SPEECH OF
SHRI H.M. PATEL,
MINISTER OF FINANCE,
INTRODUCING THE BUDGET FOR THE YEAR 1978-79*

Highlights

— *Expediting Irrigation Projects*

— *Demonetisation of High Denomination Bank Notes to Control Illegal Transactions*

— *Encouraging Export of Gold Jewellery*

— *Implementing the Recommendations of the Direct Tax Laws Committee*

— *Examining the recommendations of the Committee on Indirect Taxes*

— *Withdrawal of Interests-Tax*

Sir, I rise to present the Budget for the year 1978-79.

The Economic Survey has presented a detailed review of the trends in the Indian economy for the current year. I shall, therefore, refer only briefly to them.

We inherited a highly explosive inflationary situation when we took office. Prices in 1976-77 went up by over 12 per cent. In a year in which real gross national product increased by less than 2 per cent, money supply went up by 20 per cent. Thus, at the beginning of 1977-78, the economy was faced with a massive excess of liquidity which threatened to unleash a fresh bout of inflation. In the early part of the year, our Government, in the process of honouring its commitments made to the people, withdrew the compulsory deposit scheme and also restored the statutory bonus of 8.33 per cent. These measures, no doubt, further added to the pressure of demand. Against this background, it is the most gratifying that the economy has been so managed during the current year as to ensure that prices did not increase. Hon'ble members will be pleased to note that the wholesale price index is today lower than the level inherited by us from the previous Government.

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* *Lok Sabha Debate,* 28.2.1978, cc. 337-375.

This relative price stability has been achieved by pursuing an active policy of supply management and public distribution and a policy of restriction on money and credit. The issue of cereals and sugar from the public stocks has been liberal. Large quantities of edible oil, cotton and artificial fibres were imported to make up domestic shortfalls. Exports of a number of essential commodities were regulated and export duties were adjusted in order to increase domestic availability. Both administrative and monetary steps were taken to ensure that speculative hoarding did not take place and cornered stocks came on to the market. At the same time an active support programme was pursued with regard to many commodities other than cereals to ensure incentives for adequate production. We can justifiably claim that significant progress was made towards evolving an integrated price and distribution policy for essential commodities.

I derive added satisfaction from the fact that relative price stability has been maintained against the background of a rapidly expanding economy. The gross national product will register a satisfactory growth of 5 per cent in the current year as compared to 1.6 per cent in 1976-77. Agricultural production which had declined sharply last year is expected to more than make up the lost ground. Foodgrain production is expected to exceed last year's level by about 10 million ton despite the natural disasters in the South. The production of commercial crops is also expected to improve considerably.

This result has been achieved in part due to good weather but to an even greater extent because of the increased irrigation potential, increased use of fertilizers, pesticides and high yielding variety seeds. Additional irrigation potential created during the year will be 2.23 million hectares— the highest achieved in a single year so far. The use of fertilizers is expected to go up by 23 per cent to 4.2 million ton. The area under high yielding variety seeds is expected to increase to nearly 35 million hectares in 1977-78, an increase of more than 2 million hectares over the previous year. Clearly the basis now exists for a more dynamic growth of agriculture in the years to come.

The balance of payments continues to be strong. Export growth has, however, slowed down considerably. Slow growth of the world economy, growing protectionism, a sharp decline in some commodity prices and a lack of demand for others account for this. It is important, therefore, that we do not relax in our export efforts. We should indeed continue to strengthen the export organisation that has been built up and the image of Indian exports that has been created while simultaneously improving the competitiveness of our exports further.

The country's foreign exchange reserves have risen further, despite an increase in imports, because of continued inward remittances and a small surplus on trade account. Since reserve accumulations amount to lending abroad, these should be drawn down and used for internal development by a poor country like India.

A number of steps have been taken to utilise these reserves but the continued accretion indicates that these are not enough. I, therefore, propose to create a new facility under which term lending financial institutions and public sector banks will provide rupee finance on appropriate terms to cover the import costs of approved projects. This will be in addition to the rupee finance which is already being made available to cover domestic costs. A consortium of banks will be formed to provide such loans, supplementing the finance by the term lending institutions.

At the same time, I want to dispel the impression that our reserves are so large that they have to be spent without any real justification. The fluctuations in our balance of payments arising from swings in agricultural production and in the prices of some of our essential imports are large, and we do not have a secondary line of reserves as the developed countries have. A substantial volume of reserves is, thus, necessary for us to have manoeuvrability and flexibility in our development policy. We should, therefore, use them wisely to increase our development potential and not fritter them away.

Industrial production in the current fiscal year is expected to show an increase of 5-6 per cent. This is no doubt less than the growth of industrial production in 1976-77. However, it has to be recognised that the lower growth rate this year is to a large extent due to the shortage of power which is directly attributable to the past neglect of this vital sector. Besides, a substantial part of the increased output of major industries in 1976-77, such as iron and steel and coal went into inventories rather than in satisfying final demand. By contrast, inventories in these industries have shown a healthy decline in the current year.

It goes without saying that we cannot be satisfied with the present rate of growth of industrial production. We must strive for acceleration in industrial growth since it can make a material contribution in generating new employment opportunities, maintaining price stability and providing savings for future growth. An increase in public investment, particularly in infrastructural facilities such as power, coal, transport and irrigation can provide the necessary fillip. In addition, there is an urgent need to improve project implementation and make an effective use of resources.

An improvement in the state of consumer goods industries depends upon cost reduction through more efficient operation and modernisation and on generation of a more broad-based demand. An increase in rural incomes resulting from the increased emphasis on agricultural investment and rural development should prove beneficial to a wide range of industries. This only reinforces our conviction that rural development should constitute the heart of the future strategy of growth.

The role of exports should not be underestimated in this regard. Export demand has sustained to a significant extent industries like engineering, leather, iron and steel, textiles and sugar. Though in a continental economy like India export led growth may be out of question, the important role which exports can play in sustaining production and investment needs to be emphasized. The relative freedom and manoeuvrability which growing export earnings have given to policy making underscore the importance of a sustained export drive.

In spite of the considerably better economic performance during the current year, the basic problems of unemployment and poverty continue to be with us. A year is too short a period to make any serious impression on these gigantic problems. We made a beginning last year by allocating more resources to agriculture and ancillary services, irrigation and rural infrastructure. We will have to persist along these lines because it is only over time that the necessary increase in output and employment will come about. The effort to plan, build an implementation organisation, arrange supply lines of inputs and marketing will have to go on unremittingly. The details of this general strategy of development will be available to us when the new Plan is presented to the nation next month.

