SPEECH OF
SHRI H.M. PATEL,
MINISTER OF FINANCE, REVENUE AND BANKING,
INTRODUCING THE BUDGET FOR THE YEAR 1977-78*

Highlights

- — *Need for Fundamental Change in Economic Policies and Programmes Stressed*
- — *Emphasis on Evolving Strategies to Provide Gainful Employment in Rural Areas*
- — *Need for a Diversified Agricultural Economy Emphasised*
- — *Amalgamation of Sick Industries*
- — *Encouraging Companies for Rural Welfare*

Sir, I rise to present the Budget for 1977-78, the first Budget to be presented by the Janata Government.

The massive mandate that the people of India gave the Janata Party in March this year was not just a vote against authoritarianism. It was also a manifestation of our people's desire for a reorientation and a reshaping of our economic policies so as to bring about speedy elimination of poverty and destitution. In the last few weeks, our Government has taken several steps to dismantle the authoritarian and repressive structure erected during the dark days of Emergency. It is our firm belief that the open society we cherish will remain insecure unless we can move forward with courage and sincerity to banish poverty, ignorance and disease from this ancient land of ours. Our Party's election manifesto sets out a coherent economic strategy, laying emphasis on both bread and liberty. We seek to accelerate the pace of economic progress and to distribute its fruits equitably in a framework of democracy and individual freedom. Judging by historical precedents, this is no doubt a highly challenging task. The House can rest assured that there shall be no weakening of our solemn resolve to work for the fulfilment of promises we have made to our people.

---

* *Lok Sabha Debate,* 17.6.1977, cc. 375-413.

The Budget of the Central Government is a major instrument for shaping the country's social and economic policies. Both because of shortage of time as also because of heavy commitments of expenditure on ongoing projects, it has not been possible for me to recast the entire fiscal structure in line with our declared priorities. Also, I did not have the benefit of consultations with the Planning Commission, which has been reconstituted only recently. Our Party's social and economic programme lays heavy emphasis on rural development, improvement of the lot of *Harijans, Adivasis* and other downtrodden sections, eradication of unemployment and expansion of social services including slum clearance. Most of the projects in these areas fall in the State Plans. For reasons which are well known to this House, it has not been practicable for me to consult State Governments and to induce them to reorient their development programmes in accordance with our priorities. Nevertheless, within the framework of the rather limited options open to me, I have endeavoured so to formulate my budget proposals that they reflect faithfully the philosophy, programmes and priorities of our election manifesto.

Before I outline the broad strategy that has been adopted, I would like to share with the House my thoughts on the current state and prospects of our economy. The Economic Survey has covered this ground fairly extensively, and I shall, therefore, be brief in my remarks on this subject.

The most fundamental problem of the Indian economy continues to be its inadequate rate of economic growth. In 1976-77, the rate of our economic growth was less than 2 per cent. In the Seventies, thus, far, our growth rate has averaged about 3.50 per cent per annum, far too short of our Plan targets. And yet, while it would be wrong to assert that our country has not made significant progress since independence, the fact remains that, even after twenty-five years of planning, we are unable to sustain an average growth rate of 5 per cent. Clearly, a fresh examination of our planning priorities and techniques is called for.

Another disturbing feature of the economic situation is the uneven distribution of growth, which has accentuated regional disparities in the level of development. While a number of States have recorded impressive growth rates during the last fifteen years, it is also a fact and a matter for serious concern that in this very period nearly, one-third of districts have recorded virtually no growth, or negative rates of growth, in output. The poor performance of these districts has both depressed the national growth rate and also led to a widening of disparities in the level of development, a phenomenon which has disturbing implications for the successful functioning of our federal polity.

A significant consequence of low and unevenly distributed growth has been that the proportion of people living below the poverty line is today higher than it was in 1960-61. The available data show that this proportion had tended to decline from 1968-69 to 1973-74, but in all probability the situation has deteriorated since then. The magnitude of the problem can be assessed from the fact that in 1975-76, the economy did not have the capacity to absorb the production of even 120 million tonnes of foodgrains. The low level of purchasing power is a reflection of the chronic state of under-employment and unemployment which is faced by large numbers of landless workers and small and marginal farmers. The fact that the proportion of people living below the poverty line today is higher than in 1960-61 strengthens me in my belief that there is need for a fundamental change in our economic policies and programmes. The *status quo* has disastrous implications for our future and our people are rightly clamouring for a redirection of our policies. To this task, this Government is fully committed.

Rising prices have further accentuated the hardships faced by the common man. As the House knows, the wholesale price index went up by nearly 12 per cent in 1976-77. This was due, in a large measure, to an excessive increase in money supply last year, the lagged effects of which are still operating in the economy. Although we have inherited a difficult price situation caused by distortions introduced in 1976-77, we are determined to bring the situation fully under control. We have both the will as well as the necessary instruments to stabilize prices at a reasonable level.

It is a truism that in a country in which agriculture accounts for nearly 50 per cent of national income, the overall growth rate of the economy is crucially linked to the performance of the agricultural sector. The poor performance of the economy in 1976-77 was largely because of the decline in our agricultural production.

In the late Sixties, Indian agriculture did exhibit signs of a new dynamism. Unfortunately, the modernizing impulses made only a limited impact on our agrarian economy. This is evident from the fact that the rate of growth of agricultural production in the 1970s was not higher than in the 1960s. Wheat is the only crop in respect of which there has been a rapid increase in production, but even there, the rate of growth of productivity has greatly slackened in recent years. In the case of rice, there have been impressive gains in non-traditional States, but in major rice growing States there has been no breakthrough in yields. Crops like pulses, vegetable oilseeds and raw cotton show a stagnant trend. Clearly, we have to introduce some new growth impulses into our agrarian economy, if we are to succeed in raising the agricultural growth rate to a minimum level of 4 per cent per annum.

Our development plans had hitherto deliberately laid emphasis on industrialization. And we have also made significant progress in diversifying our industrial structure. Yet, judging by the fact that industrial growth rate since 1965 has averaged only 4 per cent, as compared with the average annual growth rate of 8 per cent from 1956 to 1964, the decade since 1965 can hardly be described as a decade of progress in industrialization. That an increasing emphasis on industrialization should have coincided with a decline in the rate of industrial growth is a phenomenon which calls for careful examination. In 1976-77, industrial growth rate did increase to 10 per cent. However, there is ample evidence to suggest that this was due to a number of fortuitous circumstances for that favourable results of 1976-77 cannot be taken as indicative of a more cheerful trend.

Both, because of inadequate growth rate and growing capital intensity of industry, India's industrial structure has been unable to provide a fast enough expansion of employment opportunities. As a result, the number of unemployed people on the live registers of employment exchanges has risen sharply. A high cost industrial structure catering to a highly sheltered domestic market must necessarily find it increasingly difficult to expand in the face of the constraint of a limited home market.

