

**SPEECH OF SHRI C.SUBRAMANIAM MINISTER OF FINANCE  
INTRODUCING THE BUDGET FOR THE YEAR 1976-77**

Sir,

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

1.2 Last year, when I outlined the Budget proposals for 1975-76, the emphasis was on stabilisation and consolidation. The economy was just then recovering from a severe bout of inflation; and the agricultural situation was none too secure.

1.3 The outlook has changed in many ways this year, thanks to resolute and dynamic leadership. The New Economic Programme has generated an unprecedented sense of discipline and dedication in every facet of our economic life. Taking advantage of the improved situation, additional investments in important sectors were authorised during the latter half of 1975-76 and the country is now poised for a major advance in its path towards progress. I am seizing this opportunity to step up the tempo of development further and to impart an added dynamism to the economy. I shall give you the details presently. But Hon'ble Members would, I am sure, be glad to be told straightaway that the Plan outlay of Rs.7852 crores for 1976-77 represents an increase of 31.6 per cent over the allocation for 1975-76. This marks the highest step up in development outlays in any one year since the beginning of the era of planning in our country.

1.4 The main thrust in this Budget is thus towards accelerated growth. But considerations of stability will continue to be important, The world around us is still subject to considerable buffeting, from price inflation in some areas and from recession in some others. For the first time in post-war history, the volume of world trade registered a significant decline in 1975. This is associated with the fall in the level of economic activity in the OECD countries. There are now signs of recovery in some of the countries, but they appear to be weak. Inflation continues to ravage a number of countries. All this implies a strain on the balance of payments situation for developing countries which are not exporters of petroleum. Our economy, though more strongly placed than some others, is not entirely immune to these pressures. Its sound management will continue to call for the utmost vigilance from all of us.

1.5 India's economic performance during the current year has been a source of satisfaction, indeed pride, to all of us. There has been all-round improvement in production. Key sectors of the economy-in agriculture, in industry, in mining, power, transport and the like-have touched new peaks in performance. The country has had the unique distinction of sustaining a declining trend in prices since October 1974.

The wholesale price index for the week ending February 21, 1976 declined to 288, and is about 7.3 per cent lower than a year ago; last year, at this time, prices were 12.5 percent higher than the earlier year. Consumer prices too have shown a declining trend. The All India Industrial Workers Consumer Price Index was 298 in January 1976 as compared to 326 in January 1975—a decline of 8.6 per cent. I would also, like to bring to the notice of Hon'ble Members that the 12-monthly moving average of the consumer price index has come down to 318.6. This success in the struggle against inflation has helped to dispel the mood of pessimism and doubt which prevailed during 1973-74. The manner, in which this battle was won, despite heavy odds, is living proof of the basic strength and resilience of the Indian economy.

1.6 Last year, I had invited the attention of Hon'ble Members to the need not, only of holding, the price line, but also of taking positive steps to stimulate growth in the economy. It is therefore a matter of particular satisfaction that the favourable turn in prices during the year has been accompanied by a welcome acceleration in the rate of growth of the economy. On present indications, national income in real terms will increase by about 5.5 per cent in 1975-76. This is attributable to the many determined efforts made by the Government, particularly since the launching, in July, 1975 of the New Economic Programme, to remove the various obstacles that come in the way of increased production in factories and farms. The prospects for agricultural development have improved greatly on account of the vigorous steps taken to increase the supply of quality seeds, water and fertilisers. The determined action taken to increase the production of such vital inputs as power, coal and steel augurs well for the further growth of industrial production. The country's external payments will also derive considerable benefit from measures adopted against smuggling, and preventing leakage of foreign exchange through unauthorised channels. The fact that at the end of the current year food stocks with public sector agencies will be as high as about 11 million tonnes lends considerable strength to the economy. Altogether, the many beneficial effects of strict enforcement of economic discipline can be easily perceived by any impartial observer of the Indian economic scene. The highly satisfactory performance of the economy during 1975-76 now enables us to take further measures to accelerate the tempo of social and economic development in the coming year.

## II

2.1 Adequate investment in key sectors of the economy constitutes a basic condition for a sustained increase in the rate of economic growth. It was in pursuance of this objective that the Annual Plan outlay was stepped up by nearly 25 per cent in 1975-76. Fortunately, the present state both of our food economy and our external reserves is such that we can think in terms of a further major increase in investment outlays in 1976-77, without upsetting the stability of prices. Clearly, public sector investment has to play the leading role in this area. Consequently, it has been my foremost concern in the Budget for 1976-77 to provide for the maximum possible

increase in investment consistent with the available organisational capacities for physical performance. The Annual Plan for 1976-77 visualises an outlay of Rs.7852 crores, which, as I said earlier, represents an increase of 31.6 per cent over the Plan outlay for 1975-76.

2.2 I am confident that the contemplated increase in the Plan outlay can be reconciled with continued stability of prices though this is achievable only on the basis of the strictest possible economic discipline. The struggle against inflation was successful only because the country willingly accepted the needed economic discipline. The fact that prices are currently stable does not warrant the conclusion that enforcement of economic discipline can be relaxed. Price stability has to be sustained through deliberate cooperative efforts on the part of all sections of the community. It would be a grave mistake to take price stability for granted. If we are not vigilant, inflation will raise its ugly head again. This means that the planned increases in investment must, to the maximum extent possible, be financed through a genuine increase in savings. It also means that the community must voluntarily agree to sacrifice current consumption for the sake of accelerated growth in the future. Our economic policies must assist in promoting the growth of investment and savings. Later in my speech, I shall describe the manner in which our tax system is being adapted to facilitate, this outcome. At the same time, every effort must be made to curb the growth of non-development expenditure. The general improvement in discipline since the declaration of Emergency has not only led to increased efficiency in Government administration, but also to considerable savings on account of overtime payments. We have to sustain this momentum. In the current year, public sector enterprises have shown encouraging results with the growth rate of production reaching about 15 per cent. We must continuously improve upon this performance so that the country gets the maximum yield from the massive investment outlays of the past. Similarly, the private sector must also accept the inescapable need for the utmost discipline in the use of both real and financial resources. Credit policies must of course respond to changing economic needs. Nevertheless, there can be no getting away from the basic commitment to a rational system of credit use in line with national priorities. The lending pattern of term financing institutions must also be consistent with national priorities. Effective arrangements for procurement and public distribution of mass consumption goods must also be an essential component of the national economic scene.

2.3 In my budget speech last year, I had indicated the broad sectoral priorities underlying the budget proposals for 1975-76. These priorities are still valid. It does not require much argument to prove that abolition of mass poverty in a country such as ours can be ensured only through a sustained attack on rural poverty. As Mahatma Gandhi reminded us so often, India lives in its villages. This means, the foremost priority must continue to be, given to programmes of agricultural development and such supporting sectors as power, irrigation, fertilisers and pesticides. In this context, I would like to emphasise that an effective attack on rural poverty and under-

development can only be planned in the framework of an integrated programme of rural development based on detailed knowledge of local needs, resource endowments and potentialities. The focus must be on maximum utilisation of locally available resources, including local manpower, rather than on the introduction of large inputs from outside. We have to evolve operational district plans which fully take into account the precise and separate requirements of each area. For this purpose, a comprehensive survey of natural resources assumes great urgency, We have to make full use of the potential offered by modern science and technology for the regeneration of our rural economy.

