

**SPEECH OF  
SHRI R. VENKATARAMAN,  
MINISTER OF FINANCE,  
INTRODUCING THE BUDGET FOR THE YEAR 1981-82\***

**Highlights**

- *Creation of Conducive Atmosphere for Rapid Industrial Expansion*
- *Establishment of NABARD to meet Credit Needs of Rural Community*
- *Reorganisation of the LIC*
- *Efforts to Boost Agricultural Production*
- *Introducing Integrated Rural Development Programme (IRDP)*
- *Need to Accelerate Development and Use of Renewable Energy Resources Emphasised*
- *Tax Holiday in Free Trade Zone*
- *Policy to Promote Small Scale Industry*

Sir, It is my privilege, once again, to present the Budget to this august House.

The Budget for 1981-82 has been formulated in an economic situation which continues to be difficult, but also shows great improvement over the desperate conditions prevailing a year ago. The "Economic Survey" presented to the House this week contains a detailed review of

**Budget, 1981-82**

<b>Total Receipts</b>	—	<b>Rs. 23,061 crore</b>
<b>Total Expenditure</b>	—	<b>Rs. 24,871 crore</b>
<b>Deficit</b>	—	<b>Rs. 1,810 crore</b>

\* Lok Sabha Debate, 28.2.1981, cc. 78-108.

developments in the past year. I shall, therefore, only review the highlights of the economic situation as a background to presenting the strategy of next year's budget.

Hon'ble members will recall that when our Government took office in January 1980, we inherited an economy in extremely poor shape ... I am glad it has sunk. It was reeling from a disastrous economic performance in 1979-80, when the Gross National Product declined by 4.50 per cent, and prices increased by over 21 per cent.

Neglect and mismanagement of the infrastructure had produced a crisis situation in key sectors such as coal, power and railways.

Faced with this grim situation, our overriding objective was to arrest the deterioration and set the economy once again on the path of stability and growth. This was no easy task. The severe drought of 1979-80, and the accumulated problems in management of the infrastructure, cast a long shadow over 1980-81.

Efforts to improve infrastructure performance deserved and received the highest priority in 1980-81. A mechanism for crisis management was established, with special administrative arrangements to monitor and co-ordinate Government action in this area, and to set clear priorities. It took time for these efforts to bear fruit, but by the middle of the fiscal year, all the three sectors, power, coal and railways showed distinct improvement.

Power generation suffered in the early months of 1980-81 because of very low hydro-electric generation. This was a direct consequence of the acute drought of 1979, which left the reservoirs severely depleted through the lean summer months of 1980. Hydro-electric generation picked up after July when most of the reservoirs were replenished by the monsoon. There was also a very substantial improvement in thermal generation. The problems of coal availability which had plagued thermal power plants during 1979 were substantially overcome and rail movement of coal to thermal plants was organised on a priority basis. Strenuous efforts were also made to improve the operational efficiency by initiating betterment and renovation programmes in the States with technical advice from Central Agencies. As a result, thermal electricity generation in November and December 1980 was 21 per cent higher than in the same months in 1979. For the year as a whole, electricity generation is likely to show an increase of about 6 per cent over 1979-80. However, in the second half of 1980-81, generation would be about 13 per cent higher than the second half of the previous year.

Coal production in 1980-81 also shows a marked improvement. The production of coal and lignite had remained more or less stagnant at about 106 million tonnes since 1976-77. This frustrating spell of stagnation has been broken and production is expected to exceed 115 million tonnes in 1980-81. Better availability of power was one of the important factors behind this improved performance.

The Railways have shown improvement in the movement of freight in recent months, breaking a pattern of deterioration witnessed over the past three years.

Industrial production in 1980-81 reflected the progress made in removing infrastructure constraints. I have already mentioned that hydro-electric generation was very low in the first three months of 1980-81 because of the depletion of reservoirs. The resulting shortage of power depressed industrial production through much of the first half of 1980-81. However, with the easing of infrastructure constraints in the second half of the year, industrial production has picked up. For the year as a whole, it is likely to show a growth of about 4 per cent. This compares with a decline of 1.40 per cent in 1979-80.

In addition to efforts at improving infrastructure performance, the Government also took wide ranging measures designed to create conditions conducive to rapid industrial expansion. Hon'ble members will recall that the Budget for 1980-81 contained specific fiscal incentives designed to encourage investment activity. This was followed by the Industrial Policy Statement of July 1980 in which several promotional measures were announced. Steps were also taken in the course of the year to increase the flow of investment finance to industry. A new policy has been enunciated to permit investment funds from oil exporting developing countries to flow into new units in selected industries in the form of portfolio investment. The guidelines for issue of debentures were revised to permit more effective use of this instrument for mobilisation of funds.

Although the promotional impact of these measures could not manifest itself fully in 1980-81 because of infrastructure bottlenecks, they have undoubtedly set the stage for longer term industrial expansion in the coming years.

The performance of agriculture in 1980-81 gives every ground for satisfaction and provides great reassurance about the basic health of this vital sector of our economy. The weather in 1980-81 was favourable in most, but by no means all, parts of the country, and this created conditions conducive to an agricultural recovery. The total production of foodgrains

in 1980-81 is likely to exceed 132 million ton, which is more than 23 million ton higher than in 1979-80.

It will surpass the previous peak level achieved in 1978-79, and yet weather conditions were less favourable than in that year. The gains in foodgrains production in 1980-81 have been accompanied by a very substantial recovery in sugarcane production. Production of fibre crops was also good.

This excellent performance testifies to the soundness of the agricultural strategy we introduced in the late sixties. This strategy was vigorously pursued in 1980-81. A concerted effort was made to ensure adequate production of quality seeds. The area under high yielding varieties was expanded to 48 million hectares compared with only 35.20 million hectares in 1979-80. Large imports of fertilisers were undertaken to supplement domestic production. Fertiliser consumption in terms of nutrients is estimated to have increased from 5.26 million ton to 5.60 million ton. Expansion of irrigation received special attention and the agricultural extension machinery was strengthened to ensure a more effective transfer of technology.

The excellent performance of agriculture, combined with the beginning of a recovery in industry, is likely to produce an overall growth of 6.50 per cent in the Gross National Product. This is an important achievement, but I must caution also against complacency. The progress made needs to be consolidated, and further momentum must be built up if recovery of 1980-81 is to mature into full-fledged growth next year. This calls for a realistic assessment of the strengths, as well as the weaknesses of our economy.

The economy continued to be subject to inflationary pressure during 1980-81 although there can be no doubt that there was a marked improvement over 1979-80. The increase in prices during 1980-81 up to the end of January 1981 has been 13.50 per cent. It was nearly 20 per cent in the same period in the previous year. Inflationary pressures were particularly severe in the first half of the year because of the after effects of the drought of 1979 and this was especially evident in the behaviour of sugar, *gur* and *khandsari* prices. With the improvement in the supply situation in the second half of the year, there was a definite improvement. Prices declined from the middle of October to the end of December. They have risen since then, partly because of the unavoidable increase in petroleum prices effected in January. However, in recent weeks, the increase in prices has moderated.

I must caution, however, that although inflation has abated, it has not been overcome. The economy remains subject to continuing cost-push pressures, including especially the transmission of international inflation through rising prices of oil and other essential imports. Since these cost-push pressures are likely to persist, continued vigilance is required in the coming year. It is essential to evolve a strategy for coping with the cost-push inflation effectively by tackling the problem at its roots. This is not only a matter of demand management. It also requires an all out effort to increase efficiency and achieve higher productivity.