Certain broad decisions which will be part of this strategy have already been taken. Government have formulated a target of creating an additional irrigation potential of 17 million hectares in the next 5 years. Nine million hectares will be under major irrigation and 8 million hectares will be under minor irrigation so that an optimal use will be made of both surface and ground-water resources. Simultaneously efforts will be made to ensure that this potential as well as existing facilities are used effectively. The supply of inputs will be increased through investment in industries like electricity and fertilizers. Government will also promote the use of organic manures along with chemical fertilizers to protect the quality of the soil over the long run. Command area development programmes will be implemented vigorously.

In many parts of the country a large proportion of the area under cultivation is without irrigation at present and it will be without irrigation in the future as well because of lack of adequate surface or ground water resources. These areas also have to prosper if rural disparities are not to widen. Therefore, much more attention will have to be paid to dry cultivation methods. This is extremely important because all of our millets, and a large proportion of pulses, oilseeds and cotton are grown under such conditions, leading to low growth of output and violent fluctuations in output and prices.

Along with agriculture small industries and rural industries have an important part to play in the elimination of poverty and unemployment. The new Industrial Policy Statement embodies this goal of Government policy. Large areas of production have been reserved for cottage and small industries and an improved organisation which will help them grow faster has been outlined. At the same time, since many of these industries may not be viable without a great deal of technical improvement, there is an urgent need to undertake research and render technical assistance to them. I earnestly hope that efforts in this direction will be made by public sector enterprises and others in the organised sector.

Industrial unrest has been causing a great deal of anxiety this year. A certain reaction to the earlier constraint under the obnoxious emergency regime is understandable. But output is likely to be affected seriously if this unrest is allowed to continue unabated. While the legitimate demands for additional emoluments should be met, these have to be appraised against the socio-economic realities of the country. It is, therefore, important to have guidelines to determine a wages, incomes and prices policy. We have appointed a study group to suggest guidelines for such a policy. Its report is due to be submitted shortly. A loss of production is not in the interest of the country. It is, therefore, of the utmost importance that labour, management and Government cooperate in bringing about harmonious industrial relations.

The availability of resources for development does not seem to have kept pace with the need for investment. This is because of the rapid increase in non-development expenditure and the erosion of the resource base. Therefore, it is necessary to practice the utmost economy in administrative expenditure and to curtail the various concessions and subsidies given to different sections of society without adequate economic justification. We should aim at greater cost effectiveness through better project planning and implementation. The working of public sector projects should be improved still further so that their surpluses contribute more to the public Exchequer.

There is also an urgent need to increase individual and corporate saving if increased investment expenditure is to take place without any adverse pressures on prices. This would require greater simplicity in the life style of those individuals who can save, and a greater efficiency and a reduction in essential expenditure on the part of corporations.

Revised Estimates for 1977-78

In the Revised Estimates for 1977-78, the revenue from income and corporation taxes shows a shortfall of Rs. 36 crore and Union excise duties are expected to yield Rs. 140 crore less than the Budget Estimates of Rs. 2,336 crore and Rs. 4,593 crore respectively. This is mainly due to the slower growth of industrial production in certain sectors. The yield from customs revenues and the interest-tax, on the other hand, is expected to show an improvement of Rs. 52 crore and Rs. 16 crore over the Budget Estimates of Rs. 1,728 crore and Rs. 99 crore respectively. After allowing for States' share of taxes and duties, which remains at Rs. 1,799 crore as in the original Budget. Centre's share of tax revenue will be less than the Budget estimate by Rs. 100 crore.

Market loans will exceed the Budget figure of Rs. 1,000 crore by Rs. 183 crore, because of larger deposit accretions with banks. But net receipts on account of external assistance will be lower than the Budget Estimates of Rs. 1,052 crore by Rs. 275 crore. This is due to the fact that a larger proportion of aid received now is project aid which is by nature slow disbursing. Programme assistance, which would have been utilised quickly, has been reduced because of the improvement in our balance of payments.

During the course of the year a number of decisions taken by Government for the benefit of large sections of the population cast additional burdens on the Budget. To benefit farmers, the procurement prices of paddy and wheat were increased during the year without raising the issue prices from the public distribution system. Again, urea prices were further reduced by Rs. 100 per ton in October last year, though in the course of the year the cost of imported fertilizers increased significantly and the retention prices to domestic manufacturers of fertilizers were raised to improve their viability. This policy of pricing fertilizers involves a subsidy from the Central Budget which is much more than the revenue from import and excise duties on fertilizers.

A number of benefits were given to Central Government employees. An additional instalment of dearness allowance was sanctioned to them during the year. The rate of interest on Government provident funds has been enhanced and the incentive bonus scheme for those subscribers who do not make withdrawals has been further liberalised. The pensioners too were sanctioned another instalment of relief from September 1977. These and other concessions given add up to a substantial expenditure.

Non-Plan revenue expenditure, excluding Defence, is likely to exceed the Budget Estimates of Rs. 5,436 crore by Rs. 118 crore. Of this increase, Rs. 84 crore is under export promotion, due mainly to a spill over of payments pertaining to 1976-77 and the introduction in the current year of a system of quicker disbursement of assistance to exporters. Barring this increase, non-Plan revenue expenditure has been kept practically within the original Budget despite the additional burdens already mentioned. This is a welcome departure from the trend in the past several years of a steep increase in non-Plan expenditure. We have been able to achieve it by enforcing the utmost economy and pruning in essential expenditures to the maximum extent possible.

The variations in non-Plan capital expenditure have been somewhat wider. There has been a net increase of Rs. 100 crore on account of technical credits to foreign countries under bilateral rupee trade agreements. These credits will be repaid when the imbalance in trade is corrected subsequently. The net outgo on account of fertilizer imports will be Rs. 190 crore more due partly to bunching of imports towards the end of the year, and partly to a rise in international prices.

As the hon'ble members are aware, we have restored to the workers the minimum bonus of 8.33 per cent for the year 1976. A wage settlement was also reached with port and dock workers involving arrear payments from January 1974. These have imposed an additional financial burden on public sector enterprises. This and certain other adverse factors have led to an increase of Rs. 113 crore in the budgetary support to public sector undertakings.

The expenditure on Defence continues to be the same as in the original Budget, *viz.* Rs. 2,752 crore.

Revised Estimates show that Plan expenditure from the Budget on petroleum, fertilizers, steel and telecommunications is going to be substantially less than in the Budget. This was mainly due to slippages in delivery schedules of machinery and equipment and in civil construction. Also, a few public sector undertakings were able to generate more internal resources than anticipated earlier and therefore, needed less budgetary support for financing their Plan outlay.

