Central Budget of the changes in Railway fares and freight rates announced a few days ago and of changes in the Posts and Telegraph tariff to which I will refer a little later.

The honourable members, I am sure, would not like me to leave uncovered a deficit of this magnitude in the Budget. I will, therefore, seek their indulgence if I have now to turn to what all of you, I am sure, are waiting for, namely, proposals to bring down the deficit to a more tolerable order.

The task of raising additional resources through fresh imposts on the people is the least enviable of a Finance Minister's responsibility. If I still have to approach this House with proposals to raise additional resources, it is because of the imperatives of the situation, including the need to augment the Plan outlay, to create additional employment opportunities and to offer succour to the evacuees from East Bengal.

General Principles

In framing these proposals, I have endeavoured to follow certain broad principles. These are:

(a) The tax structure must be simplified and rationalized in such a way that the burden of assessment for the assessee as well as the tax collector and the opportunities for evasion are minimized;

(b) The overall burden of taxation must be distributed amongst the different sections of the community in such a manner that, in the process, there is an appreciable scaling down of the concentration of economic power and reduction in the inequalities in income and wealth; and

(c) The incidence of the fresh imposts should not, as far as possible, disturb the general level of prices of essential goods.

Accordingly, the concentration of the additional tax effort, to the extent feasible, should be on direct taxes, particularly on the affluent groups, and on such categories of indirect taxes as affect there luxury and near-luxury commodities. In so far as we succeed in limiting the burden of indirect levies on the latter group of commodities, we are also able to achieve in part the other objective of improving the structure of income distribution in society.

Tax Administration

The tightening and streamlining of tax administration has two facts. First, it helps to garner additional yield from the existing tax sources and thus makes it less necessary to took for fresh tax heads every year. Second, since it is generally the well-to-do and the rich who avoid and evade taxes, a tightening of tax administration, including closing of loopholes, would compel them to part with a larger proportion of their incomes and assets and would, therefore, further one of the overriding objectives of fiscal policy.

Undervaluation of property has been one of the means to evade wealth tax, capital gains tax and stamp duties. It has also been an important avenue for the circulation of black money. This practice could be greatly discouraged if Governments had the power to acquire properties at price that correspond to what is recorded in sale deeds. Accordingly, we propose to move a Bill during the current session to acquire this power. I hope it would not be considered dishonourable to take a dishonest man at his word.

In pursuance of the Administrative Reforms Commission's recommendations, it is also proposed to sponsor legislation in the current session to discourage *benami* holding of property. If, at the time of assessment, a person fails to declare income from a piece of property or the property itself so as to evade payment of income and wealth taxes, the intended legislation will debar him from enforcing his claim to such property in a court of law.

Pursuant to the recommendations of Administrative Reforms Commission, we further propose to transfer the work of recovery of arrears of estate duty from the State Governments to the Income Tax Department at the Centre. Since, in this matter, we can move only with the concurrence of the State Legislatures, a Bill is being drafted for circulation among the States.

It is proposed to strengthen the Valuation Cell located in the Central Board of Direct Taxes for making valuation of buildings in order to enable it to extend its activities and speed up valuations in cases involving the assessment of wealth tax. For assessment of income tax, under the new procedure which has come into effect from the current year, summary assessments will be completed in most cases which do not involve substantial points of dispute, and only a small proportion of the cases will be subjected to a sample scrutiny subsequently. This will enable the Income Tax Officers to devote correspondingly more time for cases involving substantial revenue.

In the field of excise duties, I propose to set up a Committee to review the Self Removal Procedure Scheme, which has been in operation for the last two to three years, with a view to suggesting improvements which could reduce leakage of revenue. A study Team, which considered the issues relating to over and under invoicing, have made a number of suggestions for checking the leakage of foreign exchange through manipulation of invoice values. The Government will give early consideration to implement its recommendation. With a similar purpose, a comprehensive review is being undertaken to the Foreign Exchange Regulation Act and we propose to introduce soon a Bill to amend several provisions of this Act.

