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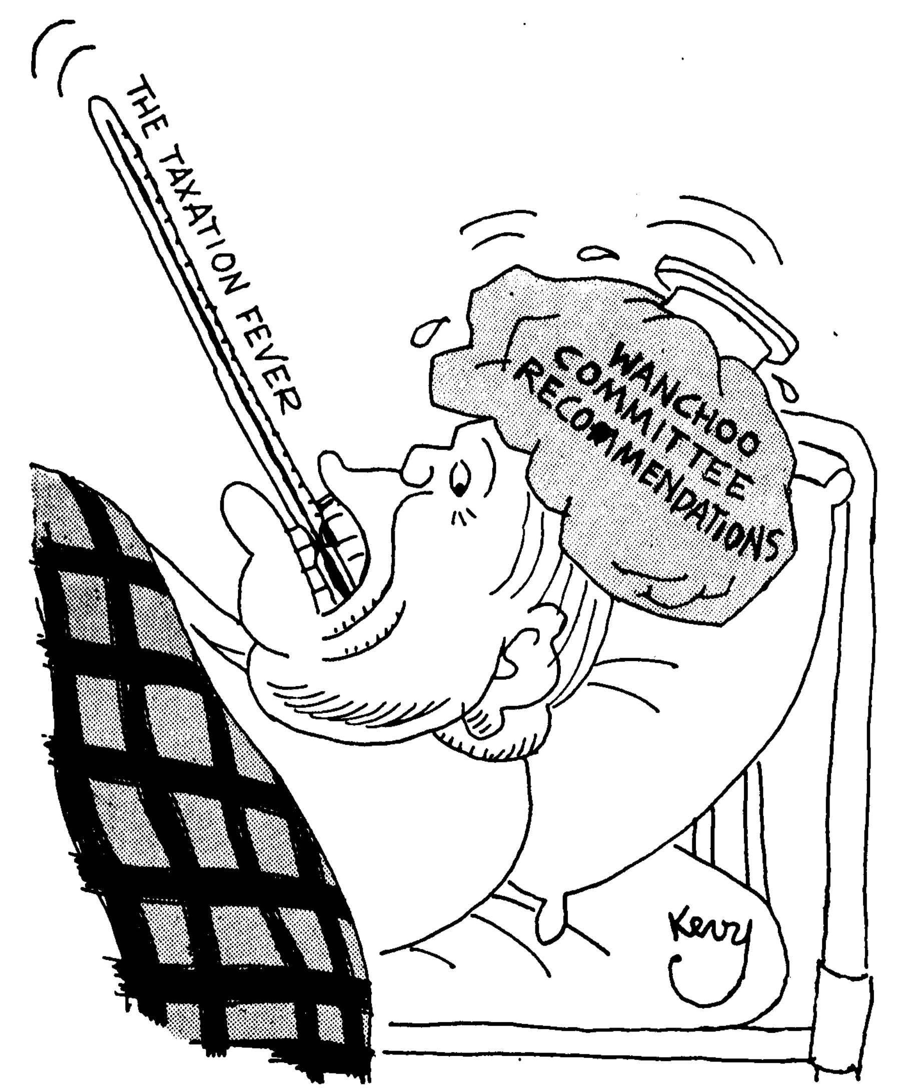

A budget of many pretensions

The Editor

This is a budget of many pretensions, using the word "pretension" in its several senses — and the Finance Minister has not been modest about it. Mr Chavan is proud that the budget has provided for the immediate needs of the government of Bangladesh for the reconstruction of the wrecked economy of that country and the rehabilitation of its grossly violated people; the total amount committed to this purpose comes to Rs 200 crores of which, after allowing for the sum of Rs 82 crores which might have been disbursed during 1971-72, the funds to be spent during the year 1972-73 would be of the order of Rs 118 crores. He has also claimed credit for maintaining the provision for defence in the new year at the high level of Rs 1,408 crores to which it had risen in the revised estimates for the last financial year. But the expenditure decision which he considers to be his most outstanding achievement this time, however, is the allocation of Rs 1,787 crores in 1972-73 for central or centrally-sponsored Plan schemes, marking an increase in this outlay of Rs 332 crores as compared with 1971-72. Additionally, the central budget will also provide enhanced financial support for the substantial step-up proposed in the Plan outlays of state governments. Finally, in a flourish of peroration, Mr Chavan has asserted that, taken in their entirety, the budget proposals will take the economy one step forward in its march towards our cherished goals, these goals being growth, social justice, self-reliance, investment and resources mobilisation.

The Finance Minister has laboriously listed his main expenditures presumably in order not only to justify the continuance of the abnormal taxation imposed in the course of 1971-72, but also the further taxation which he has proposed for the new financial year. Mr Chavan knows well enough that he may rely on public sympathy for the budget provision he has made for Bangladesh and that he can be sure also of more or less unquestioning public support for the large provision for defence. He must have sensed, however, that the decision to increase the Plan outlay even at the cost of increasing the tax burden on the economy and the people would not be so easily stomached by the public. He has therefore attempted an explanation of sorts and has pleaded that the decision to increase the outlay on the Plan has been taken mainly because this increase is considered necessary for accelerating the pace of economic growth and social welfare.

Here the Finance Minister is begging a whole array of questions. For one thing the government's record shows that large gaps exist and have more or less always existed between what the government has been providing in its budgets for development and what it has actually been able to spend for the purpose from year to year and also between the volume of spending effected and the efficiency with which funds have been utilised. No positive relationship, moreover, has been established between the level of government spending including developmental spending and the level of activity in the economy. All that has been indicated is the occasional linkage between certain government expenditures and slump in sales experienced by specific industries which may be depending on government indents for or purchases of their products. Despite the continuous extension of the role of the state in industry or commerce the stage has not been reached, fortunately, where the economy is condemned to catch pneumonia every time the Finance Ministry sneezes.

Above all, a scrutiny of the government's Plan outlays indicates that most of them are incapable of generating or are irrelevant to the generation of an increase in general economic activity. Indeed, if the Finance Minister (and his colleagues in the central government) really believe that the additional Rs 300 crores or so which they propose to spend on central or centrally sponsored schemes will be adding even a fraction of a per cent to the growth rate of three or four per cent in industrial production which we have been experiencing, he (and they) will believe anything. While this has been true of all these years in which marginal additions have been made to Plan outlays on the ground that they will improve the pace of economic growth, it will particularly apply to this budget because, on account of the need for window-dressing the government's electioneering promises to help the weaker sections of the community, especially through employment-oriented and welfare-oriented spending, a good part of this so-called development outlay is planned to be utilised for schemes which may not be materially significant for strengthening or

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stimulating the basic forces or processes of economic growth. Indeed it could be said that the government could do much more to promote employment and mass welfare if it would only work its steel plants more efficiently instead of going in for increased expenditure of public funds cn schemes the political appeal or utility of which is more apparent than their economic worth.

In the course of 1971-72, thanks to the main budget followed by two mini-budgets, the government succeeded in imposing on the economy additional taxation estimated to yield Rs 500 crores in a full year. It is worth noting that all the emergency levies proposed in the last financial year are sought to be continued by the budget for the new financial year. Mr Chavan has thought it sufficient to make just one casual reference to this situation. On top of these extraordinary levies of 1971-72, the Finance Minister has imposed about Rs 179 crores of taxation this year. It is not generally realised that this amounts in effect to a total additional tax burden for 1972-73 of more than Rs 475 crores over and above the taxation proposed in the main budget in the financial year 1971-72. This is the real magnitude of the effective new taxation that the Finance Minister has projected this year.

Public Brain-washed

Mr Palkhivala has suggested that the public has been brain-washed into a fatalistic acceptance of arbitrary and abnormal taxation even as, for generations, Hindu widows had been brain-washed into accepting as their fate the ritual of *sati*. Nothing illustrates Mr Palkhivala's point more strikingly than the ease with which a false impression has been propagated that Mr Chavan has been charitable tc the public in proposing the amount of additional taxation he has incorporated in the budget for 1972-73. It is not realised generally that the tax pioposals amounting to about Rs 179 crores on which Mr Chavan spent so much time in his budget speech are but a relatively minor quantity when compared to the Rs 296 crores of extraordinary levies imposed last year on an emergency basis and quietly incorporated into tax structure of this year's budget. Some of us seem to have concluded hastily that these levies will not last beyond March 31, 1973. They will do well to note that the Finance Minister has not stated definitely that the government will discontinue these levies after 1972-73 and it is a fair bet that the greater part of these levies will be merged with the rest of the taxation when the time comes.

This apart, so far as the financial year 1972-73 is concerned, the true figure of additional taxation as compared with the main budget of 1971-72 (which is of course the proper standard of comparison) is not Rs 179 crores but Rs 179 crores plus another Rs 296 crores representing the extraordinary taxation imposed through the mini-budgets of 1971-72.

No Thanks Due

Even those who have not fully realised the real dimensions of the tax burden imposed by this budget have no reason to be grateful to the Finance Minister for his alleged moderation. It is true that he has not proposed any further increase in the rates of income-tax (as also the surcharge on income-tax) in the case of tax-payers other than companies. All the same I submit that no credit is due to the Finance Minister on account of this. He, after all, had before him the report of the Direct Taxes Enquiry Committee. Although the government is certainly not bound to accept the recommendations in that report, it would have been very difficult indeed for Mr Chavan to propose any further increases in the rates of income-tax on individuals in the face of the unanimous finding of the committee that the marginal rates of taxation on personal incomes have reached levels at which they have become confiscatory in nature and are therefore operating as the first and foremost reason for tax evasion.

The committee has recommended that maximum marginal rate of income-tax including the surcharge should be brought down from its present level of 97.75 per cent to 75 per cent and that some reduction in tax rates should also be given at the middle and lower levels. That the government would substantially implement this proposal is highly doubtful and the present writer at any rate has no illusions about the possibilities. But even though the government may (and, probably, will) reject the argument for reduction in incom-tax on the lines of the Wanchoo Committee's proposals, the Finance Minister could not have thought of increasing further the rates of income-tax in the face of that committee's findings or recommendations. What I am trying to make out here is that there is no need for crediting Mr Chavan with the virtue of self-restraint merely because he has not further put up the rates of income-tax. With the Wanchoo Committee's report on its hands the government could not have found it easy to raise this tax further even if it might have wanted to do so. In this sense the Wanchoo Committee has already recorded its first success, but there can be a reasonable fear that this may be the only success of its kind that this committee may be able to boast of.

Instead of rejoicing then that the Finance Minister has virtuously restrained himself from stepping up the rates of income-tax, we may be more profitably engaged in taking critical note of his decision to impose additional levies on the earnings of the corporate sector by doing away with special deduction of five per cent of profits in the case of priority industries, while increasing the surcharge cn the income-tax payable by all companies from two-and-a-half per cent to five per cent. Mr Chavan, incidentally, has added insult to injury by indulging in levity while justifying this increase. He has contended that since the other special surcharges imposed during 1971-72 were all of the order of five per cent, he had been charged in some quarters with having discriminated in favour of the corporate sector and that he therefore desired to absolve himself of this particular act of sinful partiality. We may envy Mr Chavan this perfect feeling of being the most responsive Finance Minister any country has had since the time the ancient Hindu mathematicians invented the Zero.

Victim of Blitzkrieg

Mr Chavan's assault on corporate earnings has of course not come as a surprise. In the budget for 1971-72, he had given enough proof of his view that corporate earnings was an eminently suitable victim for fiscal blitzkriegs. In that budget the rate of surcharge on company prcfits was increased from 25 per cent tc 30 per cent in the case of chargaeble profits in excess of 15 per cent of the capital employed. The rates of tax on long-term capital gains were inctoased from 40 per cent to 45 per cent in respect of gains relating to lands and buildings and from 30 per cent to 35 per cent in respect of other capital gains. In the case of new industrial undertakings, ships and approved hotels, the tax exemption available for a period of five years was diluted by excluding debentures and long-term borrowings from the calculation of capital employed for determining the exempted level of profits. A special tax exemption up to eight per cent of profits enjoyed by prority industries was cut down to a limit of five per cent of the profits. Simultaneously, a number of industries were removed from this list of priority industries.

On this occasion Mr Chavan has only carried forward this process of attrition directed against concessions or incentives given to the corporate sector. He has done away altogether with the special deduction of five per cent of profits in the case of domestic companies engaged in priority industries. The effect of this would be to raise the incidence of corporate taxes on companies in the priority sector from 50.6 per cent to 55 per cent which is the incidence on companies engaged in other industries which had not been receiving this concession. As a result of these changes in corporate taxation, the corporate sector will have to bear an additional burden of Rs 13.5 crores in 1972-73 or Rs 18 crores in a full year.

Convenient Alibi

The Finance Minister will no doubt appeal conveniently to the report of the Wanchoo Committee which has favoured the abolition of tax concessions given to priority industries. He must be even more happy with the suggestion made by the Wanchoo Committee that a capital levy should be imposed on both owned and borrowed capital of a company as a deterrent to avoidable capital expenditure or borrowings. The committee has suggested a general flat rate of one per cent, with differential treatment in the form of either a basic exemption or a lower tax rate for small companies. The idea of such a tax is of course not new and Mr T.T. Krishnamachari, during one of his tenures as Finance Minister, had experimented with it. Mr Chavan, however, is unlikely to be discouraged by the government's experience of this precedent. It is doubtful, however, that he would be as enthusiastic about another recommendation of the Wanchoo Committee suggesting the abolition of surtax on companies as he may be about the capital levy. It may be assumed again that the government may not attach particular weight to the proposition clearly stated by members of the Wanchoo Committee that the changes recommended in the report in respect of corporate taxation are not designed to step up the burden of tax on companies. Once the government finds that it has exploited to the full the scope for taxing the incomes of individuals, it will automatically look to corporate taxation for further opportunities of fiscal exploration. Mr Palkhivala may shout himself hoarse that the rate of corporate taxation should not in any event exceed 50 per cent, but this government certainly has not recognised any such limit nor is it likely to do so in the future. It may be fond of ceilings in certain contexts, but it is certainly most allergic to ceilings being placed on taxation whether direct or indirect, whether personal income and wealth taxes or corporate taxation.

Viewed in this light, there is very little in this budget for those who believe that wrong fiscal policies are frustrating the potential of the national economy to be thankful for. If, instead of going after more tax revenue for the benefit of a larger provision for Plan outlays, the Finance Minister had taken advantage of the buoyancy in tax revenues and the heavy taxation imposed in 1971-72 to give some relief in direct taxation and also at strategic points in indirect taxation, he might have started a process of stimulating production and investment, consumption and saving, which could have done more for economic growth than the paper money he has provided for Plan programmes and schemes. Had the government been wise enough to maintain its own development expenditure at about the same rate as in 1971-72 and employed the margin of resources thus created in financing tax reliefs and incentives, the climate for industrial expansion could have been greatly improved in material as well as psychological terms. As it is the Finance Minister and his colleagues in government seem to have settled for the nation dragging along at the four per cent growth rate to which the economy has become tied.

II

There is a general feeling in the country that the Prime Minister, now that she has consolidated her authority in the government and the power of her party in the politics of our country, will confidently and energetically address herself to the economic problems facing the nation. There is a feeling in the air that things, consequently, must and will start moving. This sentiment it may be mentioned, was reflected in the proceedings of the recent annual general meeting of the Federation of Indian Chambers of Commerce and Industry. I may say at once that I personally am not given to attaching much importance to vague impressions of this kind, stamped as they are with the seal of the wish being father to the thought. But persons, whose judgment I respect (and some of whom are in government or administration) tell me that the Prime Minister's priorities have really changed and that she is genuinely concerned with a programme of action which would take the economy forward. According to this school of thought, the Prime Minister not only appreciates the explosive implications of growing unemployment but also recognises the connection between the low levels of national saving and investment on the one hand and the stagnation in employment opportunities on the other. It is suggested further that she has become fully conscious of the relationship between national security and the rapid expansion and steady diversification of the industrial structure. The argument, therefore, is that the government is now likely to develop a more positive approach to issues of development and display a new dynamism in dealing with them. I hope these optimists will be justified in their expectations.

Committed to Dogmas

Meanwhile I would like to indicate my own reading of the present situation and the immediate future. It is clear that this government has committed itself to certain dogmas. It has been asserted, for instance, that the concentration of wealth or economic power should be checked or eliminated even at the risk of the measures taken for this purpose coming in the way of the industrialisation of the country. Simultaneously it has been affirmed that the pattern of direct taxation should be designed, developed and directed in such a way that an effective ceiling is imposed on income and wealth. These concepts have forced on the government a pattern of management of the national economy which I consider to be inimical to the growth of investment and production and therefore the generation of more and more resources without which there can be neither social justice nor social welfare.

The dogma about the concentration of economic power has involved the government in all kinds of self-defeating exercises in the administration of industrial controls and regulations and thereby made for vast expenditures of national time and energy on holding down the rate of development. If our industry — or even our GNP despite expansion of our agriculture — is not growing at more than four per cent per annum, it is mainly because the government apparatus has been labouring, as if deliberately, to keep down economic, particularly industrial activity.

Apart from administrative restrictions, fiscal policy is also being employed to obstruct the growth of the larger firms and business organisations and this fact explains the consistent and growing animus displayed against the corporate sector in successive central budgets. This fiscal policy has become further vitiated thanks to the other political objective of ceilings on income and wealth. As a result, the principle of progressive taxation has been perverted to a point where concepts such as the ability to save or willingness to save or the impact of taxation on this ability or willingness have been outlawed from the practice of public finance in this country. The effectiveness with which public opinion has been persuaded to accept the Establishment view in this matter is vividly brought out by the fact that even if one were to be bold enough to argue in favour of a reduction in the income-tax, one must also be prudent enough to seek justification for his view in terms of the encouragement which high taxes provide for tax evasion.

Amusing Experience

It is not my purpose here to be uncharitable to the Wanchoo Committee. Its terms of reference emphasise after all the black money aspect. But I do find it truly amusing that so little is heard today in terms of a straight demand that taxes should be reduced because they inhibit saving, investment or risk-taking in business. Even Mr Palkhivala, while talking on tax reform in these positive terms, finds it necessary to buttress his case by bringing in the unfairness of agricultural incomes not being taxed, while salary, professional or business incomes are not merely taxed but taxed very heavily. It can surely not be Mr Palkhivala's contention that the prevailing structure of taxation of incomes in the urban sector would be rendered less unsound once a tax is levied on agricultural incomes as well.

I would submit, therefore, that a test of Mrs Gandhi's seriousness about economic development could well be her ability or willingness to comprehend the basic importance of tax reform. The Wanchoo Committee report has given the government an opportunity to retrace its fiscal steps. But it can avail itself of the opportunity only if it has the political courage to give up its demagogic fictions about concentrations of economic power or ceilings on income or wealth.

The ruling party, no doubt, has had to cut its political teeth on certain catch-words having mass appeal. In a poor and largely illiterate democracy this may be reckoned as one of the cruel facts of public life. Now that this party has successfully established for itself a dominant position in government, central or state, there is little justification for its continuing to subordinate the basic economic interests of the country to its political interests. Fortunately, in spite of years of indoctrination, the people of this country, by and large, have not succumbed completely to the politics of ignorance and envy. They have still kept their hold on a liberal outlook in relation to the nation's economic affairs and there is therefore no basic prejudice in the community against its more successful or enterprising members. The people's main concern is not with how some of their number are managing to live well or how much the latter may be earning or possessing, but with the elimination of mass poverty, the expansion of employment opportunities, the availability of essential goods and the improvement in the standard of living.

There is, surely, no political obstruction today to any government that may be in power should it choose to pursue such constructive goals. The public has long ceased to believe in controls for the sake of controls nor is it bewitched by the efforts of Finance Ministers constantly on the look-out for ways and means of distributing poverty. The people are also losing faith in the catch-words of planning such as the dominance of the public sector or the mobilisation of savings through the mechanism of government budgets. They have become wise to the fact that the public sector is detracting from development, that the resources that are being poured into it are being spent wastefully rather than employed productively. They have also woken up to the truth that the government cannot save, that it can only dissave. It will not be long before they summon enough gumption to reject such political leaders as have nothing to give them except election-eve promises. Even a massive mandate runs only for five years in the normal course and Abraham Lincoln had long ago admonished all those who would practise demagogy in a democracy that one cannot fool all the people all the time. We have lately been treated to much political eloquence about India's date with Destiny. India's political leaders must beware that the bell does not toll for them before India is enabled to keep that date.

Eastern Economist 25 Years Ago

APRIL 11, 1947

His Majesty's Government are due to make yet another statement on India. When Parliament reassembles on the 17th April after the Easter recess, Mr Attlee is expected to announce the Cabinet's decision regarding the services. A lot of tendentious propaganda has been carried on in favour of these services and senior members may be forgiven, if what has been written recently regarding their stakes and importance. has led them to believe that after them there will be a deluge. What are the real facts? The 1064 and odd I.C.S. officers do not certainly set the pace for efficient administration in the country. There has been a sad deterioration in the quality of this Service and foreign observers, who inevitably read panegyrics written by Sir Edward Blunt or Mr O'Meally— not to speak of countless volumes of reminiscences written in a particular style and from a particular point of view — are bound to get an entirely distorted idea of the importance of the I.C.S. or the I.P. at present. The trouble is that all this history is not uptodate. An impartial account of the achievements of members of the two Imperial Services, individually or jointly, during the last thirty years, is more likely than not to indicate that the faith which we have all along had in the capacity of the civilian to administer the country, has been misplaced. The virtual liquidation of the services, consequent on the retirement of British and Indian members alike on the generous premature retirement terms is likely to be much less unsettling than is commonly supposed.

Another opportunity missed

S. P. Chopra

THE UNION Finance Minister, Mr Y.B. Chavan, indicated in Part B of his budget speech for 1972-73 that he had proposed no changes in the rates of income-tax and surcharge on income-tax in the case of all tax-payers other than companies. While this statement is broadly correct, the changes in the Income-tax Act proposed by him go a long way, not in mopping up additional funds but in tightening the screws so as to reduce tax evasion. Here and there he has withdrawn certain reliefs for which he did not care even to put forward plausible reasons.

The cumulative effect of all the changes proposed in direct taxes is estimated to be Rs 24 crores in a full year and Rs 16 crores in 1972-73. The share of the states will be two crores of rupees leaving Rs 14 crores for the centre. Out of the expected yield of Rs 1130 crores in 1972-73 from direct taxes (see table below), the new imposts constitute about 1.5 per cent of the total burden.

DIRECT TAXES · 1972-73 (BUDGET)

	Rs crores
Corporation Tax	480.00 13.50*
Income-tax	580.00 3.00*
Estate Duty	8.00
Wealth Tax	43.00
Gift Tax	2.50
	1130.00

*Effect of budget proposals.

A study of all his proposals relating to direct taxes leaves the impression that he has not availed of this opportunity to promote personal saving and investment by providing relief to the harassed tax-payer who has borne this crushing burden for the last so many years. If there was enough justification for increasing the incidence of direct taxation in earlier years, there was still more powerful ground for providing relief in direct taxes this year.

The Wanchoo Committee report has already showed in unmistakable terms the harm which has been done to the economy by penal rates of direct taxation. What is more, relief was expected in the case of a large number of assessees in the lower income brackets who have borne the income-tax burden unnecessarily because the cost of collection of taxes from them has been high and their net addition to the exchequer has not been significant. If individuals having income between Rs 5,000 and Rs 7,000 a year were exempted, the loss of revenue to the exchequer, as estimated by the Bhoothalingam Committee, would not have been large. While Mr Chavan has tightened the screws for collecting additional revenue through the present tax structure, he has missed the bus for earning the gratitude of the tax-payers in the lower strata of society particularly.

High Cost of Collection

Table I (p 562) sets out a distribution of income-tax assessees according to various income-tax ranges for 1967-68, the latest year for which these statistics are available. It will be seen that the largest number of assessees was in the income-tax range of Rs 5,001—7,500 at 4,15,309 with tax yield of less than seven crores of rupees. If income-tax exemption limit were raised from Rs 5,000 as at present to Rs 7,000, the loss of revenue to the government would be between five and six crores of rupees. The cost of collection in this case being high—rough estimates put it between two to three crores of rupees —the exchequer would not incur any sizable loss if it took the step suggested above. On the contrary, it would earn the gratitude of more than 4,00,000 families which are already bearing a heavy burden of indirect taxes. Moreover, this step will lessen the work of income-tax officers who will have more time to study rather more remunerative cases.

Since most of the changes introduced in the current year's budget are designed to reduce tax evasion, it is necessary here to recount the causes listed by the Wanchoo Committee which lead to tax evasion. The most important reason, in the view of this committee, is the confiscatory rate of taxation under the direct tax laws. "Prevalence of high taxes is the first and foremost reason for tax evasion because this is what makes the evasion so profitable and attractive in spite of the attendant risks" states the committee. It has suggested that the marginal rate of income-tax should be reduced from 97.75 per cent as at present to 75 per cent only. Table II (p. 565) sets out the rates of income-tax suggested by it.

Will the government heed the advice of this committee? The immediate reaction of the Ministry of Finance has not been favourable.

The tax on casual and non-recurring incomes exceeding Rs 1,000 a year has been justified by Mr Chavan on the plea that it would remove any temptation that people might have for neglecting regular duties in favour of any casual or ephemeral or even imaginary pastime. The objective here also seems to be to block a loophole. It has been rumoured that in order to convert their black money into white money some people had recently bought the winning tickets from the winners of the state lotteries at a premium. Moreover, the gains made by those who win state or other lotteries, or win fabulous sums at horse races, crossword puzzles and games of cards, have been equated with the profits of persons who enjoy the benefit of capital gains on appreciation of their property values without any effort on their part.

The Finance Minister has laid down that before taxing such non-recurring incomes from state lotteries a deduction of Rs 5,000 plus 50 per cent of the balance would be allowed. In the case of crossword puzzles and other lotteries, the deduction at source would be 34.5 per cent. This places the state lotteries in a happier position than crossword puzzles and other lotteries. What is important in this case is that casual losses if and when incurred would be allowed to be set off only against the same type of income.

Lenient Attitude

It might be argued that the Finance Minister has taken a lenient attitude towards state lotteries while he has been rather harsh to those winning at the races, crossword puzzles etc. Because winnings in both the cases are of the same type, it was necessary to treat them alike. It is well known that the states which have been successful in raising substantial revenue through state lotteries will lodge a protest against this levy as it would reduce the enthusiasm of the people for these lotteries.

The Finance Ministers are known to be clever persons who specialise in the art of attaining their objectives through various means. May be, this discrepancy in the rates of taxes will be rectified when the amendments to the Income-tax Act are presented in order to incorporate some of the recommendations of the Wanchoo Committee. It may be stated here that the Wanchoo Committee has recommended that the earnings from lotteries, crossword puzzles etc. should all be made liable to tax.

A new provision has been made in the Finance Bill for 1972 which stimulates the deduction of tax at source at the rate of two per cent on the payments made to contractors by the government, local authorities, statutory corporations, and companies. Payments made by contractors to sub-contractors will attract a deduction at the rate of one per cent. In the first place, this provision will expedite the settlement of income-tax cases of contractors and sub-contractors; secondly, it will assist in locating potential tax-payers. But in those cases where the contractors or sub-contractors fail to make a profit on the contract — as all contracts do not yield profits — a refund will be due to the contractors. This provision is merely a convenience for raising the tax revenue and in locating the tax-payers in this special class.

In order to make the assessees pay their income-tax dues promptly, the Finance Minister has proposed that the rate of interest charged when there is delay in the payment of direct taxes to the government should be increased from 9 per cent to 12 per cent per annum. Simultaneously, the government has taken the responsibility of paying interest at 12 per cent per annum on refunds, the payment of which is delayed. This is indeed a fair proposition. This is likely to result in prompt payment of taxes as well as refunds. Whenever the refund suffers inordinate delay and sizable charge by way of interest has to be paid to an assessee, the officer incharge would naturally come in for severe departmental criticism.

Hitherto certain categories of transfer of capital assets — particularly jewellery — did not attract the capital gains tax. The transfer of jewellery somehow gained importance in recent years for avoiding the tax. The Ministry of Finance is of the view that this deficiency in the capital gains tax had given rise to fictitious transactions in jewellery which were designed to regularise incomes which had escaped the axe of taxation. The present bill has, therefore, brought the transfer of jewellery within the purview of the capital gains tax. If, however, an assessee purchases jewellery for his personal use within six months with the sale proceeds of the jewellery, it would be exempt from the capital gains tax. If, however, a part of the sale proceeds were utilised for the purchase of jewellery, the proportional part of the capital gains would be exempt from the capital gains tax.

To the extent the sale of jewellery — real or fictitious — was being used for unholy schemes of converting black money into white money, it was indeed a heinous crime against society. The honest tax-payer is however likely to undergo hardship because of this new levy. Many middle class families have inherited jewellery and the date of original purchase or the price at which it was purchased is not known to the present owners. In the case of jewellery purchased before 1939 when the price of gold was almost one-tenth of the level which prevails today nearly the whole of the sale proceeds of jewellery would attract capital gains tax. As the primary objective of investing in jewellery was to make use of savings for the rainy day, the capital gains tax would take away a large slice of the sale proceeds which would severely hurt the assessees in need of funds.

If the objective is that people should cease investing in jewellery, this tax might act as a deterrent in some cases but to those traditionally wedded to jewellery, it would have no effect. On

TABLE I

TAX PAYABLE BY INDIVIDUALS IN 1967-68

Range of total income assessed Rs		No of assessees	Income assessed Rs (000)	Income-tax (including Super-tax) Rs (000)	Surcharge Rs (000)	Total Rs (000)
Below	4,000	?5138	8,30,85	15,03	1,11	16,14
4,001	5,000	330460	1,36,07,26	2,41,61	3,16	2,44,77
5,001	7,500	415309	?,48,43,03	6,44,06	32,61	6,96,67
7,501	10,000	262646	?,21,20,57	10,90,99	45,97	11,36,96
10,001	12,500	100236	1,10,05,00	7,00,70	49,31	7,50,01
12,501	15,000	66948	90,79,14	6,89,39	50,50	7,39,89
15,001	17,500	53439	84,75,82	8,18,95	49,83	8.68,73
17,501	20,000	31158	58,17,79	6,05,43	48,57	6,54,00
?0,001	25,000	41403	90,81,71	12,28,42	92,35	13,20,77
25,001	30,000	22195	60,28,77	9,90,07	85,05	10,75,12
30,001	40,000	26336	89,89.41	19,07,08	1,53,23	20,60,31
40,001	50,000	10,782	47,67,83	12,79,11	1,17,39	13,96,50
50,001	60,000	6426	34,43,43	10,51,78	93,90	11,45,68
60,001	70,000	4044	25,68,58	8,12,74	77,34	8,90,08
70,001	1,00,000	4688	38,79,89	15,23,56	1.64,27	16,87,83
1,00,001	2,00,000	3300	43,42,87	20,43,87	2,46,51	22,90,38
2,00,001	3,00,000	563	13,60,62	6,90,44	97,64	7,88,08
3,00,001	4,00,000	220	7,63,62	4,21,63	63,32	4,84,95
4,00,001	5,00,000	113	5,01,65	2,95,42	45,12	3,40,54
Over	5,00,000	229	24,68,46	14,82,40	2,43,95	17,26,35
Total		1405633	1439,76,30	185,52,68	17,61,13	203.13.81

the contrary, this measure might defeat the very objective it is expected to achieve. Most of the jewellery might now be sold in the black market. This would increase still further the dimensions of what the Finance Minister described sometime ago as the "parallel economy."

During the 50's this country had laid great emphasis on the co-operative movement. The government of India had gone out of its way to encourage co-operative societies in the country but now it seems the era of disenchantment with co-operative societies has commenced. The latest budget proposals include a provision which will be taken as a disincentive for the growth of co-operative societies. At present, the Income-tax Act exempts from income-tax—without any ceiling limit — the dividends received by an assessee from a co-operative society. It is now proposed to withdraw this concession because it is believed that this facility has encouraged tax avoidance by some unscrupulous persons who would normally have paid taxes but have been able to avoid them by arranging to carry on their activities through the co-operative societies established for this specific purpose. However, it has been conceded that such dividends will be allowed to be included in the deduction limit of Rs 3,000. Last year's budget had provided a sum of Rs 3,000 earned by way of dividends from the UTI, dividends from public or private limited companies and interest or deposits in banks which was not taxable. To this list have been added dividends received from co-operative societies as well.

Increasing Tax Yield

All the changes indicated above will result in increasing the tax yield by six crores of rupees in a full year and three crores of rupees in 1972-73 out of which two crores of rupees will be the share of the states. It seems that the Finance Minister has put forward conservative estimates. The yield, especially from lotteries, races and crossword puzzles is likely be significantly higher.

The history of growth of industry in our country has shown frequent changes in official policy. There was a time when it was believed that the utmost attention and care needed to be given to priority industries which were listed in the sixth schedule of the Income-tax Act. This list was supplemented by the addition of electricity companies and hotels owned by Indian companies. All these priority industries enjoyed concessional rate of taxation on their profits in the belief that it was in the national interest to encourage their promotion. A deduction of an amount equal to five per cent of taxable profits of such companies was allowed from the taxable income. The budget proposals for 1972-73 have discontinued this special facility which was allowed in the computation of the profits of priority industries. The Finance Minister has put forward no valid reason for doing so. Are we to infer that in the scheme of things which the Ministry of Finance and the Ministry of Industrial Development now visualise, there is no interest in encouraging the priority industries?

Surcharge Raised

To the same category belongs the decision of the union Finance Minister to raise the surcharge on company taxation from 2½ per cent to five per cent. This special surcharge had been imposed in the wake of the extraordinary situation which had developed in this country last year. While a surcharge of five per cent was levied on many other items including railway passenger fares, the union Finance Minister had at that time thought it desirable to levy a smaller surcharge on companies at the rate of 2½ per cent. This was done in the belief that the corporate sector was already paying a harsh—rather confiscatory — rate of tax. The Finance Minister has enhanced the burden of the corporate sector by increasing the surcharge from 2½ per cent to five per cent which is expected to yield Rs 12 crores over a full year and nine crores of rupees in the assessment year 1972-73. The disallowance of the special deduction of five per cent in the case of priority industries and doubling of the surcharge on the corporate sector will impinge heavily on the profits of this sector leading to a reduction in the volume of funds for ploughing back. Both these are negative features of the budget proposals which would provide disincentives for industrial expansion.

Withdrawal of Deductions

The withdrawal of the special deduction for priority industries will yield additional revenue of the order of six crores of rupees in a full year and Rs 4.5 crores in 1972-73. The increase in the surcharge on companies will increase their tax burden by Rs 12 crores in a full year and by nine crores of rupees in 1972-73.

The Finance Bill for 1972 has incorporated some changes in regard to the taxation of charitable and religious trusts, the aim being to discourage the use of these trusts by their promoters or their relatives. It is now stipulated that voluntary contributions received by such trusts would qualify for tax exemption from income-tax only if they are used for religious or charitable purposes. These trusts will have to get their accounts audited by a chartered accountant and they would also have to get themselves registered for claiming this benefit. It is thus designed to plug a loophole which existed and which had been made use of by certain persons, according to the Wanchoo Committee.

Not many measures are including in the current year's budget for encouraging savings and investment. Except for lengthening the list of exemptions

TABLE II

THE RATE SCHEDULE RECOMMENDED BY WANCHOO COMMITTEE

Income slab			Rate of tax
0— 5,000	..	..	Nil
5,001—10,000	..	..	10%
10,001—15,000	..	..	500+15%
15,001—20,000	..	..	1,250+20%
20,001—25,000	..	..	2,250+25%
25,001—30,000	..	..	3,500+35%
30,001—40,000	..	..	5,250+45%
40,001—50,000	..	..	9,750+50%
50,001—60,000	..	..	14,750+55%
60,001—70,000	..	..	20,250+60%
Over 70,000	..	..	26,250+65%

Surcharge of 15 per cent in respect of incomes over Rs 15,000.

under the Wealth-tax Act by including investment in industrial proprietary concerns or partnership firms and allowing the contributions made under the unit-linked insurance plan of the Unit Trust of India to qualify for deduction in calculating the taxable income of an individual, the budget has drawn a blank in this regard.

Changes in Wealth-tax

It may be recalled that under the Wealth-tax Act, 1957, approved financial assets up to the value of Rs 1.50 lakhs are exempted from tax; in the list of approved assets were included: (a) government securities, (b) fixed deposits with central government, (c) shares in Indian companies, (d) notified debentures, (e) units in the Unit Trust of India, (f) deposits with banking companies, (g) deposits with approved financial institutions, (h) shares in a co-operative society; and (i) deposits made by a member of a co-operative society with the society. Now, the latest Finance Bill has included in the above list the value of assets forming part of an industrial undertaking belonging to the assessee. In computing the value of the exemption up to Rs 1,50,000 this asset would also be included. It is believed that this concession would lead to increase in industrial investment in the country. It is not possible to measure the total impact of this concession on industrial investment but it will certainly not be very significant.

As stated earlier, incomes derived from dividends, interest on bank deposits, dividends received from the Unit Trust of India (UTI) up to Rs 3,000 in a year are exempt from income-tax liability. This has, to a large extent, affected the activities of the UTI because immediately after its coming into being, the then Finance Minister had allowed exemption up to Rs 1,000 exclusively in respect of dividends received from its units. Now an attempt has been made to promote the new unit-linked insurance plan of the UTI which will qualify for the special deduction which is currently available in respect of life insurance premia and contributions to recognised provident funds. It may be recorded here that the tax relief in these cases is allowed by deducting 100 per cent of the first Rs 1,000 followed by 50 per cent of the subsequent Rs 4,000 and 40 per cent of the balance of savings from the taxable income of the assessee. The contributions made to the unit-linked plan of UTI will derive the same benefits though this facility will be available only from April 1, 1973 i.e. in relation to 1973-74 and subsequent years. The unit-linked insurance plan of the UTI has so far not attracted the imagination of the people; may be after the sanction of this facility, contributions to this plan will increase.

There are vast differences in rules and regulations governing the payment of gratuity to retiring employees of the central government, the state governments, the defence services and the statutory corporations. In some statutory corporations, no ceiling limits have been laid down regarding the exempted amounts of gratuities. On the nationalisation of 14 major banks, the number of statutory corporations has increased and there are wide differences in the gratuity schemes of these banks. In order to bring all these corporations in line and remove the individious distinctions between them, the gratuities under the Income-tax Act are proposed to be regulated.

Exemption from Income-tax

The Finance Bill envisages exemption from income-tax in respect of gratuities received by employees of statutory corporations as well as employees in the private sector only if such gratuities are received (a) on retirement; (2) incapacitation or death of the employee; (3) on termination of employment. There is thus no provision for voluntary retirement though an official spokesman at a briefing to the press indicated that voluntary retirement was covered by the termination of services. By its very nature the expression "termination of services" is obnoxious and cannot be taken on a par with voluntary retirement. It is necessary that this clause should be amended suitably so as to cover the case of voluntary retirement as well which becomes necessary in certain sensitive professions.

The exemption from income-tax of gratuities will be covered by a ceiling of Rs 24,000. This change in the tax treatment of gratuities will take effect from April 1, 1973 implying that the new interpretation will apply for 1973-74 and subsequent assessment years. The Finance Bill 1972 has, however, provided exemption from income-tax on income of approved gratuity funds. Just as recognised provident funds and approved superannuation funds are exempt from income-tax on their incomes, a similar provision has hitherto not been available to gratuity funds.

The Finance Bill has now amended the relevant provision in the Income-tax Act to provide for exemption of income of the approved gratuity funds from tax. This will, in the first place, encourage the formation of gratuity funds and would not cause burden on the finances of a company when a large number of persons retire in a single year. Secondly, in a year when a number of employees of an organisation retire, it has an adverse effect on the surplus which would tend to reduce the bonus allocation for that year. If this provision should encourage private sector companies in particular to set apart small sums every year for the gratuity fund, it will come as a great relief in the year of retirement of persons drawing sizable salaries. Like the other amendments in regard to gratuities, this also will come into operation in 1973-74 and subsequent assessment years.

The Finance Bill, 1972, has also provided exemption from wealth-tax not only for gratuity funds but also for provident funds and approved superannuation funds with retrospective effect from April 1, 1957—the date of commencement of the Wealth-tax Act.

The decision to award each income-tax assessee a distinct and permanent account number may look like a mark of distinction but this will be the beginning of a new system which will make avoidance of taxes difficult in the future. Inevitably it will lead to the use of computers in collecting data from the income-tax records in such a manner that some sort of reconciliation of payments and receipts is possible. With the use of new third generation computers, it will be possible to reconcile nation-wide payments and receipts and to locate the particular account numbers which had failed to indicate some of the payments received during a particular year.

Welcome Step

This is a welcome step in the sense that it will bring efficiency to the income-tax collecting machinery. The leakages will be detected and the income-tax yield will increase which, in turn, would make it possible for the government to provide some relief to thousands of income-tax assessees and also to reduce the marginal rate of tax in the higher income brackets as suggested by the Wanchoo Committee.

Last year the Finance Minister, Mr Y.B. Chavan, had served notice on industry in regard to the development rebate which, he said, would not be available after May 31, 1974. It may be recalled that this facility had been given for the first time in the budget for

1954-55 for the express objective of accelerating economic expansion in this country. For more than a year now, the industry has pleaded with the government not to withdraw this concession but to no purpose. If the government cannot revise its decision in this regard, argues the industry, it could at least introduce some other fiscal concessions for giving momentum to industrial growth in the country.

The Finance Minister has stated that the government is not averse to the grant of fiscal concessions although he has in fact provided no such concession in the current budget. The argument has been advanced that fiscal concessions for promoting industrialisation should not be general or across-the-board in character but should relate specifically to our social and economic objectives. The question that needs to be asked is : Has the Finance Minister provided any concessions even on a selective basis ?

The decision to withdraw the development rebate has been linked by the Finance Minister with the desirability to provide such incentives as would encourage the use of labour rather than capital. The use of labour in industry can be increased only in so far as it is economic. As a matter of fact it is necessary today to use more capital for encouraging automation in industry so that the cost of manufacture may be reduced and our goods may become more competitive in foreign markets. In any case, the Finance Minister has agreed to review various concessions in this regard after a decision in regard to the recommendations of the Direct Taxes Enquiry Committee has been taken.

Accelerated Depreciation

The Wanchoo Committee has suggested that for encouraging industrialisation of backward areas, a concession in the form of accelerated depreciation which should be equal to 1½ times the amount of depreciation which would otherwise have been allowable might be given to tax payers who establish new industrial units in notified areas. The concession should apply to fixed assets only. Even this 50 per cent increase in depreciation will go a long way in encouraging the process of industrial expansion in backward areas if this recommendation of the committee is accepted by the government.

Again, the Wanchoo Committee has suggested that a tax rebate ranging between five and 10 per cent of the tax payable might be allowed to an assessee in respect of income derived from a labour-oriented industrial unit set up after a specified date; the rebate should be available for a period of five years. In order to implement these recommendations, the government will have to list the labour-oriented industries and, what is more, it will have to fix a higher tax rebate — higher than 10 per cent — *if it is really keen to* encourage the use of labour-oriented process of manufacture. The deficiencies caused by the reduced use of machinery so as to accommodate increased labour force will not be fully covered by the rebate of 10 per cent in taxes though this percentage would vary from industry to industry.

Far-reaching changes in the Income-tax Act are expected when the Finance Minister comes up with separate legislation sometime this year so as to give effect to the recommendations of the Wanchoo Committee. It is necessary here to note that this committee has recommended that surtax on companies should be abolished. It has also suggested that instead of surtax, a tax on the capital of companies might be introduced. Capital for this purpose would be defined as "owned" and "borrowed" capital and this tax would be fixed at a general flat rate of one per cent. Some relaxation, either through basic exemption or through a more lenient rate, would have to be given to small companies.

Exemption for New Industries

The committee has recommended that even the public sector companies should be brought within the jurisdiction of this tax though it would amount to transfer of the tax amount from one pocket to the other. The "owned" capital of companies for purposes of this tax would be defined as paid-up capital plus reserves — excluding those reserves which are made for specific contingent liabilities. The term "borrowed capital" would be defined as an amount calculated at eight times the net interest paid by the company towards borrowings during the year. The committee has, however, suggested that new industrial companies should be exempted from this capital levy for a period of five years.

For quickening the pace of industrialisation, the Wanchoo Committee has recommended the establishment of a Reconstruction and Stablisations Reserve Fund. All companies would be required to contribute up to a maximum of 10 per cent of their gross total income. This contribution will be allowed to be deducted in arriving at the total income of the company for tax purposes. The government will undertake to pay interest at the rate of six per cent per annum on these deposits and the interest received by the companies will be subject to tax. The companies will be free to withdraw at any time up to 50 per cent of their deposits for current repairs, building of plant and machinery and for research, though the amount so drawn would be deemed to be income of the year in which it is withdrawn. The remaining 50 per cent of the deposits would be blocked for a period of five years during which no withdrawals would be permitted. It is debatable if this special fund could be a factor in promoting industrial expansion but there is no doubt that it will reduce the volume of funds available to industry for ploughing back.

More Funds for Expansion

Two points need to be made in regard to this fund. First, the contribution of 10 per cent of gross income to this fund amounts to a further surcharge on the income-tax borne by the companies. It will reduce the funds available to progressive companies to plan their own expansion. It will of course place increased funds in the hands of the government for distribution to companies which it wishes to set up or encourage. Second, the use of the word "gross income" by the Wanchoo Committee seems to be inappropriate. The proper expression would be "gross profit". Ten per cent of the "gross income" is in fact more than the total "gross profit" of the corporate sector. Surely it is not the intention of the committee to direct all the profits of the corporate seetor to the establishment of this fund.

The Wanchoo Committee has also suggested that an incentive by way of a tax rebate should be allowed to companies which are engaged in the manufacture of specified goods if they attain increased productivity. It means that they should be given a special incentive for increased utilisation of installed capacity resulting in increased production. The committee is of the view that the rebate might be in the form of a deduction in tax ranging from five to 10 per cent. But before this incentive is provided to companies, the government will have to set up suitable norms after consulting competent authorities in the case of each industry and each industrial unit which is however not an easy task. For more than two decades, this country has failed to evolve a formula in regard to profit-sharing by labour resulting from increased labour productivity. It seems that this suggestion of the committee is of an academic nature.

The Wanchoo Committee has made

special recommendations in relation to small companies—those companies which have paid-up capital not exceeding five lakhs of rupees. Such companies, says the committee, should be allowed to distribute profits up to eight per cent of the paid-up capital or Rs 25,000, whichever is less and this amount should be totally exempted from tax by allowing it to be deducted in computing the total income. However, in the case of those companies whose paid-up capital exceeds five lakhs of rupees, distributed profits up to eight per cent of the paid-up capital should be taxed, in the view of the Wanchoo Committee, at the rate of 30 per cent. In order to prevent the avoidance of tax by companies through the increase in their capital base by the issue of bonus shares, the committee has suggested that the bonus share capital should be excluded for this purpose.

Uniform Rate of Taxation

Again the committee has recommended that all domestic companies, whether public or private, widely-held or closely-held, and industrial or non-industrial, should be taxed at a uniform rate of 55 per cent. At present there is great diversity in the rate of taxes imposed on different types of companies. Similarly, the committee has suggested that the existing distinction in the matter of tax rate applicable to the widely held companies with income not exceeding Rs. 50,000 and others may be done away with and both types of companies should be taxed as suggested earlier at the rate of 55 per cent.

All these recommendations of the Wanchoo Committee are designed to simplify the highly complicated taxing system evolved over the years. The committee has boldly suggested certain measures designed not only to simplify the taxing system but also to rationalise it. Its recommendation regarding the abolition of surtax on companies merits careful consideration by the government because it has been proved that this particular tax is obnoxious in the sense that it is a charge on the efficiency of a unit.

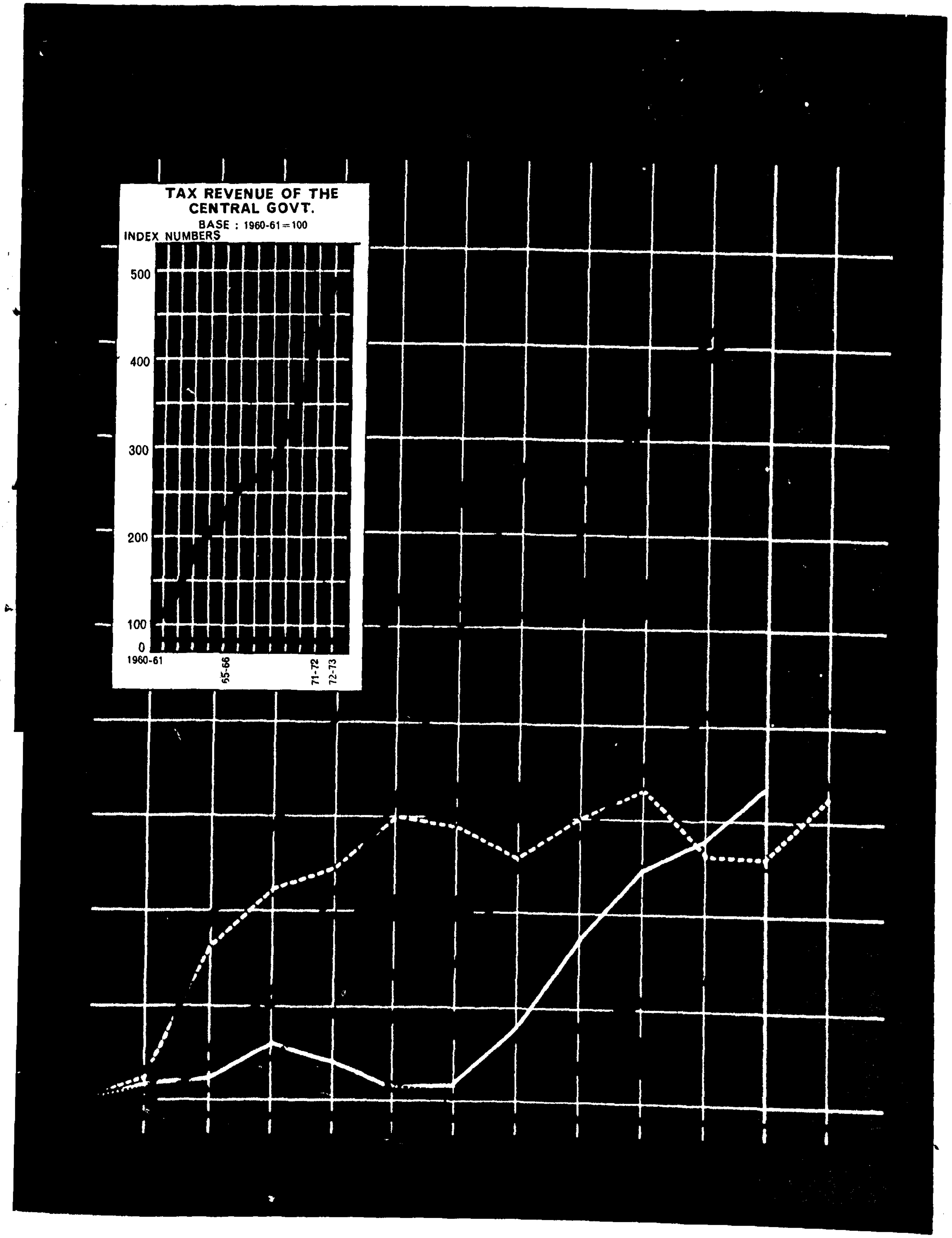
The recommendations of the Wanchoo Committee need to be looked at as a "package" and not in separate parts. The President of the Federation of Indian Chambers of Commerce and Industry, Mr Madan Mohan Mangaldas, has done the right thing in drawing the attention of the government to this aspect as the government has a tendency to cash on the new imposts suggested by an experts committee neglecting completely the reliefs recommended by it. In the case of the Kaldor Report in the fifties the government had lost no time in imposing the new taxes suggested by it but turned a deaf ear to the advice of Prof Kaldor in regard to concessions and reliefs.