In the last two years, while India's exports have increased rapidly, imports during 1976-77 were restrained both on account of the bumper harvest of 1975-76 and increased domestic production of such critical inputs as fertilizers. The rapid increase in inward remittances has given added strength to India's balance of payments and our reserves have gone up considerably. Nevertheless, we would be foolish if we did not take note of the fact that our balance of payment still remains vulnerable to the effects of sudden shocks, such as harvest fluctuations. The current level of food stocks and foreign exchange reserves do give us wider options in the management of the economy than ever before. Foreign exchange reserves will have to be so deployed as to assist in the maintenance of price stability, as also in accelerating the process of growth.

The task ahead is to devise an effective strategy for dealing with the problems of inadequate growth, crushing poverty, unemployment, growing regional imbalances and rising prices. These are all interrelated problems and have to be tackled simultaneously, though the emphasis laid at any given period of time may vary in degree.

It goes without saying that in any strategy we devise, the primacy of agriculture has to be emphasized. In a country, in which nearly 89 per cent of the people live in rural areas, a faster increase in agricultural productivity is almost a precondition of any successful programme for removal of poverty, of enlarging employment opportunities, for stabilising prices of essential goods and for expanding the domestic market for manufactured goods. The primacy of agriculture implies that investment requirements of agriculture would be given the highest priority. In spite of the importance of agriculture and the repeated avowal of the need to improve the condition of rural India, the rural sector has in the past not received a fair share of total investible resources. This needs to be rectified. Currently, irrigation potential is growing at an annual rate of about 2 million hectares. We have to evolve a plan to be able to double this rate in the next few years. Both major and medium and minor irrigation works must be planned and executed as part of an optimal national strategy for water use. Similarly, there is an urgent need for stepping up investment in such crucial elements of rural infrastructure as roads, markets, and supply of pure drinking water.

The programme of agricultural development will have to be conceived not merely in terms of increase in agricultural productivity but also in terms of making all the households in the agricultural sector more or less viable. This will require simultaneously, plans for development of ancillary activities like poultry and dairy-farming, fisheries, farm forestry, etc. Not only this will involve the provision of necessary inputs but also the development of organizations which will collect store and market the produce, for efficient marketing is vital to the success of all these varied activities. We must generate large enough employment opportunities in rural areas so as to slow down migration to urban areas. This can best be achieved in the framework of an area-centred programme of integrated rural development, in which the needs of small and marginal farmers and agricultural labourers receive priority attention.

The provision of more resources, howsoever vital, will not alone achieve the objective. The entire apparatus for utilizing these resources will have to be completely revamped in order to improve their effectiveness. It will require changes in the organization for both planning and implementation. It will need more intensive effort at improving agricultural technology and much greater extension effort. It will need speedier construction of dams, wells and channels, faster and efficient rural electrification, better water and land management, more timely supply of fertilizers and pesticides, a more organized supply of seeds and better storage and marketing facilities. Parts of the country have been able to achieve this. What is needed is the spreading of such organization, together with requisite resources, to those parts which are lagging behind. The effort needed would call for a total transformation of the agencies which are presently connected with agricultural development.

Primacy of agriculture does not imply indifference towards, or neglect of, modern industry. All that it implies is that, in-so-far as a larger proportion of investible resources available to the public sector is diverted to agricultural development, resources for industrial growth will have to found increasingly by enterprises themselves generating larger internal resources of their own through more efficient operation as well as more effective pricing policies. Government will also continue to pay particular attention to the development of industries such as fertilizers, pesticides, cement, power and petroleum which have an important bearing on agricultural productivity. In order to create greater cost consciousness in Indian industry, it is our intention to introduce gradually more competition by way of more liberal import policy. In addition, ways and means will be found to make possible optimal use of capacity in existence. Simultaneously, in executing new projects, we must avoid delays which lead to escalation of capital costs. It is usually not realized how great is the cost of these delays. An analysis for cost escalations in 18 projects which had secured the approval in 1976-77 of the Public Investment Board shows that, in these projects, investment costs had increased to Rs. 555 crore as against the original estimate of about Rs. 225 crore. This serves to emphasize the importance of timely execution of projects and extremely high social cost of delay.

Some of our large industries, such as textiles, are today in serious trouble and are in particular need of replacement and modernization. Therefore, adequate resources will have to be provided for investment in these sectors. The present arrangements which the Industrial Development Bank of India and the other term lending institutions have for this purpose will have to be continued. Also, efforts have to be made to ensure that these industries generate more internal funds and, thus, do not face conditions which ultimately make them sick. I believe it might be a good idea, if the managements of more efficient mills were to be prevailed upon to take over, as an act of social responsibility, some of the sick units and nurse them back into sound health under conditions to be laid down by Government.

Faster and timely development of power is an essential condition of accelerated economic progress. I am convinced that much more remains to be done in respect of both power planning and development if we are not to have to face recurring severe shortages of power. Power is now recognized to be as essential to agriculture as to industry and shortages of power can disrupt the production of food as much as of cloth. We shall, therefore, make every effort to hasten the pace of expansion of power in the coming years.

There is another field, however, in which modern industry needs to be developed further and that is the field of exports. Experience has now been gained with regard to marketing a wide variety of manufactured goods, particularly engineering goods, in foreign markets. Since this is the field in which world trade is growing fastest, we should push ahead in this area. This means building up more capacity, acquiring suitable know-how and adopting even better marketing techniques. While I do not regard export led growth as a viable proposition in Indian conditions, it is necessary that exports should continue to increase at the rate they have been growing in the past two years. Such an increase is essential for acquiring greater manoeuvrability with regard to economic management. Government is committed to providing a stable policy framework conducive to continued expansion of our exports. Simultaneously, it is our solemn resolve to deal firmly with smugglers and other anti-social elements indulging in illegal dealings in foreign exchange. Fortunately, judging by recent data on inward remittances, smuggling does not seem to have revived on any large scale. We shall, nevertheless, remain vigilant in this matter.

Since unemployment is one of our most pressing problems, the greatest attention needs to be given to its solution. By now, it is obvious that this problem cannot be solved through exclusive reliance on industrialization. New strategies have, therefore, to be evolved to provide gainful employment on a large scale in the rural areas themselves. The accelerated growth of agricultural production will in itself increase the scope for employment in the rural areas. It is interesting to note that labour input per acre of land in Japan is four times the corresponding level in India. This is an indication of the scope for generating new employment opportunities in the process of modernizing our agriculture. More irrigation, better agricultural practices, double-cropping, increased use of fertilizers and weeding will certainly create more jobs, but it will have to be ensured that premature mechanization does not affect this process adversely. Faster agricultural growth will offer greater scope for employment in such ancillary activities as repairing, servicing, transportation, etc. Simultaneously, greater attention will have to be paid to the development of rural infrastructure particularly the construction of rural roads. Proper marketing of agricultural produce cannot take place if there is no adequate network of roads connecting our villages to the nearest marketing centres. Deliberate steps will also have to be taken to facilitate processing of local produce so as to provide more employment in rural areas. Gandhiji's idea of self-reliant rural communities will have to be given concrete shape if an effective solution is to be found to the problem of unemployment.

