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Union Budget 1989-90

Ninth Finance Commission

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EDITORIAL - SOME HIGHLIGHTS

I. General Economic Scene

State

General Economic Scene

In the Governor's address and the Chief Minister's reply to the debate on it a general conspectus of the current state of the economy can be obtained. The highlights are : i) the new government was facing a severe financial crisis and so had to reduce the annual Plan from the approved outlay of Rs. 1487 crores, ii) there is need to make structural changes to enable the all round development of the state and to press for a greater share of Union investment as a catalyst to rapid industrial growth. Union investment which placed the state in the fifth place in 1975-76 has now slipped to the tenth place; iii) detailed proposals are to be drawn up soon to revitalise industrial growth, including means of reviving sick units : iv) assured power supply for both industry and agriculture will be ensured : v) the difficulties in the noon meal programme will be corrected and the programme made effective : vi) because of the poor North East monsoon, the samba crop has been affected, the earlier kharif crop also affected in several districts, so that the foodgrains this year will be only slightly higher than that of last year—1987-88 : vii) immediate measures are needed to improve the state's finances and the demand for more adequate transfer of resources will be made to the IX Finance Commission : viii) one of the most serious problems faced by the state is the loss to the state of about Rs. 100 crores a year for the last six years through leakage and unjustified concessions in excise and sales tax on liquor and alcohol, particularly rectified spirit supplied for manufacture of India made foreign spirits : ix) powers — financial and executive — are to be restored to municipal and panchayat union councils and elections are to be held by May to the Corporations of Madras, Coimbatore and Madurai : x) the administrative machinery will be overhauled and restructured.

Banks in Tamil Nadu

RBI reports that the state i) had 4007 commercial bank offices in 1988 (compared to 1371 in 1971) being In the 6th place with 1692 offices in rural, 1040 in semi-urban, 669 in urban and 600 in metropolitan areas. ii) In short term loans they had 7,95,512 accounts disbursing Rs. 70.63 lakhs and 11,90,617 accounts outstanding with Rs. 436.59 lakhs, the largest loans and advances both disbursed and outstanding being to small farmers upto 2.5 acres : iii) On term loans, there were 1,28,102 accounts disbursing Rs. 73.42 lakhs and 3,68,854 accounts with Rs. 239.93 lakhs outstanding, with the same distribution as for short term loans : iv) In regard to the proportion of bank deposits to SDP against the all India 42 per cent, the state had a low 30 per cent : v) In deposit mobilisation, the state was tardy being 25 per cent of SDP in 1972 and 40 per cent in 1985 : vi) In regard to the proportion of current deposits to total deposits, the state's share is a high 16 per cent : vii) the share of savings deposits is 25 per cent of total deposits and that of term deposits is 60 per cent.

Climate and Prices

February recorded a mild, dry climate but began warming up sharply by the end of the month. Unlike the north, there were no rains during the month which affected farmers seriously. CSO's monthly abstract of statistics for December reports that the index number of consumer prices fell by 1 point to 811 in August, due to the food index being stagnant at 822 for both July and August : the index number of consumer prices for agricultural labourers shows a rise of 7 points to 668 in August, due to the 12 point food price rise and a fall by 1 point to 667 in September : the consumer price index for non manual workers shows no change in September for Coimbatore at the August index of 133 and for Tiruchirapalli at 136 for both August and September : there was a sharp 10 point rise to 149 in September for Madurai and 1 point rise to 140 in September for Madras.

Power

The power situation in Tamil Nadu in February was seriously affected by i) Ennore thermal plant giving only 100 MW against its normal 350-330 MW due to the fire accident to its units 3 & 4 in October. (see Vol. XVII p.574 and a fall in unit 5 : 2) the lack of any power generation from MAPP, Kalpakkam which gives 400 MW as one unit was closed for repairing defects another for annual overhaul, 3) Neyveli being down by 150 MW because of the annual maintenance shut down of its units : and 4) the low hydel generation because of the low storage in the hydel reservoirs following the poor NE monsoon. Hence for the better part of the month there was heavy but regulated load shedding ranging from 3-5 hours a day in both the cities and rural areas. The shortfall was a high 750 MW. The low voltage in Madras, Chingleput, North Arcot affected industrial units, with small scale units in Ambattur and Guindy lay off workers. Agriculturalists were given full supply at night and 4 hours during the day. It is only Tuticorin and Mettur thermal which functioned to full capacity and provided the power to the state. The Central Electricity Authority forecasts that the Southern region

will face a deficit of 16.7 per cent and by the end of the VIII Plan 20 per cent, even if all the schemes are completed on time. The Inter-Ministerial working groups on utilisation and conservation of energy estimates that 25 per cent of energy in the industrial sector and 30 per cent in the agricultural sector can be saved by conservation techniques and though this will not help now. Given the grim situation facing the state in the VIII Plan, it should be put into effect. The government announces no change in power tariff at present and has waived the belated payment surcharge due from agriculturists who had cleared their past arrears. The Union government has cleared the proposed 120MW (4 × 30 MW) gas turbine for the Basin Bridge plant. The government's wind Energy Agency has launched a wind climate study in the state which is estimated to have a natural generation of 810-1000 MW of power.

The power situation in the country continued as in January, with 40 per cent cut for HT users in Kerala and load shedding in Delhi and the Northern region. As NTPC is incurring a higher cost in generating power, it is planning to revise upwards the power tariff agreements with regional electricity boards which they are resisting.

Water

Karnataka has agreed to release 3 tmc ft of water in addition to the 2 tmc ft released in January as reported in last issue. The government states that it has charged the National Water Agency to expedite studies on the division of surplus waters of Kerala's west flowing rivers for beneficial use in Tamil Nadu and other eastern areas. In 1987 the state had requested that studies in 28 basins of west flowing rivers be speedily undertaken but as of today only 4 basins had been studied. It urged that studies be completed in all basins by the middle of the year so that the proposal for the Chittar-Vaigai link and other diversions could be formulated to the best advantage. UNICEF in a study points out that if every one had access to safe drinking water and sanitation, infant mortality can be cut by half. WHO states that 50 per cent of all sickness is due to inadequate water or sanitation. In India, diarrohea kills 15 to 25 per cent of infants, malaria involves loss of 15,000 million person hours work. It concludes that given the magnitude of the problem clean water for all will not be attained by the end of the drinking water decade — 1991.