Monetary and credit policies in 1980-81 were tailored to the requirements of the inflationary situation and commercial credit was strictly regulated. In addition, steps were taken to ensure that the distribution of bank credit conforms to our economic and social priorities. The Reserve Bank has evolved guidelines to ensure that an increasing share of priority sector credit is directed to weaker sections especially those identified in the 20-point programme. According to these guidelines, 40 per cent of priority sector lending is to be earmarked for the agricultural sector. Half of the direct lending by commercial banks to agriculture and allied activities will be directed to small and marginal farmers and agricultural labourers. Furthermore, 12.50 per cent of total credit advanced to small scale industries will be reserved for rural artisans, village craftsmen and cottage industries.

The expansion of banking in the rural areas is continuing and the programme of establishing Regional Rural Banks has been accelerated. There were only 60 such banks at the end of December 1979. There will be one hundred by the end of March 1981. Another 25 Regional Rural Banks will be established in the year 1981-82. It is proposed to increase their number to 170, covering 270 districts, by the end of the Sixth Plan. A National Bank for Agricultural and Rural Development will be established as an apex institution to meet the credit needs of the rural community and a bill to this effect will be introduced shortly.

This is an appropriate occasion to inform the House that we have decided to undertake a major reorganisation of the Life Insurance Corporation in order to strengthen its ability to meet the challenges of the future. The Corporation has an impressive record of extending insurance service to the community. In the process it has grown considerably in size. It has, therefore, become desirable to restructure the Corporation into more manageable units in the interest of operational efficiency, and also to allow an element of healthy competition. Accordingly, we have decided to reorganise the Corporation into five independent

units with a coordinating body to provide for supervision and guidance on matters of common interest. I have no doubt that these changes will improve the quality of service rendered to the policy-holders. This reorganisation will impart a greater degree of dynamism into the working of these institutions, and this will help to extend life insurance into the rural areas, where only limited headway has been made so far.

The balance of payments situation facing the country gives cause for concern. Rising prices of imported oil have added enormously to the external payments burden on the economy. The import bill for crude oil and petroleum products is likely to reach Rs. 5,600 crore in 1980-81, compared with only Rs. 1,677 crore two years ago. Most of the increase is due to the increase in oil prices. The total import bill in 1980-81 is likely to be around Rs. 11,300 crore whereas exports are projected to be only Rs. 7,100 crore. Even after allowing for the surplus on net invisibles, the country has to finance a balance of payments deficit of about Rs. 2,000 crore in 1980-81. This is much larger than the amount of external assistance available, and it has led to a significant drain of foreign exchange reserves. It is, therefore, essential to evolve a strategy for bringing the balance of payments under control. The Government has already taken a number of steps in this direction.

High priority has been accorded to oil and natural gas exploration in order to reduce our dependence on imported supplies as much as possible. The Oil and Natural Gas Commission has found evidence of hydrocarbons in several structures both offshore and onshore and it is essential to pursue the exploration and development effort with all the resources at our command. To this end, an ambitious programme is envisaged for the Oil and Natural Gas Commission and Oil India Ltd. The urgency of the situation is also such that the Government has decided to supplement our domestic capability by engaging foreign parties on contract, on a production sharing basis, to hasten the pace of exploration and development of potential oil fields. It is expected that the foreign companies selected under this scheme will commence work in the second half of 1981-82.

The balance of payments situation also calls for strong support to exports and the Government has taken several important initiatives in this regard recently. Hon'ble members will recall that in my Budget Speech last year I stated that the Government had taken a decision to establish an Export-Import Bank to assist in the financing of international trade. The details of this proposal have now been worked out, and it is proposed

to introduce a Bill in the current session for setting up the Export-Import Bank as a Statutory Corporation. I am providing Rs. 70 crore in the Budget for this purpose.

There is also considerable scope for import substitution by increasing domestic production and expanding capacity in sectors such as steel, cement, fertiliser, non-ferrous metals and oil seeds. This is being vigorously pursued.

The strategy of the Budget I am about to present flows from my assessment of the state of the economy. We have come out of the crisis situation which prevailed a year ago. The agricultural sector has recovered and is well poised for continued growth. The Industrial recovery is as yet partial, but the various policy initiatives already taken have created conditions favourable for an industrial revival. With further improvement in infrastructure performance, the constraints on industry in the coming year should be substantially eased. The emphasis in 1981-82 must, therefore, shift from crisis management to growth.

The tasks ahead of us have been clearly indicated in the Sixth Plan, which has now been approved by the National Development Council. The Plan establishes a target of 5.20 per cent growth per annum and calls for an ambitious public sector investment programme of Rs. 97,500 crore. As in the past, agricultural development, with special emphasis on the weaker sections, is the centrepiece of our development strategy. But the Sixth Plan also identifies some other areas which have become especially critical. The energy-transport system comprising such critical sectors as power, coal, oil, ports and railways requires massive investments if these sectors are not to become a constraint upon economic growth.

The Budget must make a beginning in undertaking these large and urgent tasks. But it must do so in the full knowledge that the threat of inflation has not been fully overcome. The fiscal deficit should, therefore, be kept within tolerable limits. At the same time taxation must be used judiciously so that it does not fan the flames of inflation as happened in 1979-80.

Along with fiscal discipline we must also take steps to encourage the flow of private savings into the financial system. Only thus we can ensure adequate availability of non-inflationary financing to meet the rapidly expanding needs of the economy. This flow of resources into the financial system is threatened in two ways and we must tackle both.

First of all, it is threatened by the pernicious growth of the black economy. This generates income flows which cannot easily surface in the financial system, and are, therefore, directed into socially harmful activity such as hoarding, profiteering, speculation and wasteful consumption. This only strokes the fires of inflation. The Government has recently taken a major initiative to direct some of the resources circulating in the black economy into the public exchequer through the sale of Special Bearer Bonds.

Further action on a wide front is necessary to check the generation of black money so that this social evil is progressively eliminated from our society.

A second impediment to financial savings is the existence of high rates of inflation. In an inflationary situation it becomes essential to provide adequate incentive to financial savings. Since bank deposits are the most important single mechanism for financial savings, it has been decided to raise the interest rate on maturities from one and up to five years. An announcement to this effect is being made by the Reserve Bank. The interest rate paid on deposits above 1 year maturity and up to 2 years will be raised from 7 per cent at present to 7.50 per cent. The rate paid on deposits above two years and up to three years maturity will be raised from 7 per cent at present to 8.50 per cent. The rate paid on deposits above three years maturity will be raised from 8.50 per cent at present to 10 per cent.

The interest rate paid by banks on deposits above 5 years is unchanged, but a new National Savings Certificate will be issued with a maturity of 6 years which will carry an interest rate of 12 per cent.

This will provide the necessary incentive for encouraging longer term savings.

In addition to these measures, I propose to raise the interest rate ceiling on debentures from 12 per cent at present to 13.50 per cent. This is in line with the other interest rate changes proposed, and it will encourage large industrial units to raise their requirements of investment finance through their own efforts. It is essential that these units, which have the capacity to mobilise resources through the financial markets, should make greater efforts in this direction and thus reduce the burden on the term lending institutions.

