SPEECH OF SHRI YESHWANTRAO BALWANTRAO CHAVAN, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1973-74.*

Highlights

— *New Programmes for Generating Employment Opportunities and Creation of Durable Assets*

— *Raising Resources for the Central Plan*

— *Aggregation of Agricultural and Non-Agricultural Income for Determining the Rate of Income Tax*

— *Exemption of Income of Credit Guarantee Corporation of India from Tax*

— *Preferential Tax Treatment to Industries to be set up in Backward Areas*

— *Introduction of Initial Depreciation Allowances for Selected High Priority Industries*

— *Increased Provisions for Employment Programmes*

Sir, I rise to present the Revised Estimates for 1972-73 and the Budget Estimates for 1973-74.

The Budget of the Central Government is not merely an exercise in balancing revenue and expenditure. Its primary role today is to be a major instrument for the realization of our basic social and economic objectives. This Government is firmly committed to accelerate economic growth in a framework of greater social justice and self-reliance. The Budget proposals which I shall present later in my speech are aimed at achieving these basic objectives. For a proper appreciation of these budget proposals in the broad context of the strategy for realising these objectives, it is necessary to bear in mind, as background, the state of the economy in 1972-73 and the economic prospects for 1973-74. The Economic Survey which was presented to Parliament a few days ago covers this territory

* *Lok Sabha Debate,* 28.2.1973, cc. 284-317.

fairly extensively. I shall, therefore, be brief in describing the salient features of the current economic situation.

Economic Conditions

With the return of refugees to their homeland and the emergence of Bangladesh as a friendly independent sovereign country, we had hoped that 1972-73 would be a year which we would devote our entire energy and resources to the unfinished task of economic and social reconstruction and development. We did certainly recognize from the beginning that 1972-73 was not going to be an easy year for the economy. In the course of my Budget speech last year, I had pointed out that while the resilience and the strength displayed by the economy in 1971-72 would give us confidence, there was little room for complacency, I had at that time warned that the events of 1971-72 would continue to cast their shadow in 1972-73. The strains and stresses through which the economy has had to pass in the current year could not, however, be wholly foreseen at that time.

Once again there was a failure of the monsoon in the summer of 1972 which created severe drought and scarcity conditions in several parts of the country. This has led to extensive loss of crops, shortage of fodder, and paucity of drinking water, creating conditions of grave hardship and suffering in parts of the country. The Government has been deeply concerned over the human suffering resulting from these unprecedented adverse conditions. In order to meet this challenge a large effort has been made to provide the maximum resources possible for the relief of those living in the affected areas, and we will have to continue these efforts so long as they are required. Unfortunately, this is the second year in succession that the production of foodgrains during the *kharif* season suffered a serious setback. This has adversely affected the procurement of grain for distribution by the Government. The drought has also adversely affected the production of important commercial crops, such as oil seeds and raw jute. As a result, imbalances in certain strategic sectors of the economy producing the basic necessities of life have been magnified.

The abnormal increase in prices that took place in the current year is basically a reflection of these imbalances. The wholesale price index during the period April 1972 to the end of January 1973 registered an increase of 9.1 per cent, as compared to an increase of 3.7 per cent during the corresponding period of 1971-72. The rise in the prices of food articles was the crucial factor contributing to the increase in the index wholesale prices. I am very conscious of the fact that movements in prices during the current year have added greatly to the hardships suffered by the weaker and more vulnerable sections of our society. A major thrust of the policy of this Government is to reduce these hardships.

I do not intend to describe in detail the measures adopted by the Government to arrest the price rise and to relieve the distress caused by the drought. The honourable members are aware of the determined efforts made by the Central and the State Governments to stand by the people affected by the drought. Whatever resources in terms of money are required are being made available. The Public Distribution System has been strengthened. A country-wide emergency programme was launched to increase agricultural production in the current *rabi* season to offset the loss of *kharif* output for which Rs. 190 crore were made available to the States. On present indications the production of foodgrains during the *rabi* season will register a significant increase and I am confident this will result in a reduction of the pressure on prices. As a precautionary measure the Government has arranged to import about two million ton* of foodgrains during the early part of 1973 at a cost of about Rs. 160 crore in foreign exchange. But there is no scope for complacency. The emerging price trends will have to be kept under continuous watch. Arrangements for procurement and public distribution will have to be further strengthened and streamlined.

The events of the current year have brought into sharp focus the continued heavy dependence of Indian agriculture on the rains. This is a pointed reminder of the urgent need to expand the area under irrigation and to evolve suitable techniques of dry farming as essential elements of an agricultural strategy designed to reduce the instability of crop production. The large scale distress in the drought affected areas has served to emphasize once again the pressing need for better regional balance, and evenness in the level of development.

Against this background, the sharp acceleration in the rate of growth of industrial production during the current year is heartening. On present indications the index of industrial production will register an increase of close to 7 per cent over the year, against an increase of 4.5 per cent in the previous year. But, for a continuing shortage of power, the outcome would have been still more favourable. While a number of industries have contributed to industrial recovery, the rapid growth of textiles, after a decline in the preceding year, was the most important favourable factor. Sustained growth in industrial production in the coming year will require a more broad-based effort than in the past.

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

I am glad to say that the export front looks encouraging. Exports increased by 23 per cent during the first eight months of 1972-73. This is a good performance, particularly when allowance is made for the uncertainties that have prevailed in exchange markets during the greater part of the current year. It would be well to remember, however, that our exports were helped by certain factors whose continuation cannot be taken for granted. The export of engineering goods on which we had placed high hopes have lost some of their earlier momentum. Some of the principal factors, like lesser utilization of external assistance and large payments for imports of foodgrains and industrial inputs like iron and steel, oil, and fertilizer, are likely to exert greater pressure on our foreign exchange reserves. Clearly, foreign exchange is still a major constraint on our development. If self-reliance is to become a living reality, there must be a massive increase in our exports, coupled with adequate expansion in the domestic production of such vital import substitutes as iron and steel and fertilizers and increased efforts in exploring indigenous sources of supply of oil. The behaviour of agricultural production, both of foodgrains and commercial crops, will also be a major determinant of the state of the balance of payments.