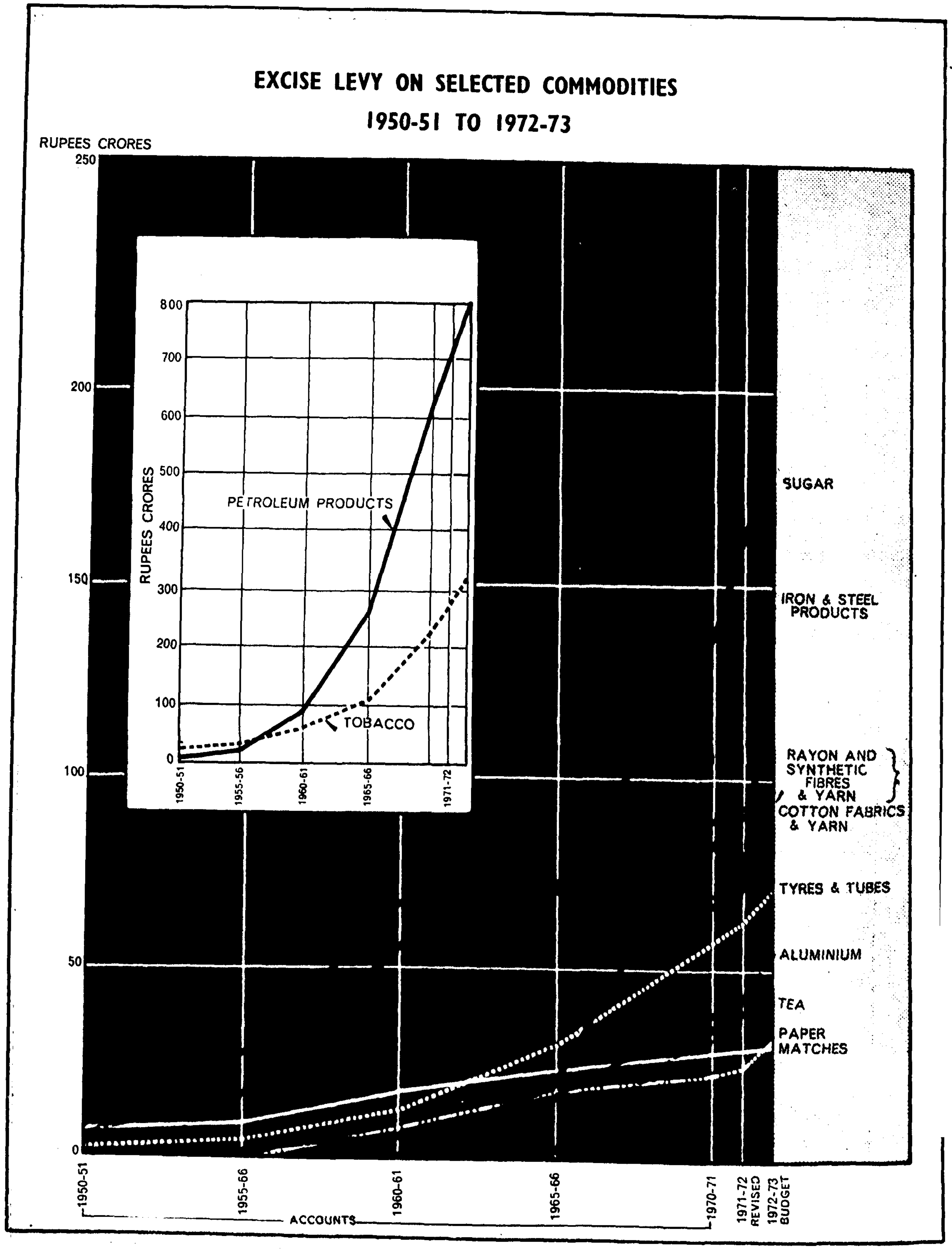
An Appellate Assistant Commissioner of Income-tax at present enjoys wide powers in regard to admission of evidence before him. This evidence might not have been produced by the assessee before the income-tax officer. It is now proposed to regulate the admission of such additional evidence. The Central Board of Direct Taxes has now been authorised to prescribe in the income-tax rules the circumstances in which and the conditions subject to which and also the manner in which the Appellate Assistant Commissioner of Income-tax may permit the appellant to produce evidence which was not produced or which was not allowed to be produced before the income-tax officer.

It is obvious that these changes are being brought about on complaints from the income-tax officers that many of their orders are reversed by the Appellate Assistant Commissioner of Income-tax because of the fresh evidence brought forth by the appellant. It is not known how far the new rules will be of assistance in this regard. The fault is not entirely of the appellant. It has been seen that the income-tax officers have a tendency to dispose of a large number of cases in the concluding days of a fiscal year and consequently they are neither able to devote full attention to the income-tax returns nor is the appellant given sufficient opportunity to understand the mind of the income-tax officer so as to produce the kind of evidence or information needed to give him satisfaction.

It is only after the income-tax officer has taken a decision and indicated it to the appellant that the latter fully understands the working of the mind of the income-tax officer and has no option but to appeal to the Appellate Assistant Commissioner of Income-Tax. The increase in the number of rules and regulations can under no circumstances provide relief in such cases. It is necessary that the income-tax officer should give enough opportunity to the appellant for producing the necessary evidence for giving him satisfaction.

The fault in this regard is not with one side alone. If the new rules should prevent an appellant from producing relevant evidence before the Appellate Assistant Commissioner of Income-tax which would throw light on the circumstances of a particular case, it would be indeed very sad. Surely this is not the spirit in which the Income-tax Act should be interepreted.





A fresh dose of cost-push inflation

R. C. Ummat

WITH MOST of the recommendations of the Wanchoo Committee on Direct Taxes still being considered by the union government and even otherwise direct taxes, except in the agricultural sector, having reached dizzy heights, the Finance Minister, Mr Y.B. Chavan, apparently had no other alternative than to depend on raising indirect levies in his taxation effort for 1972-73. Of the Rs 183 crores total taxation originally proposed by him in his budget speech on March 16, as much as Rs 167 crores levies were indirect— customs and excise duties. The changes in direct taxes were estimated to yield just about Rs 16 crores. The receipts from the indirect levies, however, are now expected to be around Rs 155 crores, as a sequal to the scaling down of the originally proposed duty on kerosene by Rs 20 per kilolitre.

Previous Tax Measures

To correctly appreciate the implications and the incidence of indirect taxes this year one however has to go back to December last when the Finance Minister enhanced the burden of these levies by Rs 125 crores in a full year. At that time and earlier in September too, the union government came forth with several other taxation measures, but since these concerned the fields of direct taxes, railway fares, post and telegraph tariffs and internal air travel, they are outside the scope of this article. The additional receipts from the September measures in a full year were estimated around Rs 70 crores. Besides the Rs 125 crores in direct taxation resorted to in December, the burden of direct taxes was raised in that month by Rs 10 crores. The total increase in the tax burden since September last, which will have its full impact on the economy in 1972-73, thus, is of the order of Rs 376 crores. The increase in indirect taxes has been to the tune of Rs 280 crores.

With the taxation proposals of March 16, the share of indirect taxes in the gross tax revenue of the union government goes up to 72.2 per cent. According to the revised estimate for 1971-72, this percentage works out to nearly 71.4 for that year. In 1960-61, indirect taxes yielded 66.5 per cent of the gross tax revenue of the central government. In 1950-51, at the time of the launching of planned development, over 60 per cent of the total tax revenue of the centre was derived from indirect levies.

Between the two instruments of indirect taxation (besides deficit financing) — excise duties and customs levies — the pride of place has been provided by the Finance Minister in his budget proposals to the former. In the total yield of Rs 280 crores from indirect taxes imposed since December, the share of customs levies is expected around Rs 82 crores. The excise duties will yield Rs 198 crores.

Just as it is not surprising in the least that the Finance Minister has depended more on indirect taxes in his efforts to mobilise additional resources than on direct taxes, there is no element of surprise in his greater reliance in indirect taxation on excise duties than on customs levies. As a result of the growth of the economy during the last 22 years, the revenue from customs levies has grown at a much slower pace than that from excises. In 1950-51, the total receipts from customs duties — both import and export imposts — aggregated to Rs 157.15 crores. It increased to Rs 487.62 crores in 1970-71 and is expected to go up to Rs 722 crores in 1972-73. The revenue from excise duties in 1972-73, on the other hand, is anticipated in the neighbourhood of Rs 2,463 crores, as against a bare Rs. 67.54 crores in 1950-51.

Implications of Proposals

Coming to the budget proposals as such with a view to assessing their implications for the economy, let us first deal with customs levies. The major incidence of these duties in 1972-73 will apparently flow from the changes effected in December last; the yield from the December levies this year will be of the order of Rs 60 crores. The last month's changes in the customs levies are estimated to net only Rs 22 crores this year

In December, the Finance Minister not only imposed a general regulatory customs duty of 2.5 per cent on all imports, except foodgrains, books and a few special categories of other items, but also in the case of some 30 items — mostly consumer goods and a few machinery items the indigenous production of which was considered adequate — the regulatory customs levy was raised by 10 per cent. Export duty on hessian and carpet backing was stepped up by Rs Rs 400 per tonne.

Last month, the regulatory customs duty was made uniform at 10 per cent of the value in the case of all items which pay an effective basic customs duty of 100 per cent or more. The articles liable to an effective basic duty of 60 per cent or more but less than 100 per cent were subjected to a regulatory duty of five per cent ad valorem. The remaining items, with the exception of foodgrains, books and certain special categories, were continued to be subjected to 2.5 per cent ad valorem general duty. Additional countervailing import duties were levied on all items on which excise duties were raised, of course, with the exception of iron and steel items (including tinplates and sheets). Some rationalisation was also effected in the import duties on drugs and medicines consequent upon the elimination of the margin of preference as a result of the country's commitments under the General Agreement on Tariffs and Trade.

Although the above measures are bound to raise the cost of imported items, there can be little objection to this as the import substitution programmes have to be relentlessly pursued if self-reliance is to be fostered. The increase in the incidence of export levies on hessian and carpet-backing, which was effected in December and which is to continue in 1972-73, cannot also be objected to any seriously following the attainment of freedom by Bangladesh. A close watch, however, will have to be kept on the global price trends of these two jute products so that if the situation warrants, remedial step can be taken expeditiously. Close co-operation between our country and Bangladesh in this regard can be beneficial to both.

Excise Duties

As regards excise duties, the December imposts were on iron and steel— —both ingots and products — copper, zinc and aluminium among non-ferrous metals, unmanufactured tobacco and jute manufactures other than hessians. The iron and steel products were subjected to a regulatory excise duty of 50 per cent of the basic duty which in absolute terms worked out to between Rs 100 and Rs 237.50 per tonne, the flat products attracting duty at higher rates. The regulatory excise duty on copper and zinc was fixed at 75 per cent of the basic duty. In absolute terms, the effective rate of this duty worked out to Rs 375 per tonne in the case of copper wires, bars, sheets and circles, Rs 1,125 per tonne in the case of copper pipes and tubes, Rs 225 per tonne for zinc unwrought, sheets and circles and Rs 375 per tonne for zinc pipes and tubes. The regulatory excise duty on aluminium was fixed at 25 per cent of the basic duty which at that time was 25 per cent ad valorem in the case of crude aluminium, including wires, bars and rods, and 20 to 25 per cent ad valorem on sheets, circles, foils, pipes and tubes, extruded shapes and sections and containers. Unmanufactured tobacco was subjected to a 15 per cent (of the basic duty) regulatory excise duty and jute manufactures other than hessian to a 50 per cent regulatory levy. The incidence in the case of unmanufactured tobacco worked out to between Rs 0.4 to Rs 4.12 per kg. and in the case of jute manufactures to Rs 175 per tonne.

Last month, while the Finance Minister abstained from including any new item in the excise net, except power-driven pumps and some lubricants — which were brought within the purview of excises through a change in the definitions in the Finance Act, 1971—and marginally adjusted the excise levies on most of the other items by merging the special and the basic duties and rounding them off, he quite steeply raised the burden on kerosene and waxes, the more expensive categories of paper, high quality artificial silk fabrics, and iron and steel products. The incidence of excise levies on cement, synthetic organic dyestuffs, aerated waters, asphalt, lubricants, paints and varnishes, fertilizers, power-driven pumps, plastics, tyres, aluminium, and unmanufactured tobacco was stepped up moderately.

Controversial Duty

The most controversial increases in the excise duties proposed by the Finance Minister last month apparently relate to kerosene, iron and steel items, aluminium, high quality artificial silk fabrics, fertilizers and power-driven pumps.

So far as kerosene is concerned, Mr Chavan had originally proposed to step up the effective excise duty on this item by Rs 59.75 — from Rs 225.25 to Rs 285.00 —per kilolitre. Subsequently, in deference to the wishes of the members of Parliament, both belonging to treasury and the opposition benches, he announced while replying to the general debate on the budget in the Lok Sabha, a reduction in this levy to the extent of Rs 20 per kilolitre. The residuary increase, according to an official spokesman, will raise the price of a bottle of kerosene by three paise.

The main justification given by Mr Chavan for the increase in the levy of kerosene is that because of the lower rate of this duty compared to the levies on other petroleum products, a good deal of adulteration of kerosene with other products, particularly with high speed diesel oil, was going on. The increased duty on kerosene, thus, it is thought, would check this adulteration.

This, however, does not appear to be the real reason for stepping up the levy of kerosene. Had it been so, the Finance Minister would not have spared kerosene from an increase in duty last year. The adulteration of high speed diesel oil with kerosene is not a phenomenon of the last year alone, it has been going on for several years as the difference in the price of high speed diesel oil and kerosene till Mr Chavan's last month's budget proposals had been as large as Rs 225 per kilolitre. The increase of Rs 39.25 per kilolitre in the duty on kerosene still leaves a great difference between the price of this product and that of high speed diesel oil. It is, therefore, presumptuous to assume that the increase in the price of kerosene as a result of the new levy will be deterrent to it being used for adultrating high speed diesel oil or other higher priced petroleum products.

Curbing Consumption

The real reason for raising the rate of duty on kerosene, thus, is quite different. It is to curb the consumption of the product which still continues to be imported to some extent. Indirectly, it is aimed at containing the import bill on crude oil which has grown appreciably in the last 18 months as a result of an upswing in its prices.

There can, be no denying the fact that in the situation in which we are placed at present, there is no escape from curbing the consumption of petroleum products so that the mounting import bill on crude oil is contained to the maximum extent possible. But it has to be remembered that fiscal measures are of only limited efficacy for reducing this bill. The real solution to the problem lies in stepping up our oil exploration programme. Until and unless we find more crude oil indigenously, our imports of this fuel source cannot be rigorously contained. After all, the overall growth of the economy has to be fostered. With this, our requirements of petroleum products are bound to grow. What can be achieved through fiscal measures is some curtailment of the rate of growth.

Already the burden of taxation on petroleum products has been raised so much that the receipts from the excise duties on them account for over 35 per cent of the total revenue from this source. The import levies on petroleum products yield another substantial amount. As a matter of fact, this trend not only in our country but also in the other major petroleum importing countries has been the primary cause of the uptrend in the prices of crude oil in the past 18 months. Indiscriminate stepping up of import and excise levies on petroleum products is bound to result in cost-push inflation which apparently has now to be contained in our country. Besides accelerating the oil exploration programme, the other alternative available to us for servicing our growing crude oil imports is to increase our export earnings.

Excise on Steel

As regards iron and steel, the increase effected in the basic levies on various products last month is of the order of 30 per cent. The regulatory excise duty of 50 per cent imposed in December is to apply to the enhanced basic rates. The total increase in the burden of excise levies on iron and steel items, imposed last month, thus, works out to 45 per cent. Taking the December and last month's proposals together, the excise burden on iron and steel products has been increased by as much as 95 per cent. In absolute terms, the last month's increase, including the incidence of regulatory duty, comes to Rs 56.25 per tonne in the case of billets, bars, coils, wires etc, and Rs 145.5 per tonne in the case of galvanised plates, sheets, etc. The incidence of the December regulatory duty, in absolute terms, as indicated earlier, worked out to between Rs 100 and Rs 237.50 per tonne. The burden on tinplate even exceeds the above-mentioned upper limits.

No doubt, as the Finance Minister pointed out in his budget speech, there was a considerable difference between the cost of indigenous steel and the world prices of steel even after the December regulatory duty and there was also need to rationalise the consumption of this basic material, the sharp increase in the burden — taking the incidence of both the last month's and December measures — can indeed add considerably to the cost of production of the steel consuming industries. No assessment appears to have been made in the Finance Ministry in this regard, particularly in respect of the machine-building industry. To the extent this industry was able to procure steel from indigenous sources at the Joint Plant Committee prices — and there is indeed a substantial portion of the industry's requirements being met this way — the increased levies will undoubtedly raise the cost of production of machinery manufacture. There can be little doubt about the JPC prices being raised to the full extent of the incidence of both the December and last month's excise step-ups, as various steel products are commanding a good premium in the open market over the JPC prices. The open market premium may, however, come down to some extent as it may be difficult for the trade to push up the open market prices any substantially.

One also wonders whether the Finance Ministry has taken into consideration how the increase in the excise burden on iron and steel items will affect the governmental expenditure on the purchase of these products. Nearly 50 per cent of the total consumption of steel in the country is accounted for by the purchases of the government and its commercial undertakings. To that extent, the gain to the central exchequer will be negated by the increased expenditure. The country, in the meanwhile, will have to suffer from an additional dose of cost-push inflation. The plight of the engineering industry in the case of production items where the cost of steel is a major element of the overall cost can well be imagined. The pertinent instance of this is the ship building industry. Since there is not much sophistication as yet in our machine building industry, as is there in the western countries, it will be difficult for the indigenous manufacturers to fully absorb the increased burden.

The case of aluminium is no different. The regulatory excise duty of 25 per cent of the basic or effective duty imposed in December has now been raised to $33\frac{1}{3}$ per cent. The basic duty on foils has also been raised from 24 to 30 per cent ad valorem. Although the regulatory, excise levy on copper and zinc was also imposed in December at the rate of 75 per cent of the basic or effective duty, which in percentage terms is still much higher than the increased rate of the levy on aluminium, some set-back to the substitution of copper and zinc by aluminium cannot be ruled out, as the difference in the burden of excise on the three non-ferrous metals has been narrowed down. Incidentally, with the last month's proposals, the excise burden on aluminium has been raised to 40 per cent which is admittedly high.

Coming to the high quality artificial fibres, particularly polyester fibre, we find that the incidence of last month's proposals works out to about Rs 2.64 per shirt length. The following table gives the typical cost analysis of a polyester mixed shirt length before the last month's budget proposals:

	Cost	Total cost including excise duty
	Rs	Rs
Terene fibre (67%)	2.98	8.08
Cotton (33%)	1.26	1.26
Manufacturing (including spinning, weaving, dyeing, etc)	9.46	14.78
Mills' mark-up (including distribution and transport expenses)		2.70
Wholesaler/retailer mark-up (including storage expenses)		4.75
Retail price		31.57

Subsequent to the last month's proposals, the cost analysis comes to as follows:

	Cost	Total cost including excise duty
	Rs	Rs
Terene fibre (67%)	2.98	8.30
Cotton (33%)	1.26	1.26
Manufacturing (including spinning, weaving, dyeing, etc)	9.46	16.15
Mills' mark-up (including distribution and transport expenses)		2.90
Wholesaler/retailer mark-up (including storage expenses)		5.60
Retail price		34.21

It is true that polyester-mixed fabrics have longer life than those made of pure cotton and also that they are primarily consumed by the comparatively affluent section of our society, the major factor that the Finance Minister has preferred to ignore while stepping up the excise burden on the more expensive artificial silk fabrics, is that the production of synthetic fibres has to be encouraged to lessen our dependence on cotton, particularly long staple cotton, to meet the growing clothing requirements of the country. With this end in view, apart from the expansion allowed to M/s Chemicals and Fibres Limited from 4,500 tonne to 6,100 tonnes polyester fibre, as many as five other such units have been sanctioned to be set up. These are: (i) the Indian Organic Chemicals' Madras project — 6,100 tonnes; (ii) Polytex (Ghaziabad) scheme — 6,100 tonnes· (iii) Assam Petrochemicals — 30,000 tonnes; (iv) Calico project — 6,100 tonnes; and (v) a unit in Punjab —about 6,100 tonnes. If the intention of the Finance Minister was to only increase the revenue from the excise duties on superior artificial silk fabrics for the benefit of the exchequer, it could automatically have been achieved in the next two years as at least four of the above five projects would have gone into production by then. Mr Chavan perhaps had some other ideas in mind.

In view of the already developed consumer resistance to the more expensive artificial silk fabrics, it is doubtful that the industry will be able to pass on the entire burden of the last month's proposals to the consumer. The industry's profitability, thus, would be seriously impaired. This will have its impact on the expansion of the industry. The ultimate objective of reducing our dependence on cotton for meeting the clothing requirements of the country, therefore, may be jeopardised.

It will also be erroneous to assume that only the prices of superior varieties of artificial silk fabrics would be affected by the last month's budget proposals. This is because apart from the sizeable increase effected in the excise levies on synthetic fabrics, the excise burden has as well been stepped up on synthetic organic dyestuffs and bleaching agents. The increase in the duty on these two items is from 15 to 20 per cent.

The five per cent increase in the excise duty on fertilizers proposed by the Finance Minister last month and the subjecting of power-driven pumps to a duty of 10 per cent ad valorem has been assailed on the ground that they would affect the agriculturist. One wonders if the critics of these two proposals desire that the growing incomes in the agricultural sector ought to be completely left untouched. As pointed out earlier, direct taxation except in the agricultural sector has already been raised to deterrent levels. The sharp increase in the incomes in the agricultural sector apparently cannot be spared from taxation if the resources of the state have to be augmented. The above two proposals aim at mopping up to some extent the increased incomes from agriculture. Their impact on the cost of raising crops cannot be very significant. Since there is a good deal of resistance to the lowering of the procurement prices even in the face of sizeable surpluses of some farm products, a marginal increase in

NET TAX REVENUE OF UNION GOVERNMENT

(Rs crores)

	1950-51	1955-56	1960-61	1965-66	1970-71	1971-72 Budget	1971-72 Revised	1972-73 Budget
Total Net Tax Revenue of Union Government	357.00	411.47	730.14	1,784.62	2,451.36	2,717.42	2,901.07	3,348.29†
of which								
Taxes on Income and Expenditure	125.70	113.23	191.97	453.72	484.60	481.23	522.78	600.49
Taxes on Property and Capital Transactions	3.81	2.55	13.49	19.83	26.86	39.83	41.37	54.70
Taxes on Commodities and Services	227.49	295.69	524.68	1,311.07	1,939.90	2,196.36	2,336.92	2,693.10
(i) Customs	157.15	166.70	170.03	538.97	524.02	534.00	652.00	722.00
(ii) Union Excise Duties	67.54	128.68	341.25	752.00	1,368.50	1,608.59	1,627.75	1,871.56†
Non-Tax Revenue	48.86	69.72	147.32	535.77	890.50	1,009.51	1,179.64	1,120.27
Total Net Revenue of Union Government	405.86	481.19	877.46	2,320.39	3,341.90	3,726.93	4,080.71	4,464.56
States' share in Union Taxation*		73.59	165.38	276.05	755.44	890.44	945.14	1,051.35†
of which								
Excise, including additional levy in lieu of Sales Tax, account for		16.57	75.01	145.92	390.05	462.97	475.29	581.19†

*The union government's revenue has been deducted. So also for the total taxation effort of the union government.
†After assessing the impact of scaling down the duty on kerosene by Rs 20 per kilolitre.

production costs cannot be seriously objected to. Further steps for taxing agricultural wealth and incomes have been promised by the Finance Minister after the submission of the K.N. Raj Committee's report. This committee, set up recently, is going into the whole question of taxation of agricultural income and wealth.

A brief reference may now be made to some of the remaining items on which the excise burden has been raised by the Finance Minister. The foremost among these are the more expensive varieties of paper and board. The enhancement of the burden of excise on these varieties undoubtedly will impair the profitability of the paper industry which already leaves much to be desired. The further expansion of this industry will now, therefore, become more difficult.

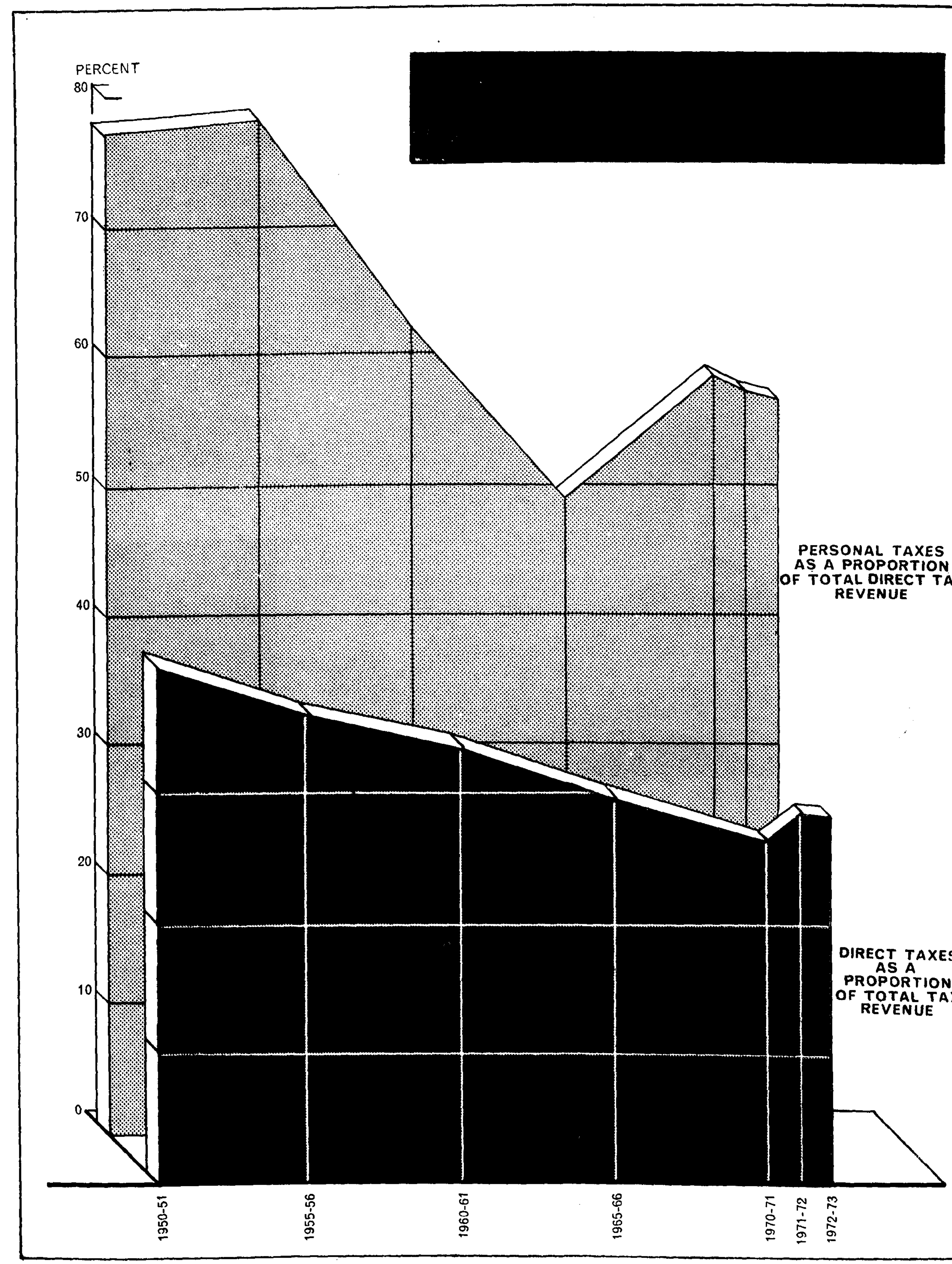
The raising of the excise duties on iron and steel, cement and paints and varnishes will raise housing construction costs appreciably. The smokers have been made to pay more for their love for the lady nicotine. The recent deaths caused in Delhi, and also elsewhere, by poisonous "hooch" should be a pointer to the fact that indiscriminate raising of the taxes on certain "pleasures" of life which provide an escape from the daily humdrum is not a wise policy to follow.

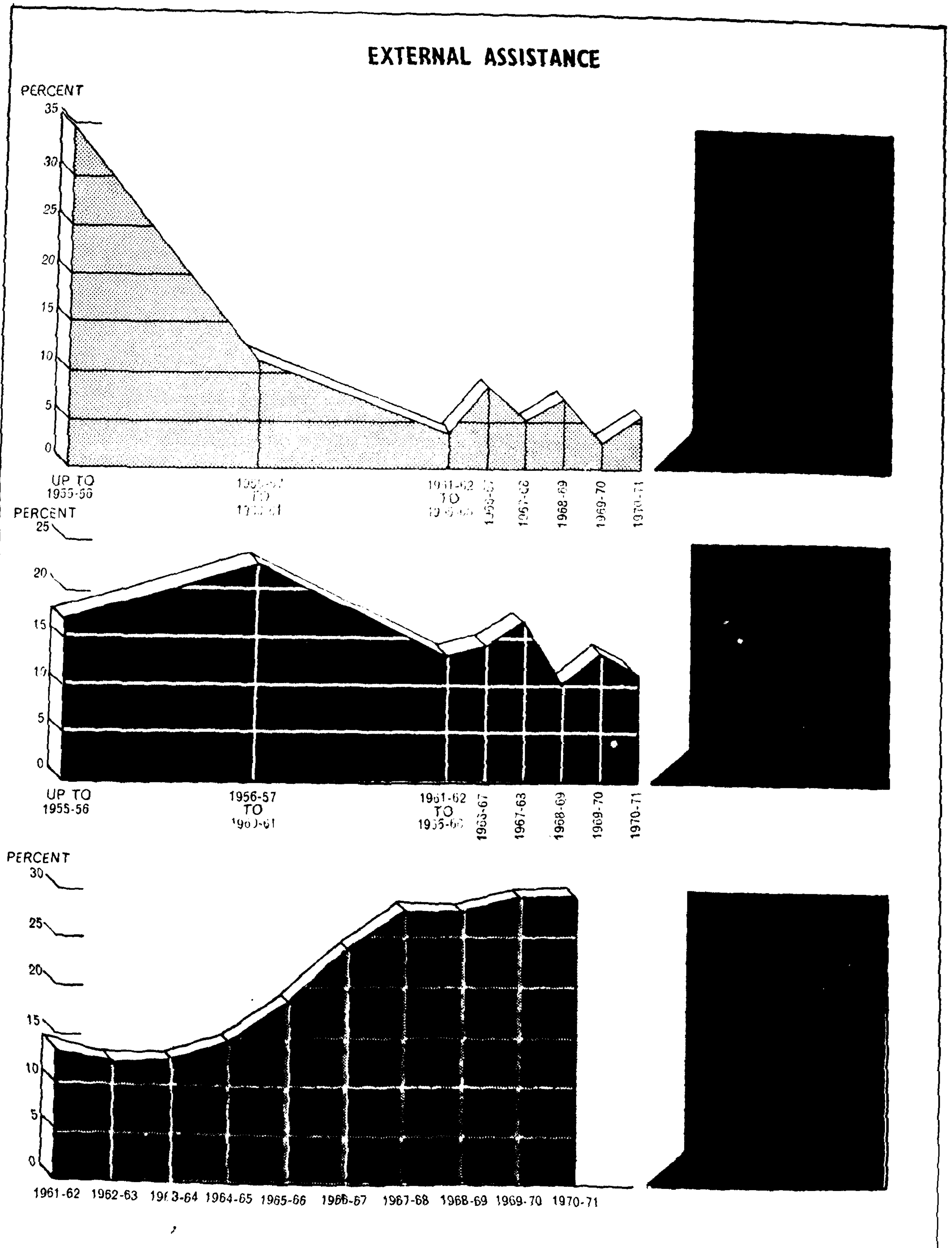
The most pertinent point, in respect of indirect taxation which has to be squarely faced by the Finance Minister is how far he should go on accentuating the cost-push inflation in the country. There is little doubt that excise and customs levies in our country are being invariably passed on to the consumer, be it an industrial or an ordinary consumer. Already our economy has become a very high-cost one. Further cost-push inflation is unwarranted. On the other hand, the imperative need of accelerating the pace of economic development requires augmentation of the state resources.

Both taxation and deficit financing have their limitations in the present-day circumstances in our country. The government has got to appreciate this. The nation has been subjected to growing tax burden and persistent doses of deficit financing. It will not mind it, provided, of course, the resources raised are judiciously utilised. But are they being so utilised?

The non-productive expenditure of the government is growing day by day. The heavy investment of over Rs 4,000 crores in the public sector commercial undertakings too is not yielding any significant return. Had the governmental expenditure been controlled and the public sector investments yielded the return expected of them, the tax burden could at least be contained, if not reduced.

To some extent at least, the persistent stepping up of the tax burden and continued resort to deficit financing have been contributory to the increase in the governmental expenditure and the over-capitalisation of public sector undertakings (one of the reasons of these enterprises not yielding adequate return on investments in them). The inadequate return on the public sector investments and the growing expenditure of the government, on the other hand, have necessitated increase in taxation and persistent recourse to deficit financing. A vicious circle has, thus, been created. It has to be broken.





State budgets

Hardev Singh

THE YEAR 1972 being the year of elections to the state assemblies, the ministers of finance in the newly constituted state governments have come out with only interim budgets for 1972-73. Although most of the states have also presented the annual picture, yet, by and large, this picture would prove arbitrary because the final shape of finance in the states will emerge only after budgets for full year are presented after nearly three months. Nevertheless some comparable figures have been collected in respect of revenue accounts of the states in Table I (p. 585) which reveal significant features of the states' finances.

The total income on revenue account from all the states for which figures for the full year are available for 1972-73 has been placed at Rs 4369 crores which is some 25 per cent higher than the corresponding revenue figures for 1971-72. The surplus during the year, however, is lower than the cumulative surplus for 1971-72. This decline appears reasonable considering the fact that some additional revenue may be raised in some of the states and the overall surplus by that time may be larger than in 1971-72.

Improved Surplus

Taking into account the finances of the individual states, it may be observed that Gujarat, Haryana, Madhya Pradesh, Maharashtra and Punjab improved their surplus on revenue account and Tamil Nadu has converted its deficit of Rs 15.87 crores in 1971-72 to a surplus of Rs 2.49 crores. There are, however, other states such as Uttar Pradesh and Bihar which this year expect a deficit as against a surplus during the previous year. The states of Kerala, Orissa, Rajasthan and West Bengal are among those that continue to show deficit.

On the side of expenditure the state of West Bengal is the only one to project a substantial reduction in the budget year because the state had the responsibilities of maintaining refugees from Bangladesh during 1971-72. The maximum increase in expenditure during the year is expected in the case of Uttar Pradesh where the figure is likely to be higher by nearly 80 per cent over the previous year. Though this jump is exceptional, considerable increases are proposed in other states too such as Tamil Nadu, Punjab, Orissa, Mysore, Maharashtra and Haryana.

Fresh Taxation

Although most of the states have postponed the proposed new levies to the final budgets to be presented later, some states have come forward with fresh doses of taxation. Bihar, for instance, has proposed five measures to cover nearly 55 per cent of its total deficit and these measures are likely to raise Rs 14.84 crores. Surcharge on land revenue may bring in Rs 1.50 crores, adjustment in the existing rate of sales-tax may bring in Rs 0.34 crores, additional loans from the market are likely to bring in Rs five crores, increased irrigation rates may add Rs one crore and realisation of government dues will add Rs seven crores. The Minister for Finance stated that the government has sustained a recurring loss of Rs five crores annually owing to remission of land tax on small holdings. When the remission was made, he pointed out, it was thought that the loss would be compensated from income received through increased tax on big farms and wealthy farmers. He added that the government had decided to levy surcharge on land revenue on holdings which did not fall in the category of exemption.

A significant aspect of state finances has been the size of the state plans. Table II (p. 585) provides figures regarding states' resources for their plans, central assistance and resource mobilisation proposed during 1972-73. The approved Plan outlay for 1972-73 for all the states (including the newly formed states of Manipur and Tripura) adds up to Rs 1601.75 crores as against the approved Plan outlay of about Rs 1402 crores and the anticipated expenditure of about Rs 1500 crores in 1971-72. The Plan outlay for all the states during 1972-73 is likely to be financed to the extent of Rs. 718 crores from central assistance, Rs 795 crores from existing basis of taxation and Rs 88 crores from fresh resources mobilisation in 1972-73. The central assistance of the order of Rs 718 crores is only marginally higher than that provided in the previous year (Rs. 700 crores). In fact, during 1970-71, the central assistance was over 55 per cent of the total Plan outlay of the states and the corresponding proportion of central assistance in respect of total Plan outlay during 1972-73 would be nearly 45 per cent. This will be a significant shift and appears to be motivated to make the states bear increased burden of Plan expenditure.

There are certain states which propose exceptionally large Plan outlays during 1972-73 as against 1971-72. For instance, Haryana will have a Plan outlay of Rs 82 crores during 1972-73, nearly 30 per cent more than in 1971-72. Maharashtra also proposes to spend on its Plan for 1972-73 neasly Rs 206 crores as against Rs 170.8 crores during 1971-72. Punjab is another example along with Rajasthan and West Bengal. On the other hand Mysore is the solitary instance where the Plan outlay during 1972-73 will be around 15 per cent below the proposed figure in 1971-72.

Resource Mobilisation

In the context of resource mobilisation expected from the states during the year 1972-73, it may be observed that Uttar Pradesh, West Bengal and Andhra Pradesh propose to raise resources more than Rs 10 crores each during the budgets for the full year to be presented later. Similarly states of Madhya Pradesh, Maharashtra, Haryana, Punjab, Tamil Nadu and Kerala are committed to raise additional Rs five crores or more. In fact Punjab and Haryana propose to raise additional resources through efficient collection. The picture presented in Table II in respect of Mysore might be altered by a change in the government there. Mr M. Y. Ghorpade, the

Finance Minister of the state suggested that a closer look at the whole process by which funds were transferred from the centre to the state was necessary in order to ensure balanced development of all states. A fresh dialogue would have to commence between the states and the centre in order to realistically evaluate and assess the financial situation and put the centre-state financial relations on a more systematic and scientific basis, he pointed out.

The issue of overdrafts by the states raised heated controversy recently and the union Minister for Finance has urged all the states to contain their Plan and non-Plan expenditure within their resources without recourse to overdrafts. It may be observed that the states of Andhra Pradesh, Mysore, Rajasthan and Tamil Nadu along with Kerala are among the leading states in respect of overdrafts (Table III). The states of Bihar, Maharashtra and West Bengal are also in the list. While the state governments have agreed to initiate suitable measures to reduce overdrafts and economise on non-Plan expenditure, it may be too early to expect anything substantial in the interim budgets. In the final budgets the degree of seriousness shown by the states regarding this issue would, however, be clear. Mr M. Karunanidhi made a reference to this subject because Tamil Nadu is among the states with large overdrafts, the amount in this case being Rs 76.44 crores as on March 1, 1972. He explained that the expenditure on the state plans was incurred at the level much higher than that approved by the central government. For instance during the year 1969-70 the central government approved a Plan of Rs 72 crores and the state government proceeded to implement a Plan of the order of Rs 87.05 crores. Similarly for the year 1970-71 the central government insisted that the Plan should be reduced to Rs 79.30 crores while the state government went ahead on the basis of a Plan of Rs 97.45 crores. During the current year again the state government implemented a Plan beyond the size approved by the central government. Mr Karunandhi asserted that the overdrafts were not used for non-plan expenditure with the exception of meeting additional costs involved in implementing the decisions of the Pay Commission.

TABLE III

OVERDRAFTS OF STATES AS ON MARCH 1, 1972

State	(Rs crores)
1. Andhra Pradesh	86. 7
2. Assam	9.58
3. Bihar	34.49
4. Haryana	8.03
5. Kerala	51.14
6. Maharashtra	23.51
7. Mysore	76.32
8. Rajasthan	73.87
9. Tamil Nadu	76 44
10. West Bengal	22.23
Total	461.68

TABLE I

STATE BUDGETS: 1971-72 AND 1972-73

(Revenue Account only)

(Rs crores)

State	1971-72 Revenue	1971-72 Expenditure	1971-72 Balance	1972-73 Revenue	1972-73 Expenditure	1972-73 Balance
Andhra Pradesh	285.49	272.31	+13.18	344.70	331.76	+12.94
Bihar	249.68	244.70	+4.98	311.10	316.38	—5.28
Gujarat	216.88	204.53	+12.35	262.52	233.24	+29.31
Haryana	93.53	85.44	+8.09	141.41	122.33	+19.08
Kerala	159.80	176.04	—16.24	191.38	209.97	—18.59
Madhya Pradesh	250.09	231.54	+18.55	288.67	268.02	+20.65
Maharashtra	467.76	466.26	+1.50	561.48	523.69	+37.79
Mysore	241.14	235.59	+5.55	293.26	292.05	+1.21
Orissa	133.10	143.98	—10.88	163.56	177.26	—13.69
Punjab	141.57	129.56	+12.01	198.37	176.20	+22.17
Rajasthan	174.51	185.86	—11.35	207.80	219.94	—12.14
Tamil Nadu	306.31	322.18	—15.87	397.27	394.78	+2.49
Uttar Pradesh	413.39	378.81	+34.58	649.17	709.85	—60.68
West Bengal	345.18	373.49	—28.31	348.08	367.48	—19.40
Total	3478.63	3450.27	+28.36	4368.77	4342.96	+25.81

TABLE II

RESOURCES FOR STATE PLANS: 1972-73

(Rs crores)

States	Central assistance	States resources on the existing basis	Resources mobilisation in 1972-73	Total Plan outlay (Column 2+3+4)
1	2	3	4	5
1. Andhra Pradesh	46.56	46.44	12.00	105.00
2. Assam	32.96	5.05	2.24	40.25*
3. Bihar	65.57	27.93	6.50	100.00
4. Gujarat	30.65	72.35	3.00	106.00
5. Harayana	15.23	61.77	5.00	82.00
6. Jammu & Kashmir	32.00	2.00	2.06	36.00
7. Kerala	33.95	24.55	5.50	64.00
8. Madhya Pradesh	50.83	52.17	6.00	109.00
9. Maharashtra	47.63	150.96	7.00	205.59
10. Meghalaya	7.22	1.03	—	8.25
11. Mysore	33.56	38.74	—	72.30
12. Nagaland	7.59	1.41	—	9.00
13. Orissa	31.04	24.38	2.00	57.42
14. Punjab	19.59	59.41	6.00	85.00
15. Rajasthan	42 68	18.32	4.00	65.00
16. Tamil Nadu	39.19	70.86	6.30	116.35
17. Uttar Pradesh	102.04	112.96	10.00	225.00
18. West Bengal	42.87	20.65	10.00	73.52
Total	681.16	790.98	87.54	1559 68
19. Himachal Pradesh	22.00	4.07	0.50	26 57
20. Manipur	7.50	—	—	7 50
21. Tripura	8.00	—	—	8.00
Grand Total	718.66	795.05	88.04	1601.75

*Excludes an amount of Rs 2.75 crores for Mizoram which was part of Assam and is now a union territory.

BUDGET DOCUMENTS

Social Justice with Economic Growth

PRESENTING THE budget of the Government of India on March 16, 1972, for 1972-73, the Finance Minister, Mr Y. B. Chavan, stated that the budgetary provision for the central Plan was being increased by Rs 332 crores or nearly 23 per cent. Within the provision for the Plan at the centre as much as Rs 240 crores had been provided for schemes with an accent on social justice as well as economic growth. Even though this provision was modest as compared to the magnitude of the problem, he said it represented a sincere effort towards meeting the basic minimum needs of the most disadvantaged sections of our society.

The full text of part "A" of the budget speech follows :

I rise to present the Revised Estimates for the current year and the Budget Estimates for 1972-73.

In many ways, the year that is now drawing to a close has been the most eventful in our recent history. It began in the wake of a clear expression of the will of our people in favour of a bold and radical programme to promote growth with social justice. But the beginning of the year also witnessed a reign of terror and repression in East Bengal. By November 1971, some 10 million refugees had sought shelter in our midst; and we stinted no effort or resource in looking after these hapless and heroic people. Despite this massive influx and the cost of a war, which was not of our seeking, we decided not to delay or postpone in any way the equally urgent task of development and social welfare. Instead, we sought to meet the additional burdens by two supplementary instalments of fresh taxation, by greater mobilization of voluntary savings and by a renewed drive for economies in non-Plan expenditure and speedier tax collections.

Above all, we met the challenge by drawing on the strength of a united people; and it is possible now to look back on the events of the past year with a degree of confidence in the economic sphere as well. Despite the extraordinary stresses and strains which were compounded by natural calamities over many parts of the country, it should be possible to end the current fiscal year with our foreign exchange reserves more than intact, government stocks of foodgrains of nearly eight million tonnes, the general price level reasonably stable and a deficit in the central budget significantly lower than what one might have apprehended.

To some extent, the events of the past year will continue to cast their shadow over the coming months as well. Honourable Members would appreciate that we have to assist the friendly people and government of Bangladesh in their immediate task of reconstruction and rehabilitation. To the extent that we have drawn upon the accumulated stocks in the economy and there has been unusual wear and tear of our productive assets, these will have to be made good. But above all, now that the refugees have been able to return to their homes, we have to redirect our energies increasingly to satisfy the aspirations of our own people. While the resilience and strength displayed by the Indian economy can give us confidence, there is little room for complacency.

Economic conditions in the recent past contain many pointers to the areas where further sustained effort is necessary. These have been dealt with at some length in the Economic Survey. The rate of growth of the economy has slackened in 1971-72. To some extent, this is understandable as the high rate of growth in the production of major cereals in earlier years cannot—and indeed need not—be continued year after year. But this trend should be counter-balanced by an increase in the growth rate of pulses, commercial crops and industry at large. This has not happened so far. Many of our basic industries, notably steel and fertilizers, are operating well below capacity. Shortage of agricultural raw materials has affected important consumer good industries such as textiles, sugar and vegetable oils. There are encouraging signs that many capital goods industries and those producing important intermediate products have their order books full and are maintaining a satisfactory rate of growth in production. But here again, progress is by no means uniformly good. Quite apart from tackling the immediate problems of better management, greater capacity utilisation, improved raw material supply and industrial relations and a general environment of more active demand, we have to expedite the creation of additional capacity in a number of vital areas, including the generation of electricity and fertilizers and steel where better utilisation of existing capacity alone will not sustain demand for long.

There are also other trends which we cannot overlook. While imports, other than those of foodgrains, have increased rapidly, this cannot be said of exports. As a result, the trade gap is likely to widen appreciably in the current fiscal year. The various programmes for promoting social welfare which have been taken in hand over the past two years have yet to gather momentum. Again, despite some signs of improvement, the level of savings and investment in both the public and the private sectors is inadequate to sustain a satisfactory rate of growth.

This situation must be rapidly transformed if the objective of growth with social justice and self-reliance is to be realised soon. Nor is a reasonable degree of price stability possible without a rapid increase in the production of the basic necessities of the people. Up to a point, and indeed to a much greater extent than is commonly realised, growth, social justice, self-reliance, investment and mobilisation of resources are all mutually reinforcing processes. We have, however, also to quicken the pace by appropriate changes in budgetary and other policies. It is precisely in order to bring about such a co-ordinated and concerted approach to our economic problems that a Cabinet Committee on Economic Policy has been recently set up.

Coming to budgetary developments during the current year, 1971-72, Honourable Members would recall that the provision of Rs 60 crores for refugee relief made in the budget last May had to be increased subsequently on two occasions making a total of Rs 360 crores for the year as a whole. Against this provision, actual expenditure is now estimated at Rs 325 crores. At this stage, it is difficult to render any precise account of the aid pledged from abroad which will ultimately compensate us for the expenditure we ourselves have incurred. A significant part of the refugee assistance received earlier or in the pipeline is already being diverted to Bangladesh. But on a rough basis, the budgetary outlay of Rs 325 crores may be offset to the extent of Rs 120 crores by assistance received from abroad

We have already made a sizeable beginning with assistance to the Bangladesh government in the current year itself. Inclusive of a cash payment of about Rs 20 crores which is being charged to the rehabilitation budget the commitments so far made for assistance to Bangladesh amount to roughly Rs 130 crores. It is our intention to provide for a total commitment in this regard of Rs 200 crores of which Rs 82 crores might be disbursed during 1971-72 and the balance during 1972-73.

Defence expenditure for 1971-72 is now estimated at Rs 1411 crores as against the budget provision of Rs 1241 crores, i.e., an increase of Rs 170 crores. The expenditure on natural calamities relief at Rs 90 crores would also be higher than the budget estimate of Rs 50 crores.

The actual trend in expenditure on Plan schemes during the current year is a mixed one and some shortfall in Plan expenditure cannot be ruled our. But there is reason to believe that the shortfall would not be as great as in the first two years of the Plan. The implementation of important projects in the steel, fertilizer, petrochemicals and atomic energy field has picked up momentum. This is also true of the programmes with an accent on social welfare which were started in the 1970-71 budget. But the two major programmes for employment in the rural areas and for the educated unemployed which were introduced in the last budget could not be given proper shape for some time; and actual expenditure is likely to fall short of the budget provision of Rs 75 crores. Once again, our experience in the current year highlights the fact that the momentum of progress cannot be kept up merely by provision of finance. Timely preparation and selection of projects and speedy implementation are equally important.

Receipts under Income and Corporation Tax are now estimated at Rs 83 crores more than the Budget Estimate reflecting in the main the efforts made towards speedier tax collection. Union Excise Duties will show only a moderate increase of Rs 31 crores. On the other hand, Customs revenue will exceed budget estimate by Rs 118 crores reflecting primarily the spurt in imports.

Receipts from market loans also show a substantial increase over the budget estimates the actual realisation being Rs 294 crores against the expectation of Rs 168 crores last May. The nationalised banks have continued to make excellent progress in deposit mobilisation; and the Life Insurance Corporation and the Provident Funds have also been able to mobilise more funds than was expected earlier. This has greatly facilitated market borrowing by the centre in the current year. Collections under small savings should amount to Rs 210 crores against Rs 180 crores assumed earlier.

The overall deficit is now expected to be restricted to Rs 385 crores. This represents an increase of Rs 152 crores over the budget estimate. An increase in deficit of this order cannot be contemplated with equanimity in a normal year; and its monetary impact even in the current year was held in check by the policy of restraint followed by the Reserve Bank. But Honourable Members would, I am sure, appreciate that it has to be judged against the additional liability on account of defence, refugee relief, assistance to Bangladesh and natural calamities. Expenditure on these four items alone is now expected to be Rs 1888 crores as against Rs 1351 crores envisaged last May. Even allowing for additional external assistance for refugee relief, this represents an increase of Rs 437 crores over the budget estimates.

Sir, I come now to the Budget provisions for 1972-73. In keeping with the imperative need to accelerate the pace of growth and social welfare, I propose to increase the budgetary provision for the central and centrally-sponsored Plan schemes from Rs 1455 crores in 1971-72 to Rs 1787 crores in 1972-73. This increase of Rs 332 crores or by nearly one-fourth in a single year represents the sharpest step-up that we have attempted in the central sphere over the past so many years. The increase in Plan outlay is spread over virtually all the sectors of the economy. Agriculture, Community Development and Co-operation account for an increase of Rs 23 crores; Irrigation & Power, Rs 18 crores; Mines and Metals, Rs 23 crores; Industry including Petroleum, Chemicals, Steel and Heavy Engineering, Rs 44 crores; Shipping & Transport, Rs 56 crores; Posts & Telegraphs, Rs 14 crores; Railways, Rs eight crores and Atomic Energy, Rs 30 crores.

By far the largest increase is being made in the provisions for those schemes which combine an element of social welfare with future growth potential. Taking all such schemes together, the budget provision in 1972-73 would be Rs 240 crores as compared to Rs 130 crores in 1971-72. An important innovation relates to a new lump-sum provision of Rs 125 crores to cover the requirements of rural water supply, rural home sites, slum clearance and improvement, primary education and schemes for the educated unemployed. Since there are wide differences in the requirements of different states for these essential amenities, it is felt that a lump-sum provision of the nature would make it easier for us to make an impact in each state in the field where such impact is most urgently needed.

There are large disparities among the states in terms of enrolment of children in schools in the age group 6-11. Expansion of primary education facilities, particularly in the backward areas, will help correct regional imbalance and will also provide scope for larger employment. Of our 560,000 villages, some 130,000—or almost 25 per cent—are cholera-endemic and guinea-worm infected areas. By tackling the problems of rural water supply in these disadvantaged areas, it should be possible to contribute substantially to the well-being of the rural people. The provision for rual home sites should help particularly landless labour. In some states the need would be to concentrate mainly on slum clearance and improvement in congested urban areas or on schemes designed primarily to provide employment to the educated.

Among other schemes, the budgetary provision for the small farmer development agency is being doubled from Rs six crores this year to Rs 12 crores next year and for marginal farmers and agricultural labourers from Rs three crores to Rs six crores. Similarly, the provision for special nutritional programmes for children is being increased from Rs 11 crores to Rs 21.5 crores. Programmes for dry farming development, rural works in drought-prone areas and the crash programme for rural employment are being continued with a total provision next year of Rs 72 crores. It is our hope that in the light of the experience already gained and the assessments recently made in consultation with the state governments, it would be possible next year to utilise in full the provision that is now being made.

In addition to the provision made in the budget resources are also available for the central Plan from the internal surpluses of public sector enterprises and by way of contribution from financial institutions. The internal resources of public sector enterprises which would be available for the Plan are expected to increase from Rs 233 crores in 1971-72 (budget estimates) to Rs 275 crores in 1972-73. Other resources available for the central Plan including borrowings from financial institutions and contributions by the Reserve Bank from retained profits etc. are expected to increase from Rs 135 crores in the current year to Rs 245 crores in 1972-73. Inclusive of budgetary provision as well as internal resources of public enterprises and other extra-budgetary resources, the total Plan outlay on central Plan schemes is thus expected to increase from Rs 1823 crores in 1971-72 to Rs 2307 crores, i.e., by Rs 484 crores or by about 27 per cent.

I am happy to say that there will also be a substantial step-up in the Plan outlays of the states. In the light of the discussions that the Planning Commission has already had with the state governments on the annual Plan outlay of the states and union territories for 1972-73 is expected to be Rs 1666 crores as compared to Rs 1440 crores in 1971-72. This includes a provision of Rs 782 crores by way of Plan assistance from the centre to the states and union territories. Honourable Members would also note that substantial part of the increase in the central Plan outlay is really on schemes which are initiated and executed by the state governments themselves.