At present, public companies are permitted to accept deposits from the public up to 25 per cent of the aggregate of their paid up share capital and free reserves. They are also allowed to accept deposits up



to 10 per cent of paid up capital and free reserves either from their shareholders or from others when guaranteed by a Director of the company. These limits do not apply to inter-company deposits. These provisions governing company deposits will be continued. However, it is proposed to impose a ceiling of 15 per cent on the interest rate which can be paid on these deposits. The requisite orders giving effect to these decisions are being issued.

As a further step in facilitating investment in industry we have decided to relax the requirement under the Stock Exchange guidelines that promoters can only hold a maximum of 40 per cent of the equity of a new company. This provision conflicted in some cases with the requirement of the financial institutions that promoters put up a minimum percentage of the total cost of the project. This potential contradiction between two different requirements had given rise to considerable difficulties in the implementation of new projects. In order to overcome these problems, promoters will be allowed to hold higher equity than 40 per cent limit during the initial stages of a project. However, equity holdings above 40 per cent will have to be divested within three years from the date of commercial production by an offer of sale to the general public. This rationalization should speed up the implementation of new projects in industry.

I am confident that these wide ranging measures will help to encourage the flow of savings into the financial system and increase the availability of funds for industrial investment. They create highly favourable conditions for growth in the coming year.

Having outlined the broad approach I have adopted in formulating the Budget and some associated policy initiatives, I will now turn to the Revised estimates for 1980-81 and the Budget estimates for 1981-82.

### **Revised Estimates for 1980-81**

The Budget estimates for 1980-81 had envisaged a deficit of Rs. 1,445 crore. However, as a result of discussions between the States and the Planning Commission the State Plan outlays were increased in a number of cases. Central assistance for State Plans was increased by Rs. 310 crore. We have also to provide additional assistance of Rs. 58 crore to the Rural Electrification Corporation. The provision of short-term loans to the States for supply of agricultural inputs also had to be increased by Rs. 25 crore.

In addition, the Central Government has to provide assistance of Rs. 90 crore to the States to help in flood relief work. Special loan assistance of Rs. 76 crore is being provided to certain North-Eastern States including Assam to meet the gap in their resources caused by their exceptional difficulties.

A larger provision for subsidies is being made than originally envisaged. The provision for net outgo on imported fertilisers is being increased by Rs. 104 crore. The provision for food subsidy, subsidy on controlled cloth and provision for cash compensatory support and market development for exports are also being increased by Rs. 110 crore.

The provision for Defence expenditure has to be increased by Rs. 200 crore.

The financial position of certain public sector undertakings did not show the recovery anticipated at the Budget stage. Additional non-Plan assistance of Rs. 104 crore to these undertakings has, therefore, become necessary.

Turning to the Central Plan expenditure, I am happy to inform the House that expenditure in crucial sectors like power, coal and petroleum has been satisfactory. The House will also be happy to note that the level of disbursements of the Agricultural Refinance and Development Corporation has far exceeded the initial Budget estimates, and I am, therefore, providing an additional sum of Rs. 126 crore to the Corporation. An additional provision of Rs. 50 crore is being made for Industrial Development Bank of India to enable it to meet its rising commitments. In certain sectors like steel and civil aviation, there has been a shortfall in internal resources generation and budgetary support for the plan has to be significantly stepped up. There may be some shortfalls in the Plan expenditure in some other sectors. However, even after taking these into account the budgetary support for the Central Plan in 1980-81 will be Rs. 297 crore higher than in the Revised estimates.

The total expenditure of the Central Government is now estimated at Rs. 22,808 crore compared with Rs. 21,467 crore in the Budget.

Turning to receipts, I am happy to inform the House that despite the concessions in income-tax allowed in the Budget for 1980-81, tax revenues have not suffered. My judgement that lower rate of taxation will promote better voluntary compliance seems to have been vindicated. The receipts from Corporation tax would be higher by Rs. 35 crore compared with the Budget estimate of Rs. 1,515 crore. Receipts from Union Excise duties are also estimated to be higher by Rs. 99 crore compared with the Budget estimate of Rs. 6,265 crore. The receipts from Customs duties

are likely to exceed the Budget estimate of Rs. 2,989 crore by as much as Rs. 361 crore in the current year due to larger imports and higher international prices. After deducting the States' share of the various taxes, the net tax revenue of the Centre is now estimated to be Rs. 419 crore more than the Budget estimate of Rs. 8,922 crore.

Capital receipts too, show an improvement of Rs. 345 crore over the Budget estimate of Rs. 7,694 crore. This is because of higher market borrowing of Rs. 104 crore and estimated receipts of Rs. 200 crore from the sale of Special Bearer Bonds, offset by some shortfalls elsewhere.

Total receipts are now estimated at Rs. 20,833 crore compared with the Budget estimates of Rs. 20,022 crore. The current year is now expected to close with a deficit of about Rs. 1,975 crore. The House will appreciate that almost the entire increase in the budgetary deficit is accounted for by larger budgetary support for the State and Central Plans.

### **Budget Estimates for 1981-82**

The Budget for 1981-82 reflects the objectives, priorities and programmes of the Sixth Plan. Plan outlays of the Centre, State and Union Territories in 1981-82 are estimated at Rs. 17,479 crore, compared with Rs. 14,593 crore in the Budget estimates of 1980-81. This represents an increase of nearly 20 per cent. The Plan outlay of the Centre for 1981-82 is being stepped up very considerably to Rs. 8,619 crore from Rs. 7,340 crore in the Budget estimates of 1980-81, an increase of 17.4 per cent. This will be financed by budgetary support of Rs. 6,309 crore, and internal and extra budgetary resources of Public Sector Undertakings of Rs. 2,310 crore. The total of the approved Plan outlays of States and Union Territories will be Rs. 8,860 crore as against Rs. 7,253 crore in Budget estimates of 1980-81, that is, an increase of 22 per cent. A provision of Rs. 3,462 crore has been made for Central assistance for the Plans of the States and Union Territories.

Agriculture has a preponderant role in our economy and its development sets the pace for the economy as a whole. The Annual Plan Outlay for agriculture in the Central and State Plans has been stepped up to Rs. 1,047 crore from Rs. 925 crore in Budget estimates of 1980-81. Expansion of the area under irrigation is the most important single factor enabling a shift to high productivity scientific farming. Accordingly it is proposed to add 2.50 million hectares under irrigation in 1981-82. The outlay for major and medium irrigation in the Annual Plan

of the Centre and States for year 1981-82 is being raised substantially to Rs. 1,408 crore from Rs. 1,213 crore in Budget estimates of 1980-81. The outlay on minor irrigation will be Rs. 301 crore compared with Rs. 266 crore in 1980-81.

Parallel with the effort at boosting total agricultural production, the Annual Plan lays great stress on special programmes to benefit the weaker sections of rural society such as landless labour, small and marginal farmers, rural artisans and scheduled castes and scheduled tribes. One of the important programmes which this Government has launched for this purpose is the National Rural Employment Programme.

We are providing Rs. 180 crore in the Central Plan for this programme and this will be matched by an equal amount from the States.

Another important initiative aimed at helping the weaker sections is the Integrated Rural Development Programme. This programme absorbs the earlier complementary, and sometimes overlapping programmes aimed at particular sections of the population. We have provided Rs. 198 crore for this programme as well as for special programmes such as Desert Development and Drought Prone Area Programmes. With an equivalent contribution from the States, it is expected that the Integrated Rural Development Programme will help 3 million families to go above the poverty line in 1981-82.