On the other hand, the total outlay on agriculture including rural development is expected to increase by Rs. 12 crore. Plan expenditure on health will also be higher by Rs. 13 crore, mainly on account of the intensification of the malaria eradication programme. New schemes and accelerated work on on-going schemes, specially those linked to steel and power plants, have led to an increase of Rs. 13 crore in the outlay on the coal sector.

Overall, the budgetary outlay on Central Plan schemes is expected to be Rs. 230 crore less than the original Budget provision of Rs. 3,978 crore. I am not at all happy about the pace at which expenditure on Plan projects takes place. What is needed is a drastic change in organisation. It is proposed to devote much greater attention to this question in the coming months.

Central assistance to the States' Plans will be Rs. 2,031 crore as against Rs. 1,617 crore provided in the Budget. An additional sum of Rs. 414 crore was provided as a cover for the gap in States' resources for financing their Plans and as advance Plan assistance to the States affected by the recent unprecedented natural calamities.

When I presented the Budget last year I had estimated a budgetary deficit of Rs. 84 crore. This was after I had taken credit for a borrowing of Rs. 800 crore from the Reserve Bank of India on the assumption that foreign exchange reserves would be drawn down during the year. My anticipation of the country's ability to draw down the foreign exchange reserves has not materialised. Since I had made a clear commitment that I would use this credit from the Reserve Bank only if the reserves were drawn down. I do not propose to resort to this borrowing. The total budgetary deficit is now expected to be of the order of Rs. 975 crore. This may appear to be a sizable sum but let me first clarify that of this amount, the sum of Rs. 414 crore is directly accounted for by the additional assistance which I was compelled to make to the States on account of their deficits. Members will recollect that I had drawn attention to the improvident financial policies of the outgoing Governments in the States. In addition a number of States which suffered serious damage on account of cyclones and floods had also to be assisted. As a result there was substantial erosion of resources. It was my duty to assist the new Governments of the States so as to enable them to start on a reasonably clean slate. Having done so, I can reasonably expect them to manage their affairs hereafter in such a way that they do not need to have resource to unauthorised overdrafts. I would like to state categorically that it will be my endeavour to put a stop to this unhealthy practice.

Another large sum of Rs. 190 crore is accounted for by importation of fertilizers. We have in fact by this process converted foreign exchange into a valuable fertilizer stock position and in this process we have not added to the money supply. Hon'ble members will appreciate that despite what seemingly appears to be a major deficit, the Government's prudent policies of supply management and credit restraint have controlled any possible adverse effects and indeed we have ended the year with no inflation at all.

Budget Estimates for 1978-79

The Annual Plan for 1978-79 has been prepared pending the finalisation of the new National Plan. The Fifth Plan is being terminated at the end of the current financial year and the new Plan will start from 1 April 1978. The Planning Commission is presently engaged in formulating the new strategy of development in keeping with the changed priorities. It will be finalised after the National Development Council deliberates upon it next month.

Hon'ble members will appreciate that planning being a continuous process, at any point of time there is a large number of schemes and programmes under way which cannot be given up. Besides, many of these projects are in advanced stages of completion and therefore, adequate provision is necessary if these are to yield timely results. These considerations have circumscribed our freedom in reordering Plan priorities for 1978-79. Nevertheless, I venture to say, the Annual Plan for 1978-79, as it has emerged, reflects the present Government's commitment to a new agriculture-oriented and employment-intensive strategy for development.

The total outlay on the Annual Plans of the Centre, States and Union territories for 1978-79 will be Rs. 11,649 crore as against Rs. 9,960 crore in 1977-78. This represents an increase of 17 per cent. Continuing schemes absorb as much as Rs. 10,465 crore of this outlay. Out of the remainder, Rs. 150 crore have been allocated for starts on new power projects and Rs. 1,034 crore for schemes under other sectors. As much as 80 per cent of the latter *i.e.,* Rs. 828 crore, is accounted for by agricultural and other schemes subserving the development of rural areas.

The Central Budget for 1978-79 contains a provision of Rs. 7,281 crore for the Central Plan and for assistance towards the Plans of States and Union territories. The corresponding figure for 1977-78 was Rs. 5,790 crore.

A provision of Rs. 2,761 crore has been made for Central assistance for States' Plans and for Union territories' Plans, the sub-Plans of the Hills and Tribal areas, North-Eastern Council and assistance to the Rural Electrification Corporation. A provision of Rs. 4,520 crore has been made in the Budget towards the Central Plan. Together with the internal and other resources of public sector undertakings, the Central Plan will be Rs. 5,664 crore in 1978-79 as against Rs. 4,939 crore in 1977-78. Inclusive of their own resources, the plans of States and Union territories will add up to Rs. 5,985 crore as compared to Rs. 5,021 crore in 1977-78.

For the first time in many years, the States and Union territories Plans together will be larger than the Central Plan. The step up in the outlay on States' Plan as a whole is 19 per cent while the Plans of the Union territories will go up by 27 per cent. The Central Plan, on the other hand, will be increased by 15 per cent. This reflects a reordering of our Plan Priorities in favour of agriculture, irrigation, power and rural development all of which figure prominently in States' Plans and in some measure a shift towards greater decentralisation in planning. Full provision has been made in each States' Plan for meeting the requirements of agriculture, the ongoing measure and medium irrigation projects as well as power projects. Adequate provision has also been made for essential new schemes in these two sectors.

In keeping with our emphasis on agriculture and rural development, the Plan outlay for agriculture has been raised by Rs. 490 crore to Rs. 1,754 crore for 1978-79. In particular the outlay on Command Area Development has been stepped up from Rs. 49 crore in 1977-78 to Rs. 82 crore in 1978-79 and that on Small Farmers' Development Agency in the Central Plan from Rs. 45 crore to Rs. 115 crore in 1978-79. The outlay on the drought prone area programme has been raised from Rs. 51 crore in 1977-78 to Rs. 76 crore for 1978-79. The Desert Development Programme is being allocated Rs. 20 crore for 1978-79 as against only Rs. 6 crore in 1977-78.

In the new planning strategy, block development plans will be a major instrument for achieving full employment in rural areas in a time bound programme. The details of this programme are being worked out. In the meanwhile, I have made a token provision of Rs. 20 crore for this programme. This provision will be enlarged as the full details of the programme are known.

As part of the new strategy for rural development, it is proposed to launch a massive programme of dairy development—Operation Flood II—which will raise the nutritional standards of the people, generate employment for about 4 million people in the first phase and augment the incomes in rural areas through a viable subsidiary occupation. The project which is estimated to cost nearly Rs. 500 crore is being processed for implementation but meanwhile action on certain essential pre-programme elements has already been authorised so that the main work on the programme may start in time.