Transport

Given the very limited funds for the railway projects in the state both in this year's budget and that of next year, the decision of the Railway Board to allocate funds directly for construction projects instead of going by the proposals from the zonal railways will further reduce funds to the projects in the state. The Railway Board has directed zonal railways not to select proposals indicating the actual requirements for the new year as was done in the past. The city's Mass Rapid Transit System has been provided with limited funds in 1989-90, and the Karur—Dindigul—Madurai--Maniyatchi—Tuticorin project cost which has quadrupled to Rs. 144 crores has been given Rs. 6 crores in the current (1988-89) budget and a similar sum in the 1989-90 budget At this rate, the Dindigul—Madura segment will not be completed in the VIII Plan.

Tanks and Nutritious Noon Meal Scheme

EEC has sanctioned Rs. 53 crores for modernisation of 150 PWD tanks and 80 ex-zamindari tanks in the state. Covering 12 districts, it will benefit 24,412 hectares. This follows the Rs. 44.43 crores given by EEC to modernise 206 irrigation tanks in 7 districts. An EEC delegation which visited the completed work in South Arcot and Chingleput districts expressed satisfaction at the results. The government states that the noon meal programme needs streamlining as it is under the control of 8 departments of government, benefiting 87 lakh children.

National

Union Budget 1989-90

The Union Budget presented to Parliament on February 28 involves the following summary of the actuals for 1987-88, the budget estimates and revised estimates for 1988-89 and the budget estimates for 1989-90 is set forth in table I.

It will be noted in the revised estimates, revenue estimates are about as the same as the budget estimates (the small excess in revised receipts is compensated by the increase in its capital receipts) that total expenditure both plan and non plan are in excess of the budget estimates by over Rs. 200 crores which is reflected in the revenue deficit increasing from the budgetted Rs. 9842 crores to Rs. 11030 crores, and for the overall deficit increasing from Rs. 7484 crores to Rs. 7940 crores. On this basis for 1989-90, the revenue receipts are estimated to increase by Rs. 9495 crores over the revised estimates for 1989-90, capital receipts decreasing by Rs. 2514 crores so that total receipts are Rs. 6981 crores over the revised estimates for 1988-89. The expenditure on revenue account is slightly higher at Rs. 525 crores for 1989-90 and capital account sharply higher by Rs. 5477 crores over the revised estimates. giving a revenue deficit of Rs. 22,519 crores against Rs. 21,618 crores in the revised estimates for 1988-89 and the overall deficit of Rs. 7337 crores. The increase and changes in revenue for 1989-90 through direct taxes involve a) a surcharge of 8 per cent on income tax payer with incomes above Rs. 50,000 a year, estimated to yield Rs. 500 crores against which, b) income tax in the entry slab of Rs. 18000 to Rs. 25000 is reduced from 25 to 20 per cent, c) Wealth tax and income tax, drought surcharge of 5 per cent discontinued involving a revenue loss of Rs. 500 crores d) deposits made in home loan account scheme of National Housing Bank (NHB) and repayment of housing loan from the bank qualify for deduction under section 80C, e) tax payer gets concession under Section 54E on capital gains if sale proceeds are invested in bonds and debentures issued by NHB, f) on retiring, government servants new deposit scheme interest is tax exempt and the deposits exempt from wealth tax, g) standard deduction of Rs. 12000, or 33 1/3 per cent, whichever is less on widows pensions, h) State government's professional tax on salaries allowed on deduction in computing total income, i) one third of profit from poultry farming being tax exempt, j) relief under section

TABLE 1

	1987-88 Actual	1988-89 Budget Estimates	1988-99 Revised Estimates	1989-90 Budget Estimates
			(in crores	of rupees)
Revenue Receipts	37,226	42,798	43,135	52,630
Tax revenue (net to Centre)	28,015	31,890	32,652	38,387
Non-tax revenue	9,211	10,908	10,483	14,243
Capital receipts	22,026	23,278	24,708	22,194
Total receipts	59,252	66,076	67,843	74,824
Non-Plan expenditure	40,869	47,846	48,877	54,347
On revenue account	36,458	41,936	42,883	47,875
On capital account	4,411	5,910	5,994	6,472
Plan expenditure	24,199	25,714	26,906	27,814
On revenue account	9,905	10,704	11,282	11,767
On capital account	14,294	15,010	15,624	16,047
Total expenditure	65,068	73,560	75,783	82,161
Revenue expenditure	46,363	52,640	54,165	59,642
Capital expenditure	18,705	20,920	21,618	22,519
Revenue deficit	9,137	9,842	11,030	7,012
Overall deficit	5,816	7,484	7,940	7,337
Increase in net RBI credit to Central Government*	6,559	7,484	8,200	7,337

* Including other variations in Reserve Bank of India's credit to Central Governmen

** Not independently estimated.

80 u extended to mentally retarded, k) standard tax deduction extended to family pension, l) excise relief scheme for sick units to provide them with a proportion of their excise payment as part of a diversification, modernisation or rehabilitation package approved by designated financial institutions.