Central assistance for the Special Component Plans for Scheduled Castes was introduced in the very first Budget of the present Government. We have provided Rs. 110 crore for the next year. In addition, Rs. 13 crore will be invested in the Scheduled Castes Development Corporations of States. Along with an equal contribution from the States this will enable these Corporations to raise substantial funds from the financing institutions. The tribal sub-plan, which is the vehicle for the development of tribal areas will receive an augmented provision of Rs. 85 crore during 1981-82, compared with Rs. 70 crore in 1980-81. A provision of Rs. 92 crore has been made for the Special Hill Development Programme compared with Rs. 61 crore in 1980-81.

In pursuance of the Government's policy to accelerate the provision of safe drinking water in problem villages, an amount of Rs. 110 crore has been allocated in 1981-82. Together with the provisions made in the State Plans, this would enable about 36,000 additional villages to be covered during the next year.

The Annual Plan accords high priority to the all important task of expanding capacities in sectors such as oil, coal and power. It is proposed to provide Rs. 580 crore for coal and lignite projects in 1981-82. This represents an increase of 31 per cent over the provision of Rs. 443 crore in 1980-81.

Large increases have also been made in the outlay for power in the Central Sector. We have provided Rs. 721 crore in 1981-82 compared to Rs. 520 crore in the last Budget. This reflects the expanding role of the Centre in the power sector. We propose to take up the Dulhasti Project in Jammu and Kashmir and the Koel Karo Project in Bihar in the Central sector in the coming year. The total outlay for the power sector in the States and Central Plans taken together is Rs. 3,326 crore compared to Rs. 2,745 crore provided in the plan for 1980-81. Additional generation capacity of 3,000 MW is expected to be commissioned during 1981-82. The Rural Electrification Programme provides for electrification of 22,000 villages and energisation of 4.25 lakh pump sets in the coming year.

In keeping with the high priority accorded to exploration and development of oil and natural gas resources, the Plan outlay for the petroleum sector has been increased to Rs. 1,011 crore in 1981-82 compared with Rs. 780 crore in the current year. An outlay of Rs. 67 crore is proposed to in the petro-chemical sector.

An outlay of Rs. 796 crore is being provided for steel in 1981-82. A significant development in this area is the recent commissioning of the Demonstration Plant for Sponge Iron Production at Kothagudem. This project is of special significance to India since the technology for production of sponge iron by using non-coking coal will enable us to overcome the constraints imposed by the limited reserves of coking coal in our country.

The Annual Plan for 1981-82 envisages a significantly higher outlay of Rs. 223 crore for minerals development against Rs. 130 crore in 1980-81. This includes a provision of Rs. 90 crore for the Orissa Aluminium Project which will be implemented by the new National Aluminium Company registered with headquarters at Bhubaneswar in Orissa. The bulk of the project cost is expected to be financed by external credit and commercial borrowings.

In tune with our concern for improving transport facilities, we have enhanced the outlay in the Central Plan for the transport sector to Rs. 1,535 crore from Rs. 1,351 crore in 1980-81. Hon'ble members are already aware that a substantial increase has been made in the Plan outlay of the Railways from Rs. 760 crore in 1980-81 to Rs. 980 crore. A provision of Rs. 108 crore has been made for the development of ports which includes construction of additional berths at Kandla, Tuticorin and Visakhapatnam.

In tune with our drive to improve and modernise communication facilities, it is proposed to extend 2 lakh direct telephone connections during 1981-82.

An outlay of Rs. 518 crore for Posts and Telegraphs including communications has been provided in the Plan.

An outlay of Rs. 390 crore is being provided for chemicals and fertilisers which includes substantial provision for the gas-based fertiliser projects at Thal Vaishet, Hazira and Namrup. Proposals for new nitrogenous and phosphatic fertiliser plants are also being finalised.

Village and small industries have an immense potential for providing employment while sustaining the traditional arts and skills of the village artisans and craftsmen. An outlay of Rs. 162 crore has been earmarked for these sectors adding to the outlays of Rs. 153 crore in the Plans of the States and Union Territories.

Finally, I come to the all important questions of population growth. All our efforts at eradicating poverty will be frustrated if we cannot reduce the rate of population growth. We have taken up revitalisation of the Family Welfare Programme in earnest. A provision of Rs. 155 crore is being made for this programme in 1981-82.

The Government is deeply concerned about the lack of adequate communication facilities in the North-East. We have, therefore, decided to take up six National Highways with a total length of 1700 Kms. at a total cost of Rs. 70 crore. It has also been decided to establish a more direct connection from Nowgong to Dimapur on National Highway No. 36 at a cost of Rs. 16 crore. Certain missing links on the road running along the Indo-Bangladesh Border in Meghalaya will be completed at a cost of Rs. 26 crore. Railway facilities in this area are also being augmented. Hon'ble members are aware that the Third Level Air Service has already started functioning in the North-Eastern Region.

Non-Plan expenditure has been subjected to careful scrutiny to keep it to the minimum. Defence expenditure is estimated at Rs. 4,200 crore as against Rs. 3,800 crore in the current year. I am sure that the House will agree with me that in these difficult times the reasonable requirements of Defence should be fully met.

A provision of Rs. 3,124 crore is being made for interest payments as against Rs. 2,665 crore in the current year, the increase being mainly on account of internal debt. Due to the increase in prices of naphtha and

other inputs, the cost of production of indigenous fertilisers has also gone up. The cost of imported fertilisers has also increased. Accordingly, the Budget for 1981-82 provides for a higher subsidy on fertilisers of Rs. 679 crore as against Rs. 466 crore in the current year.

Provision for non-Plan loans to public sector undertakings has been reduced from Rs. 454 crore in the current year to Rs. 318 crore in view of the anticipated improvement in their performance and financial position in the next year. A lump sum provision of Rs. 200 crore is also being made in next year's Budget to cover the incidence of additional expenditure on dearness allowance to Central Government employees. In future, dearness relief to pensioners will be paid at the rate of 2.50 per cent of pension for each 8 point rise in the consumer price index instead at the rate of 5 per cent for each 16 point rise as at present. The procedure for payment of dearness relief to pensioners is also being streamlined. These changes will mitigate the hardship faced by pensioners.

Hon'ble members are also aware that India will have the privilege of holding the next Asian Games in 1982 in the Capital.

The expenditure necessary next year for the games is being provided in the budgets of the Ministries concerned. Most of the expenditure will be on improvement and creation of permanent assets like roads, stadia, and other sports facilities.

The total non-Plan expenditure for 1981-82 is estimated at Rs. 15,100 crore compared with Rs. 13,736 crore in the current year.

As regards receipts for 1981-82, the gross tax revenues at the existing rates of taxation are estimated at Rs. 14,472 crore compared with Rs. 13,133 crore in the current year, showing an increase of Rs. 1,339 crore over the Revised estimates. The States' share of taxes in 1981-82 is estimated at Rs. 4,206 crore compared with Rs. 3,792 crore in the current year. Consequently the Centre's net tax revenue will be Rs. 10,266 crore as against Rs. 9,341 crore in the current year.