In addition to Plan assistance, the scheme of special accommodation by way of loans to those states which have substantial non-Plan gaps will be continued; the provision under this head for next year is Rs 130 crores. But the state governments on their own will also have to mobilise resources on a substantial scale if the Plan outlays now proposed for them are to be implemented without recourse to overdrafts from the Reserve Bank. As the house is aware, the Minister of Planning and I have been in close touch with the states in this regard. I am well aware that there are genuine difficulties in some states in liquidating past overdrafts over a short period. In recognition of these difficulties we have arranged in consultation with the Planning Commission, that such states would not be called upon to liquidate their existing overdrafts immediately but would be asked to repay next year only 15 per cent of the estimated overdrafts at the end of 1971-72. The state governments have agreed to take steps to reduce the overdrafts progressively; and we propose to adopt a new set of procedures to ensure that overdrafts are not used in future as a continuing mode of financing state expenditures.

I may also mention in this connection that we propose to announce soon the composition and terms of the sixth Finance Commission. In our federal system, the evolution of satisfactory financial relations between the centre and the states has a vital bearing on progress and harmony in the country at large; and the next Finance Commission will have a very important role to play in laying the base for the fifth five-year Plan which will be launched two years from now.

Outside the Plan, effort is being made to restrict expenditure to the minimum. The provision for defence next year is being kept at Rs 1408 crores, i.e., about the same as the Revised Estimates for the current year. Honourable Members, I am sure, would appreciate that apart from providing for normal increases in costs, salaries and dearness allowance, we have also to make adequate provision for recouping the losses suffered during the war and for looking after the families of those who have made the supreme sacrifice for the defence of the motherland. It is our earnest hope and endeavour that out of the anguish and agony of the recent past will emerge a new spirit of peace and harmony in this great sub-continent so that all its 700 million inhabitants can devote their entire energies against their common enemies of hunger, want, disease and exploitation of man by man.

I expect the yield from income tax and corporation tax to increase from Rs 985 crores (Revised Estimates) in the current year to Rs 1060 crores in 1972-73. Revenues from Excise Duties should increase from Rs 2103 crores to Rs 2330 crores and from Customs Duties from Rs 652 crores to Rs 700 crores. The continuance of special levies which, I am afraid, is unavoidable in the present circumstances, would bring in Rs 70 crores next year as against Rs 20 crores in the current year.

Unfrotunately, a significant part of the additional revenues will be offset by an increase in food subsidy from Rs 30 crores in the budget estimates for the current year to Rs 100 crores in the budget estimates next year. On the basis of present procurement and issue prices, the burden of food subsidy next year would amount in fact to Rs 120 crores. I have made a somewhat lower provision of Rs 100 crores as it is our intention not to let this burden grow without appropriate remedial measures to keep it in check.

The welcome increase in foodgrain production has added to the fiscal burden in another way. During 1972-73, the additional financial requirements of the Food Corporation of India for carrying the buffer stock of foodgrains are estimated at Rs 120 crores. I am making a budgetary provision in this regard of Rs 25 crores only so that the balance of Rs 95 crores will have to be found by the corporation by additional borrowing from the banking system. At the end of February 1972, the Corporation's borrowing from the banking system had already reached the high level of Rs 350 crores. A further addition of Rs 95 crores during the coming year will naturally strain the resources of the banking system unduly unless the demands on it from other sectors are correspondingly moderated. That is why net receipts from market loan next year have assumed at the level of Rs 215 crore only. Thus, directly or in directly, the procurement of foodgrains is now having a substantial repercussion on the central exchequer as also on the distribution of income within the country.

Net receipts from external loans next year are also expected to show a substantial decline from Rs 469 crores this year to Rs 374 crores in 1972-73. Recent events have once again served as a reminder that even as we strive for greater growth and social welfare, we cannot neglect the urgent need for reducing the dependence on external assistance. Our policy to be progressively independent of external asssistance is not directed at anyone other than ourselves. Its thrust is towards invigorating our own internal efforts. There are a few major areas, such as cotton, oil seeds, fertilizers, steel, petroleum products and spare parts for equipment installed in the past where our dependence on imports is still high. Similarly, our export earnings can be increased rapidly by creating additional facilities for mining, fishing and manufacture of a large variety of engineering and consumer goods. We are making detailed plans in each of these sectors to increase production rapidly so that our growing requirements can be met without undue dependence on imports and surpluses created for augmenting exports. No effort whether by way of provision of finance or otherwise will be spared to accelerate this process of self-reliance through import substitution and export promotion.

At existing rates of taxation, the overall budgetary deficit next year will be Rs 375 crores. There will be a surplus on revenue account of Rs 219 crores, but this would be more than offset by the deficit on capital account of Rs 594 crores.

To sum up, the main feature of the budget for 1972-73 which I am now presenting is the substantial increase in the outlay on the

Plan. The budgetary provision for the central Plan proper is being increased by Rs 332 crores, or nearly 23 per cent. Inclusive of internal surplus and other extra-budgetary resources, the increase in the central Plan works out to Rs 484 crores, or 27 per cent. Taking the centre, the states and the union territories together, the total provision for the Plan for the next year, as now envisaged, comes to Rs 3973 crores as against Rs 3263 crores in the current year, i.e., an increase of Rs 710 crores, or 22 per cent. A substantial increase in Plan outlay of this order would be a major factor contributing to economic growth over the coming months. It has been our experience that an increase in Plan outlay in the public sector is a prerequisite for revival of industrial production whether in the public or in the private sector. It is our expectation, therefore, that the increase in Plan outlay next year will serve as a catalyst for the revival of growth particularly in the industrial sector where recent trends leave much to be desired.

Within the total budget provision for the Plan at the centre, as much as Rs 240 crores is being earmarked for schemes with an accent on social justice as well as economic growth. I am well aware that even this provision of Rs 240 crores is modest as compared to the magnitude of the problem. But I am sure, Honourable Members would agree that it represents a sincere effort towards meeting the basic minimum needs of the most disadvantaged sections of our society.

It is a matter of some satisfaction that despite the substantial increase in Plan outlay and without any credit for mobilisation of additional resources, the overall deficit in the central budget for 1972-73 is now expected to be limited to Rs 375 crores. This satisfactory outcome is the result mainly of the fact that during the past critical year, we were able to introduce what amounts virtually to three different budgets with substantial measures for additional resource mobilisation. The total receipts on account of the taxation measures introduced last year will be of the order of Rs 500 crores in a full year.

Important as the central budget is as an instrument for furthering our social and economic objectives, it has to be supplemented by basic changes in our economic institutions and policies. During the last year, government has taken a number of steps in this direction. The taking over of the management of general insurance, the guidelines given to financial institutions in regard to convertibility of loans into equity and participation in the management of the enterprises assisted by them, continued effort to direct the new vitality of the nationalised banking system towards improvement in the economic conditions of the small and new entrepreneurs in industry and agriculture and the policy of differential interest rates—these are all various facets of the same thrust forward towards the goal of economic progress with social justice. Honourable Members may rest assured that we shall continue our efforts in the same spirit and over a broad front over the coming months so that the mandate for creating a socialist society is carried out with speed and vigour.

Towards Self-Reliance and Equity

In regard to taxation proposals for 1972-73, the Finance Minister, Mr Y.B. Chavan, claimed that they would promote growth, social justice, self-reliance, investment and resource mobilisation. He hoped that taken in their entirety, the budget proposals would take the economy one stage forward in its march towards the cherished goals of this country.

The full text of part "B" of the Finance Minister's speech is given below:

Without taxing the patience of Honourable Members any further, I should proceed now to the business of taxation proper. Having introduced virtually three budgets in the past 12 months, I might well be expected to declare a holiday from further taxation for at least one year. But I am afraid I cannot allow myself such unique distinction. A deficit of Rs 375 crores cannot be left wholly uncovered without danger to price stability. We have also certain commitments to the state governments to raise revenue on their behalf. Fiscal policy must serve the larger objectives of self-reliance and equity. Nor should I fight shy of making a few concessions. The introduction of a new budget is also an opportunity for a certain amount of spring cleaning.

The Direct Taxes Enquiry Committee under the chairmanship of Mr K.N. Wanchoo, ex-Chief Justice of India, submitted their report last December. It contains a number of valuable and far-reaching suggestions, for unearthing black-money preventing evasion and avoidance of taxes and reducing tax arrears. Copies of the report will soon be made available to Honourable Members. It has often been said in this House that basic changes in the tax system should be introduced by means of a Taxation Amendment Bill rather than through the annual finance bill so as to give Honourable Members more time for a detailed consideration in the light of discussion both within and outside the House. Accordingly, I propose to bring forth a separate legislation as early as possible to give effect to those recommendations of the committee which are acceptable to the government and which require a major change in the present tax laws.

There has been a feeling for some time in the country that a family consisting of husband, wife and minor children which constitutes a common unit of consumption and as such a common focal point for the incidence of indirect taxation, is also a more appropriate and equitable basis for purposes of direct taxation subject to certain safeguards for wives at work. The present tax treatment of Hindu undivided families has also encouraged tax avoidance. On these two related questions, the members of the Wanchoo Committee have made several alternative suggestions. Government will examine these suggestions carefully and sponsor separate legislation in due course for restructuring the Income Tax Act and the Wealth Tax Act to the extent necessary.

In the meanwhile, I propose to introduce through the Finance Bill a few changes in the Direct Tax structure which are designed either to produce some additional revenue in a difficult year or to give effect to such recommendations of the Wanchoo Committee as can be easily incorporated in the present tax laws.

On the assumption that no news is good news, I propose to make no change in the rates of income-tax as also of surcharge on income-tax in the case of taxpayers other than companies.

In order to remove any temptation that people may feel for neglecting their regular duties in favour of any casual or ephemeral or even imaginary pastime, I propose to withdraw the present exemption in respect of casual and non-recurring income when it exceeds Rs 1000 in a year. However, a finance minister in particular should not frown upon those who are specially favoured by the goddess of good luck. Accordingly, winnings from states or other lotteries will be taxed on a concessional basis. Those who win a prize in a lottery are perhaps in the same happy position as people who enjoy a capital gain when their property appreciates in value without any effort on their part. On this principle, in computing incomes from such winnings, a deduction of Rs 5,000 plus 50 per cent of the balance will be allowed. However, even those who are favoured by fortune should make their offering first at the altar of the exchequer. I propose, therefore, to provide for deduction of tax at source at the rate of 34.5 per cent from crossword puzzles and lotteries. Casual losses will be allowed to be set off only against the same type of income.

I propose to provide for deduction of tax at source at the rate of two per cent of the payments made to contractors by the government, local authorities, statutory corporations and companies. Payments made in turn by contractors, other than individuals and Hindu undivided families, to subcontractors will attract a deduction at the rate of one per cent. I hope this alliance between the revenue department and contractors will lead to prompter payments all round.

With effect from April 1, 1972 government will pay a rate of interest of 12 per cent per annum on the amount of refund the payment of which is delayed. Honourable Members will recall that at present the rate of interest we pay is only nine per cent per annum. It is only fair that the interest charged when there is delay in the payment of direct taxes to the government is also similarly increased from nine per cent to 12 per cent per annum.

Capital gains arising from the transfer of jewellery held for personal use are not so far chargeable to the capital gains tax. This has given rise to fictitious transactions in jewellery in order to regularise incomes which have escaped taxation. I propose, therefore, to repair this omission.

Dividends received from co-operative societies are at present completely exempt from income taxation. I see no justification for this exemption and propose to withdraw it. Such dividends, however, will be included in the categories of income which qualify for exemption from income tax upto Rs 3,000 in a year.

These measures are likely to yield Rs six crores in a full year and Rs three crores in 1972-73 of which some Rs two crores will be the share of the states.

Coming to corporate taxation, I propose to do away altogether with the special deduction of five per cent of profits in the case of domestic companies engaged in priority industries. This will yield Rs six crores in a full year and Rs 4.5 crores in 1972-73.

Some months ago when we levied special surcharges, many Honourable Members had asked why the surcharge on company taxation was fixed at 2 1/2 per cent when a surcharge of five per cent was levied on many other items including railway passenger fares. I propose now to remove this discrimination. For the assessment year 1972-73, the surcharge will continue to be 2 1/2 per cent of the income tax payable by all companies. However, on income tax payable in advance during the financial year 1972-73 the surcharge would be at the rate of five per cent. This change will yield Rs 12 crores over a full year and Rs nine crores in 1972-73.

There are a number of other changes that are proposed in the Finance Bill for preventing evasion or avoidance of taxes and for rationalising the incentives available for promoting saving and investment. A few changes are proposed, for example, in relation to taxation of charitable and religious trusts in the light of recommendations made by the Wanchoo Committee. Voluntary contributions received by such institutions will qualify for exemption from income tax only if these are applied to charitable or religious purposes or are accumulated for such purposes in the specified manner. The other important changes relate to audit by a Chartered Accountant and compulsory registration for a trust to qualify for tax exemption, extension of the definition of relatives for judging whether the income or property of the trust is being used in a manner which would constitute disqualification from tax exemption and making the trust liable to pay wealth tax when any part of the corpus or income of the trust is used for the benefit of the author of the trust, a substantial contributor to the trust or the trustees and their relatives, etc.

Regarding incentives for investment and saving, investment in industrial proprietory concerns or partnership firms will now be included among assets which qualify for exemption from Wealth Tax upto Rs 1½ lakhs. When one category of exempt assets is changed to another category of such assets, the requirement of minimum holding for a period of six months will be reckoned with reference to the period of holding of both the assets. This would remove the difficulty that has been experienced by many recipients of accumulated provident fund contributions. Contributions made towards the unit-linked-insurance plan of the Unit Trust of India will qualify for deduction in computing the taxable income of an individual in the same manner as life insurance premia and contributions to provident funds.

The income of approved gratuity funds will be exempted from Income Tax prospectively from the assessment year 1973-74. The amount of gratuity that will be exempt from income tax in the case of employees other than government employees and employees of local authorities will be subject to a uniform ceiling of half a months salary for each year of completed service or 15 months salary or Rs 24,000 —whichever is the least.

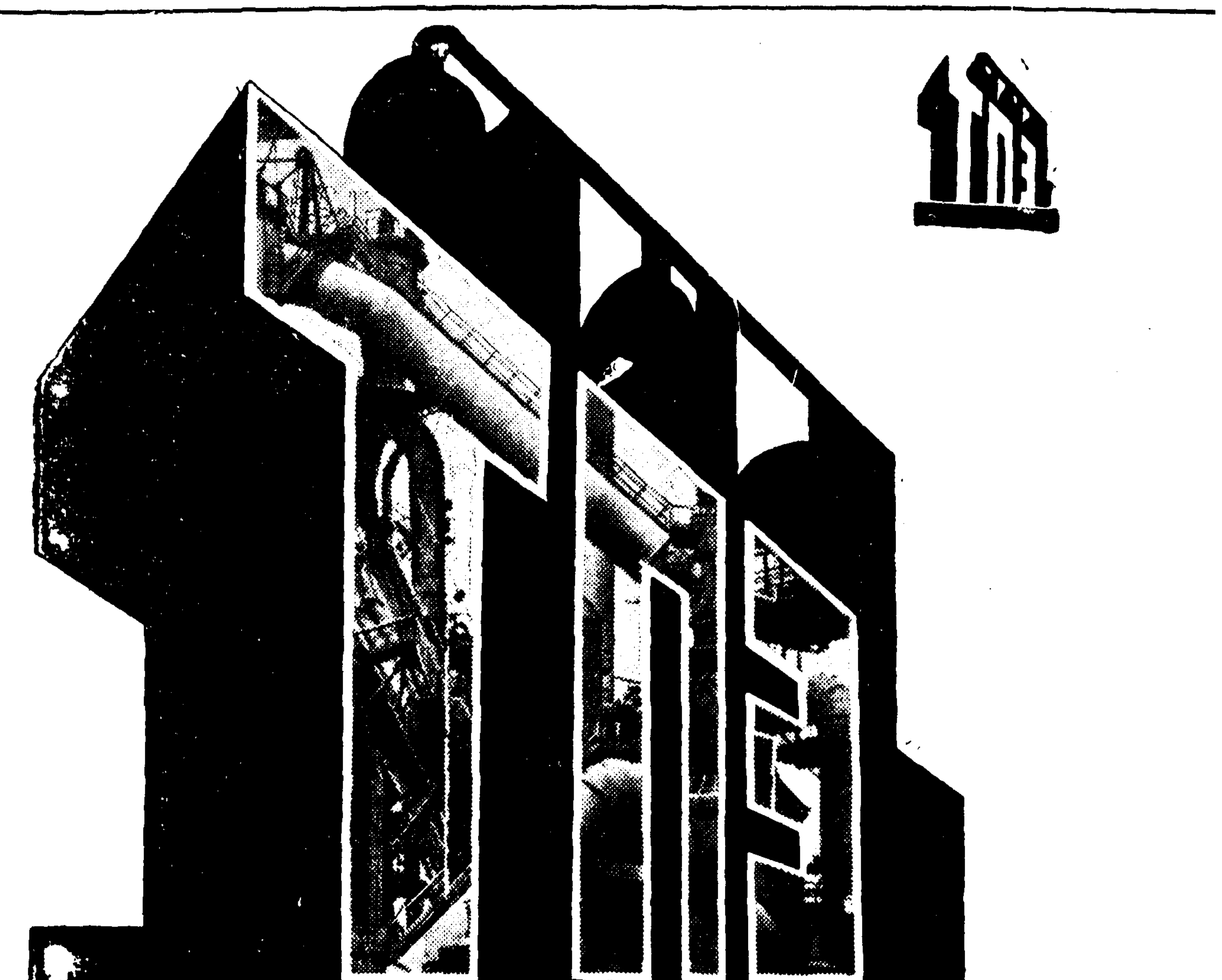
I have come to the conclusion that the small but select class of income-tax payers in the country deserves some special recognition from the government. Accordingly, I propose soon to award to each assessee a distinct and permanent account number of his own. I am afraid, there is no mark of distinction which does not lead to easy detection; and I cannot help it if individual account numbers make it difficult to avoid taxes.

Finally, I come to the demand which has been made by industry that while the development rebate may be withdrawn, government should introduce some other fiscal concessions and announce them in advance so as to impart a continuing momentum to industrial growth in the country. Government is not averse to the grant of fiscal concessions. It is, however, felt that fiscal concessions for promoting industrialisation should not be general or across-the-board in character but should relate specifically to our social and economic objectives. Again, as far as possible, it would be desirable to provide incentives which encourage the use of those resources, such as labour, which are in abundant supply rather than of resources, such as capital, which will continue to be scarce for a long time to come. The Wanchoo Committee has made a number of recommendations with different objectives in view. After examining all these suggestions carefully, we propose to come up with specific provisions in the Taxation Amendment Bill which is proposed to be introduced primarily to promote industrialisation in the backward regions of the country.

The total yield of all the changes in direct taxation will be Rs 24 crores in a full year and Rs 16 crores in 1972-73 of which the share of the centre would be approximately Rs 14 crores. I could also have taken credit for improvement in tax-collections as a result of the many changes designed to reduce tax evasion. But I have decided not to credit myself with any such gains in advance.

Sir, may I now turn to what are perhaps euphemistically called indirect taxes?

I have only one main proposal in regard to customs duties. It will be recalled that in December last, we had imposed a regulatory duty at the rate of 2.5 per cent ad valorem on most imported products



and a higher duty of 10 per cent on a few selected items. The need to exercise a general restraint on imports remains as great as ever. It is also necessary in imposing regulatory duties to ensure that the simplification of the import tariff which was introduced last year is not unduly disturbed. Accordingly, I propose to apply the 10 per cent ad valorem rate to all items which pay a duty of 100 per cent or more as well as to the few selected items which were included in the 10 per cent list last December. A new rate of five per cent ad valorem will apply to all items on which a duty of 60 per cent or more but less than 100 per cent is payable. The remaining items will continue to bear the regulatory duty of 2.5 per cent. However, those items which were totally exempted last December will continue to remain so. These changes will result in an additional revenue of Rs 8.60 crores in a full year.

I also propose to continue the provisions which enable us to levy a regulatory duty of customs. However, in keeping with the provisions relating to regulatory duty of excise, power is being taken to levy regulatory duty of customs also upto a rate of 15 per cent of the value of the imports.

Coming now to excise duties, I propose to make no addition to the list of commodities which can be subject to such duties. But Honourable Members would appreciate that even without exploring fresh fields or pastures new, it is possible to increase the yield by more intensive cultivation; and this is a responsibility which I cannot escape.

Pursuant to the decision to continue the scheme of levying additional excise duties in lieu of sales-tax on sugar, textiles and tobacco we are committed to raise the overall incidence of these additional excise duties to 10.8 per cent of the value of clearances by the end of the fourth Plan period.

To this end, I propose to transfer to the states the entire proceeds of the regulatory duty of 15 per cent of the effective basic duty on unmanufactured tobacco which was levied last December by converting it into an additional excise duty which is itself being rounded upwards on different varieties. As a result, the states will gain to the extent of Rs 11.56 crores by way of additional duties whereas the centre will lose Rs 9.70 crores by way of regulatory duty. At the same time, the basic and special duties on different varieties of unmanufactured tobacco are being merged in keeping with a general scheme to which I would soon refer. In the process, I have also taken the opportunity of rounding upwards the rates on different varieties to make up, in part, for the loss of revenues to the centre. The yield of the combined duty, exclusive of the additional duties for the states, will go up by Rs 9.31 crores.

In the case of cigarettes, a similar rationalisation and rounding off would result in a gain of Rs 7.63 crores to the state governments by way of additional excise duties and a loss of revenue of Rs 4.64 crores under other duties which would now be combined and shared with the states.

In the field of textiles, I propose to raise additional revenue for the states from art silk fabrics. At present, taking all the duties into account and depending on the price per square metre, there are four different rates that apply to art silk fabrics, namely, three per cent, 5.7 per cent, eight per cent and 10 per cent. I propose to reduce the 5.7 per cent rate to five per cent and increase the rate of 10 per cent which applies to fabrics worth more than Rs five per square metre to 15 per cent. Of the additional revenue of Rs 8.59 crores, the share of the states by way of additional duties will be Rs 5.80 crores and the rest will accrue to the shareable pool between the centre and the states.

In short, the revenue by way of additional excise duties will increase by Rs 25 crores and this entire increare will go to the states. Honourable Members would note that I have left sugar entirely untouched in this exercise.

The fifth finance Commission had recommended that from 1972-73, the special excise duties which have been levied in the past exclusively for the benefit of the centre should also be included in the divisible pool. In keeping with this principle, I have decided to merge the special excise duties with basic excise duties and to round off the combned rates so as to introduce a certain measure of simplicity in the rate structure. As a result, with just half a dozen exceptions, all the ad valorem rates of excise duties will fall under six different slabs, namely, 10 per cent, 15 per cent, 20 per cent, 25 per cent, 30 per cent and 50 per cent. To mention a few examples, in the case of cement, the basic duty of 20 per cent and the special duty of four per cent will now be replaced by a combined duty of 25 per cent. Similarly, items which carry a basic duty of 15 per cent and a special duty of three per cent will now have a rate of 20 per cent applied to them.

There are only four items viz., latext foam, sponge, polyurethane foam, and articles made from that foam, and tyres for motor vehicles where there is a basic duty of 40 per cent and a special duty of eight per cent. The new combined rate for these items will be 50 per cent. In case Honourable Members feel that the laws of rounding off always favour the exchequer, I hasten to inform them that in the case of coffee, the aggregate rate which works out to Rs 102 per quintal would be rounded downwards to Rs 100 per quintal. In the case of vegetable non-essential oils, also the rate is being reduced from Rs 110.25 per metric tonne to Rs 100 per metric tonne.

In the case of wireless receiving sets, the present system of taxing certain component parts, i.e., transistor and diodes, has give an impetus to large-scale smuggling, I propose, therefore to remove the duty on such parts and replace it by suitable changes in the duty on wireless receiving sets in such a way that the incidence of duty will increase with the price of the set. The present exemption from duty for sets of a value not exceeding Rs 165 and manufactured by the small-scale sector is being continued.

The combined result of the rationalisation measures would be a gain in revenue of Rs 10.70 crores.

There are a few items where the opportunity of merging the special duty with basic duty is also being taken to raise additional revenue. In the case of paints and varnishes, the additional revenue will be Rs two crores and in the case of paper, it will be Rs five crores. The higher rates of duty on paper, however, will apply only to the more expensi vevarieties of paper and board. Printing and writing paper used for exercise note-books and text books will not be affected. Newsprint would also continue to be exempt from duty and there would be no change either in the case of mill-board and strawboard where the smaller manufacturer is involved

Similar increases are being made in the case of rayon and synthetic fibres and yarn. The more expensive varieties of artificial synthetic fibres and yarn such as polyester fibre and yarn will bear higher duties. However, rayon filament yarn which is a comparatively cheap item will remain unaffected. The additional revenue from these changes is expected to be Rs 6.50 crores.

I *now come* to a few major proposals whch are intended to raise revenue for the centre in a manner which serves at the same time some of our larger social or *economic objectives*. It will be recalled that last December a regulatory duty at 50 per cent of the effective basic excise duty was imposed on steel ingots, iron and steel products and tin plates so as to bridge the substantial gap between the prices of imported and indigenous steel. Even after these changes, a considerable gap remains between imported steel and indigenous steel prices. It is necessary to economise on the use of steel in the country by charging for it a price which bears a reasonable relationship with international prices The basic duty on steel products, therefore, is being raised by about 30 per cent and the regulatory duty of 50 per cent will apply to these higher basic rates. The total additional revenue from steel products is expected to be Rs 36.20 crores of which Rs 11.80 crores would be by way regulatory duties.

For similar reasons, the regulatory duty of 25 per cent on aluminium and its products is being raised to 33 1/3 per cent of the basic duty. This measure will yield Rs 4.18 crores.

Honourable Members are also aware of our substantial dependence on imports in regard to petroleum products. The duty on motor spirit has been raised substantially in the recent past and this has had the salutory effect of curbing the growth of demand. As a token of appreciation, I propose, therefore, to leave the motoring community untouched this year. I am afraid, I have, however, to make up for the omission last year in the case of kerosene where our reliance on imports is even greater. In addition, the comparatively low rate of duty on kerosene encourages its adulteration with other products, particularly with high speed diesel oil. I am well aware that kerosene is an item of common consumption both in the rural and the urban areas. But in view of the circumstances I have mentioned, some additional taxation of kerosene could not be avoided. I propose therefore, to increase the duty on kerosene by Rs 59.75 per kilo litre or roughly by about six paise per litre. This will result in an additional revenue of Rs 29.80 crores in a full year.

In the budget last May, we had introduced a duty on compounded lubricating oils and greases. Lubricating oils are also manufactured and marketed to some extent by a mere blending of two oils without any added ingredient. There is nc reason why these marketable oils should not be made liable to duty. I propose, therefore, to amend suitably the definition of the existing tariff item which will yield an additional revenue of Rs five crores. The duties on asphalt and bitumen as also on petroleum waxes are also being suitably revised to yield an additional revenue of Rs 3.30 crores.

It has often been said that the agricultural sector which has been witnessing significant grcwth in income over recent years should also make an appropriate contribution to the overall needs of the country. We have appointed a Committee under the Chairmanship of Professor K. N. Raj to examine the whole question of taxation of agricultural incomes and wealth. Steps have also been taken to raise additional revenue from this sector by levying a duty on tractors and on fertilizers. I propose now to raise the duty on fertilizers frcm 10 per cent to 15 per cent. This will result in additional revenue of Rs 12.50 crores. Duty at the rate of 10 per cent will also now be levied on power-driven pumps which are designed primarily for handling water. This measure is expected to yield a revenue of Rs two crores.

There are a few other minor items such as synthetic organic dyestuffs and optical bleaching agents where the rate of duty is being changed from 15 per cent with an additional yield of Rs 2.63 crores. The duty on aerated waters with blended concentrates is being increased from 10 per cent to 20 per cent with an additional yield of Rs 1.65 crores. Pistons will now be added to the list of motor vehicle parts for the purposes of duty. The revenue yield from this would be Rs 50 lakhs.

The merger of special duty with basic duty results in a rate of Rs 605 per metric tonne on hessian and of Rs 385 per metric tonne in the case of other jute products which *relate mainly* to sacking. I propose to round off these rates to Rs 600 and Rs 400 per metric tonne respectively. The regulatory duty will remain unchanged at 50 *per cent*. The net gain to the exchequer would be Rs 1.76 crores of which Rs 1.20 crores would be by way of regulatory duties.

Throughout ages, our spinners and weavers have produced an infinite and ever-changing variety of colour texture and design to beguile our fancy; and the *Central Board of Excise* and Customs has had a difficult task in evolving a textile tariff which can keep pace with all the subtle nuances of our textile products. I *propose to make* one more effort and introduce an extensive rationalisation of the textile tariff which has been worked out

after a great deal of detailed examination. Honourable Members would, I am sure, be happy to note that the overall revenue effect of this rationalisation, at any rate, would be insignificant.

Finally, I would like to round off by a few concessions in excise duties. In the case of some items, duty-free clearance upto a value of Rs 50,000 is allowed subject to the proviso that the total clearances from the unit do not exceed Rs two lakhs in a year. In some other cases clearances upto a value of Rs one lakh are exempted. I propose now to raise the exemption limit in all cases where the lower limit of Rs 50,000 is allowed today to Rs one lakh subject to the upper ceiling remaining unchanged at Rs two lakhs. This measure which is intended to help the smaller units will cost the exchequer Rs 1.40 crores in a full year.

Some concessions were introduced in the last budget to encourage the use of minor oils in the manufacture of soap. In view of the urgent need to reduce our dependence on imports in regard to vegetable oils in general, I propose to increase the incentive by reducing the minimum percentage of use of minor oils from five per cent to three per cent and by introducing a rate of rebate of Rs 4.50 per metric tonne on the duty leviable on soap as long as the reduced minimum use of minor oils obtains. This rebate will increase progressively by Rs 1.50 per tonne for every additional percentage point increase in the utilisation of these oils A similar concession in relation to rice bran oil used in the manufacture of soap at the rate of Rs 1.50 per tonne for every additional percentage point of use of rice bran oil beyond a minimum level of 15 per cent will also be given.

To encourage the use of rice bran oil in the manufacture of vanaspati, the minimum percentage use of seven per cent which was prescribed last year is being reduced to one per cent without any change in the rate of rebate which would remain Rs 100 per metric tonne on the duty payable on vanaspati produced from such oil. Similarly, the incentive for greater use of cotton-seed oil in the manufacture of vanaspati is also being increased on a graded basis. The present general concession of Rs 100 per tonne of vanaspati produced from cotton-seed oil will be withdrawn and a minimum compulsory usage of 10 per cent prescribed. Beyond this percentage, however, the rebate would be Rs 200 per metric tonne upto 20 per cent of usage, Rs 250 per metric tonne from 20 to 30 per cent of usage and again Rs 200 per metric tonne beyond 30 per cent of usage. These concessions on oils would cost the exchequer about Rs 60 lakhs.

Honourable Members would be happy to know that I have no proposals this year in regard to postal and telegraph rates. The Finance Bill, however provides for some changes in the sales-tax law applicable to Delhi to remove certain lacunae which act to the detriment of sales tax revenue accruing to the Delhi administration.

Taking all the proposals together, the total additional revenue from excise duties would be of the order of Rs 145 crores in 1972-73 of which Rs 97 crores will accrue to the centre and roughly Rs 48 crores to the states. In addition, countervailing import duties which will apply in respect of all changes in excise duties other than those relating to iron and steel and aluminium are expected to yield an additional revenue of Rs 13.40 crores. Other changes in customs duties will yield, as already mentioned, an additional revenue of Rs 8.60 crores for the centre. The additional yield from direct taxes for 1972-73 would be Rs 14 crores for the centre and Rs two crores for the states. All in all, the additional revenue at the centre next year will be of the order of Rs 133 crores and for the states Rs 50 crores. The initial deficit of Rs 375 crores will thus stand reduced to Rs 242 crores which I think is a reasonably safe level.

Sir, in conclusion, may I express the hope that the budget proposals I have just presented will be judged in their entirety and against the background of the formidable challenge we continue to face as a nation. The level of investment in the economy needs to be raised substantially at the present juncture. This is necessary not only in the interest of growth, particularly industrial growth, but also for making a tangible impression on the well-being of the most disadvantaged sections of society. We have also to assist Bangladesh in her immediate task of restoring a measure of stability and viability to the economy. Nor can we let down our guard in regard to the security and integrity of the nation. At the same time, deficit financing must be kept within reasonable proportions.

Fortunately, the bulk of the unavoidable and indeed necessary increase in outlay next year will be financed by the normal growth in revenues. If I have not been able to avoid additional taxation altogether, I hope Honourable Members would remember that I have not been unduly cautious either in providing a stimulus to growth and social welfare by a substsatial increase in Plan outlay. Some of my tax proposals will also serve other objectives such as self-reliance. It is in this sense that I spoke at the outset of quickening the mutually reinforcing process of growth, social justice, self-reliance, investment and resource mobilisation. I can only hope that taken in their entirety, the budget proposals will take the economy one stage forward in its march towards our cherished goals.

Budget at a Glance

REVENUE BUDGET

(In crores of rupees)

Revenue Receipts

	1971-72 Budget	1971-72 Revised	1972-73 Budget
Tax Revenues	3,608	3,846	4,228 (+)183*
Less—States' Share of Tax Revenues	890	945	1,005 (+)50*
Net—Centre's Tax Revenues	2,718	2,9(1	3,223 (+)133*
Non-Tax Revenues	1,009	1,180	1,120
Total—Centre's Revenues	3,727	4,081	4,343 (—)133*

Revenue Disbursements

	1971-72 Budget	1971-72 Revised	1972-73 Budget
Civil Expenditure	1,725	1,900	2,026
Defence Expenditure	1,079	1,248	1,218
Grants-in-aid to State & Union Territory Governments	783	959	880
Total Revenue Expenditure	3,587	4,107	4,124
Revenue: Surplus(+) Deficit(—)	+140	—26	+219 (+)133*

CAPITAL BUDGET

Capital Receipts

	1971-72 Budget	1971-72 Revised	1972-73 Budget
Market Loans (Net)	168	294	215
External Aid (Other than PL 480)	324	367	363
PL 480 Aid	113	80	(—)1
Loan Repayments	930	1,294	1,029
Other Receipts	488	552	489
Total—Capital Receipts	2,023	2,587	2,095

*Effect of budget proposals.

Capital Disbursements

	1971-72 Budget	1971-72 Revised	1972-73 Budget
Civil Expenditure	491	755	420
Posts & Telegraphs	38	24	53
Railways	151	152	159
Defence	163	163	190
Loans and Advances	1,553	1,852	1,867
Total—Capital Disbursements	2,396	2,946	2,689
Deficit on Capital Account	(—)373	(—)359	(—)594
Overall Deficit	(—)233	(—)385	(—)375 (+)133*

DETAILS OF TAX AND NON-TAX REVENUES

Tax Revenues

(In crores of rupees)

	1971-72 Budget	1971-72 Revised	1972-73 Budget
Customs	534.00	652.00	700.00 (+)22.00*
Union Excise Duties	2071.56	2103.04	2330.00 (+)144.75*
Corporation Tax	411.00	442.00	480.00 (+)13.50*
Income Tax	491.00	543.00	580.00 (+)3.00*
Estate Duty	7.00	8.(0	8.00
Taxes on Wealth	30.00	30.00	43.00
Gift Tax	2.00	2.50	2.50
Other Heads	61.30	65.67	85.00
Gross Tax Revenue	3607.86	3846.21	4228.50 (+)183.25*
Less—States share of Taxes and Duties	890.44	945.14	1005.21 (+)50.14*
Income Tax	420.77	462.21	460.11 (+)2.41*
Estate Duty	6.70	7.64	7.66
Union Excise Duties	462.97	475.29	537.44 (+)47.73
Net Tax Revenue	2717.42	2901.07	3223 29 (+)133.11

*Effect of budget proposals.

Non-Tax Revenues

(In crores of rupees)

	1971-72 Budget	1971-72 Revised	1972-73 Budget
Interest Receipts	661.78	671.74	686.67
Administrative Services	10.40	12.21	12.00
Social and Developmental Services	40.14	51.93	51.68
Multipurpose River Schemes etc.	16.02	9.84	16.73
Public Works etc.	7.54	7.65	7.83
Transport and Communications	16.58	17.97	15.94
Currency and Mint	124.23	126.38	145.30
Miscellaneous	70.99	213.17	122.92
Contributions and Miscellaneous Adjustments	50.13	49.97	50.01
Extraordinary Items	11.70	18.78	11.19
Total Non-Tax Revenues	1009.51	1179.64	1120.27

DETAILS OF DISBURSEMENTS ON REVENUE ACCOUNT

(In crores of rupees)

	1971-72 Budget	1971-72 Revised	1972-73 Budget
1. Civil Expenditure	1724.42	1900.10	2025.81
Collection of Taxes and Duties	50.88	52.99	57.79
Debt Services	648.39	683.69	730.01
Administrative Services	236.61	255.21	267.56
Social and Developmental Services	376.40	359.94	433.21
Multipurpose River Schemes, etc.	20.43	22.38	16.79
Public Works, etc.	42.71	41.56	40.18
Transport and Communications	22.62	24.68	25.94
Currency and Mint	28.35	27.13	22.03
Miscellaneous	277.97	407.18	405.03
Contributions and Miscellaneous Adjustments	13.45	16.75	16.67
Extraordinary items	6.61	8.59	10.60
2. Defence Expenditure (Net)	1079.23	1248.39	1218.59
3. Grants-in-aid to State and Union Territory Governments	783.20	958.76	879.87
Total	3586.85	4107.25	4124.27

CAPITAL BUDGET : RECIEPTS AND DISBURSEMENTS

Capital Receipts

(In crores of rupees)

	1971-72 Budget	1971-72 Revised	1972-73 Budget
1. **Market Loans**	167.90	293.67	214.78
Gross Borrowings	500.00	626.87*	515.00
Less Repayments	332.10	333.20	300.22
2. **External Aid (other than PL 480)**	323.77	367.24	362.76
Gross Borrowings	540.00	564.24	614.73
Less Repayments	216.23	197.00	251.97
3. **PL 480 Aid**	113.33	80.08	—1.34
Dollar Credit	114.37	89.70	11.00
Rupee Loans	12.00	12.50	—
PL 480 Deposits (Net)	—13.04	—22.12	—12.34
4 **Repayment of Loans and Advances**	930.00	1294.00	1029.00
State and Union Territory Governments	660.00	850.00	760.00
Others	270.00	444.00	269.00
4. Small Savings	180.40	210.35	230.35
6. Provident Funds	88.45	94.24	99.10
7. Other Receipts	219.69	247.31	159.83
Total—Capital Receipts	2023.54	2586.89	2094.48

*Excludes Rs 100 crores of *ad hoc* treasury bills converted into dated securities.

Disbursement on Capital Account

(In crores of rupees)

	1971-72 Budget	1971-72 Revised	1972-73 Budget
1. **Civil Expenditure**	490.92	754.89	420.17
Social and Developmental Services	305.97	531.61	309.26
Multi-purpose River Schemes, etc.	58.20	58.49	70.78†
Public Works	100.46	97.04	125.39
Transport and Comunications	30.67	17.74	19.77
Currency and Mint	9.05	8.60	20.66
Miscellaneous	(—)13.43	41.41*	(—)125.69
2. Posts and Telegraphs	38.60	24.15	53.00
3. Railways	151.00	152.17	158.70
4. Defence	162.43	162.58	189.77
5. **Loans and Advances**	1552.94	1851.76	1866.7[illegible]
State and Union Territory Governments	966.31	1214.26	1097.59
Government Companies and Corporations	382.59	386.60	480.84
Others	204.04	250.90	288.35
Total	2395.89	2945.55	2688.42

*Includes transfer of Rs 70 crores to the Contingency Fund.

†Includes transfer of Rs 70 crores from the Contingency Fund.

RESOURCES TRANSFERRED TO STATE AND UNION TERRITORY GOVERNMENTS

(In crores of rupees)

	1971-72 Budget	1971-72 Revised	1972-73 Budget
. **State Governments**			
Share of Taxes and Duties	890	945	1055
Income Tax	421	462	462
Union Excise Duties	463	475	585
Estate Duty	6	8	8
Non-Plan Assistance	799	1219*	846
Grants	371	544	282
Loans	428	765	564
Assistance for State Plan Schemes	720	726	720
Grants	228	234	232
Loans	492	492	488
Assistance for Central and Centrally sponsored Plan Schemes	173	178	397
Grants	142	145	358
Loans	31	33	39
Less Repayment of Loans and Advances	—655	—843	—758
Net resources transferred to state governments	1927	2225	2260
I. **Union Territory Governments**			
Non-Plan Assistance	43	42	12
Grants	39	36	10
Loans	4	6	2
Assistance for Union Territory Plan Schemes	24	17	14
Grants	8	5	5
Loans	16	12	9
Grants for Central and Centrally sponsored Plan Schemes	2	1	2
Less Repayment of Loans and Advances	—5	—7	—2
Net resources Transferred to Union Territory Governments	64	53	26**
Net resources transferred to State and Union Territory Governments	1991	2278	2286

*Includes grants for relief of refugees from East Bengal.

**Excludes Manipur and Tripura which have become tates.

1972-73 PLAN OUTLAY COMPARED TO 1971-72 OUTLAY

(In crores of rupees)

	1971-72	1972-73
I. Central Sector	1,688	2,062
Central Plan met from budget	1,312@	1,624
From internal resources of public sector undertakings including PL 480 assistance to Rural Electrification Corporation	233	275
Centrally sponsored schemes	143	163
II. Union Territory Plan	65	62
III. Central assistance for state Plan	720	720
Total	2,473	2,844
Central Sector Outlay by heads of development:		
A. Met from central government's budget—	1,455	1,787
Agriculture & allied programmes	267	278
Irrigation & flood control	5	5
Power	62	88
Industry & minerals	454	545
Transport & communications	398	465
Social services	251	385
Other programmes	18	21
B. Met from internal resources and other sources	233	275
Power	28	38
Industry & minerals	97	109
Transeprt & communications	108	128

@Takes into account outlay of Rs 105 crores on certain schemes since included in the central Plan.

Finance Bill 1972 : Proposals Explained

THE TEXT of the official memorandum explaining the provisions of the Finance Bill, 1972, is given below:—

Provisions Relating to Direct Taxes

The provisions in the Finance Bill, 1972 in the sphere of direct taxes relate to the following matters:-

(i) Prescribing the rates of (including surcharges) on incomes liable to tax for the assessment year 1972-73 the rates at which tax will be deductable at source during 1972-73 from interest (including interest on securities), dividends, salaries, winnings from lotteries and crossword puzzles, payments made by certain categories of persons to contractors and by contractors to sub-contractors, and other categories of income liable to such deduction under the Income-tax Act and the rates for computation of advance tax and charging of income-tax on current incomes in certain cases for the financial year 1972-73.

(ii) Amendment of the Income-tax Act, 1961 with a view to raising additional revenue; widening the area of tax incentives for savings; plugging loopholes in the law leading to tax avoidance; enabling the central government to enter into treaties with foreign countries for exchange of information, for preventing evasion or avoidance of taxes or recovery thereof and giving effect to such provisions by the issue of a notification; and a few other matters.

(iii) Amendment of the Wealth-tax Act, 1957 with a view to widening the area of incentives for investment; preventing misuse of funds of charitable or religious trusts for giving benefits to their authors, relatives etc.; providing relief in respect of recognised or approved funds set up exclusively for the benefit of employees; providing tax relief to co-operative societies; and a few other matters.

(iv) Amendment of the Gift-tax Act, 1958 and the Companies (Profits) Surtax Act, 1964 so as to bring the provisions of these enactments in line with the changes proposed in the Income-tax Act.

(2) The Bill broadly follows the principle (adopted since 1967) that changes in the rates of tax as also in other provisions of the tax laws should ordinarily be made operative prospectively in relation to current incomes and not in relation to incomes of the past year. The substance of the main provisions in the Bill relating to direct taxes is explained in the following paragraphs.

INCOME-TAX

I. Rates of Income-tax in respect of incomes liable to tax for the assessment year 1972-73

3. In respect of the incomes of all categories of assessees (other than companies) liable to tax for the assessment year 1972-73, the rates of income-tax under the Bill are the same as laid down in Part III of the First Schedule to the Finance (No. 2) Act, 1971, for purposes of computation of advance tax, deduction of tax at source from "Salaries" and retirement annuities payable to partners of registered firms engaged in specified professions and computation of the tax payable in certain special cases, during the financial year 1971-72. The rates of incomes-tax (including surcharges on income-tax) for the assessment year 1972-73 in the case of individuals, Hindu undivided families, firms and other categories of non-corporate taxpayers have been specified in Paragraphs A to D of Part I of the First Schedule to the Bill.

4. In the case of the Life Insurance Corporation of India and other companies the basic rates of income-tax on incomes assessable for the assessment year 1972-73 are the same as those laid down in Part III of the First Schedule to the Finance (No. 2) Act, 1971 for the purpose of computation of advance tax during the financial year 1971-72. The income-tax payable by these entities will, however, be increased by a surcharge on income-tax calculated at the rate of 2.5 per cent of such income-tax. The provision for the levy of surcharge on income-tax has been made in the context of the levy of surcharge at the rate of 2.5 per cent of income-tax payable in advance by all companies during the financial year 1971-72 under the Companies (Surcharge on Income-tax) Act, 1971 enacted in December, 1971. These rates have been laid down in Paragraphs E and F of the Part I of the First Schedule to the Bill.

II. Rates for deduction of tax at source during the financial year 1972-73 from income other than "Salaries" and retirement annuities.

5. The rates for deduction of tax at source during the financial year 1972-73 from incomes other than "Salaries" and retirement annuities payable to partners of registered firms engaged in specified professions are set forth in Part II of the First Schedule to the Bill. In the context of the provision being made in the Income-tax Act for deduction of income-tax at source from income by way of winnings from lotteries and crossword puzzles, the Bill lays down the rates for deduction of income-tax not only from interest on securities, other categories of interest, dividends and other categories of non-salary income of non-residents, but also for deduction of tax from income by way of winnings from lotteries and crossword puzzles. Under another amendment sought to be made in the Income-tax Act, income-tax will be deductible at source from payments made to contractors and sub-contractors in certain cases. The rates for deduction of tax at source prescribed in the Bill in respect of categories of income which are already liable to such deduction differ from the rates specified in Part II of the First Schedule to the Finance (No. 2) Act 1971 for purposes of deduction of tax at source from such income during the financial year 1971-72 in certain respects. The changes in the rates are explained in the following paragraphs.

6. *Payment in respect of lottery and crossword puzzle prizes to residents other than companies.*—In the case of income by way of winnings from lotteries and crossword puzzles payable to resident recipients other than companies during the financial year 1972-73, tax will be deductible at the rate of 34.5 per cent made up of basic income-tax of 30 per cent and surcharge of 4.5 per cent (being 15 per cent of the income-tax). In view of a specific provision being made in the new section 194B of the Income-tax Act proposed to be inserted in that Act under clause 28 of the Bill, income-tax will be deductible only where the payment exceeds Rs 1,000. It is also being provided in that section that no deduction will be made from winnings from lotteries and crossword puzzles where the payment is made before June 1, 1972.

7. *Payments to contractors and sub-contractors*

resident in India.—Under the new section 194C proposed to be inserted in the Income-tax Act under clause 28 of the Bill, income-tax will be deductible at source from income comprised in payments made by the central government or any state government, local authorities, statutory corporations and companies to contractcrs engaged for carrying cut any work or for suppling labour for carrying out such work. Income-tax will be deductible at 2 per cent of such payments. Similarly, deduction will be made from payments made by contractors, other than individuals or Hindu undivided families, to subcontractors at the rate of 1 per cent of the payment. No ded·ction would, however, be required to be made if the consideration for the contract or the sub-contract does not exceed Rs 5,000 or where the payment is made before June 1, 1972. In view of the position that the rates for deduction of tax at source in respect of payments to contractors and sub-contractors have been laid down in the Income-tax Act, no specific provision in this regard has been made in Part II of the First Schedule.

8. *Payments of income to domestic companies.* — In respect of interest other than "Interest on securities" payable to a domestic company, the rate for deduction will be 21 per cent, made up of income-tax at 20 per cent and surcharge at 1 per cent (5 per cent of income-tax) as against 2L per cent formerly. In respect of any other income (excluding interest payable on a tax-free security), tax will be deducted at the rate of 23 per cent (made up of income-tax at 22 per cent and surcharge at 1 per cent) as against 22 per cent hitherto. The increase in these rates is being made in the context of the levy of surcharge on income-tax in the case of companies as explained in paragraph 12 of the Memorandum.

9. *Payments of income to foreign companies.*—In the case of income payable to a foreign company, income-tax deductible at source as hitherto will be increased by a surcharge on income-tax of 5 per cent. The rates for deduction of income-tax and surcharge in the case of foreign companies will, therefore, stand as alongside.

	Income-tax	Surcharge
	%	%
(a) On income by way of dividends payable by any domestic company	24.5	1.225
(b) On income by way of royalties payable by an Indian concern in pursuance of approved agreements	50	2.5
(c) On income by way of fees payable by Indian concerns for rendering technical services under approved agreements	50	2.5
(d) On income by way of interest payable on tax-free securities	44	2.2
(e) On any other income	70	3.5

It will be seen that the rates for deduction of basic income-tax in the case of foreign companies are the same as laid down in Part II of the First Schedule to the Finance (No. 2) Act, 1971.

III. Rates for deduction of tax at source from "Salaries", computation of advance tax and charging of income-tax in special cases during the financial year 1972-73.

10. *Individuals, Hindu undivided families and all other non-corporate taxpayers.*—The rates for deduction of tax at source from "Salaries" in the case of individuals during the financial year 1972-73 and also for computation of advance tax payable during that year in the case of all categories of taxpayers have been specified in Part III of the First Schedule to the Bill. These rates are also applicable for deduction of tax at source during 1972-73 from retirement annuities payable to partners of registered firms engaged in certain professions (chartered accountants, solicitors, lawyers, etc.) and for charging income-tax during 1972-73 on current incomes in special cases, e.g. provisional assessment of shipping profits arising in India to non-residents, assessment of persons leaving India for good during the assessment year 1972-73, etc.

These rates are the same as those specified in Part I of the First Schedule for the assessment of incomes liable to tax for the assessment year 1972-73.

11. The Table alongside shows, at selected levels of income of an individual the incidence of tax (including surcharge) at the rates proposed in the Bill for computation of advance tax and deduction of tax at source from "Salaries" during the financial year 1972-73. As explained in the preceding paragraph, the tax chargeable in the case of an individual for the assessment year 1972-73 will also be the same.

12. *Life Insurance Corporation of India and other companies.*—The basic rates of income-tax in these cases specified, respectively, in Paragraphs E and F of Part III of the First Schedule to the Bill for purposes of computation of advance tax payable by them during the financial year 1972-73 are the same as the rates of income-tax specified, respectively, in Paragraphs E and F of Part I of the First Schedule for incomes assessable for the assessment year 1972-73. The income-tax calculated at these rates

INCIDENCE OF TAX AT SELECTED LEVELS OF INCOME IN THE CASE OF INDIVIDUALS

Income Rs	Tax (including surcharge) at the rates in the Bill for computation of advance tax and deduction of tax at source from "Salaries" during 1972-73 Rs
5,000	Nil
6,000	110
7,500	275
10,000	550
12,500	1,018
15,000	1,485
20,000	2,875
25,000	4,600
40,000	12,650
50,000	19,550
60,000	26,450
70,000	34,500
80,000	42,550
90,000	51,175
1,00,000	59,800
1,50,000	1,05,800
2,00,000	1,51,800
2,50,000	2,00,675
3,00,000	2,49,550
5,00,000	4,45,050
10,00,000	9,33,800

ill, however, be increased y a surcharge on income-ax of 5 per cent as against .5 per cent applicable in espect of incomes assess-ble for the assessment year 972-73.

Clauses 2 and 28 and the 'irst Schedule)

V. Proposed amendments o the Income-tax Act

MEASURES FOR RAISING ADDITIONAL REVENUE

13. *Taxation of casual and ion-recurring incomes*—Under the existing provisions of the Income-tax Act, receipts which are of a casual and non-recurring nature are exempt from tax except where the receipts constitute capital gains or arise from a business or the exercise of profession, vocation or occupation or are by way of additions to the remuneration of an employee. In view of this exemption, no tax is currently chargeable in respect of winnings from lotteries, crossword puzzles, races, card games or from gambling or betting. The exemption from tax of such receipts is not in keeping with the principle of taxing equally persons with equal capacity to pay. The exemption also provides scope for tax evasion and conversion of 'black' money into 'white' by ascribing income which would normally be taxable to winnings from lotteries, races, card games, etc. The Bill seeks to make the following amendments to the Income-tax Act with a view to withdrawing the exemption currently available in respect of casual and non-recurring receipts:

(i) The definition of "income" is being extended to specifically provide that winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever will be regarded as income for purposes of the Income-tax Act.

(ii) Winning from stat or other lotteries in the case of non-corporate taxpayers will be taxed on a concessional basis in the same manner as long-term capital gains relating to assets other than lands and buildings. In other words, the whole of the income by way of lottery winnings will be allowed as deduction in computing the taxable income where the gross total income of the assessee does not exceed Rs 10,000 or where winnings do not exceed Rs 5,000. In other cases, a deduction equal to Rs 5,000 plus 50 per cent of the balance will be allowed in computing the taxable income.

(iii) Other casual and non-recurring receipts which are in excess of Rs 1,000 in a year will be included in the total income in the case of all categories of assessees and charged to tax at normal rates. The exemption of the first Rs 1,000 of income will, however, not be available in respect of capital gains, receipts arising from business or exercise of profession, vocation or occupation or receipts by way of addition to remuneration of an employee and such incomes will continue to be chargeable to tax on the existing basis.

