

**SPEECH OF  
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INTRODUCING THE INTERIM BUDGET FOR THE YEAR 1980-81\***

**Highlights**

- *Need to Improve the Working of Infrastructure Sectors Emphasised*
- *Efforts to Check Pressure on Prices of Essential Commodities*
- *Revamping the 'Food for Work' Scheme*
- *Extending Exemption to Awards from Income Tax*

Sir, I rise to present the Interim Budget for the year 1980-81.

The massive mandate that our party has received from the people of India is clearly a mandate to pursue with renewed vigour various programmes for social and economic development initiated by us before 1977, but which were disrupted during the thirty-three months of the Janata-Lok Dal rule. Instead of building further the strong and resilient economy which we had left behind in 1977, they have allowed it to drift through inaction and mismanagement, into stagnation. Our commitment to repair this damage, to work tirelessly for rapid economic development, for removal of poverty and social inequalities and for the implementation of the 20-point programme is firm and irrevocable. However, the state of

<b>Interim Budget, 1980-81</b>		
<b>Total Receipts</b>	—	<b>Rs. 18,980 crore</b>
<b>Total Expenditure</b>	—	<b>Rs. 20,215 crore</b>
<b>Deficit</b>	—	<b>Rs. 1,235 crore</b>

\* Lok Sabha Debate, 11.3.1980, cc. 277-289.

the economy that we have inherited from the Janata-Lok Dal rule of thirty-three months is such that we shall need some more time to assess the damage suffered by the economy and to evolve a coherent medium-term strategy for revival and restoration of its health. This, of course, does not mean that we will not take effective steps to deal with the pressing short-term problems until such a consistent medium-term strategy has been evolved. Later in my speech, I shall outline briefly the various steps which our Government has taken in the last eight weeks to restore a measure of confidence and stability to the economy. Clearly, there is need to adopt many other measures to get our country moving again along the cherished path set out by Gandhiji and Jawaharlal Nehru. For the outline of such an integrated approach, I plead with the House to wait until I come forward with the regular Budget for 1980-81 in a few weeks.

The Interim Budget and the Demands for Grants being made available to honourable members reflect by and large the continuation of ongoing expenditure sanctioned earlier and certain minimum unavoidable changes. They do not reflect adequately the present Government's policies and programmes because since we took office we have not had enough time to formulate these. We feel that the Plan framed by the previous Government is inadequate to fulfil the policies and programmes set out by us in our election manifesto and on the basis of which we have received a massive mandate. We have, therefore, to wait till the priorities and plan outlay for 1980-81 are finalised by the Planning Commission to be appointed. I shall come to the House again with a comprehensive programme when these decisions have been taken.

In the current year the economic situation has deteriorated greatly. The year 1979-80 is likely to record a decline of 1 to 2 per cent in Gross National Product. Agricultural production is expected to show a decline of something like 6 per cent and industrial production will be stagnant if not marginally lower than last year. The growth in key sectors like power, coal, steel, cement and fertilizers will be wholly inadequate to meet the needs of a growing economy. Prices have risen by about 20 per cent in the course of the current financial year. In particular, prices of some of the items of common consumption such as sugar, *gur* and *khandsari*, potatoes, onions and edible oils have recorded very sharp increases. This pressure on prices is as much due to domestic supply constraints as to the large Budget deficit. The trade gap is going to be vastly larger because of the increase in prices of imports like petroleum and petroleum products and because of the larger imports of commodities like steel, cement due to poor domestic production. On the other hand, exports have not grown adequately because of lack of a clear policy.

It will be easy to make the drought in the last *kharif* season an excuse for the deterioration in the economic situation in 1979-80. It is true that the drought was serious in large parts of the country in the current season but one would have thought that the new agricultural strategy initiated by our Party in the late 1960s could have enabled Government to minimise the impact of the fluctuations in weather conditions. Had power production been higher and had arrangements for supplying seeds, fertilizers, diesel, etc., been more effective, it would have been possible to insulate the economy to a much greater extent against the kind of decline in production that has occurred in the last *kharif* season. A Government which takes credit, as the previous Janata Government did, for the good performance in 1977-78 and 1978-79, merely underscores its dependence on good weather and its lack of effective policy instruments. And when the first test came in the form of a drought, the Government showed the bankruptcy of its policy and failed miserably to protect the common people. What has come to their rescue as well as to that of the poor people of the country has been the procurement and public distribution system that our party had built up earlier and the larger stocks of foodgrains that it had left to them. We must be thankful to the previous Government for the small mercy they had shown in not dismantling the public distribution system completely.

