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EASTERN ECONOMIST

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A Budget in Search of a Policy

BUDGET-MAKING, by its very nature, is condemned to try to please everyone. Not surprisingly therefore it frequently fails even to give reasonable satisfaction to a reasonable number of people. This alone however does not explain why the budget of the Central Government which Mr Morarji Desai presented in Parliament on May 25 had fallen flat on the nation. The provisional budget estimates which he had published earlier in March this year were described as an "interim" budget. That it was in a political and administrative sense. We wonder whether the regular budget which he has now framed cannot also be described as an "interim" budget, but in the economic sense.

The Finance Minister has openly stated that he does not see his way clearly to positive policy-making because of the uncertainty whether there would be a good monsoon this year equal to the task of assisting the economy to recover and recuperate from the ravages of two successive droughts. He has pleaded that, in the circumstances, he is unable to formulate with any degree of assurance forward-looking policies for continuing economic development. An admission of this kind is entitled to be treated with respect for its candour and regarded with sympathy for its claim to basic good intentions. This budget therefore has to be scrutinised primarily in terms of how valid and adequate it is as a "holding operation."

Mr Desai has emphasized the fact that he has fulfilled the promise he had made to himself in his interim budget statement that he would not contemplate any deficit financing in the balancing of government disbursements with government receipts over the current financial year. But his achievement in this respect has been disputed. Prof B.R. Shenoy and Mr N. Dandekar, for instance, have referred to the drawing on PL 480 funds to the extent of Rs. 135 crores as evidence that the Government is, in fact, not relying completely on non-inflationary sources of finance as has been claimed on its behalf. The economic impact of the utilisation of PL 480 funds is still the subject matter of unsettled controversy. But what sounds reasonable is that, even otherwise, the Government's real and eventual success in balancing its books over the current financial year is a somewhat speculative proposition. It seems likely indeed that both receipts and disbursements will exceed budget expectations, with the excess on the spending side being rather more pronounced than that on the revenue side. At this stage it can only be hoped that Mr Desai has not unduly discounted the pressures on government resources and government finance, including the pressure of rising prices. There is thus no reasonable certainty, despite the Finance Minister's energetic paper work, that the budget would actually remain balanced as the financial year progresses.

The situation would have been different had the Finance Minister been in a position to take Parliament and the people into his confidence regarding any specific plan the Government may have for acquiring and maintaining control over government expenditures. He has however given no picture of any such plan probably because the Government simply does not have one in its own mind. We are not belittling Mr Desai's almost solemn assurances that the Government is aware of the importance and urgency of economy in public expenditure and is determined to face and deal with this problem in a way that would show results even in the year ahead. But we doubt that the Government is still anywhere near appreciating the dimensions of the "economy" task or its dynamics. We are even less convinced that, even if the Government's understanding were to become sufficient, its political courage and economic wisdom will measure up to the demands made of them. We are therefore not

prepared at the present time to take seriously Mr Desai's claim to have balanced the budget over the year 1967-68. But even assuming, for the sake of argument, that Mr Desai's budget estimates of revenue and expenditure will run true to form, can it be expected that the policies and measures of his budget will not add to the inflationary pressures on the economy?

It is worth noting here that the Finance Minister himself is quite modest about his anti-inflationary claims. He has said that all that he has attempted to do in his budget is to break the psychology of inflation and not inflation itself. But has he really succeeded even in this limited objective? His assumption that merely because no credit is being taken for an expansion of treasury bills in the budget will change the inflationary psychology in the community is surely far too naive. It would, no doubt, make things easier for the Government if such technicalities could do the trick. Unfortunately, they cannot. The inflationary psychology, no less than inflation itself, can be broken only if there are specific developments which point to an immediate improvement in production or an early easing of prices. The budget has done very little to initiate or encourage such developments.

Book-Keeping Is Not Enough

On the contrary, the fiscal policy adopted in it is more apt to confirm and accentuate the inflationary psychology than break it. Inflation in the people's mind has come to be associated with high levels of government spending and increasing taxation. Mr Desai has clearly been unable to bring down the totality of government expenditure. On the other hand, the levels of government spending are continuing to rise. Simultaneously, taxation has not only not been reduced but has been further put up. It is therefore quite unrealistic on the part of the Finance Minister to take the view that merely by balancing the budget in a book-keeping sense, he has initiated action to counter the psychology of inflation. Had he balanced the budget by reducing government expenditure as well as taxation, he would have been entitled to take credit for breaking the psychology of inflation. As it is, he has only strengthened it. This is not a matter for theorising. It can be seen to be the commonplace of the market place in the days since the budget was presented.

It is perhaps not generally realised that the tax effort of the Central Government this year is much larger than it may appear at first sight. The additional revenue of about Rs. 69 crores which the tax proposals are expected to secure to the Central Government tells only part of the story. In the first place, this estimate of revenue does not refer to a full year since, so long as the current year is concerned, the new tax proposals will apply only to a part of it. The new tax effort in terms of a full year will, in fact, be of the order of Rs. 83 crores so far as accruals to Central revenue are concerned. If the benefits accruing to state governments as their share of divisible taxes are also taken into account, the order of the tax effort will be Rs. 106 crores. There are also the imposts of the Railway budget to be taken into account. The raising of the freight rates and passenger fares

is expected to fetch Rs. 47 crores in a full year and this would take the totality of new taxation to about Rs. 153 crores in a full year.

This is not moderate taxation by any means and when Mr Desai claims to have balanced the budget the fact needs to be borne in mind that he has done so only by increasing taxation substantially in order to cover correspondingly larger provisions for government spending. Incidentally, it is perhaps possible to make a further refinement in our assessment of the order of new taxation before we depart from this point. The figures so far mentioned about the additional tax effort are inclusive of a loss of revenue of Rs. 19 crores through reductions in export duties. Since the relief will not be available to domestic consumption, the estimate of the total burden of the additional tax effort may reasonably be raised by this amount, in which case the burden will be of the order of Rs. 172 crores on domestic consumption in a full year.

In its defence of the pattern of additional Central excise taxation which he has adopted, Mr Desai has pleaded that the new levies are to be applied only to a limited range of selected items so that the price situation is not disturbed at many points. The fact remains however that tea, coffee and tobacco which are articles of daily consumption for a large number of people are to bear more taxes. Does Mr Desai really believe that the psychology of inflation can be broken when the price of a cup of tea or coffee, or of a packet of even the cheaper varieties of cigarettes or a new pair of footwear has been forced up appreciably overnight?

The budget has raised the rates of duty on sized yarn on beams from 20 paise per kilogramme to 520 paise per kilogramme for counts Nf. 41 to 50 and to 575 paise for counts

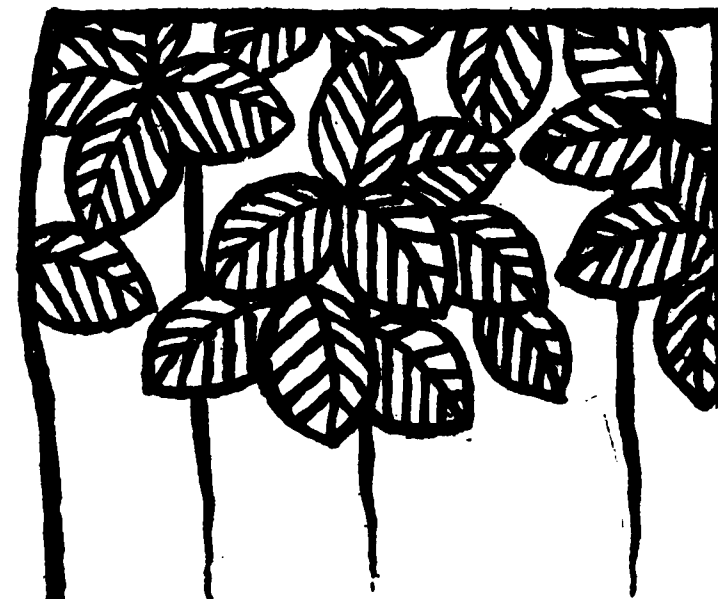
Eastern Economist 20 Years Ago

MAY 30, 1947

Towards the close of last year, Dr Rajendra Prasad, Food Member in the Interim Government, in an article in the Hindustan Times Annual depicted the food situation in terms of an exchange of a wheat for a rice crisis. In an attempt, during the most critical months of the previous year, to meet the needs of the deficit, chiefly rice-consuming, areas the Government of India drew on the wheat surpluses of the comparatively fortunate provinces. The result was that the wheat reserves were exhausted. The Food Member, however, had then hoped the crisis would not assume similar proportions in the coming year, 1947. Unfortunately that prediction has been upset by a calamity for which science has yet discovered no remedy. The wheat crop, which showed considerable promise since the monsoon had been good, and on which in a substantial measure, the hope was built that the food situation in 1947 would be better than a year ago, has suffered heavy damages, over the entire area from the Deccan to the United Provinces, from rust, a sort of vegetable parasite, against which there were hardly any preventive measures. About two million tons have been so lost.

Age is not all... nor the mere fact of survival on the frayed ends of tradition. Among the earliest promoters of a concept — that of self-sufficiency for our country through extensive industrialization, we have known no ingenious ways to overcome obstacles apart from flexibility in decision making, and regard for ordinary principles of management wedded to probity. If we are today a rational complement of industrial units, that is because of our reluctance to sit on the fence of the status quo — waiting for an overwhelming consumer demand to develop before being able to set our sights. And if we have a modest reputation of worthiness, we intend to live up to it through an optimum use of talents, available resources and initiative.

AGE IS NOT ALL...



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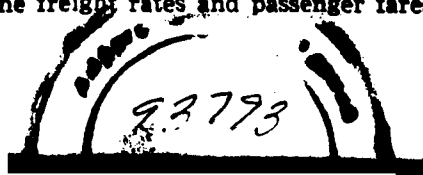
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above Nf. 50. Since the ruling mill price of Nf. 50 is between Rs. 10.50 and Rs. 11.00 per kilogramme, this would mean a levy of over 50 per cent on the ex-mill value of yarn on top of 110 paise per kilogramme paid as excise duty by the spinning mills. The Finance Minister has refrained from indicating how he expects the incidence of this impost to be distributed. But his observation that the margin of difference in the excise duty between powerloom and mill-made grey fabrics of fine and superfine varieties will be narrowed "sufficiently" gives the impression that he will not be sorry to see the prices of the affected products of the powerloom sector rise to the full or part of the extent of the increases in duty on sized yarn.

Perish the Powerlooms?

We would readily welcome the idea that the large-scale sector, whether in the textile industry or in other industry, such as the sugar industry, should not be unduly discriminated against in the matter of excise taxation. We wholeheartedly agree with the view that the textile mill industry, in its present circumstances, does deserve relief. But we do object to Mr Desai trying to do good to the textile mills at the expense of the powerlooms. There is also the further point that, even within the textile industry, Mr Desai is trying to favour the composite mills at the expense of the spinning mills—an act of discrimination for which there does not appear to be sufficient justification. The current economic difficulties of the textile industry are not the peculiar problems of the composite mills alone. Rising costs and a declining offtake are matters of general concern for the entire textile sector. It is true that powerlooms enjoy certain advantages in respect of overheads or wage costs in comparison with the mill sector, but as against this there is the consideration that the decentralised and dispersed powerloom industry does not enjoy access to facilities

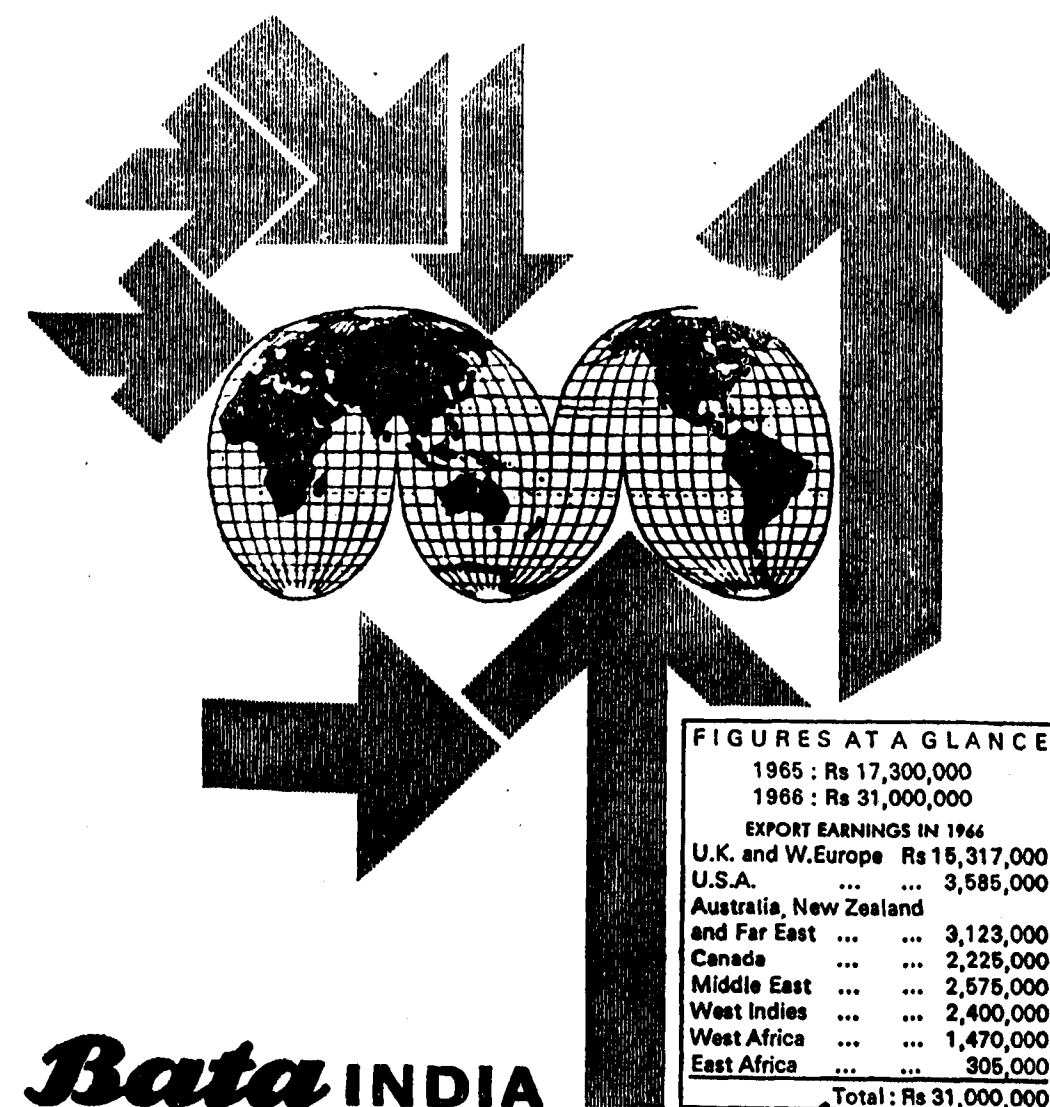
such as bleaching, dying, mercerising and pre-shrunk processes and has therefore to limit itself to the production of lower-value grey, unfinished cloth. Had the Finance Minister wanted to give relief to the composite mills, he should have done so by extending direct tax relief to it rather than by undertaking a fiscal raid on the production and profits of the powerlooms or the spinning mills. We are sure that the Government would think more than twice before treating the khandasari industry as they have dared to treat the powerloom industry. In any case, from the point of view of an assault on the inflationary psychology, Mr Desai's attempt to tamper with production and prices in the powerloom sector is unlikely to be helpful since the output of this sector serves to meet a large part of popular consumption.

It is possible that the Finance Minister did not want to provoke sharp reactions to his tax proposals. If so, he has certainly not been wholly successful. His Central excise proposals relating to aluminium and rayon and synthetic fibres and yarn have promptly given rise to fierce controversy. Mr Desai has sought from the entire field of Central excise taxation an additional revenue of Rs. 115.52 crores in a full year. To this total, the aluminium and the synthetic fibre industries, which are already heavily taxed, are expected to contribute between them Rs. 32.98 crores. Mr Desai's decision to concentrate his fiscal attention to such a pronounced extent on just two industries was prompted evidently by his generally commendable desire not to upset costs and prices by spreading the net of indirect taxation widely over a very large number of commodities. We are afraid however that he has carried his preference for intensive taxation far beyond its reasonable limits. The two industries concerned are growth industries which are now in the stage of fairly rapid expansion. It is not desirable that the Government should squeeze their earnings too much at the present stage of their evolution.

Cooking the Goose

IN THE past, wrong fiscal policies had been followed in respect of industries, such as the cotton textile industry and the sugar industry, with the result that today both have been rendered financially weak and therefore technologically backward or ill-equipped. It would be a pity if the blunder is repeated in the case of other industries of major importance. The Finance Minister, fortunately, is at least aware of the desirability of not discouraging the consumption of synthetic textiles and aluminium unduly. It is obvious that cotton textile production in the country must in due course be increasingly supplemented by the output of synthetic fabrics so that the textile industry as a whole manages to be modern and technologically forward-looking. In the case of aluminium, its use for industrial and other purposes in the place of other non-ferrous metals in which the country is deficient is of great importance and is vital to the programme of self-reliance. Since the nation is well-placed to expand production in this industry and expansion schemes and new projects are even now being processed, it is not desirable to restrict consumption through large increases in prices.

The Finance Minister has declared himself to be against the increases in excise duties being passed on to consumers in the form of increases in prices. While this intention does him credit, his obiter dictum that it should be possible for the producers to absorb the increases in duties without any increases in prices charged to consumers certainly does not. Mr Desai has stated that he has increased the excise duties on these two industries sharply because he believes that high profits are being made and that they should be mopped up for the exchequer. We would like to know how sure he is of his facts. Certain gaps in his information are at once apparent. For instance, it is not true, as has been said in the official papers, that the duty on aluminium has remained unchanged since 1960. As a matter of fact, there have been two increases since that year, without counting the present proposal. In 1963-64, aluminium along with several other items was subjected to a 25 per cent surcharge on the basic duty. This surcharge is to continue in the current financial year. Again, in 1965-66, in place of the then existing different rates of duty on extruded shapes and sections of aluminium, including extruded pipes and tubes,



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What is more, many developing countries, becoming self-sufficient in footwear production, are not only restricting imports, but are making a bid to enter the export field themselves.

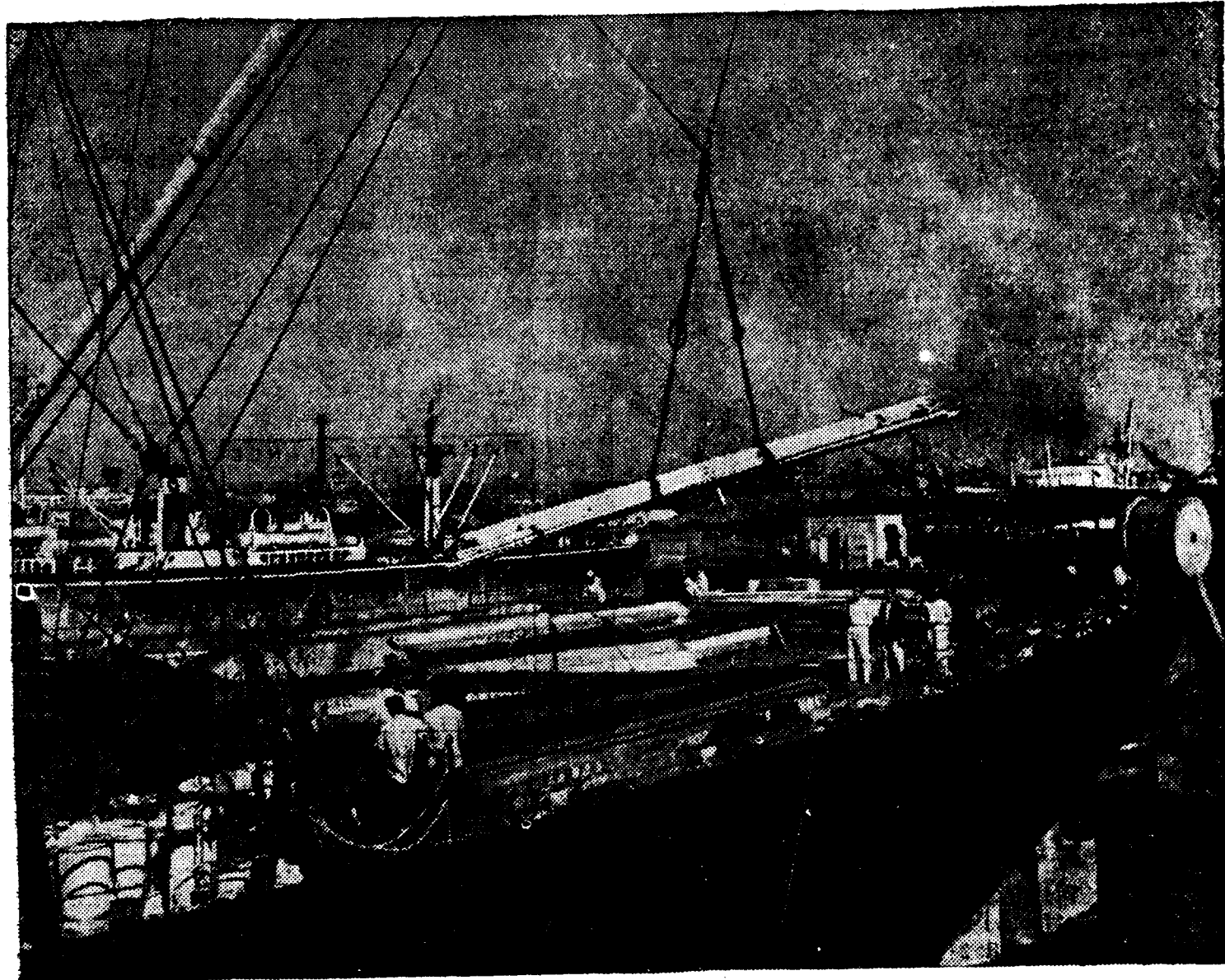
Bata-India, consequently, has to build new markets and to increase exports to

such highly developed countries as the U. K., the U. S. A., Canada, and others, where quality products have to be offered at a price that must meet both international and local competitions.

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a duty of 10 per cent ad valorem was levied and, by notification, the maximum rate was fixed at Rs. 800 per ton. The Finance Minister however has been gracious enough to concede that there could be consultations between the Government and the industries regarding the apportionment of the incidence of the increased duties. In other words, if any part of the additional taxation is to be passed on to consumers, the necessary increases in prices will have to be approved by the Government. This however is small mercy. The basic question is whether there is justification in the economics of the industries concerned for the high rates of Central excise duties now proposed.

Operation Over-Kill

The total profits of the aluminium industry, before tax but after allowing for depreciation and development rebate, came to Rs. 3.36 crores in 1960-61, Rs. 3.39 crores in 1961-62, Rs. 3.99 crores in 1962-63, Rs. 5.70 crores in 1963-64, Rs. 6.01 crores in 1964-65 and Rs. 5.91 crores in 1965-66. In 1966-67 the industry's aggregate profit on the above basis is understood to be around six crores of rupees; it could not go up due to power shortage curtailing production and increased cost of imported spare parts and essential raw materials (cryolite, aluminium fluoride, fluorspar and anthracite coal). The increase in the import bill of the industry last year had been of the order of 57.5 per cent. If the 1966-67 production level of 83,600 tonnes of primary metal is just maintained, the additional excise burden is not passed on to the consumer and there is no further rise in costs of production, the additional excise levy at the primary metal stage itself (Rs. 650 basic duty + Rs. 130 surcharge) will be of the order of Rs. 6.5 crores—something more than the entire 1966-67 profit of the industry after providing for depreciation and development rebate. Even if account is taken of the recent increases effected in the prices of aluminium products, the profit left with the industry after paying the enhanced duty at the primary metal stage will be only marginal. The additional burden on account of the 110 per cent increase in the excise levy on pipes and tubes and over 300 per cent increase in the duty on plates, sheets and foils will then eat into the allocations for depreciation and development rebate.

Unit-wise, the approximate additional excise burden on Hindustan Aluminium and Indian Aluminium—the two main producers of the metal at present—on the basis of their last year's production of about 40,600 and 26,230 tonnes, respectively, comes to Rs. 3.17 crores and Rs. 2.05 crores at the primary metal stage itself. Indian Aluminium's profit, after providing for depreciation and development rebate, last year was Rs. 3.29 crores. The profit of Hindustan Aluminium after providing for depreciation alone on the basis of declining balance (under Section 350 of the Companies Act) was Rs. 1.9 crores. The development rebate should account for Rs. 1.75 crores. Even if provision for depreciation is made on the straight-line method, the profit of Hindustan Aluminium will not be enough to allow for full depreciation and development rebate if the entire additional burden of excise duty is to be shouldered by the company.

The effect of the additional excise levies on aluminium

and its products will be that perhaps with the exception of Indian Aluminium, all the other three units of the industry—Hindustan Aluminium, the Aluminium Corporation of India and Madras Aluminium (this unit went into production last year)—will show losses on their 1967-68 working. In the case of Indian Aluminium also, the profit may be only marginal. Nearly 50 per cent of this company's total production is in the form of fabrications on some of which the duty raise has been over 300 per cent as against 260 per cent in the case of the primary metal. The income-tax receipts of the exchequer from the industry and its shareholders should, therefore, be more or less wiped out.

Now, if as a result of enhanced excise duties on its products, the aluminium industry were to find it difficult to provide even for full depreciation and development rebate, how is it to discharge its liability for repayment of foreign loans? This liability has gone up by 57.5 per cent after devaluation and is currently estimated around Rs. 27 crores in the case of three units—Hindustan Aluminium, Indian Aluminium and the Aluminium Corporation of India. Data regarding the liability of Madras Aluminium is not immediately available.

Further, the aluminium industry cannot be accused of frittering away its resources in any large dividend payments to shareholders. Madras Aluminium, as stated above, went into production only last year. It may be ex-

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pected to announce dividend only after three or four years. Of the other three units, Hindustan Aluminium declared a maiden dividend only last year at the rate of 7.5 per cent. This year the dividend payment will be at the rate of 10 per cent. The Aluminium Corporation of India paid a dividend of nine per cent for the year 1965-66. Only Indian Aluminium, which has been in the field since 1938, has paid a dividend of 19 per cent for 1966.

The industry has ambitious plans to expand. Now these expansion programmes—so far as the private sector is concerned—may be difficult to pursue. There is not only no incentive left to expand but there are no resources in sight for this purpose. The entire burden of expanding the output of aluminium—a strategic material in view of its growing use in substitution for the scarce copper and zinc as well as in defence—will have to be assumed by the public sector.

Gross Underestimate

It is worth noting here that the revenue receipts from the increase in excise levies on aluminium and aluminium products at Rs. 10.98 crores is a gross underestimate. At the primary metal stage itself, the increase of Rs. 780 per tonne in excise levy on a production of about 1,10,000 tonnes (in 1966, the total aluminium production amounted to 83,600 tonnes; it would have been nearly 96,000 tonnes had the drought not affected power supply—the loss in metal output due to power cut is estimated around 4,000 tonnes in the case of Hindustan Aluminium and 8,700 tonnes in the case of Indian Aluminium alone) will amount to Rs. 8.58 crores. The 110 per cent increase in duty on pipes and tubes and over 300 per cent increase in duty on plates, sheets and foils, surely cannot be expected to yield an additional Rs. 2.4 crores only. In 1966-67, when output amounted to 83,600 tonnes, the expected yield from excise levies on this metal and its products, which were substantially lower than those proposed now, is Rs. 4.8 crores. This revised estimate is Rs. 55 lakhs higher than the budget estimate. The actuals may turn out to be much more. It is of course true that, as we had pointed out earlier, the Government might lose on the roundabout of corporate tax revenue some part of what it would gain on the swings of the excise duties.

The plight of the rayon and synthetic fibres and yarn industry may not be much different. In its case too, the sharp increases effected in excise duties heavily impinge upon its profitability. Reports from Bombay suggest that the increased burden on Century Rayon, which produces about 30 tonnes of filament yarn per day, may be as much as Rs. 1.5 crores. On National Rayon, which produces about 26 tonnes of filament yarn a day, the additional burden will be over a crore of rupees.

The profits of these companies, however, are not expected to be affected to as great an extent as those of the smaller units such as Baroda Rayon and Indian Rayon. This is because the bigger units have diversified their production by going in for the manufacture of tyre cord and chemicals which have not attracted any additional levy. But the smaller units, which have no such advantage and which have not paid even their maiden dividends since their inception, will be hit much harder. The increased burden on Indian

Rayon, which had a daily output of about six tonnes of rayon yarn last year, is estimated at Rs. 40 lakhs.

Nylon manufacturers, it is feared, will be hit even more than the rayon producing units. The enhanced burden of excise levy on Nirlon, it is said, may jump from Rs. 1.25 crores to about Rs. 5.60 crores. In the case of Chemicals and Fibres, the additional burden has been estimated around three crores of rupees.

The last year's profits, before providing for tax and development rebate but after making allocation for depreciation, of some of these companies were as follows: Century Spinning and Manufacturing Company (Century Rayon forms a part of this concern) Rs. 7.49 crores; National Rayon Rs. 4.79 crores; Chemicals and Fibres Rs. 1.94 crores; Indian Rayon—gross profit (no provision was made for depreciation estimated at Rs. 1.34 crores) Rs. 25.65 lakhs.

The additional burden imposed by the Finance Minister by raising excise duties on rayon and synthetic fibres and yarns will thus wipe out the profits of such units as Chemicals and Fibres and Indian Rayon. It will materially affect the two leaders in the industry; the allied plants of the two giants may have to shoulder the losses on account of their rayon units.

An important objective which a Finance Minister has to

EXCISE DUTY ON MAN-MADE FIBRES AND YARN

“Though it is the desire of the industry and the Government as well to accelerate the tempo of exports, it would be a matter of doubt and rightly so whether the present excise imposition, burdensome by any stretch of imagination, would serve the export effort, in any measure. Presently as you are aware, the spinning industry thought it fit to give filament yarn at concessional rates on the condition that it can recoup its losses by increasing the prices in the domestic market. It would be impossible at the present juncture to recover these losses unless the Government makes up its mind to reduce excise duty to a reasonable level. If the excise duty is not reduced, the export proposition of viscose filament fabrics may not prove to be a successful venture.

Perhaps, the Government thought that rayon industry was a luxury item and as such imposition of such heavy excise duty according to them was essential to restrain consumption of this product. But, it is our submission that it is incorrect to draw the conclusion that viscose rayon in particular is confined to the elite. It is as a matter of fact a natural cellulose like cotton only regenerated to manufacture cellulosic yarn. In this connection, I venture to bring home the fact that the growth of the rayon industry all over the world has been primarily and in substance to bridge the ever-widening gulf between internal demand and supply of cotton. If this has been the case all over the world and the growing requirement of cloth in India, in particular, cannot be met by increase in production of cotton alone, it stands to reason that other natural cellulose resources like rayon (fabrics of which in the matter of price compare favourably with low and medium priced fabrics) will have to be tackled for providing the essential needs of cloth. In the circumstances, to classify this rayon viscose filament industry as a luxury industry is not proper for it has been proved with the passage of time that it is essentially a middle-class urban necessity.—Mr G. K. Devarajulu, Chairman of the Association of Man-Made Fibre Industry

keep in view while drastically revising upwards the excise duty on any item is that his income-tax receipts from the profits made by the industry and trade and the dividends received by shareholders should not be affected materially. Only then can there be a net growth in his revenue over a period. If the profits of industry and trade go down substantially as a result of increased excise duty burden, the income-tax receipts of the Government receive a severe setback, especially when they are about 75 per cent of the

Curb on Consumption

CERTAIN PROPOSALS regarding Central excises have been officially credited with having the effect of promoting exports. Mr Desai has sought to justify the increased excise taxation of coffee, tea and tobacco and the re-introduction of the duty on footwear and parts as being conducive to the diversion of supplies from the home market to the foreign market. It is however not quite clear that this expectation will be realised. In the case of coffee, at any rate, it would still be necessary to regulate supplies in the home market, particularly in the case of Arabica varieties, by controlling directly the quantity released for home consumption. Since the demand for coffee seeds, even in the case of superior grades, is more inelastic than elastic, it is clearly unfair to the consumer to rig up prices both through shortages and high taxation.

In the case of tea, it has not been clearly established that supplies normally available for exports fall short of what can be exported in terms of demand abroad. The difficulties in the way of increasing tea exports are quite different. For one thing, the aggregate tax burden on the industry is inimical to the dynamic development of exports in terms of more production at lower costs. Secondly, there is both need and scope for more aggressive selling of Indian tea in foreign markets in competition with other exporters. We are unable to see how the increased excise duty on tea will help in these directions. On the contrary, by increasing the net burden of taxation on this already heavily taxed industry, the Finance Minister has only made further inroads into its resources for rehabilitation and expansion. It is no doubt true that the Government expects the excise duties to be fully passed on to consumers, but it is not improbable that in the case of inferior grades of tea some consumer resistance will be felt.

As regards footwear, the new duty may not only not help exports but may hinder them. It appears that the prices of footwear made without the aid of power and in small power-operated establishments are also rising in response to increases in the prices of footwear manufactured in large-scale factories, although the excise duty is confined to the latter category of manufactures. Since a good part of our exports of footwear is drawn from the decentralised sector, the net effect may well be one of discouraging exports.

As for the increase in the excise duty on cigarettes, the Finance Minister hopes to kill a whole covey of birds with one stone. He wants consumption to be checked so that the

industrial profits—corporate tax, surtax, income-tax on trade profits and tax on dividends received by shareholders taken together.

The above analysis suggests that Mr Desai has been unduly harsh on the aluminium and the rayon and synthetic fibre industries. If these industries are to be allowed to grow, the proposed increases in excise levies will certainly have to be reconsidered.

hazards to health through excessive smoking may be reduced to some extent while the exportable surplus available of cigarette tobacco, an important foreign exchange earner, is simultaneously increased. He is also hopeful at the same time of the increased duty helping in improving revenue. We are not denying that all these purposes could be realised in different degrees. But we must point out that taxation of tobacco has now become truly sumptuary to an extent where it impinges very harshly indeed on those with whom its use has become a habit.

There is no denying, of course, that the Finance Minister attaches great importance to export promotion. But as we have seen, his Central excise proposals may only be of limited value in this field. Rather more is to be expected from his proposals relating to export duties. But it must be pointed out that even here the contribution of the budget is quite limited. In the case of tea, there is a slight relief in export duties in respect of inferior teas from zones I and II and there is also a marginal reduction, as the Finance Minister himself describes it, of the export duty on iron ore fines. The export duty on manganese ore has, no doubt, been reduced by Rs. 7.50 per ton, but this, as has been officially pointed out, is merely to offset the effect of the recent



"And what is your reaction to the budget, sir?"



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increase of railway freight on manganese ore. The only concession in export duties is a reduction of duty on jute manufactures. This, in effect, is but a partial retracing of the wrong step taken in the wake of the devaluation of the rupee when unduly high export duties were imposed on jute manufactures. It is not by any means clear that even the reduced duties could be supported by the industry without its competitive position vis-a-vis the jute industry of Pakistan being kept weak. There is therefore no particular reason to make much of Mr Desai's modification of the export duty on jute manufactures, especially as the reductions have been delayed and are half-hearted. The Finance Minister however has decided to continue the subsidy on imports of raw jute needed to supplement domestic production. This however should only be a temporary concession and we do hope that the domestic pro-

duction of raw jute will improve in 1968, thereby reducing the need for the subsidized import of the fibre from outside. Incidentally, there is some justification for the Finance Minister increasing the excise duty on jute goods the revenue from which at Rs. 3 crores in a full year will be only a small part of the subsidy which the Government expects to be called upon to provide for the import of raw jute during the current financial year.

Taking one thing with another, then, the Finance Minister, whatever the strength of his desire may be, has not been able to do much for promoting exports. The major contribution to any early improvement in this area will evidently have to come from the heavens in the form of a better agricultural year.

Prolonged Agony

THE FINANCE Minister has expressed some concern over the impact of recessionary influences on certain capital goods industries, notably engineering and structurals. He has attempted to help in maintaining the demand for their products and, in this context, he has pointed to certain allocations for Plan schemes, notably the Bokaro project, which could be useful. But given the need for the Railways to cut their capital outlays and the strict limits imposed on the Government's capacity to spend on the Plan generally by the imperative of avoidance of deficit financing, the Finance Minister naturally could make only a token contribution by way of direct government support and sustenance of demand for the products of industries affected by recession. In the circumstances, he would have been justified in considering specific tax reliefs for these industries. Unfortunately, his obsession with not surrendering any part of government revenues has immobilised his thought and action. The Finance Minister should certainly have reduced certain excises on the products of industries which are now under recessionary pressures. He has not only not done this but has even added to the pressures of some of these industries, including those engaged in the manufacture of transportation equipment, by increasing the excise duties on certain petroleum products.

It is no doubt true that these increases are in the nature of an attempt to make up for the decision taken by the Government in the wake of devaluation not to pass on to the consumer for the time being the increases in import costs of petroleum products. But the question still remains whether this is the right time for the Government to have reversed the decision. It could surely have waited until circumstances are easier for some of the recession-affected industries which may feel directly or indirectly the impact of increases in the prices of petroleum products. In any case, it is indeed strange that while the Railways, a government-owned means of transport, are complaining of increasing costs, including fuel costs, and are pleading them as a justification for putting up freight rates and fares, the Government should have thought it desirable to add deliberately to the fuel cost of the road transport industry. This industry is already victimised by excessive taxation and the

Government could certainly have been a little more considerate towards it.

The increases proposed by Mr Desai in the excise levies on refined diesel, motor spirit and lubricants, soon after the enhancement of Railway freights, are bound to accentuate the inflationary pressures on the economy. No doubt the increase in the excise duty on refined diesel is only two paise per litre, but this, along with the increased incidence of sales-tax and excise duties on lubricants and plastic materials, can be expected to raise the running costs of road transport by about five per cent. After including the increase in the excise levy now proposed, of every rupee paid for diesel fuel, nearly 76 paise will be on account of taxes by the Central and state governments and local bodies. The 10 paise per litre increase in the excise duty on motor spirit, similarly, can be expected to raise substantially the running expenses of cars, scooters, taxis, auto-rickshaws, etc.

The Finance Minister however has certainly been considerate towards the needs of tourist promotion. He has

INCREASED EXCISE DUTY ON ALUMINIUM

The Central budget for 1967-68 has proposed a heavy burden on the aluminium industry in the form of excise duty which, it has been suggested, should be absorbed by the industry. The basic excise duty on aluminium ingots is proposed to be raised from Rs. 300 to Rs. 950 per tonne, on flats from Rs. 500 to Rs. 1,450 per tonne and on pipes, tubes and extrusion sections from 10 per cent to 20 per cent ad valorem. All these increases are subject to 20 per cent surcharge currently applicable so that, in effect, the increase would amount to Rs. 780 per tonne in the case of aluminium ingots and Rs. 1,140 per tonne in that of rolled products and about Rs. 900 per tonne on extrusion sections. These proposals if implemented are likely to affect seriously the viability of this fast growing industry. Aluminium is a basic industry in this country next in importance only to steel. In spite of the rapid increase in our aluminium production, the country has by no means achieved self-sufficiency in this important metal. Although we produced 83,600 tonnes of aluminium in 1966, we had to import about 22,500 tonnes. The indigenous production of aluminium in 1966 saved for the country as much as Rs. 34.6 crores in foreign exchange.

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extended the priority-industry treatment to approved hotels run by Indian companies and has provided for the allowance of initial depreciation on hotel buildings constructed by such companies after March 31, 1967, to the extent of 25 per cent of their cost of construction. There are also other fiscal relaxations in favour of the hotel industry. Thus, new machinery and plant installed after March 31, 1967, in hotels run by Indian companies will be eligible for development rebate and a higher rebate of 35 per cent of the cost as against the normal 20 per cent for the non-priority industries. Again, an Indian company carrying on business of hotels approved by the Central Government will be able to claim a reduction of eight per cent of the profits derived from the hotel in the computation of its taxable income. This reduction will be available for the assessment year 1968-69. These concessions are substantial and timely. The hotel industry would, no doubt, derive considerable satisfaction but it still had one major demand which is that the Government should set up a loan fund for financing the construction of hotels. This also has been conceded since the announcement of the budget.

Tax Holiday

Certain other concessions of a more general nature have been proposed for the corporate sector. The so-called tax holiday which exempts from tax profits up to six per cent of capital employed during the first five years of an industrial unit has now been liberalised. Companies qualifying for this concession will be allowed to carry forward the amount of "deficiency" in profits in relation to six per cent of the capital employed during the first five years of the tax holiday to the succeeding year in the period and the amount of the deficiency will be added to the amount of six per cent of the capital employed in that year. The assessee will thus be exempted to the tax on profits to the extent of the aggregate of the deficiency of the amount of six per cent on the capital employed. The carry-forward of the unabsorbed benefits of the tax holiday, beginning 1967-68, will be extended up to eight years from the year of commencement of the business. The concession will not apply in the case of units in whose case the tax holiday has expired before the current assessment year. Here the Finance Minister has made a concession to realities. Due to various factors, not always within the control of a new industrial undertaking but often the result of government policies, the profitability of new enterprises is being delayed or is found to be disappointing in the initial years. The liberalisation of the terms of the tax holiday takes note of this fact.

Mr Desai has also given certain other minor concessions which would benefit investment in scientific research or encourage the amalgamation of uneconomic industrial units after relieving them of certain fiscal liabilities attendant on amalgamation. At present the excess of the sale proceeds of the building, machinery, etc., over the written-down value is taxable but in future there will be no computation of any profit in the case of the amalgamating company with reference to the considerations received by it in respect of any machinery, plant or furniture transferred by it to the

amalgamated company. Similarly, no capital gains or losses will be computed in the case of an amalgamating company in respect of any capital or assets transferred by it to the amalgamated company. Small-scale industries in the corporate sector have received a favour. The concessional rate of 45 per cent to which widely-held domestic companies having total incomes not exceeding Rs. 25,000 are now eligible has been extended to such companies up to a limit of total incomes not exceeding Rs. 50,000.

It is interesting to note that the Finance Minister himself does not attach any great importance to these concessions to the corporate sector, however welcome and useful they may be to the individual beneficiaries. It follows that in the strategic area of corporate taxation, so highly relevant to the task of reviving economic activity, the contribution of this budget is negligible. There is no attempt even to consider reliefs in corporate taxation, particularly in relation to the surtax or the taxation of inter-corporate dividends. Mr Desai, in fact, has revealed himself to be completely helpless in the matter of reducing the burden of corporate taxation. It would have been a different matter had the Finance Minister been convinced that nothing needed to be done in this area; this apparently he is not. On the contrary, he is merely convinced of the Government's inability to contemplate any appreciable surrender of revenue. Here lies the major failure of this budget. Had Mr Desai been able to reduce the totality of government expenditure by about Rs. 300 crores, he would have provided himself

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with scope for manoeuvring for an expansionist fiscal policy. Because he has not been able to tailor the demands of the exchequer to the needs of the economic situation, he has found himself a helpless prisoner of the dogmatic expenditure estimates of the budget.

The Finance Minister has been handicapped further by his stubborn refusal to consider the possibility of reduced taxation of economic activity, leading to an increase in the volume of that activity and thereby helping not only to sustain government receipts from taxation but also to promote them. The Finance Minister is afraid that this process, even if it comes about, will take more time than the Government can afford. For him the bird in hand is worth two or more in the bush. This conservatism may be admirable in its own way, but it is certainly not appropriate to the economic context which demands that the emphasis in government policy must be squarely on raising the tempo of investment and production in terms of an appropriate increase in consumption. For all practical purposes, the levels of the Government's Plan outlays in 1966-67 and for 1967-68 have been frozen at the level of 1965-66. The logical corollary should have been to release more economic activity and resources in the non-government sector. This however is not being done and the result will necessarily be a continuing decline in the rate of economic growth.

Masterly Inactivity

It is true that the improvement in agricultural production which seems likely to take place in 1967-68 and the current possibilities of a certain amount of improvement in industrial production due to the freer and continuing availability of imported raw materials and components will go some way in ending the economic stagnation, but this certainly is no argument for the Government following a policy of masterly inactivity. On the contrary, on the basis of a reasonable assessment of these possibilities of improvement in industrial and agricultural production, it should have unhesitatingly initiated broad economic policies, including fiscal measures, for taking full advantage of the developing trends. Instead, it has given way to defeatism and has decided that it cannot act until the heavens have first blessed the land with bountiful rains. It is true, no doubt, that the Finance Minister's budget speech is not altogether without constructive urges. Mr Desai, for instance, has indicated that, thanks to his avoidance of deficit financing in the budget, the banking system should be able to follow a more liberal credit policy in the future. It is reasonable to infer that he regards that some increase in the quantum of bank credit which could be made available to the economy is both possible and desirable. This however is not good enough. We wish he had declared openly that there would be a decisive retreat from the policy of credit restrictions. This he has not done and, what is worse still, there is nothing in his observations to justify expectations that there will be any considerable liberalisation of the present procedures of niggardly administration of bank credit by the Reserve Bank. What industry and commerce must have is an assurance that their needs of working funds will be adequately and promptly met on reasonable terms by the banking system and that they will not be asked to

function on a hand-to-mouth basis for an indefinite period. There is no indication in the Finance Minister's budget speech that he has in view any basic reform of credit policy in this direction.

In the field of personal taxation, the only real credit that Mr Desai deserves is for his having refrained from adding to the existing burdens. Once the Finance Minister decided to impose additional taxation, the temptation to draw upon both direct taxes and indirect taxes, instead of only indirect taxes, should have been great for any politician—and Mr Desai certainly is as much of a politician as anybody else. Fortunately, he has had the wisdom to realise that any new imposts in the field of direct taxation would have wrought havoc on public morale and business finance. Not that the budget, even as it is, has not done enough mischief in this field. As we had seen earlier, the harsh additional taxation of the earnings of the major growth industries, aluminium and man-made fibre, would make unwarranted inroads into the finance available for the corporate sector. There is therefore some negative satisfaction to be drawn from the fact that Mr Desai has not sought additional revenue through direct taxes.

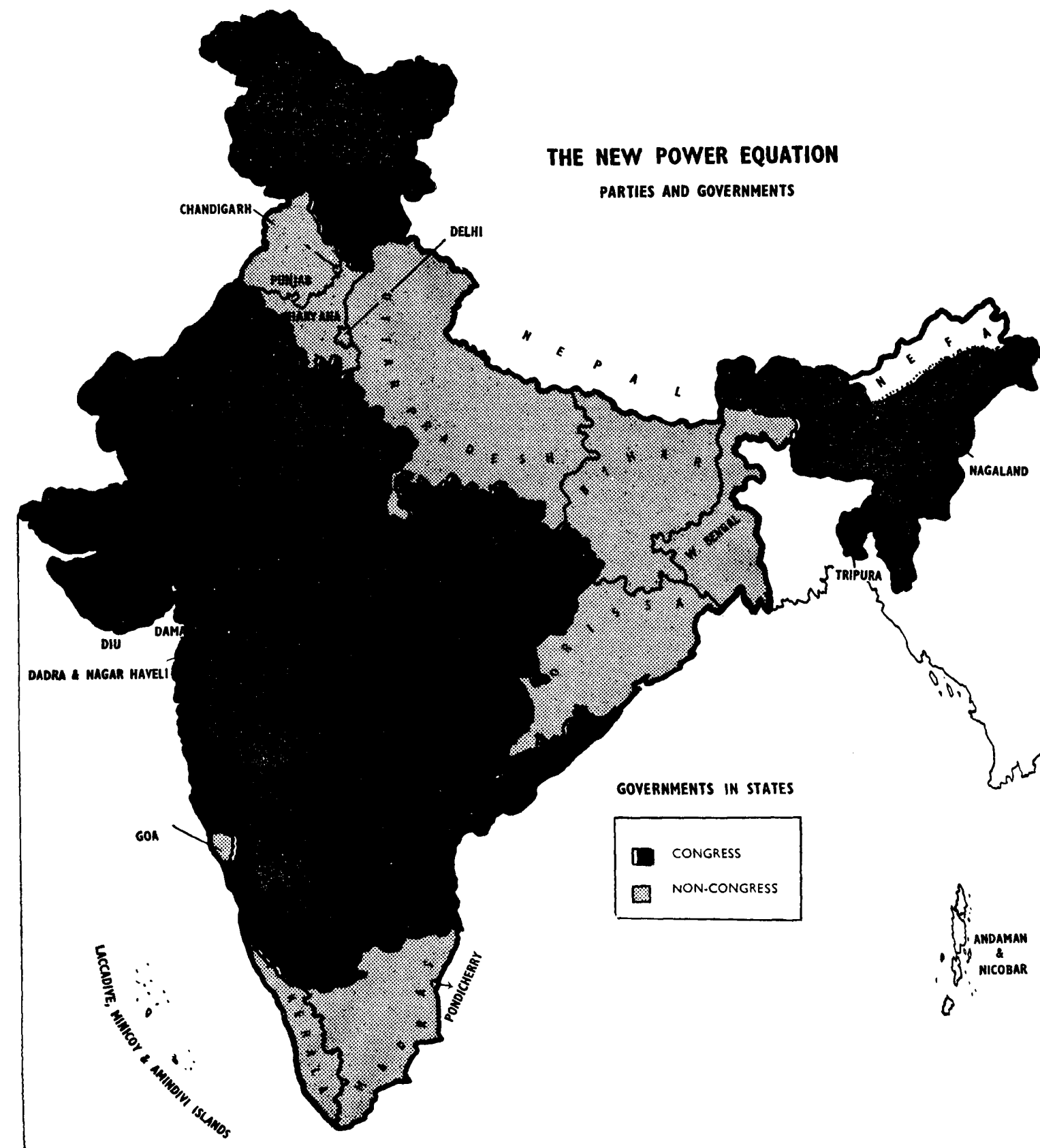
The emphasis however is on the adjective "negative." It is true that the Finance Minister has given, to use his

TAX CONCESSIONS FOR THE HOTEL INDUSTRY

An Indian company carrying on the business of a hotel will be entitled to a deduction for initial depreciation allowance, in the computation of its business profits, in respect of a hotel building which is owned by it and the erection of which is completed after March 31, 1967. The initial depreciation allowance will be calculated at 25 per cent of the actual cost of erection of the building.