The development of small-scale industry should also enable us to make a significant dent in the problem of unemployment. Such industry should not be a scaled-down version of large industry but should be one which uses technology which is appropriate to our conditions of surplus labour and scarce capital. Although there has been a great deal of talk of appropriate technology, it is surprising how little effort we have put into its development. For example, the bullock-cart remains and will remain for many years to come, an important means of transport in rural areas. Yet, it is only very recently that we have started thinking about improving its effectiveness. Unfortunately, insufficient resources have been devoted to the development of appropriate technology. We have always gone after the most modern technology even though it may not necessarily have been the most efficient for us. This trend needs to be reversed.

We do not, however, have to wait for appropriate technology in order to make a beginning in this field. The experience of handlooms and powerlooms shows how modern organization and marketing methods can breath life into labour intensive industry. More work along these lines should be tried with regard to a number of cottage and village industries in order to combine greater employment with efficiency.

The problem of unemployment in urban areas, particularly among the educated persons, is no less serious. The House will be happy to know that we are now working on the details of a specific scheme designed to create opportunities for the educated unemployed. Under this scheme, we shall provide through the banking system “seed” money and other finance at relatively attractive rates of interest to enterprising youngmen considered eligible for assistance.

The beneficial effects of a high rate of economic growth can easily be neutralized by an increase in population. Therefore, population control has to be an integral part of our programme of raising the standard of living of the common man. Unfortunately, the events of the past two years have given the family planning programme a severe setback just when it was beginning to be generally accepted even in backward areas. This programme is so vital to our economic progress and well-being that all possible efforts must be made in a sustained way to persuade people to accept the small family norm. Any investment, therefore, that is necessary for this purpose should be undertaken without any hesitation. And because it is our firm determination to achieve our objectives through persuasion rather than coercion, the effort that will have to be put in will have to be greater and more sustained.

The success of the programme I have been talking about depends upon adequate resources being available. Other countries which have achieved high rates of growth have been able to invest as much as 30 per cent of national income because of their high volume of savings. The Indian experience has been otherwise. Voluntary savings have been inadequate. Attempts to push up the rate of domestic savings through created money and deficit financing have accentuated inflationary pressures but have not succeeded in raising the savings rate. Thus, some fresh thinking is necessary regarding the means of enlarging the pool of national savings in a non-inflationary manner.

It is doubtful if taxation alone can achieve such an increase. High direct tax rates have been found to be counter-productive because of the evasion that ensues, and, in any case, the number of people who fall in the direct tax net is so small that revenue realization cannot match requirements. Indirect taxation seems also to have reached its limit.

Resource mobilization by the Government through taxes has increased continuously over the years and at present tax revenue as percentage of national income is as high as 18.90. But public saving has not gone up because non-developmental expenditure such as interest charges, salaries and wages, dearness allowance to employees, defence expenditure and subsidies, etc., have gone up more than proportionately. In addition, public sector enterprises have not been earning, until recently, adequate return chiefly because of deficiencies of management and improper pricing policies. Some of those shortcomings will have to be removed if public saving is to increase and contribute to larger investment.

Individual saving can be promoted better if austerity is practiced much more effectively. A large part of the increase in consumption arises from the demonstration effect of the high standard of living of the wealthy and the well-to-do in our society. To neutralize all this, greater egalitarianism in consumption needs to be practised. Our tax system has to be so reoriented as to discourage ostentatious living and promote the habit of savings. However, austerity cannot be ushered in merely through tax reform. We must arouse public opinion against a life style inconsistent with the harsh economic realities of a poor country such as ours.

Government has been greatly concerned about the price situation ever since it came into office. The persistence of the rising tendency in prices witnessed during the last few weeks has been due partly to the cumulative effect of imbalances introduced last year, and partly due to the seasonal pressure which is unavoidable during this part of the year. I cannot hold out the promise that Government will be able to stabilize every single price in face of fluctuations in demand or supply which are inevitable. However, I can assure the House that we have taken steps, and will continue to do so, to ensure reasonable price stability in respect of basic articles of mass consumption. We have enough stocks of foodgrains to meet all genuine requirements at stable prices. We have inherited a difficult situation regarding vegetable oils. As the House knows, because of a steep fall in production of groundnuts last year, prices of vegetable oils have been rising for quite some time. Unfortunately, groundnut oil cannot be readily imported so that our ability to operate directly on the supply of this oil is rather limited. However, we have arranged for adequate imports of other vegetable oils. These should help to stabilize the price of cooking media. Increased availability of vanaspati and refined rapeseed oil meant for direct consumption would indirectly ease pressure on prices of groundnut oil. We have adequate stocks of sugar to enable us to meet all reasonable demands at stable prices. We are now working on the details of a new multifibre policy designed to make available quality cloth at prices within the reach of the common man. Such a policy, if successful, would have the additional advantage of restoring to health all segments of India's largest industry.

Budget Estimates

I now turn to the Budget Estimates. The documents which I am presenting today repeat the Revised Estimates for 1976-77 as given in the Interim Budget, as the actualize are not yet available in most cases.

As regards the Budget Estimates for the current year, gross tax revenues at existing rates of taxation are estimated at Rs. 8,879 crore, showing an increase of Rs. 798 crore over the Revised Estimates for 1976-77. Of the increase, Rs. 101 crore will accrue to the States as their share of taxes. While Union Excise Duties are expected to yield Rs. 4,550 crore, showing an increase of Rs. 373 crore over the Revised Estimates for last year, receipts from Income and Corporation taxes are estimated at Rs. 2,258 crore, an increase of Rs. 180 crore. Customs receipts at Rs. 1734 crore will be higher by Rs. 243 crore as compared to last year.

Market loans are expected to yield Rs. 1,000 crore as compared to Rs. 849 crore in the previous year. Besides, Government propose to borrow Rs. 800 crore against drawal of foreign exchange reserves.

Net external assistance, after providing for repayments and interest payments is estimated at Rs. 1,052 crore including disbursements against new credits.

Taking other receipts into account, total receipts in the current year are estimated at Rs. 15,366 crore.

I may now make a brief mention of the estimates of non-Plan expenditure. While presenting the Interim Budget, I indicated that all Ministries and Departments of Government and public sector agencies will be asked to observe the utmost economy in expenditure, keeping in view the present Government's emphasis on austerity and avoidance of all forms of ostentation. Detailed instructions have since been issued in this regard for strict compliance by all Ministries and Departments. The full impact of the economy measures will be known only after the detailed exercises have been completed. Separately, certain areas of non-essential expenditure have already been identified and the Budget documents reflect a reduction of about Rs. 130 crore in these expenditures as a result of this exercise.

The provision for Defence expenditure is Rs. 2,752 crore, Rs. 56 crore less than the provision made in the Interim Budget. The provision for food subsidy and carrying costs of buffer stocks has been, for the present, retained at Rs. 460 crore, but it will be reviewed on the basis of emerging trends during the course of the year.