The mismanagement of the economy in the past three years can be seen most vividly in the crisis situation which prevails in the infrastructure sectors. Although large additions to power generating capacity have occurred year after year as a result of the decisions taken by our Party's Government earlier, the ability to generate power from this additional capacity has been very poor. Poor management, law and order problems, disturbed industrial relations—all of which could have been set right had Government shown the necessary determination and imagination—have come in the way of higher production. Coal production has remained virtually stagnant for the last four years. Railways on the other hand have been carrying a continuously declining volume of traffic. We have had to witness the unedifying spectacle of the Power authorities blaming the Railways and Coal authorities for their deficiencies and these in turn blaming the Power authorities and each other for their failures. This dismal record has only to be compared with the performance in the earlier years to realise what an effective policy can achieve.

I have referred to the developments in the past three years not with a view to apportion blame or trade accusations but merely to highlight the historical setting in which our current problems have to be viewed.

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This is clearly not the time for indulging in mutual recriminations. The real challenge is to evolve a viable national consensus for solving the formidable problems now facing the country. In this vital national task, we seek the active co-operation of all sections of this House. I would like to take this opportunity to share with the House the manner in which we are tackling the present grave economic crisis. Since we assumed office, systematic efforts are being made to improve the functioning of vital infrastructure sectors such as coal, power, ports and Railways. A Cabinet Committee on Industrial infrastructure has been able to identify some short term solutions designed to improve the working of these vital sectors. Arrangements for supply of coal to thermal power plants have been streamlined and these are beginning to show positive results. Efforts are being made to improve the capacity utilisation of thermal plants so as to neutralise to the maximum extent the shortfall in the generation of hydro power. The Railways are gearing themselves to carry out their tasks with greater speed and efficiency. I am confident that the measures which we have taken will have a favourable impact on the growth of industrial production, on the utilisation of available capacities and in moderating pressure on prices.

Apart from the functioning of infrastructure sectors, Government has been greatly worried about the pressure on prices. We have inherited a highly explosive inflationary economy. Despite several handicaps, vigorous efforts are now being made to augment supplies of essential commodities like vegetable oils, kerosene and diesel and to ensure their equitable distribution. Through a more effective functioning of public distribution system and systematic efforts to curb hoarding and black-marketing, we are trying to contain the pressure on prices of commodities which are in short supply. A medium term strategy is being evolved to encourage higher production of consumer goods like sugar, cement, paper, etc. In the background of world wide inflationary pressures, our task of establishing domestic prices at a reasonable level is no doubt far from easy. However, Government is determined to use all available instruments to moderate pressure on prices of essential commodities. Fiscal and monetary policies will be so designed as to assist in control of inflation without affecting essential investments in key sectors of the economy.

While in the limited time that we have had at our disposal since we assumed office our attention has of necessity been focussed largely on pressing immediate problems, we are beginning to evolve a comprehensive integrated strategy for achieving our cherished social and economic objectives. Since the bulk of Indian population lives in rural areas,

development of agriculture and allied activities must receive high priority in our plans for social and economic transformation of our economy. It was in pursuit of this objective that our Party's election manifesto in 1977 had committed us to the early establishment of an Agricultural Development Bank as an apex institution for meeting the credit needs of our farmers. I am glad to report to the House that the Reserve Bank of India is now actively engaged in drafting the legislation of the proposed National Bank for Rural Development. It was again our Government which in February 1977 had set for the public sector banks a minimum target of 33.3 per cent of total advances going to the hitherto neglected sectors of agriculture, village and small industries. Earlier this month, I have reviewed with the Chairmen of public sector banks the performance of the banking system in achieving this target as well as the role that the banking system can play in accelerating the implementation of the 20-point programme. I am glad to report that public sector banks have agreed to accept the obligation of raising the share of priority sectors in their total lending to 40 per cent in the next five years. This will greatly help in strengthening the productive base of rural India. In meeting the credit needs of rural areas, priority attention will be given to requirements of small and marginal farmers and landless labourers.

### **Revised Estimates for 1979-80**

I now turn to a brief explanation of the Revised Estimates for 1979-80.