The receipts from market loans are estimated at Rs. 2,800 crore compared with Rs. 2,604 crore in the current year. Small savings are estimated to yield Rs. 1,250 crore next year compared with Rs. 1,100 crore in the current year. External assistance, net of loan repayments, is estimated at Rs. 1,379 crore as compared with Rs. 1,258 crore in the current year. A credit of Rs. 800 crore has also been taken for receipt from sale of Special Bearer Bonds in the next financial year.



Taking into account the effect of the changes in the fare and freight rates of Railways, changes in the P&T tariff to which I will refer a little later and the continuance of the Compulsory Deposit Scheme for Income-tax Payers beyond 31 March 1981, the total receipts for 1981-82 are estimated at Rs. 23,061 crore. The total expenditure for next year is estimated at Rs. 24,871 crore. The overall budgetary gap at the existing rates of taxation will thus be Rs. 1,810 crore.

I shall no longer keep the hon'ble members in suspense. I now turn to the fiscal proposals.

## PART B

Income-tax and other direct taxes are important instruments for raising resources and reducing disparities. We propose to achieve these objectives by plugging of legal loopholes and effective administration rather than by enhancement of rates which often leads to tax evasion and generation of black money. My proposals are also designed to further our Party's avowed policy of affording relief to the middle-classes in these difficult times.

Hon'ble members will recall that last year the exemption limit for income-tax on personal incomes was raised to Rs. 12,000. But the *nil* slab rate was retained at Rs. 8,000. The House will be glad to know that I propose to raise the exemption limit for income-tax in the case of non-corporate tax-payers other than registered firms and Hindu undivided families with one or more members having separate income exceeding the exemption limit, from Rs. 12,000 to Rs. 15,000. With a view to providing significant relief to middle income groups, I further propose to raise the *nil* rate slab from Rs. 8,000 to Rs. 15,000 and also restructure the rate schedule up to Rs. 30,000. The rate of income-tax on the slab of Rs. 15,001 to Rs. 25,000 will be 30 per cent and on the slab of Rs. 25,001 to Rs. 30,000, 34 per cent. The rates of income-tax on higher slabs will remain unchanged. As a result of these changes, about 14 lakh of tax-payers will go out of the income-tax net. I venture to claim that never have so many people been freed from the burden of income taxation at one stroke. Apart from this, another 11.50 lakh of tax-payers in the income brackets of Rs. 15,001 to Rs. 30,000 will also get varying degrees of relief. The reduction in the tax liability at income level of Rs. 15,000 will be Rs. 990; at Rs. 20,000, Rs. 495 and at Rs. 25,000, Rs. 220. There will be no change in the tax liability in the case of tax-payers having income exceeding Rs. 30,000.

Thus, I provided in one year income-tax exemption and/or reduction to over 25 lakh of income-tax assesseees out of about 40 lakh of assesseees in the country....



At present, salaried tax-payers are entitled to a standard deduction in an amount equal to 20 per cent of the salary up to Rs. 10,000 and 10 per cent of the balance subject to an overall ceiling limit of Rs. 3,500. These limits were fixed in 1974. In view of the subsequent rise in prices, and as a means of relief to salaried tax-payers, I propose to enhance the rate of standard deduction to 20 per cent, subject to a higher ceiling of Rs. 5,000. Hon'ble members will be happy to know that this benefit will be applicable to pensioners also. At present, employees in receipt of conveyance allowance are entitled to a standard deduction of Rs. 1,000 only. It is now proposed that they should be given the benefit of full standard deduction.

In view of the urgent need to raise the level of savings in the economy, I propose to continue the Compulsory Deposit Scheme for Income-tax payers for another two years.

The corporate sector has a crucial role to play in the growth of the national economy. I have earlier in my speech referred to the various steps taken for improving the climate for investment in industry. I now propose to reduce by 5 per cent the surcharge on income-tax payable by all classes of companies *i.e.*, from 7.50 per cent to 2.50 per cent. This will add to the internal availability of funds in the corporate sector and should improve the scope for investment financing from their own resources. This step will reinforce the impact of the measures which I have indicated earlier for mobilising financial resources for industrial investment.

As Hon'ble members are aware, all categories of tax-payers are required to pay advance tax on pay-as-you-earn basis. Surtax is, however, not payable by companies in advance. I propose to remove this anomaly and provide that surtax will also be payable in advance during the financial year preceding the relevant assessment year.

The Eleventh Schedule to the Income-tax Act contains a list of industries which do not qualify for specified investment related tax concessions under the Income-tax Act. For example, investment allowance or tax holiday is not admissible in respect of these industries unless they are in the small-scale sector. Industries included in this Schedule were originally considered to be of low priority. However, on reviewing the list, I do not find any justification for treating many of the listed industries as of low priority. Accordingly, 14 groups of industries will be removed from this Schedule and will now become eligible for the specified tax concessions. These industries include electric fans, pressure cookers, glass and glassware, pigments, colours, paints, enamels, varnishes blacks and cellulose lacquers, chinaware and porcelainware, mosaic tiles and

glazed tiles, synthetic detergents, amplifiers or any other apparatus used for addressing the public, vacuum flasks and other vacuum vessels, etc. These industries, some of which have export potential, will now become eligible for the specified tax concessions.

The hon'ble members will recall that the Government had taken several measures last year to curb the use of private discretionary trusts as a device for tax avoidance. Another tax avoidance device that has come to the notice of the Government is the creation of oral trusts. With a view to checking this abuse, I propose to subject oral trusts to income-tax at the maximum marginal rate and to wealth-tax at the flat rate of 3 per cent or at the appropriate rate applicable in the case of an individual, whichever course is more beneficial to the revenue. This proposal will take effect from the assessment year 1981-82.

Another device being used for avoiding proper tax liability is the creation of associations of persons without defining the shares of its members. This enables the creation of a large number of taxable entities which under the existing law, will be chargeable to income-tax separately. I now propose that such associations of persons be charged to income-tax at the maximum marginal rate and to wealth tax at the flat rate of 3 per cent or at the appropriate rate applicable in the case of an individual whichever is higher. This proposal will also take effect from the assessment year 1981-82.

Earlier in my speech, I have referred to the prospective participation of foreign companies in the field of oil exploration and production. In this connection, it is necessary to take several steps relating to tax matters. Firstly, it is proposed to extend the Income-tax Act and the Companies (Profits) Surtax Act to the off-shore areas. Secondly, it is proposed to insert suitable provisions in the Income-tax Act and the Companies (Profits) Surtax Act to enable the Central Government to provide, by a notification in the official Gazette for an exemption, reduction in rate or other modification in respect of income-tax or surtax in favour of any class of persons engaged in the business of mineral oils and gas in association with the Central Government or any person authorised by it. Notifications under the new provisions when made will be placed on the Table of both the Houses of Parliament. It is also proposed to amend section 42 of the Income-tax Act relating to special provision for deductions in the case of business of the prospecting for or extraction or production of mineral oils so as to extend its scope to cover cases where the Government itself does not participate in such business but does so through any person authorised by it.

While the search for additional quantities of oil should continue with unabated vigour, there is also an urgent need to accelerate the development and use of renewable energy resources and to promote their utilisation. The renewable energy sources which have already been brought to the threshold of commercial use by our scientists and engineers include solar, biomass and wind energy. Some fiscal incentives to promote use of these non-conventional forms of energy are called for. I, therefore, propose to enhance the depreciation allowance on machinery or plant installed for manufacturing renewable energy devices and systems from 10 per cent, available at present to 30 per cent. Depreciation on renewable energy devices and systems used for business or profession will also be allowed at the enhanced rate. Other measures under contemplation by the Government include loans to the relevant industries on suitable terms from financial institutions and exemption from certain taxes and duties.