The business of an Indian company running a hotel approved by the Central Government will be treated as "a priority industry" for the purposes of the Income-tax Act. New machinery or plant installed by such a company in the hotel after March 31, 1967 will be eligible for deduction on account of development rebate at the higher rate of 35 per cent of the cost against the normal rate of development rebate of 20 per cent in the case of industries other than priority industries. Also, such a company will be entitled to a deduction of eight per cent of the profits derived by it from the hotel in the computation of its taxable income. This deduction will be available from the assessment year 1968-69.

In order to make the tax-holiday concession meaningful it is proposed to allow a carry forward of the amount of the "deficiency" in profits in relation to six per cent of the capital employed during each year of the five-year period of the tax holiday to the succeeding year in that period. The amount of the deficiency so carried forward from a year will be added to six per cent of the capital employed in the succeeding year and the assessee will be entitled to exemption from tax in that year on its profits to the extent of the aggregate of such deficiency and the six per cent of the capital employed. Where such deficiency is not fully absorbed by the fifth year, the unabsorbed deficiency will be carried forward to the succeeding year and in that year, the assessee will be exempt from tax on profits to the extent of such unabsorbed deficiency and so on, for succeeding year, up to the eighth year as reckoned from the year in which the hotel commenced its operations.

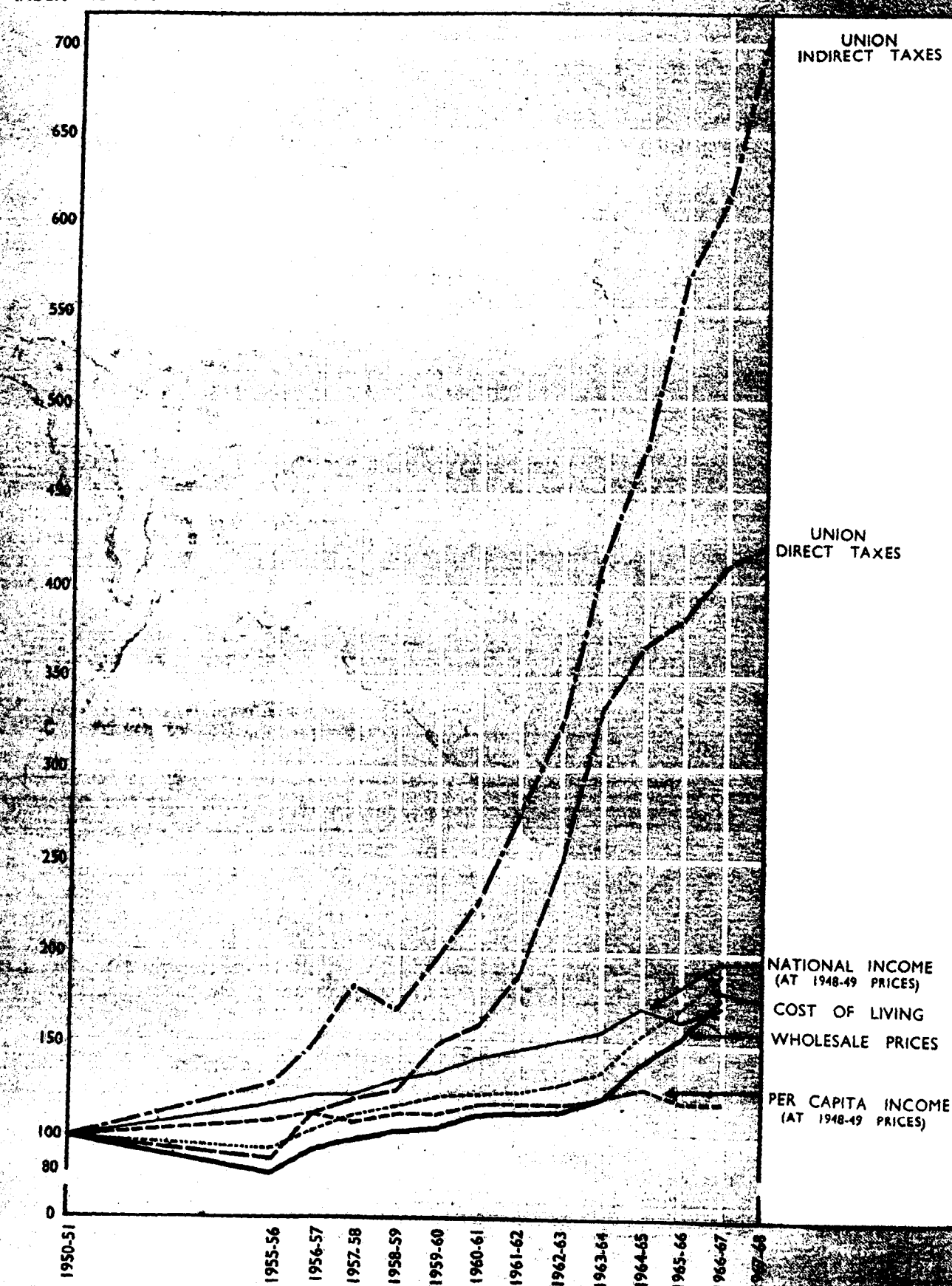


Bhutan and Sikkim have been shown in blue colour in the map. — Editor

TAXATION, GROWTH AND PRICES : 1950-51

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own words, "a number of selective and indeed minor concessions" in the field of personal taxation. But the reliefs are quantitatively insignificant, so much so that Mr Desai has not bothered to debit the consequential revenue losses to the budget. On the analogy of the existing income-tax allowances for married assesseees and married assesseees with two children or more, he has proposed a fixed allowance of Rs. 400 for the maintenance of one or more of dependent parents or grand parents in the case of resident individuals of a total income not exceeding Rs. 10,000. The tax relief on this allowance will be calculated at the rate of five per cent to the initial slab of income. A condition is that the dependent parent or grand parent does not have personal income exceeding Rs. 1,000 in the year. We appreciate the intention behind this gesture, but we wonder whether it would not have been more to the purpose had Mr Desai chosen to raise the minimum exemption limit for income-tax liability. The trouble with refinements such as he has now proposed is that, besides giving rise to anomalies, they are never quite adequate. In the present case, given our social structure and the pattern of our family obligations, the concept of dependency cannot be restricted to any particular relationship. For instance, many assesseees may be maintaining, say, a dependent widow sister. Incidentally, we suppose that more than one brother (or sister) will be entitled to claim the allowance in respect of some dependent parent or grand parent, although the brothers (or sisters) may be sharing the obligation of maintenance or some of them may not be discharging this obligation at all. The point is that there is a certain virtue in simplicity in dealing with these matters.

Surprising Decision

The Finance Minister's decision to continue the annuity deposit scheme has not only disappointed the public but also surprised them since his own antipathy to this scheme is well known. The Finance Minister has had the benefit of Mr S. Bhoothalingam's "First Interim Report on Rationalisation and Simplification of Direct Taxation Laws." This report has made out an excellent case for the abandonment of the annuity deposit scheme from the current year. It points out that the administrative and other complexions of the scheme render it a game not worth the candle since its abolition would only result in a net diminution of resources in 1967-68 of the order of Rs. 14 crores. The Government is undoubtedly in a position to forgo this revenue, especially in view of the rationalisation and simplification of the personal tax structure which the abolition of the annuity deposit scheme would facilitate. It is evident that Mr Desai has not taken a final decision and that, even now, he is not very much in favour of keeping the scheme as a permanent feature of fiscal policy. In the present budget, he has attempted to whittle down the scheme. Thus, people over the age of 60 will not be required to make a deposit; at present the age limit is 70 years. Many in the concerned category however may hesitate to take advantage of this concession because people over the age of 60 may, on the whole, look to falling incomes in the future, in which case the annuity deposit scheme would be advantageous to them. This concession therefore may remain partly unutilised.

Rather more imaginative is his treatment of approved

savings in life insurance, government-recognised provident funds and cumulative time deposits in post offices, which qualify for tax relief in the case of individuals and Hindu undivided families. He has accepted the recommendation in the Bhoothalingam Report that the limit on the amount qualifying for tax relief, which is given in the form of a deduction from total income, should be raised from the present limit of 25 per cent of total incomes subject to an absolute maximum limit of Rs. 12,500 to 30 per cent subject to an absolute maximum limit of Rs. 15,000. The Bhoothalingam Report mentions that the present cumulative time deposit scheme of the post office has had only limited success, the total deposits made in the last financial year, for instance, being only about Rs. 10 crores. It is worth considering whether the attraction of this scheme in terms of the larger tax relief now given to categories of savings, including this one, cannot be increased by removing existing restrictions on the size of these deposits. At present there is a maximum monthly limit of Rs. 200 and Rs. 300 on the 10-year and 15-year accounts respectively, while it is also stipulated that the total deposits during the entire period of an account should not exceed Rs. 54,000. These limits may be raised if they cannot be done away with altogether.

The Finance Minister has given certain other conces-

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sions besides raising the limit of the amount of approved savings qualifying for income-tax relief. Assessee's having dividend income of Rs. 500 during the year are to be allowed to exclude from their taxable income the whole of the dividend income received by them from Indian companies. Secondly, Mr Desai has raised the exemption limit for the surcharge on unearned income from the existing figure of Rs. 15,000 to Rs. 30,000. He has hinted that this is a first step towards the abandonment of the practice of discriminating against income from investments in comparison with income from work by taxing the former at a higher rate. We commend that the Finance Minister's decision to begin the process of ending tax discrimination against "unearned" income so-called. He is fully justified in suggesting that the practice of this discrimination is inconsistent with our objectives of promoting savings and investment. We do hope that this minor revolution in budgetary policy which he has now started will be completed sooner rather than later and that the surcharge on "unearned" income will be abolished irrespective of the size of the income.

Of Human Interest

Of some human interest is the Finance Minister's decision to allow our scientists, professors and research workers, who earn money abroad by working in universities or other educational or scientific institutions, to deduct from the taxable income 50 per cent of the remuneration received by them from foreign sources. This concession is based on the fact that the cost of living is higher abroad than here and that in addition to meeting the increased expenditure on this account, assessee's in this category have also to incur considerable expenditure on their travel abroad. The devaluation of the rupee last year and the consequent boosting of the rupee value of remuneration received from foreign sources have also been taken into account by the Finance Minister. We are glad that the principle that the cost of living should be accepted as a permissible tax allowance has been accepted indirectly by Mr Desai at least with reference to a handful of people. We should be thrilled to find this principle applied to larger sections of tax-payers. For instance, could assessee's in some of our urban centres, where the cost of living is higher than elsewhere in the country, hope to catch Mr Desai's kindly eye?

The various concessions in personal taxation which the present budget has provided will, no doubt, have some value for individual assessee's. They are however of so limited a nature that it would not be realistic to expect them to make a big difference to savings and investment in national terms. It is being said with a certain amount of anxiety that the rise in the marginal rate of saving, which is an important determinant of economic growth, has slowed down and that there is, in fact, a tendency for the rate itself to fall. Indeed, certain statistical surveys have attempted to show that the average rate of saving is going down. Since there have been two successive droughts and agricultural income has shrunk with its impact on other incomes, we may not find it difficult to accept this view, but a certain amount of caution is needed. The rural sector has been a net dissaver rather than a net saver and any shrinkage in its income will

primarily affect consumption expenditures rather than savings. In the rest of the economy, the rising cost of living would undoubtedly have reduced savings, but here also a certain amount of restriction in consumption has been effected.

It is worth noting that the rate of consumption in our economy tends, in any case, to be limited by the availability of consumer goods and the restricted supplies and range of durable consumer goods in particular. Our point is that the impact of reduced flows of income on the cost of living may not necessarily be confined to savings but has probably affected consumption to a not inconsiderable extent. It follows that the real problem is not the rate of savings so much as in whose hands these savings take place and by whose hands they are spent. This should be a profitable subject for inquiry and while we do not propose to undertake this investigation here, we would hazard the guess that ostentatious or wasteful investment in the government sector as well as in the rest of the economy may well be a significant element which needs to be identified, assessed and scrutinized. Meanwhile, it must be said that the policies of the present budget are hardly likely to discourage wasteful or otherwise undesirable diversions of such savings as may be taking place. The Finance Minister's failure to effect substantial economies in the level of government spending and his decision to resort to additional taxation for diverting the earnings of growth industries to the purpose of sustain-

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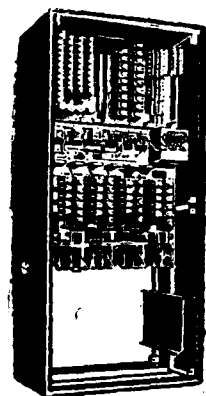
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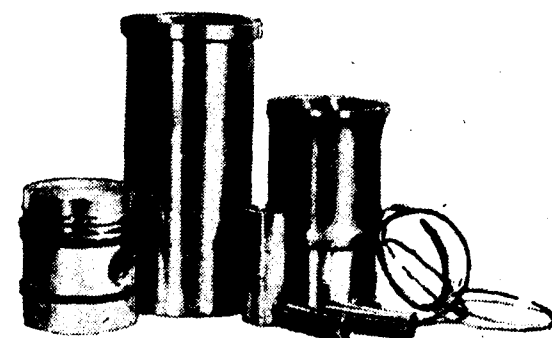
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ing public expenditure at rising levels are surely not services rendered to the cause of promoting the marginal rate of saving in the economy.

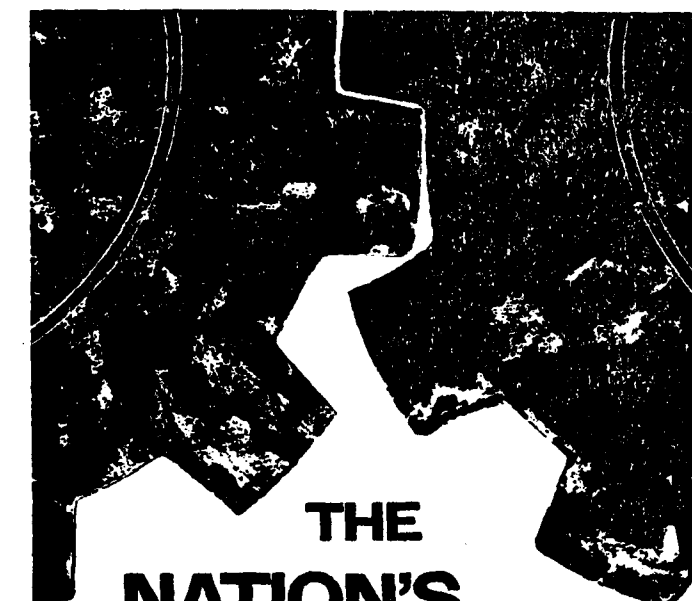
Mr Morarji Desai is apt to regard himself as a much-misunderstood man. Unfortunately, the way his budget proposals have been received is likely to strengthen this feeling in him. The Finance Minister evidently had expected the nation to hail his decision to stop deficit financing as a charter of economic stability. If the people's response has not exactly been of this nature, he has only himself to blame. As we had argued earlier, there would have been virtue in his attempting to balance the budget had he been able to do so without resorting to more taxation. But he has not only taxed anew but has taxed much. This may enable the Government to live within its means in a sense, but it certainly does not enable the nation to live within its means. There is therefore no warrant for the people to accept that this budget will stabilise the economy. Again, Mr Desai's decision not to spread the tax net too widely would have won appreciation if he had also been able to avoid, at the same time, the ruinous taxation of the earnings of important growth industries. As it is, his Central excise duties will do wanton damage to the economic foundations of industries the steady expansion of which is important to the processes of growth.

Stimulus to Economy

The Finance Minister has studiously restrained from giving concessions in Central excises or appreciable reliefs in direct taxation, whether corporate or personal. His contention that given the budgetary situation, he simply was not in a position to contemplate such concessions leaves us cold because his budgetary situation is only of his (i.e., the Government's) making. As we had repeatedly argued in this journal, the imperatives of the economic situation demanded of the Government that it cut down its expenditure by at least a few hundred crores of rupees and thereby place itself in a position to provide stimulus to the economy by reducing taxation on commodities as well as income, both corporate and personal. This was the only policy which could have helped the economy to look up from its current depressed levels. It is indeed regrettable that the Finance Minister has not reconsidered the burden of the surtax on companies or the taxation of inter-corporate dividends. His failure to take a close, hard look at the steep progression in the taxation of incomes is also equally open to criticism. Not less conspicuous are his sins of omission in the field of Central excises. There is certainly no justification for his not easing the burden of excise duties on coarse and medium cotton textiles or, say, the sugar industry. These ailing industries have been left ailing and worst still, the premature imposition of excessive tax burdens on the growth industries of man-made fibres and aluminium is clearly calculated to add to the sick list of industries in our economy.

It is surely not to be denied that the Finance Minister has left out of his scheme of policy-making the objective of stimulating industrial activity and reviving the economy. The droughts, the mounting cost of defence and the effects

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of devaluation cannot justify this approach to the nation's economic problems. On the contrary, these factors and circumstances are precisely the reason why the Government should not have allowed the opportunity of this budget to lapse without taking positive measures to boost the economy. We are afraid that Mr Desai is far too readily disposed to take a complacent view of the Government's obli-

What Price Prices?

AT THE very outset of Part A of his budget speech, Mr Desai referred to "the serious situation created by the drought concerning food supplies in general and the well-being of the people in the scarcity affected areas in particular" and proceeded to mention that "the steady rise in prices which has been with us for more than three years has to be arrested in the shortest possible time." The Finance Minister was undoubtedly right in giving this high priority to food and prices. The difficult food situation has assumed the proportions of a crisis in some areas of the country, such as Bihar and Kerala. There is, of course, an important difference between the conditions in Bihar and those in Kerala. What we face in Bihar now are the consequences of a near-famine in the state. Both local production and local purchasing power has broken down. There is, as a result, a need for massive rescue and relief operations. In Kerala, the difficulties are of a different kind. Even normally dependent on substantial imports of rice from surplus areas in the country, Kerala now finds this inflow very considerably reduced. The state government has been unable to do much to relieve the situation either by increasing local procurement or by persuading the people to depend a little less on rice and rely a little more on imported wheat which the Government of India is in a better position to provide.

Food Shortages

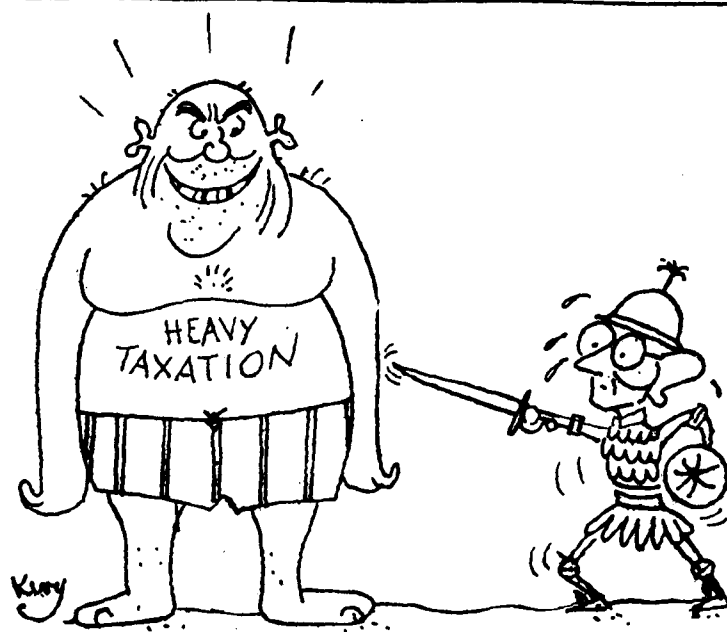
Other areas in the country, such as West Bengal and particularly Calcutta, districts of eastern UP and even parts of Madhya Pradesh, are also feeling the pinch of the national and local food shortages. In these circumstances, the Finance Minister has rightly decided to provide funds from the budget for the relief of the people's hunger. In the first place, he has reconsidered an earlier intention to cut down the subsidy on imported foodgrains supplied to state governments. The burden of the subsidy had gone up after devaluation and on the general principle that it is necessary to explore ways and means of effecting savings in non-development outlays, the Finance Minister and his advisers were initially in favour of reducing the subsidy on imported foodgrains. The political and economic circumstances however were not in their favour. A public, harassed by sharp and steady increases in the prices of food articles and the rising cost of living, was clamouring for a reduction in food prices and the state governments, sensitive to this demand, were in no mood to fall in with the Centre's proposal for reduction in the subsidy on imported foodgrains. Mr Desai therefore has been forced to continue the existing subsidy on imported foodgrains which is expected to cost as much as Rs. 118 crores in the current year. At the same time, he had to increase substantially the pro-

visions in economic policy-making. Even the fact that his budget proposals have confirmed the depression in the capital market seems to have made no impression on him at all. On the contrary, the attitudes of this budget are only yet another proof of the Government's attitude that what happens to the equity values is irrelevant to the nation's economy.

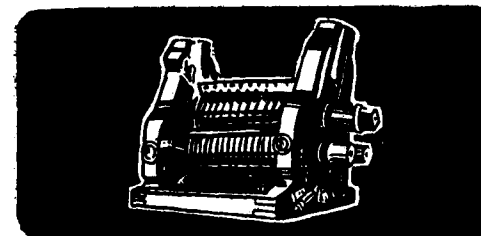
vision in the interim budget estimates for supporting relief measures and assisting the scarcity affected states. The provision has been more than doubled from Rs. 37 crores to Rs. 75 crores. These are the concrete forms in which the Central budget has sought to relieve the food difficulties of the people especially in the scarcity areas, and few would quarrel with Mr Desai's scheme of priorities in this respect or challenge his assertion that these provisions "should be the first charge on any resources that we, at the Centre, can spare even in the present conditions".

Indeed, the Finance Minister is in some danger of being criticized for not having done enough. At least one government has been on the war path. In Tamizhagam (Madras State) where the DMK is in power, there is sharp criticism of the Government of India's rejection of the demand of the state government that the latter should be financially assisted in retailing locally procured rice at reduced prices. The Finance Minister however has reiterated in his budget speech the Centre's inability to yield on this point. He has said that where state governments have decided to subsidize foodgrains to an extent additional to the Centre's subsidy available for imported foodgrains, they will have to do so on the basis of their own resources and without counting on any additional assistance from the Centre for the purpose. His decision, stern and austere though it is, is certainly justified on larger economic considerations.

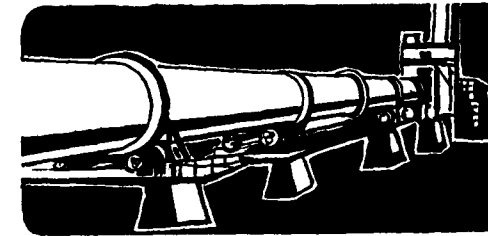
It is true that food prices are high and all reasonable



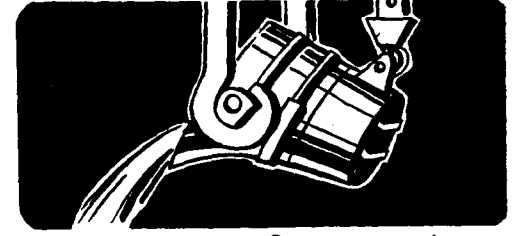
Willing to wound, afraid to strike.



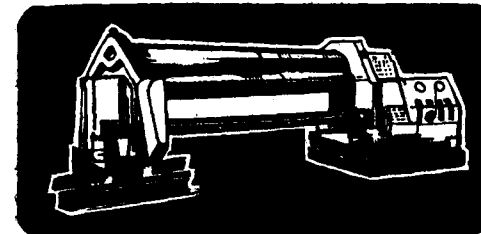
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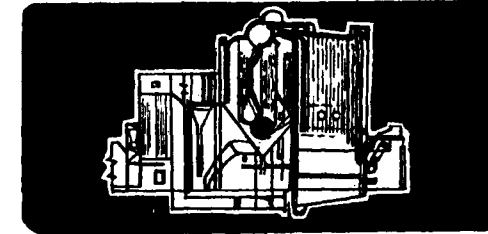
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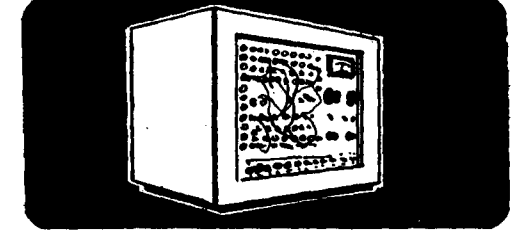
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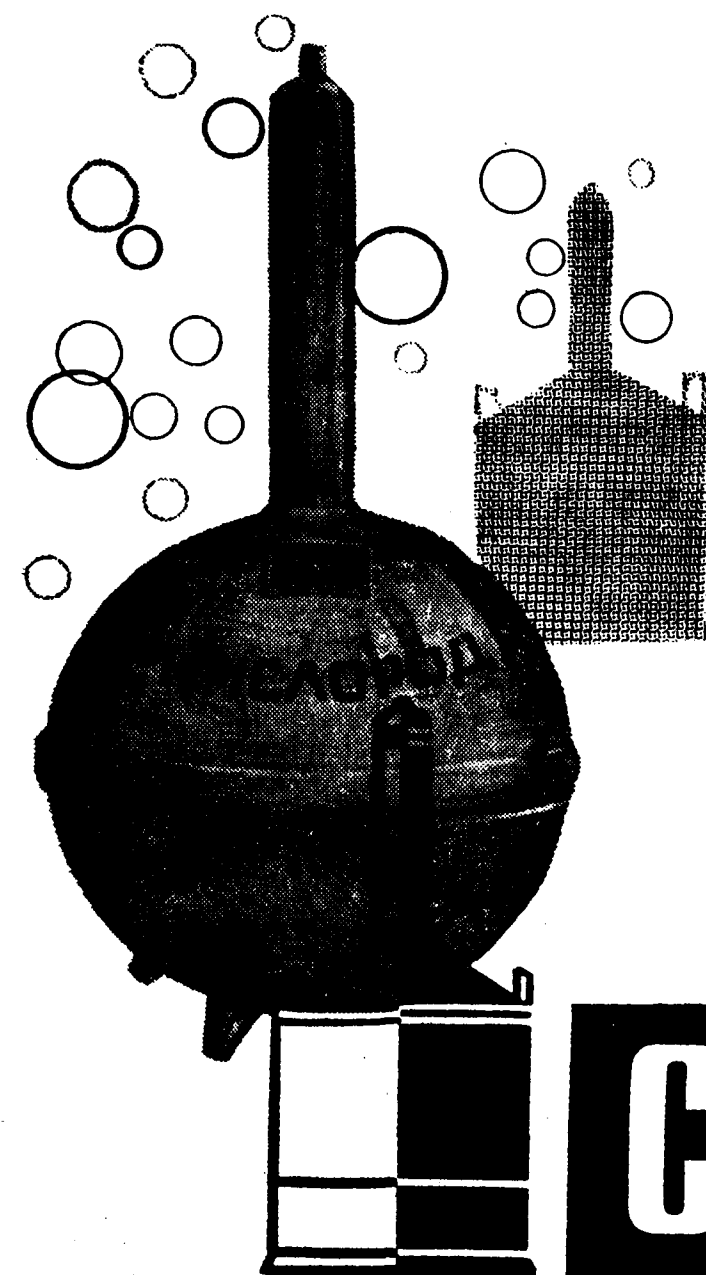
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steps should be taken to bring them down particularly for the benefit of the poorer sections of the people. But government subsidies would be legitimate only up to a point. A subsidy after all has to be financed in the last resort out of the people's own contributions to government finances whether in the form of taxes or in some other form. Where the economy is clearly not in a position to bear the burden of additional taxation or deficit financing, the scope for subsidies is obviously strictly limited. The Central finances are in no position to assume the strain of incurring very much more expenditure than the amount of Rs. 193 crores which have now been provided for subsidies on imported foodgrains or relief operations in scarcity affected areas. From the point of view of the national economy, any extended diversion of resources to food subsidies must make further inroads into the depleted financial potential available for basic development which cannot be unduly halted or hampered without prolonging our current economic difficulties, including our food difficulties. This apart, a mere increase in food subsidies would encourage the food policies of state governments to take the line of least resistance. Higher consumer prices are due, at least in part, to the inadequate and inefficient functioning of the procurement and distribution machinery. Improvements in food administration, consequently, should go far both in bringing down the prices applicable to controlled food and, what is not less important, in forcing down prices in the free market. There is therefore no serious deficiency in the Central budget in its attempt to contribute to a mitigation of "the serious situation created by the drought concerning food supplies, in general and the well-being of the people in the scarcity affected areas in particular." It is now for government administration, particularly at state levels, to put available financial resources to good purpose.

Price Stabilisation

The Central budget however is far less satisfactory in terms of price stabilisation. Even in a year of straitened national economic circumstances, the Central budget has not been able to effect a reduction in the level of government expenditures of the order needed to assist the country to live within its means. On the contrary, the greater part of the extraordinary increases in government disbursements, over and above the budget estimates of 1966-67, which had taken place in the course of that year, are now being retained and continued as more or less permanent additions to the level of government outlays. The "Economic Survey" notes that non-developmental outlays, which had risen from 6.7 per cent of the national income in 1960-61 to 10.2 per cent of the national income in 1963-64, had further shot up in 1966-67 due to a variety of influences, many of which continue to be operative and to some of

which, at any rate, no early end can be foreseen. One result is that, despite the growth in the receipts of the Government of India partly as a result of natural expansion of revenues and partly because of additional taxation, the revenue surplus available for development has suffered. It was actually some 10 per cent less in 1966-67 than it was in 1965-66.

On the issue of allocations for development, indeed, Mr Desai was openly apologetic. He admitted that the Government of India's financial position has left it with no alternative to cutting down severely on Plan programmes for increased investment or production. In 1966-67, the Plan outlay by the Centre was of the order of Rs. 1,777 crores. The corresponding expenditure in the budget year will be only slightly over Rs. 1,800 crores, although we are now in the second year of the fourth Plan. In other words, although there is no diminution in existing tax burdens and there are, in fact, to be additions to them, the Government, because of the general weaknesses of its financial position, is quite unable to keep up the tempo of its development expenditure. It has therefore to be conceded that, while the avoidance of deficit financing may have a neutral effect so far as the monetary equilibrium in the economy is concerned, the budget does little to promote a healthy physical equilibrium by stimulating production and investment to keep up with demand, actual or potential. So long as this

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basic economic equilibrium is not approached, the Finance Minister cannot claim that this budget will work for price stabilisation. From this point of view it has to be emphasized that the Finance Minister has not come to grips with the problem of steadily rising prices, the early solution of which is, according to Mr Desai himself, a matter of immediate concern in the economic field. To the extent that agricultural production may improve partly through a favourable turn in the weather and partly because of the agricultural development programmes, there will undoub-

tedly be some easing of the pressure on prices. In this way the second half of this budget year may be a less difficult period than the first half. But in the absence of sufficiently dynamic programmes here and now for increased production of goods and services over the entire range of the economy, the expectation will not be justified that price stability will in truth be recovered and restored. At any rate, there is very little that is positive in the budget itself to promote an increase in production of the order needed to absorb accumulated inflationary pressures.

Welcome to Foreign Capital

IN PART A of the budget speech, the Finance Minister has gone farther than any high level government spokesman has gone so far in recognising the nation's interest in providing a hospitable environment for private foreign investment. This does credit to his realism and good sense. The Government is reportedly engaged on the formulation of a policy statement on foreign capital, including foreign collaboration. There is always the danger that a formal declaration may be influenced too much by political pressures and political bargaining. We are therefore not altogether easy in our mind about the shape which the proposed statement may take. Meanwhile, the open acceptance by the Finance Minister (who is also the Deputy Prime Minister) of the desirability of enlisting private foreign investment in the development of priority areas of industry is undoubtedly reassuring. Mr. Desai's observations, however, would have carried greater weight had his keenness on foreign capital been reflected in his budget proposals. Had Mr. Desai seen his way, for instance, to reducing corporate and personal taxation, it would certainly have tremendously improved the climate, both psychological and economic, for foreign investment. Nothing appeals to business sentiment, whether native or foreign, so much as tax reliefs in a budget.

Heavy Taxation

Mr. Desai however has not only maintained the status quo in existing high rates of direct taxation, but he has gone out of his way to administer a shock to business sentiment by proposing an unduly heavy dose of taxation on the important growth industries of man-made fibres and aluminium. The increased excise duties on these commodities are certainly no advertisement for the Government's concern for industrial expansion. On the contrary, since these industries had already attracted a certain degree of foreign interest, the damage done to their economic viability by the proposed excise levies cannot but have unfavourable repercussions on the readiness of foreign capital or collaborators. The possibility of attractive profits in new growth industries is one of the main inducements for foreign investors and Mr. Desai has not acted wisely in diluting this possibility with a lavish dose of excise taxation. The budget therefore has changed the environment for foreign investments for the worse in spite of the verbal welcome which Mr. Desai has generously extended to foreign capital. The Finance Minister has specified priority industries as a fit area for foreign capital and aluminium, surely, is a priority industry. It is in fact officially listed as one and yet Mr. Desai has not hesitated to discriminate against it by sharply raising the excise duties on its products.

Part A of the budget speech is eloquent about prospects of a freer, more market-oriented economy. Mr. Desai has claimed credit for the Government for de-controlling steel marketing and prices and he has expressed the Government's desire to rely in the future on commodity controls. But this has not prevented him from issuing a fiat to the man-made fibre and aluminium industries that they should not pass on any part of the increased excise duties to consumers in the form of higher prices without the assent of the Government. At the same time, Mr Desai has given no indication that the Government's approval will be forthcoming with reasonable readiness. On the contrary, he has declared his determination to defend the consumers of the products of these industries against increases in prices. Has Mr. Desai considered what alternative would be open to the Government were the affected industries to take the stand that they could not possibly absorb the increases in excise duties? In that event, the Government surely will have to consider the imposition of price and distribution controls on the products of these industries. In other words, the Government will have to go back on its policy of freeing the economy progressively of administrative controls and regu-

DEDUCTION OF TAX AT SOURCE

The incomes subject to deduction of tax at source are at present (in the case of resident assessee) salaries interest on securities and dividends only. The Finance (No. 2) Bill, 1967, has proposed that after September 30, 1967, interest on deposits, fees or other remuneration for professional services, brokerage or commission etc., paid by organised entities should be subject to deduction of income-tax at source at the following rates:

Nature of income	Rate for deduction of tax at source
(i) Interest (other than interest on securities) credited to the account of the recipient or paid to him, at any time, in an amount exceeding Rs. 200.	22 per cent
(ii) Fees or other remuneration for professional services (not being salary income) credited to the account of the recipient or paid to him, at any time, in an amount exceeding Rs. 200.	22 per cent
(iii) Commission or brokerage credited to the account of the recipient or paid to him, at any time, in an amount exceeding Rs. 500.	15 per cent

lations. It would indeed be odd were the Government to impose price and distribution controls on aluminium (or nylon or terene) within weeks of de-controlling steel.

It is obvious then that the budget, as it stands, makes little contribution to economic recovery or the resumption of economic expansion. In practical terms, however, the Government cannot be expected to make basic changes in the fiscal policies of the budget here and now. What may reasonably be expected of it is that it should not nurse the illusion that this budget is a wonderful new deal for the economy. This is why it is necessary for us to tell the truth bluntly about the inadequacies of this budget. We hope that our criticism will also serve another purpose. Even if the broad framework of the budget is to be maintained, it is nevertheless necessary and desirable that the Finance Minister should not hesitate to change its details wherever necessary. Even within hours of the announcement of the budget proposals, it had become clear enough that the excise levies on sized cotton yarn of fine and superfine counts, man-made fibres and aluminium could not be maintained at the rates announced by the Finance Minister. He will certainly have to agree to a reduction in the increases proposed if he does not want to ruin the manufacturing interests concerned.

Reasonable Assessment

In the case of sized yarn, besides lowering the increases proposed in the rates of excise duty, he should also agree to recast the duties on an ad valorem basis instead of sticking to the existing arbitrary practice of fixing the duty in terms of weight of yardage. As for the man-made fibre and aluminium industries, the Finance Minister should not stand on prestige but assess in a reasonable manner what increases, if any, can be made in the excise duties on the products of these industries in the light of the relevant economic data placed before him. We would also add that there is no virtue in Mr Desai entering a caveat against the increases in these excise duties being passed on to consumers. Industries which are in a phase of rapid expansion may normally be expected to take a reasonably long-term view of their pricing and marketing policies and we see little justification for the Government's administrative interference in this area. If the Finance Minister does not for any reason relish the prices of man-made fibres and aluminium going up, he should follow the straight course of reconsidering the additional excise burden he has imposed

ANNUITY DEPOSITS

According to the Finance (No. 2) Bill, 1967, individuals who are more than 60 years old on the last day of the financial year (or any other accounting year relevant to the assessment year) will not be liable to penal tax for the assessment year 1968-69 and subsequent years for failure to make an annuity deposit or for making a short deposit. It will be optional for them to make any annuity deposit or not. At present the age limit is 70 years.

No penal tax will be chargeable in any case of failure to make deposit where the amount of deposit required to be made does not exceed Rs. 100. The penal tax will not be chargeable in any case where the deposit actually made falls short of the deposit required to be made by an amount not exceeding 10 per cent thereof, or Rs. 100, whichever is higher.

on the industries concerned.

We are aware that there is more than a little incongruity in our ending our exposition of what we consider to be the defects and deficiencies of the Government's fiscal policy on the meagre note of pleading for a few reliefs in Central excise taxation. Unfortunately, the reality is that once certain budget measures have been announced most of them have to be endured, irrespective of their merits, at least for the period of the financial year. Fortunately, the time for the next budget is not, on this occasion, 12 months away but only nine. It is our hope that what we have written here will have some effect on trends in the Government's thinking and economic policy-making over the immediate future. The need for dynamism and flexibility in decision-making is of the greatest importance at the present time.

Even as we are writing these lines, the war clouds have gathered ominously over the skies of West Asia. A new situation may arise if war were to break out between Israel on the one hand and the Arab countries on the other. International shipping in the Suez area and commerce in Arab oil, to mention only two elements of world significance, may be disrupted. Were the great powers to be drawn into the conflict the repercussions will naturally be more numerous and wide-ranging. India's economy will undoubtedly be sensitive to developments of this kind. To a certain extent, then, current discussions, whether of the budget or other economic decisions of the Government, may well become rapidly obsolete. What will remain a matter of fundamental relevance is the need for an attitude of the mind on the part of the Government to take its responsibility seriously for reviving production and growth in the economy and strengthening its potential for national defence and development.

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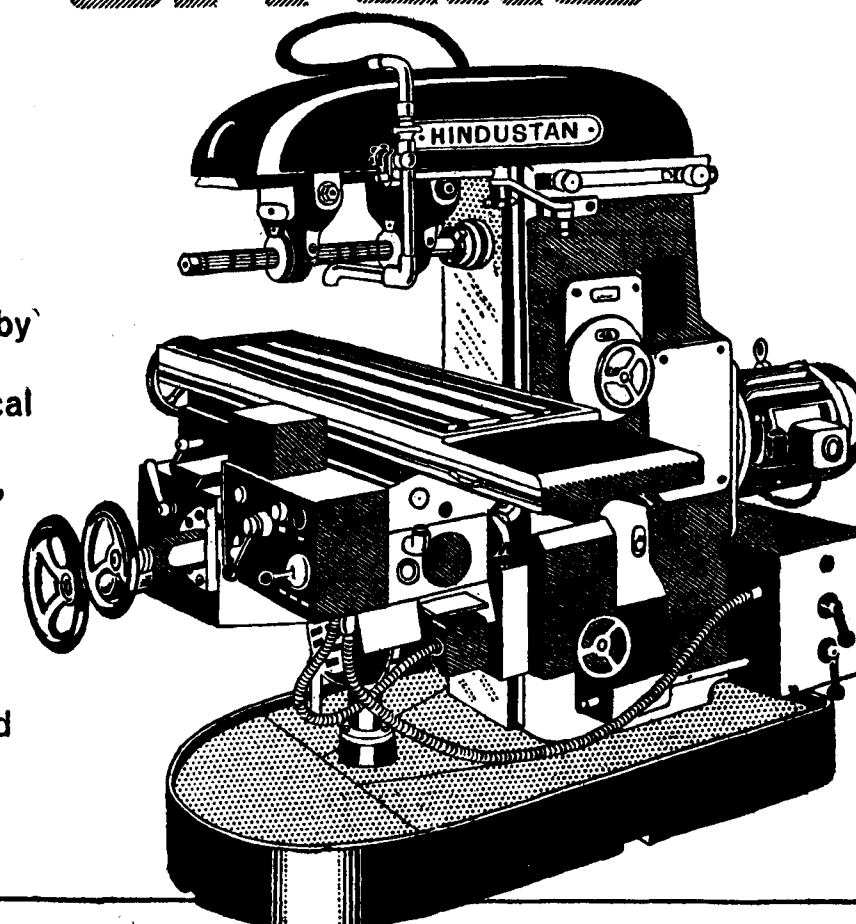
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A Budget of Small Mercies

SAGITTARIUS

SURPRISINGLY, THE levy of heavier excise duties, which will fetch for the Central Exchequer over Rs. 115 crores in a full year, and the effort to collect additional amounts through a "simplification" of tax laws and the introduction of a new procedure for deducting tax at source on interest-income paid by companies, banks and other institutions on deposits and loans and from the fees paid for professional work and on brokerage and commission, have not had any serious impact on the stock markets. It is difficult to say whether there will be any adverse reaction to the budget proposals after the full implications have been realised and after the questions involved have been thoroughly discussed. The adverse reaction was only in regard to the increase in excise duties on rayon and synthetic fibres and yarn and aluminium and aluminium products. Even here, shares of companies producing rayon yarn and staple fibre have recovered the earlier losses and only those companies producing synthetic fibres and aluminium have remained depressed. On a closer analysis, it will be found that the expected additional revenues have been grossly under-estimated and the diversion of revenues through increased railway fares and heavier excise duties and direct taxes may be even Rs. 200 crores! It has not been satisfactorily answered so far whether the siphoning away of such a large amount will not have an adverse effect on the activities of the private sector and whether the savings of the middle income group will not be reduced.

A Feeble Attempt

There has no doubt been a feeble attempt at reducing the burden of direct taxes which will cost the Government about Rs. 5 crores and for which no debit has been made because it is anticipated that much larger sums will be gathered through a stricter collection of taxes and the changes in the methods of taxation. The limited nature of the concessions will be clearly brought out if it is stated that the allowance relating to dependent aged parents and grand parents will be available only for those having incomes below Rs. 10,000 annually while the exemption from tax of dividend income will be available to only those whose receipts under this head do not exceed Rs. 500. The removal of the surcharge on unearned incomes up to Rs. 30,000 is no doubt to be welcomed. Also, the increase in the amount paid by way of contributions to provident funds, life insurance policies and other forms of approved savings may be considered a step in the right direction. However, the savings secured by those in the middle income group to the extent of five crores of rupees will be more than offset by higher expenditure on cigarettes, petroleum products and costlier rayon and synthetic fibres. Their immediate income will also be reduced by the deduction of tax at source under the new procedure laid down for payment of interest by banks, companies and others.

Under these circumstances, it is difficult to understand why those engaged in stock market activity have not viewed unkindly the new budget proposals. The rally in prices for the principal counters after the announcement of new taxes, was perhaps due to the feeling that things could have been worse as there was no immediate action on the Congress Working Committee's resolution relating to social control of banks, nationalisation of general insurance and the new imposts on income from urban property. The availability of foreign aid on a large scale and the expectations that liberal credit might be allowed have probably induced many to take an optimistic view of the prospects for the current year. If agricultural production picks up and the policy of liberal import licensing also brings about an increase in industrial output, the cautious optimism expressed in some quarters might be justified. But without a retreat from dear money and without

an improvement in the profit margins, it is not possible to say that a sustained recovery in prices for the principal counters would come about and a revival of activity in the capital market can be ensured which is so essential for increasing the tempo of industrial development.

It cannot be denied that the presentation of an overall balanced budget would ensure greater financial discipline and restrain the states from indulging in reckless overspending. Mr. Morarji Desai has however missed a valuable opportunity for stimulating economic activity. The reduction in export duties on gunnies, manganese ore and tea is not significant and the old trick of offsetting losses suffered in some directions by gains from others has been adopted. With lowering of export duties on gunnies, excise duties have been raised. Even with lower export duties, it is not clear whether the jute industry will be able to step up its exports and meet competition from Pakistan successfully. The Government will, therefore, have to watch closely new developments and give fresh reliefs so that further diversion of trade to Pakistan or to substitutes can be avoided. It had been hoped that the tea industry would be allowed to get a drawback of excise duty on the quantity of tea exported. But the reduction proposed is only equal to the increase in excise duty and the producers of low and medium grade teas may not be benefited to the anticipated extent.

Again, there is no justification whatever for the fantastic duties levied on rayon and synthetic fibres and yarn on aluminium and its products. It is incredible that as much as Rs. 22 crores can be absorbed by these industries without effecting adjustments in selling prices. The profit margin will be severely curtailed and some units may incur losses. The increases in excise duties on staple fibre and rayon yarn are fairly heavy while those on polyester fibre and nylon yarn have been raised many times in the past. The producers of the latter class of synthetic fibres may probably be in a position to bear heavier excise duties as their profit margins are very high. Even so, there will have to be a reduction to the extent of 50 per cent in the proposed increases while rayon and staple fibre units will be obliged to increase their selling prices if the duties were not abolished. While last year the working results of some units were encouraging, with slackness in demand and an increase in working expenses, it is felt that the same performance cannot be repeated in 1957 especially as imported raw material will be costlier.

Irrational Increase

The irrational rise in duties on aluminium and aluminium products will have a crippling effect on the industry which has been acquitting itself creditably. Undeniably, there has been an increase in selling prices in recent months following devaluation and higher costs of production and the profit margin is not certainly such as to enable the companies to absorb the higher duties fully and earn a reasonable return on investment. A simple calculation will show how the earnings of the largest producer in the country will be affected if the incidence of the revised duties was fully borne by it. On an output of 40,000 tonnes of virgin metal (not taking into account the heavier duties on rolled products) an additional amount of Rs. 3.1 crores will have to be paid by way of duties which will result in a reduction in the net profit, before depreciation, to Rs. 2.8 crores. Even on the straight-line method, a provision of Rs. 2.06 crores was made in 1966 which would mean that there would be a disposable balance of only Rs. 0.74 crore. It is needless to say that the whole profit will be inadequate to provide for depreciation on the written-down basis, not to speak of the absorption of any portion of the claim towards development rebate. Besides, aluminium is already costlier than the

imported product, on an ex-duty basis, and cable manufacturers and, in turn, state electricity boards, who are the main consumers of aluminium cables, will be heavily penalised. Is it too much to expect that the unwisdom of imposing heavy levies on growing industries will be recognised and there will be downward adjustments of the duties to reasonable levels?

There cannot be any serious objection to the deduction to taxes at source on interest paid by companies, banks and other institutions on deposits and loans and even on brokerage and commission, though it is difficult to understand why the rate of deduction has been fixed at the high level of 22 per cent now applicable for dividend income. This novel procedure has presumably been adopted for mobilising resources for the Centre. The average tax paid will be much lower than the tax deducted at source and it will be a long time before refunds are secured. There is also the possibility that nearly 25 per cent of the amount deducted by way of taxes will not be refunded because of the difficulties involved in claiming refunds and the lack of understanding of the procedures relating to refunds. Many recipients may belong to the agricultural income groups and many others may be non-taxpayers dependent on interest income for their living. These may be seriously handicapped. The provisions for exemptions may be found in-

Lack of Courage

R. V. MURTHY

FEW FINANCE Ministers since Independence have had such abundant public sympathy and so magnificent an opportunity as fell to the fortunate lot of Mr Morarji Desai whilst presenting his budget on May 25, 1967. The public sympathy was because of the fact that no one could be blamed, certainly not the Union Finance Minister, for the havoc wrought on the country's economy by two droughts in uninterrupted succession, not to speak of the war imposed on us by Pakistan earlier. The opportunity lay in the fact that, confronted with the complicated task of having to counter the combined impact of inflation and recession, the Finance Minister had almost unfettered freedom to choose whatever cure he liked for our economic ills to achieve the objectives spelled out by him both before he became Finance Minister (in July, 1966) and after.

Lack of Courage

A disproportionate dose of the former, however, seems to have unfortunately warped the judgment of a large section of the public on the budget proposals of Mr Desai. This explains why there has been no comment from anyone of consequence in public life without the qualification "considering the limitations imposed upon the Finance Minister on account of the conditions obtaining at present in the country." But accepting this is one thing and assessing the budget proposals from the point of view of the needs of the present and the future is another. Looked at from the latter angle, even friendly critics have to admit that Mr Desai has displayed lack of courage. Ringing through his budget speech seems to run the refrain—the spirit is willing but the flesh isn't. Otherwise, it is difficult to account for the wide gulf between not only the two parts—Part A and Part B—of his budget speech but also between his own professions in the past and his performance now. Some say Mr. Desai has deliberately chosen to hold his hand—or is it keeping his fingers crossed?—until the monsoons arrive; others argue that his performance was dogged by the sword of Damocles in the form of the Congress Working Committee's deliberations on the eve of the budget. The first is understandable, but not the second. For what is at stake today is not the future of the Congress, although to some it may mean that, but the economic destiny of the nation. Had he cared more for the latter, especially at this juncture, Mr Desai would not only have been credited with displaying great bold-

adequate and there is the danger of the savings habit being discouraged if the limit for the purpose of deduction was not raised to Rs. 500 and the tax rate for reduction was not lowered to 10 per cent. The Finance Ministry officials have also been clever in increasing the burden on capital gains in the name of simplification. It has been found on close scrutiny that the incidence of taxes on capital gains on the revised basis is nearly double in some cases. Perhaps this is a form of taxing urban property. If it is true, it is neither fair to the assessee nor to the public.