A deficit of Rs. 1,382 crore was estimated in the Budget for 1979-80. Certain decisions taken by the previous Government and other post-budget developments have severely affected the budgetary position of the Centre in the current year. As the honourable members are aware, supplementary demands involving additional expenditure of Rs. 1,300 crore had to be presented in the last session of Parliament. I will, therefore, not like to take the time of the House by dwelling at length on the various items of additional expenditure. I shall confine myself now only to certain major areas of increases.

Expenditure on food subsidy in the current year will be Rs. 600 crore *i.e.*, Rs. 40 crore more than the Budget Estimate of Rs. 560 crore mainly due to increase in the procurement prices of wheat and paddy.

Owing to increase in the cost of imported fertilizers, increased volume of fertilizer imports and higher handling costs, the subsidy on imported fertilizers will be Rs. 176 crore more than the Budget Estimate of Rs. 144 crore. Similarly, due to higher cost of production, the subsidy on indigenous fertilizers will be Rs. 19 crore more than the Budget Estimate of Rs. 304 crore.

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The provision for export subsidies including loss on sugar exports will be Rs. 31 crore more than the Budget Estimate of Rs. 332 crore.

Defence expenditure in the current year is estimated at Rs. 3,273 crore against the Budget provision of Rs. 3,050 crore.

Non-Plan assistance to State Governments had to be stepped up in the current year by Rs. 120 crore to enable them to meet the expenditure on relief for natural calamities and drought. Loans to State Governments against net collections of small savings will also be Rs. 225 crore more than the Budget Estimate of Rs. 400 crore.

Other post Budget developments include supply of foodgrains to Bangladesh involving an expenditure of Rs. 29 crore, and 'on account' payment of Rs. 30 crore to State Governments in connection with the General Elections to Lok Sabha. Besides, the decisions taken in March 1979 for liberalisation of dearness allowance formula and pensionary benefits have also added to the expenditure of various Government departments, including Defence, Railways and Posts and Telegraphs.

So far as Plan expenditure is concerned, it is a matter of regret that the implementation of many of the Central Plan schemes has not been satisfactory. Consequently, the budgetary support for Central Plan is estimated to be less by as much as Rs. 332 crore. However, the provision for 'food for work' programme has been stepped up by Rs. 300 crore during the course of the year as a small provision of only Rs. 50 crore had been made for this programme initially, and consequently, the net shortfall in the Central Plan expenditure will be Rs. 32 crore.

The Central assistance for States and Union Territories' Plans had to be stepped up by Rs. 194 crore during the current year. Of this increase, Rs. 125 crore is by way of advance plan assistance to States affected by drought.

Coming to receipts, owing to poor performance of the economy and the general decline in economic growth, the revenues of Central Government from corporation tax in the current year are expected to register a sharp decline of Rs. 150 crore compared to the Budget Estimate of Rs. 1,530 crore. The revenues from Union excise duties have also been adversely affected largely by the decision of the previous Government to withdraw excise duty on coal and reduce the duties on petroleum products. The excise duties are estimated to register a shortfall of Rs. 183 crore in the current year compared to the Budget Estimate of Rs. 6,008 crore. However, collections of income-tax and receipts from customs duties are expected to yield Rs. 498 crore more than the Budget Estimate of Rs. 3,636 crore. Centre's share of net tax revenue is now estimated to be Rs. 199 crore more than the Budget Estimate of Rs. 8,020 crore.

The near collapse of infrastructure and the adverse economic factors have severely affected the working of various public sector undertakings. Consequently, not only their profitability has been eroded, but their capacity to meet their repayment and interest obligations to Government has also been undermined. A shortfall of nearly Rs. 260 crore on this account is anticipated in the current year.

The slow pace of disbursements in certain externally aided projects and delay in getting reimbursement for the Kudremukh Project from the Iranian authorities are likely to result in a shortfall of Rs. 219 crore in net external aid during the current year.

The increase in prices of imported crude and petroleum products has also led to erosion of the receipts and deposits with Government relating to oil products of over Rs. 300 crore.

These deteriorations in non-tax receipts have, however, been partially offset by a larger market borrowing of Rs. 111 crore over the Budget Estimate of Rs. 1,850 crore and estimated higher small savings collections of Rs. 925 crore as against the Budget Estimate of Rs. 650 crore.