Despite a rapid growth of industrial production and of exports, the growth of real national income in the current year is likely to be small due mainly to lack of adequate growth in the agricultural sector. In order to retain a proper perspective of the situation, it must not be forgotten that fluctuations in the national income are not an uncommon phenomenon in countries heavily dependent on agriculture. Such fluctuations must not lead us to draw pessimistic conclusion about the country's basic economic health or its development potential and prospect, which are sound.

As the honourable members know, the Government, after a careful assessment of all relevant factors, has fixed the growth rate for the Fifth Plan at 5.5 per cent per annum. The criticism is made that this target is too ambitious considering the past trends. I am, however, entirely unable to accept that the target is unrealistic. Purposeful planning, after all, is not simply an extrapolation of the past trends. The political and economic development of India since independence has belied the gloomy prophecies of many a distinguished commentator. More than once it has been demonstrated that the economy and polity of India have the resilience to bear hard shocks and emerge even stronger. The events of 1971 are an impressive indication of what can be achieved by collective will properly channelised. The task now before the nation is to bring a similar sense of discipline, determination and hard work to bear on its quest for a better quality of life for the common man and a self-reliant economy.

The immediate tasks for the economy may be summarized as follows: Firstly, inflationary pressures have to be contained through a judicious combination of demand management, increased production of basic wage goods, and the strengthening of the public distribution system. Secondly, in order to improve growth prospects vigorous efforts have to be made to increase the rate of savings and investment. The third most important task is to achieve greater viability on the external front, which can only be achieved through higher exports and restraint on imports. Fourthly, there must be a rapid increase in employment opportunities, both in rural and urban areas, to make an adequate dent on the problem of unemployment. Determined efforts are necessary to reduce disparities in income and consumption. Finally, to secure greater social justice, programmes designed to provide minimum basic amenities to all citizens must be expanded in scopes and coverage. These are the principal tasks which I have kept in mind in framing the Budget proposals for 1973-74.

Revised Estimates 1972-73

The setback in the agricultural sector due to the failure of the monsoons had its inevitable impact on the budgetary position of the Government during the current year. A sum of Rs. 150 crore had to be provided for assistance to the States chiefly for the development of minor irrigation under the emergency agricultural production programmes. In addition, the provision for short-term loans for seeds, fertilizers, and pesticides, was raised from Rs. 60 crore to Rs. 100 crore. Relief operations had to be organized on a massive scale in all the areas affected by natural calamities. The provision for assistance to States for relief of natural calamities had to be stepped up from Rs. 75 crore to Rs. 220 crore. I feel it will be useful to draw up more effective plans for dealing with drought and natural calamities which unfortunately are at present a feature of the Indian economic scene.

The Budget made a provision of Rs. 720 crore for the Central assistance to the States for State Plans. To accelerate the work on certain irrigation and power projects, and with a view to bridge the gap in Plan resources, it has been decided to step up this assistance by another Rs. 55 crore. In addition, special accommodation by way of loans continued to be provided to certain States to meet inescapable deficits in their non-Plan accounts and for specified projects. The additional burden on the Central Budget on this account in the current year is likely to be Rs. 153 crore. It was necessary to make this enhanced special accommodation as, otherwise, the resources available to such States for implementing their Plan would have been reduced.

I had mentioned in my Budget speech last year that a scheme for liquidation of overdrafts taken by the States had been evolved in consultation with the Reserve Bank of India to ensure that overdrafts were not used by the States as a mode of financing their expenditure. The scheme was put into operation with the effect from 1 May 1972 and has worked effectively during the year. I wish to say that we would not have solved the problem of States overdrafts but for cooperation extended by the State Governments in this matter. However, this was not achieved without paying a price. The overdrafts to States amounting to Rs. 642 crore at the end of April 1972, were cleared by providing ways and means advances and advance release of payments due to States. A small portion of these ways and means advances has been recovered in the course of the year and the recovery of balance amount of Rs. 421 crore will be spared over the next few years. This arrangement really represents the taking over of the past deficits of the State Governments on to the books of the Central Government with a corresponding adjustment in the books of the State Governments, thus, increasing, though notionally, the deficit in the Central Budget by this same Rs. 421 crore.

The Defence Expenditure for the current year, now estimated at Rs. 1,600 crore, shows an increase of Rs. 192 crore as compared to the original Budget provision of Rs. 1,408 crore. Other commitments contributing to expenditure higher than estimated in the Budget proposal this year are—additional food subsidy to the extent of about Rs. 17 crore, payments on account of the take-over of general insurance, coking and non-coking coal mines and the Indian Copper Corporation to the extent of Rs. 56 crore, and Rs. 18 crore for rehabilitation assistance to about 8 lakh people on the Western front affected by December 1971 war with Pakistan.

The honourable members will, however, be glad to know that we have not allowed these unforeseen and heavy commitments on account of drought relief and emergency production programmes to come in the way of Plan expenditure. The Budget for 1972-73 had provided for a big step-up in the Plan outlay. Taking Central and Union Territories Plans and assistance to State Plans together, the provision was Rs. 2,624 crore, which represented an increase of nearly Rs. 500 crore over the 1971-72 Plan provision. I am glad to be able to say that there will not be any material short all in Plan expenditure this year. On the other hand, the Railways Plan expenditure for the year will register an increase of Rs. 34 crore over the Budget Estimates.

Special Nutrition Schemes started in 1970-71 for providing supplemental nutrition to vulnerable sections of the population have gained momentum, and currently 32 lakh pre-school children and expectant and nursing mothers in urban slums, tribal areas and rural areas are deriving benefits from them.

The scheme for provision of home-sites to workers in rural areas is also gathering momentum. The Central assistance for providing over 2 lakh house-sites has already been sanctioned. States are also assured of assistance for *Basti* improvement schemes on the analogy of the Calcutta Improvement Scheme.