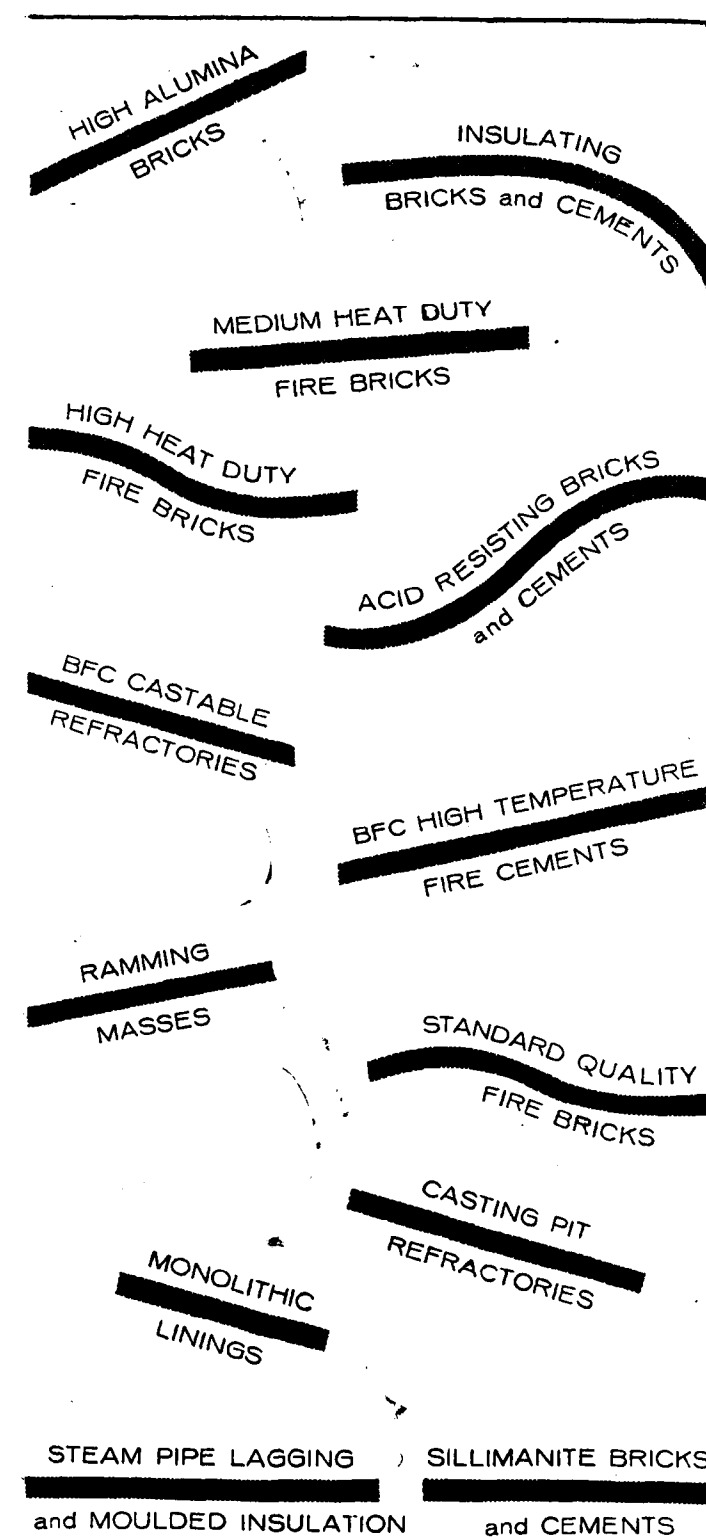
Receipts Underestimated

The aggregate receipts are likely to be in excess of the estimates and the claim of Mr Morarji Desai that the budget is production- and export-oriented and is intended to revive the economy is not borne out by facts. He should agree to a further lowering of the export duties on tea and gunnies, a readjustment of the duties on synthetic fibres and yarn and aluminium and a modification of the procedure relating to deduction of tax on interest and other income and the levy of taxes on capital gains. Even with substantial adjustments, he will still be able to collect Rs. 125 crores which will be Rs. 20 crores more than the estimate for a full year.

ness and imagination but would have risen further in stature. In having failed to do so, he has verily missed a great opportunity. It is a momentous miss for the country too.

Yet one comes across such unqualified encomium as was proffered, for example, by a professor of economics in Bombay, the other day, that "the Union budget for 1967-68 is realistic, balanced and non-inflationary and a courageous step towards reviving the drought and war shattered economy." The only epithet honestly applicable to Mr Desai's latest budget is that it is a balanced budget, and, laudable though, one cannot make too much of even this, if only because the Finance Minister himself has been urging this and crying a halt for deficit financing. This is not to deny Mr Desai his due. True he has made a beginning with a balanced budget; he has certainly sought to hold the price-line by insisting that the victims of his stiff excise levies shall not pass on the burden to the consumer (how far this is practicable is another matter); he has indeed endeavoured to maintain the tempo of development, though what the country needs today is not just maintenance but intensification and expansion coupled with acceleration; he has also tried to curtail domestic consumption, but, in nearly every case, the prevailing high prices themselves have been deterrent enough in all conscience, and he has significantly stimulated exports by reducing the export duty on jute goods and manganese and iron ores, but this is, as some have justifiably said, a case of delayed justice to a vital earner of foreign exchange.

What the public has been expecting and is, therefore, missing all the more in Mr Desai's budget are mainly two: (i) any worthwhile proposals for reviving the capital market, which has for too long been in the doldrums to escape anyone's attention, and (ii) at least a token cut of five per cent all round in government expenditure. (Mr Desai himself had suggested a cut of 10 per cent in all government expenditure). To expect the capital market to revive with a meagre provision of Rs 10 crores for the financial institutions to support private investment, a raising of the surcharge exemption-limit on unearned income from Rs 15,000 to Rs 30,000, an exemption of dividend income up to Rs 500 or a stepping up of the amount of approved savings in life insurance, provident funds, cumulative time deposits in post offices from 25 per cent to 30 per cent (from Rs. 12,500 and Rs. 25,000 to Rs. 15,000 and Rs 30,000



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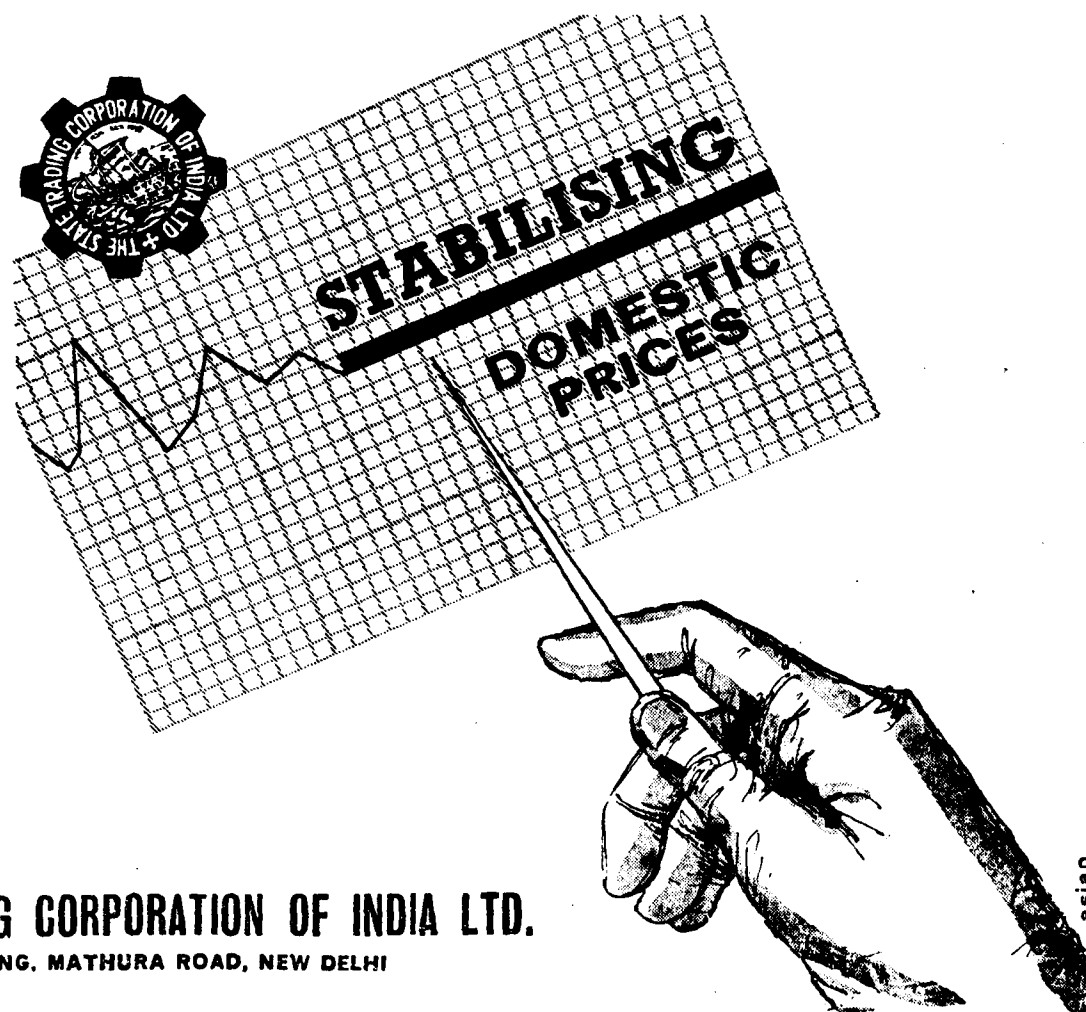
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for individuals and undivided Hindu families, respectively) may be splendid as gestures but all these cumulatively will not yield the desired results what with rising costs impinging on savings. Moreover, as the general rate of personal taxation is very high, particularly in the case of those income groups which really go in for investment in stocks and shares in a big way, the available savings are hardly adequate to allow of capital investment. Further, the generally anticipated reliefs in corporate taxes are conspicuous by their absence. As for government expenditure, notwithstanding the fine sentiments voiced in his speech, there is provision for an increase of Rs 169 crores compared to the interim budget, although it must be added, in fairness to the Finance Minister, that this is mainly to help the states, some of which are in dire distress. None of the practicable suggestions made by the business community, such as, cutting down expenditure on new projects not capable of augmenting production immediately, has been accepted or implemented.

Finally, it is a curious psychology that does everything to push up costs but expects prices to stay put nevertheless. Surely Mr Desai is not so naive as to believe that the additional excise duties he proposes to levy on tea, coffee, cigarettes, footwear, plastics and resins, petroleum products, synthetic fibres and yarn and aluminium will not lead to a rise in prices, notwithstanding his threat to take recourse to legal measures, if need be, to prevent the manufacturers concerned in some cases from passing on the incidence of the tax burden to the consumer. Aluminium and plastics have now become such all-purpose materials that few even remotely realise that if their toothpaste prices have begun to go up, it is because the Finance Minister has chosen to raise the excise levy on aluminium and plastics. Again, it is a queer argument that, because some industries

such as rayon and synthetic yarn and aluminium make large profits, they should be made to disgorge more. What those who argue thus seem to forget is that these industries are also capital-intensive and need to plough back a considerable amount out of their profits to take care of future expansion. In the case of aluminium, for instance, we still import about 10,000 tonnes per year to meet our requirements at the present rate of consumption (and this has been fast rising lately) and it is worthwhile knowing from the authorities whether they would want to continue importing these 10,000 tonnes of aluminium and expend scarce and valuable foreign exchange thereon indefinitely or to let the indigenous units expand and make the country self-sufficient at an early date. If, as they profess, self-reliance is imperative—and here is an industry which bids fair to make the country self-reliant—they cannot do something that will clearly impede or avoidably delay it.

An interesting suggestion that has been made and is worth pursuing is to compare the likely inflationary effects of leaving a gap of Rs. 68 crores uncovered (this may have to be ruled out, though, with the approved shift in favour of balanced budgets) and of adding a further Rs. 115.52 crores to the existing excise levies. It is the considered opinion of many that the former may have been the lesser of the two evils.

Another speculation is whether some strong public limited companies would at all be well-advised to allow amalgamation of weaker units, although there is both scope, as for instance, in the cotton mill industry, and the Finance Minister's blessings for it. From the heated debate currently going on in Parliament who knows if even such desirable developments will not be branded as calculated attempts at concentration of economic power?

Budget and Export Prospects

A Correspondent

THE ECONOMIC Survey for 1966-67 emphasised the importance and urgency of export promotion. It stressed that a rapid expansion of exports was necessary to regain a sufficient degree of manoeuvrability in our balance of payments in the context of the growing burden of debt payments. Though the export performance would depend largely on the trend in agricultural production, it was pointed out that special efforts were needed to stimulate mineral and manufacturing output for exports since, ultimately, these were the sectors which were likely to secure the highest growth rate in export earnings. "There is need", added the Survey, "not only for specific establishment of additional capacity for the export market as in the case of iron ore but also to expand and modernise manufacturing industry generally in such a manner as to reduce costs and make long-term investments in export industry worthwhile".

Mr Morarji Desai, in his budget speech, also dwelt on the need for maximising exports. He referred to the disappointing performance of exports during 1966-67 and observed that "a major break-through in export earnings could be expected only on the basis of modernisation and rationalisation of our established industries and a judicious expansion of capacity both in agriculture and industry in directions where we had a long-term competitive advantage."

But the budget proposals are not so conceived as to provide a strong stimulus to exports. The jute industry, for instance, has been disappointed with the meagre relief it has got. The reduction in export duties on sacking and hessian has been inadequate. Considering the steep fall in the export of jute goods since devaluation, what was required was abolition of the export duty on sacking and a substantial reduction in duty on hessian. Our sacking exports fell sharply from 248,000 tonnes in 1965-66 to 189,000 tonnes in 1966-67 and the export of hessian from 456,000 tonnes to 372,000 tonnes in the same period. The exports of sacking to Africa, Australia,

Burma and Cuba recorded a sharp decline. Pakistan's share of the total exports of sacking from India and Pakistan was 28 per cent in 1960 but had risen to 58 per cent in 1966. Because of this unfavourable trend, a drastic cut in export duty, especially on sacking, would have been helpful.

Increased Burden

The Finance Minister has not only not provided adequate relief in respect of export duty but has increased the fiscal burden on the jute industry by enhancing the excise duty on hessian and other jute manufactures from Rs 250 and Rs 125 per tonne to Rs 375 and Rs 175 per tonne respectively. The fact that the excise duty on exports is refundable is not much of a consolation. The procedure for refund is not simple; and the industry's experience in getting its dues from the Government has been unhappy. The President of the Indian Jute Mills Association said at its recent annual meeting: "At every turn, we are experiencing inordinate delay in receiving our dues from the Government". The total tax burden on the jute industry is of the order of Rs 100 crores per year and its financial health has been far from satisfactory. Mr Manubhai Shah, former Commerce Minister, wrote in this journal of May 5: "Even though beset with many problems, the jute industry is capable of earning hundred per cent additional foreign exchange because of the versatility of this fibre and the many diversified uses to which jute fibre and the goods made therefrom can be put". In view of its immense potentiality for increased export earnings, the Finance Minister should have adopted a more helpful policy to the jute industry.

In regard to the tea industry, the Finance Minister has acted on the assumption that it will be possible to increase exports by curbing consumption at home. So, while reducing the export duty by 24 paise per kilogram, he has increased the excise duty on tea. It is necessary to point out that our exports

have failed to pick up even after devaluation not because of increasing consumption at home but mainly because tea prices have not been competitive. Moreover, it is relevant to note that per capita tea consumption in our country is small as compared to many countries of Asia and Africa. Even Ceylon and Japan have higher standards of consumption of tea than India as will be seen in the following table:

ANNUAL CONSUMPTION OF TEA PER HEAD (in lb.)

	1956-58	1960-62	1962-64
India	0.56	0.67	0.67
Ceylon	2.31	2.90	2.85
Japan	1.56	1.68	1.78
Kenya	0.62	0.56	0.74
Iran	1.58	1.89	1.75
Afghanistan	0.45	0.68	0.77
Iraq	4.47	6.20	6.71
Egypt	1.60	1.89	2.00

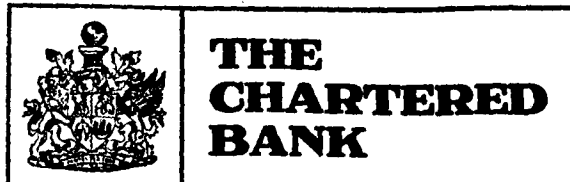
Mr Morarji Desai emphasised the need for diversifying our exports. He said: "An increase in exports of our newer products is vitally important from the point of view of achieving a sustained increase in our total export earnings. And the present situation offers a welcome opportunity of redoubling our efforts in this direction. The subsidies we provide on the export of engineering and other products should help in this direction". The Finance Minister added that, wherever necessary, the Government would support the effort of industry to increase the export of capital goods by suitable credit arrangements. But he suggested that industry also would have to adjust its pricing and other policies in relation to export orders if it were to do its part in counteracting recessionary trends in a constructive manner.

The offer of cash subsidy and the provision of certain raw materials at international prices have, of course, been helpful to export promotion of engineering industries. But engineering exports can pick up steadily only if the industries concerned are able to bring down their cost of production, improve the quality of their products and offer them at competitive prices. Unfortunately, the budget offers little help in these directions. The system of corporate taxation has been practically left intact and the import duties remain at a high level. At the same time, the increase in excise duties on many raw materials will tend to inflate the cost of production. The lack of demand for engineering products has been a major cause for recession. But the budget contains no measures which will give a fillip to industries in this group to make better utilisation of their capacity by finding an expanding market for their products. India's share in the world export of engineering goods is only about 0.14 per cent. The fourth five-year Plan has tentatively fixed the export target for engineering goods at Rs 100 crores per year. This target cannot be achieved unless the engineering industries are able to work at the highest level of efficiency and produce goods at prices at which they can effectively compete with the products of the UK, Japan and West Germany.

The problem of export promotion cannot be tackled successfully merely by providing token relief to a limited number of industries. It is only when the entire economy functions efficiently and in an integrated manner that the country can produce a surplus of goods which will help exports to increase steadily. Judging from the reaction of representative organisations of industry and trade, the budget does not hold out much promise of imparting dynamism to our economic growth and export promotion.

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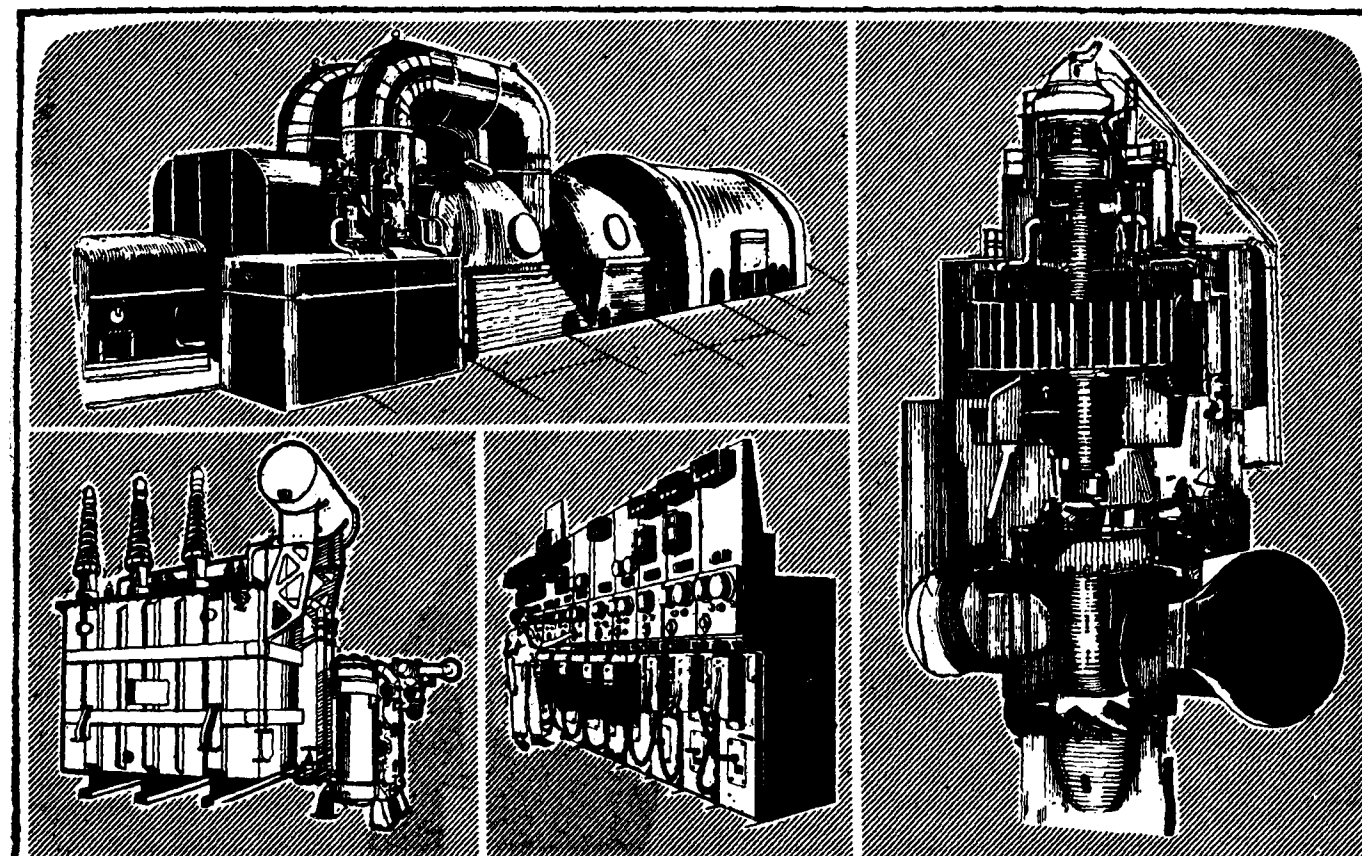
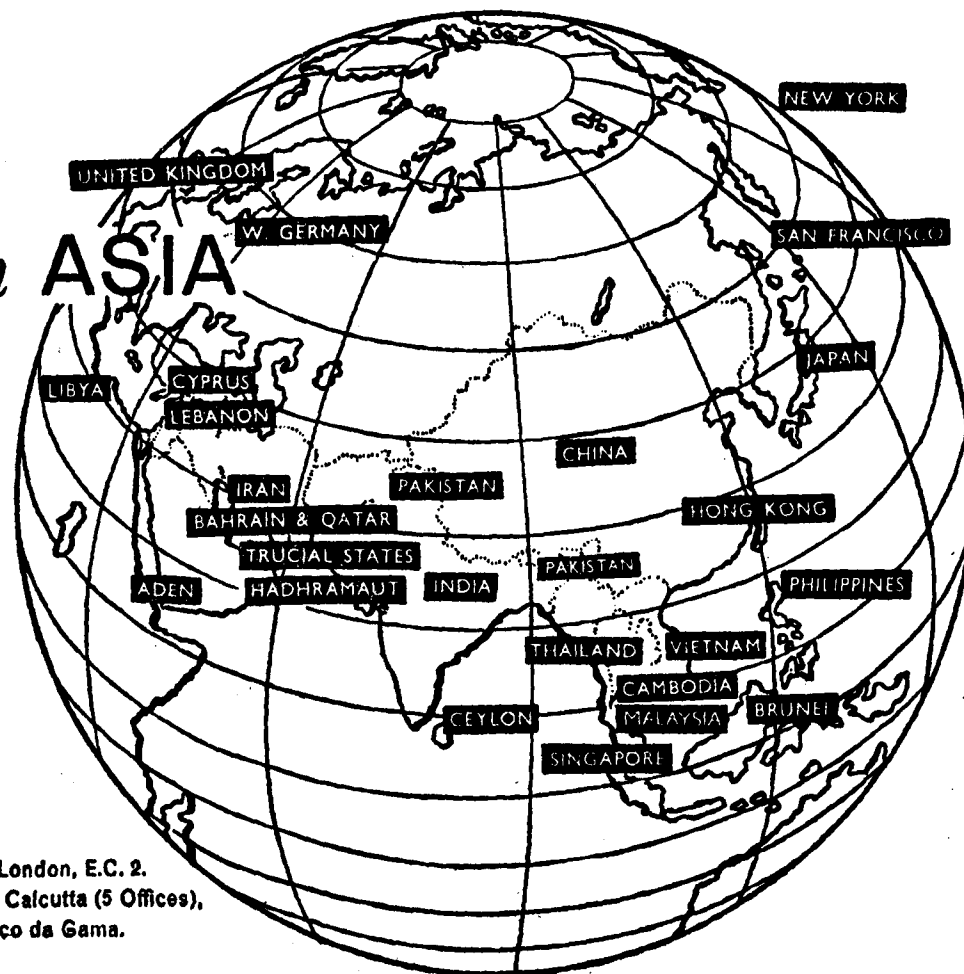
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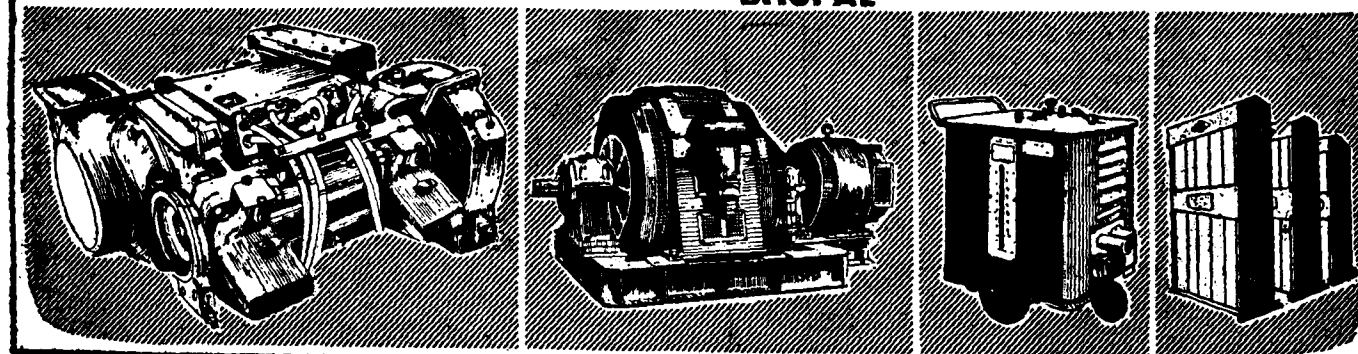
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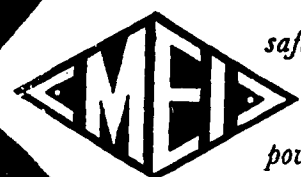
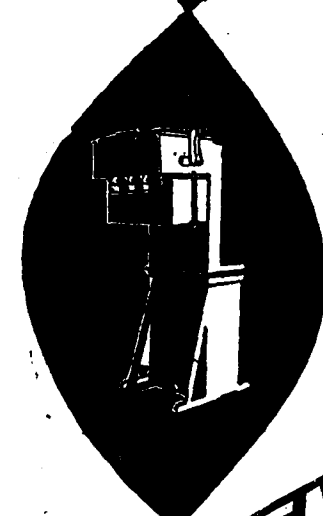
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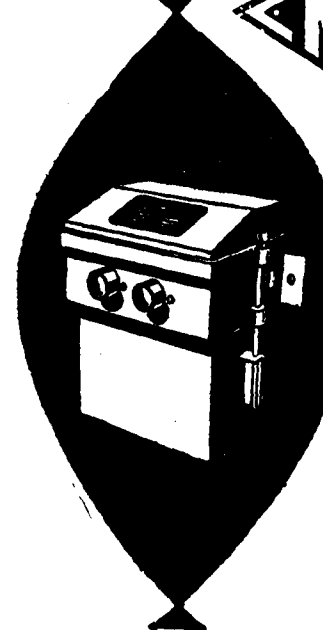
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Economic Survey: 1966-67

THE ECONOMIC Survey for the current year has focussed attention on the recessionary tendencies in some sectors of the economy along with the "wage-cost-price spiral" in an inflationary environment. It has recommended maintenance of overall fiscal restraints coupled with discipline in credit and monetary policy. Extracts from the survey and some illustrative graphs and statistics are given below:

The economic situation during 1966-67 was overshadowed by severe drought for the second year in succession. While agricultural output was somewhat higher than in 1965-66, it was well below the record level of 1964-65. Imports of foodgrains had to be substantially increased and it was necessary to intensify procurement and distribution controls, and to take special measures to generate incomes in the areas worst affected by drought. Production actually declined in many industries based on agricultural raw materials and the growth rate of industrial output was rather low. The rate of expansion of the money supply was significantly reduced in order to combat inflationary pressures. The levels of public and probably of private investment in the economy were lower than in the previous year. There was, nevertheless, a marked rise in the price level, particularly of foodgrains. The balance of payments came under severe pressure because of lower exports of agriculture based products and larger payments from export earnings on account of food and fertiliser imports and debt servicing.

Relief Measures

While the short-term economic situation was thus disquieting, various policy measures were taken to secure such immediate relief as was possible and to facilitate a return to growth with stability as soon as weather conditions permitted. The agricultural development programme provides for a rapid expansion in supplies of inputs such as fertilizers, improved seeds and water with concentration on the areas in which the highest returns can be expected. In spite of the difficult foreign exchange situation, imports of essential inputs of agriculture were substantially increased. The family planning programme was intensified. Friendly countries and institutions agreed to provide a larger share of assistance in non-project form, and it was, therefore, possible to arrange for many industries to import their requirements of components and raw materials as and when required. External financing arrangements were completed for a number of essential projects which will yield increases in output in the later years of the plan. The structure of controls was simplified to some extent and a change was made in the par value of the Indian rupee in order to provide a stimulus to export promotion and rational import substitution.

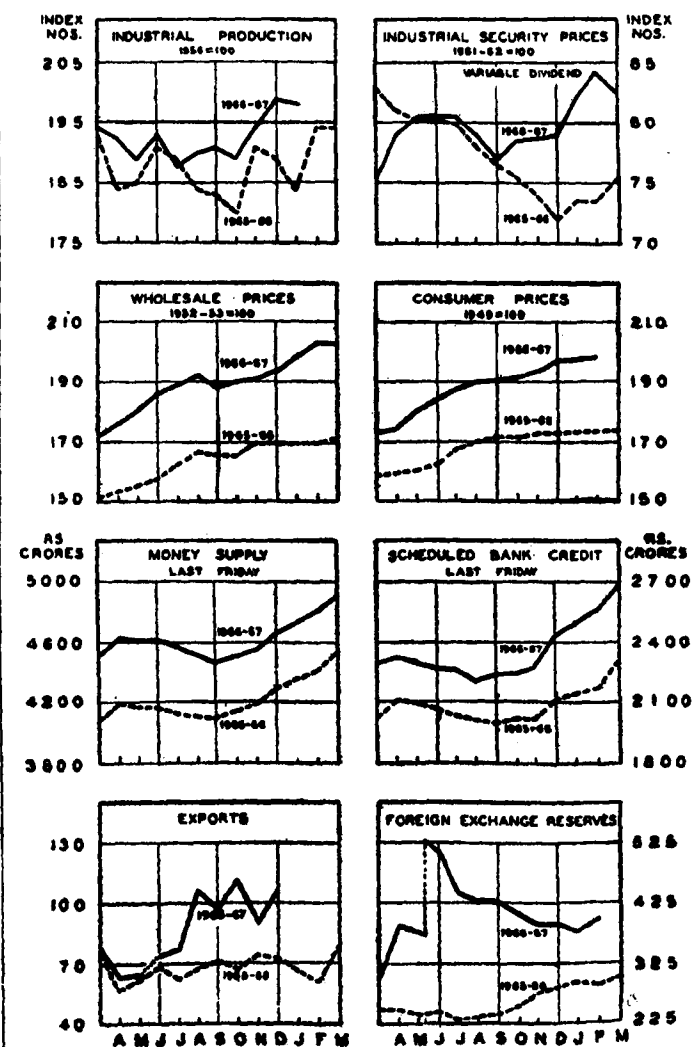
During 1966-67 foodgrains output was only around 76 million tonnes as compared to 72 million tonnes in 1965-66 and 89 million tonnes in 1964-65. Crop failures were particularly serious in parts of Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan and Gujarat. Stocks of grains had already been seriously depleted due to the drought in the previous year. It became necessary to arrange for a substantially higher level of imports and to arrange for the equitable distribution of foodgrains produced in the country. The procurement and distribution of foodgrains on government account was considerably intensified. Altogether, the volume of retail sales through public channels rose from about 10.1 million tonnes in 1965 to nearly 14.1 million tonnes in 1966. Imports of foodgrains for distribution by Government were increased substantially—from 6.7 million tonnes in 1964-65 to 8 million tonnes in 1965-66

and 10.4 million tonnes in 1966-67. While most of these additional imports were made available against external assistance, larger quantities were also bought against our own export earnings. Thus although the value of total food imports was Rs. 266 crores in 1964-65, foreign exchange outlay from our own earnings, including outlay on freight charges amounted in that year to Rs. 49 crores; in 1965-66 total food imports amounted to Rs. 285 crores whereas our own expenditure was Rs. 66 crores. The foreign exchange outlay on food imports went up further to Rs. 114 crores (at the pre-devaluation rate) in 1966-67 out of a total value of imports of some Rs. 377 crores.

In areas which had suffered severely from drought, arrangements were made for free supply of foodgrains on a large scale, generation of incomes through manual labour schemes, supply of drinking water, and of fodder for cattle.

Special efforts were made to secure quick increases in output of foodgrains wherever possible, through multiple cropping and other means. Supplies of fertilisers, pesticides, electric motors, improved seeds and other requirements of agriculture

SELECTED ECONOMIC INDICATORS



were greatly increased. As much as about Rs. 203 crores (at the post-devaluation rate) or \$270 million, for example, were allocated for import of fertilisers during 1967-68 as against Rs. 47 crores or \$98 million only two years ago. While the new strategy for stimulating agricultural output can show its full effects only after a period of years, improved performance was evident in a number of areas.

The drought affected not only foodgrains but also commercial crops. The production of all the main commercial crops—sugarcane, raw jute, oilseeds, raw cotton and tobacco—was affected. Raw jute imports were substantial, but even so the total availability of raw jute and of other agricultural raw materials for industry was inadequate. As a result, the production of industries such as cotton textiles, jute textiles, sugar and vanaspati was lower even in absolute terms; in the case of cotton textiles, demand was also slack as a result of the drought. These agriculture based industries account for a substantial part of Indian industrial production.

The output of steel remained at about the same level as in the previous year; while demand was less, net imports were lower and stocks were somewhat higher. Coal production was also stagnant as the demand of the railways and steel plants did not rise. Production in some specific capital goods industries, such as castings, structurals, railway wagons and textile machinery showed a marked decline due to lower levels of investment demand. In certain other industries, such as many electrical equipment industries and tyres and tubes, production was significantly higher as a result of freer availability of imported materials. Industries which cater to the needs of agriculture such as those producing fertilisers, pesticides and pumping sets also showed large increases in output.

Marginal Increase

In the aggregate, however, industrial production rose only marginally. The average index of industrial production during April-October 1966 was only 2.7 per cent higher than during the same period of 1965. Since November, there have been distinct signs of a moderate revival in industrial production despite the fact that many industries, notably several capital goods industries, cotton textiles and sugar continued to remain depressed. For the three months ending January 1967, the average index of industrial production was 5.2 per cent higher than in the corresponding period of the previous year.

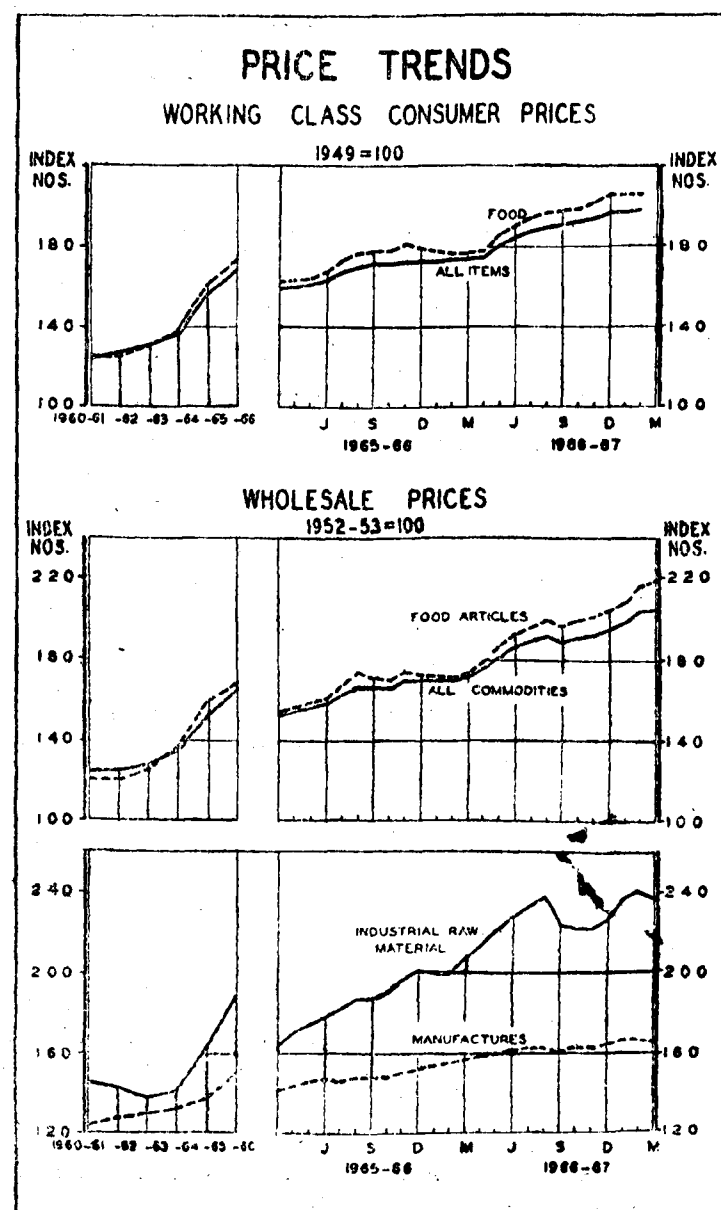
The effects on production of larger availability of imported raw material supplies were felt only partially during the year, as import licences under the liberalisation programme were issued only during the second half of the year. The full impact of the programme on industrial production will be evident only during 1967-68. The removal of controls on the distribution and prices of indigenous steel is also expected to have an impact on industrial production in the coming year. Efficient use of larger raw material supplies will be facilitated by the relaxation of restrictions on diversification of production and the more competitive situation that is emerging in manufacturing industries.

As was stated earlier, there was a considerable increase in the quantities of foodgrains distributed through ration or fair-price shops; and substantial supplies were also distributed free in drought affected areas. Nevertheless, in view of the overall shortage, there was a substantial rise in the prices of foodgrains and of many other agricultural commodities. This, in turn, led to increases in prices of manufactures as a result of higher raw material and wage costs. The higher prices of imported materials consequent on devaluation also had some impact on the price levels, though in many cases these higher costs were absorbed in margins previously accruing to manufacturers and traders. The rise of 16.5 per cent in the wholesale price index over the year was a matter for serious concern as it came in

the wake of the increase of 25 per cent in the preceding two years.

Despite this concern, and in keeping with the need to increase production, remunerative prices for agricultural producers were recognised to be necessary to stimulate output and indeed procurement as well as support prices for a number of agricultural products were raised during the year. Similarly, prices of some manufactures, and particularly of those whose prices were pegged at unduly low levels over a number of years, were raised from the point of view of stimulating investment and production. It must be recognised, however, that changes in relative prices can be of benefit in stimulating production only in the context of overall price stability.

The adverse agricultural situation was an important cause of the severe strain on the balance of payments during the year. There was a sharp decline in foreign exchange reserves, if drawings from the International Monetary Fund are left out of account. Thus, while foreign exchange reserves increased marginally by \$12 million over the year, our indebtedness to the International Monetary Fund increased by \$130 million. Substantially larger payments from export earnings were made on account of food imports, freight charges on PL 480 supplies and raw jute imports. Debt servicing charges were also markedly



higher than in the previous year—\$374 million in 1966-67 against \$315 million in 1965-66.

Exports of jute goods were hampered by shortage of raw jute and the decline in cotton textile exports was in part the result of high prices of Indian cotton due to shortages. Vegetable oils exports were negligible and tobacco exports were also affected by adverse weather conditions. Some slackening in world demand for major Indian exports such as tea also played a part in reducing export earnings. As a result of the change in the par value of the rupee, exports of some items not affected by supply shortages, such as fish, showed improvement; and exports of iron ore were raised as mining and transport facilities were developed. Exports of steel and a number of manufactured products were stepped up. In the aggregate, however, export earnings in terms of foreign exchange were significantly lower than in the previous year.

Except in the case of food and fertilizers and selected agricultural raw materials, the year under review witnessed a sizable reduction in imports. Thus imports of iron and steel declined by 46 per cent, of machinery by 20 per cent and of non-ferrous metals by 51 per cent. This is a reflection both of the severe restrictions on imports that had to be imposed in 1965-66 and of the slackening in the tempo of development necessitated by the concern with inflation.

Non-Project Assistance

During the year, non-project assistance of Rs. 675 crores (\$900 million) was pledged by the Consortium countries of which Rs. 161.25 crores (\$215 million) was pledged by the International Development Association and Rs. 286.50 crores (\$382 million) by the U.S. As a part of their contribution to this non-project assistance, the U.K. refinanced (on more favourable terms) debt obligations worth \$23 million and Canada waived payments of \$10 million which were due on earlier wheat loans. Japan refinanced debts worth \$2.5 million and Austria refinanced loans amounting to \$0.9 million. Another notable feature of external assistance during the year was the participation of a large number of countries and institutions in the provision of food aid thus supplementing the major contribution made over a number of years by the U.S. towards meeting our food needs.

A major objective of budgetary policy during the year was to combat the inflationary trends. The total Reserve Bank credit to Central and state governments during the twelve months ended March 31, 1967 was Rs. 195 crores. This was substantially lower than in the previous year (Rs. 404 crores), in spite of considerably larger outlays on relief measures and on increases in dearness allowances and the effects of low levels of output on receipts from various taxes. The Reserve Bank credit to the Central Government alone was Rs. 333 crores, but a large part of this indebtedness was incurred, however, for reducing the indebtedness of the state governments to the Reserve Bank.

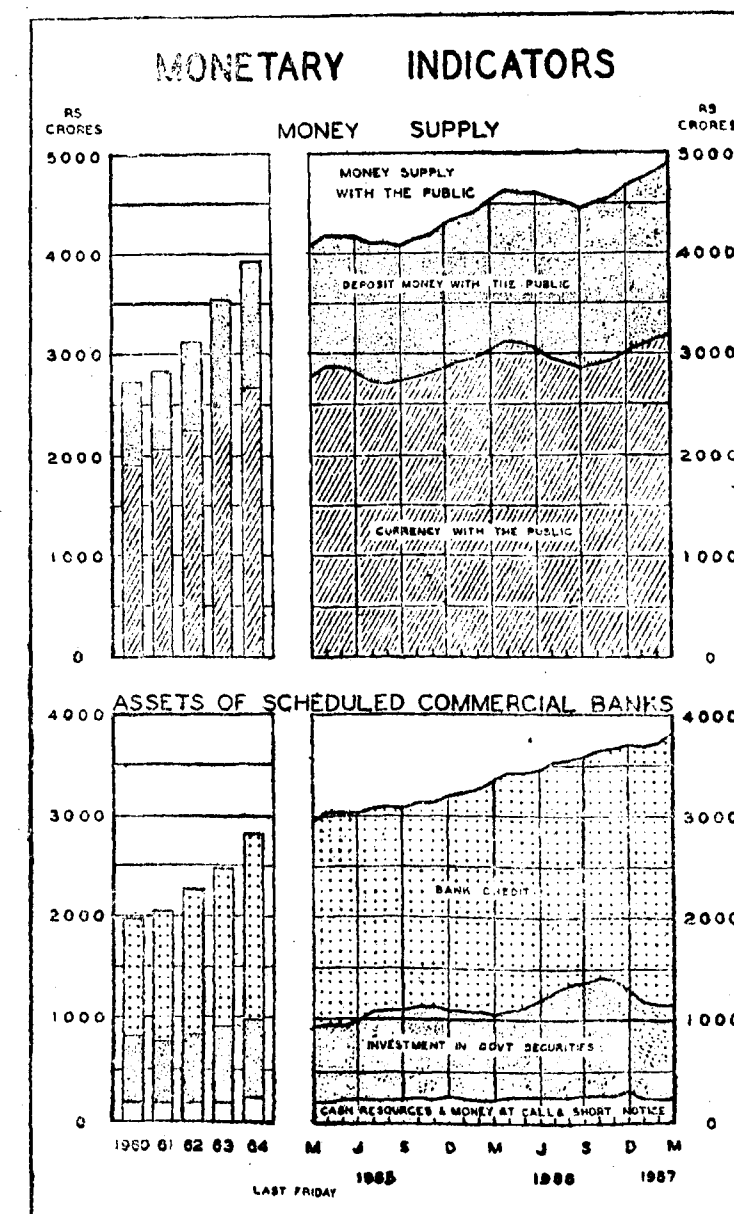
The reduced reliance on Reserve Bank credit by the Government was an important move towards the objective of avoiding the inflationary impact of public expenditures. The extent of the Centre's budgetary deficit was, however, considerably larger than had been visualised when budget estimates were framed; and while a degree of deficit financing was unavoidable in the context of the economic situation last year, there is clearly need for strenuous efforts to improve the budgetary position of both the Central and state governments.

During 1966-67, overdrafts amounting to Rs. 108 crores of the state governments with the Reserve Bank had been cleared by the Government of India; and discussions were held with the state governments with a view to avoiding the recurrence

of such overdrafts. The Reserve Bank has adopted a new procedure whereby the state governments, while having greater flexibility in regard to their ways and means position will not be able to resort to unauthorised overdrafts for any length of time.

The revenue of public sector undertakings, including the Railways, are an important source of finance for development expenditure. These resources were lower than anticipated during 1966-67. While the fall in receipts was largely due to lower levels of output, there is clearly need for increase in the returns from these undertakings, through higher levels of production, greater efficiency and adjustments of prices which may be at uneconomic levels.

The objective of monetary policy has also been to prevent an undue rise in the price level, particularly as a result of the speculative holding of commodities. The rate of growth of the money supply was reduced to 7.1 per cent in 1966-67 as compared to 11.1 per cent in 1965-66. The rise in money supply was no doubt higher than the increase in output over the year. It was, however, necessary to ensure that while an appropriate degree of monetary discipline was maintained, production was not hampered by a severe shortage of credit. Of the increased credit during the busy season, 80 per cent was required to be



made available to industrial borrowers and against imports and exports. As incomes and hence deposits grew at a lower rate than was visualised earlier, commercial bank advances also did not rise as much as had been anticipated, though they were significantly higher than in 1965-66. Recourse to the Reserve Bank was restricted by the levy of penal interest rates for borrowings above prescribed levels. Selective credit controls were also utilised to discourage hoarding of specific commodities. The structure of interest rates remained broadly unchanged over the year.

The last two years have been a period of exceptional strains for the Indian economy. Essentially, these strains have been the result of two natural disasters and two wars. The management of the economy over this period has been a particularly difficult task. On the one hand it has been necessary to deal with current shortages and to combat inflation. At the same time, our recent experience has emphasised the need for remedial action on a number of vital fronts and this action will have to be continued and strengthened over a number of years. Population control, improvement in yields per acre in agriculture, export promotion, increases in managerial and productive efficiency both in the public and the private sectors, elimination of delays and waste in public expenditure and the creation of an environment in which Indian industry has to respond increasingly to the spur of competition are, for example, tasks that will continue to demand attention for many years to come. The tempo of development in the country will also have to be accelerated over several plan periods and in many directions. The immediate situation that confronts the country is, however, complex enough to require the most careful handling.

Checking Inflation

In the short run the problem that faces the country is that of checking inflation and of maintaining and strengthening the arrangements for equitable distribution of food supplies. In the immediate period ahead intensive procurement effort is necessary to enlarge the availability of foodgrains for the public distributing system along with arrangements for additional imports. Even with the best effort, however, it may not be possible to restore the environment of price stability through these measures alone in view of the great limitations on supplies. When supplies are only marginally short, price controls and regulation of distribution would suffice to maintain an environment of price stability even when the pressure of demand was in an upward direction. In the present situation, however, there are obvious limits to such a policy and there is, therefore, no escape from the policy of continuing restraint on demand by keeping in check public and private sector outlays.

While a distinction, no doubt, needs to be drawn between those outlays of Government which contribute to development and those which do not (except very indirectly) it should be recognised that the inflationary psychology cannot be brought to an end without a determined effort to curtail non-developmental outlays and a willingness to enforce economy in development expenditures and, even, postpone such expenditures to the extent feasible. The increase in non-development expenditures of Government during the last year was brought about mainly because of the decision to subsidise the higher cost of foodgrains after devaluation; this was essentially a measure to provide a relief in the immediate period following devaluation and must be looked upon as a shock-absorber rather than a permanent prop. As and when conditions permit, a gradual withdrawal of these subsidies will contribute materially towards a reduction in the non-development outlays of the Government and release resources for development. These considerations apply also to other subsidies or reliefs provided through the budget.

When prices have been rising for some time and when con-

trols on essential items in short supply are necessarily in operation, it is difficult to avoid a dilemma in regard to adjustments of prices and wages from time to time. Some compensation against past increases in costs and prices may be unavoidable and indeed necessary in the interest of sustaining and increasing production. At the same time, even with overall non-inflationary budgetary and monetary policies, some check on the wage-cost-price spiral has to be kept if the inflationary environment and the process of inflation itself are to be brought to an end in the shortest possible time.

The necessity of such adjustments makes it all the more important to maintain overall fiscal restraints. It must also be combined with corresponding discipline in respect of credit and monetary policy. There is clearly need to keep the cost of borrowing sufficiently high. Similarly, an expansion of bank credit to the private sector on a scale significantly in excess of the growth of output has clearly to be avoided. Also, specific credit controls to restrain bank financing of speculative commodity holdings will continue to be needed. In judging the reasonable limits for bank credit expansion, allowance has to be made for the fact that the imbalances that have developed in the past have to be worked off, even if it takes some time to do so. In this context, it may be noted that deficit financing appropriates a part of the permissible limit of credit expansion which may be needed to sustain high levels of production in industry and agriculture.

