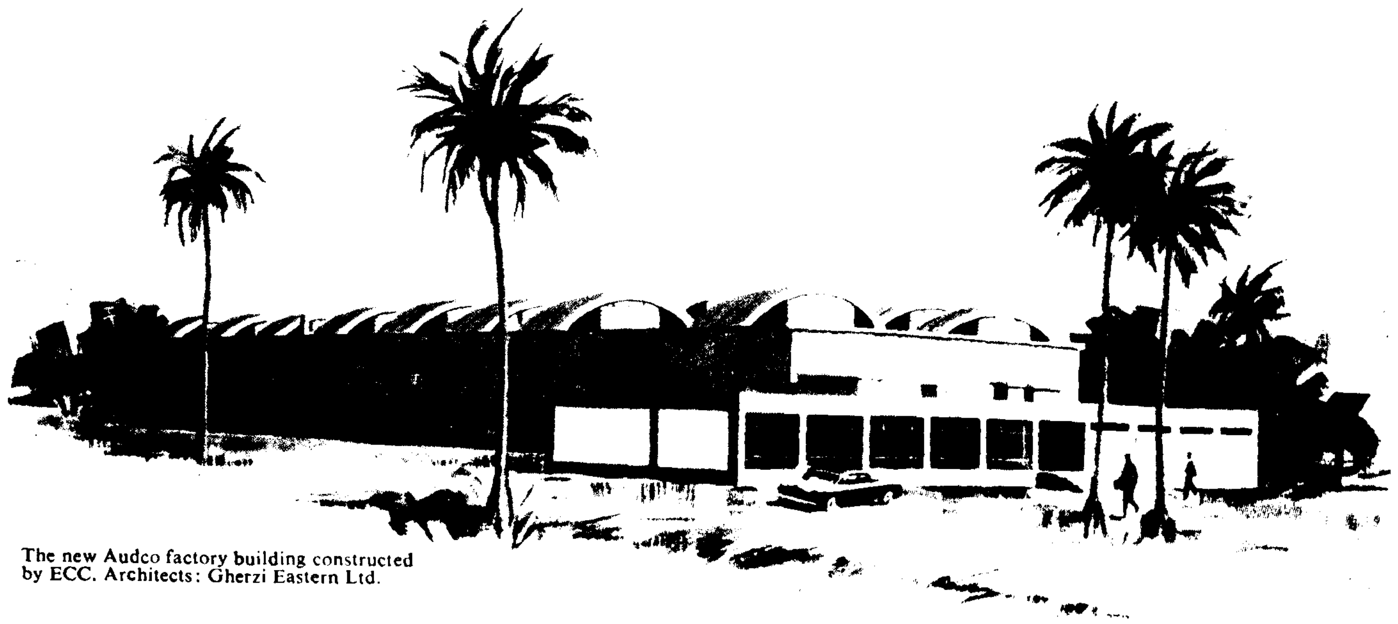
EASTERN ECONOMIST

BUDGET NUMBER

MARCH 15, 1968

RUPEES FIVE

"I hope his hearing will improve and so also his sense of smell".



The new Audco factory building constructed by ECC. Architects: Gherzi Eastern Ltd.

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THE BUDGET AS POLICY

The Deficit—Not Without Risks

IT WOULD be only partly because the central budget for 1968-69 has very few striking features that much of the discussion of it is likely to be centred in the size of the uncovered deficit of Rs 290 crores. Deficit financing of the order thus contemplated, against the background of the government's economic planning in the past years and the results and consequences of that planning as well as in the context of the current state of the economy or the outlook for the foreseeable future, is in itself a matter of considerable controversial substance and the government's decision would therefore have to stand the test of sound analysis.

Mr Morarji Desai has not attempted in his budget speech any elaborate statement of his case for courting a budgetary gap of Rs 290 crores that has to be covered by deficit financing. It is obvious however that, before the last word has been said on his budget proposals, whether in Parliament or outside, he will have to do a great deal of hard and close explaining. Like a prudent general, Mr Desai is perhaps only conserving his ammunition. At the moment, three arguments have been broadly indicated in defence of the government's position. These are as follows:

(a) There has been a considerable increase in agricultural production and as a consequence the prices of farm commodities have started coming down. This will have an easing effect on other categories of prices also. At a result, the prospect for price stabilisation will improve and it is therefore possible for our economic policy-makers to take their minds off the problem of inflationary pressures to some extent.

(b) Thanks to the recession in industry, there is an under-utilisation of capacities in many areas of manufacturing and a dose of reflationary budgeting should have a tonic effect on this production potential and make it yield a prompt increase in the supply of goods and services. And,

(c) Given the budgetary context, if deficit financing is to be avoided, the government will either have to cut down its expenditure, particularly on development outlays, or resort to a large dose of additional taxation or adopt some combination of both policies. Anyone of these courses is bound to generate pressures which may worsen the recession and put off the possibilities of economic recovery. A sharp curtailment of government spending would not only depress the level of aggregate demand but also hit directly and particularly hard those industries which are already affected by the recession and most of which are heavily dependent on government or government-financed purchases. A large increase in taxation, again, may depress both the capital market and the people's purchasing power, thereby curtailing expenditures on investment as well as current consumption, while some forms of additional taxation may directly add both to costs and prices. On balance therefore even a considerable degree of deficit financing is more suitable and certainly more safe in the present economic situation than the alternatives of curtailed government spending, additional taxation or a combination of both.

It is unlikely that the government's advocacy of its decision on deficit financing, which it will be forced to undertake in the coming weeks, will proceed much beyond an elaboration of the above considerations which have been already outlined on its behalf. We may therefore quite properly proceed, here and now, to assess in terms of these pleas the validity of the government's action.

To start with, how far is it true that the increased agricultural production and its possible repercussions on food and other prices are likely to offer adequate cover against the inflationary impact of deficit financing on the scale envisaged in the budget? The prices of foodgrains and other agricultural commodities have no doubt stopped rising and are coming down It will be noted however that there may not necessarily be a corresponding downward movement of the same order in prices at retail points or in the cost of living. For one thing, what is really happening is that free market prices, which had earlier soared to scarcity levels. are readjusting themselves to the improvement in supplies. They are nevertheless still high in relation both to prices in previous years and prices at which controlled supplies are available, not to speak of incomes at most levels of society. Meanwhile, the prices of controlled foodgrains themselves have gone up, partly as a result of higher procurement prices and partly due to the withdrawal of government subsidies. Consequently, so far as the people's purchasing power or their cost of living is concerned, the deflationary influence of improved farm production is still very limited. The situation would have been different had the government been disposed to withdraw the zonal restrictions on the movement of foodgrains and other allied controls imposed during the years of drought. Unfortunately, the government's policy in this respect is still indecisive, if not confirmedly negative.

So long as increased agricultural production is not allowed to impinge normally on the market forces of supply and demand, the deflationary potential of larger farm production, which the government is apparently so ready to take into account in arriving at its decision on deficit financing, will remain notional. The official mind seems either unwilling or unable to grasp the fact that. while controls remain, the producer will be encouraged in his notion that he is likely to get a better price if he could hold on to his stock longer and that it is therefore to his advantage to part with only as much grain or other supplies as may be needed to cover his essential immediate requirements of cash. Once this psychology takes hold of the farming community, two things will follow. First, prices will be prevented from readjusting themselves to the improvement in production. Secondly, since the farmer's conversion of his produce into cash will be slow, his effective demand for maunfactured goods will be correspondingly inhibited and production in the non-farm sector will not therefore be able to pick up, while costs, and therefore prices, in that sector may remain inflexibly high as a result of food and other prices not easing sufficiently for the reasons noted earlier. In other words, the assumption that the price level will be easing while production will be increasing, thereby providing a safe cushion for the inflationary potential of deficit financing, however plausible in theory in the circumstances of better harvests, may not be borne out in practice because the totality of the government's economic policies is not conducive to its realisation. The government is therefore running a considerable risk in relating its deficit financing to a blind faith in the compensatory possibilities of the improvement in agricultural production.

The argument that the recession in certain sectors of industry and the generally anaemic conditions of the economy justifies a certain amount of "resources transfusion" through resort to deficit financing for keeping up high levels of government spending on goods and services, it may be readily admitted, is not without substance. Indeed, one of the reasons for the depression in business activity in the last few years was an abrupt curtailment of government purchases from industries in which capacities had been built up earlier specifically for the purpose of meeting the government's requirements. In the short period, any further decline in government patronage of these industries would certainly aggravate the depression in their working beyond tolerable levels. A policy for avoiding such dislocation should therefore normally command our sympathy. But, at the same time, it is clear that there are limits to the government artificially inflating its offtake of goods and services from industry. Take, for instance. the case of the railways. It is certainly not sound economics for the railways to keep on buying wagons or any other equipment or material when they cannot put them promptly to economic utilisation. The utmost that could be legitimately done in such a case is for the railways to undertake forward planning of purchases by anticipating needs for some period ahead and scheduling its purchase orders in such a way that there

Eastern Economist 20 Years Ago

MARCH 12, 1948

The Damodar Valley Corporation Bill which was passed by the Central Legislature a few days back will be a landmark in the history of modern India. A multipurpose river project of a very big magnitude is being launched in this country. The Bill is a simple piece of legislation which defines the constitution of the Corporation, its powers, functions and financial obligations, and its relations with the Central Government as also with the participating Governments of Bihar and West Bengal. The provisions are laid down in broad outline and certain essential details are left to the discretion of the Central Government. Obviously the object is not to make the Bill rigid from the outset but to leave a sufficient scope for flexibility and adaptation from time to time in the light of actual experience. Whether this will lead to greater autonomy for the Corporation will depend primarily on the manner in which it conducts its affairs and inspires confidence in its capabilities. The T.V.A. has always been held as a model in shaping the pattern of the Corporation. but a major point of difference between the two is the comparatively high degree of control which the Central Government has been enabled to exercise over the Corporation. Government's stake in the project is substantial —the capital investment is estimated at Rs 55 crores—and it is in the fitness of things that a necessary margin of discretionary authority should be vested in it.

can be reasonable continuity in the working of the dependent industries.

Even here the line that divides legitimate "production-support" policies from wasteful yielding to pressure groups would be very thin indeed. It stands to reason that the railways, especially in view of the shortage of investible resources in the economy, cannot or should not be made to invest in equipment which its operational needs, whether actual or prospective, do not justify. This logic would apply to other purchasing operations of government or semi-government agencies also and the net import of this would be that a government financed artificial maintenance of demand, whether in the aggregate, sectoral or selective, might lead to a wastage of both financial and physical resources at a time when both are admittedly short of their requirements of sound, long-term economic development. Indeed, it would be a paradox if the government or the nation were to divert resources into make-work programmes while proposing to cut down investment in long-term economic development on the plea of there being a shortage of capital.

Dubious Assumption

This apart, there is no good reason to assume that there is a very considerable, direct relationship between a high level of government spending and the process of reflating demand in areas where this therapy has been rendered necessary by the recession. Instances, such as the railway demand for rolling stock or the defence demand for stores, are only rare illustrations of this direct relationship. It is true, no doubt, that work on the Bokaro project, which would be a major item of government spending on capital account in the budget year, will create a demand for the products of sections of the capital goods industry. But what we are looking for is really a general revival of the machine tool and engineering industries, both heavy and light, and we must realise that this is something which only an upsurge of a variety of industrial activity, triggered by the recovery of consumer demand on a wide front, can achieve. To illustrate, unless there is an improvement in the off-take of cotton textiles, which would create a favourable atmosphere for the textile industry to think in terms of modernisation and expansion, the large idle capacity in the textile machinery industry cannot be reactivated. In this sense, the scope for government spending as a means of reviving production or growth in recession-hit industries may be rather limited.

The Finance Minister may believe perhaps that he could most effectively deal with critics of deficit financing by impaling them on the horns of a dilemma. He is no doubt free to ask them whether they would recommend that he should seek to cover the budgetary gap by additional taxation and curtailing development outlays further or by one or the other of these measures. Considering the state of the economy, few could advocate with a sense of responsibility an additional tax effort of any substance. Not many perhaps would like to see the development expenditure further curtailed either. They might argue that, since government spending has, in any case, attained a certain high level, it would be as well that as large a part as possible of this expenditure is diverted to purposes directly, or more or less directly, contributory to the growth of the economy. It is true that opinions may differ on the merits of individual outlays. For instance, the wisdom of government committing large funds to the Bokaro steel project, when the urgency of the scheme is not by any means self-evident, may continue to be in dispute. The budget, it may be noted, makes a provision of Rs 110 crores for this project in the coming year. Some might choose to believe that if economic considerations alone had weighed with government, the scheme would have been deferred to a later date, when the availability of resources might have improved. But, on the broad question whether the alternative to deficit financing or substantial additional taxation is not the whittling down of development outlays, most of us might well feel that it would not be either fair or reasonable on the part of the government to pose the problem in precisely this manner. In our view, Mr Morarji Desai could very well have undertaken a more thorough-going scrutiny of government expenditures of all kinds, while in the process taking care to see that really productive development outlays suffer as little

DEFICIT FINANCING

(Rs crores)

Period	Budgetary deficit of the centre (1)	Budgetary deficit of states (2)	Treasury bills purchased and discounted by RBI (3)	RBI's support to long-term securities (4)	Total deficit financing by central & state govts. (5: 1+2+3+4) (5)
First Plan	401	—67	4	—78	260
Second Plan	914	51	27	185	1177
Third Plan:					
1961-62	59	29	15	78	181
1962-63	168	—36	9	39	180
1963-64	195	—22	14	25	212
1964-65	190	—38	42	—32	162
1965-66	138	196	—3	67	398
Total:	750	129	77	177	1133
1966-67†	241	—93	112	—37*	223

* Arrived at after adjusting for valuation of securities on account of devaluation.

† Provisional

damage as possible. This would certainly have been the most responsible way of dealing with the problem of the budgetary gap.

To us, at any rate, it does not appear that Mr Desai has done all that he could have as Finance Minister or, what is here more important, in his larger capacity as Deputy Prime Minister, to force the government to cut the coat according to the cloth. It is a well known fact that the spending ministries are apt to behave as if they are a law unto themselves and that it is only through the ruthless imposition of a higher will that they can be brought under the necessary fiscal discipline. The government's defence of its levels of expenditure is familiar enough. Question-begging arithmetic is freely thrown at critics in an attempt to prove that the bulk of government spending is of the unavoidable kind, such as the provisions made for national security and defence or the salaries and other emoluments of government personnel, or welfare activities, such as family planning, public health and education. We are forced to say that, in adopting such tactics, the government has been less than honest with the taxpayer. Recent events in Britain have shown that when a real need arises and when a government is forced to economise or go broke, it is quite able to cut expenses in areas where savings were previously thought to be either inconceivable or impossible.

Even the government of the richest country in the world, the United States, has lately been compelled by public opinion as well as pressure in its legislative branch to look for effective economies in all areas of spending, whether at home or abroad. Against this background, the government can hardly hope to convince its citizens, simply by repeating parrot-like that all its expenses are inexorable and inviolable, that no further savings are possible in its expenditure, whatever the economic circumstances of the country and its people may be. Mr Desai's feeble plea that he has to wait for the conclusion of the labours of the Administrative Reforms Commission is no more than a lame excuse unworthy of an experienced administrator such as he who has also the reputation of knowing his own mind. We have no doubt at all that, provided adequate pressure is brought to bear on the Government of India, whether by influences external to it or otherwise, it can be persuaded to bring down its expenditure considerably, thereby releasing productive resources for the community, even if this would mean the abolition of some departments and the slimming down of many ministries.

With every budget year that passes without the government cutting back the rate of its spending, either voluntarily or under compulsion, the national economy may find itself mortgaging its future if only because there is a natural tendency for government spending to grow and, unless positive action is taken on all strategic occasions to keep this movement under check, it may in due course get out of control. Whatever view we may be inclined to take of the economic fortunes of the years to come, it is unlikely that the need for proper allocation of resources according to strict order of priorities is to disappear. We wish therefore that Mr Morarji Desai had done more to

"Does it occur to you Keshu that this budget has snapped the tender chord that binds our hearts together—the spouse allowance."

narrow the budgetary gap by a really heroic effort to reduce government expenditure. The fact that he has failed here has rather disturbing implications because Mr Desai's own views on deficit financing have been widely publicized, not least by himself. If even he has chosen, presumably against his better judgement, to take the easy way out by leaving a large deficit in the budget, it could only be concluded that there is not, in the government as a whole, enough restraint or wisdom to enable it to learn from its own mistakes and appreciate that persistence on its part in living beyond the country's means must steadily erode the substance of the economy and its potential for continuing development or progressive growth.

Tax Signals—From Red to Amber

IT IS easy to see why the central budget has been immediately popular with the stock exchanges and with most of the business community. In their eyes, the Government of India has a record of levying taxation which, to put it mildly, is far from reassuring. The estimated yield from additional taxation at the centre (including increases in railway freights and fares and postal rates) which was about Rs 88 crores in 1961-62, the first year of the third Plan, had increased to nearly Rs 840 crores in the final year, i.e., 1965-66 (which was however an exceptional case), and over the third Plan as a whole the central government had collected more than Rs 2,275 crores through additional taxation alone. The taxpayer fared no better in subsequent years. In 1966-67, the central budget made tax proposals of the order of Rs 106 crores to which the railway budget added a further burden of Rs 18 crores. In the current year, 1967-68, the proposals for additional taxation sought a net revenue of Rs 91 crores (including increases in postal rates) which the railway budget raised by another Rs 35 crores. Mr Morarji Desai's own participation in these fiscal flights had not been unspectacular and he had, in fact, made out a name for himself as an austere Finance Minister to whom taxing came naturally. As a result, although the business community had been praying fervently for relief through 1967 and later, it could not look forward with any confidence to its voice being heard.

It is true that the recession and its consequences were so serious and obvious that there was sufficient justification for even the less optimistic among us to hope that the government would not be reckless enough to impose further fiscal burdens on the community. But as against this, there were the pre-budget reports of a considerable deficit in the government's accounts for the current financial year despite Mr Desai's determination to avoid deficit financing, which he had pleaded as his justification for the appreciable additional taxation he had imposed in the budget for 1967-68. These pre-budget reports also indicated that the government would have to cope with a deficit of some magnitude in the coming year as well. In the circumstances, there was a fatalistic assumption of the likelihood of further taxation, speculation being only confined to the probable scale of Mr Desai's impending draft on the community.

The Finance Minister, it may be inferred, was quite aware of the psychological atmosphere in the country when he was preparing to present his budget. This evidently, explains why, departing from usual practice, he carefully refrained from directly mentioning in the closing passage of Part A of his budget speech the size of the deficit estimated for 1968-69, but merely let it be inferred from other budget statistics he had given. If, instead of doing this, Mr Desai had bluntly stated that a deficit of Rs 315 crores was being anticipated, it is quite possible that stock prices in post-budget market sessions might have slumped sharply without waiting for Part B of the speech to be spoken and relayed.

Mental Climate

It is in this context of the mental climate prevailing before and on the eve of the budget that the cheerful reaction of the market place to the budget proposals as they eventually came is to be understood. Instead of administering large doses of direct and indirect taxes with the purpose of covering at least the major part of the anticipated deficit, the Finance Minister proposed only a relatively moderate dose of new taxation. As a matter of fact, the major tax effort, in a sense, had been made earlier in the Railway budget which had increased fares and freights to an extent calculated to yield an additional revenue of Rs 28 crores. In the central budget itself, the Finance Minister chose another commercial department of the government as a means of raising a further substantial instalment of revenue. Thus the posts and telegraphs tariffs have been revised to bring in an additional yield of Rs 25.78 crores in a full year or about enough to cover the deficit in the revenue budget of the Posts and Telegraphs Department estimated at Rs 23.83 crores for the budget year.

This left Mr Desai in the happy position of having to indent only comparatively lightly on direct or indirect taxation as sources of supplementing his receipts. As a consequence, after taking into account the abolition of the annuity deposit scheme, which will mean a loss to the central exchequer, on capital account, of Rs 35 crores in the budget year, the additional tax revenue sought by Mr Desai amounts to Rs 30.73 crores, which, when measured against the initial deficit of Rs 315 crores, does bear the stamp of moderation and restraint.

It is true that there is another side to the picture. If the railway and posts and telegraphs levies are also included, the net burden of additional taxation at the centre would add up to Rs 82.56 crores. This is much less, no doubt, than the corresponding amount of Rs

125.8 crores for the current year or Rs 124 crores for the year before, but coming on top of continuously heavy taxation over a period of years and in the context of an economy hit hard by two years of drought and even a longer period of halted and uncertain economic growth, the latest central levy on the resources of the community cannot be lightly dismissed as of little consequence. In other words, it is not true that the budget which the Finance Minister presented on February 29 is a budget of marginal taxation. It does seek to divert substantial resources from the pocket of the citizen to the coffers of the government. All the same, it is a fact that the new tax burden contemplated for the central budget for 1968-69 will be less felt, both psychologically and in real terms, than the levies of the previous years.

Legitimate Transactions

There are several reasons for this. The bulk of the additional budget receipts is sought to be secured from increases in the fees charged for the services rendered by the Railways and the Posts and Telegraphs Department. The tax element in these increases, it could be argued, is debatable or at least not self-evident. There is now in the country a wide recognition of the need for making government enterprises pay their way. To the extent that the Railways and the Posts and Telegraphs Department are in the red, the government's decision to put up the prices for their services may be defended as a legitimate commercial transaction rather than an arbitrary exercise of fiscal authority. It is true that some part at least of the increases of railway freights and fares or the tariffs of the Posts and Telegraphs Department goes only to pay for the inefficiency of the organisations concerned. But this raises issues of a different order which may not be strictly relevant to the assessment of the scale of the proposed central tax levy as such. So far as taxation as such is concerned, leaving out the effect of the abolition of the annuity deposit scheme for the moment, the additional revenue next year from the measures of taxation, direct or indirect, proposed in the central budget would be Rs 65.73 crores or Rs 46.90 crores in the earlier, eve-of-budget, reductions in export duties, to which a reference will be made presently, are allowed for. But only Rs 10 crores out of these Rs 65.73 crores would be the additional revenue sought from direct taxes. If the relief, on capital account, which will accrue to income-tax assessees as a class through the abolition of the annuity deposit scheme (offset in part by an increased tax liability of Rs 18 crores), is taken into account, it would follow that Mr Desai is actually surrendering Rs 7 crores in the direct tax field.

Receipts from additional indirect taxation are expected to be Rs 19.30 crores under customs and Rs 36.43 crores under central excise. The figure given here for customs does not take into account the reductions in the export duties on jute manufactures, tea and coir yarn, and the complete exemption from export duty of coir manufactures of other than coir yarn, finished leather of goat, sheep and bovine animals as well as tanned hides of bovine animals which was announced in the first week of February in advance of the central budget. The net revenue effect of these changes has been estimated at Rs 18.83 crores in the budget year. If this is subtracted from the net total of customs levies imposed by the central budget, it would be seen that the burden of customs has increased, on balance, only fractionally by about Rs 47 lakhs.

This means that the net increase in taxation is almost wholly confined to the central excise. But here, too, the additional net revenue of Rs 36.43 crores sought by the Finance Minister is very much less than the corresponding sum of Rs 92 crores in the budget estimates of 1967-68, all the more so because the increase in excise duties on petroleum products, expected to yield Rs 10.13 crores, is designed to mop up the "over-recoveries" of oil companies, with no increase in consumer prices. In fact, the current instalment is a much smaller dose of central excise taxation than in any recent years. This apart, in qualitative as well as quantitative terms, the central excise tax proposals on this occasion are remarkably free from harshness. The new excise levies leave out articles which are in use among the poorer sections of the community. The increases in existing excise duties, however, are of a mixed kind. While those relating the refrigerators and air-conditioners apply to luxury items, the higher rates of duty proposed on all varieties of unmanufactured tobacco, other than tobacco dust, does call for an additional tax contribution from the poorer sections of the community. At the same time, it is hard to resist the argument that, if an increased excise levy is at all to be imposed on an article of mass consumption, nothing more suitable could be found for the purpose than tobacco. The Finance Minister may well plead that, apart from the revenue purpose, the increased taxation of tobacco would justifiably have the additional aim of discouraging, to some extent, the growth in the consumption of tobacco.

The tax scheme of the latest central budget has thus managed to avoid touching the raw nerves of the public at any point. If there is room for any popular grievance at all, it is limited to some of the changes in railway fares and postal tariff—and here the Railway Minister has already indicated that his mind is not closed to concessions and it is possible that Mr Desai too may adopt a similar attitude before the last word is said on his budget proposals. There is thus no occasion now for the kind of fierce controversies which central budgets habitually tended to provoke in previous years. On the contrary, the Finance Minister has managed to embellish his tax proposals with a series of gestures, both kindly and graceful, which tax-payers have virtually ceased to expect from the government.

Welcome Changes

We have referred already to the abolition of the annuity deposit scheme which has proved clumsy and oppressive in procedure and administration even if it may be basically well-intentioned in its ultimate fiscal treatment of the income-tax assessees to whom it is applicable. Although following the abolition of the scheme, the income-tax liabilities of the assessees concerned have risen to some extent, the general feeling among them may still be that this is not too high a price to pay for being relieved of the obligation of having to part with a relatively large capital sum to be recovered in subsequent years from the government through a tedious and irksome process.

There are also certain other welcome changes in taxes on personal incomes. The existing income-tax concession shown to dividend income has been liberalised further making it possible for those other than small investors to get some benefit. The separate surcharges on income-tax intended to differentiate between earned and unearned incomes to the disadvantage of the former have been discontinued. This could be of substantial benefit to assessees in the higher income groups whose income from property is not to attract a special tax penalty hereafter. As against this relief, the basic rates of income-tax over Rs 1 lakh have been stepped up progressively, while the rates of ordinary wealth tax on wealth in the slabs over Rs 10 lakhs have also been raised. These increased imposts will no doubt have to be debited against the gains accruing to assessees in the higher ranges of income from the abolition of the differentiation in the surcharges on income-tax between unearned and earned incomes. It is however possible that, on balance, some relief in total tax liability may be accruing to some assessees even in this range, depending on individual circumstances. In other words, the net tax burden on this class of assessees may not necessarily go up in all cases.

In the area of corporate taxation, again, Mr Desai has given a token of his good intentions for the future. He has discontinued the tax on the excess distribution of equity dividends and has reduced the surtax on company profits from 35 per cent to 25 per cent. The case against these two taxes has been stated often enough and there is therefore no need to repeat it here, especially as the government itself has at last indicated that its critics have reason and right on their side. A protest, however, is in order against the Finance Minister's decision to retain the surtax on company profits even if it be at a new and reduced level. Mr Desai himself has stated that "the reduction in the surtax on company profits is intended as a spur to efficiency." The obvious implication is that this tax is a penalty on efficiency. Once this is admitted, it should be difficult for the government to command acceptance of the proposition that it would be right to tax efficiency at a rate of 25 per cent, even if it may be wrong to tax it at a higher rate of 35 per cent. It is obvious that only a timid view of revenue considera-tion has prevented Mr Desai from doing away with the surtax altogether. What this amounts to is that, so far as the corporate sector is concerned, it has to be satisfied with the change in the government's thinking on this issue as a result of which the earlier, absolutely unsustainable, position that there should be an element of progression in corporate taxation by relating the rate of tax to the size of profits has at last been given up.

Mr Desai has been rightly commended for the fiscal incentives he has offered for the priority purposes of export promotion and increased agricultural produc-tion. A development rebate at a higher rate of 35 per cent of the cost of new equipment will now be available to industries related to exports, such as the manufac-turers of vegetable oils and oilcakes through the solvent extraction process, processed concentrates for cattle and poultry feeds and processed fish and fish products. As assistance to exporters (other than foreign companies) in finding or extending markets for their merchandise, Mr Desai has proposed an export markets development allowance at the rate of one and one-third of the revenue expenditure incurred for the purpose. In order to strengthen the incipient movement of Indian com-panies exporting technical know-how and technical services, the Finance Minister has proposed to exempt from tax the whole of their income on that account consisting of dividends, royalties and fees derived from foreign companies.

Priority for Agriculture

As a contribution to the national drive for agricul-tural production, the Finance Minister has extended the "priority industry treatment" to the seed-proces-sing industry. In the organised industrial sector, there are manufacturing industries, such as cotton textiles, jute, sugar, vegetable oil and some of the food-proces-sing industries which can effectively further agricultural expansion and productivity by organising the supply of inputs such as fertilizers, seeds, implements and pesticides, or running extension services for the benefit of growers of the respective agricultural raw materials in which these industries may be interested. Some progress has been made in this direction. The Finance Minister has now decided to spur it on by providing that an amount equal to one and one-fifth of the quali-fying expenditure incurred by a company, whether directly or through approved associations or organisa-tions, will be admitted as a deduction in the compu-tation of business profits. It is perhaps possible to infer from these fiscal decisions that there is a trend towards a constructive change in the government's attitude, now largely political, towards the issue of associating business or scientific management with farming.

Taking one thing with another, then, the central budget has given an indication of a turn in fiscal policy in the direction of greater government responsibility, responsiveness and restraint. Hitherto the government's budgetary ideas have been dominated by a one-track mind and the result has been that the tax burden on the community has kept moving up from year to year in an endless attempt to catch up with the government's revenue needs as determined by the government. Fiscal policy, consequently, has been losing touch with eco-nomic realities and tending to operate in a political world of its own. Mr Morarji Desai now appears to have called a halt to this process by recognising the importance of realism and flexibility and the desir-ability of co-ordinating the government's fiscal policies not merely with its revenue needs but also with other legitimate requirements of the economy. It is this evidence of a new attitude on the part of the Finance Minister which has brought about the very agreeable transformation in the outlook of the capital and the business community in general.

It is however only prudent to realise that the gain so far is largely psychological. For the sake of a clear-eyed view of the prospects before the national economy, we should, at the same time, recognise the fact that, in financial terms, the budget has given away little even at the hard-pressed points of the economy. So far as personal incomes are concerned, income-tax assessees in the concerned slabs have as a class only exchanged the annuity deposit liability of Rs 35 crores for an increase of Rs 18 crores in income-tax liability. The other changes in the taxation of personal incomes will, as the Finance Minister has estimated, result in relief to the extent of about Rs 4 crores in a full year. This is also the order of net relief conceded in the area of corporate taxation. These figures indicate that no substantial diversion of resources in capital and savings from the government sector to the private is intended or may be expected. In other words, the oppressive structure of taxation built up over the years remains intact not only in its essentials but also in most of its details. There is therefore much dismantling still to be done. Mr Desai may have only switched over the signal from red to amber; the community must still wait for the green light for the real job of demolition and reconstruction to begin.

Where Do We Go from Here ?

THE CENTRAL budget undoubtedly has aroused expectations, if not high hopes. There is a feeling in the country that the government has at last been persuaded to reconsider its economic policies in the light of the realities and requirements of continuous economic development at a considerable pace. It is believed that the breakdown in the development effort which has taken place over the last few years has shaken the government out of its dogmatism and self-complacency. The central budget, in other words, is regarded widely as marking a thaw in the government's cold war attitudes towards the forces and institutions of economic growth in a democratic political system.

Nowhere has this brightening up of spirits been more in evidence than in the stock exchanges. Although, as we had noted earlier, this budget has given little away in money terms for private savings or investment, it has, through a few wise gestures of Mr Morarji Desai, dramatically changed the mental climate almost overnight. Equity values have been marked up (see table on page 456) partly from a feeling of relief that there has been no heavy additional taxation, but largely because of a belief in the business community that, having taken a right turn at last, the government's fiscal and other economic policies will keep moving forward in the right direction. We are using the word 'right' here not in its ideological meaning but in its natural sense of 'right' simply being 'what is right and proper'. The great thing about this budget is that it has at least halted for the time being the prolonged process of the government raiding, year in and year out, the resources of the private sector of the economy. Perhaps it is for the first time since planning assumed its deadly earnestness that the government is beginning to appreciate the fact that it could achieve a larger totality of economic growth in the nation only if it would refrain from hindering the general mobilisation of investible resources in the economy as a whole as distinct from any favoured or pampered part of it.

A logical corollary to the more relaxed fiscal policy which the government has now begun to follow would be more liberal credit policy. Bank credit productively used is surely the safest as well as the surest means of co-ordinating increases in investment with increases in current production and thereby promoting an equilibrium in the aggregates of demand and supply and maintaining a stable, non-inflationary base for economic expansion. Having left a large gap in the budget, not covered either by loans or taxation, Mr Desai could have chosen to play for safety and decided not to take chances in the area of monetary management. It goes to his credit that he has elected to follow a more dynamic approach and that as a result the Reserve Bank has announced in the wake of the central budget a cut in the Bank rate from six per cent to five per cent. The central banking authorities have also promptly emphasized their determination to see that the lending rates of the commercial banking system adjust themselves readily to the new Bank rate. Not surprisingly, this further indication by Mr Desai that he is going to work vigorously for economic recovery and is not averse to taking reasonable risks in the process has enhanced the favourable impact of the central budget and has, in fact, had an even stronger stimulating influence on the stock exchanges.

Breaking New Ground

It now remains for the Finance Minister particularly and the Government of India as a whole to take further steps not only to consolidate these gains but also to break new ground. A reduction in the cost of bank credit can be of utmost benefit to the economy only if it is translated into real terms of the adequate availability of credit at a reasonable price to commercial and industrial borrowers at large The central banking authority, while announcing its new interest rate policy, has ostentatiously reiterated its faith in the selective control of credit and has declared that this control will continue. There are perhaps sound strategic reasons for the Reserve Bank taking up this formal position, but it should not be too long before it learns in practice that a general liberalisation of bank credit for the productive apparatus in the economy is unavoidable if the government's own expectations of a revival of economic activity in the coming months are to be fulfilled. Elsewhere too it should not be too difficult for the government to see where the paths of wisdom lie. The considerable amount of parliamentary time (and therefore of the taxpayer's money) devoted to the discussion of the Hazari report in either house of the central legislature would surely go to waste completely were the Minister for Industrial Development to fail to draw the moral that there is hardly any section of responsible opinion which has any respect for the prevailing concept or machinery of industrial licensing as a means of promoting the country's economic development on sound lines or at a rapid pace. The licensing system has been condemned resoundingly both in Parliament and the country at large as a factor which deters and distorts industrial activity or expansion. When the licensing system has been so extensively condemned, it would be quixotic on the part of Mr Fakhruddin Ali Ahmed or his colleagues in the cabinet to try to tinker with it in the hope of reforming it.

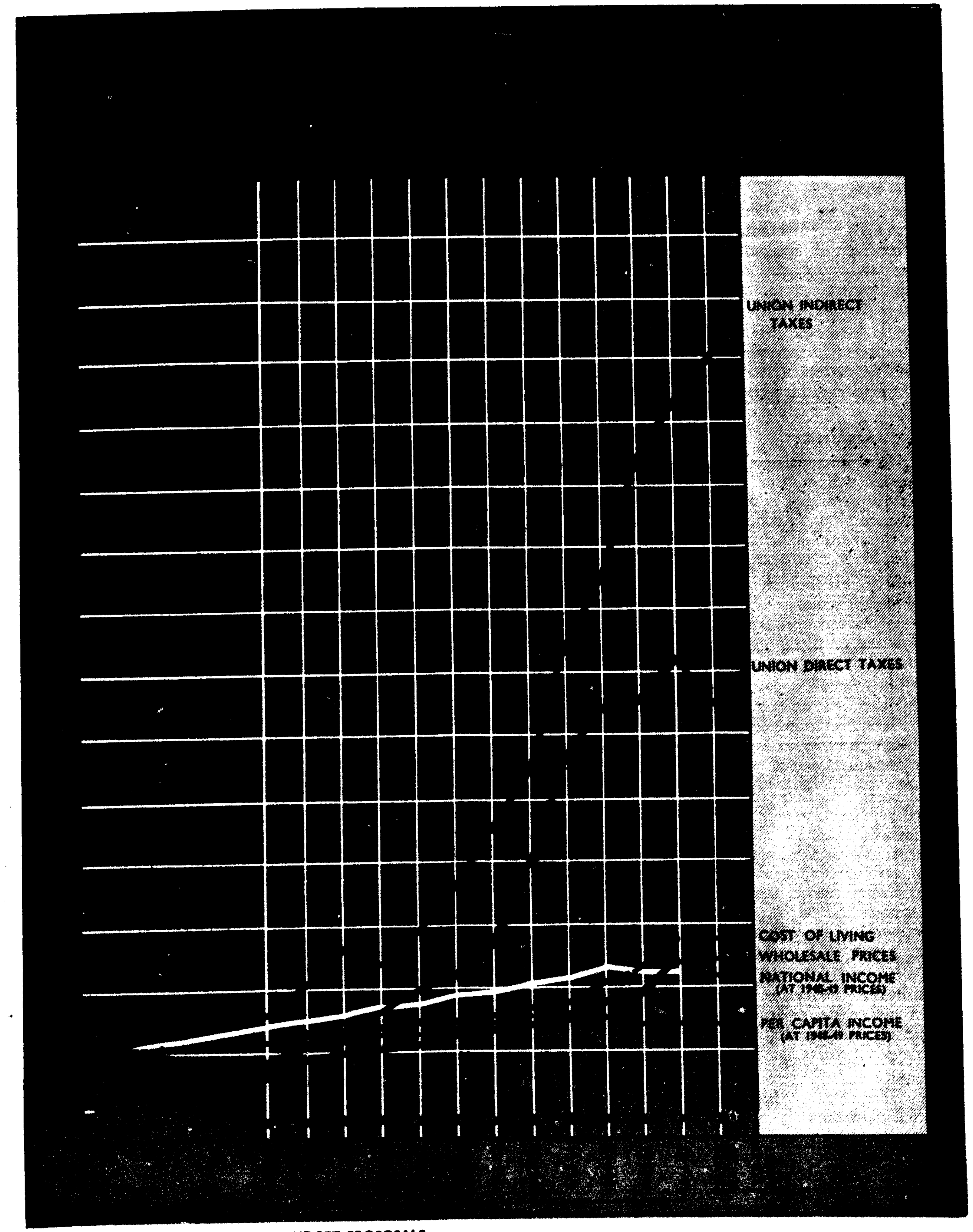
We suggest that the entire industrial licensing system be scrapped forthwith and that a fresh start made by the government by laying down a few broad guidelines for the expansion of existing enterprises or the starting of new undertakings. It has been said that, at least where foreign collaboration is required, some kind of licensing restrictions must continue. We differ and would maintain that foreign collaboration is the least suitable subject for bureaucratic regulation. Government interference should therefore be least in cases where foreign collaboration is involved. The notion that once the government takes its hands off foreign collaboration a flood tide of foreign capital will rush in and overwhelm our economy, betrays ignorance of the economic realities of the international capital situation or movements. Fears of an invasion by foreign capital, to put it mildly, are apt to be exaggerated.

Facile Argument

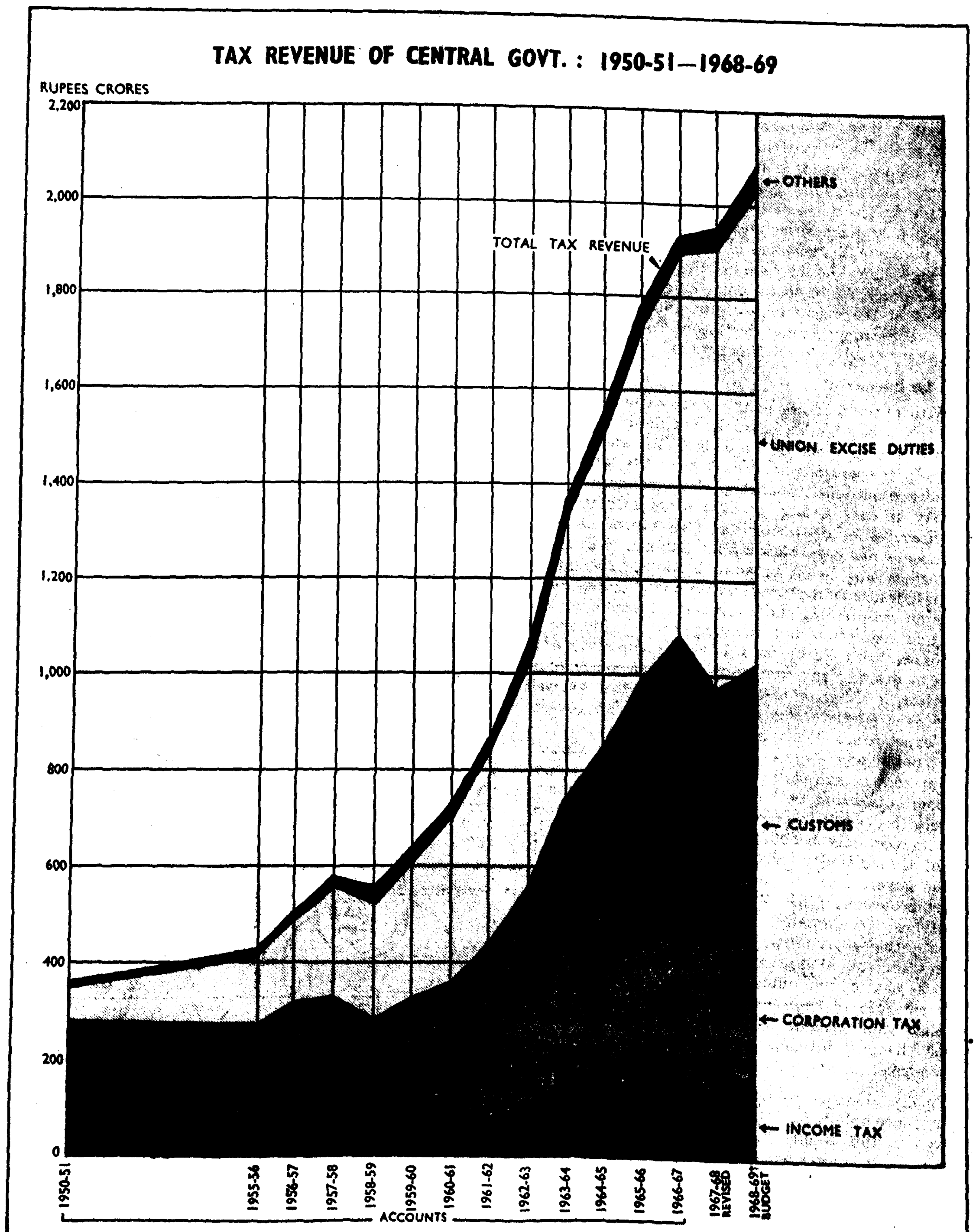
The argument that our investment or development priorities will have to be safeguarded through a rigorous scrutiny of foreign collaborations, again, has little real substance. The foreign investor or entrepreneur is more likely to make an investment decision on strict economic considerations than a domestic entrepreneur having to humour the government or the politicians, or a decision-maker in the public sector. No foreign investor or entrepreneur is likely to go to the trouble of starting or being associated with the starting of an industry in our country unless he has reason to believe that the product could be profitably manufactured and sold either within our country or abroad—and what better test can there be of the soundness of an industrial enterprise or a commercial venture than that there is a demand for it to meet and that it can meet this demand?

A clean sweep should be made too of the various commodity controls. It is true that the government's thinking and action have shown some progress in this area, but the vesting of cement marketing in a government corporation is the kind of retrograde step which emphasizes the fact that the government is habitually more prone to retrieve than to advance in matters like this. Again, the adamant insistence of the Commerce Ministry on the continuance of production and price controls on the cotton textiles industry is eloquent testimony of the government's vulnerability to political considerations or simply prejudices even when its subservience to such considerations is doing obvious damage to important industries and therefore to the public interest. The cotton textile industry cries out for rationalisation, modernisation and technological advance, all of which would involve the ruthless cutting out of inefficient units and the diversion of capital and investment to the facilities of the superior and progressive manufacturers. The government's policies, however, are not only obstructing this essential development, but they are perpetuating inertia, inefficiency and fatalist defeatism in considerable areas of this industry. The Commerce Ministry's interest in taking over the so-called sick mills is one of the most ludicrous examples of misdirected enthusiasm or energy.

The test case of the government's policy towards commodity controls would, of course, be its food policy. We are convinced that the abolition of zonal restrictions and the restoration of freedom of commerce in food across the land is not only possible but necessary. If these steps are not taken, the improvement in agricultural production cannot be converted into the financial or real resources with which the nation's economic recovery can be brought off. Mr Morarji Desai has based the scheme of his budget on the twin assumptions that the price level would be stabilised and savings promoted as a result of the increase in the gross national product accruing from the better harvests. We submit that what he expects cannot come to pass if food controls continue to operate in a way which produces artificial scarcities or causes avoidable differences in food prices between producing areas and consuming areas, and induces producers to hold out for higher prices or consumers to stock up against lean days. The government which is banking so heavily on the anti-inflationary potential of the improvement in agricultural production ought to be the first to appreciate the fact that this potential will become actual only if the



*INCLUDING THE EFFECT OF THE BUDGET PROPOSALS



†INCLUDING THE EFFECT OF THE BUDGET PROPOSALS

forces of supply and demand are allowed to resume their normal play.

We had referred at the very outset to the risks from which deficit financing as proposed in the budget may not be free. These risks are real and if the government is in earnest about avoiding them it should continuously be considering what steps it could take in the months ahead to improve the capacity of the economy to withstand possible inflationary pressures. Here the first and foremost need is to step up current production and measures such as the liberalisation of credit policy or the removal of controls which we have advocated here should help in the process. So also will the decontrol of food—immediately, by increasing the flow of the marketing surplus and, over a longer period, by strengthening the incentives for a steady expansion of agricultural production.

Need for Decontrol

With every increase in the gross national product, there is a strengthening possibility of the government's receipts keeping ahead of the budget estimates and this may help the government to cut down its anticipated dependence on deficit financing. Its expenditure levels too may be considerably brought down as a result of the measures of decontrol we have suggested. The government has been pleading its inability to do much about the rising levels of administrative expenditure. This is because it does not realise that, so long as it insists on maintaining the machinery of economic controls and regulation and allowing it to proliferate in accordance with Parkinson's Law, it cannot hope to secure or exercise any control on government spending. Decontrol, in other words, would be the first as well as the most effective step towards economy in government expenditure. This is particularly so in the case of food policy where there is much saving to be effected, both at central and state levels, if the administrative paraphernalia could be struck down or at least very severely pruned. The central budget, for instance, could immediately benefit financially through the decontrol of food since in that event it should be possible for the government to cut down substantially on the budget provision of Rs 140 crores for the buffer stock operations. Incidentally, there is a clear fallacy in believing that government buffer stocks are more effective in stabilising food prices than the small and scattered stocks held by individual retailers or consumers. The latter category of reserves certainly provides a more economic and reliable cushion for the community against changing levels of food availability than centralised-government-controlled stocks.

Finally, there is defence expenditure. In the days of innocence following independence, it was widely believed in this country that defence expenditure in excess of Rs 100 crores would be extravagant and highly objectionable. Later on the desirable upper limit came to be regarded as Rs 300 crores. But when Pakistan began to arm itself with US military assistance and Red China spilled over into Aksai Chin and later lounged at NEFA, our notions of permissible levels of defence expenditure changed rather fast. Now the defence budget has exceeded the Rs 1,000-crore mark, with the budget estimates for 1968-69 pointing to a figure of Rs 1,015 crores. It is obvious that no useful purpose will be served by thinking in terms of an *ad hoc* ceiling. At the same time, a definitive view has to be taken of defence expenditure if there is to be any effective allocation of resources for development, since development is now really and truly only a residual claimant. The Finance Minister mentioned in his budget speech that there had been a decline in the percentage of the gross national product devoted to defence. This is an attempt to draw false comfort, for what matters is that defence expenditure nevertheless remains basically high, thereby aggravating our resources problem in years of poor harvests or industrial recession while making a prior and major claim on improved resources in agriculturally or otherwise favourable years. Either way there is precious little to be satisfied with in this situation. The government therefore cannot really evade its responsibility to face the facts; the more there is for defence the less there is for development which already has so little. It therefore becomes all the more important for government policy to seek to cut down non-development expenditure, outside the area of defence or development. It is equally imperative that, through no act of commission or omission on its part, should there be an interference with all those activities in the economy which help to increase production, thereby benefiting both current consumption and further investment.

"More ships are coming—of immigrants."

BUDGET AND THE STOCK EXCHANGES

BOMBAY STOCK EXCHANGE

(Closing quotations in rupees)

Name of the scrip	Feb. 29 1968 Pre-Budget (1)	Feb. 29 1968 Post-Budget (2)	Variation (3: 1-2) (3)	March 1. 1968 (4)	Variation (5: 2-4) (5)	March 4* 1968 (6)	Variation (7: 4-6) (7)	March 9. 1968 (8)	Variation (9: 1-8) (9)
ACC	119.50	119.00	—0.50	118.50	—0.50	123.50	+ 5.00	120.00	+ 0.50
Tisco	96.90	96.50	—0.40	94.70	—1.80	102.00	+ 7.30	100.75	+ 3.85
Telco	197.00	196.50	—0.50	198.00	+1.50	216.75	+18.75	210.50	+13.50
Voltas	212.00	213.00	+1.00	211.00	—2.00	214.50	+ 3.50	211.00	— 1.00
Gwalior Rayon	23.56	23.00	—0.56	23.36	+0.36	25.70	+ 2.34	24.96	+ 1.40
National Rayon	454.50	454.00	—0.50	457.00	+3.00	487.00	+30.00	477.50	+23.00
Century	525.00	523.00	—2.00	524.00	+1.00	573.00	+49.00	574.00	+49.00
Tata Chemicals	20.92	N.A.	N.A.	21.00	N.A.	21.64	+ 0.64	21.56	+ 0.64
Premier Automobiles	50.00	51.00	—1.00	50.00	—1.00	56.00	+ 6.00	53.50	+ 3.50
Larsen & Toubro	14.44	14.60	+0.16	14.64	+0.04	15.84	+ 1.20	15.64	+ 1.20

Note: Bombay Stock Exchange was officially closed on March 2, 1968.

* Shows how scrips have reacted to the reduction in Bank rate which was announced on March 2.