2.4 The over-all aim of our approach should be to evolve an operational strategy with the twin objectives of productive employment of the available workforce and of the scientific utilisation of all our natural resources. It is true that such a development strategy cannot be put into operation overnight. Much spade work is necessary before genuinely operational programmes can be devised. There must be scope for innovation and adaptation in the light of varying needs and circumstances. For such efforts in the field of integrated rural development, a sum of Rs.15 crores has been earmarked in the Central Budget for 1976-77. I hope that on the basis of experience gained in 1976-77 we shall be able to expand progressively the scope of this programme.

2.5 There is a very close relationship between modern scientific agriculture and industry. Progress in agriculture depends crucially on the supply of inputs such as quality seeds, water, power and fertilisers. In the current year, the National Seeds Project has made satisfactory progress and there is currently no shortage of quality seeds. The speed with which inter-State river disputes have recently been resolved will surely facilitate a faster and more rational development of the country's vast water resources.

2.6 The experience of the last few years shows the grave risks inherent in excessive dependence on imported supplies of fertilisers. We, therefore, need to push ahead as fast as we can with our fertiliser programme. I derive considerable satisfaction from the fact that the utilisation of fertiliser capacity in the country has improved considerably during the current year. Today it can be said with confidence that we have no shortage of fertilisers.

2.7 Government have recently made a review of fertiliser prices, having regard to the importance of ensuring that the output-input ratio in agriculture does serve to stimulate further investment and thus larger production. Hon'ble Members would be happy to learn that it has been decided to reduce the price of urea from Rs.1850 to Rs.1750 per tonne. There is also need to promote balanced application of Nitrogen, Phosphorus and Potash. The consumption of phosphatic and potassic fertilisers has lagged behind the desired levels. Government have, therefore, decided to effect a reduction in the prices of all indigenously produced phosphatic fertilisers and some select categories of imported phosphatic fertilisers by Rs.1250 per tonne of  $P_2O_5$ . The

price of muriate of potash will also be reduced from Rs.1085 to Rs.900 per tonne. I shall also refer later on to proposals in regard to imported rock phosphate. I am confident that these price reductions would serve to step up levels of fertiliser consumption.

2.8 Modern agriculture requires vastly increased inputs of credit. Since nationalisation, commercial banks have expanded greatly their activities in the rural areas. There is, however, still a vast gap between what is available and what is needed. This gap is now sought to be filled partially by the newly established regional rural banks which will lay special emphasis on meeting the credit needs of the more vulnerable sections of rural community.

2.9 One cannot over emphasise the need for expanding the production of such critical inputs as power, coal, oil and iron and steel for the development of the country's economy, particularly its industrial base. Production of these items has shown an encouraging trend in 1975-76. Production of coal is expected to reach the record level of 98 million tonnes in 1975-76. The generation of power will show an improvement of about 13 per cent. Yet, there is still a pressing need to push ahead at a faster pace. The establishment of super thermal power stations constitutes an essential plank of the programme to rid the country of continuing power shortages. The oil exploration programme has gained considerable momentum both on- shore and off-shore and, on present indications, the medium-term prospects appear highly favourable. In order to sustain growing production in the years to come, we must provide all these industries with adequate investible resources. This to precisely what is being done in the Budget for 1976-77.

2.10 In planning the national investment strategy, we have also to ensure that the level and the sectoral composition of private investment are in line with our national priorities. I recognise that in recent years, investment levels in some major industries have fallen short of requirements. Government have adopted several measures to improve the profitability of some priority industries. Pricing policy has been made more flexible. In some cases prices have been decontrolled while in others a system of dual prices has been adopted with a view to providing a reasonable return to the investors consistent with protecting the users in priority sectors against excessive price increases. It goes without saying that in a fast changing world, our pricing policies must retain the needed degree of flexibility to ensure a proper balance between the interests of producers and of consumers,

2.11 I am aware that in recent years there has been a steep escalation in capital costs which has affected the profitability of new investment. This could not have been foreseen when the decision to withdraw the development rebate was taken some years ago. I am convinced that the problems created by escalation in capital costs are genuine, and means have to be found to tackle them effectively. This Budget will attempt to do this.

2.12 Under the existing Capital issues (Exemption) Order, the specific consent

of the Controller of Capital issues is required only for bonus issues and for issue of capital by companies registered under the MRTP Act. In the case of other issues, companies have only to file a statement of proposals with the Controller if the issue exceeds Ra. 25 lakhs during a twelve-month period. It is now proposed to raise this limit to Rs.50 lakhs. There will, however, be no change regarding the regulations covering bonus issues or issues by MRTP concerns.

2.13 It has been a matter of particular concern to us that such important industries as cotton textiles, jute manufactures and sugar have not devoted enough resources to modernisation and expansion. These industries process important agricultural raw materials, and offer direct employment to a large number of workers. They are also a major source of the country's foreign exchange receipts. In addition, cloth and sugar are major articles of mass consumption. The country has, therefore, a vital stake in the good health of these industries. Certain segments of the engineering industries are also faced with 'sickness' which has to be checked in time. In the cement industry, a significant improvement in the economy, of production can be secured by a changeover from wet to dry process. The provision of adequate resources for modernisation and rehabilitation of these industries is therefore another matter of high priority. To that end, arrangements are being made to provide the Industrial Development Bank with enough resources to enable it, in collaboration with other term-lending institutions, to finance the requirements of modernisation, renovation and rehabilitation of these industries.

2.14 I would like to emphasise that very often lack of effective management is a basic cause of the sickness of an industry. Along with provision of financial assistance, financial institutions should, I feel, devise sound mechanisms to tone up the management of assisted concerns,. R also needs to be emphasised that sound development of industries such as sugar is also greatly dependent on the adoption of a stable long-term policy for the growth of production of sugarcane. Similarly, the progress of the cotton textiles industry is linked to the evolution of a sound policy for the development of raw cotton. Additionally, any integrated textile policy must ensure effective protection for the handloom sector which provides employment to a very large number of poor weavers.

2.15 It is no doubt true that currently some industries are faced with inadequate demand. I would hope that the contemplated increase in Plan outlays for 1976-77 will provide a major stimulus to the greater utilisation of existing industrial capacities. A number of industries producing consumer durables are experiencing considerable difficulties. While there may be a case for the sake of preventing unemployment for helping these industries to tide over transitional problems, their long-term survival is clearly linked to their ability to diversify their activities and to produce the type of goods for which there is likely to be an expanding demand in the country.

2.16 An increase in export volume at an annual rate of over 8 per cent is an essential condition for sustained viability of the country's external payments. Government have recently further simplified procedures and liberalised facilities for exporters. The procedures for payment of cash assistance and duty drawback have been made simpler. Rates of cash assistance have been suitably revised in order to promote the competitiveness of our exports. The country's success in stabilising domestic price levels and the emergence of a buyers' market at home have also enhanced the competitiveness of our exports. The fact that a year in which the volume of world trade declined is likely to witness an increase of 7 to 8 per cent in the volume of our exports is an indication of the growing effectiveness of our export promotion efforts. The modernisation programme for jute, textiles and sugar, I have mentioned earlier, is designed to strengthen further the country's export performance. The recent arrangement to delink the rupee from the pound and determine the rupee's exchange rate by reference to movements in a basket of currencies of India's major trading partners is designed to impart greater stability to the effective exchange rate and to our foreign trade in a world of floating currencies. With its well diversified industrial base, it is possible, as never before, for India to mount a successful export drive.

2.17 Developments in science and technology have convincingly demonstrated that mass poverty is not the inevitable lot of the majority of mankind. The country has an impressive record of achievement in the utilisation of atomic energy, space exploration, and utilisation of modern science for agricultural development. The time has, however, come when the movement for technological change needs a fresh impetus. As part of this process, the Plan allocation for the development of science and technology will be Rs.156 crores in 1976-77 or an increase of no less than 34 per cent over the likely expenditure of Rs.116 crores in the current year. Hon'ble Members would no doubt also welcome Government's decision to levy an R&D cess to mobilise resources to finance such ventures. The Ministry of Industry and Civil Supplies would be introducing legislation in this regard in this session.