(iv) Winnings from lotteries, crossword puzzles, races, card games, other games or from gambling or betting will be chargeable to tax under the head "Income from other sources". Accordingly, expenditure, not being in the nature of capital expenditure incurred wholly and exclusively for the purpose of making or earning such income will be allowed as deduction in computing the taxable income.

(v) Losses from lotteries, crossword puzzels, races, card games, etc. will be allowed to be set off only against income from the same source. Losses relating to these sources incurred in one year will also not be allowed to be carried forward to be set off against income of a subsequent year. For this purpose, each of the following sources will be regarded as a separate and distinct source:—

(a) lotteries;

(b) crossword puzzles;

(c) races, including horse races;

(d) card games;

(e) other games of any sort;

(f) betting or gambling of any form or nature not falling under any of the foregoing items.

Thus, while losses from bridge may be set off against winnings from any other card game, these will not be set off against income from any other source.

(vi) Income-tax will be deductible at source from winnings from lotteries and crossword puzzles at such rates as may be prescribed in the annual Finance Act, if the payment in respect thereof exceeds Rs 1,000. The present Bill seeks to provide for the deduction to tax at source from such winnings at 34.5 per cent. (income-tax 30 per cent plus surcharge 4.5 per cent) in the case of resident non-corporate taxpayers. In the cases of non-resident non-corporate taxpayers, tax will be deductible on the same basis as is currently applicable to income other than interest payable on a tax-free security, i.e., at the rate of 34.5 per cent or the higher appropriate rate applicable to lottery winnings etc. if such winnings were the total income.

(vii) Income by way of winnings from lotteries, crossword puzzles, races including horse races, card games, other games or from gambling or betting will not be included in the taxable income for purposes of payment of advance tax.

14. The above provisions will take effect from April 1, 1972. It is, however, being specifically provided that income by way of casual and non-recurring receipts will continue to be exempt from income-tax for the assessment year 1972-73 to the same extent as hitherto. The new provision for deduction of tax at source from winnings from lotteries and crossword puzzles will come into force with effect from 1st June, 1972.

(Clauses 3 (b) (ii), 4 (a), 10 to 14, 28 to 38 and (59.)

15. *Income from specified priority industries.*—Under the existing law, income derived by certain domestic companies from specified priority industries is charged to tax on a concessional basis. The priority industries specified in this behalf comprise—

(a) The business of generation or distribution of electricity or any other form of power;

(b) the business of construction, manufacture or production of any one or more of the articles or things specified in the list in the Sixth Schedule to the Income-tax Act; and

(c) the business of any hotel, where such business is carried on by an Indian company and the hotel is, for the time being, approved in this behalf by the central government.

The concessional taxation of profits from these industries is brought about by allowing a deduction of an amount equal to 5 per cent of such profits in computing the taxable income of the domestic company. The Bill seeks to discontinue this special deduction allowable in computing profits of domestic companies from priority industries.

16. The withdrawal of the concession in respect of priority industries will take effect from April 1, 1973 and, accordingly, the deduction will not be available for the assessment year 1973-74 in relation to current incomes of the financial year 1972-73 or any other accounting year corresponding to it.

(Clauses 15, 18, 19 & 43)

17. *Deduction in respect of dividends from co-operative societies.*—Under the existing provisions of the Income-tax Act, dividends received by an assessee from a co-operative society are completely exempt from income-tax without any ceiling limit. This exemption facilitates tax avoidance by persons who would otherwise earn taxable income by arranging to carry on their activities through the medium of one or more co-operative societies. It is proposed to withdraw the special concession in respect of dividends from co-operative societies. Such dividends will, however, be included in the categories of financial assets income wherefrom qualifies for deduction up to Rs 3,000 in the aggregate in the hands of an individual or a Hindu undivided family.

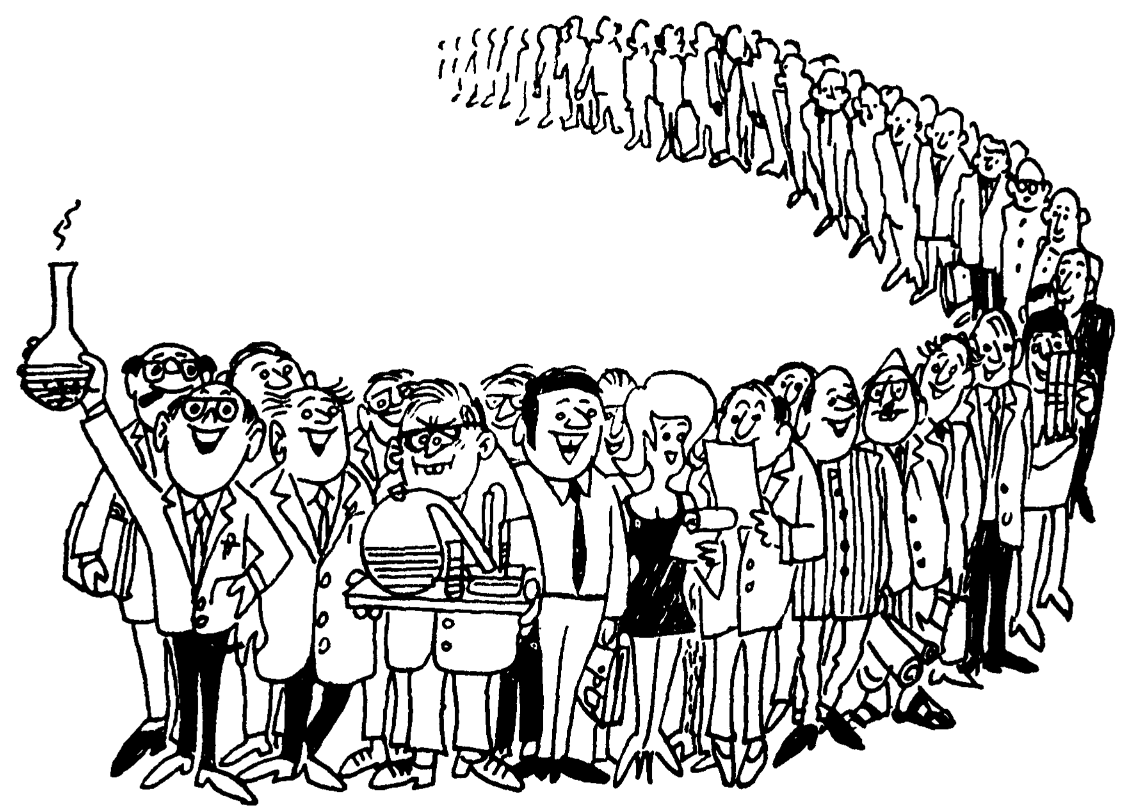
18. The changes set forth in the preceding paragraph will take effect from April 1, 1973 and will, accordingly, apply to the assessment year 1973-74 i.e. in relation to current incomes of the financial year 1972-73 or any other accounting year corresponding to it.

(Clauses 20 and 21)

INCENTIVES FOR SAVINGS

19. *Deduction in respect of long-term savings in specified media.*—Under the existing provisions of the Income-tax Act, tax relief is allowed in respect of long-term savings effected by certain categories of taxpayers out of their income. In the case of an individual, long-term savings through life insurance or deferred annuity policies on the life of the individual, his spouse, or child, certain provident and superannuation funds and 10-year and 15-year Cumulative Time Deposit Accounts qualify for tax relief. In the case of Hindu undivided families, long-term savings effected through insurance policies on the life of any member of the family qualify for tax relief. In the case of an assessee being an association of persons or body of individuals consisting only of husband and wife governed by the system of community of property in force in the union territories of Dadra and Nagar Haveli and Goa, Daman and Diu, long-term savings through policies of insurance or for deferred annuities on the life of any member of such association or body or on the life of any child of either member as also through the Public Provident Fund and 10-year and 15-year Cumulative Time Deposit Accounts qualify for tax relief. The tax relief, in all cases, is allowed by deducting 100 per cent of the first Rs 1,000 plus 50 per cent of the next Rs 4,000 plus 40 per cent of the balance of qualifying savings in computing the taxable income of the assessee.

20. With a view to widening the area of tax incentives for savings, it is being provided that contributions made by an individual out of his income chargeable to tax for participation in the Unit-linked Insurance Plan of the Unit Trust of India will qualify for the special deduction currently available in respect of life insurance premia, contributions to recognised provident funds, etc. The deduction will be available only in relation to the contributions made by the assessee himself as a member of the plan and not by his spouse or children. This is because under the scheme of the plan, minors are not allowed to participate in the plan, and a wo-



man would be eligible for participation only if she has a regular income of her own.

The deduction will also be available in respect of contributions made by any one member (f an association of persons or body of individuals consisting only of husband and wife governed by the system of community of property in force in the union territories of Dadra and Nagar Haveli and Goa, Daman and Diu.

21. In order to prevent misuse of the concession, it is being provided that where a member participating in the Unit-linked Insurance plan withdraws from the plan before paying contributions for a period of five years, no deduction will be allowed in respect of the contributions made in the year of withdrawal. Further, an amount equal to the aggregate of the deductions allowed in respect of contributions to the plan in the past years will be included in his total income of the previous year in which he withdraws from the plan. For this purpose, the deduction allowed in respect of contributions made in any previous year will be the difference between the amount by which the total deduction actually allowed in that year exceeds the deduction which would have been allowed if no such contributions had been made in that year. In other words, the contributions will be related to the top slab of the qualifying amount of savings in the relevant year.

22. The tax concession in relation to contributions to the Unit Insurance Plan will become effective from April 1st, 1973 and will accordingly apply in relation to the assessment year 1973-74 and subsequent years.

(*Clause 16*)

MEASURES FOR PLUGGING LOOPHOLES IN THE LAW LEADING TO TAX AVOIDANCE

23. *Changes in the provisions relating to exemption from tax of income of charitable and religious trusts.*—The Finance Act, 1970 made certain important changes in the scheme of taxation of the income of charitable or religions trusts and institutions with effect from April 1, 1971. Under the provisions of the Income-tax Act, as amended by the Finance Act, 1970, income from property held under trust wholly for charitable or religious purposes is exempted from income-tax to the extent such income is applied to the purposes of the trust in India in the same year or within a period of 3 months immediately following. A similar exemption is available also in cases where property is held under trust in part only for charitable or religious purposes, provided that the trust was created before April 1. 1962. In both these types of trusts, any income which is not so applied is allowed to be accumulated or set apart for future application to charitable or religious purposes without attracting tax liability, if the trust complies with certain procedural requirements laid down in this behalf. These requirements, are that (a) the trust or institution should give notice to the Income-tax officer specifying the purpose for which the income is to be accumulated and the period for which the accumulation is proposed to

be made and (b) the income so accumulated should be invested in government or other approved securities or deposited in Post Office Savings Bank, scheduled banks, co-operative banks or approved financial corporations. The maximum period of such accumulation is 10 years and if the accumulated income is not applied to the purposes for which it was accumulated within one year of the expiry of the 10-year period, the exemption is lost and tax is chargeable on the accumulated income.

The exemption from tax is also forfeited, in the case of a trust or institution created or established after March 31, 1962, if under the terms of the trust or the rules governing the institution, any part of the trust income ensures for the direct or indirect benefit of specified persons, such as, the founder of the trust, substantial contributor to the trust or any relative of such founder or contributor. In the case of a trust or institution, whenever created or established, the exemption is forfeited also if its income or property is used or applied during the relevant year for the direct or indirect benefit of such persons. An exception is, however, made in the case of trusts or institutions created or established before April 1, 1962, if the use of the income or property for the benefit of the specified persons is in compliance with any mandatory provision in the terms of the trust or the rules governing the institution. Under specific provisions made in the Act, the trust income or property is regarded as having been used or applied for the benefit of such persons if the trust or institution engages in any of the following transactions:

(a) Lending of the income or property of the trust or institution to any one of the specified persons without either adequate security or adequate interest or both;

(b) making available land, building or other property of the trust or institution, for the use of any of the specified persons without charging adequate rent or other compensation;

(c) payment of excessive remuneration to any of the specified persons for services rendered by him to the trust or institution;

(d) making the services of the trust or institution available to any of the specified persons without adequate remuneration or other compensation;

(e) purchase of shares, securities or other properties for the trust or intitution from any of the specified persons for more than adequate consideration;

(f) sale of shares, securities or other property of the trust or institution to any of the specified persons for less than adequate consideration;

(g) diversion of a substantial portion of the income or property of the trust or institution in favour of any of the specified persons;

(h) investment of the trust funds in any concern in which any of the specified persons has a substantial interest.

If the quantum of investment referred to in (h) above does not exceed 5 per cent of the capital of the concern, the trust or institution forfeits exemption from tax only in respect of the income arising from such investment.

24. Voluntary contributions received by charitable or religious trusts and institutions and applicable solely to religious or charitable purposes are also exempt from tax. Various conditions laid down in section 11, such as, application of income to charitable or religious purposes within the specified period, accumulation of the unspent income in the specified manner, and the provisions relating to the forfeiture of tax exemption in certain circumstances, mentioned above, however, do not apply to income by way of voluntary contributions except where such contributions are receivep from a charitable or religious trust or institution which itself claims exemption from tax.

25. In order to ensure that the tax exempt funds of charitable and religious trusts or institutions are applied to the purposes of such trusts and intitutions and are not diverted for the benefit of the author of the trust, founder of the institution, persons who have made substantial contributions or who manage the affairs of the trust or institution, the Bill seeks to make the following amendments in the scheme of tax exemption of such trusts and institutions:

(i) The definition of "income" is being extended to specifically provide that voluntary contributions received by a charitable or religious trust or institution, regardless of whether such trust or institution has been created or established wholly or partly for charitable or religious purposes, will be regarded as income for purposes of the Income-tax Act. Contributions received with a specific direction that they will form part of the corpus of the trust or institution will, however, not be treated as income. For this purpose, the term "trust" will include any other legal obligation.

(ii) Where such voluntary contributions are received by a trust created wholly for charitable or religious purposes or by an institution established wholly for such purposes, these contributions will, for purposes of Sections 11 and 13, be regarded as income derived from property held under trust wholly for charitable or religous purposes.

The effect of the modifications at (i) and (ii) above would be as follows:

(a) Income by way of

voluntary contributions received by private religious trusts will no longer be exempt from income-tax.

(b) Income by way of voluntary contributions received by a trust for charitable purposes or a charitable institution created or established after March 31, 1962 (i.e. after the commencement of the Income-tax Act, 1961) will not qualify for exemption from tax if the trust or institution is created or established for the benefit of any particular religious community or caste.

(c) Income by way of voluntary contributions received by a trust created partly for charitable or religious purposes or by any institution established partly for such purposes will no longer be exempt from income-tax.

(d) Where the voluntary contributions are received by a trust created wholly for charitable or religious purposes or by an institution established wholly for such purposes, such contributions will qualify for exemption from income-tax only if the conditions specified in Section 11 regarding application of income or accumulation thereof are satisfied and no part of the income enures and no part of the income or property of the trust or institution is applied for the benefit of persons specified in Section 13 (3) of the Income-tax Act, e.g. author of the trust, founder of the institution, a person who has made substantial contribution to the trust or institution, the relatives of such author, founder, person, etc. In other words, income by way of voluntary contributions will ordinarily qualify for exemption from income-tax only to the extent it is applied to the purposes of the trust during the relevant account year or within three months next following. Such charitable or religious trusts will however, be able to accumulate income from voluntry contributions for future application to charitable or religious purposes for a maximum period upto 10 years, without forfeiting exemption from tax, if they comply with certain procedural requirements laid down in Section 11 in this behalf. These requirements are that (1) the trust or institution should give notice to the Income-tax Officer, specifying the purpose for which the income is to be accumulated and the period for which the accumulation is proposed to be made, and (2) the income so accumulated should be invested in government or other approved securities or deposited in post office savings bank, scheduled banks, co-operative banks or approved financial institutions.

(iii) The list of persons referred to in Sub-section (3) of Section 13 of the Income-tax Act is being enlarged by including therein trustees of trusts, managers of institutions, their relatives and concerns in which such trustees, managers and relatives have a substantial interest. The effect of this amendment will be that where any income of the trust or institution created or established after March 31, 1962 (i.e. after the coming into force of the Income-tax Act, 1961) enures for the benefit of trustees, managers, etc., the trust or institution will forfeit exemption from tax. Likewise, where any income or property of the trust or institution is used or applied during the relevant account year for the direct or indirect benefit of trustees, managers, etc, exemption from income-tax will be forfeited irrespective of whether the trust or institution was created or established before or after the commencement of the Income-tax Act.

(iv) The scope of the expression "relative for purposes of Section 13 is also being enlarged so as to include relatives through marriage. "Relative" will now mean (1) spouse of the individual, (2) brother or sister of the individual, (3) brother or sister of the spouse of the individual, (4) any lineal ascendant or descendant of the individual, (5) any lineal ascendant or descendant of the spouse of the individual, (6) spouse of a person referred to in (2), (3), (4) and (5) above and (7) any lineal descendant of a brother or sister of either the individual or of the spouse of the individual.

The effect of this provision will be that relatives through marriage of the author, founder, substantial contributor, trustee or manager will be included in the list of persons specified in Section 13(3) of the Income-tax Act.

(v) Under an existing provision a charitable or religious trust or institution forfeits exemption from tax if a "substantial portion" of the income or property of the trust or institution is diverted during the relevant account year in favour of any person referred to in Section 13(3). This provision is being modified to provide that exemption from income-tax under this provision will be lost if the aggregate of the income or property, diverted in favour of any such person, during the relevant account year, exceeds Rs 1,000.

(vi) Exemption from income-tax in respect of income derived from property held under trust or by away of voluntary contributions by charitable or religious trusts or institutions will be available only if the following conditions are fulfilled:

(1) The person in receipt of the income makes an application for registration of the trust or the institution to the Commissioner of Income-tax before July 1, 1973 or before the expiry of a period of one year from the date of creation of the trust or establishment of

the institution, whichever is later. (The Commissioner of Income-tax is, however, being empowered to admit, in his discretion, belated applications for registration in deserving cases.)

(2) Where the total income of the trust or insitution (without giving effect to the provisions of Sections 11 and 12) exceeds Rs. 25,000 in any previous year, the accounts of the trust or institution for that year have been audited by a chartered accountant or any other accountant entitled to be appointed as an auditor of companies.

(vii) It is being specifically provided that in determining whether any part of the income or property of the trust or institution has been used for the benefit of any specified person during any period before August 21, 1972, the amendments now proposed to be made in section 13 will be ignored.

26. Under an existing provision in the Income-tax Act, every person in receipt of income derived from property held under trust or other legal obligation wholly for charitable or religious purposes, or in part only for such purposes, is required to furuish voluntarily the return of income if the total income in respect of which he is assessable as a representative assessee, without giving effect to the provisions of section 11 relating to application of income, exceeds the maximum amount not liable to income-tax. This provision is being amended so as to provide that the return of income will have to be filed even in cases where the income *including voluntary contributions received by the trust or institution* exceeds such limit.

27. The modifications set forth in the preceding two paragraphs will take effect from April 1, 1973 and will accordingly apply in relation to the assessment year 1973-74 and subsequent years.

(The Wealth-tax Act is also being amended to provide that in a case where any part of the corpus or income of a charitable or religious trust is used for the benefit of the author of the trust, a substantial contributor to the trust and other specified persons, the trust will be liable to pay wealth-tax on its net wealth at a flat rate of 1.5 per cent. or the appropriate rate applicable to such net wealth, whichever is higher. This provision has been explained separately in paragraphs 50-51 of this Memorandum.)

(*Clauses* 3(*b*)(*i*), 5, 6, 7 *and* 26(*c*).

28. *Donations to charitable trusts or institutions*—Under an existing provision in the Income-tax Act, donations to charitable or religious institutions qualify for a tax concession, subject to certain conditions. One of these conditions is that where the institution or fund derives any income, such income should not be liable for inclusion in its total income, under the provisions of Section 11 or Section 12. The tax concession is, however

not denied merely on either or both of the following grounds :

(i) That, subsequent to the donation, any part of the income or fund has become chargeable to tax due to non-compliance with any of the provisions of Section 11 relating to application or accumulation of income in the specified manner.

(ii) That the exemption under Section 11 is denied to the institution or fund in relation to any income arising to it from any investment made in a concern in which the persons specified in Section 13(3) of the Income-tax Act have a substantial interest, where the investment in such a concern does not exceed 5 per cent of the capital of the concern.

29. In view of the position that under the Bill, income by way of voluntary contributions received by a charitable or religious trust will also be subject to the same requirements as are currently applicable in respect of the income derived from property held under trust, consequential changes are proposed to be made in the provision relating to the tax concession in respect of donations to such trusts. The exemption in respect of the donation will not be denied also in a case where the trust or institution forfeits exemption on account of non-compliance with the requirements of application or accumulation of voluntary contributions in the specified manner where the default takes place after the donation is made. Similarly, the tax concession will not be denied merely because the trust or institution forfeits exemption in respect of its income by way of voluntary contributions on the ground that the funds of the trust or institution have been invested in a prohibited concern provided, however, the investment in such concern does not exceed 5 per cent of its capital.

30. The modifications in the preceding paragraph will take effect from April 1st 1973 and will accordingly, apply in relation to assessments for the assessment year 1973-74 and subsequent years.

(*Clause 17*)

PROVISIONS FOR ENABLING THE CENTRAL GOVERNMENT TO ENTER INTO TAX TREATIES WITH FOREIGN COUNTRIES FOR EXCHANGE OF INFORMATION FOR PREVENTING EVASION OR AVOIDANCE OF TAXES AND RECOVERY THEREOF

31. Under an exising provision in the Income-tax Act, the central government is empowered to enter into an agreement with the government of any foreign country for the avoidance of double taxation of income and to make provisions for implementing the agreement by the issue of a notification in the Official Gazette. Some of the taxpayers having transactions with outside countries resort to dubious methods for evading their liability under the tax laws. Tax evasion is thus closely linked with transactions involving over-invoicing and under-invoicing in import and export business, operations through secret foreign bank accounts and smuggling of valuable articles into and out of India. Cases of taxpayers who thwart the attempts of the tax administration to collect tax dues by either retaining their assets abroad or transferring them secretly outside India are also not unknown. With a view to enabling the tax administration to tackle the problem of tax evasion having international ramifications, the Bill seeks to amend the provision relating to tax treaties in order to provide for the following matters:

(i) The central government will be empowered to enter into agreements with foreign countries not only for purposes of avoidance of double taxation of income but also for enabling the tax authorities to exchange information for the prevention of evasion or avoidance of taxes on income or for investigation of cases involving tax evasion or avoidance or for recovery of taxes in foreign countries on a reciprocal basis.

(ii) A consequential change is also being made in the provisions of the Income-tax Act relating to recovery of arrears of taxes. Where the tax treaty provides for the recovery of taxes due to the government of one treaty country in the other and the government of the foreign country or any authority specified in this behalf in the tax treaty sends to the Central Board of Direct Taxes a certificate for the country of any tax due in the foreign country, the Board will be empowered to send the certificate to the Tax Recovery Officer within whose jurisdiction the property of the defaulter is situated and thereupon the Tax Recovery Officer will proceed to recover the dues in the manner specified in the Income-tax Act. Likewise, if a taxpayer in India has property in the foreign country, the Income-tax Officer will be able to send a certificate to the Board certifying the amount of arrears due from the taxpayer and thereupon the Board will take action for the recovery of the dues in the foreign country in accordance with the terms of the tax treaty.

32. The above modifications will come into force with effect from April 1, 1972.

[The Companies (Profits) Sur-tax Act, Wealth-tax Act and Gift-tax Act also contain similar provisions enabling the central government to enter into agreements with foreign countries for the avoidance of double taxation with respect to taxes levied under these Acts. The corresponding provi-

sions in these Acts are also being brought in line with the provisions of the Income-tax Act, as proposed to be amended under the Bill.]
(*Clauses 23, 39, 48, 49, 53, 54 & 57*).

OTHER AMENDMENTS TO THE INCOME-TAX ACT

33. *Tax treatment of gratuities.*—Under an existing provision in the Income-tax Act, death-*cum*-retirement gratuity received under the revised pension rules of the central government or under any similar scheme a a state government, a local authority or a statutory corporation is completely exemted from tax. Similarly, retiring gratuity received under the new pension code applicable to members of the Defence Services also qualifies for tax exemption without any ceiling limit. In the case of any other gratuity, the exemption is available to the extent such gratuity does not exceed one-half month's salary for each year of completed service, calculated on the basis of the average salary for the three years immediately preceding the year in which the gratuity is paid, or fifteen months' salary so calculated or Rs 24,000, whichever is the least. Ceiling limits in regard to the death-*cum*-retirement gratuity received by civilian government servants and retiring gratuity received by members of the Defence Services have been prescribed in the law because such gratuities are subject to ceiling limits under the relevant rules which are similar to those specifically laid down in the Act. No ceiling limits have also been laid down in respect of the exempt amount of gratuities received by employees of statutory corporations as the schemes under which these gratuities are paid are broadly on the lines of the gratuities payable to government servants. On nationalisation, banks and other undertakings have come within the category of statutory corporations. The gratuity schemes of some of these banks and undertakings do not have any monetary ceiling in respect of gratuities payable thereunder or the monetary ceiling is substantially higher. This, therefore, creates an invidious distinction between the employees of such statutory corporations and those in the private sector. Further, whereas in the case of government servants, gratuities are paid only on retirement or death, persons in private employment may receive gratuities from time to time even while they continue in service. The present wording of the relevant provision is wide enough to confer exemption in respect of gratuties which are paid otherwise than on retirement or death. With a view to removing these anomalies in the tax treatment of gratuities received by different categories of employees, the following modifications are proposed to be made in the relevant provision of the Income-tax Act :

(i) Exemption from income-tax in respect of gratuities received by employees of statutory corporations and employees in the private sector will be available only if such gratuities are received on retirement, incapacitation or death of the employee or on termination of his employment.

(ii) The exempt amount of gratuities in the case of employees of statutory corporations and those in the private sector will be subject to a ceiling limit of one-half month's salary for each year of completed service, calculated on the basis of the average salary for the three years immediately preceding the year in which the gratuity is paid, or fifteen months' salary so calculated or Rs 24,000, whichever is the least.

34. This change will take effect from 1st April, 1973 and will accordingly apply in relation to the assessment year 1973-74 and subsequent years.

[*Clause 4(b)*]

35. *Exemption from income-tax of income of approved gratuity funds.*—Under an existing provision in the Income-tax Act, income of provident funds to which the Provident Funds Act, 1925 applies, recognised provident funds and approved superannuation funds, is completely exempt from income-tax. Such exemption is, however, not available in respect of the income of approved gratuity funds. The approved gratuity funds are subject to regulation under the Income-tax Rules and the pattern of investment made by such funds is also prescribed under these rules. With a view to encouraging the formation of approved gratuity funds and thus safeguarding the interest of employees in general, it is proposed to amend the relevant provision in the Income-tax Act to provide for exemption of the income of approved gratuity funds from tax.

36. This change will take effect from April 1, 1973 and accordingly will apply in relation to the assessment year 1973-74 and subsequent years.

[*Clauses 4(c) &42)*]

37. *Curtailment of time allowed for filing returns of income and modification of the provisions relating to charging of interest for delay in furnishing such returns.*—Under an existing provision in the Income-tax Act, every person having a taxable income from sources other than business or profession is required to furnish voluntarily the return of his income before June 30, of the relevant assessment year. In the case of an assessee deriving income from business or profession, the return is required to be furnished before the expiry of six months from

the end of the previous year or before June 30, of the assessment year, whichever is later. Under another prcvision, the Income-tax Officer has the power to issue a notice to any person requiring him tc furnish his return of income within 30 days of the date of service of the notice and this notice can curtail the time allc wed furnishing the voluntary return. In case the return of income is not furnished befi re October 1 of the assessment year, the tax-payer is ordinarily liable to pay simple interest at 9 per cent per annum from October 1, to the date of furnishing of the return. Where, however, the total income of the assessee includes any income from business or profession, the previous year in respect of which expired after December 31, of the year immediately preceding the assessment year, theinterest is reckoned from January 1, instead of October 1, of the assessment year. In view of these provisions, an assessee can delay his return of income for a period ranging from three months to almost six months without attracting any liability to pay interest for the period of delay. Further, under Section 140A, where the tax payable on the basis of the return filed by an assessee exceeds Rs 500, the assessee is required to pay tax on the basis of self-assessment within 30 days of furnishing the return. In case of default in paying the tax cn the basis cf self-assessment within the time allowed, a penalty up to a maximum of 50 per cent of the amount of tax due is exigible. The effect of these provisions is that if an assessee furnishes his return of income within the time allowed under Section 139 (1), he is required to pay the tax due on the basis of the return within 30 days of furnishing such return. If, however, he does not furnish the return within the time allowed but dalays it either after obtaining an extension from the Income-tax Officer or otherwise, he does not have to pay any tax on self-assessment basis until he files the return. Further, where the return is due by June, 30, the assessee can delay it upto September 30, even without attracting any liability to interest fcr delay in furnishing the return. Where the assessee derives income from a business or profession and closes his accounts after December 31, of the previous year preceding the assessment year, the return can be delayed upto December 31, of the assessment year without attracting any liability to interest. In view of this position, there is a tendency on the part of assessees not only to delay the returns of income up till the due date under Section 139(1) but also to request for extension of time, sometimes, on frivolous grounds.

The time limit for completion of assessments has been reduced from four years to two years recently and with the introduction of the scheme of summary assessments, the pendency of arrear assessments has also been reduced considerably. It is, therefore, necessary

in the interest of proper management of assessment work th the bulk of the returns are received early in the assessment year.

With the twin objective of ensuring early receipt of returns and withdrawing the in-built incentive for delaying the returns, it is proposed to make the following modifications in the relevant provisions of the Income-tax Act —

(i) Assessees having income from business or profession would be statutorily required to furnish returns of income voluntarily within four months (as against six months at present) of the close of the accounting year or by June 30, following that year, whichever is later. (For all other categories of assessees, the last date for filing the returns of income will continue to be June 30 regardless of the accounting year adopted by them.)

(ii) Interest for delay or default in furnishing the return of income will, in all cases, be charged from the expiry of the due date for furnishing such return voluntarily under Section 139(1). Thus, where the return is due by June 30, of any assessment year, but is not filed on or before that date, interest will be charged from July 1, of that year.

(iii) In keeping with the other provisions in the Bill increasing the rate of interest chargeable from assessees or payable to them from 9 per cent per annum to 12 per cent per annum, the rate of interest for delay or default in furnishing the return will also be increased to 12 per cent per annum.

38. These modifications will take effect from April 1, 1972.

(Under the corresponding provision in the Wealth-tax Act, an assessee carrying on a business or profession is required to furnish the return of his net wealth before June 30 of the assessment year or within the period prescribed under the Income-tax Act for furnishing the return of his total income, whichever is later. In view of the above modifications sought to be made in the Income-tax Act, the returns of net wealth in such cases will also become due on June 30, or within four months of the expiry of the relevant account year, whichever is later.)

[(*Clause* 26 (*a*), (*b*) & (*d*)]

39. *Increase in the rate of interest chargeable from assessees, and also payable to assessees by government under the provision of the Income-tax Act.*—Simple interest at 9 per cent per annum is chargeable from assessees under certain provisions of the Income-tax Act, e.g., for failure to pay the tax dues within the time allowed under the notice of demand, short payment of advance tax, delay in furnishing return of income, etc. Likewise, assessees are entitled to receive simple interest from the central government at 9 per cent per annum of excess payment of advance tax and delay in issue of refund. It is proposed to increase the rate of interest chargeable from, or payable to assessees under the various provisions of the Income-tax Act. from 9 per cent per annum to 12 per cent per annum with effect from April, , 1972. It is being specifically clarified that the proposed increase in the rate of interest will apply in respect of any period falling after March 31, 1972, also in those cases where the interest became chargeable or payable from an earlier date.

(*Clauses* 25, 26 (d) (i) & 60)

40. *Withdrawal of exemption in respect of gains arising from transfer of personal jewellery.*—Under the provisions of the Income-tax Act, any profits or gains arising from the transfer of a 'capital asset are chargeable to tax. The term 'capital asset, as defined in the Income-tax Act does not include' *inter alia*. personal effects, i.e. movable property including wearing apparel jewellery and furniture held for personal use by the assessee or any member of his family dependent on him. In view of the specific exclusion of jewellery from the definition of 'capital asset,' profits and gains arising from the transfer of jewellery held for personal use are not chargeable to income-tax. The exemption of capital gains arising from transfer of jewellery facilitates tax evasion through bogus or inflated claims of sale of jewellery for explaining moneys introduced in business. It is therefore, proposed to withdraw this exemption and to charge capital gains arising from the transfer of personal jewellery on the same basis as capital gains relating to assets other than lands or buildings. The term 'jewellery', is being given the same extended meaning as has been given to it under the Wealth-tax Act and will therefore, include — (a) ornaments made of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals, whether or not containing any precious or semi-precious stone, and whether or not worked or sewn into any wearing apparel; (b) precious or semi-precious stone, whether or not set in any furniture, utensil or other article and whether or not worked or sewn into any wearing apparel. As it is not intended to levy any tax on capital gains arising from *bona fide* transfer of jewellery made for the purpose of acquiring any other jewellery for personal use it has been specifically provided, that where such jewellery is acquired within six months of the transfer of any profits and gains arising from the transfer will not be liable to tax if the whole of the full value of the consideration is

spent in acquiring the new jewellery. Where only a part of this consideration is used in acquiring new jewellery a proportionate part of capital gain will not be liable to tax.

41. These amendments take effect from April I, 1973 and will, therefore, apply in relation to assessment years 1973-74 and subsequent years.

(*Clauses 3 (a) 8 and 9*)

42. *Powers to make rules for admission of additional evidence.*—At present, an Appellate Assistant Commissioner of Income-tax has a wide and unrestricted discretion in regard to admission of evidence which is not produced by the assessee before the Income-tax Officer but is produced for the first time in the course of the appellate proceedings. With a view to regulating the admission of such additional evidence, the Central Board of Direct Taxes is being empowered to prescribe in the Income-tax Rules the circumstances in which. the conditions subject to which, and the manner in which the Appellate Assistant Commissioner of Income-tax may permit the appellant to produce evidence which was not produced or which was not allowed to be produced before the Income-tax Officer.

(*Clause I*)

43. *Appointment of Vice-Presidents or Vice President of Appellate Tribunal.*—The Income-tax Appellate Tribunal is headed by a president who is appointed by the central government from amongst the members of the Tribunal. The President of the Tribunal exercises various statutory functions, such as the constitution of benches and allocation of work to them, besides administrative control over all members and staff. With a view to enabling the president to cope with the increasing volume of work, the central government is being empowered to appoint one or more members of the Appellate Tribunal to be the Vice-President or as the case may be, Vice-Presidents of the Appellate Tribunal. It is also being provided that a Vice-President shall exercise such of the powers and perform such of the functions of the President of the Tribunal as may be delegated to him by the President by a general or special order in writing.

PROPOSED AMENDMENTS TO THE WEALTH-TAX ACT, 1957

44. *Exemption of co-operative societies from wealth-tax.*—Under the existing provisions of the Wealth-tax Act, wealth-tax is chargeable in respect of the net wealth of, (i) individuals, (ii) Hindu undivided families, and (iii) companies. (wealth-tax is, however, not being charged in respect of the net wealth of companies from the assessment year 1960-61 onwards in view of a special provision made in this behalf in the Finance Act, 1960). Recently, some doubt has been raised that a co-operative society could, in law, be regarded as an 'individual' for purposes of the Wealth-tax Act and charged to tax accordingly, Such an interpretation would would not be in keeping with the intention underlying these provisions. Levy of wealth-tax on co-operative societies will also have an adverse effect on the co-operative movement in the country. The Wealth-tax Act is, therefore, being amended to provide for exemption of co-operative societies from wealth-tax retrospectively from April 1, 1957 (i.e. from the date of commencement of the Wealth-tax Act).

[*Clauses 44 & 50 (b)*]

45. *Exemption from wealth-tax of recognised provident funds, approved superannuation funds and gratuity funds.*—The Wealth-tax Act does not contain any specific provision for the exemption of recognised provident funds, approved supernnuation funds and approved gratuity funds constituted for the benefit of employees. Such funds have, however, not been charged to tax as it was not the intention to bring them within the ambit of the Wealth-tax Act. Because of certain amendments made to the Wealth-tax Act in 1970, relating to taxation of discretionary rusts, a doubt has been raised regarding the tax treatment of such funds. The levy of wealth tax on such funds will substantially erode their corpus and hamper the setting up of such funds for the benefit of employees in the public and private sectors. The Wealth-tax Act is, therefore, being amended to provide for exemption of provident funds to which the Provident Fund Act, 1925 applies, as also all provident funds, superannuation funds, and gratuity funds which are recognised or approved for the purposes of the Income-tax Act. The exemption is being given retrospect effect from April 1, 1957 (i.e. the date of commencement of the Wealth-tax Act).

(*Clause 45 (a) (i)*)

46. *Exemption from wealth-tax of assets forming part of an industrial undertaking.*—The Wealth tax Act provides for exemption from tax in respect of investments made in specified financial assets up to an aggregate value of Rs 1,50,000. The specified investments qualifying for this exemption are:—

(a) Government securities, including small savings securities of the central government.

(b) Fixed deposits with the central government as also in Post Offices on government account and Recurring and Time Deposits in Post Offices.

(c) Shares in Indian companies.

(d) Notified debentures.

(e) Units in the Unit Trust of India.

(f) Deposits with banking

companies, including co-operative banks, land mortgage banks and land development banks.

(g) Deposits with approved financial institutions engaged in providing long-term finance for industrial development in India.

(h) Shares in a co-operative society.

(i) Deposits made by a member of a co-operative society with the society (other than deposits made with a co-operative housing society by a member of the society to whom a building or part thereof is allotted or leased under a house building scheme of the society which are separately exempted from wealth-tax without any limit to the extent such deposits have been made under the house building scheme of the society.

It is now proposed to enlarge this list so as to include the value of assets forming part of an industrial undertaking belonging to the assessee, as also the value of his interest in the assets forming part of an industrial undertaking belonging to a firm or an association of persons of which the assessee is a partner or a member. Accordingly, in computing the exemption from wealth-tax up to Rs 1,50,000, the value of these assets will also be taken into account. The value of any land or building or any rights in any land or building or the value of assets of the industrial undertaking which are otherwise exempt from wealth-tax under Section 5 (1) of the Wealth-tax Act will, however, not be taken into account for the purposes of this exemption. "Industrial undertaking" for the purposes of this provision has been defined to mean an undertaking engaged in the business of generation or distribution of electricity or any other form of power or in the construction of ships or in the manufacture or processing of goods or in mining. This provision will take effect from April 1, 1973 and will, therefore, apply for the assessment year 1973-74 and subsequent assessment years.

[(*Clause 45 (a) (ii) & (b)*.)]

47. *Concession in regard to holding period of exempt assets.*— Under an existing provision in the Wealth-tax Act, certain assets qualify for exemption from wealth-tax only if these are held by the assessee for a period of at least six months ending with th relevant valuation date. Some of these assets are: (i) Deposits in notified schemes framed by central government; (ii) government securities; (iii) shares in Indian companies; (iv) notified debentures; (v) units in the Unit Trust of India; (vi) deposits with banking companies, co-operative banks etc. In the case of shares in a company, exemption from tax is available if the shares have been held from the date on which these were first issued even if the holding period is less than six months. This restriction has been placed in order to prevent misuse of the tax exemption by changing investments from non-exempt assets to exempt assets for a short period merely to obtain the benefit of the tax concession. This provision sometimes results in hardship even in *bona fide* cases of conversion of one category of exempt assets to another category of exempt assets. For example, an employee receiving the balance to his credit in a recognised provident fund (which is exempt from wealth-tax) and depositing the amount in a bank may forfeit exemption from tax in respect of the amount merely because he has not been able to hold the bank deposit for a period of six months. In order to obviate hardship in such cases, Section 5 (3) of the Wealth-tax Act is being amended to provide that in computing the period of six months in relation to any asset, in case where such asset was acquired by the assessee by conversion of, or in exchange for, or with the proceeds of, or with the money constituting, any other asset exempt from wealth-tax under sub-section (1) or sub-section (2) of the Wealth-tax Act, so much of the period for which the assessee held such other asset as falls within the period of six months ending with the relevant valuation date, will also be taken into account. This relaxation will be available only if the assessee acquires the relevant asset within thi ty days after he ceases to hold the first asset. The concession under this provision will, however, not apply in the case of shares or securities held as stock-in-trade by the assessee for thepur poses of his business.

48. These amendments will take effect from April 1, and will, therefore, apply for the assessment year 1973-74 and subsequent years.

[(*Clause 45* (c).]

49. *Forfeiture of exemption from wealth-tax in the case of public charitable or religious trusts and institutions.*— Income derived from property held under trust or other legal obligation for charitable or religious purposes is exempt from income-tax to the extent such income is applied to such purposes or accumulated for being so applied in accordance with the provisions of the Income-tax Act. Section 13 of the Income-tax Act provides for the forfeiture of the exemption from tax in the case of a trust or intitution created or established after March 31, 1962, if under the terms of the trust or the rules governing the institution, any part of the income *enures* for the direct or indirect benefit of the author of the trust, founder of the institution, a substantial contributor to the trust and their relatives, etc. In the case of a trust or institution, whenever created or estab-

lished, the exemption is forfeited also where the trust income or property is *used or applied* during the relevant year for the direct or indirect benefit of such person. This disability does not apply in the case of a trust or institution created or established before April 1, 1962, if the use of the trust income or property is in compliance with a mandatory provision in the terms of the trust or rules governing the institution.

50. Under Section 5 (1) (i) of the Wealth-tax Act, property held under trust or other legal obligation for any public purpose of a charitable or religious nature in India is exempt from wealth-tax. The Wealth-tax Act, however, does not contain any provision for the forfeiture of the exemption from wealth-tax, on the lines of the aforesaid provisions in Section 13 of the Income-tax Act. To provide a further deterrent to the misuse of the income or property of the trust or institution by such persons, the provisions in the Wealth-tax Act are proposed to be brought in line with the provisions in the Income-tax Act. Accordingly, a new Section 21A is being introduced in the Wealth-tax Act to secure that where any part of the income of the trust or institution enures for the direct or indirect benefit of the author of the trust, substantial contributor, etc. or where any income or property of the trust or institution is used or applied, directly, for the benefit of any such persons, the trust or institution will be liable to pay wealth-tax on the value of its entire property at the rate of 1.5 per cent or the rate applicable in the case of an individual, whichever is beneficial to the revenue. For the purposes of this provision, it has been specifically provided that any part of the property or income of a trust shall be deemed to have been used or applied for the benefit of any of the specified categories of persons if it can be deemed to have been so used or applied within the meaning of clause (c) of sub-section (1) of Section 13 of the Income-tax Act at any time during the period of twelve months ending with the relevant valuation date.

Where the trust funds are invested in any concern in which any of the specified persons has a substantial interest, and the quantum of the investment does not exceed 5 per cent of the capital of the concern, the trust or institution forfeits exemption from income-tax only in respect of the income arising from such investment and not its entire income. Similarly, exemption from wealth-tax in such cases, will be denied only in relation to such investment and other assets will continue to qualify for exemption.

51. The new Section 21A takes effect from April 1, 1973 and will, therefore,

apply in relation to assessments for the assessment year 1973-74 and subsequent assessment years.

(*Clause 46*)

52. *Increase in the rate of interest chargeable from or payable to assessees.*—Simple interest at 9 per cent per annum is chargeable from assessees on the arrears of tax due from them for the period of the default in payment. Likewise, assessees are entitled to receive simple interest from the central government at 9 per cent per annum on the amount of refunds due to them for the period of delay in the issue of refund beyond six months from the date of the order giving rise to the refund. In line with a proposed increase in the rate of interest chargeable from, or payable to, assessees under the Income-tax Act, the relevant provisions of the Wealth-tax Act are also proposed to be amended to raise the rate of interest provided therein from 9 per cent per annum to 12 per cent per annum with effect from April 1, 1972. It is being specifically clarified that the proposed increase in the rate of interest will apply in respect of any period falling after March 31, 1972, also in those cases where the interest became chargeable or payable from an earlier date.

(*Clauses 47 and 69*)

53. *Extension of scope of tax treaties between the central government and the government of a foreign country.*—Under existing provisions in the Wealth-tax Act, the central government is empowered to enter into an agreement with the government of any foreign country for the avoidance or relief of double taxation with respect to wealth-tax payable under that Act and under the corresponding law in force in the foreign country. On the lines of the amendments proposed to be made to the corresponding provisions in the Income-tax Act, the scope of these provisions is proposed to be enlarged to empower the central government to enter into agreement with the government of a foreign country also for enabling the exchange of information for the prevention of evasion or avoidance of wealth-tax (including investigation of cases of such evasion or avoidance) and for recovery of such tax in the treaty countries.

54. The new Section 228A relating to the recovery of tax in pursuance of agreements with foreign countries, proposed to be inserted in the Income-tax Act under Clause 39 of the Bill, is also proposed to be applied to the Wealth-tax Act.

(*Clauses 48 and 49.*)

55. *Powers to make rules for admission of additional evidence.*—At present, an Appellate Assistant Commissioner of Wealth-tax has a wide and unrestricted discretion in regard to admission of evidence which is not produced by the assesses before the Wealth-tax Officer but is produced for the first time in the course of the appellate proceedings. With a view to regulating the admission of such additional evidence, the Central Board of Direct Taxes is being empowered to prescribe in the Wealth-tax Rules, the circumstances in which, the conditions subject to which and the manner in which the Appellate Assistant Commissioner of Wealth-tax may permit the appellant to produce evidence which he did not produce or which he was not allowed to produce before the Wealth-tax Officer.

(*Clause 51*)

56. *Clarificatory amendment regarding application of wealth-tax in certain cases.*—Certain entities enumerated in Section 45 of the Wealth-tax Act have been exempted from wealth-tax. It is proposed to amend this section to clarify that while wealth-tax is not to be levied, in respect of the net wealth of the entities enumerated in this section, the application of the other provisions of the Act (e.g., calling for evidence from such entities) will not be barred. This amendment takes effect from April 1, 1972.

[(*Clause 50 (a)*)]

PROPOSED AMENDMENTS TO THE GIFT-TAX ACT, 1958

57. *Increase in the rate of interest chargeable from or payable to assessees.*—Simple interest at 9 per cent per annum is chargeable from assessees on the arrears of tax due from them for the period of default in payment. Likewise, assesses are entitled to receive simple interest from the central government at 9 per cent per annum on the amount of refunds due to them for the period of delay in the issue of refund beyond six months from the date of the order giving rise to the refund. In line with the proposed increase in the rate of interest chargeable from, or payable to, assessees under the Income-tax Act and the Wealth-tax Act, the relevant provisions of the gift-tax are also proposed to be amended to raise the rate of interest provided therein from 9 per cent per annum to 12 per cent per annum with effect from April 1, 1972. It is being specifically clarified that the proposed increase in the rate of interest will apply in respect of any period falling after March 31, 1972, also in those cases where the interest became chargeable or payable from an earlier date.

(*Clauses 52 and 60*)

58. *Extension of scope of tax treaties between the central government and the government of a foreign coun-*

try.— Under an existing provision in the Gift-tax Act, the central government is empowered to enter into an agreement with the Government of any foreign country for the avoidance or relief of double taxation with respect to gift-tax payable under that Act and under the corresponding law in force in the foreign country. On the lines of the amendments proposed to be made to the corresponding provisions in the Income-tax Act, the scope of these provisions is proposed to be enlarged to empower the central government to enter into agreement with the government of a foreign country also for enabling the exchange of information for the prevention of evasion or avoidance of gift-tax (including investigation of cases of such evasion or avoidance) and for recovery of such tax in the treaty countries. The new Section 228A relating to recovery of tax in pursuance of agreements with foreign countries proposed to be inserted in the Income-tax Act under Clause 39 of the Bill, is also proposed to be applied to the Gift-tax Act.

(Clauses 53 and 54)

59. *Exemption of gifts made by charitable or religious institutions or funds.*— Section 45 (e) of the Gift-tax Act excludes from the purview of that Act any gifts made, *inter alia*, by an institution or fund, the income whereof is exempt from income-tax under Section 11 of the Income-tax Act. Under an amendment made to the Gift-tax Act through the Finance (No. 2) Act, 1971, it has been provided that a charitable institution or fund will not forfeit the exemption from gift-tax in respect of gifts made by it merely because — (a) subsequent to the gift, any income of the institution or fund becomes chargeable to income-tax due to non-compliance with any of the provisions of Section 11 of the Income-tax Act relating to application of income during the accounting year itself; or (b) the institution or fund forfeits exemption in respect of a part of its income which arises from investments made in a concern in which the founder of the institution or fund or his relatives have a substantial interest, where the aggreagate of the funds invested by the institution or fund in such a concern does not exceed 5 per cent of the capital of that concern.

60. Section 12 of the Income-tax Act has been substituted by two new Sections 12 and 12A. As already explained, the effect of the substitution of Section 12 is that voluntary contributions received by charitable or religious trusts or institutions will qualify for exemption from income-tax only if the conditions specified in section 11 regarding application of income or accumulation thereof are satisfied also in relation to such income by way of voluntary contributions. Further, the trust or institution will forfeit exemption from tax in respect of its entire income if any part of its income enures or any part of its income or property is used or applied directly or indirectly for the benefit of the author of the trust, founder of the institution, a person who has made a substantial contribution to the trust and institution, the relative of such author, founder, etc. The new section 12 A provides that exemption from income tax in respect of income derived from property or by way of voluntary contributions by charitable or religious trusts or institutions will be available only if (a) the trust or institution applies for its registration to the Commissioner of Income-Tax within the specified period, and (b) where the total income of the trust or institution (without giving effect to the provisions of Sections 11 and 12) exceeds Rs 25,000 in any previous year, the accounts of the trust or institution for that year have been audited by a chartered accountant or any other accountant entitled to be appointed as an auditor of companies.

61. In view of these changes in the Income-tax Act, Section 45 of the Gift-tax Act is also being amended to provide that a charitable institution or fund will not forfeit exemption from gift tax in respect of gifts made by it merely because (a) subsequent to the gift any income of the institution or fund by way of voluntary contributions becomes chargeable to income-tax due to non-compliance with the provisions of the substituted Section 12 of the Income-tax Act; or (b) the institution or fund is denied exemption from income-tax by reason of the non-fulfilment of the conditions in the new Section 12 A relating to the filing of an application for registration with the Commissioner of Income-tax or the audit of the accounts of the institution or fund by a chartered accountant, etc., or the institution or fund forfeits exemption in respect of its income by way of voluntary contributions on the ground that the funds of the institution or fund have been invested in a prohibited concern provided, however, the investment in such concern does not exceed 5 per cent of its capital.

(Clause 55)

62. *Powers to make rules for admission of additional evidence.*—At present an Appellate Assistant Commissioner of Gift-tax has a wide and unrestricted discretion in regard to admission of evidence which is not produced by the assessee before the Gift-tax Officer but is produced for the first time in the course of the appellate proceedings. With a view to regulating the admission of such additional evidence, the Central Board of Direct Taxes is being empowerd to prescribe in the Gift-tax

Rules, the circumstances in which, the conditions subject to which and the manner in which the Appellate Assistant Commissioner of Gift-tax may permit the appellant to produce the evidence which he did not produce or which he was not allowed to produce before the Gift-tax Officer.

(Clause 56)

PROPOSED AMENDMENT TO THE COMPANIES (PROFITS) SURTAX ACT, 1964

63. *Extension of scope of tax treaties between the central government and the government of a foreign country.*—Under the existing provisions in the Companies (Profits) Surtax Act, the central government is empowered to enter into an agreement with the government of any foreign country for the avoidance or relief of double taxation with respect to surtax payable under that Act and a similar tax under any corresponding law in force in the foreign country. On the lines of the amendments proposed to be made to the corresponding provisions in the Income-tax Act, the scope of these provisions is proposed to be enlarged to empower the central government to enter into agreement with the government of a foreign country also for enabling the exchange of information for the prevention of evasion or avoidance of sur-tax (including investigation of cases of such evasion or avoidance) and for recovery of such tax in the treaty countries. The central government will also be empowered to make provisions for inmplementing the agreement by the issue of a notification in the Official Gazette.

(Clause 57)

64. *Powers to make rules for admission of additional evidence.*—With a view to regulating the admission of evidence which is not produced by a company before the income-tax Officer but is produced for the first time in the course of the appellate proceedings before the Appellate Assistant Commissioner of Income-tax, the Central Board of Direct Taxes is being empowered to prescribe in the Companies (Profits) Surtax Rules, the circumstances in which, the conditions subject to which and the manner in which the Appellate Assistant Commissioner may permit the apellant to produce evidence which was not produced or which was not allowed to be produced before the Income-tax Officer.

(Clause 58)

CUSTOMS DUTIES

The proposals include —

(a) Revision of the rates of regulatory duties of customs imposed with effect from 13th December, 1971 so as to subject (i) articles liable to a basic effective duty of customs at the rate of 100 per cent *ad valorem* or more and a few other selected items to a regulatory duty of 10 per cent *ad valorem*, (ii) articles liable to a basic effective duty of 60 per cent or more but less than 100 per cent to a regulatory duty of 5 per cent *ad valorem* and (iii) all other articles (with the exception of foodgrains, books and certain special categories) to 2 1/2 per cent *ad valorem*. This measure is expected to yield an additional revenue of Rs 860 lakhs per annum.