Having regard to the extensive coastline of our country and the large number of people engaged in fisheries the outlay on fisheries in the Central Plan is being raised from Rs. 33 crore in 1977-78 to Rs. 61 crore in 1978-79. This enhanced outlay will, apart from strengthening basic infrastructural facilities, enable us to enlarge employment and augment the incomes of fishermen.

In my last Budget speech, I had indicated that as part of a comprehensive programme of rural infrastructure development it was necessary to accelerate the construction of all weather approach roads and the provision of drinking water facilities in problem villages. In 1978-79, the outlay on rural roads in the States' Plans has been stepped up to Rs. 115 crore as against the current year's outlay of Rs. 85 crore. The provision for rural water supply in the States' Plans in 1978-79 will be of Rs. 105 crore as against Rs. 70 crore in the current year. This will be supplemented by a special provision in the Central Plan to the extent of Rs. 60 crore. The promise made last year that the allocations for rural water supply and rural roads will be enhanced has thus been redeemed. I will go further and extend an assurance to the States that if these programmes are implemented effectively I shall be prepared to consider increasing these allocations.

I have already emphasised the need to improve the opportunities for gainful employment in rural areas through the development of rural and small-scale industries. The total allocation for these in 1978-79 will be Rs. 219 crore against Rs. 145 crore in 1977-78.

The programmes for welfare of the Scheduled Castes and other backward classes will receive a special impetus with a step up in the outlay from Rs. 86 crore in 1977-78 to Rs. 125 crore in 1978-79. The outlays in the States' Plans for tribal development will be increased from Rs. 258 crore in 1977-78 to Rs. 343 crore in 1978-79. In addition, the special Central assistance for tribal sub-Plans will be stepped up from Rs. 55 crore in 1977-78 to Rs. 70 crore in 1978-79.

The creation of an additional irrigation potential of 17 million hectares during the next five years is an ambitious programme which will call for a large increase in investment and a restructuring, strengthening and streamlining of the organisational set-up for planning, execution and monitoring. The outlay on major and medium irrigation projects for 1978-79 will be Rs. 1,166 crore as against Rs. 1,032 crore in 1977-78. The Plan outlay for minor irrigation will be Rs. 235 crore in 1978-79 as against Rs. 206 crore in 1977-78. It will be supplemented to a large extent by loans from the Agricultural Refinance and Development Corporation. It is expected that an additional irrigation potential of 3 million hectares will be created during 1978-79 as against 2.23 million hectares in 1977-78.

Inadequate allocations in the past for power and the leisurely pace of execution of electricity projects have led to a chronic shortage of this basic infrastructure facility. Both these need to be corrected if recurrent power shortages are not to hold up our progress. Therefore, the Plan for

1978-79 envisages a massive addition to generating capacity and the development of the transmission and distribution system. Works on schemes with a total capacity of about 30,000 MW would be in different stages of execution in the coming year. Of this about 3,500 MW will be commissioned in 1978-79 as against about 2,000 MW expected in the current year and the total generating capacity in the country will then be raised to 29,000 MW.

In the Central sector, provision is being made for fresh starts on a number of projects such as the Koraba Super Thermal Project, the Ramagundam Super Thermal Project, the power station including the second mine cut at Neyveli, the Badarpur Thermal Station Stage III, the Bokaro Thermal Station of Damodar Valley Corporation (DVC), and the pumped storage plant of Panchet Hill. Provision has also been made for taking up new 400 KV transmission lines in the Central sector associated with super thermal stations and in the States. Work on load despatch stations is also being accelerated. This should give the House an idea of the programme of power generation which we are going to undertake.

A sum of Rs. 244 crore has been provided in the Central Plan for power development. The outlays in States' and Union territories' Plans, which account for bulk of the provision for power, add up to Rs. 1,953 crore. The provision in 1978-79 for the power sector would be Rs. 2,217 crore compared to Rs. 1,925 crore in the current year. In view of the importance of rural electrification the provision for it has been raised to Rs. 297 crore as compared to Rs. 195 crore in the current year. We shall ensure that these projects are implemented quickly and efficiently so that the economy derives full benefit from such a large volume of investment.

A provision of Rs. 6.30 crore is being made for the oil sector in 1978-79 because there can be no slackening of our efforts towards self-sufficiency in crude oil. This is yet another step forward in the nation's march towards self-reliance.

A Budget provision of Rs. 563 crore is being made for steel in 1978-79 as against Rs. 511 crore during 1977-78. The requirements of Bhilai and Bokaro expansion programmes, the cold rolled grain oriented plant at Rourkela and the Salem steel plant have been met. The outlay on Kudremukh project is being stepped up from Rs. 142 crore in 1977-78 to Rs. 213 crore next year, in order to be able to meet the deadline set for the completion of the project.

An impression has been sought to be created that this Government is giving less emphasis to family planning. Such an impression is totally unwarranted. Our commitment to a vigorous and nation-wide programme of family planning is firm and clear. A provision of Rs. 393 crore is being made in 1978-79 for health and family welfare as against only Rs. 284 crore in 1977-78. It is now felt that instead of concentrating only on the narrow aspects of family planning a broader concept of family welfare will lead to a better acceptance of family planning practices. Funds have also been provided on an adequate scale both in the Central and States' Plans for expansion of health cover for rural areas including the Scheme for community health workers.

This Government fully recognises that science and technology have a valuable contribution to make in the modernisation of our economy and in the growth of agriculture and industry. Hon'ble members will be glad to know that the outlay on Science and Technology has been increased from Rs. 179 crore in 1977-78 to Rs. 220 crore for 1978-79, *i.e.,* an increase of 23 per cent. Similarly the provision for the Indian Council for Agricultural Research has been increased from Rs. 37 crore in 1977-78 to Rs. 51 crore for 1978-79. The Indian Satellite Project (INSAT-I) for which a provision of Rs. 23 crore has been made for 1978-79 also needs special mention. This project is unique in that it combines a package of facilities covering telecommunication, meteorology and television.

Non-Plan revenue expenditure other than Defence, is estimated at Rs. 5,908 crore showing an increase of Rs. 354 crore over the Revised Estimates for the current year. Interest payments and grants to States together account for an increase of Rs. 384 crore. If we exclude these two items the other non-Plan Revenue Expenditure will be less than the Revised Estimates for the current year. This has been made possible by a rigorous scrutiny of non-Plan expenditure pruning it with a view to achieving the utmost economy. The various subsidy payments have also been reviewed in the light of their continued relevance in the present economic situation and the provisions, therefore, have been suitably reduced. Non-Plan budgetary support to public sector enterprises will also be Rs. 127 crore less than in the current year.