2.18 Social justice is not merely a matter of increased production even higher production is an indispensable condition for securing greater social justice. That is why our development strategy has always recognised the need for special programmes catering to the needs of the more vulnerable sections of our society. The 20-point Economic Programme has created a new awareness of *the* urgency of orderly implementation of such programmes. Effective implementation of measures involving redistribution of surplus land, provision of house sites for the poor and socialisation of vacant urban lands will have *a* very favourable impact on the structure of income distribution. Progress in this field is proceeding apace. The more vigorous emphasis now being laid on family planning also constitutes an important element of the programme designed to improve the standard of living and the quality of life of the less privileged sections of our society. New initiatives are being planned to step up considerably the *a* of construction of low income houses as part of programmes of sound urban development and renewal. However, I would like to emphasise that special

programmes of this kind achieve optimum results when they form part of an integrated strategy of development.

2.19 Government recognise that if the process of development to be speeded up and plans and programmes are to be properly implemented, some basic are also necessary in the field of financial administration. The existing system under which accounts are maintained by an agency external to the Ministries and Departments is not conducive to effective financial management. Accounts and Finance should form an integral part of overall management and should play a more meaningful and effective role in selection of projects, allocation of funds, monitoring of expenditure in relation to physical progress, and evaluation of results. In order to integrate accounts with administrative Ministries and Departments, it is proposed to separate accounts from audit and instal a Departmentalised Accounting System. The process of this separation is scheduled to be completed by 1st October, 1976 for all Central Ministries. Under the new scheme, administrative Ministries will take full responsibility for arranging payments, and timely compilation and rendering of accounts. This reform will facilitate the timely receipt of information on the progress of expenditure, and enable a proper analysis of expenditure trends to be effected. There can be little doubt that this flow of information will greatly facilitate the taking of correct decisions, and the adoption of remedial measures wherever called for. Since these changes are fundamental, and of a magnitude unprecedented in the annals of Indian administration, care has to be taken to ensure that during the transitional phase, there is no dislocation either in payments or in accounting procedures. Hon'ble Members are doubtless aware that the President has promulgated two Ordinances to achieve these objectives, and to ensure that the necessary expert manpower is available to the Government for discharging the newly acquired responsibilities. In doing so, every care will be taken to see that minimum hardship is caused to the employees, and that the Comptroller and Auditor General is able to discharge his constitutional responsibilities effectively and without disruption. He is fully associated with the reforms and all measures have been taken in close consultation with him.

2.20 Government also attach great importance to the rationalisation and modernisation of procedures relating to the personal claims of Government servants and transactions with members of the public. The existing procedures in regard to pension, gratuity and drawal of salaries of Government officers have been reviewed in depth and a number of steps have been taken to eliminate existing delays in the preparation of pension papers and sanctioning of pension and gratuity. Procedures for payment of salary and allowances of Gazetted Government servants have also been simplified. It is proposed to utilise nationalised banks for financial transactions between Government, its employees and private citizens. The new system will be a considerable improvement over the existing system where such transactions can today be made only at a limited number of treasuries or banks..

2.21 The machinery for tax collection, for checking tax evasion, and for preventing leakage of foreign exchange to illegal channels has been streamlined. The improved collection of income tax, despite a reduction in rates, the outstanding success of the voluntary disclosure scheme, and the sizeable increase in earnings of foreign exchange on invisible account due to effective action against smuggling, are an indication of the success of measures to strengthen the tax collection machinery. I would like to take this opportunity to express my appreciation of the work done by the staff of the Central Boards of Direct Taxes and of Excise and of the Directorate of Revenue Intelligence and the Directorate of enforcement.

2.22 I would like to point out that prevention of such evils as tax evasion and black money cannot be achieved solely through a tightening of administrative mechanisms. It is equally essential to ensure that our economic policies, including our fiscal policies, minimise the incentives for tax evasion and for generation of black money. As part of this drive, Government have sought to streamline and simplify controls with a view to removing those which have become obsolete or lost relevance, without in any way encouraging greater concentration of economic power. The recent attempts at simplification of procedures and liberalisation of facilities for inward flow of remittances from non-resident Indians abroad are directed to the same objective. Such simplification and liberalisation cannot however be a once and for all process. Some controls will always remain an essential part of our regulatory mechanism for the public good, and have to be accepted as necessary facts of life. Nevertheless, there is clearly a need for continuous efforts to make our control mechanisms, where these are necessary, more effective, to streamline their operations, to identify the broad objectives behind each control instrument, and to see if those objectives are really being served or whether an alternative arrangement would not be superior.

2.23 I believe I have said enough to give Hon'ble Members an idea of the underlying objectives and policies of the Budget for 1976-77. It is now time for me to describe briefly the Revised Estimates for 1975-76 and the main features of the Budget Estimates for 1976-77.

#### **REVISED ESTIMATES FOR 1975-76**

3.1 The original Budget for 1975-76 envisaged a deficit of Rs. 247 crores. However, due to certain unavoidable increases in expenditure, the current year is now expected to end with a deficit of a higher order. A large part of the additional expenditure involved represents deliberate action on the part of Government designed to accelerate the pace of economic growth.

3.2 Because of recessionary conditions prevailing in international markets, it became necessary to intensify export promotion measures. As a result, expenditure on export promotion schemes is expected to exceed the original Budget Estimates of Rs. 88 crores by Rs. 71 crores.

3.3 Public sector undertakings have greatly improved their working, but some of them, particularly the National Textile Corporation, could not generate enough funds to meet all their obligations. As a result, non- Plan budgetary support for these public sector units had to be increased by Rs.210 crores over the Budget provision of Rs.170 crores.

3.4 Taking advantage of the increased production of food grains, Government have decided to build up an adequate level of buffer stocks. Budgetary support of the order of Rs.130 crores had to be provided to the Food Corporation of India for this purpose - Rs.100 crores as equity capital and Re. 30 crores as loan. The House will agree that this is a worthwhile investment.

3.5 The original Budget provided for a net outgo of its. 140 crores on account of fertiliser transactions. However, as Hon'ble Members are aware. the pool prices of fertilisers were reduced in July, 1975 and again in December, 1975 in order to boost consumption. For this reason, as also the slow initial oft-take and consequent lag in recoveries, the net outgo on this account is now expected to increase by Rs.173 crores.

3.6 Defence expenditure will be higher by Rs.136 crores due mainly to grant of additional dearness allowance and an upward revision of ration and other allowances. The additional instalments of dearness allowance sanctioned in September, 1975, for which no provision was made at the Budget stage, have cast an extra burden of a considerable magnitude which to reflected in the Revised Estimates under other heads also.

3.7 In spite of the burden cast on the Budget by these commitments, we did not allow our developmental efforts to suffer. Investments in the crucial sectors of the Plan, especially steel, shipping and transport as also mines, fertilisers, coal and power, were stepped up beyond the level provided in the Budget for 1975-76. The outlay on health and family planning has also become significantly higher. Additional funds have been provided to the Railways to enable them to meet the shortfall in their resources for the Plan which has been stepped up. In this context, I should like to make special mention of the extra provision of its. 53 crores for purchase of rolling stock by the Railways, which was also a means of providing stimulus to the engineering industry. In sum, the budgetary provision for various sectors of the Central Plan will be about Rs.270 crores more than was provided for in the original Budget.