In its scheme of devolution, the Sixth Finance Commission could not take into account the net interest liability of States on account of loans raised and disbursed by them during the Fifth Plan period for want of details. As recommended by that Commission, the net interest liability of the deficit States has been computed and a provision of Rs. 72 crore has been made in the Budget for disbursement of additional grants-in-aid to the States concerned on this account, in relation to the three years ending on 31 March 1977.

I have received requests from Central Government pensioners for increase in the quantum of relief on their pensions in view of the high cost of living. As the House is aware, a measure of relief has been afforded from time to time in the past. I feel, it would be only fair at this stage to grant a special relief at graded rates to them; this will cost the Exchequer Rs. 10 crore annually.

I now turn to the outlays on the Annual Plan for 1977-78. As I have already indicated, we are firmly of the view that our economic ills can be overcome only through a comprehensive reordering of Plan priorities. The Plan strategy has to be reappraised. It should recognise the primacy of agriculture and accord overriding priority to rural development and eradication of unemployment within a time-frame. These are the tasks to which our reconstituted Planning Commission will no doubt address itself. That, however, will take some time. In the meanwhile, it is necessary for the Government to move in the desired direction. That is what this Budget seeks to do.

Within the short time available to us, we have, therefore, made a quick review in consultation with various Ministers of the outlays in the Annual Plan for 1977-78, and tried to impart, to the extent possible, a new direction to our development programmes in line with the priorities and objectives set out in the Manifesto of the Janata Party. We are, however, not writing on a clean slate. Schemes in progress cannot be abandoned, nor even slowed down unduly, without considerable financial loss. The commitments made to State Governments in regard to Central assistance for their Plans have also to be honoured subject to the conditions stipulated by the Planning Commission at the time of the finalisation of their Plans. These commitments do impose serious limitations in refashioning the Plan according to our thinking. The room for manoeuvrability is thus limited. Even so, appreciable saving have been effected. Schemes of relatively low priority have been suitably refused.

True to the promises made to the people, in the recast Plan, we have now provided for additional outlays for agriculture, irrigation, power, *khadi* and village industries, sericulture, handlooms, postal and telephone facilities in rural areas and wide ranging rural infrastructure programmes covering, among other things, such schemes as durable link roads and rural drinking water supply. It is our intention to step up further the outlays next year on programmes designed to develop rural infrastructure facilities so that over a period of, say, five years the basic needs of the entire rural population could be met. It is also our intention to review the programmes of slum clearance and urban renewal in consultation with the States and to provide additional resources for accelerating the pace of execution of these programmes.

The allocation from the Central Budget in 1977-78 for the Central Plan and assistance towards Plans of States and Union territories will be Rs. 5,790 crore. The coresponding figure for the previous year was Rs. 4,759 crore. The tempo of development is thus being maintained.

The provision for the Plan in the Central Budget is inclusive of Rs. 1,812 crore on account of Central assistance for State Plans and provisions for Union territories Plans, the sub-Plan of the Hills and Tribal Areas, the North-Eastern Council, and assistance to the Rural Electrification Corporation for power schemes. This allocation also includes an element of special advance Plan assistance to States to provide them adequate resources for the required level of investment in important projects in the core sectors of irrigation and power. A provision of Rs. 3,978 crore has been made in the Budget towards Central Plan. Inclusive of the internal and other resources of public undertakings, the Central Plan will be of the order of Rs. 4,939 crore in 1977-78 as against Rs. 4,090 crore in

1976-77. The State and Union territories Plans together will be of the order of Rs. 5,021 crore, as against Rs. 3,762 crore in 1976-77. The total outlay on the annual Plans of the Centre, States and Union territories for 1977-78 will be Rs. 9,960 crore, as against Rs. 7,852 crore in 1976-77. This represents an increase of 27 per cent.

We feel that for building a forward looking, dynamic and diversified agricultural economy, it is necessary to aim at integrated development of crop production, livestock and poultry, fisheries and forestry. Special emphasis will need to be laid on development of dairy industry on a cooperative basis, a view to enabling milk producers to get better and fair prices. Creditable progress has been made in the first phase of Operation Flood Scheme and we must now get moving to take the full advantage of Operation Flood Phase II. The production policy should be based on modernisation of agriculture in which technology should, by far, be the most crucial input to make a sustained and high growth rate possible. The existing Plan provisions and priorities have been rephased with a view to locating gaps in development and identifying the potential areas where increased investments could bring about further acceleration of the pace of agricultural growth. In this exercise we have kept in view the need for (a) strengthening rural infrastructure as a basis for future accelerated development, (b) generation of employment in rural areas, (c) special attention to the needs of the weaker sections of the society, and (d) giving a fillip to the production of cotton, oilseeds and pulses so as to correct the supply and demand imbalances. A pilot project for desert development in Haryana, Gujarat and Rajasthan is being evolved and provision has been made for this purpose in the Budget Estimates.

Irrigation holds the key to increased agricultural production. Though the Fifth Plan envisages a target of 5.8 million hectares to be brought under irrigation, the financial outlays do not match the target. Further, the need for initiating action in the current Plan on new irrigation projects, so as to have an adequate pipeline of projects has been neglected. Greater emphasis will also have to be laid on modernization of irrigation projects so as to conserve water, which is a scarce resource. Keeping all these ends in view, we propose to provide Rs. 100 crore as advance Plan assistance to States for irrigation projects.

The Plan outlays for minor irrigation will be supplemented to the extent of about Rs. 260 crore from the Agricultural Refinance and Development Corporation, and other lending institutions. Under the programme of rural electrification for energizing the pump sets, we have made a provision of Rs. 175 crore which will also be augmented to a significant extent by institutional finance.

The total Plan outlay on agriculture and allied services, major, medium and minor irrigation projects and fertilizers, together with provisions for co-operatives and power sectors attributable to rural areas, works out to Rs. 3,024 crore. The House will be glad to know that this constitutes 30.40 per cent of the aggregate outlay of the Central, State and Union territories Plans.

While the development of National and State Highways has received reasonably adequate attention in successive Plans, the needs of rural areas have been sadly neglected. I feel that the Centre should take initiative in promoting the construction of approach roads which constitute an essential ingredient of any programme for building up the infrastructure for rural development. We, therefore, propose to make a beginning with an outlay of Rs. 20 crore which, suitably supplemented with the resources of the State Governments and local bodies, will accelerate the programme in this vital area. The new scheme of 'grain for work' could also be utilised imaginatively for this purpose.

Despite three decades of planning, there are still a large number of villages which suffer very acute scarcity of drinking water. While the responsibility for finding resources and execution of the programmes for this purpose is that of the State Governments, I feel that the Central Government should also intervene actively and supplement the efforts of the States. Such supplementary assistance should be directed towards provision of drinking water facilities in problem villages to be identified with reference to objective criteria. We propose to make an earnest start in the current year with an additional provision of Rs. 40 crore over and above the existing outlays for this programme. Progressively, the allocations for this programme would be stepped up so as to carry the benefits of the programme to all the problem villages over a period of five years. The programme will have to be closely monitored at the Central as well as the State level.