(b) Rationalisation of the rates of duty under Item No 22 (5)(b) I.C.T. (Drugs and Medicines containing spirit) and 28 (28)(b) I.C.T. (certain vitamins and vitamin preparations) consequent on the elimination of the margin of preference as a result of the country's commitments under the General Agreement on Tariffs and Trade.

(c) Continuance up to 15th May, 1973, in a modified form, of the enabling provision for the levy of regulatory duties of customs similar to the provision in section 4 of the Finance Act, 1971 and

(d) Additional revenue amounting to Rs 1340 lakhs per annum is also expected from additional (countervailing) duties consequent on the changes in Central Excise duties except in respect of iron and steel items (including tin plate and sheets) which are being exempted from the additional (countervailing) duty corresponding to the increase in excise duties on these articles.

Details of this are given in the Table below:

S. No	Item(s) in the Customs Tariff Schedule	Brief description of goods	Additional revenue per annum (Rs lakhs)
1.	27(4)(a)	Kerosene	480
2.	28, 28(8), 35 and 35(1)	Fertilisers	600
3.	Various	Others	260
		Total:	1340

(c) Continuance up to the passing of the Finance Bill, 1972, of the regulatory duties of customs levied under the Finance Act, 1971 and in force immediately before the 18th March, 1972, subject to any exemption notifications.

There will be a net increase in customs revenue of Rs 2200 lakhs per annum.

(Clauses 61 and 62)

The provisions of the Indian Tariff (Amendment) Act, 1949 are being continued for another year so as to maintain the *status quo* in regard to commitments under the General Agreement on Tariffs and Trade.

(Clause 63)

CENTRAL EXCISES

Section 35 of the Central Excises and Salt Act, 1944 confers a right of appeal to a person aggrieved by any decision/order passed by any Central Excise officer under the said Act or the Rules made thereunder. Similarly any person aggrieved by any appellate order is entitled to file an application for revision to the Central Government under section 36 of the said Act. There is, however, no corresponding power with the Central Board of Excise and Customs/Central Government to revise of its own motion such original or appellate orders/decisions even where such decisions or orders are incorrect, improper or illegal. Such incorrect, illegal or improper orders have in most cases financial implications involving large sums of revenue. It is therefore proposed to confer powers of revision of its own motion or otherwise on the Central Board of Excise and Customs and the Central Government. It is, however, being provided that where a decision or order in such revision is likely to be varied so as to prejudicially affect any person, a reasonable opportunity of making a representation and, if he so desires, of being heard in his defence is given before such an order is passed. It is also being provided that after the expiration of a period of one year from the date of a decision or order, no such revision proceeding shall be commenced in respect of that decision or order. It may be added that provisions for revision exist in allied laws such as Customs

Act, 1962 and the Gold (Control) Act, 1968.

[*Clause 64 (a) and (b)*]

A. UNION EXCISE DUTIES

General Note:—

(1) The Serial No. in Column (2) refers to the Serial No relating to the Tariff Item as it appears in Part I or Part II of the Third Schedule. For the sake of convenience, the Part number has been shown first and the Serial No. in that Part immediately thereafter in brackets. Thus, e.g. "I (i)" refers to Serial number (i) in Part I of the Third Schedule.

(2) The "Existing" rate of duty as shown in Column (6) includes the rate of special duty of excise, wherever leviable, as merged with the rate of basic duty of excise. For the sake of reference, items, liable to special duties of excise have been marked with an asterisk.

(3) Abbreviations used:—

a.v.	=ad valorem	Rs	=Rupees
k g	=Kilogramme	Re	=Rupee
KL	=Kilolitre	P	=Paise
MT	=Metric tonne	SM	=Square Metre
L	=Litre	mm.	=Millimetre
Q	=Quintal		

S. No.	S. No. in Schedule to the Finance Bill	Tariff item No.	Commodity	Unit	Rate of duty: Existing	Rate of duty: Proposed (Basic)	Estimated additional revenue in one full year (Rs. lakhs)
1	2	3	4	5	6	7	8
(1)	I(ii)	1-D	Aerated Waters		10% a.v.	20% a.v.	165
			This is a revenue measure. The effective rate for Aerated Waters which do not contain blended flavouring concentrate remains unchanged and where they are dutiable the levy is maintained at the existing rate of 10% a.v. (by notification).				
(2)	I(iii)	2(1)	Coffee, cured*	Q	Rs. 102	Rs. 100	(—) 5
			The existing concessional rate for Coffee of the varieties known as Robusta, Liberia, etc. would remain at the present aggregate effective duty of Rs. 66/- per Q.				
(3)	I(iv)	4-I	Unmanufactured tobacco.* (See Sl. No. (57) under 'C'		—Additional Excise duties in lieu of Sales Tax.)		
(4)	I(iv)	4II(2)	Cigarettes.* (See Sl. No. (58) under 'C'		—Additional Excise duties in lieu of Sales Tax.)		
(5)	I(vi)	7	Kerosene	KL	Rs. 235	Rs. 300	2980
			Effective rate (by notification)	KL	Rs. 225.25	Rs. 285	
			This is a revenue measure.				
(6)	I(x)	11	Asphalt, Bitumen and Tar		30% a.v.	Rs. 100 per MT.	240
			Effective rates (by notification).				
			(1) Straight grade Bitumen/Asphalt				
			(a) packed in drums	MT	Rs. 39.50	Rs. 60.00	
			(b) in bulk	MT	Rs. 15.50	Rs. 25.00	
			(2) Cut back Bitumen/Asphalt (packed in drums).	MT	Rs. 36.04	Rs. 55.00	
			(3) Tar		Nil (as at present)		
			This is a revenue measure.				
(7)	II(ii)	11A	Petroleum products, N.O.S.				90
			(1) Mineral turpentine oil		No change		
			(2) Liquefied petroleum gas (LPG)		No change		
			(3) Waxes		20% a.v.	20% a.v. *plus* Rs. 20 per MT	
			(4) Others		No change		
	NOTE:—This is a revenue measure applicable only to Petroleum waxes. The effective rates for the other products falling under this Item remain unaltered.						
(8)	II(iii)	11B	Blended or compounded Lubricating oils and greases.		The tariff description is proposed to be amended so as to include lubricating oils which are obtained by straight blending and without any other added ingredients.		500
			This is a revenue measure.				

1	2	3	4	5	6	7	8
(9)	I(xi)	12	Vegetable non-essential oils	MT	Rs. 110.25	Rs. 100.00	(—)16
			This is a measure of relief that is incidental to the rationalisation of the rate of duty on processed V. N. E. oils.				
(10)	I(xii)	14	Paints & Varnishes*				200
			I(1) (i) Zinc oxide, red lead, white lead, etc.	Q	Rs. 23.70	Rs. 30.00	
			(ii) Aluminium paste	Q	Rs. 90.00	Rs. 100.00	
			(2) Dry colours	Q	Rs. 20.70	Rs. 25.00	
			(3) (i) Dry distemper	Q	Rs. 20.70	Rs. 25.00	
			(ii) Oil bound distemper	Q	Rs. 36.60	Rs. 40.00	
			(iii) Water pigment finishes	L	50.4 P	50 P	
			(iv) Plastic emulsion paints	L	Rs. 1.26	Rs. 1.50	
			(4) (i) Tinting paste (blue)	Q	Rs. 90.00	Rs. 100.00	
			(ii) Stiff paints	Q	Rs. 23.40	Rs. 30.00	
			(iii) Ready mixed paints and enamels.	L	78 P	Rs 1.00	
			(4A) Dispersed organic pigments used for printing of textiles, etc.	Q	Rs. 30.000	Rs. 300.00	
			(5) Pigments, colours, paints and enamels, N.O.S.	Q	Rs. 20.73	Rs. 30.00 (if other than liquid form)	
				L	67.2 P	Rs. 1.00 (i) in liquid form)	
			II (i) Varnishes	L	42 P	50 P	
			(ii) Bituminous and coal-tar blacks.	L	21.60 P	25 P	
			III (i) Nitrocellulose lacquers clear and pigmented, and ancillaries, in liquid form.	L	Rs. 1.80	Rs. 2.50	
			(ii) Nitrocellulose ancillaries in semi solid and pasty forms.	Q	Rs. 60.00	Rs. 100.00	
			(iii) Cellulose lacquers, N.O.S.	L	Rs. 1.68	Rs. 2.50	

Note :—(1) Different effective rates which have been prescribed (by notification) for different varieties of pair and varnishes based on the quantums of clearances have been suitably revised.

(2) The present exemption in favour of roller coating compositions has been withdrawn. This is a revenue measure.

(11)	I(xv)	14D	Synthetic organic dyestuffs* This is a revenue measure.		15% a.v.	20% a.v.	240
(12)	I(xv)	14DD	Synthetic organic products (Optical bleaching agents).		15% a.v.	20% a.v.	23
(13)	I(xvii)	14HH	Fertilisers This is a revenue measure.		10% a.v.	15% a.v.	1250
(14)	I(xviii)	15	Soap*				(—)30
			I(1) Household and laundry		7.8% a.v.	10% a.v.	
			(2) Others		15% a.v.	20% a.v.	
			II Soap produced without the aid of power.		7.8% a.v.	10% a.v.	

NOTE :—(1) The present aggregate effective rates for all types of soap (including household and laundry soap) continue unchanged.

(2) Soap manufactured without the aid of power continues to be totally exempt from duty.

(3) To encourage the increased utilisation of certain minor oils (Neem, karanj, kusum and sal) in the manufacture of soap, the existing rebate system is being further liberalised (by notification).

(4) It is also proposed to grant relief in duty (by notification) on soap using over 15% of rice-bran oil in the total oil-content.

The measures indicated at (3) and (4) above are expected to reduce the pressure on usage of imported tallow and other oils in soap manufacture.

1	2	3	4	5	6	7	8
(15)	I(xix)	15A	Artificial or synthetic Resins and plastic materials and articles thereof*				217
			(1) Artificial or synthetic resins and plastic materials in any form....		36% a.v.	40% a.v.	
			(2) Articles made of plastics, all sorts.		36% a.v.	40% a.v.	
			(3) Polyurethane foam		48% a.v.	50% a.v.	
			(4) Articles made of polyurethane foam.		48% a.v.	50% a.v.	

NOTE :—The aggregate effective concessional rate of duty (as a consequence of the merging of special excise duty with the basic duty), as fixed by notification for a few varieties of plastic materials and articles (such as rigid and flexible plastic sheeting, sheets, films, etc., maleic and phenolic resins, cellulose acetate used for making acetate yarn etc.) remain unchanged.

1	2	3	4	5	6	7	8
(16)	I(xx)	16	Tyres*				
			(1) Tyres for motor vehicles		48% a.v.	50% a.v.	
			(2) All other tyres		18% a.v.	20% a.v.	

NOTE :—(1) Cycle tyres and tubes and tyres for animal-drawn vehicles continue to be wholly exempted.
(2) Exemption to smaller manufacturers of tyres (by notification) continues.
(3) The effective rate in respect of tyres for tractors has been revised from 18% a.v. to 20% a.v.

1	2	3	4	5	6	7	8
(17)	I(xxi)	16	Rubber products*				68
			(1) Latex foam sponge		48% a.v.	50% a.v.	
			(2) Plates, sheets, strips, etc.		3(% a.v.	30% a.v.	
			(3) Piping and tubing		18% a.v.	20% a.v.	
			(4) Transmission, conveyor or elevator belts and beltings.		18% a.v.	20% a.v.	
(18)	I(xxii)	17	Paper, all sorts*				500
			(1) Cigarette tissue	Kg.	Rs. 1.20	Rs. 2.00	
			(2) Blotting, toilet, target, teleprinter, typewriting, manifold, bank, bond, etc. and parchment board, coated board, etc.	Kg.	60 P	Re. 1.00	
			(3) Printing and writing paper, packing and wrapping paper, etc.	Kg.	42 P	50 P	
			(4) All other kinds of paper	Kg.	60 P	Re. 1.00	
			Effective rates				
			(a) Varieties of paper other than board of a substance of 40 gms. or more but not exceeding 45 gms. per sq. metre falling under Item 17(2).	Kg.	42 P	45 P	
			(b) Pressed jute-felt sheets	Kg.	42 P	45 P	
			(c) Paper and board falling under Item 17(3).	Kg.	42 P	45 P	
			(d) Corrugated boards manufactured out of duty-paid paper, board, etc.	Kg.	8.4 P	10 P	

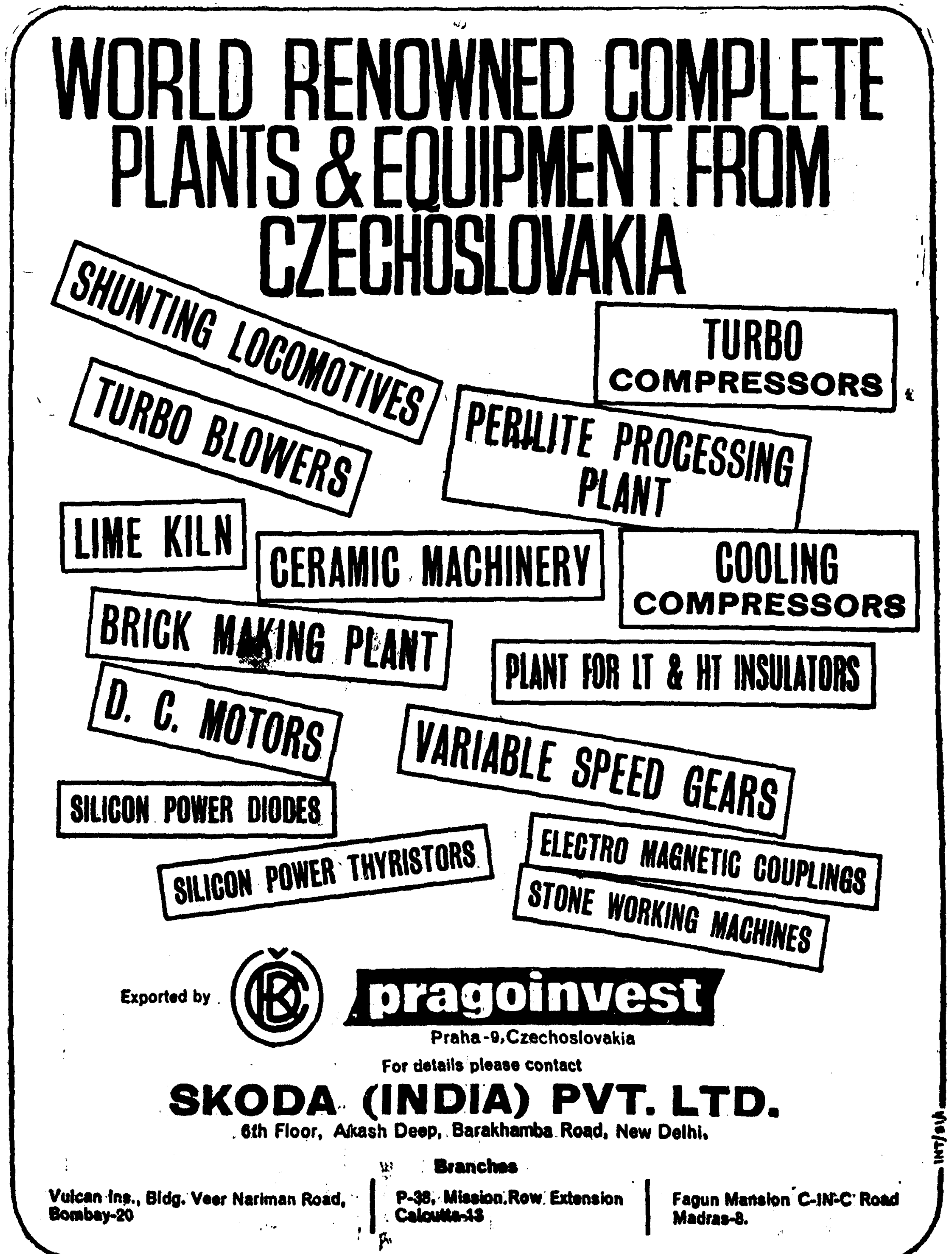
NOTE :—(1) Printing and writting paper of a substance not exceeding 75 gms. per sq. metre (commoner varieties) continue to pay the existing effective rate of 15 P per Kg.

(2) Hand made paper and boards, Newsprint and paper intended for printing of text books or other books of general interest continue to be totally exempt from excise duty.

1	2	3	4	5	6	7	8
		(3) Straw board and millboard which are mainly produced in the small sector continue to pay the present effective rates of duty.					
(19)	II(iv)	18	Rayon and synthetic fibres and yarn*.	Kg.	Rs. 60.00	Rs. 60.00	(—)950
			Effective rates (by Notification)				
			1. Staple fibre	Kg.			
			(i) of cellulosic origin		Re. 1.00	Re. 1.00	
			(ii) off non cellulosic origin				
			(a) acrylic fibre		Rs. 6.00	Rs. 6.00	
			(b) polyester fibre of not more than 2 deniers.		Rs. 33.33	Rs. 35.00	
			(c) Others		Rs. 28.00	Rs. 30.00	
			2. Rayon and synthetic yarn consisting entirely of cellulosic derivatives or regenerated cellulose or both—	Kg.			
			(i) below 75 deniers		(Rs. 11.40) Rs. 9.80	No change	
			(ii) 75 deniers and above but below 100 deniers		Rs. 7.40 (Rs. 7.25)		
			(iii) 100 deniers and above but below 120 deniers		Rs. 5.25 (Rs. 5.25)		
			(iv) 120 deniers and above but below 150 deniers		Rs. 4.35 (Rs. 3.45)		
			(v) 150 deniers and above but below 350 deniers		Rs. 3.75 (Rs. 3.15)		
			(vi) 350 deniers and above but below 1100 deniers		Rs. 2.50 (Rs. 2.50)		
			(vii) Above 1100 deniers		Rs. 2.00 (Rs. 2.00)		

NOTE :—Figures in brackets show the duty payable by manufacturers whose clearances of cellulosic fibre and cellulosic yarn (viscose yarn and acetate yarn) taken together in 1966-67 did not exceed 36.5 lakh kilogrammes).

			3. Other synthetic yarns	Kg.			
			(a) Polyamide (nylon) yarn				
			(i) below 30 deniers		Rs. 30.00	Rs. 35.00	
			(ii) 30 deniers and above but below 75 deniers		Rs. 28.00	Rs. 30.00	
			(iii) 75 deniers and above but below 90 deniers.		Rs. 24.00	Rs. 25.00	
			(iv) 90 deniers and above but below 150 deniers.		Rs. 20.00	Rs. 20.00	
			(v) 150 deniers and above but not above 750 deniers.		Rs. 8.00	Rs. 8.00	
			(vi) Above 750 deniers		Rs. 4.00	Rs. 4.00	
			(b) Other than Polyamide (nylon) yarn	Kg.			
			(i) below 30 deniers		Rs. 38.00	Rs. 40.00	
			(ii) 30 deniers and above but below 75 deniers.		Rs. 33.00	Rs. 35.00	
			(iii) 75 deniers and above but below 100 deniers.		Rs. 20.00	Rs. 25.00	
			(iv) 100 deniers and above but not above 750 deniers		Rs. 16.00	Rs. 20.00	
			(v) Above 750 deniers		Rs 4.00	Rs 5.00	



4	5	6	7	8
4. Yarn spun—	Kg.			
(a) wholly out of synthetic staple fibre of cellulosic origin, or				
(b) out of staple fibre aforesaid and cotton only, provided that the cotton content of the yarn does not exceed 10 *per cent* of its weight				
(i) of 69 or more counts		Rs. 1.00	Rs. 1.50	
(ii) of 51 or more counts but less than 69 counts		Rs. 1.00	Rs. 1.25	
(iii) of 40 or more counts but less than 51 counts		90 P	Rs 1.10	
(iv) of 34 or more counts but less than 40 counts		80 P	80 P	
(v) of 29 or more counts but less than 34 counts		60 P	70 P	
(vi) of 22 or more counts but less than 29 counts		45 P	32 P	
(vii) of 14 or more counts but less than 22 counts		30 P	20 P	
(viii) of less than 14 counts		Nil	10 P	
(c) out of staple fibre aforesaid and any natural fibre other than cotton, provided that the natural fibre content of the yarn does not exceed 10 per cent of its weight		Rs. 6.00	Rs 7.50	
5. Yarn spun—	Kg.			
(a) wholly out of synthetic staple fibre of non-cellulosic origin other than acrylic fibre, or				
(b) partly out of the staple fibre aforesaid and partly any other fibre or fibres, provided that the natural content of the yarn does not exceed 10% of its weight— if the non-cellulosic fibre content of it is—				
(i) 50 per cent or more		Rs 14.00	Rs 15.00	
(ii) less than 50 per cent but not less than 25 per cent		Rs 8.00	Rs 12.00	
(iii) less than 25 per cent. but more than 10 per cent.		Rs 8.00	Rs 10.00	
(iv) 10 per cent. or less		Rs. 6.00	Rs. 7.50	

1	2	3	4	5	6	7	8
			6. Yarn spun either wholly out of acrylic fibres or partly of such fibre and party of any natural fibr or the natural fiber content cf such yarn not being more than 10 per cent.—	Kg.			
			I. (1) manufactured on wcrsted system—	Kg.			
			(a) hand-knitting		Rs. 6.00	Rs. 7.00	
			(b) others				
			(i) of 40 counts and above		Rs. 12.80	Rs. 14.00	
			(ii) of above 20 counts but below 40 counts		Rs. 7.00	Rs. 8.00	
			(iii) of 20 counts and below.		Rs. 3.60	Rs. 4.00	
			II. (2) manufactured on other systems.		80 P	Re 1.00	
			7. Godet, undersize cakes, reel-ing, coning waste, wet, hand, winder cut, spool cut and other wastes	Kg.			
			(i) of cellulosic origin		80 P	Re. 1.00	
			(ii) Others		Rs. 4.00	Rs. 5.00	

Note:—(1) Tariff description has been changed so as to clarify the scope of the item

(2) Spun (discontiuuous) yarn containing less than 90% by weight of man-made fibres calculated no the total fibres content will now be classiiable under the newly created **Item** No. 18E. Consequently, there is an account transfer of revenue involved.

1	2	3	4	5	6	7	8
(20)	II(v)	18A	Cotton yarn etc.*				(--)60
			(1) of counts 29 or more	Kg.	Rs. 6.50	Rs. 5.00	

NOTE :—(1) Tariff description has been revised so as to restrict he scope of this Item to such cotton yarn etc. which contains not less than 90% by weight of cotton, calculated on the total fibre content. Yarn containing less than 90% of cotton would now be classifiable under the new Item 18E. Consequently there is an account transfer of the Revenue to Item No. 18E.

(2) The present effective rates continue unchanged.

1	2	3	4	5	6	7	8
(21)	II(vi)	18B	Woollen yarn*				(—)15
			(1) Worsted yarn —				
			(a) of 48s counts and more		26⅔ % a.v.	30% a.v.	
			(b) of less than 48s counts		20% a.v.	20% a.v.	
			(2) Others		10% a.v.	10% a.v.	
			Effective rates (by notification)				
			1. Worsted yarn—				
			(a) Hand knitting				
			(i) grey		4.67% a.v.	5% a.v.	
			(ii) processed and/or dyed		12.67% a.v.	13% a.v.	
			(b) Hair belting yarn		2.67% a.v.	3% a.v.	
			(c) Others—				
			(i) of 48s counts and above		19.33% a.v.	20% a.v.	
			(ii) of above 24s but below 48s counts.		11.33% a.v.	12% a.v.	
			(iii) of 24s counts and below		4.67% a.v.	5% a.v.	
			2. Woollen yarn (containing not less than 60 per cent of wool and not more than 5 per cent of virgin wool) commonly known as shoddy.		7.33% a.v.	7.5% a.v.	

1	2	3	4	5	6	7	8
			3. Woollen yarn made from tannery or stripped wool.		7.33% a.v.	7.5% a.v.	
			4. All others, N.O.S.		10% a.v.	10% a.v.	

NOTE :—Tariff description has been revised so as to restrict the scope of this Item to such yarn, which contains not less than 90% by weight of wool, calculated on the total fibre content. Yarn containing less than 90% of wool would now be classifiable under the new Item No. 18E. Consequently there is an account transfer of revenue to that Item.

1	2	3	4	5	6	7	8
(22)	II(vii)	18C	Silk yarn.			20% a.v.	

NOTE :—This is a newly created Item having no revenue significance, as it has been wholly exempted from duty (by notification). The creation of this Item is intended to preclude such yarn from being assessed under tariff Item No. 18E.

1	2	3	4	5	6	7	8
(23)	II(vii)	18D	Jute Twist, yarn, thread, ropes and twine, all sorts*	MT	Rs. 385	Rs. 400	120

NOTE :—(1) This is a new item created out of the existing Tariff item No. 22A. These products which were falling hitherto under Tariff Item 22A(ii) would now be covered by this Item. In effect this makes no difference as the proposed rate of duty is the same for both items.

(2) On this Item, a regulatory duty at 50% of the basic duty is chargeable (by notification). This is only a continuance of the existing situation for the levy of regulatory duty on the above products by virtue of their so far falling under Item No. 22A.

(3) See also Sl. No. (29)—"Jute manufactures".

1	2	3	4	5	6	7	8
(24)	II(vii)	18E	Yarn, all sorts, not elsewhere specified, containing any two or more of the following fibres, namely :— (i) cotton (ii) silk (iii) wool (iv) jute (including Bimlipatam jute or mesta fibre) and (v) man-made fibres.	Kg.	Different rates depending on the Items under which such yarns are at present assessed to duty.	Rs. 50.00	1700
			Effective rates				
			1. Yarn containing partly synthetic staple fibre of non-cellulosic origin other than acrylic fibre and partly any other fibre or fibres, the content of such synthetic staple fibre being more than 50% by weight of such yarn— If non-cellulosic fibre content of it is—	Kg.	Different rates depending on the Items under which such yarns are at present assessed to duty.		
			(i) more than 55%			Rs. 15.00	
			(ii) more than 50% but not more than 55%.			Rs. 7.5§	
			2. Yarn containing partly synthetic staple fibre of cellulosic origin and/or cotton and partly wool and/or synthetic staple fibre of non-cellulosic origin, the content of synthetic staple fibre of cellulosic origin and/or cotton being more than 50% by weight of such yarn— If the non-cellulosic fibre content and/or wool fibre content of it is—	Kg.			

1	2	3	4	5	6	7	8
			(i) 40% or more but not more than 50%.			Rs. 8.00§	
			(ii) 20% or more but less than 40%.			Rs. 6.00§	
			(iii) less than 20%			Rs. 4.00§	
			3. Yarn containing partly wool and/or acrylic fibre and partly any other fibre or fibres, the wool and or acrylic fibre content being more than 50% by weight of such yarn—	Kg.			
			(1) Worsted yarn—				
			(a) Hand knitting—				
			(i) grey			Rs. 1.38	
			(ii) processed and or dyed.			Rs. 7.15	
			(b) Hair-belting yarn			83 P	
			(c) Others—				
			(i) of 40 counts and above			Rs. 11.30	
			(ii) of above 20 counts but below 40 counts.			Rs. 5.58	
			(iii) of 20 counts and below.			Rs. 1.38	
			(2) Yarn (containing not less than 60% of wool and not more than 5% of virgin wool) commonly known as shoddy.			56 P	
			(3) All others			Rs. 1.35§	
			4. Yarn containing partly silk fibre and partly any other fibre or fibres, silk fibre content being more than 50% by weight of such yarn.	Kg.		Rs. 15.00	
			5. Yarn containing two or more of synthetic staple fibre of cellulosic origin, jute fibre (including Bimlipatam jute or mesta fibre) and cotton, jute (including Bimlipatam jute or mesta fibre) content being less than 50% by weight of such yarn—	Kg.			
			of 69 or more counts			Rs. 1.50	
			of 51 or more counts but less than 69 counts.			Rs. 1.25	
			of 40 or more counts but less than 51 counts.			Rs. 1.10	
			of 34 or more counts but less than 40 counts.			80 P	
			of 29 or more counts but less than 34 counts.			70 P	
			of 22 or more counts but less than 29 counts.			32 P	
			of 14 or more counts but less than 22 counts.			20 P	
			of less than 14 counts			10 P	
			6. Yarn containing partly jute (including Bimlipatam jute or mesta fibre) fibre and	Kg.			

1	2	3	4	5	6	7	8
			partly any other fibre or fibres (other than cotton fibre and synthetic staple fibre of cellulosic origin), the jute (including Bimlipatam jute or mesta fibre) fibre content being more than 50% by weight of such yarn.				
			7. Yarn, not otherwise specified.	Kg.		Rs. 10.00	

(§ In case of yarn of 34 NF counts or less, the duty shall be reduced further by Rs. 2.00 per Kg.).

NOTE :—(1) These yarns which are at present classified under the existing Items Nos. 18, 18A, 18B or 22A, as the case may be will henceforth come untder this Item. Consequently, the additional revenue shown against this Item is an account transfer revenue from the above-mentioned Items at the proposed rates.

(2) The special procedure applicable to the payment of yarn duty in the manufacture of fabrics, is extended to this Item also but is restricted only to such yarn containing, parly more than 40% by weight of cotton, and partly any other fibre or fibres, the wool or silk content being less than 40% by weight of such yarn. In other words, yarn at present by and large classifiable as cotton yarn for which the special procedure has ebeen extended will continue to avail of the procedure and the existing rates spplicable under the special procedure will remain unaltered.

1	2	3	4	5	6	7	8
I(xxiii)	19		Cotton fabrics				
			I(1) Coating, suiting, tussors, corduroy, gaberdine, bedford, satin, denim, lappet, butta fabrics, etc.		12 % a.v.	15% a.v.	

NOTE :—(1) Tariff description has been amended so as to exclude fabrics containing 50% or more off jute by weight from falling under this Item.

(2) Though the Tariff rate has been revised, in respect of sub-item I(1), the present effective rates (prescribed by notification) remain unchanged.

1	2	3	4	5	6	7	8
I(xxiv)	20		Silk fabrics*				
			(1) Silk fabrics, other than embroidery in the piece, in strips or motifs.	SM	36 P	50 P	

NOTE :—(1) Tariff description has been amended so as to exclude fabrics containing 50% or more of jute by weight from falling under this Item.

(2) Though the Tariff rate has been revised in respect of sub-item (1), silk fabrics would continue to be wholly exempted from duty.

1	2	3	4	5	6	7	8
(xxv)	21		Woollen fabric * (See Sl. No. (59) under 'C'		— Additional Duties of Excise in lieu of Sales Tax).		
I(xxvi)	22		Rayon or artificial silk fabrics* (See Sl. No. (60) under 'C'		— Additional Excise Duties in lieu of Sales Tax).		
I (viii)	22A		Jute manufactures not otherwise specified.				56
			(i) Hessians	MT	Rs. 605	Rs. 600	
			(ii) Others	MT	Rs. 385	Rs. 400	

NOTE :—(1) Tariff description has been changed to specify the scope of this Item and to exclude from it jute twist yarn, thread, ropes and twine which would now fall under the newly created Tariff Item No. 18D.

(2) Consequently, there is a corresponding account transfer of revenue to Tariff Item No. 18D.

(3) There is a regluatory duty on goods falling under sub-item (ii) of this Item whith remains at 50% of the basic duty as before. The additional revenue accrual is due to the merger of basic duty with special excise duty and rounding off of he resultant rate on sub-item (ii) slightly upward.

(4) Jute twist, yarn, thread, ropes and twine henceforth classifiable under Item No. 18D would pay regulatory duty under that Item.

1	2	3	4	5	6	7	8
(30)	II(ix)	22AA	Textile fabrics not elsewhere specified and containing any two or more of cotton, silk, wool, jute and man-made fibres.		Different rates depending on the combination of the various fibres contained in the fabric.	15% a.v.	—

NOTE :—This is a residuary item for fabrics not otherwise covered by the revised Tariff Item Nos. 19, 20, 21 and 22A.

(31)	I(xxvii)	23	Cement*		25.2% a.v.	25% a.v.	227
			Effective rate		24% a.v.	25% a.v.	
			This is a revenue measure.				
(32)	I(xxx)	26	Steel ingots, etc.	MT	Rs. 75.00	Rs. 100.00	90
			Effective rate	MT	Rs. 75.00	Rs. 97.50	

NOTE :—Regulatory duty is chargeable (as hitherto) on this Item at 50% of the proposed effective rate.

(33)	I(xxxi)	26AA	Iron or steel products				3420
			(i) Semi-finished steel including blooms, billets, etc.	MT	Rs. 50.00§	Rs. 75.00§	
			(ia) Bars, rods, coils, wires, joists, girders, angles other than slotted angles etc.	MT	Rs. 50.00§	Rs. 75.00§	
			(ii) Plates, sheets, etc.	MT	Rs. 300.00§	Rs. 500.00§	
			(iii) Flats, skelp and strips	MT	Rs. 300.00§	Rs. 500.00§	
			(iv) Pipes and tubes, all sorts, etc.	MT	15% a.v.§§	Rs. 500.00§§	
			(v) All other steel castings	MT	5% a.v.§	Rs. 200.00§	

§plus the excise duty for the time being leviable on steel ingots.

§§plus the excise duty for the time being leviable on pig iron or steel ingots as the case may be.

			Effective rates (by notification)				
			(i) Semi-finished steel including blooms, billets, etc.	MT	Rs. 125.00	Rs. 162.50	
			(ia) Bars, rods, coils, wires, joists, girders, angles other than slotted angles, etc.	MT	Rs. 125.00	Rs. 162.50	
			(ii) (1) Uncoated plates	MT	Rs. 125.00	Rs. 175.50	
			(2) Cold-rolled sheets	MT	Rs. 250.00	Rs. 325.00	
			(3) Galvanised plates, sheets forms etc.	MT	Rs. 325.00	Rs. 422.50	
			(4) Others	MT	Rs. 175.00	Rs. 227.50	
			(iii) (1) Skelp	MT	Rs. 250.00	Rs. 325.00	
			(2) Cold-rolled strips	MT	Rs. 250.00	Rs. 325.00	
			(3) Hot rolled strips	MT	Rs. 175.00	Rs. 227.50	
			(4) Flats not exceeding 5 mm. thickness.	MT	Rs. 175.00	Rs. 227.50	
			(5) Flats exceeding 5 mm. thickness but not exceeding 10 mm.	MT	Rs. 135.00	Rs. 175.50	
			(6) Flats exceeding 10 mm. thickness.	MT	Rs. 125.00	Rs. 162.50	
			(iv) Seamless pipes and tubes	MT	Rs. 125.00	Rs. 175.50	
			(v) Steel castings	MT	Rs. 75.00	Rs. 97.50	

NOTE :—(1) In the case of steel pipes and tubes produced out of duty-paid plates, sheets, etc. no further duty is payable. Likewise in the case of steel castings produced out of duty-paid steel ingots or semi-finished steel etc. no further duty is recoverable.

(2) Regulatory duty is chargeable (as hitherto) on the products falling under this Item at 50% of the proposed basic deffective rates of duty.

(34)	I(xxxii)	27	Aluminium*				418
			(a) (i) in any crude form including ingots, bars, blocks, etc.		30% a.v.	30% a.v.	

1	2	3	4	5	6	7	8
			(ii) Wire bars, wire rods, and castings, N.O.S.		30% a.v.	30% a.v.	
			(b) Plates, sheets, circles and strips in any form or size, N.O.S.		30% a.v.	30% a.v.	
			(c) Foils, of thickness not exceeding 0.15 mm.		24% a.v.	30% a.v.	
			(d) Pipes and tubes other than extruded pipes and tubes.		30% a.v.	30% a.v.	
			(e) Extruded shapes and sections		30% a.v.	30% a.v.	
			(f) Containers made of aluminium.		30% a.v.	30% a.v.	

NOTE :—(1) The existing description of Aluminium foils (sub-item (c)) is being revised in the interests of clarification. However, these foils will continue to pay duty at the existing effective rate of 24% *ad valorem.*

(2) The rate of set-off in respect of products falling under sub-items (b) to (f) applicable to secondary manufactures has been increased to Rs. 1065 per MT.

(3) Regulatory duty of excise at present levied at 25% of the basic effective duty will henceforth be levied at an increased percentage of 33⅓% of the proposed rates (basic or effective) as the case may be.

1	2	3	4	5	6	7	8
(35)	I(xxxiii)	28	Tinplates etc.*	MT	Rs. 400.00	Rs. 600.00	110
			Effective rate :	MT	Rs. 400.00	Rs. 520.00	

NOTE :—Regulatory duty which was leviable at 50% of the existing rate would henceforth be leviable at 40% of the proposed effective rate.

1	2	3	4	5	6	7	8
(36)	I(xxxvi)	30	**Electric motors and parts***				
			(1) for use in circuits of less than 10 amperes etc.		18% a.v.	20% a.v.	165
			(2) for use in circuits at a pressure exceeding 400 volts and				
			(i) with a rated capacity of not exceeding 10 HP.		12% a.v.	15% a.v.	
			(ii) exceeding 10 HP		6% a.v.	10% a.v.	
			(3) All others		18% a.v.	20.% a.v.	
			(4) Parts of electric motors		18% a.v.	20% a.v.	

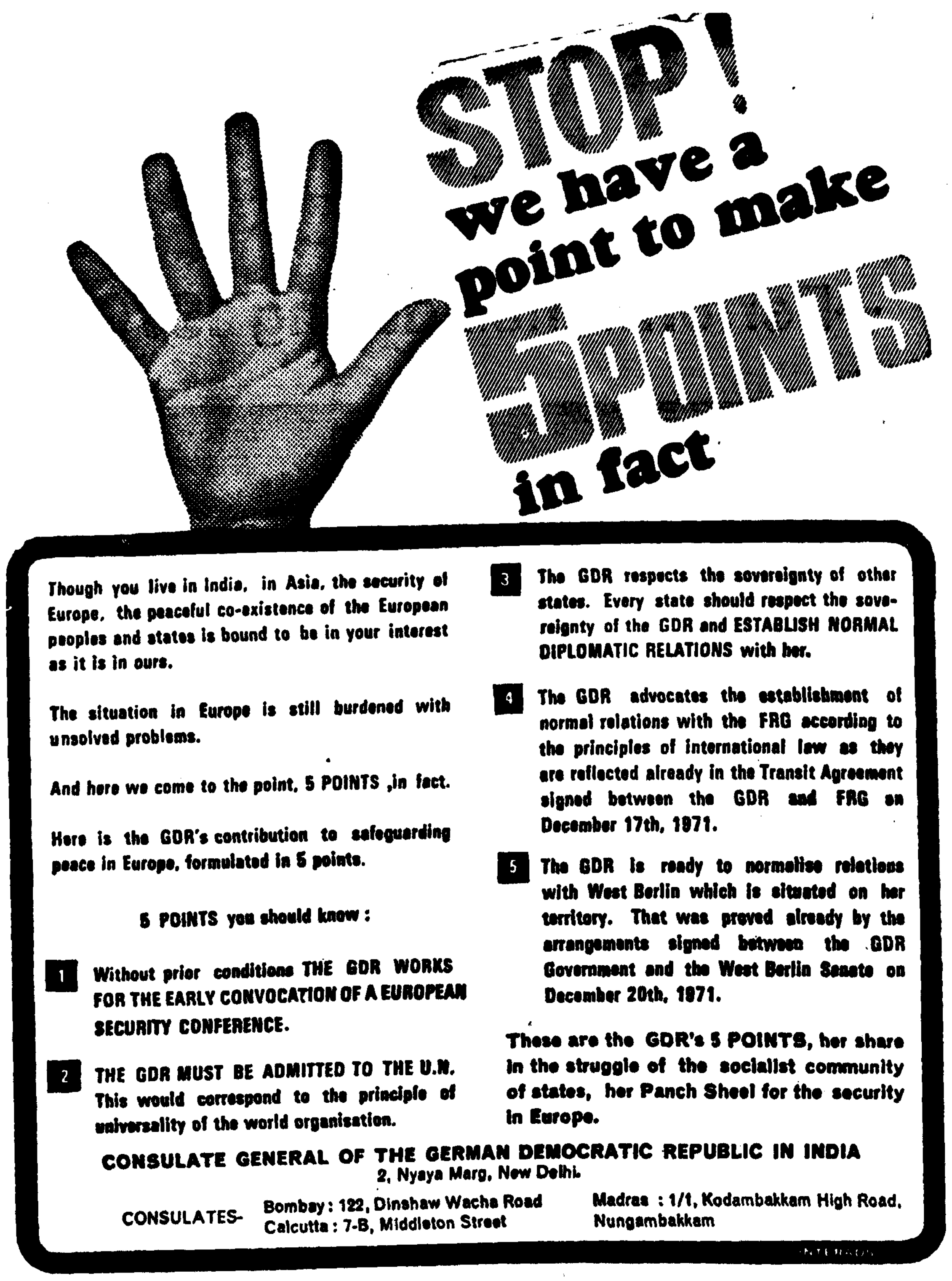
NOTE :—The proposed tariff rates are also the effective rates excepting for electric motors falling under sub-item 2(ii) where the effective rate has been fixed at 7.5% a.v. (by notification).

1	2	3	4	5	6	7	8
(37)	I(xxxvii)	31	**Electric Batteries and parts***				91
			(1) Dry		18% a.v.	20% a.v.	
			(2) Storage		16.5% a.v.	20% a.v.	
			(3) Parts of storage batteries, namely, containers, covers and plates.		19.25%	25% a.v.	
			Effective rates				
			(1) Dry		18% a.v.	20% a.v.	
			(2) Storage batteries		16.5% a.v.	17.5% a.v.	
			(3) Parts of storage batteries		19.25% a.v.	20% a.v.	
			Compounded levies for plates for storage batteries				
			(a) produced by a manufacturer for use as component parts in the manufacture of electric batteries in his factory.		Rs. 412.50 per month	Rs. 425.00 per month	
			(b) Otherwise		Rs. 660.00 per month	Rs. 700.00 per month	
			This is a revenue measure.				
(38)	II(x)	33A	Wireless receiving sets, all sorts, including transistor sets, radio grams with or without loud-speaker*				120

1	2	3	4	5	6	7	8
			(1) Broadcast television receiver		$26\frac{2}{3}$% a.v.	20% a.v.	
			(2) Others		$26\frac{2}{3}$% a.v.	Rs. 300.00 per set	
			Effective rates				
			(1) Broadcast television receiver sets		10% a.v.	10% a.v.	
			(2) Radiograms and radios with fitting record-players/record-changers.		26 % a.v.	Rs. 300.00 per set	
			(3) Others— Sets whose price at the point of sale to the consumer	Per Set			
			exceeds / does not exceed				
			Rs. per set / Rs. per set				
			(i) — / 165@		Rs. 10.00	Rs. 12.00	
			(ii) 165 / 225		Rs. 20.00	Rs. 24.00	
			(iii) 225 / 300		Rs. 28.00	Rs. 40.00	
			(iv) 300 / 375		Rs. 40.00	Rs. 60.00	
			(v) 375 / 475		Rs. 66.67	Rs. 90.00	
			(vi) 475 / 575		Rs. 93.33	Rs. 120.00	
			(vii) 575 / 675		Rs. 120.00	Rs. 160.00	
			(viii) 675 / —		Rs. 133.33	Rs. 200.00	

(@Exempt from duty if made in the small-scale sector).

NOTE :—(1) Tariff description has been recast.
(2) This is a measure to raise revenue so as to offset an equivalent amount of revenue foregone on transistor and semi-conductor diodes since wholly exempted. (See Sl. No. 74 under 'D'—Changes proposed by Notification).



2	3	4	5	6		7		8
				Existing		Proposed		
I(xii)	37	II. Cinematograph Films Exposed*	Metre	of a width of 30 mm. or higher	below 30 mm. width	of a width of 30 mm. or higher	below 30 mm. width	10
		(1) News reels and shorts not exceeding 500 metres		60 P	36 P	Re 1.00	50 P	
		(2) Feature films, advertisement shorts and films not otherwise specified.		Rs. 1.80	Rs. 1.20	Rs. 2.00	Re. 1.00	

Effective rates (by notification)

	Existing			Proposed		
	Rate of duty for films which are below 30 mm in width	Rate of duty for films which are of a width of 30 mm. or higher and		Rate of duty for films which are below 30 mm in width	Rate of duty for films which are of a width of 30 mm. of higher and	
		not exceeding 4000 metres in length	exceeding 4000 metres in length		not exceeding 4000 metres in length	exceeding 4000 metres in length
	(per metre)			(per metre)		
	(a)	(b)	(c)	(d)	(e)	(f)
I. Films made in black and white						
Prints of films cleared or home consumption within twelve months from the date of certification by the Central Board of Fims Censors :—						
(i) First 12 prints	Nil	Nil	Nil	Nil	Nil	Nil
(ii) Next 8	8.4 P	12.0 P	18.0 P	10 P	15 P	25
(iii) Next 15	14.4 P	21.6 P	32.4 P	15 P	25 P	40
(iv) Next 15	26.4 P	38.4 P	54.0 P	25 P	40 P	60
(v) Next 25	39.6 P	54.0 P	66.0 P	40 P	60 P	85
(vi) On the balance prints	54.0 P	72.0 P	84.0 P	60 P	80 P	10
II. Films made in colour						
(i) First 8 prints	6 P	9 P	12 P	10 P	15 P	20
(ii) Next 12	12 P	18 P	24 P	15 P	20 P	30
(iii) Next 15	21.6 P	32.4 P	43.2 P	25 P	35 P	50
(iv) Next 15	33.6 P	49.2 P	66 P	40 P	50 P	70
(v) Next 10	50.4 P	67.2 P	84 P	60 P	75 P	100
(va) Next 20	50.4 P	67 2 P	84 P	85 P	100 P	150
(vi) On the balance prints	63.6 P	90.0 P	114 P	85 P	100 P	150

NOTE :—Prints of films whether in Black and White or in Colour, cleared for home consumtption after 12 montl from the date of certification by the Central Board of Fiims Censors would continue to be exempt from dut

Newsreels and shorts not exceeding 500 metres			
(i) of a width of 30 mm or higher	Per Metre	7.2 P	8 P
(ii) of a width less than 30 mm.	Per Metre	4.8 P	5 P

)	II(xi)	37B	Cinematograph projectors	The tariff description has been amended to include parts. The rate of duty on parts has been fixed at 30% a.v. but

1	2	3	4	5	6	7	8
				only cetain specified parts would be liabie toduty (by notification).			
(41)	I(i)	1A	**Confectionery and chocolates**				
			(1) Boiled sweets, toffees, caramels, candles etc.	Kg.	80 P	Re. 1.00	
			(4) Chocolates	Kg.	80 P	Re. 1.00	
			Effective rates				
			for (1)	Kg.	30 P	30 P	
			for (4)	Kg.	80 P	80 P	
(42)	II(i)	4 II(i)	Cigars and cheroots*	100 numbers	Different rates depending on the vaiue siabs	Rs. 25.00	Nil
	NOTE :—Cigars and cheroots will continue to remain exempt from duty.						
(43)	I(v)	6	Motor spirit*	KL	Rs. 920.00	Rs. 1000.00	Nil
			Effective rate :	KL	Rs. 920.00	Rs. 920.00	
(44)	I(vii)	8	Refined Diesel* oils and Vaporising oil.	KL	Rs. 489.00	Rs. 500.00	Nil
			Effective rate :	KL	Rs. 461.05	Rs. 461.05	
(45)	I(viii)	9	Diesel oil, Not Otherwise specified*	KL	Rs. 168.25	Rs. 200.00	Nil
			Effective rate :	KL	Rs. 95.55	Rs. 95.55	
(46)	I(ix)	10	Furnace oil	KL	Rs. 74.45	Rs. 100.00	Nil
			Effective rate :	KL	Rs. 70.75	Rs. 70.75	
(47)	I(xiii)	14BB	Sodium Silicate		25% a.v.	20% a.v.	Nil
			Effective rate :		15% a.v.	15% a.v.	
(48)	I(xiv)	14C	Glycerine	Q	Rs. 17.00	Rs. 20.00	Nil
			Effective rate :	Q	Rs. 17.00	Rs. 17.00	
(49)	I(xvi)	14F	Cosmetics and Toilet preparations*		30% a.v.	30% a.v.	Nil

NOTE :—The concessional effective rates in respect of shampoos and perfumed hair oils remain at 24% and 12% a.v. respectively.

1	2	3	4	5	6	7	8
(50)	I(xxviii)	23A	Glass and glassware*				Nil
			(1) Sheet glass and plate glass		18% a.v.	20% a.v.	
			(2) Laboratory glassware		5% a.v.	10% a.v.	
(51)	I(xxix)	25	Iron in any crude form etc.	MT	Rs. 45.00	Rs. 50.00	Nil
			Effective rate :	MT	Rs. 40.00	Rs. 40.00	
(52)	I(xxxiv)	29	Internal combustion engines*				Nil
			(i) those designed for use as prime-mover for transport vehicles being given for that purpose some special shape etc.		11% a.v.	15% a.v.	
			(ii) Others		5.5% a.v.	10% a.v.	Nil
(53)	I(xxxv)	29A	Refrigerating and air-conditioning appliances and machinery and parts*				
			(1) Refrigerators and other refrigerating appliances, ordinarily sold or offered for sale as ready assembled units such as ice makers, bottle coolers etc. etc.		53⅓% a.v.	60% a.v.	
			(2) Air conditioners and other air-conditioning appliances, ordinarily sold or offered for sale as ready assembled units etc. etc.		53⅓% a.v.	60% a.v.	
			(3) Parts of refrigerating and air-conditioning appliances and machinery, all sorts.		66⅔% a.v.	75% a.v.	
(54)	I(xxxviii)	33	Electric fans				Nil
			(1) Table, cabin, carriage, pedestal and air circulator fans not exceeding 40.6 cm. in diameter.		7.2% a.v.	10% a.v.	
			(2) Those designed for use in industrial system as parts indispensable for its operation etc.		12% a.v.	15% a.v.	
			(3) Not otherwise specified		12% a.v.	15% a.v.	
(55)	I(xxxix)	33B	(ii) Electric wires and cables		5% a.v.	10% a.v.	Nil
(56)	I(xl)	34	Motor vehicles*				Nil
			(1) Auto-cycles, motor cycles, scooters, auto-rickshaws and any other three-wheeled motor vehicles.		Rs. 210 or 9% a.v., whichever is higher	Rs. 250 or 10% a.v., whichever is higher	
			(2) Motor vehicles of not more than 16 HP by Royal Automobile Club rating.		Rs. 1333.33 or 13.33% a.v., whichever is higher.	Rs. 1500 or 15% a.v., whichever is higher.	
			(3) Motor cars of more than 16 HP.		Rs. 4,000 or 20% a.v., whichever is higher.	Rs. 4,000 or 20% a.v., whichever is higher	
			(3a) Tractors, including agricultural tractors.		12% a.v.	15% a.v.	
			(4) Not otherwise specified		Rs. 3000 or 15% a.v., whichever is higher.	Rs. 3,000 or 15% a.v., whichever is higher.	

General Note for Serial Nos. (41) *to* (56)

In all these items the Tariff rates have been revised, but the aggregate effective rates, concessional rates, or exemptions, as and where applicable, continue unchanged as at present.

(*Clause 64*(*c*))

1	2	3	4	5	6	7			8

B. Regulatory Duties of Excise

The enabling provision for levy of regulatory duties of excise, as in the past year, is being continued.

Provision is also made for the continuance up to the passing of the Finance Act, 1972 of the regulatory duties of exci levied under the Finance Act, 1971 and in force immediately before the 18th March, 1972, subject to any exemption notific tions.

The regulatory duties thus levied have been included in the appropriate entries in the previous and succeeding Tabl ('A' and 'C') *(Clause 6*

C. Additional Excise Duties in lieu of Sales Tax

				Kg.	Basic including special excise	Addl. excise	Basic	Addl.	
(57)	IV(i)	4 I	Unmanufactured tobacco						11
			(1) flue cured and used for manufacture of cigarettes.		Rs. 4.20	Nil	Rs. 5.00	Rs. 0.60	
			(2) flue-cured and used for manufacture of smoking mixtures for pipes and cigarettes.		Rs. 33.00	Rs. 1.10	Rs. 40.00	Rs. 5.50	
			(3) flue-cured, not otherwise spefied.		Rs. 3.00	Rs. 0.44	Rs. 4.00	Rs. 1.00	
			(4) other than flue-cured for manufacture of cigarettes or smoking mixtures for pipes and cigarettes.		Rs. 3.42	Nil	Rs. 4.00	Rs. 0.50	
			(5) other than flue-cured not used for manufacture of cigarettes, smoking mixtures, biris etc. etc.		Rs. 2.10	Rs. 0.6	Rs. 3.00	Rs. 0.50	
			(6) other than flue-cured, N.O.S.		Rs. 3.00	Rs. 0.44	Rs. 4.00	Rs. 0.75	
			(7) used for agricultural purposes		Nil	Nil	Nil	Nil	
			(8) Stalks		Rs. 0.30	Rs. 0.02	Rs. 0.50	Rs. 0.10	
			Effective rates						
			For (1)				Rs. 4.40	Rs. 0.60	
			For (2)				Rs. 34.50	Rs. 5.50	
			For (3)				Rs. 3.00	Rs. 1.00	
			For (4)				Rs. 3.50	Rs. 0.50	
			For (5)				Rs. 2.50	Rs. 0.50	
			For (6)				Rs. 3.50	Rs. 0.75	
			For (7)				Nil	Nil	
			For (8)				Rs. 0.40	Rs. 0.10	

NOTE :—(1) This is a measure to raise additional revenue for the States in pursuance of the decision at the Nation al Development Council.