Defence expenditure next year will be Rs. 2,945 crore as against Rs. 2,752 crore in the current year.

Gross tax revenue for 1978-79 at the existing rates of taxation, is expected to amount to Rs. 9,636 crore showing an increase of Rs. 730 crore over the Revised Estimates for the current year. Income tax and corporation tax receipts are expected to go up by Rs. 115 crore and Rs. 145 crore respectively. Union excise duties are estimated to yield Rs. 374 crore more. The yield from customs revenue will also be more by Rs. 70 crore. States' shares of taxes and duties at Rs. 1,929 crore will be higher by Rs. 130 crore.

Market loans will yield Rs. 1,650 crore as compared to Rs. 1,183 crore in the current year. Net external assistance after providing for repayments and interest payments, is estimated at Rs. 1,138 crore, including disbursement against new credits.

Taking other receipts into account, total receipts in 1978-79 are estimated at Rs. 17,021 crore. Total expenditure for the coming year will be Rs. 18,417 crore. The overall budgetary gap at the existing rates of taxation will thus be Rs. 1,396 crore. The hon'ble members will recollect that the Government announced yesterday their decision to sanction with effect from 1 January 1978, another instalment of dearness allowance to Central Government employees. Government's new policy in regard to sugar industry was also announced yesterday. These two decisions may cast an additional burden of the order of Rs. 80 crore on the Central Exchequer next year. Understandably I have not taken this into account in my Budget proposals. It is, however, my hope that this additional burden will be substantially accommodated within the Budget Estimates by economy measures which are being progressively implemented.

The gap of Rs. 1,396 crore is clearly a very substantial gap and places on my shoulders a difficult and challenging responsibility to find ways and means of bridging the gap. I have already enumerated a number of favourable factors in the national economy which give us the necessary strength and opportunity to manage the economy even with a large though reasonable deficit without creating inflationary conditions. However, prudence would require that the deficit, no matter how reasonable, should be kept as low as possible and it is, therefore, necessary to mobilise additional resources to the maximum extent possible. I am sure that the nation will willingly make a substantial contribution towards the fulfilment of a national Plan of a magnitude which will enable us to reach our objectives at a faster pace.

In making my proposals for resource mobilisation, I have borne in mind the salutary principles of tax policy which have been laid down in the Economic Policy Resolution of the Janata Party issued in November 1977. These principles bear repetition.

"We believe that the taxation policy of the Government must keep in mind five considerations:

(1) Increased public investment expenditure must necessitate increased public income. The people of the country, therefore, have to accept the burden of higher taxation needed for investment in the future.

(2) Taxation policy must simultaneously aim at redistributive justice and must take into consideration the capacity to pay.

(3) Taxes should be easy to collect and it should be easy for the taxpayer to know what he has to pay. There is urgent need for the simplification and rationalisation of the tax administration.

(4) Taxes must have an in-built growth potential and inherent buoyancy.

(5) Taxation policy must aim at stimulating national growth and must encourage production and savings."

I have had the advantage also of receiving advice from all sections of society and from all parts of the country. In addition I have received two important reports—the interim report of the Choksi Committee on Direct Taxes and the final report of the Jha Committee on Indirect Taxes. These reports contain a number of valuable suggestions and I have given them respectful consideration.

Before I come to my taxation proposals, I would like to make some important policy announcements which have a bearing on the budgetary position.

The Demonetisation of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements. Despite the utmost vigilance of the Customs authorities and considerable seizures and confiscations of smuggled gold, it is an unfortunate and distressing fact that gold smuggling has to some degree continued. The substantial difference between Indian gold prices and international gold prices has served as a temptation to smugglers. Gold smuggling is not only illegal but has helped to sustain black money operations and foreign exchange racketeering. It is, therefore, necessary for us to think of economic measures in addition to preventive measures to tackle this evil of gold smuggling. We have given very careful thought to the question and have decided to commence the sale of gold from the stock held by Government. The details of the scheme are being worked out and will be announced shortly.

There is an excellent market for Indian gold jewellery abroad which would not only enable us to earn a significant amount of foreign exchange but also gainfully employ the undoubted craftsmanship of Indian jewellers. Hitherto the export of gold jewellery has been inhibited by the high local price of gold, restrictions placed on such exports and the complex and cumbersome bonding procedures. Government have, therefore, decided to introduce a simplified scheme for the encouragement of the export of gold jewellery. Such exports will be facilitated either by allowing importation for gold or by the sale of Government gold stocks at international prices. The details of the scheme will be announced very shortly.

Members will recollect that the Janata Party manifesto had contained a promise that the question of removing sales tax and octroi duties would be duly considered by the Government. I have had a series of discussions with the Chief Ministers and Finance Ministers of the States to achieve this desirable objectives. The total revenue from sales tax is of the order of Rs. 2,500 crore and it is growing steadily. It constitutes the main source of the revenue of the States. The Chief Ministers of the States have generally showed a lack of enthusiasm for the abolition of the sales tax. In view of the attitude of the States and since sales tax is a State subject the task of persuading the States to give up sales tax calls for persistence and patience. It certainly cannot be regarded as something which can be accomplished in the immediate future.

The octroi duty, however, stands on a different footing. The revenue from octroi duty is of the order of Rs. 250 crore. There has been a long standing demand for the removal of this obnoxious levy which causes great inconvenience to trade and the transport industry. All committees which have gone into the subject have unanimously proposed its abolition, studies have also revealed that the cost of collection of the octroi duty is unduly high. There can be no two opinions that the removal of octroi duty will be widely welcomed since its abolition will assist the orderly and healthy growth of the transport system in the country and will considerably reduce freight costs. I, therefore, propose to request the State Governments to introduce suitable legislation for the removal of octroi. The octroi revenues are at present going to the local authorities. Quite understandable they will seek from the State Governments a reimbursement for the loss of revenue and in turn the State Governments will also claim a measure of compensation from the Centre. We shall held discussions with the State Governments for finding a satisfactory solution.

I have now to say a few words on behalf of my colleague, the Minister of Communications. The upward revision of emoluments of employees in the past few years has resulted in substantial increase in the expenditure of the Postal Branch of the Posts and Telegraphs Department which is highly labour intensive. The revenues have not, however, kept pace with the expenditure and the costs of various postal services exceed the revenues earned. Consequently, the Postal Branch has been incurring a deficit which is estimated at about Rs. 23 crore in the current year. While there is justification for increasing the tariffs for most of the postal services, it is proposed to touch only those services which will not affect the common man, particularly in the rural areas. A memorandum showing the proposed changes in the postal tariffs is being circulated along with the Budget papers.