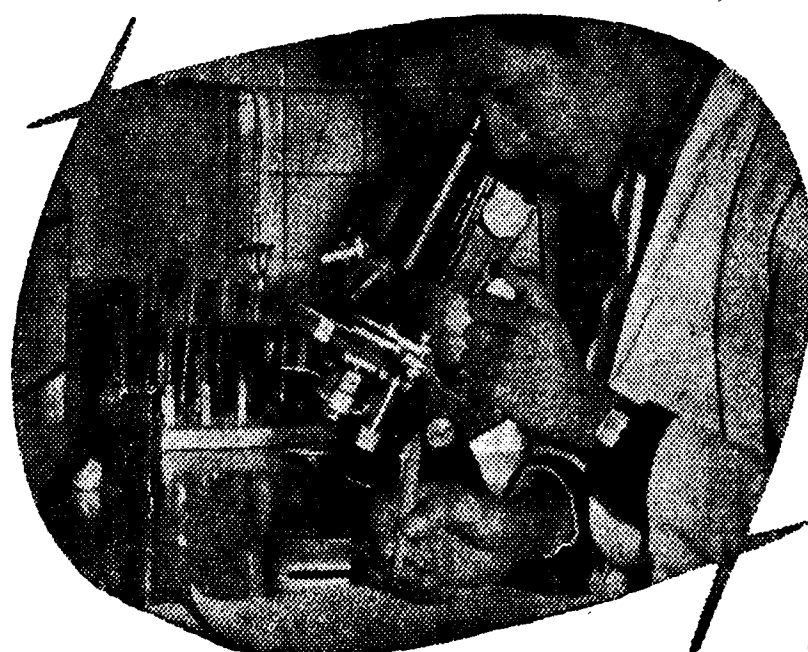
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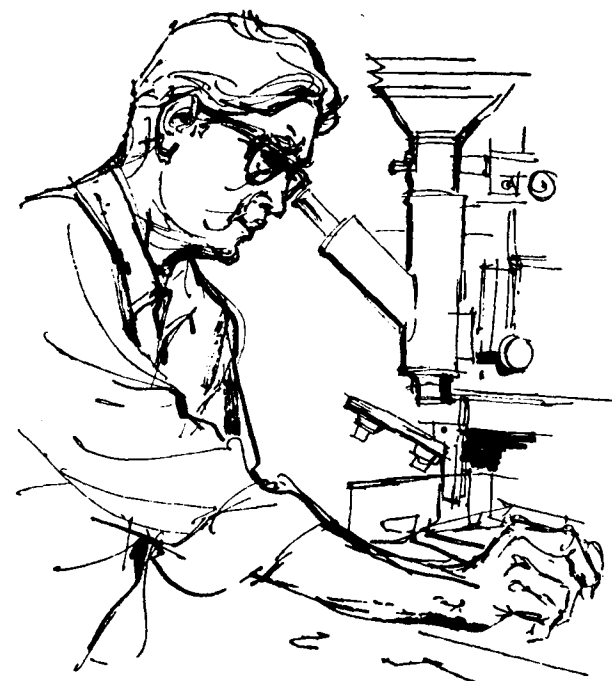
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activity in general has been depressed and there are pockets of under-utilisation of capacity and unemployment of labour. While shortages of agricultural raw materials have added to costs of production in a few industries demand itself has been moderated as a result of the drought. The level of savings in the economy has been affected adversely by the stagnation in real incomes, and this is reflected in the excessive tendency for reliance on the banking system whether on the part of the public sector or in the private sector. The existence of recessionary tendencies in some sectors of the economy appears to call for selective attempts to stimulate demand but this cannot be done through credit expansion in view of its obvious inflationary effect in a situation of acute food shortage. Selective inducements for specific industries which merit attention have, therefore, to be considered within the overall constraint of budgetary resources and such savings as private industry can mobilise on its own. The existence of uncertainty itself affects the climate for investment. And the prospect of applying selective measures with success depends a great deal on the expectations in regard to agricultural production and incomes in the near future.

Under-Utilisation of Capacity

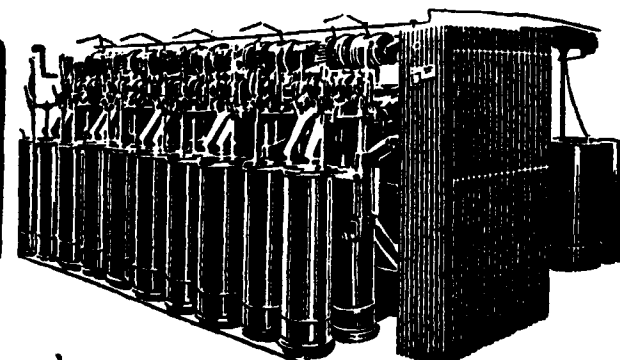
When internal demand for investment (and also for consumption of specific goods) is depressed, and there are limits to a policy for selective stimulus, the building of export markets and the diversification of production are means whereby production levels can be sustained. Also, import policy must aim at meeting specific supply shortages to some extent, despite the difficult payments position. Considerations of priority, which may be relevant in the long-term context, may in this connection have to be modified in the short run to deal with a highly complex and difficult situation. Industrial policy—and managerial talent—should also be geared to the needs of diversification of production. It has, however, to be recognised that with all these efforts, it may not be possible to avoid under-utilisation of capacity for some time to come at least in some industries.

Looking ahead somewhat further, it is necessary to ensure

that the tempo of development is resumed as soon as possible. While investments whether in the public or the private sector have necessarily to be selective for the time being it should be recognised that higher levels of demand might emerge soon when agricultural production is at higher levels as a result both of more normal weather conditions and the considerable effort being made to increase agricultural productivity. Industrial output levels for the later years of the fourth Plan must be planned on the basis of the higher levels of agricultural production that should be achieved by then and care should be taken to avoid a hiatus in growth during those years as a result of undue pessimism based on current agricultural performance. The public sector, private industry and financial institutions will all have to combine considerable restraint in the matter of new project starts for the present with sustained effort to prepare for higher levels of investment activity in carefully selected areas as soon as circumstances become more propitious than at present.

In this context, the importance of suitable investment in export industries, to take account of the opportunities provided by the change in the par value of the rupee, is a matter of urgent importance. If, for no other reason, a rapid expansion of exports is necessary to regain a sufficient degree of manoeuvrability in our balance of payments in the context of the growing burden of debt payments. Debt servicing charges and certain categories of imports can only be met from our own export earnings or from external assistance in the form of cash or its equivalent. While in large part, the behaviour of exports will reflect trends in agricultural production, efforts are also necessary to stimulate mineral and manufacturing output for exports; in the long run these are the sectors which are likely to secure the highest growth rates in export earnings. There is need not only for specific establishment of additional capacity for the export market as in the case of iron ore, but also to expand and modernise manufacturing industry generally in such a manner as to reduce costs and make long-term investments in export industry worthwhile. In preparing for the resumption of developmental activity in general, the requirements of export promotion, in short, will have to be kept in the forefront.

Lagan



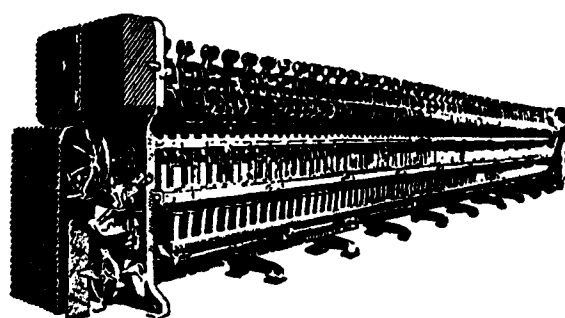
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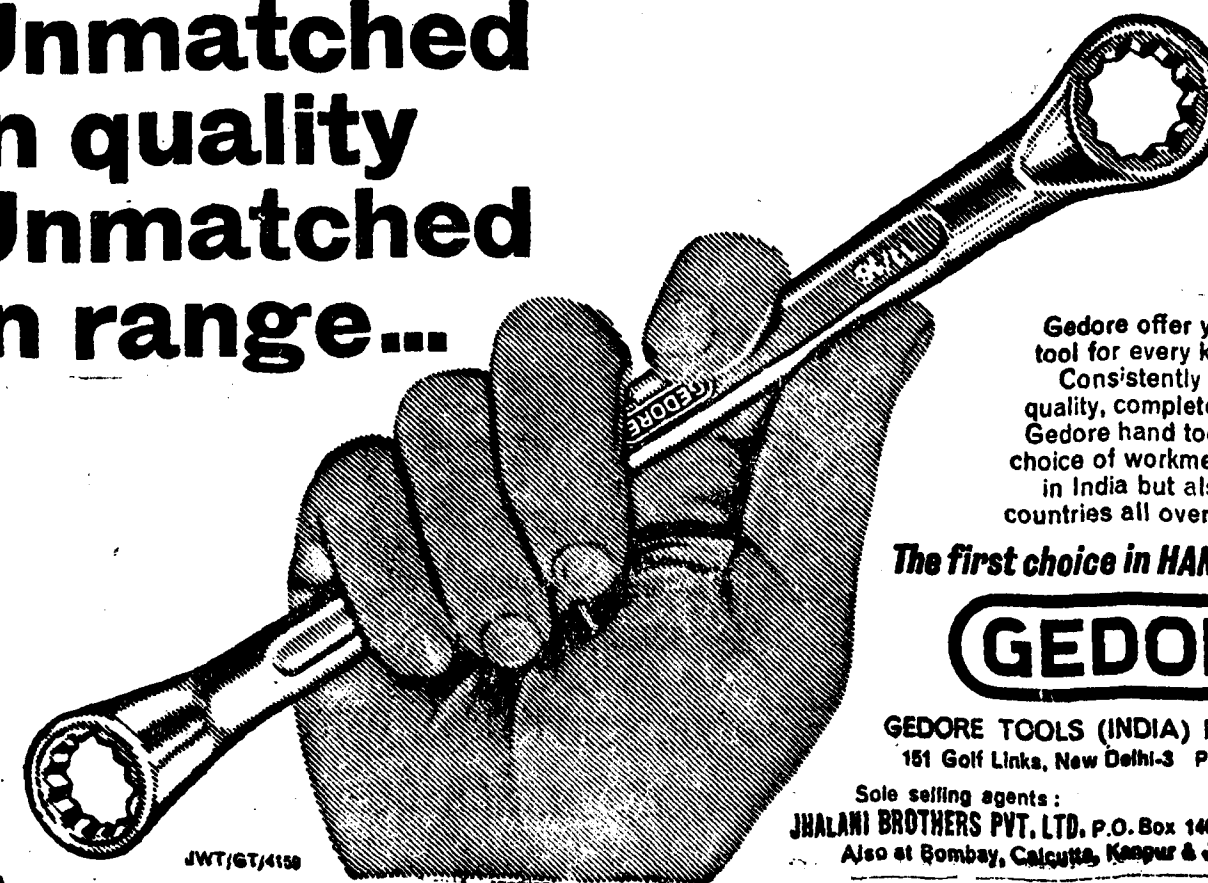
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National Income: 1948-49—1965-66

Year	National Income* (Rs. crores)		Per Capita Income (Rs.)		Index Number of National Income (1948-49=100)		Index Number of Per Capita Income (1948-49=100)	
	At Current Prices	At 1948-49 Prices	At Current Prices	At 1948-49 Prices	At Current Prices	At 1948-49 Prices	At Current Prices	At 1948-49 Prices
1948-49	8,650	8,850	249.6	249.6	100.0	100.0	100.0	100.0
1949-50	9,010	8,820	256.0	250.6	104.2	102.0	102.6	100.4
1950-51	9,530	8,500	266.5	247.5	110.2	102.3	106.8	99.2
1951-52	9,970	9,100	274.2	250.3	115.3	105.2	109.9	100.3
1952-53	9,820	9,460	265.4	255.7	113.5	109.4	106.3	102.4
1953-54	10,480	10,030	278.1	266.2	121.2	116.0	111.4	106.7
1954-55	9,610	10,280	250.3	267.8	111.1	118.8	100.3	107.3
1955-56	9,980	10,480	255.0	267.8	115.4	121.2	102.2	107.3
1956-57	11,310	11,000	283.3	276.6	130.8	127.2	113.5	110.4
1957-58	11,390	10,890	279.6	267.3	131.7	125.9	112.0	107.1
1958-59	12,600	11,650	303.0	280.1	145.7	134.7	121.4	112.2
1959-60	12,960	11,860	304.8	279.2	149.7	137.1	122.1	111.9
1960-61	14,140	12,730	325.7	293.2	163.5	147.2	130.5	117.5
1961-62	14,800	13,060	333.6	294.3	171.1	151.0	133.7	117.9
1962-63	15,400	13,310	339.4	293.4	178.0	153.9	136.0	117.5
1963-64*	17,210	13,970	370.9	301.1	199.0	161.5	148.6	120.6
1964-65*	20,010	15,050	421.5	317.0	231.3	174.0	168.9	127.0
1965-66**	14,490		298.3	N.A.	167.5	N.A.		119.5
Percentage Change								
First Plan	+4.7	+16.4	-4.3	+8.2				
Second Plan	+41.7	+21.5†	+27.7	+9.5†				
Third Plan**		+13.8		+1.7				

* Preliminary Estimates.

** Quick Estimates.

† The estimates of production of foodgrains from 1959-60 and those of sugarcane from 1960-61 are not strictly comparable with those for the earlier years. Adjusted for such statistical changes, the increase in total national income and in per capita income during Second Plan period works out to 20.4 per cent and 8.6 per cent respectively.

Note:—The per capita estimates are based on the rate of growth of population as revealed by the 1941, 1951 and 1961 census figures.

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Net Availability of Cereals and Pulses

Year	Population (millions)	Cereals		Net imports (million tonnes)	With- drawals (—) from Govern- ment stocks (million tonnes)	Pulses		Per capita net availability			
		Gross	Net			Net avala- bility (million tonnes)	Net avala- bility (million tonnes)	Cereals		Pulses	
								(gms.)	(ozs.)	(gms.)	(ozs.)
1951	363.4	45.74	40.02	4.80	(+)0.59	44.23	8.03	334.5	11.8	59.5	2.1
1952	369.6	46.40	40.60	3.93	(+)0.62	43.91	7.97	326.0	11.5	59.5	2.1
1953	376.1	51.35	45.37	2.04	(—)0.48	47.89	8.59	348.7	12.3	62.4	2.2
1954	382.9	61.08	53.44	0.83	(+)0.20	54.07	9.72	385.6	13.6	70.9	2.5
1955	390.2	58.97	51.80	0.60	(—)0.75	52.95	10.10	371.4	13.1	70.9	2.5
1956	397.8	57.53	50.34	1.40	(—)0.60	52.34	10.21	360.0	12.7	70.9	2.5
1957	405.8	60.20	52.68	3.63	(+)0.86	55.45	10.61	374.2	13.2	70.9	2.5
1958	414.3	56.41	49.36	3.22	(—)0.27	52.85	8.82	348.7	12.3	59.5	2.1
1959	423.3	65.49	57.30	3.86	(+)0.49	60.67	11.54	391.2	13.8	73.7	2.6
1960	432.7	64.88	56.77	5.13	(+)1.40	60.50	10.32	382.7	13.5	65.2	2.3
1961	442.7	69.31	60.65	3.49	(—)0.17	64.31	11.11	396.9	14.0	68.0	2.4
1962	453.5	70.95	62.08	3.64	(—)0.36	66.08	10.28	399.7	14.1	62.4	2.2
1963*	464.3	67.01	58.63	4.55	(—)0.02	63.20	9.99	371.4	13.1	59.5	2.1
1964*	475.5	70.19	61.41	6.26	(—)1.24	68.91	8.79	396.9	14.0	51.0	1.8
1965*	487.0	76.56	66.90	7.45	(+)1.06	73.38	10.88	413.9	14.6	62.4	2.2
1966*	498.9	62.25	54.47	10.34	(+)0.14	64.67	8.76	354.3	12.5	48.2	1.7

Notes:—1. *Provisional Population figures relate to mid-year revised estimates. These estimates were prepared by the office of the Registrar General of India.

2. Production figures relate to agricultural year July-June; 1951 figure corresponds to the production of 1950-51 and so on for subsequent years. These estimates up to the year 1959-60 are adjusted with 1960-61 revised production index as the base. Figures for 1960-61 and 1961-62 are based on Revised Estimates for 1962-63, 1963-64 and 1964-65 on Partially Revised Estimate and for 1965-66 on Final Estimates of production.

3. Net production has been taken as 87.5% of the gross production, 12.5% being provided for food, seed requirements and wastages.

4. Figures in respect of change in stocks with traders and producers over a year are not known. The estimates of net availability given above should not, therefore be taken to be strictly equivalent to consumption.

5. Net availability = Net production + net imports + decline in Government stocks.

Percentage Changes in Index Numbers of Manufacturing Industries

Branch/Sectors	Weights	1961	1962	1963	1964	1965	1966
A. Consumer Goods	51.90	+6.9	+1.3	+3.4	+3.5	+2.5	—0.7
Food	13.99	+10.1	—1.5	—3.7	+10.5	+6.5	+2.4
Cigarettes	1.49	+6.7	+4.2	—2.6	+15.4	+17.1	+8.1
Cotton Textiles	32.10	+5.3	+0.8	+5.7	+6.7	no change	—2.8
Woolen textiles	1.10	+5.9	+29.1	+19.1	—22.6	—14.1	—7.4
Synthetic textiles	2.94	+7.3	+0.2	+10.3	+24.4	+3.1	—2.1
Footwear (Leather)	0.28	+15.3	+8.7	+18.8	—1.0	+16.0	+8.0
B. Intermediate Goods	17.82	+5.1	+10.8	+11.9	+7.0	+6.5	+4.6
Jute Textiles	5.62	—9.8	—23.2	+6.2	+3.2	+3.9	—16.2
Paper and Paper products	1.30	+4.9	+4.9	+18.8	+4.9	+7.4	+10.5
Rubber Products	3.04	+11.4	+7.7	+10.3	+5.9	+10.0	no change
Chemicals	3.56	+15.4	+8.0	+10.8	+9.5	+5.3	+4.0
Petroleum Products	3.79	+6.0	+8.1	+16.2	+10.5	+6.4	+23.8
Leather and Fur Products	0.18	+0.3	+8.3	+19.0	—7.1	+1.3	—3.0
Wood and cork	0.24	+1.6	+12.5	+18.5	+1.2	+16.5	—4.2
C. Capital Goods	19.08	+12.9	+18.8	+11.0	+6.3	+6.6	+3.5
Non-Metallic Mineral Products	2.47	+7.6	+21.8	—7.0	+5.5	+7.6	—1.0
Basic Metals	9.25	+15.1	+21.0	+14.7	—0.8	+3.0	+5.7
Metal Products	0.99	+43.8	+17.6	+12.2	+12.3	+6.2	—7.7
Non-Electrical Machinery	1.10	+13.5	+9.1	+25.2	+12.0	+19.1	+8.4
Electrical Machinery	2.41	+4.2	+15.2	+13.3	+18.1	+10.9	+8.5
Transport Equipment	2.86	+9.5	+15.7	+0.1	+27.3	+7.9	—9.3

Note:—This table is based on the Index of Industrial Production (1956=100) published by the Central Statistical Organisation. Since the indices of industrial production are not readily available for all the individual products, the classification of manufacturing industries in this table among consumer goods, intermediate goods and capital goods sectors has had to be very broad rather than precise, only the indices for "groups" of industries having been taken into account and allocated to the appropriate sectors, according to the major use of the products concerned.

Total Expenditure of the Central Government

(Rs. crores)

	1950-51	Total First Plan	Total Second Plan	Total Third Plan*	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66 (RE)	1966-67 (BE)
1. Final Outlay	314.8	1853.6	3406.0	6751.0	740.4	820.9	1092.3	1554.6	1603.8	1679.4	1732.6
(a) Government Consumption Expenditures	234.7	1241.3	1961.5	4247.4	433.0	477.8	660.2	1002.8	1006.1	1100.5	1184.5
(b) Gross Capital Formation	80.1	612.3	1444.5	2503.6	307.4	343.1	432.1	551.8	597.7	578.9	548.1
2. Transfer payments to the rest of the economy	116.9	931.9	1816.4	3486.6	495.2	531.1	623.6	664.7	778.7	888.5	989.5
(a) Current transfers	110.9	809.2	1567.1	2998.5	426.5	457.1	532.9	567.7	671.4	769.4	874.1
(b) Capital transfers	6.0	122.7	249.3	488.1	68.7	74.0	90.7	97.0	107.3	119.1	115.4
3. Financial investments and loans to the rest of the economy (Gross)	72.0	965.7	2600.2	5035.6	570.0	687.2	816.6	987.3	1106.4	1438.1	1142.7
4. Total Expenditure	503.7	3751.2	7822.6	15273.2	1805.6	2039.2	2532.5	3206.6	3488.9	4006.0	3864.8

* Includes Revised Estimates for 1965-66.

Note: Unlike in earlier Economic Survey, the total expenditure includes loans (item 3) on a gross basis.

Gross Capital Formation Out of the Budgetary Resources of Central Government

(Rs. crores)

	1950-51	Total First Plan	Total Second Plan	Total Third Plan*	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66 (Revised)	1966-67 (Budget)
A. Gross Capital Formation by the Central Government											
(a) Fixed Assets	79.5	593.9	1362.3	2391.0	302.0	331.4	424.9	498.7	551.3	584.7	557.6
(b) Works Stores	9.9	9.8	8.3	89.7	-38.4	-0.7	26.9	43.3	28.8	-8.6	-0.8
(c) Increase in stocks of foodgrains	-9.3	8.6	73.9	22.9	43.8	12.4	-19.7	9.8	17.6	2.8	-8.7
Total	80.1	612.3	1444.5	2503.6	307.4	343.1	432.1	551.8	597.7	578.9	548.1
B. Gross financial assistance for Capital Formation											
(a) To State Governments	41.1	815.7	1373.2	2928.9	319.3	374.4	447.6	604.4	671.6	830.9	670.1
(b) To Non-Departmental Commercial Undertakings†	5.2	81.1	932.4	1607.6	210.7	208.6	258.8	334.6	364.2	441.4	376.7
(c) To others‡	2.4	95.9	154.7	212.5	24.6	36.3	38.4	33.8	48.9	55.1	47.7
Total	48.7	992.7	2460.3	4749.0	554.6	619.3	744.8	972.8	1084.7	1327.4	1094.5
C. Gross Capital Formation out of the Budgetary resources of Central Government (A+B)	128.8	1605.0	3904.8	7252.6	862.0	962.4	1176.9	1524.6	1682.4	1906.3	1642.6

* Includes Revised Estimates for 1965-66.

† Public undertakings operated by autonomous corporations or companies.

‡ Include loans and grants to local authorities for capital formation.

Third Plan Outlays by Heads of Development—Centre, States and Union Territories

(Rs. lakhs)

	1960-61	%	1961-62	%	1962-63	%	1963-64	%	1964-65	%	1965-66†	%	Third Plan Total	%
1. Agricultural Programmes)	9381	8.39	8376	7.42	10112	7.30	13336	7.80	18498	9.11	23186	9.75	73502	8.52
2. Cooperation)			938	0.83	1354	0.98	1851	1.08	1752	0.86	1769	0.75	7664	0.89
3. Community Development & Panchayats	5905	5.28	5500	4.88	5885	4.24	5584	3.27	5929	2.92	6251	2.63	29149	3.38
4. Irrigation & flood control	10355	9.26	10600	9.40	11454	8.27	12049	7.05	14919	7.35	16716	7.03	65738	7.62
5. Power	10623	9.50	13948	12.37	18241	13.16	25705	15.04	30565	15.05	37780	15.89	126239	14.62
6. Large & medium Industries	16177	14.47	19298	17.11	25413	18.34	34068	19.93	40385	19.89	53068	22.32	172232	19.95
7. Mineral Development	4132	3.70	194	0.17	180	0.13	234	0.14	245	0.12	371	0.16	1224	0.14
8. Village & small Industries	4870	4.18	3759	3.33	3976	2.87	4315	2.52	4894	2.41	5503	2.31	22447	2.60
9. Railways)			17564	15.57	24901	17.97	30190	17.66	31424	15.47	28249	11.88	132328	15.33
10. Other Transport & Communications)	24856	22.23			12086	10.72	12555	9.06	15783	9.23	19197	9.45	19621	8.26
11. Education	9110	8.15	7771	6.89	10019	7.23	12300	7.20	16352	8.05	20644	8.68	67086	7.77
12. Health	6954	6.22	5443	4.83	6490	4.68	6397	3.74	7694	3.79	9682	4.07	35706	4.14
13. Other Social services	7665	6.86	5959	5.28	6541	4.72	7083	4.15	8564	4.22	11294	4.76	39441	4.57
14. Miscellaneous	1971	1.76	1363	1.20	1459	1.05	2031	1.19	2659	1.31	3592	1.51	11104	1.29
15. Grand Total	111799	100.00	112793	100.00	138580	100.00	170326	100.00	203077	100.00	237726	100.00	863102	100.00

† Likely actuals.

Note: The Third Plan figures have been worked out on the basis of the actuals for the first four years of the plan and likely expenditures for 1965-66. However, it is expected that the total expenditure will be lower than Rs. 8631 crores.

Analysis of Money Supply Variations

(Rs. crores)

	Variations during (March 31 to March 31)				
	1962-63	1963-64	1964-65	1965-66	1966-67
A. Money supply with the public (1+2)	+260	+475	+335	+458	+327
1. Currency with the public	+180	+226	+163	+277	+142
2. Deposit money	+80	+249	+172	+181	+185
Factors Affecting Money Supply Variations (1+2+3+4-5-6)					
1. Net Bank credit to Government (a+b)	+205	+249	+229*	+497**	+278†
(a) Reserve Bank's net credit to Govt. (i+ii)	(+272)	(+288)	(+290*)	(+518**)	+195†
(i) To Central Govt.	+267	+175	+136*	+292**	+333†
(ii) To State Govts.	-67	+38	+13	+112	-138
(b) Banks' holdings of Govt. Securities	+5	+36	+80	+93	+83
2. Net bank credit to private sector (a-b)	(+72)	(+75)	(+141)	(+114)	+176
(a) Banks' advances and holdings of private securities	+169	+249	+96	+81	+176
(b) Banks' time deposits	(+102)	(+210)	(+35)	(+60)	+427
3. Net foreign exchange assets of the R.B.I.	+222	+264	+239	+290	+251
4. Govt.'s net currency liabilities to the public	+53	+15	+143	+209	+231
5. Net non-monetary liabilities of the R.B.I.	(+120)	(+54)	(+204)	(+230)	+23†
6. Net non-monetary liabilities of banks (including some errors and omissions)	-27	+27	-34*	-16**	+20
	+9	+20	+18	+13	+52
	+28	+39	+30	+31	+72

† Provisional.

‡ Adjusted for the revaluation of Reserve Bank's assets after the change in the par value of the rupee.

* Adjusted for sale of gold by the Government to R.B.I.

** Adjusted for purchase of gold by the Government from the R.B.I.

Note:—(i) Figures in brackets of commercial banks' holding of Govt. securities and time deposits are adjusted for transfer of US rupee funds from State Bank to the Reserve Bank.

(ii) Figures of factors affecting money supply variations may not add up to totals due to rounding.

Index Numbers of Wholesale Prices

(1952-53=100)

	Food Articles		Liquor and	Fuel, Power,	Industrial Raw Materials				All	
	Total	Food- grains	Tobacco	Light & Lubricants	Total	Raw Cotton	Raw Jute	Oil seeds	Manu- factures	Commo- dities
Weights	50.4	23.5	2.1	3.0	15.5	3.2	2.3	6.0	29.0	100.0
Last Week of										
1955-56	94.6	86.1	78.4	97.1	110.6	109.0	116.0	111.0	102.9	99.2
1956-57	101.7	96.2	87.8	106.5	116.8	113.0	133.0	117.0	105.8	105.1
1957-58	103.4	90.7	94.4	114.4	112.9	103.0	122.0	116.0	107.3	106.1
1958-59	112.7	102.1	98.9	115.9	115.9	99.8	114.1	127.7	109.5	112.1
1959-60	116.5	100.2	97.1	117.8	132.0	113.0	141.0	140.4	117.0	118.7
1960-61	118.1	98.8	114.6	121.0	158.5	110.9	267.4	160.0	128.8	127.5
1961-62	118.4	99.8	98.8	122.4	134.7	112.6	143.2	147.6	126.3	122.9
1962-63	123.5	102.2	117.0	137.6	135.3	117.6	149.8	142.5	129.5	127.4
1963-64	141.0	123.6	119.4	140.4	146.1	120.0	151.2	166.0	132.8	138.9
1964-65	153.7	142.4	138.4	148.2	163.3	131.6	171.9	194.2	141.2	151.0
1965-66	175.3	156.1	127.5	160.3	210.0	128.4	278.1	263.8	157.3	174.0
1966-67	217.6	200.9	127.7	172.9	236.1	149.6	252.2	315.0	167.5	202.7
Average of Weeks										
1955-56	86.6	73.1	81.0	95.2	99.0	96.9	117.1	85.4	99.7	92.5
1956-57	102.3	93.5	84.3	104.2	116.0	110.6	125.5	120.0	106.3	105.3
1957-58	106.5	97.5	94.0	113.4	116.5	106.1	132.8	120.3	108.1	108.4
1958-59	115.2	106.3	95.4	115.4	115.5	99.2	117.5	127.0	108.4	112.9
1959-60	119.0	102.3	99.5	116.5	123.7	105.8	124.5	134.5	111.7	117.1
1960-61	120.0	102.3	109.9	120.0	145.4	111.8	210.2	149.9	123.9	124.9
1961-62	120.1	100.4	100.3	122.1	142.6	108.6	178.0	156.4	126.6	125.1
1962-63	126.1	105.5	100.9	124.4	136.5	112.7	146.7	151.4	128.8	127.9
1963-64	136.8	116.1	199.6	139.4	139.5	118.6	147.5	154.1	131.1	135.3
1964-65	159.9	144.0	131.2	144.9	162.7	125.9	164.4	200.3	137.3	152.7
1965-66	168.8	150.5	136.6	153.0	189.1	129.2	219.1	240.5	149.2	165.1
1966-67	199.8	178.4	130.3	169.7	228.6	139.3	266.3	300.3	163.0	191.2

Working Class Consumer Price Index Number

(1949=100)

Monthly average or Months	Bombay	Ahmedabad	Calcutta	Madras	Kanpur	Delhi	Gauhati	All India	
								All items	Food
Financial Years:									
1955-56	110	89	93	100	79	100	87	96	94
1956-57	116	101	102	113	91	112	99	107	108
1957-58	122	104	105	117	93	112	104	112	114
1958-59	130	115	109	126	101	117	101	118	121
1959-60	136	124	112	135	97	119	99	123	126
1960-61	137	120	113	146	100	121	104	124	125
1961-62	142	121	115	149	103	128	107	127	126
1962-63	145	121	121	150	106	130	112	131	131
1963-64	150	129	...	153	...	137	112	137	138
1964-65	172	158	...	177	...	153	128	157	162
1965-66	187	164	...	192	...	165	135	169	174
Calendar Years:									
1955	110	87	92	99	78	99	87	96	92
1956	115	98	98	111	89	109	96	105	105
1957	120	104	105	116	94	114	103	111	112
1958	129	110	110	124	98	113	103	116	118
1959	134	125	110	133	98	120	98	121	125
1960	137	120	113	143	99	120	103	124	126
1961	140	121	114	148	102	127	106	126	129
1962	145	122	120	150	107	130	112	130	130
1963	146	121	...	151	109	134	111	134	135
1964	168	154	...	160	...	149	124	152	155
1965	182	164	...	190	...	160	134	166	172
1966	207	180	...	203	...	187	151	184	190

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Index Numbers of Security Prices—All India

Average of weeks ended Saturday		Government and Semi-Government Securities	Debentures of Joint Stock Companies	Preference Shares	Variable Dividend Industrial Securities							Total
					Cotton Textiles	Jute Textiles	Iron and Steel	Coal	Cement	Sugar	Financial Institutions	
(Base : 1952-53=100)												
1957-58*	...	98.3	99.6	88.0	119.9	63.4	115.7	89.1	125.2	159.7	150.2	125.4
1958-59	...	99.9	100.1	87.2	113.6	80.2	145.2	107.1	129.0	163.9	176.2	137.3
1959-60	...	101.2	101.8	92.2	129.2	96.6	161.1	113.7	136.0	178.6	173.6	155.9
1960-61	...	101.0	100.8	87.2	151.1	90.3	159.5	120.2	143.5	186.8	175.9	171.7
1961-62	...	100.9	101.1	83.2	180.1	90.9	164.0	123.4	149.0	157.6	206.7	183.7
1962-63	...	100.1	99.2	81.3	179.8	100.5	150.8	120.4	155.2	135.3	206.0	159.5
1963-64	...	99.4	97.6	81.6	167.2	97.0	152.7	107.2	144.2	128.3	187.9	167.1
1964-65	...	99.5	98.3	81.8	159.1	84.3	163.1	93.7	140.4	129.0	191.1	163.9
(Base : 1961-62=100)												
1964-65	...	98.2	95.7	101.5	81.8	90.5	99.4	80.2	92.6	86.9	96.3	86.1
1965-66	...	94.6	93.9	94.4	69.8	70.6	95.9	71.4	85.6	80.0	95.6	76.7
1966—January	...	93.5	93.6	91.1	65.1	65.0	92.7	66.5	86.2	78.0	94.2	73.5
February	...	93.6	93.6	90.9	64.5	64.7	92.8	66.6	85.7	76.5	95.3	73.5
March	...	93.6	93.5	90.9	66.8	64.4	97.0	66.4	88.2	76.8	96.1	75.4
April	...	93.6	92.7	91.3	69.3	65.2	101.8	68.7	92.6	78.9	98.0	79.2
May	...	93.7	92.6	91.0	69.7	66.5	103.5	72.6	94.0	78.3	98.1	80.4
June	...	93.9	91.9	91.0	68.8	63.6	105.6	70.8	95.8	77.7	98.9	80.6
July	...	94.3	91.2	91.2	68.1	63.8	106.6	69.2	96.2	77.1	99.2	80.6
August	...	94.5	91.5	90.8	66.4	61.7	105.5	68.0	95.4	76.7	99.6	79.4
September	...	94.6	91.8	89.8	63.9	60.8	100.4	64.8	94.2	75.4	98.4	77.3
October	...	94.6	91.7	89.4	64.6	60.1	102.7	65.0	96.4	77.8	98.7	78.6
November	...	94.6	91.5	89.3	64.1	60.7	102.4	64.6	97.5	77.8	99.1	78.7
December	...	94.5	91.7	89.2	64.2	60.1	103.5	63.0	99.2	78.4	99.0	79.1
1967—January	...	94.6	91.7	89.1	66.4	59.6	109.6	61.6	102.6	80.3	99.7	82.2
February	...	94.6	91.8	88.8	67.2	60.4	112.8	61.9	108.1	78.8	100.9	84.2
March	...	94.6	91.8	88.7	65.6	58.2	110.4	60.9	105.9	75.4	101.3	82.5

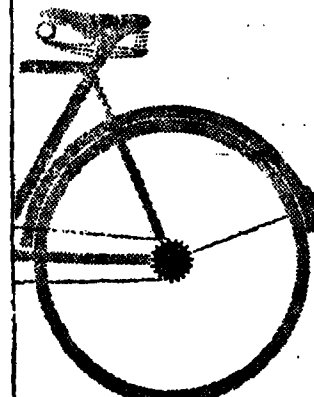
* Of 40 weeks.

Scheduled Commercial Banks—Seasonal Flow of Funds

	(Rs. crores)			
	1965 Slack season	1965-66 Busy season	1966 Slack season	1966-67 Busy season
I. Deposit Expansion—				
Demand Deposit	+80	+121	+85	+107
Time Deposit	+98	+93 (+114)	+180	+54
Total	+178	+214 (+235)	+265	+161
II. Credit (Decline +, Increase —)	+93	—310	+86	—427
III. Net flow of Funds (I+II)	+271	—96 (—75)	+351	+268
IV. Borrowings from RBI (Decline +, Increase —)	+123	—28	+30	—41
V. Investments in Govt. Securities	+139	—27 (—6)	+298	—198
VI. Other Sources/Avenues	+9	—41	+23	—27

Note: Figures in the brackets are exclusive of changes in U.S. Funds with the State Bank.

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India's Balance of Payments (Adjusted) 1960-61 to 1965-66

(Rs. crores)

	1960-61 (Final)	1961-62 (Final)	1962-63 (Final)	1963-64 (Revised)	1964-65 (Preliminary)	1965-66 (Preliminary)
1. Imports—c.i.f.*	1081.5	996.3	1079.0	1215.0	1362.9	1335.3
(a) PL 480 Title I	185.1	86.3	121.4	167.4	229.4	250.2
(b) Others	896.4	910.0	957.6	1047.6	1133.5	1085.1
2. Exports—f.o.b.	630.5	668.3	680.9	801.7	802.7	781.8
3. Trade Balance (2-1)	-451.0	-328.0	-398.1	-413.3	-560.2	-553.5
4. Non-monetary gold movement (net)	...	...	...	...	+16.0	...
5. Invisibles—						
(i) Receipts**	176.4	173.5	173.6	188.3	167.1	201.3
(ii) Payments	177.1	203.0	222.2	231.1	255.7	270.5
of which interest and service payments on foreign loans and credits	33.8	46.0	58.6	65.8	74.3	88.1
(iii) Net	-0.7	-29.5	-48.6	-42.8	-88.6	-69.2
6. Current account (net)	-451.7	-357.5	-446.7	-456.1	-632.8	-622.7
7. Capital transactions						
(a) Private†						
(i) Receipts	51.5	30.4	40.7	41.4	21.4	21.8
(ii) Payments	35.0	36.4	45.7	40.3	24.5	40.0
(iii) Net	+16.5	-6.0	-5.0	+1.1	-3.1	+18.2
(b) Government††						
(i) Receipts	36.4	108.4	57.4	66.1	86.8	177.0
(ii) Payments	32.1	96.7	33.0	28.9	39.8	166.0
(iii) Net	+4.3	+11.7	+24.4	+37.2	+47.0	+11.0
(c) Amortization payments (Gross)	-37.6	-60.3	-53.2	-57.8	-75.7	-82.0
(d) Repurchase of rupees from IMF	-10.7	-60.7	...	-23.8	-47.6	-35.7
(e) Banking capital‡ (net)	+9.7	-2.5	+9.9	+0.4	-7.0	-12.5
8. Errors and Omissions	-6.3	+7.8	+5.9	-54.9	-71.2	+24.0
9. Total Deficit (6 to 8)	-475.8	-467.5	-464.7	-553.9	-790.4	-736.1
Financed by:						
10. External Assistance						
(a) Loans (excluding PL 480 PL 665 loans)	+198.0	+225.3	+306.3	+376.5	+435.3	+434.3
(b) Grants (excluding PL 480 PL 665 grants)	+33.4	+30.5	+22.8	+20.8	+21.9	+34.4
(c) PL 480 (gross)	+185.1	+86.3	+121.4	+167.4	+229.4	+250.2
Total (a+b+c)	+416.5	+342.1	+450.5	+564.7	+686.6	+718.9
11. Drawings from the IMF (Gross)	...	+119.1	+11.9	...	+47.6	+65.5
12. Decline in reserves (+)/Increase(-)	+59.3	+6.3	+2.3	-10.8	+56.2	-48.3
Total (10 to 12)	+475.8	+467.5	+464.7	+553.9	+790.4	+736.1

Note:—Figures shown in this table for some items do not correspond with the similar statistics published by the Reserve Bank of India. The difference is due to adjustments made in the above table in receipts and payments in respect of PL 480 assistance which have been grouped together under External Assistance and Imports respectively, and excluded from other heads of account. The presentation of balance of payment statistics in the table above also differs from adjusted balance of payments tables in earlier issues of the Economic Survey. In the table above, interest and service payments on foreign loans and credits (unlike in earlier issues) are inclusive of payments in respect of loans repayable in Rupees.

* Exclude freight on PL 480 imports initially borne by India but subsequently refunded by the US authorities.

** Exclude receipts on account of freight on PL 480 imports initially borne by India but subsequently refunded by the US authorities, these also exclude all grants under Colombo Plan and PL 480 Titles I, II and III, US Embassy expenditure out of PL 480 Title I funds and miscellaneous receipts out of PL 665.

† Receipts by way of drawings on loans extended to private sector under the external assistance programme including loans out of Cooley funds and corresponding amortization payments are excluded from items 7a(i) and 7a(ii) and are included under items 10(a) and 7(c) respectively.

†† Include all official capital transactions not enumerated separately but exclude changes in PL 480/665 balances.

‡ The net movement shown here has been adjusted to exclude changes in Cooley Fund account balances arising out of disbursement by way of loans and transfers from and to other accounts.

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SPAC 25A

India's Foreign Exchange Reserves and Transactions with the IMF

(Rs. crores)

End of	Reserves			Transactions with IMF	
	Gold*	Foreign exchange**	Total	Drawings	Repurchases
1950-51	40.0	911.4	951.4	...	...
1955-56	40.0	784.6	824.6	...	7.1
1956-57	117.8	563.3	681.1	60.7	6.0
1957-58	117.8	303.4	421.2	34.5	...
1958-59	117.8	261.1	378.9	...	...
1959-60	117.8	245.1	362.9	...	23.8
1960-61	117.8	185.8	303.6	...	10.7
1961-62	117.8	179.5	297.3	119.1	60.7
1962-63	117.8	177.3	295.1	11.9	...
1963-64	117.8	188.0	305.8	...	23.8
1964-65	133.8	115.9	249.7	47.6	47.6
1965-66	115.9	182.1	298.0	65.5	35.7
1965-66: April-June	115.9	131.4	247.3	23.8	...
		(275.96)	(519.33)	(50.00)	...
July-September	115.9	125.2	241.1	11.9	...
		(263.02)	(506.39)	(25.00)	...
October-December	115.9	169.5	389.1	11.9	...
		(356.05)	(599.42)	(25.00)	...
January-March	115.9	182.1	498.0	17.8	35.7
		(382.39)	(625.76)	(37.50)	(75.0)
1966-67: April-June	115.9	398.6	514.5	89.3	...
		(531.53)	(774.90)	(187.51)	...
July-September	115.9	310.2	426.1	...	37.5
		(413.56)	(656.93)	...	(50.0)
October-December	115.9	273.2	389.1	...	...
		(384.27)	(607.64)	...	...
January 1967	115.9	262.6	378.5	...	...
		(350.13)	(593.50)	...	...
February 1967	115.9	283.8	399.7	...	...
		(378.36)	(621.73)	...	...
March 1967	115.9	296.1	412.0	...	5.6
		(394.8)	(638.2) P	...	(7.50)

Note:—Figures in brackets indicate value in million US dollars.

* Include 7.1 million ounces of gold till January 7, 1965, 7.4 million ounces till January 21, 1965, 7.7 million ounces till February 18, 1965, 8.0 million ounces till February 27, 1966 and 7.0 million ounces thereafter. Gold was valued at Rs. 21.24 per tola up to October 5, 1956 and thereafter at Rs. 62.50 per tola or Rs. 53.58 per 10 grams.

** Include foreign assets of the Reserve Bank of India and Government balances held abroad.

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India's Imports—1960-61 to 1965-66

(Rs. crores)

	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
1. Cereals	214.3	118.1	167.3	199.4	301.6	291.2*
2. Fruits, nuts and vegetables	17.1	12.9	13.4	14.3	18.7	18.5
3. Milk, fish and spices	5.5	5.6	8.5	6.7	10.3	9.2
4. Vegetable oils	...	4.4	3.7	3.9	4.1	12.9
5. Copra	9.7	6.8	8.5	8.0	4.1	2.9
6. Rubber	31.1	12.3	11.5	10.5	6.5	5.1
7. Pulp, newsprint, paper and paper-board	16.1	15.0	15.7	13.1	15.7	10.1
8. Textile yarn	15.6	11.6	12.5	11.1	13.9	6.8
9. Raw cotton	81.1	62.9	55.9	46.3	50.9	38.4
10. Raw Jute	5.4	6.5	2.6	2.3	6.8	8.2
11. Raw wool and wool tops	10.5	29.2	11.9	13.2	8.0	6.2
12. Fertilizers (Manufactured)	6.5	15.2	15.1	13.2	15.2	26.6
13. Drugs and medicines	8.9	8.4	6.6	5.1	5.4	4.8
14. Dyes and colours	12.1	11.4	10.3	8.7	9.2	6.7
15. Other chemicals	26.7	37.1	41.3	34.9	36.2	37.2
16. Fuels and lubricants	87.4	87.9	82.7	97.7	86.2	75.9
17. Iron and Steel	80.8	90.0	77.1	70.7	73.8	70.7
18. Non-ferrous metals	43.3	46.2	54.5	48.0	55.9	64.3
19. Machinery	216.3	240.6	279.9	394.7	416.6	379.4
(a) Private	116.6	149.2	142.0	161.4	138.3	121.0
(b) Government	99.7	101.4	137.9	233.3	278.3	258.4
20. Transport and Communication equipment and stores	80.1	73.6	73.4	86.5	82.1	69.2
21. Electrical goods	17.4	20.4	19.9	20.6	17.8	14.6
Total (including other private and Government imports)	1105.7	1006.0	1096.9	1243.4	1396.0	1335.3

Based on balance of payments data.

* Freight reimbursements on PL 480 imports are, unlike the previous years, not included from April 1, 1965.

India's Principal Imports During the Three Plan Periods

(Rs. crores)

	Annual Averages		
	1st Plan	2nd Plan	3rd Plan
Foodgrains	120	160	216
Fertilisers	3	11	17
Cotton	77	45	51
Jute	25	5	5
Mineral Oils	73	80	86
Chemicals, Drugs and medicines	34	53	53
Metals other than iron and steel	20	35	54
Iron and Steel	34	96	77
Electrical goods and apparatus	16	19	19
Machinery and locomotives	116	265	365
Others	212	311	273
Total	730	1080	1216

Based on balance of payments data.

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Assistance disbursed : Rs. 221.76 crores.

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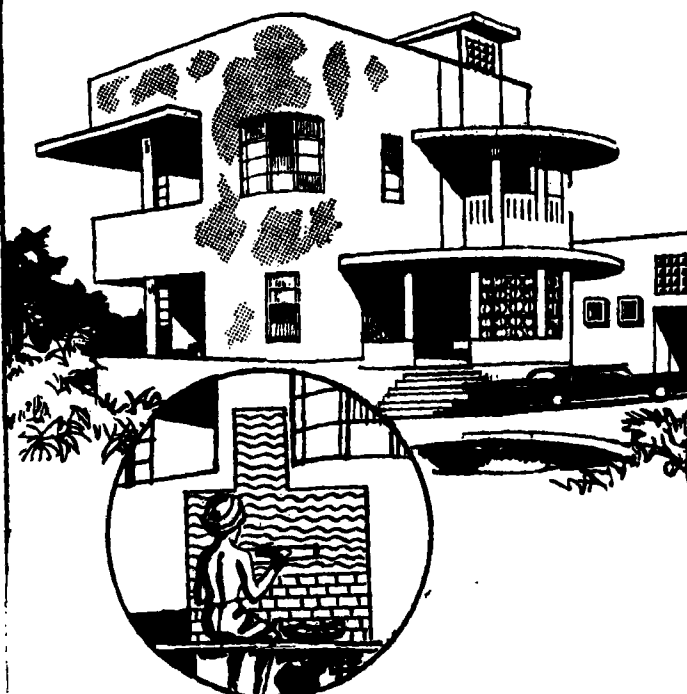
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External Assistance—Authorizations and Utilisations

(Rs. crores)						
	Loans and credits repayable in		Grants	Total	Assistance under US PL 480/ 665 etc.	Grand Total
	Foreign Currency	Rupees				
A. Authorisations—						
1. Upto the end of First Plan	212.26	14.63	137.96	364.85	16.92	381.77
2. During Second Plan	1064.73	230.15	125.47	1420.35	1130.73	2551.08
3. During Third Plan	2301.74	49.55	137.87	2489.16	450.63	2939.79
of which in						
1961-62	343.85	48.52	23.44	415.81	...	415.81
1962-63	602.14	...	14.74	616.88	43.33	660.21
1963-64	451.98	1.03	14.72	467.73	4.91	472.64
1964-65	491.92	...	25.66	517.58	225.19	742.77
1965-66	411.95	...	59.31	471.26	177.20	648.46
Total upto the end of Third Plan	3578.73	294.35	491.30	4274.36	1598.28	5872.64
B. Utilisations						
1. Upto the end of First Plan	124.13	2.29	70.18	196.60	5.07	201.67
2. During Second Plan	610.85	115.92	160.64	887.41	544.81	1432.22
3. During Third Plan	1763.56†	156.39	107.15	2027.10	853.22	2880.32†
of which in						
1961-62	190.41	38.51	21.74	250.66	88.01	338.67
1962-63	238.74	58.83	14.85	312.42	122.72	435.14
1963-64	357.02	29.41	16.32	402.75	185.19	587.94
1964-65	461.84	17.07	20.02	498.93	218.12	717.05
1965-66	486.05	12.57	34.22	532.84	239.18	772.02
Total upto the end of Third Plan	2498.54	275.50	337.97	3112.01	1403.10	4515.11
C. Balance available for use in Fourth Plan (A—B)						
	1080.19	18.83	63.33	1162.88	195.18	1357.83
D. Authorisation						
1-4-66 to 31-12-66	1016.72	24.75	3.92	1045.39	282.40	1327.79
	(1295.72)	(32.99)	(5.23)	(1333.94)	(497.49)	(1831.43)
E. Utilisation						
1-4-66 to 31-12-66	424.24	7.93	11.72	443.89	233.08	676.97
	(617.32)	(12.06)	(17.97)	(647.35)	(358.39)	(1005.74)
F. *Balance available on 1-1-1967						
	2220.11	45.37	90.19	2355.67	411.74	2767.41
	(2948.36)	(60.49)	(120.25)	(3129.50)	(548.98)	(3678.08)

* Rupee figures in this line are at post-devaluation rate.

† Includes Rs. 20.86 crores from France and Rs. 8.64 crores ad hoc credit from Japan for which year-wise break up of utilization is not available.

Notes.—1. Figures in brackets are in million US dollars.