(2) Regulatory duties so far leviable on these sub-items at a rate of 15% of the effective basic duty ar being converted and merged with the proposed additional duties.

(3) Effective rate of basic and additional duties in respect of stems to tobacco of prescribed specification has also been raised to Rs. 2.50 Kg. and 50 P per Kg. respectively; for dust, these rates would b Rs. 1.50 per Kg. and 50 per Kg. respectively.

(4) As a result of the readjustment the revenue from regulatory duties (which would have gone entirely to the Centre) will be transferred to the States by Rs. 961 lakhs, and augmented by another Rs. 19 lakhs. There would be an incidental loss in basic excise revenue (shareable with the States) by Rs. .39 lakhs.

1	2	3	4	5	6	7	8
(58)	IV(i)	4 II(2)	Cigarettes	Basic including special excise	Addl. excise	Basic	Addl.	306
				180% a.v.	75% a.v.	200% a.v.	100% a.b.	
			Effective rates Value per thousand					
			exceeds / does not exceed					
			(i) 40 / —	168% a.v.	70% a.v.	165% a.v.	75% a.v.	
			(ii) 30 / 40	162% a.v.	60% a.v.	160% a.v.	65% a.v.	
			(iii) 20 / 30	114% a.v.	30% a.v.	110% a.v.	35% a.v.	
			(iv) 10 / 20	108% a.v.	25% a.v.	105% a.v.	30% a.v.	
			(v) — / 10	72% a.v.	10% a.v.	70% a.v.	15% a.v.	

NOTE :—(1) This is a measure to raise additional revenue for the States. For this purpose the basic and additional duties have been adjusted *inter se* and the resultant rates of duty rounded off.

(2) As a result of this adjustment there will be an additional revenue for the States by Rs. 763 lakhs and a loss in the basic duty (shareable with the States) by Rs.. 464 lakhs. The nett figure of estimated additional revenue has therefore been shown as Rs. 306 lakhs.

1	2	3	4	5	6	7	8
(59)		21	Woollen fabrics	Basic incl. special	Addl.	Basic	Addl.	5
			(1) other than embroidery	7.5% a.v.	5% a.v.	10% a.v.	5% a.v.	
			Eeffective rates Processed fabrics					
			(i) by composite mills	6% a.v.	5% a.v.	6% a.v.	5% a.v.	
			(ii) by independent processors	4% a.v.	3 1/3% a.v.	4% a.v.	4% a.v.	

NOTE:— The effective rates remain unchanged except to the extent that the additional duty of excise for independent processors gets rounded off (from 3 1/3% to 4%). The revenue gain which is marginal and purely incidental will accrue to the States.

1	2	3	4	5	6	7	8
(60)	IV(ii)	22	Rayon or artificial silk fabrics	Basic incl. special	Addl.	Basic	Addl.	859
			(1)	12% a.v.	2.5% a.v.	20% a.v. plus Rs. 5 per SM	7.5% a.v. plus Rs. 2 per SM	
			Effective rates (by notification) Value per SM					
		exceeds	does not exceed					
		Rs. —	Rs. 3.00	2.4% a.v.	0.6% a.v.	2.4% a.v.	0.6% a.v.	
		3.00	3.50	4.2% a.v.	1.5% a.v.	3.5% a.v.	1.5% a.v.	
		3.50	5.00	6.0% a.v.	2.0% a.v.	6.0% a.v.	2.0% a.v.	
		5.00	—	7.8% a.v.	2.2% a.v.	9.5% a.v.	5.5% a.v.	

1	2	3	4	5	6	7	8

Note:—(1) This is a measure to raise additional revenue for the States to the extent of Rs. 580 lakhs by way of additional duties of excise. The balance of the estimated additional revenue of Rs. 274 lakhs would be on the basic duties shareable with the States.

(2) Increase in effective rates has been made only in respect of the more expensive varieties of fabrics whose value exceeds Rs. 5 per SM.

(*Clause 66*)

D—Additional Duties of Excise and Customs on Mineral Products

1	2	3	4	5	6	7
61)	V(i)	8	Refined diesel oils and vaporising oil	KL	Rs. 500.00 (ceiling rate)	Rs. 850.00 (ceiling rate)

NOTE:— There is no change in the present effective rate of additional excise duty. The measure is only with a view to increase the ceiling rate so as to provide an adequate cushion for mopping up any price reductions and cost and freight accumulations as and when they occur.

1	2	3	4	5	6	7
62)	V(ii)	11A	Petroleum products, not otherwise specified	MT	Rs. 500.00	Rs. 850.00

NOTE:— There is no change in the present effective rate of additional excise duty. The measure is only with a view to increase the ceiling rate so as to provide an adequate cushion for mopping up any price reductions and cost and freight accumulations as and when they occur.

(*Clause 67*)

D—Changes Proposed by Notifications

1	2	3	4	8
(63)	—	1B	Prepared or Preserved Foods	(—) 10
(64)	—	1C	Food products	(—) 40
(65)	—	23D	Mosaic Tiles	(—) 10
(66)	—	34A	Parts and accessories of motor vehicles	(—) 30
(67)	—	49	Steel furniture	(—) 35
(68)			Safes, strong-boxes etc.	(—) 5
(69)	—	53	Zip or slide fasteners and parts	(—) 5
(70)	—	56	Playing cards	(—) 5

General Note for Sl. Nos. (63) to (70) above

The existing limit of Fifty thousand rupees worth of value in a financial year, up to which a manufacturer can clear these products free of duty, has been enhanced to Rs. one lakh. The ceiling limit (of value) beyond which this concession will not be available has been retained (as at present) at Rs. 2 lakhs. In the case of the item at S. No. 63 where at present there is no ceiling limit, the same ceiling limit of Rs. 2 lakhs as for the other items has been prescribed.

These concessions are with a view to help smaller manufacturers.

1	2	3	4	6	7	8
(71)	—	13	Vegetable Products (Vanaspeti)			(—) 30
			In order to encourage the increasing use of cotton-seed oil in the manufacture of Vanaspati in substitution of other edible oils, the present method of granting relief has been revised and the quantums of such relief have also been liberalised.			
(72)	—	30A	Power-driven pumps			200
			The existing exemption notification has been rescinded. Power driven pumps would now be liable to duty at the rate of 10% a.v.			
			This is a revenue measure.			
(73)	—	32	Electric lighting bulbs and fluorescent tubes			
			Effective rates			
			(1) Bulbs not exceeding 60 Watts	11% a.v.	11% a.v.	
			(2) Electric lighting bulbs commonly known as "miniature lamps"			
			(a) for miners safety lamps	Nil	Nil	
			(b) designed for operation at Voltage not exceeding 5.	2.2 P each	11% a.v.	
			(c) designed for operation at Voltage exceeding 5 but having a rated capacity—			
			(i) not exceeding 10 Watts	5.5 P each	11% a.v.	
			(ii) exceeding 10 Watts	11 P each	11% a.v.	

1	2	3	4	5	6	7	8
		The existing specific rates in respect of miniature lamps have been converted in to *ad valorem* rates.					
(74)	.	33AA	Parts of wireless receiving sets*		(—) 120		
		Transistors and semi-conductor diodes have been wholly exempted from duty. (See Sl. No. 38 under A).					
(75)	.	34A	Parts and accessories of motor vehicles		50		

"Pistons" (motor-vehicle parts) have been included in the dutiable list. They would pay duty at 10% a.v. However, when intended for use as original equipemt, they will not have to bear this duty.

ABSTRACT—CENTRAL EXCISE

(Rs lakhs)

S. No.	Tariff Item No.	Commodity	Estimated additional revenue: Basic excise duty	Special excise duty	Addi. excise duty in lieu of Sales tax	Regulatory duty	Total
1.	2.	3.	4.	5.	6.	7.	8.
1.	1B	Prepared or Preserved Foods	(—)10	.	.	.	(—)10
2.	1C	Food Products	(—)40	.	.	.	(—)40
3.	1D	Aerated Waters	165	.	.	.	165
4.	2	Coffee	53	(—)58	.	.	(—)5
5.	4-I	Ummanufactured tobacco	2225	(—)1294	1167	(—)970	1128
6.	4-II	Cigarettes	2370	(—)2834	770	.	306
7.	7	Kerosene	2980	.	.	.	2980
8.	11	Asphalt, Bitumen & Tar	240	.	.	.	240
9.	11A	Petroleum Products, not otherwise specified	90	.	.	.	90
10.	11B	Blended or compound lubricating oils and greases	500	.	.	.	500
11.	12	Vegetable non-essential oils	(—)16	.	.	.	(—)16
12.	13	Vegetable Product	(—)30	.	.	.	(—)30
13.	14	Paints and Varnishes	332	(—)132	.	.	200
14.	14D	Synthetic organic dyestuffs	240	.	.	.	240
15.	14DD	Synthetic organic products	23	.	.	.	23
16.	14F	Cosmetics and Toilet preparations	102	(—)102	.	.	.
17.	14HH	Fertilisers	1250	.	.	.	1250
18.	15	Soap	190	(—)220	.	.	(—)30
19.	15A	Plastics	747	(—)530	.	.	217
20.	16	Tyers	1435	(—)1144	.	.	291

1.	2.	3.	4.	5.	6.	7.	8.
21.	16A	Rubber products	268	(—)200	.	.	68
22.	17	Paper	850	(—)350	.		500
23.	18	Rayon and Synthetic fibres and yarn	1434	(—)2384	.	.	(—)950
24.	18A	Cotton yarn	(—)60	.	.	.	(—)60
25.	18B	Woollen yarn	125	(—)140	.	.	(—)15
26.	18D	Ju e twist, yarn, thread and ropes	80	.	.	40	120
27.	18E	Yarn, not otherwise specified	1700	.	.	.	1700
28.	21	Woollen fabrics	44	(—)44	5	.	5
29.	22	Artificial silk fabrics	574	(—)300	585	.	859
30.	22A	Jute manufactures	188	(—)212	.	80	56
31.	23	Cement	1137	(—)910	.	..	227
32.	23D	Mosaic Tiles	(—)10	.	.	..	(—)10
33.	23A	Glass & Glassware	30	(—)30	.	.	.
34.	26	Steel ingots	60	.	..	30	90
35.	26AA	Iron or Steel products	2280	..	..	1140	3420
36.	27	Aluminium	668	(—)670	..	420	418
37.	28	Tin plates	100	..	..	10	110
38.	29	Internal Combustion engines	16	(—)16	..	..	..
39.	29A	Refrigerators & air-conditioners	370	(—)370	..	..	..
40.	30	Electric motors & parts	295	(—)130	..	..	165
41.	30A	Power-driven pumps	200	..	..	..	200
42.	31	Electric batteries & parts	236	(—)145	..	..	91
43.	32	Electric bulbs	10	(—)10	..	..	..
44.	33	El ctric fans	84	(—)84	..	..	..
45.	33A	Wireless Receiving sets	252	(—)132	..	..	120
46.	33AA	Parts of W.R. sets	(—)120	..	..	..	(—)120
47.	34	Motor vehicles	605	(—)605	..	..	..
48.	34A	Motoı vehicle parts and accessories	20	..	..	..	20
49.	37	Cinematograph films-exposed	37	27	..	..	10
50.	37B	Cinematograph projectors and parts	2	..	..	..	2
51.	40	Steel furniture	(—)35	..	..	..	(—)35
52.	48	Safes & Strong Boxes etc.	(—)5	..	..	..	—)5
53.	53	Zip or slide fasteness	(—)5	..	..	..	—)5
54.	56	Playing cards	(—)5	..	..	..	(—)5
			24271	(—)13073*	2527	750	14475

*Includes Rs. 40 lakhs on account of refund under special excise duty since merged with basic duty.

SUMMARY

	States' share	Centre's share	(Rs. in lakhs) Total
(a) basic excise duty	2270	8928	11198
(b) Additional excise duty in lieu of sales tax	2503	24	2527
(c) Regulatory duties of excise	..	750	750
Total	4773	9702	14475

Provision for the discontinuance of salt duty is proposed to be continued during the financial year 1972-73 also.

(Clause 68)

Certain changes are being made in the sales tax law applicable to Delhi, which seek to make good certain lacunae which act to the detriment of the sales tax revenue accruing to Delhi Administration. The proposed amendments will help in the realisation of sales tax dues in the event of transfer of a business, winding up of a company and partition of a Hindu undivided family which is not possible at present in the absence of specific provisions to this effect. At present, sales of raw materials in Delhi are exempt from tax irrespective of the fact, whether the goods manufactured therefrom are sold in Delhi or not. It is, therefore, being made clear that sales of raw materials will be tax free only when such sales are made to those who manufacture in Delhi taxable goods for sale.

(Clause 69)

POINTS OF VIEW

Agricultural Income-tax in India

DR P. K. BHARGAVA

THE CHIEF ministers' conference, held at New Delhi on October 12, 1971, decided to appoint an expert committee to examine the centre's proposal to link or merge income-tax with agricultural income-tax. It was clear at the meeting that while the chief ministers of states recognised the urgency of raising additional resources in the present economic situation of the country, they were opposed to handing over their power to levy the tax to the centre. The Chief Minister of Tamil Nadu even went to the extent of suggesting that the centre should hand over its own powers of levying income-tax to the states. It was also surprising that as many as nine states including Assam, Bihar, Kerala, Maharashtra, Mysore, Tamil Nadu, West Bengal, Orissa and Uttar Pradesh, reiterated that they were already levying a tax on agricultural income.

Some of the chief ministers referred to the peculiar problems of assessing and collecting of agricultural income-tax and pleaded that the tax could be effectively exploited only by the states. The appeal of the Planning Minister to the chief ministers that the distinction between agricultural and non-agricultural incomes is only historical and they should agree to the centre collecting the agricultural income tax met with no success.

The Constitution

Under the Constitution of this country the central government is prohibited from taxing agricultural land or income. The states are, thus, empowered to tax such land or income. The separation of agricultural and non-agricultural incomes for purpose of taxation is perhaps unique in this country. However, it would be futile to refer to the circumstances that have led to this dichotomy. The advantage of agricultural income-tax is that it can help in ensuring equity in taxation, since land revenue is levied at a flat rate and is not related to any increase in income, output or productivity of land. The agricultural income-tax should, therefore, be levied on a slab system so that the tax burden on the small and large land owners as also on the agricultural and non-agricultural incomes may be made equitable.

At present the agricultural income-tax is levied only in some of the states, viz., Assam, Bihar, Kerala, Maharashtra, Mysore, Orissa, Tamil Nadu, West Bengal and Uttar Pradesh (in the case of the last it is called a 'large land-holdings tax'). The states of Gujarat, Haryana, Punjab, Andhra Pradesh and Madhya Pradesh (except Bhopal) have no agricultural income-tax.

Tax-Free

Thus Punjab which has the highest per capita income in India and Gujarat the third highest have no agricultural income-tax, while Maharashtra which ranks second levies such a tax only on incomes above Rs 36,000. Even in states where the tax is levied there is a general feeling that it is inadequately enforced. Accordingly, the importance of agricultural income-tax in total revenue from state taxes is declining as is evident from Table I.

Table I shows that the agricultural income-tax formed two per cent of the revenue from state taxes during the first Plan. This percentage declined to 1.4 in the third Plan and further to 0.9 in 1970-71 (budget) although in absolute terms the yield from this tax increased from Rs 24.6 crores in the first Plan, to Rs 42.5 crores in the second Plan and further to Rs 48.9 crores in the third Plan but it should be noted that the increase in yield during the three Plans was due to more states imposing it, otherwise in many of the individual states the yield from agricultural income-tax has been declining. For instance in Uttar Pradesh it declined from Rs 53 lakhs in 1957-58 to Rs 8 lakhs in 1963-64. During the same period it declined from Rs 54 lakh to Rs 38 lakhs in Mysores and from Rs 117 lakhs to Rs 65 lakhs in West Bengal.

The Yield

Since then the yield in these states increased to Rs 172 lakhs and Rs 102 lakhs respectively in 1969-70. We may also emphasise here that the yield from agricultural income-tax increased by 336 per cent in 1967-68 as compared to 1950-51 as against an increase 910 per cent in sales tax, an increase of 769 per cent in stamps and registration, an increase of 1030 per cent in taxes on transport and an increase of 505 per cent in revenue from all state taxes. These data clearly demonstrate the declining importance of the agricultural income-tax and emphasise the prosperity of the agricultural population in general and especially that of the affluent section.

Rapid Rise

The burden of the agricultural income-tax has a so fallen on account of the rapid rise in agricultural income accuring from the rising prices of agricultural products and from the rise in productivity of land. Since the rise in the rates of agricultural income-tax in different states has not been commensurate with the increase in agricultural incomes, the burden of agricultural income-tax has fallen to such a low level that it has become more or less of a kind of surcharge, at least, in so far as the

TABLE I

LAND REVENUE AND AGRICULTURAL INCOME-TAX IN TOTAL REVENUE FROM STATE TAXES.

(*Rupees crores*)

	Agricultural Income Tax	*Total Revenue from State Taxes*	*1 as percentage of 2*
	1	2	3
First Plan (1.4.1951 to 31.3.1956)	24.6	1257.1	2.0
Second Plan (1.4.1956 to 31.3.1961)	42.5	1896.9	2.0
Third Plan (1.4.1961 to 31.3.1966)	48.9	3339.9	1.4
1970-71 (Budget)	12.9	1398.5	0.9

farmers in the higher income brackets are concerned. It appears that the tax can be made an important source of revenue by lowering its exemption limit and by making suitable changes in its rates.

A distinguishing feature of agricultural income-tax is that three states, namely, Assam, Kerala, and Tamil Nadu, account for almost 70 per cent of the collection where plantation is predominant. The exemption limit for the agricultural income-tax also differs significantly among the states as is clear from Table II. In some states it is very high and in others where size of holding is the basis it differs very significantly. For instance, in West Bengal 75 bighas (25 acres) of cultivable land is the maximum one can possess, which means not a single cultivator would be liable to pay the tax as the exemption limit is 82 bighas. In Maharashtra the exemption limit is as high as Rs 36,000 while in Uttar Pradesh, Kerala, Tamil Nadu and Orissa it is moderate.

It would be ideal if agricultural and non-agricultural incomes could be taxed under one income tax. The fifth Finance Commission (1969) rightly observed that "A single income-tax levied both on agricultural and non-agricultural incomes will have the advantage of a unified system, leaving no scope for evasion by showing greater income under less-taxed or non-taxed sections; it will also be in line with the practice of other advanced countries of the world."* But as taxation of agricultural incomes fall in the states list it will be difficult to do so, because the states have already resented such a move.

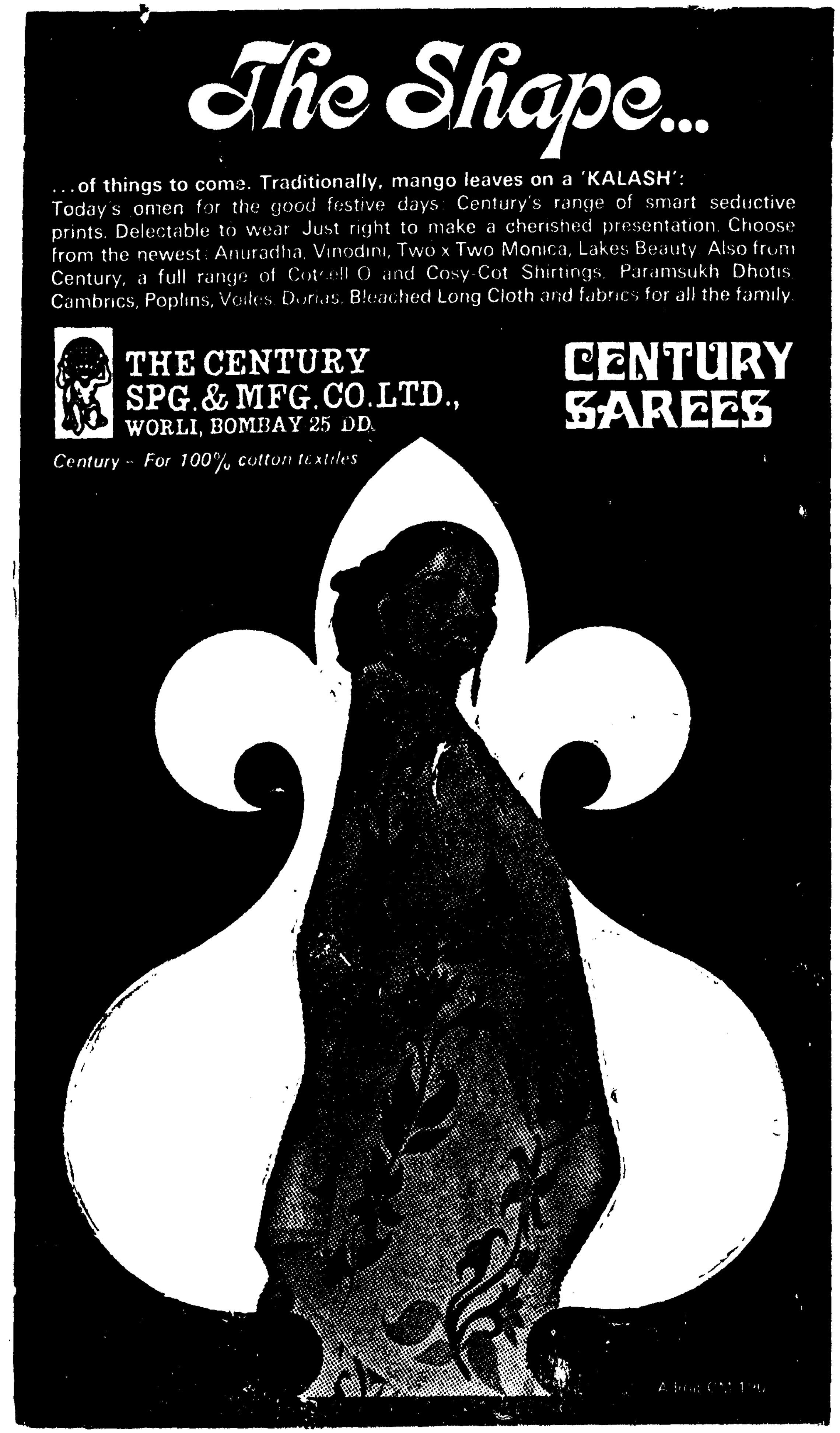
In the present state of centre-states relations, amendment of the Constitution also does not appear to be a proper solution. However, a proper solution could be found along the following lines and it would be beneficial both for the union and state governments. For purposes of determining the rate of assessment on agricultural income, the total income of the assessee including the non-agricultural income should be taken into

* *Report* p. 85

TABLE II

EXEMPTION LIMITS FOR AGRICULTURAL INCOME-TAX

State	*Income (Rs)*	*Size of holding (acres)*
Maharashtra	36,000	—
Orissa	5,000	—
Uttar Pradesh	3,600	30
Tamil Nadu	3,500	12½
Bihar	3,000	—
Kerala	3,600	—
West Bengal	—	82 bighas (1 bigha=0.32 acre
Mysore	—	50 acres of 8th cla of land (lowest an extent equivale to one or more the class)
MP (Bhopal)	—	50 acres of tractor sed land and 10 acres of non-tractor sed land.



account. This procedure would bring larger revenue to the states and will also have the advantage that there will be no encroachment on the centre's autonomy as it involves no taxation of non agricultural income but only considering it for purposes of determining the rate of tax.

Correspondingly, the agricultural income will also have to be taken into account by the Income Tax Department of the union government in determining the rate of tax on non-agricultural incomes. Under this system there would be no encroachment on the states' autonomy as it involves no taxation of agricultural income by the centre. However, the efficacy of the proposed scheme would depend on co-ordination and co-operation between the central Income Tax Department and state authority but such a scheme is earnestly desirable in the broader national interest as it will help in checking tax evasion to a considerable extent and would also bring greater revenue to the state exchequer.

To conclude, it may be emphasised that agricultural income tax should be levied on a slab system and suitable changes in tax rates should be made so that the tax burden on the small and large land owners as also on the agricultural and non-agricultural income may be made equitable The tax should be introduced in states where it is not levied at present and the exemption limit should be suitably modified so that the relatively better-off farmers may fall within the net of this tax. And finally, for purposes of determining the rate of assessment on agricultural income the total income of the assessee including the non-agricultural income should be taken into account and vice versa. This will ensure autonomy of the union and state governments and will also bring greater revenue to the state exchequer.

Land Tax in India

L. G. BAPAT

A MEETING of the chief ministers was held in New Delhi on October 12, 1971 to discuss the mobilisation of resources by the states in view of the fresh strains on the country's economy. At that time, the question of increasing agricultural land taxation was again discussed. What is the case for an upward revision of land tax in India?

Just before World War II, about four per cent of national income from agriculture was being mopped up by the states by way of land revenue. At that time, the state governments had not imposed the agricultural income-tax. During the war and post-war period, prices of food articles went up continuously. The index number of wholesale prices of food articles shot up to 398.6 in 1951-52 from 100 in 1939 (base year). As a result of this, national income from agriculture at current prices went up steeply.

However, during this period (1939-52), the land revenue assessment was not revised upwards. As the tax was payable in coin, its burden declined rapidly with every increase in the money-value of agricultural production. Hence, though by 1951-52, about half a dozen states had levied agricultural income-tax, the combined burden of land revenue and agricultural income tax was only 1.1 per cent of the agricultural income in that year (Table 1). Thus, a quadruple increase in the prices of food articles meant a fall to a fourth in the burden of the land tax.

Since 1951-52, the same trend has continued, *with added momentum*. Prices of food articles have more than doubled. The index number of wholesale prices of food articles moved from 93.7 in 1951-52 (base year 1961-62=100) to 203.0 in 1969-70. Data beyond this year are provisional and hence subject to large fluctuations. In order that such fluctuations should not vitiate our conclusions, the data upto 1969-70 are only used. During this period, the agricultural income at current prices increased by 212 per cent from Rs 4,780 crores to Rs 14.905 crores.

On the other hand, the burden of the land tax increased by only 122 per cent from Rs 52.3 crores to Rs 116.8 crores. Thus, the increase in the land tax has lagged behind that in the agricultural income. Consequently, the percentage of land tax to the national income from agriculture came down from 1.1 in 1951-52 to 0.8 in 1969-70. It may be reiterated here that this percentage was four in 1938-39.

According to the Land Revenue Code, 1889, the land revenue assessment is to be revised every 30 years, after taking into account the ruling prices of food articles, type of crops obtained, increase in the productivity of land etc. The last such review of the land revenue was undertaken in the twenties. It was again due in the fifties. The reluctance of the state governments to undertake the revision is reflected in the declining importance of the land tax in the state tax structure.

The percentage of land tax to the total state tax revenue was 18.6 in 1951-52. It declined sharply to 5.9 in 1969-70. In 1956 57, it was at the peak of 29.6 per cent. This was due to a steep fall in the prices of food articles (index No. 72.1) during the previous year, 1955-56.

The neglect of this important tax source has distorted the finances of the states. Their dependence on the centre has increased in the recent years. 1968-69, the centre paid Rs 490.98 crores to the states by way of their share in the central taxes. This formed 28 per cent of their total tax revenue. Owing to the neglect of this important tax, the states are facing an acute shortage of funds as reflected in rising overdrafts with the Reserve Bank of India (RBI). Such overdrafts went up from Rs 23 crores in 1963-64 to Rs 360 crores as at the end of June, 1971. Even if the states had maintained the same percentage of the land tax to the agricultural income as existed in 1938-39, viz. four per cent, they would have obtained about Rs 384 crores more. There would have then been no need to obtain the overdrafts from the RBI.

Indeed, there is a strong case for obtaining more than four per cent of the agricultural income through taxation. Before World War II, the British government in India resorted to the *laissez faire* policy towards agriculture. The government's help to agriculture was limited to the taccavi loans, and grants under the "Grow More Food" campaign. After Independence, active participatian of the government in agriculture began. From 1951-52 to 1968-69, the government spent on agriculture Rs 8,116 crores out of the total Plan outlay of Rs 21,962 crores (actuals). This gives a percentage of 37 or an annual average expenditure of Rs 451 crores (vide page S 88 of the Report on Currency and Finance, 1969-70 issued by the Reserve Bank of India.).

This has improved the agricultural productivity to a remarkable extent. During the first three five-year Plans, the productivity increased by 11.2 per cent, 6.9 per cent and 2.3 per cent respectively. During 1966-67 to 1968-69, it has further increased by 22.8 per cent (vide page S 15 of the Report on Currency and Finance 1969-70 issued by the RBI).

Thus, the agriculture in this country has reaped th combined benefits of ir creased prices (117 per cent high government expend ture and an improvemer of 43.2 per cent in the prc ductivity, over the last 1 years. The increase in i contribution to the exche quer has been only 122 pe cent. Roughly speakin only the advantages of higl er prices of the food art

TABLE I

LAND TAX, AGRICULTURAL INCOME AND PRICES: 1951-52 TO 1969-70

Year	Agricultural income-tax (Rs in crores)	Land Revenue (Rs in (crores)	Total land tax (Rs in crores)	Total tax revenue of all states (Rs in crores)	Percentage of land tax to total tax revenue	National income from agriculture (Rs in crores)	Percentage of land tax to national income from agriculture	Index No of wholesale prices of food articles (1961-62=100)
1951-52	4.3	48.0	52.3	281.1	18.6	4,780	1.1	93.7
1952-53	4.1	57.4	61.5	304.9	20.2	4,810	1.3	84.1
1953-54	3.8	70.7	74.5	330.3	22.6	5,310	1.4	90.4
1954-55	4.8	72.6	77.4	337.2	23.0	4,350	1.8	80.0
1955-56	7.7	78.0	85.0	356.1	23.6	4,390	1.9	72.1
1956-57	5.7	92.7	108.4	366.7	29.6	5,380	1.9	85.2
1957-58	7.8	87.7	95.5	472.0	20.2	5,130	1.8	88.6
1958-59	8.4	91.9	100.3	537.1	18.7	6,080	1.6	95.9
1959-60	8.9	95.1	104.0	577.4	18.0	6,090	1.5	99.1
1960-61	9.5	97.2	106.7	628.8	16.9	6,570	1.6	99.9
1961-62	9.4	95.2	104.6	662.6	15.6	6,771	1.5	100.0
1962-63	9.6	120.0	129.6	794.0	16.3	6,905	1.8	106.5
1963-64	9.3	123.4	132.7	939.1	14.1	8,015	1.7	115.4
1964-65	10.7	119.8	130.5	1,022.4	11.7	9,846	1.4	135.4
1965-66	9.9	111.9	121.8	1,175.8	10.4	9,523	1.3	144.6
1966-67	10.5	89.6	100.1	1,305.7	7.7	11,491*	0.9	171.1
1967-68	11.8	98.6	110.4	1,486.3	7.5	14,569*	0.7	207.8
1968-69	9.9	113.9	123.8	1,708.4	7.2	13,859*	0.8	196.9
1969-70	14.0	102.8	116.8	1,980.9	5.9	14,905*	0.8	203.0

*denotes "Provisional".

NOTE: Figures for 1956-57 only are "budget" figures, as accounts figures are not supplied for this year in the Reserve Bank publications for some unexplained reasons. Figures for other years are "accounts" figures.

Source: Reserve Bank of India: Monthly Bulletins and annual reports.

cles have been mopped up by the state governments through higher taxation. The advantages of the government expenditure and productivity improvement have been given to the agriculture gratis.

On the other hand, the percentage of direct taxes to non-agricultural income was 3.2 in 1951-52. It increased to five per cent by 1969-70. From 1951-52 to 1969-70 national income from the, non-agricultural sector increased by 229 per cent, from Rs 4,950 crores to Rs 16,269 crores, whereas the impost of direct taxation increased by 376 per cent, from Rs 175.1 crores to Rs 833.3 crores. In this way, the increase in the burden of direct taxation has been *faster* than the increase in the non-agricultural income. As regards the agricultural sector, the increase in the direct taxation (122 per cent) was *less* than that in the agricultural income (191 per cent.).

Thus, the government's treatment to these two sectors does not meet the requirements of the equity canon of taxation. From the point of view of the government's investment also, the same trend is discernible. The Plan investment in agriculture was 37 per cent; in industry and mining it was Rs 4,903 crores during 1951-52 to 1968-69 or only 22 per cent of the total Plan outlay (actuals). This is the only expenditure which has gone *directly* and in *full* to the non-agricultural sector. The Plan expenditure on transport, communications. social services and miscellaneous items has helped both.

The Taxation Enquiry Commission (Chairman: Dr. John Mathai) had found that the tax structure in India was very favourable to agriculture in that it paid a much lower per capita tax than that paid by the industries. This observation referred to the tax structure in 1951. Commission therefore suggested the removal of this imbalance by increasing land taxation in India. Since then, not only the government has not narrowed down the imbalance but actually has allowed it to

TABLE II

DIRECT TAXES PAID BY THE NON-AGRICULTURAL SECTOR IN INDIA: 1951-52 TO 1969-70

Year	Direct taxes levied by the centre (Rs in crores)	Direct taxes levied by states (Rs in crores)	Total direct taxes (Rs in crores) Col. 2+Col 3	National income from non-agricultural sector (Rs in crores)	Percentage of direct taxes to non-agricultural income Col. 4 / Col. 5 x100
1	2	3	4	5	6
1951-52	173.2	1.9	175.1	4,950	3.2
1952-53	185.2	2.1	187.3	5,010	3.7
1953-54	154.4	1.9	166.3	5,170	3.2
1954-55	160.5	1.9	162.4	5,270	3.1
1955-56	170.2	2.2	172.4	5,460	3.2
1956-57	205.0	2.0	207.0	5,790	3.6
1957-58	229.2	2.4	231.6	6,110	3.8
1958-59	240.3	2.7	243.0	6,360	3.8
1959-60	274.2	2.8	277.0	6,700	4.1
1960-61	291.5	1.4	292.0	6,473	4.6
1961-62	336.2	3.5	339.7	7,279	4.9
1962-63	422.1	3.9	426.0	7,968	5.4
1963-64	549.3	3.1	552.4	9,079	6.3
1964-65	599.2	3.7	602.9	10,115	6.1
1965-66	598.0	4.7	602.7	11,098	5.6
1966-67	656.2	4.8	661.0	12,412*	5.6
1967-68	654.3	4.6	658.9	13,805*	5.0
1968-69	697.6	6.1	703.7	14,819*	5.0
1969-70	826.5	6.8	833.3	16,269*	5.0

*denotes "Provisional"

NOTE: Figures for 1956-57 only "budget" figures, as accounts figures are not supplied for this year in the Reserve Bank publications for some unexplained reasons. Figures for other years are "accounts" figures.

Source: Reserve Bank of India: Monthly Bulletins and annual reports.

widen still further, as seen above.

To conclude, there is a strong case for an upward revision of the land tax in India, particularly that falling on the big prosperous farmers. As far back as in 1946, the Naidu Committee (Chairman : B.V.N. Naidu) had found that in World War II, only the large farmers had benefited from the price rise of food articles. At present also, this is the only class which is reaping the advantages of rising prices and government expenditure on agriculture. Further, agricultural taxation today has become *regressive*. A recent survey showed that the tax paid by the rich and the poor farmers is respectively seven per cent and 12 per cent of their incomes.

Management of Public Debt in India

KIRAN ADHYARU

IN RECENT years the expenditure of the union and the state governments on revenue and capital accounts has risen rapidly as compared to their ability to raise resources. This gap can be bridged by public borrowing. Otherwise increasing reliance may have to be placed on deficit financing, which after a certain level leads to inflation and other evils. There has been a rapid increase in the volume of the public debt—internal as well as external mainly for Plan purposes.[1] Thus the increasing public debt has created the problem of public debt management. Now-a-days debt management has been recognised as an important instrument of the state policy and an essential complement to the monetary policy of the central banking institutions.

The problem of debt management arises mainly because the level of existing debt continuously matures and the government must find some techniques of refinancing it. The problem of debt management does not create any new debt as Prof. J. M. Buchanan has emphasised that "..... debt management takes place even when no debt is created and no old debt is being retired in net terms."[2]

About the nature of the public debt management Warren L. Simth points out that "debt management may be defined as 'all measures' that affect the size and composition of the stock of outstanding claims against the Federal Government."[3] This definition is broad in its scope and would include fiscal policy.[4]

There are two schools of thought on debt management policies. One school of thought is of the opinion that the debt should be managed in such a way that minimises its effect on the economy.[5] The other school believes in using facets of debt management to the utmost in affecting the economy in the manner desired. In this context Professor Lindholm has emphasised that "Debt management policy could be much more influential if there were no goals related to debt other than those making effective use of it as a fiscal policy tool. There is, however, no prospect that this will ever be the case."[6]

In advanced countries the objective of debt management is to keep the debt burden at a minimum level, which is possible only with the help of a suitable structure of interest rates and by attracting sufficient funds into government bonds to maintain level of employment and economic stability.[7] But in developing countries the objective of public debt management is to achieve an accelerated rate of economic development by changing the debt structure to bringe conomic stability. It is, therefore, necessary that rapid rise in prices or inflation must be avoided. However, this does not mean that relative prices should not be permitted to rise at all. It may be pointed out here that public debt management may also serve as a complementary tool for economic stabilisation particularly to check inflation (issuing long-term securities where the economy is expanding in order to reduce total liquidity and shortening the debt structure during recession because it tends to be expansionary). It is called counter cyclical debt management.[8]

In India the field of public debt management is so wide that it includes "those measures of the government and the Reseve Bank of India which change the size, the composition and the ownership distribution of public debt, affect the level and structure of interest rates, determine the timings and the mode of borrowing, refunding and conversion operations and also those policies which influence the volume and the extent of trading in the securities market."[9]

It is thus evident that the importance of public debt management is increasing rapidly because it has its effect on the economy as a whole. Recently Prof. C. C. Abott has observed that. "the way in which the debt is managed and the success achieved will directly affect social security, Federal grants-in-aid, banking legislation, the conservation programme, and many other matters of public policy that the country has been accustomed to determine with little reference to their effect upon Federal Finance".[10]

In India the problem of debt management is not merely that of creating the debt for financing the deficit in the budget and managing the securities markets but its objectives are achievement of a faster rate of economic growth, stabilisation of government bond prices, the maintenance of a structure of interest rates in the organised sector of the money and capital markets, minimisation of the cost of servicing the debt, and restraining the inflationary pressures in the economy. But there are certain problems in the way of acheiving these objectives of public debt management. Our money market is not fully developed, the interest rate structure is not integrated and there is only little correlation between organised and non-organised sector of the economy. Besides the growth of public debt depends on the security market, which is dominated by a few institutional investors. These institutions have also to subscribe loans to the private sector. "It thus follows that the demand for government securities can only grow if the capital market gains both in funds and participants."[11]

As pointed out above, the enormous increase of public debt since Independence has raised the problem of public debt management. The public debt of the central government increased from Rs 2,054 crores at the end of March 1951 to Rs 13,375 crores at the end of March 1970, showing an increase by nearly 6.5 times. However, the rise in external debt is much greater than the rise in *internal* debt. The government of India had negligible external debt in 1951 as a result of repatriation of sterling loans. With the advent of development planning in India it became necessary to import heavy capital equipment. Hence India's external debt rose from Rs 32 crores at the end of March 1951 to Rs 761 crores at the end of March 1961, to Rs 2,611 crores at the end of March 1966, and to Rs 6,141 crores at the end of March 1970 (Table I). It has increased by 192 times over this period. The main rise in foreign debt has been from the dollar area. These loans were taken from the USA, IBRD, IMF, IDA, IFC, etc. External borrowing became essential in the face of acute foreign exchange shortage in 1957-58 and imports of foodgrains which showed a continuous increase from year to year due to rapid population growth coupled with nearly stagnant agricultural production.

It may be true that even though the government of India has exploited external resources to the maximum extent possible, it has mostly to depend upon internal resources for rapid economic development. Internal debt increased from Rs 2,022 crores at the end of March 1951 to Rs 3,975 crores at the end of March 1961 and further to Rs 7 234 crores at the end of March 1970. Of the rise of Rs 7,234 crores at the end of March 1970 in internal debt, the increase in permanent debt is Rs 4,147 crores, in treasury bills,[12] Rs 2,398 crores and in special floating loan Rs 689 crores. At the end of March 1971 total public debt of the centralg overnment was expected to rise to Rs14,420 crores.

If we make a comparative study of India's public debt with other countries it is noticable that in the UK in 1958-59 the national debt formed 170 per cent of gross national product and in the USA this percentage was 60, whereas in India public debt was 49 per cent of net national product in 1967-68 at current prices. If we compare the payment of interest charges as a part of total public revenue it is found that while this proportion is 7 per cent in India, it is 11 per cent in the United States and 60 per cent in Britain. Thus it is clear that there is nothing to feel scared by the increasing public debt in India which is relatively less and that too for productive purposes. Moreover, the increasing volume of internal debt is only a transfer from one group to the other and there arises no burden when the taxes are levied according to the principle of taxation. As Hansen puts it, "An internally-held debt represents a transfer of funds within the community. It is true that attention must be paid to the character of the tax structure through which the transfer payments are effected.[13]

Besides public debt there are other non-marketable obligations of the government of India, such as small savings, state provident funds, PL 480 deposits, public provident funds, income-tax annuity deposits, etc. and balances in the various reserve funds and deposit accounts. The total of such other liabilities increased from Rs 810 crores at the end of March 1951 to Rs 4,470 crores at the end of March 1970, and was expected to rise further by Rs 265 crores to Rs 4,735 crores by the end of March 1971—an increase of 5.9 per cent over the level at the end of March 1970. Of this in crease of Rs 4,470 crores at the end of March 1970, over 45 per cent (Rs 2,021 crores) was accounted for by small savings, nearly 17 per cent (Rs 759 crores) by state provident funds, and about 15 per cent (Rs 654 crores) by PL 480 deposits. The debt and the liabilities of the government of India (after deducting Rs 300 crores due from Pakistan on account of her share of pre-partition debt) amounted to Rs 17,545 crores at the end of March 1970.

Much of the success of the internal borrowing programme was due to the expansion of the capital market. By 1963 this market consisted of LIC, the State Bank of India, Provident Fund, Industrial Finance Corporation and state finance corporations, the government and the Reserve Bank of India. These institutions held among themselves one-third of the total marketable debt. Between 1951 and 1969, the combined marketable debt of central and state governments rose from Rs 1496.53 crores to Rs 4,629.0 crores. The Reserve Bank of India (own account) continued to be the largest single holder of government debt. Its share in the total marketable debt increased from Rs 339.93 (22.7 per cent) at the end of March 1951 to Rs 1342.3 crores (29.0 per cent) at the end of March 1969. Commercial and co-operative banks held about one-fourth of the total marketable debt, their share rose from 26.2 per cent (Rs 391.60 crores) at the end of March 1951 to 24.7 per cent (Rs 1,143.8 crores) at the end of March 1969. Provident Funds, however, occupied the third place, their proportionate holding of the total debt actually rose to 17.9 per cent at the end of March 1969 from 7.8 per cent at the end of March 1961.

The share of insurance companies which occupied the fourth place rose from 7.5 per cent at the end of March 1951 to 14.3 per cent at the end of March 1969. But on the other side the share of joint stock companies, trusts and individuals has declined from 1.3 per cent, 6.5 per cent and 2.7 per cent, at the end of March 1961 to 0.2 per cent, 1.3 per cent, and 1.1 per cent at the end of March 1969 respectively (see table II).

This narrowness of the securities market limits the growth of marketable debt and it is necessary that the ownership of public debt should be more widespread and for this government should offer more attractive loans for them (by higher rate of interest) and increase the liquidity of marketable debt without involving any capital loss to the holders. But the overall expansion of the captive market ensured the public borrowing programme at lower interest rate. Without it the government will be forced by the scarcity of funds to raise the level of borrowing rates on new floatations.

But the heavy dependence of the government on loan finance from these institutions is rather unfortunate. It limits the important function of the Reserve Bank of India i. e. to obtain as wide a distribution of the marketable debt as possible. The government should try to step up borrowings rather substantially and this can be done by "(1) To enlarge the captive market by legal means; and (2) to offer a system of incentives with a view to attracting more savings and more investors in to the security market."[14]

The aggrregate net borrowings of the centre and the state governments increased from Rs 24.9 crores in 1951-52 to Rs 136.8 crores in 1961-62, further to Rs 176.7 crores in 1966-67 and 224.3 crores in 1969-70. (See Table III) However, net cash receipts from the public (i.e. excluding the Reserve Bank of India, the central and state governments) were higher at Rs 161.0 crores during 1969-70 as against Rs 98.1 crores in 1968-69. (Open market sales of the Reserve Bank of India to the public too were higher at Rs 88 crores in 1968-69 as compared to Rs 55 crores in 1967-68. But its trends always showed a negative success. Government should try to improve this by attractive methods. The net absorption of securities by the public rose from Rs 145 crores in 1967-68 to Rs 186 crores in 1968-69. Though every year there is progressive increase in it but progress is not satisfactory.

Here it is essential to study the maturity pattern of India in domestic debt because it alters the structure of interest rates and helps Reserve Bank of India in the refunding operation. During the first three Plans, out of the total rupee debt of the government nearly 26 per cent were short-term, 41 per cent medium-term and only 16 per cent were over 10 years. In 1969-70 this proportion of short debt (i. e. maturing within five years), undated securities, medium-term loan (maturing between 5 & 10 years) and long dated securities (maturing after 10 years) is 60.8 per cent, 6.3 per cent, 14.6 per cent and 38.3 per cent, respectively. This pattern of emphasis on short and medium term loans was more convenient to the banking system and it has the advantage of low interest rates but larger reliance on short-term issues may create constant problem of public debt management. "The shorter the term structure of the debt, the more troublesome the debt management problem."[15] But when we compare the materity structure of India's debt with that of the USA, and the UK the share of short term loans in these countries was 73 per cent and 34 per cent respectively in 1958-59. But this type of comparison is only an indication of economic trends.

In developed countries the funds are required for short periods to fulfil the temporary requirements. But in developing countries the requirements of the government for funds are long-term, so as to achieve economic development. In our country there are many difficulties in raising longperiod loans due to the high propensity to consume and greater liquidity preference of the people.

A crucial element in debt management is the interest rate policy. In our country by keeping the interest rate at low level the government minimises the cost of servicing the debt and it is also helpful in achieving more employment[16], and higher interest rates would depress the value of existing securities and involve substantial capital losses to the institutional investors. In the post-independence period the government of India followed a cheap money policy for many years and loans were floated at low rates of interest but under the conditions

(over to p. 697)

TABLE I

PUBLIC DEBT AND OTHER LIABILITIES OF THE GOVERNMENT OF INDIA

(As at the end of March)

	1951	1956	1961	1966	1967	1968	1969 Revised Estimates	1970 Revised Estimates	1971 Budget Estimates
A. Public debt (1+2)	2,054	2,443	4,736	8,026	10,850	11,606	12,727	13,375	14,429
1. Internal debt (a+b)	2,022	2,329	3,975	5,415	6,217	6,477	6,800	7,234	7,761
(a) Permanent debt (i+ii)	1,445	1,521	2,595	3,462	3,608	3,778	3,928	4,147	4,325
(i) Current loans	1,439	1,509	2,556	3,417	3,565	3,722	3,879	4,097	4,259
(ii) Others	6	12	39	45	43	56	49	50	64
(b) Floating debt (i+ii)	577	808	1,380	1,953	2,609	2,699	2,872	3,087	3,438
(ii) Treasury bills	365	595	1,106	1,612	1,920	2,009	2,184	2,398	2748
(ii) Special floating loans	212	213	274	341	689	690	688	689	690
2. External debt	32	114	761	2,611	4,633	5,129	5,927	6,141	6,659
B. Other liabilities (1+2)	810	1,072	1,817	3,331	3,568	3,931	4,123	4,470	4,735
1. Unfunded debt (a+b+c)	447	762	1,533	2,770	2,961	3,311	3,393	3,606	3,825
(a) Small savings	336	580	982	1,549	1,667	1,789	1,907	2,021	2,161
(b) State Provident Fund	95	165	289	527	574	649	696	759	834
(c) P L 480 deposits			240	561	559	652	593	654	667
(d) other unfunded debt	16	17	22	133	161	221	197	172	163
2. Reserve funds and deposits	363	310	284	561	607	620	730	864	910
C. Aggregate Liabilities (A+B)	2,864	3,515	6,553	11,357	14,418	15,535	16,850	17,850	19,155
D. Amount due from Pakistan on account of pre-partition debt	300	300	300	300	300	300	300	300	300
E. Net liabilities	2,564	3,215	6,253	11,057	14,118	15,237	16,550	17,545	18,855

Source: Report on Currency and Finance, 1969-70.

TABLE II

PATTERN OF OWNERSHIP OF THE CENTRAL AND THE STATE GOVERNMENT SECURITIES: 1951-1969

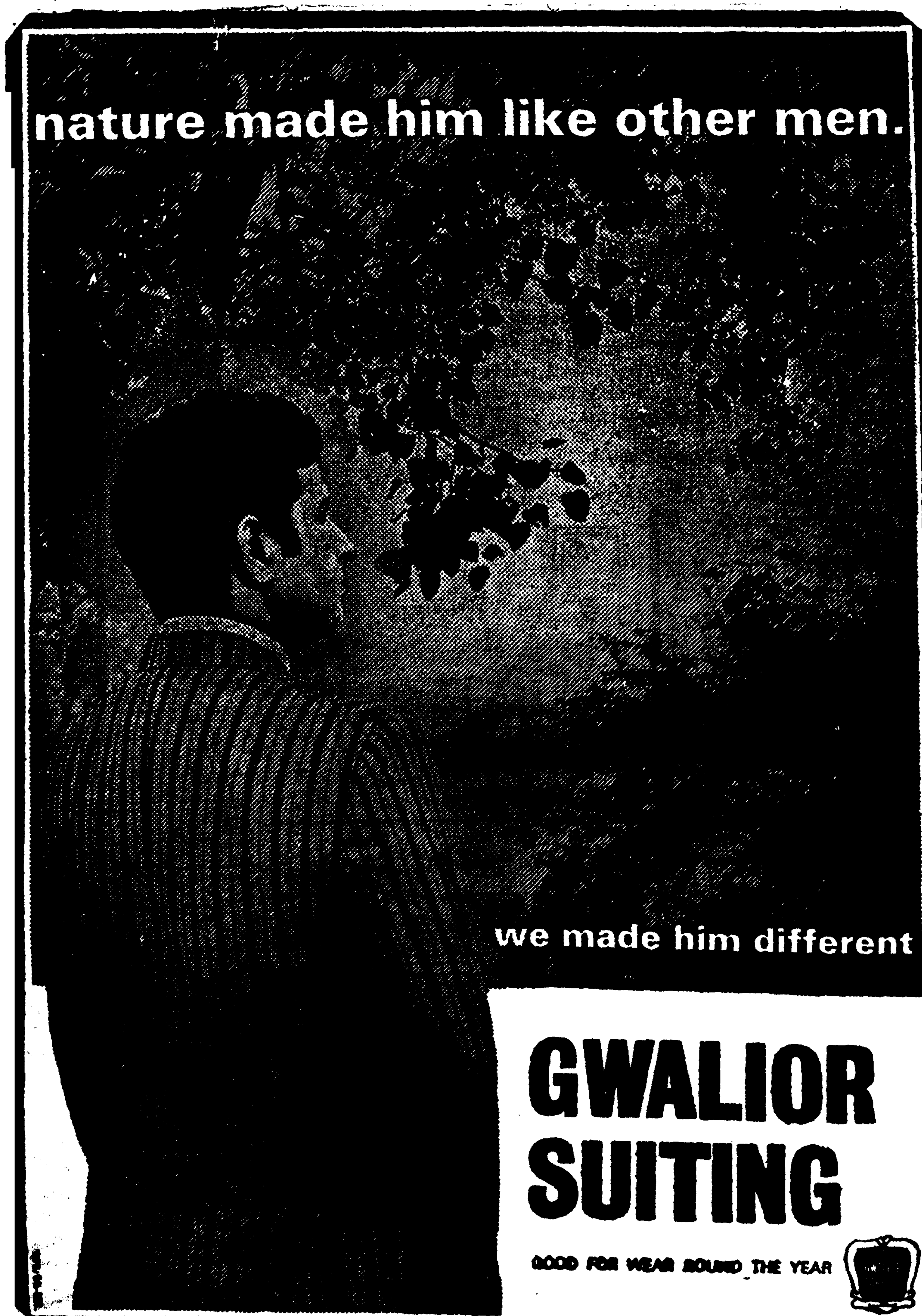
(As at the end of March)

(Rs crores)

Category of holders	1951	Percentage to the Total	1956	Percentage to the total	1961	Percentage to the total	1966	Percentage to the total	1969	Percentage to the total
1. Governments (central and state)	125.85	8.4	168.82	8.9	267.57	9.6	349.6	8.9	310.9	6.7
2. Reserve Bank of India (own account)	339.93	22.7	268.85	15.2	707.08	25.4	1219.0	30.8	1342.3	29.0
3. Commercial and co-operative banks	391.60	26.2	438.46	24.7	601.07	21.6	854.8	21.6	1143.8	24.7
4. Insurance companies including LIC	112.74	7.5	167.88	9.5	286.02	13.9	550.4	13.9	663.2	14.3
5. Provident Funds	N A		NA	--	217.55	7.8	531.3	13.4	830.1	17.[illegible]
6. Industrial Finance, and State Finance Corporation	N A		NA	--	4.81	0.2	3.9	0.1	2.4	0.[illegible]
7. Reserve Bank of India (on account of others)	66.50	4.4	107.25	6.0	38.49	1.4	39.0	1.0	34.2	0.[illegible]
8. Non-residents	59.96	4.0	40.89	2.3	34.33	1.2	16.6	0.4	147.9	3.[illegible]
9. Residents	399.95	26.7	591.00	33.3	526.94	18.9	389.8	9.9		
(a) Joint stock companies	NA	--	NA	--	35.75	1.3	12.8	0.3	8.6	0.[illegible]
(b) Local authorities	NA	-	NA	--	61.20	2.2	43.6	1.1	37.7	0.8
(c) Trusts (public & private)			NA	--	181.49	6.5	57.1	1.4	59.2	[illegible]
(d) Individuals	NA	--	NA	—	75.76	2.7	56.1	1.4	48.7	[illegible]
Total	1,496.53	100.00	1,773.15	100.0	2,783.86	100.00	3,953.2	100.00	4,629.0	100.0

NA—Not Available.