On indirect taxes a) a 5 per cent increase in excise tax on all consumer durables except on necessaries, tea, coffee, sugar, kerosene, diesel and motor spirit, vegetable oils, vanaspati, cotton yarn fabrics, jute yarn and fabrics, electric bulb and flourescent tubes whose excise is unchanged, b) excise on aluminium ingot raised from 18 to 20 per cent, c) expenditure tax increased from 5 to 10 per cent to curtail conspicuous consumption, d) pig iron and certain products of iron, ingot semi — finished products, wastes and scraps, plates and hot rolled flat products of alloy steel excise increase to yield Rs. 150 crores, e) excise duty on pan masala doubled, yielding Rs. 8 crores, f) excise on molasses increased from 60 to 120 per cent to yield Rs. 11 crores, g) advalorem duty on watches revised by 5 per cent, h) excise on two wheelers upto 55 cc and 100 to 150 cc unchanged at 15 and 25 per cent respectively, for 50 to 100 cc duty raised from 15 to 20 per cent and above 150 cc duty raised to 30 per cent — all yielding Rs. 26 crores, a) excise on black and white TV sets of 36 cm screen increased to Rs. 500 and those with 15 — 36 cm to Rs. 200 per tube ; excise on colour TV without remote control raised to Rs. 2250 per set, with remote control to Rs. 2500 and those with facility of 'picture in picture' Rs. 4000, b) excise of 20 per cent on all kinds of radios, c) foreign travel tax to neighbouring countries increased from Rs. 50 to Rs. 150 and to other countries from Rs. 100 to 300 yielding Rs. 85 crores, d) tax on inland air travel of 10 per cent of the fare, e) duty on computers 5 per cent, f) expenditure tax on luxury hotels, increased from 10 to 20 per cent, g) customs on wood pulp increased by 5 per cent yielding additional Rs. 38 crores. Indirect tax receipts are i) excise on skimmed milk powder and condensed milk reduced from 15 to 10 per cent, ii) concessional duty on life saving drug, iii) excise exemption for paper made from bagasse and other unconventional material, iv) production of high-tech items like integrated circuit, micro processors and 22 items of machinery granted import duty concession of 15 per cent involving revenue loss of Rs. 33 crores, v) five more items add to 22 high-tech machinery items will have concessional 15 per cent import duty, vi) custom duty on raw material for making optical fibres reduced from 10 to 8 per cent, vii) customs duty concession on import of capital goods for technology upgradation extended to more industries, viii) import duty on machinery for making fish nets reduced from 90 to 40 per cent, ix) import duty reduced for making machinery for cutting tools, commercial tool room, and textile and paper machinery, x) import duty on general projects and machinery and components reduced by 10 per cent ad valorem with revenue loss of Rs. 117 crores, xi) custom duty on raw silk reduced from 75 to 50 per cent ad valorem, xii) exemption of duty on feature films for first 30 prints, xiii) concessional excise on fuel efficient cars rationalised to yield Rs. 100 crores, xiv) duties on imported specific raw material and electronic components increased by 5 and 10 per cent respectively, the yield being Rs. 158 crores in excise of Rs. 36.5 crores in customs, xv) excise on steel items raised from Rs. 365 to Rs. 500 a tonne, for hot rolled steels, duty

increased from Rs. 500 to Rs. 700 a tonne, Rs. 800 a tonne on steel forgings and Rs. 1200 a tonne on steel castings : xvi) excise on cigarette raised at Rs. 1 per packet of 10, raising Rs. 101 crores. The total taxation proposals are estimated to yield Rs. 1287 crores, of which Rs. 903 crores is for the Union government, and Rs. 384 crores for the states. Excise nets Rs. 792 crores and customs records a loss of Rs. 120 crores. The new programmes proposed for 1989-90 are : a) NREP and RLEGP are to be merged and a new rural employment programme to be called Jawaharlal Nehru Rojgar Yojana, in 120 backward districts suffering from acute unemployment for which Rs. 500 crores provided : b) including the above, employment programme will have Rs. 1711 crores : c) free distribution of saries to destitute widows (Rs. 50 crores) : d) ICDS is to be extended to 500 more blocks above the present 1700 in order to raise the health, nutrition and educational status of children : including the above, the total outlay for rural development, social services, food and cloth subsidies will be Rs. 8374 crores : e) externally aided anti-poverty and social services programme through the states will now receive 100 per cent of the aid instead of 70 per cent : f) bank credit to agriculture is to be increased from 17 to 18 per cent of the total advances and total availability of credit by commercial banks, regional rural banks and cooperative banks will increase by Rs. 4000 crores : g) rate of interest on crop loans between Rs. 15,000 and Rs. 20,000 reduced from 14 to 12 per cent : h) a new National Savings Certificate series VIII which will carry an interest of 12 per cent and eligible for tax concessions under section 80L which is to be introduced and the existing NSC series VI and VII will be discontinued : i) freedom fighter pension raised to Rs. 750 and new office of Chief Controller of Accounts (Pension) will handle entire pension payment and the accounting to be computerised : j) the Gold Control Act to be modified to control only primary gold : k) all price and distribution controls of aluminium to be decontrolled from March 1, 1989 : l) all price and distribution controls on the cement industry to be removed from March 1989 : m) government is to introduce an equity linked savings scheme which will operate through UTI and mutual funds and be eligible for tax deduction : n) tax exemption from interest on bonds and debentures upto Rs. 2500 : o) the defence outlay which in the revised estimate for 1988-89 was Rs. 13200 crores is pegged at Rs. 13000 crores which allowing for inflation in real terms will involve a cut to Rs. 11900 crores to Rs. 12000 crores : p) a new Home Loan Account Scheme is to be launched by the National Housing Bank and to facilitate participation by all segments of the community specially in rural areas, the minimum contribution to the scheme is Rs. 30/per month : q) subsidy to fertilisers is increased to Rs. 5173 crores, the total of food, fertilisers and export promotion subsidies is Rs. 7472 crores against the current year's Rs. 6841 crores : r) interest charges are Rs. 17000 crores against the current Rs. 14,150 crores : s) concessions to furniture and ceramic industries made by KVIC, resulting in a loss of Rs. 5 crores customs and Rs. 8 crores excise : t) revision of duty rates for different sectors of the match industry while increasing the duty on potassium chlorate : u) to promote safety in chemical industry and environmental control, concessional import duty of 46 per cent on 25 equipments : v) to promote energy conservation, excise on high pressure sodium vapour lamps reduced from 15 to 10 per cent and concessional import duty of 50 per cent on 4 inputs for its manufacture. The Union Plan outlay is Rs. 34,446 crores which is an increase of 20 per cent over the plan outlay for 1988-89 and the union assistance for states and union territories plan is Rs. 10,850 crores against the current Rs. 9714 crores. The revenue deficit for 1989-90 is shown as Rs. 7012 crores against Rs. 11,030 crores in the revised deficit for 1988-89. The lower revenue deficit for 1989-90 is due to the pool account of oil coordination committee lodged in public account of Rs. 2300 crores. This is added to the other non tax revenue of Rs. 4218 crores to give the non plan tax revenue receipts of Rs. 14,243 crores for 1989-90 against Rs. 10,483 crores revised for 1988-89. As a consequence, as noted earlier, the budget deficit for 1989-90 is shown as Rs. 7337 crores compared to Rs. 7940 crores for 1988-89 revised.