CALCUTTA STOCK EXCHANGE

(Closing quotations in rupees)

Name of the scrip	Feb. 29 1968 Pre-Budget (1)	Feb. 29 1968 Post-Budget (2)	Variation (3: 1-2) (3)	March 1, 1968 (4)	Variation (5: 2-4) (5)	March 2, 1968 (6)	March 4* 1968 (7)	Variation (8: 6-7) (8)	March 9, 1968 (9)	Variation (10: 1-9) (10)
Birla Jute	23.00	23.10	+0.10	23.60	+0.50	23.95	25.90	+1.95	25.10	+2.10
Dunlop India	22.55	22.55	—	23.10	+0.55	23.55	24.90	+1.35	24.65	+2.10
Guest, Keen, Williams	13.75	13.95	+0.20	13.90	—0.05	14.50	15.65	+1.15	14.65**	+0.90
Hindustan Motors	14.50	14.60	+0.10	14.80	+0.20	15.08	16.28	+1.20	15.62	+1.12
Indian Iron	15.58	15.52	—0.06	15.62	+0.10	15.74	16.44	+0.70	16.72	+1.14
Kesoram	15.45	15.50	+0.05	15.55	+0.05	15.95	17.05	+1.10	16.45	+1.00
Orient Paper	15.80	15.90	+0.10	15.95	+0.05	16.40	17.25	+0.85	16.95	+1.15
Texmaco	11.60	N.A.	N.A.	11.55	—0.05	12.40	13.60	+1.20	11.85	+0.25
Hindustan Aluminium	18.69	18.94	+0.25	19.44	+0.50	19.87	21.06	+1.19	20.81**	+2.12
Indian Aluminium	19.70	20.10	+0.40	20.40	+0.30	20.60	21.80	+1.20	21.10	+1.40

* Shows how scrips have reacted to the reduction in Bank rate which was announced on March 2.

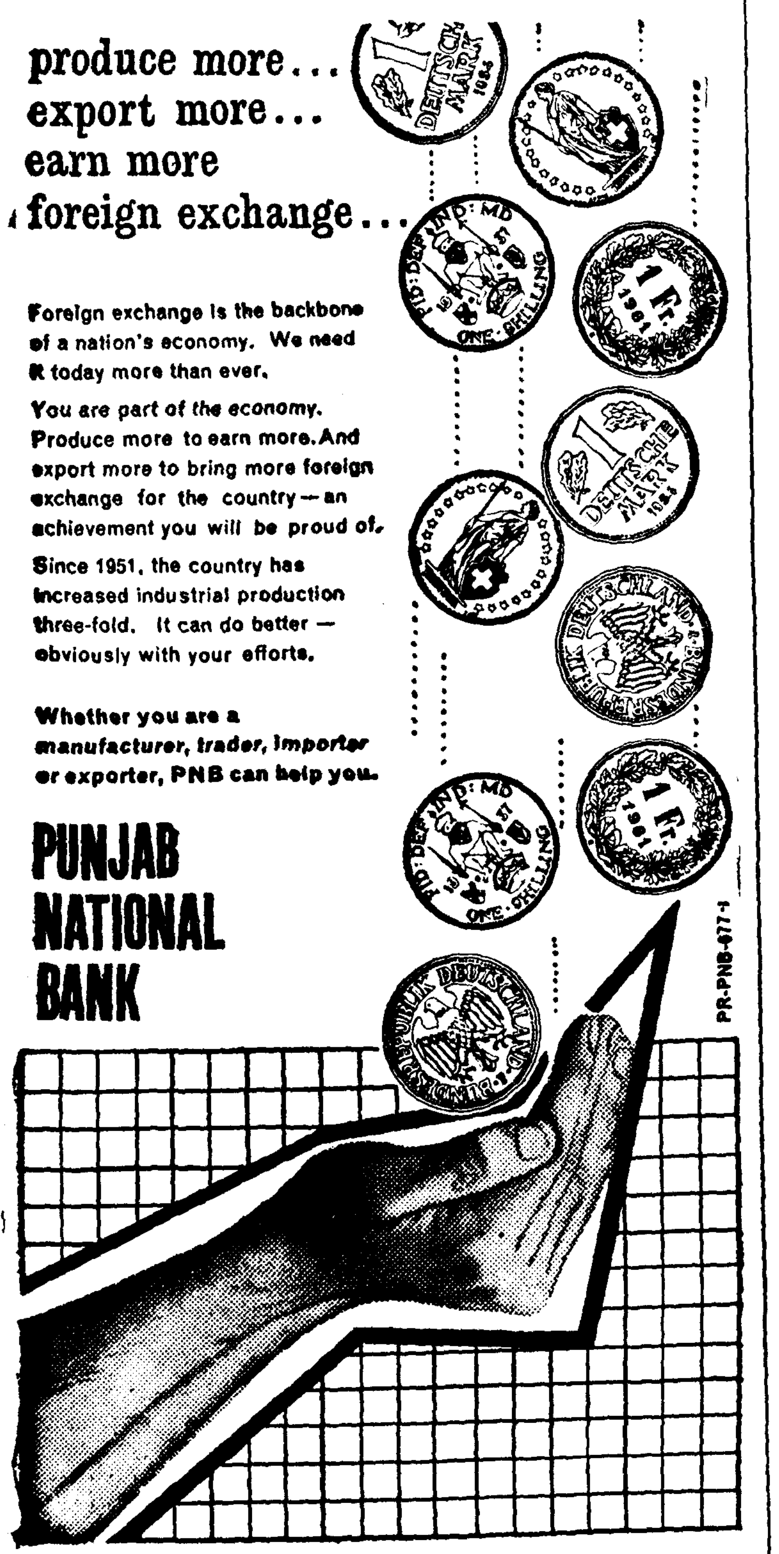
** Nominal quotation.

MADRAS STOCK EXCHANGE

(Closing quotations in rupees)

Name of the scrip	Feb. 29, 1968 (1)	March 1, 1968 (2)	Variation (3: 1-2) (3)	March 4,* 1968 (4)	Variation (5: 2-4) (5)	March 8, 1968 (6)	Variation (7: 1-6) (7)
Madura Mills	16.00	16.08	+0.08	16.00	—0.08	17.00	+1.00
Travancore Rayons	13.20	13.68	+0.48	14.85	+1.17	15.25	+2.05
Ashok Leyland	5.07	5.07	—	5.35	+0.28	5.35	+0.28
India Cements	5.32	5.36	+0.04	5.57	+0.21	5.77	+0.45
Mettur Chemicals	6.50	6.55	+0.05	6.90	+0.35	6.70	+0.20

* Shows how scrips have reacted to the reduction in Bank rate which was announced on March 2.



THE BUDGET AS TOOL

Up To Saturation Point

THE LEVEL of personal taxation in this country has been raised almost to the saturation point in every income bracket with the result that the incentive to earn more has been substantially eroded. The Chinese aggression on our northern borders in November 1962 provided the provocation to Mr Morarji Desai, who was our Finance Minister at the time, not only to step up the surcharge on income-tax but also mobilise savings through the Compulsory Deposit Scheme (CDS). The CDS was scrapped next year by Mr T. T. Krishnamachari, who had succeeded Mr Desai and a new scheme—Annuity Deposit Scheme—was initiated. This has had a chequered career and is now to be adandoned with effect from the next financial year. In the name of simplification and rationalisation, the income-tax rates have also been varied off and on.

It would be interesting to compare the income-tax rates which were applicable in 1962-63, i.e., before the Chinese aggression and those proposed for the next financial year. The table below sets out a comparison of income-tax liabilities at four income levels, namely, Rs 5,000, Rs 15,000, Rs 20,000 and Rs 1,00,000. It will be seen that the incidence of income-tax up to annual income of Rs 15,000 in the new budget proposals is lower than the one which was applicable in 1962-63. On the other hand, the impact of income-tax on an income of Rs 20,000 will be slightly higher than in 1962-63. Again for an income of Rs 1,00,000, the incidence will be only marginally lower in 1968-69 in relation to 1962-63. Meanwhile, the sharp rise in prices since 1962-63 has reduced real incomes appreciably. The index of wholesale prices rose from 127.9 (base: 1952-53=100) in 1962-63 to 209.0 in the last week of January, 1968, implying that prices during this period rose by more than 60 per cent. To that extent the purchasing power of the rupee has dwindled and hence a popular plea has been put forward for raising the exemption limit for income-tax.

INCOME-TAX RATES: 1962-63 and 1968-69

Income (Rs)	Tax at 1962-63 rates (Rs)	Tax at 1968-69 rates (Rs)
5,000	18	11
15,000	1,386	1,171
20,000	2,272	2,486
100,000	53,039	51,936

Mr S. Bhoothalingam, formerly Secretary in the Ministry of Finance, in his final report on "Rationalisation and Simplification of the Tax Structure" has made a convincing case in favour of stepping up the exemption limit from the present level of Rs 4,000 to Rs 7,500. Besides the fact that the exemption limit in 1948-50 was Rs 3,000 and prices since then have more than doubled, he has expressed the view that practical administrative considerations also indicate a raising of the exemption limit. With the low exemption limit, a comparatively small amount has to be collected from a very large number of assessees. In 1963-64, for example, the number of income-tax assessees with incomes below Rs 10,000 was 859,000 and the tax demands from these assessees were of the value of only Rs 11.3 crores. The average income per head in this group worked out to Rs 5,600 and the average tax per head was only Rs 130. In the income bracket below Rs 7,500 the average tax assessed was only Rs 80. Similar figures in the income bracket of Rs 5,000 and below, though not available, will no doubt show the extreme smallness of the contributions made by the lower income groups.

According to some revenue officials whom Mr Bhoothalingam consulted on this issue, "if work on petty assessments is cut out, the improvement in the quality and speed with which the remaining work can be done—e.g., by expeditious disposal of appeals, better investigations, etc., will lead to increase of tax collection by Rs 100 crores for some years besides an immediate increase of about Rs 200 crores merely by the finalisation of pending assessments."

It is thus obvious that the government would gain and not lose revenue if a large number of small taxpayers are freed from income-tax. We agree with Mr M. R. Masani who advocated in the Lok Sabha on March 8, 1968, that the Finance Minister should raise the exemption limit from Rs 4,000 to Rs 7,500 in the Finance Bill for 1968-69.

The subject of tax evasion has received wide publicity in the press during the past few years though no one has been able to gauge its dimensions precisely. The Finance Minister has introduced certain amendments in the Finance Bill to minimise tax evasion. It is proposed, for example, that henceforth payments made in businesses and professions to relatives or associated friends will have to pass the test of "reasonableness" in order to qualify for reduction. The "test of reasonableness" is a vague expression which may vest the income-tax officer with arbitary powers. Such ambiguity should have been avoided because it is likely to widen the scope for the harassment of assessees who already have much to complain of in this respect. On the other hand, certain

concrete proposals made by the Finance Minister to plug loopholes are welcome. For example, the stipulation that in future (after a date to be notified later) all payments made in amounts exceeding Rs 2,500 would be allowed as a deduction only if they are made by crossed cheques or by crossed bank drafts is one the justification for which cannot be disputed.

A number of other small changes introduced in the Finance Bill are expected to tone up the taxing machinery and hence we cannot but extend wholehearted support to them. In this class particularly is the scheme to expedite tax assessments through a reduction in the period of time limitation for completion of assessments from four years to two years. As a corollary, the time limitation for making applications for refund of tax will also be reduced to two years. If the income-tax officers can be made to adhere to such a schedule there is every possibility of witnessing substantial improvement in the taxation machinery.

Overall Impact

The overall impact of the changes introduced in personal taxation in the budget for 1968-69 is not large. The discontinuance of annuity deposit scheme from the coming financial year is estimated to bring in an additional Rs 18 crores because no deductions hitherto made in income-tax in regard to deposits required to be made under the annuity deposit scheme would be available since no deposits will have to be made. Other changes in personal income-tax would cause the exchequer a loss of four crores of rupees with the result that the net revenue accrual to the exchequer will be of the order of Rs 14 crores. As stated earlier, the room for manoeuvrability in personal taxation in this country is not large; hence the gains, if at all any, can come through making the taxation machinery more efficient rather than through increased rates of taxation. In fact, a reduction in the tax rates might inflate the tax revenue by reducing the tax evasion.

The Finance Minister has come down heavily upon those who tend to avoid taxes by concealing their income or wealth. The penalties of income or wealth will be raised to a minimum of 100 per cent and a maximum of 200 per cent of the concealed income or wealth. The truth is that penalties constitute a feeble cure for this malady. A more positive approach should have been to reduce the rigours of taxation which would have resulted in enhancement of tax collection. In the budget proposals, the Finance Minister has, however, stepped up the basic rates of income-tax on incomes between Rs 1,00,000 and Rs 2,50,000 from the present level of 65 per cent to 70 per cent. For incomes above Rs 2,50,000 the rate has been raised to 75 per cent. Also, the ordinary wealth tax on wealth in the slab Rs 10-20 lakhs has been raised by half per cent from two per cent to two-and-a-half per cent and on wealth in the slab Rs 10-20 lakhs has been raised by half cent. The increased penalties on concealment and enhanced rates of taxation in the upper income brackets are measures which are likely to defeat the very purpose that the Finance Minister has in view.

For the simplification of the rate structure of taxes on personal income, the Finance Minister has abolished the levy of separate surcharges in relation to unearned and earned incomes in excess of specified limits. At a time when the government is anxious to revive the capital market, it is necessary that some incentive should be provided for investing in risk capital. The savings invested in industrial development of the country should no longer be treated as idle wealth and hence this is a step in the right direction, though some objections can even now be taken in regard to the exemption of income from rent.

Piecemeal Rationalisation

IN THE sphere of corporate taxation, the most significant relief provided in the Finance Bill for 1968-69 is the discontinuance of the dividend tax. Mr S. Bhoothalingam, in his final report on "Rationalisation and Simplification of the Tax Structure" had presented a convincing case in favour of its abolition. The dividend tax was designed to discourage distribution of dividends of more than 10 per cent so that the corporate sector retained profits for further development. It is doubtful that the dividend tax did in fact contribute to greater retention of profits for development. With the removal of the constraints on the issue of bonus shares, the capital base had been increased by issuing bonus shares and the liability for the payment of the dividend tax had been avoided by many companies. Consequently, the revenue yield from the dividend tax was small and its potential was also limited. Mr Bhoothalingam came to the conclusion that "no identifiable good comes out of the dividend tax and I would therefore recommend that it be abolished as a separate instrument of corporate taxation". It is right that the Finance Minister has accepted this recommendation. The impact of this relief on 179 leading companies has been shown in the table on pages 461 and 462.

In Part B of his budget speech, the Finance Minister remarked that the reduction in surtax on company profits from 35 per cent to 25 per cent was intended "as a spur to efficiency." It is tantamount to acknowledging that this tax acts as a brake on the efficiency of a company. Having admitted its negative effect, it seems illogical and unwise for the Finance Minister not to scrap it.

It may be recalled that the surtax is a modified version of super-profits tax imposed by Mr Morarji Desai in his budget for 1963-64. While there was a temporary justification—the emergency created by the Chinese aggression on our northern borders—which had brought into being such a stringent tax, there is no need to keep it on the statute book now. Mr S. Bhoothalingam has also come to the same conclusion in his report. States Mr Bhoothalingam: "The more important economic and social objective should be to secure the best and more productive use of capital. This is particularly important in a developing country which needs quick development and in which the scarcity of capital is likely to persist for a long time." Continuing, Mr Bhoothalingam states: "I am convinced that the surtax in its present form or in any minor variant of it cannot appropriately constitute a part of the long-term tax structure. On the contrary, our objective should be to devise a corporation tax system which, while bringing in not less than what the various corporation taxes together bring in now, will have a built-in potential for growth and will throughout encourage the efficient and right use of capital." The total yield from this tax is not expected to be more than Rs 13 crores out of a total corporation tax of Rs 320.35 crores in 1968-69. There is thus hardly any justification in keeping this tax on the statute book, especially as, at one stage, its apologists were rash enough to attempt to rationalize it on theoretical grounds by putting out the outrageous plea that it helped to introduce an element of progression into company taxation as if a company's corporate fortunes are an index of its shareholders' private economic circumstances.

The net impact of both these measures, namely, the abolition of the dividend tax and the reduction in the surtax, will be to reduce revenue for 1968-69 by four crores of rupees.

In addition to these two changes in the structure of corporate taxation, the Finance Minister has also introduced certain refinements in regard to the regulation of entertainment expenditure of both business and the professions. He has put forward the view that the provisions for entertainment expenditure were usually circumvented by some companies through suspense accounts operated by the employees. The Finance

GAIN DUE TO ABOLITION OF DIVIDEND TAX

(Rs lakhs)

Name of company	Accounting year	Total dividends (equity)	Excess over 10% of Paid-up capital	Dividend tax @ 7.5% on excess
(1)	(2)	(3)	(4)	(5)
Amar Dye-Chem	Dec. 66	14.4	2.4	0.2
Andhra Valley	Mar. 67	36.3	6.1	0.5
ACC	July 66	244.2	6.8	0.5
American Refrig.	April 67	3.7	1.2	0.1
A. V. Thomas	Dec. 66	1.5	1.0	0.1
Alkali & Chem.	Sept. 66	93.0	49.6	3.7
Arvind Mills	Dec. 66	30.0	20.0	1.5
Associated Battery	Aug. 66	22.0	7.8	0.6
Atul Products	Dec. 66	42.0	2.7	0.2
Assoc. Stone	Oct. 66	3.7	1.9	0.1
Ahmedabad Cotton	Dec. 66	5.8	1.3	0.1
Aluminium Corpn.	Mar. 67	16.2	2.7	0.2
Anil Starch	Dec. 66	10.0	6.0	0.4
Alembic Chem.	Dec. 66	17.3	2.9	0.2
Aruna Mills	Dec. 66	8.1	4.1	0.3
Anglo-French Textiles	Dec. 66	5.3	2.3	0.2
Alumimium Ind.	Mar. 67	27.8	4.7	0.4
Andhra Sugar	Sept. 66	8.4	1.4	0.1
Asoka Mills	Dec. 66	8.1	3.9	0.3
Bombay Dyeing	Dec. 66	46.2	16.1	1.2
Burmah-Shell Ref.	Dec. 66	567.0	421.6	31.6
Bombay Suburban	Mar. 67	28.5	2.6	0.2
Birpara Tea	Dec. 66	5.5	1.5	0.1
Belapur Sugar	Sept. 66	21.2	14.1	1.1
Betjan	Dec. 66	1.8	0.8	0.1
Bagalkot Cement	Dec. 66	10.5	1.7	0.1
Blue Mountain	June 67	9.2	0.8	0.1
Bombay Burmah	May 67	48.2	14.7	1.1
Bh. Commerce	Dec. 66	13.1	5.6	0.4
Bank of India	Dec. 66	72.9	32.4	2.4
Brook Bond of India	June 67	75.4	25.1	1.9
Bank of Baroda	Dec. 66	36.0	16.0	1.2
British India Insurance	Dec.66	3.5	1.5	0.1
British Paints	Dec. 66	7.5	2.5	0.2
Ballarpur Paper	June 67	17.9	3.6	0.3
Bengal Paper	Dec. 66	12.6	4.2	0.3
Birla Jute	March 67	29.9	10.0	0.7
Boots Pure Drug	Dec. 66	8.4	4.2	0.3
Binani Metals	Dec. 66	4.8	0.8	0.1
Century	Dec. 66	103.8	75.7	5.7
Cooper Engg.	June 67	17.9	3.0	0.2
Central Bank	Dec. 66	95.6	48.2	3.6
Cochin Malabar	Feb. 67	5.7	2.5	0.2
Cons. Coffee	June 67	24.8	11.4	0.9
Canara Bank	Dec. 66	16.7	5.6	0.4
Coffee Lands	June 67	4.8	1.8	0.1
Chembra Peak	Mar. 67	4.6	2.5	0.2
CAFI	Sept. 66	56.3	31.3	2.3
Comml. Ahmedabad	Dec. 66	7.4	3.1	0.2
Colour Chem.	Mar. 67	21.0	3.5	0.3
Dawn Mills	Mar. 67	8.4	4.2	0.3
Dena Bank	Dec. 66	15.0	2.5	0.2
Dunbar Mills	Dec. 66	5.7	1.9	0.1
Delhi Cloth	June 67	79.1	13.2	1.0
Dhrangadhra Chemicals	Mar. 67	14.2	1.3	0.1
Dibrugarh	Dec. 66	1.4	1.0	0.1
Duncan Bros.	Dec. 66	14.3	2.4	0.2
Dishergarh Power	Mar. 67	5.4	1.1	0.1
Dalmia (Bh.)	Dec. 66	32.6	14.0	1.0
Dharamsi Morarji	Dec. 66	11.6	5.5	0.4
Dessai & Parbuttia	Dec. 66	2.1	1.0	0.1
Elgin Mills	Sept. 66	7.9	1.6	0.1
Electric Construction	Oct. 66	12.7	2.5	0.2
Finlay Mills	Dec. 66	8.1	2.1	0.2
Gokak Mills	Dec. 66	12.3	3.5	0.3
Great Eastern Shipping	June 67	36.0	18.0	1.4
Greaves Cotton	Mar. 67	23.6	4.7	0.4
Gaekwar Mills	Dec. 66	6.4	2.4	0.2
Godfrey Phillips	Dec. 66	14.0	10.0	0.8
G. Arbuthnot	Mar. 67	8.1	1.6	0.1
Guest, Keen, Williams	Dec. 66	75.9	12.7	0.9
Gold Mohur	Dec. 66	7.5	2.5	0.2
Hind Motors	Mar. 67	102.0	20.5	1.5
Hindustan Gas	Mar. 67	6.3	1.6	0.1
Hind. Wire Products	Mar. 67	4.2	2.3	0.2
Hinghland Produce	Dec. 66	3.4	1.6	0.1
Hind. Construction	July 66	45.0	27.0	2.0
Hindoostan Spg.	Mar. 67	6.7	1.9	0.1
Hind. Tractors	Mar. 67	8.4	1.4	0.1
Hind. Ferodo	Mar. 67	46.7	22.4	1.7
Indian Mercantile Ins.	Dec. 66	5.2	2.0	0.2
Indian Dyestuff	Mar. 67	27.0	4.5	0.3
Indian Carbon	June 67	6.4	2.4	0.2
Indian Oxygen	Sept. 66	55.4	9.2	0.7
Ind. Manufacturing	Mar. 67	6.7	1.0	0.1
Indian Bank	Dec. 66	13.3	4.4	0.3
Indian Overseas Bank	Dec. 66	14.0	4.0	0.3
Ind. Cable	Mar. 67	62.2	20.8	1.6
Ind. Explosives	Sept. 66	70.3	22.3	1.7
Jayshree Textiles	Dec. 66	12.3	2.5	0.2
Jagatjit Cotton	Jan. 67	12.5	4.2	0.3

GAIN DUE TO ABOLITION OF DIVIDEND TAX (Contd)

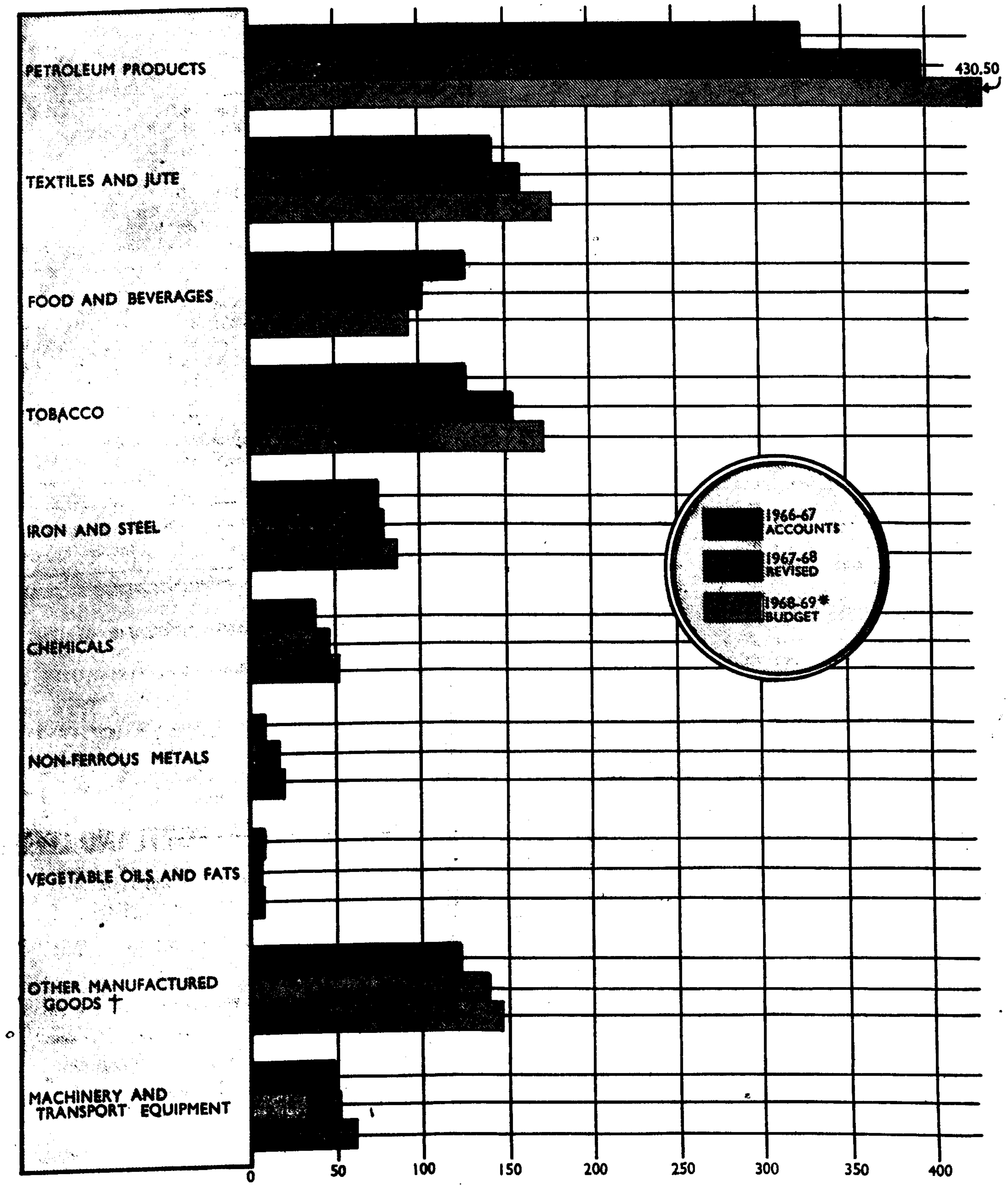
(Rs lakhs)

Name of company	Accounting year	Total dividends (equity)	Excess over 10% of Paid-up capital	Dividend tax @ 7.5% on excess
(1)	(2)	(3)	(4)	(5)
Jessop	Oct. 66	25.5	5.1	0.4
Kirloskar Elec.	June 67	14.9	3.0	0.2
Kesoram	Mar. 67	40.0	6.0	0.5
Kirloskar Oil	Mar. 67	21.8	8.2	0.6
Killocott	Dec. 66	4.2	2.1	0.2
Kalasa Tea	Mar. 67	1.9	0.7	0.1
Kalpetta Estate	April 67	3.0	1.0	0.1
Kil Kotagiri	Oct. 66	3.6	1.3	0.1
Kesar Sugar	Sept. 66	6.3	2.4	0.2
Kettlewell Bullen	Dec. 66	6.4	2.4	0.2
Larsen & Toubro	Mar. 67	39.6	13.2	1.0
Mukand Iron	Mar. 67	21.9	3.7	0.3
Modi Spg.	Apr. 67	20.8	3.5	0.3
Morarjee Mills	June 67	11.2	3.7	0.3
Mafatlal Fine	Mar. 67	26.1	17.4	1.3
Maharashtra Sugar	Sept. 66	20.8	11.3	0.9
Mohan Meakin	Mar. 67	21.3	9.1	0.7
Mahindra & Mahindra	Oct. 66	36.3	9.9	0.7
Mackenzies	July 66	2.6	1.5	0.1
Methoni Tea	Dec. 66	2.7	0.7	0.1
Malankara Tea	Mar. 67	3.4	2.0	0.2
Maneklal Harilal	Dec. 66	3.4	0.7	0.1
New India Assurance	Dec. 66	91.2	68.4	5.1
Nelliampathy	June 67	5.4	3.6	0.3
New Great Insurance	Dec. 66	4.0	2.0	0.2
Nonsuch	June 67	4.9	1.7	0.1
Nutan Mills	Dec. 66	5.5	3.0	0.2
National Ecko	Dec. 66	4.5	1.5	0.1
N. I. Cables	Mar. 67	27.0	13.5	1.0
National Rubber	Dec. 66	11.9	2.0	0.1
National Tobacco	Dec. 66	9.8	1.6	0.1
National Rayon	Dec. 66	77.8	48.7	3.6
Nizam Sugar	Sept. 66	13.2	2.2	0.2
New Shorrock	Dec. 66	40.0	27.5	2.1
Ossor Estate	Mar. 67	1.6	0.6	0.1
Phaltan Sugar	Sept. 66	10.0	5.0	0.4
Premier Const.	Dec. 66	35.0	24.7	1.9
Philips India	Dec. 66	65.5	29.1	2.2
Periakaramalai	Mar. 67	13.9	7.0	0.5
Panyam Cement	Aug. 66	8.9	1.4	0.1
Puthutotam	Mar. 67	2.1	1.0	0.1
Pfizer	Dec. 66	59.7	34.9	2.6
Paper Products	July 66	8.4	2.4	0.2
Philips Carbon	Nov. 66	23.4	7.8	0.6
Rallis India	Aug. 66	29.3	6.8	0.5
Rane (Madras)	Mar. 67	3.7	1.2	0.1
Raymond Woollen	Dec. 66	9.0	1.5	0.1
Raipur Mfg.	Dec. 66	12.0	7.0	0.5
Rajagiri Rubber	June 67	3.5	0.8	0.1
Rydak Tea	Dec. 66	3.7	0.7	0.1
Ruby Gen. Insurance	Dec. 66	6.5	3.3	0.2
Silver Cotton	Dec. 66	2.6	1.3	0.1
Shree Gopal Paper	Dec. 66	22.6	10.0	0.8
Star Textile Engg.	Dec. 66	4.7	1.7	0.1
Smith Stanistreet	June 67	5.4	2.4	0.2
Syndicate Bank	Dec. 66	14.9	7.4	0.6
Standard Batteries	June 67	5.4	0.9	0.1
Simplex	Mar. 67	14.5	7.3	0.5
Standard	Dec. 66	30.7	15.4	1.2
Swan	Dec. 66	9.0	3.0	0.2
Shaw Wallace	Dec. 66	15.0	5.0	0.4
Svadeshi	Dec. 66	15.8	4.8	0.4
Sassoon Spg.	Dec. 66	18.2	9.1	0.7
Shri Digvijay	Dec. 66	37.4	12.5	0.9
Shree Chengdeo	Sept. 66	7.5	3.8	0.3
Sutlej Cotton	Mar. 67	12.9	11.4	0.9
South India Insurance	Dec. 66	5.0	2.5	0.2
Saurashtra Cement	June 67	12.0	2.0	0.2
Spencer	June 67	7.2	3.2	0.2
Sarangpur Cotton	Dec. 66	14.3	8.3	0.6
Sayaji Mills	Mar. 67	12.6	6.6	0.5
Saraspur Cotton	Dec. 66	7.2	4.2	0.3
Tungabhadra Ind.	Sept. 66	4.6	1.5	0.1
T. Maneklal	May 67	9.0	4.2	0.3
Tarun Commercial	Dec. 66	3.5	1.0	0.1
Travancore Rayons	Dec. 66	18.9	6.5	0.5
Telco	Mar. 67	208.1	64.6	4.8
Tisco	Mar. 67	442.4	56.6	4.2
Tata Power	Mar. 67	61.8	10.3	0.8
Tomco	Mar. 67	21.0	7.0	0.5
Tata Hydro	Mar. 67	28.8	4.8	0.4
Texmaco	Dec. 66	26.3	11.3	0.8
United Comm. Bank	Dec. 66	36.4	8.4	0.6
Victoria Mills	Dec. 66	4.8	1.3	0.1
Voltas	Aug. 66	51.0	8.2	0.6
Wimco	Dec. 66	45.4	4.1	0.3
Waterfall Estates	June 67	6.6	1.9	0.1
Wandleside National	Sept. 66	3.0	1.0	0.1
Total		5062.4	1898.2	142.4

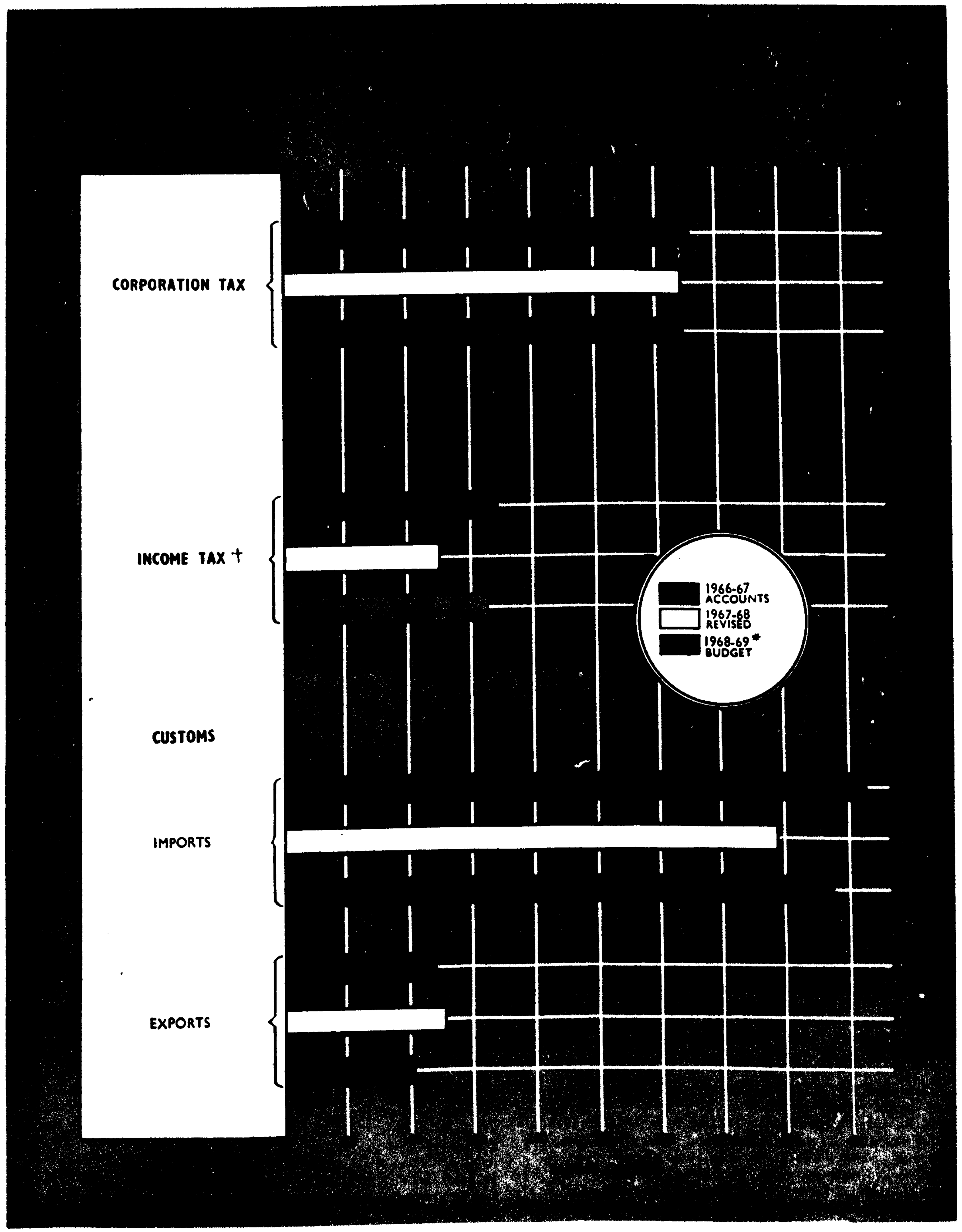
Note: Totals were taken before figures were rounded off.

Source: Economic Times.

REVENUE FROM UNION EXCISE DUTIES 1966-67, 1967-68 AND 1968-69



*INCLUDING THE EFFECT OF THE BUDGET PROPOSALS



Bill is therefore being amended so as to bring the suspense accounts of employees within the purview of the entertainment expenditure limitations. Also the present restriction in the case of companies in relation to deductible expenditure on provision of perquisites, benefits and amenities to their higher-paid staff will be extended to non-corporate enterprises. An alternative monetary limit of Rs 1,000 per month by way of entertainment for each employee has also been prescribed. The depreciation allowance and maintenance expenditure admissible on residential accommodation and household equipment such as refrigerators or air-conditioners provided to the employees free of charge will be brought within the entertainment limits. All these measures have a nuisance value but are not likely to bring in any additional revenue to the exchequer.

While the Finance Minister accepted the recommendation of Mr Bhoothalingam regarding the abolition of dividend tax, he has not accepted his suggestions for the simplification of the complex company taxation in this country. The rates of tax on companies are governed by the following factors: (a) whether the company is mainly engaged in industry or not; (b) whether the company is "closely held" or not; (c) whether the total taxable profit exceeds a certain level or not; and (d) whether the company is foreign or domestic. While the distinction between foreign and domestic companies is essential for administrative reasons, there is no logic in applying different rates of taxation to different companies. Mr Bhoothalingam, in his final report, has recommended that the same rates of tax should apply to all companies irrespective of how they are held. It is possible that the Finance Minister is already working out a general rate of tax for all types of companies and he might put it into effect some time this year, though his anxiety will be not to lose any revenue through this change.

Postal Tariffs: Should Extravagance Be Paid For?

WHILE THE Finance Minister has been considerate in enhancing the burden of indirect taxation, his proposals in regard to the posts and telegraphs tariffs are by no means mild. The upward revision proposed to be effected in the postal tariffs (see details in the budget documents section) is expected to net Rs 24.7 crores additional revenue in a full year. The increase in the telegraph tariffs is anticipated to bring in Rs 1.08 crores annually. Since the enhanced tariffs cannot take place from April 1 as a notificatión giving effect to them can be issued only when the budget is passed towards the close of April or in the first week of May, the net additional revenue from them during the next financial year may be of the order of Rs 23 crores.

The sole justification for the proposed increases in the posts and telegraphs tariffs put forth by the Finance Minister is the heavy deficit which this department is currently incurring, thanks to a sharp rise in its working expenses. The current financial year is expected to close with a deficit of Rs 22 crores. Next year the deficit may rise to Rs 24 crores in the absence of tariff increases.

Notwithstanding the fact that the P & T Department has been functioning basically as a social service, opening unremunerative offices in the countryside and according concessional tariffs on various services such as delivery of letters, money orders, registered newspapers, it has all along been considered a commercial undertaking in the sense that in its overall operations it should pay its way. Further, there is no denying the fact that our posts and telegraphs tariffs in respect of most of the services provided by the P & T Department compare favourably with corresponding tariffs in many other countries (see table on page 466).

Tyagi Committee Report

The Tyagi Committee, whose interim report forms the basis of the Finance Minister's proposals has, in principle, agreed with the view that the P & T Department ought to be considered a commercial undertaking whose overall operations should not entail any burden on the general revenues. Citing the practice in other countries, the committee has the following observations to make about the financial viability of the various branches of the department:

"The committee considers that for the purpose of fixation of tariffs, effort should be made to attain, as far as possible financial self-sufficiency within the postal branch. Financial self-sufficiency should be aimed at for the telegraph branch also. The telephone branch, which can afford to work more on business lines, should on the other hand, function in such a manner as to provide adequate surplus, not only to cover losses, if any, in other branches, but also to generate sizable resources for the development of telecommunication services".

Judged in the light of the above consideration, an upward revision in the posts and telegraphs tariffs was called for. It is, however, in regard to the quantum of the proposed increases, especially in the case of those services which are mostly used by the less affluent sections of the society, that there arises a difference of opinion. The proposed increase in the price of post cards from six paise to 10 paise and the raising of the commission for money orders from 15 paise for every Rs 10 to 20 paise for every Rs 10 up to Rs 200 and 30 paise for every Rs 20 beyond Rs 200 are indeed steep.

Cause of Deficits

To appreciate fully the overall burden proposed to be imposed on the public for enabling the P & T Department to pay its way, it is necessary to look into the causes which have led to the department incurring heavy deficits in the recent past. Two causes are primarily responsible for this. These are: (i) the rapid expansion in the postal service and (ii) the mounting staff costs. The expansion in the postal service—there have been opened since Independence, over 75,000 new offices—has led to an increase in the number of unremunerative offices. These offices entail an annual loss of the order of a crore of rupees. The staff costs have gone up due to successive increases in dearness allowance, overtime allowance and introduction of such welfare measures as provision of medical facilities and children's education allowance. The payments to the P & T staff on account of dearness allowance alone have gone up from Rs 3.48 crores in 1961-62 to Rs 10.6 crores in 1964-65 and further to Rs 23.35 crores in 1966-67. The budget estimates for 1967-68 placed these payments at Rs 26.49 crores. Currently, thanks to the three increases granted in 1967, they should be aggregating over Rs 30 crores. The expenditure on medical reimbursements has grown from Rs 67 lakhs in 1961-62 to over four crores of rupees and that on children's education allowance from Rs 35 lakhs in 1962-63 to nearly Rs 1.5 crores. The growth in the overtime allowance has been equally sharp—from Rs 90 lakhs in 1961-62 to Rs 4.56 crores (budget estimate) in 1967-68.

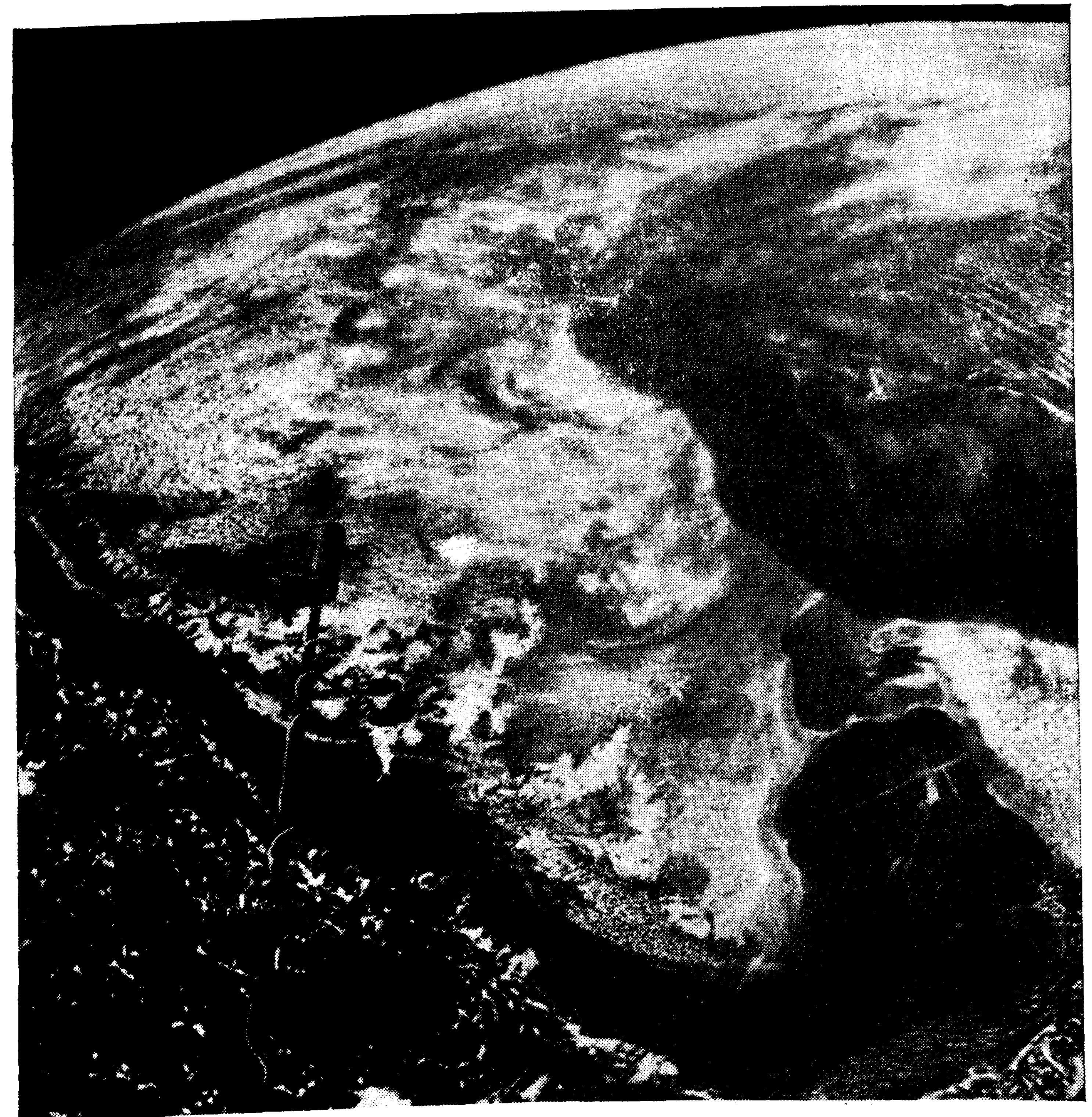
Instances cited by the Tyagi Committee suggest that adequate vigilance is not being kept by the department on payments on account of overtime and medical reimbursement. A clerk with a pay of Rs 240 per month, for example, is reported to have been allowed to draw in October, 1967, a sum of Rs 975.20 as overtime allowance; the total amount drawn by him during the first ten months of 1967 on this account amounted to Rs 5,552.40. A munshi with a pay of Rs 98 per month is said to have drawn Rs 286.90 as overtime allowance in the same month, the total amount drawn by him as overtime allowance between January and October, 1967, being Rs 1,908.20. As

COMPARATIVE STATEMENT OF INLAND POSTAGE CHARGES IN VARIOUS COUNTRIES AS FOR THE FIRST SLAB IN INDIA

(With their present equivalents in nearest paise within brackets)

	Letters (15 gms.)	Letter cards	Postcards	Printed papers (50 gms.)	Newspapers (single copy) (60 gms.)	Money Orders (Rs 10)
1. India (1967)	15 paise	10 P	6 P	10 P	2 P	15 P
2. Australia (1967)	5 cents (42)	5 c (42)	5 c (42)	5 c (42)	5 c (42)	15 c (126)
3. Canada (1967)	50 cents(33)	—	4 c (27)	3 c (20)	Complex rate structure	10 c (67)[1]
4. Ceylon (1967)	10 cents (13)	7 c (9)	5 c (6)	14 c(18)[2]	5 c (6)	25 c (32)
5. France (1967)	30 centimes (46)	—	25 c (38)	20 c (30)	5 c (8)	60 c (91)
6. Germany (Democratic Republic) 1956	24 Pfenning (34)	—	12 Pf(22)	8 Pf(14)[3]	9 Pf(16)[4]	20 Pf(36)
7. Germany (Federal Rep.) (1965)	20 Pfenning (38)	—	15 Pf(28)	15Pf(29)[5]	Periodical charge	30 Pf(56)
8. Iraq (1966)	15 fils (31)	—	10 fils (21)	5 f (10)	2 f (4)	15 f (31)
9. Japan (1967)	15 yen (31)	15 y (31)	7 y (15)	6 y (12)	3 y (6)	40 y (83)
10. Pakistan (1967)	30 paise(47)[6]	—	7 P (11) 10 P (16)[7]	7 P (11)	2 P (3)	30 P (47)[8]
11. Taiwan (1966)	1 Taiwan dollar (19)	—	50 c (9)	50 c (9)	2 c (4)	Complex rate structure
12. UAR (1955)	10 milliemes (17)	—	6 m (10)	4 m (7)	1 m (2)	30 m (50)[9]
13. UK (1967)	4 pence (30)	4 d (30)	3 d (23)	3 d (23)	5 d (38)[10]	2 shillings (180)
14. USA (1967)	5 cents (38)	—	4 cents(30)	Complex rate structure		25 c (188)
15. USSR (1952)	15 kopecks (125)	—	10 k (83)	3 k (25)	1.2 k (10)[11]	20 k (167)

1. The first slab for M.O. in Canada is upto $0.99 and is charged a commission of 5 cents (33 P)
2. The first weight slab for printed papers in Ceylon is 1 ounce, the postage charge for which is 10 cents (13 P)
3. The first weight slab for printed papers in German Democratic Republic is 20 grams, the postage charge for which is 6 Pf (11 P)
4. The first weight slab for newspapers in German Democratic Republic is 30 grams, the postage charge for which is 6 Pf (11 P)
5. The first weight slab for printed papers in Federal Republic of Germany is 20 grams, the postage charge for which is 10 Pf (19 P)
6. The first weight slab for letters in Pakistan is a tola, the postage charge for which is 15 paise (24 P)
7. The postage rate between East and West Pakistan for a single postcard is 10 paise (16 Indian Paise)
8. M.O. Commission in Pakistan (16 paise for every Rs 10) is subject to a minimum charge of 30 paise (47 P)
9. M.O. Commission in UAR (10 m per £ E) is subject to a minimum charge of 30 m (50 P)
10. The first weight slab for newspapers in UK is 2 oz., the postage charge for which is 3 d. (23 P)
11. The first weight slab for newspapers in USSR is 50 grams, the postage charge for which is 0.6 K (5 P)



regards medical reimbursements, a postman in the pay scale of Rs 75-95 is reported to have drawn Rs 2,220.62 on this account in September, 1967, and a total of Rs 8,460.50 between April and October, 1967. A LSG clerk with a basic pay of Rs 335 drew in August, 1967, Rs 1,958.95 as medical reimbursement, the total amount drawn by him between April and December, 1967, being Rs 10,481.55. These cases apparently suggest not only lack of vigilance on the part of the department, but even collusion among some members of the staff. It may be pointed out here that for some categories of staff, the normal rules of overtime allowance under which payment for overtime should not exceed 33 per cent of the basic wage are not applicable.