3.8 Budgetary support for the Plans of States and Union territories was originally fixed at Rs.1054 crores which included a sum of Rs.100 crores for special assistance to certain States with gaps in their resources to ensure adequate investment in important projects in the core sectors of irrigation and power. A subsequent assessment of the States' resources revealed that these gaps would be of a higher order than earlier envisaged. As a result, provision for special assistance had to be raised to Rs.175 crores. Following the announcement of the New Economic Programme, additional Central assistance of Rs.85 crores was allocated to the States to enable

them to step up the outlays on selected irrigation and power projects. Certain States like Bihar, Orissa, Uttar Pradesh, Gujarat and Rajasthan have suffered on account of heavy rains and floods. A sum of Rs.37 crores has had to be provided as advance plan assistance to enable them to cope with the resulting problems. In all, the Central assistance to State and Union territories Plans will go up by Rs.198 crores.

3.9 At this stage it is necessary to state that the budgetary deficit, taking into account all the inescapable additional commitments, would have been much higher but for a significant increase in resource mobilisation.

3.10 As a result of stringent action taken against tax evasion, an atmosphere has been created whereby tax-payers have a greater respect for the law, and tax compliance has improved. The fact must be faced that in the past a considerable part of income and wealth had escaped taxation. After careful consideration, Government decided to provide those who had indulged in tax evasion a last chance to mend their ways. Accordingly, a scheme of voluntary disclosure of income and wealth, was announced for a limited period. Disclosures, and consequently tax collections, under this, scheme have surpassed our original expectations. The Exchequer has also benefited by way of larger collection of taxes as a result both of improved tax collections and greater buoyancy of the economy. All these factors will result in an improvement of Rs.660 crores in tax revenues as compared to the Budget Estimates inclusive of the States' share. The benefit due to the larger collection of income tax will, however, accrue mainly to the State Governments, and their share -of taxes will go up by nearly Rs.226 crores.

3.11 The receipts from market loans, which now include investment of a part of the voluntarily disclosed income and wealth in specified securities, will be higher than Budget Estimates by Rs.168 crores.

3.12 Receipts from external assistance are expected to exceed the Budget Estimates by Rs.554 crores; this figure includes Rs.204 crores of assistance received during the current year from Iran for the Kudremukh Project and for economic development.

3.13 In spite of improvements in receipts mentioned above, the current year is expected to end with a budgetary deficit of Rs.490 crores. I should however add that the budgetary deficit of Rs.490 crores could have been Rs.100 crores lower had we taken advantage of the special borrowing to that extent from the Reserve Bank of India envisaged in the original Budget.

#### IV

#### **BUDGET ESTIMATES FOR 1976-77**

4.1 The most important feature of the Budget for 1976-77 is a further significant step up in investment so that the country may move forward rapidly towards the realisation of the objective of accelerated growth with social justice.

4.2 Gross tax revenues at the existing rates of taxation are expected to amount to Rs.7837 crores, showing an increase of Rs.367 crores as compared to the Revised Estimates for 1975-76. Of the additional accruals of Rs.367 crores, the share of the Centre would be Rs.346 crores. Receipts from Customs are likely to go up by Rs.113 crores as imports next year are expected to be larger in view of the step up in Plan investments, and the need for larger maintenance imports to sustain higher production levels. Union Excise duties are expected to yield Rs.261 crores more than in the current year. Income tax receipts will be less by Rs.103 crores, mainly because the bulk of the receipts under the voluntary disclosure scheme will have been realised in the current year.

4.3 Market loans are expected to yield Rs.535 crores as compared to Rs.453 crores in the current year. This excludes investments under the voluntary disclosure scheme. Small savings collections are also expected to yield Rs.40 crores more in the next year.

4.4 Receipts from external assistance are estimated at Rs.1341 crores which include assistance both in the pipeline and disbursement against new commitments.

4.5 On the expenditure side, the provision for Defence expenditure is Rs.2544 crores against Rs.2410 crores in Revised Estimates for 1975-76, which is a small increase. The provision for food subsidy will be Rs.300 crores as against Rs.250 crores in the current year. From 1st March 1976, fertiliser transactions have been put on a different footing. The Food Corporation of India will pay the Government for the imported fertiliser and arrange for its distribution. Other non-Plan expenditures are being restricted to the minimum so as to make available the maximum possible resources for the Plan.

4.6 Government have been concerned about the difficulties being faced by pensioners in recent years in the wake of inflation. The last instalment of relief to them on account of the increase in the cost of living was with effect from 1st April, 1974. Considering the subsequent increase in the cost of living, and keeping in view the resources available, I propose to allow them an additional ad hoc relief to the extent of 10 per cent of pension, subject to a minimum of Rs.10 and a maximum of Rs.50. I also propose to extend to family pensioners the relief earlier granted, as well as the further relief now proposed to be granted, to pensioners. These benefits will take effect from 1st October, 1975. A provision of Rs.37 crores is being made in the next year's Budget for this purpose.

4.7 I now turn to the Plan outlay for 1976-77. The allocations from the Central Budget for the Central, State and Union territories Plans will be Rs.4759 crores. This includes Rs.1412 crores for Central assistance for State Plan and provisions for Union territories Plan, the sub-Plan of the Hills and Tribal Areas, the requirements of North Eastern Council, and assistance for power schemes channelled through the Rural Electrification Corporation. The allocations also include Rs.294 crores of special

advance Plan assistance without which some States would be without adequate resources for the required level of investment in important projects in the core sectors of irrigation and power. The budgetary provision for the Central Plan will be Rs.3347 crores. The total Central Plan outlay in 1976-77, including internal and other resources of public sector undertakings, will be Rs.4090 crores, as against Rs.3154 crores in 1975-76. The State and Union territories Plans will be of the order of Rs.3762 crores, as compared to Rs.2812 crores in 1975-76. The greatest stress has been laid on the completion of on-going projects in agriculture, irrigation, power, petroleum, coal, fertilisers, steel, transport and communications. We have had to be rather selective in proposing new starts, having regard to resources in sight.

4.8 The Central Budget provides Rs.323 crores for agriculture and allied programmes. Special emphasis is being laid on production programmes with an area approach such as the Drought Prone Areas Programme, the Command Area Development Programme, special programmes for small and marginal farmers, and agricultural labour and schemes to increase generally the availability of inputs and credit for agriculture. The Central outlays will be supplemented by outlays in the State and Union territories Plans to the extent of Rs.473 crores, of which about Rs.148 crores will be for minor irrigation schemes. The area covered by minor irrigation is expected to increase by one million hectares in 1976-77.

4.9 Provision in the Central Budget for irrigation and flood control will be Rs.20 crores including an outlay of Rs.12 crores for flood control schemes. The State and Union territories Plans will provide Rs.673 crores for major and medium irrigation and flood control. As Hon'ble Members are aware, in pursuance of the 20-point Programme, we have proposed to bring an additional five million hectares under major and medium irrigation during the Plan period. As against this target, the investment proposed next year will create additional potential of the order of one million hectares.

4.10 A sum of Rs.129 crores has been provided in the Central Budget for power development, including Rs.74 crores for Central thermal and hydel power schemes, and inter-State transmission lines, and Rs.55 crores for nuclear power projects. There will also be a significant step up in the outlay on power in State and Union territories Plans from Rs.983 crores in 1975-76 to Rs.1290 crores in 1976-77. The target for additional power generation capacity next year will be of the order of 2500 MW, as against the achievement of about 1800 MW in the current year.