I would also like to refer here, to schemes for the welfare of *Harijans*, Adivasis and other less advanced sections of our people. As I have said earlier, these find a place largely in State Plans. I am not satisfied with the programmes and allocations in respect of them and it is my intention to take up these matters on a priority basis with State Governments and Central Ministries concerned so as to add to the effectiveness of these programmes.

A sum of Rs. 234 crore has been provided in the Central Plan for power development. This includes Rs. 33 crore for Singrauli Super Thermal

Station, Rs.1 crore for initiating action on a second Super Thermal Power Station, Rs. 17 crore for inter-State transmission lines, and Rs. 52 crore for nuclear power projects. The State and Union territories Plans which account for the bulk of the provision for power, envisage an outlay of Rs. 1,676 crore. An additional sum of Rs. 20 crore is being provided to the Rural Electrification Corporation for system improvement and for providing I.T. Capacitors for rural consumers, both designed to minimize loss of energy.

Self-sufficiency in energy has assumed critical importance. The provision in the Plan for petroleum is being accordingly stepped up from Rs. 485 crore in 1976-77 to Rs. 677 crore in 1977-78. Of this, Rs. 451 crore will be provided to the Oil and Natural Gas Commission for their on-shore exploration programme and for accelerating the pace of off-shore exploration. We have recently cleared the scheme for development of oil and natural gas resources of Bombay High and Bassein fields. Indigenous production of crude oil is expected to reach 11.31 million ton in 1977-78 as compared with 8.89 million ton 1976-77.

Having regard to the difficult power situation of Tamil Nadu, a special provision of Rs. 5 crore has been made for Neyveli Lignite Corporation for a new lignite based power plant with a capacity of 200 MW.

After taking into account the feasibility of rephasing the expansion programmes of the Bhilai and Bokaro complexes, a budgetary allocation of Rs. 511 crore has been made for steel as compared with Rs. 403 crore in 1976-77.

The budgetary allocation for transport and communications will be Rs. 651 crore, of which Rs. 302 crore will be for the Railways which have Plan outlay of Rs. 480 crore. A provision of Rs. 10 crore has been made for metropolitan transport projects, of which Rs. 8.6 crore is for the Mass Rapid Transit Project of Calcutta. A part of the Sixth Corridor Project for rapid mass transit system in Bombay has also been sanctioned.

The Plan for communications including Posts and Telegraphs, has been modified to take into account the priority requirements of rural areas. Accordingly, an additional outlay of Rs. 10 crore has been provided for opening more post offices and extension of telephone and telegraph facilities in rural areas.

It is our belief that *khadi* and village industries, if they are properly organized and supported, are capable of generating employment on a large scale. A provision of Rs. 35 crore has been made for these programmes in the Plan, with the understanding that more funds will be allocated, if required. It is expected that the schemes in view will provide employment for about 25 lakh persons.

An outlay of Rs. 20 crore is provided for handloom and Rs. 4 crore for sericulture which is a substantial step up over last year. These additional outlays have been made with a view to giving a fillip to these rural and labour-intensive industries.

Taking into account the expenditure both on Plan and non-Plan counts and the estimated receipts of existing levels of taxation, the Budget for the current year shows a deficit of Rs. 202 crore.

Direct Taxes

I shall now address myself to the task of formulating proposals for covering the deficit to the extent feasible.

The proposals, in-so-far as direct taxes are concerned, which I am presenting before you, are designed to increase corporate savings, channel more funds into productive investment, accelerate the pace of investment, accelerate the pace of time, strengthen the redistributive role that direct taxes, to my mind must be made to play.

In-so-far as indirect taxes are concerned, I have endeavoured to ensure that my proposals do not impinge on the necessities of life. There, I have sought to raise resources, in the main, from the less essential or luxury items, while giving relief to some deserving sectors, and simplifying and rationalizing the Central Excise tariff structure generally.

In fulfilment of an assurance in the Janata Party manifesto, I propose to provide that no income-tax shall be payable by individuals and Hindu undivided families whose taxable income does not exceed Rs. 10,000. In order, however, to keep the sacrifice of revenue to the minimum, the nil rate slab of income is being retained at Rs. 8,000. Hence, where the taxable income exceeds Rs. 10,000, the excess over Rs. 8,000 will be charged to tax as at present subject to the grant of marginal relief in cases where the taxable income exceeds Rs. 10,000 by a small margin.

I do not propose to make any change in the basic rates of income-tax. However, in view of the imperative need to raise additional resources, I propose to increase the rate of surcharge on income-tax in the case of all categories of taxpayers, except companies, from 10 per cent to 15 per cent. With the increase in the rate of surcharge, the maximum marginal rate of personal income-tax will now be 69 per cent, as against 66 per cent at present.

It is my feeling that wealth-tax rates were reduced in the Budget of 1976 to an unjustifiable extent. If the essential objective of a wealth-tax is to be achieved, it must be so devised that while it does not become oppressive and counter-productive, it does have an effect on excessive accumulation of wealth in individual hands. In this view of the matter, I propose to raise the rates of wealth-tax. The existing rate of half per cent will continue unchanged on the first Rs. 2.50 lakh of net wealth, but for the higher slabs there will be an increase of half a per cent over the existing rates, while in the highest slab of over Rs. 15 lakh, the new rate will be three-and-a-half per cent, that is, an increase of one per cent, over the existing rate. There will be corresponding changes in the rates applicable to Hindu Undivided Families having one or more members with net wealth exceeding Rs. 1 lakh. The new rate schedule will come into force from the current assessment year and will thus supersede the changes made last year in the rate schedule. These changes will result in an additional revenue of about Rs. 10 crore in 1977-78.

As hon'ble members are aware, Government have already dispensed with the Compulsory Deposit Scheme in its application to additional dearness allowance as from 6 May 1977. Having regard, however, to the state of the economy and the inflationary pressures that exist, I propose to continue the Compulsory Deposit Scheme for Income-tax Payers for another two years.

With a view to stimulating industrial development and economic growth, I consider it desirable to widen the scope of the scheme of investment allowance introduced last year. That scheme has unfortunately not laid down any well-defined and clear criteria for selecting industries to which the benefit of the concession was to be extended. This made it difficult to explain to those claiming eligibility why some industries had been given the benefit, while it was denied to others. Since there is a need for encouraging generation of internal resources for financing investment, I consider it best to extend the scope of investment allowance to all industries except those which are engaged in the manufacture of specified low priority items such as cigarettes, cosmetics and alcoholic beverages. This measure will be of great benefit to the economy.

In order to promote scientific and technological self-reliance, I propose to provide an incentive to the users of technical know-how developed in our country. It is accordingly proposed to grant investment allowance at the higher rate of 35 per cent on machinery and plant installed for the manufacture of any article made in accordance with know-how developed in Government laboratories, public sector companies and universities.