Source: Reserve Bank of India Bulletin: issues: February 1960, March 1963, March 1968, May 1971.



of inflationary trends in the economy, the central banking institution will need to raise the bank rate and the state will have to pay higher prices for its borrowing. In 1968-69 the lowest rate offered was 3.75 per cent on bonds of 19 years maturity and highest was 4.50 per cent on the long-term loan of 23 years maturity. Thus the spread between short and long-term borrowing rates was 0.75 per cent. This is slightly higher than the differential of 4.50 per cent offered in the years 1956-57, 1960-61 and 1961-62 when both short and long-term loans were floated.

There must be a co-relation between the debt management policy and monetary policy. For effective monetary policy the ratio of marketable debt to national income is important. In our country it has shown the slowest rate of advance. The ratio of marketable debt to national income was 15.4 per cent in 1951 and increased to 22.5 per cent in 1969-70. At present the monetary policy functions through a money market, the core of which comprise the banking system. But the efficiency of monetary policy is very much limited due to underdeveloped nature of money market and lack of integration in the various sectors of the market.

The management of internal debt is less difficult than that of external debt which involves the transaction in various currencies and various markets and leads to some additional problems such as the transfer of goods and services between the countries and the problem of balance of payments and the rates of exchange. There should therefore be a planned external debt management policy which balances the rising debt with the internal economic development and its structure and pattern, as to raise both the internal rate of growth and debt servicing by increasing export surplus.

The existence and expansion of external debt in India since Independence has to be accepted as an established phenomenon in international transactions as well as in relation to the internal growth. But this continuation of external debt leads to the problem of debt servicing. Most of the debts are advanced on instalment basis, so every year in addition to the interest charges there are the annual instalments to be repaid which is related to the balance of payments problems of the economy. The debt servicing capacity of a debtor country can be based on its ability to create an export surplus not merely in absolute terms but in relation to the rise in imports of the country. But in our country the primary exports are price and income elastic in foreign markets. The only practical alternative is to increase exports of industrial products and for this our government has adopted many policies.

The structure of interest rates at which the loans are given to the developing countries have a direct impact on the debt management problem. The USA has given loans to India at very low rates of interest but the other aid giving countries such as the UK, Canada, Japan and Italy give them at higher rates of interest, sometimes going beyond even five per cent per annum.

Except the USA the other creditor countries give loans maturing at a very short period. The total interest payment on foreign loans has risen from Rs 64 crores in 1951-52 to Rs 339 crores in 1969-70. During 1968-69 the principal and interest payments of our country increased to 14 per cent of our export earings from 10 per cent per annum during 1951-52. The debt service obligations in terms of foreign ex-

TABLE III

NET ABSORPTION OF GOVERNMENT SECURITIES BY THE PUBLIC

(Rs crores)

Period	Net market borrowings by the central and state governments			Cash receipts (net) from the public	Open market purchases sales (—) from (+) to the public@	Net absorption (+) by the public*£ (4+5)
	Cash receipts	Cash payments	Net receipts (1—2)			
	(1)	(2)	(3)	(4)	(5)	(6)
First Plan	359.8	182.6	+177.2	+192.3	+97.6	+289.9
Second Plan	872.7	125.8	+746.9	+367.3	+72.4	+439.7
Third Plan	1129.2	251.5	+877.7	+477.8	+56.0	+533.8
Annual Plans						
1966-67	224.9	48.2	+176.7	+166.2	+62.9	+169.1
1967-68	243.2	81.3	+161.9	+ 94.7	+50.4	+145.1
1968-69	255.5	103.8	+151.7	+ 98.1	+87.6	+185.7
Fourth Plan						
1969-70**	330.4	106.1	+224.3	+161.0	+18.1	+176.1

@On the Reserve Banks' invest ment account and the central government's cash balance investment account.
**provisional.
*Exclude Reserve Bank of India and the central and state governments.
£Exclude transaction on (i) state government's cash balance investment account, (ii) Bank's operations in state government loans and (iii) repayment of state loans held by state governments.

Source: Reserve Bank of India Bulletin, May, 1971.

change per annum were expected to increase by 100 per cent by 1970-71.

The debt service ratio depends not only on the total volume of debt and rates of interest but on the terms of the loans acquired. Some external loan is repayable in local currency and this would solve the problem of repayment to some extent. According to an extreme view-point all aid should be in the form of grants rather than loans but it is not possible in practice. Our government should try to get the loan on soft term and for long periods. Now-a-days due to political influences and the consequences of the international transactions of various countries and the external values of their currencies our government is facing some problems in obtaining foreign debt. If these can be solved satisfactorily through the international institutions such as IMF and IBRD, the external debt should not lead to any difficult situation.

The expansion of the public debt in future is a financial necessity and for this the problem of debt management will have to be handled more methodically and efficiently, and there must be an integration between the working of the state policies and the development of the money market institutions so that a link is established between the fiscal and monetary polioies and the policies of economic planning.

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1. The internal debt of the Government of India increased from Rs 2,022 crores at the end of March 1951 to Rs 13,375 crores at the end of March 1970. During the same period external debt rose from Rs 32 crores to Rs 6,141 crores.

2. *The Public Finance: An introductory text book* 'Home-wood' Illinois: Richard D. Irwin, INC, 1965, chap. 30, p. 403.

3. *Debt Management in the United States*, Study Paper No. 19, prepared for the joint economic committee of the United States (Washington, D.C., US Government, Printing Office, 1960), p. 27.

4. E.R. Rolph has given a narrow definition, "National debt management shall be taken to refer to any official action, by central banks as well as treasuries designed to alter the quantity and kinds of a national government's debt obligations outstanding in private domestic hands. Foreign held national debts and the debts of subsidiary government units are excluded from the inquiry." —'Principles of Debt Management,' *American Economic Review*, June, 1957, Vol. 47, No 3, p. 302.

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6. *Public Finance And Fiscal Policy: An Analysis of Government Spending, Revenue and Debts*, Pitman publishing corporation, New York, 1950, p. 621.

7. See, Radcliff Commission, Committee on the Working of the Monetary System: Report cmnd, 827, 1959, p. 208.

8. See for detailed study. Beard Thomas R., 'Conter-cyclical Debt Management — A suggested interpretation,' *Southern Economic Journal*, January, 1964, pp. 244-247; *Money and Credit: Their influence on jobs, prices and growth*, the Report of the Commission on Money and Credit (Prentice Hall, INC, Engle-Wood Cliffs, N.J. 1964), p. 103.

9. NCAER *Management o Public Debt in India*, New Delhi, 1965, p. 11.

10. *Management of the Public Debt*, McGraw-Hill Book Company, INC, 1946, p. 3.

11. NCAER, *Ibid.*, p. 39.

12. Treasury bills are of two kinds, (a) ad hoc treasury bills issued to the public (b) treasury bills sold to the public.

13. *Fiscal Policy and Business Cycles*, W.W. Norton and Co. INC, New York, 1941, p. 172.

14. NCAER, *Ibid.*, p. 32.

15. Buchanan James M., *op. cit.*, chap. 28, p. 413.

16. 'Cheap money is an essential part of any full employment policy.' *The Economiist*, March 2, 1944, (centenary issue) p. 38.

An Alternative to Octrol Tax System

G. D. SHARMA

THE RECENT study done by the Maharashtra Government Octroi Study Group and the alternative suggested by it are studied in this article. An alternative to octroi tax for local government, specially municipal government, is then put forth by the writer.

Defects in the existing octroi tax system have often been highlighted by various authors. They centre more or less in the method of collecting the levy, un-uniform tax structure, possibility of evasion and leakage; and its adverse effect on the free movement of trade. In fact, if we delve deep into the system, because of extreme irrational manner of its working, it creates a very unfavourable impression. These obvious defects have often attracted persons in the academic and government fields in a bid to find an alternative to the octroi tax. Efforts have been made to find a tax which if not to raise more revenue, should at least compensate the loss of revenue resulting from doing away with the octroi tax system. The above study seems to be the result of the same idea. The study has devoted much of its attention to a review of the tax system prevailing in different states and countries.

However, the last chapter concentrates on the alternative to the octroi tax system which, according to the present writer, does not seem to be sound.

The Study Group considered the following alternatives:

(1) To limit the area of abolition of octroi tax system to panchayat government;

(2) to increase the rate of existing levies to the extent as to compensate the loss of revenue from the abolition of octroi;

(3) to levy an additional one point sales tax at a flat rate;

(4) to levy proportionate surcharge on the present state sales tax;

(5) to levy graded licence fee on the dealers registered under State Sales Tax Act which are at present dealing in the tax free goods;

(6) to levy multipoint turnover tax at a flat rate.

Exercises on alternatives 1, 2 and 5 have been in vain. In fact, the very nature of the alternative should have suggested the Study Group to dispense with them immediately.

The alternative relating to the municipal sales tax which should have really been considered was sweepingly passed over by the Study Group.[1] Other alternatives such as additional one point sales tax at a flat rate, proportionate surcharge on present sales tax, and graded licence fee etc, were rejected by the Study Group for reasons of (i) heavy tax burden on certain specific commodities, (ii) its adverse effect on trade and manufacturing activities, or (iii) inability of a particular tax system to raise the required amount of revenue etc.

The alternative considered suitable by the study group is—"Multi-point Turn-Over Tax". This we will examine in detail.

The Study Group has

not clearly defined the new tax system. However, while stating salient features of the tax system it indicates that the tax will be largely on turnover of the commodities dealt in by the dealers registered under the Bombay Sales Tax Act, 1959. It also mentions somewhere about the coverage of the commodities which are not covered under this Act and the Central Sales Tax Act.

It states later that commodities covered under the Central Sales Tax could be included only after a reference is made to the central government. While recommending this tax system, which of course is not clear, the Study Group was guided by the fact that it would not only compensate the loss of revenue resulting due to the abolition of octroi tax but also increase the revenue from year to year. The Study Group has also presented same estimates indicating full compensation of loss of revenue by levying tax at the rate of 0.7 per cent on the total turnover.

The basic objections to this tax system are:

(1) The levy is not clearly defined. However, it is estimated that it intends to levy part of 0.7 per cent of tax on various points so as to amount to total 0.7 per cent. It is expected that *forward shifting* of tax will result not only to the extent of the levy amount but more than that. For at every point the 'Cost of Realisation' of the tax will be added to the actual tax. Hence the incidence of the tax on the buyer will be greater than what is actually intended.

(2) Since this tax is designed to be administered by the state government Sales Tax Department, it will free the local governments from any efforts for raising revenue. This is objectionable for the following reasons:

(i) That in the absence of responsibility to raise the revenue local government may not rationally utilise the available resources;

(ii) that the *responsibility* of Councillors to the tax payers will be reduced. In the absence of which the pressure which this Group can exercise for the provision of more and better services and proper utilisation of funds, will *not* be there. The difficulty in raising the revenue which works as a lever for efficient utilisation of resources *will* be absent. For the very reason as and when grants-in-aid are given to a local authority, a matching effort is desired. In fact, no government can function systematically unless full responsibility of raising the revenue and its utilisation is assigned

(iii) This system make the local units more dependent on state government. And we have no reason not to believe that state government may encroach upon the autonomy of this grass root level of government.[2]

(3) This levy does not tax the section of society which is left untaxed or less taxed or which reaped a profit recently. It merely follows the traditional path of taxing the consumers for raising revenue.

As the tax system is not worked out in detail it is not possible for us to do "impact analysis" of tax system.[3] However, the above reasons sufficiently indicate that this tax does not pass the test of soundness.

As and when the need

for raising the revenue to finance the public service welfare activities arises, it is desirable to look into the economy and find out the section of society which is left untaxed or less taxed. Harping on the text book tax systems may not be of much use. This has exactly been the case with Indian federal, state and local tax systems.

We will here make an attempt to give a tax system which is designed to tax the untaxed or less taxed sections of society. Our tax system is designed to be of the direct tax system. However, possibility of forward shifting of tax burden cannot be completely ruled out. But the likelihood of bearing the burden by that section of society for which it is designed, is greater.

If we look into the existing state of the economy we notice that wholesalers and retailers—the intermediary class of production and consumption—are relatively less taxed. The state sales tax, (which, in fact should be called expenditure tax) which this section of society collects, not only shifts the tax burden in complete but adds to that service charges for collection by increasing prices. And it also earns more by way of evading tax.

The present tax system, as its nomenclature suggests, is designed to tax this section of society. The tax is designed to be levied on the value of gross sales of wholesalers and retailers at different rates for different grades of dealers. For example, on a wholesaler whose value of gross sales is Rs 20,000 to Rs 50,000 a tax of 0.5 per cent on the value of gross sales is to be levied and one per cent on the wholesaler whose value of gross sales is between Rs 50,000 and Rs 1,00,000.

A similar rate structure and grades can be formed for retailers. The hypothetical rate structure is given below.

The tax can be assessed with the help of the following simple method :

$$\frac{\text{Value of gross sales X tax rate}}{100}$$

Forward shifting of tax burden is made difficult because of the fact that the tax is designed to be assessed at the end of the year. Hence the dealer does not know the amount of tax which he may be required to pay. However an approximate estimate of gross sales can help in shifting the tax forward. This act will be obstructed by the fact that a lower grade of dealer who is dealing in commodities in which some higher grade dealers are also engaged, is charged less percentage of tax to gross sales. Hence the tax cannot be shifted more than the tax rate of the lowest grade of dealer. Forward shifting of even the lowest amount of tax by the wholesaler to retailers will be obstructed because the retailers would make an effort to shift a part of this tax instead of bearing the tax burden of the wholesaler. Forward shifting by the lowest grade dealer will obstructed by the fact that there is no fixed rate of tax on various commodities, (as in the present sales tax system); hence he has to determine the elasticity of demand for various commodities and shift the amount of tax which can be tolerated by the consumer. Any amount more than the tolerable level will hamper the sales of a commodity. This will work in the direction of backward shifting. Hence the forward shifting of tax will be made difficult. However forward shifting of a part of this lowest dealer's tax burden and the lowest part of the highest dealer tax burden cannot be ruled out. But the mechanism will work in the direction of backward shifting.[5]

The impact on trade activities will not be adverse. Because the amount of revenue which is required to be taxed through this tax system may not be so high as to hamper trade activities. In fact it will be easily tolerated by them except for the little agitation because of encroachment on their profits. It may, however, appear to have adverse effect on the expansion of trade because of increased tax for high-graded dealer. But in practice it may not be so because with the expansion in trade profits also increase. Hence trade will expand its business till income from additional sales is more or equal to all taxes and costs. And the role of this tax in helping to reach that point is not significant.

A uniform rate of tax on different grades of dealers should be levied throughout the state. The wholesaler and retailers should be asked to file the returns of gross sales in a year to municipal government. These returns, however should be checked with accounts and purchase vouchers of dealers. Then with the help of these returns the tax amount should be assessed and realised. Since this tax system does not involve different rates of tax on different commodities administration of it is very easy and less time consuming.

No problem in the administration of this tax system is apparent in the cases of corporations and big cities. However, there may appear a little problem in small cities and towns. For this, it is suggested that a board for assessment and realization of tax for 5 to 10 groups of cities/towns be established. The expenditure on staff engaged in this activity should be borne by the respective government according to the proportion of collection. The distribution of income should be on the basis of actual location of collection.

The municipal sales tax system is flexible and buoyant. During the boom period the value of gross sales will increase. The tax amount to be realised will also increase. During a recession due to decrease in trade activities the amount of tax to be realised will decrease. Hence it does not like other tax systems, adversely effect the economy during a depression. Further it is free from the vices of octroi tax system. Uniform rates of taxes will prevent an adverse effect on the movement of goods and location of economic activities within the state. If properly administered the possibility of leakage and evasion are reduced.

If switched over to this tax system, a part of the staff presently engaged in octroi collection will be made surplus. For the assessment and realisation

GRADES OF DEALERS AND RATE STRUCTURE[4]

	Grades (Rs)	*Rates*
Wholesaler	20,000 to 50,000	0.5%
	50,000 to 1,00,000	1%
	1,00,000 to 5,00,000	2%
	5,00,000 and above	3%
Retailer	10,000 to 50,000	0.5%
	50,000 to 1,00,000	1%
	1,00,000 to 5,00,000	2%
	5,00,000 and above	3%

work may require trained clerks and officers and not the octroi post clerks and chowkidars. This surplus staff can, however, be absorbed as manual workers or otherwise in services whose demand by the residents of the city are greater.

References

1. This alternative has been stated in the Study Group Report as sub item (b).

2. In the USA, however, recent trend has been to shift the responsibility of Administration of local sales tax to the state government for reasons of distribution and administrative efficiency which is, however, not conducive to local autonomy and responsible government. When we discuss our alternative tax system this fact will be taken note of. Secondly, our tax system is not the same as followed in the USA.

3. The idea of turnover tax appears to have been taken from the Rajasthan Sales Tax (Amendment and Abolition of Octroi) Bill, 1969. While empirically testing the proposed tax for Rajasthan, Purohit has concluded that the tax would further distort the State Sales Tax rate-structure and affect the trade adversely. But his work lacks a sound statistical test. (see, Purohit, M C., Turnover Tax in Rajasthan, *The Economic Times*, December 4, 1969).

4. These rates have been arbitrarily put. However, they can be suitably changed after emperical study on the above lines is done.

5. It may however be feared that a combination of wholesalers and retailers may take place. But this may not be possible for the reason that it will severely hamper trade activities, because of the fact that in that event the highest amount of tax burden would be required to be shifted and that may not, in fact, be tolerated by the consumers. For the tax can be shifted through increasing the prices (for in this system separate stating the tax amount on a commodity and charging from a consumer does not exist) of the commodities whose demand is inelastic. And more than warranted increase of prices will be met by decrease in demand and political agitation. Secondly, the interests of various grades of dealers will clash if combinations of dealers are made. Hence the combination may not be successful.

Merger of Term Financial Institutions

B. R. ANANTHAN

INSTITUTIONAL FINANCE in India has emerged as a vital source to bridge the gap in the capital market, by supplying medium and long term financial assistance to industries for accelerating the pace of industrial growth in the developing economy of the country.

A start in setting up the specialised institutions for the purpose was made with the establishment of the Industrial Finance Corporation of India in 1948. This was followed by the coming into being of the state finance corporations in the 'fifties', National Industrial Development Corporation Ltd in 1954 and Industrial Credit and Investment Corporation of India Ltd in 1955, and the Industrial Development Bank of India in 1964. State Industrial Development corporations, however, have also been providing financial assistance to industries. Life Insurance Corporation of India and Unit Trust of India, although investment institutions, contribute considerable financial assistance to the industries.

These different institutions were established at different times to meet different types of requirements of industrial finance. But by the accelerating pace of industrialisation, the requirements of industrial finance in different forms have increased enormously during the last decade. To cater to the increased demand for industrial finance the activities of these different financial institutions have also increased to meet as far as possible all types of requirements of industrial finance. The functions being performed by most of these institutions are alike and conform to one parallel base assimilating all types of financial assistance being made available to the industrial sector in one form or the other.

Present Problem

Although this scattered institutional framework might meet with fair success to serve the increasing financial needs of industrial growth, it is not free from very many complex problems.

Firstly, there is acute lack of co-ordination between these existing institutions. Consequently, joint financing by several institutions to one project is troublesome. With the present limited resources, one single financial institution is unable to meet the financial requirements of a big industrial undertaking. Consequently, it has to approach the other financial institutions for similar assistance. But different financial institutions follow different patterns of processing the requests of two borrowers and prescribe different requirements for loan or other assistance, thus resulting in delay in the implementation of the project.

Secondly, for availing of the financial facilities from different financial institutions the borrower has to bear increased cost separately in application fee or earnest money deposit on applications, legal charges, payment of travelling allowances, and incidental charges of the inspecting staff of different institutions, supplying different types of information to several institutions and keeping liaison with them.

Thirdly, with the meagre resources of the different financial institutions, mobilisation of financial help towards decentralisation of industrial development in the country is very difficult resulting in more than 70 per cent of the assisted concerns being located in the developed states.

Fourthly, the problem of centralisation of industrial growth and concentration of monopoly power is being promoted unabatedly by advancing financial assistance to most of the prominent groups.

Besides the above problems, major problems of Indian industries, viz., excess capacity, high cost and low productivity and limited market especially in the recessionary period have remained unresolved for want of funds to be utilized towards working capital requirements. With all these problems retarding rapid industrial growth it is legitimate to ask that these financial institutions should be merged together to augment their resources and widen the scope of these operations.

For improved efficiency of the industrial sector and rapid growth of the nation it is necessary to visualise and identify the requirements of industry and set up a dynamic institutional mechanism to meet the different financial needs at different times and in different circumstances without delay and cost hazards. This aspect is neglected vehemently by the existing framework of industrial institutional finance.

Financial facilities can be advanced to the industrial units at reduced rates of interest if these major institutions co-ordinate with each other. Inter-institutional co-ordination should have been followed on procedural lines by calling for the appraisal reports, inspection reports, credit worthiness, details of financial position of the borrower industrial units from other institutions. This again is not feasible as all such information cannot be supplied by the institutions to one another so quickly as to avoid all inevitable delays in the sanctions and disbursements of the financial facilities. Even if this could be done, then question arises whether the institution calling for all such information and records, can bear the risk of acting upon it.

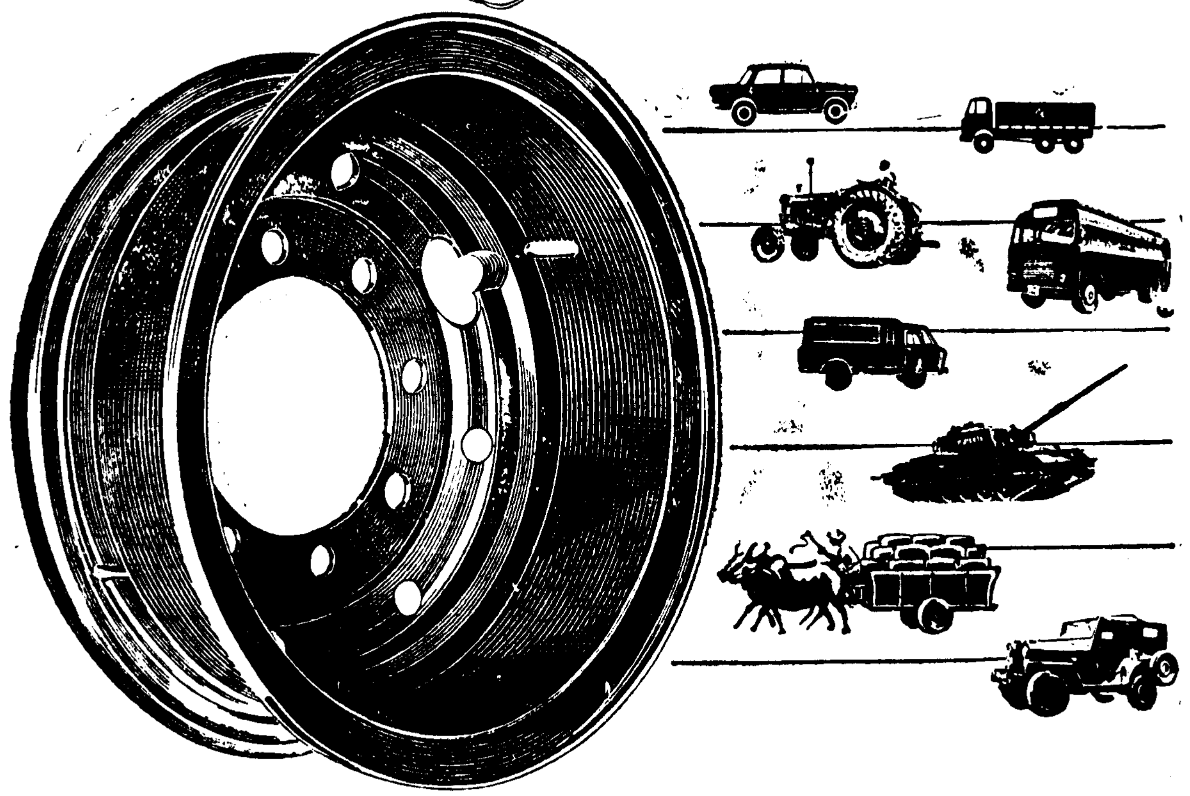
Presently, individual institutions have been incurring a good proportion of their establishment expenditure over the employment of expert technicians and engineers in different branches of engineering viz., civil, chemical mechanical, electrical, meterological, etc. and sugar and textile technologists in their technical cell, a large number of lawyers and legal experts in their different legal cells. If the possibility of merging these different institutions is explored, this huge expenditure currently being incurred institution-wise could be drastically curtailed by centralising such operations. This will bring down the cost of operation of the institution enormously. Consequently, the rate of interest can be brought down by narrowing the cushion between the rate of borrowing and the rate of lending. The margin between the interest rates which is specifically left to raise the profit earning capacity can be slightly reduced as the basic aim of these institutions should be service and not profits.

The cost of running these institutions can be further brought down steeply if merger could be implemented. This will grossly curtail the administrative expenditure which is currently being incurred in quite a huge proportion by every-one of these institutions on keeping and maintaining high level managements such as chairmen, general managers, managing directors, secretaries etc. Merger of different financial institutions into one big organization will help in scrapping the several boards of directors and will provide avenues for considerable saving of the funds now being mobilised in maintaining the board by way of their sitting fees, travelling allowances, entertainment etc. One big institution resulting from merger could function very well through its branch offices and field staff which will serve the purpose of decentralising the financial ass stance for the industrial development of less developed states on allocation basis.

The solution of the problem as to how industrial finance can be made available to needy industrial concerns at the right time needs to be worked out. The recent recessionary trends in industrial growth have evidenced the shortage of financial resources at the disposal of industrial concerns forcing them to bear the consequences of the absence of demand and running the mills in excess capacity.

In industrially developed economies such as the UK, France and Japan the industrial banks render all necessary assistance to industrial units in the grip of trade cycle upheavals. The Industrial Development Bank of India can very well play this role in India but for this purpose its capital resources base has to be further broadened with widespread expansion of its branches serving every corner of the nation.

It is however learnt that



the IDBI expects to have more branch offices in the near future in different parts of the country and delegate to them some of the functions which are now attended to by the head office at Bombay. For this purpose the IDBI expects to have a large complement of technical officers and personnel with experience of industrial marketing and management to post them at branches. In the light of these developments it is desirable that the IDBI should merge with the IFCI as contemplated in the IDBI Act, 1964. The IFCI has already been having its branches at Bombay, Calcutta and Madras and has been efficiently discharging its functions. The IDBI could consider opening of its branches at important industrial towns in different provinces where the offices of the IFCI or the IDBI have not so far been opened.

There exist favourable circumstances for the merger of the IFCI and the IDBI. Both these institutions have been established under Acts of Parliament and fall under the direct supervision and control of the Reserve Bank of India for all practical purposes including the policy matters. However, the ICICI in the private sector can be allowed to compete with the integrated institution of the IFCI and the IDBI in the public sector.

Industrialisation occupies a vital place in the development plans of our country. In order to achieve success in this field adequate financial resources will have to be made readily available to meet the growing demands for financing the industrial sector. This process can be hastened if different financial institutions are merged together giving rise to a big institution for reaping the economies of scale and cost advantage which may foster industrial development and its decentralisation throughout the country. Since the sources and uses of the funds in all the institutions are, more or less, the same, the issue of merging different institutions for making financial facilities available to the industrial concerns at lesser cost deserve consideration.

Monetary Integration of Developing Countries

S. VENU

At the Kabul meeting in December 1970 of economic ministers of ECAFE countries, the cause of the Asian dollar as a common currency for the member countries was mooted in the general context of economic integration or union in south-east Asia. A common currency, however, is the ultimate form of integration in a union which has progressed in other directions for a considerable time span. In fact, in the ECM, a common currency is still a far cry; the political question of a cummon central bank not owing allegiance to any member country is a serious practical barrier. Hence, to avoid putting the cart before the horse, this article will be confined to limited monetary integration with common international reverse and mutual credit arrangements.

The purposes of monetary integration are: (1) to promote economic union, (2) to economise on international reserves, (3) to strengthen multilatral surveillance, and (4) to promote trade in the member countries—the trade diversion effect.

By the usual criterion of labour mobility, groupings of developing countries are rarely likely to constitute optimum currency areas. True, divergent rates of inflation make monetary integration difficult which the single currency obviates. The basic factor of labour immobility, however, remains. Trade barriers can fall effectively without a single currency though it is not clear if investment barriers can do so fully. But it may be no disaster to initially inhibit volatile capital movements.

It is necessary there should be no controls between the member countries unless one wishes to replace one type of barrier (tariffs or taxes) by another one (exchange controls). Multiple rates, except those jointly applied by a group of countries against third countries, are payments restrictions and pose the same obstacles to integration as other types of restrictions. Controls vis-a-vis third countrtes are not excluded, however. But they alter the impact of economic integration by super-imposing additional restrictions over and above tariff barriers.

We are not concerned with the general arguments for and against floating rates but what the repercussions would be on economic integration. Goods with 'sticky' prices, mainly manufactured commodities whose intra-union importance will gain over time, are likely to show price instability with floating rates vis-a-vis substitutes from partner countries or third countries. In temporary disequilibrium, this constitutes a social cost where the acceptable alternative of a fluctuation in reserves is available. Nor will intra-trade be promoted. On this reasoning, pegging each currency vis-a-vis all others and readjusting it in the face of fundamental disequilibrium between the member or outside countries is the only course of action. The general argument against floating rates is that speculation will not stabilise the rate of exchange.

The relevance of a fixed exchange rate dogma can, however, be questioned. The basic difficulties of the developing countries are: (1), the varying degree of over-valuation from country to country and (2) the changing degree of over-valuation over time in each country. India, Pakistan and the Philippines have high tariffs and relatively over-valued exchange rates since their currencies sell at a discount in the 'open' market in spite of periodic devaluations. If tariffs are eliminated without exchange rate adjustments this would create imbalances to impede integration. If tariffs are eliminated between Hong Kong (low tariff country and no over-valuation) and the Philippines, Hong Kong producers would encroach upon the latter's market to a far greater degree than in the converse instance. The existence of high tariffs should not be interpreted to mean that variations in exchange rates are of no importance since even marginal changes will affect the profitability of industries.

Thus, what is of crucial importance is not variations in the nominal (parity) exchange rate but in the *real* rate of exchange defined as the ratio of an index of the exchange rate to domestic prices. This ratio indicates changes in the international competitiveness of domestic products arising from disparate movements in domestic prices and exchange parities.* By this standard, Pakistan, India, the Philippines, Ceylon and Indonesia *would need immediate* realignment of the exchange value of their currencies which sell at a discount; there is hardly any divergence between the 'open' and official rates for the currencies of Hong Kong, Malaysia, Taiwan and Singapore. This is also reflected in a more realistic ratio of international to domestic prices in the latter countries.

Member countries trading with each other can economise on reserve needs by granting each other mutual credits. Secondly, they can pool their reserve needs vis-a-vis third countries if these are mutually offsetting. Such offsetting can be the result of mutually offsetting terms of trade movements.

Theoretically, it is possible to expand trade among developing countries in a reciprocally balanced fashion so that no payments problem arises. In practice, development plans can not be synchronised and countries experiencing delays cannot take advantage of trading opportunities. Payments problems will arise which will have to be softened by credit extension. Hence a Payments Union (PU) with credit facilities is an essential step towards monetary integration.

The PU will be a clearing house for intra-group surpluses and deficits. It will deal exclusively with central banks of member countries. Member currencies will be deposited with the PU by central banks. The IMF debit and credit procedure will be followed. It is essential that member countries set up machinery to distinguish intra-group from extra-group transactions.

Two basic advantages now emerge. First, by promoting multilateralism, intra-group trade expands. Second, by settling only *net* deficits and surpluses by foreign exchange reserves, economy in the use of such reserves is effected. Trade among the ECAFE countries was about six million dollars in 1967. If transactions costs amount to only one-half of one per cent, the aggregate saving in terms of convertible currencies could be $15 million per annum. Since operation costs rise with short settlement periods, quarterly settlements would be advisable with pre-determined ceilings on credit/debit status of member countries—ceilings to be accorded in relation to credit facilities extended.

Credit facilities should be linked to *incremental* intra group payments positions of the member commencing from an 'initial position.' Credits should be automatic and not discretionary. One of the main deterrents to integration is the fear of balance of payments difficulties while, as a result of integration, losing some of the instruments for coping with such difficulties. The only area for discretion would be in deciding which part of the balance of payments changes results from integration.

Once the financing of imbalances is linked to liberalisation creditors should provide the bulk of financing. They probably enjoy economies of scale to a greater extent and extending automatic credits to deficit countries is one way of distributing the real gains from regional integration.

Developed countries should be allowed to join the credit network. Reserves will mainly be needed to finance trade with the outside world as intra-group trade will initially be small in relative terms. Since reserves have a social cost, the richer countries could help.

There are some other issues such as debt management and internal monetary policies whose synchronisation will have to be undertaken. Monetary integration will promote rational policies because countries will have an interest in their partners 'playing the game.'

* To ascertain the effect of a common tariff reduction, the formula is $(1+t)/(1+t')$ $= r'/r$ where t and r are the original tariff and exchange rates and t' and r' are changes leaving the domestic prices of imports unaltered.

Monetary Crisis and Developing Countries

SHARIF MOHD

THE PRESENT international monetary system which was adopted after the Bretton Woods deliberations, worked more or less smoothly and successfully up to the early 1960s. The so-called "Currency Reserve System" has been unduly dependent on the two important key currencies namely the US dollar and the UK sterling. The persistent deficit in the balance of payments of the United States resulted in the severe speculation in gold during 1967-68. The entire system was disturbed. Earlier, the same happened to sterling which led to the devaluation of this long-reputed international currency in 1967. This system was, therefore, in the grip of many ills such as the balance of payments problem, inadequate growth of the monetary reserves and the fragility of gold exchange standard.

The threatened collapse of the international monetary structure has been averted for the time being but a permanent solution is still required. Against apprehensions of dollar devaluation President Nixon, setting all the rules and regulations of the international game aside, took some measures which may be helpful to the US dollar for the time being, though it has lost the confidence of rest of the world. The suspension of the dollar-gold convertibility and other follow-up measures taken by Nixon Administration did not give any attention to the resulting problems for the other economies of the world.

In the recent past the EEC and Japan, have emerged as challenging economic powers on the globe. West Germany and Japan have continuously enjoyed surpluses in balance of payments. The speculation against dollar and the unwillingness of central banks to hold dollars brought down the US gold reserves to a low level of about less than $10 billion from $25 billion in 1945. Simultaneously, the US liquid liabilities in foreign countries rose to $51.88 million in 1971 from $29 million in 1964. This miserable position of the dollar and the increasing speculation in favour of other currencies of the world such as German mark and the Japanese yen, has posed a new set of problems before the world system. This is to be faced not only by the developed countries but also by the developing countries. In bringing about a solution of the problem or reform to the present international monetary system, the developed countries (the Big Ten) are not likely to pay any attention to the developing countries.

In view of the UNCTAD this year, it is high time for the developing countries to prepare themselves for convincing the developed countries about the difficulties they are facing in trading with the developed countries. The "Group of 77" met at Lima in November, 1971 but could not come to any fruitful decisions.

Now let us have a look at the trade and reserves positions of the developing countries in the recent past and also a general composition with the developed countries. Then it will be easy to examine the proposed solutions and reforms for the recent international monetary crisis.

It has been observed that five developed market economies account for about 80 per cent of the total imports of manufactures and semi-manufactures from the developing countries. These key countries are the USA (35.1 per cent), the UK (18.5 per cent), Federal Republic of Germany (12.4 per cent), France (10.4 per cent), and Japan (3.1 per cent). One significant point to be noted here is that trade among themselves (developing countries) could not have increased at a much faster rate. Exports among these countries increased only at about five per cent per annum on an average during the 1960s. Their exports to the developed countries increased at a much faster rate (six per cent) (Table I). From the currently available statistics of world trade we can also see that the trade of the developing countries has been growing at a much slower rate than the world trade as a whole. Trade among the developing countries was at a low level and it was only three per cent of the total world trade in 1965.[1]

If we compare trade among the developing countries it is still at a very low level of one-fifth of the total world trade. In 1965, the share of the developing countries in the total export earnings of the African countries was 10 per cent; in the case of Latin America, it was 20 per cent; in case of South Asia and the Far East it was 31 per cent. An analysis of the composition of imports of the developing countries shows that a sizable share of their imports of primary products came from the developed countries. So far as manufactures are concerned, the demand for them has been met predominantly through imports from the developed countries. Out of the world exports of manufactured goods directed to the developing countries worth $22 billion in 1964, exports from other developing countries accounted for no more than $1.3 billion—less than six per cent. One of the noteworthy points here is that 70 per cent of the trade among developing countries is carried on among the developing countries of the same region. This is clear from Tables I, II, III & IV. The obvious inference is that the developing countries should be able to sell a good deal more to one another and should reduce their trade deficit *vis-a-vis* the developed countries.

Several factors are responsible for this miserable condition of the trade of the poor countries. Firstly, in most of the cases they are primary producing countries and their products are required more by the developed countries rather than the other developing countries. Their export surpluses are inelastic. This reduces their mutual trade as well as total trade. Secondly, the rate of expansion of their internal markets is

TABLE II

INTERCONTINENTAL TRADE AMONG DEVELOPING COUNTRIES : 1965

(million US dollars)

Exports from	Exports to: Latin America	Africa	South Asia & Far East	West Asia
Latin America	2113	175	67	33
Africa	49	490	155	120
South Asia & Far East	177	305	2190	225
West Asia	153	230	430	510

Source: "Trade Expansion and Economic Integration among Developing Countries", UN 1967, Geneva.

TABLE III

INTERCONTINENTAL TRADE BY REGIONS : 1965

(million US dollars)

	Latin America	Africa	South Asia & Far East	West Asia
Exports f.o.b.	275	324	707	813
Imports f.o.b.	379	710	652	378
Balanc of Trade	—104	—386	+55	+435
Of which				
Latin America	—	—126	+110	+120
Africa	+126	—	+150	+110
South Asia & Far East	—110	—150	—	+205
West Asia	—120	—110	—205	—

Source: Ibid.

TABLE I

VALUES AND RATES OF GROWTH OF EXPORTS OF DEVELOPING COUNTRIES TO MAJOR ECONOMIC AREAS

Destination of exports	Value (million $) 1960	1965	1966	1967	Growth rate (% compound) 1960-65	1965-66	1966-67
WORLD	27400	26400	38700	40100	5.9	6.3	3.6
Developed-countries	19780	16110	28220	29190	5.7	8.1	3.4
Developing countries	6030	7650	8000	8100	4.9	5.0	0.9
Socialist countries	1220	2390	2340	2240	14.4	—2.1	—4.3

Source: UN Monthly Bulletin of Statistics, March, 1966, June-July 1968.

very slow. On the other hand, the manufactured and capital goods manufactured by the developed countries are required by them for their development plans and projects. This encouraged their imports from developed countries. Further, these are restrictions on trade by the developing countries to protect their balance of payments' positions. This also reduces their trade among themselves.

It has now been widely recognised that to overcome the historical obstacles to their trade among themselves, they would have to adopt a deliberate policy of strengthening their mutual commercial, financial and infrastructural links. Expanded trade among themselves will also help promote development in several ways. Increased trade means increased foreign exchange earnings in terms of their own currencies. This will also strengthen their bargaining power with the traditional developed market economies. "But such efforts of co-operation between the developing countries will have to take into account of the existing structure of the trade and economic relationships between developed and developing countries. This existing structure sometimes characterised by exclusive preferential links between some developed and some developing countries."[3]

The needs of the developing countries for foreign exchange are increasing due to their increasing imports required for their development programmes. On the other hand, their export earnings are unable to keep pace with the increase in export earnings of the world as a whole. For example, India's export earnings, though increasing in absolute terms, are declining for the last two decades as a share of the total world export earnings (Table V). There are several factors responsible for this slow progress in exports of these countries. Important among these are — the slowly expanding world market for their products (mainly primary products) and secondly, their slowly increasing export surpluses. Sometimes it is suggested that the primary products exporting countries should diversify their exports. But the problem is that they cannot compete in the world market with other industrially developed countries especially in the case of manufactured goods. Therefore, they require better technical know-how which they can get from the advanced countries along with capital. On the one hand, they are not in a position to raise their foreign exchange earnings sufficiently and on the other, they need much more foreign exchange to meet their import requirements for development purposes.

Their reserves also have been persistently at a lower level in comparison to that of the developed countries, particularly the countrie sof western Europe and Japan. Due to their chronic deficits in balance of payments and their increasing burden of debt servicing, they are losing their foreign reserves holdings. Thus their need for international liquidity is two fold—for clearing their past obligations and for their current needs. Therefore, they cannot come out from this situation unless they themselves try to improve their export earnings and reduce their import requirements. Any other solution (for example the recent changes in the international monetary system), would not help them markedly. Ultimately they will have to reorient their foreign trade so that they may be able to make their balance of payments favourable.

While any change in the rules should be designed to meet the practical needs of the developing countries of present-day world, it should not be overlooked that it is also the purpose of such rules to protect the interests of the third countries, be they developed or developing, and to promote an orderly development of world trade in general. In this direction the attempts of the "Group of 77" (developing countries) are worth mentioning here. The Group (having 95 countries as its

TABLE IV

EXPORTS OF MAJOR ECONOMIC AREAS
(At Current Prices)

Areas	Period (value million US$)			Average rate of growth		
	1965	1966	1967	1960-65	1965-66	1967
Developed Countries	128300	141700	149500	8.5	10.4	5.5
Developing Countries	36400	38700	40100	5.9	6.3	3.6
Socialist Countries	21730	23130	24820	7.7	6.4	7.3
WORLD	186430	203530	214420	7.8	9.2	5.4

*Percent compound.

Source: UN Bulletin of Statistics, March 1961, June-July 1968.

TABLE V

TRADE OF DEVELOPING COUNTRIES : 1960-1967

	Period (value billion US dollars)				Annual growth		
	1960	1965	1966	1967	1960-65	1965-66	1966-67
All the developing countries							
Exports	27.4	36.4	38.7	40.1	5.9	6.3	3.6
Imports	30.2	38.0	40.7	42.4	4.7	7.1	4.2

Source: Ibid.

members) adopted the Charter of Algiers on Ocotber 27, 1971, in a Ministerial meeting and laid down clearly some principles for the General System of Preferences and cognate matters having a bearing on the question.

The international monetary system, thus, established by the UN Monetary and Financial Conference held at BrettonWoods in 1944 was designed for a world of full employment and stable growth which, it was considered, should take full advantage of the benefits of relatively free trade and payments arrangements. But after having a look on the performance of the developing countries in the last two decades, we come to the conclusion that, what was less understood at the Bretton Woods was the manner in which the system might have to be adopted to take into account the needs of the less developed countries.[3]

Adequate and sound international reserves as well as trade arrangements are indispensable for the support of the development efforts of the lower income countries especially in the following two respects. First, they promote rising level of economic activity in the world as a whole and particularly in the industrial countries and, thus, affect critically the conditions of demand for imports from lower income countries. The price and volume of exports of developing countries could take a turn for the better or the worse depending very much on the adequacy or inadequacy of international liquidity. Secondly, the vital flow of development capital from industrial countries to the rest of the world depends directly on the liquidity margins of the capital exporting countries.[4]

During the 1950s, from the standpoint of the industrial countries, the international monetary system appeared to be working reasonably well. But the experience of the developing countries was much less happy, and many of them could not maintain an adequate rate of growth because they were unable to reconcile the objectives of external and internal stability. During the 1960s

TABLE VI

INDIA'S SHARE IN TOTAL WORLD EXPORTS

(million US $)

Year	World Exports	India' Exports	India's Exports as % of World's Exports
1963	135900	1629	1.20
1964	152400	1705	1.12
1965	165200	1687	1.02
1966	181200	1640	0.90
1967	190200	1613	0.85
1968	212800	1753	0.82
1969	244000	1834	0.75
1970	279100	2027	0.72
1971	290600	2048	0.70

Source: International Financial Statistics, vol. XXIV, No 9, September, 1971, International Monetary Fund.

ven the industrial nations xpressed their dissatisfac'ion with the working of the system. The causes at the root were shifts in the confidence in two currencies the US dollar and the UK sterling. Secondly, the process of reserve creation based on the accretion of new gold to the monetary authorities, could not be relied upon to bring an orderly growth in the world reserves. Finally, there was great concern regarding the restoration of the balance in payments through the working of the adjustment mechanism.

"There is a need of convergence of measures in the trade, aid *and monetary* fields. Action to improve the liquidity positions of the developing countries should proceed alongside the measures to improve the flow of development finance to them, to stablise the commodity trade and expand the access of developing countries to the world markets for both primary products and finished manufactures."[5] It is necessary to achieve a faster rate of growth of demand for the products of the developing countries, so that they can secure needed resources for their development efforts through trade.

The system of international trade and payments, adopted after the Bretton Woods Conference and the Havana Charter, was very well suited to the climate of these days. The main objective at that time was to prevent the recurrence of the chaos of the 1930s —how the industrial countries could follow the policies of full employment without sacrificing the benefits of an expanding world trade and division of labour. Equally important was the objective of the reconstruction of the war hit economies of the world. Therefore the world saw a system which was concerned with the developed market economies alone on the basis of the assumption that all economies, irrespective of their stages of development, should be governed by the same set of rules and this would automatically deal with the international disequilibrium through monetary fiscal management and private capital movements enhanced by it. As a result, the experience of the whole world was different from what was expected. That is why the final act of the UNCTAD 1964 was that developing countries should be given a special treatment.

No doubt the difficulties inherent in the situation are often complicated by mismanagement but however wise and effective the management of the developing countries were to be, it would be *impossible* for them to avoid restrictive trade and payments policies in the absence of the efforts by the international community to create a more favourable environment for worldwide development. The main *factor—persistant* structural imbalance—has been responsible rendering it impossible for the developing countries to follow the rules of the international monetary system.

According to the report of the Group of Experts of the UNCTAD 1965, the international monetary system should couple the creation of the additional liquidity available to the developing countries with the creation of an environment more favourable to their retention and their proper use. In short, following are the possible ways of increasing the amount and the availability of liquid resources:

(1) creation of additional reserve assets;

(2) *there should* be expansion of credit facilities in addition to those of the IMF;

(3) the conditions governing the drawings, within the IMF credit tranches, should be liberalised in favour of the developing countries;

(4) the most important and basic of them all is to raise the Fund quotas of the developing countries;

(5) lastly, we can say that the IMF compensatory facility should be liberalised.

The purpose of the international monetary systen is, after all that of securing the adoption of appropriate national and international policies with a veiw to achieving higher levels of employment, higher rate of growth and greater mobility of factors in all countries as well as reduction in barriers to international trade and capital flows, including development finance. The proposal to link the provision of development finance to a scheme of liquidity creation is, therefore, an integral part of the monetary reforms if we focus on the objectives rather than on the technicalities of the reform. Any scheme of international monetary reform should take into account the problems of the developing countries raised by the present and the prospective shortages of international liquidity. Its technicalities should also not come in the way of their objective of achieving higher rate of growth. It should rather assist in that, without creating any more problems in the adjustment of the imbalances in their economies. Professor Herbert Grubel rightly remarks that "the provision *of liquidity to the world* can never be adequate if the mechanism of adjustment to disturbances of international equillibrium does *not function.*"[6]

As far as the developing countries are concerned, the problem of liquidity has been analysed from one aspect only by most of the experts. They have unduly emphasised the supply side of the international reserves. They have hardly tried to analyse the demand side of the problem. The demand for liquidity is much more important than the supply side of it (The argument is valid for the developed countries as well).

The problem of liquidity as such, is not very serious for the developing countries. Some of the authorities on the subject say that there is no problem of liquidity at all for these countries. They are only lacking in resources for development. In other words, the only need of these countries is that of capital for their development programmes. The problem of international liquidity exists only among the developed economies such as the USA, the UK and western Europe because these countries can easily purchase and sell their currencies, while in the developing countries we witness strict exchange and trade control measures. The measures taken by the rich countries to solve the problem necessarily come in the way of the developing countries.

What is much needed at the time is the effort of the developing countries to persuade the rich countries for giving more capital aid to the poor countries so that this large section of humanity may come out of the vicious circle of low incomes and low standard of living. In this direction, the UNCTAD and other international institutions can play a significant role.

As a result of the recent historical decision taken by the US government to devalue the dollar in terms of gold by 8.57 per cent and the simultaneous revaluation of the European currencies *vis-a-vis* gold, the overall devaluation of the US dollar *vis-a-vis* the European currencies and the Japanese "yen" will help the US to restore balance in her payments position. The developing countries as well as other developed countries will be able to sell to the US less than the situation earlier to August, 1971 (when 10 per cent import tariff was imposed by the US on all the imports). The realignment of currencies, after the decision taken by the Big Ten recently, will promote the exports of the devloping nations towards the European countries and Japan because the former will be able to sell cheaper to the latter.

As far as India is concerned we can say that she is also not an exception. But we should note here one important point that any change in the parities of the currencies of the world does not bring any transformation directly in the way mentioned above. Any devaluation or revaluation of currencies alone does not determine the flow of international trade. The demand and supply conditions in the world market also affect significantly. As a result of the revaluation of the yen and other currencies of the western Europe it seems that developing countries will be able to sell cheaper and consequently more to these countries. But actually India and all other developing countries will face one difficulty i.e. the demand for their exports in Japan and Europe is inelastic. Thus these countries may find that they are shipping more to Japan and Europe but actually obtaining less in terms of foreign exchange. On the other hand, exports from India and from most of the developing countries destined to the developed countries consist mainly of such products which have inelastic supply and this will also result into adversly affecting these exporting countries.

Only this new adjustment through the realignment of currencies will not solve the problem of the developing countries. The system of non-reciprocal and generalised preferences should be fully implemented through the efforts of the UNCTAD. Side by side, the developing countries should diversify their exports and also increase their trade and co-operation among themselves. This approach to the problems of these countries will significantly improve the international flow of funds for the development of developing countries.

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Efficacy of the Monetary Policy : 1950-69

B. KUMAR

TRADITIONALLY MONETARY policy "focuses on the objects, the tools and the process of regulation of the supply of money and credit"[1]. But since the end of the second World War radical changes have taken place in the concept and technique of monetary policy. It now concerns mainly with the "use of instruments within the control of the central bank to influence the level of aggregate demand for goods and services"[2]. The objectives and operations of the monetary policy have also undergone complex changes. Monetary policy is no more used for achieving some singular objectives like price stability or exchangeability of the past era. Now the monetary policy is directed to secure "the maintenance of high and stable level of employment, the maintenance of price stability, a satisfactory state of the balance of payments and lastly, economic growth."[3]

During the present century two main turning points could be spoted in the history of monetary policy. Since the great depression of thirties monetary policy has been overshadowed by fiscal policy. The direct effects of fiscal policy have been preferred to the repercussions produced by the monetary policy with a tiring time gap. The second turning point is of more recent origin. Since the end of the second World War problems of developing nations presented a formidable challenge which the traditional monetary tools was unable to meet. The monetary solutions of the developed countries would not be readily applied in the case of underdeveloped nations. While emphasising this fact Alvin Hansen observed in 1960 that the monetary policy is one thing in developed country; it is another matter in an under-developed country. . . . Similar courses of action are not always appropriate".[4]

Monetary policy now constitutes a part of the broader economic policies of a country. It has to be designed and fashioned with a view to fitting it in the broad economic framework of the country. Now its role is not only limited to influencing economic trends through cost and availability of credit. "Traditionally, the major responsibility of a central bank of a developed nation is considered to be the use of general and selective instruments of credit control with the prime objective of maintaining monetary stability of the country."[5]

In the context of the underdeveloped countries the emphasis of monetary policy has now shifted from regulatory function to promotional and developmental activities. In underdeveloped countries the monetary authorities are often confronted with the dilemma of conflicting objectives. They have to choose between rapid economic growth or price stability and full employment or balanced regional growth. "Every growing nation is confronted with the dilemma of how to achieve the stimulating effects of an expanding money supply without suffering the disruptive consequences of inflation."[6]

In pre-Independence days monetary policy in India moved in traditional grooves. But with the advent of planned economic development directed to the realisation of a socialist goal, the whole mechanism of monetary outlook underwent significant changes. Efforts have been made to pattern the monetary policy in conformity with the needs of planned development. The monetary authority in our country, namely, the Reserve Bank of India, was nationalised in 1948 to bring it under direct government control. The relationship between the monetary and fiscal policies had also undergone alterations. The new thinking assumed that "fiscal policy" is often a more important determinant of aggregate demand than monetary policy. Both monetary and fiscal operations have repercussions on the whole economy, affecting the price level, balance of payments, the level of industrial activities and employment. While monetary policy influences economic trends, especially inventory investment, fiscal policy directly affects the financial resources and purchasing power in the hands of the public."[7]

Moreover in Indian condition monetary policy could not only be used for the control of the volume and cost of credit but has to ensure the flow of bank credit to specific priority sectors of the economy.