The Finance Minister should not expect the general public to pay for the lack of vigilance on the part of the department. Apart from the economies that can be effected through the exercise of vigilance on the unduly growing expenditure on medical reimbursement and overtime, there is apparently a good deal of scope for effecting economies even otherwise. With a view to bringing down expenditure, the Tyagi Committee, even in its interim report, has made a number of useful suggestions. It is regrettable that, while the Finance Minister has stepped up the posts and telegraphs tariffs on the basis of the case made out in this report, he has not cared to make a mention of the economy and efficiency measures suggested in it.

Unremunerative Post Offices

The Tyagi Committee has taken note of the observations of the Estimates Committee, 1960-61, in its 110th report, that "the government may examine whether the losses incurred by the department in the implementation of social obligations of increasing the postal, telegraph and telephone facilities in rural and remote areas etc., should be met from the general revenues" and also the objections of the P & T department to this suggestion—the department feels that the proposed step is not warranted in the interest of incentive for minimising loss. Its own recommendation is that the department should review its policy towards unremunerative offices and "fix the maximum trial period and the limits of loss for such offices more realistically". In the committee's opinion, normally a period of "four years or so" should be enough for assessing whether a post office has developed traffic and has become remunerative, as against the 10-year period allowed at present. The committee feels that the opening and continuance of unremunerative offices should be subject to a minimum guaranteed income, the minimum, however, has not been suggested. In view of the fact that since Independence more than 75,000 post offices have already been opened and there has also been a fairly rapid expansion in the telecommunication facilities, the time apparently has come to consolidate the progress already made. Further rapid expansion in postal and telecommunication facilities may have to be deferred.

Substantial economies can be effected by the P & T Department by implementing without delay several other recommendations of the Tyagi Committee. These include: (i) the fixing of appropriate efficiency norms, (ii) the constant scrutiny of the fluctuations in tariff in particular areas; (iii) a reduction in the number of deliveries of unregistered mail (as against only two letter deliveries a day in urban areas and generally one in rural areas in most of the advanced countries and three in the London Head Districts, the number of deliveries in the larger cities in India is four a day and in the smaller towns three); (iv) combining of the deliveries of accountable and unregistered articles as far as possible; (v) resorting to "bulk entry system" for registered articles; (vi) encouraging more and more people to collect their mail from post offices; and (vii) rationalising and reducing the clearance of street letter boxes. An interesting revelation made by the committee is that the Nasik security press levies a profit of 10 per cent on the cost of stamps and postal stationery supplied to the Posts and Telegraphs Department. This, the committee notes, is in addition to the depreciation of plant and machinery and an element of interest which are included in the working out of the cost of supply. The committee suggests that it should be examined whether or not this percentage is high.

By concerted efforts at economising, as suggested by the Tyagi Committee, the expenditure of the Posts and Telegraphs Department apparently can be reduced considerably. Where then is the justification for imposing such a heavy burden on the public as has been proposed by the Finance Minister?

Coming to the specific proposals of Mr Desai relating to the increases in the prices of post cards and letters and in money order commission, the three services together accounted for over 80 per cent of the loss suffered by the postal wing of the department in 1967-68—Rs 14 crores out of approximately Rs 16 crores. The post card service was responsible for a loss of nearly Rs 10 crores, the inland letter service for Rs 2.1 crores and the money order service for about two crores of rupees. The loss per unit of these services in 1967-68 is estimated as follows:

(i) **Post card** : Cost of handling and delivering 12.86 paise; price six paise.

(ii) **Inland letter** : Cost 14.01 paise; price 10 paise.

(iii) **Money orders** : average expenditure per money order one rupee; average revenue 82 paise.

In 1957 when the price of post card was five paise, the cost of handling and delivering it came to 7.5 paise. In 1963, when the price was raised to six paise, the cost amounted to 8.5 paise. The cost of delivering an inland letter at the time of its introduction in 1950 at a price 1½ annas (nine paise) came to 7.5 paise. The average revenue from the money order service per unit amounted to 60 paise in 1957, as against 77 paise cost.

The above growth in the costs and the needs of the decimal system perhaps may suggest that the Finance Minister's proposals are appropriate. But in view of the additional burden likely to fall on the less affluent sections of the community, the rounding off of tariffs into multiples of five ought to have been deferred. Taking into consideration the scope for economies in expenditure and the Tyagi Committee's recommendation that the cost of the post card service should not be subsidized to more than 40 per cent, the raising of the price of post cards from six to eight paise should suffice for the present. The price of inland letters can be fixed at 13 paise for the time being, while efforts are made to effect economies and reduce costs in the department.

As regards money orders, the Tyagi Committee is in favour of the feasibility of a separate charge for acknowledgements being explored. The committee has noted that over 50 per cent of complaints in respect of the money order service relate to non-receipt of acknowledgements and it is hopeful that the levy of a separate charge should reinforce the department's sense of responsibility. Meanwhile, the present rate of 15 paise for every ten rupees may be kept undisturbed in respect of amounts up to the first 25 rupees.

Apart from the above three services, several other services of the postal wing of the P & T Department also entail loss. The extent of the loss in 1967-68 is shown in the following table:

(Paise)

Service	Cost per article	Revenue per article
Registered Newspapers	15	4
Parcels	151	115
Registration	83	60
Book Post	13	11

Only envelopes and unpaid (bearing) letters throw up surpluses. The profit on envelopes comes to six paise a unit which weakens the case for the sharp increase proposed to be effected, from 15 paise to 20 paise.

The registration, parcel and book post services obviously should pay their way. The parcel service, as the Tyagi Committee recommends, should yield some surplus as well. Registered newspapers ought to be treated at par with book post. The proposed tariffs do not accord with these principles. Mr Desai ought to take a second look at them.

Indirect Taxes — An Exercise in Restraint

IN PRESENTING his indirect taxation proposals for the next financial year, Mr Morarji Desai has, indeed, exercised commendable restraint. Had he followed the philosophy he had enunciated in his last year's budget speech, i.e., avoidance of deficit financing, he apparently could have administered a much larger dose of fresh excise and customs levies than he has done. Even though he has disclosed for the next year an overall deficit of Rs 315 crores, the new excise levies he has proposed and the enhancement of some of the present excise and customs duties, on first look, are anticipated to bring in a net additional revenue to the extent of Rs 55.73 crores—Rs 59.56 crores additional taxation minus Rs 3.83 crores concessions given while presenting the budget. But in assessing the new burden of excise and customs levies, allowance has got to be made to the abolition or scaling down of the export duties on jute manufactures, tea, coir manufactures and leather goods announced on February 7. This entailed a loss of nearly Rs 18.83 crores to the exchequer.

Further, as much as Rs 10.13 crores additional revenue next year is expected from an upward revision in the excise duties on petroleum products under the Mineral Products (Additional Duties of Excise and Customs) Act of 1958. The main purpose of this Act is not to impose any additional burden on the consumer or the producer, but to mop up certain amounts from the oil companies which even otherwise should belong to the exchequer. These amounts accrue on account of such factors as the oil companies being able to import crude oil at discounts higher than agreed to in a particular period, smaller expenditure on ocean freight, etc. If the above two facts are taken into consideration, the net additional burden of indirect taxes proposed for the next year amounts to only about Rs 27 crores.

Unlike last year when he had attempted to raise large additional revenue—to the extent of nearly Rs 70 crores—from only five commodities (cigarettes; motor spirit; rayon and synthetic fibres and yarn; cotton twist, yarn and thread; and aluminium), Mr Desai has endeavoured to spread the next year's burden (nearly Rs 26 crores) on a much wider range of commodities (see details in the budget documents section). He has selected six items for imposing new excise duties. Besides, the existing levies have been raised on five items. The six new items included in the list of excisable goods are: (i) confectionery and chocolates; (ii) artificial leather cloth, rexine, etc.; (iii) embroidery; (iv) valves and transistors of wireless sets; (v) steel furniture, and (vi) crown corks. In the case of confectionery and chocolates, embroidery and steel furniture, the excise duty is to be levied on the organised sectors of these industries where manufacture is undertaken with the aid of power.

The items on which excise duties have been raised signi-

ficantly are unmanufactured tobacco, jute manufactures and refrigerating and air-conditioning appliances. In the case of paper, the modest increase in revenue (Rs 15 lakhs) expected next year is on account of withdrawal of exemption from the levy of special excise duty on coloured varieties of printing and writing paper (other than bleached and tinted). The increase in the excise duties on certain cotton fabrics is more than counterbalanced by the relief granted in the duty on cotton yarn. The readjustment in the rate structure in respect of cotton yarn and fabrics, as the Finance Minister has observed, is in response to the representations received from powerloom weavers that the burden of the excise duty on cotton yarn of fine and superfine counts was rather heavy on the weaving stage. The increases proposed in the excise duties on some petroleum products, apart from the above five commodities, as stated earlier, need not be taken into consideration while assessing the impact of the additional burden of indirect taxes imposed by the Finance Minister.

In the field of customs, the additional revenue of Rs 19.3 crores is proposed to be collected to an estimated extent of Rs 15.5 crores by raising the basic import duties on (i) cassia and cinnamon; (ii) cloves; (iii) liquors; (iv) several chemicals; (v) steel ingots and certain alloy and special steels; and to the tune of Rs 3.8 crores by increasing countervailing duties as a sequel to fresh imposition or enhancement of excise duties.

No Serious Objection

Although the choice of the commodities on which the burden of excise and customs duties has been enhanced or on which the excise duties have been imposed for the first time has been criticised in some circles, no serious objection can be taken to Mr Desai's preferences or even his prejudices. Most of these commodities do not enter mass consumption. Even if they do, as is the case with tobacco, there is justification for selecting them to net additional revenue for the exchequer. The increased burden of the excise levy on tobacco is justified on health considerations. The profit margin in the case of cassia, cinnamon and cloves which are commonly used in the kitchen, apparently is substantial. The modest increase proposed in the customs duty on chemicals too cannot be objected to as the impact of this on the industries consuming these chemicals is insignificant. Further, exemption from duty has been granted if these chemicals are used for the manufacture of drugs, medicines, pesticides, etc.

Commodity-wise, the industry and trade have voiced their grievances, particularly against the imposition of excise duties on steel furniture and valves and transistors of wireless sets and the enhancement of the excise burden on refrigerating and air-conditioning equipment and jute goods. The main objection voiced against the imposition of excise duties on valves and transistors of wireless sets is that the increase in prices of wireless sets resulting from this levy will hinder mass communication.

In the case of steel furniture, the proposed excise duty, according to the Engineering Association of India (eastern region), is not only heavy but it also has a wide scope. The association has pointed out that the present proposal will bring even wooden furniture with only a few steel parts within the mischief of excise regulations. It has, therefore, been suggested by the association that the duty should be levied only on furniture which is basically made of steel. The rate of duty, the association feels, is excessive because of two considerations: first, the industry is still in its infancy and its customers are of modest means and also include such welfare bodies as hospitals; secondly, the levy comes on the top of excise duties already borne by the components and raw materials which go into the manufacture of steel furniture. The association has pleaded that the duty should be reduced to five per cent and the government should fix the tariff value of standard items of furniture.

The increase in the excise burden on refrigerating and air-conditioning equipment and accessories has come in for criticism on the ground that the industry is at present passing through a recession. To counter the recession efforts are being made to build up exports. The proposed 50 per cent increase in the excise levy will hamper the process of recovery from the recession.

The above criticisms clearly indicate that the main objection to the imposition or enhancement of excise duties on steel furniture and refrigerating and air-conditioning equipment is on account of the quantum of burden imposed. There seems to be a case for the scaling down of the additional burden on the two commodities. As regards steel furniture, there is also a case for the refining of the definition of the furniture to be taxed as well as for granting rebate of duty on the purchases of the welfare bodies such as hospitals and educational institutions, the financial position of majority of which is not comfortable.

So far as jute goods are concerned there may be a justification for the increase in excise levies on them in the interest of releasing larger surpluses for export. But this packaging material obviously is equally important for the home market. The effect of the increase in these duties can be the offsetting to some extent of the relief got by the nation from the bumper crop this year.

The relief granted to the small ore-based aluminium manufacturers whose clearance of aluminium in whatever form does not exceed 12,500 tonnes is obviously judicious. It was called for after the sharp increase in the excise levy last year. In the interest of avoiding discrimination between the small and the major producer, however, the concessional rate of duty ought to be extended to the first 12,500 tonnes of aluminium clearances of the major producers as well.

Of substantial significance in the field of indirect taxation is the proposal of the Finance Minister to extend the scope of audit type of control to all manufacturers, big or small, with the exception in respect of a few excisable commodities only which present complications in assessment or where there is a substantial movement in bond. This system of control envisages the removal of excisable goods by manufacturers after self-assessment without physical control by the central excise officers at the time of such removal of goods. Periodically, the excise department personnel will check the veracity of the accounts of manufacturers. This measure should help to keep in check the cost of collection of excise duties. It will also obviate a good deal of harassment to the manufacturers. With the reposing of increased trust by the Finance Minister in manufacturers, their declarations and accounts, it is appropriate that he should have thought of enhancing the punishment for evasion of excise duties. Under the existing central excise law, the penal provisions for departmental adjudication provide only for confiscation of the offending goods, if available, and a maximum penalty of Rs 2,000. It is proposed to make these penal provisions sufficiently deterrent by providing in the new rules for confiscation of land, building, plant, machinery and excisable materials, if the manufacturer, producer or warehouse licensee removes the excisable goods unauthorisedly and does not satisfactorily account for all such goods manufactured or stored by him or does not apply for the required licence for manufacture or production of excisable goods or contravenes any rule with an intent to evade payment of duty. Lest the majority of manufacturers should suffer on account of the misdeed of a few, the associations or manufacturers and traders will do well to exercise wholesome influence on their members to make this system of audit type of control a success.

The Finance Minister obviously could not change the pattern of indirect taxes drastically as suggested by the former Secretary of the union Ministry of Finance. Mr S. Bhoothalingam, in his final report on rationalisation and simplification of the tax structure. This report submitted towards the end of December last, indeed, recommends a radical change in the tax system, especially in so far as excise and customs duties are concerned.

So that the growth in the national income may augment government revenues automatically, Mr Bhoothalingam has suggested the replacement of the present excise levies in a period of five years by a 10 per cent general ad valorem excise duty on all items of production with the exception of 14 commodities. The exempted commodities, tea, coffee, unmanufactured tobacco, sugar, mineral oils and their products, cotton textiles (yarn and fabrics), rayon (yarn and fabrics), cigarettes, matches, iron and steel, motor vehicles, tyres and tubes, cement and paper. A separate treatment in regard to these commodities has been suggested in the interest of revenue considerations and some policy objectives such as restraining of consumption.

In regard to customs duties, Mr Bhoothalingam has recommended that process of simplification and rationalisation initiated in 1965 should be carried to its logical conclusion. Except for a few luxury items like watches, jewellery, alcoholic beverages and perfumes, there should be only three or four rates of duties. In calculating "drawbacks" for exports, the government should take into account all the taxes and levies. While these proposals may help in considerably simplifying the structure of indirect taxes, their major defect is that they do not make any distinction between essential and non-essential commodities. This distinction cannot be dispensed with in the prevailing circumstances in the country.

Budget and the Businessmen

THE DIFFERENT ways in which the stock exchanges in the country have reacted to the birthday present to the nation of Mr Morarji Desai, Deputy Prime Minister and the Minister of Finance, denote the difficulties of digesting all the details of the budget, especially when first reactions are based—as they must needs be—on what the news agency tickers carry. This year, the position was rendered difficult, as the Finance Minister left some things unsaid in his budget speech as, for example, the borrowing programme during the budget year (1968-69), apart from restricting the scope of the Finance Bill only to changes in income-tax law in regard to which delay would have been inadvisable, as he put it. Nevertheless, there was one thing common to all the reactions, notwithstanding their varying nuances. It was that one more opportunity has been lost by the government to reduce its mounting non-developmental expenditure. The corrosive of unbridled deficit financing is so well recognised by all sections of the population today that the public demand for drastic economies has not spared even estimates of defence expenditure, once supposed to be not only beyond scrutiny but not at all amenable to any cuts. In fact, inaugurating the last annual general meeting of the Indian Merchants' Chamber, Bombay, Mr J. R. D. Tata went so far as to suggest exploration of the possibility of a reduction of some Rs 100 crores in defence expenditure by the adoption of more modern techniques. But, unfortunately, on the plea once again of absence of scope for manoeuvring, Mr Morarji Desai has chosen not just to maintain the present level of expenditure but to step it up, albeit slightly. Thus, on the revenue side, total expenditure for 1968-69 has been put at Rs 2,623 crores (original budget estimate for 1967-68 was Rs 2,443 crores, the revised figure for that year being Rs 2,482 crores), while on the capital side, the 1968-69 total of Rs 2,078 crores compares with Rs 2,017 crores (original) and Rs 2,115 crores (revised) for 1967-68. In the aggregate, then, the latest grand total expenditure estimates are higher by Rs 241 crores and Rs 104 crores compared to the original estimates and the revised estimates, respectively, for the previous year (1967-68).

In the face of these figures, it is difficult to understand the claim of Mr Desai that "the expenditure estimates in totality have been contained." For, both in the current year, and in the budget year, the country has been faced with large deficits—Rs 300 crores in 1967-68 and Rs 290 crores in 1968-69. The Finance Minister may apply the unction to his soul and say that the deterioration in the budgetary position has little to do with unexpected increases in expenditure, but he cannot thereby wish away or dispel the disastrous consequences of deficit financing. Created money not only causes prices to rise further, but eats into goods exported (thus nullifying efforts to boost exports) and makes for increased imports (thereby worsening the balance of payments position). Only the utmost financial discipline on the part of government, both at the centre and in the states, coupled with a liberal measure of self-denial on their part, will arrest the rising trend in expenditure. That there is need for both is amply borne out by the recent reports of the Public Accounts Committee on the appropriation accounts for 1965-66 of the defence services and defence production presented to Parliament on the budget day.

Arresting the Decline

The studied reactions of the stock markets are invariably in direct proportion to reliefs and concessions given in the budget to encourage capital formation in the private sector. What Mr Desai has done—by way of rationalising some anomalies in the present tax structure, such as abolition of the annuity deposit scheme, making the first Rs 500 of dividend income free of tax, and removal of the artificial distinction between earned and unearned incomes and of the tax on excess dividend distribution—according to shrewd investors, is just enough to arrest the declining trend but not to revive the capital market, much less the economy. These circles feel the basic corporate taxation is still at the highest level, higher than in any other country, notwithstanding the welcome small mercy of a ten-point reduction in the surtax rate, while rates of income and wealth taxes, very high and applicable at relatively lower levels than in other countries even as they are, have been further stepped up. It is mostly the people who pay income-tax and wealth tax that are really in a position today to save and invest, not the middle income group or even the highly pampered organised industrial labour, thanks to inflation. It is the considered opinion of eminent chartered accountants and tax experts that the Finance Minister could well have offered several incentives which would not have involved a heavy loss of revenue. Dr R. C. Cooper, for instance, listed a few of these, including removal of additional tax burden on closely held companies and compulsory distribution of profits and abolition of surtax and 10 per cent surcharge on corporate and individual incomes. He also favoured a realistic ceiling on total direct taxation. However, the market was appreciative of the incentives for agro-based industries, for export efforts and for dividends, royalties, etc., earned by Indians in foreign countries.

Both the cotton mill industry and the jute mill industry feel disappointed, if not despondent, that the authorities have still not been able fully to appreciate their sorry plight. If the former interests blame the Finance Minister for not showing any consideration to the composite mills which are experiencing a crisis on account of consumer resistance (this they attribute, in the main, to the very high rates of excise duties on cotton textiles), jute interests are aghast that the rates of basic duty on hessians and other jute manufactures are proposed to be raised in the guise of discouraging internal consumption and encouraging exports. They feel that this is like taking away with the left hand what was given with the right hand; it is only recently that the industry had some relief after repeated pleadings, by way of reduction in export duties.

Welcome Proposal

The Finance, Minister's proposals to check tax evasion and concealed income and wealth have been generally welcomed, but the minimum penalty suggested, it is argued, is against the principles of justice and equity, inasmuch as it leaves no discretion to the judiciary to distinguish between a genuine mistake and a deliberate lapse. Similarly, while there is appreciation of the administrative instructions proposed to be issued to the effect that the same value shall be adopted for an asset for the purposes of income-tax, wealth tax, gift tax and estate duty, there are apprehensions about the proposed organisation for valuation of lands, buildings and other assets. *It is feared that it might turn out to be yet another source* of bureaucratic corruption. It may be noted here that assessments of independent expert valuation firms have been seldom questioned even by the highest judicial authorities.

Mr Desai has himself admitted that one of the contributory factors to the large deficit finance this year (1967-68) is the overdrafts by states, but the way he has sought to discourage them is strange. Instead of crying a halt to the trend he has been condoning the overdrafts and even allowing fresh overdrafts. He first gave (in March 1967) Rs 55 crores to some states to enable them to clear their overdrafts with the Reserve Bank of India before the financial year closed, but that was not the end of overdrafts by state governments. In May 1967, again, the Finance Minister made a provision of Rs 50 crores for the purpose. Actually, at the end of the last fiscal year, the total of such accommodation went up to Rs 113 crores, and yet, even today, there are states continuing to run overdrafts merrily. And why should they not when they have a union Finance Minister (whom they are never tired of criticising for not being liberal to their states) who has provided a further Rs 50 crores in the current year's revised estimates in the name of safeguarding the states' plans? If Mr Desai thinks he can stop this financial delinquency by such pious statements as "we cannot allow a similar situation to develop next year also", he is mistaken. Moreover, so long as the centre itself is unable to stop overdrawing on the Reserve Bank, it will not be possible for any Finance Minister to enforce financial discipline on the states. Indeed, this is precisely the reported reaction of the Kerala Chief Minister to Mr Desai's moral indignation.

There is one statement in Mr Desai's budget speech that deserves to be prominently featured. It is this: "Increased productivity per acre is essential if adequate returns to the farmer are to be reconciled with **reasonable prices to the domestic consumer and competitiveness in export markets**" (emphasis ours). For the first time and in such categorical terms we find here that prices must have some regard to what the consumer at home and the importer abroad can or is prepared to pay. This is, indeed, price-consciousness with a vengeance. Belated though it be, it is not too late yet, "given the right policies", to quote Mr Desai, right policies not only by the government but also by the trade unions and, of course, by the managements as well. Investment circles were wondering why the Finance Minister had not made the usual reference to market borrowings until they got all the budget papers. The explanatory memorandum on the budget for 1968-69 discloses that credit is taken in capital receipts under "Public Debt in India" for Rs 300.70 crores which includes two new loans amounting to Rs 300 crores. Against this, the provision for total repayment of debt is Rs 244.40 crores, which means a net retention of less than Rs 56 crores. But it will cushion at least to this extent the impact of a Rs 290-crore deficit.

Stock Exchanges Turn Cheerful

FOR THE first time in several years, the Deputy Prime Minister, Mr Morarji Desai, has made a serious attempt to revive the capital market and refrained from levying taxes, which would have an upsetting effect on the calculations of the corporate and individual assessees. But he could have been more courageous in his approach to taxation problems as it is wrong to think that a cheaper money policy alone will deliver the goods. Probably Mr Desai will rationalise the tax structure in a thorough manner when presenting the budget for 1969-70 with a view to giving the necessary support for the fourth Plan after studying the recommendations of Mr Bhoothalingam, of the Public Accounts Committee in its 17th report and the Administrative Reforms Commission. But nothing prevented him from going back to the level of taxation relating to corporate and personal incomes that prevailed before Mr Sachindra Chaudhuri presented his budget in February 1966. What is needed in the present context is a bold policy which will revive activity in the private sector with strategic tax reliefs and cheaper money.

It should be said that Mr L. K. Jha, Governor of the Reserve Bank of India, has done better than Mr Morarji Desai in deciding to effect a reduction in the Bank rate by one per cent to five per cent. Even in August last year it became clear that there was a calculated retreat from dear money and just as in the earlier days multi-tier interest rates were charged in borrowing by the member banks from the central banking institution, a duel Bank rate has been in operation in the past eight months. The special discounting facilities provided by the lender of the last resort have not, however, had the desired effect and the 1967-68 busy season has turned out to be rather dull in spite of a record output of food and cash crops and anticipations regarding a revival in industrial production. There has been no aggressive demand for funds and it was thought that cheaper credit should be made available to the borrowers for expanding their activities. The Bank rate has been cut by a full one per cent instead of the anticipated ½ per cent, in the middle of the season, which is rather unusual. It has not been done at any time in the past. In fact on the three occasions in former years, when there were changes in the Bank rate, they were in the upward directions and not downward. The structure of interest rates relating to advances and deposits has also undergone a consequential change. But it has not been possible to reduce interest rates to the fullest extent of the decline of the Bank rate as the profit margins of the lending institutions would be unduly affected otherwise. If Mr Jha's thinking in recent months is any guide, it will not be surprising if after some months there is a further drop in the maximum lending rate of member banks to nine per cent. There may also be a further lowering of deposit rates for shorter periods.

It is difficult to say just now what exactly will be the impact of the latest development on industry and trade and whether the current busy season, which has still to run a course of eight weeks, will become certainly active. The stock markets, however, have turned active and boom-like conditions revailed in Dalal Street and Lyons Range, immediately after t was known that there had been a lowering of the Bank ate. The tax proposals announced by the Deputy Prime Ainister in Parliament on February 29, did not evoke any enthuiasm as it had been hoped that there would be a substantial eduction in direct taxes and a conscious effort would be made o improve the profit margins of industries. It was no doubt nticipated that new excise duties would be levied on a number of commodities. But it was pointed out at the same time hat the new levies could be passed on to the consumer. Even hough the tax proposals did not seek to raise large amounts nd it can even be argued that the net amount accruing to he exchequer would be much less if the reductions in the xport duties earlier in February are taken into consideraon, the reaction in Dalal Street to the abolition of the annuity eposit scheme, the reduction in the rate of surtax from 5 per cent to 25 per cent, the removal of the dividend tax nd the special surcharges on earned and unearned incomes nd the grant of exemption from tax for the first Rs 500 on ividend income was not at all encouraging. Actually the ains recorded in the two days before the budget was preented to Parliament were completely wiped out and even n second thoughts there was no disposition on the part of perators in Bombay to change their opinion. Their counterarts in Lyons Range were inclined to be more optimistic and iere was the unusual feature of prices in this centre moving a divergent manner against those in Bombay.

udden Spurt

The story, however, is completely different after March 2. here has been a sudden spurt in prices for scrips by five 10 per cent, in most cases. The process of adjustment to ie new yield basis has started. As bear operators were trying take advantage of the subdued sentiment in the market fter budget day, the announcement relating to the Bank rate it on Saturday caught them napping and in a hurry to cover pen positions, values of leading scrips were marked higher iarply. The entirely different sentiment in the market place ill be evident from the fact that 24 hours after the Bank ite cut was announced, Tata Steel was quoting at Rs 101.50 gainst Rs 94.80 and Indian Iron at Rs 16.04 against Rs 15.48. entury shot up by over 40 points to Rs 567 and National ayons by over 30 points to Rs 485. Telco jumped to s 213 from Rs 198, and Hindustan Motors to Rs 15.72 from s 14.56. In Lyons Range, popular scrips such as Indian luminium; Dunlop Rubber; Guest, Keen, Williams; Texmaco; esoram and others were substantially higher with sellers xtremely reserved. Apart from the bullish effect of the tax roposals and a new policy of cheaper money, it was emphased that the engineering industries in West Bengal would be substantially benefited by the offer of the USSR to buy large numbers of wagons and other engineering products.

There will naturally be greater activity in the stock markets in the coming weeks and both operators and investors may be inclined to take up a more helpful view of the future outlook. But it should not be overlooked that the change in the yield basis can come about only partially as the new Bank rate will become effective only if there is a complete readjustment in the structure of lending and deposit rates. Besides, it is a moot point whether there will be a distinct improvement in the profitability of working of different industries as a result of the new policies initiated by the central government and the RBI. While it must be generally agreed that there will be a revival in economic activity, as a result of a higher level of agricultural production and the new schemes for promoting exports and boosting industrial output, without a stepping up of plan outlay, it may not be possible to utilise full industrial capacity. The experienced operators are therefore anxious to know whether there will be further favourable changes in official policies and whether credit expansion will be effected in a way which will lead to greater activity in the public and private sectors. Rightly or wrongly, the accent so far has been on the development of the public sector and the private sector has been thriving only when the former was active. With a reduced outlay on plan schemes of the central and state governments and the disincentive effect of high taxation on the private industrial sector, there has been an accentuation of the recessionary trends even after devaluation.

A conscious attempt has no doubt been made to inject purchasing power through the medium of credit institutions on cheaper terms. There will however be a disposition to take advantage of the new facilities only when it is clear that fresh investment would be remunerative and there would be a continuing demand for goods and services. In this sense, the new policies initiated by the central government and the RBI are incomplete in some respects. It can only be said at this stage that Mr Morarji Desai has made a good beginning in his retreat from levying harsh taxes while a bolder policy has been adopted in regard to reflation as it does not cost the exchequer in any way In fact, the lowering of Bank rate would be advantageous from its point of view, as the borrowing programmes in the next financial year could be put through on a cheaper basis. If the new sense of awareness brings about the desired changes in the tax structure and the institution of new facilities for using cheaper credit, it will not be unreasonable to expect that there will be a sustained recovery in the stock markets and the capital market also will get out of its moribund phase.

Exports After the Budget

O OTHER central budget in recent years laid so much nphasis on export promotion as the budget for 1968-69. This cent was essential and timely because though our exports 1967-68 showed a modest improvement over the performance the previous year, the need for achieving a substantial and eady increase in the earnings of foreign exchange has never een felt more acutely than now. The Economic Survey has isclosed that of the total import bill, about $1.3 billion present imports that cannot be financed by foreign aid in ie form it is made available. Such imports include nonrrous metals and other materials required for export producon. At the same time, free foreign exchange earnings, net debt service payments, have remained stagnant at around 9 million. Thus has emerged what the survey calls the ash gap", in our balance of payments. In this context, the nperative need for maximising export earnings becomes vious. Mr Desai has therefore proposed a number of meaures for achieving this objective.

His specific proposals include extension of the development bate at 35 per cent to the manufacture of vegetable oils and oilcakes through the solvent extraction process; processed concentrates for cattle and poultry feeds and fish products; grant of market development allowance at the rate of one and one-third of the revenue expenditure incurred for the development of export markets; tax exemption for the income from the export of technical know-how and technical services; subsidy towards interest charges on export finance provided by banks; and higher cash assistance to certain engineering goods, chemicals and other products.

These incentives are, on the whole, well conceived but by themselves they are not sufficient to give a big push to our exports. The budget has not done anything to remove the handicaps that still impede the export efforts of our traditional industries that account for the bulk of our earnings of foreign exchange. The tea industry, for instance, feels that unless the export duty on common and medium teas is also substantially reduced and the excise refunded on exports, it will not be possible for it to compete successfully. It is also difficult to understand why the export duty on sacking and carpet backing has not been reduced further, and the term "specialities" not defined more liberally. As regards the higher cash assistance for non-traditional items, one wonders whether the stipulation that their f.o.b. value should exceed at least by 10 per cent the value of the previous year, to be eligible for this incentive, is not too rigid. These non-traditional exports suffer not merely from high costs of production but also from excessive shipping freight which is caused, among other things, by the acute congestion and inefficient working of our ports. In the circumstances, the Finance Ministry should be more sympathetic in assisting these industries to sell their goods abroad.

Stability Not Stagnation

Mr Desai has said that "government propose to maintain the new structure of assistance intact—encouraging neither uncertainty nor perpetual expectations of further assistance." Stability is, of course, essential but it should not result in stagnation. Our competitors even among developed countries continue to provide various kinds of export incentives, open and disguised. For example, Japan's incentives include preferential finance for export, special export finance to small business, tax exemption on income from technology export, special tax allowance on social expenses for overseas transactions, and customs rebate. Moreover, Japan is now thinking of giving tax exemption for export income. This is being considered to meet the situation arising from the US government's proposal to levy an import surcharge. Japan's unfulfilled export contracts with the US at present are estimated at $1,000 million and it is feared that the American levy of surcharge will put the Japanese traders to heavy loss.

The Government of India therefore should not hesitate to modify its incentive schemes whenever they are deemed essential. The Indian Engineering Association, which represents a large and responsible section of the industry, had suggested a few days before the budget a series of incentives to promote the export of engineering goods. These proposals included the introduction of a bonus voucher scheme, tax-free cash allowance, and priority to export industries while placing orders by the government departments. The association however emphasised that the problem of high costs could be solved in the long run only through larger volume and higher productivity. The budget provides some incentives for improving agricultural productivity. But apart from the slight reduction in the surtax on company profits and some minor concessions for investors, there is little else to enthuse the industries to improve efficiency and cut down costs.

Mr Desai has said that an adequate expansion of our export earnings is possible only within an appropriate international framework. He has therefore expressed the hope that the deliberations of UNCTAD will help in promoting co-operation in aid and trade between the developed and the developing countries and among the developing countries themselves. But Mr K. B. Lall, the union Commerce Secretary, disclosed on March 1, that the confidence of those engaged in the work of UNCTAD had been shaken at the moment and that one was not sure whether the conference as a whole was not missing the whole purpose behind it. It may perhaps be premature at present to say anything definite about the outcome of UNCTAD but it should be quite clear to developing countries such as ours that if they are really serious about export promotion, they should eschew excessive emphasis on ideology and pursue practical policies that will help agriculture, industry and transport to develop quickly and vigorously. Mr Desai has forecast an increase in the industrial production of at least five to six per cent in the coming year but, increase of this order is quite inadequate to achieve significant success in exports. It is necessary to aim at a much higher level of production and for this purpose, it is not merely export policy but policies in regard to import, transport, taxation and labour that should be so oriented as to enable industries big and small to overcome the effects of the recession and to produce a glut of goods which, after meeting the domestic demand, will release large surpluses for export.

The following table showing recent trends in exports indicates how there has been a heavy fall in the unit values of many items :—

Commodity	Per cent of total exports 1966-67	Per cent change in volume		Per cent change in value		Per cent change in unit value	
		1965-66 to 1966-67	Apr-Sept 1966 to Apr-Sept 1967	1965-66 to 1966-67	Apr-Sept 1966 to Apr-Sept 1967	1965-66 to 1966-67	Apr-Sept 1966 to Apr-Sept 1967
Jute manufactures	21.5	—18.3	11.0	—12.8	0.5	6.7	— 9.4
Tea	13.8	— 3.6	19.7	—11.0	29.1	— 7.4	8.0
Cotton fabrics	4.0	—20.8	— 6.3	—25.6	1.2	— 6.0	7.9
Oil cakes	4.3	— 0.8	—19.2	— 7.3	—18.6	— 6.5	0.7
Cashew kernels	3.9	— 2.0	*	6.6	—11.8	8.8	—12.1
Tobacco (unmanufactured)	1.9	—33.3	71.4	—29.7	76.8	5.6	3.6
Hides & skins	1.4	...	...	6.3	—33.1	...	...
Coffee	1.4	*	53.3	—21.3	29.1	21.9	—15.7
Sugar	1.4	41.0	47.6	*	33.1	—29.1	27.6
Black pepper	1.1	—15.4	*	—27.0	—18.8	—14.4	—18.8
Raw cotton	1.0	— 8.3	56.2	—22.6	30.1	—15.5	—16.7
Iron ore	6.0	8.3	*	5.9	— 2.3	— 2.3	— 2.3
Manganese ore	1.2	— 4.7	—27.1	—15.9	—33.3	—11.5	— 8.2
Mica	1.2	—55.8	18.2	—19.4	18.1	83.6	*
Leather manufactures	5.3			38.8	—14.2		
Iron & steel	2.1			92.4	232.6		
Engineering goods	2.0			—11.8	21.1		
Fish	1.5	33.3	—10.0	63.6	3.6	23.2	15.3
Footwear	0.8	19.8	—35.0	8.2	—18.4	—10.4	26.2
Total exports (including others)	100.0			— 8.0	5.2		

* No change

Source : Economic Survey

Towards Dynamic Growth

PRESENTING THE budget of the Government of India for 1968-69 in Parliament on February 29, the Deputy Prime Minister and Minister of Finance, Mr Morarji Desai, said that the coming financial year promised to be a year of revival. The sharp increase in agricultural production had brought about a substantial increase in incomes which is likely to stimulate demand for industrial products. The prices in general have started falling and the latest trends in exports are encouraging. The objective of official policy in the coming year would be to consolidate the gains.

The text of Part A of Mr Desai's speech is given below:

I rise to present the budget for the year 1968-69. The Indian economy is emerging now from one of the most difficult periods since independence. Successive droughts, shortage of food and raw materials, rising prices, subdued industrial demand, inadequacy of exports and savings and sluggishness in the capital market had combined to create a feeling of despondency which has afflicted us in the recent past. Honourable Members, I am sure, would agree that we can now look back on the past two years with a sense of relief. With the help of our friends abroad and the efforts of our own people, we have been able to avoid a major disaster and to impart at the same time a new sense of dynamism to our programmes of agricultural development.

I look upon the coming financial year with a certain degree of optimism and with the expectation that, given the right policies, it can become a year of revival. With the sharp increase in agricultural production and rising incomes, there would undoubtedly be some increase in the demand for industrial products. Recent trends in exports have been encouraging. The price level is registering a decline. The objective of policy in the coming year must be to consolidate the gains so that a major developmental programme can be undertaken in our fourth five-year Plan which will be launched in the following year.

New Agricultural Strategy

Honourable Members are already familiar with the various aspects of the new agricultural strategy. The availability of nitrogenous fertiliser has been more than twice as high this year as in 1965-66. Arrangements are in hand to maintain supplies at a high level in the coming year. The area under high-yielding varieties of seeds is expected to increase from 15 million acres this year to 21 million acres next year. In recent years we have concentrated on minor irrigation works in order to get quick results from investments. In the current year, 3 to 3½ million acres were covered by new minor irrigation facilities and the target for the coming year is another 3½ million acres. Major irrigation schemes on which substantial progress has been made also deserve our prior attention.

We have to make earnest efforts to ensure that we introduce the same kind of technological advance in commercial crops as we have achieved in respect of foodgrains. Increased productivity per acre is essential if adequate returns to the farmer are to be reconciled with reasonable prices to the domestic consumer and competitiveness in export markets. The processing industries can make a valuable contribution in this regard; and I shall have occasion later to refer to a measure I propose to introduce to encourage these efforts.

Assurance of remunerative prices to the farmer for his products is an integral part of the new agricultural strategy. I should like to assure the House that inadequacy of finance will not be allowed to stand in the way of purchase by government and the Food Corporation of such supplies as may be forthcoming at the procurement prices. The target of procurement is 7 million tonnes; and well-planned procurement measures by all concerned will have to be undertaken to reach this target. Even with this target, import of substantial amount of foodgrains appears to be necessary in order that the long unfulfilled programme of building up a sizable buffer stock can be achieved after making allowance for replenishment of private inventories and some increase in consumption. An agreement has already been signed to import 3.5 million tonnes of foodgrains from the USA under PL 480.

The steady rise in prices over the last few years has been a matter of all-round concern. Over the four years ending March 1967 prices had risen by 60 per cent and there was a further rise during the earlier part of the current financial year. In recent months there has been a downward trend. A part of the recent decline is no doubt seasonal; but it is reasonable to hope that the increasing flow of foodgrains and consumer articles will help in the stabilisation of prices at reasonable levels.

Sir, I am happy to say that government was able to get agreement this year that a part of the increase in dearness allowance which was due to government employees be credited to their provident funds instead of being paid in cash. These special contributions can be withdrawn in the coming year. But may I request my honourable friends to join me in an earnest appeal to government employees not to withdraw these contributions as that will help in maintaining a climate of price stability. Economics, they say, is a dismal science; and I see no escape from saving more in order to preserve the value of the savings.

Plough-Back of Incomes

A substantial part of increase in incomes would need to be ploughed back into further investment, if an adequate tempo of development is to be achieved and maintained. In part, investments will be undertaken directly by those who save out of larger incomes. Farmers will wish to purchase pumps, tractors and other equipment. In part, however, savings of all classes have to be mobilised for outside investment, public or private.

The small savings movement has a vital role to play in securing this objective. Net small savings have been relatively low in the recent past, in consequence of the droughts. I am making a number of modifications in the small savings schemes and necessary notifications are being issued in this regard. Briefly, we are introducing a new five-year deposit scheme with a tax-free return of about 4.5 per cent and are accordingly revising return on the existing five-year cumulative time deposit scheme, and the 12-year and 10-year tax-free savings certificates. With a renewed drive for collection, particularly, in the rural areas, these measures should help in greater mobilisation of resources.

The return on provident fund accumulations of government employees is also being raised; I propose to do so, however, on the first Rs 10,000 of accumulations only. Those who are self-employed do not have the facility of saving through provident funds. I propose, therefore, to introduce a public provident fund scheme under which all sections of the community will have the opportunity of contributing to a provident fund, and to avail of the income-tax benefits provided for under the law in respect of contributions to such funds. It is my hope that in time, this provident fund scheme will secure substantial resources for the exchequer. Self-employed persons such as doctors, lawyers, artists, actors and actresses, like old soldiers, are never known to retire. But they too reach their prime some day. Something laid by—

legitimately, and with considerable saving in tax liability—should prove valuable even to those who have a greater claim to immortality than most of us.

A moderate increase in exports has occurred during the current year; and the increase in imports has been less than that in exports. Nevertheless, our foreign exchange reserves declined by \$60 million between April and mid-November, 1967; and it became necessary to draw \$90 million from the International Monetary Fund. In recent weeks, there has been a welcome increase in reserves in response to better export performance, which may be expected to continue. The fact that we have been able to get some debt relief this year has also helped in managing the over-all foreign exchange position. With the revival of industrial activity, import demand will be strong once again; and this underscores the fact that we cannot restore viability to our balance of payments without a sustained increase in export earnings. Basically, this is a question of increasing the production of exportable goods and increasing efficiency and savings all round. Export policies have also to be geared promptly to changing circumstances.

That is why we announced a number of changes in export duties on February 7 without waiting for the presentation of the budget when every finance minister likes to mix the bitter with the sweet. The urgency of the situation was such that I had to forgo the certainty of receiving at least one bouquet in the midst of whatever brickbats that may be in store. We have been giving cash assistance to some of our exports, particularly the newer manufactures. Certain adjustments in these rates of assistance have already been made. Government proposes to maintain the new structure of assistance intact—encouraging neither uncertainty nor perpetual expectations of further assistance. We have also recently streamlined and simplified the procedures for release of foreign exchange for the purpose of export promotion.

Need for Cheap Credit

One of the important needs of the export sector has been the provision of adequate and cheap credit. During the year, the Industrial Development Bank enlarged the facilities for medium-term export credit; and the Reserve Bank also took measures to ensure that credit for exports of newer manufactures was available at particularly concessional rates. It is desirable that credit should be available for exports generally at a relatively low rate of interest. I am, therefore, making provision in the budget for the coming year for grant of a subsidy towards interest charges on export finance provided by the banks. The Reserve Bank will announce the details of the scheme which will include the prescription of a ceiling on interest charges qualifying under the scheme.

An adequate expansion of India's export earnings is only possible within an appropriate international framework. It is a matter of gratification for us that the second session of UNCTAD is being held in New Delhi. It is our earnest hope that the deliberations of the conference will help in promoting co-operation in trade and aid between the developed and the developing countries, and among the developing countries themselves.

As the honourable Members are aware, we took a series of steps during the year to stimulate industrial output. With the revival of agricultural production and the consequent rise in incomes, a number of consumer goods items such as cotton yarn and vanaspati are showing an increase in production. There are also signs of a revival in the production of commercial vehicles. Industries supplying the needs of agriculture have done well even in the recent past and continue to do so. The level of private investment should pick up in response to the generally better economic outlook. Continued increase in exports and progress towards reducing the dependence on imports will also be necessary to create and sustain a climate of industrial revival. In this connection, it is a matter of satisfaction that our capital goods industries have won valuable export orders in the recent past and that we hope to get sizable orders for wagons, rails and other steel products from the Soviet Union. I expect an increase in the industrial production of the order of at least 5 to 6 per cent in the coming year. This increase, though moderate as compared to our past performance, would represent a significant advance over the rate of growth in the last two years.

The working of public sector undertakings has been engaging our earnest attention. The public sector has been particularly hit by recession because it is mostly engaged in the production of capital goods or producer goods. The general recovery in the economy will undoubtedly help, but the basic problem of achieving a long-term improvement in efficiency and yields will have to be tackled urgently. The recommendations made by the Administrative Reforms Commission are being actively studied and I trust before long certain concrete steps will be taken to effect a lasting improvement.

Now that I have taken you through a survey of savings and exports, of prices and production, I could perhaps turn safely to some inconvenient facts of life. In my budget speech last year, I had referred to the need to avoid deficit financing in the circumstances then prevailing in the country. These circumstances have changed for the better; but unfortunately, not my budgetary fortunes so far. In actual practice, the current year is expected to end with a large deficit of Rs 300 crores at the centre. Honourable Members would appreciate that it is neither an easy nor a pleasant matter for me to come to this House with this particular piece of information. It is some solace that the worsening in the budgetary position has little to do with unexpected increase in expenditure. The deterioration has come about on account of shortfalls in revenues and foreign aid utilisation which in turn have been due to the low level of economic activity and also, because of a decline in the resources of the states and public sector enterprises. To some extent, perhaps, we were also misled into undue optimism by the oft-repeated charge of under-estimation of resources. As soon as the picture regarding shortfall in resources started emerging, I tried to make judicious readjustment of outlays. The manoeuvrability for such an exercise in the midst of the year is extremely limited, particularly if this is super-imposed on a tight budget. There was also the consideration of the effect which any drastic cut in public spending would have had on the recessionary situation. In fact there were suggestions from most quarters to step up expenditure in one way or the other. Some steps were also taken in this direction. However, the expenditure estimates in totality have been contained; and on this count at least I can claim some credit for having taken to heart the admonitions of the honourable Members.

The budget which I presented in May last had assumed the utilisation of external assistance, other than PL 480, of Rs 865 crores. Actual aid utilisation is not expected to amount to more than Rs 756 crores, thus showing a shortfall of as much as Rs 109 crores. The receipts from import duties will be about Rs 125 crores less than assumed in the original budget. Further, the railway revenue shows a shortfall of Rs 17 crores, their ordinary working expenses being at the same time Rs 23 crores higher—in all, a deterioration of Rs 40 crores. On the Posts & Telegraphs side also, there is a similar deterioration of Rs 22 crores. The internal resources of public sector undertakings have gone down by Rs 41 crores, the bulk of which is in respect of Hindustan Steel.

Overdrafts by States

There is one other factor which has also contributed to the large deficit this year—I am referring to the overdrafts of states. Last March we had provided Rs 55 crores to some states in order to enable them to clear their overdrafts with the Reserve Bank which were likely to be outstanding at the end of 1966-67. In the budget that I presented last May, I had also made a provision of Rs 50 crores for the same purpose. In the event, a total of Rs 113 crores was given to the states in respect of their overdrafts at the end of the last fiscal year; it was hoped that with the burden of past overdrafts taken care of, the states would be able to avoid similar overdrafts in the current fiscal year. Unfortunately, some of the states are still running overdrafts and I have decided to provide Rs 50 crores more in the current year's revised estimates to clear the overdrafts once again at the end of the current year. While we have thus decided to safeguard the Plans of the states this year, honourable Members would appreciate that we cannot allow a similar situation to develop next year also. I trust that the state governments will not precipitate a situation in which we will be obliged to reconsider the existing banking facilities enjoyed by the states with the Reserve Bank.

Next year's revenue receipts at existing levels of taxation are estimated at Rs 3,132 crores, being Rs 138 crores more than the current year's revised estimates. The major increase of Rs 86 crores occurs under excise duties. Income-tax is likely to show an improvement of about Rs 10 crores only as the profitability in the corporate sector this year will be reflected in the assessment next year. Customs revenue is expected to show a slight fall of Rs 3 crores, the anticipated improvement under import duties being more than offset by reduction under export duties. The rest of the increase in revenue next year occurs mainly under interest receipts. Of the total revenue receipts, Rs 423 crores will be transferred to the states as their share of central taxes and duties.

External aid, other than PL 480, is placed at Rs 775 crores. Next year's repayment liabilities are Rs 193 crores, thus giving a net figure of Rs 582 crores. The rupee accruals in respect of PL 480 imports as also the dollar credit under the new agreements are placed at Rs 274 crores as against Rs 366 crores this year.

Next year's expenditure estimates include Rs 1,015 crores for Defence as against Rs 970 crores in the revised estimates, thus showing a rise of Rs 45 crores which is mostly accounted for by dearness allowance increases and somewhat larger provision for replacement stores. Included in these estimates is also an increase of Rs 2 crores for pension charges and Rs 7 crores under capital. Border roads account for a provision of Rs 48 crores which is Rs 5 crores higher than in the revised estimates.

Sir, I am well aware that our defence expenditure should receive the utmost scrutiny so that the resources available for development are not unduly eroded. The question of reducing the magnitude of defence expenditure without detriment to national security has been continually receiving our earnest attention. Significant progress has already been achieved towords improving the teeth-to-tail ratio and further measures to improve this are in hand; likewise, other measures for improving the cost-effectiveness of our defence outlays are also under consideration. It is obvious that with the substantial increase in the price-level that has taken place over the recent past, some increase in defence expenditure would become unavoidable. Honourable Members would, however, be interested to note that as a percentage of gross national product, defence expenditures have already come down from 4.4 per cent in 1963-64 to an estimated 3.2 per cent in 1967-68.