From the point of view of maximizing expansion of industry, I can see little merit in compelling closely-held industrial companies to distribute a high percentage of their net profits as dividends. I propose, therefore, to exempt such companies from the requirement of compulsory distribution of dividends. I do not propose to extend this relief to all other kinds of closely-held companies.

It is my belief that the present structure of capital gains taxation stands in the way of adequate mobility of investible resources, and perpetuates investment in low priority assets. In this view, I am proposing certain changes in our existing scheme of capital gains taxation.

(a) At present capital gains arising from the transfer of a capital asset held by a taxpayer for a period exceeding 60 months alone are entitled to concessional tax treatment. With a view to improving mobility, I propose to reduce the holding period to 36 months.

(b) In respect of capital assets acquired prior to 1 January 1954, a tax-payer has the option of adopting the fair market value of the asset on 1 January 1954 in place of the actual cost of acquisition. Determination of the fair market value of a capital asset with reference to a date more than 23 years ago presents practical difficulties. Moreover, capital gain arising from the transfer of assets held over a length of time is, in a world of rapid and continuing inflation, to a great extent illusory in nature. On the whole, therefore, it seems to me desirable to advance the notional date by 10 years, namely, to 1 January 1964.

(c) Capital gains tax is payable on the sale of a residential house. The existing law provides that if another residential house is either purchased or constructed within a specified time, then the capital gains can be wholly or partially exempted depending upon the amount of capital gains utilized on the new residential house. Similar concessions are not available in respect of capital gains arising from sale of assets, such as jewellery or shares. I see no reason for drawing such a distinction. Accordingly, I propose to exempt the capital gains from tax, if the sale proceeds of any asset are reinvested within six months in shares, bank deposits, units of the Unit Trust or other preferred assets. In order to prevent abuse of this concession, it is required that the assets in which the sale proceeds have been reinvested are held for a period of not less than three years.

Sickness among industrial undertakings is a matter of grave national concern. Closure of any sizable manufacturing unit in any industry entails social costs in terms of loss of production and employment, and also waste of valuable capital assets. Experience has shown that taking over of such units by Government is not always the most satisfactory or the most economical solution. A more effective course would be to facilitate the voluntary amalgamation of sick industrial units with sound ones by providing certain incentives and by removing impediments in the way of such amalgamation. It is accordingly proposed to provide that where an amalgamation is accepted by the Central Government to be in public interest, the accumulated losses and unabsorbed depreciation of the amalgamating company will be allowed to be carried forward and set off in the hands of the amalgamated company.

With a view to encouraging companies to involve themselves in the work of rural welfare and uplift, I propose to provide that expenditure incurred by them on approved programmes of rural development will be allowed to be deducted in computing their taxable profits.

In order to give a direct stimulus for the setting up of small-scale industrial undertakings in rural areas, I intend to accord preferential tax treatment to industries which are set up in such areas, and which begin, their manufacturing activity after 30 June 1977. Such industrial undertakings will be entitled to a deduction in the computation of their taxable profits of an amount equal to 20 per cent of the profits. The concession will be available for each of ten years commencing from the year in which the undertaking begins its manufacturing activities.

Under a provision made last year, companies were given the option, instead of paying 5 per cent surcharge on income-tax, to deposit an equivalent amount with the Industrial Development Bank of India for a period of five years. I propose for a withdrawal of this option. The Budget accordingly takes credit for an additional tax receipt of Rs. 56 crore on this account.

The amount of donations for charitable purposes qualifying for tax exemption is limited to 10 per cent of the gross total income of the donor, subject further to a monetary ceiling of Rs. 2 lakh. It is felt that this ceiling is unduly restrictive and only discourages more liberal donations to deserving charities. I propose accordingly that the monetary ceiling be raised from Rs. 2 lakh to Rs. 5 lakh.

Fifty per cent of the remuneration received by Indian technicians from a foreign Government or a foreign enterprise for services rendered outside India is exempted from income-tax. We cannot justifiably deny this concession when the employer happens to be an Indian concern. I propose accordingly to enlarge the scope of this concession to cover Indian technicians employed by Indian concerns in any branch or office outside India.

Deduction of tax from small dividends has been a source of considerable hardship to a large number of small investors in joint stock companies. With a view to avoiding inconvenience to such investors, and in particular to investors from rural areas, the requirement of deduction of tax at source from dividends will be waived in cases where the dividend paid does not exceed Rs. 250.

Under a provision made by the Taxation Laws (Amendment) Act, 1975, charitable or religious trusts and institutions are required to invest their funds in certain forms and modes specified in the Income-tax Act. Any trust or institution which does not conform to the prescribed pattern of investment in any accounting year commencing on or after 1 April 1978, would lose exemption from income-tax. Having regard to practical difficulties involved and to ensure a more orderly change-over in their pattern of investment in the line with the new provisions, the date for change-over to the new investment pattern is proposed to be extended by three years, *i.e.,* from 1 April 1978 to 1 April 1981.

I have taken credit for increasing the surcharge on income-tax and increasing the rates of wealth-tax. The loss of revenue involved in exempting individuals, Hindu Undivided Families, etc., with an annual income up to Rs. 10,000 has also been taken note of. The overall effect of all the direct tax proposals would be a gain to the Centre's revenue of Rs. 92 crore in the current year.

As hon'ble members are aware, the direct taxes statutes have become increasingly complicated and incomprehensible over the years. It is, therefore, necessary to take immediate action for the simplification and rationalisation of these laws with a view to making them readily intelligible to the taxpayers, reducing litigation, and, thus, subserving the interest of the national economy. It is also necessary to examine ways and means of improving the administration of these laws and expediting assessment, appellate and other proceedings under these laws. It has, therefore, been decided to appoint a Committee of eminent experts to make recommendations for the simplification and rationalisation of the direct tax laws. It is my intention to ask the Committee to submit its report before the end of the year.

Indirect Taxes

Now, I come to my proposals with regard to indirect taxes. My proposals concerning central excise fall into three categories, the first relates to proposals for raising additional resources, the second to reduction or abolition of excise duties, and the last set of proposals seeks to rationalize and simplify the duty structure.

A 10 per cent excise duty is proposed to be levied on the following five items: (i) hand tools, and small tools not already excisable,

(ii) weighing machines and weigh bridges, (iii) watches, clocks and time-pieces, (iv) electric light fittings, and (v) polishes for footwear, metals, cars, etc. It is also proposed to levy an excise duty of 12 per cent on acetylene gas. Small scale manufacturers of hand tools and small tools, electric light fittings and polishes, will, however, be exempted in respect of their production up to Rs. 1 lakh. These levies are expected to yield a revenue of Rs. 11 crore in a year.

As hon'ble members are aware, in 1975, as an experimental measure, a 1 per cent general excise duty was levied on commodities which did not attract excise duties under any specific heads. The experiment has succeeded in the sense that without imposing any undue burden or harassment we were able to collect an appreciable sum of money, namely Rs. 37 crore. When we stand in need of additional resources, it seems eminently suitable to raise this rate to 2 per cent. In order to minimize the cascading effect, a set off will be given where these goods go into the manufacture of other goods that are themselves excisable.