2. Unspent balance of foreign aid has been converted into rupees at the post devaluation rate of exchange.

3. For conversion into rupees of aid authorised or utilised the prevalent rate of exchange have been used.

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Pledges and Agreements Signed Against \$ 900-million Non-Project Aid for 1966-67

Country/Institution	Pledge Amount \$ million	Date of Agreement	Amount of Agreement \$ million	Total \$ million
1. U.S.A.	382.0			
I. Commodity Assistance 1966 (AID Loan No. 386-H-155)		13-5-1966	100.0	
II. Commodity Programme Assistance 1966 (AID Loan No. 386-H-160)		8-7-1966	150.0	
III. Commodity Programme Assistance 1967 (AID Loan No. 386-H-168)		10-5-1967	132.0	382.0
2. I.D.A.	215.0			
I. Industrial Imports Credit-III		19-8-1966	150.0	
II. Industrial Imports Credit-II		23-12-1966	65.0	215.0
3. U.K.	89.6			
I. Second U.K.-India Non-Project Credit 1966		5-12-1966	37.8	
II. U.K.-India Non-Project credit 1966 (Kipping IV)		10-5-1966	11.2	
III. U.K.-India Bhopal Credit 1966		10-5-1966	8.4	
IV. U.K.-India (General) Credit 1966		10-5-1966	28.0	
V. Out of Food Loan of £ 7.5 million		11-2-1966	4.2	
4. Germany	63.0			89.6
I. DM 180 Million Commodity Aid		28-2-1967	45.0	
II. DM 40 Million Selected Programmes		28-2-1967	10.0	
III. DM 20 Million. For loans to small undertakings through IFC, ICICI & NSIC.		28-2-1967	5.0	
IV. DM 12 million. Fertiliser Import Special Credit		28-2-1967	3.0	63.0
5. Japan	45.0			45.0
Sixth Yen Credit		16-12-1966	45.0	
6. Italy	34.0			
I. Fertiliser Credit		4-8-1966	2.0	
II. Suppliers Credit 1966-67			32.0	34.0
7. Austria	4.7			
Fifth credit for Fourth Plan 1966-67		5-12-1966	4.7	4.7
8. Belgium	1.2			1.2
9. France	17.0			
Suppliers credit		Letter of Exchange dated 5-7-1966	17.0	17.0
10. Netherlands	11.0			
I. General Purpose Credit		18-1-1967	7.2	
II. Financial Export Credit			3.8	11.0
11. Canada	38.4			
Industrial Raw Materials etc. (loan)		21-2-1967	10.9	
Grants			10.4	
Cancellation of wheat Loans			8.1	29.4
TOTAL				891.9

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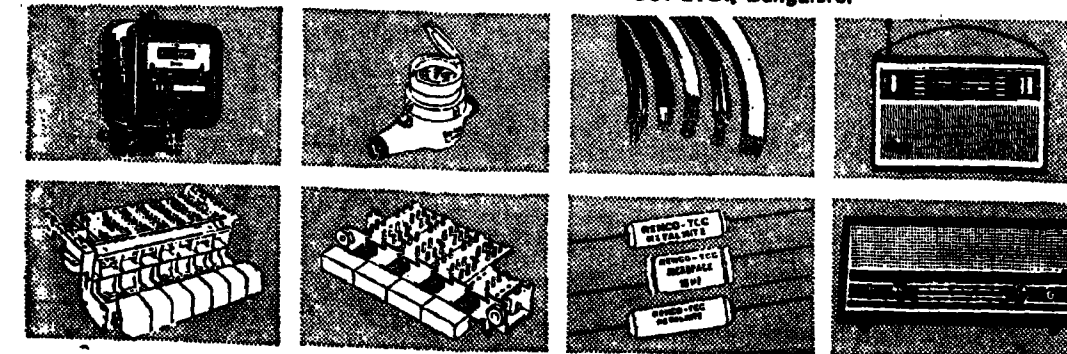


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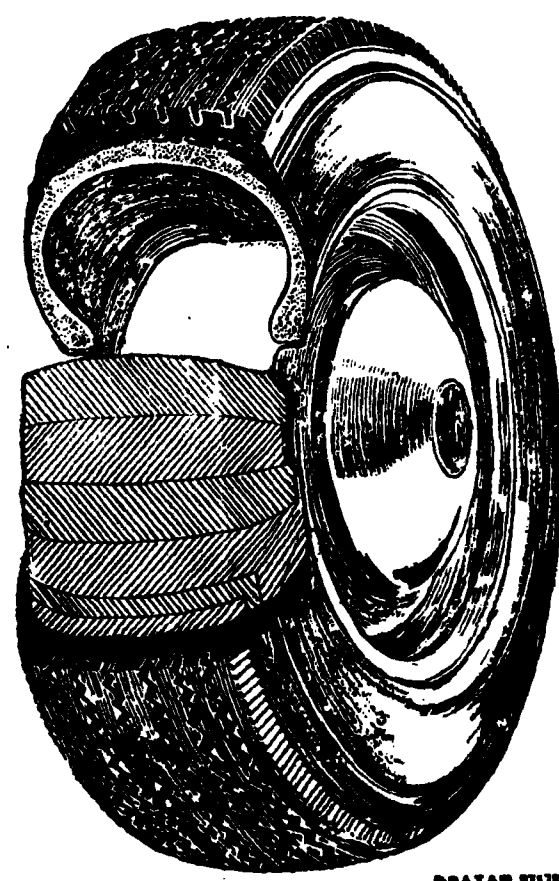


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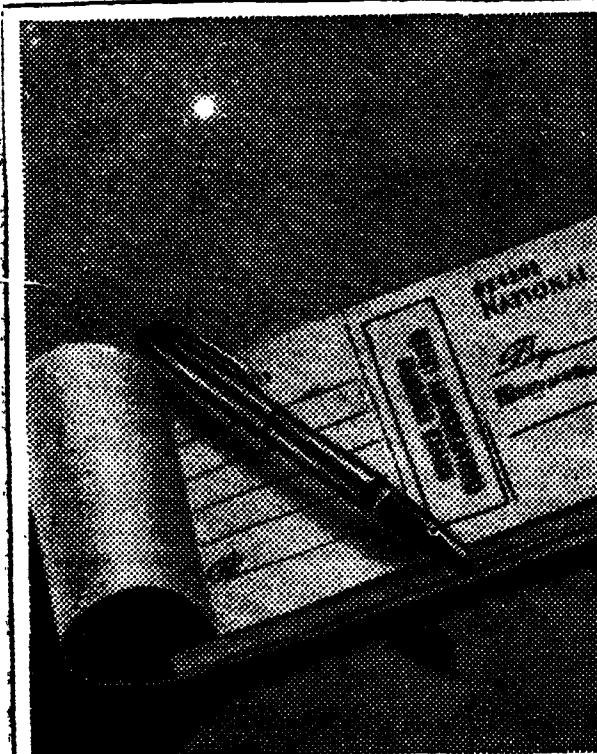


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Agreement Signed with Consortium Countries for Project aid During 1966-67

Country/Institution	Date of Agreement	Amount of Loan (\$ million)	Total (\$ million)
I.B.R.D.			
IISCO IV	7-7-1966	30.0	30.0
I.D.A.			
Railways IX	29-6-1966	68.0	68.0
U.K.			
Bhopal Heavy Electricals 1966	20-4-1966	13.5	
U.K.-India (Sindri Fertiliser Plant-II tranche)	20-4-1966	0.5	14.0
U.S.A.			
Exim Bank			
Diesel Loco Works Varanasi-III	12-12-1966	12.8	
AID			
Operation Hardrock (AID NO. 386-H-141)	25-5-1966	3.5	
Durgapur Project II (AID No. 386-H-144)	1-6-1966	16.5	
Dhuvaran Thermal Power II (AID No. 386-H. 143)	1-6-1966	32.3	65.1
Germany			
DM 52.16 million (Hindustan Steel Ltd.)	16-1-1967	13.0	13.0
Canada			
Diesel Locos for Indian Railways	28-12-1966	6.5	
Diesel Locos for Calcutta Port	20-4-1966	2.0	
Export Credit	28-2-1967		
Insurance Corporation's Credit		35.6	
Rajasthan Atomic Power Project Stage II			44.1
Total			234.2

Agreements Signed with East European Countries During 1966-67

Name of the country	Date of Agreement	Amount of Loan (\$ million)	Total (\$ million)
1. U.S.S.R.			
Credit for Fourth Plan	10-12-1966	333.3	333.3
2. Yugoslavia			
Yugoslavian credit	18-6-1966	80.0	80.0
3. Hungary			
Credit for Fourth Plan (Govt. to Govt. credit)	15-6-1966	16.7	
Suppliers' credit		16.7	33.4
Total			446.7

Agreements Signed with Non-Consortium Western Countries and for Outside Consortium aid During 1966-67

Name of the country	Date of Agreement	Amount of Loan (\$ million)	Total (\$ million)
Denmark			
Danish Food Loan to India	12-5-1966	4.3	4.3
Sweden			
Swedish Development Credit	29-6-1966	4.6	4.6
U.S.A.			
Beas Dam Project	16-6-1966	33.0	33.0
I.D.A.			
Beas Dam Project	29-6-1966	23.0	23.0
Total			64.9



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What Happens to PL 480 Rupees?

CHESTER BOWLES

IN THE last 10 years the United States has shipped to India 50 million tons of foodgrains, plus large quantities of cotton, milk powder, soyabean oil and other agricultural products.

Instead of asking the Indian Government to pay for these commodities in dollars or in other hard currencies which are in short supply, we have accepted payment in rupees which cannot be spent outside of India.

Over the years an average of 79 per cent of these rupees has been made available by the US Government to the Indian Government to help speed India's economic development. This development assistance has been provided mostly as loans at an interest rate of 2.5 per cent and partly as outright grants.

Of the remaining 21 per cent, about seven per cent has been set aside as loans to joint American and Indian firms in the private sector which are seeking to expand their factories and hire more workers.

The remaining 14 per cent has been reserved to cover the expenses of the US Mission in India, for educational exchanges, and to support specific developmental projects which are approved by the Indian Government.

Projects Aided

In the first category, the US Government has made rupee loans and grants totalling Rs. 1231 crores for a wide variety of projects. These include irrigation, agricultural programmes, industrial development banks, the establishment of 14 regional engineering colleges, malaria eradication and medical teacher training programmes. Other projects are the construction of hydro-electric and thermal power plants, improvement to roadways and the construction of fertilizer plants.

In the second category of loans to private sector firms (the so-called Cooley Fund loans) some of the recipients include: Otis Elevator of India, Ltd.; Hindustan Aluminium, Ltd. (Renukoot); Synthetics and Chemicals, Ltd. (Bareilly); Coromandel Fertilizers, Ltd. (Visakhapatnam), Goodyear Tyre and Rubber of India, Ltd.; Bharat Steel Tubes, Ltd. (Ganaur), and Union Carbide (India), Ltd. These loans have helped to provide tens of thousands of jobs for Indian workers.

In the third category is the 14 per cent of our rupee income which goes directly to the US Government and which is used to finance special development projects and to cover some of the American Mission's operating costs in India. Over a period of ten years these expenditures have totalled 122 crores of rupees, or an average of about 12.2 crores of rupees annually.

Roughly five per cent of the rupees in this third category has been used to finance US assisted agricultural development programmes and research in India. (In addition, the construction and operating costs of seven agricultural universities have been covered by rupee grants to the Government of India. These universities are now making a major contribution to Indian agriculture.)

About 25 per cent of the total in this category has been loaned and granted with the consent of the Indian Government to the Nepalese Government for development programmes in that country.

Approximately 60 per cent of the rupees in this same category helps cover the cost of maintaining American property, of paying the salaries of our Indian employees, and other expenses connected with the running of the American Mission in India.

The remaining 10 per cent is utilized to finance educational exchange programmes between India and the United States, and to provide scientific textbooks for Indian students.

The US Government, as a matter of policy, obtains India's agreement for the disbursement of any American-owned rupees.

Also as a matter of policy, the US Government seeks to

avoid using rupees in a manner that would divert Indian resources from the task of national development.

For instance, because hard currency foreign exchange is the scarcest resource required for national development, we have been careful to keep to a minimum any requests to convert our rupees into dollars. Over the last ten years, only seven-tenths of one per cent of our total rupee earnings, about Rs. 11.5 crores, have been so converted—all with the consent of the Indian Government.

The bulk of reserves of US-owned rupees are invested in Indian Government securities which means that they are available to the Indian Government.

Nevertheless, because of the massive emergency shipments of American wheat in the last two years, US-owned rupees have been accumulating much faster than they have been spent.

To help reduce the size of our rupee holdings and to put them to constructive use, I suggested a year ago the establishment of the Indo-American Foundation, to which the US Government would assign some Rs. 225 crores as a capital fund. Thus, rupees now owned by the United States would no longer be ours but would belong to the Foundation. The interest from this fund would be used each year to further scientific education, economic research and development for the benefit of the Indian people.

Another possible use of our rupee reserves would be to expand the availability of rural credit, enabling Indian farmers to buy more fertilizer, more foodgrains and more improved seeds to help speed India towards self-sufficiency.

These and other possibilities are still being explored.

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Growth With Stability

PRESENTING THE budget of the Government of India for 1967-68 in Parliament on May 25, the Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, indicated four areas of major concern in the economic field, namely, the serious food situation, the steady rise in prices, the recession in industrial activity and the fall in exports. These problems, he said, would need to be tackled in such a way as to ensure satisfactory growth with reasonable price stability and increased self-reliance.

The text of Part A of Mr Desai's budget speech follows:

On the 20th of March this year, I presented to this honourable House an interim budget for the year 1967-68. In presenting that budget, I had occasion to remark that a number of difficult and even conflicting considerations had to be taken into account in framing the budget for the current year. There was not enough time in the last session of Parliament either for honourable Members or for the Government to review the situation fully. It was against this general background that it was proposed to present a fuller picture of Government's budgetary as well as general economic policies in the current session of Parliament; and it is for this purpose that I stand before the honourable House today.

The areas of immediate concern in the economic field are easy to define:

First, there is the serious situation created by the drought concerning food supplies in general and the well-being of the people in the scarcity affected areas in particular.

Second, the steady rise in prices which has been with us now for more than three years has to be arrested in the shortest possible time.

Third, there is need to revive industrial activity, particularly in a number of capital goods industries which are suffering from lack of demand.

Fourth, recent adverse trends in exports have to be reversed as soon as possible.

And finally, these immediate problems must be tackled in a manner which gives us confidence that we can look forward to a long period of satisfactory growth with reasonable price stability and increasing self-reliance and without sacrificing the claims of national security and social justice.

Food for Famine Areas

The average production of foodgrains during the last two seasons has been 17 per cent below the level reached in 1964-65. This sharp decline in output has meant loss of income for farmers in many parts of the country. Our first concern in this situation has naturally been to prevent undue hardship to the vulnerable sections of the community by provision of work and incomes and by substantial distribution of foodgrains through public channels. It is, I think, a matter of gratification for the country and for our friends abroad who have rendered us valuable help at this difficult juncture that despite the sharp reduction in output, a major calamity has been averted. I can assure the honourable House and the people affected in all scarcity areas, and particularly in large parts of Bihar and eastern Uttar Pradesh, that we shall spare no effort or money to ensure that relief measures and public distribution of foodgrains will be continued and extended to the extent necessary during the lean months still ahead of us. I propose to make a substantial additional provision of Rs. 38 crores in the Centre's budget for the current year for supporting relief measures and assisting

the scarcity affected states. This is in addition to the provision of Rs. 37 crores already made in the interim budget. Honourable Members would agree that relief to the people in the scarcity areas should be the first charge on any resources that we, at the Centre, can spare even in our present difficult conditions.

We have already imported 3.5 million tonnes of foodgrains during the first five months of 1967. Another 2.6 million tonnes are expected to arrive after the end of May. Of this total of some six million tonnes, a little over one million tonnes represent purchases, of roughly equal quantities of rice and wheat, from our own resources; the balance consists of PL 480 supplies from the United States and assistance from a number of other countries notably Canada, the Soviet Union and Australia. Subject to appropriate matching, the United States has indicated its willingness to provide another three million tonnes of foodgrains, and of this 1.5 million tonnes are expected to be authorised shortly. A considerable part of the purchases we have authorised from our own resources is in the expectation that appropriate assistance will be available from other countries in a form which will relieve our general balance of payments position. Apart from these purchases, we also have to spend large amounts of our own foreign exchange earnings for meeting freight payments on foodgrains supplied on concessional terms. Nevertheless, to the extent necessary, arrangements for further imports from our own resources will be made to prevent a breakdown of the public distribution system.

Limited Availability

The availability of rice around the world is extremely limited; and even such quantities as are available can be had at prices much higher than those for other cereals. Our public distribution system will, therefore, have to rely primarily on wheat and milo. While supplies of wheat can be supplemented appreciably by imports, the supply of rice has to depend essentially on internal procurement. I am happy to say that all state governments, whether surplus or deficit, are co-operating in the task of procuring internal supplies of rice, wheat and other foodgrains. To facilitate this effort, we have increased procurement prices and have maintained and indeed strengthened zonal restrictions between states. Whatever may be the merits of the system of free distribution and free movement of grains in normal times, it is obvious that in the present circumstances, the public distribution system and the zonal restrictions will have to continue.

Honourable Members are aware that the present system of distribution of foodgrains imposes a heavy burden on the financial position of the Centre on account of the subsidised rates at which we supply imported foodgrains to state governments and others. This subsidy is expected to cost as much as Rs. 118 crores to the Central Government in the current year. Despite the difficult budgetary situation, we have for the present thought it prudent to continue the Central subsidies on foodgrains. It is our policy, however, to reduce and eliminate this subsidy as soon as circumstances permit. The large expenditure on food subsidies is one of the main reasons why it has been difficult for us this year to provide for important developmental needs. Any sustained erosion of developmental outlays through a policy of subsidising consumption, however essential, cannot but have serious repercussions on our ability to provide the same essential consumer goods in the years to come.

In addition to the subsidy given by the Centre, some state governments also are subsidising foodgrains. In our Federal Constitution, it is not for the Centre to decide what the states should do in matters like this. But it is my duty to make it clear that if any state government wishes to subsidise foodgrains, over and above the substantial subsidy given by the Central Government, it will have to do so on the basis of its own

resources and without counting on any additional Central assistance for the purpose.

Honourable Members are aware of the steps we are taking to increase agricultural productivity on a sustained basis in connection with what has come to be known as the new agricultural strategy. But there is urgent need also to take immediate steps to ensure that the next kharif crop turns out to be as good as possible. It simply will not do to rest content with the hope that, after two severe droughts, weather conditions are bound to take a turn for the better in the coming season. Whatever the weather conditions, immediate steps have to be taken to make sure that programmes like minor irrigation and provision of better seeds and more fertilizers, which can make the maximum impact on the crop prospects for the coming year, are proceeded with on an emergency basis. That is why, even in the interim budget, we had sought to provide the full needs of agriculture for the current year. On a review of these needs, some additional provision for Land Mortgage Banks has been found necessary; and I propose to provide Rs. 5 crores more for this purpose. I propose also to increase plan assistance to the state governments from Rs. 535 crores provided in the interim budget to Rs. 590 crores. It is essentially for the state governments to decide how best to deploy their resources. But I hope that they will earmark a large part of the total resources available to them for securing an immediate increase in agricultural production. We are currently providing nearly 300 million dollars for import of fertilizers as against less than 100 million dollars only three years ago. Correspondingly, fertilizer credits are also being substantially enlarged.

The drought has affected severely not only the food situation but also the supply position in regard to a number of other essential products such as raw jute, cotton, oilseeds and sugar. Arrangements have had to be made for substantial imports of both raw jute and raw cotton and we shall make provision for additional imports in order to sustain both exports and internal consumption. In the case of raw jute imports, the subsidy to maintain the competitive position of the Indian jute industry has been continued in the current year. We shall review the position regarding both imports and subsidy in the light of the prospects for the coming crop. In the meanwhile, in order to encourage domestic production, the minimum support price for raw jute has been raised from Rs. 35 per maund to Rs. 40 per maund.

Role of Raw Materials

In respect of raw jute and cotton as well as oilseeds, it is of the utmost importance to step up research and other activity for increasing per acre yields. The future of many of our important export industries will turn heavily on the efficiency with which we produce the raw materials for them. It is gratifying that industry is becoming increasingly conscious of this need; and at a later stage, I will have occasion to refer to a change in our tax laws that I propose to introduce for encouraging research activity in general by our industry.

The decline in sugar production this year has been particularly sharp. There is no escape from a reduction in the internal consumption of sugar; and the present controls on price and distribution will have to be maintained in order to distribute the shortage equitably. We shall keep the situation under review and take whatever steps are necessary to increase the output of sugarcane in the next season and to keep its diversion to other uses within reasonable limits.

In the wake of the recent drought, there has been a sharp increase in prices. To some extent, upward pressure on prices was exerted also by devaluation. A situation in which prices have risen by as much as 46 per cent over a period of three years naturally creates apprehensions about further inflation; and this, in turn, depresses savings and encourages unproductive investments in land, urban property, gold and commodities. Curbs on such investment become, therefore, more impor-

tant than ever. Again, in a period of inflation prices increase at an uneven pace for different products and services; and this raises many difficult problems of adjustment of relative prices.

In addition to these standard concomitants of inflation, we have to reckon with special complications when the primary impetus for the rise in prices comes from a sudden and sharp decline in output rather than from an excessive increase in demand. It is not always possible to reduce demand swiftly in the face of a sudden decline in output; and it becomes necessary to spread the process of adjusting supply and demand over a period of time and with the help of larger imports. But foreign exchange earnings from exports also get adversely affected as a result both of the fall in production and the rise in prices; and this makes it difficult to augment domestic availability by larger imports. Again, the necessity to put an end to the inflationary psychology and the adverse effect of the decline in production on governmental revenues requires a restraint on public and private expenditure; and this in turn tends to depress demand conditions for specific industries. Similarly, when crops fail and there is extensive loss of real incomes, there is a tendency for consumer demand to be depressed and for raw material costs to increase so that some industries get caught in a real squeeze. What I have just said describes in essence the kind of difficult and complex situation which we are facing today. There are no perfect answers to deal with a situation of this character; and I can only indicate to honourable Members the lines along which we propose to move in the coming months to reconcile, as best as possible, the different elements in the present situation in the light of our general policy objectives.

Psychology of Inflation

We consider it of the utmost importance that our primary concern at the present moment should be to put an end to the psychology of inflation. Continued and large budgetary deficits over the past few years have contributed to this psychology. I propose, therefore, in the present budget also to limit the outlays of the Central Government strictly within the resources which can be mobilised in a non-inflationary manner.

Equally, we must avoid a repetition of the situation in which the state governments can shift their budgetary burdens to the Centre by resorting to unauthorised overdrafts from the Reserve Bank. In order that the task of avoiding overdrafts may not prove impossibly difficult for the state governments, I propose to help them in advance to a greater extent than was possible in the interim budget. Taking account of both plan and non-plan requirements, the assistance now being proposed for the states is Rs. 98 crores more than in the interim budget. I am well aware that this does not meet all the needs of the state governments; but I hope that they also will do their part for meeting their needs. This is not the time when either the Centre or the states can afford to give up or erode important sources of revenue. If some concessions are to be given, say to very small farmers, they will have to be made up—and indeed, more than made up—by higher levies on better-off farmers. It is sometimes suggested that if the Centre cannot help in any other way, it should help by postponing recovery of interest and amortisation charges from state governments. While we are prepared to discuss all problems with Chief Ministers and others, I hope it is clear if we are to help the states more in one way, we will be able to help them less in other ways.

I am well aware that avoidance of deficit financing is neither a necessary nor a sufficient condition for price stability in all circumstances. Over a period, some expansion in money supply is necessary to accommodate the needs of growing production. Nevertheless, in the present circumstances, it is desirable that Government should not appropriate any part of the permissible limit of monetary expansion. This will allow a larger expansion of bank credit to agriculture and industry to facilitate higher production. The new agricultural strategy and the immediate programmes for increasing agricultural production

that are so vitally important require a substantial increase in credit. It is equally important to ensure that private industry is not inhibited from increasing production by undue limitations on the availability of credit. Some restraint on private credit, particularly for speculative and unproductive purposes, will, of course, be necessary. But apart from its psychological importance, the avoidance of deficit financing by the Government would place the Reserve Bank and the banking system in general in a better position to meet the genuine credit requirements of agriculture and industry, whether public or private.

The question of adjustment in relative prices raises difficult social and economic questions. When costs have risen, some adjustment of prices becomes unavoidable if production is not to be affected. Similarly, when real incomes are eroded by increases in the cost of living, some compensation to the lower income groups becomes not only unavoidable but also necessary in the interest of maintaining social harmony and good industrial and service relations. At the same time, the process of prices chasing costs and costs chasing prices cannot be allowed to go unchecked. For this reason, Government has endeavoured to stagger adjustments in relative prices without ruling out such adjustments altogether; and the same discriminating policy will have to be adopted for some time to come with a somewhat greater accent against upward revisions either in wages or in prices.

Considerable concern has been caused rightly in the country by the recent deterioration in industrial relations. At a time when some hardship is unavoidable and when it is of the utmost importance to increase efficiency and production, such deterioration is particularly regrettable. I would, therefore, appeal most earnestly to employees and employers to solve their mutual problems in a spirit of give and take. Any further deterioration in industrial relations can only spell greater hardship for the vulnerable sections of the community.

Sluggish Activity

The growth of industrial output has slowed down considerably over the past two years. There has been a modest revival since October last. Nevertheless, industrial production in general has by no means been buoyant and several industries are actually experiencing a decline in production and an increase in excess capacity.

The situation that prevails at present cannot be described as one of general recession. In such a situation, one would expect to find excess capacity all round and, therefore, the possibility of increasing output by general stimulation of demand. There is obviously no immediate possibility of increasing agricultural output merely by stimulating demand. Even in regard to industry, the emergence of sizeable excess capacity is concentrated in capital goods industries, notably, railway wagons, machine tools, textile machinery, castings and structuralis. Among consumer goods industries, difficulties are felt particularly by the weaker cotton textile mills which have been in need of rationalisation and more efficient management for quite some time. Policies which are designed to stimulate demand in general are clearly out of place in the present situation when availabilities of basic consumer goods and agricultural raw materials cannot be increased significantly in the short-run. At the same time, there cannot be any question that whatever can be done has to be done to revive industrial production.

Basically, Government's approach to the revival of industrial production consists of a number of ingredients.

For the priority industries, we are continuing the liberal import policy; for other industries producing essential consumer goods also, the import requirements of raw materials and components will be met on a more liberal basis.

Despite the difficult budgetary position, it is proposed to

provide additional sums beyond what was already provided in the interim budget for the developmental and other needs of both the Centre and the states.

To the extent possible, additional outlays are being directed to the capital goods industries which are in need of some impetus to demand.

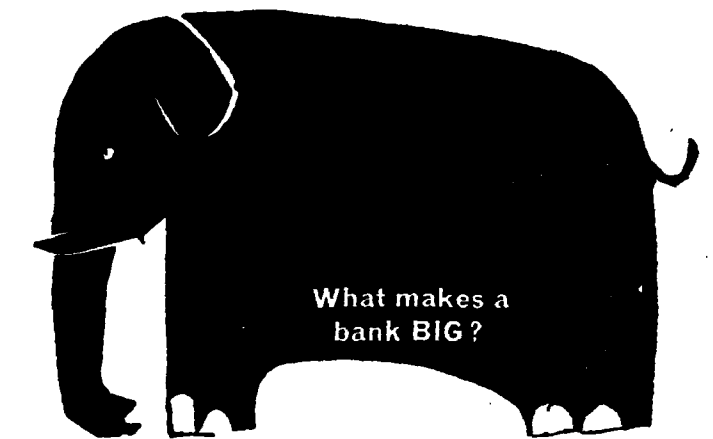
It is my intention also to explore all avenues of stimulating investment and developmental outlays as soon as the basic supply conditions in regard to essential consumer goods show some improvement. Planning for a revival of investment activity whether in the public or the private sector should, therefore, receive no set-back.

As already mentioned, avoidance of deficit financing will make it possible to ensure that production is not held back for want of credit.

Need for Diversification

To some extent, the present difficulties of the capital goods industries spring from the fact that the expectations on which the earlier investments were made have not materialised. In such a situation, industry will have to show considerable initiative in diversifying production in the light of changing circumstances. Government also has a responsibility to facilitate this; and to this end, selective relaxations have already been made in respect of industrial licensing. The decontrol over the pricing and distribution of steel should also go some way in facilitating this process of adjusting the pattern of production to the changing pattern of demand both in respect of steel production as such and in the large number of industries using steel.

Again, larger exports offer a way out of the present difficulties of many of our engineering and other industries. An increase in exports of our newer products is vitally important



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from the point of view of achieving a sustained increase in our total export earnings; and the present situation offers a welcome opportunity of redoubling our efforts in this direction. The subsidies that we provide on the export of engineering and other products should help in this direction. Wherever necessary, we will support the effort of industry to increase exports of capital goods by suitable credit arrangements also. But industry also will have to adjust its pricing and other policies in relation to export orders if they are to do their part in counteracting current recessionary trends in a constructive manner. At a time when excess capacity exists, it should be in the interest of the industry concerned to seek actively new outlets for its products even if this has to be done without covering in full the normal share of fixed costs.

In short, the present industrial scene is compounded of a number of complex elements and no single or simple answer will suffice to transform it. The approach I have described is calculated to make the maximum impact on industrial recovery without jeopardising the chances of restoring price stability.

Export Promotion

The question of export promotion is, of course, relevant not only to industries suffering from lack of demand at present but also to the general run of our economic activities and policies. It cannot but be a matter of great concern that the momentum in our export earnings, which was witnessed during the early years of the third Plan, has not been sustained. The performance of exports during 1966-67 has been particularly disappointing. Of late, there have been signs of a modest recovery in export earnings. With the revival of agriculture and industry, and continued efforts to explore markets for them abroad, some further improvement in export earnings can be expected.

Nevertheless, it would be necessary to exercise a restraint on domestic demand for products which can be exported in larger quantities. Equally, export duties have to be revised if such a revision becomes necessary in order to maintain the competitiveness of our major export industries. Quite apart from this, a major break-through in export earnings can be expected only on the basis of modernisation and rationalisation of our established industries, and a judicious expansion of capacity both in agriculture and industry in directions where we have a long-term competitive advantage. From time to time, special

arrangements will have to be made to make sure that industries and activities with an export potential are given the highest priority in the allocation of scarce resources. Export industries are now able to import their raw materials and component requirements for export production from the cheapest source and with the least administrative intervention. In regard to capital goods imports, foreign exchange releases for other purposes and rupee finance as well, export industries will have to be given a preferential treatment.

Promotion of tourism has a great potential for adding to our foreign exchange earnings. I propose, therefore, to announce some measures later to help the tourist industry. We also propose to take steps to prevent the leakage of tourist earnings to unauthorised channels which still takes place.

Private Foreign Investment

A hospitable environment for private foreign investment in priority areas has also a considerable bearing on promotion of exports. It is generally recognised that private foreign investment can make a valuable contribution to reducing our reliance on imports, particularly when it brings with it know-how and sophisticated techniques as well as capital resources. But foreign investors can also bring with them knowledge of foreign markets and the organisation and other resources to exploit them. As they get to know our own country and potential better, they help promote our exports. We should, therefore, welcome private foreign investment particularly when it can assist our export effort.

I cannot help emphasising that the restoration of general price stability is an imperative necessity not only for maintaining social harmony but also for underpinning and strengthening our export promotion efforts and, indeed, our efforts to reduce the reliance on imports. Honourable Members may rest assured that we are determined to do all that we can to maintain the external value of Indian rupee so that distortions of the kind that led to the devaluation last June, and the necessity for sharp adjustments in the internal economy that followed from it, are avoided.

While everything possible has to be done to promote exports, it has also got to be recognised that only those exports, which can hold their own in the long run, should receive the maximum encouragement so that we do not waste our scarce resources for propping up export earnings which are bound to



prove short-lived. An environment of stability, whether in respect of the general price level or the frame-work of promotion measures, is absolutely vital for a steady increase in export earnings. A climate of expectations in which export industries seek to neutralise all their inefficiency and disadvantages by budgetary support cannot be conducive to enduring and sound export promotion. It should, therefore, be perfectly clear that while the Government would be prepared to allocate scarce resources on a priority basis for the export industries, this preference will have to be justified increasingly in terms of the efforts of the industries themselves to increase their efficiency and profitability.

What I have just said applies equally to industries which compete with imports. We have built up considerable capacity for producing a large variety of goods in the country over the last 10 to 15 years. Through import restrictions as well as high tariff duties, we have sought to protect domestic industry from competition from producers abroad who have the advantage of long experience and trained labour force, not to mention the advantage of easier access to capital and even raw materials. It is now generally recognised that domestic industries in developing countries require some protection against foreign competition. However, the development of industries behind protective walls can lead to distortions and waste of scarce resources unless industries, which have already been established for some time, become progressively more efficient. In short, a competitive environment is as vital for the healthy promotion of import substitution as it is for the sound promotion of exports. That is why we have relaxed quantitative import restrictions in a selective manner. This policy will be continued and strengthened as circumstances permit, particularly when it is important to provide a spur for domestic industry to increase its efficiency.

Discriminating Protection

We recognise that Indian industry has still a long way to go in the direction of diversification and efficient production. Not all the disadvantages from which our industry suffers can be removed over a short period. Again, as some industries have to be exposed more and more to international competition, others will emerge and get established and would require protection in the initial stages not only by way of tariffs but also by way of quantitative restrictions. What we need, therefore, in regard to import policy is not some rigid approach, which tends to justify all restrictions for all time, or its antithesis in which all restrictions are sought to be abolished on a particular day. What is required is a deliberate and discriminating policy in which the frontiers of protection keep on moving from time to time and from commodity to commodity; so that, by progressive stages, protection is removed from some commodities while it is introduced in the case of other commodities which begin to be produced in the country.

If Indian industry needs to be exposed to a competitive environment in relation to exports and imports, such an environment is all the more necessary as between different industries and between different units in the same industry. This is not the occasion for me to review the machinery of controls over investment, distribution and prices that we have been operating in India for several years now. Our approach to these controls has been pragmatic; and we have not hesitated to relax them or to intensify them from time to time in the light of changing circumstances. Basically, our approach to controls has also been positive; we have sought thereby to promote development by conserving scarce resources. A similar pragmatic and positive approach would be necessary even for the future. Where it is necessary to retain controls, it shall be our endeavour to administer them in a manner which minimises delays and inconvenience and ensures equal treatment to all concerned. It has to be recognised, however, that controls are only a means to an end and that, by their very nature, they tend to introduce rigidities which often impair efficiency and initiative

on the part of all concerned. Very often, the social objectives of controls such as maintaining a measure of equality between people with different initial advantages and prevention of an undue concentration of wealth and economic power can be achieved by other means which may have less inhibiting effect on productive efficiency. That is why, for some time, we have been following a selective policy of relaxing controls.

This question has also been examined by the Administrative Reforms Commission and by a number of independent experts. We propose to consider their recommendations carefully. I would only point out at this stage that there cannot be any question of our giving up the basic objectives behind the controls that we maintain. The question only is whether these objectives could not be better served by a different combination of policies in which controls play a less important part than to-day and other instruments, particularly fiscal and monetary instruments, play a more active part.

Long-term Considerations

This brings me to some of the longer term considerations which have to be kept in mind even as we deal with our difficult short-term situation. Our immediate difficulties are essentially the result of two aggressions on our territory and two droughts. It is, however, important for us to enquire whether they do not signify something more basic in our plans and policies which also calls for a correction in emphasis if not direction.

There is general agreement in the country that the highest priority should be given to agriculture and to family planning in our plans for the next few years. No one seriously questions also that as soon as possible, and consistent with the avoidance of inflation, programmes of social betterment should be pursued

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more vigorously. In this connection, next only perhaps to the importance of providing an adequate supply of foodgrains comes the necessity of enlarging greatly the facilities for drinking water all over the country. Improvement in the quality of education and the welfare of backward classes, particularly of scheduled castes and tribes, will also require more urgent attention than hitherto.

If I am not mistaken, the differences and the doubts that are often expressed about our plans relate mainly to two or three basic areas. There is, first of all, the question of the speed with which we can increase the rates of saving and capital formation in the country. Related to this is the problem of our ability to increase the productivity of such capital as we already have. Differences are also expressed about the proportion of available savings which should be invested by the private sector and the public sector in the light of their respective responsibilities and ability to invest the savings profitably. There is also some question whether consumer goods industry or capital goods industry should receive somewhat higher priority than in the recent past.

Realistic Assessment

It is not my intention here to enter into a debate about the pros and cons of the issues around which differences and doubts of the kind that I have just outlined revolve. But let me say that if we have over-estimated in the past our capacity to save as a nation or our capacity to secure a certain return from the capital already invested, such an over-estimation was, in part, at any rate, intended as a spur to better effort on the part of all of us. Certainly, in future, we shall have to be more realistic about what we can do in regard to savings or the improvement in the efficiency of capital over any given period. But when all the care and caution have been exercised, we shall still have to make an effort to do a little more than what the prudent among us might regard as the maximum feasible. What is involved here are the hopes and aspirations of millions of our people; and it simply will not do to assume that what might be good and prudent for some of us for some time will also be good and prudent for the country as a whole for all time.

I do not think that there is also any scope for doubt about the importance of industries in Indian economic development. Under modern conditions, even agriculture cannot be transformed without a corresponding growth in industries which either supply the requirements of agriculture or absorb its products. If we attach the highest priority to agriculture in the present circumstances, it is essentially because of our desire to be self-sufficient in regard to our food requirements. More generally, investments in agriculture at the present juncture are capable of making a striking contribution to both consumption and investment and to an improvement in the balance of payments. This does not mean, however, that industrial investment can be held in abeyance.

Whether we should make such investment as we make in industry primarily in consumer goods industries or in capital goods industries is also a question which cannot be decided on any a priori grounds. Obviously, increases in consumption provide the ultimate justification for all developmental activity; and the total volume of consumer goods we need will always be substantially larger than the volume of capital goods we require. At the same time, increase in consumption cannot be sustained without increasing the level of capital formation.

Perhaps in the past, our investment decisions have been guided more by a general consideration of our long-term needs rather than by a precise assessment of the relative rate of return in different activities. We will need to rely more, over the years to come, on an analysis of costs and benefits in diffe-

rent sectors and to guide our long-term strategy in the light of alternative courses of action. But I have no doubt that, barring marginal variations from time to time, the general thrust of our developmental strategy will have to be on a broad front, comprising a wide range of agricultural and industrial activity. Mistakes certainly have been made and will perhaps also be made in future in regard to investment decisions by both the public and the private sectors. But behind the mistakes and miscalculations that we might have made, there lay, I am sure, a genuine desire to speed up progress, to short-circuit the process of growth so that the trials and tribulations of our people would be short-lived. While we should certainly profit from our mistakes and be prepared to rearrange priorities at any given time in order to meet the exigencies of the situation in the short-run, it would not be prudent to dismiss the long-term requirements of the economy as altogether irrelevant.

I do not suppose that in any active democracy like ours, there would ever be complete agreement about the respective roles and abilities of the public and the private sectors. Both have an important role to play; and I can only say that, over time, their relative roles will necessarily be determined by their relative abilities. Without seeking to supplant the private sector, Government is committed to an expansion of the public sector; and, to this end, we shall give the highest priority to the improvement of the management and efficiency of the public sector enterprises already created.

In keeping with the Directive Principles of our Constitution, Government is fully committed to the achievement of a socialist society within the framework of an actively functioning democracy. Much has already been achieved in this connection; and in the coming months, we propose to explore all possible avenues to make sure that whatever initiatives we have taken in this regard are pursued and implemented with vigour and that further progress is made without impairing the productive efficiency of the economy in general.

Budget Estimates for 1967-68

So much for economic policies both in the short and the long run. I shall now summarise briefly the budget estimates for 1967-68 as I now wish to present them and compare them with those given in the interim budget. But before I do so, I would like to refer briefly to the revised estimates for the year 1966-67 about which some more information is now available.

Honourable Members will recall that I had stated, when presenting the interim budget, that the Centre's budgetary operations for 1966-67 were expected to show a deficit of as much as Rs. 350 crores. Though full details are not yet available, I am glad to say that the deficit has turned out to be somewhat smaller than anticipated, namely, of the order of Rs. 313 crores. The improvement of Rs. 37 crores is the result of a number of factors of which I shall make only a general mention. The receipts from tax revenues have been of about the same order as estimated in the revised estimates; in fact, a shade better. External assistance has, however, shown a significant shortfall. But this has been made up by savings under various items of expenditure. The foodgrains transactions have turned out to be better than estimated and this accounts to a large extent for the reduction in the anticipated deficit. The budget documents repeat the revised estimates as presented earlier as the actual figures in most cases are not yet available.

Turning now to the budget estimates for the current year, I shall indicate the main changes in the interim budget which I presented in March last. I anticipate some shortfall in the revenue from excise duties on sugar on account of lower production. But I expect that this would be made up under other

receipts and have, therefore, not made any change in the estimate of revenue receipts.

As regards foreign aid, honourable Members will recall that I had provided for the utilisation of Rs. 835 crores or \$1115 million this year. Since then, the Aid-India Consortium met in Paris and we have had further discussions, including those with the President of the World Bank. In the interim budget I had already taken credit for some disbursement from the \$900-million of non-project assistance that we expect to be committed this year. It would appear from recent discussions that the pace of disbursements from the new non-project assistance may be somewhat quicker. On the other hand, our experience during 1966-67 should warn us against too optimistic a view of aid disbursements. Taking everything into account, I have increased the earlier estimate of foreign aid utilisation by Rs. 30 crores.

The changes made by the railways in fares and freights will improve the position of their Funds which are deposited with the general revenues by Rs. 7 crores.

Defence expenditure is also proposed to be reduced by Rs. 6 crores. In the interim budget, this expenditure was only three per cent higher than in 1966-67 in money terms. The cost of maintaining defence services and defence supplies has gone up over the past 12 months as a result both of internal price rise and the change in the exchange rate. A substantial reduction in the interim provision for defence, therefore, is not possible. Honourable Members are aware that we are prepared to explore all possible avenues of reducing the tension on our

borders and of improving our relations with our two neighbours, China and Pakistan. But as long as these efforts do not meet with a genuine response, we cannot allow our search for economies to come in the way of the needs of national security. But consistent with this, it shall be our endeavour to seek economies in this as in other fields.

Since the presentation of the interim budget, Government has reduced significantly the fertilizer subsidies, particularly in the context of the higher procurement prices which are being offered for foodgrains. This, together with reduction in the purchase price of fertilizers, is expected to benefit the current budget to the extent of Rs. 51 crores in comparison with the interim budget. Further, a saving, of Rs. 7 crores will also be available in respect of the subsidy on sugar exports which are likely to go down in view of the reduction in sugar output.

I have already referred earlier to the additional provision that I propose to make in respect of some of the items included in the interim budget. Assistance to the states is proposed to be increased by Rs. 98 crores including Rs.38 crores for the scarcity affected areas. I have also allocated an additional Rs.45 crores for the Central plan, over and above the provision of Rs. 1176 crores made in the interim budget. Of this, Rs. 14 crores are for transport, mainly roads, ports and shipping, Rs. 6 crores for oil exploration and refining, Rs. 5 crores for Bokaro steel plant, Rs. 4 crores for the Union territories and Rs. 3 crores each for atomic energy, posts and telegraphs and family planning. The rest of the provision relates to education, heavy industries, khadi and village industries, chemicals and tourism.



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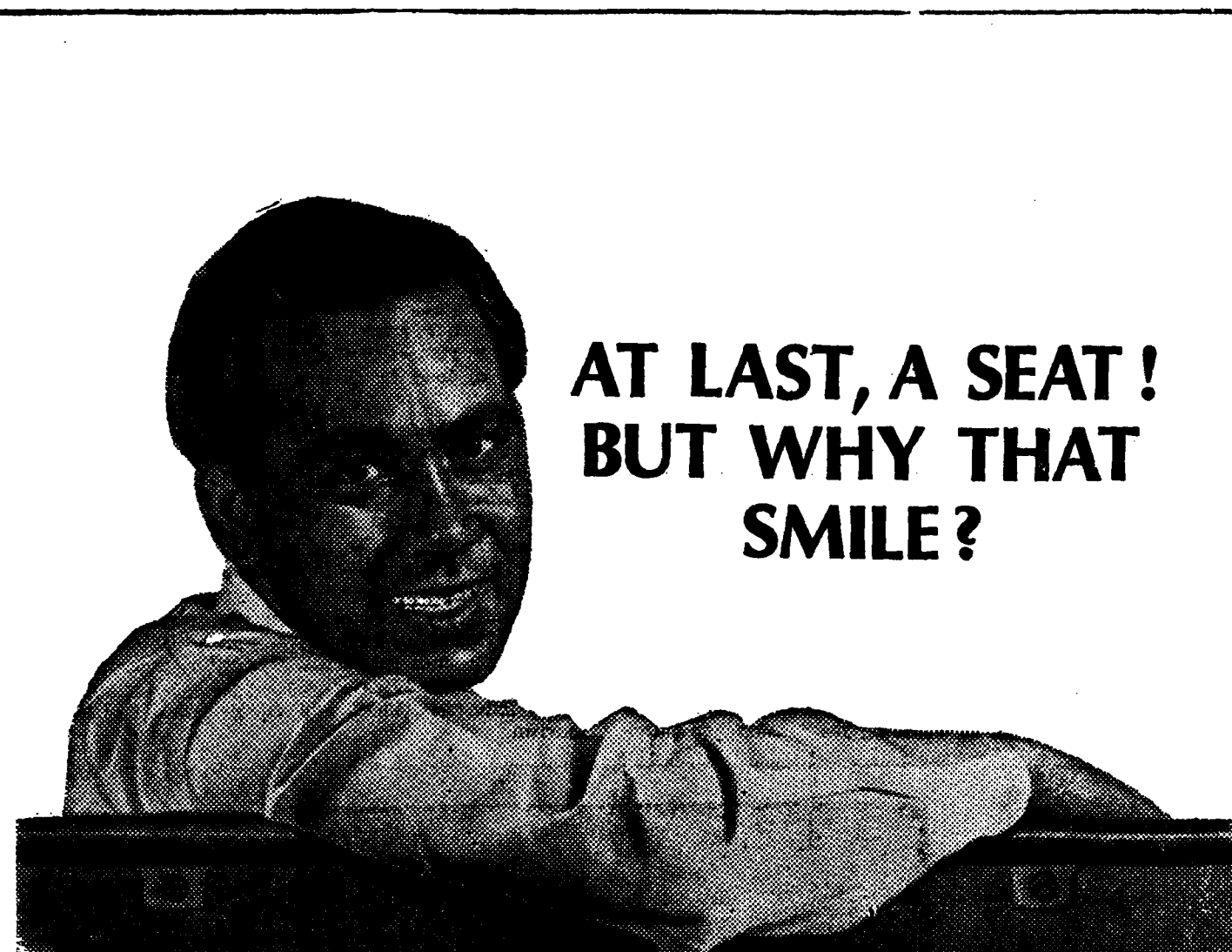


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Balanced Budget

MR MORARJI DESAI managed to balance the budget for 1967-68 by raising Rs. 87.24 crores additional through indirect taxes and restricting the plan outlay at the preceding year's level. Because of shortages in consumer goods which have appeared in recent months, he was afraid that the enhanced size of the plan would jeopardize the chances of restoring price stability. He said that the non-plan expenditure had also been kept in check.

The following is the text of Part B of his speech:

In the budget estimates that I have just presented, the availability of resources will be higher by Rs. 101 crores and expenditures by Rs. 143 crores in relation to the interim budget. I should, however, explain that I have chosen on this occasion, for reasons of security, to mention some of the facts in Part B of the budget speech only.

On the expenditure side, I have not so far provided anything additional for assistance to the financial institutions. In the interim budget, a provision of Rs. 30 crores was made for this purpose. This is sufficient for enabling these institutions to honour all their existing commitments as well as to meet disbursements on new commitments in respect of the priority sectors of fertilizers, alloy and tool steel and the like. However, some additional provision for these institutions is necessary if they are to play a reasonable part in supporting private investment activity and thereby helping the revival of the investment goods industries. I, therefore, propose to provide an additional sum of Rs. 10 crores for the financial institutions. In a budget of this magnitude, it is also necessary to make a provision for contingencies. Taking account of all the considerations, I estimate that the deficit of the Centre, without any further mobilisation of resources, would be of the order of Rs. 68 crores.

Economy in Government Expenditure

By far the best way of mobilising resources is to economise on government expenditure without sacrificing efficiency. I have already set in motion a thorough examination of the expenditure patterns of all Central Ministries. Already, some decisions have been taken which will reduce the strength of my own Ministry. Similar decisions in respect of other Ministries will be announced as they are taken. In respect of government projects, the Bureau of Public Enterprises will keep a constant watch in order to secure genuine economies. I do not propose, however, to take any credit at this stage for reduction in government expenditure as a result of the economy drive that I propose to pursue vigorously. In matters like this, it is best to take credit for success only when success has already been achieved.

Better collection of existing taxes is also an important and indeed most equitable way of mobilising additional resources. This is a continuing programme where constant endeavours have to be made to improve tax administration as well as tax laws. In this connection, we have been experimenting for some time with a new system of distribution of work in the Income-tax Department. Under this system, particular functions such as those of assessment, collection, refunds etc., are performed by the Income-tax Officers specifically entrusted with these functions. This experiment has shown encouraging results. To facilitate the extension of the functional system, I propose to make specific provisions in the law and I am circulating separately a detailed note on the subject for the information of honourable Members. I propose, however, to take only a small credit for better collection of income-tax this year, as it is premature to expect any sizeable gain in the early stages of the operation of the scheme.

It is also desirable to reply to the maximum extent on

mobilisation of private savings for meeting the requirements of the Government. In the present conditions in the country, however, it would not be prudent to take credit for anything more than what I have done in the interim budget under small savings, market borrowings and the like. At a later stage, I shall refer to one or two fiscal concessions which I propose to give in order to promote savings. But these measures are designed with an eye on the long run rather than on improving the budgetary position during the current year itself.

Coming to taxation proper, the most important changes involving a loss in revenue that I have to announce relate to export duties. Our exports of jute manufactures have declined in the recent past and some of the promising lines are being threatened with competition from substitutes. I propose, therefore, to reduce the duty on sacking (other than cotton bagging) by Rs. 150 per tonne, on carpet backing and jute specialities by Rs. 300 per tonne and on other hessians by Rs. 150 per tonne. The effect of these reductions would be a loss of revenue of Rs. 13.50 crores in a full year.

A reduction of Rs. 7.50 per tonne has been proposed in the export duty on manganese ore having 10 per cent or more but not more than 48 per cent of manganese content, mainly with a view to offset the effect of the recent increase in railway freight on manganese ore. A marginal reduction of Re. 1 per tonne is also being made in the export duty on iron ore fines (including blue dust). These changes will result in a loss of revenue of Rs. 83 lakhs in a full year. A change is also being made in respect of the duty on tea to which I shall refer later.