The tariff revisions, which will be given effect to from a date to be notified by the Government, after the Finance Bill is passed, are estimated to bring in an additional revenue of Rs. 13.73 crore per annum. The yield during 1978-79 is estimated at Rs. 11.44 crore. The results of the tariff revisions have been accounted for in estimating the internal resources of the Posts and Telegraphs.

I shall now deal with my proposals in the sphere of direct taxes.

I have kept in view the fact that a substantial increase in investment has necessarily to be backed by increased efforts at mobilisation of savings. My proposals in the field of direct taxes are accordingly designed to promote larger savings; to curb extravagant and wasteful expenditure in businesses and professions; and to channelise funds for stimulating growth and production. I have also sought to provide some tax relief in selected areas with a view to encouraging larger investment in desired directions.

In order to mobilise additional resources in the form of savings, I propose to raise the rates of compulsory deposit in the case of income tax payers. While taxpayers having current income up to Rs. 15,000 will continue to enjoy immunity from the requirement of making compulsory deposit, in the case of income exceeding Rs. 15,000 and up to Rs. 25,000 the rate will be raised from 4 per cent to 4.5 per cent. On the slab of Rs. 25,000 to Rs. 70,000 compulsory deposit is currently made at the rate of 10 per cent. I propose to split this slab into two. While the rate on the slab of Rs. 25,001 to Rs. 35,000 will be 11 per cent, the rate on the slab of Rs. 35,001 to Rs. 70,000 will be 12.5 per cent. On the slab over Rs. 70,000 the rate will be raised from 12 per cent to 15 per cent. Approximately, Rs. 25 crore will accrue in 1978-79 as a result of this measure.

I propose to liberalise the concession in respect of long-term savings through life insurance, provident fund contributions and other approved forms of saving. At present, 100 per cent of the first Rs. 4,000 of the qualifying saving, 50 per cent of the next Rs. 6,000 and 40 per cent of the balance is allowed as deduction in computing the taxable income. I propose to allow a deduction equal to 100 per cent of the first Rs. 5,000 of the qualifying saving. The quantum of deduction in respect of the next Rs. 5,000 will continue at the existing rate of 50 per cent and, in respect of the balance, at the existing rate of 40 per cent. The monetary limit for the savings qualifying for deduction under this provision is also being raised from Rs. 20,000 to Rs. 30,000. These measures will result in a revenue loss of Rs. 10 crore in a full year and Rs. 7.50 crore in 1978-79.

Investors understandably prefer investment which brings them a safe return which is provided by fixed deposits in banks or shares of established companies with a good record for payment of dividends. This results in new companies not attracting adequate support. In order to stimulate such investment, I propose to give a deduction in the computation of taxable income of 50 per cent of the amount invested in equity shares of new industrial companies. The maximum investment in a year qualifying for this deduction will be limited to Rs. 10,000. This will entail a loss of Rs. 5 crore in a full year and Rs. 3.5 crore in 1978-79. I would cheerfully accept a much larger loss if it results in stimulating larger investments.

Last year, I had introduced a provision to exempt capital gains in cases where the sale proceeds arising from the transfer of an asset are reinvested within six months in units of the Unit Trust of India, shares of Indian companies, bank deposits and other specified assets. In order that this concession leads to the flow of investible funds into fresh ventures. I propose to provide with immediate effect that investment in shares of Indian companies will be taken into account for the purposes of exemption from capital gains tax only where the investment is made in equity shares of new industrial companies.

Banks allow substantial advances against the security of fixed deposits with them. Hence, taxpayers who get exemption from capital gains tax by making such deposits obtain an unduly large tax benefit without commensurate sacrifice. I have, therefore, decided that fixed deposits with banks made after today will not qualify as an eligible mode of investment for the purposes of this exemption.

The annual letting value of a newly constructed house is reduced for tax purposes by an amount up to Rs. 1,200 in respect of each residential unit for a period of five years. With a view to providing a stimulus for construction of houses, particularly for persons in the low and middle income brackets, I propose to raise the monetary limit of Rs. 1,200 to Rs. 2,400.

Initial depreciation allowance is currently granted at the rate of 20 per cent on the cost of new buildings erected by employers for their low paid employees. In order to give a greater impetus to the construction of buildings for workers, I propose to increase the rate of initial depreciation allowance from 2 per cent to 40 per cent.

The foreign remuneration of Indian citizens employed outside India is liable to Indian income tax if their stay in India exceeds a specified period. As this results in avoidable hardship and discourages such persons from spending even a reasonable period on vacation in their home country, I propose to provide that Indian citizens employed outside India may stay on vacation in the country for 89 days in a year without attracting such tax liability.

In order to ensure that winnings from horse races are effectively brought within the tax net, I propose to provide for deduction of tax at source at the rate of 34.50 per cent from winnings in excess of Rs. 2,500. This measure would yield Rs. 4 crore in a full year and Rs. 3.50 crore in 1978-79.

Extravagant and socially wasteful expenditure is often incurred on advertisement, publicity and sales promotion. In order to put a curb on such expenditure at the cost of the Exchequer, I propose to provide for the disallowance of a part of such expenditure in the computation of taxable profits. Where the aggregate expenditure on advertisement, publicity and sales promotion in India does not exceed 0.25 per cent of the turnover or gross receipts of the business or profession, 10 per cent of such expenditure will be disallowed in computing the taxable profits. Where such aggregate expenditure exceeds 0.25 per cent but does not exceed 0.50 per cent of the turnover or gross receipts, the disallowance will be made at the rate of 12.50 per cent; and where such expenditure exceeds 0.50 per cent of the turnover or gross receipts, the disallowance will be made at the rate of 15 per cent. These provisions will not apply in cases where the aggregate expenditure on advertisement, publicity and sales promotion does not exceed Rs. 20,000 in a year. Newly established industrial concerns will also be exempted from this provision for an initial period of three years. This measure will yield Rs. 31 crore in a full year and about Rs. 25 crore in 1978-79.

A weighted deduction is currently allowed in the computation of taxable profits with reference to expenditure incurred by Indian companies and resident taxpayers other than companies on development of export markets. The weighted deduction is allowed at the rate of 150 per cent of the actual expenditure in the case of widely-held companies and at the rate of 133.3 per cent in the case of other taxpayers. While the full deduction of expenditure incurred for development of export markets is entirely justifiable, and no part of such expenditure will be disallowed under the proposed provision for disallowance of expenditure on advertisement, publicity and sales promotion, I do not see adequate justification now for continuing to subsidise such expenditure by the grant of weighted deduction. I, therefore, propose to discontinue the grant of weighted deduction in relation to such expenditure incurred after 31 March 1978. This measure is likely to yield Rs. 10 crore in a full year and Rs. 8 crore in 1978-79.