The budget estimates for 1968-69 include Rs 243 crores on account of non-plan grants to states and union territories. A provision of Rs 223 crores has also been made for giving non-plan loans to states and union territories of which Rs 105 crores is for purchase and distribution of fertilisers, seeds and pesticides, and Rs 20 crores for scarcity relief. The provision for non-plan expenditure under the developmental heads is estimated at Rs 237 crores as against Rs 214 crores this year in part as a result of increased provision for export promotion. Rs 186 crores are provided under heads relating to administration as against Rs 177 crores this year, the bulk of the increase being on account of higher dearness allowance. The total interest charges are estimated at Rs 550 crores as against Rs 508 crores this year.

The resources for the Plan next year on the basis of the estimates just mentioned and a number of miscellaneous items not mentioned here, are placed at Rs 1,544 crores of which Rs 170 crores are to be contributed by public sector undertakings including the Railways and the Posts and Telegraphs.

The requirements for meeting the plan outlays of the centre and those of the union territories as well as for providing plan assistance to states are, however, much larger. In making provision for the plan at the centre, a balance has to be struck between the constraint of resources and the need to maintain the progress in respect of continuing schemes and the initiation of new schemes in sectors of high priority. On this basis, a sum of Rs 615 crores has been allocated for providing assistance to the states as against Rs 595 crores this year. Rs 65 crores have been provided for union territories—one crore more than this year. The provision of Rs 1,179 crores for the centre's own plan will only be marginally higher than the current year's budgeted outlay of Rs 1,172 crores and the expected outlay of about Rs 1,150 crores. In the aggregate, the provision for the plan in the centre's budget for the coming year amounts to Rs 1,859 crores as against the expected outlay of about Rs 1,809 crores in the current year. This would, of course, be augmented by the resources that the states themselves are able to raise for their plans. Honourable Members may like to note that a provision of Rs 140 crores is being made for building up a buffer stock of foodgrains which has a valuable part to play in underpinning our plans for development. If account is taken of this, what may be broadly called "planned outlays for development" would show a significant increase over the current year.

I would also like to point out that of the plan assistance of Rs 615 crores to the states, Rs 590 crores has been already allocated among the different states by the Planning Commission and the remaining Rs 25 crores is being specifically earmarked for a speedy completion of selected major irrigation projects. It is my earnest hope that the state governments will provide adequate resources for the urgent requirements of minor irrigation and rural electrification. Over the year, depending on the economic situation, I will do my best to supplement the efforts of the states in these two priority areas.

The main items forming part of the centre's outlay of Rs 1,179 crores are: Rs 172 crores for the Railways, Rs 153 crores for iron and steel, of which Rs 110 crores are for Bokaro, Rs 82 crores for petroleum and Rs 70 crores for chemicals including fertilisers. The provision for agriculture is Rs 53 crores, that for Posts and Telegraphs Rs 48 crores and for financial institutions Rs 35 crores. I quite realise that these provisions do not meet the requirements of all the ministries; but the constraint of resources has left me with no choice.

Honourable Members would note that we have decided to appoint a finance commission in advance of the due date so that its findings are available for the formulation of the fourth Plan. A copy of the notification constituting the commission and incorporating its terms of reference is being laid on the table of the House today. I have been particularly keen for some time that the various financial problems between the centre and the states, and among the states themselves, should be objectively reviewed so that solutions are found which are not only just but accepted as such by all concerned. The recommendations of the commission, I am sure, will serve this purpose and contribute towards national integrity and harmony.

Gap with a Purpose

A NUMBER of pressing problems forced Mr Desai to keep a large budgetary deficit uncovered. The plan outlay could not be reduced for fear of dislocating the progress of continuing schemes in critical areas such as agricultural development, fertiliser production and family planning. The problem of unemployment among technicians was causing great concern to the government. The process of recovery could not be retarded by putting an unnecessary curb on government spending. Massive mobilisation of resources, in his view, would have hurt the economy.

The text of Part B of Mr Desai's speech follows:

I now come to the much awaited and perhaps much dreaded part of my budget speech. I trust the honourable Members will not take me to task if the proposals I unfold do not fulfil the expectations of dread. With resources available for the plan next year of Rs 1544 crores and the proposed plan provision of Rs 1859 crores, there is a gap in the centre's budget of Rs 315 crores. A deficit of this kind is usually an invitation to a finance minister to sharpen his knife for a major operation for mobilisation of additional resources. On this occasion, I propose to engage myself essentially in a minor operation in the nature of plastic surgery—taking out a little flesh here and adding a little bit there in order to make the tax system more efficient and attractive.

A number of radical suggestions for tax reform have been made from time to time by honourable Members, individual scholars and associations of labour, trade and industry. The final report of Mr Bhoothalingam has been received and will be made available to honourable Members. The Public Accounts Committee has also recently made a number of suggestions in this regard; and we are awaiting the recommendations of the Administrative Reforms Commission. Over the year, I have given the most anxious consideration to the revision and simplification of the tax structure, both direct and indirect. While some changes are obviously desirable and could be introduced without further delay, fundamental changes in the tax system should not be made without a very thorough study of all the implications. I am having such a study undertaken in earnest and am hoping that the climate of the country will be conducive to the acceptance of more thorough-going changes in the next budget.

DIRECT TAXES

Coming to direct taxes first, my main proposals in the field of corporate taxation relate to the discontinuance of the 'dividend tax' on excess distributions of equity dividends and a reduction in the surtax on company profits from 35 per cent to 25 per cent. The abolition of the 'dividend tax', apart from making for simplification, should improve the climate for equity investment. The reduction in the surtax on company profits is intended as a spur to efficiency.

I propose to introduce a number of concessions to promote higher agricultural productivity, particularly by encouraging the efforts of user industries. I propose to make a provision for the deduction, in the computation of business profits of companies, of an amount equal to one and one-fifth of the expenditure incurred by them in providing agricultural inputs, such as fertilisers, seeds, implements and pesticides and extension services, in spheres related to the particular industry in which the company is engaged. This weighted deduction will be available where the qualifying expenditure is incurred by the company directly and also through approved associations or organisations. The development of the seed processing industry occupies high priority in our agricultural programme. I, therefore, propose to accord to it the 'priority industry' treatment.

As part of the measures designed primarily to assist export promotion, I propose to extend the concession of development rebate at the higher rate of 35 per cent of the cost of new equipment, to the manufacture of vegetable oils and oilcakes through the solvent extraction process, processed concentrates for cattle and poultry feeds and processed fish and fish products. I propose also to provide for the grant of an export markets development allowance to taxpayers other than foreign companies at the rate of one and one-third of the revenue expenditure incurred for the development of export markets. Further, to encourage export of technical 'know-how' and technical services by Indian companies, I propose to exempt from tax the whole of their income consisting of dividends, royalties and fees derived through these activities from foreign companies.

In the field of taxation of personal incomes, I have reached the conclusion that in the interest of simplification of the tax structure and convenience of taxpayers, the annuity deposit scheme should be discontinued. Accordingly, I propose that no annuity deposits will be required to be made on incomes arising after the current financial year.

Last year, as a measure for stimulating investment in equities, Indian company dividends were exempted from income-tax in cases where the total income from dividends of the taxpayer during the year did not exceed five hundred rupees. I propose to extend this concession by exempting the first five hundred rupees of such dividend income from tax even where the total dividend income exceeds five hundred rupees in the year.

Levy Discarded

For several years past, the rate structure of tax on personal incomes has included the levy of separate surcharges in relation to unearned incomes and earned incomes in excess of specified limits. Under our integrated scheme of direct taxation which comprises, besides income-tax, an annual tax on wealth and taxes on gifts and inheritance, I do not see any need or justification for differentiating between unearned and earned incomes through the levy of surcharges on income-tax, which result in complications in tax calculations. I, therefore, propose to discontinue the levy of separate surcharges on unearned and earned incomes. Simultaneously, in order to maintain the progressiveness of the income-tax, I propose to step up the basic rates of income-tax on incomes over Rs 1 lakh from the present rate of 65 per cent to 70 per cent on income in the slab between rupees one lakh and rupees two and a half lakhs and to 75 per cent on income above that level. I also propose to step up the rates of ordinary wealth tax on wealth in the slab over Rs 10 lakhs by half per cent, that is, from 2 per cent to 2½ per cent on wealth between Rs 10 lakhs and Rs 20 lakhs, and from 2½ per cent to 3 per cent on wealth above Rs 20 lakhs.

In a situation where both the husband and the wife are tax-payers in their own right, it would be improper for any outsider to decide as to who is dependent on whom. At present, we avoid this ticklish question by allowing both parties to claim a spouse allowance. This still leaves open the question as to who brings more tax benefit to the partnership through marriage. To eliminate this unintended strain on the relationship of marriage, I propose to provide that where both the husband and the wife have taxable incomes, the spouse allowance will be available to neither.

As a measure of relief to totally blind individuals, I propose to provide for the deduction of Rs 2,000 in the computation of their taxable income.

I also propose to simplify the existing basis of the calculation of tax on partnership incomes derived from registered firms. This will be done by deducting the tax borne by the firm itself in computing the partners' shares in the income of the firm. At present, we grant rebate of tax at the average rate to the partners on the proportionate amount of the tax borne by the registered firm. In order to maintain the overall incidence of tax, I propose to make a consequential upward adjustment in the rates of tax on registered firms. Some rationalisation is also being undertaken in regard to rate structure of tax on the incomes of co-operative societies and local authorities.

There are a number of changes I propose to introduce in regard to the computation of income from house property, deduction for the cost of maintaining a vehicle by salaried employees, procedure for grant of refunds and withholding of tax from interest payments. It is not necessary for me to go into the details of all these changes which are spelt out in the explanatory memorandum on the Finance Bill.

Countering Tax Evasion

I shall now refer to some of the measures that I propose to introduce for countering tax evasion and avoidance. In this context, I propose to take steps for setting up, departmentally, an organisation for valuation of lands, buildings and other assets. Further, I propose also to have administrative instructions issued to secure that, as far as possible, the same value is adopted for an asset for the purposes of income-tax, wealth tax, gift tax and estate duty.

Another measure is to classify as short-term capital gains, the gains arising from the sale or transfer of capital assets within 24 months of their acquisition, as against the present period of twelve months.

The deductible amount of entertainment expenditure in businesses and professions is already subject to certain limits. These limits are often circumvented through entertainment undertaken out of entertainment allowances or 'expense accounts' operated by employees. Henceforth, such expenditure will also be brought within the purview of the limits. The existing restriction in the case of companies on the deductible expenditure on provision of perquisites, benefits and amenities to their higher-paid staff will be extended to non-corporate enterprises. An alternative monetary limit of Rs 1,000 per month for each employee will also be laid down. Further, depreciation allowance and maintenance expenditure admissible to the employer on residential accommodation and household equipment such as refrigerators and air-conditioners provided by him to the employees free of charge, will also be brought within these limits.

Tax liability is sometimes artificially reduced by diverting profits to relatives and associate concerns in the form of excessive payments for goods and services. Claims are also made for deduction of expenses in large amounts shown to have been paid in cash, often with a view to frustrating investigation as to the identity of the recipients and the genuineness of the claim. To plug these loopholes, I propose to provide that payments made in businesses and professions to relatives or associate concerns will have to pass the test of reasonableness in order to qualify for deduction. Further, I propose to provide that payments made in amounts exceeding Rs 2,500 after a date to be notified later will be allowed as a deduction only if these are made by crossed cheques or by crossed bank drafts.

In order to expedite tax assessments, I propose to reduce the period of time limitation for completion of assessments in original proceedings for 1969-70 and later years from four years to two years from the end of the relevant assessment year. As a corollary to this, the time limitation for making applications for refund of tax will also be reduced, likewise, to two years from the end of the relevant assessment year.

I propose to lay down very stringent penalties on those who continue to avoid taxes by concealing their incomes or wealth. For this, the penalties for concealment of income or wealth will be stepped up to a minimum of 100 per cent and a maximum of 200 per cent of the concealed income or wealth. In the case of persons defaulting in the statutory obligation to deduct tax at source and pay it to the credit of the central government, I propose to provide for punishment of rigorous imprisonment up to six months and a fine of not less than 15 per cent per annum of the tax in default, on conviction before a court. Currently, such punishment is only a fine up to Rs 10 for every day of default.

The changes proposed by me in regard to corporate taxes and the taxes on personal incomes will take effect prospectively i.e., in relation to incomes on which advance tax is payable or tax is deductible at source during the coming financial year, 1968-69. Similarly, the proposed increases in the rates of ordinary wealth tax will take effect prospectively from the assessment year 1969-70. The discontinuance of annuity deposits from the coming financial year is expected to bring in, in a full year, additional tax revenue of the order of Rs 18 crores due to non-deduction of deposits in computing the taxable income. Other changes in the taxation of personal incomes are likely to result in a reduction in revenue to the extent of about Rs 4 crores in a full year, leaving a net gain to revenue of about Rs 14 crores. I have not taken into account the gain to revenue on account of increase in the rates of wealth tax as the benefit of it will accrue only during the financial year 1969-70. Together with the changes in corporate taxation, which imply a loss in revenue next year of about Rs 4 crores, the yield from direct taxes would show an increase of Rs 10 crores next year as a result of all the changes I have proposed.

Before concluding the subject of direct taxes, I should like to add that I have been impressed with the view expressed in this honourable House that the medium of the Finance Bill should not be utilised to make too many changes in the income-tax law. Accordingly, I have brought up only such changes in regard to which delay would have been inadvisable, leaving out changes concerning structural or administrative matters to be considered and brought up separately in the course of the year.

INDIRECT TAXES

I now come to indirect taxes. In keeping with the objective of maintaining price stability for items of essential consumption, I have maintained the utmost restraint in proposing changes in excise and customs duties. At the same time, some additional taxation of items of less essential consumption cannot be avoided. There is also need to deploy the instrument of indirect taxation for assisting export promotion and import replacement. I have also taken the opportunity of removing anomalies and introducing a measure of rationalisation and simplification.

It is proposed to levy an excise duty on six new commodities, namely, confectionery and chocolates, leather cloth, embroidery, parts of wireless receiving sets like valves and transistors, steel furniture and crown corks. The duty on confectionery and chocolates is proposed at 80 paise per kilogram which is expected to yield an annual revenue of Rs 2.4 crores. The duty on embroidery and steel furniture will be at the rate of 20 per cent ad valorem which together will yield a revenue of Rs 5.4 crores in a full year. Leather cloth will bear a duty of 25 per cent ad valorem yielding an annual revenue of Rs 1.52 crores. On crown corks a duty of one paisa per piece is proposed which will yield an annual revenue of Rs 1.50 crores. The statutory rate of duty on valves and transistors is proposed to be fixed at Rs 5 per piece, but the effective rates at present are being fixed at Rs 3 and Re 1 per piece respectively by exemption notification. The likely yield would be Rs 2.90 crores. The new levies on confectionery, embroidery and steel furniture will be confined to the organised sector of these industries manufacturing the products with the aid of power. These new levies will collectively yield a revenue of Rs 13.72 crores in a full year.

Among the commodities which are already excisable, the existing rates of duty on all varieties of unmanufactured tobacco other than tobacco dust are proposed to be stepped up by about 10 per cent. On this occasion, I have decided to be impartial between the different devotees of nicotine, be they addicted to the humble bidi, hookah and chewing tobacco or to cigarettes, cigars and the pipe. These increases will yield an additional revenue of Rs 6.36 crores in a full year. Another item on which increase has been proposed is jute manufactures of which the rate of basic excise duty on hessians is being increased from Rs 375 to Rs 450 per tonne and on other manufactures from Rs 175 to Rs 250 per tonne. These increases will yield an additional revenue of Rs 4.02 crores in a full year.

My next proposal is to increase the basic excise duty on complete refrigerators and air-conditioners from 20 per cent to 30 per cent ad valorem and that on component parts from 30 per cent to 40 per cent. This measure will appeal to at least those honourable Members who pulled me up in the last budget session for overlooking such obvious items of less essential consumption. The increase in duty on these items will yield an additional revenue of Rs 2.40 crores in a full year.

Relief on Sized Yarn

It will be recalled that as a part of the budget proposals last year the duty on sized cotton yarn of fine and super fine counts was increased substantially. Representations have been received from the powerloom weavers that the burden of this duty at the weaving stage is rather heavy. It is therefore proposed to readjust the rate structure in such a way that relief is afforded on sized yarn and duties suitably stepped up at the processing stage of powerloom fabrics. The overall budgetary effect will only be marginal. It is also being ensured that the incidence of the duty on composite mill fabrics, handloom fabrics and hosiery remains more or less unchanged. Particular care is being taken to see that the handloom sector is left unaffected, and in fact some relief is proposed to be given to this sector by exempting totally hank yarn in plain straight reels of new French counts 29 or more but less than 34—the latter being equivalent to a shade more than 40 British counts. This will involve a loss of about Rs 10 lakhs in a full year. Representations have also been received from the smaller producers of aluminium that the effect of the budget proposals of last year has affected their profitability adversely. It is proposed to afford some relief to these smaller producers by reducing the effective duty to the extent of Rs 150 per tonne; this concession will be available only to those ore-based producers whose clearance of aluminium and products made out of aluminium had not exceeded 12,500 tonnes in the previous financial year. The revenue effect of this concession will be a loss of about Rs 25 lakhs in a full year.

Rationalisation of the existing concessions to certain paper manufacturers and exemptions applicable to some varieties of paper are being given effect to by notifications, the overall revenue effect of which will be a nominal gain of Rs 15 lakhs in a full year.

The ceiling rates fixed in the Mineral Products (Additional Duties of Excise and Customs) Act, 1958, have now been found to be inadequate. The over-recoveries in the hands of the oil companies which have to be appropriated to the Consolidated Fund through levy of these additional excise duties require a higher rate of levy. It is accordingly proposed that the ceiling rates in respect of motor spirit, refined diesel oil and petroleum products not otherwise specified be raised sufficiently and the effective rates which are fixed by notification issued by the central government stepped up suitably. These changes will yield an additional revenue of Rs 10.13 crores in a full year, but the consumers will not be affected as the duties, though recovered from the oil companies, cannot be passed on by way of price increases to the consumers. The cumulative effect of all the proposals relating to excise duty will be an additional revenue of Rs 36.43 crores in a full year.

It is proposed to continue the levy of special excise duties at the existing rates for another year. The provisions for levy of regulatory duty of excise in the same manner as in section 42 of the Finance Act, 1967, is being continued though there will be no levy of this duty at present.

For some time past I have been exercised over the administrative burden on the excise department and the complaints of abuse associated with the existing system of physical control. I have accordingly decided to extend the system of self-assessment by the manufacturers, to all manufacturers, big and small, making exception in respect of a few excisable commodities only which present complications in assessment or where there is substantial movement in bond. A large measure of trust will thus be placed in the manufacturers, their declarations and their accounts. Day to day verification of clearances by central excise officers will be dispensed with and replaced by periodical check of the self-assessed documents and accounts to ensure that the amounts due to government have been properly assessed and paid. This change in procedure will, however, necessitate certain essential revenue safeguards. To this end, the penal provisions for unauthorised removal of the goods or other contraventions of the rules and regulations with intent to evade payment of duty are proposed to be made more stringent.

I have also reviewed the existing system of control on the tobacco growers for the purpose of levying excise duty on unmanufactured tobacco. Steps are being taken by which the need for the excise officers to contact the growers will be considerably reduced. The excise control on sparse growing areas is also being simplified.

The levy of local sales tax by the states on goods declared to be of special importance in inter-state trade is limited to 3 per cent at present. On a request from some of the states, suitable amendment is being made in the central Sales Tax Act deleting mill-made silk fabrics from this list of goods. This will give the states freedom to levy sales tax on it without any restriction.

I was reminded last year that in spite of my much discussed aversion to alcoholic liquors, I had not made any proposals in this regard. I should retrieve my reputation now; and I propose to increase the import duty on whisky, brandy, and a few other alcoholic liquors by about Rs 9 per bottle. I also propose to increase the import duty on cloves, cassia and cinnamon by about Rs 12 to 13 per kilogram. There is a high margin of profit in respect of these spices and their use is confined to the comparatively affluent sections of the community. The proposals with regard to these consumer goods will yield an extra revenue of Rs 2 crores.

Enhanced Duty on Chemicals

My next proposal is in regard to chemicals, plastics, synthetic resins and miscellaneous articles not otherwise specified in the customs tariff schedule. The present effective rate of 50 per cent ad valorem is proposed to be raised to 60 per cent ad valorem with some exceptions. This will yield an additional revenue of Rs 12 crores. The proposed increase is not likely to cause any hardship because the cost of chemicals is usually a small fraction of the price of the manufactured article, and secondly, because imported chemicals are usually not required in the manufacture of articles consumed by the common man; wherever they are, the existing rate is proposed to be maintained. Thus, though the tariff item regarding chemicals covers drugs and medicines too, the present rate on the latter as also on the chemicals and intermediates required for their manufacture is being maintained by issue of exemption notifications. Similarly, the existing rate on carbon black and red phosphorus will be continued by issue of an exemption notification. Further, sulphur, dye intermediates recommended by the Tariff Commission and various other chemicals, the duty on which had been specially reduced or exempted wholly in the past, will continue to pay duty at the existing rates. In this connection I should like to make a special mention of an exemption that is proposed for chemicals and intermediates used in the manufacture of insecticides, pesticides and fungicides. Some of these have already been exempted, but it is now proposed to issue an omnibus exemption notification covering all such chemicals and intermediates as are not manufactured in the country. The concession is being given to encourage the use of these products as an aid to agricultural production.

The last proposal on the customs side is an increase in duty on some of the iron and steel products which at present carry a specially reduced rate of 15 per cent ad valorem. This rate is proposed to be raised to 27½ per cent ad valorem as a specially reduced rate is no longer justified in view of the indigenous production which is coming up. The revenue effect of this proposal will be an additional yield of Rs 1.50 crores in a year.

The special duty of customs is being continued for another year but a notification is being issued exempting imported goods from this levy so as to maintain the status quo. The provision for levy of regulatory duty of customs in the same manner as in section 39 of the Finance (No. 2) Act, 1967, is being continued though there will be no levy of this duty at present.

As a result of the proposals relating to excise duties, there will be an additional yield of Rs 3.80 crores on account of the increased collections under countervailing duty. The aggregate additional revenue under import duties will be Rs 19.30 crores.

POSTS AND TELEGRAPHS

I had occasion to mention earlier that the deterioration in the revenue budget of the Posts & Telegraphs Department this year would be of the order of Rs 22 crores. The result is that they have not only not been able to pay the due dividend liability to the general revenues but have not also been able to cover their working expenses this year. The working expenses of the post office branch have particularly gone up very rapidly due to the increase in staff costs. It has been agreed that the shortfall of this year and the last two years should be made good over a period of three years commencing from the next year. On this basis and at existing tariffs, it is anticipated that the deficit in the revenue budget of the Posts & Telegraphs Department next year would be Rs 23.83 crores. Honourable Members are aware that a Tariff Enquiry Committee under the chairmanship of Mr Mahavir Tyagi had been appointed to evolve definite principles on which the tariff policy of the department might be based. The committee's interim report covering the post office branch has since been received and based on the principles suggested by the committee, it is proposed to revise the postal tariffs. The interim report and a memorandum showing the proposed changes is being circulated separately along with the budget papers and I shall, therefore, mention only the more important changes. The postage on letters up to 15 grams is proposed to be increased from 15 paise to 20 paise and that for a letter-card from 10 paise to 15 paise and for a post card from 6 paise to 10 paise. The postage for books, pattern and sample packets and book packets containing printed books and registered newspapers will also be raised. The money order commission which is 15 paise per Rs 10 will now be 20 paise per Rs 10 up to Rs 200 and 30 paise per Rs 20 thereafter. The postage charges for foreign mails will also be revised. The committee has not yet reported on the tariffs for other branches, but in view of the loss in the working of the telegraphs branch, it is proposed to make a small increase in some of the inland telegraph rates. These changes are expected to bring in an additional revenue of Rs 24.70 crores on the postal side and Rs 1.08 crores on the telegraphs side in a full year. The changes would be given effect to from dates to be notified later and are expected to cover the deficit of the Posts & Telegraphs Department next year.

I might add that I have already taken account of the increases in the posts and telegraphs rates in preparing the budget estimates for 1968-69 so that they will not count towards reduction of the initial deficit of Rs 315 crores. Similarly, the changes in fares and freights announced by my colleague, the Railway Minister, have also been taken into account before striking the deficit.

Summing Up

To sum up, the additional revenue next year from the measures of taxation I have proposed would be Rs 65.73 crores of which Rs 10 crores would be under direct taxes, Rs 36.43 crores under excise and Rs 19.30 crores under customs. Of this, a sum of about Rs 15 crores will accrue to the states leaving a balance of Rs 50.73 crores available for the centre's budget. I hope the state governments will utilise this addition to their resources for minor irrigation and rural electrification.

On capital account, the abolition of the annuity deposit scheme will mean a loss to the central exchequer of Rs 35 crores next year. Part of this loss will be made up by contributions to the new public provident fund for which I am taking credit for Rs 10 crores only. There will, therefore, be a net loss on capital account of the order of Rs 25 crores. The net gain to the centre's budget on revenue and capital account taken together of all the changes will be of the order of Rs 25 crores so that the initial deficit of Rs 315 crores goes down to about Rs 290 crores.

Honourable Members may well appreciate the immense reservation with which I have reconciled myself to a large deficit next year. A number of considerations have weighed with me. In so far as the plan outlays are concerned, it is clear that any further reduction can only lead to dislocation of the progress of continuing schemes even in critical areas such as agricultural development, fertiliser production and family planning where we are poised for substantial achievements. We have also to keep in mind the problem of unemployment among technicians which is already a matter of concern. Besides, it would be shortsighted to retard the process of recovery by putting an undue curb on governmental spending. I am sure that no section of the House would have commended such an approach. The other alternative was to put up proposals for massive mobilisation of resources. It is my judgment that this would hurt the economy and retard the process of growth.

I have done my best to restrict the outlays on defence and administration. I am happy to note the earnestness in all parts of the defence services to eschew every form of avoidable expenditure. I am anxiously awaiting the finalisation of the reports of the Administrative Reforms Commission. I need hardly reiterate that government would go into the recommendations of the commission with earnestness and promptness in order that the objectives of efficiency and economy in administration can be fulfilled as early as possible.

In estimating the resources at the existing rates of taxation, having been bitten once, I have assumed a modest recovery in industrial production. If, as I hope, the modifications in taxation I have proposed succeed in improving the climate for saving, investment and export, the economy might revive more vigorously and this would help in moderating the actual deficit. Honourable Members may rest assured that I have not changed my belief that we cannot afford to indulge in large budgetary deficits year after year. If I have reconciled myself to a deficit next year, it is in the expectation that by assisting the revival of the economy at this stage we shall be able to achieve a more satisfactory budgetary balance before long.

No finance minister can claim either perfect foresight or absolute wisdom. But I do feel that the situation is as hopeful as it is challenging. The utmost co-operation, discipline and even a measure of self-denial by all sections of the community will be necessary if we are to meet the challenge. I would like to appeal to all the honourable Members for their co-operation and constructive suggestions so that, together, we can turn the present challenge into hope and opportunity for the future. On my part, I can only assure a continuous watch on implementation of economic policies and a readiness to take appropriate action from time to time. In conclusion, it is my earnest hope that the budget I have had the honour of presenting today reconciles as best as possible the variety of concerns that are so anxiously felt in this honourable House and in the country as a whole.

Finance Bill: Explanation of Proposals

THE OFFICIAL memorandum explaining the salient features of the Finance Bill, 1968, is reproduced below:

PROVISIONS RELATING TO DIRECT TAXES

The Bill seeks to make provisions in the sphere of direct taxes in regard to the following matters:

(1) Prescription of the rates at which income-tax (including surcharges, where applicable) is chargeable and annuity deposits are required to be made on incomes liable to tax for the assessment year 1968-69; and the rates at which income-tax is to be deducted at source and advance tax is to be computed in respect of the financial year 1968-69.

(2) Certain amendments to the Income-tax Act, 1961, with a view to rationalising and simplifying some of its provisions, providing tax incentives and relief in certain directions, curbing wasteful or lavish expenditure in businesses and professions, and countering tax evasion.

(3) Certain amendments to the Wealth-tax Act, 1957, inter alia, for making an upward adjustment in the rates of ordinary wealth-tax at higher levels of wealth, expressing the rate schedule of ordinary wealth-tax in the form of a self-servicing tax table, and stepping up the quantum of minimum and maximum penalties leviable for concealment of assets or understatement of the value thereof.

(4) Amendment to the Companies (Profits) Surtax Act, 1964, for reducing the rate of surtax on companies.

The Bill also seeks to make an independent provision relating to the concessional tax treatment available under certain provisions in the Income-tax Act (since replaced by other provisions) in respect of dividends attributable to 'tax-holiday' profits, and inter-corporate dividends, i.e., dividends received by any company from a domestic company. This provision is intended to secure that the concessional tax treatment on such dividends will be available to the beneficial owner of the shares even where these are registered in the name of any other person such as a bank or any of the directors of a company.

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

INCOME-TAX

I. Rates of income-tax and annuity deposits in respect of incomes liable to tax for the assessment year 1968-69.

The provisions in the Bill have been formulated on the principle adopted in the Finance (No. 2) Act, 1967, that any changes in the rates of tax or any new provisions in the Income-tax Act, which have the effect of increasing or reducing the incidence of tax as compared to the preceding year or which provide any tax incentive or disincentive, should, ordinarily, apply only prospectively to current incomes and not to incomes of the past year.

Rates of income-tax for the assessment year 1968-69: In respect of incomes liable to tax for the assessment year 1968-69, the rates of income-tax in the Bill in the case of individuals, Hindu undivided families and other non-corporate taxpayers are the same as specified in the Finance (No. 2) Act, 1967 for the purposes of deduction of tax at source from salaries and payment of "advance tax" during the financial year 1967-68. Similarly, in the case of companies, the rates of income-tax in the Bill for the assessment year 1968-69 are the same as provided in the Finance (No. 2) Act, 1967 for payment of "advance tax" during the financial year 1967-68.

Rates of annuity deposits on incomes liable to tax for the assessment year 1968-69: On incomes liable to tax for the assessment year 1968-69 and on which resident non-corporate taxpayers are required to make annuity deposits during the current financial year, by March 31, 1968, the rates of such deposits under the Bill are the same as in force currently viz., the rates prescribed in the Second Schedule to the Finance (No. 2) Act, 1967, as increased by the Taxation Laws (Amendment) Act, 1967.

II. Discontinuance of annuity deposits from the coming financial year 1968-69.

The Bill provides for the discontinuance of the requirement under the Income-tax Act of making annuity deposits on incomes liable to tax for the assessment year 1969-70 and subsequent years. Accordingly, no annuity deposit will be required to be made during the coming financial year 1968-69 in relation to incomes falling due for assessment in the succeeding assessment year 1969-70.

III. Rates for deduction of tax at source from "Salaries" and payment of "advance tax," and rates for deduction of tax at source from incomes other than "Salaries", during the financial year 1968-69.

The proposed rates for deduction of tax at source during the financial year 1968-69 from incomes other than "Salaries" and retirement annuity payable to partners of registered firms engaged in specified professions have been laid down in Part II of the First Schedule to the Bill. The rates for deduction of tax at source from "Salaries", calculating or charging income-tax in special cases, and computation of "advance tax" in the case of non-corporate and corporate taxpayers for the financial year 1968-69, have been set forth in Part III of the First Schedule to the Bill. The new features in the revised tax structure distinguishing it from the existing tax structure are explained in the following paragraphs.

Individuals, Hindu undivided families, associations of persons etc.

Discontinuance of the surcharges of income-tax on earned and unearned incomes and stepping up of the basic rates of income-tax on income in the slab over Rs 1 lakh: For several years past, individuals, Hindu undivided families, unregistered firms, associations of persons etc have been liable to the levy of separate surcharges of income-tax in relation to their unearned and earned incomes in excess of specified limits. The income-tax calculated on the total income is increased by the amounts of these surcharges and also a special surcharge calculated at 10 per cent of the aggregate of the basic income-tax and the unearned and earned income surcharges. Currently, unearned income (mainly income from investments in house property, company shares, bank deposits, etc.) up to Rs 30,000 is free from the unearned income surcharge. Where the unearned income exceeds the limit of Rs 30,000, a surcharge is leviable on such income in the slab of Rs 30,001-50,000 at 20 per cent of the basic income-tax thereon, and on such income in the slab over Rs 50,000 at the rate of 25 per cent of the basic income-tax thereon. Earned income up to Rs 1,00,000 is free from the earned income surcharge. But on such income in the slab of Rs 1,00,001-2,00,000 a surcharge is leviable at 5 per cent of the basic income-tax thereon; on the income in the slab of Rs 2,00,001-3,00,000, at the rate of 10 per cent of the basic income-tax thereon; and on the income in the slab over Rs 3,00,000 at 15 per cent of the basic income-tax thereon.

It is proposed to discontinue the levy of separate surcharges in relation to unearned and earned incomes, and to step up the rates of basic income-tax on personal incomes over Rs 1,00,000. Accordingly, the rate schedule in the Bill for deduction of tax at source from "Salaries" and computation of "advance tax" during the financial year 1968-69 makes no provision for the levy of unearned and earned income surcharges, but raises the rate of basic income-tax on incomes over Rs 1 lakh from the current rate of 65 per cent to 70 per cent on income in the slab of Rs 1,00,001-2,50,000 and to 75 per cent, on income in the slab over Rs 2,50,000.

Provision has been made for the levy of a surcharge—corresponding to the existing special surcharge—at the rate of 10 per cent of the basic income-tax at all levels of income. Under the rate schedule in the Bill, the highest marginal rate of income-tax (including the element of surcharge), attracted on income above Rs 2,50,000, will be 82.5 per cent, as compared to the existing highest marginal rate of tax (including all surcharges) of 89.375 per cent on unearned income in the slab above Rs 70,000, and of 82.225 per cent on earned incomes in the slab above Rs 3,00,000.

It is also proposed to step up (with effect from the assessment year 1969-70) the rates of ordinary wealth-tax in the slabs of net wealth over Rs 10 lakhs by one-half per cent in the wealth slab of Rs 10,00,001—20,00,000, from 2 per cent to 2.5 per cent and on wealth in the slab over Rs 20,00,000, from 2.5 per cent to 3 per cent.

Spouse allowance in the case of resident married individuals: A resident married individual is currently entitled to tax relief of Rs 75, calculated on a spouse allowance of Rs 1,500 at the rate of 5 per cent thereof, even where the spouse has an independent taxable income. In such a case both the spouses are entitled to the benefit of the tax relief on account of the spouse allowance in their individual assessments. To obviate this unintended benefit, provision has been made in the Bill to secure that a married individual will not be entitled to tax relief on account of spouse allowance where the spouse of the individual has a total income exceeding Rs 4,000 in respect of the relevant year. In other words, where both the spouses have independent taxable incomes, neither of them will be entitled to tax relief on account of spouse allowance.

The table below shows, in the case of a resident married individual with more than one dependent child, at selected levels of income (wholly earned/composite incomes comprising earned and unearned incomes in the proportion of 80 : 20), the annuity deposits required to be made and the tax payable at current rates, and the tax payable at the rates specified in the Bill for deduction of tax at source from "Salaries" and computation of "advance tax" during the financial year 1968-69.

CO-OPERATIVE SOCIETIES

In the context of the discontinuance of the levy of earned and unearned income surcharges as stated above, the ordinary surcharge in the case of co-operative societies, leviable at 6¼ per cent of the basic income-tax on their income in the slab over Rs 25,000 is proposed to be discontinued. Further, the marginal rate of income-tax on the incomes of co-operative societies in the slab over Rs 25,000 is proposed to be reduced from the existing 41 per cent to the round figure of 40 per cent. A surcharge, corresponding to the existing special surcharge, at the rate of 10 per cent of the basic income-tax, has been provided for.

REGISTERED FIRMS

A registered firm (i.e., a firm which is constituted under an instrument of partnership and is recognised for the purposes of income-tax to be genuinely constituted in accordance with the instrument) is at present chargeable to income-tax on its income in the slab over Rs 25,000 at graded rates, rising from 6 per cent on the income in the slab Rs 25,001-50,000, to 12 per cent on the income in the slab over Rs 1,00,000. The tax borne by the registered firm itself on its income is not allowable as a deduction in computing the individual shares of the partners in the income of the firm. However, the partners are entitled, in their personal assessments, to a rebate of tax at the average rate of tax on the proportionate amount of the tax borne by the registered firm. In order to simplify tax calculations on incomes derived from registered firms, the Bill seeks to amend (with effect from the assessment year 1969-70) the relevant provisions in the Income-tax Act to secure that the tax borne by the registered firm on its income is allowed as a deduction in determining the shares of the partners in the income of the firm, and the partners are charged to tax individually on the share so determined. This will obviate the necessity of granting rebate of tax to the partners of the firm on the proportionate amount of the tax borne by the firm.

In the context of the proposed change as stated above, it is proposed to make an upward revision in the rates of

(In rupees)

Income	Annuity deposits required to be made and tax payable on the income as reduced by the annuity deposits, at current rates.					Tax at the rates in the Bill for deduction of tax at source from "Salaries" and computation of "advance tax" during the financial year 1968-69.
	Annuity deposit	Income wholly earned		Composite income: Earned income 80% unearned income 20%		
		Tax	Tax plus annuity deposit	Tax	Tax plus annuity deposit	
1	2	3	4	5	6	7
5,000	—	11	11	11	11	11
7,500	—	286	286	286	286	286
10,000	—	561	561	561	561	561
12,500	—	974	974	974	974	974
15,000	—	1,386	1,386	1,386	1,386	1,386
20,000	200	2,442	2,642	2,442	2,642	2,486
25,000	380	4,011	4,391	4,011	4,391	4,136
40,000	3,600	9,856	13,456	9,856	13,456	11,836
70,000	8,400	24,992	33,392	24,992	33,392	30,536
1,00,000	15,000	41,261	56,261	41,261	56,261	51,986
2,00,000	30,000	1,04,539	1,34,539	1,04,209	1,34,209	1,28,986
3,00,000	45,000	1,70,319	2,15,319	1,70,057	2,15,057	2,08,736
4,00,000	60,000	2,38,601	2,98,601	2,38,739	2,98,739	2,91,236
5,00,000	75,000	3,08,492	3,83,492	3,08,630	3,83,630	3,73,736

basic income-tax in the case of registered firms, in the slabs of income over Rs 50,000, to secure that the overall incidence of tax on the registered firm and its partners, taken together, remains, almost at the same level as at present. Accordingly, the rate of basic income-tax on the incomes of registered firms in the slab of Rs 50,001-1,00,000 has been specified in the Bill at 12 per cent, as against the current rate of 8 per cent, and on incomes in the slab over Rs 1,00,000 at 20 per cent, as against the current rate of 12 per cent. No change has been made in respect of the rates of basic income-tax on incomes up to Rs 50,000 or in the rates of the ordinary and special surcharges in the case of registered firms.

LOCAL AUTHORITIES

In the case of local authorities, it is proposed to merge in the existing basic rate of income-tax of 45 per cent, the element of surcharge of 10 per cent thereof, and to prescribe the new rate of basic income-tax in a round figure of 50 per cent. It is also proposed to levy a surcharge, corresponding to the existing special surcharge, at the rate of 10 per cent of the basic income-tax.

COMPANIES

At present, domestic companies (other than companies which are under an obligation under section 104 of the Income-tax Act to distribute dividends up to the statutory percentage of their distributable income) are chargeable to an additional income-tax at the rate of 7.5 per cent, with reference to the "relevant amount of distributions of dividends" made by them. The "relevant amount of distributions of dividends" comprises distributions of equity dividends during the relevant previous year in excess of 10 per cent of the paid-up equity capital of the company as on the first day of the year, and also excess distributions of past years on which the tax at 7.5 per cent could not be charged due to insufficiency of the total income of the company for those years. It is proposed to discontinue the levy of this additional income-tax. Accordingly, the Bill does not provide for the levy of this tax in computing the "advance tax" payable by companies during the financial year 1968-69.

The Bill does not propose to make any other change in the rate structure of income-tax on companies.

SURTAX ON COMPANIES

The rate of surtax on the net chargeable profits of companies is proposed to be reduced, with effect from the assessment year 1969-70, by 10 per cent, from 35 per cent to 25 per cent.

Rates for deduction of tax at source during the financial year 1968-69 from incomes other than "Salaries" and retirement annuities payable to partners of registered firms engaged in specified professions.

These rates (taken together with the element of surcharge, on incomes payable to non-corporate persons) are the same as those specified in Part II of the First Schedule to the Finance (No. 2) Act, 1967 for deduction of tax at source from incomes other than "Salaries". The only change made in the Bill in these rates consists of a re-adjustment of the elements of income-tax and surcharge, on income payable to non-corporate persons, to secure that the element of surcharge amounts to 10 per cent of the basic income-tax. This re-adjustment has been made in the context of the proposed discontinuance of the levy of unearned and earned income surcharges.

IV. **Proposed amendments to the Income-tax Act.**

The Bill proposes to make certain amendments to the Income-tax Act with a view to rationalising some of its provisons, simplifying the computation of taxable income, liberalising the procedure for refunds and expediting the completion of assessments. It also proposes to make certain provisions in the Income-tax Act to provide tax incentives for encouraging savings and exports, raising the productivity of our agriculture and supplementing our food resources. One of the proposed provisions seeks to provide some tax relief to blind persons. Other provisions in the Bill for amendment to the Income-tax Act are designed to curb wasteful or lavish expenditure in businesses and professions and to counter tax evasion.

Some of the provisions in the Bill for rationalising and simplifying the scheme of income taxation have been explained earlier in dealing with the rate structure of tax, viz., the proposed discontinuance of annuity deposits from the coming financial year 1968-69 and the simplification of the scheme of taxation of income derived from registered firms. The substance of the other amendments to the Income-tax Act proposed in the Bill is set forth in the following paragraphs.

Standard deductions in the computation of salary incomes, for expenditure on maintenance and wear and tear of conveyances of various categories owned by salaried taxpayers and used for the purpose of their employment.—At present, a salaried taxpayer owning a conveyance and using it for the purpose of his employment is entitled to a deduction, in the computation of his taxable salary income, for the expenditure incurred by him on the maintenance and wear and tear of the conveyance in so far as it is attributable to the use of the conveyance for the purpose of his employment. This deduction is allowable on an estimate by the Income-tax Officer at the time of the regular assessment. The deduction cannot, therefore, be taken into account in calculating the tax to be withheld from the salary income and so it becomes necessary for taxpayers having salary income only to claim a refund every year for the excess amount of tax withheld from their salary income. This also throws up avoidable additional burden of work in the salary circles of the Income-tax Department.

In order to simplify the computation of salary income in such cases, it is proposed to provide standard deductions, comprising the allowances for maintenance expenditure and also wear and tear of various categories of conveyances, which can ge taken into account in calculating the tax to be withheld from salary income of a taxpayer owning the conveyance and using it for the purpose of his employment. The amounts of these standard deductions which, in the case of motor cars, vary according to the range of salary income of the taxpayer, are as follows :—

Category of conveyance	Amount of the standard deduction for every month or part of the month during which the conveyance has been used for the purpose of employment
(1) **Motor Cars:**	
(a) Where the amount of the gross salary income during the year does not exceed Rs 15,000 ...	... Rs 150
(b) Where the gross salary income is between Rs 15,001 and Rs 25,000 ...	.. Rs 200
(c) Where the gross salary income exceeds Rs 25,000	... Rs 250
(2) Motor Cycles, Scooters or other Mopeds	... Rs 50
(3) Bicycles	... Rs 5

The amounts of these standard deductions have been fixed on a broad judgement of present day capital costs and running and maintenance expenditure in respect of transport vehicles of Indian make and the average level of deductions which are, ordinarily, claimed by and allowed to tax-payers under the present law

The proposed provision is sought to be made effective from the assessment year 1969-70 and so the standard deductions, under the new provision, can be taken into account in calculating the tax to be deducted at source from salary incomes earned during the financial year 1968-69.

Computation of income from house property — Under the existing provisions of the Income-tax Act relating to computation of annual value of let out house property, the whole of the amount of taxes levied by a local authority in respect of the property is allowable as a deduction only in a case where the property has been constructed prior to April 1, 1960. In the case of house property constructed after March 31, 1950, only one-half of the amount of local taxes is allowable as a deduction. It is now proposed to provide that the whole of the taxes levied by a local authority in respect of the house property in so far as these are borne by the owner, will be allowed as a deduction in determining the annual value of let out house property in all cases regardless of the date on which the construction of the property was completed. Further, it is proposed to provide that any tax levied by the state government in respect of the property (e.g. the Urban Land Tax levied in Madras) will be allowable as a deduction in computing the income from house property.

Further provisions proposed to be made in regard to the computation of income from house property are as follows :—

(a) Any interest payable on the mortage of house property will be allowable as a deduction in computing the income from the property only where the funds raised are utilised for acquiring, constructing, repairing or renovating the property.

(b) The amount of any annual charge on the property will not be allowed as a deduction in computing the income from the property where such charge has been created by the taxpayer voluntarily.

The provisions mentioned above are sought to be made effective, prospectively, from the assessment year 1969-70.

New provision for grant of refund of tax on provisional assessment made on the basis of the return of income — The Income-tax Act provides for the making of a provisional assessment to determine the tax due on the basis of the taxpayer's return of income and the accounts and documents, if any, accompanying it. There is no provision at present for making a provisional assessment to determine the amount of tax refundable to the taxpayer. Where the tax paid in advance or the tax deducted at source during a financial year exceeds the amount of the tax due on the total income of the taxpayer, the excess amount is refundable to him at present only on completion of the regular assessment. In order to avoid hardship due to delay in issue of refund in cases where the completion of the regular assessment is likely to be delayed, it is proposed to make a new provision in the Income-tax Act enabling taxpayers to claim a refund of tax on a provisional assessment made on the basis of the return of income and the accounts and documents accompanying it. Any refund of tax on the basis of provisional assessment will be deemed to have been issued in respect of the regular assessment when such assessment is completed. Where a refund is granted on the basis of a provisional assessment, the interest payable by the central government to the taxpayer on excess payments of advance tax will be reckoned up to the date of completion of the provisional assessment. In a case where on completion of the regular assessment it is found that the refund granted on provisional assessment is in excess of the refund actually due on the basis of the total income as determined in the regular assessment, the excess amount of the refund, together with the interest, if any, paid thereon by the central government, will be recoverable as tax due from the taxpayer.

Provision for the grant of credit in certain cases for the tax deducted at source from dividends on company shares to the owner of the shares even where the shares are registered in the name of any other person, and ancillary provisions— Under the existing provisions of the Income-tax Act, credit for the tax deducted at source from dividends on company shares can be granted only to the shareholder, i.e., the person in whose name the shares are registered in the books of the company. The dividend income is, however, chargeable to tax only in the hands of the beneficial owner of the shares. Company shares owned by a person are often registered in the name of another person, e.g., where the owner of the shares arranges with his bankers for collection of the dividends on the shares on due dates for credit to his bank account or pledges the shares with a bank or any other body as security for the fulfilment of certain obligations etc. Shares owned by companies, firms and Hindu undivided families are also registered in the names of a director of the company, partner of the firm or member of the family. In order to avoid hardship to taxpayers owning company shares which are registered in the name of any other person, it is proposed to make a provision for granting credit for the tax deducted at source from dividends on the shares, in specified circumstances, to the beneficial owner of the shares. The circumstances in which such credit can be granted will be notified in the Income-tax Rules.

Dividends on company shares attributable to the 'tax-holiday' profits of the company are exempt from tax in the hands of the shareholder. Further, companies receiving dividends from any domestic company are chargeable to tax on such dividends on a concessional basis. Under the relevant provisions in the Income-tax Act, as worded now, the tax concession in these cases is available only where the shares stand registered in the name of the person owning the shares. It is proposed to amend these provisions to secure that these tax concessions will be available to the person owning the shares even where the shares are registered in the name of another person.

An independent provision has also been made in the Bill to secure the same result in respect of earlier periods for which the concessional tax treatment is to be granted under certain provisions of the Income-tax Act which have since been replaced by new provisions.

Provision, in respect of tax credit certificates, for eliminating the existing waiting period of 12 months for refund of the amount due on the certificate— The Income-tax Act provides for grant of tax credit certificates for various purposes. These tax credit certificates are granted to—

(a) individuals and Hindu undivided families making investments in the eligible issues of equity capital of certain companies;

(b) public companies shifting their industrial undertakings from a congested urban area to any other area;

(c) companies manufacturing specified commodities and incurring, for any one or more of the five assessment years from 1966-67 to 1970-71, a tax liability (including liability to surtax, if any) on their manufacturing profits in excess of such liability for the 'base year' (ordinarily, the assessment year 1965-66);

(d) exporters of specified commodities receiving the sale proceeds thereof in India in accordance with the Foreign Exchange Regulation Act, 1947 and the Rules made thereunder; and

(e) persons who, during any one or more of the financial years from 1965-66 to 1969-70, effect clearance of specified excisable commodities in excess of such clearance during the 'base year' (ordinarily, the financial year 1964-65).

Under the provisions relating to all these tax credit certificates, except the tax credit certificates relating to exports, the amount due on the certificate is required to be adjusted, in the first instance, against any tax liability of the certificate-holder existing on the date on which the certificate is produced before the Income-tax Officer and any further tax liability which may arise during the next following period of 12 months. Where the certificate holder has no tax liability or where the amount due on a certificate exceeds such tax liability, the amount of the certificate or, as the case may be, the excess amount is refundable to him only after the expiry of the above-mentioned period of 12 months.

It is now proposed to amend the relevant provisions to eliminate the waiting period of 12 months for the refund of the amount due on these tax credit certificates. Under the provisions, as sought to be amended, the amount due on the certificate will be adjusted against any tax liability of the certificate holder existing on the date on which the certificate is produced and the balance amount, if any, will be refundable to him forthwith.

The proposed provisions are sought to be made effective from April 1, 1968.