The Bombay stock market reacted positively to the budget at the early stages (immediately after the decontrol of cement and aluminium was announced by the Finance Minister). The index rose from 663 pre budget to 680, but when the budget's 8 per cent income tax surcharge and excise on steel and pig iron were announced, it set off wide spread selling and only the intervention of financial institutions in steel, aluminium, cement and fertiliser shares, prevented the index falling below 655 at the end of the day.

It is of interest to see how the 100 paises in the rupee is distributed in raising the budget income and in its disbursement on expenditure items as shown in table II.

TABLE II

How Rupee comes and goes

Rupees comes	Paise	Rupee goes	Paise
Excise	24	Central Plan	18
Customs	19	Interest	18
Internal borrowings	16	Defence	14
Non-tax revenue	14	Share of taxes	13
Deficit	8	Other non-plan expenditure	14
Other capital-receipts	4	State and UT plan assistance	11
Corporation tax	5	Subsidies	9
Income tax	5	Non-plan assistance	3
External assistance	4		
Other taxes	1		

The budget is on the whole a sound document in the present circumstances. Its plus points are : a) the defence expenditure has been for the first time reduced marginally and somewhat more in real terms. This should be the start of a real reduction based on careful review of every item of defence to which the cost effective technique should be applied. This reduction also sends the right signals to Pakistan and China which could follow suit : b) the tax proposals move in the progressive direction. The 10 per cent surcharge on those earning above Rs. 50,000 and the reduction in the rate for the first step are sound moves. Only in 1989-90 the above Rs. 50,000 earners will, as a result of the dropping of 5 per cent drought surcharge for 1988-89 and 1989-90 on income tax and wealth tax, pay no net addition as tax: further the rise in excise and customs are on non necessaries and is also a move in the right direction: c) some token efforts are being made to promote environmental safety and conservation of energy which should be extended in the future : d) the effort to reduce the revenue deficit, though it is done by taking credit from crude earnings, is commendable and reduces the rate of increase of revenue deficits over the 4 years of VII Plan. This effort should be continued in future years; the effort to increase capital expenditure is a consequence and to be commended.

But the minuses are serious and outweigh the pluses : a) apart from defence, there has been no attempt to cut other non plan non development expenditures. On the other, how subsidies and interest and public administration are on the increase : b) If these are pruned, the revenue deficit and hence the budget deficit can be sharply reduced. In my writings I have shown how they can be reduced to zero, and the revenue account produce a surplus amount to finance capital account and the plan schemes : c) the continuing heavy budget deficit will increase reserve money and so fuel inflation : d) given the crisis that the country is facing in savings which have fallen from 21.16 per cent in 1986-87 to 20.2 per cent in 1987-88 gross and from 13.5 to 11.1 per cent net, the budget has made no real effort to stimulate and promote savings : e) the various import duty reduction on capital goods and componants will have a double negative effort ! first, it will worsen our already deficit balance of payments and second it will weaken our domestic capital goods industry : these concessions are being given in the name of technological upgradation, whose record is not obvious : f) the real means of generating employment and reducing poverty is through promoting accelerated growth in agriculture, irrigation, fertiliser, animal husbandry and small and village industries which are all in the state list. The budget should have increased and decentralized resources in these areas to the states. The rural development programme and the new employment programme are only supplemental to the major economic effort by the states to generate employment : f) finally the AIIC resolution and its effect on saries for destitute widows and employment of one person in rural households diverts the budget from its main effort which is to promote an employment generating, poverty reducing economic system.

Railway Budget

The railway budget for 1989-90 introduced at the end of February in Parliament shows the revised estimates for 1988-89 being (somewhat suspiciously) exactly the same as the original budget except on four items : a) gross traffic receipts which is slightly lower at Rs. 9376 crores against the budgeted Rs. 9393 crores : b) net traffic receipts at Rs. 651 crores against the Rs. 668 crores which was budgeted : c) dividend to the general revenue at Rs. 719 crores against the budgeted Rs. 736 crores : d) net railway revenue at Rs. 747 crores against the budgeted Rs. 764 crores. The Budget for 1989-90 shows an increase in all items, with sharpest increases in total working expenses and gross traffic receipts at 12 and 10 per cent respectively, and a marked rise in the surplus at over 5 times of the revised surplus in the revised budget. The operating ratio which had spurted in the revised budget to 93 per cent from the budgeted 92.8 per cent is shown at a lower 92.1 per cent for 1989-90. The budget for 1989-90 in relation to the actuals for 1987-88 and the budget for 1988-89 and its revision are shown in table III :