Consultation with States

In the past, at the Centre, we have taken several fiscal steps to discourage the growth and concentration of excessive income and wealth in a few hands in the urban areas. The constitutional prerogative of the Union Government to initiate measures for similar reforms in the countryside is, however, severely restricted. But this does not mean that some of the present anomalies must continue, or that we can be oblivious of growing inequalities in rural areas. Ultimately, the basis of tax has to be the size of income or wealth irrespective of whether it is derived from agricultural or non-agricultural sources.

Similarly, there are constitutional limitations on the powers of the Centre to tax services even when these are of a luxury or semi-luxury character. As the States and the Centre have to share the responsibility of raising resources for economic development, it is the duty and obligation of the Centre to point out to the States untapped resources for mobilization where the Union Government itself is precluded by the constitutional provisions to impose any levy. It is my intention to consult and seek the advice of the State Finance Ministers on the entire range of these issues and to remain in continuous touch with them so that a concerted view is taken.

Direct Taxation

I now come to the new proposals in respect of direct taxation. If we are going to make an effective dent on the problem of income inequalities in our society, we cannot possibly flinch from deploying increasingly the instrument of direct taxation. The proposals that I am outlining will have only a limited yield of revenue in the current year. Over a number of years, however, the cumulative effect of these proposals will be to raise revenue of a considerable order; what is much more significant, they will bring about a significant change in the distribution of disposable income and wealth.

(a) Taxation on Income and Wealth

In the field of personal income taxation, the rate of surcharge in the case of individuals as well as Hindu Undivided Families is being increased from 10 per cent to 15 per cent provided the total income exceeds Rs. 15,000 per annum. In a full year, the impact of the proposal will be to provide an additional Rs. 20 crore to the Exchequer; for 1971-72, the revenue yield is expected to be around Rs. 12 crore.

I also want to take this opportunity to increase the tax on capital gains, which are a species of unearned income. The deduction from long-term capital gains allowed in computing the taxable income of non-corporate assessees is being reduced from 45 per cent to 35 per cent where such gains relate to lands and buildings and from 65 per cent to 50 per cent in respect of other capital gains.

The incidence of tax on long-term capital gains will be increased in the case of companies as well. This increase is being brought about by raising the rates of tax from 40 per cent to 45 per cent in respect of gains relating to lands and buildings and from 30 per cent to 35 per cent in respect of other gains.

I have some fairly stiff proposals regarding wealth tax. If a significant reduction in the concentration of wealth is to be brought about, it is essential that the taxation of wealth is made more rigorous. The honourable members will recollect that last year's Budget made a beginning in this direction by raising the rates of additional wealth tax on urban property. This year, I propose to raise drastically taxation on slabs of net wealth above Rs. 15 lakh, where the rate of tax will now be uniformly 8 per cent as against the current rates of 4 per cent on net wealth between Rs. 15 lakh and Rs. 20 lakh and 5 per cent on net wealth above Rs. 20 lakh. I also propose to include in net wealth for purposes of taxation the first Rs. 1 lakh of wealth in the case of all individual assessees and the first Rs. 2 lakh for Hindu Undivided Families. Thus, while no wealth tax will be leviable unless the net wealth exceeds Rs. 1 lakh in the case of individual and Rs. 2 lakh in the case of Hindu Undivided Families, once they are liable to tax, it will apply to their entire wealth. However, the exemptions in respect of approved financial investments, owner-occupied house and agricultural assets will continue.

To tighten the incidence, the exemption from wealth tax currently available for household or personal jewellery and for shares forming part of initial capital issues is being withdrawn. In the case of conveyances, the exemption will now be limited to Rs. 25,000 in the aggregate. The existing provision in the Wealth Tax Act excluding from aggregation the assets transferred by an individual to the spouse or minor children is being done away with. A similar provision is being made in respect of conversion of assets of individuals into those of Hindu Undivided Families. While all these changes will not naturally yield any revenue this year, in future, the annual additional yield from these measures affecting wealth tax could be around Rs. 14.50 crore. What is more important, they will impose a virtual ceiling on individual wealth at a much lower level than at present.