I had earlier in my speech referred to the imperative need to promote our exports in view of our difficult balance of payments situation. To encourage establishment of export-oriented industries in the Free Trade Zone, the Government proposes to allow complete tax holiday in respect of units set up in these zones for an initial period of five years in lieu of all other concessions.

Tea is one of our important export-oriented industries. At present, development allowance equal to 50 per cent of the expenditure incurred on plantation of tea bushes in any new area or on any land which has been previously abandoned is allowed in computing the income from tea business. For this purpose, the expenditure qualifying for development allowance is restricted to Rs. 12,500 per hectare of land situated in hilly areas and Rs. 10,000 per hectare in other areas. Having regard to the increase in the cost of planting in recent years, I propose to raise these ceiling limits to Rs. 40,000 per hectare of land situated in Darjeeling district, Rs. 35,000 per hectare in respect of land situated in other hilly areas and Rs. 30,000 per hectare in plains.

Under section 35B of the Income-tax Act, domestic companies and non-corporate tax-payers resident in India are entitled to a weighted deduction in the computation of the taxable profits at the rate of one-and-one-third times the amount of qualifying expenditure incurred by them on development of export markets. The scope of this provision was curtailed last year as it has been misused for claiming a weighted deduction in respect of expenditure incurred in India on activities which had no direct relation with the basic objective of development of export

markets. In order to guard against such misuse, while at the same time protecting all legitimate effort at export market development, the Government is framing rules which will identify a number of specific activities to be allowed under section 35B. The necessary notification in this behalf will be issued shortly.

Electronics is both a labour-intensive and export-oriented industry. I, therefore, propose to include the electronic component industry in the Ninth Schedule to the Income-tax Act and provide that dividends derived by a domestic company from an Indian company engaged exclusively in the manufacture of electronic components will be completely exempt from income-tax.

The small-scale industrial undertakings enjoy certain tax concessions under the Income-tax Act. For this purpose, an industrial undertaking is regarded as a small-scale industrial undertaking if the aggregate value of the machinery and plant installed therein as on the last day of the previous year does not exceed Rs. 10 lakh. I now propose to raise this limit to Rs. 20 lakh in line with the new definition of a small-scale industry.

Under the existing law, in computing taxable income, a deduction equal to 20 per cent of the profits and gains derived from the business of publication of books is allowed. I propose to extend this concession for a period of five years with effect from assessment year 1981-82.

At present approved financial corporation and public housing finance companies are entitled to a deduction in respect of the specified percentage of income carried to special reserve, subject to certain conditions. The aggregate of the amounts qualifying for such deduction is, however, subject to an overall ceiling equal to the amount of the paid-up share capital. In order to enable such corporations and companies to build up such reserves further, I propose to double the present ceiling.

Under the existing law, resident individuals and Hindu undivided families are entitled to a deduction in respect of medical treatment of physically or mentally handicapped dependants. I propose to double the amount of this deduction to Rs. 4,800 in respect of a dependant who is hospitalised for a period of 182 days or more during the relevant accounting year and Rs. 1,200 in other cases. The House will doubtless welcome this concession being given in the International Year for the Disabled Persons.

I propose to give some significant concessions under the Estate Duty Act. The present limit of Rs. 50,000 for estate duty was fixed in 1958. I propose to raise it to Rs. 1.50 lakh the same as under the Wealth-tax

Act. I also propose to provide that one residential house or part thereof will be valued for estate duty purposes on the same basis as for the purposes of wealth-tax. Since the Estate Duty Act can be amended only with the concurrence of State Legislatures, a Bill for giving effect to these proposals will be introduced later.

I propose to make certain amendments in the Income-tax Act to upgrade the qualifications for appointment as members of the Income-tax Appellate Tribunal.

Other amendments to the direct tax laws are of minor significance. I would not like to take up the time of the House by referring to them in detail here.

The reduction in the rates and other concessions in respect of income-tax on personal incomes would result in a loss of Rs. 146 crore in a full year and Rs. 115 crore during 1981-82. Having regard to the pattern of sharing of income-tax between Centre and States, these concessions will entail a loss of revenue of Rs. 29 crore to the Centre in 1981-82. The loss of revenue on account of reduction in the rates of corporation tax and other concessions to companies will largely be balanced by the payment of surtax in advance by companies. I am, therefore, not assuming any loss of revenue on this score for 1981-82. Uptil now I have not levied any tax.

I now turn to my proposals on Indirect Taxes. My basic approach is that additional revenue should flow largely from increased production. However, there is need to mobilise additional resources to finance the Sixth Plan. While seeking to raise additional resources I have nevertheless kept in mind the imperative need to avoid hardship to the middle and poorer sections of consumers and to provide a larger measure of relief to the small-scale sector of our industry.

Taking Customs duties first, my principal proposal relates to auxiliary duties of customs. This duty has been levied on an annual basis since the 1973 Budget. While continuing this levy I also propose to raise the rates of auxiliary duties as a measure of additional resource mobilisation. In recent years we have been following a fairly liberal import policy. The difficult balance of payments outlook points to the need for conserving foreign exchange. The tariff mechanism judiciously used, can help conserve foreign exchange and also raise some revenue. I, therefore, propose to increase the rates of auxiliary duties by 5 per cent *ad valorem*, on all categories of imports with a few well-merited exceptions. This will obviate a sharp increase in the landed cost of any particular article.

Auxiliary duties of customs are now leviable on imported goods broadly on a three-tier basis. Items subject to a basic duty up to 60 per cent *ad valorem*, for example, basic raw materials, bear an auxiliary duty of 5 per cent *ad valorem*; on items such as semi-processed goods and intermediates, where the rate of basic duty is 60 per cent *ad valorem* or above but less than 100 per cent, the rate of auxiliary duty is 15 per cent *ad valorem*; and where the rate of basic duty is 100 per cent *ad valorem*; or above such as on finished and consumer goods, the rate of auxiliary duty is 20 per cent *ad valorem*. In other cases the rate of auxiliary duty is 5 per cent *ad valorem*, except crude petroleum on which the rate is Rs. 9.50 per metric ton. There are also some items which are fully exempt from auxiliary duty. My proposal to increase the rate of auxiliary duty to 10 per cent *ad valorem* wherever the rate of auxiliary duty is now 5 per cent; to 20 per cent *ad valorem* wherever the rate is now 15 per cent; and to 25 per cent *ad valorem* wherever the rate is now 20 per cent. I do not, however, propose to increase the auxiliary duty on crude petroleum.

In line with the approach I have explained, I propose to withdraw the present full exemption from auxiliary duties of customs in respect of certain items of capital equipment and subject them to auxiliary duty of customs at the rate of 5 per cent *ad valorem*. This increase would cover, among other things, imports of machinery as 'project imports' as also items of machinery on which the concessional rate of 25 per cent *ad valorem* is applied. This measure would, apart from yielding additional revenue, afford some additional protection to the indigenous machine building industry which has, of late, had to face a significant escalation in input costs.