Some 15 new trains and the increased frequency and extension of 10 trains are reported. The plan allocation for 1989-90 is Rs. 4450 crores which makes the total VII Plan allocation Rs. 16358 crores against the envisaged Rs. 16917 crores (adjusted for cost escalations). For 1989-90 the originating traffic is 345 million tonnes and the revenue earning traffic is 315 million tonnes, involving total traffic output of 252 billion net tonne kilometres. There is no proposal to change passenger fares, passenger traffic is estimated to go up by 3 per cent. The main change in the budget is the 11 per cent increase in the rates on goods traffic, including that on parcels and luggage, which only yield an additional revenue of Rs. 878 crores and is a major contributor to the budgeted surplus of Rs. 140 crores. It is proposed to open 8 new sections to traffic, to complete 5 new railway lines (in the North West) and start work on 4 new lines and undertake surveys for 14 new projects. On track renewals, which is more of a priority, than opening new lines, it is reported that at the end of the year 1989-90 the backlog of rehabilitating 19000 kilometers will have been wiped out. Electrification of traction is continuing with Delhi-Madras and Delhi-Howrah to be completed in 1989-90, with the total energised, kilometerage being 3150 km during the Plan. As part of technology upgradation, rails of higher tensile strength, stressed concrete slopes and modern machines which improve maintenance and renewal are to be used. Similarly, 18 electric locomotives, 40 freight and passenger 3 phase locomotives, 42 high speed coaches will be deployed in the coming year. R & D being expanded. RDSD is to be restructured and energy conservation involving phasing out of 2000 steam locomotives and the better maintenance of diesel loco sub systems, including computerised maintaining of their consumption of HSD and lube oil together with energy audit of major railways institutions are under way and are planned. The metro system in Calcutta delayed by land acquisition and in Bombay where construction is on schedule and in Madras where the limitation of funds for the Beach-Luz sector are referred to. The budget makes on the whole a sound set of proposals and is to be commended. The questions that arise are : i) why the old British colonial system of having a separate budget presentation for the railways should be continued, when there are other public sector enterprises which have a large capital base and turnover — like the crude area. Is it

TABLE III

Actuals 1987-88	Budget 1989-90			Revised 1988-89 (in rupees crores)	Budget 1989-90
8435.25	9393.00	(a)	Gross traffic receipts	9376.00	10633.00
6002.95	6675.00	(b)	Ordinary working expenses	6675.00	7373.00
1350.00	1500.00	(c)	Appropriation to Depreciation Fund	1500.00	1715.00
450.00	550.00	(d)	Appropriation to Pension Fund	550.00	700.00
7802.95	8725.00	(e)	Total working expenses (b)+(c)+(d)	8725.00	9788.00
632.30	668.00	(f)	Net traffic receipts (a)—(e)	651.00	845.00
90.85	96.00	(g)	Net miscellaneous receipts	96.00	100.00
723.15	764.00	(h)	Net Railway Revenue (f)+(g)	747.00	945.00
638.86	736.00	(i)	Dividend Payment to General Revenues	719.00	805.00
+84.29	+28.00	(j)	Surplus/shortfall (h)—(i)	+28.00	+140.00
84.29	28.00	(k)	Appropriation to Railway Development	28.00	140.00
—	—	(l)	Payment of Deferred Dividend	—	—
92.5%	92.8%	(m)	Operating Ratio	93.0%	92.1%
6.2%	6.0%	(n)	Percentage of net Revenue before payment of dividend to General Revenues on the Capital-at-charge	5.8%	6.5%

not time that the railway budget is merged with the general budget : ii) the 11 per cent hike in freight rates will have an inflationary effect in raising the transport cost of bulk commodities like foodgrains, coal, fertilisers, etc which means that they will have to increase their productivity to absorb a part of this hike. Further, there was no reason to leave passenger fares untouched. If they had been raised on the average by 5 per cent, the traffic hike could have been moderated : iii) there is a question whether the flurry of opening new railway lines is not diverting resources from the more urgent need for rehabilitation of railway coaches and stock : more details on this are needed : iv) finally, the south has come out rather poorly — apart from funding the ongoing projects in Kerala and Karnataka, and Tamil Nadu's meagre Tambaram-Chingleput second line and the Rs. 6 crore electrification for the Pattabiram Tiruvellore section. It will be necessary to redress this regional imbalance in the VIII Plan.

Economic Survey

The Economic Survey for 1988-89 presented to Parliament before the annual budget presentation sets forth a positive and optimistic picture, with heavy concentration on growth rates, — overall and sectoral. The selected economic indicators are given in the table IV. For the year, the overall economic growth rate is expected to be 9 per cent, due largely to the bounce back in agriculture, which recovering quickly from last year's drought is expected to increase at 17 per cent, foodgrains production exceeding 168 million tonnes and high production levels in cotton, sugarcane and oil seeds, the latter enabling the government to cut edible oil imports by more than half. The only minus point in this good agricultural situation is the stagnation in the production of pulses, which affects the protein intake of the people. On industry, the survey is almost lyrical referring to the industrial growth upto November 1988 of 9 per cent, so that for the year it would be 8 per cent which is the fifth consecutive year, for growth rates of 8-10 per cent attributed to the ongoing ,process of liberal industrial policy reforms comprising reduction in procedural impediments and increased emphasis on capacity creation, technology upgradation and competition and the introduction of measures for higher economic scales of production. Not only have the key infrastructure sector of coal, steel, cement, fertilisers, railways and power done well, the excellent performance of the economv coupled with the advances in policy reforms and fresh fiscal concessions extended during the year were reflected in a buoyant stock market as evident from the RBI index of ordinary shares scaling to over 285 for the week ended December 31, 1988. On price management, the survey noted that the annual inflation rate as measured by WPI was contained below 5 per cent against the 10.6 per cent recorded last year 1987-88. This is attributed to a whole range of steps taken on the demand side aimed at financing the relief measures without showing any undue increase in the budget deficit (there is a hint about that the budget deficit will be less than what was presented last year) and the adequate availability of foodgrains (involving 2 million tonnes of imports of foodgrains) and other essential commodities on the supply side. With agricultural and industrial production rising sharply, the inflation rate for the year will be moderate. On the external front, exports increased by 24 per cent

TABLE IV

(percentage change over previous year)

	1977-78	1979-80	86-87(p)	87-88(p)	88-89(p)
Gross National product 80-81	8.7	—4.7	3.8	3.6	9*
Agricultural Production	14.3	—15.2	—3.7	—2.1	17 to 20
Foodgrain production	13.7	—16.8	—4.7	—3.5	20 to 23
Industrial production	4.2	—1.7	9.1	7.5	9.3(3)
Electricity generated (utilities only)	3.4	2.1	10.3	7.6	8.5(4)
Wholesale prices (on point to point basis)	0.3	21.4	5.3	10.6	5.10(5)
Monetary resources (M3)	18.4	17.7	18.6	15.9	15.0(6)
Import (at current prices)	18.7	34.2	2.8	10.9(9)	27.4(7)
Export (at current prices)	5.2	12.1	14.3	26.4(9)	24.4(7)
Foreign exchange reserves (including gold and SDR end of period (Rs crores)	4862	5934	8151	7687	5967(8)

*Anticipated

(1) Growth rates upto 1980-81 are at 1970-71 prices, based on old series

(2) Growth rates are based on the old index of industrial production (base 1970 = 100) upto 1980-81 and on the new index (base 1980-81 = 100) thereafter.