In the case of a taxpayer who has previously been assessed to income-tax, advance tax becomes payable only if a notice in this behalf is issued by the Income-tax Officer. Hence, if an advance tax notice is not issued in the case of such a taxpayer, he will have no liability to pay any advance tax. On the other hand, taxpayers who have not been assessed to income-tax, are required to pay advance tax on their own on the basis of their estimated current income. To my mind, the existing legal position is clearly unsatisfactory. I, therefore, propose to provide that advance tax shall be voluntarily paid by every person if his current income exceeds the specified limit.

The Direct Tax Laws Committee under the Chairmanship of Shri C.C. Chokshi submitted its interim report last December. The report contains a number of valuable suggestions for simplification and rationalisation of tax laws, streamlining assessment procedures, reducing the area of litigation and accelerating the disposal of appeals and references. In its report on the Central Direct Taxes Administration, the Administrative Reforms Commission had recommended that amendments to the tax laws should not be rushed through the annual Finance Bill, which needs to be passed before a prescribed date, but made through separate bills whose provisions can be considered in detail. Pursuant to this recommendation, I propose to introduce separate legislation as early as possible to give effect to the main recommendations of the Chokshi Committee which are acceptable to the Government. In the meanwhile, a few changes recommended by the Committee, such as deduction of tax at source from race winnings and voluntary payment of advance tax which could be easily incorporated in the tax law, have been introduced through the Finance Bill.

The exemption limit for estate duty, which is Rs. 50,000 was fixed as long ago as 1958. As this exemption limit is unduly low, I propose to raise it to Rs. 1 lakh. Since, in this matter, we can move only with the concurrence of the State Legislatures, a Bill for implementing this proposal, and certain other proposals in relation to estate duty, will be introduced later this year.

The total additional revenue from the various measures enumerated by me will yield Rs. 30 crore in a full year and Rs. 25.50 crore during 1978-79. Besides, additional resources of about Rs. 25 crore will accrue in the form of compulsory deposits in the financial year 1978-79.

May I now turn to my proposals relating to indirect taxes? Our basic national problem, and indeed this is a problem facing all developing countries, is that the base for direct taxes is extremely narrow and the vast funds required for national development cannot, therefore, be raised, at our present stage of development, from direct taxes alone. While framing the proposals relating to indirect taxes, however, I have kept in mind the need to protect small-scale industry and to minimise the hardship to the poor and the middle class consumers.

Hon'ble members are aware that Government had appointed a Committee, to review the existing structure of the indirect tax system. Under the Chairmanship of Shri A.K. Jha. The Committee has now submitted its final Report. Amongst the important recommendations made by the Committee are restructuring of the pattern of central excise and customs duties, measures to assist the small-scale sector, the general reorientation of the tariff to make it income-elastic and the desirability of introducing a value added tax so as to avoid the cascading effect of taxes on raw materials and components of finished products. The Committee has also made some recommendations regarding indirect taxes levied by State Governments and local authorities. Government has been examining all these recommendations with the care which they deserve. In my last Budget, I had, in fact accepted and implemented a few of the recommendations which were available to us in the interim Report of the Committee. The proposals which I am making today incorporate some of the recommendations made in the final Report. Other recommendations which involve a major restructuring of the system would require further study.

In the Plan outlay, the topmost priority has been accorded to power. The Plan provision for power generations and distribution is of the order of Rs. 2,200 crore in 1978-79. I feel that with our enormous investments in power, there is ample justification for claiming a contribution from those who benefit from these investments. I am, therefore, proposing to levy a duty of 2 paise per kilowatt-hour on electricity generated. Electricity generated for captive consumptions as well as that used in the auxiliary plants in the generating stations for the generation of electricity, is being exempted. I also propose to give a rebate of the duty to the producer in respect of electricity used for agricultural purposes so that agriculturists are not affected. This levy is expected to yield a revenue of Rs. 145 crore.

After the nationalisation of the coal mines, coal production has increased from about 72 million ton in 1971-72 to about 100 million ton in 1976-77. This is the result of enormous investments made by the State after nationalisation investments which will continue to make. Here again, the beneficiaries could, I think, justifiably be called upon to bear a small levy of central excise duty on coal. I propose to fix this at rates varying from Rs. 5 to Rs. 10 per ton. The lowest rate of Rs. 5 would cover three-fourths of the coal produced in the country. This measure is expected to yield a revenue of Rs. 58 crore.

Under Item 68 of the Central excise tariff, the rate of duty leviable on "all articles, not elsewhere specified" is at present 2 per cent *ad valorem.* I propose to raise this to the level of 5 per cent *ad valorem.* While doing so, I propose to exempt some sensitive categories of goods, namely, pesticides, weedicides, insecticides and fungicides, drugs and medicines, other than proprietary or patent drugs and medicines pharmaceuticals and drug intermediates, from the whole of the duty leviable under this item. Newspapers and periodicals are also being exempted completely. The existing exemption in respect of small manufacturers whose clearance of excisable goods does not exceed Rs. 30 lakh in the preceding year will continue. These proposals will yield a revenue of Rs. 100 crore.

In view of the paramount need for mobilising resources for development without creating fresh distortions in the tax structure I propose to levy a special duty at the rate of 1/20th of the basic excise duties presently collected on each item in the Central excise tariff. In doing so, I propose to exempt coal, electricity and goods which are assessed under item 68 of the tariff. This measure will result in an additional revenue of Rs. 214 crore on indigenous production and a sum of Rs. 15 crore by way of increase in countervailing duties on imports.

May I now turn to the reliefs which I propose to give. First of all consistent with the policy of the Government to encourage the small manufacturer and to widen the entrepreneurial base in the country, I propose to provide sufficient relief to small manufacturers so as to enable them to complete successfully with larger units. The duty exemptions at present available to small-scale manufacturers are not based on anyone pattern. Over the course of years, a number of *ad hoc* concessions have been given and the principles of relief have varied very widely. In defining the small units, a variety of formulae have been adopted, such as, value of clearances per annum, quantity of clearances per annum, value of capital investment on plant and machinery, number of workers, use of power, and a combination of two or more of these criteria. Keeping in view the need for rationalising the pattern of relief to small industries and bearing in mind the recommendations made by the Jha Committee, I propose to exempt all small scale units manufacturing specified goods, whose clearances in the preceding year did not exceed Rs. 15 lakh, from the duty payable on the first clearance of Rs. 5 lakh. The exemption will cover 69 items including, amongst others, medicines, soaps and detergents, paints and varnishes, household electrical goods, steel furnitures, metal containers, aerated waters, vegetable non-essential oils, ceramics and other items notified. This measure will benefit about 24,000 units currently under excise control. It will reduce considerably the procedural requirements which these units are required to follow. It will also remove the anomaly, under which relief is presently lost totally in many cases, the moment the threshold limits of exemption are crossed. This relief will be effective from the beginning of the next financial year and involve a revenue sacrifice of Rs. 28 crore.