As a further measure to discourage evasion of tax, conversion of the separate property of an individual into property belonging to a Hindu Undivided Family will be brought within the ambit of the gift tax.

(b) Taxation of Companies

I am proposing several structural changes affecting the incidence of company taxation. While the rates of taxation on the ordinary income of companies are being maintained at existing levels, except for the rates on capital gains, the rate of surtax on company profits will be increased from 25 per cent to 30 per cent in the case of chargeable profits in excess of 15 per cent of the capital.

The practice of offering a development rebate in respect of new investment has had, I feel, a full play. I am, accordingly, serving the required notice that no development rebate will be allowed on ships acquired or machinery or plant installed after 31 May 1974. Whatever the revenue implications of this step—and they are sizeable—will be fully revealed only after 1974-75, *i.e.,* from the Fifth Plan onwards. But, I shall consider myself amply rewarded if advance notice of this change quickens the pace of investment in the remaining part of the Fourth Plan.

At present, in the case of new industrial undertakings, ships and approved hotels, profits up to 6 per cent of the capital employed are entitled to tax exemption for a period of five years. Since debentures and long-term borrowings do not, in any manner, represent risk capital and interest thereon is in any case deducted, it was generosity on the part of the Government to extend the tax holiday provision even to such constituents of capital. I now propose that in calculating the limit of 6 per cent of the capital for purposes of tax-exemption, debentures and long-term borrowings will be excluded. This single measure will provide the Exchequer with Rs. 10 crore during the current year; the yield for a full year will be of the order of Rs. 14 crore.

Priority industries currently enjoy a special tax exemption up to 8 per cent of their profits. I am proposing that the special exemption be reduced to 5 per cent of such profits. In addition, we have also decided to shorten the list of priority industries by excluding aluminium, motor trucks and buses, cement and refractories, soda ash, petro-chemicals and automobile ancillaries. The general economic conditions are now such that it is not necessary that these industries should continue to enjoy special benefits which were accruing to them hitherto. The two measures in relation to priority industries should yield Rs. 8 crore in future years; in 1971-72, the yield is likely to be about Rs. 6 crore.

The deduction of income up to Rs. 3,000 in the aggregate from investments in specified financial assets which was provided for last year will from now on be admissible only to individuals and Hindu Undivided Families.

The concessional tax treatment of dividends received by foreign companies from a closely-held Indian company engaged in a priority industry will be discontinued; the foreign companies will be subjected to tax on such dividends at the usual rate of 24.5 per cent.

I am firmly of the view that the fiscal instrument must be deployed to discourage payment of high salaries and remunerations which go ill with the norms of the egalitarian society. I, accordingly, propose to impose a ceiling on the remuneration of company employees which would be deductible in the computation of taxable profits. The ceiling is being set at Rs. 5,000 per month. Together with the existing ceiling of Rs. 1,000 per month in the case of perquisites, the allowable overall ceiling on remuneration and perquisites, for purposes of taxation, will be at Rs. 6,000 per month. In addition, I am proposing to reduce the tax deductible limits of daily allowance to employees while on tour.

(c) Miscellaneous Concessions

Having already delivered the rough tidings, let me now detail some of the smoother ones. I propose to raise the standard deduction currently allowed for the computation of taxable income, of employees who own a motor-cycle, a scooter or a moped from Rs. 60 to Rs. 75 per month; of others, who do not possess any of these, the standard deduction will be raised from Rs. 35 to Rs. 50 per month.

The quantum of deduction in respect of long-term savings through life insurance provident fund contributions, etc., is being substantially modified. At present, 60 per cent of the first Rs. 5,000 together with 50 per cent of the balance of such long-term savings are tax exempt. I am now proposing that for the first Rs. 1,000 of such savings, the quantum of deduction should be 100 per cent. On the next Rs. 4,000 of the qualifying savings, the proposed deduction will be 50 per cent, and on the balance 40 per cent. The limit for the savings qualifying for deduction will be raised from Rs. 15,000 to Rs. 20,000 in the case of individuals.