Receipts under the Income and Corporation taxes are now estimated at Rs. 83 crore more than the Budget Estimates. Customs revenue may exceed the Budget Estimates by Rs. 90 crore. Union Excise duties may, however, show a decline of Rs. 37 crore as compared to the Budget Estimates because production may be affected on account of prevailing drought conditions and the power shortage.

In order to meet the heavy commitments to the States and to mop up the surplus investible funds of the banks and other financial institutions, we have taken recourse to three additional floatations of market loans during the current year. As a result, there will be an improvement in the receipts under this head by Rs. 263 crore—the realization being Rs. 478 crore, against the provision of Rs. 215 crore, made in the original Budget proposals. Collections under the various Small Savings Schemes are now expected to reach Rs. 300 crore as against Rs. 230 crore assumed in the Budget.

After taking all these changes into account, the overall budgetary deficit will still be Rs. 550 crore. This figure excludes Rs. 421 crore of loans to States for clearance of their overdrafts till the end of last year. A deficit of this order, despite large scale additional resource mobilization, was inescapable due to the extremely difficult situation caused by the drought and the resultant shortfall in foodgrains production involving unexpectedly heavy spending on drought relief and on the emergency agricultural production programmes.

Budget Estimates 1973-74

Let me now turn from a narration of the past to the future. As we leave behind 1972-73 and turn to 1973-74, our main objective is to fulfil the remaining commitments of the Fourth Plan and to provide a firm base for the launching of the Fifth Five Year Plan in 1974-75.

In the background of the strong inflationary pressures prevailing in the economy, it is not easy to reconcile the requirement of growth with the requirements of stability. However, my general approach has been that the stability to be aimed at must be the stability of a growing economy. I believe that a solution which seeks stability by cutting down expenditure which adds to the productive capacity of the economy is in the long run self-defeating. In an economy where there is considerable unemployment such an approach would aggravate the inequitable distribution of income between those who are fully employed and the unemployed. For these reasons the provisions for development expenditure have been stepped up in the last three years notwithstanding the severe stresses through which the economy has had to pass in this period.

In 1973-74, a provision of Rs. 1,924 crore for the Central Plan is being made which will be Rs. 137 crore larger than the 1972-73 Budget provision. In addition to this, a provision of Rs. 810 crore for Central assistance to State Plans is being made which represents an increase of Rs. 35 crore over the 1972-73 provision. With a Plan provision of Rs. 110 crore for the Union Territories, the original estimated requirement for the Union Territories for the Fourth Plan will also be fulfilled. The Plan provision in the Budget next year taking together Central and Union Territories Plans, as well as Central assistance to State Plans will be Rs. 2,844 crore as against Rs. 2,624 crore in 1972-73.

As the honourable members are aware, a number of significant initiatives have been taken in the past three years to reorient our approach to the Plan so as to combine the objective of promoting rapid economic growth with the ideal of securing greater social justice and the well-being of the needy and the poor. For this purpose, in continuation of earlier measures like the nutrition programme for children, rural water supply schemes, social security benefits for industrial workers, and schemes for rural employment, an amount of Rs. 125 crore was earmarked for a new package of welfare measures in 1972-73 Budget. Important schemes introduced during 1972-73 were special employment programmes for both educated and uneducated unemployed—Rs. 60 crore, expansion of primary education—Rs. 30 crore, slum improvement and rural homes sites—Rs. 20 crore, and rural water supply—Rs. 15 crore. These schemes are an essential component of our development strategy of growth, sub-serving the cause of social justice. They have now gathered momentum and are yielding beneficial results. We have, therefore, decided to provide in the 1973-74 Budget the same amount of Rs. 125 crore for continuation of these schemes in the Central Plan.

There are a number of on-going schemes which form the core of the Plan and provide the necessary infrastructure for our industry and commerce. We have to find resources for these. The Plan provision for power is being increased from Rs. 88 crore this year to Rs. 115 crore next year. Provision for increasing production capacity in the field of fertilizers and chemicals is being fixed at Rs.134 crore as against Rs. 95 crore in the 1972-73 Plan. The honourable members will agree with me that an increased supply of power and of such critical inputs as fertilizers will have a highly favourable effect on the growth in agriculture and industry.

A word would be appropriate here about the Differential Interest Rates Scheme. The honourable members will recall that on 25 March last year I made a policy statement in this House in regard to public sector banks starting a scheme of lending at a concessional rate of interest for helping certain categories of persons in the low income brackets in their productive endeavour. The Reserve Bank issued the guidelines for the scheme in June 1972 and thereafter banks started operating a pilot scheme. Later, when progress was reviewed it was felt that there was need for making some adjustments in the scheme. After considering all aspects I have decided to announce the following changes in the scheme.

The pilot scheme was confined to 163 industrially backward districts, excluding those which were covered by the Small Farmers Development Agency and the Marginal Farmers and Agricultural Labour Schemes. The scheme will now be applicable to Small Farmers Development Agency/ Marginal Farmers and Agricultural Labour Schemes districts also, and in all will be operated in 265 districts covering three-fourths of all districts in the country. Institutions for physically handicapped persons, and orphanages and women homes irrespective of their place of location will hereafter be eligible to borrow at the concessional rate, provided the funds thus obtained by them are used purely for productive schemes, and not for meeting their normal expenses. In the pilot schemes, the income limit for eligibility had been fixed at not more than Rs. 2,000 per annum per family in urban and semi-urban areas, and Rs. 1,200 per annum per family in the rural areas. I am increasing this limit to Rs. 3,000 for urban and semi-urban areas, and Rs. 2,000 for rural areas. I have also decided to make a change in regard to the ceilings for loans under the scheme. The ceiling for working capital loans, which was earlier Rs. 500, is now being raised to Rs. 1,500, and for term loans from Rs. 2,500 to Rs. 5,000. With these liberalizations I hope the scheme will be able to make a better impact.