I said earlier that I would exclude some items from the proposed increase in the auxiliary duties of customs. Imports of essential items like edible oil will be exempted from the proposed increase. Bulk petroleum products such as kerosene and high speed diesel oil and steel imported for buffer stock operations will also not attract the increased levy. Items on which import duty rates have been changed in the recent past with a view to maintaining parity with prices of domestic products have also been kept out of the purview of the increased levy. Further, keeping in view our commitments under the General Agreement on Tariffs and Trade, I propose to give up the auxiliary duty in respect of three items involving a small revenue sacrifice. Further details of the proposals are available in the Budget Papers.

These proposals are expected to yield an additional revenue of about Rs. 250 crore.

My next proposal relates to levy of import duty on newsprint. At present this item is fully exempt. There is a large foreign exchange outgo on imports of newsprint. There is no reason why this commodity should not bear a moderate rate of customs duty. I, therefore, propose to impose an effective customs duty of 15 per cent *ad valorem* on imported newsprint.

I expect this measure to yield an additional revenue of about Rs. 21 crore.

Imports of stainless steel bars and wire rods now attract a duty of 75 per cent because they have industrial applications. But there is reason to believe that some of these imports are being diverted for rerolling into strips and sheets used in the manufacture of utensils.... I, therefore, propose to raise the effective customs duty on stainless steel bars and rods and wire rods from 75 per cent to 175 per cent *ad valorem*. I have, however, taken care to see that this increase does not affect imports of stainless steel wire rods which are used for the drawing of wires. This measure is expected to yield an additional revenue of Rs. 5 crore....

I also propose to raise the basic customs duty on plain shaft bearings from 60 per cent to 100 per cent *ad valorem*. This increase should help to restrict large scale imports of bearings such as thin-walled bearings, which have been affecting the indigenous industry. This proposal is expected to yield an additional revenue of Rs. 2.75 crore. On similar considerations it is proposed to raise the basic customs duty on computers and computer peripherals from 40 per cent to 50 per cent *ad valorem*. The likely revenue gain from this increase would be Rs. 1 crore. These are all protective duties; they are not revenue duties.

I will now come to Excise Duties. The House will recall that in 1978 the Additional Excise Duties (Textiles and Textile Articles) Act was passed, in terms of which an additional duty of excise was levied on certain textiles and textile articles at 10 per cent of the basic excise duty leviable. The revenue from this excise levy was intended to meet the expenditure incurred by way of subsidy on controlled cloth. The production of controlled cloth is being stepped up, with emphasis on larger production of *dhotis* and sarees which are of special significance to the poorer sections of society, particularly in rural areas. As a result, the provision for subsidy under this scheme would rise to nearly Rs. 100 crore in the coming year. The revenue at the existing rate of additional excise duty is only about Rs. 66 crore. I, therefore, propose to raise the rate of additional excise duty from 10 per cent to 15 per cent of the basic excise duty on all the items which are now covered by the levy. Without understanding, they are all saying something. I am sure, many of you are going to support



this when you are going to debate it. You do not understand the meaning of what I am saying. Shri Indrajit Gupta will support me. This is exactly what he said four days back. This would yield an additional amount of about Rs. 33 crore and help finance the increased outlay on controlled cloth.

As regards special excise duties, I propose only to continue them at the existing rates. The exemptions in force are also being continued.

My remaining proposals under Union excise duties are mainly designed to achieve simplification and greater clarity.

Hon'ble members would be aware that there is a graded structure of duty on matches, the mechanised sector paying Rs. 7.20 per gross boxes, the middle sector paying Rs. 4.50 and the cottage sector Rs. 1.60. In the light of the report of the Dandekar Committee and a special study made by the Government, it has become necessary to discourage a tendency of middle sector units towards mechanisation of certain labour-intensive processes. Accordingly, I propose that the concessional rates of duty *i.e.*, Rs. 4.50 for middle sector units and Rs. 1.60 for cottage units, will not be available if power is used in the labour-intensive processes of frame-filling, dipping splints in match composition, box making, box filing, labelling and banderolling and packaging. If such use power for any of the above processes, they will be liable to a duty rate of Rs. 5.50 per gross boxes, which would be intermediate between the rate of Rs. 7.20 applicable to the fully mechanised sector and Rs. 4.50 now applicable to the non-mechanised middle sector. I would like to stress that this is not intended as a revenue measure. It is intended only to protect through the excise mechanism, the employment potential of the non-mechanised sector.

With a view to preventing the possible infiltration of the middle sector into the cottage sector and in order to ensure that the benefit of the lowest rate of duty accrues to genuine cottage sector units, it is proposed to reimpose a ceiling on the clearances by cottage sector units at concessional rates. The new ceiling, which is proposed to be fixed at 120 million matches per unit per annum, is much more liberal than the ceiling of 75 million that existed prior to the 1980 Budget. The pattern of production and clearance will be kept under watch and this ceiling will be reviewed if circumstances so warrant. The changes I have proposed are fair to all segments of the industry and are designed to promote both employment and production in the best possible manner.

Another rationalisation measure relates to the concession available to manufacturers of goods falling under Tariff Item 68, who undertake work on 'job' basis. Under the present scheme, duty is being effectively collected



only on the 'job charges' paid by the principal manufacturer to the job worker. In the operation of the scheme, however, several difficulties have been experienced, particularly on the question of what is 'job work'. There have been cases where some manufacturers have taken undue advantage of the concession. I, therefore, propose to replace the present scheme by one in which, instead of levying duty separately on the job charges paid to the job worker, the duty will be paid by the principal manufacturer on the value of the finished goods. This step should be generally welcomed by ancillary units which undertake work on job basis.

I also propose to rationalise the Central Excise Tariff entry and the rate structure relating to tyres with a view to making the legislative intent clearer and minimising the scope for disputes in classification and assessment, particularly in regard to off-the-road tyres used in bulldozers, scrapers and other earth moving equipments. While proposing the necessary amendments, I have taken care to maintain the existing rates of duties and duty concessions in respect of tyres both for agricultural tractors and their trailers.

The other major area where rationalisation of the tariff entries has been proposed is in regard to non-ferrous metals under the respective entries in the Central Excise Tariff. There has been considerable debate and dispute on the question of assessment of waste and scrap of these metals. To set these at rest it is proposed to specifically cover waste and scrap of these metals under the respective tariff entries.

In addition to the above, a few other amendments to certain tariff entries as also the insertion of a separate tariff item for polyester film have been proposed. The details of these Changes may be seen from the Budget papers.

I now turn to a proposal which seeks to fulfil a long standing demand of State Governments. The scheme of levy of additional excise duty in lieu of sales-tax is at present applicable to sugar, tobacco and some textile items. The National Development Council had recommended that the revenue yield from Central excise duties and additional excise duties be in the ratio of 2:1 as far as possible. At a Conference of Chief Ministers, I gave an assurance that an effort would be made to achieve this ratio in respect of these commodities as a whole.

I have considered how best this assurance can be fulfilled. The simplest solution will be to make a change in the ratio for sharing of revenues from cigarettes as between the Centre and the States. As against the present ratio of 76:24 between basic excise duty and additional excise duty in the composite rate applicable to cigarettes, the ratio is proposed to be changed to 72.50:27.50. This will be combined with a

uniform increase in the specific duty element in the composite rate from Rs. 21 to Rs. 21.25 per thousand. The overall revenue from cigarettes will remain practically unchanged. There should, therefore, be no justification for manufacturers to mark up the prices of cigarettes. With these changes the overall ratio between the yields from basic and special excise duties on the one hand and additional excise duties on the other is expected to improve to 2:1 taking the three items sugar, tobacco and textiles together. This will result in a transfer of about Rs. 21.72 crore from revenues under Central excise to the revenue under additional excise duty.