Selective Concessions

In respect of direct taxes, I propose to give a number of selective and indeed minor concessions. The main concessions in respect of taxes on personal incomes are as follows:

- In our society, many of us have to maintain dependent parents or grand parents. I propose, therefore, to grant a fixed allowance of Rs. 400 for maintenance of one or more of the dependent parents or grand parents in the case of resident individuals having a total income not exceeding Rs. 10,000. The tax relief on this allowance will be calculated at the rate of five per cent applicable to the initial slab of income. This allowance will be available only when the dependent parent or grand parent does not have personal income exceeding Rs. 1000 in the year. This concession is estimated to cost approximately Rs. 2 crores.
- At present we levy a surcharge on unearned income in excess of Rs. 15,000. I propose to raise this exemption limit to Rs. 30,000. In a sense, the principle of taxing income from investments at a rate higher than income from work runs counter to the desirability of increased savings. I have, therefore, sought to take this into account at least partially this year. This concession will mean a loss of Rs. 75 lakhs.
- I propose that all tax-payers having dividend incomes not exceeding Rs. 500 during the year be allowed to exclude from their taxable income the whole of the dividend income received by them from Indian companies. This should encourage equity investment by tax-payers in the lower and middle income groups. The revenue loss of this measure is estimated at Rs. 1.50 crores.
- The present limit of the amount of approved savings in life insurance, government and recognised provident funds and cumulative time deposits in post offices, which qualify for tax relief in the case of individuals and Hindu undivided families, is proposed to be increased from 25 per cent of the total income to 30 per cent of the total income. The monetary limits of

Rs. 12,500 in the case of individuals and Rs. 25,000 in the case of Hindu undivided families will also be raised, simultaneously, to Rs. 15,000 and Rs. 30,000 respectively.

- (e) Given our present need for resources, I have found it necessary to continue the Annuity Deposit Scheme. I have, however, made some marginal modifications in the Scheme. For example, people over the age of 60 need not make a deposit; at present, the age limit is 70 years. Similarly, for all assessees, no penal tax will apply in case of shortfalls in deposits up to Rs. 100 or up to 10 per cent of the deposits required to be made.
- (f) Indian scientists, professors and research workers who spend a part of the year in foreign universities or other educational or scientific institutions will be allowed, subject to certain conditions, to deduct from their taxable income, 50 per cent of the remuneration received by them from foreign sources.

Concessions in Corporate Taxation

I will now summarise some of the concessions—again, selective and minor—that I propose to give in respect of corporate taxation:

- (a) As a measure of relief to small-scale industries in the corporate sector, I propose to extend the concessional rate of 45 per cent to widely-held domestic companies having total incomes not exceeding Rs. 50,000 as against Rs. 25,000 at present. This is likely to result in a loss to revenue of about Rs. 18 lakhs.
- (b) As a tourist promotion measure, I propose to extend the priority industry treatment to approved hotels run by Indian companies. Further, I propose to provide for the allowance of initial depreciation on hotel buildings constructed by such companies after March 31, 1967, in an amount of 25 per cent of their cost of construction. Some other relaxations are also proposed in favour of the hotel industry.
- (c) It has often been represented that our present tax-holiday concession does not benefit adequately those undertakings for which profitability is usually low in the initial years. In order to make the tax exemption more meaningful in such cases, I propose to allow a carry-forward of the unabsorbed benefit of the 'tax-holiday' relating to the assessment year 1967-68, onwards, up to eight years from the year of commencement of the business.
- (d) The existing tax law has certain features which inhibit desirable amalgamations of companies by attracting certain liabilities on such amalgamation. Merging of uneconomic units is desirable in order to improve productivity and realise economies of scale. I propose to facilitate this process by removing the existing disabilities in the matter in the law.
- (e) The progress in resettlement of displaced persons from East Pakistan and repatriates from Burma, Ceylon and certain east African countries has been painfully slow. To supplement the efforts made in this direction by the state governments, it is proposed, subject to some conditions, to allow industrial units employing such displaced persons and repatriates to deduct 50 per cent of their profits in computing their taxable income.
- (f) I also propose to provide certain tax concessions to industries damaged or destroyed by enemy action or by natural calamities.
- (g) In order to promote scientific research in our country, I propose to enhance the rate of development rebate on machinery and plant installed for scientific research after March 31, 1967, from the existing general rate of 20 per cent, to the priority rate of 35 per cent. Further, the whole of the capital expenditure incurred after March 31, 1967, on assets used for scientific

research will be allowed as a deduction in the year in which it is incurred.

The combined effect of the various concessions in direct taxes that I have listed will be a reduction in revenue of about Rs. 5 crores in a full year. I do not propose, however, to take any debit for this item as a reduction in revenue of this order should be made up by better tax collection assisted by the proposed extension over a wider area of deduction of taxes at source.

In addition to the changes in direct taxes which I have described, a few other changes are proposed in the Finance Bill which are intended either to continue the existing concessions or to clarify the intentions of the present law. I do not propose to describe these here as they are set out in detail in the explanatory memorandum on the Finance Bill.

Rationalisation of Tax Structure

Some time back Government appointed Mr S. Bhoothalingam, formerly Secretary, Ministry of Finance, as a one-man committee for recommending measures for simplifying and rationalising the existing structure of direct and indirect taxation. Mr Bhoothalingam recently submitted his first interim report, which relates exclusively to direct taxes, particularly income tax. Copies of this report will be made available to honourable Members as soon as possible. Apart from simplification and rationalisation, the report also suggests a reconsideration of some of the policy aspects of the present tax structure. In a sense, major modifications in the tax structure should not be made in one area, without examining similar suggestions for application to other areas. It is also desirable that on substantive issues, this honourable House, expert public opinion and people at large should have an opportunity to express

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PROFITS FOR THE YEAR 1966: 700,740

DIVIDEND: 10%

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R. Y. GARG,
General Manager.

their views before Government makes up its mind. I propose, therefore, to publish also the subsequent reports of Mr Bhoothalingam. It is my intention that the publication of these reports will provide an occasion for Parliament and for others to discuss some of the basic aspects of the tax structure so that it can be put on a sound and progressive basis as soon as possible. It is for this reason, quite apart from the difficult financial situation in the current year, that I have decided to restrict my proposals for modification in the direct tax structure to a minimum. It is my intention, however, to introduce even in the present budget some of the measures of rationalisation and simplification which have been recommended in the interim report.

One of the main recommendations is that changes in the tax laws and rates of taxation should be applied prospectively to current incomes. The existing practice of applying the rates of tax to incomes already earned in the past year, which has been followed over a long period of years, is not sound in principle. The annual Finance Acts not only prescribe rates of tax but often provide incentives or disincentives in various directions. Such incentives or disincentives can obviously be meaningful only if they are applied prospectively. Apart from this consideration, it stands to reason that the tax-payer should know before-hand his tax liability for any given income year. I propose, therefore, to apply the several measures for making changes in the tax laws as also in the tax rates, prospectively, to current incomes which will fall due for assessment next year, except where it is felt that a particular measure calls for retrospective application for special reasons. We also propose to consider seriously the recommendation about adopting a standard tax year co-terminous with the financial year.

Another measure recommended for simplifying tax calculations is the elimination of most of the areas in which calculations of rebates and reliefs have to be made at present by applying the average rate of tax on the total income. In these areas, I propose to make provisions for allowing a straight deduction of the whole or a specified proportion of the income qualifying for the rebate or relief in computing the taxable income. Similar provisions will also be made for calculating rebate of tax on charitable donations. Donations to the Prime Minister's Drought Relief Fund will be added to the categories of donations which at present qualify for tax relief without the operation of the ceiling limit of 10 per cent of the total income or Rs. 2 lakhs, which applies to ordinary charitable donations.

There is only one other significant change in respect of direct taxes, which I might mention here. At present, tax is withheld at source in the case of Indian residents out of their income consisting only of salaries, interest on securities, or dividends. In order to improve and speed up the collection of tax, it is proposed to extend, in the case of residents, the requirement of deduction of tax at source to interest on deposits, loans or other borrowings as well as to fees for professional services and brokerage and commission payable by banks, companies and other organised entities. However, in order to avoid hardship, certain exemptions are being provided.

Posts and Telegraphs

As the House is aware, the postal and telegraph branches of the Posts & Telegraphs Department have been working at a loss. Most of the services we provide on the postal side are unremunerative. The cost of services has increased appreciably during recent years. To meet the loss partially, it is proposed to raise slightly the rate of postage on parcels, registered newspapers, book packets etc., as also to raise the registration fee and fees for express delivery, insurance and air-mail fee on packets. The additional annual revenue expected from these increases in the postal rates is about Rs. 1.84 crores. On the telegraph side, it is proposed to raise the minimum charge on an ordinary greetings telegram and the rate for express greetings telegram. The existing rate for non-press inland tele-

grams will remain unchanged but the minimum charge will be for the first eight words instead of first 10 words as at present. The rental for a teleprinter machine is proposed to be raised and revision is also proposed in the rental for part-time telegraph and teleprinter circuits other than those given to the press. (Details of the principal changes in the posts and telegraphs tariffs are given in a separate memorandum.) These measures are expected to yield an annual revenue of Rs. 1.02 crores. Opportunity has also been taken to rationalise the tariffs for various telephone services and make certain minor revisions therein. The additional annual revenue from the various changes proposed in the telephone tariffs is expected to amount to Rs. 1.58 crores.

The proposed changes in the postal, telegraph and telephone rates will not come into effect immediately. The dates from which they will be operative will be notified later. These changes will yield Rs. 4.44 crores in a full year and Rs. 3 crores in the rest of the current year. As, however, the posts and telegraph revenue is not now expected to come up to the interim budget estimate, I am taking credit for an additional Rs. 1 crore only on this account.

Excise and Customs

I turn now to my proposals in regard to Union excise duties. The large number of changes that I have made in direct taxes will not make any significant difference to the Government's budgetary position. Import duties have been rationalised on a number of occasions in the recent past including at the time of devaluation last June. Honourable Members will recall that although the import tariff was adjusted to take account of the higher rupee cost of imports, the total incidence of devaluation and import tariff was such as to increase substantially the rupee cost of all imports including the import of machinery, raw materials and spares. It is not desirable to



give another jolt to the economy by any further increases in import duties. It is, therefore, inevitable that I should essentially increase the Union excise duties for raising additional revenues in order to balance the budget after allowing for the effect of the reduction in export duties.

I have, however, endeavoured to adjust excise duties in such a way that apart from raising additional resources, these adjustments will be consistent with the requirements of the current economic situation. Thus, in the main, I have endeavoured to increase duties on those items where (a) it is necessary to exercise some restraint on domestic consumption in order to augment export earnings, or (b) where high profits are made by industry and trade at present or (c) where some increase in prices cannot be considered socially undesirable. In particular, I have sought to ensure that prices of essential consumer goods are not affected and that the demand for those industries which are already saddled with considerable excess capacity is not further depressed. Altogether, additional excise duties are proposed to be levied on only a limited range of selected items so that the price situation is not disturbed at many points. This explains in part the sizable increases that I propose in a few cases.

Tax on Coffee & Tea

I propose to raise the excise duties on coffee and tea so that the internal consumption of these is restrained and more quantities are made available for export. These increases will yield a revenue of Rs. 8.40 crores in a full year without taking into account the revenue loss from reduction in the export duties on tea to neutralise the effect of the higher excise on export shipments. In the case of tea, the increase proposed is lower on cheaper tea than on the higher priced teas from zones III, IV and V. Similarly, the increase on the cheaper robusta or liberia variety of coffee is less than on superior varieties like arabica.

Another export item on which I propose to increase the duty is jute manufactures. The existing basic excise duties on hessians and other jute manufactures which are Rs. 250 and Rs. 125 per tonne respectively are being raised to Rs. 375 and Rs. 175 per tonne. The effect of this will be an additional revenue of Rs. 3.00 crores annually. As usual, the duties will be rebated on export shipments.

As for tea exports, the effect of higher excise duties on exports will be neutralised by a reduction in export duties by 24 paise per kilogram. While this will fully offset the burden of the excise duty increase on the higher priced varieties, the inferior teas from zones I and II will have a slight edge over the others as the export duty reduction in their case will exceed the excise duty increases. While making this reduction in the export duty, the rate schedule is also being simplified and rationalised to obviate the practical difficulties in the present system of levy. The effect of the reduction proposed will be a loss of Rs. 4.68 crores annually so that in the net Rs. 3.72 crores would be realised from tea and coffee in a full year.

I propose to re-impose the duty on footwear and parts which have a good export potential. This duty was withdrawn by an exemption as a part of the budget proposals of February, 1965. As before, footwear made without the aid of power or in small power operated establishments will continue to be exempted. This proposal will yield an additional revenue of Rs. 2.75 crores annually.

It is necessary also to restrain the increasing consumption of cigarettes which cuts into the exportable surplus available of cigarette tobacco, an important foreign exchange earner. I, therefore, propose to raise substantially the duties on cigarettes which would yield a revenue of Rs. 28.50 crores annually. The increase proposed on higher-priced cigarettes will be more than on the cheaper varieties. Some increase has been proposed also on cigars and cheroots, the yield from which will be about one lakh of rupees. I realise that the increase proposed is high.

But honourable Members and others can at least escape its incidence by reducing consumption and thus perhaps prolonging their lives in the bargain.

Honourable Members will recall that at the time of devaluation, excise and customs duties on petroleum products were adjusted in such a way as to avoid any increase in their price. This step meant a considerable loss of revenue for the Government and was in fact on par with the subsidies given on foodgrains and fertilizers at the time for the same purpose. Subsidies on fertilizers have already been reduced. I see no reason why the prices of some of the petroleum products also should not be allowed to rise, reflecting the effect of devaluation. I propose, therefore, to increase the basic excise duty on motor spirit from Rs. 451.05 per kilolitre to Rs. 550 per kilolitre and on refined diesel and vaporising oils from Rs. 441.05 to Rs. 461.05 per kilolitre. The excise duty on petroleum products not otherwise specified is also proposed to be increased from 10 per cent ad valorem to 20 per cent ad valorem. These increases on mineral oil products will yield a revenue of Rs. 25.60 crores annually. Honourable Members would note that these changes will not result in any increase in the price of kerosene, of diesel oil used by agriculturists or fuel oil which is used by industry. In fact, the increase in the case of refined diesel oil is also marginal—of the order of two paise per litre.

I come now to a few less essential items of consumption where there is scope for mopping up the high profits made or where even an increase in the price to consumers will not be a great hardship. The basic excise duty on artificial or synthetic resins and plastic materials is proposed to be raised from 20 per cent to 30 per cent ad valorem which will yield an additional revenue of Rs. 4.5 crores annually.

Production of rayon and synthetic fibres and yarn has in-

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creased and the margin of profit on these is also high. I, therefore, propose to make a substantial increase in the excise duties. The increase on cellulosic fibres and yarn, such as viscose rayon and acetate rayon will be lower than the increases proposed on non-cellulosic fibres and yarn, such as polyester fibre and nylon yarn. The effect of the increases proposed will be an additional revenue of Rs. 22 crores annually.

The excise duty on aluminium has remained unchanged since 1960 and there has been a substantial increase in the indigenous production in the recent years. I propose to increase the basic excise duty on aluminium ingots from Rs. 300 to Rs. 950 per tonne, on plates, sheets, circles and strips from Rs. 500 to Rs. 1450 per tonne, and on foils from Rs. 600 to Rs. 2000 per tonne; the duties on pipes, tubes and extruded shapes and sections are also being raised from 10 per cent to 20 per cent ad valorem. These changes will bring in an additional revenue of Rs. 10.98 crores annually.

It is my expectation that in the case of aluminium, rayon and synthetic fibres, it should be possible for producers to absorb the increase in the excise duties without any increase in the prices charged to consumers. In any event, producers of these products will not be allowed to increase their present prices without prior consultations with the Government. If, on examination, it is found that the additional excise duties cannot be absorbed by producers without a change in the price charged to consumers, we shall be prepared to take appropriate remedial action. However, it is our intention to make sure that to the maximum extent possible, the incidence of higher duties in these cases is absorbed in the profits made at present by producers and distributors.

The present structure of excise on cotton textiles allows such a high margin of preference to powerlooms that it encourages tax avoidance. This has been pointed out by two successive committees. I propose, therefore, to raise the excise duty on cotton twist, yarn and thread which go into the production of fine and superfine fabrics in the powerloom sector. The increase will be mostly on sized yarn cleared in the form of sized beams required for weaving in the powerloom factories. Rates of duty on sized yarn of fine and superfine counts are proposed to be raised in such a way that the margin of difference in the excise duty between powerloom and mill-made grey fabrics of fine and superfine varieties is narrowed sufficiently. These changes will, however, not affect the handloom sector as the duty on hank yarn is not being raised. The duty on mill fabrics will also remain unchanged, as the increase in the yarn compounded duty is being offset by corresponding reduction in the grey fabric duty so that the cumulative effect leaves the duty on fine and superfine grey fabrics unchanged. The effect of these changes will be an additional revenue of Rs. 7.80 crores annually.

New Items Covered

The only new item on which excise duty is proposed to be imposed this year is rubber piping, tubing and belting. These are being added to the item of rubber products like latex foam sponge and tread rubber which are already excisable. The proposed basic excise duty on these new rubber products will be 15 per cent ad valorem which will yield an additional revenue of Rs. 1.98 crores annually.

Special excise duties will continue to be levied at the existing rates subject to modifications consequent on the changes proposed in the basic excise duties outlined earlier. The provision for levy of regulatory excise duty in the same manner as in section 49 of the Finance Act, 1966, is being continued though there will be no levy of this duty at present.

The total effect of all the proposed changes in the excise duties will be an additional revenue of Rs. 115.52 crores in a full year out of which Rs. 22.98 crores will go to the states.

I have not proposed any increase in the import duties. But wherever excise duties have been increased or modified, the countervailing duties on imported goods equivalent to such increases will be chargeable in addition to the existing duties.

In the case of imported aluminium ingots and wire bars, the increase in the countervailing duty will not be to the full extent of the excise duty increases but will be lower by Rs. 400 per tonne. The increases in countervailing duties will yield an additional revenue of Rs. 7.33 crores annually.

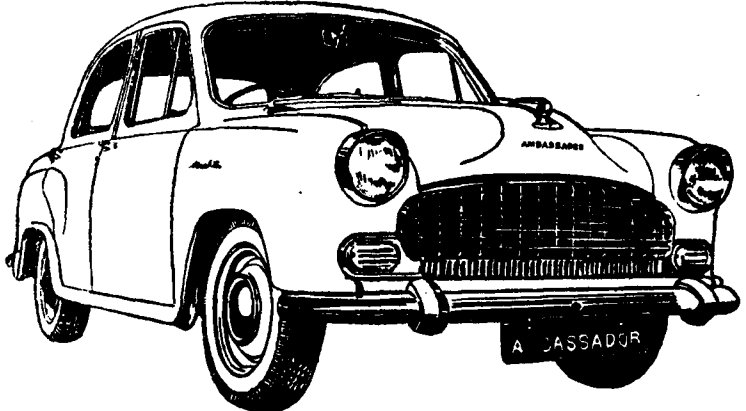
I have already discussed earlier the reductions in export duties. Taking into account the loss of Rs. 19.01 crores annually under these items and the increases on account of countervailing duties, the net loss of customs revenue would be Rs. 11.68 crores in the full year. Taking excise duties and customs duties together, the total additional revenue in the full year will be of the order of Rs. 103.84 crores of which Rs. 22.98 crores will go to the states and balance will accrue to the Centre. However, during the current year, the changes in customs and excise duties will apply not for the full year but only for a little over 10 months. During the current year, therefore, the additional revenue accruing to the Centre will be of the order of Rs. 68 crores. Changes in posts and telegraph rates will bring in Rs. 1 crore. The additional revenues of about Rs. 69 crores will more than cover the initial deficit of Rs. 68 crores. Essentially, therefore, the budget that I am presenting now is a balanced one. Honourable Members would also note that in addition to the substantially larger resources made available to the states from the Central budget, the state governments will benefit substantially to the extent of almost Rs. 20 crores by the taxation proposed here.

Check on Plan Outlays

I am well aware that I have been able to balance the budget primarily by keeping the plan outlays strictly in check. The provision for the plan in the budget, for Central schemes, assistance to the states and to the financial institutions taken together, is not materially different from the level of the first year of the fourth Plan. At a time when essential consumer goods are in short supply and when it is difficult to reduce subsidies, I could not have provided more for the plan without jeopardising the chances of restoring price stability. Considerable restraint has also been exercised in regard to non-plan outlays at the Centre, the bulk of which relate to interest payments which are contractual obligations and to defence.

To those who may have been looking forward to sizable reductions in taxation, I will say only this. As long as we in this honourable House remain responsive to the needs and aspirations of the poor and the downtrodden, there will always be need for the Government, no matter what its persuasion, to command a growing volume of resources from year to year. Some of the resources available to the Government at present such as the counterpart of PL 480 supplies of foodgrains etc., should not and indeed cannot continue for long. Before giving any tax concessions, therefore, I would like to be doubly sure that there is at least a reasonable chance of such a step contributing to larger revenues by stimulating activity or savings in general. Under the present circumstances, I see no clear prospect of this; but we will explore all possible avenues of putting our tax structure on a sound, stable and progressive basis. My main justification for the selective but sizeable increases in excise duties is that these are necessary in the interest of exports and for avoiding too deep a cut in plan outlays. Indeed, even as it is, I do not feel happy about not being able to provide more for the plan than we did last year. That is why we propose to pursue a more positive policy of encouraging public and private investment activity as soon as the basic supply position in the country improves.

In the meanwhile, I can only hope that this budget will contribute to the restoration of a climate of stability which is so essential for sound and sustained growth. We are determined also to redouble our efforts to provide a clean and efficient administration. I have every confidence that at this difficult juncture, all sections of the community—farmers, workers, businessmen and leaders of public opinion—will give of their best so that the spell of stagnation which has been upon us for more than two years now is lifted and we begin to move forward once again to our cherished goals.



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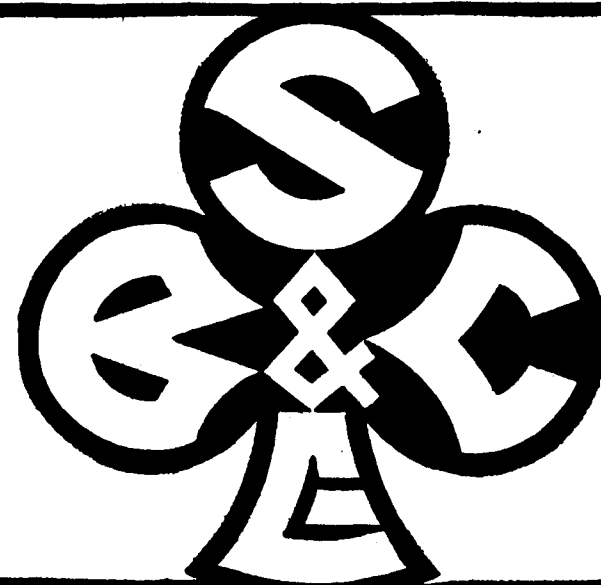


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Summary of Final Estimates

STATEMENT A

REVENUE BUDGET

Receipts 1967-68				Expenditure 1967-68			
I. Tax Revenue				I. Administrative Expenditure			
Customs	...	...	654.00	Tax Collection	...	...	34.53
			(—)10.92†	Police	...	...	51.49
Union Excise Duties	...	...	1115.88	Audit	...	...	15.87
			+98.16†	General Administration	...	...	29.05
Corporation Tax	...	...	350.00	Others	...	...	32.98
Taxes on Income	...	...	290.00	Total	...	...	163.92
Estate Duty	...	...	7.25	II. Interest Charges			
Taxes on Wealth	...	...	12.50	Rupee Debt	...	...	227.35
Other Heads	...	...	33.59	Foreign Debt	...	...	142.68
				Service charges paid to IMF	...	...	8.00
				Others	...	...	134.94
Total Gross	...	...	2463.22	Total	...	...	512.97
			+87.24†	III. Social, Developmental and Allied Services			
Less transfers to States				Education and Scientific Research and Survey	...	...	119.39
Income Tax	...	...	(—)131.58	Agriculture including fertiliser subsidy†	...	...	27.22
Estate Duty	...	...	(—)6.94	Public Works, River Schemes, Transport, Communications etc.	...	...	40.47
Union Excise Duties	...	...	(—)231.57	Export Promotion	...	...	34.74
			(—)19.53†	Others	...	...	95.90
				Total	...	...	317.72
Total—Transfers	...	...	(—)370.09	IV. Grants to State and Union Territory Governments			
			(—)19.53†	Grants under Article 275(1) (substantive provision)	...	...	140.61
Total Net	...	...	2093.13	Developmental Grants	...	...	221.34
			+67.71†	Other Grants	...	...	90.80
				Total	...	...	452.75
II. Non-Tax Revenue				V. Miscellaneous			
Interest	...	...	409.00	Currency and Mint	...	...	21.45
Currency and Mint	...	...	78.02	Aid to other countries etc.	...	...	17.07
Others	...	...	120.28	Food subsidy written back to Revenue*	...	...	23.47
				Others**	...	...	81.51
Total	...	...	607.30	Total	...	...	143.50
Total Revenue	...	...	2700.43	VI. Defence Services			
			+67.71†	...	...	...	842.49
				VII. Transfer to Reserve Funds etc.			
				...	...	...	21.14
				Total Expenditure	...	...	2454.49

† Effect of budget proposals.

* Balance of the subsidy is met from Capital.

** Broad details are shown in Annexure II to Appendix II of the Explanatory Memorandum.

† In addition to fertiliser subsidy met from capital would amount to Rs. 14.94 crores.

Summary of Final Estimates—(Contd.)

STATEMENT B
CAPITAL BUDGET

Receipts 1967-68		Expenditure 1967-68	
I. Market Loans		I. Non Developmental Expenditure	
Gross	351.30	(a) Food Purchases—	
Less Repayments	-258.04	Payments	492.25
Net	93.26	Receipts	-389.80
II. Foreign Loans		Net	102.45
PL 480 Loans	150.00	Less transfer to revenue	-23.47
Other Loans	865.00		78.98
	1015.00	(b) Defence	120.88
Less Repayments	-195.44	(c) Advances to Foreign Govts.*	56.00
Net	819.56	(d) Currency & Mint	19.96
III. PL 480 Receipts		(e) Other Items—Capital	5.16
Less PL 480 Loans	-150.00	Other Items—Loans	8.85
Net	135.00	(f) Expenditure met from Reserve Funds	3.89
IV. Other Food Aid		Total	293.52
	35.00	II. Developmental Expenditure	
V. Small Savings		(a) Govt. Companies, Corporations including	
	130.00	Financial Institutions:	
VI. Provident Funds (Net)		Investments	167.03
	55.07	Loans	224.42
VII. Annuity Deposits (Net)		Total	391.45
	22.00	(b) Railways Capital	161.75
VIII. Repayment of loans		Railways Loans	19.64
By States	343.00	(c) P & T Capital	31.68
By Others	87.00	(d) Atomic Energy Development	38.33
	430.00	(e) Public Works, River Schemes, Transport	
IX. Railway Funds, P & T Funds,		Communications etc.	96.79
Reserve Funds etc.	56.89	(f) Fertiliser Purchases	
	+1.00†	Payments	219.94
X. Deduct—Provision for Financial		Receipts	-205.00
Institutions (Rs. 10 cr.)	(-)-26.00††	Net	14.94
and Contingencies (Rs. 16 cr.)		(g) Other Items Capital	20.45
		Other Items Loans	84.37
Total Receipts		(h) Expenditure met from Reserve Funds	14.65
	1776.78	Total	874.05
	+1.00†	III. Transfers to State & U.T. Govts.	
	(-)-26.00††	Non-Developmental—	
Net Statement A		Loans	220.62
	+245.94	Developmental:	
Statement B		Loans	619.40
	+67.71†	Grants	27.63
	-287.80	Developmental assistance met from Reserve	
	-25.00††	Funds	29.36
Total		Total	897.01
	-41.86	Total Expenditure	2064.59
	+42.71††		

† Effect of Budget proposals.

†† Additional provisions as mentioned in Budget Speech.

* Includes Rs. 45 crores of short-term advances for trade purposes which are expected to be repaid within the financial year.

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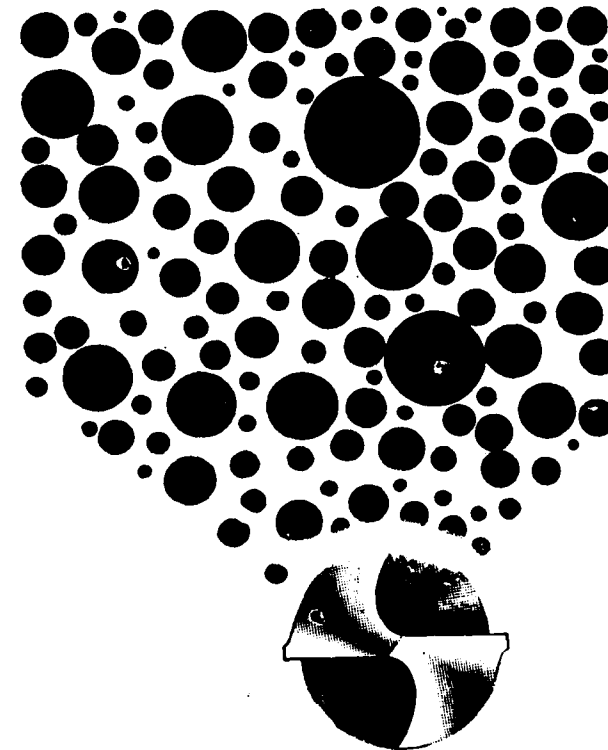
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Budget Proposals Explained

THE OFFICIAL memorandum explaining the provisions in the Finance (No. 2) Bill is reproduced below :

DIRECT TAXES

In the sphere of direct taxes, the Bill, inter alia, seeks to prescribe the rates at which income-tax (including surcharges, where applicable) is to be charged on income liable to tax for the current assessment year 1967-68, and the rates of annuity deposits for that assessment year, as well as the rates at which annuity deposits are required to be made in relation to current incomes liable to tax for the assessment year 1968-69. It also prescribes the rates at which income-tax is to be deducted at source during the current financial year on incomes liable to such deduction under the Income-tax Act, and the rates at which 'advance tax' is to be computed in relation to incomes on which such tax is to be paid during the current financial year. Besides, the Bill proposes to make certain amendments to the Income-tax Act, 1961 and other direct taxes' enactments viz., the Wealth-tax Act, 1957, the Gift-tax Act, 1958, and the Companies (Profits) Surtax Act, 1964.

The Bill also proposes to make a few amendments to the provisions relating to direct taxes in the Deposit Insurance Corporation Act, 1961 and the Unit Trust of India Act, 1963. Further, it proposes to make a provision which is intended to remove certain difficulties arising in the working of the scheme of voluntary disclosure of income contained in section 68 of the Finance Act, 1965. It also seeks to repeal, with retrospective effect, the provisions contained in the earlier Finance Act of 1967 relating to the rates of income-tax for the assessment year 1967-68 and also the rates of annuity deposits, inasmuch as the rates of income-tax and annuity deposits proposed to be prescribed by the Bill are sought to be applied, retrospectively, from the commencement of the assessment year 1967-68.

The substance of the main provisions in the Bill is explained in the following paragraphs.

INCOME-TAX AND ANNUITY DEPOSITS

Rate structure of income-tax in respect of incomes liable to tax for the assessment year 1967-68, and for current incomes subject to deduction of tax at source or payment of 'advance tax'.

Rates of income-tax for the assessment year 1967-68: In respect of incomes of all categories of assessees (corporate as well as non-corporate) liable to tax for the current assessment year 1967-68, the rates of income-tax under the Bill are the same as prescribed by the earlier Finance Act of 1967. These rates are the same as provided in the Finance Act, 1966, subject to the modifications made thereto by the earlier Finance Act of this year. The main modification made by the earlier Finance Act of 1967 to the rates of income-tax in the Finance Act, 1966, in relation to the current assessment year 1967-68, was in respect of the rebates of income-tax granted with reference to exports. Having regard to the devaluation of the rupee with effect from June 6, 1966, the earlier Finance Act of this year provided that these rebates would be available only with reference to exports or sales to exporters made before the date of the devaluation, and not in relation to exports made during the post-devaluation period. Under the Bill also, the rebates of income-tax in relation to exports or sales to exporters will be available only with reference to exports or sales to exporters made prior to the date of devaluation. These rebates of income-tax, which are available to assessees other than foreign companies, are as follows:—

(i) a rebate of one-tenth of the income-tax attributable to the profits derived by the assessee from the export of any goods or merchandise outside India; and in addition,

(ii) in the case of an assessee who manufactures specified commodities (i.e., commodities listed in the First Schedule to the Industries (Development and Regulation) Act, 1951, subject to certain exclusions), a rebate of tax, at the average rate of tax, calculated on two per cent of the sale proceeds of such commodities exported by the assessee directly, or sold by him to any other person in India and exported by such other person.

The Finance Acts of earlier years, up to and inclusive of the Finance Act of 1966, provided for the levy of tax on "Salary" incomes at the rates prescribed by the Finance Act of the preceding assessment year. Such provision was made to secure that in cases where the assessee had only salary income and had paid income-tax thereon by deduction at source during the relevant financial year at the current rate of income-tax, no further demand of tax or a refund of tax might be necessitated on applying the higher or lower rates of tax prescribed by the Finance Act of the year in which such income fell due for assessment. Such provision resulted in complications in tax calculations in cases where, besides salary income, the assessee had income from sources other than salary. In such cases, the tax had to be calculated, separately, in respect of the salary income, and the income other than salary, at different rates, and the rebates of tax admissible to the assessee had to be calculated at the average rate of tax arrived at with reference to the aggregate of the two taxes.

These complications have been avoided under the provisions of the Bill as it provides for the levy of tax on the salary as well as non-salary income liable to tax for the assessment year 1967-68, at the same rates of tax. This has been made possible due to the fact that the rates of tax prescribed by the Bill for the assessment year 1967-68 are the same as were prescribed by the Finance Act of 1966 in accordance with which tax was deducted at source during the preceding financial year from salary income liable to tax for the current assessment year.

Rates for deduction of tax at source from current year's salary income and income subject to payment of "advance tax" in the current year; and rates for deduction of tax at source from current incomes other than salaries.

As a step towards rationalising our tax system, the principle followed in the Bill in regard to the rates of taxes (and also the new provisions proposed to be made in the Income-tax Act) is that any changes in the rates and also, as far as possible, the new provisions in the tax laws, should apply prospectively, only to current incomes which are liable to tax for the succeeding assessment year, and not retrospectively to incomes which arose in the past year. The Bill proposes to provide tax relief in certain directions within the framework of the existing tax structure and, in accordance with the abovementioned principle, these changes have been made applicable only to current incomes which are subject to deduction of tax at source, or in respect of which 'advance tax' is payable by the assessee, during the current financial year. To achieve this purpose, Part III of the First Schedule to the Bill lays down separate rates at which tax is to be deducted at source from "Salaries" and the rates at which "advance tax" payable during the current financial year is to be computed. For the purpose of deduction of tax at source from incomes other than "Salaries", the annual Finance Acts prescribe special rates which are fixed on an ad hoc basis. The rates for such deduction during the current financial year have been

specified in Part II of the First Schedule to the Bill. The provisions in the Bill in these matters are explained hereinbelow.

Provisions relating to rates for deduction of tax at source from "Salaries" and computation of "advance tax" payable during the current financial year: These rates are basically the same as are applicable for the levy of tax on incomes liable to tax for the assessment year 1967-68, subject to the undermentioned provisions for granting certain reliefs.

(a) Non-corporate assessees.

Allowance for maintenance of dependent parents or grand parents in certain cases: A resident individual (whether unmarried or married) whose total income does not exceed Rs. 10,000, and who incurs any expenditure towards the maintenance of one or more of his parents or grand parents mainly dependent on him, will be entitled to a fixed allowance of Rs. 400 for the year; tax relief will be calculated on this at the rate of 5 per cent., applicable to the initial slab of income. Thus, the quantum of this tax relief will be Rs. 20. This relief will be available only where the personal income (from all sources) of the dependent parent or grand parent maintained by the individual, does not exceed Rs. 1,000 during the year. The abovementioned tax relief will be in addition to the tax relief on account of personal allowances otherwise available to the assessee under the current law.

In the case of resident individuals with a total income not exceeding Rs. 10,000, the total amount of tax relief on account of personal allowances (including the abovementioned allowance on account of dependent parents or grand parents) under the provisions of the Bill, compares with such tax relief available under the Finance Act of 1966 (and also under the Bill, in respect of income liable to tax for the assessment year 1967-68) as follows:

	Amount of tax relief in the case of resident individuals with total income not exceeding Rs. 10,000 and who maintain a dependent parent or grand parent, under the	
	Finance Act 1966	Finance (No. 2) Bill, 1967
Unmarried individual	Rs. 125 (5% of Rs. 2,500)	Rs. 145 (5% of Rs. 2,900)
Married individual with no dependent child	Rs. 200 (5% of Rs. 4,000)	Rs. 220 (5% of Rs. 4,400)
Married individual with one dependent child	Rs. 220 (5% of Rs. 4,400)	Rs. 240 (5% of Rs. 4,800)
Married individual with two or more dependent children	Rs. 240 (5% of Rs. 4,800)	Rs. 260 (5% of Rs. 5,200)

Where the total income of a resident individual maintaining one or more dependent parent or grand parent exceeds Rs. 10,000, the additional tax relief of Rs. 20, for the maintenance of a dependent parent or grand parent, will not be available. However, where the total income of such an individual exceeds Rs. 10,000 by a small amount, marginal relief will be available to him by way of limiting his tax liability to the aggregate of (a) the tax which would have been chargeable if his total income had been Rs. 10,000 and (b) 40 per cent of the excess over Rs. 10,000.

In the case of a resident individual who does not maintain any dependent parent or grand parent or is not entitled to tax relief for maintaining a dependent parent or grand parent (and also in the case of resident Hindu undivided families) the quantum of tax relief on account of personal allowance will be the same as before.

Increase in the ceiling limit of unearned income from un-

earned income surcharge. At present, unearned incomes (exclusive of interest on securities and dividends on units of the Unit Trust of India, in the case of individuals and Hindu undivided families) up to Rs. 15,000 do not bear the unearned income surcharge. Where the unearned income exceeds Rs. 15,000, such income in the slab of Rs. 15,001-50,000 bears surcharge at 20 per cent of the income-tax thereon, and that in the slab over Rs. 50,000, at 25 per cent of the income-tax thereon. With a view to encouraging savings and investments, it is now proposed to increase the limit up to which such unearned incomes do not bear surcharge from Rs. 15,000 to Rs. 30,000. Unearned income in the slab of Rs. 30,001-50,000, and in the slab over Rs. 50,000, will continue to bear surcharge at the existing rates of 20 per cent and 25 per cent, respectively, of the income-tax thereon.

(b) Widely-held companies (i.e., companies in which the public are substantially interested or wholly owned subsidiaries of such companies).

At present, widely-held companies whose total income does not exceed Rs. 25,000 are chargeable to tax at the concessional rate of 45 per cent of their total income, as against 55 per cent in the case of widely-held companies whose total income exceeds Rs. 25,000. In order to provide an incentive for the growth and development of small and medium scale industries in the sector of widely-held companies, it is proposed to extend the concessional rate of 45 per cent to such companies whose total income does not exceed Rs. 50,000.

Rates for deduction of tax at source in the current financial year from interest on securities, other interest, dividends, fees and other remuneration for professional services, brokerage and commission, etc. Under the existing law, the incomes subject to deduction of tax at source in the case of resident assessee are only "Salaries", interest on securities and dividends. In order to expedite and improve collection of revenue, it is proposed to extend the requirement of deduction of tax at source on incomes payable to resident assessee, to certain other categories of incomes credited to the account of the recipient or paid to him after September 30, 1967, by organised entities other than individuals and Hindu undivided families, e.g., by companies, partnership firms, associations of persons, etc. The incomes from which tax is to be deducted at source under the new provisions, and the rates at which such deduction is to be made, are shown in the following table:

Nature of income	Rate for deduction of tax at source.
(i) Interest (other than interest on securities) credited to the account of the recipient or paid to him, at any time, in an amount exceeding Rs. 200.	22 per cent.
(ii) Fees or other remuneration for professional services (not being salary income) credited to the account of the recipient or paid to him, at any time, in an amount exceeding Rs. 200.	22 per cent.
(iii) Commission or brokerage credited to the account of the recipient or paid to him, at any time, in an amount exceeding Rs. 500.	15 per cent.

The rates for deduction of tax at source shown in the above table apply to corporate as well as non-corporate asses-

sees receiving such incomes from organised entities. Where the recipient of the income is not a company, and his income during the relevant year is not likely to exceed the exemption limit for income-tax, it will be open to him to obtain an exemption certificate from the income-tax Officer in the usual manner, in which case, the income will be paid to him without deduction of tax at source. Alternatively, the recipient (not being a company or a registered firm) may, at his choice, furnish an affidavit to the person responsible for deducting the tax, declaring that his total income assessable for the assessment year next following the financial year in which the income is credited or paid will be less than the minimum liable to income-tax; in that case also, he will be entitled to receive the income without deduction of tax at source.

The persons responsible for deducting tax from the abovementioned incomes payable to resident assessee will be subject to the same obligations in regard to payment of the tax deducted to the credit of Central Government, accounting for it to the Income-tax Officer within the prescribed time, and furnishing a certificate of deduction of tax to the recipient of the income, and the same liabilities for failure to deduct the tax and pay it to the credit of the Central Government, as are cast upon them by the law in regard to deduction of tax at source from salaries, interest on securities, dividends, etc. In a case where the person responsible for deduction of tax from the incomes referred to above receives an affidavit from the recipient of such income declaring that his total income would be less than the minimum liable to income-tax, the person will be required to furnish a return to the Income-tax Officer within 30 days from the end of the relevant financial year, stating, inter alia, the names and addresses of the persons filing such affidavits and the amount of income credited or paid to them during the financial year.

In regard to deduction of tax from income by way of interest on securities, and dividends, payable to resident non-corporate assessee and to domestic companies, the rate at which such deduction is to be made during the current financial year is the same as before, namely, 22 per cent.

In regard to incomes payable to foreign companies, the rates for deduction of tax at source under the provisions of the Bill are the same as before, except on inter-corporate dividends received by them from any domestic company. At present, the rate for deduction of tax on dividends received by a foreign company from a closely-held Indian company (i.e., an Indian company in which the public are not substantially interested) mainly engaged in specified priority industries, is 15 per cent of such dividends. Where the dividend has been received by a foreign company from any other domestic company, the rate for deduction of tax therefrom is 25 per cent, which is the general rate applicable to inter-corporate dividends received by any company, whether domestic or foreign. These rates of 15 per cent and 25 per cent are derived from the existing provisions of section 85A of the Income-tax Act, under which inter-corporate dividends are eligible for a partial rebate of tax calculated at the difference between (a) the tax calculated on such dividends at the average rate of tax on the total income of the recipient company, and (b) the tax calculated on the dividends at the abovementioned percentage of 15 or 25, as the case may be. In order to simplify the calculation of the tax on inter-corporate dividends, the Bill proposes to introduce a new provision in the Income-tax Act (with effect from the assessment year 1968-69) replacing the existing provision for partial rebate by one of a straight deduction of a specified percentage of the inter-corporate dividend in the computation of the taxable income of the recipient company. Under this provision, a foreign company will be entitled to a deduction of 80 per cent of the amount of dividends received by it from a closely-held Indian company mainly engaged in specified priority industries and 60 per cent of the dividend received by it from any other domestic company. At the cur-

rent rates of income-tax in the case of foreign companies viz., 70 per cent, the deduction of 80 per cent of the inter-corporate dividends referred to above will result in a tax liability of 14 per cent (70 per cent of 20 per cent) on the whole of such dividends. In respect of other dividends, the deduction of 60 per cent thereof in the computation of the taxable income of the foreign company will result in a tax liability of 28 per cent (70 per cent of 40 per cent). Accordingly, the Bill provides for the deduction of tax at source from inter-corporate dividends payable to foreign companies in the two cases referred to above at 14 per cent and 28 per cent, respectively.

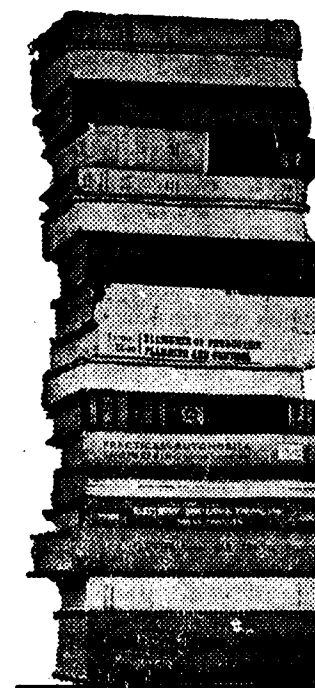
ANNUITY DEPOSITS

Annuity deposits in respect of incomes liable to tax for the current assessment year 1967-68.

Under the Bill, the rates of annuity deposits in respect of incomes chargeable to tax for the assessment year 1967-68 are the same as for the assessment year 1966-67. The Bill also does not propose to make any change in the law relating to annuity deposits for the assessment year 1967-68.

Annuity deposits in relation to current incomes liable to tax for the succeeding assessment year, 1968-69.

The rates at which annuity deposits are required to be made during the present financial year in relation to current incomes



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liable to tax for the assessment year 1968-69 will be the same as are applicable in relation to the assessment year 1967-68. The Bill, however, proposes to liberalise and simplify the provisions in the Income-tax Act relating to annuity deposits for and from the assessment year 1968-69, as follows:

(i) No annuity deposit will be required to be made with reference to the income arising to a depositor in a foreign country, where the laws of the foreign country prohibit or restrict the remittance of money to India.

(ii) Individuals who are aged more than 60 years on the last day of the financial year or any other accounting year relevant to the assessment year, will not be liable to penal tax (additional income-tax) for the assessment year 1968-69 and subsequent years, for failure to make an annuity deposit or for making a short deposit. It will be entirely optional for them to make any annuity deposit or not. Under the existing law, the age limit in this behalf is 70 years.

(iii) No penal tax will be chargeable in any case for failure to make the deposit where the amount of the deposit required to be made does not exceed Rs. 100. Penal tax will also not be chargeable in any case where the deposit actually made falls short of the deposit required to be made by an amount not exceeding 10 per cent thereof or Rs. 100, whichever of the two amounts is higher.

Proposed amendments to the Income-tax Act, and amendments to the Wealth-tax Act, Gift-tax Act and Companies (Profits) Surtax Act, regarding connected matters.

The Bill proposes to make several amendments to the Income-tax Act, 1961 and also certain amendments to the Wealth-tax Act, 1957, the Gift-tax Act, 1958 and the Companies (Profits) Surtax Act, 1964, regarding connected matters. The objects underlying the main amendments to the Income-tax Act are to provide tax incentives for increased savings and investment, development and growth of industry, inter alia for augmenting our foreign exchange resources and facilitating the rehabilitation of displaced persons and repatriates, and rationalisation and simplification of the provisions of the law relating to the computation of the total income or of the tax due thereon. Some of these provisions seek to grant tax relief in certain directions. A few other provisions relate to miscellaneous matters.

The main features of these provisions are explained herebelow.

(a) Provisions for encouraging savings and investment.

Raising the limit of the maximum amount of personal savings in life insurance, provident funds, etc., qualifying for tax relief in the case of individuals and Hindu undivided families.

At present, the maximum overall amount of savings in the form of life insurance, contributions to Government or recognised provident funds, deposits in a 10-year or 15-year cumulative time deposit account in the Post Office, etc., in the case of individuals is 25 per cent of the total income of the individual or Rs. 12,500, whichever is less. In the case of Hindu undivided families, the maximum amount of savings through life insurance, qualifying for tax relief is 25 per cent of the total income of the family or Rs. 25,000, whichever is less. In order to encourage savings through these media in larger amounts, it is proposed to increase the abovementioned limit of 25 per cent of the total income in the cases of individuals as well as Hindu undivided families, by 5 per cent, to 30 per cent. The alternative monetary limit is also proposed to be raised, in the case of individuals, from Rs. 12,500 to Rs. 15,000,

and in the case of Hindu undivided families, from Rs. 25,000 to Rs. 30,000.

This provision will be effective for and from the assessment year 1968-69.

Exemption from tax in respect of dividend income received by any assessee from an Indian company, where the total dividend income of the assessee does not exceed Rs. 500 in the year.

With a view to encouraging investment in shares in Indian companies by the middle income group, it is sought to provide that where the total amount of the dividend income of any assessee during the year does not exceed Rs. 500, the whole of the dividend income from Indian companies, included therein, will be allowed as a deduction in computing the taxable income of the assessee.

This provision will have effect for the assessment year 1968-69 and subsequent years.

(1) Developmental Incentives.

Continuance of the existing exemption from tax, of income from business of live-stock breeding or poultry or dairy farming, beyond the assessment year 1967-68, for an indefinite period.

At present, assessee deriving income from the above-mentioned businesses are exempt from tax on such income for three assessment years from 1965-66. This exemption, which is available up to the assessment year 1967-68 only, is proposed to be continued further for an indefinite period, in view of the continuing need of our country for the development and growth of such industries to supplement our food resources.

Tax concessions for promoting tourism in the country.

It is proposed to provide the following tax concessions to promote tourism in our country in order, inter alia, to augment our foreign exchange earnings:—

(i) An Indian company carrying on the business of a hotel will be entitled to deduction for initial depreciation allowance, in the computation of its business profits, in respect of a hotel building which is owned by it and the erection of which is completed after March 31, 1967. The initial depreciation allowance will be calculated at 25 per cent of the actual cost of erection of the building to the Indian company. The actual cost of the building will not be reduced by the amount of such initial depreciation allowance for the purpose of calculating its written down value on which normal depreciation allowance will be admissible to the company. However, the aggregate of the amount of depreciation allowances year after year (including the initial depreciation allowance) will be limited to the actual cost of the building.

The above-mentioned initial depreciation allowance will be admissible only where the hotel in respect of which the allowance is claimed is approved for this purpose by the Central Government.

(ii) The business of an Indian company carrying on the business of a hotel approved by the Central Government will be treated as a 'priority industry' for the purposes of the Income-tax Act. Accordingly, new machinery or plant installed by the Indian company in such a hotel after March 31, 1967, will be eligible for deduction on account of development rebate at the higher rate of 35 per cent of the cost thereof, as against the normal rate of development rebate of 20 per cent, in the case of industries other than priority industries.

Further, an Indian company carrying on the business of a hotel approved by the Central Government, will also be entitled to a deduction of 8 per cent of the profits derived by it from the

hotel, in the computation of its taxable income. This deduction will be available for and from the assessment year 1968-69.