Despite the progress made by the schemes, already initiated for providing employment and the efforts made both by the Central and the State Governments, what has been done so far has not been commensurate with the magnitude of the problem. Clearly, this is a field for fresh initiatives and greater concerted effort in the years to come, the

Government is particularly concerned about the growing unemployment among educated persons. In order to make a further dent on this problem it is proposed to undertake new programmes which will generate employment opportunities for an additional half a million educated persons in various fields and will at the same time help in the creation of durable assets, collection and compilation of valuable data and training of an adequate number of persons to help in implementing the new programmes and projects that will be introduced in the Fifth Plan. For this purpose, a provision of Rs. 100 crore has been set apart in 1973-74 Budget. But for the constraint of resources, I would have been happier to allocate a much larger sum for this purpose.

Another significant step which is being taken is the provision of Rs. 150 crore for 'advance action' on the Fifth Plan. This will ensure that when the Plan is launched we are in a position to get the benefits of Plan programmes within the Plan period itself. The next Plan envisages a much larger investment both in agriculture and key and basic industries, as well as industries producing goods for mass consumption. If the projected growth rate is to be achieved within the policy framework of self-reliance, it is essential that projects of critical importance to the economy are completely according to schedule and attain full capacity output within the shortest possible time. The advance action on the Fifth Plan proposed in the 1973-74 Budget is designed to facilitate this outcome.

In addition to the provisions made in the Budget, resources will also be available from the internal resources of the public sector enterprises, and by way of contributions from financial institutions. Such resources are estimated to yield an additional Rs. 518 crore to the Central Plan for next year, thereby raising resources for the total Central Plan to Rs. 2,442 crore.

The State Plans have made satisfactory progress and for this purpose wherever necessary the Central Government has been providing help over and above the Central assistance for State Plans. With the provision of Rs. 119 crore in 1973-74 Budget, the total expenditure on special accommodation to States during the Fourth Plan will be in excess of Rs. 80 crore which was the estimate in the original Plan. The total State and Union Territories Plan outlay as worked out after discussion between the States, Planning Commission and Finance Ministry will be of the order of Rs. 1,914 crore as against Rs. 1,704 crore during the current year.

Taking the Central Plan with its internal resources as well as the State and Union Territories Plans, the total Plan outlay in 1973-74 will be Rs. 4,356 crore as against Rs. 4,011 crore during the current year.

On the non-Plan side due care has been taken to restrict the growth of expenditure to the minimum level. Defence expenditure is retained at the same level as in current year; namely, Rs. 1,600 crore. Special accommodation to the States will be of the order of Rs. 119 crore and this should enable them to fulfil their Plan targets. In addition to this, a sum of Rs. 79 crore will be given as loans to States for financing certain specific projects outside the State Plans. As a precautionary measure I am also providing Rs. 100 crore for assistance to States for meeting expenditure on natural calamities relief. I shall be a happy man if it is not needed.

The report of the Third Pay Commission is yet to be received. The Government share the anxiety of the honourable members and of the Central Government employees that the report, when received, should be considered and acted upon expeditiously. In the absence of the report, it has not been possible to make any specific provision for meeting the expenditure arising out of recommendations yet to be made. On receipt of the report and subsequent to whatever decisions may be taken on its recommendations, Supplementary Grants to the extent necessary will be taken for the additional requirements.

On the resources side, income-tax and corporation tax at current levels of taxation, are expected to show an improvement of Rs. 80 crore and Union Excise Duties Rs. 196 crore. Small Savings are continuing to show progress in collections and are expected to yield Rs. 325 crore next year, as compared to Rs. 300 crore this year. Repayments of loans by the States next year will also be higher in view of the massive loan assistance extended to them this year.

I am glad to confirm that the Refugee Relief Levies will be withdrawn with effect from 1 April 1973. Necessary legislation for this purpose will be introduced separately before the end of this financial year.

After taking into account the improvement in revenue, the increased outlays on the Plan, and other commitments, the year 1973-74 will, at the existing levels of taxation show a deficit of Rs. 335 crore. This figure makes no allowance for requirements arising out of the coming report of the Pay Commission.

The honourable members, I am sure, will agree with me that in the present inflationary situation which the economy faces, the size of the deficit must be kept to a low level. In order to accomplish that it becomes necessary for me to make proposals for increased taxation which will reduce the deficit. Now I shall deal with these proposals.

Before describing the tax proposals in detail, I would like to share with the honourable members the general considerations underlying these proposals. As I have already mentioned in the prevailing inflationary conditions in the country it would not be prudent to have a large deficit in the Budget. Moreover, there are the inevitable commitments arising out of the resource requirements for the Fifth Plan. If adequate resources are to be raised for financing the Fifth Plan, action has to begin in this very year. I have, therefore, no alternative but to propose some additions to the tax burden.

Both direct taxes and indirect taxes have to contribute to raising resources for our development. As the honourable members are aware, the Direct Taxes Enquiry Committee, under the Chairmanship of Shri K.L. Wanchoo, ex-Chief Justice of India, has made a number of proposals in the field of direct taxation. I have carefully examined these proposals and am submitting a separate Bill to give effect to such of these recommendations as are acceptable to the Government. Some of the recommendations which have a bearing on the raising of resources are being implemented through the present Budget proposals. In making these proposals I have also taken account of the Report of the Committee on Taxation of Agricultural Wealth and Income headed by Dr. K.N. Raj.

In the present circumstances, there is no escape from using indirect taxes also to raise additional resources. However, I have taken care that in the process articles of mass consumption are left untouched. This will become evident as I unfold my proposals.

Direct Taxation

As the honourable members are no doubt aware, the Committee on Taxation of Agricultural Wealth and Income has suggested several measures for mobilisation of resources from the agriculture sector. One of their principal recommendations is that agricultural income should be taken into account in determining the rate of tax applicable to non-agricultural income. This will help to reduce sharp disparities in the tax burden on persons with similar incomes. I consider this recommendation of the Committee to be well-conceived and I am accepting it. I am, therefore, making provision in the Budget for aggregation of both the agricultural and non-agricultural components of a taxpayer’s income for purposes of determining the rates of income-tax that will apply to the non-agricultural portion in cases where the taxpayer has non-agricultural income exceeding the exemption limit. For the purpose of determining the rate of income-tax applicable to the non-agricultural portion of a taxpayer’s income the first 5,000 rupees of his non-agricultural income will be appropriated to the lowest slab, which is exempt from tax. The agricultural income will be appropriated to the middle slabs, and the balance of the non-agricultural income will be appropriated to the upper slabs of the aggregate income. This scheme of partial integration will apply to the case of individuals, Hindu Undivided Families, unregistered firms, association of persons, bodies of individuals, and artificial judicial persons.