Realizing that under this excise head fall a large number of small units producing a variety of goods, I have provided that no duty will be levied on any unit whose annual turnover does not exceed Rs. 30 lakh. This will replace the existing exemption based on the number of workers. I am also exempting all non-power operated units from this levy.

Further, small newspapers have already been exempted from this levy. It is now proposed to extend this exemption to medium newspapers also. The big newspapers will continue to pay duty at the existing rate of 1 per cent.

The net additional yield from this group of proposals is expected to be of the order of Rs. 30 crore in a year.

I now come to the hardy annual, namely, tobacco products. At present the rate of *ad valorem* duty on cigarettes increases as the value of cigarettes goes up. The progression in the existing rates is now proposed to be raised. In regard to branded *biris* it is proposed to raise the existing duty of rupee one per thousand to rupees two per thousand. These levies are estimated to yield an additional revenue of Rs. 45 crore in a year.

The present system of taxing cinematograph films is based primarily on the length and the nature of the film, and the number of prints. I intend changing the basis and adopting the value criterion, the revised duty being 10 per cent *ad valorem.* This is a much fairer criterion.

The present specific rates of duty on pigments, paints, enamels, varnishes, etc., are proposed to be replaced by *ad valorem* rates. These are being so adjusted that the duty on the high cost items such as oil-bound paints, enamels, plastic emulsions and varnishes will increase by about 5 per cent generally, while that on the cheaper items like blacks and dry distemper will remain more or less unchanged. These changes are estimated to yield Rs. 4.80 crore in a year.

The excise duty on motor vehicles is also being raised. The rate of duty on motor cars is to go up by 2.50 per cent to 17.50 per cent. Similarly, the rate of duty on two-wheeler and three-wheeler motor vehicles is proposed to be raised from 9 per cent to 12.50 per cent. Since I propose simultaneously to exempt from excise duty tyres, tubes and batteries supplied as original equipment, the net increase in duty for the two and three-wheelers will be about 2.25 per cent. These changes will yield a net revenue of Rs. 5.10 crore annually.

I come now to proposals for reduction or abolition of excise duties. The first industry to benefit is the handloom. At present only cotton yarn supplied in straight reel hanks is exempt from excise duty. It is now proposed to exempt also cotton yarn in cross reel hanks up to 20s counts. It is also proposed to exempt cotton yarn of higher counts in cross reel hanks to the extent of 30 paise per kilogram. Further, I propose to extend similar concessions in respect of viscose spun yarn, because the handloom sector is now consuming substantial quantities of that yarn.

The next beneficiary is the powerloom sector. I propose to exempt it from the existing compounded excise levy. This will free about 80,000 powerloom licensees from excise control.

Handloom and powerloom fabrics have to pay excise duty when they are subjected to various finishing processes, but an exemption is given if bleaching, dyeing and printing is done without the aid of power. It is now proposed to extend this concession to all other types of processing, such as stentering and mercerizing done without the aid of power.

The yarn crimping industry is today suffering from excess capacity and the difference in price between crimped yarn and base yarn cannot sustain the present rate of duty. It is, therefore, proposed to reduce the duty on crimped yarn from Rs. 10 per kilogram to Rs. 5 per kilogram.

I propose to reduce the duty on power driven pumps used for pumping water from 10 per cent to 5 per cent and to exempt power tillers from the general excise levy. Both these concessions will be of particular value to small farmers.

Small paper mills have been passing through difficult times—a few of them have even closed down. I, therefore, propose to reduce the duty leviable on paper produced by these mills, the relief varying on a graded basis from 75 per cent to 50 per cent of the excise duty leviable, dependent upon the installed capacity of the mill. This concession will be subject to the use of non-conventional raw materials and waste paper to the extent of at least 50 per cent. Even larger paper mills if they use non-conventional raw materials to the extent of at least 50 per cent will get a duty relief of 33.33 per cent of the excise duty leviable. This concession is designed to conserve our fast depleting timber resources.

In the match industry, small cottage units are finding it difficult to compete successfully with the bigger units. To help such of these units as are members of registered cooperative societies or are certified as such by the Khadi and Village Industries Commission. I propose to double the existing concession of 55 paise for a gross of match boxes. I need hardly say that these units have a large employment potential.

Mini steel plants are also in difficulties. Their position could be improved if they were provided with fresh melting scrap from the main steel plants without payment of excise duty. I, therefore, propose to exempt from excise duty the identifiable types of fresh melting scrap cleared from the main steel plants as raw material for the mini steel plants.

The revenue from electric insulating tapes and slotted angles is low and further, has to be collected from a number of small producers. I, therefore, propose to delete these articles from the list of specific items in the Central Excise Tariff.

The production of boiled sweets, toffees, candies, etc., has been going down. Sugar, which is a basic raw material, is already subjected to a high excise duty as also are packaging paper and containers used in the confectionery industry. I, therefore, propose to delete these confectionery articles also from the list of specific items in the Central Excise Tariff.

Electronics is one of our growing and promising industries, and offers great scope for development in the small-scale sector. The various concessions that are proposed here are designed to help the growth of that sector. At present the duty on electronic items is on a varying basis, some being specific and others *ad valorem.* It is now proposed to make the basis uniformly *ad valorem.* The large manufacturers producing radios and transistor sets, tape recorders, tape-recorder-cum-radios, stereos and hi-fi musical systems will pay duty varying from 15 per cent to 35 per cent *ad valorem,* depending on the item and the ex-factory price. It is proposed to give small manufacturers a uniform concession of 15 per cent *ad valorem* in the rate of duty, that is to say, the corresponding rates of duty that they will pay will vary from nil to 20 per cent *ad valorem.*

Experience has shown that a judiciously adjusted excise structure acts as a powerful incentive to manufacturers of electronic goods to reduce their prices. We propose to continue with this experiment further. In the case of T.V. sets the 5 per cent concessional rate of excise duty will henceforth be available only where the ex-factory price of a T.V. set with a screen exceeding 36 centimeters is Rs. 1,600 or less, instead of the existing limit of Rs. 1,800. In the case of tape recorders, there will be a concessional rate if the ex-factory price does not exceed Rs. 500. For electronic calculators too, there will be a concessional rate for calculators if the ex-factory price does not exceed Rs. 175.

I shall now expound my proposals concerning rationalisation. We are at present collecting excise duty on woollen yarn from a number of small spinners. This has led to evasion and other malpractices. It is, therefore, proposed to replace the excise duty leviable on woollen yarn by an increase in the customs duty at the stage of import of raw wool, waste wool and rags. As regards wool tops also, with a view to minimising evasion, it is proposed to reduce the present rate of excise duty of Rs. 10 per kg. to Rs. 5 per kg. and to make good the loss by increasing the import duty on raw wool suitably. Both these measures should result in making fabrics using indigenous wool cheaper.