(iii) The existing condition in the Income-tax Act that in order to be entitled to the 5-year 'tax holiday' concession, the Indian company running the hotel should also be the owner of the hotel premises will be removed with effect from the current assessment year 1967-68. Further, the existing condition (for the grant of the 5-year 'tax holiday' concession to an Indian company running a hotel) that the hotel building should not have been previously used for any other purpose will be replaced, with effect from the current assessment year, by the condition that the building should not have been previously used as a hotel. These changes will facilitate the setting up of new hotels by Indian companies in places of tourist interest in buildings which have been taken by them on hire or on lease or in buildings which have been previously used for residential or other purposes.

(iv) Under the present law, where a motor car has been acquired by an assessee for the purpose of his business after February 28, 1966 at a cost exceeding Rs. 25,000, the excess of the cost over Rs. 25,000 is ignored for the purpose of granting depreciation allowance in respect of the motor car. It is proposed to provide that this provision will not apply in the case of motor cars which are acquired by any assessee after March 31, 1967 and are run on hire for tourists. This provision will have effect for and from the assessment year 1968-69.

Provisions for encouraging scientific research in our country.

Under the present law, the amount of capital expenditure incurred by an assessee for scientific research related to his business is allowed to be amortised against the profits from the business over a period of five years, in equal instalments. The assessee is also entitled to a deduction by way of development rebate on new machinery or plant used by him for scientific research in the year in which such assets are installed or first put to use, at the general rate of 20 per cent of the cost thereof.

In order to provide further incentives for promotion of scientific research in our country, it is proposed to make the following provisions:

(i) New machinery or plant acquired and installed by an assessee after March 31, 1967 for the purpose of scientific research related to his business will be eligible for development rebate at the higher rate of 35 per cent of the cost thereof, as is applicable under the existing law in respect of new machinery or plant installed in any of the specified priority industries.

(ii) The amount of capital expenditure incurred by an assessee after March 31, 1967 for scientific research related to his business will be allowed to be deducted in full in computing the business profits of the year in which such expenditure is incurred.

The above-mentioned provisions will be effective for and from the assessment year 1968-69.

Provisions for the grant of rehabilitation allowance and certain other tax concessions for facilitating the reconstruction or revival of industrial undertakings whose building, machinery or plant, etc. have been damaged or destroyed due to natural calamities, civil disturbance, accidental fire or explosion or enemy action.

It is proposed to make provisions for granting the undermentioned tax concessions for facilitating the reconstruction or revival of the business of an industrial undertaking in India which is discontinued because of extensive damage to or destruction of its buildings, machinery, plant or furniture as a direct result of natural calamities (flood, typhoon, hurricane, cyclone, earthquake, etc.) riot or civil disturbance, accidental

fire or explosion or enemy action, whether with or without a declaration of war:—

(i) Where such business is re-established, reconstructed or revived by the assessee within a period of three years from the end of the year in which it was discontinued he will be entitled to a deduction, by way of 'rehabilitation allowance,' in the computation of his profits of the year in which the business is so re-established, re-constructed or revived. The 'rehabilitation allowance' will be granted in a sum equal to 60 per cent of 'terminal allowance' admissible to the assessee under section 32(1)(iii) of the Income-tax Act in respect of the damaged or destroyed building, machinery or plant or furniture.

['Terminal allowance' means the deduction allowable in the year in which the building, machinery, plant or furniture used in a business is sold, discarded, demolished or destroyed. The allowance is equal to the net capital loss incurred by the assessee in respect of such assets, i.e., the amount by which the salvage value or the insurance moneys receivable in respect of such assets falls short of their written down value.]

(ii) The unabsorbed business loss of the undertaking which is discontinued in the circumstances stated hereinabove, will be carried forward and allowed to be set off against the profits of the re-established, reconstructed or revived business up to a period of eight years as reckoned from the year in which the business was reconstructed, re-established or revived by the assessee.

(iii) The condition that an industrial undertaking will not be eligible for the 'tax holiday' concession under the Income-tax Act if it is formed by the splitting up or re-construction of a business already in existence, will not apply in the case of an industrial undertaking which was discontinued and is subsequently revived or reconstructed as stated above.

The above-mentioned provisions apply only in the case of an industrial undertaking which manufactures or produces articles. The provisions will take effect from the assessment year 1967-68.

Enlargement of the scope, and liberalisation, of the provisions in the Income-tax Act relating to the 'tax holiday' concession in the case of new industrial undertakings and hotels.

The undermentioned changes are proposed to be made in the provisions in the Income-tax Act relating to the 5-year 'tax holiday' in the case of newly set-up industrial undertakings owned by any assessee and hotels owned by Indian companies. (The 'tax holiday' consists of exemption from tax of profits derived from the undertaking or the hotel, up to six per cent per annum of the capital employed therein, for five successive years—seven years in the case of a co-operative society—commencing from the year in which the undertaking goes into production or the hotel starts operating):—

(i) Undertakings operating a cold storage plant, and Indian companies deriving profits from a ship (which, before its acquisition by the company, was not used in Indian territorial waters by a person resident in India) will also be eligible for the 'tax holiday'. This provision is proposed to be made effective from the commencement of the Income-tax Act, 1961, i.e., from 1-4-1962.

(ii) In the case of a hotel run by an Indian company, the condition that the 'tax holiday' will be available only where the hotel building is owned by the company is proposed to be removed with effect from the current assessment year. The further condition that the hotel building should not have been used previously for any purpose is sought to be replaced by the condition that the building should not have been used previously as a hotel.

(iii) As industrial enterprises are generally not in a posi-

tion to have adequate profits in the initial years, they are, often, not able to avail, in full, of the benefit of the 'tax holiday'. In order to make the 'tax holiday' concession more meaningful in such cases, it is proposed to allow a carry-forward of the amount of the 'deficiency' in the profits in relation to the amount of 6 per cent of the capital employed, during each year of the 5-year (in the case of a co-operative society, 7-year) period of the 'tax holiday', to the succeeding year in that period. The amount of the 'deficiency,' so carried forward from a year, will be added to the amount of six per cent of the capital employed in the succeeding year and the assessee will be entitled to exemption from tax in that year on his or its profits to the extent of the aggregate of such 'deficiency' and the amount of six per cent of the capital employed. Where such 'deficiency' is not fully absorbed by the fifth year (seventh year in the case of a co-operative society), the unabsorbed 'deficiency' will be carried forward to the succeeding year and in that year, the assessee will be exempt from tax on his profits to the extent of such unabsorbed 'deficiency' and so on, for succeeding year, up to the eighth year as reckoned from the year in which the undertaking commenced its operations or the ship was first brought into use.

The above-mentioned provision will not apply in the case of a unit where the 5-year or, as the case may be, the 7-year, 'tax holiday' period expired before the current assessment year, 1967-68. Further, any 'deficiency' relating to profits assessable for any assessment year before the assessment year 1967-68 will not be carried forward. To illustrate, where, in the case of a company manufacturing certain articles and closing its accounts at the end of the calendar year, the calendar year 1965 (i.e., the 'previous year' relevant to the assessment year 1966-67) was the fifth year from the year in which it commenced manufacture, the company will not be entitled to carry forward any 'deficiency' relating to that year or any earlier year, to the assessment year 1967-68 or any subsequent year. But, in the above example, if the year 1965 was the fourth year from the year in which the company started manufacture, the company will be entitled to carry forward its 'deficiency', if any, relating to its profits of 1966, which are assessable for the assessment year 1967-68, to the assessment year 1968-69. In so far as such 'deficiency' is not absorbed by the profits assessable for the assessment year 1968-69, the company will be allowed to carry forward the 'unabsorbed deficiency' to the next assessment year and so on, up to the assessment year 1970-71, that being the eighth assessment year as reckoned from the assessment year relevant to the accounting year in which the company started manufacture.

The provision in item (iii) above is proposed to be given effect to for and from the assessment year 1968-69.

Tax concession to new industrial undertakings mainly employing displaced persons or repatriates.

In order to accelerate the pace of rehabilitation of displaced persons from East Pakistan and repatriates from Burma, Ceylon, Mozambique and any other foreign country notified by the Central Government, it is proposed to provide a tax concession to newly set up industrial undertakings in India which provide employment mainly to such displaced persons or repatriates.

The main provisions in the matter are as follows:

(i) Any assessee who derives profits from an industrial undertaking, which satisfies certain conditions, and begins to manufacture or produce articles in any part of India at any time during the 3-year period April, 1967 to March 31, 1970, will be entitled to a deduction, in the computation of his total income, of an amount of 50 per cent of such profits, subject to a maximum deduction of Rs. 1 lakh. This deduction will be admissible for ten successive assessment years, commencing from the assessment year next following the accounting year in which the industrial undertaking begins to manufacture or produce articles.

(ii) In order to be eligible for the deduction referred to in

(i) above, the industrial undertaking has to satisfy the following conditions:—

(a) It should not be formed by the splitting up or reconstruction of a business already in existence or by the transfer to it of a building, machinery or plant previously used for any purpose.

(b) It should have a minimum number of 50 workers on every working day during the year.

(c) The average number of displaced persons or repatriates (including members of their families) employed by it on each working day during every month in the year should be not less than 60 per cent of the corresponding average number of all persons employed in the undertaking. The assessee will be required to produce a certificate in this behalf from the prescribed authority.

The terms "displaced person" and "repatriate" have been defined in the relevant provision, vide clause (1) and (9) respectively, of section 80B in the proposed Chapter VI A of the Income-tax Act, appearing in the Third Schedule, in item 13.

The above-mentioned provisions will take effect for and from the assessment year 1968-69.

(c) Measures for rationalisation of certain provisions of the law.

Provisions for facilitating distribution and allocation of work amongst Income-tax Officers on a functional basis, to expedite assessments and improve collection of revenue.

So far, the normal pattern of distribution and allocation of

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work amongst Income-tax Officers has been to assign to an Income-tax Officer all the functions to be performed in respect of a particular assessee or assessee within his jurisdiction. In view of the position that under this 'unitary' system of working, the Income-tax Officer having jurisdiction in respect of any area or group of assessee has to perform all the functions of an Income-tax Officer in relation to that area or those assessee, such as assessment of the income (including issue of statutory notices and determination of the tax liability), collection and recovery of the tax, and various other miscellaneous functions (e.g., taking proceedings for the demand and collection of 'advance tax', giving effect to appellate orders, etc.), some of these functions do not receive adequate and timely attention. Under this system, the time and energy of experienced and capable Income-tax Officers are also, to some extent, spent on comparatively minor functions, which can well be handled by officers having lesser experience. Some time back, we initiated a pilot project in a few selected Income-tax Ranges to experiment with the 'functional' system of distribution and allocation of work amongst Income-tax Officers. Under the functional system of working, distinctive functions in relation to the same case or group of cases, such as assessment, collection and recovery of taxes, and miscellaneous functions, are assigned to different Income-tax Officers selected for such functions, having regard to their experience, capability, aptitude and other relevant administrative considerations. A recent appraisal of the results of this experiment has shown a marked improvement, as compared with other Income-tax Ranges, in the matter of expeditious disposal of assessments, speedy collection of revenue, as also improvement in public relations, through quick disposal of assessments and claims for refund. The main advantages of the functional system of working are (i) specialisation in functions; (ii) timely attention to, and due concentration on, all important functions thus avoiding a situation under which the collection and recovery function or issue of refunds due in consequence of appellate orders, etc., may not be promptly attended to; (iii) streamlining the flow of work amongst Income-tax Officers (and also the ministerial staff in Income-tax Offices), to bring about quicker disposal of assessments and other proceedings, whereby the revenue due is collected well in time and the risk of a part of it becoming irrecoverable, through lapse of time, is minimised. Besides, the functional system of working also enables the reduction of work in compilation of tax statistics and maintenance of various registers and records, as these can be compiled and maintained under the functional system, for the Income-tax District or the Income-tax Range as a whole, instead of for each Income-tax Officer, separately, which has to be done under the 'unitary' system.

In order to facilitate the allocation and distribution of work amongst Income-tax Officers on the functional basis, it is proposed to make specific provisions in the matter in the Income-tax Act. The substance of the main provisions is as follows:

(i) Where two or more Income-tax Officers are appointed with reference to the same area or the same assessee, they will have concurrent jurisdiction in respect of that area or those assessee, and will perform such functions in relation to the said area or assessee as the Commissioner, or the Inspecting Assistant Commissioner of Income-tax authorised by the Commissioner for this purpose, may specify, in a general or special order in writing, for the allocation and distribution of the work to be performed.

(ii) The existing provision in the Income-tax Act, under which the Board or the Commissioner is empowered to transfer a case from one Income-tax Officer to another, will be enlarged in its scope to enable the transfer of a case from the jurisdiction of one or more Income-tax Officers to the transfer of one or more other Income-tax Officers. Where such transfer is made to two or more Income-tax Officers, they will perform such functions in relation to the case as the Board, or the Commissioner, or the Inspecting Assistant Commissioner

authorised by the Commissioner for the purpose, may specify, in a general or special order, in writing, for the allocation and distribution of the work.

(iii) To enable the maximum utilisation of the existing manpower resources of the Income-tax Department and to release Income-tax Officers for being deployed on comparatively important functions, the Commissioner will be empowered to assign comparatively simple or minor functions of an Income-tax Officer (such as work relating to "advance tax", collection of tax in simple cases, giving effect to appellate orders, rectification of errors, etc.) to Inspectors or members of the ministerial staff, by issue of a general or special order, subject to such conditions, restrictions or limitation as may be specified in such order. Where the Commissioner seeks to assign the more important functions of an Income-tax Officer, such as that of making assessments, reopening assessments, levy of penalties, etc., to lower authorities, e.g., where he seeks to authorise Inspectors of Income-tax to make assessments in small income cases, he will be able to do so only after he has been authorised by the Board in this behalf by a general or special order, in writing.

In line with the concept of functional distribution of work amongst Income-tax Officers, it is also proposed to make provisions in the Income-tax Act, enabling the Board to distribute and allocate work on the functional basis amongst two or more Commissioners appointed for the same area or the same assessee, and also enabling the Commissioner, similarly, to allocate and distribute work on the functional basis amongst two or more Inspecting Assistant Commissioners, appointed for the same area or the same assessee.

Provisions on the lines stated above are also proposed to be made in the Wealth-tax Act, 1957, the Gift-tax Act, 1958 and the Companies (Profits) Surtax Act, 1964, as the jurisdiction of tax authorities under these Acts is linked with the jurisdiction exercised by Income-tax authorities under the Income-tax Act.

Provisions for facilitating amalgamation of uneconomic company units.

Under the present law, certain tax liabilities are attracted in the case of a company merging with another company under a scheme of amalgamation and, also, in the cases of the shareholders of the 'amalgamating company' (i.e., the company which merges into another company) who receive shares in the 'amalgamated company' (i.e., the company in which the enterprise of the other company is merged) in lieu of their shareholdings in the amalgamating company. Some of these tax liabilities discourage amalgamations. For the purpose of facilitating the merger of uneconomic company units with other financially sound Indian companies in the interests of increased efficiency and productivity, it is proposed to make the following provisions in the law:

(i) There will no computation of any 'profit' under section 41(2) of the Income-tax Act in the case of the amalgamating company with reference to the consideration receivable by it in respect of any building, machinery or plant or furniture transferred by it to the amalgamated company. [The 'profit' under section 41(2) of the Income-tax Act is the excess of the sale proceeds or moneys receivable by the assessee in respect of any building, machinery or plant or furniture, over the written down value thereof, to the extent of the depreciation allowance actually granted on such assets.] As a corollary to this, there will also be no computation, in the case of the amalgamating company, of any 'terminal allowance' (i.e., the allowance for the net capital loss, if any, suffered on the transfer of any asset eligible for depreciation) in respect of such assets.

(ii) As a corollary to the provision at (i) above, the actual cost, as also the written down value of the building, machinery, plant or furniture transferred by the amalgamating

company to the amalgamated company will be taken, in the assessment of the amalgamated company, to be the same as in the case of the amalgamating company. Further, for the purpose of the provision in the Income-tax Act that the aggregate amount of depreciation allowed from year to year in respect of any asset will be limited to its actual cost, the depreciation actually allowed to the amalgamating company on the assets transferred by it to the amalgamated company will also be taken into account. In other words, when the aggregate of the depreciation allowed to the amalgamating company and the amalgamated company in respect of such assets is equal to the actual cost of the assets in the hands of the amalgamating company, the amalgamated company will not be entitled to any further depreciation on such assets.

(iii) Where the amalgamating company transfers to the amalgamated company any capital assets used by it for scientific research related to its business or for promoting family planning amongst its employees or any capital assets of the nature of patent rights or copyrights, the amalgamated company will be entitled to amortise the capital cost of such assets against its profits, under the existing provisions of the law in this behalf, as if the amalgamation had not taken place.

(iv) No capital gains or loss will be computed in the case of the amalgamating company in respect of any capital assets transferred by it to the amalgamated company.

(v) For the purpose of computing, in the case of the amalgamated company, any capital gains or loss in respect of assets which were transferred to it by the amalgamating company and are subsequently sold or otherwise transferred by the amalgamated company to any other person, the 'cost of acquisition' of such assets will be taken to be the same as in the hands of the amalgamating company.

(vi) The shareholders in the amalgamating company receiving shares in the amalgamated company in lieu of their original shareholdings will be liable to tax on capital gains only at the stage when they sell or otherwise transfer the shares in the amalgamated company and realise any capital gains thereon. Such capital gains will be computed by taking the 'cost of acquisition' thereof to be the cost of acquisition of the shares in the amalgamating company.

(vii) An amalgamating company which is a closely-held company will not be liable to any gift-tax in respect of the value of the assets transferred by it to the amalgamated company. (Widely-held companies are already exempt from gift-tax under the Gift-tax Act).

The above-mentioned provisions will apply only in a case where the amalgamated company is an Indian company. These provisions are sought to be given effect to for and from the assessment year 1967-68.

It is also proposed to redraft the definition in the Income-tax Act of the term 'amalgamation' in relation to companies in order to remove doubts in its interpretation and to rationalise it. The new definition clarifies that the term "amalgamation" includes not only the merger of two or more companies to form one company but also the merger of one or more companies with another existing company. The existing definition of the term "amalgamation" provides that shareholders holding not less than nine-tenths in value of the shares in the amalgamating company should become shareholders of the amalgamated company by virtue of the amalgamation. This condition excludes from the purview of the term "amalgamation" the case of a merger of a subsidiary company with its parent company. This is because upon such a merger, the above-mentioned condition cannot be satisfied. It is, therefore, proposed to provide that in applying this condition, the shares

already held by the amalgamated company or its subsidiaries in the amalgamating company immediately before the amalgamation will not be taken into account.

Provision for enabling disclosure of information regarding income-tax assessee to other tax authorities of the Central Government, tax authorities of state governments or authorities administering the Foreign Exchange (Regulation) Act, 1947, without the requirement of making individual applications for such information.

Section 138 (1) of the Income-tax Act enables the disclosure, by the Commissioner of Income-tax, of any information regarding the income-tax assessment of any assessee to any person who makes an application to him in this behalf. (The information so asked for in the application is given where the Commissioner is satisfied that it is in the public interest to furnish it). The requirement under this provision of making applications in individual cases for obtaining information stands in the way of a general exchange of information by the Income-tax Department about tax evaders, with other tax authorities or enforcement authorities functioning under Central Acts or with the tax authorities of the state governments. Where other tax authorities have no knowledge of a particular income-tax assessee, they are also not in a position to obtain any information from the Income-tax Department about such assessee because, under the present provisions of section 138(1) of the Income-tax Act, they can obtain the information only by making an application to the Commissioner of Income-tax for it, identifying the assessee and specifying the particular points on which the information is required by them. It is proposed to make a provision in section 138(1) of the Income-tax Act to remove these difficulties. Under this provision, the Board, or any other Income-tax authority authorised by it in this behalf, will be enabled to disclose information relating to income-tax assessee to authorities functioning under any tax law or to authorities administering the Foreign Exchange Regulation Act, 1947 or to any other authority functioning under any other law as may be notified by the Central Government, without any application for this purpose from such authorities. The information will be furnished if, in the opinion of the Board or other income-tax authority, the disclosure of information is necessary to enable the authority or authorities mentioned above to perform their functions under the law.

Provision to enable corporations, set up under a Central Act and exempt from tax on their income under any law for the time being in force, to receive their income without deduction of tax therefrom at source.

The Government and the Reserve Bank of India are entitled, under the existing provisions of section 196 of the Income-tax Act, 1961, to receive interest on securities and dividends on shares, owned and held by them beneficially, without any deduction of tax at source therefrom. It is proposed to extend the scope of this provision to cover corporations which are set up under a Central Act and are exempt from tax on their income under any law for the time being in force (such as the Industrial Development Bank of India). Income other than interest on securities, such as interest on deposits, commission and brokerage, is also proposed to be brought under the purview of the exemption conferred by the above-mentioned provision.

(d) Measures for simplifying tax calculations under the Income-tax Act.

It is proposed to amend or replace some of the existing provisions in the Income-tax Act in order to simplify tax calculations. The provisions which are sought to be replaced are, inter alia, those which provide for the grant of tax relief, by way of full or partial rebate of tax, calculated at the average

rate of tax applicable to the total income of the assessee, on the incomes or payments qualifying for rebate. Some instances of such incomes are certain incomes of co-operative societies, dividends received by the member of a co-operative society from the society, 'tax holiday' profits, dividends attributable to the 'tax holiday' profits of the company paying the dividends which enjoy rebate of tax at the full average rate of tax applicable to the total income of the assessee, and inter-corporate dividends, which enjoy a partial rebate of tax in the hands of the company receiving the dividends. Some of the other provisions which are sought to be replaced are those which provide for the levy of tax at a concessional rate of tax, such as capital gains in the case of non-corporate assessee, where the computation of tax is based on various average rates of tax applicable to particular components of the assessee's total income. The calculation of these rebates and reliefs with reference to the average rate of tax applicable to the total income of an assessee inevitably results in complications in calculations, and also makes it difficult for the common tax payer to comprehend his tax liability readily. The provisions which are proposed to be made in replacement of these, seek to allow a deduction, in the computation of the total income of the assessee, of the whole or a specified percentage of the income at present qualifying for rebate of tax. In the case of incomes which are at present chargeable to tax at concessional rates, e.g. capital gains and income by way of compensation for termination of managing agency, etc. in the hands of non-corporate assessee, the new provisions seek to allow a deduction, in the computation of the total income of the assessee, of a specified percentage of such incomes. Under the new provisions, the incidence of tax has been maintained, to the extent it was possible consistently with the objective of simplification of tax calculations, at more or less, the same level as under the existing provisions. Some difference in the incidence of tax under the existing and the proposed new provisions is, however, inevitable, because under the scheme of grant of rebate of tax, the incomes qualifying for the rebate form part of the taxable income, whereas under the scheme of straight deduction of the whole or part of such incomes, the deduction has the effect of reducing the assessee's income in the uppermost slabs, which bear tax at high rates.

The substance of the proposed provisions as well as some of the more important consequential provisions, is explained in the following paragraphs. These provisions are sought to be given effect to, prospectively, from the assessment year 1968-69, except for the provision mentioned below.

Simplification of the computation of income from self-owned and self-occupied house property:— Under the present law, the income from self-owned and self-occupied house property is calculated with reference to its annual value (in practice, its municipal valuation) as reduced by 50 per cent. thereof or Rs 1,800, whichever is less. The annual value so reduced is further limited to 10 per cent. of the total income of the assessee, and any excess over that limit is ignored. The prescription of the above-mentioned limit of 10 per cent. of the total income of the assessee gives rise to certain complications in calculations. This is because the total income itself comprises the net assessable income from the self-owned and self-occupied house property, which is to be arrived at by making various deductions from its annual value, referred to above, such as the allowance for repairs at one-sixth of the annual value, and other expenses such as ground rent and interest payable on the mortgage, if any, of the property. In view of this position, the income from self-occupied house property in such cases is computed under a formula derived from an algebraic equation. In recent years, the application of this formula has given rise to certain complications because of introduction of provisions in the Income-tax Act for the allowance of certain deductions, the amount of which varies with the magnitude of the total income e.g. the deduction of annuity deposit which is calculated at the prescribed rates on the adjusted total income

of the assessee, and the deduction of a specified percentage of approved savings qualifying for tax relief.

In order to resolve the difficulty mentioned above, it is proposed to provide that the annual value of self-owned and self-occupied house property will be limited to 10 per cent. of the assessee's other income (i.e. income other than that from the self-owned and self-occupied house property) as computed before making any deduction under Chapter VIA of the Income-tax Act or for annuity deposit. The deductions admissible under Chapter VIA of the Income-tax Act, inter alia, comprise the deduction of a specified percentage of the amount of savings through life insurance, Government or recognised provident funds, etc. qualifying for tax relief, deduction for expenditure incurred by resident individuals or Hindu undivided families on the medical care of handicapped dependants, etc. It is proposed to give effect to the above mentioned provision for and from the assessment year 1967-68.

New provisions for deduction, in the computation of the total income, of the full amount of incomes at present qualifying for rebate of tax: In the following cases, it is sought to provide for a deduction, in the computation of the total income, of the full amount of income qualifying under the existing law for a rebate of tax:—

- (i) Income of an authority constituted under any law for the time being in force for marketing of commodities.
- (ii) Incomes derived by co-operative societies, to the extent to which these qualify for rebate of tax at present.
- (iii) Dividends received by the member of a co-operative society from the society.
- (iv) 'Tax holiday' profits (covering also the element of



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'deficiency' or 'unabsorbed deficiency' referred to hereinabove) from newly set up industrial undertakings owned by any assessee and hotels and ships owned by Indian companies.

- (v) In the case of any shareholder of a company, dividends attributable to the 'tax holiday' profits of the company.

New provisions for deduction, in the computation of the total income of a specified percentage of the incomes or payments qualifying for rebate of tax: The substance of these provisions is stated below.

Allowance in the case of foreigners resident in India for the full time education of their dependent children abroad: Under the existing law, foreigners who are resident in India and incur expenditure for the full time education of their dependent children abroad are entitled to a rebate of tax, calculated at the average rate of tax applicable to their total income, on a sum of Rs. 2,000 per child, up to two children. The amount qualifying for the rebate is limited to 25 per cent. of the total income of the assessee.

Under the proposed provision, the assessee will be entitled to a deduction, in the computation of his taxable income, of an amount of Rs. 1500 for each child, up to two children maximum amount of the deduction will, thus, be Rs. 3,000.

Tax relief in respect of donations for charitable purposes, etc.: Under the existing law, companies are entitled to a rebate of tax on the qualifying amount of donations to the National Defence Fund, the Jawaharlal Nehru Memorial Fund, donations for charitable purposes or for the repair or renovation of temples, mosques, gurdwaras, etc. notified by the Central Government to be of historic, archaeological or artistic importance or to be places of public worship of renown, at the average rate of tax or at the rate of 27.5 per cent., whichever is less. In the case of non-corporate donors also, the rebate of tax on such donations is calculated at the average rate of tax applicable to their total income, subject to a maximum rebate of 50 per cent. of the qualifying amount of the donations.

Under the proposed new provisions, corporate as well as non-corporate donors will be allowed to deduct 50 per cent. of the qualifying amount of the donations in the computation of their total income. The new provision will also apply to donations made by any assessee to the Prime Minister's Drought Relief Fund. Such donations will, as in the case of donations to the National Defence Fund and Jawaharlal Nehru Memorial Fund, not be subject to the ceiling limits applicable in the case of donations to institutions set up for charitable purposes, and 50 per cent. of the whole of such donations will be allowed as a deduction in computing the taxable income of the donor.

Inter-corporate dividends, i.e. dividends received by any company from a domestic company: Under the existing law, inter-corporate dividends are eligible for a partial rebate of tax. The amount of such rebate is equal to the difference between (a) the tax calculated on the inter-corporate dividends at the average rate of tax applicable to the total income of the recipient company and (b) the tax calculated on the dividends at 25 per cent. thereof (15 per cent. where the recipient of the dividend is a foreign company and the company paying the dividend is a closely-held Indian company, mainly engaged in specified priority industries).

The above mentioned provisions are sought to be replaced by provisions for the allowance of a deduction, in the computation of the total income of the company, of an amount calculated at the following percentages of the inter-corporate dividends:

- (a) Dividends received by a foreign company from a closely-held Indian company mainly engaged in specified priority industries, 80 per cent. of such dividends

- (b) Dividends received by a foreign company from any domestic company (other than an Indian company of the type referred to at (a) above) and dividends received by any domestic company from any other domestic company, 60 per cent. of such dividends

Dividends received by an Indian company from a foreign company on shares in it allotted to the Indian company in consideration of supply of technical 'know-how' or technical services: Under the existing law, Indian companies are entitled to a partial rebate of tax on such dividends calculated in the same manner as in the case of inter-corporate dividends referred to above. After allowance of the rebate, the effective rate of tax, in the generality of cases, works out to 25 per cent. of such dividends.

Under the proposed new provision, Indian companies will be allowed a deduction of 60 per cent. of such dividends in the computation of their total income.

Royalty, commission, fees, etc. received by an Indian company from a foreign company in consideration of supply to the foreign company of technical 'know-how' or technical services: Under the present law, Indian companies are entitled to a partial rebate of tax on such income in the same manner as in respect of dividends received by them from any domestic company. After the grant of such rebate of tax, the effective rate of tax on such income in the generality of cases, is 25 per cent.

Under the new provision, it is proposed to allow a deduction of 60 per cent. of such income in the computation of the total income of the Indian company.

Provisions relating to incomes chargeable to tax at present at concessional rates of tax.

The existing and the proposed new provisions relating to such incomes are dealt with below.

Income by way of compensation on termination of managing agency etc. in the case of non-corporate assessee: Under the existing law, the tax payable on the total income including such compensation is the aggregate of—(a) the tax calculated on the assessee's ordinary income (i.e. income other than compensation) at the average rate of tax applicable to such ordinary income; and (b) the tax calculated on the income by way of compensation at the average rate of tax applicable to the aggregate of the assessee's ordinary income and one-third of the amount of such compensation.

It is proposed to replace the above mentioned provision by a provision for the allowance of a deduction, in the computation of the total income of the assessee, of an amount equal to 25 per cent. of the income by way of compensation, subject to a maximum deduction of Rs. 1,00,000.

Capital gains in the case of non-corporate assessee: Under the present law, capital gains are classified, for purposes of tax, into two categories. One of these is 'short-term' capital gains, i.e., capital gains relating to capital assets which were held by the assessee for a period not more than twelve months. The other one is 'long-term' capital gains, i.e., gains relating to capital assets held by the assessee for more than twelve months.

'Short-term' capital gains:—Where the total income includes 'short-term' capital gains, the tax payable on the total income, under the present law, is the aggregate of—(a) tax calculated on the assessee's ordinary income (i.e., income other than capital gains) at the average rate of tax applicable to such

income and (b) tax calculated on the 'short-term' capital gains at the average rate of tax, applicable to the total income (including the 'short-term' capital gains).

Thus, under the present law, while the 'short-term' capital gains included in the total income are chargeable to tax at the rates applicable to the total income, the ordinary income of the assessee is chargeable to tax at a concessional rate. The present law also bars the set off of losses relating to 'short-term' capital assets, in a year, against the assessee's ordinary income in that year. Such losses are carried forward to succeeding years and set off against 'short-term' capital gains only.

It is now proposed to remove the above mentioned provision for charging the ordinary income of an assessee having 'short-term' capital gains, at a concessional rate. The effect of this will be that in such cases, tax will be chargeable on the whole of the total income (including the 'short-term' capital gains) at the appropriate rate of tax applicable to it. As a corollary to this, it is proposed to allow losses relating to 'short term' capital assets, in a year, to be set off against the assessee's ordinary income in that year.

'Long-term' capital gains: Such capital gains are again classified into two categories, viz., (a) gains relating to lands or buildings or rights therein and (b) gains relating to other 'long-term' assets.

Under the present law, no tax is chargeable on 'long-term' capital gains where the assessee's total income (including such gains) does not exceed Rs. 10,000. Further where the total income exceeds Rs. 10,000 but the 'long-term' capital gains do not exceed Rs. 5,000, no tax is chargeable on such gains. Where the total income exceeds Rs. 10,000 and the 'long-term' capital gains also exceed Rs. 5,000, the excess is chargeable to tax. In such a case, the tax chargeable on the total income under the present law is the aggregate of—

(a) the tax calculated on the total income as reduced by the 'long-term' capital gains, at the average rate of tax applicable to the reduced total income; and

(b) The tax on the chargeable gains (i.e., 'long-term' capital gains reduced by the first Rs. 5,000 thereof), calculated—

(i) on the 'chargeable gains' relating to lands or buildings or any rights therein, at three-fourths of the average rate of tax referred to at (a) above; and

(ii) on the 'chargeable gains' relating to other assets at one-half of the average rate of tax referred to at (a) above.

The above mentioned provisions result in considerable complications in tax calculations. In order to simplify the calculations, the following new provisions are proposed to be made:

(1) Where the assessee's income from all sources, including 'long-term' capital gains does not exceed Rs. 10,000, the 'long-term' capital gains will be allowed as a deduction in computing the assessee's total income.

(2) Where the assessee's income from all sources (including the 'long-term' capital gains) exceeds Rs. 10,000, the assessee will be allowed a deduction, in the computation of his total income, of—

(a) in respect of 'long-term' capital gains relating to lands or buildings or any rights therein, the first Rs. 5,000 of such gains plus 40 per cent. of the balance, if any;

(b) in respect of 'long-term' capital gains relating to other assets, the first Rs. 5,000 thereof (only in so far as such deduction has not been availed of under (a) above) plus 60 per cent. of the balance, if any.

Ancillary provisions, consequential to the new pre-

visions for deductions, in replacement of the existing provisions for full or partial rebates of tax or levy of tax at concessional rates:

Some of the main ancillary provisions referred to above are as follows:—

(i) The total amount of the special deductions admissible to an assessee in the computation of his total income will be limited to the total amount of his income from all sources, as computed before making such deductions.

(ii) Where a firm, association of persons or body of individuals has availed of any such deductions in the computation of its total income, the partners of the firm or members of the association or body will not be entitled to claim the same deduction in respect of their share in the same income. For instance, where a registered firm's total income includes 'long-term' capital gains in respect of which the firm has availed of the deductions mentioned in the preceding paragraphs, the partners of the firm will not be entitled to claim such deduction against their share in the income of the firm, in the computation of their individual taxable income.

(iii) Under the system of grant of rebates of tax, the income qualifying for the rebate forms part of the total income of the assessee. Such income is, therefore, taken into account for various purposes of the Income-tax Act, e.g., for determining whether a 'closely-held' domestic company is mainly engaged in industrial activities, or determining the 'distributable' income of such a company. In order to maintain this position, provisions are proposed to be made to secure that the total income of the assessee, as computed before making the special deductions, will be taken into account for such purposes.

(e) Provisions for tax relief in certain directions.

Provisions for granting relief to industry in respect of the additional rupee cost incurred by it, due to devaluation of the rupee, on capital assets imported by it from abroad before the date of devaluation on deferred payment terms or against foreign loans.

The former Minister of Finance had announced, in the statement made by him in the Lok Sabha on November 21, 1966, certain measures for providing relief to assessee in respect of the additional rupee cost incurred by them due to devaluation of the rupee on capital assets imported by them from abroad, before the date of devaluation, on deferred payment terms or against foreign loans. The Bill proposes to make necessary provisions in the Income-tax Act to implement the announcement. The substance of the main provisions proposed to be made in the matter is as follows:

(i) The original actual cost of machinery or plant and other capital assets eligible for depreciation allowance will be allowed to be written-up in the previous year in which the date of devaluation falls, by the additional rupee cost incurred in respect of such assets due to devaluation, and depreciation allowance, but not development rebate, will be granted with reference to the cost so written-up.

(ii) The original cost of a capital asset used by an assessee for scientific research related to his business, as well as of capital assets used by a corporate assessee for promoting family planning amongst its employees, will also be allowed to be written-up similarly by such additional rupee cost, and amortised against the profits over a period of years, in accordance with the existing provisions in the matter in the Income-tax Act.

(iii) The amount of the capital expenditure incurred by an assessee in acquiring patent rights or copyrights from abroad prior to the date of devaluation will also be allowed to be written-up by the additional rupee liability incurred by the assessee in respect thereof due to devaluation, and the ex-

penditure so written-up will be allowed to be amortised against profits over a period of years, in accordance with the existing provisions of the Income-tax Act.

(iv) Where a capital asset acquired by an assessee from abroad before the date of devaluation is sold or otherwise transferred by him after the date of devaluation, the capital gains or loss, as the case may be, in respect of such asset will be computed with reference to the original cost of the asset as written-up by the additional rupee cost, if any, incurred by the assessee due to devaluation.

It is also proposed to provide that, conversely, where the rupee liability of an assessee in respect of any capital asset referred to hereinabove, imported from a foreign country on deferred payment terms or against foreign loans, is reduced due to an increase in the rate of exchange of the rupee in relation to the currency of the foreign country (say, due to the devaluation of the currency of the foreign country), the original cost of such assets will, for the purpose of grant of depreciation allowance or amortisation against profits, be reduced to the extent of the amount by which the assessee's rupee liability has been brought down.

The above-mentioned provision will have effect for and from the assessment year 1967-68.

Tax relief in respect of donations to the Prime Minister's Drought Relief Fund.

It is proposed to make a provision to secure that donations made by any assessee to the Prime Minister's Drought Relief Fund qualify for tax relief in his income-tax assessment in the same manner as donations to the National Defence Fund or the Jawaharlal Nehru Memorial Fund, i.e., without applying any ceiling limit to the amount of such donations qualifying for relief. (The ceiling limit on the amount of donations for charitable purposes, qualifying for tax relief is 10 per cent. of the total income of the donor or Rs. 200,000, whichever is less).

The above-mentioned provision will be effective for and from the assessment year 1967-68, and will, thus, cover donations made to the Prime Minister's Drought Relief Fund during the preceding financial year or any other accounting year relevant for the current assessment year.

Tax relief in respect of remuneration received from foreign sources by resident individuals of Indian citizenship for serving in foreign universities and other educational institutions as professors, teachers or research workers.

At present, Indian professors, teachers or research workers, who work for a short period during a financial year in a foreign university or other educational institution, are liable to Indian tax if they remain 'resident' in India for tax purposes in that year, on the whole of the remuneration received by them from the foreign university, or other educational institution, without any allowance for the expenditure incurred by them out of such remuneration for meeting higher living costs and other essential expenditure in the foreign country. To relieve this hardship, it is proposed to allow a deduction, in the computation of their taxable income, of 50 per cent of the remuneration received by them from a university or other educational institution of any approved association or body, established outside India. However, where the Indian professor, teacher or research worker renders continuous service abroad for more than thirty-six months, the remuneration received by him for any period of service after the expiry of the said thirty-six months, will not qualify for the above-mentioned deduction.

It is proposed to give effect to the above-mentioned provision for and from the assessment year 1966-67.

IV. Amendments to the Wealth-tax Act, the Gift-tax Act and the Companies (Profits) Surtax Act.

The proposed amendments to the above-mentioned Acts, in so far as they relate to matters connected with the proposed amendments to the Income-tax Act, have been dealt with in earlier sections relating to provisions for facilitating the distribution of work in the Income-tax Department on the 'functional' basis, and relating to exemption of a closely-held company from gift-tax, when it is amalgamated with an Indian company. The only other amendment proposed to be made to the Wealth-tax Act, 1957 is explained in the following paragraph.

Provisions for taking powers for the Central Government to declare any statutory corporation as a 'company' for the purposes of wealth-tax.

For the purposes of income-tax, a statutory corporation i.e., a corporation set up under any Central, State or Provincial Act, is treated as a "company", where it is declared to be so by the Board under terms of section 2(17)(ii) of the Income-tax Act. There is, however, no such provision in the Wealth-tax Act. In accordance with recent rulings of courts, a statutory corporation is liable to be assessed to wealth-tax in the status of an 'individual'. To remove this anomalous position, it is proposed to amend the definition of the term "company" in the Wealth-tax Act to take powers for the Central Government to declare a statutory corporation as a 'company' for the purpose of wealth-tax. This amendment is sought to be given effect to retrospectively from the commencement of the Wealth-tax Act. The effect of the declaration of a statutory corporation as a 'company' under this provision will be that, in common with a company formed and registered under the Companies Act, 1956, the statutory corporation will be liable to wealth-tax for the assessment years up to 1959-60 at the concessional rate

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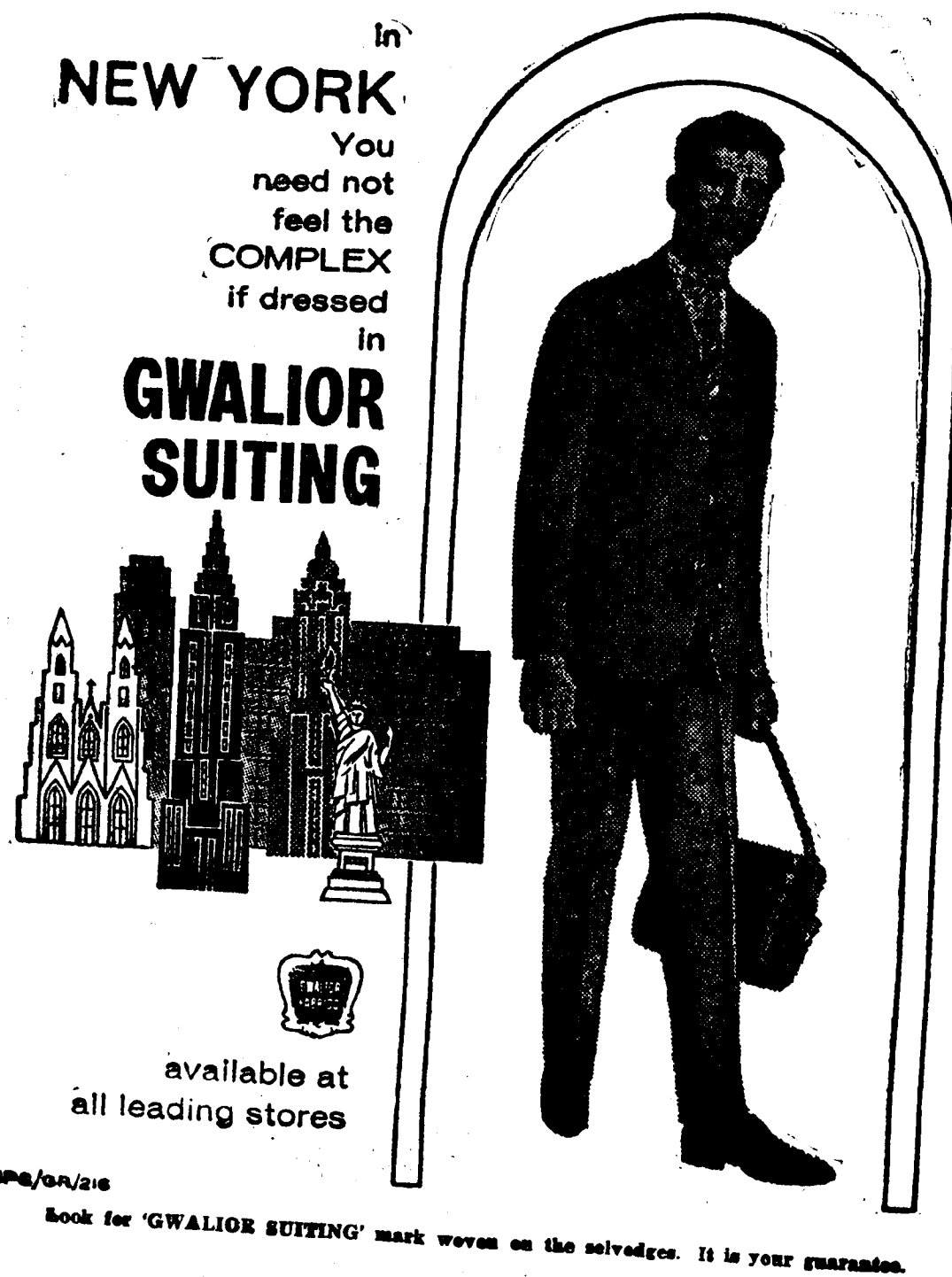
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of 1 per cent of its net wealth, and will be exempt from wealth-tax for subsequent assessment years.

V. Miscellaneous amendments and provisions.

Extension of the existing 5-year exemption of the Deposit Insurance Corporation from tax on its income, by a further period of five years from the assessment year 1968-69 to 1972-73.

The Deposit Insurance Corporation, which was established on January 1, 1962, under the Deposit Insurance Corporation Act, 1961, and insures deposits in banks up to a certain amount is, at present, exempt from tax, under section 30 of that Act, on its income of the first five accounting years. This exemption expires at the end of the assessment year 1967-68. As the Corporation now intends to extend the area of its insurance coverage and would need to build up adequate reserves for meeting possible risks, it is proposed to extend the period of its exemption from tax on its income, by another five years.

Provision for giving retrospective effect to the exemption from surtax, under section 32 of the Unit Trust of India Act, 1963, of the Unit Trust on its income and of contributories to the Unit Trust on the income derived by them from the Trust.

Under section 32 of the Unit Trust of India Act, 1963, as originally enacted, the Trust was exempt from super profits tax in respect of its income and, likewise, the institutions contributing to the initial capital of the Trust (such as the State Bank and its subsidiaries) were exempt from that tax on the income received by them from the Trust. As super profits tax was replaced with effect from the assessment year 1964-65 by surtax levied under the Companies (Profits) Surtax Act, 1964 provision was made in section 32 of the Unit Trust of India Act, 1963 by the Unit Trust of India (Amendment) Act, 1966 (enacted on May 29, 1966), conferring a similar exemption on the Trust and its contributories, from surtax. However, this amendment took effect from June 10, 1966, that being the date of the notification issued by the Central Government under the 'commencement' provision in section 1(2) of the Unit Trust of India (Amendment) Act, 1966. As the Companies (Profits) Surtax Act, 1964 took effect from 1-4-1964, and the intention has been that the exemption from surtax under section 32 of the Unit Trust of India Act, 1963 should be effective from the first assessment year for which surtax is chargeable, viz., 1964-65, it is proposed to make a provision in the Bill for giving retrospective effect to the above-mentioned amendment from 1-4-1964.

Provision for removing certain difficulties in the operation of the scheme, in section 68 of the Finance Act, 1965, for voluntary declaration of unaccounted income.

Section 68 of the Finance Act, 1965, (relating to voluntary disclosure of unaccounted incomes) provided for the levy of income-tax on incomes declared under the scheme during the specified period up to 31-5-1965, at a flat ad hoc rate (in general, 60 per cent). Incomes on which income-tax has been paid in accordance with the provisions of the said section 68 are immune from being charged to tax under the provisions of the Income-tax Act. Under the scheme, a declarant who did not pay the tax on the income declared by him at the time of the declaration, was permitted to furnish security (in the form of a bank guarantee, Government securities, assignment of shares in companies or mortgage of any immovable property) for the payment of the tax due from him. Such persons were required to furnish an undertaking to pay the tax within a period not exceeding six months from the date of the

declaration. However, in a number of such cases, the tax due has been paid, in full, after the expiry of the above-mentioned time limit of six months. (In the majority of these cases, the delay in payment ranges from 2 days to six months). In certain other cases, a part of the tax is still outstanding (about Rs. 67 lakhs according to present information). In such cases, the provisions of the scheme give rise to the following difficulties):

(a) The scheme does not contain any specific provision for the enforcement of the security furnished by the declarants, for realising the outstanding demand due from them. It does not also enable the Income-tax Department to take proceedings for recovering such demands under the provisions of the Income-tax Act. In the circumstances, the security furnished by the declarants can be enforced only through the process of civil law, which may result in litigation and long delays.

(b) The provisions of section 68 do not state clearly whether, in the event of failure of a declarant to pay the tax within the stipulated period of six months, he would cease to be entitled to immunity from being charged to tax on the income declared by him, under the provisions of the Income-tax Act. Even if it were to be held that in such a case the declarant would not be entitled to the immunity, this would result in hardship to the declarants who have already paid the full amount of the tax due from them within a short period from the expiry of the time limit of six months. This is because, in that case, they will have to pay tax on the disclosed income under the provisions of the Income-tax Act, in addition to the tax paid by them already, which, under section 68 of the Finance Act, 1965, cannot be refunded to them.

In order to resolve the above-mentioned difficulties, it is proposed to make the following provisions:—

(i) Any amount of tax on the declared income remaining outstanding on the date immediately following the expiry of the above mentioned period of six months, will be deemed to be tax due from the declarant under the provisions of the Income-tax Act and will be recoverable from the declarant in the same manner as any other arrear income-tax demand. Accordingly, the declarant will also be liable to pay simple interest at six per cent per annum, under terms of section 220(2) of the Income-tax Act, for the period of default in the payment of the arrear tax, and also be liable to the imposition of a penalty under section 221 of that Act for continuing default. For the purpose of initiating recovery proceedings in respect of such demands by issue of a certificate to the Tax Recovery Officer, the normal time limit under section 231 of the Income-tax Act, viz., one year from the end of the financial year in which the assessee is deemed to be in default, will be extended, by one year, to two years. Thus, recovery proceedings in such cases can be commenced at any time up to March 31, 1968.

(ii) The tax paid by or recovered from the declarant in respect of the income declared by him, at any time after the expiry of the period of six months stipulated in section 68 of the Finance Act, 1965, will be deemed to be tax paid by the declarant in accordance with the said section 68 and, thereby, the declarant will be immune from being charged to tax under the provisions of the Income-tax Act in respect of such income.

Repeal of the provisions in sections 2 and 3 of the earlier Finance Act of 1967 relating to rates of income-tax and annuity deposits.

As the provisions in the Bill relating to rates of income tax and annuity deposits seek to replace the corresponding provisions in the earlier Finance Act of 1967, with retrospective effect

from April 1, 1967, the said sections 2 and 3 of that Act are proposed to be repealed.

CUSTOMS

The proposals include:-

(a) A formal amendment of the First Schedule to the Indian Tariff Act relating to certain items making good an earlier omission to show the nature of the duty against each, which has no revenue implication;

(b) Continuance up to March 31, 1968, of the special duties of Customs at a flat rate of 10 per cent. of the duty otherwise payable on the lines of the provisions in section 44 of the Finance Act, 1966. A notification is, however, being issued exempting all imported goods from this levy so as to maintain the status quo;

(c) Continuance up to May 15, 1968 the enabling provisions for levy of a regulatory duty of Customs similar to the provisions in section 45 of the Finance Act, 1966;

(d) Reduction of export duty on certain categories of jute manufactures to stimulate exports;

(e) Rationalisation and reduction of export duty on tea so as to neutralise the effect of increase in excise duty and to simplify the assessment of duty;

(f) Reduction of export duty on certain categories of manganese ore;

(g) Reduction of export duty on Iron ore fines (including blue dust).