It is generally recognized that present system of tax treatment of Hindu Undivided Families has encouraged tax avoidance. It is my view that the unintended tax benefits currently available to Hindu Undivided Families should, to the extent possible be neutralized. I, therefore, propose to provide separate rate schedules, in respect of both income-tax and wealth-tax with higher rates applicable to Hindu Undivided Families having one or more members with independent income or wealth exceeding the exemption limit. This is one of the recommendations of the Direct Taxes Enquiry Committee. It is also proposed to bring the minimum exemption limit in the case of all Hindu Undivided Families to the uniform level of Rs. 5,000 applicable in the case of individuals.

Capital gains tax can become a means of avoiding or reducing the burden of payment of income-tax. At present capital gains arising from the sale or transfer of capital assets held by a taxpayer for a period exceeding 24 months are entitled to concessional tax treatment. I propose to extend this period to 60 months. As a result, only capital assets held by a taxpayer for a period exceeding 60 months will qualify for concessional tax treatment applicable in relation to long-term capital assets.

Where industrial undertakings are required to shift as a result of compulsory acquisition of land and buildings, I propose to exempt, as a measure of relief, capital gains arising from the payment of compensation in such cases if the gains are reinvested for the acquisition of land and buildings for re-establishing the undertakings or starting new industrial ventures within a period of three years of the acquisition.

I also wish to encourage long-term savings through life insurance, and provident fund contributions. At present, 100 per cent of the first Rs. 1,000 of qualifying savings, plus 50 per cent of the next Rs. 4,000 and 40 per cent of the balance is allowed as deduction in computing taxable income. I propose to allow a deduction equal to 100 per cent of the first Rs. 2,000 of the qualifying savings. The quantum of deduction in respect of next Rs. 3,000 will continue at the existing rate of 50 per cent and in respect of the balance at the rate of 40 per cent.

Sports lovers will be glad that donations to approved sports institutions will qualify for tax-relief in the same manner as donations to charities. I shall be happy if this leads to improvement in the facilities provided to young sportsmen.

It has been a basic policy of the Government to encourage small and medium entrepreneurs with comparatively small resources to form public companies. Towards this objective, I propose to raise limit up to which a concessional rate of income-tax is applicable in the case of widely-held companies from Rs. 50,000 at present to Rs. 1 lakh. Under the existing schedule of rates, closely-held companies in the corporate sector pay income-tax at a concessional rate on the first Rs. 10 lakh of their industrial profits. I propose to reduce the slab on which the concessional rate is applicable from Rs. 10 lakh to Rs. 2 lakh. It is hoped that these measures will encourage conversion of these companies into widely held companies, and thereby broaden the base of the ownership of industry.

At present there is some doubt whether management compensation in respect of business undertakings or other property, the management of which is taken over by the Government is liable to tax. To set this matter beyond doubt, I intend to introduce a provision to treat such management compensation as income from business liable to tax. This will apply retrospectively from the assessment year 1972-73.

Under the existing law income-tax is deductible at source from the payments made by the Government, statutory corporations, local authorities and companies, to contractors in respect of works or labour contracts. I propose to include co-operative societies also in the category of taxpayers required to deduct tax at source from payments made by them to contractors.

The Credit Guarantee Corporation of India has been formed for the purposes of guaranteeing advances made by banking companies to the hitherto neglected sectors of the economy. This is a laudable purpose and I propose to exempt the income of this Corporation from tax for a period of five years.

In my Budget speech for 1971-72, I gave notice of the Governments intention to withdraw the development rebate in respect of ships acquired or plant and machinery installed after 31 May 1974. In response to the demand that this should be substituted by other fiscal concessions to impart a continuing momentum to industrial growth in the country, I had indicated that I would come up with some specific proposals for encouraging industries in selected sectors and those in backward areas.

In pursuance of this undertaking, I am giving an indication of certain measures which the Government has in mind for this purpose, as also for the promotion of research and development and exports. I propose to bring necessary legislation in the course of the year to give effect to these proposals.

It is my intention to provide an initial depreciation allowance of 20 per cent of the cost of machinery and plant installed in selected industries after 31 May 1974. This would provide additional resources to the concerned enterprises in the early years of their development. A list of the industries to which this will apply is under consideration.

In order to provide a stimulus to investment in backward areas, I intend to accord preferential tax treatment to industries to be set up in such areas after 31 March 1973. Specifically, the intention is to allow a deduction equal to 20 per cent of the profits derived by an industrial undertaking set up in the backward areas in computing its taxable profits. This concession will be available for a period of 10 years from the establishment of the industry. The ceiling on investment eligible for subsidy will also be raised from Rs. 50 lakh to Rs. 1 crore, and the percentage of subsidy will be raised from 10 per cent to 15 per cent on the investment.

I feel it is important to enlarge the area of fiscal incentives for promoting research and development, particularly in the field of industry. I also feel that inadequate attention to this aspect is retarding the development of indigenous technology and, therefore, of self-reliance in industry. At the moment capital expenditure in regard to scientific research related to the business activity of the tax-payers during three years immediately preceding the commencement of business is allowed to be written off against the profits of the year in which the business is commenced. I propose to extend this concession, covering revenue expenditure, in regard to payment of salaries to research personnel, and on material inputs, during the pre-investment period. I also propose to allow a weighted deduction equal to one-and-one-third the amount for sponsored research and development work, in approved laboratories.