4.11 The need for developing indigenous sources of energy cannot be over-emphasised. Accordingly, the budgetary support for petroleum and petro-chemicals has been stepped up from Rs.170 crores in 1975-76 to Rs.274 crores in 1976-77, of which Rs.73 crores will go to the Oil and Natural Gas Commission to maintain the tempo of onshore exploration and for stepping up the pace of offshore exploration. Indigenous production of crude oil is expected to increase to at least 9 million tonnes in 1976-77 as against 8.2 million tonnes in the current year. The production from

off-shore sources by the end of this period will be at a daily rate amounting to 2 million tonnes annually. An additional Rs.65 crores is being provided to the Indian Oil Corporation for the Koyali Refinery expansion the Salaya Viramgam Koyali Pipeline, the Mathura Refinery and the Viramgam-Mathura Pipeline. The Indian Petro-Chemicals Corporation will be provided Rs.81 crores for the petrochemical complex comprising the Naphtha Cracker and downstream units. The total Plan outlay in the petroleum sector will be Rs.485 crores in 1976-77 as compared with Rs.368 crores in the current year.

4.12 It is indeed a matter of great satisfaction that after the nationalisation of the coal industry and as a result of the concerted steps taken by Government, production of coal has increased rapidly. Budgetary allocation for coal in 1976-77 will be Rs.277 crores as against Rs.229 crores in 1975-76. It is expected that the production of coal will go up from 98 million tonnes in 1975-76 to 108 million tonnes in 1976-77.

4.13 Fertilisers being a critical input for agricultural production, budgetary provision for this sector is being stepped up from Rs.290 crores in 1975-76 to Rs.434 crores in the next year. This includes Rs.171 crores for the Bhatinda and Panipat projects and Rs.13 crores for the Phulpur fertiliser project which is in the cooperative sector. Adequate provision has been made to enable on-going projects to be completed according to schedule. In the current year the public sector fertiliser units have improved their production in nutrient terms by about 50 per cent as compared to last year and their production next year may well exceed 1.1 million tonnes.

4.14 The budgetary allocation for the steel sector is being doubled to Rs.402 crores in the next year. Of this, Rs.119 crores will be for the Bhilai Complex etc. and Rs.150 crores for Bokaro. The Kudremukh Iron Ore Project, which is being financed wholly with Iranian assistance, has been provided Rs.100 crores for project construction and the related facilities required in the Mangalore Port. This is a wholly export-oriented project for supplying iron ore concentrate for the Iranian steel industry.

4.15 The allocation for the transport and communications sector will be Rs.597 crores, of which Rs.271 crores will be for Railways which have their own Plan of Rs.411 crores. The Railways will also need loan support of Rs.160 crores to enable them to meet their current obligations to the General Revenues.

4.16 The budgetary allocation for industry includes Rs.36 crores for the Hindustan Paper Corporation for its Nowgong, Cachar, Nagaland and Kerala projects, and Rs.20 crores for Cement Corporation projects. Rs.10 crores are being provided for investment and transport subsidy for promotion of industries in backward areas.

4.17 The allocation for khadi, for village industries, and for small scale industries is Rs.8.52 crores.

4.18 Outlays on social services also have been increased. Provisions for education, scientific research, health, family planning and integrated urban development are all higher than in the current year. In particular, the Central allocation for tribal sub-Plans has been doubled to Rs.40 crores, and that for Hill Areas development has been stepped up to Rs.36 crores from Rs.20 crores in 1975-76.

4.19 As Hon'ble Members are aware, industrial workers and salaried employees were the worst hit by rise in prices. It was with a view to protect the real incomes of these vulnerable groups that several anti-inflationary measures were implemented in 1974-75. One of these measures was the impounding of half of dearness allowance increases. It is now necessary to consolidate the gains we have secured. The large step up in the next year's Plan outlay would generate new employment opportunities, and also safeguard existing jobs. At the same time, this calls for a careful vigil on money supply expansion so that inflationary forces are kept at bay. In view of this, Government have decided that impounding of half of dearness allowance increases will continue for one year beyond July, 1976 when the present statutory provisions in this regard expire. Deposits made during the extended period will be used for the Plan. The amounts deposited will earn interest at the same rate as before i.e., 12.5 per cent and will be repaid in five equal annual instalments, inclusive of interest, into the provident fund of the subscribers commencing from July, 1978. Necessary legislation for this will be introduced in this session. Government will, however, abide by its assurance and repay the instalments of the additional wages and dearness allowances already impounded and falling due in accordance with the existing scheme. The employees will, therefore, \*have larger disposable incomes to the tune of Rs.270 crores during 1976-77.

4.20 The welfare of industrial workers has always been of special concern to the Government. A number of social security schemes for industrial workers are in operation. Hon'ble Members are already familiar with the details of the E.S.I. Scheme, the E.P.F. Scheme and the more recent Family Pension- cum- Life Assurance Scheme. I am happy to announce that it has been decided to introduce yet another social security scheme which will provide insurance to workers without any payment on their part. The salient features of this scheme are that in the event of the demise of a worker while in service, his dependents would be entitled to an additional payment equivalent to the average balance in the provident fund of the worker during the preceding three years subject to a maximum of Rs.10,000. This scheme would apply to all subscribers who have maintained a minimum balance of Rs.1,000 during the preceding three years. It has been estimated that the average balance of a worker would be around Rs.3,500. This would be indicative of the level of relief that will be available. The burden of financing this scheme will be shared by Government with employers. I am sure all sections of this House would welcome this new measure. Necessary legislation will be introduced by the Labour Ministry.

4.21 Taking into account the likely magnitude of expenditure and resources in sight, the Central Budget for 1976-77 shows a deficit of Rs.368 crores at existing levels of taxation.

## **PART B**

### **DIRECT TAXES**

1.1 I now turn to direct tax proposals.

1.2 As Hon'ble Members will recall, the rates of income-tax on personal incomes were reduced in 1974 on the basis of a recommendation of the Direct Taxes Enquiry Committee. While presenting the Budget for 1974-75, my distinguished predecessor had expressed the hope that the reduction in rates would lead to better tax compliance. This expectation has been fulfilled and is reflected in the striking increase in income-tax collections during the last two years. While some other factors including the relentless drive against tax evaders and other economic offenders have played a part in improving collections, it is also obvious that the reduction in tax rates has played a major role in promoting far better tax compliance. The remarkable response to the voluntary disclosure scheme, where the maximum rate was 60 per cent, lends considerable support to the judgement that the majority of Indian tax-payers would prefer to abide by the law and pay taxes as due, provided the tax burden is reasonable. I, therefore, propose to reduce the rates of taxes on personal incomes and wealth. The maximum marginal rate of income-tax including surcharge will be reduced from 77 per cent to 66 per cent and will be applicable on the slab of income over Rs.1,00,000 in the case of individuals and Hindu undivided families, other than those having one or more members with independent income exceeding the exemption limit. I do not, however, anticipate any loss of revenue on this account, as the whole logic of the present exercise in rationalisation of tax rates is that it will evoke better compliance on the part of the assesseees.

1.3 In order to raise resources for financing the Plan and also reduce inflationary pressures generated by larger disposable incomes in the hands of income-tax assesses, I, however, propose to continue the compulsory deposit scheme for income-tax payers for another year. While the rate of compulsory deposit on current incomes up to Rs.25,000 will remain at the existing level of 4 per cent, the rate on the slab from Rs.25,001 to Rs.70,000 will be raised from 6 per cent to 10 per cent; on the slab over Rs.70,000 the rate will be increased from 8 per cent to 12 per cent. Resources to the tune of Rs.80 crores will accrue in 1976-77 as a result of this measure. The honest tax-payer who gets some long overdue relief should not grudge this contribution to national savings.