As a result of the changes in the standard deductions allowable for conveyance and long-term savings, an employee with an annual income of Rs. 6,000 will be exempt from income taxation provided he saves at least Rs. 400 in the approved form.

The tax concessions for promoting development and export of technical know-how and technical services, which have been available only to companies, will from now on also apply to individuals, Hindu Undivided Families and partnership firms. Certain further tax concessions are also at present available for expenditure on research and development. A Committee has recently been set up by the Government to review the position and make recommendations regarding further fiscal incentives that could be offered to encourage industrial research. The recommendations of the Committee will be given due weight.

The special deduction of income up to Rs. 3,000 from investments in specified financial assets available to individuals and Hindu Undivided Families would henceforth also cover interest on deposits with a cooperative society made by its members. Moreover, the interest paid by a cooperative society to its members on deposits made by them will be exempted from the requirement of deduction of tax at source. Shares of, and members' deposits with, a cooperative society will be regarded as approved investments which are exempt from wealth tax up to Rs. 1.5 lakh. But I propose to withdraw the exemption in respect of such investment in the case of discretionary trusts which are subject to taxation on their net wealth at the flat rate of 1.5 per cent, or at the rate applicable in the case of an individual, whichever is higher.

There are certain minor concessions which I would now mention together. Co-operative societies of workers of those engaged in fishing and allied activities will be exempted from tax on their entire business income. The local authorities deriving income from the supply of water or electricity to villages outside their jurisdiction will be exempted from tax on such incomes. A member of a cooperative housing society, to whom a building or a flat has been allotted under a house-building scheme of the society, will be regarded as the owner of that piece of property for purposes of wealth tax.

The Housing and Urban Development Finance Corporation will be exempted from tax on its income for a period of ten years; the tax-exempt status of the Deposit Insurance Corporation will be extended by a further period of five years.

This brings me to the close of the various proposals relating to direct taxation. After taking into account the concessions, the net yield from the new direct tax measures from 1972-73 will be of the order of Rs. 57 crore. For 1971-72, however, the realization is unlikely to exceed Rs. 27 crore.

Indirect Taxation

I now turn to indirect taxes. My proposals regarding customs duties belong broadly to two categories. The first set of proposals is aimed at rationalizing the rates structure of import duties. The other group of proposals is related to, and consequent on, the arrangements reached with a number of foreign countries who have agreed to release us from the bindings under the General Agreement on Tariffs and Trade (GATT) in the matter of import levy on certain commodities.

(a) Import Duties

The existing rates structure of import duties, I confess, forms a complicated pattern. As of now, there are seven *ad valorem* rates of duty in force: 15 per cent, 27.5 per cent, 35 per cent, 40 per cent, 50 per cent, 60 per cent and, finally 100 per cent. In order to introduce an across-the-board simplification and to remove existing anomalies, I propose to have only four effective rates of import duty, namely, 30 per cent, 40 per cent, 60 per cent and 100 per cent.

I propose to bring in all items of machinery within the orbit of 30 per cent import levy. While this would imply a marginal increase of 2.5 percentage points in the rate of duty in respect of project imports, the decrease of duty by 5 percentage points in respect of machinery in general would provide relief to smaller industrial units and units manufacturing equipment which import a part of the components and to all those who need to import small items of machinery by way of spares or balancing equipment. The equalization of rates for all kinds of machinery would also simplify assessment and, I hope, speed up assessment work. Items such as agricultural machinery and implements, dairy and poultry farming appliances would also now attract duty at the rate of 30 per cent instead of 15 per cent.

Certain basic raw materials and non-ferrous metals will from now on be liable to duty at the uniform rate of 40 per cent. Iron and steel and unwrought copper will, however, attract the lower duty of 30 per cent.