The honourable members will agree with me that it will be a paying proposition for sizable development expenditure to be incurred in developing exports, particularly of non-traditional products. At present expenditure on export market development is deductible for tax purposes to the extent of 133.3 per cent of actual costs. In view of the great importance of promoting our exports, I propose to increase the weighted deduction to 150 per cent in the case of widely-held companies.

I am very conscious of the need to encourage the increase of employment in industry so that its growth may be oriented towards labour rather than capital intensive techniques. We are considering schemes which may serve this purpose.

The total additional revenue from the various measures in the field of direct taxes enumerated by me will be Rs. 31 crore in a full year and Rs. 18.6 crore in the year 1973-74, of which the share of the Central Government will be approximately Rs. 14 crore.

Indirect Taxes

Sir, in turning to indirect taxes next, I intend to take up Central excises ahead of customs, in reversal of the normal order of precedence in deference to the former being the major contributor to our revenues.

Excise Duties

In doing so, I would like first, to refer to the effort I propose to make for raising revenue on behalf of the States through additional duties of excise. The honourable members will recall that this is the third and final year for the fulfilment of our commitment to the States to raise these duties *in lieu* of Sales Tax leviable on three commodities, namely, sugar, tobacco and textiles, so as to achieve an overall incidence of 10.8 per cent of the value of their clearances by the end of 1973-74. To reach this target, I shall have to raise about Rs. 25 crore in this Budget. In carrying out this exercise, I have been faced with considerable difficulty because one of the commodities, sugar, is at the moment at somewhat sensitive item and another, namely, textiles, does not seem to offer much scope. That leaves me with no choice but to fall back on the 'old faithful' cigarettes, to help me out of the predicament. Tobacco has been a much maligned commodity almost from the days of its discovery. While I would certainly refrain from adopting any attitude of castigation towards the numerous devotees of the tobacco leaf, I shall be content if those who take pleasure from the use of this weed will contribute in some higher measure to the national Exchequer.

Experience has shown that the existing slab system where by cigarettes pay fixed percentages of *ad valorem* duties depending on the ranges or slabs of value in which they fall, has been leading to the creation of dead areas in which no brands of cigarettes can flourish. By the very nature of the scheme this is also an in-built temptation towards the artificial depression of the value of certain brands which, I feel, will not only affect their quality but also, in the long run, the revenue from cigarettes. I, therefore, propose to resort to a more progressive system by adopting the simple principle that the better a cigarette, the more it pays. Starting with an aggregate base of 100 per cent *ad valorem* (for both basic and additional duties) at a value of ten rupees per thousand, the levy will rise at a steady rate of 5 per cent for every additional rupee or part thereof in value till it reaches the present aggregate statutory ceiling of 300 per cent which, if this is any consolation to smokers. I do not intend to revise upward. By suitable *inter se* adjustments in the basic and additional duties I hope to raise Rs. 32 crore in a full year of which the major share of Rs. 24 crore will go to the States by way of additional excise duties.

I am afraid I cannot while coming down on the cigarette smoker make things easier for the pipe smoker or the person who rolls his own cigarettes. I, therefore, propose to levy a duty on manufactured smoking mixtures for pipes and cigarettes, which will yield about only Rs. 80 lakh of which Rs. 22 lakh will accrue to the States.

I have been concerned over the tendency of certain textile manufacturers to avoid payment of the legitimate duties on cotton and art silk fabrics by cutting up good fabrics into smaller pieces of fents and, into pieces of cloth which are euphemistically called rags. I have, as the first step towards curbing this tendency, already revised the definitions of fents and rags by reducing their length criterion. As the second step I now propose to increase suitably the duties on fents and, for the first time, prescribe duties for rags. If these measures do not have the desired effect, it might become necessary to consider more drastic steps.

There have been complaints that the duty incidence on certain blended fabrics manufactured with an ingredient of cotton is lower than on similar fabrics in which viscose is used in place of cotton. I propose to remove this disparity.

A situation has been created where, because of the total exemption enjoyed by artificial silk fabrics processed without the aid of power or steam, there is a growing tendency on the part of some art silk units to resort more and more to processing their fabrics with non-power operated machines. This cannot be allowed to continue. In making such fabrics also liable to duty now, I have, however, ensured, in the interests of equity, that the incidence on them is kept 40 per cent lower than it would be, had power been used.

The above measures on textiles are expected to yield Rs. 3.65 crore of which about Rs. 1 crore will accrue to the States by way of additional excise duties.

The combined effect of the proposals detailed so far will net for the States a total revenue of Rs. 25 crore in a full year.

With my commitment to the States by way of additional duties thus fulfilled, I must now, in my continuing search for extra resources, turn to another commodity that has often come to the help of the Finance Minister in the past. I am referring to motor spirit. The honourable members will recall that I had increased steeply the duty on motor spirit, in 1971 with a view to curbing its consumption. Since then, and as though to give me adequate justification for resorting again to the curbing mechanism, there has been a pronounced spurt in the use of petrol. I propose, therefore, to apply the curb and also raise some revenue by increasing the duty on motor spirit by Rs. 80 per kilolitre so as to yield Rs. 19.20 crore per year.

I also intend to take this opportunity for making a few modifications in regard to certain petroleum fractions which are classifiable as motor spirit, particularly raw naphtha, where there is need for economy in its consumption. However, in doing so, the existing concessions for the use of naphtha in the manufacture of fertilizers, as also fuel in the manufacture of steel, will be left untouched. These minor modifications will net an additional revenue of Rs. 1.60 crore.

When the levy was first imposed on compounded and blended lubricating oils and greases I had granted relief to the smaller manufacturers by exempting such products manufactured without the aid of power from duty. I, however, find that even some of the bigger manufacturers have stepped into a territory not really meant for them, by changing their production to methods where power is not used so as to avoid paying duty. The honourable members will appreciate that I cannot allow such avoidance to go unquestioned. I, therefore, propose to withdraw the existing criterion and effectively confine the concession to the smaller manufacturers by prescribing it on a quantity-slab basis. I also propose to increase the effective rate of duty on such oils and greases from 13 per cent to 15 per cent. These measures will yield Rs. 2.35 crore.