Liberalisation, in certain directions, of the provisions for deduction of tax at source from interest other than "Interest on securities":— It is proposed to liberalise, in certain matters, the provisions newly introduced in the Income-tax Act for deduction of tax at source from interest credited or paid to resident persons on loans, deposits, etc. The substance of these provisions is explained below :—

(1) Individuals, Hindu undivided families, unregistered firms and associations of persons having no taxable income and making a statement in writing to this effect, are entitled to receive their interest income without deduction of tax at source. Such statements are required to be attested by a gazetted officer of the central or a state government, including a tehsildar or a mamlatdar of a taluk or tehsil, or any other officer performing similar functions

It is now proposed to provide that such statements may be signed in the presence of, and attested by, a member of Parliament or a state legislature; a member of a district council, a metropolitan council, a municipal corporation or a municipal committee; or an officer of any banking company (including a co-operative bank) of the rank of sub-agent, agent or manager, besides gazetted officers and mamlatdars, etc., as already laid down

(2) The central government is authorised, under the existing provisions, to notify any particular institution, association or body, in the official gazette, for the purpose of enabling such institution, association or body to receive its interest income without deduction of tax at source. It is now proposed to enlarge the scope of this provision to enable the central government to notify, for this purpose, any class of institutions, associations or bodies. This will obviate the necessity of issuing separate notifications for institutions, associations or bodies operating in similar circumstances.

(3) It is proposed to provide that tax will not be required to be deducted at source from any interest income credited or paid by a firm to a partner of the firm or by a co-operative society to any other co-operative society.

The proposed provisions are sought to be made effective from April 1, 1968.

New provision for tax relief to totally blind individuals resident in India: — It is proposed to make a provision in the Income-tax Act for providing tax relief to totally blind individuals resident in India. This relief will be granted by way of allowing to such individuals a straight deduction of Rs 2,000 in the computation of their taxable income. In order to qualify for this relief, the individual has to produce in respect of the first assessment year for which such relief is claimed, a certificate as to his total blindness from a registered medical practitioner who is an oculist. For subsequent years in respect of which the relief is claimed, such a certificate will not be required.

The proposed provision is sought to be made effective from the assessment year 1969-70.

Exemption from tax of the first Rs 500 of Indian company dividends in all cases: — At present, Indian company dividends are exempt from tax where the total dividend income of the taxpayer during the year is not more than Rs 500. Where the total dividend income is more than Rs 500, the exemption is not available. It is now proposed to amend the relevant provision, for and from the assessment year 1969-70, to secure that the first Rs 500 of Indian company dividends will be exempt from tax in all cases even where the total dividend income of the taxpayer during the year is more than Rs 500.

Tax concessions for encouraging personal savings through certain media: — The government proposes to institute a public provident fund to provide a medium for long-term savings to all sections of the public. It is sought to make provisions, in the Income-tax Act and also in the Wealth-tax Act, to provide to persons participating in the fund the same tax concessions as are available to participants in provident funds governed by the Provident Funds Act, 1925, i.e. government provident funds. These tax concessions are the following :—

(i) Any payment received from any provident fund which is set up by the central government and notified by it in the official gazette, will be wholly exempt from tax in the hands of the recipient.

(ii) Contributions made by an individual to any provident fund set up by the central government and notified by it in the official gazette will qualify for tax relief in the hands of the individual to the same extent and subject to the same qualifying limit as contributions made to a provident fund governed by the Provident Funds Act, 1925.

(iii) The amount standing to the credit of an individual in any provident fund set up by the central government and notified by it in the official gazette will be exempt from wealth-tax.

The government also propose to frame a scheme for facilitating personal savings in the form of five-year deposits. It is proposed to make a provision in the Income-tax Act to provide an exemption from tax in respect of interest on such deposits.

The provisions mentioned above are sought to be made effective from the assessment year 1969-70.

Tax incentives for promoting exports: — It is proposed to make the following provisions in the Income-tax Act for promoting our exports :—

(1) Domestic companies and also non-corporate taxpayers

resident in India, who incur any expenditure under specified heads to facilitate or promote the sale, outside India, of any goods, services or facilities dealt in or provided by them in the course of their business, will be allowed a weighted amount of deduction in respect of such expenditure. This deduction will be in a sum equal to one and one-third times the amount of the qualifying expenditure. The heads of expenditure qualifying for this deduction are the following:—

(i) Advertisement and publicity outside India in respect of the goods, services or facilities dealt in or provided by the taxpayer in the course of his business.

(ii) Obtaining information regarding markets outside India for such goods, services or facilities.

(iii) Distribution, supply or provision outside India of such goods, services or facilities.

(iv) Maintenance outside India of a branch, office or agency for the promotion of the sale outside India of such goods, services or facilities.

(v) Preparation and submission of tenders for the supply or provision outside India of such goods, services or facilities, and activities incidental thereto.

(vi) Furnishing to a person outside India samples or technical information for the promotion of the sale of such goods, services or facilities.

(vii) Travelling outside India for the promotion of the sale outside India of such goods, services or facilities, including travelling outward from, and return to, India.

(viii) Performance of services outside India in connection with or incidental to the execution of any contract for the supply outside India of such goods, services or facilities.

It is proposed to take powers to notify in the Income-tax Rules any other heads of expenditure qualifying for the above mentioned deduction. The deduction will be admissible in respect of qualifying expenditure incurred after February 29, 1968, where it is incurred by the taxpayer directly, and also where it is incurred through participation in joint export promotion arrangements.

(2) Indian companies will be exempted from tax on their income consisting of dividends received from any foreign company on shares in it allotted to the Indian company in consideration of supply of any technical 'know-how' or technical services, and also royalties, fees, etc., received from any foreign company in consideration of supply to it of any technical 'know-how' or technical services.

The exemption in respect of such income will be granted by way of allowing a deduction of the whole of such income in computing the taxable income of the Indian company. Under the existing provisions of the Income-tax Act, only 60 per cent of such income is allowable as a deduction.

The provision at (1) in the preceding paragraph is sought to be made effective from the assessment year 1968-69, and that at (2), from the assessment year 1969-70.

Tax incentives for improving agricultural productivity and increasing supplementary food resources. It is proposed to make some provisions in the Income-tax Act with a view to encouraging industry using the products of agriculture, animal husbandry or dairy or poultry farming, to incur expenditure on scientific research in the field of agriculture and providing agricultural inputs and extension services to persons engaged in agriculture, animal husbandry, dairy or poultry farming. It is also proposed to provide certain tax concessions for encouraging the production of processed seeds, processed concentrates for cattle and poultry feed, processed (including frozen) fish and fish products, and vegetable oils and oil cakes manufactured by the solvent extraction process. The substance of the proposed provisions is explained below:—

(1) For the purpose of allowance of the deductions provided in the Income-tax Act in respect of expenditure on scientific research, it is proposed to include, specifically, in the definition of the term "scientific research" any activities for the extension of knowledge in the fields of agriculture, animal husbandry or fisheries.

(2) Companies which use the products of agriculture, animal husbandry or dairy or poultry farming as raw material for their industry or process such products, will be eligible for a weighted deduction in the computation of their business profits with reference to expenditure incurred by them in providing any goods, services or facilities under specified heads to a cultivator, grower or producer of the products of agriculture, etc. The weighted deduction will be equal to one and one-fifth times the amount of the qualifying expenditure. In computing the expenditure with reference to which the weighted deduction will be allowed, any amount received by the company in consideration of, or as compensation for, the goods, services or facilities provided by it will be excluded. The specified heads of the goods, services or facilities referred to above are the following:—

(i) Fertilisers, seeds, pesticides, tools or implements for use by the cultivator, grower or producer of the products of agriculture, animal husbandry or dairy or poultry farming.

(ii) Services of technicians for dissemination of information on modern agricultural techniques or advice on such techniques.

(iii) Demonstration of modern agricultural techniques or methods.

Powers are proposed to be taken for notifying, in the Income-tax Rules, any other goods, services or facilities, expenditure in respect of which will qualify for the weighted deduction.

The weighted deduction will be available with reference to qualifying expenditure incurred after February 29, 1968, whether it is incurred by the company directly or through an approved association or body.

(3) The seed processing industry will be accorded the 'priority industry' treatment for the purposes of income-tax, with effect from the assessment year 1969-70. A domestic company deriving profits from this industry will, thereby, be entitled to a deduction of 8 per cent of such profits in the computation of its taxable income. Further, a foreign company receiving dividends from a closely-held Indian company engaged in the seed processing industry will be entitled to a deduction of 80 per cent of such dividends in the computation of its taxable income. It is also proposed to make a provision to secure that new machinery or plant installed in such industry will qualify for deduction on account of development rebate at the higher rate of 35 per cent of the cost thereof, as against the general rate of 20 per cent.

(4) It is also proposed to make a provision, with effect from the assessment year 1969-70, to secure that new machinery or plant installed in industries producing the under-mentioned articles or things will qualify for deduction, on account of development rebate, at the higher rate of 35 per cent of the cost thereof:—

(i) Processed concentrates for cattle and poultry feed.

(ii) Processed (including frozen) fish and fish products.

(iii) Vegetable oils and oil-cakes manufactured by the solvent extraction process from seeds other than cotton seed.

It may be mentioned here that new machinery or plant installed in an industry producing cotton-seed oil is already eligible for deduction, on account of development rebate, at the higher rate of 35 per cent of the cost thereof.

Interest income of non-residents from non-resident accounts in a bank in India:—Under the existing provisions of the Income-tax Act, a non-resident person is exempt from tax on his income by way of interest on moneys standing to his credit in a non-resident account in any bank in India in accordance with the Foreign Exchange Regulation Act, 1947, and any rules made thereunder. The intention underlying this provision has been to provide this exemption in respect of interest only on funds which are repatriable outside India. It is, therefore, proposed to amend the relevant provision to secure that the exemption is available only in respect of interest on moneys standing to the credit of a non-resident in a "Non-resident (External) Account" in any bank in India in accordance with the Foreign Exchange Regulation Act, 1947, and any rules made thereunder.

This provision is sought to be made effective prospectively from the assessment year 1969-70.

Reduction in the time limit for completion of income-tax assessments in original proceedings in respect of the assessment year 1969-70 and later years, and corresponding reduction in the time limit for claiming refunds of tax: Under the existing provisions of the Income-tax Act, the time limit for completing income-tax assessments in original proceedings (proceedings other than those where income has escaped assessment or has been under-assessed, etc.) is four years from the end of the assessment year in which the income was first assessable, except where the penal provisions of the Act for concealment of income are attracted. The corresponding time limit for making claims for refund of tax is also four years from the last day of the assessment year in which the income, in respect of which the claim is made, was assessable.

In order to expedite the disposal of income-tax assessments, it is proposed to reduce the time limit for completion of assessments in original proceedings in respect of the assessment year 1969-70 and later years, by two years, from four years to two years from the end of the relevant assessment year. As a corollary to this, it is also proposed to reduce the time limit for claiming refunds in respect of the assessment year 1969-70 and later years from four years to two years from the last date of the relevant assessment year.

Enlargement of the scope of 'short-term' capital gains: Under the existing law, gains arising from the sale or transfer of any capital asset held by the taxpayer for not more than twelve months prior to the date of the sale or transfer are treated as capital gains relating to 'short-term' capital assets and are chargeable to tax as ordinary income. Gains arising from the sale or transfer of capital assets held by the taxpayer for more than twelve months prior to the date of the sale or transfer are treated as 'long-term' capital gains, and charged to tax on a concessional basis. It is proposed to enlarge the scope of 'short-term' capital gains by providing that gains arising from the sale or transfer of any capital assets held by the taxpayer for not more than twenty-four months prior to the date of the sale or transfer will be treated as capital gains relating to short-term capital assets. This provision is sought to be made effective for and from the assessment year 1969-70.

Provisions for curbing wasteful or lavish expenditure in

businesses and professions and during tax evasion: It is proposed to make a few new provisions in the Income-tax Act and to amend some of its existing provisions with a view to curbing wasteful or lavish expenditure in businesses and professions and to counter tax evasion. The substance of these provisions is explained below.

(1) Entertainment expenditure incurred through employees in a business or profession: The deductible amount of entertainment expenditure in businesses and professions is already subject to certain limits, the maximum amount admissible for the largest business or profession being Rs 30,000. In order to prevent the circumvention of these limits in cases where entertainment expenditure is incurred through employees of the business or profession out of their entertainment allowance or 'expense accounts' operated by them, it is proposed to bring such expenditure also within the purview of the limits. This provision is sought to be made effective for and from the assessment year 1968-69.

(2) Expenditure on providing perquisites, benefits or amenities to higher paid employees in businesses and professions: In the case of companies, the deductible amount of expenditure incurred by them in providing perquisites, benefits or amenities (subject to certain exceptions) to their higher paid employees is at present limited to 20 per cent of the basic salary of each employee. It is proposed to extend this provision to non-corporate employers also and to bring within the purview of the limit any expenditure or allowance admissible to the employer in respect of any assets provided by him to the employee free of charge or on a concessional basis. Thus, where an employer has provided residential accommodation or household equipment such as frigidaires, air-conditioners, etc., owned by him, to his employees free of charge, any expenditure incurred by the employer on the maintenance of these assets or any depreciation allowance admissible to him in respect thereof will also be brought within the purview of the limit over the deductible amount of expenditure in providing perquisites, benefits or amenities to employees. Further, it is proposed to lay down an alternative monetary limit of Rs 1,000 per month for each employee over the deductible amount of expenditure incurred by the employer in providing perquisites, benefits or amenities to his higher paid employees. The proposed provision is sought to be made effective for and from the assessment year 1969-70.

This provision will apply also for the purposes of computation of "Income from other sources."

(3) New provision restricting the deduction of expenses or payments in certain circumstances, in computing profits of businesses and professions: (i) It is proposed to make a new provision to the effect that where any expenditure is incurred in a business or profession for which payment has been or is to be made to specified categories of persons (broadly the taxpayer's relatives or associate concerns), the expenditure to the extent it is considered to be excessive or unreasonable will not be allowed as a deduction in computing the profits of the business or profession. The reasonableness of any expenditure is to be judged having regard to the fair market value of the goods, services or facilities for which the payment is made or the legitimate needs of the business or profession or the benefit derived by the taxpayer from the expenditure. The categories of persons referred to above have been specified in the relevant provision. These comprise, inter alia, any relative of the taxpayer or where the taxpayer is a company, firm, association of persons or Hindu undivided family, any director, partner or member of the association or family and relatives of such persons. Persons in whose business or profession the taxpayer has a substantial interest directly or indirectly and persons who have a substantial interest in the business or profession of the taxpayer, are also included in these categories. The term "relative", as defined in section 2(41) of the Income-tax Act, means, in relation to an individual, the husband, wife, brother or sister or any lineal ascendant or descendant of that individual. A person will be deemed to have a substantial interest in a business or profession if, in a case where the business or profession is carried on by a company, the person holds shares in the company carrying not less than 20 per cent of the voting power and, in any other case, where the person is beneficially entitled to not less than 20 per cent of the profits of the business or profession.

The proposed provision is sought to be made effective for and from the assessment year 1968-69.

(ii) It is also proposed to provide that where in respect of any expenditure incurred in a business or profession, any payment is made in an amount exceeding Rs 2,500, otherwise than by a crossed cheque drawn on a bank or a crossed bank draft, the expenditure will not be allowed as a deduction in computing the profits of the business or profession. This provision will apply in respect of payments made after a date to be notified by the central government in the official gazette, not being later than March 31, 1969. Where any liability for expenditure is incurred during the accounting year relevant to the assessment year 1969-70, or any later assessment year, and during any subsequent accounting year, any payment is made for such liability, in a sum exceeding Rs 2,500, otherwise than by a crossed cheque drawn on a bank or by a crossed bank draft, the allowance originally made for the expenditure will be withdrawn.

Powers are proposed to be taken to notify in the Income-tax Rules any exceptions to the above-mentioned provision, if considered necessary, having regard to the nature and extent of banking facilities available, considerations of business expediency and other relevant factors.

The provisions set forth at (i) and (ii) will apply also for the purposes of computation of "Income from other sources".

(4) Stepping up of penalty for concealment of income: At present, the penalty imposable under the Income-tax Act for concealment of income is a minimum amount of 20 per cent of the tax sought to be avoided and a maximum of 150 per cent of such tax. It is proposed to provide that the minimum penalty imposable for concealment of income will be a sum equal to the amount of the concealed income and the maximum amount of such penalty will be twice the amount of the concealed income.

The proposed provision is sought to be made effective from April 1, 1968.

(5) Punishment, on conviction before a court, of persons defaulting in their obligation to deduct tax at source and pay it to the credit of the government: At present, a person who without reasonable cause or excuse, defaults in the statutory obligation to deduct tax at source and to pay it to the credit of the central government, is liable, on conviction before a court, to the imposition of a fine up to Rs 10 for every day during which the default continues. It is proposed to provide that the punishment for such default, on conviction before a court, will be rigorous imprisonment up to six months and also fine which will be not less than an amount of 15 per cent per annum of the tax in default. This provision is sought to be made effective from April 1, 1968.

V. **Proposed amendments to the Wealth-tax Act:**

The substance of the proposed amendments to the Wealth-tax Act, including those referred to in earlier paragraphs, is set forth below:

(1) The existing provision in the Wealth-tax Act relating to the exemption from wealth-tax in respect of the value of securities issued under the small savings schemes of the central government is sought to be amended to secure that the exemption will be available even where the securities owned by the taxpayer are held in the name of any other person. The amendment is sought to be made effective for and from the assessment year 1969-70.

(2) In the context of the proposed institution, by the central government, of a public provident fund, it is sought to provide that the amount standing to the credit of an individual in any provident fund set up by the central government and notified by it in this behalf in the official gazette will be excluded from the net wealth of the individual. This amendment is proposed to be made effective for and from the assessment year 1969-70.

(3) At present, the penalty imposable under the Wealth-tax Act on a person who conceals the particulars of any asset or furnishes any inaccurate particulars of any assets or debts is a minimum of 20 per cent of the wealth-tax sought to be avoided and a maximum of one and a half time of such tax.

It is proposed to make a provision to clarify that a person will be deemed to have concealed the particulars of any asset or furnished inaccurate particulars of any asset or debt if he has understated the value of the asset or over-stated the value of the debt in a return made by him under the Wealth-tax Act. Further, it is proposed to step up the penalty imposable for cencealment of wealth (through concealment of any asset, under-statement of the value of any asset or over-statement of the value of a debt) to a minimum of the amount of the concealed wealth and a maximum of twice the amount of the concealed wealth. This provision is sought to be made effective from April 1, 1968.

(4) The rates of ordinary wealth-tax in the case of individuals and Hindu undivided families, in the slabs of net wealth above Rs 10,000 are proposed to be increased by ½ per cent, from 2 per cent to 2.5 per cent in the slab of wealth of Rs 10,00,001-20,00,000, and from 2.5 per cent to 3 per cent in the slab of wealth above Rs 20,00,000. The rate schedule of ordinary wealth-tax in the case of individuals and Hindu undivided families has been expressed in the form of a self-servicing tax-table showing in respect of any given range of net wealth, the rate of wealth-tax applicable to the uppermost slab of wealth and the amount of wealth-tax chargeable in respect of wealth in the preceding slabs.

The new rates of ordinary wealth-tax are sought to be made effective for and from the assessment year 1969-70.

VI. **Proposed amendment to the Companies (Profits) Surtax Act 1964:**

As stated earlier, it is proposed to reduce the rate of surtax on the net chargeable profits of companies by 10 per cent, from 35 per cent to 25 per cent.

The proposed amendment is sought to be made effective for and from the assessment year 1969-70.

CUSTOMS

The proposals include:—

(a) increase in the import duty on whisky, brandy, etc.;

(b) increase in the import duty on cloves, cinnamon and cassia;

(c) continuance up to March 31, 1969, of the special duties of customs at a flat rate of 10 per cent of the duty otherwise payable, on the lines of the provision in section 38 of the Finance (No. 2) Act, 1967. A notification is, however, being issued exempting all imported goods from this levy so as to maintain the status quo ante;

(d) continuance up to May 15, 1969 of the enabling provision for the levy of a regulatory duty of customs similar to the provision in section 39 of the Finance (No. 2) Act, 1967;

(e) increase in the rate of duty on chemicals falling under item 28, ICT and its sub-items and articles not elsewhere specified in the Tariff falling under Item 87, with the following exceptions:—

(1) drugs and medicines;

(2) chemicals and intermediates for the manufacture of drugs and medicines;

(3) chemicals and intermediates for the manufacture of insecticides, pesticides and fungicides duty on which has been exempted, subject to the maintenance of preferential margin;

(4) carbon black and red phosphorus; and

(5) GATT bound articles and articles covered by the existing special exemptions;

(f) increase in the import duty on iron and steel billets;

(g) increase in the import duty on certain alloy steels as are not used in the manufacture of small tools; and

(h) increase in the import duty on high silicon electrical sheets, other than grain oriented.

The changes enumerated in sub-paras (a) and (b) are being given effect to by amendment of the Indian Tariff Act and those enumerated in sub-paras (e) to (h) by amendment of notifications already in force or by the issue of fresh notifications.

The gain in revenue as a result of these proposals is estimated at Rs 1550 lakhs in a year. Details are given in Table I.

Additional revenue amounting to Rs 380 lakhs is also expected from countervailing duties, consequent on changes in central excise duties. Details of this are given in Table II.

There will, thus, be a net increase in customs revenue of Rs 1930 lakhs made up as under:—

		(Rs lakhs)
Gain due to increase in basic import duties	...	+1550
Gain due to increase in countervailing duties	...	+ 380
Total	...	+1930

TABLE I

IMPORT TARIFF

Item No. in the First Schedule to the Indian Tariff Act	Brief description of the goods	Present effective rate of duty	Proposed effective rate of duty	Estimated gain of revenue in a year (Rs lakhs)
9(3)	Cassia and Cinnamon ...	100% ad valorem (std.) and 92½% ad valorem (preferential)	Rs. 20 per kg. (std.) and Rs. 20 per kg. less 7½% ad valorem (preferential)	
-do-	Cloves ...	100% ad valorem (std.) and 92½% ad valorem (preferential)	Rs. 18 per kg. (std.) and Rs. 18 per kg. less 7½% ad valorem (preferential)	+170
22(4)(a)	Whisky, brandy, etc. ...	Rs 44 per litre of the strength of London Proof or 170% ad valorem, whichever is higher	Rs 45 per litre or 170% ad valorem, whichever is higher.	+ 30
28 and come or its sub-items	Chemicals, excluding those required for drugs and medicines, pesticides, etc. and articles already exempted.	50% ad valorem (std.) and 40% ad valorem (preferential where applicable)	60% ad valorem (std.) and 50% ad valorem (preferential where applicable)	
87	Articles not otherwise specified in the tariff, excluding (1) carbon black, (2) goods already exempted by notification.	50% ad valorem	60% ad valorem	+1200
63(8)	Steel ingots ...	15% ad valorem	27½% ad valorem	+ 50
62(30)	Certain alloy steels as are not used in the manufacture of small tools.	15% ad valorem (std.) and 5% ad valorem (if of British manufacture)	27½% ad valorem (std.) and 17½% ad valorem (if of British manufacture)	+ 90
63(31)	High silicon steel sheets other than grain oriented	15% ad valorem	27½% ad valorem	+ 10
				+1550

TABLE II

ITEMS FROM WHICH SUBSTANTIAL 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 in a year (Rs lakhs)
72(5), 72(6), 72(21) and 72(25)	Refrigerating and Air-conditioning machinery and certain component parts	+ 24
73, 73(10) and 73(11)	Transistors and semi-conductor diodes and electronic valves and tubes for wireless reception instruments	+ 6
27(3) to 27(8)	Mineral oils, lubricating oils and greases	+ 350
		+ 380

CENTRAL EXCISE

It is proposed to extend the scope of audit type of control to a much larger number of excisable commodities than at present. This system of control envisages the removal of goods by the manufacturers of excisable goods after self-assessment without physical control by the central excise officers at the time of such removal. As a large measure of trust will be placed on the manufacturers and their accounts, it is considered necessary to provide for a deterrent punishment for betrayal of such trust. Under the existing central excise law the penal provisions for departmental adjudication provide only for confiscation of the offending goods, if available, and a maximum penalty of Rs 2,000. More stringent penal provisions are considered necessary so that punishment for any evasion under audit type of control can be sufficiently deterrent. It has accordingly been proposed to take power enabling the central government to make rules to provide for confiscation of land, building, plant, machinery and excisable materials, if the manufacturer, producer or warehouse licensee removes the excisable goods unauthorisedly and does not satisfactorily account for all such goods manufactured or stored by him or does not apply for the required licence for manufacture or production of excisable goods or contravenes any rules with an intent to evade payment of duty.

2. The rules framed by the central government in the exercise of these provisions will be laid before Parliament as required by section 38 of the Central Excises and Salt Act, 1944.

A—CHANGES PROPOSED BY BILL

Tariff Item	Description	Unit	Rate of duty (Basic) Existing	Proposed	Estimated additional revenue during one full year
			Rs	Rs	(Rs lakhs)
1A	Confectionery and chocolates manufactured with the aid of power, i.e.: (1) Boiled sweets, toffees, caramels, candies, nuts (including almonds) and fruit kernels coated with sweetening agents, and chewing gum. (2) Chocolates in the form of slabs, tablets, bars, pastilles or croquettes, whether or not containing nuts, fruit kernels or fruits. It is a new levy and a revenue measure.	Kg.	—	0.80	240
4	I—Unmanufactured tobacco				
	(1) Flue-cured tobacco used in the manufacture of cigarettes	Kg.	3.20	3.50	)
	(2) Flue-cured tobacco used in the manufacture of smoking mixtures for pipes and cigarettes	,,	25.00	27.50	)
	(3) Flue-cured tobacco and not otherwise specified	,,	2.25	2.50	)
	(4) Other than flue-cured tobacco used in the manufacture of cigarettes or smoking mixtures for pipes and cigarettes	,,	2.60	2.85	) 636
	(5) Other than flue-cured tobacco and not actually used for the manufacture of (a) cigarettes, (b) smoking mixture for pipes or (c) biris.	,,	1.60	1.75	)
	(6) Other than flue-cured and not otherwise specified	,,	2.25	2.50	)
	(8) Stalk	,,	0.22	0.25	)

Note: There will be no change in the present rates of
i) additional duty of excise in lieu of sales-tax and
ii) special excise duty of 20 per cent of basic duty.
a) It is a revenue measure. The present concessional rate of basic duty on dust of tobacco continues unchanged.
b) Explanation under sub-item (5) has been deleted as practical difficulties have been encountered in notifying the varieties of unmanufactured tobacco used in the manufacture of biris.

Tariff Item	Description	Unit	Existing	Proposed	
9	Diesel oil, not otherwise specified	Metric Tonne	195.00 (effective rate Rs 106.10)		
		Kilolitre	—	168.25 (effective rate Rs 91.55)	
10	Furnace oil	Metric Tonne	80.00 (effective rate Rs 49.55)		
		Kilolitre	—	75.45 (effective rate Rs 46.75)	

These proposals have no revenue effect as they are only a conversion of the rates from weight to volume; the rates of duty of all other bulk petroleum products are expressed in volume and it is considered necessary to do the same also in respect of these products.

Tariff Item	Description	Unit	Rate of duty (Basic) Existing Rs	Proposed Rs	Estimated additional revenue during one full year (Rs lakhs)
22A	Jute manufactures				
	i) Hessians	Tonne	375.00	450.00	)
					) 402
	ii) Others	,,	175.00	250.00	)
	1. The existing special excise duty of 10 per cent of basic duty continues.				
	2. It is a revenue measure.				
22B	Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials.		—	25% ad valorem	152
	The item will cover fabrics like artificial leather cloth, rexine, etc. It is a new levy and a revenue measure.				
22C	Embroidery in the piece, in strips or in motifs manufactured with the aid of power.			20% ad valorem	240
	It is a new levy and a revenue measure.				
29A	Refrigerating and air-conditioning appliances and machinery, all sorts and parts thereof—				
	1) Refrigerators, etc.		20% ad valorem	30% ad valorem	)
					) 240.0
	2) Air-conditioners, etc.		20% ad valorem	30% ad valorem	)
	3) Parts thereof		30% ad valorem	40% ad valorem	)
	The existing special excise duty of 33-1/3% of the basic duty continues. It is a revenue measure.				
33AA	Certain parts of wireless receiving sets (including parts of transistor sets and radiograms)				
	a) Electronic valves and tubes		—	5.00 each (effective rate Rs 3.00 each).	)
					) 290
	b) Transistors and semi-conductor diodes		—	5.00 each (effective rate Rs 1.00 each).	)
	It is a new levy and a revenue measure.				
37A	Gramophones, including record players, whether mechanically or electricity driven, and with acoustic, electronic or transistorised system of reproduction or amplification, **and parts and accessories thereof,** and gramophone records, all sorts—				

The amendment of the portion in bold types in the description above is of a consequential nature arising from the proposal to levy duty on certain parts of wireless receiving sets; the change has no revenue significance.

40	Steel furniture made partly or wholly of steel with the aid of power. It is a new levy and a revenue measure.		—	20% ad valorem	300
41	Crown corks. It is a new levy and a revenue measure.	Each	—	One paisa	150

Tariff Item	Description	Unit	Rate of duty (Additional) Existing Rs	Rate of duty (Additional) Proposed Rs	Estimated additional revenue during one full year (Rs lakhs)
	Mineral Products (Additional duties of Excise and Customs) Act of 1958				1013
1	Motor Spirit	Kl	165.00	200.00	
2	Kerosene*				
3	Refined Diesel Oil and Vaporising Oil	Kl	250.00	400.00	
4	Diesel Oil, n.o.s.	(Tonne	150.00		
		(Kl		129.45	
5	Furnace Oil	(Tonne	60.00		
		(Kl		56.60	
6	Asphalt and Bitumen*				
7	All products described in Item No. 11A of the First Schedule to the Central Excises and Salt Act. 1944	Tonne	300.00	500.00	

Note: The existing ceiling rates have been found to be inadequate as the over-recoveries in the hands of the oil companies which have to be appropriated to the Consolidated Fund of India through additional excise duties require a higher rate of levy than at present. It is accordingly proposed to raise the ceiling as shown above.

* Present ceiling rates of products remain unaffected.

EFFECTIVE RATES BY NOTIFICATION

Tariff Item	Description	Unit	Existing Rs	Proposed Rs	
1	**Motor Spirit**				
	(a) Special Boiling Point Spirits	Kl	78.90	155.50	
	(b) Other than Special Boiling Point Spirits	Kl	88.15	89.05	
2	Kerosene Superior	Kl	55.40	53.00	
3	Kerosene Inferior	Kl	73.15	79.80	
4	**Refined Diesel Oils**				
	(a) (i) BOC Lub-40 and BOC Lub-50. produced wholly from indigenous crude oil or its derivatives	Kl	188.90	295.50	
	(ii) BOC Lub-40 and BOC Lub-50. produced wholly from imported crude oil or its derivatives	Kl	78.90	155.50	
	(iii) Jute Batching Oil, Flushing Oil, Household Oil and Bauxite Solvent Oil	Kl	78.90	155.50	
	(b) Other than Jute Batching Oil, BOC Lub-40. BOC Lub-50, Flushing Oil, Household Oil and Bauxite Solvent Oil	Kl	42.15	47.10	
5	Vaporising Oil	Kl	48.30	45.95	
6	Diesel Oil not otherwise specified	(Tonne	91.70	—	
		(Kl	—	87.35	
7	Furnace Oil	(Tonne	37.30	—	
		(Kl	—	43.00	
8	Bitumen/Asphalt Straight Grade	Tonne	44.70	46.95	
9	Bitumen/Asphalt Cut-back	Tonne	46.45	47.05	
10	All Products as described in item No. 11A of the first schedule to the Central Excises and Salt Act. 1944. (1 of 1944) except refinery gases, coke and mineral colza oil—				
	(a) Base mineral oils produced wholly from indigenous crude oil or its derivatives and intended for use in the manufacture of Lubricating oils and Lubricating greases	Tonne	208.85	330.50	
	(b) Lubricating oils and Lubricating greases produced wholly from indigenous crude oil or its derivatives	Tonne	208.85	330.50	
	(c) Lubricating oils and Lubricating greases produced wholly or partly from imported crude oil or its derivatives	Tonne	92.75	182.75	
	(d) All other products	Tonne	92.75	182.75	

All consumer prices will not be affected by the changes as the duties though recovered from the oil companies cannot be passed on by way of price increases to the consumers.

B—CHANGES PROPOSED BY NOTIFICATION

Tariff Item No.	Description	Unit	Rate of duty (Basic) Existing	Proposed	Estimated additional revenue during one full year (Rs lakhs)
17	Paper				15

Some concessions applicable to paper manufacturers are being further liberalised.

2. Coloured varieties of printing and writing paper (other than unbleached and tinted) hitherto exempted from special excise duty leviable, are proposed to be made chargeable to such levy.

Tariff Item No.	Commodity		Unit	Rate of duty: Existing, In hank, Unsized	Existing, In hank, Sized	Existing, Others, Unsized	Existing, Others, Sized	Proposed, In hank, Unsized	Proposed, In hank, Sized	Proposed, Others, Unsized	Proposed, Others, Sized	Estimated additional revenue during one full year (Rs lakhs)
18A	Cotton yarn											
19	Cotton fabrics											
	Effective rates of duty Cotton yarn Count group (NF)											
	Of more	or Less than		Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	
	51		Kg	0.90	1.08	1.10	5.20	0.90	1.08	1.10	3.50)	
	40	51		0.65	0.78	1.10	5.20	0.65	0.78	1.10	3.50)	
	34	40		0.40	0.48	0.70	2.40	0.40	0.48	0.70	1.45)	
	29	34		0.05	0.06	0.70	2.40	Nil	Nil	0.70	1.45)	
	22	29		Nil	Nil	0.40	0.44	Nil	Nil	0.40	0.44)	
	14	22		Nil	Nil	0.25	0.28	Nil	Nil	0.25	0.28)	
	6	14		Nil	Nil	0.13	0.15	Nil	Nil	0.13	0.15)	
	—	6		Nil	Nil	0.13	0.15	Nil	Nil	0.13	0.15)	

Rates of compounded duty

	Unit	Existing Paise	Proposed Paise)	
			)	(—) 358
Superfine	Sq. metre	22.0	22.0)	
Fine	,,	15.0	14.0)	
Medium A	,,	6.60	6.60)	
Medium B	,,	4.40	4.40)	
Coarse	,,	2.20	2.20)	

Cotton fabrics (produced in composite mills)

Tariff Item	Commodity	Unit	Rate of duty (Basic) Existing	Rate of duty (Basic) Proposed	Estimated additional revenue during one full year (Rs lakhs)
	(a) Cotton fabrics—Superfine		Paise	Paise	
	i) Grey	Sq. metre	12.0	7.0	
	ii) Bleached/dyed/printed	,,	22.0	22.0)	
	iii) Mercerised etc.	,,	42.0	42.0)	
	iv) Shrink-proofed, etc.	,,	57.0	57.0)	
	(b) Cotton fabrics—Fine			)	+348
	i) Grey	,,	10.0	6.0)	
	ii) Bleached/dyed/printed	,,	20.0	21.0)	
	iii) Mercerised, etc.	,,	40.0	41.0)	
	iv) Shrink-proofed, etc.	,,	55.0	56.0)	

Cotton fabrics processed by independent processors

a) the existing exemption to clear duty-free per month 20,000 sq. metres of cotton fabrics which are bleached/dyed/printed, applicable to independent processors, is proposed to be withdrawn, and

b) the existing concession to the independent processors in respect of processing duty per sq. metre of power-loom fabrics is proposed to be reduced by 50 per cent.

The proposals in respect of cotton yarn and cotton fabrics include the following changes:—

(1) To reduce the duty incidence on sized cotton yarn of superfine and fine counts and to raise the duty on processed fabrics in such a way that there is no loss or gain to the exchequer. This would give only a marginal relief on a small quantity of composite mill fabrics cleared in the grey stages; there would however be a substantial relief to the grey powerloom fabrics of superfine and fine varieties. The other sectors of textile industry, namely handlooms, hosiery, rope making, sewing threads, etc., are left unaffected.

(2) The handloom sector will be afforded relief by the total exemption of the duty on hank yarn in plain straight reels of or above 29 counts but less than 34 counts (NF). This exemption will cover hank yarn of Br. count 40s. The effect of this change is a loss of Rs 10 lakhs in a full year.

27 Aluminium—Estimated loss in revenue Rs 25 lakhs.

Further relief of Rs 150.00 per tonne is proposed to be given to the small ore-based aluminium manufacturers whose clearances of aluminium in whatever form, did not exceed 12,500 metric tonnes in the preceding financial year.

ABSTRACT—CENTRAL EXCISE

(Rs lakhs)

Tariff Item No.	Commodity	Estimated additional revenue in one full year: Basic excise duty	Special excise duty	Total
	I—Existing items			
4 I	Unmanufactured tobacco	530	106	636
17	Paper	(—) 6	21	15
18A	Cotton yarn	(—)358	—	(—)358
19	Cotton fabrics	348	—	348
22A	Jute manufactures	365	37	402
27	Aluminium	(—) 10	(—) 15	(—) 25
29A	Refrigerating and air-conditioning appliances, etc.	180	60	240
	Total	1049	209	1258
	II—New Items			
1A	Confectionery	240	—	240
22B	Artificial leather cloth, rexine etc. ...	152	—	152
22C	Embroidery	240	—	240
33AA	Certain parts of wireless receiving sets, etc.	290	—	290
40	Steel furniture	300	—	300
41	Crown Corks	150	—	150
	Total	1372	—	1372
	III—Increase in the levies under Mineral products (Additional duties of Excise and Customs) Act, 1958 ...	1013	—	1013
	Total of I, II and III	3434	209	3643

SUMMARY

(Rs in lakhs)

	States' share	Centre's share	Total
a) Basic excise duty	482	1939	2421
b) Special excise duty	—	209	209
c) Additional excise duty on mineral products	202	811	1013
Total:	684	2959	3643

PROVISION RELATING TO CENTRAL SALES TAX

All items on which additional duties of excise are being levied in lieu of sales tax have been included in Section 14 of the central Sales Tax Act, which read with Section 15 imposes a restriction on the levy of local sales-tax. Mill-made silk fabrics was also included with effect from March 1, 1961, due to the replacement of sales-tax by additional excise duties. As basic as well as additional excise duties have been totally exempted on mill-made silk fabrics with effect from March 1, 1965, it has been decided to delete item (xi) from section 14 of the central Sales Tax Act, thereby lifting the restrictions imposed on the states to levy sales-tax under their local laws on silk fabrics.

Proposed Revision of Postal and Telegraph Tariffs

SECTION I

POSTAL (Inland)

Item	Existing Tariff		Proposed Tariff	
Letters	Up to 15 grams	15 P	Up to 15 grams	20 P
	Per 15 grams thereafter	10 P	Per 15 grams thereafter	15 P
Post Cards	Single	6 P	Single	10 P
	Reply Paid	12 P	Reply Paid	20 P
Letter Cards		10 P		15 P
Book, Pattern and Sample Packets	Up to 50 grams	10 P	Up to 50 grams	15 P
	Per 25 grams thereafter	5 P	Per 25 grams thereafter	10 P
Book Packets containing printed books only	Per 50 grams	5 P	Up to 100 grams	10 P
			Per 50 grams thereafter	5 P
Registered Newspapers	For single copies		For single copies	
	Up to 60 grams	2 P	Up to 100 grams	5 P
	Exceeding 60 grams but not exceeding 100 grams	5 P		
	Exceeding 100 grams but not exceeding 250 grams	10 P	Exceeding 100 grams but not exceeding 250 grams	10 P
	Per 250 grams thereafter	5 P	Per 250 grams thereafter	5 P
Parcels	Per 400 grams	65 P	Per 400 grams	80 P
Registration Fee		60 P		70 P
Acknowledgement Fee		10 P		15 P
Certificate of Posting Fee	Per three articles	5 P	Per three articles	10 P
Insurance Fee	Up to Rs 100	45 P	Up to Rs 100	50 P
	Per Rs 100 thereafter (Up to Rs 5,000)	25 P	Per Rs 100 thereafter (Up to Rs 5000)	30 P
	Per Rs 1000 thereafter (Up to Rs 10,000)	100 P	Per Rs 1000 thereafter (Up to Rs 10,000)	100 P
Money Order Commission	Per Rs 10 (M.O. form cost 3 paise which is adjustable towards commission)	15 P	Per Rs 10, up to Rs 200	20 P
			Per Rs 20, beyond Rs 200 (M.O. form to cost 5 paise adjustable towards commission)	30 P
Postal Orders	For each Postal Order Up to Rs 5.	5 P	Per Postal Order of any denomination up to Rs 10	10 P
	For each Postal Order over Rs 5.	10 P		
Value Payable Articles—Posting Fee	Not exceeding Rs 15	5 P		
	Exceeding Rs 15 but not exceeding Rs 25	10 P	Not exceeding Rs 25	10 P
	Exceeding Rs 25	15 P	Exceeding Rs 25	20 P
Express Delivery Fee		15 P		20 P
Late Fee	Unregistered articles	10 P	Unregistered articles	15 P
	Registered articles	15 P	Registered articles	20 P

Post Boxes and Bags:	Rent: For full official year (Rs)	For three calendar months (Rs)		Rent: For full official year (Rs)	For three calendar months (Rs)
Post Box	25	8	Post Box	30	10
Post Bag—			Post Bag—In any office	30	10
In places having no Post Box system	20	7			
In places having a Post Box system	25	8			
Post Boxes and Bags combined—			Post Box and Bags Combined—with same or different numbers	50	15
With same number	30	9			
With different number	50	16			

POSTAL (Foreign)

Surface Postage Rates	Existing Tariff		Proposed Tariff	
Letters	Up to 20 grams	50 P	Up to 20 grams	75 P
	Per 20 grams thereafter	30 P	Per 20 grams thereafter	45 P
Post Cards	Single	30 P	Single	45 P
	Reply Paid	60 P	Reply Paid	90 P
Printed Papers, Samples and Mixed Packets	Up to 50 grams	30 P	Up to 50 grams	40 P
	Per 50 grams thereafter	15 P	Per 50 grams thereafter	20 P
	Minimum charge for samples or mixed packets	50 P	Minimum charge for Samples or mixed packets	75 P
Registered Newspapers	Up to 50 grams	16 P	Up to 50 grams	20 P
	Per 50 grams thereafter	8 P	Per 50 grams thereafter	10 P
Small Packets	Per 50 grams	30 P	Per 50 grams	40 P
	Minimum charge	100 P	Minimum charge	150 P
	Delivery fee on each inward "Small Packet"	150 P	Delivery fee on each inward "Small Packet"	150 P
Insured boxes	Up to 250 grams	200 P	Up to 250 grams	300 P
	Per 50 grams thereafter	40 P	Per 50 grams thereafter	60 P
Registration fee	(i) Bulk Bags	150 P	(i)Bulk Bags	300 P
	(ii) Other articles	60 P	(ii) Other articles	70 P
Acknowledgement fee		25 P		50 P
Enquiry fee		50 P		75 P
Late fee		15 P		20 P

Air Mail Rates	Existing Tariff		Proposed Tariff	
	Combined postage and Air Fee		Combined postage and Air Fee	
Countries	Post Cards	Aerograms	Post Cards	Aerograms
Ceylon, Pakistan	15 P	20 P	20 P	25 P
Afghanistan, Burma	35 P	45 P	50 P	65 P
List I Countries—Aden, etc.	60 P	65 P	75 P	85 P
List II Countries—UK, etc.	60 P	65 P	75 P	85 P
List III Countries—Australia, etc.	60 P	65 P	75 P	85 P
List IV Countries—USA, etc.	60 P	65 P	75 P	85 P

Section I—Estimated additional revenue in a year—Rs 24.70 crores.

SECTION II

TELEGRAPHS

Item		Existing Tariff			Proposed Tariff	
I. Inland Telegrams		Ordinary Rs P	Express Rs P		Ordinary Rs P	Express Rs P
Non-Press	First 8 words	1 00	2 00	First 8 words	1 20	2 40
	Each additional word	0 10	0 20	Each additional word	0 10	0 20
Greetings	First 8 words	0 80	1 60	First 8 words	1 00	2 00
	Each additional word	0 10	0 20	Each additional word	0 10	0 20
Press	First 50 words	0 75	1 50	First 50 words	1 00	2 00
	Each additional 5 words	0 07	0 13	Each additional 5 words	0 10	0 20
Phototele-grams	First 335 Sq. Cms.	Rs 30		First 335 Sq. Cms.	Rs. 30	
	Each additional 100 Sq. Cms. thereafter	Rs 9		Each additional 100 Sq. Cms. thereafter	Rs 10	

If the address in an inland telegram is more than 5 words, it is proposed to allow additional words in the address—between 6 and 10 words free of charge. In effect, the address part of a telegram exceeding 5 words and not exceeding 10 words will not be charged for.

Section II—Estimated additional revenue in a year—Rs 1.08 crores.

SUMMARY OF ESTIMATED ADDITIONAL REVENUE IN A YEAR

Section I—Postal Tariffs	Rs 24.70 crores
Section II—Telegraph Tariffs	Rs 1.08 crores
Total	Rs 25.78 crores

Explanatory Note on the Budget 1968-69

THE GOVERNMENT of India has issued an Explanatory Note on the Budget to explain briefly the budgetary position in the current year and the next year. Extracts from the Explanatory Note are given below:

The annual financial statement which is laid before both Houses of Parliament is prepared in accordance with the classification prescribed in consultation with the Comptroller and Auditor General. In order, however, to give a clearer picture of the financial transactions reflected in the budget, the annual financial statement has been reclassified and presented as Statement I of this document. The figures of receipts and disbursements in the two statements will not, therefore, tally but the difference lies only in the manner of exhibition.

Statement I has been prepared in two parts, viz. the revenue budget and the capital budget.

The receipts portion of the statement on revenue budget shows the gross tax and non-tax revenues realised by government, the shares of taxes and duties transferred to states and local bodies being shown as reductions, thus leading to the net revenue retained by government.

The disbursements portion of the statement on the revenue budget shows the direct expenditure categorised into developmental, defence and other expenditure and assistance to state and union territory governments met out of the revenue budget. The developmental expenditure is further categorised into expenditure on social services and on economic services under different heads. Likewise other expenditure has been categorised into tax collection, administrative services, interest payments, etc. The assistance to states for developmental and other purposes has also been shown separately.

The receipts portion of the statement on the capital budget shows the main categories of capital receipts, viz., debt raised in India, foreign loans, PL 480 assistance, small savings and recoveries of loans and advances given by government, the repayments of debt being taken in reduction of the gross borrowings.

The disbursements portion of the statement on capital budget shows the direct expenditure categorised into developmental, defence and other expenditure, assistance to state and union territory governments in the form of capital grants and loans and advances to state and union territory governments and other parties including public sector undertakings. While the direct developmental expenditure has been classified as expenditure on social services and on economic services and further divided into principal sectors, the transfers to states and union territory governments and loans and advances to other parties have been shown separately for developmental and other purposes.

Statement II gives a summary of the financial transactions under broad categories in each of the years since 1961-62. This statement also indicates at the end the overall deficit in each of these years.

The explanatory note which follows explains the main variations between the budget and revised estimates of this year and the budget estimates of next year.

REVISED ESTIMATES 1967-68

REVENUE BUDGET

The current year's budget estimated a revenue surplus of Rs 303 crores which is now likely to be reduced to Rs 87 crores. This is the result of a shortfall of Rs 180 crores under net revenue receipts and an increase of Rs 36 crores under revenue disbursements.

Revenue Receipts

The total gross revenue for the current year is estimated at Rs 2,994 crores as compared to the budget estimate of Rs 3,146 crores, thus showing a shortfall of Rs 152 crores.

Import duties which were expected to yield Rs 518 crores at the budget stage, are now estimated to amount to about Rs 393 crores, the reduction being attributable to lesser imports due to recessionary conditions in the economy and a shift in the pattern of imports to less dutiable items of import. Export duties which were estimated to yield Rs 119 crores are now likely to amount to Rs 125 crores.

The budget estimate of collection from union excise duties was Rs 1,205 crores after taking into account the effect of the budget proposals and certain concessions announced subsequently. The revised estimate is placed at Rs 1,163 crores. The shortfall would thus be Rs 42 crores which is largely accounted for by lesser collections under sugar, iron and steel products and cotton yarn.

Corporation and income-taxes together are likely to show a shortfall of Rs 20 crores as compared to the original budget estimate of Rs 640 crores due to continued sluggish conditions in the economy. This shortfall of Rs 20 crores is the net result of a fall of Rs 30 crores under corporation tax and an increase of Rs 10 crores under taxes on income.

Other revenue heads show an improvement particularly under sales tax and interest receipts.

The states' share of union excise duties this year will be Rs 235 crores as against Rs 250 crores estimated at the budget stage, the reduction being due to shortfall in collections.

The states' share of income-tax will be Rs 43 crores more, including arrears in respect of last year, due to larger income-tax collections forming part of the divisible pool both last year and this year.

The revenue receipts, net of states' share, thus show a shortfall of Rs 180 crores

Revenue disbursements

The disbursements met from revenue are now estimated at Rs 2,485 crores as compared to the budget figure of Rs 2,449 crores, thus showing an increase of Rs 36 crores.

Defence services estimates (net) on revenue account show a rise of Rs 14 crores largely because of dearness allowance increases.

Civil estimates show an increase of Rs 7 crores, which is the net effect of increases under 'other expenditure' (Rs 16.6 crores) and lesser expenditure under 'developmental expenditure' (Rs 9.4 crores).

The increase under 'other expenditure' is mainly under police (Rs 10 crores) largely due to additional requirements of the Central Reserve Police and the Border Security Force and payments to state governments for police forces deployed on behalf of the centre. The rest of the increase is largely because of dearness allowance increases.

The saving under developmental expenditure occurs mainly under agriculture.

The grants to state and union territory governments will be Rs 15 crores more because of larger provision for scarcity relief and Plan assistance in the form of grants.

CAPITAL BUDGET

Capital Receipts.

The public debt raised in India is Rs 76 crores more than estimated at the budget stage. This, however, is almost wholly due to the funding of ad hoc treasury bills into dated securities (Rs 75 crores).