It is proposed to eliminate the present rate of duty of 50 per cent and levy instead a higher rate of 60 per cent on most items. A similar upward revision has already been made in the course of the past two years with respect to the duty on chemicals, drugs, medicines, electrical and non-electrical appliances. What I am proposing now, therefore, is to bring all similar items together under the umbrella of the same rate of duty.

Till now, certain items used by the more affluent sections of the community, such as automobile components and dry fruits, were liable to a duty of 60 per cent instead of 100 per cent which is the standard rate for most imported consumer goods. This anomaly is now being removed. In addition, in view of the increase in the c.i.f. price as well as the high margin of profit, the specific rate applicable to cloves is being increased from Rs. 18 per kilogram to Rs. 60 per kilogram.

As a result of the release from the GATT bindings, we are now in a position to either impose a duty, or raise the existing rates of duty, on a number of items, including agricultural tractors, earthshifting machinery, staple fibre excluding yarn raw wool, unwrought copper, zinc and pig lead. I propose to avail of the opportunity. In view of the high margin of profit on imported staple fibre I am proposing that the duty on it be fixed at 100 per cent. On unwrought zinc, pig lead and raw wool, the duty will be 40 per cent and on copper, 30 per cent. Given the large disparity between the prices of imported and indigenous tractors, I have also decided on a levy of 30 per cent on imported agricultural tractors. The same rate of duty will apply on earth-shifting machinery.

Taking into account the effect of the rationalisation of import duties as well as the adjustments following from the release from the GATT bindings and the countervailing levies related to changes in excise duties to which I would soon turn, we should be able to get additional revenue to the extent of nearly Rs. 54 crore during the remaining part of the year.

(b) Excise Duties

I now come to the proposals with respect to excise duties. Pursuant to the decision to continue the scheme of levying additional excise duties in lieu of sales tax on sugar, textiles and tobacco we are committed to raise the over-all incidence of these additional duties to 10.8 per cent on the value of clearances by the end of the Fourth Plan period. Since this target has to be attained by 1973-74, it has become necessary to make a substantial beginning in the current year itself. For the present I have decided to concentrate on cigarettes and, to some extent on textiles.

There comes perhaps a time in the life of every smoker when the concern for his own health begins to outweigh the loyalty to an old and faithful companion. For those who cannot shake off their consuming passion, there is at least the consolidation that the more taxes they pay, the more they serve the common cause. I am, therefore, fortified in my decision to increase once again the taxation on cigarettes by the thought that whichever way my smoking friends react, there would be a net gain to national welfare. In place of the existing three slabs of duty on cigarettes, I propose to have five. By suitable adjustments of the basic and additional duties on these slabs, I hope to raise during the current year Rs. 33.2 crore of which Rs. 16.4 crore would go to the States by way of additional excise in lieu of sales tax. The effect of the proposals would be a marginal increase in the price of the cheaper varieties of cigarettes, but a much sharper increase for the more expensive varieties.

Textiles, particularly coarse and medium varieties of cloth, are a basic necessity, and their prices rose rather inordinately in 1970-71. Despite other constraints I have, therefore, decided that the impose on textiles should be modest this year. I propose to step up slightly the additional excise duties on medium A and medium B varieties of cotton textiles from 4.8 paise to 6 paise per square metre and also to round off the additional duty leviable on coarse cloth from 3.6 paise to 4 paise per square metre. With respect to superfine and fine cloth, however, I propose to go much further, and raise the rates of the additional excise duty to 25 paise and 15 paise respectively per square metre. These several measures should fetch an additional revenue of Rs. 4.90 crore which will accrue entirely to the States.

My other major proposal in regard to excise is in the area of motor spirit, solvents and a number of other minor lubricants. In view of the rise in, international oil prices, there is need for the maximum economy in the utilization of petroleum and petroleum products if we are to conserve our scarce foreign exchange resources. No doubt, there will be a certain hardship involved in this, but I am afraid it has to be borne by our people. To curb consumption, I therefore, propose to increase the duty on motor spirit by Rs. 200 per kilo litre or 20 paise per litre. This measure will fetch an additional revenue of Rs. 36.3 crore in the current year.