While on this subject of the ingenuity of manufacturers I would like to mention the parallel instance of nylon yarn spinners who have started adjusting the denierage of their yarn in a way that will enable them to pay lower duties taking advantage of the denierage grouping system on the basis of which the rates of duty are levied. To cite an instance, in the first group where the cut-off point is 30 deniers, production has shifted to yarn of 31 and 32 deniers, which, therefore, pays only a lower-duty. I propose to rectify the situation by suitably re-adjusting the existing denier groups.

The next measure I propose is meant to facilitate the collection of duty on synthetic fibres and yarn. This I intend doing by exempting the raw materials, such as polymer chips, used in such manufacture, from duty and suitably readjusting the duties on the finished nylon, acetate and polyester yarn and fibres. However, in doing so, I have ensured that the existing incidence of duty on nylon yarn used in the manufacture of fishing nets and parachute cords remains unaffected.

These measures relating to synthetic yarn and fibres will result in an additional revenue of Rs. 7.85 crore.

Keeping in view the need for a higher degree of taxation on luxury articles used by the more affluent, I propose to increase the duties on a few selected items. Refrigerators and air-conditioners will pay 60 per cent and their parts, including parts of their machinery, will pay 75 per cent. The proposed increase on refrigerators will not, however, affect those of a capacity not exceeding 165 litres which are used by the middle class consumer. Refrigerating and air-conditioning machinery for industrial undertakings and public-run hospitals are not being touched. The duty on domestic electrical appliances, as also on decorative plywood, will be raised to 25 per cent. However, commercial plywood will pay lower rates of 20 per cent and 15 per cent depending on the square area of such plywood. Plywood for tea-chests also remains unaffected. The rest of this list of items consists of motor vehicle parts, instant coffee, shaving cream and long playing records. The proposed duty on gramophone records will apply to the more expensive long-playing variety only.

These various measures in the aggregate will yield Rs. 8.33 crore.

My next proposal is for the addition of a few items to those already in the excise net, namely, caustic potash, carbon black, carbide tool tips, wire ropes, and certain rubber chemicals. All these (except carbide tool tips which will pay 20 per cent) will bear a duty at the normal general rate of 10 per cent that is levied on raw materials in the Central Excise tariff. Glycerine which has so long been paying specific duty will also join their number. These levies are expected to yield Rs. 3.60 crore.

I also propose to modify, enlarge or rescind a number of concessions that exist at present. Without cataloguing them in detail, I shall mention a few of each variety. Some of the existing concessions given for paper mills some years back have been found to be outdated. I propose to replace them with certain others aimed at benefiting future expansions of smaller paper mills and also attracting new capital investment to the industry. The scope of exemption fixed on a quantitative basis for paper mills having no bamboo plants attached to them will also be enlarged.

The use of unconventional raw materials like bagasse and cereal straw, will be further encouraged by liberalizing the existing concession. Among the list of concessions that are being withdrawn are those relating to certain producers of rayon yarn and to low-voltage electric motors sheet glass and plate glass, and glass fibre and yarn. Acrylic sheets produced out of duty paid plastic materials, and p.v.c. films of specified thickness and layflat tubings produced by the small scale sector will be exempted. These diverse measures will result in an additional revenue of Rs. 3.60 crore.

Before I go on to deal with customs duties, I would like to make a reference to a matter which concerns both kinds of duties. The honourable members are aware that the Parliament has been sanctioning enabling provisions for levy of regulatory duties of excise and customs on a year to year basis from 1963. Regulatory duties were intended as special fiscal measures to be resorted to only for certain purposes. I propose to replace them by new straightforward revenue raising provisions. For certain reasons it is not possible to incorporate the provisions in rate tariffs, or make them part of taxation statutes and they would, therefore, have to be revived from year to year for the present. The new provisions now proposed levy auxiliary duties both on excisable goods and imported goods at an amount equal to 20 per cent of the value of such goods. These levies have, however, been limited to a level needed to raise resources for the Centre by granting exemptions wherever and to the extent warranted, for which suitable provisions have been made in the relevant clauses of the Finance Bill.

I shall wind up my catalogue of excise proposals by referring to how I intend to resort to this provision on the excise side. In the case of aluminium, jute yarn and jute manufactures, other than hessian, copper and zinc, the auxiliary levies will continue at the same levels at which they were hitherto charged by way of regulatory duties. In the case of steel ingots and iron and steel products, (other than skelp), however, the rate will be 75 per cent of the effective basic duty as against 50 per cent hitherto levied as regulatory duty. This measure in the case of iron and steel is necessary in order to bring about a further reduction in the gap between imported and indigenous prices.

In the case of steel as well as all other metals, the auxiliary duties will apply, however, only to indigenous production, and will not be attracted by way of countervailing duty on Imports.

While on this subject I would also like to mention a modification I propose to make in the exemption on steel products produced by electric furnaces. These secondary steel producing units which are scrap-based are at present enjoying an exemption of the ingot-stage duty on the products made by them. The extent of such benefit, which was only

75 rupees per metric ton* prior to December 1971, has nearly doubled since then, and is likely to increase further with the modification now being made on iron and steel. In the circumstances, I propose to impose on furnace steel a levy of Rs. 50 per metric ton at the ingot stage. This will, of course, be subject to 75 per cent of this basic duty as auxiliary duty, in the same way as other steel. I would not consider this impost in any way inequitable, for it still leaves a considerable advantage in favour of furnace steel as compared to what the major steel plants have to pay at the ingot stage.

These proposals after setting off the revenue that will be forgone by dropping regulatory duties, will yield Rs. 34.60 crore of which Rs. 29 crore will accrue to the Centre.

Import Duties

It is time now to turn to customs duties where my proposals can be broadly categorized under three main heads.