The first Plan document emphasised that "Central banking in a planned economy can hardly be confined to the regulation of the overall supply of credit or to a somewhat negative regulation of the flow of bank credit. It would have to take on a direct and active role, firstly, in creating or helping to create the machinery needed for financing developmental activities all over the country and, secondly, in ensuring that the finance available flows in the directions needed."[8]

The planning strategy necessitated the application of modified technique of selective credit control with a view to canalising the flow of bank credit towards desirable sectors without creating unhealthy restraints on currency or bank credit. The creation of credit in the process of economic growth is considered unavoidable for meeting the liquidity requirements. According to the first Plan "Credit creation somewhat in anticipation of the increase in production and the availability of a genuine saving" was essential because "without this kind of initial push, the upward process may not start at all and may fail to gather momentum."

The first Plan was launched in the background of high inflation generated during post-war and partition era. In the beginning the monetary policy was mainly used to regulate the volume of bank credit through the use of traditional weapons of credit control. But since the beginning of the second Plan monetary policy has been used more purposively and selectively.

The basic objectives of monetary policy, besides pursuing the general policy of controling the supply to stabilise price level, as followed during the successive Plan periods could be set out as below :

1. Controlled expansion of money supply to match the growth of real national income. The need for expansion of money arises due to demand for liquidity as a component of savings and reduction of non-monetised sectors in the economy.

2. With a sizable part of the planned developmental outlays being financed by resort to deficit financing and primary money expansion being inevitable, the monetary weapons had to be directed towards restraining the secondary expansion of credit by banks.

3. As a developing country, India is faced with a scarcity of resources. Hence all the resources including the bank credit has to be canalised for the growth of priority sectors of the economy. Rationalisation and not the restraints on bank credit constitute the key-note of monetary technique in the country. Curbing demand for credit by a non-essential sector is the responsibility of the monetary authorities.

4. Check on speculative hoarding either by the producers or middlemen for controlling artificial scarcity and price spiral. Selective credit control has assumed special importance in this context.

5. With the nationalisation of banks in 1969 the monetary policy now aims at ensuring that the "availability of credit for various types of small producers and other business units is adequate and on reasonable terms. This would involve......creation of appropriate institutions, spreading them through all areas and evolving suitable procedures". This involves diffusion of bank credit.

6. With the introduction of social control in 1968 and the inception of the era of credit planning in the country, the National Credit Council and the Reserve Bank have emerged as the twin regulator of the monetary policy and new dimension in monetary sphere has opened. This has shifted bias of monetary policy in favour of directed expansion instead of controlled expansion of money supply.

7. To evolve a suitable rate of interest.

8. To regulate investment in the private sector.

These objectives should constitute the cornerstone for measuring the effectiveness of the monetary policy in the country rather than any subjective conjectures.

Before analysing the various aspects of the monetary policy it would be appropriate to spotlight the limitations and institutional deficiencies under which the monetary policy has to operate in our country.

In the planned economic structure of the country monetary policy has to subserve largely the fiscal measures. It is the fiscal policy which is largely concerned with "effecting structural changes in the economy while monetary policy would be aimed at regulating investment in the private sector."[9]

In practice the RBI is not the sole regulator of money supply. Money expansion also takes place due to budgetary operations over which the RBI has no control. There is no statutory limit on the borrowings from the RBI by the government which leads to both currency and deposit expansion.

The balance of payments position has also restricted the influence of RBI's tools as it is also a source of money variation, particularly the imports under PL 480.

Monetary policy mainly "influences economic trends, especially investment, through the cost and availability of credit".[10] It has no direct control over private investment.

The impact of monetary policy is limited to short term private investments. Long-term investment originating in capital market lies beyond its direct control. Several transactions originating in capital markets terminate in money market on which the RBI has little control.

The institutional framework under which the monetary policy is to operate also hinders its effectiveness. Mention may be made of the following institutional hinderances :

(i) Existence of a mixed economy dominated by a large public sector on which the RBI has no control,

(ii) heavy public expenditures on non-produceable items like defence, public welfare, education etc.,

(iii) presence of unorganised money market particularly in rural areas,

iv) existence of a large non-monetised barter economy in the countryside,

(v) preponderance of a large decentralised industrial sector scattered over the length and breadth of the country which operates under little control.

The country being predominantly agricultural, living conditions of its rural population have improved during the Plan period but spending habits are remotely amenable to either fiscal or monetary measures.

In an economy threatened with continual inflation the "monetary authorities have to combine the various monetary techniques to optimum advantage".[11] But so far no formula has been evolved to determine the optimum point.

The legal and institutional tools of monetary policy of the Reserve Bank of India are derived from the RBI Act and the Banking Regulations Act. The general instruments of credit control are available under the RBI Act while Sec. 21 (a) of the Banking Regulations Act confers upon it the power to control and direct bank advances. The Banking Regulations Act provides that the RBI "may determine the policy in relation to advances to be followed by banking companies generally or by any banking company in particular, and when the policy has been determined, all banking companies, or the banking company concerned, as the case may be, shall be bound to follow the policy as so determined".[12]

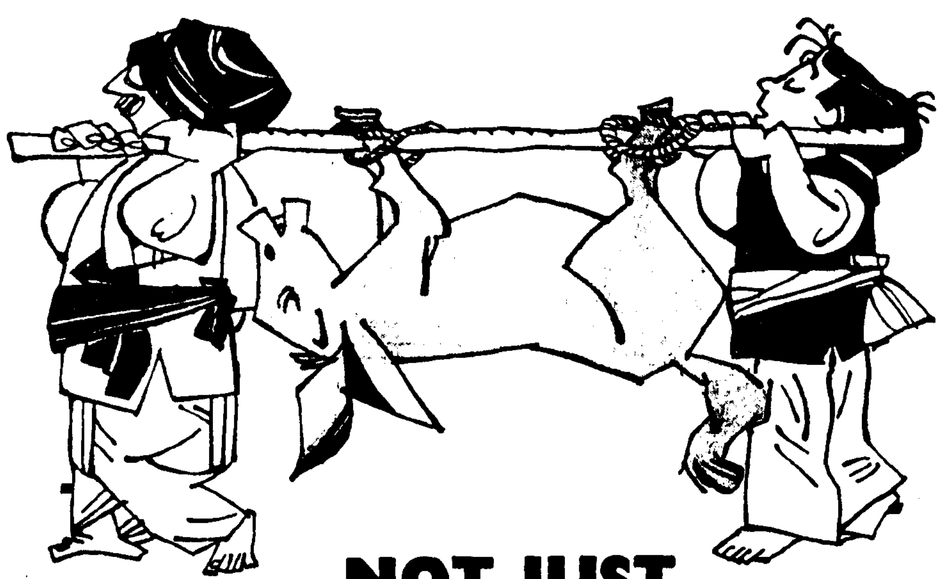
The RBI possesses all the general tools of monetary policy available to a central bank, namely the Bank Rate, open market operations and variable reserve ratio. But it has used more extensively the weapons of selective credit control since 1956, to further the cause of the planned economic growth. The tools for this purpose includes issue of directives, moral suasion and credit planning. It may however be pointed out that no distinction has been made between qualitative and selective credit control in India.[13] But the term selective control has a wider detonation than the qualitative control which concerns only with directing the use of credit from supply side. The selective credit control regulates both supply and demand of bank credits.

The evolution of the tools of general and selective credit control since 1947 could be briefly traced out as follows.

Monetary policy took a directional change in 1951 when the Bank Rate was raised from three per cent to 3.5 per cent with a view to "making the Bank Rate effective". The open market operations was also changed as the RBI refrained from outright purchase of government securities, as was the practice hitherto, to finance seasonal requirements. Instead it offered to advance money at prevailing Bank Rate. In 1952, a scheme for creation of Bill Market was put into operation. RBI became discriminating in its open market operations.

In 1956, by an amendment to the RBI Act, a system of flexible reserve ratio was introduced for the first time in the country. The system of note issue was also changed from proportional reserve system to minimum reserve system under which the bank has been empowered to maintain a minimum gold reserve of Rs 115 crores and Rs 85 crores of (relaxable) other securities. The year 1956 also marked the beginning of the systematic application of 'directive' powers for selective credit control. In 1965, the credit authorisation scheme was introduced under which the scheduled banks are required to obtain RBI's authorisation before sanction of fresh credit to persons enjoying credit of Rs one crore or more from the entire banking system, secured or unsecured.

But during the last two decades of economic development the credit system failed to subserve the planned economic needs of the country. Credit planning does not constitute an integral part of the overall planning. Under the scheme of social control over the commercial banks in 1968, a National Credit Council was set up to assess periodically the credit requirements of the different sectors and draw a blueprint for credit flow to the priority sectors. This shift to credit planning



was clearly caused by the realisation of the inadequacies of the monetary efforts made so far.

Bank Rate : In India Bank Rate is the "standard rate at which the RBI is prepared to buy or rediscount bill of exchange or other commercial paper eligible for purchase."[14]

But in view of the scarcity of eligible papers the rate at which advances are made by the RBI is "treated as equivalent of Bank Rate".[15]

In Keynesian analysis reliance on Bank Rate as the effective regulator of economic activities has been reduced. But in post war era the Bank Rate again assumed significance due to greater emphasis on employment and output instead of short run cyclical stability, increased liquidity with the public and large holdings of short-term government securities by the commercial banks.

The RBI Act also specifies the papers eligible for rediscount. The bills are rediscounted for a fixed maturity: 15 months in case of agricultural bill, 180 days in export bills and 90 days in case of other bills.

However little use has been made of rediscount policy due to absence of a bill market. Alternative method of advances to banks repayable either on demand or after fixed period not exceeding 180 days in case of export bills and 90 days for other bills, have been used extensively. The Bank Rate has been mainly used to regulate the cost and availability of credit to the private sector.

TABLE I

BANK RATES : 1935-68

Year	Banks Rate %
1935 Nov.	3 from 3½
1951 „	3½
1957 May	4
1963 Jan.	4½
1964 Sept.	5
1965 Feb.	6
1968 March	5

The changes effected in the Bank Rate since 1951 are as given in Table I.

With a view to avoiding increase in general Bank Rate the RBI also experimented in quota or penal interest rates between Oct. 1960 to Sept. 1964 under which the banks were given a basic quota equal to a specific percentage of the statutory reserve requirements. Up to this quota the banks borrowed from the RBI at the Bank Rate. Borrowings above this quota were subject to graded lending rates. This system closely resembled to what is known as 'Rationing of Credit' by the central banks. But this practice proved ineffective in restraining banks' borrowings from the RBI, hence it was discarded.

A new system of "sliding scale of interest rates based on the net liquidity ratios of the borrowing banks has been introduced in Sept. 1964, (net liquidity represents total of cash balance, balance with the RBI and other banks. Investment in government and approved securities less borrowings from RBI, SBI and IDBI). The minimum liquidity ratio in operation since May 1970 is 37 per cent. Interest above one per cent of the Bank Rate is charged for every drop of one point, or a fraction, in net liquidity ratio. The penal rates are charged only in respect of borrowings in excess of the amount which a bank is entitled to raise from the RBI at the Bank Rate.

The Bank Rate does not prove effective either in restraining bank credit or producing other desired effects on output, employment or balance of payments as we shall see later. Its effectiveness was reduced due to the following limitations.

For being effective, the commercial banks should resort to help from the central bank on adequate scale. But In India the amount of borrowings by the banks still constitutes 3 per cent of the total bank credit in 1968-69 as compared to 2 per cent in 1950-51 i.e. Rs 106 crores from Rs 12.4 crores.

The Bank Rate usually acts as a pace setter to other market rates of interest, both short term and long term. But so far such rates hardly conformed to the changes in Bank Rate. That is why RBI exercising its power under Sec. 21 and 35A of the Banking Regulations Act fixed the interest rate on saving and time deposits and advances of the banks.

The success of Bank Rate depends on the existence of a highly developed bill market in the country. The RBI's efforts for developing a suitable bill market in the country has not been rewarded well.

As this weapon acts through banking system a large part of the population remain unaffected by its operation. Banking habits are still poor in the country as there are only one million depositors out of 530 millon of population. There is only one bank for a population of 85,000 in the country. The per capita deposit was as low as Rs 77 in 1967.

Bank Rate also affects the movement of short-term funds to and from the country. But in a developing country the dimension of such transactions are small and could be regulated through exchange control.

Thus in view of the limitations of the Bank Rate the "Approach of the RBI so far has been to make a modest use of this instrument".[16] Mr H.V.R. Iengar, the former Governor of RBI observed that "our attitude has been neither to discard the Bank rate instrument nor to use it....frequently".

Open market operations consists of purchase and sales by the central bank, of not only government securities but equities as well as gold and foreign exchange. But practically the operation is conducted only in government securities. This technique of credit policy is now-a-days used in conjunction with Bank Rate and commands certain superiority as it; (a) affects the banks reserves directly, (b) this is a continuous process, (c) absence of compulsion in dealings, and (d) direct influence on long-term rates.

In India open market operations have been used mainly to achieve the following objectives.

(i) To assist commercial banks to tide over seasonal stringencies,

(ii) to restrain credit, and

(iii) to assist government in borrowing operations, maintaining an orderly market for government securities, grooming market for new issues and directly affecting the volume, price and yield on particular issues.

The RBI under Sec. 17(8) of the Act is empowered for "dealing in securities of central or state government or local bodies of any maturity or guaranteed by the government". Under Sec, 17 (2) (a) it is also entitled to purchase or sell short-term commercial bills. But it can't deal in equities of any financial institutions unless notified by the government of India. In 1935-36, the RBI had a small security portfolio. But now its portfolio is large. The RBI conducts sale or purchase of securities through approved dealers. Bombay, Calcutta and Madras constitute the main shopping centres. But the dealers diffused such transactions over a wider area. The RBI has also been engaged on 'switch' operations i.e. purchase of one loan against sale of another and *vice versa*.

Table II depicts the position of net purchase or sale of securities by the Reserve Bank since 1950-51.

During 1950-69 the RBI made net purchases on five occasions against net sales on 15 occasions indicating anti-inflationary bias. During 1944-60 the RBI made a net purchase of Rs 30 crores. Sales have been parti-

TABLE II
OPEN MARKET OPERATIONS
(Rs crores)

	(Net purchase—Net sale)
1950-51	—56
1951-52	—12
1952-53	1.2
1953-54	22.1
1954-55	28
1955-56	16
1956-57	—19.2
1957-58	65.2
1958-59	89
1959-60	60
1960-61	—6.5
1961-62	—.8
1962-63	11
1963-64	45
1964-65	95
1965-66	20
1966-67	61
1967-68	55
1968-69	75

Note: Fig. since 1964-65 are approximate.
Source: Various publications of RBI.

cularly heavy during 1964-69, i.e. Rs 320 crores in all.

The open market policy has also failed to produce any appreciable effects on price, credit etc. fronts due to the following factors. Open market operations required developed security market while in India "the gilt edged market is however, narrow".[18] This precludes large scale operation by the bank since they would unduly disturb security prices.[19]

The open market operation have been employed by the RBI primarily to assist the government in their borrowings. This has not assumed the role of a full-fledged instrument of credit policy.

The commercial banks which account for nearly 23 per cent of the government securities can purchase securities freely but they cannot sell below the specified liquidity requirements.

The small volume of operations in the background of high development outlays, large size of portfolio and high monetary expansion restricted its influence.

"The real tapping of resources by making gilt edged securities popular among middle classes and rural and urban areas has not taken place."[20]

The RBI was armed with this tool only in 1956 when by an amendment the RBI was empowered to vary the reserve ratio between 5 and 20 per cent on demand deposits and 2 and 8 per cent on time deposits. But in 1962 it was further modified and now the RBI can vary this rate between 3 and 15 per cent of both the demand and time deposits.

The RBI has used this tool very sparingly. In 1960 the RBI required the banks to maintain additional cash reserve against excess deposits based on a specified date. But this met with little success as banks minimised its impact partly by (1) recourse to more borrowings from the RBI and partly (2) by liquidating part of their government securities. In order to counteract this the RBI raised the liquidity requirements from 20 to 25 per cent in 1962.

Selective credit control is concerned with the distribution and direction of the available credit in the desired sectors. The RBI has placed greater reliance on this tool since 1956. The RBI's power to control advances by banking companies are regulated according to Sec. 21 (1) (2), 3 5A (1) (2) and 36 (1) (a) of the Banking Regulations Act. Under these provisions the RBI can direct and seek compliance from the banks relating to the purpose, margin, maximum limits etc. of the lending operations if required in public, internal banking policy or individual interest of the banks concerned.

Selective credit control has been used for controlling inventory stocking or consumers' credit purposes. It is executed by (1) direction to banks for not granting excess loans against commodities in general, (2) fixing ceiling on advances to individuals, (3) raising to existing margins in respect of loans against paddy etc. and (4) discriminting rate of interest.

Presently it covers commodities like foodgrains, oilseeds, cotton, sugar, vegetable oils, jute aud such other commodities having short supply or subject to speculative demand.

In 1965, the Reserve Bank also introduced a 'Credit Authorisation Scheme' under which banks are required to obtain RBI authorisation before sanctioning any fresh credit limit of rupees one crore (by all banks) or more. Since 1970 the nationalised banks are required to obtain the prior approval of the RBI for certain investment, lowering of margin, interest rates etc.

The efficacy of selective credit control measure has been dampened, as we shall see later, due to large number of banks involved and seasonal character of money market. However it has helped in transfer of short term funds from non-essential or priority sectors. But it cannot ensure flow of credit to all the productive sectors.

In addition to above methods, the technique of moral suation have been used by the RBI to secure both general and selective control of credit. Discussions, meetings, seminars, letters of request and supply of informations have been the usual modes of preparing grounds for major shifts in selective credit control or banks' credit policy.

Now we are in a position to draw definite conclusions regarding the extent of efficacy of the credit control measures, both general and selective, during the last two decades.

The tools of general credit control were mainly directed towards securing effective control over bank credit, particularly the secondary expansion, through regulation of cost and availability of credit. On the whole, the RBI effort was directed towards containing monetary element in the price spiral. Table III depicts the various economic indicators *vis-a-vis* the success or general credit control measures.

Table III clearly indicates that the erratic behaviour of prices, unrelated increase in money supply, deposits and bank credits and marginal importance of borrowings from the RBI and the volume of bills purchased and discounted have left behind a confused trail *vis-a-vis* the application of general tools of credit control defying any rational explanation of the phenomena. The table further reveals the inability of RBI's measures to cope with the money and price situation. The National Product accounts for functional increase in prices. But the functional factors like consumption, saving etc. and other non-economic factors like hoarding cannot explain for more than 50 per cent of the price rise.

The general credit control measures served mainly as a damper and not as an effective curb on prices.

So far as selective control measures are concerned, their

TABLE III

INEFFECTIVENESS OF GENERAL CREDIT CONTROL MEASURES

(Rs crores)

Year	Bank Rate Per cent	Open M.O.: Net Pur. — Net sale	Price rise: Wholesale*	Percent increase in: Money supply	Deposits	Bank Credits	Bank borrowing (% of total credit)	Bills P & D (% of total credit)
1950-51	3½	—	—	—	—	—	2.4	8.0
1955-56	3½	—.7	—17.3	11	20	24.7	8.7	15.0
1960-61	4	204.5	35	30	26.4	74.2	7.4	16
1965-66	5-4½-5-6	107.2	32.2	56	97	73	3.2	15
1968-69	6-5	191	6.3	23.2	40	50.1	3.1	17.7

NOTE : Variable Reserve Ratio has been omitted as it was used only once. *For Plan periods.

Sources : Compiled from RBI's various publications & Handbook of Economic Informations, Finance Ministry.

TABLE IV

EFFECTS OF SELECTIVE CREDIT CONTROL OVER PATTERN OF BANKS ADVANCES AGAINST SELECTED COMMODITIES

(Rs. crores and % to total credit)

Items	1951 Advances	1951 %	1961 Advances	1961 %	1966 Advances	1966 %	1969* Advances	1969* %
Food	n.a.	—	26.5	2.0	70.2	2.2	83.3	2.4
Raw cotton	n.a.	—	49.7	3.7	62.5	2.9	68.1	2.0
Tea	n.a.	—	11.1	0.9	16.7	0.8	8.6	0.2
Cotton tex.	52.8	9.7	145.1	1.5	284.4	12.2	0.8	neg.
Jute tex etc.	33.7	6.1	52.1	4.0	122.2	5.0	6.2	0.2
Sugar	34.4	6.3	110.8	7.9	123.0	5.0	102.6	3.0
Chemicals, dyes etc.	n.a.	—	33.0	3.0	76.2	2.5	47.1	1.3
Veg. oils	n.a.	—	27.4	2.7	39.6	1.1	1.6	neg.

*Estimates for busy seasons only.

Sources : Various publications of RBI.

impact was localised and short term in nature. It helped in containing the prices of scarce goods during busy seasons. That it has not produced any structural changes in banks operation could be seen from Table IV (p. 729) which depicts comparative seasonal trends in advances against various goods during 1966-69.

Table IV fully demonstrates the limited use of credit policies so far. "The credit policies — selective as well as general — adopted by the RBI have not had adequate impact on the price situation, even though Reserve Bank of India has been very persistent on the application of these measures and has been taking numerous measures from time to time".[21]

Besides, there are other neglected but important aspects of the economy which could be attributed to the qualitative lapses of the monetary policy.

The operation of monetary policy failed to curb the centralisation of bank credit in a few hands. At the time of nationalisation in 1969 of 14 major banks, it was stated that out of the total bank credit of Rs 2400 crores some 600 families accounted for nearly Rs 1400 crores of advances, out of one million account holders.

Regional disparities in banking development is another lapse of the credit policy. In 1968 out of a total bank credit of Rs 3,103.1 crores, the states of Maharashtra, West Bengal, Tamil Nadu and Gujarat accounted for Rs 2,080 crores representing more than 2/3rds of advances while the populous and large states of Bihar, Uttar Pradesh, Madhya Pradesh etc. starved for developmental finance.

With the growth of capital market (IFC, SFCs, NIDC, ICICI, IDA, UTI, LIC etc.) long term advance for capital goods industries were assured. But monetary policy, even failed to promote a balanced development of consumers' goods industries, which needed short accommodation. Their progress has been tardy.

The neglect of priorities sectors like agriculture, small industries and export are too well known and require no repetition.

The ineffectiveness of monetary measures and the exclusion of credit planning from the 'plan frames' have proved a costly lapse from the viewpoint of price situation, banking operations, balanced growth, intra-sectoral balance or progress of priority sectors.

The introduction of 'Social Control' in 1968 under which the National Credit Council was entrusted with the task of preparing the blueprints for sectoral flow of credit was a part of this lelated realisation.

With the inclusion of almost entire banking sector within the public sector the role of monetary policy has undergone dimensional changes. The problem of credit control in the traditional sense is now relegated to the secondary position. 'Credit Planning' has gained ascendency in the annals of monetary policy. Now the role and direction of monetary policy should be mainly as follows:

Controlled expansion and direction of credit according to the long term and short term credit plans which should form part of the overall planning strategy of the country.

Monetary policy be chiefly used to secure short term objectives while the long term objectives be tagged with the overall planning objectives.

Monetary policy should also be directed towards controlling seasonal fluctuations although with growing agricultural stability this may not be substantially necessary after a few years.

Conditions in India demand that the country's monetary authority, namely the Reserve Bank of India, should be converted into a credit controlling-cum-credit planning body. It must also endeavour to develop some new devices for credit management suited to the mixed, planned economic structure wedded to a socialist goal.

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Intra-Sectoral Allocations in Agriculture

R. KESHAV

ONE OF the important aspects of economic planning is the allocation of capital resources, with a view to attaining set objectives. This problem has two dimensions, inter-sectoral and intra-sectoral. The problem of allocation of resources within each sector is as important as between the different sectors such as agriculture and industry. In this article, given the allocation made in the first three five-year Plans, an attempt is made to examine the consistency between the financial allocations within the agricultural sector. Consistency between financial allocations in the agricultural sector is construed as how far the financial allocations between diverse agricultural programmes harmonise with one another for integrated operations in the agricultural sector.

This article proposes to examine the intra-sectoral allocation with an outline of objectives of agricultural planning. The objectives of the first Plan were to initiate the development process and to stabilise the nation economically.[1] Quite obviously, the Plan emphasised on increase in agricultural production, to mitigate the severity of inflation and food shortage. The objectives of the second Plan were to provide adequate food to support the increased population and the raw materials needed for a growing economy and also to make available larger exportable surpluses of agricultural commodities.[2] Agricultural programme in the second Plan was thus geared to buttress the industrial programme by supplying adequately wage goods, raw materials and foreign exchange. The objectives of the third Plan were also analogous to the second Plan. Its objectives were to achieve self-sufficiency in foodgrains and to meet the requirements of industry and exports.[3] Besides, the second and third Plans took note of under-employment or disguised unemployment in the agricultural planning.[4] In short, while the short-run objective has been to equilibrate the population growth and food production, the long-run objective has been to attain self-sufficiency in foodgrains as well as to support the industrial and export sector. In conformity with these general objectives of agricultural planning, specific targets were laid down for varied agricultural programmes. Reference to these targets will be made in the latter part of the article, where we discuss the results of the intra-sectoral allocations.

Agriculture being in the private sector, entails public investment to confine to the development of infrastructure. Public investments in agriculture can be broadly categorised into direct investment and investment on basic utilities. While direct investment refers to the investments specified in the Plan documents as 'Programmes of Agriculture', the investment on basic utilities confines to the projects which are essential to agricultural development. Major and medium irrigation projects form the very important item, which comes under the scope of agricultural sector.

The amount and the relative share of allocations for agriculture in the three Plans are set forth in Table I.

Table I indicates the general pattern of investment in the agricultural sector. First, investment on irri-

TABLE I

INVESTMENT IN AGRICULTURE UNDER FIRST THREE PLANS

(Rs crores)

Plan	Direct investment (outlay on agricultural programmes)	% age of total Plan outlay	Investment on basic utilities i.e. investment on irrigation, maj & medium	% age of Plan outlay
First Plan	299 (a)	15	300 (d)	15
Second Plan	530 (b),	11	420 (e)	9
Third Plan	1088 9 (c)	12·8	583 (f)	6

Sources: (a) Review of the F.P. P. 2 Govt. of India.
(b) Third Five-Year Plan (a) P. 33-38. Govt. of India.
(c) Fourth Five-Year Plan P. 65. Annexure I.
(d) III Plan P. 384
(e) III Plan P. 35
(f) Fourth Plan P. 65. Annexure-I.

gation, a basic utility essential to the agricultural development, has been increasing since the first Plan. In absolute terms it increased from Rs 300 crores in the first Plan to Rs 420 crores and Rs 583 crores in the second and third Plan periods respectively. In terms of percentage, there has been a significant decline in the Plan expenditure as compared to the investment on agricultural programmes. Secondly investments on agricultural programmes — direct investment — compose of three major items: (i) Agricultural production programmes; (ii) other allied activities; and (iii) National Extension Service (NES) and Community Development Programmes (CD). Of these, agricultural production programmes and community development have been assigned greater importance in the Plans. Emphasis on them is mainly due to the objective of increasing production of food and raw materials essentially to promote industrial growth.

The allied activities indicate the attempt of planners in diversifying the agricultural sector. In brief, while irrigation is an essential agricultural infrastructure, agricultural production programmes are directly productive activities which make irrigation fruitful. Therefore, agricultural investments can be grouped broadly into: (1) Investments on basic utility in agricultural sector, namely, irrigation; and (2) direct investments which comprise *agricultural programmes*. Table II explains the composition of direct investment on agricultural *programmes under the Plans*.

The investment on agricultural production programmes has been on the increase since the first Plan. It increased from Rs 182 crores in the first Plan to Rs 210 crores in the second and to Rs 551 crores in the third Plan. Among the agricultural production programmes*, minor irrigation has absorbed the larger part of the investment expenditure. The share of investment expenditure of minor irrigation under the three Plans amounts to Rs 440 crores which is approximately 50 per cent of the total expenditure on agricultural production programmes.[5] The residue has been expended on programmes such as, fertilizer and manures, improved seeds, land reclamation and development. Since the break-up figures relating to them are not available, the share of expenditure on each item cannot be indicated and the relative importance of each programme in terms of investment cannot be ascertained.

*The expenditure on agricultural production programme includes expenditure on minor irrigation in the Plan documents. The article follows the same classification.

The share of investment expenditure on allied activities is rather insignificant as compared to agricultural production programmes and community development programme. Although such activities as fisheries, dairying and milk supply do not have direct bearing on agricultural production programme, they assist the process of agricultural development to a certain extent. For instance the programme of animal husbandry supplies farm power. Since it is difficult to assess the impact of these programmes on agricultural production, scanty attention has been given to them. Nevertheless, the programme of co-operation, marketing and storage which is an essential complement to the progress of agricultural production programmes appears to be considerably ignored. Investment on co-operation, marketing and storage facilities was 1.7, 7.4 and 9.5 per cent of the investment on allied activities' under the three Plans (see Table II). Thus there is lack of consistency between the investment on production programmes and the investment on co-operation and *marketing*. The importance of this programme lies in the fact that many of the production programmes require warehousing, storage and marketing facilities for their successful implementation. The inadequacy and inconsistency of investment between them have been pointed out, while appraising the success of production programmes.

The community development programme includes within its ambit activities relating to agriculture, co-operation, animal husbandry, minor irrigation, social education and other activities. The quantitative importance of the programme is evident from the fact that investment expenditure on it has registered a successive increase from Rs 82 crores in the first Plan to Rs 218 crores and Rs 288 crores in second and third Plans, respectively. In the absence of adequate and comparable data, a few available figures have been made use of to illustrate the nature of the complementary role of CD in increasing agricultural production. This justifies its inclusion under direct investment programmes. Besides, CD programme has been evolved to recast the social and economic attitudes of the rural folk so as to help development planning in India.

During the first Plan, a provision of Rs 90 crores

TABLE II

COMPOSITION OF DIRECT INVESTMENT IN AGRICULTURE UNDER FIRST THREE PLANS

(Rs crores)

Sl. No	Heads	I Plan outlay	Percentage to direct investment	II Plan outlay	Percentage to direct investment	III Plan outlay	Percentage to direct investment
1.	Agricultural production programmes	181.15	60.5	210.04	39.6	551.90	50.8
2.	Allied activities						
	(a) Animal husbandry	35.85	12.05	100.23	19.0	248.50	22.8
	(b) Dairying & milk supply	9.60	3.23	21.90	4.2	43.40	4.0
	(c) Forests	6.60	2.22	11.57	2.2	33.60	3.1
	(d) Fisheries	2.77	0.93	9.06	1.7	22.50	2.0
	(e) Co-operation, marketing, warehousing and storage	5.10	1.67	38.81	7.4	103.00	9.5
3.	Community development (including village panchayats and local works)	82.15	27.0	218.73	41.4	288.50	26.4

Source: Review of the first five year Plan. Annexure-11. Third five-year Plan 738, St. 'B'. P. 343, fourth five-year Plan. P. 65 (Annexure-1). Figures relating to Plan outlay have been gleaned from the above sources.

was made for CD programme and Rs three crores for NES. The total expenditure on CD and NES at the end of the Plan stood at Rs 46 crores. Of this total expenditure, irrigation programmes accounted for 16 per cent and agriculture nine per cent. Thus, programmes which have direct bearing on agricultural production like reclamation, irrigation etc., were not given due attention as compared to the construction activities.[6] The second Plan made a provision of Rs 200 crores exclusively for CD and NES. The share of agricultural programmes was fixed at 21.5 per cent.

During the third Plan agricultural programme was given a share of 42.8 per cent of the total outlay. In absolute terms agricultural programmes accounted for Rs 126 crores.[7] Following the recommendations of the study report on CD (1957), third Plan also made a significant qualitative change by reducing the three-phase system into two phases.[8] By this new system, as the sixth Evaluation Report observes, 32.5 per cent of the total outlay in the schematic budget for agriculture accounted for agriculture, animal husbandry, irrigation and reclamation in the first stage. In the second stage, while the share of investment on irrigation and reclamation declined, the share of agriculture, animal husbandry and others increased.

In brief, the investment on agricultural production programmes — direct investment — considerably exceeds the investment on basic utility, namely, irrigation. Taking into consideration the expenditure both under direct investments and investments on basic utilities, irrigation programme alone has claimed a larger portion of the agricultural investments. Furthermore, although the magnitude of investment on different programmes shows a gradual increase, it has to be discounted to make allowance for the inflationary effects, which continue to prevail in the economy since the second Plan.

The efficacy of the intra-sectoral allocation in agriculture in attaining the objective stated above can be judged by looking into the success of production targets in programmes of agriculture, which are in turn, contingent on the successful attainment of targets under varied agricultural programmes. The growth in agricultural production is considered under two heads: (i) Foodgrains production; and (ii) non-foodgrains production. Table III indicates the targets and achievements of agricultural production under three Plans.

While the foodgrains production far exceeded the Plan target by seven million tons in the first Plan, the production in the second Plan lagged behind the target to little extent and in the third Plan it was highly disappointing. In the third Plan period, foodgrains production fluctuated severely and in the last year was below the second Plan level.

The production of some agricultural products other than foodgrains has fluctuated rather severely in all the Plans. During the first Plan, cotton as well as oilseeds production marked a spectacular growth, while others lagged behind the Plan targets. But the production of jute was highly discouraging. During the second Plan, the production of all the commercial crops except sugarcane, trailed behind the revised Plan targets. Especially the production of jute and cotton was highly discouraging. But in comparison to the pre-revised targets, production of commercial crops save jute and cotton, was in agreement with the original targets. During the third Plan, while the production of sugarcane increased by more or less 50 per cent of the additional target the production of oilseeds was even below the second Plan level. The above facts confirm that some of the commercial crops have exhibited considerable gap between production and targets during the 15 years of agricultural planning.

Imports and price trends of agricultural commodities are also witness to the fact that agricultural planning has failed to attain the avowed objectives of planning. During the year 1951, imports of foodgrains figured at 4.73 million ton. Imports declined to 1.38 million ton in the year 1956 due to the increased agricultural production. Again, imports have been on the increase since 1957. Imports on an average figured at 3.5 million tons during 1957-61. Imports increased from 3.44 million tons in 1961 to 10.34 million tons in the year 1965-66.[9]

Movements of prices of food articles and industrial raw materials also show a rising trend continuously since 1961. Price indices (Base=1950) of food articles and industrial raw materials declined from 122.4 and 153.9 in 1951 (Base=1950) to 92.8 and 109.4 in 1956 respectively.[10] While the price index of food articles declined by 16 points at the end of the first Plan, the price index of industrial raw materials registered a decline of 10 points. The decline in the price index of agricultural commodities including industrial raw materials at the end of the first Plan was mainly due to increased agricultural production. Price indices of food articles and industrial raw materials respectively rose by 26.5 and 45.4 points during the second Plan.[11]

The major explanation of the continued uptrend in wholesale prices as observed by the third Plan documents, was undoubtedly the rising pressure of demand resulting from the growth of population and incomes. Thus, agricultural production

TABLE III

TARGETS AND ACHIEVEMENTS OF FOODGRAINS AND NON-FOODGRAINS PRODUCTION UNDER THREE PLANS

Items	I Plan			II Plan			III Plan	
	Beginning of the I Plan	Target of Addl. production.	Achievements	Target of Addl. production.	Revised targets	Achievements	Target of Addl. production.	Achievements
I Foodgrains (m.t.)	55	7.6	69.0	10.0	15.5	82.0	24	72
II Non-Foodgrains								
(a) Cotton m.b.	2.90	1.2	4.3	1.5	2.2	5.3	1.9	4.8
(b) Jute m.b.	3.5	2.09	4.5	0.8	1.5	4.1	2.2	4.5
(c) Sugar (mt)	6.9	0.7	7.29	1.3	2.0	11.2	2.0	12.1
(e) Oilseeds (mt)	6.1	0.4	7.2	1.4	2.1	8.8	2.7	8.3

Source: Agricultural Production, Economic Survey 1967-68 could not match effectively with the needs of growing population and requirements of industry and exports. Since '61, the price indices of food articles as well as industrial raw materials have been increasing continuously. While the price index of food articles increased from 117.6 in 1961 to 154.5 in 1965-66, the price index of industrial raw materials rose from 159.1 in 1961 to 163.8 in 1965-66.[13] Some of the facts indicated above corroborate the inference that agricultural planning has deviated from the agricultural objectives set out in the Plans.

The non-fulfilment of agricultural objectives can broadly be attributed to: (1) unfavourable monsoon, drought; and (2) the incomplete agricultural programmes. Since this article focuses its attention on allocational aspect in agriculture, only the progress of different agricultural programmes is considered. The physical achievements of agricultural programmes have been illustratively dealt with. owing to the absence of statistical data. Furthermore, lack of break-up figures of financial allocation relating to the agricultural production programmes necessitates testing the consistency of investments in agricultural sector, by looking into the success of each programme. Since investments in agriculture are highly complementary to one another, the success of agricultural planning demands simultaneous progress in all the programmes.

Of all the public investments in agricultural sector, expenditure on irrigation has been the main investment on basic utilities. Its contribution to agricultural development can be known from the irrigation potential created and utilised under the three Plans. It is rather essential to keep in mind the relative advantages and disadvantages of major and minor irrigation in evaluating their financial expenditure and physical achievements. The choice between them is largely determined by the short-run and long-run agricultural objectives under the Plans.

At the beginning of the first Plan, the total area irrigated stood at 56 million acres, of which 23.8 million acres was irrigated by major schemes and. 32.0 million acres were by minor irrigation schemes.[13] At the end of the third Plan, the total area irrigated figured at 88 million acres, of which 38 million acres were irrigated by major schemes and 50 million acres by minor schemes.[14] While the progress in irrigation potential of the major schemes has lagged behind the Plan targets considerably, the progress of minor irrigation has matched itself with the Plan targets. But the mere progress in the irrigation potential does in no way indicate the actual impact on the agricultural development. Consideration of the pace of utilisation of the irrigation potential created is therefore very essential.

Even from the point of the ratio of financial expenditure between minor and major irrigation investment approximates to 1:4, 1:3 and 1:1.5 respectively.* Thus, a relatively higher irrigation potential could have been created if the investment expenditure equal to that made on major irrigation had been incurred on minor irrigation. Moreover, from the standpoint of utilisation of irrigation facilities, planners could have given greater importance to minor irrigation in the short-run with a view to increasing food production to meet the growing population.

The reasons for the nonfulfilment of irrigation potential targets have been spelled out in the Plan documents. During the first Plan, phasing of irrigation projects was not given the desired attention. "There have been instances where reservoirs were completed before the associated canal systems, land had not been prepared for irrigation when canal systems were completed...tubewells were drilled without arrangements in advance for power supply and so on".[15] Administrative difficulties, inadequacy of trained personnel,[16] shortages of essentials such as steel, cement, coal etc., incomplete investigation and inadequate surveys — were some of the factors responsible for the non-fulfilment of the irrigation targets under the Plans.

The casual factors responsible for the non-fulfilment of irrigation potential targets are broadly two: (1) technical defects in the execution of irrigation programmes, inadequate surveys and incomplete investigation. (2) defective phasing and administrative difficulties. These difficulties can be eliminated with no additional cost by rearranging the different phases of economic projects in their proper sequence and by effecting required changes in the administration of projects. The gap between irrigation potential created and utilisation has been mainly due to two reasons.[17]

(1) Lack of follow-up measures along with the construction of irrigation project such as, construction of field channels, distributaries, water courses etc, by the related departments such as Revenue, Agriculture, CD and Cooperation, has hindered the utilisation of irrigation facilities.

(2) Lack of measures such as adoption of scientific agricultural practice, crop patterns, credit facilities, supply of improved seeds and fertilisers have become bottlenecks in the utilisation of irrigation facilities.

The above two reasons indicate the lapse on the part of the planners in recognising the imperative complementarity between irrigation and agricultural production programmes on the one hand and the co-ordination required between different departments in executing an economic programme. Thus, the low pace of utilisation can be viewed as the lack of co-ordination between the investment on irrigation and agricultural production programmes. Had there been correlation between them, the problem of non-utilisation and low utilisation would not have appeared.

Investment on agricultural production programmes: direct investment forms another important aspect of agricultural investment. This comprises programmes such as, seed multiplication programme, land reclamation and development, soil conservation programme, distribution of fertiliser and manure and agricultural machinery. Since the data relating to these schemes are scanty and incomplete the success of these schemes will be dealt with illustratively.

Seed multiplication programme: The seed multiplication and distribution programme was more or less a neglected aspect in the first Plan. The progress made during the first Plan in evolving improved strains for different crops in producing qualities of nucleus seed and in multiplying them for local distribution was on the whole poor.[18] During the second Plan, it was expected that the additional agricultural production should increase by 3.4 million tons, consequent upon the implementation of seed multiplication programme. With heavy emphasis on these programmes 4000 seed farms were established as against the revised target of 4328. The area covered

*Financial outlays for major and medium and minor irrigation schemes have been taken from Bhagirath Pamphlet Publications, G.O.I. III and IV Plan documents, for the comparison.

by the seed programme was 55 million acres in contrast with the target of 216 million acres. While the number of seed farms indicates substantial progress, the area covered by improved seeds reflects the unsuccessful implementation of the seed programme. However, it is superfluous to labour on the progress of the number of farms established, for what matters from the point of agricultural production is only the area covered by improved seeds. During the third Plan an area of 148 million acres was intended to be covered by improved seeds. The Seed Review Team (1968) has observed that the success of the seed programme has been thwarted by factors such as difficulty in acquiring lands, seed farms, inadequacy of trained personnel, lack of co-operation from the registered growers, non-availability of quality breeder stocks in adequate quantities, insufficiency and lack of appropriate storage facilities on seed farms and improper distribution arrangements.[19]

Land reclamation and development programme is rather essential in so far as it brings new areas under cultivation to mitigate the pressure of population on land. During the first Plan an area of 2.6 million acres as against 2.7 million acres was reclaimed. Various other programmes of land reclamation and development covered an area of 5.0 million acres[20]. Besides it was estimated that a total area of three lakh acres had been brought under soil conservation programme. Over the second Plan period an area of 1.2 million acres as against the target of 1.5 million acres of land was reclaimed[21]. The estimated achievement of the soil conservation programme on agricultural lands was two million acres and of the catchment areas was 1.5 lakhs acres.[22] Nevertheless the targets in regard to land relamation and land improvement in the second Plan were lower than the first Plan.

The third Plan proposed to undertake land reclamation and development programme in an area of 3.8 million acres and to bring 11 million acres of land under soil conservation programme. Programmes of land reclamation and development and soil conservation have been impeded by such factors as (1) the lack of co-operation of the public, (2) inadequate trained personnel, and (3) inadequate demonstration of scientific practices.

Since the programmes relating to seeds, land reclamation and development and soil conservation involve heavy financial expenditure, farmers do not like to bear the risks involved in experiments. Further, shortage of trained personnel and inadequate demonstration of scientific practices, insufficent storage facilities and quality breeder stocks indicate the need for higher investment on the development of human as well as material capital.

The above mentioned factors raise the question of consistency in intra-sectoral allocation. The fact that seed multiplication programme has suffered from the insufficient storage facilities indicates the consistency in investments between co-operation and seed multiplication programme.

Modern agricultural machinery and implements are one of the important constituents of the agricultural base. At present, about 42 different types of manual and bullock operated implements are produced entirely by the small scale units and the power operated machinery and implements of 61 types are being produced by medium and large industries. These two constitute agricultural implements industry[23]. The tractors and tractor-drawn implements, essential for mechanised cultivation are both domestically produced and imported. The agricultural production programmes confine themselves to the distributive aspect of agricultural implements and the adequacy of investment on the production of agricultural machinery has not been considered.

The demand and utilisation of implements and machinery are discouraging in spite of the loans and subsidies made available by government agencies and co-operatives. To quote the National Productivity Council's observation, "Farmers are reluctant to purchase agricultural implements owing to the initial cost involved and the procedural difficulties to be faced in getting loans. Furthermore, the high price, the absence of propaganda, the small size of holdings, surplus labour in rural areas, the higher duties on petroleum products, inadequate supply of spare parts are some of the inhibiting factors for the use of improved agricultural implements and machinery"[24].

To increase the use of improved agricultural implements, sufficient amount of initial capital required by the farmers has to be provided. This obviously calls for a higher allocation of financial resources to the credit programmes. Besides, credit programme has to be so designed as to help the needy farmers.

The agricultural machinery programme can be more effective if attention is given to supply suitable equipment to suit the existing land pattern system. The National Productivity Council observes that the lack of adequate power and non-availability of suitable equipments for farming operations are fundamental problems limiting the productivity of agriculture.[25] This necessitates the investigation into needs of Indian farmers in regard to improved agricultural implements.

The application of fertilisers has been assigned a big role in increasing agricultural production. Even in regard to this programme, investment on the production of fertilisers has not been considered since it is beyond the scope of this article. Of the total availability of 3.36 lakh tons of Nitrogen 'N' at the end of 1955-56, the consumption stood at 1.07 lakh tons. In the year 1960-61 consumption stood at 1.17 lakhs tons as against the availability of 2.20 lakhs tons. It was only in the year 1965-66, that consumption of 'N' exceeded the availability. While the availability was 5.41 lakh tons, consumtion figure was 5.45 lakh tons.[26]

In the case of consumption of phosphatic fertiliser (P_2O_5) while the availability and consumption matched in 1955-56, consumption exceeded the availability in the years 1960-61 and 1965-66. As against the availability of 0.61 lakh tons and 1.59 lakh tons of P_2O_5 in 1960-61 and 1965-66 consumption figures were 0.7 lakh tons and 1.68 lakh tons respectively.

While the consumption of potash, K_2O matched with imports in 1965-66, it exceeded the imports in 1960-61 by 0.5 lakhs tons and it was again short of the availability by 0.16 lakh tons in 1965-66.[27]

The main problem of fertiliser programme is that consumption has always remained less than the requirements. For instance, as against the estimation of fertiliser requirement by the government of India in 1966-67 at 1.0 million tons of N, 0.37 million tons of P_2O_5 and 0.2 million tons K_2O, the consumption figures at 0.8 million, 0.28 million and 0.11 million tonns respectively.[28] Plan documents[29] account this gap by: (1) insufficient attention given to green manure programme, a prerequisite to the application of fertilisers; (2) lack of integration between supply of fertiliser and credit facilities;

(3) and improper distribution and also delay in the supply of fertilisers.

According to the study on the use of fertiliser and manure[30] made by the PEO in 1967, the main reasons mentioned by the paddy growers in package and non-package districts for their reluctance to use fertiliser on the entire co-operative area were: (1) lack of credit; (2) unsuitability of soil; (3) lack of irrigation. Field studies[31] conducted by the Division of Rural Survey of the RBI in seven IADP districts reveal that (a) lack of irrigation facilities, (b) lack of guidance in the application of fertilisers, (c) unsatisfactory arrangement of distribution and others have been responsible for the slow growth of consumption of fertilisers.

The progress of local manurial programme has been unsatisfactory. In regard to the fulfilment of these programmes, the third Plan observes, "It is difficult to measure the local manurial programme, except the urban compost programme which is organised through municipalities and larger panchayats".[32]

Nevertheless, the urban compost programme has been more successful in all the Plans than the green manure programme and rural compost programme. Thus, the causes for the gap between consumption and the requirements on the one hand and the under-utilisation of fertiliser on the other, indicate the absence of consistency in the investment pattern in the agricultural sector. Factors inhibiting the fertiliser use such as unsuitability of soil, improper distribution of fertilisers, lack of guidance in the application of fertilisers express the need for higher allocation on the fertiliser programme in three directions:

(1) to establish adequate number of soil testing laboratories;

(2) to expand the co-operative structure with an additional institutional set-up for the distribution of fertilisers;

(3) to establish adequate number of demonstration farms to convince and guide the farmers in using fertilisers.

In brief, irrigation programme must be the pivot around which the supply programmes of agricultural machinery, fertilisers, seeds, etc. must be properly designed. The benefits from irrigation have not been obtained owing to inadequate emphasis on agricultural production programmes. On the other hand, most of agricultural production programmes have suffered from inadequate funds. These two sets of information help to conclude that there is no match between investments on irrigation and agricultural production programmes. Unless the investments among the varied programmes in agricultural sector do not appreciate the imperative complementarity between them, no amount of heavy investment on irrigation or any other programme promotes a breakthrough in agriculture.

The Community Development Programme is another important aspect of agricultural investment. It has assumed a strategic role in the realm of rural sector. The assessment of the progress of the CD and NES is a difficult task, since it has multi-dimensional aspects and it has only larger benefits in the long run. Nevertheless, an attempt is made to appraise with the help of the reports published by the Programme Evaluation Organisation.

The effectiveness of CD programme is illustratively indicated by considering its impact on agricultural production and employment. According to the finding of the study team, the all-India average in regard to the additional food production was only 10 per cent.[33] The seventh Evaluation Report[34] made a study of the progress of the agricultural programme for the period between 1952 and 1959. Its observations were related only to reclamation, soil conservation and irrigation. The findings of the report were that reclamation had brought about an average addition of about 5 per cent in the cultivated areas of the block. About 16 per cent of the cultivable waste had been reclaimed. The average irrigated area per block was estimated at 34.5 per cent.

The progress of irrigation programme considered in relation to the total cultivated area was not encouraging. Between the irrigation and the land reclamation programmes the progress of the former was relatively better with regard to adoption of improved practices. The fifth Evaluation Report[35] observed that improved seeds and fertilisers were adopted by 60 per cent of the households, whereas the adoption of all the improved practices was affected by only 34.6 per cent of the households.

The beneficiaries of CD and NES programmes, according to the sixth Evaluation Report[36] were mainly large and medium cultivators. The same was the case with co-operation. Since the main objective of CD programme is to improve the conditions of villagers in general and small farmers in particular, we cannot say that the CD programme has been a grand success.

To solve the problem of the seasonal unemployment and disguised unemployment, pilot project scheme was implemented at the end of 1956. The sixth Evaluation Report which made the study of pilot projects expressed that 85 training centres had been working on the date of enquiry as against 285 training centres organised. About 10664 persons had received training at these centres. Among the trained persons only 56 per cent had gone into the crafts in which they received training while the rest were engaged in other occupations. The cottage and small-scale industries have not worked efficiently. The seventh Evaluation Report[37] finding was that cultivators and artisans were unemployed for 30 per cent of the total man-days and agricultural labourers for 35 per cent. Besides labour movement was from crafts to farms instead of the other way round, as intended by the village industry programme. These facts doubt the employment potential of the village industry programme.

In short, the C D programme as a method of rural strategy in mobilising the local resources for development programmes is still at the experimental level. The chief objective of the programme at present is to increase production and to provide supplementry employment. The facts offered by the various evaluation reports largely give a gloomy picture of the CD scheme. The change in the attitude of the rural folk caused by the introduction of C D programme is yet to gain strength in transforming rural society in its varied aspects.

In order of investment expenditure, irrigation, agricultural production programmes and community development have assumed importance in the agricultural sector. Allied activities account for smaller percentage of investment expenditure as compared to the former. The intra-sectoral allocation has not appreciated the need for larger investment on co-operation and marketing for the success of the production programmes.

The intra-sectoral allocation envisaged in the Plans has not been fruitful in attaining the objectives of agriculture. The production trends in agricultural commodities, the magnitude of imports and the price indices of food articles and industrial raw materials indicate that the objectives of agricultural sector have remained unfulfilled.

The national effort to improve agricultural productivity has not been lacking in regard to the range of programmes undertaken. But where it seems to have been deficient is in the allocation of resources to attain the objective of the agricultural sector. Some of the defects in the intra-sectoral allocation are:

First, investment on irrigation could have been more fruitful if larger allocation had been made in favour of minor schemes then in major and medium schemes.

Secondly the failure to attain the irrigation targets, as evidenced by causal factors, such as inadequacy of trained personnel, short supply of essentials such as cement, steel etc., lack of adequate demonstration of improved techniques indicates the inappropriate allocation of resources both to the irrigation and agricutlural production programmes and the inability to realise comprehensively the complementarity between investments on irrigation and other agricultural programmes.

Thirdly, that the seed multiplication programme has been thwarter by factors like inadequacy of trained personnel, non-availability of quality breeder stocks and inadequacy of storage facilities indicates the insufficient allocation of resources for the development of material and human capital.

Fourthly, absence of proper distributive machinery, inadequate supply of spare parts, lack of guidance in the application of fertiliser express the need for larger allocation of investment resources for agricultural production programmes.

Fifthly, the investment on CD programme has not yielded results as to arouse popular enthusiasm and co-operation in improving agricultural practices and ameliorating rural unemployment. This naturally makes one doubt the effectiveness of machinery in executing programmes of community development. In brief, intra-sectoral allocation reveals inconsistency as well as inadequacy between the various programmes in agricultural sector. It is heartening to note that the lessons of the experience of the three Plans have influenced the allocation of resources in the fourth five-year Plan, the study of which however, is beyond the scope of this article.

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