The budgetary receipts from external assistance excluding PL 480 loans are placed at Rs 720 crores. In addition Rs 36 crores were deposited by the World Bank with the Reserve Bank as interim debt relief. The external assistance thus fell Rs 109 crores short of the budget estimate of Rs 865 crores.

The rupee accruals from PL 480 imports which are invested in special securities of government and also the PL 480 convertible currency credit are placed at Rs 366 crores as against the budget estimate of Rs 285 crores.

Loan repayments by states and others will also be more by Rs 63 crores, of which Rs 17 crores are notional adjustments, loans already granted having been converted into fresh loans or grants.

Provident fund deposits will be Rs 18 crores more due to the arrears of dearness allowance increases sanctioned to government employees, held in the provident fund. The annuity deposits will be Rs 6 crores more due to the surcharge levied during the year.

Small savings are expected to show a shortfall of Rs 20 crores as compared to the budget estimate of Rs 130 crores. The railway funds deposited with government will also be less by Rs 33 crores, due to shortfall in railway revenue (Rs 17 crores) and increase in working expenses (Rs 23 crores) partly offset by lesser capital and other expenditure. The P & T funds deposited with government will be Rs 5 crores less even after drawing an advance of Rs 20.6 crores from general revenues for payment of dividend liability and covering working deficit.

Capital disbursements:

Capital expenditure — The current year's budget provided for a capital expenditure of Rs 756 crores. The revised estimate in this regard is placed at Rs 701 crores, thus showing a shortfall of Rs 55 crores which is spread over a number of items.

The defence capital outlay will be less by Rs 7 crores.

The developmental expenditure shows a saving of nearly Rs 38 crores under economic services. This is because of lesser investments in Food Corporation (Rs 6 crores), Bharat Aluminium (Rs 5 crores), Hindustan Organic Chemicals (Rs 3 crores), Bharat Heavy Plates & Vessels (Rs 2 crores) and Bharat Heavy Electricals (Rs 2 crores). Bokaro Steel shows a saving of Rs 18 crores, but this is more than counter-balanced by the increased requirements of the Hindustan Steel (Rs 19 crores). The railway capital will also be less by Rs 12 crores. Agriculture and allied services also show a saving of Rs 7 crores.

As regards the rest, the state trading scheme in respect of fertilisers shows an improvement of Rs 20 crores, but this is partly counter-balanced by increased outlay on foodgrains (Rs 13 crores) due largely to increases in stocks.

The capital grants (developmental) to states will be Rs 8 crores more on account of larger requirements for roads.

Loans and Advances

The current budget included a provision of Rs 828 crores for giving loans and advances to states, including Rs 11 crores met from reserve funds. The revised requirement is Rs 878 crores, including Rs 17 crores met from reserve funds. The increase of Rs 50 crores is mainly on account of larger provision for ways and means assistance to states. This is over and above Rs 58 crores of ad hoc loans sanctioned during the year to certain states which were running overdrafts with the Reserve Bank.

The provision for loans and advances to union territory governments is Rs 24 crores as against Rs 23 crores in the original budget.

The current budget included a provision of Rs 394 crores for giving loans to "others" including public sector undertakings. The revised requirement is Rs 493 crores. The increase of Rs 99 crores is spread over a number of items.

The requirements of government companies and corporations and port trusts have gone up by Rs 64 crores due mainly shortfall in internal resources, the details being Hindustan Steel (Rs 11 crores), Neyveli Lignite and Bharat Heavy Electricals (Rs 7 crores each), ONGC, Fertiliser Corporation and Hindustan Machine Tools (Rs 4 crores each), Indian Drugs and Pharmaceuticals Limited and Mining and Allied Machinery Corporation Limited (Rs 3 crores each). An additional loan of Rs 10 crores was also made to the Food Corporation to enable it to finance food procurement operations. Madras Refineries was also given an additional loan of Rs 5 crores and port trusts Rs 3 crores.

The rest of the increase under "others" is accounted for by larger technical credits to UAR and east European countries (Rs 19 crores) and loan of Rs 20.6 crores to the P & T revenue reserve fund to enable the P & T department to clear the dividend liability to the general revenues and also cover the residual deficit.

Contingencies etc.

There was a provision of Rs 16 crores for contingencies and financial institutions in the budget. The actual expenditure is now reflected under the relevant heads and the revised against this item is nil.

Repayment of debt

The current year's budget provided for repayment of Rs 58 crores of debt raised in India and Rs 195 crores of debt raised outside India. The revised estimates in this regard are placed at Rs 259 crores and Rs 185 crores.

Overall position

The current year's budgetary operations are expected to show an overall deficit of Rs 300 crores as a result of the variations mentioned above, the main items being shortfall in external aid utilisation, import duties and other revenues, lesser internal resources of public sector undertakings including Railways and P & T necessitating provision of funds by general revenues and large ways and means assistance to states.

So far as expenditure is concerned, the following will show that there has been no overall increase:—

Rs crores

Item	Budget 1967-68	Revised 1967-68	
Revenue expenditure	1996	2017	The increase of Rs 21 crores is largely due to dearness allowance increases.
Capital Expenditure	756	701	There is a decrease of Rs 55 crores.
Contingencies, etc.	16	...	
Total:	2768	2718	

On the other hand the states' share of central taxes and duties and the assistance to state and union territory governments in the form of grants which is also shown as expenditure have gone up.

(Rs crores)

Items	Budget 1967-68	Revised, 1967-68
Share in taxes and duties	389	416
Revenue grants	452	467
Capital grants	28	36
	869	919

The provision for loans and advances has also gone up due largely to shortfall in resources of states, public sector undertakings including Posts and Telegraphs Department as below:

(Rs crores)

	Budget Estimate, 1967-68	Revised Estimate, 1967-68	
(i) States and union territory governments	851	902	The increase of Rs 51 crores is due to larger ways and means assistance.
(ii) Others: government companies, statutory corporations and port trusts	181	245	The increase of Rs 64 crores is largely due to shortfall in internal resources of public sector undertakings.
Financial institutions	54	49	
Posts and telegraphs	...	20	Due to fall in internal resources.
Other loans	159	179	

As against the above, the recoveries of loans and advances will also be larger by Rs 63 crores.

BUDGET ESTIMATES 1968-69

REVENUE BUDGET

The revenue surplus for next year at existing rates of taxation is estimated at Rs 80 crores as against Rs 87 crores in the current year. This reduction of Rs 7 crores is the result of an increase of Rs 131 crores in the net revenue receipts and increase of Rs 138 crores in disbursements.

Revenue receipts—The gross revenue receipts for next year are estimated at Rs 3.132 crores i.e.. Rs 138 crores more than in the revised estimates.

The customs revenue is expected to show a decline of Rs 3 crores as compared to the revised estimate. This is the net result of an increase of Rs 22 crores under import duties. due to anticipated larger imports and reduction of Rs 25 crores under export duties as a result of the concessions announced on February 7.

Union excise duties collections are placed at Rs 1250 crores i.e., Rs 86 crores higher than in the revised, this increase being spread over a number of items, notably petroleum products, iron and steel products, tobacco and rayon and synthetic fibres. Realisations in respect of sugar will however be less because of the duty concessions on higher clearances.

Corporation and income taxes are expected to go up by Rs 10 crores only, next year's receipts being based on the profitability position this year.

Interest and dividend receipts will be Rs 29 crores more due to the growing volume of loans and capital advanced by government and the surplus profits of Reserve Bank accruing to government will also be Rs 5 crores more. The rest of the increase is spread over a number of items notably sales tax and PL 480 grants.

The states' share of union excise duties will be Rs 33 crores more than in the revised, consequent on higher estimate of collections.

The states' share of income-tax and estate duty is placed at Rs 155 crores, i.e., Rs 26 crores less than in the revised, due to absence of provision for payment of arrears.

The revenue receipts net of the states' share will thus be Rs 131 crores more than in the revised.

Revenue disbursements—The total disbursements met from revenue next year are estimated at Rs 2623 crores i.e., Rs 138 crores more than in the revised estimates.

The defence expenditure (net) next year would be Rs 894 crores i.e., Rs 38 crores more than in the revised, due mainly to the effect of the dearness allowance increases and increased cost of stores purchases.

Civil expenditure next year would be Rs 89 crores more, the main increase being under interest charges, Rs 42 crores.

Social and economic services account for an increase of Rs 34 crores, of which the bulk occurs under education and scientific departments (Rs 15 crores). Medical and public health account for an increase of nearly Rs 6 crores, mainly under family planning and agriculture (Rs 2 crores). Export promotion measures account for an increase of Rs 8 crores despite lesser requirement for sugar subsidy (Rs 7 crores).

Grants-in-aid to states and union territories will be Rs 11 crores more—Rs 6 crores under union territories and Rs 5 crores under states—the latter is the net result of larger grants for developmental purposes and less grants for scarcity relief and absence of provision for grants in lieu of income-tax share.

Other expenditure (other than interest charges) will be Rs 13 crores more. Of this the heads relating to administration (tax collection and administrative services, including police and audit) account for an increase of nearly Rs 9 crores. The rest of the increase is mainly due to larger provisions for aid to other countries.

CAPITAL BUDGET

Capital receipts—The public debt to be raised in India is placed at Rs 300 crores and receipts from foreign loans Rs 775 crores, as against Rs 756 crores this year including Rs 36 crores on account of interim debt relief by the World Bank.

The rupee accruals from PL 480 imports which are invested in special securities and the convertible currency dollar credit are expected to yield Rs 269 crores next year (excluding Rs 5 crores of PL 480 grants shown in the revenue section) as against Rs 366 crores this year. P & T and railway funds (other than development fund) will yield Rs 21 crores.

Small savings, provident funds and annuity deposits together show a reduction of Rs 32 crores, due mainly to the absence of the special item this year of arrears of dearness allowance held in the provident fund.

The repayments of loans by states and others together are placed at Rs 549 crores next year as against Rs 493 crores this year, the bulk of the increase being in respect of loans given to states and public sector undertakings.

Capital Disbursements:

Capital expenditure—Next year's budget provides for a capital expenditure of Rs 737 crores as against Rs 701 crores this year.

The outlay on economic services will be Rs 42 crores more next year mainly as a result of larger provision for Bokaro Steel (Rs 110 crores as against Rs 57 crores this year), Hindustan Copper (Rs 9 crores), Food Corporation (Rs 5 crores) partly counterbalanced by lesser requirements for Hindustan Steel (Rs 19 crores), Madras Fertilisers (Rs 7 crores) and Fertiliser Corporation (Rs 4 crores). A provision of Rs 4 crores has also been made for air corporations (Indian Airlines) as against 'nil' this year.

The provision for aviation and Overseas Communications Service is Rs 12 crores as against Rs 5 crores this year, due mainly to installation of high power surveillance radars and procurement of equipment for the satellite earth station. The capital outlay on Railways will, however, be less by Rs 7 crores.

The scheme of purchase of foodgrains envisages a gross purchase of Rs 435 crores and sale proceeds of Rs 333 crores, the net outlay being Rs 102 crores, of which Rs 100 crores is for buffer stock purposes. After allowing for write-back to revenue of losses in previous years, the net provision in the capital section will be Rs 82 crores.

The scheme of purchase of fertilisers envisages a gross expenditure of Rs 268 crores and sale proceeds of Rs 275 crores thus leaving a net profit of Rs 7 crores.

Defence capital outlay will be Rs 121 crores i.e., Rs 7 crores more than in the revised.

The net capital outlay on grants to states for development will be Rs 11 crores less mainly due to lesser provision for roads of inter-state and economic importance and larger write-back to revenue.

Loans and advances

The provision for loans to states next year is Rs 828 crores as against Rs 878 crores this year i.e., Rs 50 crores less. This is the net result of a large provision of Rs 14 crores for rural electrification and Rs 19 crores for miscellaneous development purposes more than counterbalanced by lesser provision for scarcity relief (Rs 40 crores) and miscellaneous and ways and means purposes (Rs 36 crores).

The provision for loans and advances to union territories with legislatures is Rs 28 crores next year as against Rs 24 crores this year.

The provision for loans to government companies and corporations next year is Rs 217 crores as against Rs 231 crores in the revised. The reduction of Rs 14 crores occurs mainly under Hindustan Steel (Rs 17 crores), Neyveli Lignite Corporation (Rs 15 crores), and Bharat Heavy Electricals (Rs 9 crores), partly counterbalanced by larger requirements for Food Corporation (Rs 40 crores as against Rs 16 crores this year) for buffer stock purposes.

Next year's allocation for the various financial institutions will be Rs 18 crores more including Rs 9 crores for Industrial Finance Corporation, Rs 7 crores for Agricultural Refinance Corporation and Rs 2 crores for Shipping Development Fund Committee. The provision in respect of others is Rs 36 crores less and is due to the absence of requirements of loan to P & T revenue reserve fund (Rs 20.6 crores) and lesser provision for technical credits (Rs 14 crores).

Repayment of debt

Provision has been made for repayment of Rs 244 crores in respect of maturing loans including Rs 5 crores in respect of prize bonds. Provision of Rs 194 crores has also been made for repayment of other loans.

PLAN PROVISIONS

The following provisions for the Plan has been included in the next year's budget:

Central plan	Rs 1009 crores†
Union territories plan	Rs 65 crores
Central assistance for state plans	Rs 615 crores
Total	Rs. 1689 crores†

† In addition the public sector undertakings including the Railways and the P & T will incur plan expenditure amounting to Rs 170 crores out of their own resources.

Overall Position

Next year's budget shows an overall deficit of Rs 315 crores.

As a result of the budget proposals (headwise details shown in Statement I) the revenue surplus will go up by Rs 50.73 crores and the overall deficit after taking into account capital transactions will be reduced to about Rs 290 crores.

STATEMENT—I

I—REVENUE BUDGET

(Rs crores)

RECEIPTS	1967-68 Budget	1967-68 Revised	1968-69 Budget
A. Tax Revenue			
(a) Taxes on income and expenditure			
(i) Corporation Tax	350.65	319.65	324.35 —4.00†
(ii) Taxes on income other than corporation tax	290.00	300.35	305.65 +14.00†
(iii) Expenditure tax	0.09	0.03	0.03
(b) Taxes on property and capital transactions			
(i) Estate duty	7.25	7.25	7.50
(ii) Taxes on wealth	12.50	11.00	11.00
(iii) Gift tax	1.50	1.50	1.75
(iv) Land revenue	0.21	0.14	0.18
(v) Stamps etc.	1.83	1.75	1.81
(c) Taxes on commodities and services			
(i) Customs	640.13	522.69	519.97 +19.30†
(ii) Union excise duties	1205.48	1163.48	1249.65 +36.43†
(iii) State excise duties	2.16	3.19	3.97
(iv) Taxes on vehicles	1.46	1.52	1.61
(v) Sales tax	17.45	19.07	21.07
(vi) Other taxes and duties	5.11	5.83	6.21
Total Gross Tax Revenue	2535.17	2357.45	2454.75 +65.73†
Less Transfers:			
(a) To States:			
(i) Income tax	131.58	174.52	148.34 +8.16†
(ii) Estate duty	6.94	6.58	6.81
(iii) Union excise duties	249.73	234.64	267.53 +6.84†
(b) To local bodies	5.82	6.00	6.28
Total Transfers	394.07	421.74	428.96 +15.00†
Net tax revenue	2141.10	1935.71	2025.79 +50.73†
B. Non-tax revenue			
(i) Interest receipts:			
(a) From state and union territory govts.	195.00	195.00	205.00
(b) From others	91.70	99.00	113.01
(ii) Dividends:			
(a) From Railways	141.56	141.08	152.00
(b) From P&T	15.78	18.35	12.82
(c) From others	6.47	10.70	10.83
(iii) Currency and mint	78.02	78.55	86.05
(iv) Other receipts	82.55	93.51	97.26
Total non-tax revenue	611.08	636.19	676.97
Total Revenue Receipts (Net)	2752.18	2571.90	2702.76 +50.73†

† Effect of budget proposals.

(Rs crores)

DISBURSEMENTS	1967-68 Budget	1967-68 Revised	1968-69 Budget
I A. Development expenditure			
(a) Social services:			
(i) Education, scientific research and survey	119.39	117.17	131.90
(ii) Medical and public health	21.73	20.10	25.74
(iii) Labour and employment	10.25	9.95	10.53
(iv) Broadcasting	7.41	8.33	9.21
(b) Economic services:			
(i) Agriculture and allied services	38.30	28.50	30.21
(ii) Industries	28.24	29.09	30.21
(iii) Export promotion	34.74	36.14	44.51
(iv) Irrigation and power	3.16	4.04	3.55
(v) Public works	16.67	12.49	15.73
(vi) Transport and communications	25.84	30.51	29.18
(vii) Other services	18.29	18.29	18.22
Total—Developmental Expenditure	324.02	314.61	348.[illegible]
B Defence expenditure (net)	842.50	856.82	894.[illegible]
C. Other expenditure:			
(i) Tax collection	30.30	31.88	34.[illegible]
(ii) Administrative services	133.62	145.43	150.[illegible]
(iii) Interest payments	509.97	508.30	550.[illegible]
(iv) Currency and mint	21.45	23.43	24.[illegible]
(v) Other services	134.06	136.99	140.[illegible]
Total—other expenditure	829 40	846.03	900.8
Total expenditure	1995.92	2017.46	2144.2
II. Assistance to state and union territory governments:			
(i) Grants under the substantive provision of Art. 275(1)	140.61	140.61	140.6
(ii) Developmental grants	221.38	222.23	252.3
(iii) Other grants	90.76	104.51	85.3
Total—Assistance to state and union territory governments	452.75	467.35	478.2
Total—Revenue disbursements	**2448.67**	**2484.81**	**2622.5**

STATEME NT—I (Contd.)

II—CAPITAL BUDGET

(Rs crores)

RECEIPTS	1967-68 Budget	1967-68 Revised	1968-69 Budget
A. Debt raised in India:			
Receipts	351.30	351.93*	300.50
Less repayments	258.04	259.30	244.01
Net	93.26	92.63	56.49
B. Foreign loans:			
PL 480 rupee loans) PL 480 dollar credit)	150.00	295.00	244.00
Other loans	865.00	720.02	775.00
Total receipts	1015.00	1015.02	1019.00
Less repayments	195.44	184.93	194.47
Net	819.56	830.09	824.53
C. Floating debt (net)	2.49	0.49	1.49
D. Repayment of loans and advances.			
(i) By state and union territory governments	343.00	385.00	425.00
(ii) By others	87.00	108.00	124.00
E. Small savings (net)	130.00	110.00	120.00
F. State provident funds (net)	55.07	73.00	33.75
G. Public provident fund	...	...	10.00†
H. Income-tax annuity deposits (net)	22.00	28.40	26.00 —35.00†
I. PL 480 deposits (net)	135.00	71.00	25.00
J. Depreciation/Reserve funds and other Heads (net)††	42.70	29.08	46.44@
Total capital receipts	1730.08	1727.69	1682.70 —25.00†
Total receipts	4482.26	4299.59	4385.46 +25.73†
Overall deficit		300.00	315.00 —25.73†

* Excludes conversion of ad hoc treasury bills of Rs 75 crores.

† Effect of budget proposals.

@ Includes an accretion of Rs 23.83 crores to the P & T reserve funds as a result of the budget proposals.

†† Excludes notional transfer of PL 480 loans to the special development fund.

(Rs crores)

DISBURSEMENTS	1967-68 Budget	1967-68 Revised	1968-69 Budget
IA. Developmental expenditure:			
(a) Social services:			
(i) Medical and public health	0.46	0.45	0.52
(ii) Broadcasting	2.28	4.08	4.22
(b) Economic services:			
(i) Agriculture and allied services	13.89	7.09	10.47
(ii) Industries:			
(a) Iron and steel	81.00	81.00	115.00
(b) Other metallurgical industries	20.82	15.80	17.90
(c) Machinery and engineering industries	11.39	6.24	9.80
(d) Coal	10.85	10.25	7.10
(e) Petroleum	6.93	6.88	0.09
(f) Chemicals and fertilisers	17.45	20.93	14.37
(g) Other items	15.31	7.78	11.76
(iii) Atomic energy development	38.33	37.79	38.56
(iv) Irrigation and power	24.81	21.27	24.09
(v) Public works	28.64	26.77	30.50
(vi) Transport and communications	47.13	49.92	62.23
(vii) Railways	161.75	150.00	143.00
(viii) P & T	31.68	30.92	30.46
(x) Grants for Development*	3.29	3.22	2.39
Total developmental expenditure	516.01	480.39	522.46
B. Defence expenditure	120.88	113.32	120.80
C. Other expenditure:			
(i) Currency and mint	19.96	15.57	14.06
(ii) Food purchases (net)	78.98	91.74	81.66
(iii) Other services	20.12	0.03	−2.34
Total other expenditure	119.06	107.34	93.38
Total expenditure	755.95	701.05	736.64
II. Assistance to state and U.T. govts.			
(i) Developmental grants	27.63	35.78	24.84
(ii) Developmental loans	616.11	618.88	657.06
(iii) Other loans and advances	223.91	266.40	198.62
Total assistance	867.65	921.15	880.52
III. Loans and advances to public sector undertakings and other parties	393.28	492.58	460.73
Total capital disbursements	2016.88	2114.78	2077.89
IV. Provision for contingencies etc.	16.00	...	...
Total disbursements	4481.55	4599.59	4700.46
Revenue surplus	303.51	87.09	80.19 +50.73†
Overall surplus	0.71	...	...

* Other than state and union territory governments.

† Effect of budget proposals.

STATEMENT—II

SUMMARY OF BUDGETARY POSITION

Rece ipts

(Rs crores)

	Accounts 1961-62	Accounts 1962-63	Accounts 1963-64	Accounts 1964-65	Accounts 1965-66	Accounts 1966-67	Budget 1967-68	Revised 1967-68	Budget 1968-69
REVENUE									
A. Tax revenue	69.78	1054.14	1367.60	1555.42	1776.44	1924.31	2141.10	1935.71	2025.79
B. Non-tax revenue	316.57	402.97	498.16	542.35	563.49	570.16	611.08	636.19	676.97
Total revenue receipts	1186.35	1457.11	1865.76	2097.77	2339.93	2494.47	2752.18	2571.90	2702.76
CAPITAL									
A. Debt raised in India*	206.02	286.56	376.41	298.69	283.85	278.55	351.30	351.93	300.50
Less repayments	137.62	182.30	175.97	189.04	173.36	182.79	258.04	259.30	244.01
Net	68.40	104.26	200.44	109.65	110.49	95.76	93.26	92.63	56.49
B. Foreign loans									
PL 480 rupee loans) PL 480 dollar credit)	54.71	79.74	66.17	170.38	80.00	350.00	150.00	295.00	244.00
Other loans	259.62	259.83	318.40	399.35	489.97	516.05	865.00	720.02	775.00
Total—Receipts	314.33	339.57	384.57	569.73	569.97	866.05	1015.00	1015.02	1019.00
Less repayments	65.62	46.30	63.73	84.42	88.08	162.08	195.44	184.93	194.47
Net	248.71	293.27	320.84	485.31	481.89	703.97	819.56	830.09	824.53
C. Floting debt (Net)	3.45	3.45	3.45	2.60	53.57	349.09	2.49	0.49	1.49
D. Repayment of loans and advances.									
(i) By state & union territory governments	133.91	144.75	179.33	216.02	276.25	281.30	343.00	385.00	425.00
(ii) By others	66.92	26.12	35.05	73.04	97.24	137.25	87.00	108.00	124.00
E. Small savings (net)	87.77	74.10	126.99	127.43	151.19	118.15	130.00	110.00	120.00
F. Provident funds (net)	39.11	43.32	40.94	49.13	54.80	47.92	55.07	73.00	33.75
G. Income tax annuity deposits (net)	...	...	...	40.28	37.34	27.63	22.00	28.40	26.00
H. PL 480 deposits (net)	54.13	48.07	87.38	—1.57	133.06	—2.66	135.00	71.00	25.00
I. Depreciation/Reserve funds and other heads (Net)†	23.92	162.54	131.17	155.90	7.43	70.77	42.70	29.08	46.44
Total receipts	1912.67	2356.99	3000.35	3355.56	3743.19	4323.65	4482.26	4299.59	4385.46
Overall deficit	114.51	156.14	166.86	171.84	172.76	295.29	...	300.00	315.00††

* Excludes conversion of ad hoc treasury bills of Rs 50 crores each in 1961-62 and 1962-63. Rs 75 crores in 1963-64 and Rs 50 crores each in 1964-65. 1965-66 and 1966-67 and Rs 75 crores in 1967-68 (Revised).

† Excludes notional transfer of PL 480 loans to the special development fund.

†† Will be reduced by Rs 25.73 crores as a result of the budget proposals.

STATEMENT—II (Contd.)

SUMMARY OF BUDGETARY POSITION

Disbur sements

(Rs crores)

	Accounts 1961-62	Accounts 1962-63	Accounts 1963-64	Accounts 1964-65	Accounts 1965-66	Accounts 1966-67	Budget 1967-68	Revised 1967-68	Budget 1968-69
REVENUE									
I. A. Developmental expenditure	174.44	206.71	183.50	205.20	238.44	279.86	324.02	314.61	348.99
B. Defence expenditure (Net)	289.54	425.30	704.15	692.85	762.18	797.80	842.50	856.82	894.46
C. Other expenditure	402.54	516.63	560.53	657.17	695.48	782.25	829.40	846.03	900.84
II. Assistance to state and union territory governments	194.98	195.03	229.97	268.68	324.07	405.80	452.75	467.35	478.28
Total revenue disbursements	1061.50	1343.67	1678.15	1823.90	2020.17	2265.71	2448.67	2484.81	2622.57
CAPITAL									
I. A. Developmental expenditure	332.54	481.37	597.16	612.62	540.20	475.94	516.01	480.39	522.46
B. Defence expenditure	22.95	48.61	111.97	112.95	122.57	110.79	120.88	113.32	120.80
C. Other expenditure	11.04	—13.99	23.01	29.76	—5.83	322.09	119.06	107.34	93.38
II. Assistance to state and union territory governments:									
(i) Grants	10.94	13.74	16.44	19.46	38.82	37.13	27.63	35.78	24.84
(ii) Loans	443.47	511.09	583.60	678.70	828.92	930.89	840.02	885.37	855.68
III. Loans and advances to other parties	144.74	128.64	156.88	250.01	371.10	476.39	393.28	492.58	460.73
IV. Provisions for contingencies etc.	...	...	...	...	...	...	16.00	...	...
Total disbursements	2027.18	2513.13	3167.21	3527.40	3915.95	4618.94	4481.55	4599.59	4700.46
Revenue surplus	124.85	113.44	187.61	273.87	319.76	228.76	303.51	87.09	80.19*
Overall surplus	...	...	...	...	...	...	0.71	...	...

* Will go up by Rs 50.73 crores as a result of the budget proposals.

UNCTAD COMES TO DELHI

Scope and Value of UNCTAD-II—A US View

JOSEPH A. GREENWALD

Mr Joseph A. Greenwald is Chairman, US Delegation and Deputy Assistant Secretary of State for International Trade Policy.

THE UNITED States came to UNCTAD-II prepared to approach every issue on its merits and well aware of the sense of urgency the situation in the developing countries requires.

We had undertaken very considerable pre-preparation, having carefully studied the principal topics likely to be considered. We had also consulted with other developed countries within the Organization for Economic Co-operation and Development (OECD) in order to see how far forward a reasonable consensus could be achieved.

However, the United States delegation has also borne in mind a maxim often prescribed as the formula for a happy marriage—to base the degree of expectation on a realistic view of the situation.

We see the conference as part of a continuing process of hammering out policies and programmes for economic development. The conference can contribute a great deal to this ongoing process. Also, many other parts of the UN family contribute to this effort. Ideas discussed in UNCTAD will often be implemented in specialized agencies such as the World Bank, the International Monetary Fund, the General Agreement on Tariffs and Trade (GATT), etc. A conference the size of UNCTAD-II, seized with a host of topics and sub-topics varying greatly in nature and scope, can hardly be a forum of plenipotentiaries signing legal undertakings. But it can ascertain attitudes and degrees of latitude so that negotiations in the months ahead will proceed more smoothly and come more quickly to meaningful conclusions.

This is not an artful way of saying the conference in New Delhi will not accomplish anything. On the contrary, the US feels that the only reason for such an assessment is a rather wide misconception as to the nature and task of the conference itself.

In the keynote speech for the United States, our principal representative, Under-secretary of State, Mr Eugene V. Rostow, said of the New Delhi conference:

"We should define our goal, therefore, as the acceleration of development within the framework of a growing and progressive world economy, governed by the principles of the international division of labour..."

Realistic Assessment

This is a realistic assessment which we believe will be fully justified as UNCTAD-II continues.

Specifically, we think UNCTAD-II will make an important contribution in several fields. These include preferences, general commodity policy, the harmonization of development financing and economic aid, trade expansion and improved economic integration among developing countries, and, by no means least, the world food problem.

We see a real prospect for conclusion in the near future of a system of temporary, generalized, non-reciprocal tariff preferences which will greatly benefit the exports of the developing countries and render obsolete present discriminatory arrangements that have led to fragmention of trading patterns and tended to set developing nations in needless opposition to each other. We are convinced that such a system of generalized preferences can do a great deal to increase the export earnings of a great many developing countries and that this, in turn, can accelerate their rate of growth.

Already there is general agreement that such a non-discriminatory system of preferences is needed and should be worked out as soon as possible. We should not be discouraged if, as I think most informed persons have always expected, it takes longer than the period of the conference itself to iron out such thorny issues as the ending of the present discriminatory arrangements.

We believe that if the goal is pursued with goodwill on all sides this conference can reach agreement on a set of principles and guidelines which in the rather near future would provide the basis for an effective multilateral arrangement.

To this end, both during and after the conference, the United States will co-operate—not just passively but in the role of a strong, active, and consistent supporter of a preference system—in the effort to resolve these problems.

Reverse Preferences

Closely allied to many of the present discriminatory arrangements, and even more derogatory to progress, are the reverse preferences which in some cases have been extracted from developing countries in return for these discriminatory preference advantages. Such reverse preferences often burden developing countries by increasing the costs of their imports. While we recognize that there are sometimes historical and other reasons for them, they have become anachronisms. For its part, the United States has already agreed with the one country which grants reverse preferences to us, the Republic of the Philippines, that such reverse preferences are not to be extended when the present agreement expires.

To fully appreciate the value of generalized preferences to developing countries one must see these in the context of the Kennedy Round. Already, as a result of these unprecedented negotiations, the average tariff level in the industrialized countries will drop by 37 per cent to less than 9 per cent. These cuts will open new trade opportunities in all the industrialized countries. Preferences would provide an added boost.

Although the United States believes that a product-by-product approach is the only method likely to achieve meaningful progress in the field of commodity agreements, we strongly dispute any contention that this is a negative attitude. A piece of pie in the hand is a good deal more satisfying than a whole pie in the sky. In other words, workable single commodity agreements for such controllable commodities as coffee and cocoa are much more helpful to the developing countries concerned than a pious but unworkable pledge that attempts to lump many widely varied commodities together.

The US will continue to work for a reduction or elimination of barriers to trade in primary products— including those that have undergone some processing. However, we believe that the only really satisfactory solution to the basic problems of commodity marketing lies elsewhere.

The developing countries need to diversify their economies, that is, increase the variety of their economic activities to help reduce their dependence on the fortunes of any one commodity, and to control those in oversupply.

We suggest that an expert group might be designated to look into commodities which developing countries might be advised to diversify out of—and perhaps also into—the concept of an international diversification programme. Such a study could turn up products likely to need diversification efforts, in addition to obvious candidates such as coffee, sugar, rubber, and hard fibres.

We think the Algiers Charter suggestion of considering diversification as part of the economic integration efforts between the developing countries also has merit.

We also favour two studies recommended by the Secretariat. They are (1) the evaluation of various methods which governments could use to control production of selected commodities; and (2) a study of factors to be considered in periodic redistribution of country export and production quotas.

It was in recognition of the direct relationship between the need for diversification and the effective functioning of the coffee agreement that, during negotiation of the agreement, the US, before any other producer or consumer, offered a contribution to the Coffee Diversification Fund of $30 million (Rs 22.5 crores). However, we believe that to ensure the control of production necessary to make diversification helpful, it is best if the developing countries contribute the money for diversification funds from added revenues obtained in commodity agreements.

Let us reiterate. The US is not opposed to commodity agreements. In fact it favours those, such as the coffee agreement, which can be made truly effective.

We stand ready to resume negotiations on a cocoa agreement immediately after the conference, and we think there is every chance of their success.

It is important, in the US view, that the terms of development financing and economic assistance be eased and harmonized and that all donor countries, present or potential, share appropriately in the burden of providing such assistance.

Importance of Self-Help

It is also important of course that developing nations take all feasible steps to advance their own economic growth, including a full and productive utilization of domestic and private foreign investment.

In development financing, it is particularly important that the terms of lending be harmonized. The existence of much more severe terms has made it difficult and in some cases impossible for the US to maintain its very favourable ratio of grants to loans and very soft terms of lending. Nevertheless, we are continuing to lend on very reasonable terms.

We hope the conference will provide some general guidelines on terms of official lending. They should take into account the varying debt-servicing capacity of different recipients. Terms targets might also be helpful so long as, by over-simplification, they do not obscure the quality of varying types of assistance.

Whether or not we can agree on aid targets, we should be able to find useful guidelines for aid. The present wide variety in techniques of lending is a question which deserves careful study.

We think present international efforts to ease debt servicing problems are an encouraging sign, both for cases of imminent default or where the debt burden impinges on development progress. Debt rescheduling and refinancing, particularly when this leads toward harmonization of terms, may be helpful. However, a complete response to many current difficulties should include softer terms and, in some cases, an increase in assistance.

Although today our own aid is tied, due to balance of payments difficulties, the US looks on tying as a temporary measure. Meanwhile we would welcome action aimed at both formal and informal untying and will be prepared to join in such steps as soon as our payments situation clears up.

Between the end of World War II and the late 1950's the US provided some $40,000 million (Rs 30,000 crores) of untied aid to other countries. This was done in the firm belief, which we still hold, that untied aid not only maximizes aid value but effectively contributes to the smooth functioning of the international monetary system. We believe that untying of aid by donor countries in strong balance of payments situations would serve both of these objectives today.

The US does everything it can to mitigate any adverse effects that its aid tying may have. It is willing to explore further possibilities for meeting this problem.

The role of private investment in economic development is, we feel, a matter of prime importance. We have suggested that efforts be made to increase such private investment. These might usefully include a detailed study of the rights and obligations of investors and of host countries as well as an investigation of the economic effects of direct foreign private investment in developing countries.

Our own experience has been that private investment can be a powerful and productive engine of economic growth—in a variety of ways: the transfer of technology, the accumulation of fixed capital, increased employment income, and greater export earnings.

Our interest in fully utilizing the great potential of private investment, however, reflects no desire to minimize the need for governmental development aid.

In evaluating aid-giving performances, however, we believe that all the relevant factors, including the cumulative record over the years, should be taken into account.

Since 1946, the US has provided over $90,000 million (Rs 67,500 crores) of economic assistance to other countries, over two-thirds of which has gone to developing countries. This has been done and is being done despite the fact that the United States has been in balance of payments deficit during most of the period. Even during the past few years when the payments problem has obliged us to take special remedial measures, the US has maintained average net flows of official resources exceeding $3,500 million a year.

This was in addition to the large amounts of private investments, stimulated by a variety of US government measures such as investment guarantees.

By now developed and developing countries together have established the framework for an international system for financing economic development. They are working increasingly closely and well together.

The US hopes to make in the future even greater use of the international system. Despite current difficulties, in the long-term much more will be accomplished in most phases of the development financing effort.

There has been a general and heartening recognition at the conference that, whatever outside assistance is forthcoming, the principal responsibility for development progress must remain with the developing countries themselves.

Economic Integration

One useful avenue of potential progress now open to the developing countries—developed countries can play a useful auxiliary role—is increased economic integration among themselves.

Under-secretary Rostow commented most aptly on this. He said:

"Improved market access, greater attention to export promotion, and tariff preferences will all aid the exports of developing countries. But there is need for other actions as well. We hope this conference will wish to give a new impetus to the movement for regional integration.

"Today in many areas the efficient application of modern industrial technology to production requires large industrial plants, long production runs and a high degree of specialization. In consequence, modern industries need a large market. In many developing countries, such a market does not exist. As we in the United States know from our own history, it is too much to expect that some new producers can immediately confront the world market and the competition of established producers. But if developing enterprises are exposed to more tolerable competition within regional markets, it should accelerate their ability to reach a competitive position in wider international markets.

"For our part, we are prepared, now as in the past, to assist meaningful progress in the direction of regional economic co-operation. Our support of such movements in the past has not been limited to verbal endorsements, nor will it be in the future. For a number of years, we have given economic and technical aid to the Central American Common Market. We have undertaken to contribute towards easing the transitional difficulties in forming the Latin American Common Market. We are also prepared to support multinational projects for building infrastructure through the Inter-American Development Bank. We have contributed $200 million to the Asian Development Bank, and asked the Congress to authorize an additional $200 million for the Bank's special funds. We are also prepared to give assistance to regional economic co-operation in Africa and in the Middle East.

"We believe that regional co-operation has much to contribute in the years ahead to the progress and stability of many parts of the developing world."

Progress already made in several less developed countries, including India, shows that very considerable increases in food production are possible. But population control is more difficult, and much remains to be done.

Discussion of such problems at UNCTAD-II should greatly enhance worldwide awareness of the higher priorities needed for agricultural production and family planning drives.

What is talked of here is likely to be reflected in what is done in home countries when the delegations return. Perhaps, most important, there will be a much clearer idea of the scope and value of the technical assistance which the US and many of the other developed countries stand ready to provide.

The United States in no way disparages the desire of the developing countries to attain greater access to the markets of the developed world. Our position is shown in our favourable attitude toward preferences and the removal, wherever possible, of trade barriers.

The United States has, in fact, been acting on the basis of these liberal trade policies for some time. Our imports of manufactures and semi-manufactures from developing countries grew at an annual rate of 19 per cent in the 1961-65 period and increased a further 35 per cent in 1966 over 1965, exceeding $2,000 million (Rs 1,500 crores). The average dutiable level of our tariffs is now less than 12 per cent. These tariffs are scheduled for further cuts of almost 50 per cent on manufactures and semi-manufactures in the next four years as a result of the Kennedy Round.

When I recently visited the Hindustan Machine Tools plant in Bangalore I found it is currently filling a large order for radial drills to be shipped to the West Coast of the United States. These are relatively simple machine tools, but this case illustrates the sort of division of labour that can and will develop between the developed and the less developed countries as the latter increase their export capabilities. The tariffs on these machine tools will be cut from 15 to seven and one half per cent in the next four years.

Some developed countries, however, have failed to display any similar liberalizing trend. The US believes that in seeking to improve the export possibilities for developing countries, the need for convergent action should not be overlooked. Convergent action means co-operation by all parties including the east European nations. The US has happily noted positive announcements by two of these countries, but thinks it quite reasonable that other countries of this group should make the adjustments needed to match the tariff liberalization and favourable preferences which the developed market economy countries intend to extend to developing countries.

One particularly useful step would be to reduce the present wide margin between the import price and the domestic selling price. If this were done, consumer demand might produce an overall trade increase and diversification of sources of supply of benefit to many developing countries.

However, Soviet trade with the developing world is still of marginal global significance. In 1966, the last year for which we have authoritative data, total Soviet trade turnover with the non-socialist developing nations amounted to 1,874 million rubles (Rs 1,555 crores). This represents some 5 per cent of the developing nations' total trade: about 70 per cent of their trade was with the west and the remaining 25 per cent was accounted for by trade within the developing world.

In 1965 western importing countries absorbed some 60 per cent of the developing countries' manufactured exports; the socialist countries' share was 4 per cent.

The Soviet delegation promised at the 1964 UNCTAD-I session to abolish external tariffs on certain commodities with effect from January 1965. This was a rather hollow gesture, however, because of the monopoly position of the Soviet foreign trade organizations and the arbitrary rates of internal indirect taxation.

Let us take a concrete example. The Soviet external tariff on cocoa prior to UNCTAD-I was 5 rubles (Rs 41.50) a kilogram. This was abolished with effect from January 1, 1965. Yet despite the removal of this very high tariff, not to mention the fall in the price paid for cocoa beans, the state retail prices for cocoa and chocolate remained unaltered at the exorbitant rates of 9.10 rubles (Rs 75.50) a kilogram for cocoa and 8 rubles (Rs 66.40) a kilogram for plain chocolate —approximately eight times the London and Paris prices at the official rates of exchange.

It can only be presumed that turnover tax rates were

adjusted to absorb the savings on the tariff cuts. As the disposable incomes of Soviet citizens grow, it is conceivable that the demand for cocoa products—even at these exorbitant prices—will increase. Yet the primary determinant of how much cocoa is imported from, say, Ghana, will not be consumer demand but rather the value of products which the USSR is prepared to sell Ghana under the relatively rigid bilateral trade deals.

Among changes the US hopes UNCTAD-II can hasten, east-south trade is one of the most important. The US also favours more east-west trade. However, current trade patterns indicate little benefit for the developing countries will result from increased east-west trade between developed countries, since east European countries, including the Soviet Union, are likely to use any hard currencies they earn to buy sophisticated machinery—or grain—from the west.

Adverse Impact

If eastern European exports are not diversified more, there might eventually be some adverse impact on east-south trade because the socialist states are exporting many products which are, or could be, competitive with those of the developing countries, e.g., petroleum and petroleum products, wood and wood products, base metals, textile raw materials, meat, cereals, and vegetables.

Estimates indicate only 20-30 per cent of east European trade with the developing world is based on hard currency. Hence it appears some of the socialist states could, if they chose, expand their trade with the developing world irrespective of their earnings from trade with the west.

Nevertheless, the annual increase of trade with the socialist countries between 1960 and 1965 was only ½ of 1 per cent a year, of the developing countries' trade total. The Algiers Charter has a number of excellent recommendations as to how east-south trade could be increased. We hope these ideas will be given careful and thoughtful consideration by our east European friends.

It may also be worth noting that total disbursements of Soviet development aid for the decade ending in 1966 were valued at 3,500 million rubles (Rs 2,905 crores), according to a Soviet source.

The net flow of US financial resources to developing countries and multilateral agencies for the decade 1956-65 was $29,800 million (Rs 22,350 crores). Assuming a 15 per cent return on capital, the per capita aid burdens in 1963 have been estimated at $19.64 (Rs 137.30) in the US and $1.60 (Rs 12.00) in the USSR.

However, though truly convergent action is essential, and we hope the socialist countries will play a larger part, the United States has no desire to add any polemics to UNCTAD-II. We hope and expect that the conference will continue to move forward along constructive lines, as Under-secretary Rostow predicted when the session began:

"All of us here know that the nations represented here are divided on many problems, and represent different ideologies, different educational experiences, different interests. We are united, however, in our loyalty to the Charter of the United Nations, and in our determination to assist the developing countries in their drive for more rapid economic growth.

If our deliberations are guided by these two central facts, if we pursue our work in a spirit of co-operation and realism, my government believes we can make a major contribution to the welfare of the developing countries, and therefore of the world community as a whole.

"To this end, I have the privilege of pledging the best efforts of the Government of the United States."

USSR and Developing Countries

K. G. TRETIAKOV

THE SOVIET Union steadily carries on the policy aimed at developing trade and broad economic co-operation with the developing countries.

Mr K. G. Tretiakov is Deputy Head of the USSR delegation to UNCTAD-II.

The external economic relations of the USSR in general, and in particular with developing countries, are based on the principles of respect of sovereignty of their partners, non-interference with internal affairs, equality, incompatibility of trade and economic co-operation with demands for any political, military and other similar concessions.

In trade relations with developing countries the Soviet Union adheres to the practice, which has proved correct, of concluding inter-governmental agreements, including long-term agreements which provide for concrete programmes of goods turnover. Such agreements create necessary prerequisites for a steady growth of mutual trade and contribute to the improvement of structure of exchanges.

Lately the Soviet Union has concluded long-term agreements with India, United Arab Republic, Pakistan, Iran, Afghanistan, Syria, Sudan, Cyprus, Morocco, Brazil, Chile and some other countries.

The forms of trade and payments between the USSR and the developing countries are flexible and diverse and are being constantly improved.

In compliance with the wishes of some of the developing countries, the relations with them are based on bilateral trade and clearing settlements. Besides clearing payment agreements, the USSR in its trade with the developing countries applies other forms of payment such as payment in free convertible currency or through clearing with the right to convert balance into free convertible currency.

The long-term nature of trade agreements ensures a continuous growth in trade and increase, in particular, in exports of developing countries of traditional commodities as well as of manufactures and semi-manufactures.

In its plans for the development of foreign trade the Soviet Union envisages a steady growth of exchange of goods with developing countries. The goods turnover of the USSR with them in 1967 as compared with 1963 increased by more than 35 per cent while the entire growth of the USSR foreign trade during the same period increased by 25.6 per cent.

Now everybody recognizes the fact that trade of the USSR as well as of other socialist states with developing countries is the most dynamic sector of the world trade. The recognition of this fact is one of the main features of the documents submitted for consideration at the second session of the UN Conference on Trade and Development (UNCTAD) and of statements of the majority of the delegates at this session.

During the last three years the Soviet Union has notably increased the volume of purchases in developing countries of cocoa beans, tea, coffee, rice, oranges, hides and skins, wool and some other commodities as well as of manufactures and semi-manufactures.

Speaking at the second session of UNCTAD, the Minister for Foreign Trade of the USSR, Mr N. S. Patolichev, stated that the Soviet Union would steadily continue its policy of increasing purchases of commodities in developing countries. Naturally, with the growth of the national economies of developing countries and with the increase of their purchases of Soviet goods, the range and volume of imports of manufactures and semi-manufactures from developing countries to the USSR will be enlarged.

The proceeds from the sales to developing countries of the equipment and industrial raw material which they need are used for the purchase of goods from them including those produced by newly established industries.

The Soviet Union will continue to purchase these products in developing countries, in particular, in repayment of credits given by the USSR for construction of enterprises in these countries. The USSR intends also to expand other forms of co-operation which may include appropriate arrangements on specialization and co-operation in certain production fields taking due account of the interests of the contracting parties.

Despite the rapid growth of mutual trade of the USSR with developing countries, the possibilities in this field are far from being exhausted and there are still great perspectives for further expansion of exchange of goods.

It is often asked why the total volume of trade of such a large industrial state as the Soviet Union, with the developing countries is still comparatively small and why there are still some difficulties in the development of this trade.

This is easily explained. First of all, for reasons which are well-known, the trade and economic relations of the USSR with this group of countries began to develop only in the last decade. Even now, through no fault of its government, the Soviet Union has not yet established broad direct trade ties with some countries. The successful development of trade requires serious efforts to be made by the partners of the Soviet Union. This was stressed in the statements of delegates of a number of developing countries at the present session of UNCTAD who pointed out, in particular, that developing countries should grant to the socialist countries conditions for trade not less favourable than those which they accord to developed capitalist countries.

The Soviet Union on its part takes necessary measures to promote the expansion of its trade and economic co-operation with developing countries.

The second session of UNCTAD now being held in Delhi deals with a wide range of problems pertaining to world trade and international economic co-operation.

Great Concern

The present state of international trade and economic situation in developing countries arouses great concern. The position in world commodity markets, especially for developing countries, is deteriorating. This is, in particular, reflected in tendencies shown in commodity prices, in the sphere of payments due to continuing growth of external indebtedness and in increasing instability in international monetary system.

At the present conference, the Soviet Union has come out with constructive proposals aimed at normalization and further expansion of entire international trade without any discrimination as well as at promotion of economic growth of developing countries.

The Soviet Union is in favour of the elaboration and application in practice of effective measures for normalization of commodity markets, in particular, by concluding international stabilization commodity agreements on cocoa beans, sugar, oil seeds, vegetable oils, cotton, citrus fruit, lead and zinc, crude oil, copper as well as iron and manganese ores and hard fibres.

It is impossible to deny the validity of the demands of developing countries, addressed to developed capitalist countries, for the elimination of various tariff and non-tariff restrictions in import of commodities and manufactures and the establishment of a general non-discriminatory system of preferences without any condition attached as to reciprocal concessions.

Developed capitalist countries should reconsider their trade policy in respect of developing countries, alleviate considerably the terms of loans and credits and compensate at least partially the damage that has been caused and is being caused to developing countries as a result of colonial domination and neo-colonialistic policy.

The first session of UNCTAD held in Geneva in 1964 adopted the principles of international trade relations and trade policy and a number of other important recommendations reflecting the progressive concept of the contemporary world economic development. The Geneva Conference essentially laid down the ways of solving urgent problems of trade and development on the agenda of the second session of UNCTAD.

The success of the conference in Delhi primarily depends on whether proper methods for a speedy implementation of progressive decisions of Geneva Conference of 1964 are found.

Preferences for Manufactures and Semi-Manufactures

HARTIRATH SINGH

THE CHARTER of Algiers, by which the developing countries swear at UNCTAD-II in the marathon discussions at Vigyan Bhavan, drew the attention of the international community to the need for "an agreement on a general system of tariff preferences on a non-discriminatory and non-reciprocal basis". It called for "unrestricted and duty-free access to the markets of all the developed countries for all manufactures and semi-manufactures from all developing countries", for preferential treatment for the exports of developing countries would enable their industries to overcome the difficulties they encounter in export markets because of their high costs. If exports of manufactures and semi-manufactures from developing countries could enter the developed countries free of duty vis-a-vis those of their highly developed rivals, they could gather the necessary momentum and get the countries of their origin the rate of economic growth envisaged in the Development Decade.

High Tariffs

The efforts of developing countries to diversify and promote their exports have not met with success for many reasons, important among them being high tariffs and such other trade barriers obstructing their entry into the markets of developed countries. It is, therefore, argued, and rightly so, that unless the products of infant industries of developing countries are helped in international markets, by way of special treatment, they would never be able to find wide markets nor break the vicious circle of low output and high costs. Such markets must be sought in the developed countries as well as in the developing countries. It is for this reason that the following two proposals have been mooted:

(i) The developed countries should give preferences to imports from developing countries in their own markets; and

(ii) the developing countries should give preferences to imports from other developing countries in their own markets.