The first relates to auxiliary duties, which I propose to apply on the Customs side by means of three differential rates of 20 per cent, 10 per cent and 5 per cent of the value of imported goods. All those paying an effective customs duty of 100 per cent *ad valorem* or more, will pay 20 per cent as auxiliary duties; those paying 60 per cent *ad valorem* and more, but less than 100 per cent, will pay 10 per cent and the rest of the goods will pay 5 per cent. However, foodgrains, books, family planning appliances and a few other selected categories of goods, as well as three other items to which I shall presently refer, will be totally exempt from auxiliary duties of customs.

After making allowance for the revenue that will be forgone by dropping regulatory duties this measure is expected to bring in an additional revenue of Rs. 36.50 crore.

The second proposal is regarding the modification of the rates of duties presently bound under the General Agreement on Tariffs and Trade (GATT). Pending re-negotiations with the concerned contracting parties we have been permitted to modify the bound rates under the Agreement to the extent necessary for the rationalisation to the tariff rate structure. Consequent on this I have decided to revise the rates of duty on a number of items which among them will include wood pulp, tallow and a few plastic materials. These revisions of rates are expected to yield an additional Rs. 18.70 crore in a full year.

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

My last proposal relating to customs is a selective revision of the existing rates of duty on a few items.

It is necessary to give a further impetus to import substitution and encourage more extensive manufacture of machinery in our country. I feel that a fiscal incentive is needed for this purpose which I propose to administer by making an across-the-board increase in the rate of duty on all machinery from the existing level of 30 per cent to 40 per cent. This will be applied also to certain allied items.

Raw cotton has been enjoying a privileged position for a long time with only a nominal concessional duty of 10 paise per kilogram. Since imported cotton is used mainly for the production of fine and superfine fabrics and comparatively expensive varieties of blended fabrics which, in the nature of things, are expected to be used by the more affluent sections of the society. I propose to withdraw this concessional rate and make raw cotton liable to its 40 per cent statutory rate, which is the normal level of taxation for raw materials in the Customs Tariff.

However, raw cotton along with two other items, namely, tallow and machinery, will not be subjected to auxiliary duties of customs.

Copper which has been paying a rate of duty at 30 per cent will pay 40 per cent which is the normal rate applicable to non-ferrous metals.

Since the margin of profit on stainless steel sheets is considerable, I propose to raise the rate of duty on them from 100 per cent to 200 per cent. However, the duty on stainless steel plates and strips will be fixed at a lower rate of 60 per cent.

As a measure of assistance to indigenous industry, the concessional rate of 60 per cent so far applicable to nylon yarn used in type manufacture is proposed to be withdrawn.

I also propose to raise the rate of duty on unexposed cinematograph films from 15 paise to 50 paise per linear metre.

These various measures relating to revisions of rates of customs duties are expected to yield Rs. 97.30 crore in a full year.

In addition to this, countervailing duties of customs which will automatically accrue because of the proposed changes in excise duties will account for an additional Rs. 3.50 crore.

To sum up all the proposals regarding excise and customs duties that I have listed so far will yield about Rs. 274 crore. The measures relating to customs duties will yield about Rs. 156 crore. From the excise duties, which will be of the order of Rs. 118 crore, Rs. 38 crore will accrue to the States.

I may now briefly summarize the revenue implications of the various proposals that I have outlined earlier in my speech. The additional yield from direct taxes in 1973-74 will be Rs. 18.60 crore. Of this, Rs. 4.70 crore will accrue to the States, leaving Rs. 13.90 crore for the Centre. The excise duty proposals will yield additional revenue worth Rs. 118 crore in 1973-74. Of this amount, nearly Rs. 38 crore will go to the States and the balance of Rs. 80 crore will accrue to the Centre. The additional revenue from customs duties will amount to Rs. 156 crore. In all, the Central revenues will benefit from the total package of my proposals to the extent of Rs. 250 crore. As a result, the initial deficit of Rs. 335 crore estimated at 1972-73 tax rates will be reduced to Rs. 85 crore. This, however, will be increased by the provision which will have to be made in connection with the report of the Pay Commission.

Sir, before concluding I would like to point out that this is the third regular Budget that I have been privileged to present to this august House. During each of these budgets, I have had to come forward with proposals for significant amounts of additional taxation. This was not a pleasant task. It was, however, inevitable in the light of resources required to meet our basic commitments to the people and the unprecedented challenges of the difficult times we have lived through. The poverty and the associated inequalities in income and wealth that prevail in this country cannot be abolished overnight. But there can never be any doubt about the direction in which the Government is determined to move to sustain people's faith in our democratic policy as an effective vehicle of rapid social change. It is in this context of our firm commitment to socialism, rapid economic growth and a self-reliant economy that the Budget proposals must be appraised. The building up of a socialist society requires a sustained multi-dimensional effort to transform our social and economic structure. In an economy where a large number of people are ill-fed and ill-clothed we cannot afford the luxury of maintaining the *status quo.* Fiscal policy must assist in this process. This is the vision I have kept in mind in formulating this year's Budget.

The increased provisions for employment programmes and the continuing emphasis on selected schemes of social welfare are part of an attempt to reduce the existing inequalities of income and consumption. The partial integration of agricultural and non-agricultural income and the imposition of higher income-tax rates on Hindu Undivided Families, are designed to make our tax system more equitable and progressive. The pattern of proposed additions to indirect taxes will also serve the same purpose. I have made every effort to ensure that additional levies do not impose an undue burden on the common man. On the other hand, small savers will benefit positively by the proposed liberalization of tax exemptions for contributions to provident funds and life insurance. The introduction of initial depreciation allowances for selected high priority industries after 31 May 1974 will strengthen this country's industrial structure and thereby help in the realization of the goal of self-reliance. Concessions for research and development will further stimulate the growth of indigenous technology and contribute to self-reliance. The enhancement of the weighted deduction presently allowed in respect of export market development must also be seen in the context of the nation's determination to move speedily towards self-reliance. Incentives for industrialization of backward areas that I have indicated will help to reduce the existing regional inequalities in the level of development which are clearly inconsistent with the ideas of a socialist society. As I see it, the Budget for 1973-74 represents another major effort on the part of this Government to get the country moving towards the goal of an expanding self-reliant economy based on social justice.