1.4 It is well known that the prevailing high rates of wealth-tax provided a powerful incentive for undervaluation and widespread evasion of taxes. In regard to wealth-tax, in the case of individuals and Hindu undivided families, other than those having one or more members with independent wealth exceeding Rs.1,00,000, the

new rate of wealth-tax on the initial slab of net wealth up to Rs.5,00,000 will now be  $\frac{1}{2}$  per cent;  $1\frac{1}{2}$  per cent on the slab from Rs.5,00,001 to Rs.10,00,000; 2 per cent on the slab from Rs.10,00,001 to Rs.15,00,000 and  $2\frac{1}{2}$  per cent on the slab over Rs.15,00,000. At the same time, I propose to reduce the exemption limit in respect of wealth-tax in the case of all Hindu undivided families from Rs.2,00,000 to Rs.1,00,000. The additional wealth-tax currently levied in respect of urban lands and buildings has lost its rationale in view of the ceiling on urban vacant land and other measures in regard to urban property, and is proposed to be discontinued.

1.5 At existing rates, the combined incidence of income-tax and wealth-tax works out to more than 100 per cent of income at certain levels. The present structure has been found to be unrealistic. These high rates have not led to any significant reduction of inequality of income and wealth. On the contrary, they have resulted in large scale tax evasion, generation of black money, and conversion of visible assets into invisible ones. It is essential to remove these distortions in the economy. The reduction in wealth-tax rates should not over a period lead to any loss of revenue. This rationalisation of tax structure is in the nature of an experiment. It is my hope that with better compliance on the part of the assesseees and more efficient administration, we can raise more resources.

1.6 In order to remove the hardship faced by owners of self-occupied property who are now required to furnish its fair market value in the return of net wealth every year, it is proposed to freeze the value of one self-occupied house property at the value adopted for the year in which the property is constructed or acquired by the assessee, or for the year 1971-72, whichever is later.

1.7 Hon'ble Members are aware that the Hindu undivided family is often used as a medium for tax avoidance. I have, therefore, proposed withdrawal of certain concessions currently available in computing the taxable income of Hindu undivided families having at least one member with an independent income exceeding the exemption limit.

1.8 Authors, playwrights, artists, musicians and actors do not earn steady incomes over the period of their professional career. In order to enable them to moderate their tax liability during years when they earn high incomes, I propose to increase the monetary ceiling limit for these categories in respect of qualifying savings through life insurance, Cumulative Time Deposits, Public Provident Fund, etc., from Rs.25,000 to Rs.50,000 a year,

1.9 I shall now deal with the corporate sector. I have already drawn attention to the sharp increase in capital costs that has taken place. This has not only prevented faster expansion of capacity, but has also imposed considerable strain on existing undertakings which are obliged to replace worn-out and obsolete equipment. Unless the corporate sector is enabled to provide adequately for renewals and renovation, employment and industrial growth will be jeopardised. Fiscal policy should therefore

be oriented to provide the necessary stimulus for the growth and modernisation of the corporate sector. I have, therefore, decided to introduce a scheme of investment allowance for certain priority industries. The present scheme of initial depreciation allowance will be replaced by a system of investment allowance. The investment allowance will be allowed at the rate of 25 per cent of the cost of acquisition of new machinery and plant installed after 31st March 1976 in industries currently qualifying for initial depreciation. I also propose to extend the list of qualifying industries by including eight other priority or export-oriented industries, namely, carbon and graphite products; inorganic heavy chemicals; organic heavy chemicals; synthetic rubber and rubber chemicals, including carbon black; industrial explosives; basic drugs; industrial sewing machines and finished leather and leather goods, including footwear made wholly or substantially of leather. I may, however, draw the attention of the House to certain basic differences between the investment allowance now proposed and the earlier development rebate. The investment allowance will be withdrawn and will become liable to tax if this reserve is not utilised for the purpose of acquiring new machinery or plant within a period of ten years. No part of it will be available for distribution as profits. The present scheme of investment allowance will facilitate investment in priority industries and reduce the dependence of the corporate sector on public financial institutions.

1.10 As Hon'ble Members are aware, a surcharge of 2½ per cent on income-tax was levied on companies in 1971 at the time of the Bangladesh crisis. In 1972, this surcharge was raised to 5 per cent. I propose to, exempt those companies which will deposit an equivalent amount with the Industrial Development Bank of India for a period of five years, from this surcharge. This measure will ensure that the funds rotate and are available to the corporate sector for investment. I also propose to reduce the rates of capital gains tax in respect of long-term capital gains derived by companies.

1.11 As a result of increase in the interest rates, the return on safe investments has gone up considerably in recent years. In order to make risk bearing investment in shares of companies more remunerative, I propose to raise the threshold for the determination of chargeable profits under the Companies (Profits) Surtax Act, 1964 from 10 per cent to 15 per cent of the capital employed. The new threshold will, however, be reckoned with reference to the owned capital of the company and will exclude long-term borrowings and debentures.

1.12 It has been urged that the present high rates of interest have a dampening effect on investment and production. The present structure of interest rates is an integral part of our credit policy which has helped in keeping inflationary pressures under control. However, taking note of the escalation in costs of industrial projects, I propose to exempt interest received by scheduled banks on long-term loans granted to industry for the purchase of capital plant and machinery from interest tax levied under the Interest-tax Act, 1974. As this House will recall, the tax on interest was conceived essentially as a regulatory measure.

1.13 The present system of taxation of foreign companies gives rise to several administrative difficulties and uncertainties. As a measure of simplification, I propose to levy income-tax at a flat rate of 40 per cent on the gross amount of royalties received by them from Indian concerns under approved agreements made after 31st March, 1976. Lump sum payments received by such companies for providing technical know-how outside India under approved agreements will be charged to tax at a flat rate of 20 per cent of the gross amount received by them. Royalties and technical service fees received by foreign companies under existing agreements will continue to be charged on the existing basis, subject to the modification that the expenditure incurred for earning such income will be limited to 20 per cent of the gross payments.

1.14 Dividends received by foreign companies will be charged to tax at a flat rate of 25 per cent on the gross amount of such dividends. Further, head office expenses allowable as deduction against Indian profits will be subject to specified ceiling limits. The deduction on account of such expenses will broadly be limited to 5 per cent of the Indian income.

1.15 With a view to simplifying the procedure for taxation of the income of the Life Insurance Corporation of India, I propose to provide that the taxable profits of life insurance business will be taken at the figure of the annual average of the surplus disclosed by the actuarial valuation made in accordance with the Insurance Act, 1938. Such profits will be charged to tax at the rate of 121 per cent.

1.16 There is acute shortage of housing, particularly of the kind required by the poorer sections of the community. House construction is entitled to be treated as a major industry in its own right. Apart from fulfilling the basic human need for shelter, it generates considerable employment, both direct and indirect. Increased activity in this sector will also improve the demand for materials like cement, steel and coal for making bricks. To attract more resources for this neglected but essential purpose, I propose to exempt new dwelling units put up after 1st April, 1976, with a plinth area upto 80 sq. meters from wealth-tax for a period of five years. Initial depreciation allowance of 20 per cent will hereafter be available in respect of houses constructed by employers for use as residences of low-paid employees having annual salary incomes up to Rs.10,000 instead of Rs.7,500 as at present.

1.17 As a measure for augmenting foreign exchange resources, I propose to exempt from income tax, interest payable by industrial undertakings in India on foreign exchange loans under approved agreements. I also propose to exempt from wealth-tax, investment by non-resident Indians in equity shares of certain priority and export-oriented industries. Indians returning from abroad will be exempt for seven years from wealth-tax in respect of their savings abroad repatriated to India.