An attempt is made in this article to analyse these proposals.

During the past few years the world trade has grown to the benefit of the developed countries at the cost of the developing countries. While world trade increased from $92.8 billion in 1955 to $182.1 billion in 1965, the trade of developing countries rose during this period from $23.7 billion to only $36.4 billion. The trade of the developed market countries and of centrally planned countries, on the other hand, improved considerably from $59.7 billion and $9.4 billion respectively in 1955 to $128 billion and $21.7 billion respectively in 1965. The tardy increase in the trade of developing countries is thus in marked contrast to the dynamic trends in international trade during the last decade, when exports often acted as a spur to economic growth.

Furthermore, world trade has grown largely in manufactured items. During 1955-65, while the share of primary products in world trade declined from 49.4 per cent to 39.6 per cent, the share of manufactures and semi-manufactures improved from 49.2 per cent to 58.9 per cent. While the volume of primary products entering world trade during this period increased tardily at an annual rate of 4.8 per cent, exports of manufactures and semi-manufactures increased at an annual rate of 9.2 per cent. Since manufactures and semi-manufactures account for 70.3 per cent of the total exports of the developed countries as against only 17.4 per cent of those of the developing countries and since developed countries contribute 82 per cent of the world trade in manufactures and semi-manufactures as against only 5.8 per cent contributed by the developing countries, and manufactures and semi-manufactures happen to be the most dynamic sector of world trade, the developed countries have over the years been gaining an edge over the developing countries.

TABLE I

EXPORTS OF MANUFACTURES AND SEMI-MANUFACTURES

Year	World ($ million)	Developed countries ($ million)	% share of world	Developing countries ($ million)	% share of world
1955	45,620	37,690	83.2	3,030	6.6
1958	56,050	46,780	83.5	2,805	5.0
1960	69,710	57,390	82.3	3,840	5.5
1961	73,490	60,590	82.4	3,975	5.4
1962	79,490	64,760	81.4	4,220	5.3
1963	86,350	70,320	81.4	4,785	5.5
1964	98,710	80,810	81.9	5,485	5.6
1965	109,620	90,010	82.1	6,350	5.8

The developed countries, as Table I shows, constitute the most important market for manufactured products. Unfortunately their imports of manufactures and semi-manufactures from the developing countries have increased less rapidly than those from other sources, as may be seen from the fact that the share of developing countries in their (developed countries') imports of these products came down from 12.3 per cent in 1955 to 9.1 per cent in 1965. Even after excluding base metals, petroleum products and ships and boats because of their being transformed raw materials and/or re-export items, the percentage share of developing countries in the imports of manufactures and semi-manufactures into developed market economies came down from 6.0 in 1955 to 5.2 in 1965. That even a one per cent increase in the imports of manufactures and semi-manufactures into developed countries from developing countries can augment the latter's foreign exchange resources by as much as $778 million per year suggests that there are unlimited possibilities of their growth through a slight increase in their imports into the developed countries.

Significant Differences

The USA, the UK, Federal Republic of Germany, France and Japan are the most important importers of manufactures and semi-manufactures from developing countries, absorbing 77.5 per cent of their total volume. A consensus among them on the issue of preferences could have made for the crystallisation of issues between the developing and the developed countries and lent meaning to the dialogue between the two at the current UNCTAD session. Despite the stamp of their approval on the OECD resolution on prefernces, there are, however, significant differences in their approach. According to Mr Michel Debre, Minister for Finance and Economic Affairs, and leader of the French delegation, the existing system of preferences of certain nations and advantages conferred on the "Associated Territories" (implying thereby the arrangement between France and its ex-colonial territories) "cannot be called into question". Mr Eugene Rostow, Under-Secretary of State for Political Affairs and leader of the US delegation, however, has rejected reverse preferences enjoyed by France and other EEC countries in associate African states, which discriminate against the USA vis-a-vis EEC. "How can the United States," says Mr Rostow, "grant preferences to countries which are discriminating against its imports"? The Japanese Minister for International Trade and Industry, Mr Ethsusaburo Shiina, has indicated Japan's acceptance of a system of generalised preferences on "certain conditions" because of the industrial structure and trade pattern of Japan being different from those of other developed countries in many respects. It is obvious that other developed countries will not agree to conditional acceptance of generalised preferences by Japan, if it means an exclusive advantage to her.

While all the developing countries would gain by an expansion in the exports of manufactures and semi-manufactures to developed countries through preferences, 15 among them, contributing 65 per cent to the total of this trade, stand to gain immediately and immensely. In the descending order of importance, these countries are: Hong Kong, Venezuela, India, Chile, Malaysia, Yugoslavia, Congo (Kinshasa), Mexico, Trinidad and Tobago, Peru, Algeria, Iran, Taiwan, Brazil and Argentina. It is important to note that this creates a wedge among the developing countries, for some of them other than these 15 are likely to press more for commodity agreements, supplementary finance, a higher quantum of foreign aid, etc., than preferences for manufactures and semi-manufactures. This wedge is fostered and exploited by the developed countries by offers of more aid, on the one hand, and bilateral trade concessions, on the other. Developing countries, particularly the least developed ones among them, ought to be wary of such low temptations, for the future of all developing countries lies in rapid industrialisation and very soon all of them will be producers/exporters of manufactures and semi-manufactures.

The consequences of disunity among developing countries on this issue will be grave indeed. As an illustration, we may

quote here the warning of Dr Arthur L. Peterson, President, American Institute for Foreign Trade. "If the developing nations at the UNCTAD meeting", he says, "cannot agree to the general principles of the OECD tariff preference proposal, it is unlikely that the (US) Administration will include in the interim trade bill it intends to send to Congress this year any request for authority to even initiate negotiations for a detailed tariff preference agreement".

From all available indications, it is clear that in view of rapid technological developments and quick improvement in standards of living, world trade will continue to be dominated by manufactures. The developing countries must, therefore, diversify their export structure, which is at present heavily dependent on primary commodities. According to the 'Economic Survey of Europe in 1960', the less developed countries in order to achieve a three per cent annual increase in their per capita income would have to expand their total exports to the developed economies by some 2¼ times by 1980. The burden of its analysis was that this could be feasible only if the less developed countries were able to increase by 1980 their exports of manufactures at least seven times the corresponding figure for the average 1957-59.

High-Cost Production

The achievement of the export target of this magnitude depends on a number of factors, the chief among them being availability of surpluses and competitiveness of the products of developing countries. Because of their late start in industrialisation and lack of economies of scale, their manufacturing costs barring a few exceptions are relatively high. Problems of scale are inseparable from production costs. Internal markets of developing countries for many of their products are too small to contribute to scale economies that accrue from mass production. The survival of such products is made possible through governmental protection. These industries can, however, achieve competitiveness and viability by an increase in the volume of their production through overseas sales. Thus to the extent infant industry considerations justify a period of interim protection in home markets, they justify an analogous protective cover through preferences for exports of developing countries.

Costs of manufacturing in developing countries are also high, as most of them have assumed social welfare obligations and adopted wage policies which during the early stages of industrialisation result in money costs exceeding productivity valued at world market prices. For some time to come, their cost of production will continue to be high. These industries have been built up under aid programmes, which were generally tied and, therefore, inflated overhead costs. Moreover, it is not enough to help establish production capacity in a developing country by providing aid and technical skill; it is also the obligation of developed countries to facilitate marketing of her produce by special measures in the form of preferences.

The share of exports of manufactures from developing countries has been stagnant around 5.5 per cent during the last decade. Most of the exports of developing countries consist of simple manufactures like textiles, leather, pottery goods, handicrafts and light engineering goods, and these are subject to import restriction of one type or the other in the developed countries. In spite of duty reductions negotiated under the aegis of the GATT, tariffs on the exports of developing countries continue to be high because of the negotiating procedures followed in the past. Reductions in tariffs, for example, tended to cover products traded mainly among the developed countries. The products selected for negotiations and duty reductions effected in some of them have favoured the principal suppliers, which in most of the cases are developed countries. The developing countries received the benefit of such reductions through the operation of the most-favoured-nation clause, but they had little say in either the selection of the commodities or the duties, which were reduced. Hence the commodities of export interest to developing countries, by and large, remained beyond the scope of such negotiations.

At the Kennedy Round negotiations, too, the main emphasis had been on reduction in duties on items traded among the developed countries. On a preliminary assessment, it has been estimated that industrialised countries participating in the Kennedy Round agreed to duty reductions on 70 per cent of dutiable imports excluding cereals, meat and dairy products. About two-thirds of these cuts were of the order of 50 per cent or more. The duty reductions affected various sectors differently, being most extensive in respect of such items as chemicals, pulp and paper machinery, transport equipment and precision instruments, raw materials other than fuel, base metals and miscellaneous manufactures. Both the depths of cuts and the range of items of export interest to developing countries such as textiles, agricultural products, iron and steel, tropical products and fuels, were below expectations. No wonder, then, that the developing countries expressed dissatisfaction at the outcome of the Kennedy Round.

The disappointment of developing countries with the Kennedy Round is summed up as under in an UNCTAD document, 'The Kennedy Round: Preliminary Evaluation of Results with Special Reference to Developing Countries':

"The product groups receiving the deepest tariff cuts were those characterised by advanced technology or capital intensity. These products are generally assumed to have higher price elasticities than primary products and they have a relatively low component of imports from developing countries. The existing trend towards a more rapid increase in world trade in sophisticated industrial goods than in primary products, is, therefore, likely to be strengthened. Moreover, the expanded trade opportunities in chemicals could be expected to accelerate present tendencies for substitution of primary products by synthetics. It would appear, therefore, that **unless there are additional measures in the commercial policy field to correct these tendencies, the Kennedy Round will contribute to a further decline in the relative share of developing countries in world trade".** (Emphasis ours).

The UNCTAD study concludes that because of differences in the composition of trade, tariff reductions accruing from the Kennedy Round are 36 per cent for the developed countries but only 20 per cent for the developing ones (SITC 07 and 1-8). For manufactures and semi-manufactures (SITC 5-8), tariff reductions are 38 per cent for the developed countries as against 28 per cent for the developing ones. The benefits of the Kennedy Round are thus confined only to the developed countries. If anything, they support the demand of developing countries for tariff preferences.

Principle of Reciprocity

The principle of reciprocity in negotiations, enshrined in the GATT, gave advantage to the developed countries, because developing countries had little to give in return. They could not afford to lower duties on a number of consumer goods, because this deprived them on an important source of revenue and prejudiced their development plans as well. Duties on industrial machinery and raw materials were already low and could not be done away with because of revenue or protection considerations. In any case, their trade in these commodities was not big enough to provide them with much of a bargaining power. They could not thus make a meaningful contribution to trade negotiations, based on the principle of reciprocity, which was inherently inequitous between unequal trade partners.

While the principle of reciprocity held ground till the Dillon Round of negotiations, it is heartening that there was no insistence on the part of developed countries on full reciprocity during the Kennedy Round negotiations. To that extent, the Kennedy Round was a progressive step forward in world trade. Non-reciprocal preferences for the products of developing countries should be its logical extension.

There is nothing new in the concept of preferences demanded in the Charter of Algiers. Many developed and developing countries have evolved a system of preferences for enlarging the markets of their products. The European Common Market is an outstanding example, where member-countries grant preferences to each other's products, which are intended to convert their reciprocal trade into internal trade. This preferential system has given a powerful impetus to trade among the member-countries. The Commonwealth countries have yet another system of preferences, which, of course, was evolved before the GATT came into existence. The Central American Common Market and Latin American Free Trade Association aim at low cost-high volume maturity by means of preferences. Though in principle, the GATT does not allow preferences except those already in existence, yet on several occasions the contracting parties to the GATT have granted waivers to individual countries of their most-favoured-nation obligation on the ground that this was an effective way for a rich country to help a poor one develop.

When the question of preferences was tabled by developing countries at UNCTAD-I, there were strong misgivings in the minds of the delegates representing some of the developed countries. The USA, Canada, Norway, Sweden and Switzerland opposed the proposal of preferences and expressed grave doubts about their feasibility and practicability. The questions raised were: How should a country be defined as developing for the purpose of preferences? What should be the margin of preferences? Should all manufactured products be treated the same way? How long should preferences last? Having been given once, what should be the criteria for giving them up? How to tackle the problems arising out of the existing preferences of Commonwealth and the associate territories of the European Economic Community? How should preferences be negotiated? Some alluded to the dangers of market disruption while others spoke of the dangers of establishing uneconomic trade patterns.

The developed countries seem to be conciliatory at UNCTAD session at New Delhi, but their basic opposition to preferences has found its manifestation in the conditions with which they have hedged their preference proposals. They offer preferences for only those products which are not competitive; their lists of exceptions are extraordinarily long; under burden sharing they want safeguards for the products of the fellow developed countries; they demand safeguards in case of future development of some products in developing countries; and the duty reductions they offer are marginal. "I see no windows open", is the apt comment of a representative of developing countries.

Each of the objections to preferences deserves a detailed treatment which, for paucity of space, is not possible here. But an attempt to meet some of them will not be out of place. The term, 'developing countries', is not too difficult to define. For grant of preferences, all developing countries can be classified in a descending order into three groups on the bases of their level of industrialisation, per capita income, ratio of

ınufactured exports to total exports and such other economic licators. Group I countries may be accorded preferences up 75 per cent of the basic rate for a period of 20 years—the riod envisaged by the Charter of Algiers, to begin with; oup II up to 90 per cent for a period of 40 years and Group , the least developed among the lot, up to 100 per cent for period of 50 years. After the completion of the preferential riod, automatic phasing out should take place. The process of asing out may be expedited if it is found that infant industes have reached maturity earlier than expected, but objece criteria must be laid down right now to determine this.

lentification of Commodities

It would be ideal if all the processing industries of export terest to developing countries are granted protection. This ould also be highly desirable because of the difficulties inrent in a selective approach to various items and because of e varying interests of individual countries in the same item. r practical purposes, however, a formula may be devised for entification of a limited number of commodities, which must granted preferences by the developed countries.

Excluding petroleum products and base metals, there are 19 lditional products or groups of products, which together count for nearly 75 per cent of the total value of the developed market economies' imports of manufactures from the developing countries (Table II). Of these 19 products, 11 may be regarded as traditional products of dynamic character, for their annual average rate of growth is 10.8 per cent or above 10.8 per cent, which is the median growth rate of all imports from developing countries during the period, 1955-65 (Table III page 556). These 11 commodities, combining a large export turnover with a dynamic rate of growth per annum, positively deserve encouragement and should, therefore, be accorded a preferential treatment by the developed countries.

Among new exports of manufactures and semi-manufactures to developed countries, there are 26 products which in 1955 earned individually less than $10 *million* (the minimum of foreign exchange earning being considered as no longer incipient) but registered rates of growth faster than 10.8 per cent, i.e., the median growth rate of exports of developing countries during 1955-65 (Table IV page 556) Of these 26 products, the average annual growth rate of the first 15 was above 20. With these products obviously lies the future of the exports of manufactures from developing countries to the developed countries.

Imports of these 15 dynamic products from all sources into developed countries amounted in 1965 to $7.4 billion, of which developing countries got only three per cent. Even a small margin of preference by developed countries for these products

TABLE II

IMPORTS OF SELECTED MANUFACTURES AND SEMI-MANUFACTURES FROM DEVELOPING COUNTRIES BY DEVELOPED MARKET ECONOMIES

(Million US $)

S. No.	SITC code	Item	1955 World	1955 Developing countries	1955 % share	1960 World	1960 Developing countries	1960 % share	1965 World	1965 Developing countries	1965 % share
1.	841	Clothing (excl. fur clothing)	388.6	34.3	8.8	908.1	186.9	20.6	2,018.7	431.6	21.4
2.	653	Woven textiles, non-cotton	703.4	102.0	14.5	1,066.0	141.9	13.3	1,804.8	252.2	14.0
3.	243	Wood, shaped	1,274.1	128.0	10.0	1,394.2	159.1	11.4	1,843.6	216.3	11.7
4.	112	Alcoholic beverages	681.2	247.3	41.1	898.0	296.6	33.0	1,162.6	200.0	17.2
5.	652	Cotton fabrics, woven	431.4	35.5	8.2	773.1	140.0	18.1	782.0	194.0	24.8
6.	053	Fruit preserved, prepared	253.8	50.8	20.0	395.4	95.7	24.2	516.2	153.8	29.8
7.	013	Meat tinned n.e.s. or prepared	367.9	99.6	27.1	456.0	130.8	28.7	506.0	143.5	28.4
8.	657	Floor cover, tapestry	164.7	35.6	21.6	259.7	71.8	27.6	476.6	138.3	29.0
9.	631	Veneers, plywood, etc.	265.4	17.5	6.6	369.1	38.3	10.4	560.4	117.6	21.0
10.	611	Leather	165.8	57.1	34.5	267.5	73.3	27.4	385.3	96.6	25.1
11.	656	Textile products, n.e.s.	136.5	17.2	12.6	204.6	61.7	30.2	308.2	91.3	29.6
12.	899	Manufactured articles, n.e.s.	(175.0)	(15.0)	(8.6)	(300.0)	(40.0)	(13.3)	435.7	91.0	20.9
13.	513	Inorganic chemicals, etc.	(70.0)	(13.0)	(18.6)	140.5	27.6	19.6	567.9	86.2	15.2
14.	055	Vegetables preserved	111.1	28.1	25.3	168.9	46.1	27.3	284.7	77.9	27.4
15.	671	Pig-iron, etc.	(200.0)	(17.0)	(8.5)	(350.0)	(30.0)	(8.6)	609.7	65.1	10.7
16.	894	Perambulators, toys, games, etc.	(130.0)	(5.0)	(3.8)	(200.0)	(15.0)	(7.5)	562.5	64.6	11.5
17.	032	Fish, tinned, prepared	130.4	26.0	19.9	293.9	39.4	13.4	388.7	61.9	15.9
18.	651	Textile yarn and thread	479.0	17.6	3.7	761.0	34.8	4.6	1,205.7	55.7	4.6
19.	551	Essential oils, perfume	107.0	35.9	33.5	129.0	40.8	31.6	212.7	53.2	25.0
		Total, listed products	6,235.3	982.5	15.8	9,335.0	1,669.8	17.9	14,632.0	2,590.8	17.7
		Total imports*	22,383.8	1,355.0	6.1	39,777.6	2,335.4	5.9	67,336.2	3,473.6	5.2
		Percentage share of listed products to total imports	27.9	72.5	...	23.5	71.5	...	21.7	74.6	...

* Excluding petroleum products, manufactured gas, electric energy (SITC groups: 332, 341.2, 351) and also excluding base metals (Division 68 of SITC).

Source: United Nations 'Commodity Trade Statistics', Series D; OECD, 'Foreign Trade by Commodities, Series C.

of developing countries will give a boost to the export of developing countries and will, as such, be extremely beneficial.

Of these 15 dynamic products, seven, namely, aluminium; pulp and waste paper; sanitary, plumbing, heating and lighting fixtures; travel goods, handbags, etc; scientific, medical, optical, measuring and controlling equipment; fertilisers; and jewellery, also crossed in 1965 the watershed of $10 million worth of exports per year. **These seven products or groups of products thus merit preferences in the developed market economies more than any other. Next in order are the other eight products in the group, 11 traditional products of a dynamic character (Table III) and the remaining 15 new exports in this group.** This list is illustrative and not exhaustive. It cannot, more-

TABLE III

IMPORTS OF TRADITIONAL PRODUCTS OF DYNAMIC CHARACTER FROM DEVELOPING COUNTRIES BY DEVELOPED MARKET ECONOMIES

(Million US $)

S. No.	SITC Code	Item	Imports from developing countries			Annual average rate of growth		
			1955	1960	1965	1955-60	1960-65	1955-65
1.	841	Clothing	34.3	186.9	431.6	40.4	18.2	28.8
2.	631	Veneers, plywood, reconstituted wood, etc. ...	17.5	38.3	117.6	17.0	25.1	21.0
3.	899	Manufactured articles n.e.s.	(15.0)	(40.0)	91.0	(21.7)	(17.9)	(19.7)
4.	652	Cotton fabrics, woven	35.5	140.0	194.0	31.6	6.7	18.5
5.	656	Made-up articles, wholly or chiefly of textile materials n.e.s.	17.2	61.7	91.3	29.1	8.2	18.2
6.	657	Floor covering, tapestries	35.6	71.8	138.3	15.1	14.0	14.5
7.	851	Footwear	13.1	25.9	42.6	14.6	10.5	12.5
8.	691	Textile yarn and thread	17.6	34.8	55.7	14.6	9.9	12.2
9.	053	Fruit preparations	50.8	95.7	153.8	13.5	10.0	11.7
10.	513/515	Inorganic chemicals, radioactive and associated materials	33.4	30.8	94.5	—1.6	25.1	10.9
11.	681	Silver, platinum	22.7	43.3	63.4	13.8	7.9	10.8

Source. United Nations, OECD.

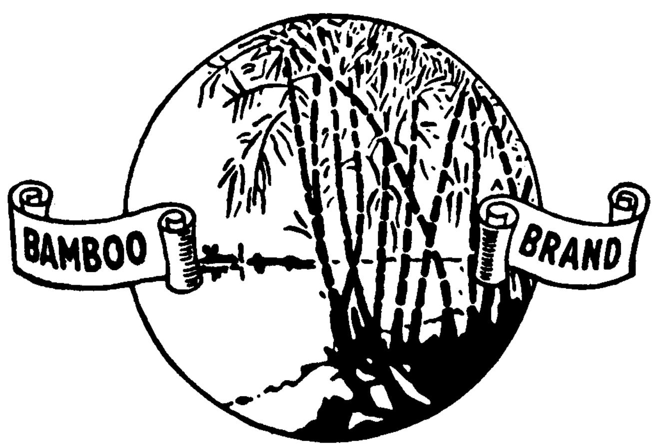
TABLE IV

IMPORTS OF NEW PRODUCTS OF DYNAMIC CHARACTER FROM DEVELOPING COUNTRIES BY DEVELOPED MARKET ECONOMIES

(Million US $)

S. No.	SITC Code	Item	Imports from developing countries			Annual average rate of growth		
			1955	1960	1965	1955-60	1960-65	1955-65
1.	684	Aluminium	0.5	20.5	26.8	110.0	5.5	48.9
2.	891	Sound recorders, musical instruments, and parts and accessories	0.1	1.8	3.6	78.1	14.9	43.2
3.	864	Watches and clocks	0.1	—	1.8	—	—	33.5
4.	251	Pulp and waste paper	1.1	2.1	16.5	13.8	50.9	31.1
5.	812	Sanitary, plumbing, heating and lighting fixtures	1.0	5.5	14.1	40.6	20.7	30.2
6.	831	Travel goods, handbags, etc.	1.9	2.6	24.3	6.5	56.1	29.0
7.	665	Glassware	0.4	2.1	5.1	39.3	19.1	29.9
8.	894	Perambulators, toys, games, etc.	(5.0)	(15.0)	64.6	24.6	33.9	29.0
9.	861	Scientific, medical, optical measuring and controlling equipment	0.9	4.5	10.8	38.0	19.1	28.2
10.	099	Food preparations n.e.s.	0.6	1.9	6.6	26.9	28.3	27.6
11.	612	Manufactures of leather	0.4	1.7	4.1	33.6	19.3	26.2
12.	561	Fertilisers	3.3	11.9	28.1	29.2	18.7	23.9
13.	897	Jewellery	1.7	4.8	13.1	23.1	22.2	22.7
14.	663	Mineral manufactures n.e.s.	0.8	2.2	5.4	22.4	19.7	21.0
15.	664	Glass	0.5	1.0	3.2	14.9	26.2	20.5
16.	666	Pottery	0.4	0.6	2.2	8.4	29.7	18.6
17.	892	Printer matter	1.4	3.6	7.7	20.8	16.4	18.6
18.	821	Furniture	5.7	16.2	30.8	23.2	13.7	18.4
19.	632	Wood manufactures	3.4	10.0	18.3	24.1	12.8	18.3
20.	654	Tulle, lace, etc.	0.9	0.5	4.7	—11.1	56.2	18.0
21.	541	Medical and pharmaceutical Products ...	8.1	12.0	39.3	8.2	26.8	17.1
22.	629	Articles of rubber n.e.s.	0.8	1.3	3.7	10.2	23.3	16.5
23.	67	Iron and steel	20.8	33.3	95.6	9.9	23.5	16.5
24.	661	Lime, cement, etc.	2.3	4.6	10.5	14.9	18.0	16.4
25.	69	Manufactures of metal n.e.s.	8.0	20.6	33.9	20.8	10.5	15.5
26.	521	Crude chemicals from coal, petroleum and natural gas	0.7	6.5	2.6	55.9	—16.7	14.0

Source: United Nations, OECD.

over, be static. In the light of new developments in world trade and development, it has to be revised constantly.

One may conjure up the nightmare of market disruption in developed countries, but that would be valid only in case the exports of a particular item by all the developing countries are directed to a single market. As pointed out by Mr B. N. Swarup, India's representative to the committee on manufactures, imports into developed countries from developing countries formed only 0.69 per cent of their production and 0.7 per cent of their consumption. If petroleum products were excluded, the figures would be 0.34 per cent of production and 0.35 per cent of consumption. Developing countries being such marginal suppliers of the needs of developed countries, the question of market disruption does not even arise. In view of the paucity of skilled labour and managerial manpower and unsatisfied demand in developing countries, there is, moreover, little possibility of an avalanche of manufactures from developing countries devastating the established industries of the developed countries.

There is some substance in the argument that industries, encouraged by preferences, would be permanently dependent on special treatment and that a distorted pattern of trade would not only be created but perpetuated. This danger, however, will be minimal when preferences cease automatically after a stipulated period. Even if there is some distortion in the trade, how serious it is will be the deciding factor. Preferences will not automatically result in increased exports from developing countries unless they are able to compete with the domestic industries in the country granting preferences. In so far as low duty rates are helpful, they must have the effect of correcting the uneconomic situation earlier fostered by the existence of unjust tariffs. Preferences will, in effect, force inefficient industries, if any, of developed countries to become efficient or die out in the face of competition, neutralising the distortion having been entrenched in the structure of world trade by way of artificial subsidies and high tariffs. If, by preferences, the exporting countries are able to improve the per unit price of their exports, this would result in transfer of money incomes from rich countries to the poor ones and thereby obviate the need of large-scale aid programmes. On the whole, advantages of the preferential system asked for in the Charter of Algiers outweigh its disadvantages.

Practical Problems

The above analysis does not deal with many practical problems that might arise at the time of implementation. But the difficulties, real or exaggerated, should not deter progress towards evolving a system, which will eventually help the growth of exports of developing countries and thereby the world trade.

The exports of the centrally planned economies, which are normally equivalent to their imports, shot up from $9.4 billion in 1955 to $21.7 billion in 1965, rising at an annual rate of 8.7 per cent as against that of 7.9 per cent for the developed market economies and 4.4 per cent for the developing countries. The volume of trade of these countries rose by 59 per cent during the quinquennium 1960-65, amounting to 35,900 million roubles in 1965. The developing countries' trade with the centrally planned economies is rapidly increasing in respect of manufactures and semi-manufactures, as may be seen from the fact that their exports of these products to the communist countries of Europe rose from $100 million in 1960 to about $450 million in 1965. The centrally planned countries excepting those in Asia, which also fall in the category of developing countries, too should give preferential treatment to the manufactures of developing countries. The formula suggested earlier for the developed market economies should be applicable to the centrally planned economies as well. Of course, there have to be suitable modifications in the approach, as international trade is conducted in these countries by a few corporations and the consumers have no control over the price and demand of the commodities concerned.

The developing countries need not sit on the fence, waiting for suitable action on the part of developed countries. They should initiate action to accord preferences to each other's products in order to promote their growth through the promotion of their reciprocal trade.

In 1955-65, trade of developing countries (including Yugoslavia) in all commodities went up by 34.9 per cent, but intra trade as a percentage of total trade came down from 24.5 in 1955 to 21.1 in 1965. While the exports of manufactures from developing countries rose during this period by 162 per cent, their share in intra trade dropped from 49.6 per cent in 1955 to 36 per cent in 1965. To the decline in the share of intra trade in the total trade of manufactures in the case of developing countries, we may add two other disquieting features. The number of manufactured products traded is very limited, with two-thirds of the total volume of intra trade being composed of "textiles" and other light manufactures". Secondly, the intra trade in manufactures is continental and not inter-continental, 75 per cent of such exports from Asia, 85.5 per cent from Africa and 94 per cent from Latin America being absorbed in the respective continents of their origin.

Reciprocal Preferences

If the intra trade of developing countries in manufactures and semi-manufactures is to be converted into swelling flows of an increasing number of them, a reciprocal preferential system is a way out. Its implementation is, however, not that easy.

Imports into developing countries are severely restricted because of the ubiquitous deficit in their balance of payments. The minimum they must import has perforce to be got from the developed countries because of its non-availability in developing countries but more often because of the aid by developed countries, which is generally tied. The lack of a payments system among developing countries is another obstacle. The proportion of revenue from customs duties is very high in developing countries and to that extent is the reluctance to lower customs duties in favour of other developing countries. Fear of resulting unemployment is another inhibiting factor. The level of intra trade being low, shipping charges from one developing country to another are higher than those to distant industrial countries, which are on the traditional sea routes. Differences in the levels of development constitute another difficulty. Developing countries must, above all, reconcile trade liberalisation, inherent in a system of preferences, with national planning—a reconciliation that gives way to the first signs of strain. It is because of these formidable difficulties in according preferences in intra trade of developing countries that a resolution of Trade and Development Board, UNCTAD, unequivocally stated that governments have only in rare cases undertaken the "effective action" which is necessary "if trade among developing countries is to expand, instead of stagnating".

These difficulties notwithstanding, preferences among the developing countries would give a strong impetus to the growth of their export trade. What co-ordination in planning of some countries can do to increase their exports of manufactures may be seen from the fact that the share of machinery and equipment in the exports of communist countries of Europe to one another rose from about 30 per cent in 1955 to 37 per cent in 1965. Since 1960, in particular, machinery and equipment have been responsible for approximately one-half of the total increase in the volume of their intra trade.

The growth in the intra trade of communist countries in respect of machinery and equipment has taken place without the support of any preferences whatsoever and without a common external tariff wall (Table V). There is no reason to believe why developing countries with preferences for their exports of manufactures should not be able to develop a sizable trade in them. The preferences in their case have to be selective. The range of products, the level of preferences, the period of their continuation—all such issues should be decided by the developing countries by mutual negotiations. In deciding on such delicate issues, a policy of give and take will yield positive results. To avoid unsavoury disputes, a small commission consisting of experts from developing countries should

TABLE V

SHARE OF MACHINERY AND EQUIPMENT IN EXPORTS BY COMMUNIST COUNTRIES TO OTHER COMMUNIST COUNTRIES

(In per cent)

	Bulgaria	Hungary	GDR	Poland	Rumania	USSR	Czechoslovakia
1955	2.8	37.6	—	17.4	6.1	17.3	51.1
1960	15.2	46.2	56.3	37.4	16.1	14.1	47.3
1964	29.0	44.6	55.8	46.6	23.0	18.3	54.2
1965	29.9	42.8	58.6	48.7	24.5	18.0	56.3

assist the participants in negotiations and in implementation of the decisions arrived at.

There is another approach, which is a substitute to bilateral preferences among the developing countries. This can take the form of multilateral negotiations among developing countries, called 'Developing Countries Trade Negotiations' where each country should come forth with offers of tariff reductions on reciprocal basis. The benefits of negotiated tariffs may be available to all the developing countries. The developed countries will not participate in these negotiations and hence will not be entitled to the M-F-N benefit.

The recent agreement between India, the UAR and Yugoslavia for tariff concessions should serve as a model of economic co-operation among developing countries. The agreement provides for special tariff concessions by way of 50 per cent reduction in customs duties included in the common list, consisting of 77 headings, and containing over 500 products in varied sectors of trade of export interest to the three countries. The agreement envisages the extension of these concessions to other developing countries on the basis of mutual benefit. It is a pioneering attempt in the direction of a solution to the difficult problems of tariff preferences. It is the first time that a set of developing countries have acquired the experience of detailed tariff negotiations. The agreement is particularly important for a provision to safeguard the trade relations of these three countries with other countries, for if any other country raises an objection regarding impairment of its trade, the three participating partners would consider suitable measures for its rectification.

The developed countries have a responsibility to help more than a billion people of developing countries so as to break the vicious circle of poverty and stagnation. The yawning gap between standards of living in the developed world and developing countries is further widening, for while the developed countries add annually about $60 to their per capita income, the average increase of per capita income in the developing countries is less than $2.

Assistance Tapering Off

The flow of economic assistance from developed countries is gradually tapering off. The UN appeal that every developed country should contribute one per cent of its gross national product to the aid programmes for developing countries has been more of a pious hope, for while the flow of development finance to developing countries amounted to 0.87 per cent of the gross national product of developed countries in 1961, it came down to 0.62 per cent in 1966. The all-time low quantum of foreign aid—the lowest in the 20-year history of the US foreign aid approved by Congress in December 1967, should serve as an eye-opener on the trends of recent thinking on foreign aid programmes in developed countries. The speeches of the representatives of capital-rich countries in the plenary session of UNCTAD bore no promise of a change in their outlook.

The development finance received has been partially neutralised by a steady deterioration in the terms of trade of developing countries and the mounting burden of external debt service. Even at UNCTAD-I, Dr Raul Prebisch had drawn the developed world's attention to this unhappy situation, when he said that of $6,600 million worth of capital transfers to developing countries in 1962, what was left to them after their losses due to deterioration in terms of trade and debt service charges was a paltry sum of $400 million. There has been no improvement since then. As pointed out by the Charter of Algiers, the annual loss in the purchasing power of developing countries during the mid-'sixties amounts to $2½ billion, which offsets "nearly half of the flow of external public financial resources to developing countries". The debt service payments have risen from half a billion dollar annually in mid-'fifties to $4 billion and "may offset the entire transfer of resources before the end of this decade if present trends continue".

Since prosperity, like peace, is indivisible and provision of increasing outlets to the exports of manufactures and semi-manufactures—the most dynamic sector of world trade—from developing countries is the only pragmatic way to rejuvenate their economies on a sound footing, the developed countries must agree to a system of generalised preferences for them. Had the developing world attained an annual growth rate of five per cent envisaged by the UN for the Development Decade, it would have imported goods worth $20,000 million over and above its export proceeds. The failure of the Development Decade has meant not only stagnation for the developing countries but also inability for the developed world to export capital goods worth $20,000 million. Harold Holt, late Prime Minister of Australia, rightly said on December 7 last year that it was in the enlightened self-interest of developed countries to take active and adequate steps to promote the development of developing countries. The best way to this is promotion of their exports, particularly of manufactures and semi-manufactures, through preferences—a step already taken by Australiia.

It is in recognition of the urgent need for preferences for the products of developing countries that the Ministerial Council of OECD took the momentous decision to agree to them in principle. Apart from differences on the retention or otherwise of vertical and reverse preferences, referred to earlier, there is no common ground among the OECD constituents on the mode of the proposed preferences; for while France, Belgium and possibly West Germany favour tariff quotas, Anglo-Saxon countries prefer unrestricted preferential access.

There are also notable differences in the modus operandi of preference proposals visualised in the Charter of Algiers and OECD resolution (see Table VI, pages 566, 567, 568). The Charter of Algiers calls for a suitable machinery within UNCTAD for effective and objective implementation of preferences agreed on, but the OECD regards implementation a matter of consultation among the developed countries, so as to distribute equitably this new burden. The Charter of Algiers wants preferences for all developing countries, but the OECD regards the choice of recipient countries so delicate that this is left to the discretion of each developed country involving exclusion of some developing countries on political grounds. Regarding the duration of preferences, the OECD's stand is for 10 years as against 20 years demanded by the Charter of Algiers. The developing countries, moreover, insist on preferences for processed agricultural products as well, but the representatives of the USA, the UK, France and Japan have spoken with almost one voice at the committee on manufactures that they had not had enough time to consider the more general problem of granting tariff preferences to all the exports of developing countries, including processed agricultural products. According to Mr W. E. Culbert of the US, acceptance of duty-free treatment for all products of developing countries meant abolition overnight of all protection for domestic producers. No responsible government in his country, he said, could no this without a very serious study which, he added, had of course, been going on for only two months. As for duty-free entry demanded by developing countries, the OECD spokesmen have indicated that what they were prepared to offer was not nil duty but low duty.

The OECD approach to preferences, in sum, is hardly helpful. Added to this is the division on the issue among the ranks of the developed as well as developing countries. The discussions in the committee on manufactures show four major trends of thought. Such of the developed countries as enjoy or give no preferences to any other country demand that the existing preferences should be absorbed in a new system of preferences and that the reverse preferences should be phased out. They are of the view that either there can be a non-discriminatory, non-reciprocal general system of preferences or multiple systems of special preferences and that the two cannot exist side by side. The developed countries, which enjoy reverse preferences, see, on the other hand, no clash between special existing preferences and a new system of general preferences.

Communist Countries' Complaint

The communist countries complain that while they are called upon to accord preferences to the exports of developing countries, their goods are being discriminated against in the markets of some of the developing countries. The developing countries, which do not enjoy any preferences, suggest that the developing countries enjoying them should decide whether they would like to retain the existing preferences or go in for a new generalised system. The developing "77" have made a little advance in their stand by ironing out differences among them on questions like product coverage. The resolution on

(Contd on page 569)

TABLE VI

Comparison of Charter of Algiers and the OECD Report

Charter of Algiers	Report by the special group of OECD on trade with developing countries
PRODUCT COVERAGE	
The agreement should provide for unrestricted and duty-free access to the markets of all the developed countries for all manufactures and semi-manufactures from all developing countries. The manufactures and semi-manufactures covered by the preferential system should include all processed and semi-processed primary products of all developing countries.	Special tariff treatment should apply in principle to all manufactured and semi-manufactured products. Other products could be included on a case-by-case basis.
EXTENT OF PREFERENTIAL DUTY REDUCTIONS	
The agreement should provide for unrestricted and duty-free access to the markets of all the developed countries for all manufactures and semi-manufactures from all developing countries. In order that the general system of preferences makes adequate contribution to the balance of payments of the developing countries, the developed countries should not reduce their aid to them or nullify or impair the benefits of preferences through other measures.	The improved access for developing countries may take the form of duty-free treatment or substantial reductions below M-F-N rates.
EXCLUSIONS	
See under Safeguards and adjustment measures below.	It is probable that developed countries will find it necessary to exclude from the outset from the benefit of the special tariff treatment a limited number of products in respect of which developing countries are already competitive.
SAFEGUARDS AND ADJUSTMENT MEASURES WITH REGARD TO A GENERAL SYSTEM OF PREFERENCES	
Without prejudice to the general provisions contained in para. I under Product Coverage, the escape clause actions as envisaged below may be taken; in particular special treatment may be granted by developed countries to the less developed among the developing countries. The form of the escape clause action, the objective criteria which should govern the application of escape clause action by developed countries and the procedures that should be followed in such cases must be agreed upon internationally. Such action must however be temporary in nature and be subject to international consultation, approval and review.	Any scheme of special tariff treatment must inevitably include some safeguard or adjustment arrangements to avoid the risks of dislocation of industry and labour. Safeguards may be either related to the possibility of withdrawal or modification of special tariff treatment when imports of particular products reach certain limits (defined in advance by reference to domestic production, consumption or imports; or they can be related to determination by the developed country concerned of the causing or the threat of injury from such imports. These questions call for examination with a view to agreement among developed countries. It will be for the countries according special tariff treatment to ensure that safeguards and adjustments are applied in a manner consonant with the principal of equitable sharing of improved access and taking account of the effects of the arrangements on the exports of third countries.

Comparison of Charter of Algiers and the OECD Report (Contd)

Charter of Algiers	Report by the special group of OECD on trade with developing countries
DURATION	
In order to achieve the objective of the general preferential system the arrangement should last long enough to enable all developing countries to benefit from it. Initially the arrangement should last for 20 years and should be reviewed towards the end of this initial period. In any event the preferential treatment should not thereafter be abruptly terminated.	The special tariff treatment should be temporary and degressive. Margins of preferences would not be guaranteed. The initial arrangements should be for a period of ten years with provision for a major review before the end of this period to determine whether the special tariff treatment should be continued, modified or abolished. It is obvious that developed countries may wish before the ten-year period has elapsed to consider the feasibility of a further international negotiation to reduce tariffs on an M-F-N basis. If they do so and the negotiations were successful, an element of degressivity would automatically be introduced into the arrangements for developing countries.
SPECIAL PROVISIONS FOR THE LEAST ADVANCED DEVELOPING COUNTRIES	
The preferential system must be conceived in such a way as to make it possible for the least advanced among developing countries to share in its benefits. Accordingly any time limits of the system should be flexible so that countries at present in very incipient stages of development will also be able to reap its advantages. Escape clause actions limiting or excluding particular exports should not apply to the less competitive products from less advanced countries. Specific commitments should be taken for technical and financial assistance in the establishment of export-oriented industries in least advanced countries, with a view to markets both in the developed world and in other developing countries.	Such new arrangements should aim to accord broadly equivalent opportunities in all developed countries to all developing countries.
EXISTING AND REVERSE PREFERENTIAL ARRANGEMENTS AND THEIR RELATION TO THE GENERAL SYSTEM OF PREFERENCES	
The new system of general preferences should ensure at least equivalent advantages to developing countries enjoying preferences in certain developed countries to enable them to suspend their existing preferences on manufactures and semi-manufactures. From the beginning, provisions should be incorporated in the system of general preferences, for the developed countries to redress any adverse situation which may arise for these developing countries as a consequence of the institution of the general system of preferences.	It is recognized that many countries would see as an important objective of the new arrangements a movement in the direction of equality of treatment for the exports of all developing countries in developed country markets. At the same time, developing countries presently receiving preferences in some such markets would expect the arrangements to provide them with increased export opportunities to compensate for their sharing of their present advantages. The United States member stated that, in his view, a key element in any arrangements for the grant of special tariff treatment is the phasing out, as rapidly as possible, of existing preferences extended by some developing countries to some developed countries.
INSTITUTIONAL ARRANGEMENTS	
Suitable machinery within UNCTAD should be established to supervise and ensure the effective implementation of a general system of preferences.	
RULES OF ORIGIN	
	The grant of special tariff treatment will require the application of rules of origin to determine the conditions under which imports shall qualify for admission at special rates of duty. It will be necessary to determine how best to achieve the objectives of ensuring that the rules are in accordance with the intentions of the new arrangements and of providing broadly equivalent new import opportunities into each developed market.

Comparison of Charter of Algiers and the OECD Report (Contd)

Charter of Algiers	Report by the special group of OECD on trade with developing countries
DONOR COUNTRIES	
All developed countries should grant such preferences to all developing countries.	The potential benefits for developing countries will be maximized by the largest possible participation of developed countries in arrangements for the grant of such special tariff treatment. The arrangements should be designed so as to result in an equitable distribution among the developed countries of increased import opportunities to their markets and should take into account the effects on the exports of third countries.
BENEFICIARY COUNTRIES	
See above under "Donor countries".	Special tariff treatment should be given to the exports of any country, territory or area claiming developing status. This formula would get over the difficulty which would otherwise arise of reaching international agreement on objective criteria to determine relative stages of development. Individual developed countries might, however, decline to accord special tariff treatment to a particular country claiming developing status on grounds which they hold to be compelling. Such ab initio exclusion of a particular country would not be based on competitive considerations. It is to be expected that no country will claim developing status unless there are bona fide grounds for it to do so; and that such a claim would be relinquished if those grounds ceased to exist.
ACTION BY COUNTRIES WITH CENTRALLY PLANNED ECONOMIES	
The socialist countries should grant concessions to the developing countries whose advantages are at least equivalent to the effects of preferences which would be granted by the developed countries with market economies. The socialist countries should grant preferential access conditions for products originating from developing countries. These conditions should include the establishment, in their international purchasing policies, of margins of tolerance in favour of the developing countries with regard to prices and delivery terms.	Both in order to maximize benefits for the developing countries and to provide for equitable distribution of appropriate measures among developed countries, the grant of special tariff treatment by developed countries with market economies should be matched by arrangements by countries with centrally planned economies which would similarly increase the opportunities for the export to them of products from developing countries.
ACTION BY DEVELOPING COUNTRIES	
	The arrangements should not involve the grant of reciprocal advantages by developing countries for the exports of developed countries. They should, however, be the occasion for developing countries to broaden market opportunities among themselves on a regional basis. They should also be of assistance to the developing countries in their efforts to accelerate improvement in the conditions of employment and the standards of living of their people. It would help if these countries agreed to take measures to encourage foreign investment as an additional spur to industrialization.
IMPLEMENTATION	
At UNCTAD-II there should be negotiations which should lead to the conclusion of an agreement on a general system of tariff preferences on a non-discriminatory and non-reciprocal basis. The agreement should provide for unrestricted and duty-free access to the markets of all the developed countries for all manufactures and semi-manufactures from all developing countries.	Any new arrangements for the grant of special tariff treatment cannot be put into effect without the support of the developing countries, and their views should be taken into account in the formulation of any such arrangements. The grant of temporary tariff advantages to developing countries would not constitute a binding commitment and should not in any way impede the reduction of tariffs on an M-F-N basis, whether unilaterally or following an international tariff negotiation.

preferences, adopted on March 11 by the co-ordinating committee of the developing "77" for submission to the committee on manufactures, calls upon all developed countries to establish a system of non-discriminatory, non-reciprocal preferences on all manufactured and semi-manufactured products, including processed and semi-processed agricultural products, emanating from the developing countries. While the Algiers Charter had set no deadline for the introduction of general preferences, the resolution wants the agreement on it to come into force not later than January 1, 1970.

The committee on manufactures was the first among all the five committees of UNCTAD-II to have formed a contact group. The contact group later lost all "contacts" because of the rigid stand of the developed countries. Strenuous efforts meanwhile by the parties concerned have revived hopes that a special negotiating committee will be set up for drawing up an agreement on a system of general preferences. The resulting agreement, if any, will, however, at best be a compromise— an under-achievement from the view-point of the developing countries. UNCTAD-II is thus likely to mark another milestone, but not the final end, of the struggle of developing countries to extract due concessions from the developed ones for the exports of their manufactures and semi-manufactures.

Inter-Trade in Developing Asia

B. S. GUPTA

THE SHARE of the developing ECAFE countries in total world exports has come down considerably during the past decade. Meagre as it already was at 7.6 per cent in 1956, it declined to 6.8 per cent in 1958. Though there was a partial recovery to 7.2 per cent in 1959, the downfall started again in 1960 and the figure for 1966 was no higher than 5.4 per cent. The data for 1967 are available for the first half of the year, when developing Asia had a still lower share at 5.2 per cent of world exports.

For the world as a whole, the exports during 1956-66 improved by 94 per cent. Whereas most of this increase went to the developed countries, even some developing regions recorded a fast growth. It was 113 per cent for the Middle East and 84 per cent for developing Africa. For developing Asian countries, however, the rise was no more than 38 per cent, or slightly more than the average of three per cent per annum.

The pace of economic development in Asia requires a substantial increase in imports of all types of goods for which purpose export earnings have to go up at a fast rate. Some effective measures have therefore to be adopted and implemented urgently to raise Asia's exports; and one of the methods suggested is a fast increase in inter-regional trade.

It may be in order, before considering this step, to discuss the regional pattern of exports of developing Asia.

It may be seen from Table I that though over 40 per cent of the total exports of developing Asia is still absorbed by the US and west Europe, the total for these two areas, put together, has declined over the decade. There has been some increase in the share taken by the USA, but the decline for west Europe has been much more steep. The exports to the EEC came down rather sharply from 12.9 per cent in 1956 to 10.3 per cent in 1958 (the year of creation of the EEC) and 10.2 per cent in 1959. It recovered to 11.0 per cent in 1960; but there was again a fall to 10.7 per cent in 1961 and 10.1 per cent in 1962. The last few years have recorded only a partial recovery. As for the EFTA, the downfall has been still more steep, specially during the last five years. It may be noted that the UK alone accounts for nearly 85 per cent of the exports to the EFTA and the other countries in the area continue to absorb a mere 1.5 per cent of developing Asia's exports. Though still an important market for Asia, the UK has over the years not only recorded a decline in its share, but the figure has come down even in absolute terms from $965 million in 1956 to $860 million in 1966. The figure for 1966 is, as a matter of fact, the lowest recorded during the decade.

TABLE I

REGIONAL DISTRIBUTION OF DEVELOPING ASIA'S EXPORTS
(Percentages to total exports)

	1956	1961	1966
USA	14.7	16.0	18.2
Canada	1.4	1.3	1.6
Latin America	1.5	1.7	1.1
West Europe	29.2	25.7	23.3
EEC	12.9	10.7	11.2
EFTA	15.4	13.8	10.5
UK	14.0	12.5	8.8
Australia & New Zealand	3.4	3.2	2.6
East Europe	1.7	4.7	6.2
USSR	0.9	3.1	4.1
Developing Africa	2.7	2.9	3.1
China (Mainland)	1.8	1.7	1.8
Japan	8.7	10.4	13.3
Middle East	2.0	2.2	2.5
Developing Asia	30.2	27.6	24.2
Other Areas	2.7	2.6	2.1

Negligible Exports

The exports to Canada, Latin America, Australia and New Zealand, Africa, China (Mainland) and Middle East have remained negligible throughout the period; and there has been actually a decline in the shares of Latin America and Australia and New Zealand.

The encouraging factor in this gloomy picture has been the rise in exports to east Europe and Japan. But the rate of growth for east Europe has slackened over the past few years. Moreover, most of the exports to east Europe are destined only to one country (the USSR) and in spite of the increase over the decade, the east European countries still take a very small share of developing Asia's exports. In the case of Japan, however, the rise has been fast and the total share has now reached a respectable level.