(3) April-November, 1988

(4) April-December, 1988

(5) March 26, 1988 to January 21, 1989

(6) Between March 31, 1988 and January 13, 1989

(7) April-December 1988 over the same period of 1987

(8) January 31, 1989

(9) Over the corresponding partially revised figures of the preceding year.

(P) Provisional

in rupee terms. As against this rosy picture, there are disturbing negative elements which are also referred to. One and the most serious is the stagnation in employment growth in the organised sector, which is disturbing because it affects the poverty reduction effort. A second negative element is the increase of industrial sickness. A third problem is that the consumer price index rose by 8.6 per cent during April-December 1988, though some satisfaction is derived from the fact that that was lower than the 9.4 per cent inflation rate recorded in 1987-88, the drought year. Fourth, the trade deficit has increased, as has deficit in the balance of payments. The survey acknowledges that the non resident deposit scheme (FCNR & NRER) provided the main support to the government in tiding over the difficult BOP situation. Under FCNR Rs. 1547 crores and under NRER Rs. 457 crores were inflow in the period April-December. In the first 9 months, imports increased by 27.4 per cent as against the smaller increase of 13.5 per cent during that period in 1987-88. Fifth, there was a growing imbalance in the fiscal situation due to stagnation in national savings, which is traced to the deterioration in public sector savings which have fallen to 1.9 per cent of GDP compared to 5.2 per cent in 1970-71. By 1987-88, the September gross capital formation out of the budgetary resources of the Union government and its gross saving had risen to 9 per cent of GDP. Recounting the demand of the Economic Survey to reverse the tendency for the growth of current government expenditure to outrun current revenues, the survey says that this has led to the rising rate of dissaving and growing reliance on market borrowings for financing expenditure. This means that there has to be strong curbs on the growth of current expenditure, and as well as steps "to enhance the buoyancy of tax revenues and measures aimed to broaden the effective base of direct taxation". (There is no reference to increasing the tax rates) Finally, the external debt is placed at 24 per cent of current export receipts. The survey cautions the governments against external borrowing on commercial terms, which it says must be in line with the growth of foreign exchange earnings against the present drain on our foreign exchange resources. But it says that "we must guard against the temptations to seek quick savings in foreign exchange through widespread imposition of discretionary physical controls, since experience suggests that such an action will take heavy toll of industrial efficiency and production and achieve little effective saving of foreign exchange". Thus a strong case is made for continuing the "liberal" industrial and import policy initiated in 1985, paying lip service to the discouraging of "the use of foreign exchanges for the production and assembly of inessential goods in our protected domestic market". Are Marutis, colour TVs, Free and Easy sanitary napkins and a whole host of consumer goods advertised daily on the TV not inessential goods ?

Plan

The Planning Commission brought out the Annual Plan for 1987-88 just before the Economic Survey was issued and is open to criticism because of the long delay in its issuance giving the outline figures for the 1988-89 plan, (which is two months before the end of 1988-89). There is merit in the suggestion that the Commissions could issue a summary note, after concluding its discussions and negotiation with the

Union ministries and State governments, setting forth in outline the estimates and schemes before the start of the financial year. Now the document is largely of historical interest. The Annual Plan for 1988-89 calls for efforts to maximise receipts from taxes and other sources, restrain growth of non Plan expenditures and prevent the erosion of resources through inflation. According to the Plan document, 92 per cent of the Seventh Plan outlay will have been increased in the first four years of the Plan. With the provision of Rs. 49817.8 crores for 1988-89 and the revised Rs. 43,677.93 crores for the previous year, at current prices the four year total is Rs. 166,250.60 crores, which when deflated is Rs. 142,364 crores which is 79 per cent of Rs. 180,000 crores at 1984-85 prices. The document makes the claim that the VII Plan outlay of 180,000 crores will be exceeded in real money terms but makes no reference to the fact that it will not do so in term projects and programmes which are suffering from massive time and cost over runs, along with the fact that the increasing financial allocations are not being translated into physical assets on the planned scales. Budgetary support to PSE for the first four years has been — Rs. 8520 crores while for the 5 years it was envisaged at — Rs. 5249 crores. The funding pattern of the first 4 years of the Seventh Plan shows very heavy reliance on market borrowings and deficit finance. Market borrowing which has increased from Rs. 6691 crores in 1985-86 to Rs. 9500 crores in 1989-90 takes the 4 year total to Rs. 32,413 crores against the 5 year provision of the Seventh Plan of Rs. 30,562 crores at 1984-85 prices. Similarly, deficit financing for the 4 years is Rs. 26,339 crores against the 5 year target of Rs. 14,000 crores. ARM by Union and State governments totalled Rs. 17,528 crores in 4 years. The document says that domestic resources (budgetary, borrowing and other capital receipts) will finance 76.3 per cent of the outlay and deficit financing will cover 15 per cent (the balance 8.7 per cent will be covered by net inflow from abroad). It is interesting to note according to the document that in the previous year, 1987-88 the approved plan outlays for energy, transport, science and technology, and environment were not spent in full and at the same time there is the talk of the resource crunch. The way in which the resources are mobilised raises the question of the utility of planning without resources. The document gives no indication of the extent to which, the manner in which the budgets of the State governments reflect the agreed Plan decision and promises. The Annual Plan for 1988-89 has envisaged a total public sector outlay of Rs. 49,817.83 crores representing an increase of 11.45 per cent over the approved outlay. The Union Plan outlay is Rs. 28,714.64 crores (+14.4 per cent as approved outlay) and the outlay for the state is Rs. 20,333.19 crores which is a step up of 10.7 per cent over the previous year. The total 1989-90 Annual Plan outlays of 21 of the 25 states finalised so far is Rs. 19,102 crores (+10 per cent over that for 1988-89). While this makes the Seventh Plan outlay of these 21 states large (Rs. 76,223 crores against an original Rs. 69,422 crores in the Plan at 1980-85 prices), in real terms when deflated the total outlay will be less than the level envisaged in the Seventh Plan document. There was a brief flurry when in early February, speaking to the Indian Merchants Chamber at Bombay, the Prime Minister who is also chairman of the Planning Commission referred to 6.5 per cent as the growth rate for the