1.18 It is our judgment that the various direct tax concessions will be off-set by better tax compliance and improved administration.

## II

### INDIRECT TAXES

2.1 I shall now deal with proposals relating to indirect taxes.

2.2 Before framing this year's Budget, I had the benefit of consultations with experts drawn from various fields and representatives of industry and commerce. I am grateful to them for the several valuable suggestions made by them to which I have given careful consideration. During the course of the year I have had a detailed review made of the excise duty structure, which has highlighted certain areas for improvement. In particular, the feasibility of adopting some form of value added tax has been studied. Since the issues arising from the studies undertaken are highly complex and have far reaching effects, I propose to appoint a Committee to review the existing structure of the indirect tax system and advise the Government on the steps to be taken.

2.3 I shall now deal with specific proposals relating to excise duties. At present, excise duties on cotton fabrics are specific and their incidence does not depend on the price of the fabric. Though the present rates are highly complex and are graded both on the basis of average counts, and according to the various processes to which cotton fabrics can be subjected, the burden of excise duties has not been equitably distributed. There are also considerable difficulties in administering these tariffs in an industry with many varietal differences. A reform of this system has, therefore, been long overdue and I have now decided to switch over to a system of ad valorem duties on cotton fabrics. This will give relief to the weaker and more vulnerable sections of society who consume lower priced varieties of cloth and will shift the burden to those who have the ability to pay the higher prices for superior varieties of cloth. I have also made changes in the definition of superfine, fine and medium A fabrics to stimulate the use of long staple cotton, the production of which has risen substantially in recent years. Certain changes have also been made in the duty rates on cotton yarn, and relief has been given to the handloom and powerloom sectors. At the same time, handlooms are facing serious competition from powerlooms resulting in a large accumulation of unsold handloom cloth. We have to provide a measure of protection to the handloom industry against the competition from powerlooms. I, therefore, propose to increase the rates of compounded levy on powerlooms. I have taken care to ensure that small powerloom owners are not affected. The rate on the first two looms in each unit will therefore remain unchanged. On the next two looms the rate will be raised from Rs.100 to Rs.125 per loom per year, and on the remaining looms from Rs.200 to Rs.250 per loom per year. The net result of the rationalisation scheme will be a marginal gain in revenue of Rs.2 crores.

2.4 Hon'ble Members are aware that in the textile trade whenever there is a slight pick up in demand, retail prices are raised without any relation to changes in the cost of production. The benefit accrues to middlemen at the consumers' expense. Cases are also frequent of traders selling at much higher prices than those at which

they purchase from the mills. This results in exploitation of the poorer sections of society who do not have much choice in purchasing their requirements of cloth and are not well informed about prevailing market prices. In order to do away with these obvious malpractices, Government have decided to make it obligatory for the manufacturers to stamp the maximum retail price on every metre of cloth for sale to consumers in the domestic market. This decision will be implemented expeditiously.

2.5 My next proposal relates to paper and paper board, which have been assessed at specific duty rates for a long time. As a result of this, certain anomalies have crept in which have been accentuated after price decontrol. I, therefore, propose to replace the present specific duties on paper and paper board by ad valorem duties. Printing and writing paper will be subject to a duty of 25 per cent ad valorem and all other paper and paper board to a duty of 30 per cent ad valorem. I would, however, like to make it clear that the concessional duty now available to white printing paper which is supplied by paper mills at the agreed price for various educational purposes, such as production of text-books and exercise books, and for Government use, will continue practically unchanged. Unbleached and Badami printing and writing paper \*of substance not exceeding 65 gms. Will also be subject to a concessional rate of 15 per cent duty, while existing concessions for newsprint will be continued. The additional yield from this measure will be Rs.13 crores.

2.6 The next item on which I propose to step up excise duty is patent and proprietary medicines. I propose to raise the duty from the existing level of 7.5 per cent to 12.5 per cent ad valorem. Since this duty will not apply to medicines sold under pharmacopoeial names and basic drugs, the burden of the increased duty will be borne only by relatively affluent sections of the society. The additional revenue from this item will be Rs.18.2 crores. I may also mention that the present lower rate of duty of 2.5 per cent on life saving drugs and complete exemption admissible to sera, vaccine and medicinal contraceptives will remain unchanged.

2.7 I have proposed some readjustments in the duty structure on cigarettes. With a few exceptions, there will be some relief to cheaper brands of cigarettes and additional imposition on some other costlier brands. I see no justification for the privilege enjoyed by the smoker of high priced cigars and cheroots sold under brand names of being exempt from the purview of the excise levy. I propose to tax these at the same rate as smoking mixtures. The additional revenue derived from these changes will be Rs.12.2 crores.

2.8 I have raised the duty on aerated waters containing blended flavouring concentrates. There will be no change in the duty on plain soda or aerated waters which do not contain such blended flavouring concentrates. This measure will yield a revenue of Rs.8 crores.

2.9 I am also making some changes in the duty on paints and varnishes, acrylic fibre and acrylic yarn, certain electronic items and starch. The ad valorem duty on

cement is being converted to a specific duty for administrative convenience. The revenue implications of these are marginal. A few changes are also being made in the description of certain tariff items which will not yield any significant additional revenue. All these changes, when taken together, will yield Rs.9.8 crores.

2.10 The auxiliary duty of excise levied under the Finance Act, 1975 was valid upto 30th June, 1976. It is proposed to continue this up to 30th June, 1977.

2.11 The Finance Minister's role is not that of a mere tax-gatherer; he has also to provide relief selectively, when any section of the industry or the consumers is in serious difficulty. I propose to reduce the duty on non-levy aluminium which is mostly of the commercial grade by its. 1,200 per tonne. This will, I am confident, improve the off-take of accumulated stocks by stimulating demand. I also propose to reduce the duty on artificial and synthetic resins and plastic materials from the present level of 56 per cent to 40 per cent ad valorem. Appropriate relief is also being given to articles made from these materials. I expect that this step will induce larger production of these materials. I also propose to reduce the duty on copper by Rs.1,400 per tonne. This will help to improve the profitability of Hindustan Copper Ltd., a public sector undertaking, which is the only producer in this field in our country.

2.12 Our effective action against inflation and black money has resulted in demand recession in some industries, particularly those producing consumer durables. Some of these units have already laid off workers causing considerable hardship. Unless we take remedial action, there is risk of more industrial units closing down or laying off large number of workers. These industries can diversify into new lines of production or become competitive abroad only over a period of time. In the meanwhile, it is essential to enable them to survive by effecting some adjustments in excise duties. Keeping this in view, I propose to reduce the duty on television sets whose unit value does not exceed Rs.1, 800 from 20 per cent to 5 per cent ad valorem. I also propose to give relief to the refrigerating and air-conditioning industry. The duty on medium sized refrigerators of capacity not exceeding 165 litres is being reduced from 50 per cent to 40 per cent. Refrigerating and air-conditioning machinery used for industrial, cold storage and certain preferred purposes will be granted a concessional rate of duty of 20 per cent which is significantly lower than the existing rates. Relief is also being given in the case of water coolers. I propose to reduce the duty on passenger cars of less than 16HP (RAC rating) by 5 per cent ad valorem, and also grant exemption from duty on tyres, tubes and batteries when these are supplied as original equipment with the cars.. The duty on jeeps, ambulances, pick-up vans and other vehicles of less than 16HP is also being reduced by 5 per cent ad valorem. Hon'ble Members will be happy to know that motorised cycle rickshaws are being exempted from excise duty.