What is the scope for expanding exports to various regions? Let us first examine the developed areas. The USA and the UK are now facing the worst crisis, and a number of other west European countries too are feeling various degrees of strain in their balance of payments. These countries are therefore not likely to increase their share of off-take from Asia beyond a marginal level. The current UNCTAD negotiations in New Delhi have revealed their attitude to this effect. Whereas the developed countries are prepared to give preference to some selected manufactures of underdeveloped areas, the preferences will be limited not only in coverage but also in the matter of amount and time. Moreover, since the manufactured goods form only a minor part of exports of developing Asia, these countries are not likely to gain much from such preferences. As for the basic products—the main exports of the region—not much relief is likely to come. The overall effect of UNCTAD-II deliberations on raising the exports of Asian countries to the USA and west Europe will therefore be only marginal.

The exports to Japan and east Europe are likely to increase in the coming years; but that by itself will not go a long way to meet the requirements of foreign exchange in

Asia. Moreover, with east European countries now coming closer to the western world, the chances are that a part of their shopping will be transferred to these latter areas.

As for the minor importers, which together account for about 15 per cent of total exports, it is likely that for a long time they will continue to remain minor importers from developing Asian countries. Asia exports mainly agricultural products such as tea, oilseeds, vegetable oils, spices, tobacco, rubber and jute. Some countries also export minerals and some manufactured goods. Some of the above-named foodstuffs are produced in other underdeveloped regions; and in many cases they are also the exporters of these goods. They do not have any substantial industries to require these raw materials, though a number of countries have installed over the years their own textile plants, thereby impeding the imports of textiles from Asia. The major part of their requirements for manufactured goods comes from the developed countries—their age-old suppliers. Latin America, Australia and New Zealand are still strange continents to Asians with very little of contacts—economic, political or cultural. Moreover, along with Canada, these regions are closely tied to western Europe, and Asia is in no position to compete in manufactured goods in these markets.

A fast growth of inter-regional trade is thus an important proposition to expand exports of developing Asia. This is specially so as most of the other regions have already adopted measures to expand their inter-trade which is bound to slow down their imports from Asia. Thus, in western Europe 64 per cent of the total exports are directed to countries within the region, the figure for east Europe being 60 per cent. Though the underdeveloped regions have still a long way to reach respectable percentages, it is significant to note that over the past decade such exports increased by over 40 per cent for the Middle East and nearly 70 per cent for Latin America and developing Africa.

Stagnant Trade

But the growth has been stagnant for developing Asia. As compared to 1956, the figure for developing Asian countries was larger in 1966 by no more than 14 per cent, which means a growth of about one per cent per annum. The result has been that from 30.2 per cent of the total exports of developing Asia absorbed within the region in 1956, the figure came down to 24.2 per cent in a matter of a decade. The peak at 31.3 per cent was reached in 1957. Thereafter the percentage declined year after year, reaching 27.3 in 1962. After a marginal improvement to 27.5 in 1963, the fall started again till it reached 24.1 per cent in 1965. It was 24.2 in 1966.

The regional distribution of imports in Asian countries is shown in Table II. It would be seen that the major countries purchase a very low percentage of their total imports from the region. Though Japan has over the years become an important supplier to the developing Asian countries, the imports continue to be oriented towards the USA and west Europe, because of various reasons. As the Asian countries used to be the colonies of the western world, the old trade arrangements between the two groups of countries still exist, and are further strengthened by the continuing currency links in the case of some countries. Another factor is that the western countries have invested substantial amounts in Asia and meet most of their demands of goods for utilising such investments from the parent countries. Based on age-old traditions, the consumer preference is also often for products originating in the west. It may thus be realised that the favourable position of western exporting countries in many cases is due not so much to competitive advantages as due to these special factors.

Apart from western orientation, still another important factor which retards inter-trade is the lack of complementarity in the present pattern of production and trade in Asian countries. The Asian countries generally produce common goods and are in no need of importing them. In many cases, these common products are exported from a number of countries and are their major exchange earners. The countries compete with one another for the export of common items and bring down their export prices. In some other cases, the quality and variety of the commodity exported by some countries differs from that imported by other countries in the region.

A set of measures are thus necessary to boost the region's inter-trade. First, the Asian countries should try to import as much of their requirements as is possible from the countries in the region. Textiles and some other manufactured goods which are now imported from western countries and Japan, and which are available in the region itself, should be imported from the region; and the imports of these goods from the developed countries may be replaced by capital goods which are not produced in Asia and for which there is a great demand among these countries. Second, the Asian exporters should make adjustments to supply the goods of almost similar quality and specifications as are required by the importing Asian countries and are presently supplied by the developed countries. And lastly, the production in the region should be diversified to defeat the lack of complementarity in foreign trade.

Greater Co-operation Needed

A fast growth in inter-trade will thus require larger measure of co-operation—both in marketing and production—involving varying degrees of preferences and economic integration of one kind or the other. The various types of co-operation which can be considered in this context, have been described in a study by ECAFE.

The Economic Union, like the EEC, involves the integration of the region, without any restriction on the movement of goods, services and capital; and the constituent countries will have a harmonised and co-ordinated economic policy. The member countries will have no choice of applying their own separate tariffs to third countries. The Customs Union differs from the Economic Union in the sense that the former does not involve co-ordinated economic policies other than in the matter of trade. As in the case of Economic Union, however, the Customs Union also does not allow the units to apply their own tariffs to non-members. The free trade area—such as the EFTA—is comparatively mild. It allows the member countries to apply their own separate tariffs to third countries. A still milder form is the Preferential Application of Quantitative Restrictions or Preferential Application of Tariffs. The former involves preferences on only quantitative restrictions (and not tariffs and other trade restrictions) and latter only on tariffs (not quantitative and other trade restrictions).

TABLE II

MAJOR SOURCES OF SUPPLY TO DEVELOPING ASIAN COUNTRIES: AVERAGE 1965-66

(Per cent of total imports of each country)

Reporting Country	USA & Canada	Western Europe	Japan	Developing Asian countries.
Burma	8.3	24.8	27.2	16.3
Cambodia	2.8	38.3	15.2	15.2
Ceylon	4.7	30.2	6.8	24.5
China (Taiwan)	30.5	8.5	40.7	7.6
Hong Kong	11.9	21.5	17.8	12.7
India	38.8	28.4	5.9	8.8
Indonesia (a)	13.2	26.1	23.4	28.3
Iran	18.5	55.9	7.9	5.3
Korea, Rep. of	37.7	7.0	36.8	21.8
Laos	19.4	17.1	10.5	42.9
Malaya & Singapore (b)	6.7	29.6	12.9	27.2
Pakistan	34.8	39.4	9.4	6.7
Philippines	37.0	16.6	26.1	10.8
Thailand	30.9	23.0	28.0	11.7
Vietnam, Rep. of	42.6	14.2	11.9	28.3

(a) Relates to 1964.
(b) Relates to 1964-65.

Source: United Nations, 'Direction of Trade' and National Trade Statistics.

A detailed study of these schemes will suggest that none of them by itself is practicable or sufficient to meet the needs of the region. The Economic Union and Customs Union are rather extreme measures which can be better applied in case of co-operation only among a few countries and not the region itself. Moreover, they have a bearing on the autonomy of the member countries and therefore may not be feasible to start with. The free trade area loses much of its significance as it allows the member countries to apply their own separate tariffs to non-member countries. This clause may eliminate most of the preferences that the member countries may give to each other if similar tariff preferences are also given to non-members. The Preferential Application of Quantitative Restrictions and the Preferential Application of Tariffs have got only a limited applicability if used individually. However, a joint and liberal application of these two measures can go a long way to augment inter-trade. By boosting the scope for increased exports, these measures can help diversify the economies and achieve the optimum scale of production of various commodities in the region, thereby reducing the cost of production and improving the quality of products.

But left to themselves, the preferences may make the economies of the member countries still more competitive, as many of them may like to produce the particular commodities for export in the region and thereby waste the limited resources. Regional planning of development programmes is therefore equally important. The major plants in Asian countries should be established in joint collaboration or under mutual consultation. The member countries may divide such plants among themselves under some mutually beneficial agreement so that the country/countries most suited for the production of a particular commodity may get the plant.

The task, of course, is formidable and will require considerable efforts and utmost co-operation for planning on a regional basis. But there does not seem to be any alternative to tackling the problem by gradual and definite steps. The capacity of the developing Asian countries to import the necessary capital goods for accelerating the pace of economic development is severely circumscribed because of limited prospects to increase exports to other regions. They have, thus, hardly any choice but to adopt measures for a larger regional trade, so that what is possible to produce in Asia is produced and traded among Asian countries.

Some rudiments of regional economic co-operation have become visible in recent months. The Association of South East Asia Nations (ASEAN in short) was formed in August 1967 by five important Asian countries, namely Indonesia, Malaysia, Philippines, Thailand and Singapore. The primary purpose of this organisation is to accelerate the economic progress of the member countries through co-ordinated efforts and joint economic enterprises. India has also expressed a desire to join such an organisation, and has made a concrete proposal for the creation of a body more broad-based than the ASEAN. The formation of such regional bodies will go a long way in creating a favourable atmosphere for a closer co-operation among the countries of Asia.

UNCTAD-II: A Confrontation or a Conference?

Dr R. S. ARORA

THE SECOND full session of UNCTAD presently taking place in Vigyan Bhavan, New Delhi, is one of the largest international diplomatic conferences ever organised. There are delegates from 132 countries, 50 special agencies, 4 commissions, 20 inter-governmental organisations, 18 non-governmental organisations and 7 study groups and councils. The conference has a formidable agenda to accomplish before March 25. It has undertaken to discuss, and, if possible to arrive at meaningful recommendations on issues most vital to regulate international economic and social relations. Some of the most important items on the agenda are:

(i) Trends and problems in world trade and development;

(ii) Commodity problems and policies;

(iii) Expansion and diversifications of exports of manufactures and semi-manufactures of developing countries;

(iv) Growth, development finance and aid (synchronization of international and national policies);

(v) Problems of developing countries in regard to invisibles including shipping;

(vi) Trade expansion and economic integration among developing countries, measures to be taken by developing and developed countries—including regional, sub-regional and inter-regional arrangements;

(vii) Special measures to be taken in favour of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development; and

(viii) General review of the work of UNCTAD.

Five subjects committees have been assigned to debate all possible aspects of allotted items of the agenda and to make recommendations. Besides these five committees there are almost one hundred organisations, such as co-ordinating committees, working groups, contact groups, regional groups, working in Vigyan Bhavan. There were 55 meetings during the second week, 63 meetings during the third week and as many as 96 meetings during the fourth week of the conference. During the plenary meetings 105 countries and several specialised agencies made general statements.

In the committee rooms, the first committee has been discussing the "role and financing of diversification programmes" and also "the programme for the liberalization and expansion of trade in commodities of interest to developing countries". The developing countries have been arguing 'ad infinitum' that they continue to be highly dependent on the exports of primary commodities for the bulk of their export earnings. These countries, being predominantly exporters of primary products, have been often facing difficulties because of short-run fluctuations in export earnings as a result of natural or other conditoins affecting supply or foreign demand conditions. Although the price behaviour of primary products has not followed a uniform pattern and has affected countries differently, the short-term export fluctuations have at times placed considerable strains on the ability of these countries to maintain their development efforts.

Further, several representatives stressed that the discussions on pricing policy have very often come across the view that the remunerative price must be based on the long-term equilibrium price. In practice, however, it is found that the very countries which invoke the concept of long-term equilibrium price are those which have adopted measures to regulate prices to attain national economic objectives. These policies have often created conditions where the so-called free market has been reduced to only a residual market. The primary producers have been asking: Was it fair, in that context, to go on paying lip service to the concept of long-term equilibrium price? Their experience has taught them that in actual negotiations, the prices have been determined not on the basis of the consideration as to whether or not the particular price or price range was equitable for the producer or consumer, but purely on the basis of the bargaining strength of the parties participating in the negotiations.

The primary producers have suggested that there are certain commodities the market-situation of which calls for the adoption of short-term measures on an urgent basis. Yet, short-term expedients cannot be a substitute for long-term measures which must be adopted for finding a real solution to the problems of primary commodities. It was widely suggested that 'buffer stocks' provided the most effective means of stabilizing world prices as part of efforts to organise commodity markets. For this a distinction must be drawn between buffer stocks and reserve stocks.

In response to this case the US representative thought that no solution would serve for the commodity problem in the developing countries, and specific cases would need different measures. He was not convinced of the usefulness of drawing up a draft general agreement on commodity arrangements. He recognised the need for international agreements specifying conditions of production and sale for certain commodities such as cocoa, although that procedure could not be generalised.

During the debate on "problems arising from the development of synthetics and substitutes" most of the representatives seemed to have recognised the importance of the problems caused by the continuing expansion and proliferation of synthetics, encroaching as they did on the markets for natural products.

While some representatives of developed countries had stressed the instability of prices for natural products, the disparity between the cost of natural products and of synthetics, and the technical superiority of certain substitutes, representatives of developing countries had thought that the main factors in the deterioration of the competitive position of natural products were excess synthetic production capacity, excessive investment in synthetics, unfair trade practices, the existence of 'exclusive' markets, sales at throw-away prices and the existence of trade barriers especially affecting the import of semi-manufactures.

Advisability of Synthetics

Some of the representatives of OECD countries thought intensification of synthetic production to be linked with technical progress, which was in turn decisive for the industrialised countries' economic growth. While acknowledging that trend as irreversible, some representatives of developing countries had questioned the advisability of expanding and proliferating synthetics where they only replace the natural products. A substitute as such did not represent progress if the competing natural product satisfied consumer needs. Only where synthetics introduced a new step in the scale of needs was it legitimate to refer to scientific and technical progress. In that connection, several developing countries had called attention to the sums devoted to research into and development of synthetics, holding that, if a fraction of the total had been devoted to increasing the productivity or reducing the production cost of natural commodities, the latter would be competitive and would be able to satisfy world demand.

As regards steps to solve the problems facing natural products in competition with synthetics, there was a consensus of representatives advocating a price-stabilisation policy for natural products, relative cost reductions by improving productivity and search for new uses for natural products. Those measures having proved inadequate, the representatives of the developing countries thought it a matter of urgency to take other steps, such as the elimination of tariff barriers and quotas hampering the entry of natural products, in particular semi-manufactured derivatives; the extension of preferential treatment to cover the semi-manufactured derivatives of natural products in competition with synthetics and substitutes; elimination of unfair trade practices; a policy of liquidation of surplus stocks taking into account the price level and market situation; co-ordination of production and investment plans in the synthetic and natural product sector and regulation of the production of synthetics; a vertical diversification policy linked to the above-mentioned liberalization with external financial aid to benefit semi-manufactures or manufactures, a policy of tax or tariff levies in no way discriminating against natural products. Failing the elimination of tax or tariff barriers to the consumption of natural products the developed countries and the developing countries should ensure that the retail price of the natural product did not exceed that of the substitute (e.g., sugar and artificial sweeteners).

In regard to the long-term measures to improve the competing capacity of the natural products, the Indian delegation recommended the establishment of a research fund controlled by UNCTAD. Most of the developing countries supported the Indian proposal. However, the western countries could come to no decision on the point at the current UNCTAD.

A Measure of Agreement

The second committee has spent most of the time on debating 'Existing and Reverse Preferences'. There appeared to be a wide measure of agreement that the general system of preferences should provide at least equivalent advantages to those developing countries enjoying preferences in certain developed countries. It was acknowledged, however, that at the present stage of the committee's discussion and as long as the details of the general scheme were not known, it would not be possible to assess to what extent the generalised system would provide such advantages. The representatives of a number of developed countries stated that the general system of preferences should gradually absorb the existing preferences. However, the representatives of some developed countries now granting preferences pointed to the difficulties in merging their system into generalized scheme, because of the wide product coverage already provided and the extent of the preferential margins granted. Furthermore, they indicated that the developing countries benefiting from these systems would have to make their own judgment on this matter in the light of the details of whatever general scheme emerged. The representatives of the developing countries expressed their support for the relevant provisions in the Algiers Charter.

On reverse preferences, the representatives of a number of developed countries stated that a procedure should be adopted within the system of preferences for phasing out the reverse preferences granted by some developing to some developed countries. They gave several reasons for this view and drew attention in particular to the domestic difficulties they would encounter in granting preferences to those developing countries which did not accord them equal treatment with other developed countries.

The representatives of some communist countries stated that the prevailing reverse preferences placed their products in an unfavourable position compared with the products of the developed countries enjoying preferential treatment. On the other hand, one developed country maintaining a reciprocal preferential arrangement with a number of developing countries stated that the issue of reverse preferences was marginal and that it would be best resolved among the developed countries. In this connection, another representative pointed to the important role that established trade links played in the pattern of exports and imports of the developing countries.

With regard to reverse preferences which had no contractual basis, the representatives of some developed countries stated that it would be up to the developing countries granting these preferences to decide on the issue once precise details of a general preferential system were known. One of these representatives said, however, that reverse preferences entered

into on a contractual basis were a matter for bilateral discussion initially.

The representatives of a number of developing countries stressed that reverse preferences were a matter for the developed countries to decide upon. One of them mentioned that reverse preferences under the Yaounde Convention were linked with financial and technical assistance provisions. However, the representatives of some developing countries stated that reverse preferences should be abolished, since they concerned to a large extent the least advanced developing countries and since they placed economic burdens upon such countries.

Most of the countries supported the conclusions with respect to vertical preferences contained in the Report of the Secretary-General of UNCTAD in document entitled: "Towards a Global Strategy of Development".

Kennedy Round

Speaking on the 'programme of liberalization and expansion of trade in manufactures and semi-manufactures of interest to developing countries' (Agenda item 11-c), several delegates from the developing countries stressed that the fact be recognised that the Kennedy Round did not make any real 'dent' on tariff and non-tariff barriers to the imports of manufactures and semi-manufactures from developing countries. A large number of questions of outstanding importance to the developing countries have remained unresolved. At a very early stage of the Kennedy Round negotiations the participating developing countries realised that the main preoccupations of the developed countries were in regard to their own trading problems. Consequently the problems of developing countries could not be tackled till agreements had been reached among developed countries 'inter se' on their own issues. The major sectors in which the Kennedy Round results have fallen short of expectations of developing countries may be summaried as under:

(a) Quantitative restrictions or other non-tariff barriers continue to apply to a number of these products.

(b) No improvement in access was achieved through modification of internal support policies or fiscal measures.

(c) The "effective protection" of processing, although in many cases reduced, remains a major impediment to access for exports of manufactures and semi-manufactures from developing countries.

Several developing countries wanted that an agreement should be reached in this UNCTAD on the ground rules, the machinery, and the time-table for international negotiations to provide expanding access to the industrial products of developing countries in the markets of the developed countries. In pursuit of this aim it was suggested that UNCTAD-II should work out a programme of action which should include the following:

(1) The developed countries should take steps to maximise the benefits to the trade of developing countries resulting from the GATT multilateral negotiations.

(2) The developed countries undertake adjustments in their tariff nomenclature and other measures to facilitate appropriate tariff and other action to promote the exports of manufactured and semi-manufactured products from the developing countries.

(3) The developed countries adopt a concrete programme for liberalization of quantitative restrictions and removal of non-tariff and para-tariff barriers.

(4) There is a need to work out an objective criteria for the application and restrictions relating to escape clause action or "market disruption".

In the committee on "Growth, Development and Aid" (Agenda item 12), there has been a growing feeling that the proliferation of labels under which assistance is usually made available does not really help anyone. The hopes of the developing countries would face frustration if the gross flows of capital were insufficient to bring about the transfer of real resources required. The focussing of attention in legislatures upon the gross flow of capital tended to divert attention from the more fundamental issue of whether a sufficient volume of real resources was provided.

It is widely known that in 1966, interest and amortization on past borrowing had absorbed 45 per cent of the new official bilateral lending of countries which are members of the OECD's Development Assistance Committee. On present terms, the gross flow of capital to developing countries would have to rise from $12,200 million in 1966 to $17,500 million in 1975 merely to maintain the net transfer of resources at its existing level. Service payments would more than double, from $5,100 million in 1966 to $10,400 million in 1975. Of the estimated $10,400 million of total service payments to be made in 1975, only $3,100 million were attributable to the new official bilateral lending that would take place by that time. The reminder consisted partly of service due on past lending on which terms had already been fixed, and on lending from multilateral agencies and private sources.

Obviously, therefore, the extent to which the situation could be eased by improving the terms of new official bilateral lending alone was limited. If all new official lending were interest free the projected debt service for 1975 would be reduced by about $1,000 million. In other words, total debt service in 1975 would be reduced from $10,400 million to $9,400 million.

Debt Servicing Burden

This means, even if all new official bilateral lending were henceforth to be interest free, the burden of debt service would remain heavy. Other steps which governments could consider might include an increase in the proportion of grants, a softening in terms of commercial credit either directly or by subsidy, and an easing of the terms on past lending. Above all, a substantial increase in the volume of official assistance would make it possible to reduce the extent to which developing countries had to rely on commercial credit for the financing of essential imports. If the proportion of grants in total official assistance were increased to 80 per cent and the remaining loans were provided interest free, the reduction in the debt service burden by 1975 would amount to $2,300 million.

The UNCTAD research studies also disclose that the direct cost of aid-tying to recipient countries probably averaged at least 10-20 per cent. If, for example, a tied development loan repayable in 20 years carries a 3 per cent rate of interest while the goods financed by the loans are priced at 30 per cent over the cheapest source of supply, the effective interest rate on the loan is close to 6 per cent. Yet this estimate is not considered precise. Perhaps this underestimated very considerably the total direct and indirect costs of tying of aid. Once a country had installed massive equipment under a tied aid programme, it tended to become dependent on the same source of supply for its subsequent imports of spare parts, intermediate products, and supplementary equipment even though they might have to be purchased with free foreign exchange resources at prices higher than those available from the cheapest source of supply.

In this committee, Britain offered to untie progressively aid to the developing countries provided all other aid-giving countries decide to do so collectively—an impossible condition! The Canadian delegate considered it more useful to concentrate on efforts to reduce or eliminate the harmful effects of tied aid rather than to establish unrealistic targets for untied aid.

Mr Saxe, representative of the United States, maintained that the borrowing countries varied considerably in their capacity to repay. The policies and practices of all the major international lending institutions bore witness to that fact. Moreover, the capacity might change in course of time. It was therefore permissible to have some doubts about the adoption of a single standard such as that of the Charter of Algiers. As to tied aid Mr Saxe held: At present, bilateral aid granted by the United States was tied and would have to remain tied as long as his country had balance-of-payments difficulties.

The third committee has been discussing various aspects of "supplementary financial measures" (Agenda item 12-c). This is an Anglo-Swedish proposal from UNCTAD-I that a separate aid fund be set up under the aegis of the World Bank. Its purpose would be to bail out approved development projects which run into trouble through unforeseen shortfalls of export earnings, after the specifically short-term resort to IMF compensatory finance had been exhausted. Debates on this subject suggest that some countries are trying to make this scheme too elaborate and complicated including international discussion of the development plans of 'otherwise' sovereign states. France is against the entire scheme.

An agreed draft presented by the '77' in early March on the aid target received little support from the developed countries. At first, the developed countries refused to make any commitment on the proposal that "each economically advanced country should provide annually to the developing countries financial resource transfers of a minimum net amount of one per cent of its gross national product at market prices in terms of actual disbursements not later than the end of the current development decade." Later on, (on March 5) the donor members of group B on the aid volume target released a document which said that the developed countries would not go beyond reaffirming the aid target recommended in the final act of the first UNCTAD session in 1964—that too according to their interpretation of the target. They refused to accept the Algiers recommendation that aid target should comprise one per cent of GNP and not of net national income.

Problems of Invisibles

The fourth committee is mainly concerned with problems of invisibles including shipping and international legislation thereon. Several developing countries maintained that the question of freight rates was of vital importance to their economies since their trade often depended on exporting a few primary products and some bulk goods and freight represented part of the delivery price. The problem also arose when those countries wished to export manufactures and semi-manufactured goods. It would be both necessary and desirable for articles manufactured by recently established industries in the developing countries to benefit from particularly favourable freight rates. Those rates should be applied to a selected range of products for varying periods. Several delegates pointed out that "a practice very often employed by the developed countries was to calculate the price of exports to the developing countries on a c.i.f. basis while paying for imports from those countries f.o.b." Such an arrangement was definitely loaded in favour of the developed countries. The developing countries pleaded for a more equitable system.

Further the developing countries pointed out the marked imbalance between the developing countries' share of world trade and their share of shipping tonnage. Professor Shanti Kothari, the leader of the Indian team in the fourth committee, impressively put forward the case of the developing countries. He calculated that in percentage of the overall membership of UNCTAD, the proportions falling to the developing countries were the following: population: 60 per cent; area: 50 per cent; exports consigned: 63.2 per cent; imports unloaded: 19.2 per cent; fleet tonnage: 6.7 per cent. As to India, in spite of some expansion of tonnage during the last decade more than 85 per cent of its national maritime trade was still carried in foreign bottoms. Actually such an imbalance which had serious repercussions on the balance of payments, on real export earnings and on the promotion of exports, had led several developing countries to take the necessary steps to reduce their dependence on the shipping of the developed countries. For any country which has a merchant marine of its own it becomes intolerable that foreigners should make the decisions regarding the carriage of its goods. Several countries deplored discriminatory practices in the matter of liner freight rates. The British delegation, however, warned that in the absence of detailed studies it would be dangerous to make hasty generalisations.

In reply to an Indian proposal to modify the system of c.i.f./f.o.b. prices, the British representative pointed out that such a change would have an impact on trade going beyond the field of shipping. Italy argued that recommendations of UNCTAD cannot be imposed on private shipping companies. Italy was also opposed to granting preferential freight rates, even provisionally, as that was bound to entail disorganising the market—since Italy did not regard shipping as international social service. While supporting this logic the American delegation said that their country had always opposed any suggestion that its cargo preference legislation be extended to cover commercial cargoes. Another Indian proposal that the insurance companies of the advanced countries should direct their policies towards the economic growth of developing countries has not got much response from the rich countries.

Bilateral Trade

The fifth committee has been discussing mainly: (a) trade relations among countries having different economic and social systems, including problems of east-west trade (Agenda item 9-c); and, (b) impact of regional economic groupings of the developed countries. During the first thirteen meetings the committee discussed item (a) above, yet did not put forward any specific proposals on this subject. However, during the discussion, India pointed out that in the five-year period between 1960 and 1965, trade among communist countries had increased by 27 per cent, exports from communist countries to developed market economy countries by 60 per cent and exports to developing countries by 137 per cent. During the same period, the imports of communist countries from developed market economy countries increased by 63 per cent and from developing countries by 99 per cent. Exports to developed market economy countries were worth $4,200 million and exports to developing countries were worth $3,300 million. Imports from developed countries amounted to $4,534 million and from developing countries to $2,796 million. Those figures showed that for developing countries the conclusion of bilateral arrangements with communist countries had proved beneficial and an effective instrument of export promotion. In addition, long-term arrangements for the exchange of commodities had given a reasonable degree of stability to the export of primary commodities, and, to that extent, a fair stability in prices.

India recommended that UNCTAD-II should establish quantitative targets on a country-by-country and commodity-by-commodity basis. With regard to manufactures and semi-manufactures, India proposed that the value of exports of those products should be doubled by the end of the 'development decade'.

Lately, the fifth committee has been discussing the 'impact of the regional economic groupings of the developed countries on international trade including the trade of the developed countries'. The committee has heard with great interest the introductory statement by the Director of the Research Division, Mr Dell. He observed that trade between the developed countries was already accompanied by various derogations from the most-favoured-nation clause. Thus the figures showed that in 1965, nearly 40 per cent of trade flows in manufactures and semi-manufactures among the developed countries were exempt from the most-favoured-nation clause under articles I and XXIV of special waivers of GATT. Most of that trade was or would soon be, tariff-wise, on an equal footing with the domestic production of the importing developed countries. On the other hand, less than one-fifth of the developing manufactured exports to developed market economy countries

(i.e. less than $1,000 million in absolute figures) enjoyed preferential treatment in those markets under the existing special-preference arrangements, especially within the Commonwealth.

If the existing groupings of developed countries were to expand and new ones were to proliferate in other parts of the world, the geographical scope of application of the most-favoured-nation clause would progressively shrink.

Whatever the impact of economic groupings on the trade of third countries, including developing countries, the margin of tariff concessions for capital goods produced within the EFTA and the EEC, as compared with goods imported from third countries, had already reached its maximum in the EFTA, with the virtual elimination of tariffs, and would attain its maximum in the EEC in July 1968.

The Kennedy Round had accomplished next to nothing as far as it concerned the impact of economic groupings on that part of the agricultural sector enjoying support measures other than tariff measures. Most of the products affected came from the temperate zone; but several of them were also produced by the developing countries. It was difficult to separate the question of the impact of agricultural integration from the problem of agricultural protection and access to markets in the developed countries.

The question is what has UNCTAD-II accomplished so far? While tension has been building up in committee rooms for several days, the conference has reached a 'critical stage' of negotiations. The second committee has been in a deadlock for several days. No worthwhile proposal put forward by the Group of '77' has found favour with the developed nations.

An Example to Follow

A Correspondent

WITH SOME of the advanced countries hesitating to grant general tariff preferences to the processed foods and manufactured or semi-manufactured products of the developing nations without reciprocity on the part of the latter in respect of the products of the former, and the prospects of an increased flow of capital assistance to the developing nations not so bright, the need for co-operation among the developing countries themselves in matters relating to trade and economic growth has assumed added significance. The agreement on trade expansion and economic co-operation between India, the United Arab Republic (UAR) and Yugoslavia, concluded in December last, should set the pace in this regard, for as against the emphasis placed till now on co-operation among the developing nations belonging to a particular region, this pact spans three independent countries on three continents—Asia, Africa and Europe.

Coming into force on April 1, 1968, for a period of five years, the agreement provides for scaling down of the effective most-favoured-nation rates of customs duties by 40 per cent immediately and 50 per cent after one year, i.e., with effect from April 1, 1969, on nearly 80 per cent of the present trade in manufactures or semi-manufactures of the three participating countries. Some 500 items are listed under 77 heads. They include processed agricultural products, preserved fruits, mineral raw materials, industrial products such as cement, engineering goods, chemicals, paints and varnishes, steel fabrications, rubber goods, garments, travel goods, simpler types of machine tools, furniture and a host of consumer products

Enlargement of the List

It is interesting to note that in drawing up this list an attempt was made to enlarge it to the extent possible and not to restrict it to the minimum. The agreement also provides for inclusion of new items in future, of course, with the consent of participating countries. The working group on industrial collaboration appointed by the Tripartite Committee of Economic Ministers of the three countries, has achieved quite an advance in identifying specific areas in which collaboration among them by way of division of labour and specialisation is feasible. The new items on which tariff concessions may be accorded in future will obviously be the products of these joint collaborations.

In the interest of fostering the economic growth of the participating countries concretely and not superficially, the ground rules prepared for the grant of tariff concessions have been drawn up with care. They stipulate that

(a) in the case of such articles as natural calcium phosphate; gypsum (raw); natural steatite, including natural steatite not further worked than roughly split, roughly squared or squared by sawing; talc; bitumen and asphalt (natural); bituminous shale; asphaltic rock and tar sands, they have been wholly produced or grown within the area of the exporting participating country; and

(b) in the case of all other specified articles, (i) they have been wholly manufactured within the territory of the exporting participating nation or (ii) they have been partially manufactured and the final process of manufacture has been performed within such territory, provided that in both (i) and (ii) above the expenditure on material produced and labour performed within the territory of the exporting participating country in the manufacture of the article is not less than 50 per cent of the factory or works out of the article in its finished state.

Provision has also been made in the agreement for consultations on remedying the situation if as a result of its implementation imports of a particular product into the territory of a participating country from the territory of another participating nation increase unduly and threaten to cause material injury to the production of the concerned product in the importing participating country. In the event of a more general scheme for the expansion of multilateral trade and economic co-operation among developing countries being adopted at a future date, the countries participating in the present agreement will consider making such adaptations in it as might be required.

The most significant aspect of the agreement, however, is that it keeps the door open for accession by other developing countries belonging to the Group of 77. It is thus not discriminatory against any developing country. With a view to not hurting the interests of any other developing country, the agreement enjoins on the participating nations that they should accord to the other interested developing nations full and prompt opportunity for consultations with respect to any matter or difficulty which may arise as a result of its implementation. If the second United Nation's Conference on Trade and Development, currently being held in New Delhi, belies the expectations entertained of it by the developing nations, they should do well by following the example of the UAR, India and Yugoslavia. Incidentally, with the signing of this thoughtfully drawn up agreement on trade expansion and economic co-operation by the three non-aligneds, the developed countries can no longer accuse the developing nations of not trying to help themselves.

CHAIRMAN'S STATEMENT

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LIMITED

Statement of the Chairman to the Shareholders

The Annual General Meeting of the Shareholders of the Corporation will be held at the Registered Office of the Corporation, 163 Backbay Reclamation, Bombay-1, on Wednesday, April 10, 1968 at 3-30 p.m. The following is the Statement by the Chairman, Shri G. L. Mehta, circulated to the Shareholders with the Directors' Report and Accounts for the year ended December 31, 1967.

I have pleasure in placing before you for your consideration the Thirteenth Annual Report of the Board of Directors of the Corporation for the year ended December 31, 1967.

2. The year 1967 has been a year of adjustment for the country. In the political field, after the elections, various parties took up the reins of government in the States, and we are seeking adaptation to these new conditions. At the Centre, a new Government deriving its mandate from the people was formed which is seeking to deal with various issues, economic, political and cultural, facing the country.

3. I am not certain whether we have succeeded in adapting ourselves to all the problems of political diversity in a federally-constituted polity, which the elections, by bringing diverse parties in power have brought into focus. I refer particularly to one aspect of this problem, namely, the need to maintain political stability and industrial harmony in the States. In some of the States, after the formation of new Ministries, there has been a deterioration in industrial relations as well as in law and order; such conditions are not conducive to economic development.

4. It is in the economic sphere, however, that 1967 has seen considerable changes for the country. As the year commenced with the country facing a serious drought and near-famine conditions in Bihar, the economic situation looked pretty grim. If we were able to avoid the worst consequences of this situation, we must attribute it to three factors: firstly, the generous food-aid programme implemented by friendly countries, particularly the U.S.A. which provided a substantial part of the food grains required; secondly, a rigid control on fiscal policy, so that a runaway inflation was avoided; and thirdly, the hope which the progress of a good monsoon brought to the people.

5. For industry in which this Corporation is particularly interested, the year 1967 was a difficult year and by the year end, little relief seemed to be in sight. Even in these strained circumstances, it is necessary to endeavour to understand this phenomenon which has upset the normally buoyant mood to which industry and industrialists had become used during the previous four years.

6. For the first time since planning began, industry was faced with a buyers' market, and the process of adjustment—of having to sell instead of being pursued by a buyer—has been painful for many industries. The causes for this reversal in the industrial situation are many and deserve notice. It has to be recognised, in the first place, that in the course of the programme for rapid industrialisation some imbalances have developed in the economy. For example, in a large number of goods—electric meters and cables, wire ropes, figured and wired glass, ferrous castings—there has not been so much a fall in demand or off-take, rather, the demand assumed by planners and accepted and acted upon by our industrialists, did not, in fact, exist nor did it come about. It would be wrong to term this phenomenon a recession; it is, more accurately, faulty planning and miscalculation of demand.

7. Moreover, it has also to be recognised that in respect of a large number of goods—cotton textiles, commercial vehicles, railway wagons, and other engineering products—demand has gone down from the level existing previously. This, I suggest, is the real face of recession.

8. What is the explanation for this phenomenon? As a result of the two droughts, per capita income has fallen, more severely in the industrial sector than in the agricultural sector; consequently, the demand for goods has generally gone down. This would explain the fall in demand for cotton textiles and commercial vehicles. Besides, owing to lower incomes as well as lower deficit financing, Government revenues have been stagnant. This has been reflected in lower Government purchases affecting, for example, the demand for railway wagons and jeeps.

9. Further, in the classical manner, this fall in demand has had a chain reaction and affected other related industries. For example, the difficulties of the cotton textile industry have led to lower purchases of cotton textile machinery and equipment. Lower wagon purchases have affected adversely a large number of industries, including castings, from which the wagon-builders make purchases.

10. The side-effects of these recessionary trends deserve notice. The recession has had noticeable effect on price-trends. In some cases, the price-cutting has been reflected in higher discounts to dealers; in other cases, it has led to lower consumer prices. Not all this price-cutting has led to lower profit margins; much of it has been achieved by pruning costs which is desirable.

11. Moreover, with the loss of buoyancy in home markets, producers have become conscious of the advantage of having export outlets for their products; in many cases, producers are known to export almost two-thirds of their output. This is a desirable trend not only from the producer's point of view in that it extends the market for his products and enables him to operate in a competitive context, but also from a broader point of view in that it has helped to augment the country's exchange earnings.

12. To focus attention on our clients' role in this export effort, to develop consciousness among them of the importance of exports and to enable us to understand their problems, the Corporation convened a conference on export promotion, to which we invited, besides our clients, representatives of economic ministries of the Government of India, the Planning Commission, the Reserve Bank of India as also of various export promotion councils and trade associations. The discussions at the Conference led to a better appreciation of export problems and to interesting suggestions for export promotion which we have taken up with the appropriate authorities.

13. Government at the Centre, formed after the elections has sought to tackle the issues facing the economy with some vigour. The main lines of action have been an attempt to balance the budget, to put a freeze on plan outlay, and to effect changes in the banking system so as to enable it to subserve more adequately plan requirements.

14. The Finance Minister presented his Budget in May, 1967. This imposed additional taxation, mainly excise duties,

amounting to Rs 115.52 crores. The incidence of taxation on aluminium and synthetic fibres was heavy but was later reduced where expansion programmes were involved. As presented, the Budget was almost balanced but later events—particularly increases in expenditure on salaries and falls in revenues on import duty realisation—suggest that the final accounts would show a large deficit during the fiscal year.

15. Austerity in budgetary policy has been achieved by placing a ceiling on the plan expenditure which was kept at about the same level as for the previous year. The difficulties of many industries—railwagon, cast iron spun pipes—are partly due to this freeze on plan expenditure. It is necessary that as financial resources become available, orders are placed on these industries to enable fuller utilisation of capacity already set up.

16. It is in the banking field that the Government has introduced considerable changes. In response to criticism of banking practices, the Finance Minister has sought to impose social control on banks. This has involved professionalisation of the management of banks and changes in bank directorships to enable representation of non-industrial interests. It is also proposed to set up a National Credit Council presided over by the Finance Minister, to guide banks in the direction of credit.

17. It would be futile to expect that industry—and this Corporation which is so closely linked to industry—could have been insulated from these diverse influences. In the field of existing operations, the lower rate of operations of industrial enterprises has affected adversely their liquidity and profitability. At the same time, these difficulties—indicating saturation of capacity in many lines—have tended to dissuade further investment in industry.

18. For the first time since planning began—rather, I am almost tempted to say, since the Second War began—industry generally has been faced with a buyers' market; in more than one way, it is likely to provide a salutary experience for industry. For, the emergence of a buyers' market has tended to challenge several assumptions on which industry has become accustomed to operate during the last two or three decades.

19. To begin with, it has brought about changes in buying and inventory holding practices. In a sellers' market, the tendency was to buy materials irrespective of prices and to hold high inventories. In a buyers' market, purchasers have become more conscious of the prices they have to pay for their purchases as also of the cost of holding inventories. This is most apparent from the fact that even in respect of imports where there were perennial complaints of shortages, just when import policy has been liberalized, the demand or import licences has gone down. The impact of the recession has spread, through changes in purchasing and inventory holding practices, to suppliers and thus become generalized over the industrial sector.

20. A similar change is also to be witnessed in manufacturing techniques. There has been a keener consciousness in scrutinizing and pruning labour and raw material costs, and more determined efforts to seek job-work for idle capacity. No item of cost is sacrosanct and there is an attempt to see whether costs cannot be reduced without affecting adversely quality and volume of output.

21. But the greatest impact of the recession has been on selling practices. It was not long ago that many manufacturers had buyers pursuing them, while producers rationed out supplies in a "take it or leave it" attitude. The selling function was often looked upon as a perquisite to be handed out to relatives or related firms. This is no longer the case.

22. Manufacturers are becoming increasingly conscious of the quality and acceptance of their products and the services they offer. For, in a buyers' market, buyers exercise their right of choice and therefore a recession affects manufacturers at varying levels and directions: while some manufacturers have seen their markets evaporate, other manufacturers who even in easy times built up consumers' goodwill through a quality product and reliable service have seen demand for their products go down more slowly. There is now also an attempt at improving the product and diversifying activities so that the consumer has a wider choice.

23. What is more, prices which in the past seemed to be moving only in one direction have begun to ease. This has taken various forms: in some cases dealer discounts are being increased—a form of covert price-cutting which dealers, faced with low sales, have not hesitated (though equally covertly) to pass on to the buyer. Then again, and more frequently, price reductions have been offered directly to buyers in various forms—direct price reductions, "bargain" sales and gifts attached to purchases of specific products. It is also significant that many manufacturers have brought out now low-priced products to reach a larger market and, I am sure, in pricing them, manufacturers have taken into account the present consumer shyness or "resistance."

24. Finally, manufacturers, accustomed to selling all their output on the domestic market at profit-yielding prices and now seeing their markets disappear, have become conscious of exports not merely as a means of earning import entitlements but as an outlet for their production, as a means of enlarging the market for their products. Export is now seen as a means of self-preservation, and in many cases, manufacturers now sell a larger part of their output in the foreign markets than in the domestic market. However temporary the factors which have induced this export consciousness, it is likely to have lasting effects: it has taught our manufacturers how to sell and compete in international markets—an exercise which, with rigid import control, does not take place within the country itself; and secondly, it has helped to widen the horizon of the manufacturers in that exports are now seen

as an extension of the market which helps to stabilize the aggregate demand for the products.

25. It is necessary that our manufacturers seek to consolidate the gains made during the last two years by way of improving efficiency and in keener awareness of and obligation to consumers. A sharp change in commercial relations and business thinking has been in evidence. I do hope that manufacturers will make this experience a part of their business philosophy rather than forget it in the first flush of a spurt in domestic demand.

26. The recession has been a new phenomenon so far as our industry is concerned. It has at one stroke shown clearly some of the inadequacies in our development effort: It has manifested that planning targets are not sacrosanct and that entrepreneurs have to make their own assessment before taking up industrial projects; it has made it clear that our costs remain high and tend to restrict the market for the products; above all, it has emphasized the need for Indian entrepreneurs being outward-looking, rather than seek their markets only in the domestic economy.

27. It is necessary that we absorb the lessons of this experience. It will require changes in many accepted assumptions on which our Government and industry work. The primary need is to make active idle capacity in industry. Moreover, when investment opportunities are limited, it would be appropriate not to be too meticulous in fostering new investment, but let investment take place in lines where known gaps exist. The worst of the recession, I hope, is behind us, and as we take up the thread of development, we should try to see our errors of omission and commission so as to avoid their repetition in future.

28. As I said earlier, this Corporation could not have been immune from these trends in the economy. And our operations reflect the impact of these forces. For one thing, the reduced operations of industrial concerns have adversely affected the flow of cash into them and consequently their ability to meet their obligations. Where possible, we have selectively agreed to short-period deferment of instalment payments to the Corporation. But I trust it will be recognized that our willingness to cushion our clients from the impact of their reduced cash-flow has, in turn, affected adversely the Corporation's own cash generation; and this must necessarily limit the extent to which we can help clients with postponements.

29. Besides, with the reduced operations of existing industries and an apparent over-capacity in many lines, the desire to undertake new projects in many industries is less evident. The flow of new business to the Corporation as also the sanctions of the Corporation would be affected by these trends. In fact, our disbursements this year have been lower, and our sanctions have increased only marginally, in relation to the previous year.

30. It is in its composition that our sanction has undergone a major change. With the rather rapid growth of many industries in the past in which this Corporation participated these lines have become saturated. In the last year industries in which entrepreneurs sought to invest were those which had been neglected in the last ten years and which are now deemed to be priority industries. Thus, you will notice that the main lines in which investment is concentrated is fertilizers, cement and alloy steel. Investment activity has thus become selective. In so far as investment has been concentrated in priority sectors, this is a welcome trend.

31. In view of the present recession, we have been examining various policy issues as they affect the Corporation. While investment opportunities in some industries might appear to be exhausted, there are many lines in which even within the context of the existing industrial structure, we need to develop further capacity: obvious examples are newsprint, utilization of steel slag, alloy and stainless steels, passenger cars. In addition, we should look ahead and try to identify areas—electronics is a case in point—in which future development effort can be directed. There are only stages to the process of development, no end. The Planning Commission is now concerned with problems of formulating the Fourth Plan and will, no doubt, consider the issues from a broad angle. We at ICICI have also been considering various directions in which the Corporation can play an active role in fostering industries.

32. The capital market remains in the same condition to which it has become accustomed in the last few years. After a somewhat hopeful start last year, sluggish conditions set in towards the middle of the year and have continued since then. Apart from the continued inflationary trends in the economy, the proposed imposition of a freeze on wages, prices and dividends (which, however, did not materialize) and of social control on banks and general insurance have acted as a bearish factor on the capital market. The Corporation, however, was able to make larger sales of securities on the market than in the past three years, though the capital gain derived on such sales was nominal. Moreover, the Corporation was able to place for the first time its debentures on the market for which there was a small over-subscription.

33. Total sanctions during 1967 amounted to Rs 21.56 crores. Of these, an amount of Rs 17.55 crores was in respect of 46 specific projects. The total cost of these projects, when completed, is estimated at Rs 255.40 crores (including Rs 36.51 crores for working capital requirements). This cost is proposed to be met by Rs 48.25 crores share capital (Rs 38.23 crores ordinary and Rs 10.02 crores preference), Rs 93.72 crores long-term loans and debentures, Rs 46.02 crores deferred payments and Rs 67.41 crores bank borrowings, unsecured deposits and cash accruals. The total turnover of these projects in a year of normal production is estimated to amount to Rs 143.46 crores. You will observe that in relation to the past years, the amount of capital investment generated is considerably higher while the amount of production in relation to the capital cost envisaged is smaller. This is because of the large fertilizer projects to which assistance was extended last year. Besides, as I mentioned earlier, assistance last year was selective, being extended substantially to priority industries such as fertilizers, alloy steel and cement.

34. During the year under review the Corporation augmented its rupee resources by an issue of debentures for Rs 6 crores, the debenture issue was over-subscribed. This was our first debenture issue on the capital market. Its success was due to the helpful support extended to it by the Industrial Development Bank of India, the Life Insurance Corporation of India the State Bank of India, commercial banks and other companies. I would like to express my thanks to them for this support. While it would be our effort to raise further funds on the market, it is necessary, to enable us to do so, that the Corporation's securities are recognized as trustee investments under the Indian Trusts Act, 1882. It is only by widening the capital marke[...] be possible.

35. As regards foreign [...] tion obtained from the Wor[...] seventh line of credit of $25 m[...] lending of the World Bank to ICICI [...] 1967, the Corporation was granted a [...] DM 5 million from the Kreditanstalt fu[...] seventh line of credit for DM 7.5 million is[...] These lines of credit are an expression [...] confidence this Corporation enjoys with the inte[...] ing institutions. On your behalf and on behalf [...] of Directors of the Corporation I should like to [...] gratitude to them for their continued interest in th[...] tion. I would also like to thank the Government [...] for providing guarantees needed for such borrowings.

36. Income from interest, dividends underwriting co[...] sion and other sources amounted to Rs 785.53 lacs in [...] (Rs 641.07 lacs in 1966). Interest paid on loans and ot[...] expenses during the year amounted to Rs 517.20 lacs (R[s] 399.40 lacs in 1966). Profits before tax amounted to Rs 268.3[...] lacs (Rs 241.67 lacs in 1966). Out of this, provision for taxation has been made at Rs 128.64 lacs (Rs 109.19 lacs in 1966). Of the balance of Rs 139.74 lacs (Rs 132.48 lacs in 1966) carried to the appropriation account, Rs 20 lacs (Rs 30 lacs in 1966) has been transfered to General Reserve, Rs 15 lacs to Reserve Against Doubtful Debts (nil in 1966), and Rs 35 lacs (Rs 33.30 lacs in 1966) has been taken to Special Reserve; in addition, the whole of the capital gain of Rs 5.04 lacs, after taxation, (Rs 3.47 lacs in 1966) has also been transferred to Capital Reserve Not Available for Dividend. The Directors are glad to recommend a dividend of 9 per cent, subject to tax, (the same as last year).

37. In 1967, the Economic Development Institute (an affiliate body of the World Bank) sent us three trainees—Mr M. Adel from Iran, Mr G. C. Akwaeze from Eastern Nigeria and Mr J. Valdez from Bolivia—for practical training with the Corporation. The Corporation also provided facilities to officials from different State finance corporations to study its procedures and methods of work. In addition, we have invited two officers from the Development Bank of Mauritius and the Industrial Development Board of Singapore for training with us under our training programme.

38. Our Corporation has always been conscious of the wider factors which govern its working. In this context, we felt that it would be desirable to look into various factors governing our export position. With this object in view we held in December, 1967, a conference on export promotion to which we invited, besides our clients, representatives of Government, the Planning Commission, the Reserve Bank of India as also of export promotion councils and trade associations. The Conference was well attended, and its deliberations were business-like. We have taken up with Government several points which arose in the course of the deliberations.

39. Finally, I would like to say a word about our staff. As you are aware, this Corporation has always been managed by professional staff. Shri H. T. Parekh has been with this Corporation almost since its inception, first as Deputy General Manager and then as General Manager. In recognition of his valued services and in keeping with modern trends, the Board decided to appoint him Deputy Chairman and Managing Director of the Corporation, subject to the approval of the Central Government. A resolution on this subject is before you and I have pleasure in commending it for your acceptance.

40. This Corporation has received from its staff devoted service. I would like to express our sincere appreciation of their wholehearted devotion to [...] and untiring work.

[...]man.

Bombay, February 8, 196[8]

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