I propose to exempt power-driven pumps mainly used in agriculture from the whole of the excise duty leviable thereon. The measure will involve a loss of Rs. 1.50 crore per annum.

I also propose to extend the concession currently available to motor vehicles used as taxis to 3-wheelers auto-rickshaws as well, by reducing the rate of duty leviable on the latter by 2 per cent *ad valorem.* Whole milk powder is being exempted from payment of the duty leviable thereon in an effort to make available this commodity at a cheaper rate. I also propose to reduce the rate of duty leviable on small refrigerators of a capacity of 100 litres and less from 40 per cent *ad valorem* to 30 per cent *ad valorem.* At present, parts of refrigerating and air-conditioning machinery required for installation in specified establishments are assessed at a concessional rate of 20 per cent. This concession is being extended to ready assembled air-conditioning units of the window and package type, generally used by smaller industrial installations. Last year I had raised the excise duty on films substantially. There have been a number of representations against the increase and the manner in which it affects the industry. I have carefully considered the matter and propose to reduce the excise duty leviable from Rs. 7,500 to Rs. 5,000 on the third dozen slab of colour prints of length 4,000 metres or less. Suitable adjustments are being made in the case of black and white films as well as longer films. Duty on prints cleared for home consumption after twelve months from the date of first release of the film for public exhibition is also being reduced suitably. These proposals together imply a relief of about Rs. 3 crore.

In pursuance of Governments decision on the Oil Prices Committee's Report, the tariff structure relating to lubricating oils and greases has also been rationalised. This measure of rationalisation will yield Rs. 63 lakh net in a year.

I have also carried out some modifications in respect of coated fabrics, cigars and cheroots, tea waste, vegetable products for industrial purposes and non-cellulosic wastes, the details of which are given in the Budget documents. These proposals will yield a revenue of Rs. 6 crore.

I have taken note of the significant suggestions in regard to customs duties made by the Jha Committee. As a measure of relief and particularly with a view to bringing down capital costs, I propose to reduce the customs duties on specified items of capital equipment not produced indigenously from the current level of 40 per cent to 25 per cent. The revenue loss will be of the order of Rs. 9 crore.

I also propose to reduce the duty leviable on condenser tissue paper and polypropylene film used in the manufacture of capacitors, by 111 per cent and 155 per cent respectively. Use of capacitors will reduce transmission losses and will thus help the more efficient transmission of power. Duty on electrical insulation paper is also being reduced. These proposals will involve a revenue sacrifice of about Rs. 4 crore.

Certain reliefs are also being given in respect of specified items of cinematograph machinery, electronic components and imported feature films. These together will involve a revenue sacrifice of Rs. 58 lakh.

I have only one proposal for upward modification of the customs tariff, not so much as a measure of raising revenue but as a measure of protection to Indian industry. I propose to increase the import duty on polyester filament yarn from 120 per cent to 200 per cent *ad valorem.* This will yield about Rs. 6.40 crore in a year.

My proposals for customs and Central excise duties put together will yield an additional revenue of Rs. 499 crore for 1978-79.

The fiscal strategy underlying my proposals seeks to take advantage of the favourable food and foreign exchange situation for generating fresh expansionary impulses in our economy. The big step up in public investment is one element of this strategy. Monetary policy must also be used to reinforce fiscal policy.

The house will recollect that Government had imposed a tax in 1974 on interest income of banks. Hon'ble members will agree with me that now that prices are reasonably stable and there is urgent need to stimulate productive investment, this tax has lost its economic justification. I propose, therefore, to withdraw the interest-tax with immediate effect. As a sequel to this fiscal concession with a monetary intent, the Reserve Bank of India will be announcing later in the day the realignment of the interest rate structure.

The Budget Estimates for 1978-79 have taken credit for an amount of Rs. 130 crore on account of interest-tax. Since the interest tax for the months of January and February 1978 will be payable in the coming year, the actual loss of revenue will be of the order of Rs. 108 crore.

To sum up, my efforts at mobilisation of additional resources will yield in 1978-79 Rs. 549.50 crore of which Rs. 499 crore will be from Union excise and customs duties, Rs. 25.50 crore from direct taxes and Rs. 25 crore as compulsory deposits. Out of this, the States' share will be Rs. 95.50 crore and the Centre's share Rs. 454 crore. With the withdrawal of interest-tax the net additional resources accruing to the Centre will be Rs. 346 crore.

Despite the effort which I have made at raising additional resources, I am leaving an uncovered budgetary gap of Rs. 1,050 crore. This figure will be reduced by the receipts from sales of Government gold. For reasons which hon'ble members will appreciate, I shall not attempt to estimate this figure. But I should share with hon'ble members the view I hold that, apart from preventing any resurgence of gold smuggling it is also justifiable, in our present circumstances, to utilise a part of our accumulated gold to reduce the expansionary effect of budgetary transactions. It is on the same reasoning that we have been anxious to deploy a part of our foreign exchange reserves to offset the expansionary impact of larger Plan and investment outlays; and I am confident that in the coming year the steps initiated to liberalise imports and the major investment programme that we now propose to undertake, will lead to a significant draw down of foreign exchange reserves. These two factors combined with continued vigilance regarding credit should limit the net increase in money supply to safe levels.

I am satisfied that the resultant monetary expansion will not lead to any inflationary pressures particularly in view of the large stock of foodgrains and the much greater ability that we have at present to import essential consumer goods. The experience we have gained and the instruments we have forged in supply management through procurement and public distribution and demand management through credit and monetary policy should also enable us to contain such pressures.

In conclusion, let me summarise what I seek to achieve through this Budget. My goal is to set in motion a process of sustained increase in output and employment, particularly, in the rural areas. The programme of government expenditure on investment is the main instrument I wish to use to attain this goal. Investment expenditure in infrastructure facilities is being raised steeply so that bottlenecks coming in the way of further growth are removed and there is an improvement in the general economic climate. This has made it necessary for me to undertake sizeable additional resource mobilisation. At the same time I have not hesitated to offer incentives and tax concessions were these are called for to promote investment in agriculture and industry.

The economic situation of the country is exceptionally favourable at present for a bold step forward. This Budget is such a step.