Taking these and other variations into account the budgetary deficit in the current year is estimated at about Rs. 2,700 crore.

### **Budget Estimates for 1980-81**

I shall now say a few words about the Interim Budget for 1980-81.

In the Budget for 1980-81 which is now being presented for purposes of vote on account, budgetary support for Central Plan is placed at Rs. 4,500 crore. Government is considering revamping of the present scheme of 'Food for Work' to make it a more potent instrument of employment generation. For the present, therefore, a provision of only Rs. 70 crore is being made in the Budget for the existing scheme. Taking this also into account, budgetary support for Central Plan will be Rs. 4,570 crore against the Budget Estimate of Rs. 4,411 crore for 1979-80.

Extra budgetary resources for the Central Plan are estimated at Rs. 2,003 crore next year as against Rs. 1,604 crore in the current year's Budget. The total Central Plan outlay for next year is thus placed at Rs. 6,573 crore as compared to Rs. 6,015 crore in the current year's Budget.

Central assistance for States and Union Territories' Plans, including the schemes of the Rural Electrification Corporation and assistance under

'Income Adjusted Total Population' formula, is placed at Rs. 2,823 crore as against Rs. 2,697 crore in the Budget for 1979-80. The Planning Commission has in consultation with the representatives of State Governments and Union Territories settled the outlays for their Annual Plans for 1980-81. A reasonable set-up in the outlays has been provided so that the tempo of development may be maintained. The States have assured the Planning Commission that they will keep the resources at the assessed level and adhere to the commitments made by them to mobilise additional resources to finalise these outlays.

Provision for food subsidy in 1980-81 is Rs. 600 crore *i.e.*, at the same level as in the Revised Estimate for the current year. Pending a clearer picture of the volume of imports needed to supplement domestic production, subsidy on imported and indigenous fertilizers next year is placed at Rs. 600 crore.

Defence expenditure is estimated at Rs. 3,300 crore at this stage against Rs. 3,273 crore in the current year.

Provisions for other non-Plan expenditure have been made keeping in view the need for utmost economy.

The Centre's share of tax revenues at existing rates of taxation is estimated at Rs. 8,725 crore next year, as against Rs. 8,219 crore in the Revised Estimate for the current year.

The Centre's share of tax revenues are estimated at Rs. 2,500 crore against Rs. 1,961 crore in the current year. Small savings collections are estimated to fetch Rs. 1,000 crore as against Rs. 925 crore in the current year. External assistance, net of repayments, is estimated at Rs. 1,196 crore as against Rs. 918 crore in the Revised Estimate of the current year.

The total receipts of the Central Government in 1980-81 are estimated at Rs. 18,980 crore. The total expenditure in the next year will be Rs. 20,215 crore. Overall budgetary gap at the existing rates of taxation will, thus, be Rs. 1,235 crore less than half of the last year's deficit.

I propose to introduce today a Finance Bill which seeks to continue the existing rates of income-tax for the financial year 1980-81. However, I have also three proposals of a non-controversial nature for the amendment of the Income-tax Act. I shall now briefly explain these proposals.

Some State Governments have set up statutory corporations for the promotion of socio-economic interests of members of the Scheduled Castes and the Scheduled Tribes. I propose to exempt from income-tax the

income of all statutory corporations or bodies, associations or institutions wholly financed by the Central or a State Government, established for promoting the interests of the members of the Scheduled Castes and the Scheduled Tribes.

As the hon'ble members are aware, residents of Ladakh were exempted from payment of income-tax up to and including the assessment year 1979-80 in respect of income accruing or arising to them from any source in that district or outside India. I propose to continue the tax exemption for a further period of three years.

Under an existing provision, awards for literary, scientific and artistic work or attainment, instituted by the Central Government or by any State Government or approved by the Central Government, are exempt from income-tax. I propose to extend this tax concession to approved awards for outstanding work in alleviation of the distress of the poor, the weak and the ailing. Hon'ble members will be glad to know that this provision will set at rest doubts about the taxability of the Nobel Prize awarded to Mother Teresa in recognition of her service to suffering humanity.

There is no change in the rates of customs and Central excise duties. However, provision has been made in the Finance Bill for the continuance of the auxiliary duties of customs and special duties of excise at the existing rates for the year 1980-81.

I look forward to constructive suggestions from the House for framing the regular Budget for the year 1980-81 a few weeks later.

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