There is extensive misuse of certain special boiling point spirits, otherwise known as solvent oils, as adulterants for motor spirit. To discourage this practice I propose to raise the duty on solvents from the present rate of Rs. 45 per kilo litre to Rs. 845 per kilo litre. This measure will yield Rs. 4.25 crore during the current year.

Similarly to prevent the adulteration of mineral turpentine oil with superior kerosene, an extra duty of Rs. 100 per metric tonne is being imposed on the former. In the case of liquid petroleum gas, I am proposing to abolish the *ad valorem* duty of 25 per cent and, instead, impose a specific duty of 25 paise per kilogram. The rate of duty which at present obtains on lubricating stock oils and greases directly derived from refined petroleum would also from now on apply to blended lubricating oils, greases and calcined petroleum coke. However, the base petroleum products used in the manufacture of the latter items would be given a credit for the duty that might already have been paid. I expect these measures to yield an additional revenue of Rs. 9 crore during 1971-72.

At present, carbon dioxide is liable to duty, but other gases, such as oxygen, chlorine, ammonia and refrigerant gases are exempt; these exemptions are being withdrawn. However, oxygen for medicinal use and ammonia used in the manufacture of fertilizers would continue to be exempted from duty. This measure is expected to yield Rs. 1.6 crore.

I also propose to raise the basic duty on glassware to 20 per cent and on sheet and plate glass to 15 per cent. Glass shells, glass slabs and laboratory glassware would be left untouched. While the duty on sanitary and glazed wares was revised last year, tableware and chinaware were left undisturbed. This deficiency, I propose to make good this year; both these items will now attract a uniform duty of 20 per cent. These two changes are estimated to provide us this year with additional revenue of around Rs. 3.15 crore.

While air-conditioners pay a duty at the rate of 53.3 per cent till now, the evaporative type of coolers have been exempt from duty. This discrimination deserves to be removed. However, I am proposing a duty of only 25 per cent on them and, at the same time, exempting them from the payment of the special excise duty. Vaccum flasks, similarly exempt till now, will also have to bear a levy of 15 per cent *ad valorem*. The gain to revenue would be Rs. 54 lakh in the current year.

It is proposed to revise the duty on soap from the present effective rate of 11.4 per cent to 15 per cent. This would result in only a marginal increase in the price of toilet soaps. Household and laundry soaps are being left untouched. Because of partial exemption, the effective rate of duty on surface active agents works out to even less than that on ordinary household and laundry soaps. It is, therefore, proposed to abolish the partial exemption and re-store the full statutory rate of duty on these products. These two revisions—relating to soap and surface active agents—are likely to yield a revenue of Rs. 2.55 crore for the rest of the year.

It is also proposed to tax certain other luxury items. Latex foam sponge, used extensively in the manufacture of foam mattresses, bears at present a relatively low basic rate of duty of 20 per cent *ad valorem*. I propose to double this rate of duty. A similar levy will be imposed on polyurethane foam as well as certain products made out of this particular foam. The basic rate of duty on plates, sheets and strips of rubber is also being stepped up from 20 per cent to 25 per cent *ad valorem*. These measures would bring in Rs. 2.6 crore of additional revenue in 1971-72.

The duty on crown corks and pilfer-proof caps is proposed to be raised from 1 paisa to 2 paise each. This measure is expected to yield Rs. 1.9 crore.

A few other changes are being proposed by way of rationalisation. These include an excise levy on dehydrated canned and bottled vegetables and on preparations of glucose and dextrose, the removal of the special concession of 50 paise per kg. on the basic excise duty for certain varieties of staple fibre, the rounding off of the duty on cement from 23.76 per cent to 24 per cent, revising the duty upwards on woollen yarn and shifting a portion of the incidence to wool tops, revising the rates of duty on electric lighting bulbs other than those of 60 Watts and less revising the rates for fluorescent tubes as well as for electric fans and industrial fans other than those of a diameter not exceeding 16 inches, and removal of the concession of Rs. 500 per ton on copper use in the manufacture wires and cables. These assorted measures would yield a combined revenue of over Rs. 6 crore.