VIII Plan period. He corrected this when addressing the National Conference on Planning on 11 & 12 February to the earlier announced and decided 6 per cent. The chairman should be chary of throwing out suggestions like this, because he is the chairman of the Planning Commission.

Prices

The whole sale price index on a point to point basis between December 31, 1988 and January 28 1989 showed a rise of 4.2 points, at 437.6 on January 28. The average WPI for January at 437.5 rose by 0.7 per cent over December 1988 and by 5.2 per cent over January 1988 level. During the first 10 months of 1988-89, the average WPI at 432.6 gained 7.3 per cent over the same period in 1987-88. The average WPI for primary articles rose by 7.5 per cent during the first 10 months of 1988-89, manufactured products by 7.7 per cent and power, fuel etc by 5.7 per cent. The disquieting part of this situation is the high rise in prices of essential commodities, foodgrains, fruits, vegetables, milk and milk products. This is despite the good agricultural crop but with the shortfall in foodgrains procurement, the food stock is declining. Another disturbing factor is the RBI report that during the period March 31, 1988 and January 13, 1989, bank credit to government was Rs. 9724 crores. This is the measure of deficit financing. It should be noted that in 1987-88 it was Rs. 8136 crores and Rs. 9149 crores in 1986-87. RBI credit to government is primary money which has multiple effect on prices.

Taxation and States financing

The Direct Tax laws (Amendment) Act adopted by Parliament in late February which excludes various allowances from the computation of total income, allows the value of one residual house to be determined by the capitalisation method, exempts business income from tax, of scientific research and sports associations, extends investment allowance on new ships and aircrafts purchased in 1987-88, extends reduction in respect of loans to employers of local authorities and deduction also to tour operators, which was available to hotels earning foreign exchange. This 95 clause bill with all the 27 official amendments was adopted by Parliament. The conference of chief ministers in February 9 & 10 decided along with the Union Finance Minister that the bill to introduce consignment tax will be brought before Parliament in the monsoon session, which is a tardy compensation for the tax being agreed upon in 1983 and unanimously ratified in 1984. The power to grant exemptions from it is to vest with both the Union and states on the basis of guidelines to be drawn up by a committee. 50 per cent of the proceeds would be retained by collecting states and balance placed in the divisible pool for distribution among the states using the excise duty distribution formula. The proposal to levy additional excise duty in lieu of sales tax on selected commodities - vanaspathi, drugs and medicines, cement, paper & paper board and petroleum products was dropped. The proposal for floor rates for sales tax to avoid a rate war was approved. On the question of overdues from State Electricity Boards to the Union public sector plants, the states accepted responsibility to pay but asked that it be not deducted from plan grants. About monitoring external aided projects, the Union and states should ensure that they had

enough resources to see the project through. On taxes, RBI has drawn the attention of the government to the steep decline in the share of direct taxes in total tax receipts in recent years contrary to the assurances in the long term fiscal policy document, but the mounting budget deficit might well force the government to utilise indirect taxes as there is reluctance to increase direct taxes as seen in the economic survey. The 1988 October Bulletin of RBI calls attention to the steep and persistent increase in non plan non development expenditure and a reluctance to mobilise additional resources on the part of a number of State governments. This has resulted in 12 State government curtailing their plan outlay. Their anticipated revenue surplus of Rs. 1011.12 crores turned into a deficit of Rs. 1624.2 crores. The combined budget position of states for 1988-89 shows an overall deficit of Rs. 642.2 crores — a deficit of Rs. 823.3 crores under revenue account and a surplus of Rs. 181.1 crores under capital account and Rs. 635.6 crores from ARM. The deterioration in states finances stems largely from a continuing increase in non plan expenditure which, as a proportion of total expenditure, has increased from 22.8 per cent in 1987-88 to 26.8 per cent in 1988-89, with administration, services, interest payments and pensions being the bulk of outlays. This has also pre-empted development funds which has increased only by 3 per cent in 1988-89.

Stock Exchange

The Abid Hussain working group on capital market has recommended 1) sale of 25 per cent equity shares by well managed government owned companies to the public, 2) doubling the limit of non deduction of tax at source on dividend income of Rs. 5000 per year and introduction of a personal equity plan with 80 CCA income tax concession, 3) non voting shares and medium term debentures, 4) reform of the interest rate structure, 5) doing away with public sector bonds, 6) severe penalty for insider trading, 7) setting up of joint sector and private sector mutual funds 8) wide publicity for takeover of companies; 9) disclosures of risk factors in the company prosperity, 10) a signed statement by merchant bankers that they are satisfied with the statements made in the prospectus, 11) all companies raising capital through public issues through merchant banks 12) SEBI should evolve eligibility criteria for merchant bankers to be registered such as minimum capital requirement, past track record etc. along with formulating a set of ground rules to make them more responsible and 13) market makers to be appointed by all stock exchanges and a clear method of bank financing of market making to be evolved. These recommendations are aimed at making the capital market more attractive and setting up means of investor protection. The action given to these recommendations needs to be watched carefully. To safeguard the interests of minority share holders at a time when there is a state of corporate take overs, representatives of the country's stock exchanges have decided to annul clause 40 of the listing agreement, whereby the minimum percentage of shares acquired by buyer will be reduced from 25 per cent to 10 per cent and stock exchange to be given power to approve the terms and conditions of a takeover so that there is a reasonable price paid to the buyer.