2.13 I propose to reduce the duty on caprolactum from 50 per cent to 25 per cent ad valorem and make some reductions on viscose and acetate yarns which go into the production of relatively cheap fabrics. I propose to give relief by way, of excise

duty to a number of common consumer items, viz., house-hold laundry and cheaper varieties of toilet soap, detergents, and stainless steel blades. With rising living standards generally, table and pedestal fans of small size are used by almost all sections; so are dry cells for the ubiquitous transistor and torchlight. I, therefore, propose to give some relief to these items.

2.14 As an export promotional measure, I propose to abolish the excise duty on ready-made garments and to make some adjustments in the tea rebate scheme. Some relief is also being given to tea produced in Zone HI because of the high cost of production and the low yield.

2.15 It has been decided to introduce a new scheme of excise duty relief to encourage higher production. The scheme visualises grant of relief in respect of selected commodities to the extent of 25 per cent of duty payable on goods produced in excess of production in a selected base year. Details of the scheme are now being worked out and I expect that it will be introduced for one year in the first instance.

2.16 The effect of changes in excise rates will amount to a net realisation of only Rs.15.12 crores, after allowing reliefs of the order of Rs.50 crores. Of this, the additional revenue accruing to the Centre will be Rs.8.55 crores, while the States' share will be Rs.6.57 crores. I have no doubt that the consumer will welcome the substantial relief.

2.17 I now deal with Customs duties. Where I have increased the rates of Customs duties, I have selected those items which will either give an added impetus to domestic industry or where large premia prevail, the Exchequer being entitled to its rightful share.

2.18 Imported stainless steel sheets have been commanding high premia in the Indian market, partly because of scarcity and partly because of a large differential between the prices of imported and indigenously produced stainless steel sheets. I, therefore, propose to raise the import duty on this item from the present level of 220 per cent to 320 per cent ad valorem. I also propose to raise the import duty on stainless steel plates and strips from the present level of 75 per cent to 120 per cent ad valorem. The proposed increases in the import duty on stainless steel sheets, plates and strips will together yield an additional revenue of Rs.10.60 crores.

2.19 With a view to encouraging greater production of high carbon and alloy steel within the country and larger use of indigenously produced iron and steel, and also as a revenue raising measure, I propose to increase the existing import duty on high carbon and alloy steel (other than stainless steel) from 35 per cent to 75 per cent ad valorem. I also propose to modify the existing concession with regard to countervailing duty on iron and steel and fix countervailing duty at an amount equal to the basic excise duty. These changes will yield an additional revenue of Rs.18.40 crores.

2.20 As there is a wide gap between the international price of copper and the indigenous price, I propose to increase the import duty on copper. The tariff rate on copper will be raised from 40 per cent to 100 per cent ad valorem. However, for the

present, I propose to fix the effective import duty on copper at 60 per cent ad valorem. The effective countervailing duty which is now Rs.5000 per metric tonne is being stepped up to Rs.5600 per metric tonne. Corresponding changes are also being made with necessary adjustments in the import duty and countervailing duty on copper scrap and copper manufactures. The proposed changes on copper and copper manufactures and copper scrap will yield a revenue of Rs.6.65 crores.

2.21 For similar reasons, I propose to increase the import duty on caprolactum and Dimethyl terephthalate (D.M.T.) from the present level of 75 per cent to 120 per cent and to withdraw the exemption from countervailing duty on caprolactum. I also propose to increase the basic customs duty on acrylic yarn by Rs.20 per kilogram. The proposed changes in duty on caprolactum, D.M.T. and acrylic yarn will yield an additional revenue of Rs.12.85 crores.

2.22 There are a number of items in the First Schedule to the Indian Tariff Act in respect of which we have international commitments under the General Agreement on Tariffs and Trade to maintain the duty at points not exceeding certain agreed levels. Since we have recently enacted the Customs Tariff Act, 1975 which follows broadly the Brussels Tariff Nomenclature, we have obtained a general waiver from the G.A.T.T. Council in regard to our commitments under the Agreements, pending renegotiation with the concerned contracting parties. In view of this waiver I propose to withdraw the exemption enjoyed by certain articles on this account, which will yield revenue of Rs.3 crores.

2.23 There are a few areas in which I propose to give some concessions with regard to customs duties. With a view to encourage new investment in the fertiliser and newsprint industries, I propose to reduce the duty on machinery and equipment imported for setting up fertiliser plants and newsprint plants from 40 per cent to 30 per cent ad valorem. The customs duty on imported rock phosphate used for manufacture of phosphatic and complex fertilisers is also being withdrawn. These measures will involve a revenue loss of Re. 13.15 crores.

2.24 On computers and computer sub-systems I propose to reduce the basic import duty from 60 per cent to 40 per cent ad valorem. I also propose to exempt these from the whole of the auxiliary duty and countervailing duty. Other items which will get relief in import duty are polyester films imported for the manufacture of magnetic tapes, metalised plastic films imported for the manufacture of electronic capacitors, and sports goods imported for use in national or international competitions. The relief on all these items together will amount to Rs.1.75 crores.

2.25 The auxiliary duties of customs levied hitherto are being continued upto the 30th June 1977 and the effective rate of this levy will remain unchanged

2.26 Taking Union Excise duties and Customs duties- together the yield for 1976-77 for the Centre will be Rs.47.25 crores.

2.27 I am now left with only two proposals designed almost wholly to raise resources for the benefit of the States.

2.28 The rates of stamp duties levied on instruments such as receipts and bills of exchange mentioned in the Union List have not been changed for a long time. With effect from 1st June 1976 I propose to raise the rates of stamp duties on certain items. The proposed changes in the rates of stamp duties are likely to yield an additional revenue of about Re. 22.57 crores per annum. However, during the next financial year, the accrual of additional revenue to the States and to the Union would be of the order of Rs.18.44 crores and Rs.37 lakhs respectively, because the new rates of duty would be effective for only a part of the financial year.

2.29 Another change which I have proposed is the revision in rates of excise duties on medicinal and toilet preparations containing alcohol, narcotic drugs and narcotics as also an amendment of the definition of certain terms including narcotic drugs and narcotics. The State Governments have pointed out that while State excise duties on alcohol were raised, the duties of excise on the above medicinal and toilet preparations have not undergone any change since 1964, and this has led to misuse of these medicinal preparations. I, therefore, propose to raise the rates of excise duties on medicinal and toilet preparations containing alcohol, narcotic drugs or narcotics so as to yield an additional revenue of about Ra. 7.5 to 8 crores per annum -Out this amount, about Rs.50 lakhs per annum will accrue to the Union in respect of Union territories and the balance to the States.

### III

3.1 The net additional mobilisation of taxes as a result of the various measures I have outlined will be Rs.48 crores for the Centre and Rs.32 crores for the States. The Budgetary gap of Rs.368 crores indicated earlier will therefore come down to Rs.320 crores. I propose to leave this gap uncovered. It is my considered judgement that this order of deficit will not accentuate inflationary pressures in the economy. Nevertheless, there is an inherent element of unpredictability in the course of economic activity and we shall continue to keep close and vigilant watch over the economy.

3.2 There is a tide in the affairs of nations, as of men, which taken at the flood leads on to fortune. The nation is at the crest of such a tide. The economy is poised for a surge forward. The Emergency and the New Economic Programme have ushered in a qualitative change in the economic environment. We must now take advantage of the favourable factors and inject a new dynamism to programmes of economic and social development.

In framing these proposals, I have been guided by our cherished national goal, enunciated by the Father of the Nation, of ensuring sufficiency for all and superfluity for none.

Sir, in all humility, I now commend the Budget for the acceptance of this House.

(March 15, 1976)