I have talked earlier about the need for the rapid reduction of income inequalities not only in the urban areas but also in the countryside. One way in which this could be brought about is through levying selectively indirect taxes on products and equipments used in agricultural operations by the richer sections of the peasantry. I propose, therefore, to tax agricultural tractors by charging a duty of 10 per cent *ad valorem*: this levy is likely to fetch a revenue of Rs. 3.4 crore in the current year.

To augment revenue, several new items are being introduced into the orbit of Central excise taxation. The commodities and the rates of duty are being so chosen that the net effect of these imposts on the price level will be negligible. The items I propose to bring in include perfumed hair oil, shampoos, lipsticks, pressure cookers, playing cards, zip fasteners, photographic cameras, cinematographic projectors and linoleum. Very few of us perhaps would like to venture an opinion on the contribution made by perfumed hair oil, lipsticks or playing cards to the style, pace and quality of living in modern India. But the honourable members will, I am sure, agree with me that most of these commodities constitute the appurtenances of high living; excise levies on them will have little effect on the level of living of the overwhelming mass of the community.

For the same reason, I am proposing a levy on certain ready-made garments which are mostly purchased by the well-to-do. However, in order to protect the small manufacturers, this levy will be confined to ready-made garments manufactured with the use of power and sold under registered trademarks or brand names. As a further concession to the small producers, clearances up to a specified value would be excluded from the excise provided the aggregate annual output in the unit concerned does not exceed a ceiling.

I also propose to introduce an excise levy on a number of producer goods such as ball and roller bearings, bolts, nuts and screws, electric insulation and non-medical adhesive tapes, welding electrodes, grinding wheels and motor starters, as it is difficult to tax the end-products of these items and we are currently losing some potential revenue. The rate of duty will be 10 per cent. It is also proposed to charge a duty of 10 per cent on electric supply meters, typewriter ribbons, mosaic tiles, fork lift and platform trucks and certain motor vehicle parts accessories. Wherever necessary, the interests of the small producers will be protected by a concession similar to the one I have mentioned in the context of ready-made garments.

Four more chemicals are being added to the list of excisable chemicals, and will be liable to duty at 10 per cent. A similar levy will also be imposed on camphor and menthol.

These various measures of new excise levies together are likely to yield Rs. 15 crore.

I now want to announce an important new measure intended to meet the cost of the programme for children's health and nutrition. I propose to levy a duty of 10 paise per kg. on Maida processed by roller flour mills in the organized sector. This particular flour is usually consumed by the richer sections of the population and otherwise used in the manufacture of sweets; the consumption of bread, another item in the manufacture of which Maida is used, is again mostly confined among the higher income groups. I am sure the slight additional expenditure which this levy would imply would be cheerfully borne by these consumers since the resultant revenue of Rs. 7.4 crore which will accrue to the Centre will be earmarked for being spent on the welfare of children. In addition, the States also will receive nearly Rs. 1.8 crore from this measure.

I will now refer to a few excise concessions which I have considered desirable. To promote the use of minor oils in the manufacture of soap and thereby reduce our dependence on imported tallow and oils, I propose to reduce the incidence of the duty on soap wherever there is certain minimum use of minor oils like *neem* and *sal*. The rate of duty on sodium silicate will be reduced to encourage the output of cheaper varieties of soap in the small-scale sector. In order to foster the greater utilization of cottonseed oil, the existing excise rebate for using this oil in the manufacture of vanaspati will be increased. A similar concession is also proposed to be accorded to rice-bran oil.

With a view to providing some relief to the small and marginal units using powerlooms for manufacturing cotton fabrics, I propose to reduce the rate of compounded levy on units where not more than 4 powerlooms are installed from Rs. 50 to Rs. 10 per loom per annum. In the case of units employing more than 4 powerlooms, the compounded levy will be half of the existing rates. The concession at present available to independent processor will be rationalized. There are also a couple of marginal concessions for the manufacturers of embroidery and leather clothes.