Changes enumerated in sub-para (d) to (g) being given effect to by notifications.

The loss in revenue as a result of these proposals is estimated at Rs. 1901 lakhs in one full year. Details of this amount are given in Table I.

Additional revenue amounting to Rs. 733 lakhs in expected from countervailing duties consequent on the changes in Central Excise Duties. Details of this amount are given in Table II.

There will, thus, be a net reduction in Customs revenue of Rs. 1168 lakhs made up as under:-

	(Rs. lakhs)
Loss due to reduction of export duties	(-) 1901
Gain by increase of countervailing duties	(+) 733
Net loss of revenue	(-) 1168



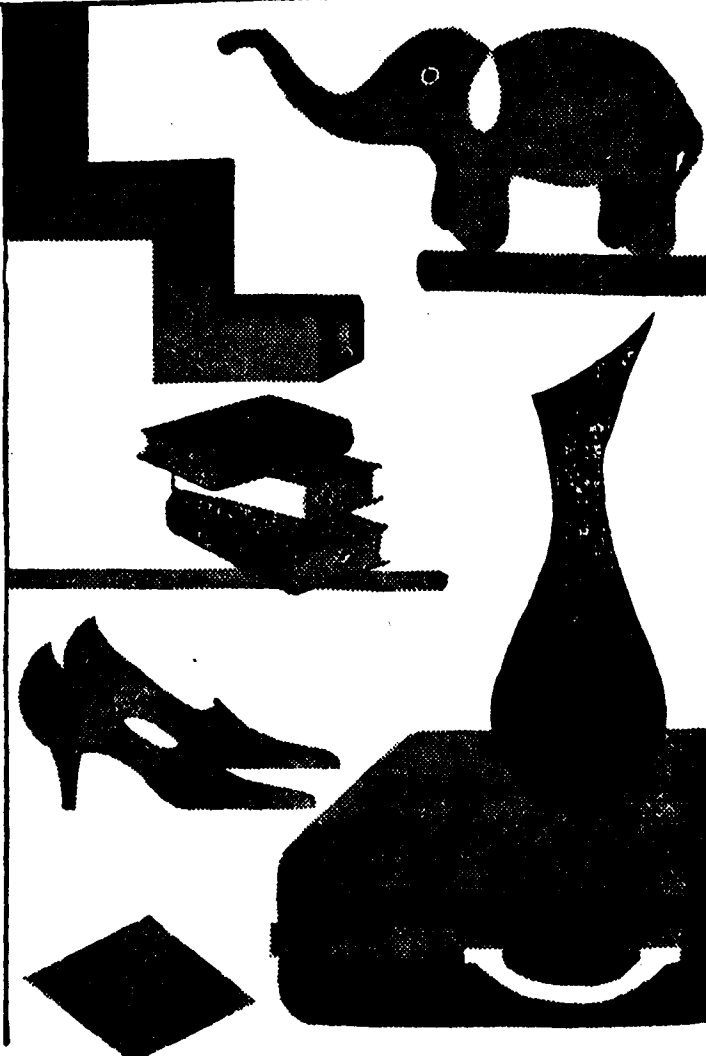
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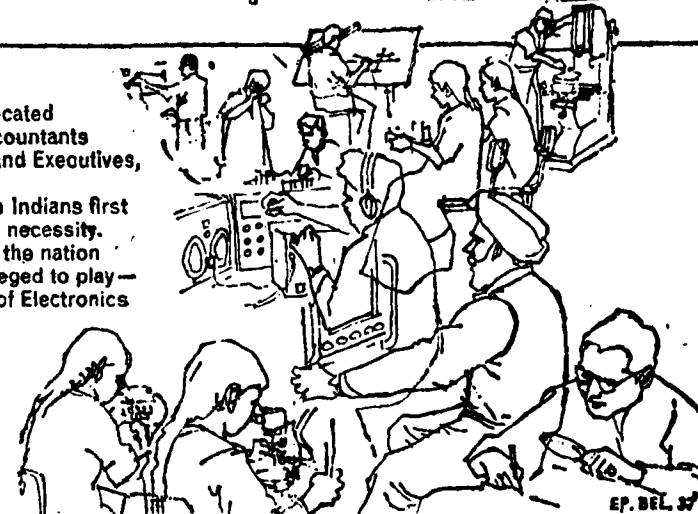
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TABLE I
EXPORT TARIFF

Item No. in the Second Schedule to the Indian Tariff Act.	Brief description of the goods	Unit	Present effective rate of duty. Rs.	Proposed effective rate of duty. Rs.	Estimated gain or loss of revenue in one full year. Rs. lakhs
2	Jute manufactures— (1) Hessians (other than carpet backing and jute specialities) (2) Carpet backing (3) Jute specialities (4) Sacking	Tonne	900.00 900.00 900.00 600.00	750.00 600.00 600.00 450.00	(—) 1350
5	Tea	Kg.	Existing specific rates of export duty related to value slabs are being replaced by ad valorem levies and with a reduction of 24 paise per kilogram so as to neutralise the excise duty increase.		(—) 468
7	Manganese Ore having 10 per cent or more but not more than 48 per cent of manganese content.	Tonne	20.00	12.50	(—) 68
29	Iron Ore—Fines (including blue dust).	Tonne	5.00	4.00	(—) 15
Total:					(—) 1901

TABLE II
MAJOR ITEMS FROM WHICH THE ADDITIONAL REVENUE IS EXPECTED BY WAY OF ADDITIONAL (COUNTERVAILING) DUTIES OF CUSTOMS

Item(s) in the Customs Tariff Schedule	Brief description of the goods.	Additional revenue one full year. (Rs. in lakhs)
27(6)	Motor spirit	80
47(2)	Artificial silk yarn and thread	500
66) 66(1) 87	Aluminium	93
	Artificial or synthetic resins and plastic materials	60
Total:		(+) 733

CENTRAL EXCISE
A—CHANGES PROPOSED BY BILL

Tariff Item.	Description	Unit	Rate of duty (Basic)		Estimated additional revenue during one full year.
1	2	3	Existing 4	Proposed 5	6
2	Coffee	Quintal 55.0	Rs. 85.0	Rs. 85.0	Rs. lakhs 102.0
Note: The existing special excise duty of 20 per cent of basic duty continues. Duty on Robusta or Liberia which is an inferior variety of coffee is being raised from Rs. 41.35 to Rs. 55/- per quintal by modifying the effective rate in the exemption notification.					
4-II(1)	Cigars and cheroots value of which per 100 exceeds does not exceed				1.0
	Rs.	Rs.	Per		
	25.00	—	100	20.00	21.00
	15.00	25.00	"	12.00	12.75
	5.00	15.00	"	4.00	4.50
	1.25	5.00	"	1.00	1.20
Note:—The existing special excise duty of 33 1/3 per cent of basic duty continues. Cigars and cheroots the value of which per hundred does not exceed Rs. 2.50 will continue to be exempted.					
6	Motor spirit	Kilolitre	455.0	550.0	1660.00
			effective rate of duty Rs. 451.05 per Kilolitre).		

It is a revenue measure

1	2	3	4	5	6
11-A	Petroleum products, not otherwise specified	10%		20%	200.0
	It is a revenue measure.	ad valorem		ad valorem	
15-A	Artificial or synthetic resins and plastic materials and articles thereof.	20%		30%	450.0
		ad valorem		ad valorem	

Note:—The existing special excise duty of 20 per cent of basic duty continues.

The duty on this item has remained unchanged since 1961.

Existing concessional rates of duty on synthetic resins and plastic materials which go into the manufacture of certain other excisable goods, such as paints and varnishes, artificial and synthetic yarns remain unchanged.

16-A	Rubber products				
(1)	Piping and tubing (including hoses)	15%)			
		ad valorem)			
(2)	Belting	15%)			
		ad valorem)			198.0

There is already an excise duty on two rubber products, viz. latex foam sponge and tread rubber (camel back) and it is proposed to extend this list by addition of rubber piping, tubing and belting. These products will in addition pay special excise duty at 20 per cent of basic duty like other rubber products.

Tariff Item No.	Description	Unit	Rate of duty						Estimated additional revenue during one full year.
1	2	3	Existing			Proposed			Rs. lakhs 10
			Basic	Special	Total	Basic	Special	Total	
			Rs. 4	Rs. 5	Rs. 6	Rs. 7	Rs. 8	Rs. 9	
18	Rayon and synthetic fibres and yarn	Kg.	12.0	4.0	16.0	45.0	15.0	60.0	2200.0
	Effective rates of duty								
	1) Staple fibre								
	a) of cellulosic origin	Kg.	0.60	...	0.60	0.60	0.20	0.80	
	b) all others	Kg.	2.00	1/3 of basic duty.	2.00 + 1/3 of basic duty.	12.00	4.00	16.00	
	2) Spun yarn								
	a) Staple fibre yarn of or less more than								
	(NF counts)								
	i) 51	Kg.	0.90	...	0.90	1.00	...	1.00	
	ii) 40	"	0.60	...	0.60	0.90	...	0.90	
	iii) 34	"	0.45	...	0.45	0.80	...	0.80	
	iv) 29	"	0.40	...	0.40	0.60	...	0.60	
	v) 22	"	0.25	...	0.25	0.45	...	0.45	
	vi) 14	"	0.15	...	0.15	0.30	...	0.30	
	vii) ...	"	Nil	...	Nil	Nil	...	Nil	
	b) Yarn spun either wholly out of synthetic staple fibre or partly out of synthetic fibre and partly of natural fibre, the natural fibre content of such yarn being not more than 40 per cent, if the non-cellulosic fibre content of it is—								
	i) 50% or more	Kg.	3.00	1.00	4.00	10.50	3.50	14.00	
	ii) less than 50% but more than 10%.	"	2.25	0.75	3.00	8.00	2.00	8.00	
	iii) 10% or less	"	1.50	0.50	2.00	4.50	1.50	6.00	
	3) Filament yarn								
	a) Viscose								
	of and Below								
	i) ...	Kg.	6.50	1.50	8.00	8.50	2.25	10.75	
	ii) 75 d	"	4.80	1.50	6.30	5.40	1.50	6.90	
	iii) 100 d	"	4.25	0.50	4.75	3.75	1.00	4.75	
	iv) 120 d	"	2.65	...	2.65	3.25	1.00	4.25	
	v) 150 d	"	2.50	...	2.50	2.80	0.80	3.60	
	vi) 350 d and above	"	2.50	...	2.50	)	No change.		
	not above 1100 d	"	2.00	...	2.00	)			
	vii) above 1100 d	"	2.00	...	2.00	)			

1	2	3	4	5	6	7	8	9	10
	b) Acetate of and above.	Below							
i)	...	75 d	"	6.00	1.50	7.50	8.50	2.25	10.75
ii)	75 d	100 d	"	4.50	1.50	6.00	5.40	1.50	6.90
iii)	100 d only		"	4.50	0.50	5.00	3.75	1.00	4.75
iv)	above 100 d but below 120 d.		"	2.50	0.50	3.00	3.75	1.00	4.75
v)	120 d	150 d	"	2.50	...	2.50	3.25	1.00	4.25
vi)	150 d	350 d	"	2.50	...	2.50	2.80	0.80	3.60
vii)	350 d and above		"	2.50	...	2.50	)	No change.	
viii)	above 1100 d		"	2.00	...	2.00	)		
	c) Other synthetic yarns of and above	Below							
i)	...	30 d	Kg.	9.75	3.25	13.00	42.00	14.00	56.00
ii)	30 d	75 d	"	9.75	3.25	13.00	27.00	9.00	36.00
iii)	75 d	100 d	"	8.00	1/3 of basic duty	8.00	15.00	5.00	20.00
iv)	100 d only		"	8.00	-do-	1/3 of) basic) duty)	12.00	4.00	16.00
v)	above 100 d but below 150 d.		"	6.30	2.10	8.40	)		
vi)	150 d and above but not above 750 d.		"	6.30	2.00	8.00	)		
vii)	above 750 d		"	3.00	1.00	4.00		No change	
	4) Godefwaste, etc.								
i)	of cellulosic origin		Kg.	0.60	...	0.60	0.80	0.20	0.80
ii)	Others		"	2.00	1/3 of basic duty	2.00	3.00	1.00	4.00
	5) Nylon yarn used in fishing nets and parachute cords.		"	3.00	1.00	4.00		No change	

It is a revenue measure. There is no change in the present concessional rates of duty on cellulosic or non-cellulosic yarns of deniers normally used in the manufacture of tyre cords, fishing nets and for other industrial purposes.

Tariff Item No.	Commodity	Unit	Rate of duty				Estimated addi- tional revenue during the full year. Rs. lakhs
			Existing		Proposed		
			Basic	Special	Basic	Special	
			Rs.	Rs.	Rs.	Rs.	
18A	Cotton yarn						1080
	(i) of counts 29 or more	Kg.	1.50	33 1/3% of basic duty	6.50	33 1/3% of basic duty	
	(ii) of counts less than 29	Kg.	0.60	20% of basic duty	1.00	20% of basic duty	

Effective rates of yarn duty				Existing		Proposed			
Count group		Basic		Special	In hanks		Others		
Of or more	Less than	In hanks	Others		Unsize	Sized	Unsize	Sized	
		Rs.	Rs.		Rs.	Rs.	Rs.	Rs.	
51	...	Kg.	0.90	1.25)	20% of basic duty	0.90	1.08	1.10	6.20
40	51	"	0.65	1.00)		0.65	0.78	1.10	6.20
34	40	"	0.40	0.75)		0.40	0.48	0.70	2.40
20	34	"	0.05	0.50)		0.05	0.06	0.70	2.40
22	29	"	Nil	0.40)	10% of basic duty	Nil	Nil	0.40	0.44
14	22	"	Nil	0.25)		Nil	Nil	0.25	0.28
6	14	"	Nil	0.15)		Nil	Nil	0.13	0.15
	6	"	Nil	0.10)		Nil	Nil		
Rates of compounded duty				Existing				Proposed	
				Basic	Special	Total			
Super Fine		Paise per Sq. metre		10.00	2.00	12.00		22.00	
Fine		"		7.50	1.50	9.00		15.00	
Medium A		"		6.00	0.60	6.60		6.60	
Medium B		"		4.00	0.40	4.40		4.40	
Coarse		"		2.00	0.20	2.20		2.20	

At present the cumulative incidence of yarn and fabric excise duties on fine and superfine cotton fabrics produced in powerloom sector is low. It is, therefore, proposed to raise excise duty on sized yarn of superfine and fine counts which will be borne by the powerloom fabrics. The existing rates of duty on yarn cleared in the form of hanks (straight or plain reels) mostly used by the handloom sector remain unchanged.

Tariff Item No.	Commodity	Unit	Rate of duty (Basic)		Estimated additional revenue in one full year. Rs. in lakhs
			Existing	Proposed	
			Rs.	Rs.	
22A	Jute manufactures				300.0
	(i) Hessians	Tonne	250.0	375.0	
	(ii) Others	"	125.0	175.0	
Note: The existing special excise duty of 10 per cent of basic duty continues. It is partly a revenue measure and partly to restrain internal consumption.					
27	Aluminium				1098.0
	(a) in any crude form, including ingots, etc.	Tonne	300.0	950.0	
	(b) manufactures, namely-plates, sheets, etc.	"	500.0	1450.0	
	(bb) foils	"	600.0	2000.0	
	(c) pipes and tubes other than extruded pipes and tubes	Tonne	10% ad valorem	20% ad valorem	
	(d) extruded shapes and sections including extruded pipes and tubes.		10% ad valorem	20% ad valorem	
Note: The existing special excise duty of 20% of basic continues. The duty on this item has remained unchanged since 1960 and the increase has been proposed as a revenue measure.					

B—CHANGES PROPOSED BY NOTIFICATION

Tariff Item No.	Commodity	Unit	Rate of duty (Basic)		Estimated additional revenue in one full year. Rs. in lakhs
			Existing	Proposed	
			Paise	Paise	
3	Tea				738.0
Zone I	(a) green tea	kg.	10	10	
	(b) others	"	15	25	
II		"	25	40	
III		"	30	50	
IV		"	35	55	
V		"	45	65	

Note:—The existing special excise duty of 20% basic duty continues. It is partly a revenue measure and partly to restrain internal consumption. These increases will, however, not affect teas exported as they are being neutralised by suitable reduction of export duty leviable.

Tariff Item No.	Commodity	Unit	Rate of duty						Estimated additional Revenue during one year. Rs. lakhs
			Existing			Proposed			
			B	S	A	B	S	A	
4II (2)	Cigarettes		Ad valorem			Ad valorem			2850.0
	Value per 1000		%	%	%	%	%	%	
	Exceeds	Does not exceed							
	Rs.	Rs.							
	25.0	—	55	11	15	95	19	20	
	7.50	25.0	45	9	7.5	65	13	11	
	—	7.50	30	6	5	35	7	5	
B=Basic excise duty S=Special excise duty			A=Additional excise duty in lieu of sales-tax.						
It is revenue measure.									

Tariff Item No.	Commodity	Unit	Rate of duty (Basic)		Estimated additional revenue during one year. Rs. in lakhs
			Existing	Proposed	
1	2	3	4	5	6
8	Refined Diesel Oil and Vaporising oil	Kl	489.0 (effective rate of duty Rs. 441.05 per kilo-litre)	489.0 (effective rate of duty Rs. 461.05 per kilo-litre)	760.0
It is a revenue measure.					
19	Cotton fabrics (produced in composite mills)				
	a) Cotton fabrics superfine	sq. metre	80.0	88.0	
	b) Cotton fabrics fine	"	60.0	60.0	
	Effective rates of duty				
	a) Cotton fabrics superfine	"			
	i) Grey	"	22.0	12.0	
	ii) Bleaching/dyed/printed	"	32.0	22.0	
					Rs. in lakhs (—) 300.0

1	2	3	4	5	6
	iii) Mercerised, etc.	"	52.0	42.0	
	iv) Shrink-proofed, etc	"	67.0	57.0	
	b) Cotton fabrics fine				
	i) Grey	"	16.0	10.8	
	ii) Bleached/dyed/printed	"	26.0	20.0	
	iii) Mercerised, etc.	"	46.0	40.0	
	iv) Shrink-proofed, etc.	"	61.0	55.0	

The proposal to reduce the rates in respect of superfine and fine varieties of mill-made fabrics is to offset the increases made in the yarn compounded duty for the said varieties. These adjustments ensure that the cumulative incidence of yarn and fabrics duty on mill-made fabrics remains unchanged. The duty on grey superfine and fine fabrics of powerloom factories with 50-300 powerlooms is being suitably reduced so that the existing margin of difference in their rates vis-a-vis composite mill rates is not lowered.

36	Footwear and parts thereof			275
	1) Footwear	Exempted	10% ad valorem	
	2) Parts of footwear	-do-	15% ad valorem	

It is proposed to withdraw the exemption from duty granted in February, 1965. Footwear made without the aid of power or in small power-operated establishments will continue to be exempted.

C—SPECIAL EXCISE, ADDITIONAL EXCISE (IN LIEU OF SALES-TAX) AND REGULATORY DUTIES

Except where already indicated otherwise, there is no change in the existing effective rates of special excise and additional excise (in lieu of sales-tax) duties.

The enabling provision for levy of a regulatory duty of excise similar to the provision in section 49 of the Finance Act, 1966, is being continued. However, the regulatory duty is not imposed on any commodity for the present.

ABSTRACT — CENTRAL EXCISE

		(Rs. in lakhs)			
Tariff Item	Commodity	Estimated additional revenue in one full year.			Total
		Basic excise duty	Special excise duty	Additional excise duty (in lieu of sales-tax)	
I. Existing Items.					
2	Coffee	85	17	—	102
3	Tea	615	123	—	738
4II(1)	Cigars and Cheroots	1	Negligible	—	1
4II(2)	Cigarettes	2090	418	342	2850
6	Motor Spirit	1660	—	—	1660
8	Refined Diesel Oil and Vaporizing Oil	700	—	—	700
11A	Petroleum Products N.O.S.	200	—	—	200
15A	Artificial or Synthetic resins and plastic materials	375	75	—	450
18	Rayon and Synthetic fibres and yarn	1398	802	—	2200
18A	Cotton twist, yarn and thread	1330	(-) 250	—	1080
19	Cotton fabrics	(-) 300	—	—	(-) 300
22A	Jute manufactures	273	27	—	300
27	Aluminium	915	183	—	1098
	Total	9342	1395	342	11079
II. New Items or re-imposition					
16A	Rubber products, namely, piping, tubing, belting	165	33	—	198
36	Footwear and parts	275	—	—	275
	Total	440	33	—	473
	Totals of I and II	9782	1428	342	11552
SUMMARY					
		States' Share	Centre's Share		Total
(a)	Basic excise duty	1956	7826		9782
(b)	Special excise duty	—	1428		1428
(c)	Additional excise duty (in lieu of Sales-Tax)	342	—		342
		2298	9254		11552

FUNCTIONAL SYSTEM

The work relating to assessments and collection of revenue in the Income-tax Department has so far been organised, generally, on the 'unitary' pattern under which all the functions in relation to a particular assessee or group of assessee, viz., assessment, collection and recovery of tax and other miscellaneous functions, are performed by one and the same Income-tax Officer having jurisdiction over the assessee or assessee. While this 'unitary' system of working was adequate to cope with the workload of the Department in the past, the position has changed in recent years due to the phenomenal increase in the number of tax-payers on the registers of the Department. The complexity and volume of our tax laws has also grown materially, in recent years, thereby throwing an enormous burden of work, qualitatively as also quantitatively, on the available manpower. This has inevitably resulted in increasing the backlog of assessments and outstanding tax demands awaiting recovery. It is neither possible nor practicable for Government to augment the manpower resources of the Department in arithmetical proportion to the increase in the workload. Government, therefore, felt it necessary to have a study made of the existing work procedures in the Department with a view to devising ways and means of improving them. A study of this nature was accordingly undertaken by a U.S. Tax Advisory Team working in close collaboration with the Central Board of Direct Taxes.

The study showed that the present 'unitary' system was comparatively wasteful in manpower and could, with advantage, be substituted by a 'functional' system. Before taking a decision to do so, however, it was felt that the new system should be introduced on an experimental basis in certain Income-tax Ranges. Accordingly, a pilot project of functional allocation and distribution of work among Income-tax Officers was initiated in September, 1966 in four Income-tax Ranges, two in Bombay City, one at Calcutta and one at Madurai (in the charge of the Commissioner of Income-tax, Madras).

The main feature of the 'functional' system of working adopted in the pilot project Ranges is that instead of one Income-tax Officer being responsible for various functions in relation to a group of assessee, such as, issue of notices, to them, assessment to tax, issue of demand notices and finally the actual collection to taxes, these functions, and if necessary, further sub-divisions of them, are allotted to different groups of officers. The advantage of this 'functional' distribution of work lies mainly in the fact that it enables an officer or a group of officers to specialise in certain specified functions, and thus to attain greater proficiency in these. The system is also conducive to economy inasmuch as it avoids the expensive practice of even comparatively simple functions being allotted to well-paid officers whose attention should be concentrated on the more important functions. It is, for instance, wasteful to require an Income-tax Officer who is trained mainly for the work of assessment to discharge simpler functions such as issue of notices for "advance tax" or give effect to appellate orders. Such items of work can be performed more economically by junior officers.

The results of the experiment, which was conducted under strict supervision of selected senior officers of the Income-tax Department, assisted by the U.S. Tax Advisory Team, fulfilled, largely, most of the expectations on the basis of which the scheme was initiated. The appraisal of the working of the pilot project Ranges for the first four months showed that the collections in these Ranges had registered a considerable increase over those in the corresponding period of the preceding financial year. The disposal of assessments in the pilot project Ranges also registered a substantial increase as compared to the disposals in the corresponding period in the preceding year.

After considering the results achieved in the pilot project Ranges, Government have decided to extend the functional system of working during the current financial year to Income-tax Ranges accounting for about 50 per cent to 60 per cent of the total Income-tax revenue. Arrangements in the matter were discussed at a recent conference of Commissioners of Income-tax at Delhi. It is also proposed to have a small unit at the headquarters for assistance to the field officers in the extension of the functional system of working.

In order to facilitate the distribution and allocation of work amongst Income-tax Officers on a functional basis, specific provisions in the matter are proposed to be made, through the Finance (No. 2) Bill, 1967, in the Income-tax Act, as well as in the Wealth tax Act, Gift-tax Act and Companies (Profits) Sur-tax Act. The substance of these provisions has been explained in the Explanatory Memorandum.

Apart from the four Ranges where the experiment noted earlier was carried out, several steps were taken in the other Ranges covering the rest of the country. The problems were two-fold. Firstly, it was necessary to improve the collection of taxes and, secondly, with a view to attaining better results in regard to collections, it was necessary to reduce the number of pending cases of assessment.

With regard to the first, it was noted that nearly 55 per cent of the direct taxes revenue came from company cases. Income-tax Officers were, therefore, directed to concentrate on the disposal of such cases, both current and arrears. Steps were also taken to concentrate on company cases in Circles manned by specially selected officers. Among the non-corporate assessee, nearly 80 per cent of the tax came from persons assessed on a total income of Rs. 25,000 or more. Income-tax Officers were, therefore, asked to concentrate on the disposal of these higher-income group cases. Income-tax Circles were also recognised and more officers put on the disposal of company cases and the higher-income group cases. These steps resulted in more expeditious disposal of the higher-income category cases and, therefore, in the collection of larger amounts of tax in regard to these cases.

In spite of these steps, it was appreciated that the number of pending cases for assessment would still remain high, because, in numbers, the small cases accounted for the bulk. Special steps were, therefore, necessary to improve the disposal of such cases. One such step taken was to issue instructions that small income cases below Rs. 7,500 which form nearly 70 per cent to 75 per cent of the total number of assessee, should be dealt with generously and liberally and detailed scrutiny of the returns submitted in such cases dispersed with. Even with regard to the next higher category of cases, viz., cases with incomes of and above Rs. 7,500 but not exceeding Rs. 25,000, instructions were issued to undertake detailed scrutiny not every year, but at longer intervals, i.e., once in three years.

These measures resulted in substantial increase in the disposals and collections as compared to earlier years. It is proposed, in the current year, to continue to deal with assessment cases in the same manner in order to maximise collections and, at the same time, reduce the number of pending assessments.

REVISION IN P & T TARIFFS

The maxima of the tariffs leviable for certain categories of postal articles/services are prescribed by the First Schedule in the Indian Post Office Act. Within the maxima so prescribed in respect of such articles and in respect of other postal articles not included in the Schedule, the Central Government have the power to fix the rates by notification in the Official Gazette. Similarly, for all telegraph and telephone services, Government have the power to make rules under the Indian Telegraph Rules and fix or alter the rates at which the several services shall be rendered. Such rules are required to be laid as soon as may be after they are made before each House of Parliament while it is

in session for a total period of 30 days. The proposals for the revision of tariffs in the following pages relating to the postal articles at items 1 and 2 in Section I require an amendment to the First Schedule to the Act and these have been included in the Finance Bill. The proposals for the changes in respect

of the other postal articles/services and for the telegraph and telephone services would be made by modification of the Indian Post Office Rules and the Indian Telegraph Rules. The latter would, as required in the Act, be laid as soon as made before each House of Parliament.

PROPOSED CHANGES IN POSTAL AND TELECOMMUNICATION TARIFFS

SECTION I POSTAL

S.No.	Items	Existing Tariff	Proposed Tariff
1.	Registered Newspapers	Not exceeding 100 gms Exceeding 100 gms and not exceeding 200 gms Per 200 gms thereafter For more than one copy Not exceeding 100 gms Per 50 gms thereafter Per 400 gms	2 P Not Exceeding 100 gms 5 P Exceeding 100 gms and not exceeding 250 gms 10 P Per 250 gms thereafter 3 P Not Exceeding 100 gms 5 P Per 150 gms thereafter 5 P Per 400 gms
2.	Parcels	Value not exceeding Rs. 100 Per Rs. 100 thereafter (upto Rs. 5000) Per Rs. 1000 thereafter (upto Rs. 10000)	40 P Rs. 100 20 P Per Rs. 100 thereafter (upto Rs. 5000) 100 P Per Rs. 1000 thereafter (upto Rs. 10000)
3.	Registration fee		60 P
4.	Insurance fee		60 P
5.	Express delivery fee		15 P
6.	Air surcharge on packets (including Registered Newspapers)		
7.	Book packets containing periodicals registered with the Press Registrar.	Per 10 gms Not exceeding 100 gms Per 50 gms thereafter	4 P Per 10 gms 8 P Not exceeding 100 gms 5 P Per 50 gms thereafter
8.	Book packets containing printed books.	Not exceeding 50 gms Per 25 gms thereafter	5 P For every 50 gms

SECTION I — Estimated additional revenue in a year Rs. 184 lakhs.

SECTION II TELEGRAPH

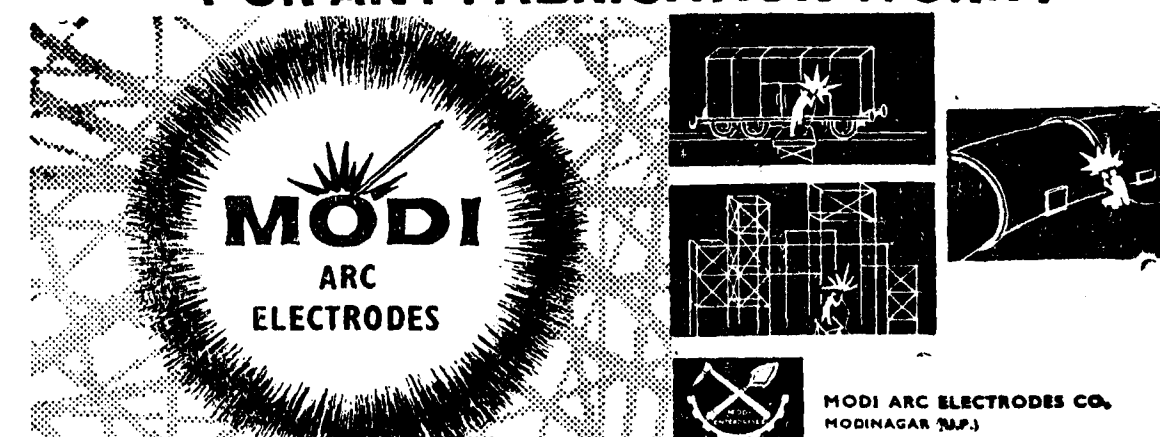
S.No.	Items	Existing Tariff	Proposed Tariff
		Ordinary Rs. P	Express Rs. P
1.	Inland Telegrams. Non-Press	First 10 words or less 1.00 Each additional word 0.10	First 8 words or less 1.00 Each additional word 0.20
2.	Greetings Telegrams	First 8 words or less 0.75 Each additional word 0.10	First 8 words or less 0.80 Each additional word 0.20
3.	Rental for a Teleprinter Machine	Rs. 1250/-p.a.	Rs. 1500/-p.a.
4.	Rental for part-time telegraph/teleprinter circuit (Other than those given to Newspapers and News Agencies)	For first hour 1/8 of full-time rent. For each subsequent hour 1/24 of the full-time rent.	When the circuit is required for not more than 8 hours. 1/4 full-time rent. When the circuit is required for more than 8 hours. Full-time rent.

SECTION II — Estimated additional revenue in a year. Rs. 102 lakhs.

SECTION III TELEPHONES

S. No.	Items	Existing Tariff	Proposed Tariff
1.	Direct Exchange Lines—within the local area. Flat Rate Telephone Exchanges of less than 300 lines capacity other than exchanges with restricted hours of service.	Annual rental Monthly rental	Annual rental Monthly rental
		Rs. 250 Rs. 23	Rs. 300 Rs. 27

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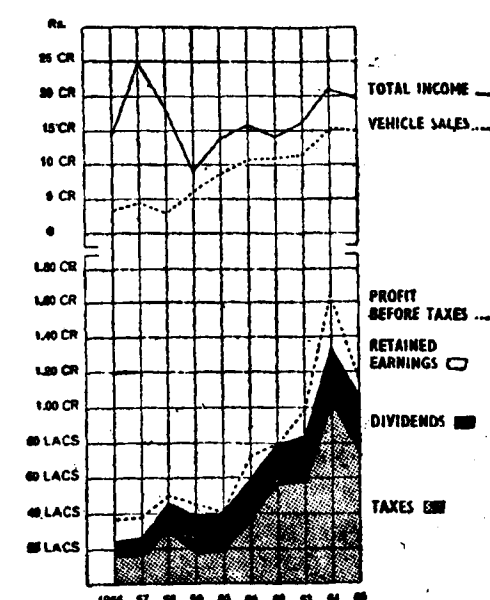
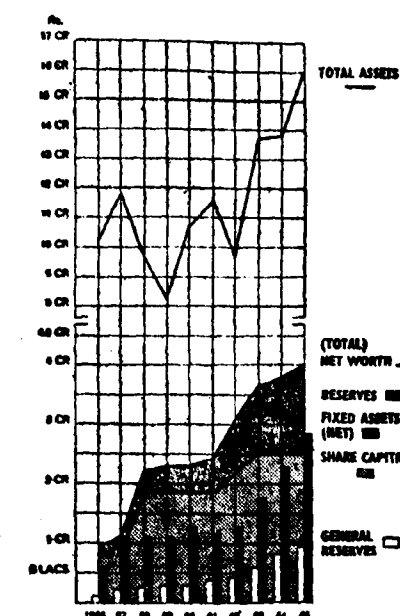
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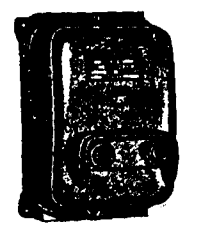
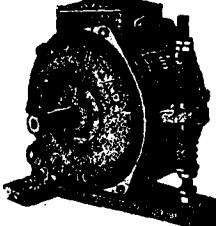
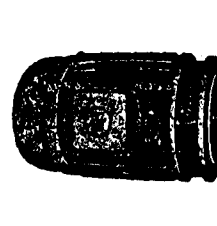
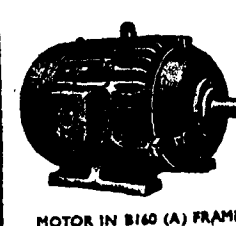
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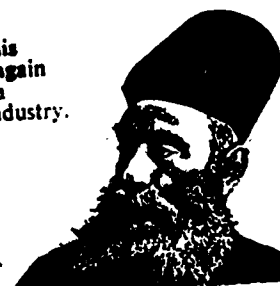
SENSORS-3-FAR-10A



The Seed Corn: The times that Jamsetji Tata lived in were different from our own. Every venture he started and that was successful was used to generate other ventures. From the textile mills came the resources which ultimately flowed into and made possible the power schemes and the steel schemes.

There is one quick way of bringing a farm to an end, and that is to rob the farmer of his seed corn. Out of each harvest, a farmer must put by a percentage of his corn to plant again in the next season. And if he has to expand and to plant new fields, then he must retain more and more of his crop to have more and more seed corn. Profit is the seed corn of industry. As the corn grows and the seed increases, so profits flow out of industry. They are not a weed, to be scythed by the scythe of taxation or to be eradicated by the hoe of nationalization. They are the measure of an industry's efficiency. They are the new power generated by that industry for the creation of further industries.

JAMSETJI TATA
1839 - 1904



TATA ENTERPRISES

S.No.	Items	Existing Tariff	Proposed Tariff
2.	Direct Exchange Lines beyond the local area.		
(a)	Measured Rates System - For each additional kilometre or part thereof actual distance beyond the local area.	Rs. 18 per quarter	Rs. 30 per quarter
(b)	Flat Rate System - For each additional kilometre or part thereof of actual distance beyond the local area.	Rs. 75 per annum or Rs. 7 per month	Rs. 120 per annum or Rs. 12 per month
3.	Extensions to Direct Exchange Lines, Private Exchange and Private Branch Exchange connections and private wires.		
(i)	Internal - without inter-communication facility (including internal connections from PX or PBX)	Rs. 60 per annum	Rs. 100 per annum
(ii)	Internal - with inter-communication facility (including internal private wires)	Rs. 100 per annum	Rs. 150 per annum
(iii)	External - lying entirely within the subscriber's premises - for the first kilometre (including external private wires and external connections from PX or PBX)	Rs. 150 per annum	Rs. 200 per annum
(iv)	External - outside the subscriber's premises - for the first kilometre (including external private wires and external connections from PX or PBX)	Rs. 250 per annum in) Measured Rate System) and Rs. 180 per annum) in Flat Rate System.)	No change in the) rate of rental for) the additional) length beyond the) first kilometre.) Rs. 250 per annum)
4.	Installation Fees		
(a)	For each telephone connection (other than casual) from Departmental Exchange, internal or external extension, Private Exchange or Private Branch Exchange connection, Junction line to Private Branch Exchange and for each end of a private wire.	Rs. 40	Rs. 50
(b)	For a casual connection from a Departmental Exchange.	Rs. 20	Rs. 30
(c)	For a Plug and Socket arrangement.	Rs. 40	Rs. 50
(d)	For each additional Socket	Rs. 20	Rs. 30
(e)	For each extra bell	Rs. 20	Rs. 30
5.	Local Private Wires for All India Radio.		
	Floating Lines	(a) Upto 4 miles Rs. 150 per annum (b) Beyond 4 miles, On actual cost basis	(a) Upto 6 kilometers. (b) Beyond 6 kilometers
			Rs. 400 per annum. An additional rent of Rs.75 per annum for each additional kilometer or part thereof. Annual rental.
6.	Extensions from Trunk Public Call Offices	Instruments Lines For every 1/4 mile or part thereof (upto 2 miles) For every 1/4 mile or part thereof (after the first 2 miles)	Annual rental Rs. 54 Rs. 36 Rs. 54 See Below Upto 1 kilometer (inclusive of the rent of the instrument) For each additional kilometer or part thereof. Rs. 100 Rs. 50

S. No.	Items	Existing Tariff		Proposed Tariff	
7.	Casual connections from Departmental Exchanges.	Rent	No. of local calls free of charge.	Rent	No. of local calls free of charge.
(a)	Measured Rate System				
	Upto 10 days	Rs. 15	50	Rs. 25	50
	Exceeding 10 days but not exceeding 30 days	Rs. 30	50	Rs. 50	50
	Exceeding 30 days but not exceeding 60 days.	Rs. 60	100	Rs. 100	100
(b)	Flat Rate System				
	Rate per day	Rs. 1.50		Rs. 2.50	
	Minimum charge	Rs. 15		Rs. 25	
8.	Reconnection Fee				
(a)	When restored within 7 days from the date of disconnection.			(a) When restored within 15 days from the date of disconnection.	
(i)	for a telephone or a plug point.	Rs. 20		Rs. 25	
(ii)	for a bell	Rs. 10		Rs. 15	
(b)	When restored after 7 days from the date of disconnection.			(b) When restored after 15 days from the date of disconnection.	
(i)	for a telephone or a plug point.	Rs. 40		Rs. 50	
(ii)	for a bell	Rs. 20		Rs. 30	
9.	Transfer Fee				
(a)	When transfer involves work at subscriber's premises.	Fee equivalent to the full installation fee appropriate to the facility.		Fee equivalent to the full installation fee appropriate to the facility (as in item 4)	
(b)	When transfer does not involve work at subscriber's premises.	Fee equivalent to half the installation fee appropriate to the facility, subject to a maximum charge of Rs. 50 for all the installations transferred at a time.		Fee equivalent to half the installation fee (as in item 4) appropriate to the facility, subject to a maximum charge of Rs. 100 for all the installations transferred at a time.	
10.	Shifting Fee				
(a)	For a shift from one position to another in the same room.	Fee equivalent to half the installation fee appropriate to the facility.		Fee equivalent to half the installation fee appropriate to the facility (as in item 4)	
(b)	In other cases.	Fee equivalent to the full installation fee appropriate to the facility.		Fee equivalent to the full installation fee appropriate to the facility (as in item 4)	
11.	Private Automatic Branch Exchanges.	Annual rental		Annual rental	
	5-Line Private Automatic Branch Exchange (inclusive of the rental for all the 5 internal connections)	Rs. 400		Rs. 600	
	9-Line Private Automatic Branch Exchange (inclusive of the rental for all the 9 internal connections)	Rs. 900		Rs. 1200	
SECTION III — Estimated additional revenue in a year					Rs. 158 lakhs.

SUMMARY OF ESTIMATED ADDITIONAL REVENUE IN A YEAR

	Rs. in lakhs.
Section I — Postal Tariffs	184
Section II — Telegraph Tariffs	102
Section III — Telephone Tariffs	158
Total	444

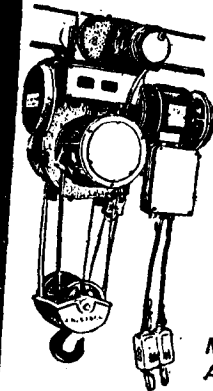
RAJASTHAN MARCHES AHEAD

		Position at the				Position at the	
		Beginning of first Plan 1950-51	End of third Plan 1965-66			Beginning of first Plan 1950-51	End of third Plan 1965-66
AGRICULTURE							
(i) Production				(i) Intake capacity			
(a) Foodgrains	Lakh tons	29.00	44.69*	(a) Degree level	Number	60	670
(b) Oilseeds	Lakh tons	0.80	2.56	(b) Diploma level	Number	—	1180
(c) Cotton	Lakh bales	0.90	1.74	(ii) Technical and professional colleges	Number	8	32
(d) Sugarcane (Gur)	Lakh tons	0.53	0.66				
(ii) Agricultural colleges				INDUSTRIES			
(a) Intake capacity	Number	—	410	Small scale Industrial units registered	Number	16 (1956)	5863 (1966)
(b) Agriculture colleges	Number	1	4	Loan Advanced to Small scale units	Rupees	1,22,500 (1954-55)	1,18,95,349 (1964-65)
(iii) Total wells	Number in lakhs	6.16 (By the end of 1955-56)	7.52 (By the end of 1963-64)				
IRRIGATION							
Area irrigated (Gross)	Lakh acres	28.93	51.41	ROADS			
POWER							
(i) Firm power available	M.W.	7.5	106	Total Mileage	Miles	11371	18909
(ii) Localities electrified	Number	32	1223				
CO-OPERATION							
(i) Co-operative Societies	Number	4908	22,571	HEALTH			
(ii) Membership	Number in lakhs	1.99	14.33	(i) No. of medical colleges	Number	1	5
(iii) Percentage of rural families covered	Percentage to total	1.5	33	(ii) Primary Health Centres	Number	—	230
COMMUNITY DEVELOPMENT							
(i) Rural population served	Percentage to total	—	100	(iii) Family Planning Centres			
(ii) Panchayats	Number	2475	7388	(a) Urban	Number	—	55
(iii) Panchayat Samities	Number	—	232	(b) Rural	Number	—	232
(iv) Zila Parishads	Number	—	26	(c) Mobile	Number	—	23
ANIMAL HUSBANDRY							
(i) Veterinary dispensaries	Number	88	127	(iv) Dispensaries	Number	143	215
(ii) Veterinary hospitals	Number	57	204	(v) Hospitals	Number	223	320
GENERAL EDUCATION							
(i) School going children				(vi) Inpatient beds	Number	4996	11775
(a) 6-11 years	Percentage to total	14.8	54.0	WATER SUPPLY			
(b) 11-14 years	Percentage to total	5.0	21.0	(i) Urban water supply schemes completed	Number	5	71
(c) 14-17 years	Percentage to total	1.7	10.0	(ii) Rural piped water supply schemes completed	Number	—	94
(ii) Educational Institutions				LABOUR AND EMPLOYMENT			
(a) Primary Schools	Number	4336	19038	(i) Intake capacity in crafts-men training institutes	Number	—	4168
(b) Middle Schools	Number	732	1756	(ii) Labour Welfare Centres	Number	6 (1954-55)	29 (1965-66)
(c) High Schools	Number	175	398	(iii) Employment provided	Number	9012 (1957-58)	1,49,387 (1965-66)
(d) Higher Secondary Schools	Number	—	336	TOURIST TRAFFIC			
(e) Colleges	Number	32	88	Foreign Tourists	Number	1500 (1955-56)	25,200 (1965)
(f) Universities	Number	1	3	Income from foreign Tourists	Rupees in lakhs	5	50.4
				Home Tourists	Number in lakhs	6.5	12
				Income from Home Tourists	Rupees	19.75 (lakhs)	2.40 (crores)
				ELECTIONS			
				Total number of votes polled		1952	1962
				Assembly		32,81,442	54,06,350
				Parliament		35,26,957	54,15,561

* Based on four yearly moving average from 1962-63 to 1965-66.

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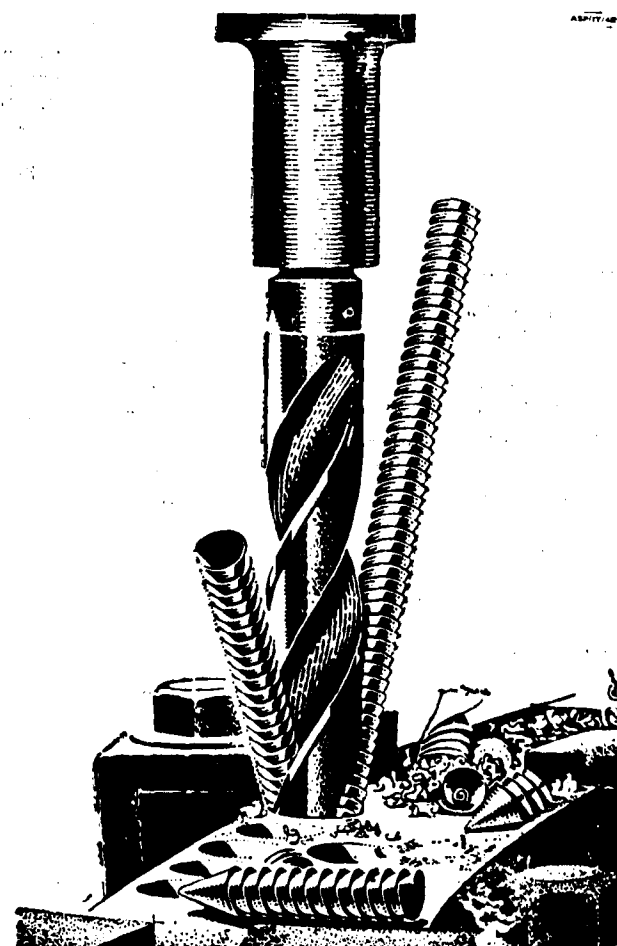
- ★ CAPACITIES :- 500 Kgs. to 10,000 Kgs.
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COMPANY NOTICES

Hindustan Aluminium Corpn. Ltd.

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the Eighth Annual General Meeting of the Shareholders will be held at Birla Matushri Sabha-gar, 19 Marine Lines, Bombay-1, on Thursday the 29th June 1967, at 4-00 P.M. to transact the following business :-

1. To consider and adopt the Directors' Report, the Audited Balance Sheet and the Profit and Loss Account for the year ended 31st December, 1966.
2. To sanction the declaration of dividend on Preference Shares for the year ended 31st December, 1966.
3. To sanction the declaration of dividend on Equity Shares for the year ended 31st December, 1966.
4. To appoint a Director in place of Mr Edgar P. Kaiser, who retires from office, by rotation, in accordance with Article 146 of the Articles of Association of the Company, and, being eligible, offers himself for re-election.
5. To appoint a Director in place of Mr Marvin L. Lee, who retires from office, by rotation, in accordance with Article 146 of the Articles of Association of the Company, and, being eligible, offers himself for re-election.
6. To appoint a Director in place of Shri D.P. Goenka, who retires from office by rotation, in accordance with Article 146 of the Articles of Association of the Company, and, being eligible, offers himself for re-election.
7. To appoint a Director in place of Shri G.D. Birla, who is an associate of the Managing Agents, Messrs. Birla Gwalior Private Limited, and who retires from office, by rotation, and, being eligible, offers himself for re-election, and to consider, and if thought fit, to pass the following resolution as a Special Resolution in respect of which Special Notice under Sections 190 and 261 of the Companies Act, 1956 has been received by the Company.

RESOLVED that pursuant to the provisions of Section 261 and other relevant provisions, if any, of the Companies Act, 1956, Shri G.D. Birla, who is an associate of the Company's Managing Agents, Messrs. Birla Gwalior Private Ltd., and who retires from office by rotation, and is eligible for re-election, be and is hereby re-elected as Director of the Company. The reasons which make this Special Resolution necessary are more fully set out in the Explanatory Statement annexed hereto, which, for the purpose of the said Section 261, shall be deemed to be incorporated in this notice.

8. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting, and to fix their remuneration.

NOTICE is also given that the Register of Members and Transfer Books of both Equity and Preference Shares of the Company will be closed from 8th June 1967 to 29th June 1967, both days inclusive.

By order of the Board

Per Pro BIRLA GWALIOR PRIVATE LIMITED
Bombay, Mahadeo Singh
Dated the 18th May 1967 Managing Agents

- N.B. :— (1) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
- (2) An Explanatory Statement in respect of the above Special Resolution is being forwarded to the members of the Company.
- (3) Dividends on Equity Shares and Preference Shares, when sanctioned, will be made payable from 25th July 1967 to those Shareholders whose names stand on the Register of the Company as on 29th June 1967 to whom Dividend Warrants will be posted.

TEXTILE MACHINERY CORPORATION LIMITED

NOTICE

Notice is hereby given that the Twenty-seventh Annual General Meeting of Textile Machinery Corporation Limited will be held on Thursday, the 29th June, 1967 at 4 P.M. at the Registered Office of the Company at Belgharia, 24-Parganas, West Bengal to transact the following business :-

1. To receive and consider the Report of the Directors and to adopt the Audited Accounts of the Company for the year ended 31st December, 1966.
2. To declare dividend on Preference and Equity Shares.
3. To appoint Directors in place of Shri G.R. Podar and Dr. S.C. Law, who retire by rotation and are eligible for re-election.
4. To appoint Auditors and fix their remuneration.

The Register of Members of the Company will remain closed from 17th June, 1967 to 29th June, 1967, both days inclusive.

By order of the Board.

O. P. Jhunjhunwala
SECRETARY.

Belgharia,
18th May, 1967.

N.B. : 1) A member entitled to attend and vote is entitled to appoint a Proxy to attend and vote instead of himself and the Proxy need not be a member.

2) Dividends when declared will be paid to the registered shareholders whose names would appear on the Company's Register on the 29th June, 1967 or to their order or to their Bankers on/or after 31st July, 1967.



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