I have also a minor proposal which is basically of interest to the State Governments. Under the Medicines and Toilet Preparations Act, 1959, excise duties are leviable on medicines and toilet preparations which contain alcohol, narcotics and narcotic drugs. Certain changes have been proposed in the Act with a view to effecting a switch over to the metric system and also to eliminate avoidance of duty in certain cases. The changes proposed, however, have very little revenue significance.

I shall now turn to concessions in the area of indirect taxes. This Government is committed to the pursuit of a vigorous policy of promoting small-scale industry in the interest both of employment and broader development of entrepreneurship. Accordingly, I propose to increase the duty exemption limit under the general scheme of excise duty concessions applicable to 72 excisable commodities from Rs. 5 lakh in terms of value of clearances to Rs. 7.50 lakh. Clearances in excess of Rs. 7.50 lakh will continue to benefit from the existing concessional duty limited to three-fourths of the applicable rates of excise duty up to a clearance of Rs. 15 lakh in a financial year as at present. This measure should benefit a substantial number of small manufacturers and enable them to compete more effectively with large units. I am sure that all sections of the House will welcome this enlargement of the scheme of concessions enjoyed by small-scale industry.

Under the excise duty concessions available at present to small manufacturers of some products, notably Items 68 goods and specified electronic goods, one of the criteria for eligibility is the value of investment in plant and machinery. I propose to increase the eligibility limit of such investment from the present figure of Rs. 10 lakh to Rs. 20 lakh, in the line with the revised definition of 'small-scale units' under the new Industrial Policy. Here again I am confident that my proposal will be welcomed by all the hon'ble members.

In the last Budget I had announced wide-ranging duty concessions with a view to encouraging the development of the electronics industry.

As a further step in this direction, I propose to extend the scope of the import duty concessions so as to cover 59 new items of capital equipment and 23 new items of raw materials and components used by the electronics industry.

At present, the handloom sector of the woollen industry does not enjoy any special duty concessions. This sector has a good growth potential. I, therefore, propose to reduce substantially the processing stage duty on woollen fabrics produced on handlooms on the lines of the concessions which are available to cotton fabrics produced on handlooms.

I also propose to extend the concessional import duty of 25 per cent *ad valorem* to a few more important drug intermediates. This step should induce indigenous manufacturers to go in for production of more basic drugs.

Last year, I had fully exempted cotton and cotton-viscose blend hosiery from excise duty. I now propose to extend this exemption to all hosiery articles falling under Item 68 of the Central Excise Tariff.

Another duty concession relates to 'flocked' fabrics where the excise duty is being reduced from the present level of the base fabric duty plus 30 per cent *ad valorem* to the base fabric duty plus 15 per cent *ad valorem* on the consideration that the present duty burden is heavier than warranted, particularly on flock printed fabrics. Further, on colour scanners for the printing industry, the basic customs duty is being reduced from 100 per cent *ad valorem* to 60 per cent *ad valorem*.

In this International Year of the Disabled, it is fitting that appropriate tax relief measures should be extended to our handicapped brethren. Artificial limbs and rehabilitation aids for the handicapped are already exempted from Central excise duty under Item 68. I now propose to exempt fully from excise duty Braille watches for the use of the blind.

I also propose to exempt from excise duty Braille paper which is necessary for printing books for use by the blind.

I further propose to substantially reduce the customs duty on hearing aids and Braille watches imported for personal use by post or air.

The increased levy of auxiliary duties of customs to which I have earlier referred will not be applied to goods such as orthopaedic appliance, Braille watches and parts, tricycles for the crippled, hearing aids and parts... I am sure that this House will whole-heartedly endorse these proposals.

The various concessions and reliefs in excise and customs duties which I have announced will entail a sacrifice of revenue of Rs. 9.35 crore in a full year.

My taxation proposals will yield a sum of about Rs. 35.57 crore in a full year by way of excise duties and Rs. 285 crore by way of customs duties. The concessions I have announced add up to Rs. 7.05 crore on the excise side and Rs. 2.30 crore on the customs side. The net yield is, therefore, Rs. 28.52 crore from excise duties and Rs. 282.70 crore from customs duties. The accrual to the Central Exchequer in a full year will be Rs. 300.50 crore.

I hope it would not have escaped the notice of hon'ble members that this is perhaps the first Budget in recent years in which no increase has been effected in excise duties for raising general revenues.

I would now like to say a few words on behalf of my hon'ble colleague, the Minister of Communications. A substantial programme of development of telecommunication facilities is envisaged during the Sixth Five-Year Plan. It is, therefore, appropriate that the Department should generate internal resources to a reasonable extent for financing its Plan. The additional dearness allowance sanctioned to employees and other increases in the cost of operations have already eroded the existing surplus of the Department. It has, therefore, become necessary to revise certain call telecommunication tariffs. At present the rate of telephone call charge in measured rate telephone system is 30 paise per call unit for calls exceeding 250 but not more than 1,750 in a quarter. It is proposed to increase this charge to 40 paise per call unit. The manual trunk call charges for calls of ordinary category for a unit period of 3, minutes in the distance slabs of 100 to 200 kilometres are being increased from Rs. 6 to Rs. 8 and in the distance slab of 200 to 500 kilometres from Rs. 10 to Rs. 12. These measures are estimated to yield Rs. 35.78 crore in a full year. The additional revenue during 1981-82 will be of the order of Rs. 20 crore and has been taken into account in estimating the receipts of Posts and Telegraphs. It is also proposed to increase the rates of deposits for telephone connections under 'Own Your Telephone' system. This revision will yield about Rs. 5 crore to the Government by way of additional deposits in 1981-82. The details of these revisions are shown in a memorandum which is being circulated along with the Budget papers. The changes will be given effect to from a date to be notified after the Finance Bill is passed by Parliament. There will be no change in either postal or telegraph rates.

I had earlier stated that the resources gap estimated at existing rates of taxation is Rs. 1,810 crore. The various tax measures I have presented,

together with the reliefs offered, will yield net additional revenue of Rs. 271 crore to the Centre. This leaves an uncovered deficit of Rs. 1,539 crore. This deficit may appear large, but taking a total view of the economic situation I believe it is well within the limits of fiscal prudence. The inflationary potential of the Budget must be viewed in the context of the full packages of policy measures which I have outlined. This package contains many incentives for higher production and increased utilisation of capacity. This should stimulate a considerable supply response during the coming year and as I have mentioned, signs of this upturn are already evident. I attach great importance to expanded supplies as the critical element in keeping inflationary pressures in check. The package also contains important incentives to savings which will undoubtedly help in this regard. Furthermore, monetary and credit policies will be so designed as to ensure that Government recourse to deficit financing takes place with a balanced and measured overall expansion of credit in the system.

Mr. Speaker, Sir, the economic situation remains difficult and yet full of opportunities for development and growth. I have tried to present a Budget which gives maximum support to forces that can move us forward on the path of growth with stability and social justice. It sets the stage for all of us to work towards the achievement of our economic and social goals so clearly laid out in the Sixth Plan. Economic policy can only do this much. Hard work, discipline and the innate good sense of the people of this ancient land must do the rest.

Sir, I commend this Budget to the House.

---