All these reliefs and concessions together would cost the Exchequer around Rs. 1.5 crore for the remaining part of the year.

This brings me to the end of the rather long enumeration of the proposed changes with regard to excise duties. Taking all the proposals for excise duties together, the total yield for the rest of the current financial year will be roughly Rs. 89 crore for the Centre and Rs. 43 crore for the States.

(c) Other Measures

I am afraid, having dealt with direct taxes, customs and excises, I am not quite though as I have yet to propose to the honourable members a new measure which is not quite in the nature of an excise levy. This is a tax which I propose to impose on foreign travel. The levy will be at the rate of 20 per cent *ad valorem* on all tickets purchased in rupees; tickets paid for in foreign exchange will be exempt. The only other major exemption would be for students and scientists. The estimated revenue from this measure which would come into effect from a date to be notified later, would be about Rs. 7 crore. In case any honourable member feels that I am taking away what many airlines have graciously offered by way of concessional fares, I wish to assure that with the proposed *ad valorem* tax, the value of the concession in absolute terms would in fact be enhanced.

And, now I come to the final set of proposals I have to announce on behalf of my colleague, the Minister for Communications. The honourable members are aware that Posts and Telegraphs branches have incurred heavy losses in the past and are anticipated to show a loss of as much as Rs. 15 crore during the current year. Both the Tariff Inquiry Committee which was set up to examine the rates structure of the Posts and Telegraphs Department and the Administrative Reforms Commission have recommended the need for financial viability and the desirability of surplus being generated from the operation of Posts and Telegraphs. A certain upward revision in tariffs is, therefore, inescapable. While proposing this revision, we have kept in view the problems faced by the less affluent sections of society; items like postcards, letter cards, and letters have, thus, been kept completely out of the purview of the upward adjustment of rates. Most of the proposed increases relate to registration fees for postal articles, and telegraph and telephone tariffs. The registration and parcel fees are being raised by 5 paise and 10 paise respectively for 400 grams. There are also minor adjustments in the charges for telegrams consisting of more than 8 words as well as in the rentals for telephones, teleprinters and telex services. The Memorandum detailing the proposed charges is being circulated along with the Budget papers.

So far as the Union Budget is concerned, the various proposals outlined would imply, for 1971-72, additional revenue aggregating to Rs. 177 crore. The budgetary gap of Rs. 397 crore I had indicated earlier will accordingly be now scaled down to Rs. 220 crore.

I have now come to the end of my labours. Quite candidly, it has been for me a difficult Budget to frame. There are a wide range of fiscal proposals and, in some directions, the impact of the new levies cannot but be considerable. Let me remind the honourable members, however, that the price rise in the economy has been sufficiently disquieting last year, and the budgetary deficit must, therefore, be kept within reasonable limits. In addition to the obligation that we owe to the community to increase substantially the size of the Plan and to provide for greater employment opportunities, there is, at this stage, still the imponderable factor of the developments in East Bengal and the rising flood of evacuees.

Fiscal policy, however, is not a matter simply, or even primarily, of raising resources to meet the inescapable demands on the national Exchequer. It must serve larger objectives as well and guide the economy in desired directions. It must in particular, make a significant impact on existing inequalities in income, wealth and economic power and reduce ostentatious consumption. It is for this reason that in the field of direct taxation, I have introduced a number of measures whose significance to revenue in the short run may not be so great but which are vital for the achievement of a just society. In the field of indirect taxation also, objectives such as those of reducing pressures on our balance of payments have been kept in mind; and care has been taken to ensure that only a small proportion of the additional burden is borne by the common man.

It is hardly possible to claim that a new social and economic order can be ushered in through budgetary policy alone much less through a single Budget. In a Budget of the magnitude it is also difficult to reconcile all the objectives we have set before ourselves. But, I hope I have not flinched from the duty of trying to meet the immediate and urgent requirements while furthering our accepted objective of a truly socialist society.