Most steel re-rollers produce bars, rods, angles, etc. which attract an excise duty of Rs. 130 per ton in addition to the duty already paid on ingots. It is proposed to shift this duty of Rs. 130 per ton from the re-rollers to the ingot manufacturers, namely, the main steel plants or the mini steel plants.

The existing scheme of excise duty on cotton yarn is based on a slab system where several counts are grouped together, and provides for sharp increases in the rates of duty when the count of yarn increases from one slab to another. This duty structure encourages under-spinning of cotton in order to avoid payment of duty at the higher rate and leads to wasteful use of cotton. Evasion too is not easy to check. To remove these defects, a new schedule of rates has been proposed where the duty rises gradually with each unit increase in the count of yarn. The new rates include a duty of half a paise per count to enable Government to recoup the loss incurred by exempting powerlooms and hand processors from the excise duty, to which I have referred earlier. As a further measure of rationalisation, viscose spun yarn is proposed to be subjected to the same rates of excise duty as cotton yarn.

Last year, a system of *ad valorem* rates for cotton fabrics was introduced. The rates were, however, dependent on the count of the yarn used in the fabric. To rationalize the structure, I propose to adopt the *ad valorem* systems irrespective of the count of the yarn and with a high degree of progression built into it. The new duty structure has been so devised as to yield approximately the same revenue from cotton fabrics and yarn as is collected at present from these items taken together.

As regards the cloth produced by powerlooms, it will be exempt if it is sold grey or is processed by hand processor, but if it is processed by independent power-operated processors, the rate of duty will be 50 per cent of the composite yarn and fabric rate paid by the mill fabrics.

A major reform which is proposed to be introduced relates to the nomenclature and classification of textile yarns and fabrics. Henceforth, yarn or fabric would ordinarily be classified on the basis of the fibre which predominates by weight. The new system will be much simpler and will remove many working difficulties. Further, the blending of polyester fibre up to one-sixth of the total fibre content will not change the classification of the yarn. This should enable the textile industry to use more polyester fibre without attracting higher duty on the yarn produced, and would be in furtherance of a multi-fibre policy which the Government is in the process of evolving.

Pursuant to the Government's acceptance of the recommendation of the Sixth Finance Commission, from 1976-77 onwards, auxiliary duties of excise have become shareable with the States in the same way as basic duties of excise. Thus, the justification for levying auxiliary duties separately has now disappeared. In order to simplify the structure and to eliminate unnecessary calculations, I have decided to merge the auxiliary duties with the basic duties of excise.

I have also carried out a number of minor modifications in the Central Excise Tariff, which I do not propose to detail here. Full details of these changes are, of course, given in the Budget documents.

The total of the additional central excise levies is estimated to yield Rs. 106.3 crore in a year. The total concessions given will mean a sacrifice of Rs. 15.70 crore in a year. The net yearly increase in central excise levies is, thus, estimated at Rs. 90.60 crore. However, because of the transfer of the duty on woollen yarn and wool tops to imports, there will be a transfer of Rs. 17 crore from Central Excise head to Customs head, thus, giving a net increase of Rs. 73.60 crore under the Central Excise head. Of this, the additional revenue accruing to the Centre in a year will be Rs. 53.80 crore, while the States' share will be Rs. 19.80 crore.

Finally, I come to customs duties in respect of which I have to submit only a few proposals. Indigenous production of watches does not fully satisfy the domestic demand. As a result, considerable quantities of foreign watches are known to be smuggled into the country. Government have accordingly decided to make good the deficiency still remaining by allowing the import of watches through Hindustan Machine Tools Ltd. In order that the indigenously manufactured watches and imported watches are available to the public at reasonable prices I am reducing the import duty on watch parts and watches from 120 per cent to 50 per cent *ad valorem.*

I am proposing also to reduce the import duty on newsprint from 5 per cent to 2.50 per cent *ad valorem.*

I would now make certain proposals designed to stimulate industrial growth and to enhance the competitiveness of our industry. In order to introduce a measure of competition, it is proposed to allow the import of certain selected items of capital goods without prior security from the indigenous angle. At the same time, in order to enable the Indian capital goods industry to meet foreign competition more effectively, I propose to bring down the rate of import duty on copper wire bars used for the manufacture of certain larger sized electrical motors, generators and transformers from the existing level of 45 per cent *plus* Rs. 5,600 per ton to 40 per cent *ad valorem.* Similarly, the rate of duty on cold rolled non-grain-oriented sheets, alloy steel, tool steel, special steel and high carbon steel is also proposed to be brought down from 75 per cent to 40 per cent. Further, stainless steel plates, sheets and strips of 16 gauge and thicker which are used in the manufacture of capital goods and which are today charged to 120 per cent or 320 per cent duty depending on the gauge, are proposed in future to be charged to 40 per cent duty only. Utensil grade stainless steel of 22 gauge and thinner, which today attracts a duty of 320 per cent will be charged to import duty at 120 per cent. Varying rates of duty are proposed to be fixed for the intervening gauges, taking into account the possibility of re-rolling imported products. It is estimated that the reduction in duties on these copper and steel items will mean a revenue sacrifice of the order of Rs. 36.25 crore at the existing level of imports.

The effect of the increases in Customs duties proposed by me will be an additional revenue of Rs. 15.50 crore in a year. The reliefs total Rs. 37.70 crore in a year thus resulting in a net reduction of Rs. 22.20 crore. But taking into account the transfer of Rs. 17 crore from the Central Excise head to the Customs head, the overall effect of the budget proposals on Customs revenue will be a reduction of Rs. 5.20 crore in a year.

Taking Union Excise duties and Customs duties together, the net yield for the Centre in a year will be Rs. 48.60 crore. The yield during the remaining part of the current financial year will be Rs. 38.20 crore.

My proposals will yield, in all Rs. 130 crore for the Centre in the current year. The deficit of Rs. 202 crore which I mentioned earlier will, thus, be reduced to Rs. 72 crore. This is a relatively small amount and is unlikely to have any inflationary effect.

Conclusion

With this, I have come to the end of my labours. My aim in this Budget is to stimulate the economy into achieving a higher rate of growth of output and employment, and simultaneously to ensure that the fruits of economic progress are as widespread as possible. The emphasis on investment in agriculture, small and village industries and rural infrastructure is designed to achieve these objectives. My tax proposals seek to enlarge the pool of national savings while strengthening the role of taxation in reducing disparities of income and wealth. I have taken special care to widen opportunities for the small man—be he a farmer, an artisan or a technocrat. It would be futile to pretend that we can achieve at one stroke the full utilization of the latent energies represented by our vast human resources. But a beginning has to be made. I venture to think that this Budget marks such a beginning.

My party has emphasized liberty. But liberty does not mean freedom to starve and freedom to feel unwanted. Large-scale poverty and unemployment degrade those who have to suffer them, and debase those who tolerate them. We owe it to ourselves to see that these twin scourges are eradicated as quickly as possible. We have a long and a difficult road ahead of us. But there can be no doubt about our commitment to our goals and ideals. I believe we are on the right course, and this Budget represents the first step, however small, in that direction.