Economy

The Presidential address at the opening of Parliament gave the usual optimistic picture of the Economy as seen by the government. It refers to the 'constructive' work done during the last 4 years, the resilence despite the drought and the probable 5 per cent growth in the VII Plan. The overall growth rate in 1988-89 will be 9 per cent, the industrial growth in the first 6 months is 9.5 per cent, manufacturing recording 16.6 per cent and small scale sector 13 per cent increase. The infrastructure industries and public sector enterprises improved. Industrial relations were stable. Though exports rose by 50 per cent in the last 2 years, balance of payments and inflation are causing concern. There is need for careful monitoring of imports, it states. Technology mission in drinking water has provided sources of drinking water to 160,000 problem villages: the mission on literacy, with the help of over 500 voluntary organisations has launched a mass literacy programme in many states. Also a sixth technology mission on dairy development has boosted rural incomes through increased milk production and improved animal productivity. Faster growth in agriculture has helped to reduce poverty, which is further strengthened by IRDP which has reached over 25 million beneficiaries, half belong to SC & ST: NREP targets for the terminal year of the Plan have been excluded in the 4th year: 4 lakh houses have been completed under the Indira Awas Yojana: the minor wells schemes for SC & ST has been launched and freed bonded labour. TRIFED, a marketing organisation to ensure fair price to tribals for their products have been studied. A National Finance and Development Corporation for SC & ST has been established. The National Housing Policy has been passed by Parliament, giving priority for housing to SC, ST, rural landless, artisans, weaker sections and low income groups. The National Housing Bank has been established and constraints on house building such as inadequate land and capital revenues removed. The implementation of the National Education Policy has progressed, 40 per cent of the blocks in the country are covered by Operation Black Board, a start made in the vocationalisation of secondary education and 258 Navodaya Vidyalaya established. The National Forest Policy has been revised to ensure better environmental protection and ecological balance. The law on water pollution has been made more stringent and an institutional frame envisaged for regulating installations producing hazardous chemicals and to deal with disaster.

During the last 40 years, agriculture has grown by 1.7 per cent per annum, and industry by 7 per cent per annum, so that the material production sectors have grown 3 per cent annually and the claim of the 5 per cent annual growth is the result of the growth of the service sector. In the early fifties, agriculture contributed 55 per cent of GDP, industry 20 per cent and services 25 per cent. After 4 decades, agriculture's contribution has declined to 37 per cent, industry is still 20-23 per cent and services have spurted to 40 per cent. In terms of employment, less than 20 per cent of the working population is engaged in services, whereas in agriculture and allied activities 66 per cent are employed — both in 1950 and today. It is not the high growth of the service sector which is worrisome but lack of contribution of this sector towards employment, where it is stagnant, no increasing productivity when the record is on the down trend and in earning foreign exchange. There is a need for a national policy which will ensure balanced development and use services as an engine of growth — as in

education, health, transport and communication in rural areas as in urban areas. The National Remote Sensing Agency reports that of the country's total forest area of 56 million hectares (against the official 76 million hectares), the country is losing 1.3 million hectares annually, especially in hill areas. The fragile eco-system is being threatened also by tourist promotion, which means that the rich unique and varigated fauna of the country which attracts tourists is being endangered. If the habitats of our wild life are being encroached by our unrelenting population growth, the thoughtless development of infrastructure to promote tourism interferes more directly with the eco-system. Udagamandalam is an example of an attractive hill resort being turned into a highly congested and polluted human settlement to provide for tourists. An overall wild life management plan is needed and its enforcement ensured. RBI's report on Banks in 1987-88 shows the rapid increase of deposits at over Rs. 20,000 crores in the current year and is resulting in diversification of its activities. A member has set up merchant banking divisions which has mobilised resources from new sections of the community. The government decision to form a National Housing Bank to provide refinance for long term credit loans will boost housing. The diversification of the bank activities will promote increased monetization of the economy. The banks have now Rs. 1,38,322 crores of aggregate deposits and at the rate of Rs. 20,000 crores will pass the Rs. 2,50,000 crores by 1994. And to counter excess liquidity, as CRR is raised to 11 per cent, Rs. 4000 crores will be available for financing the Union governments deficit. The bank have been advised to draw up new action plans to cover the period April 1988 to March 1989, being coterminous with the VII Plan, with added emphasis on rationalisation of systems and procedures, efficient management information systems, strengthening of organisational structures, financial viability and a time bound programme for making all branches viable and efficient, imaginative implementation of service and approach, effective credit management and use of health code of borrowal accounts as management tool for improving the quality of bank assets, speedy response to signs of industrial sickness and an appropriate mechanisation of operation. This is a long way from the traditional banking system engaged in granting short term credit to industry and trade and on concessional terms to the priority sector.

Industry

CSO's quick index shows a rise of 7.3 per cent in industrial growth for November 1988, and as earlier noted, 9 per cent for the 8 months, April—November 1988 compared to the like period in 1987. It is pointed out that even as government complaints of the resource crunch, the capital market is booming, shares of even unknown companies are oversubscribed and new money is in hot pursuit of old capital through predatory takeover bids — even when in 1986-87 and 1987-88 a study of 300 companies shows the rate of growth of gross profit declining from 6.6 per cent to 3.7 per cent. While dividends increased from 8.7 per cent to 14.4 per cent, there is a decline in the generation of internal resources of companies as profits after tax minus dividends go down. In this context a number of companies are selling a part of their image along with their equity to foreign buyers. This to some extent counters the foreign exchange drain caused by liberalisation and needs to be pushed as import of foreign capital is one may of earning foreign exchange. CMIE study, Trends in Company Finance, reports that the profitability ratio of private sector companies which fell to 20 per cent in 1986-87 fell further to 9 per cent in 1987-88. As a result retentions declined by 34 per cent and 28 per cent in the two years. The Union government announced in mid February a further relaxation in the industrial location policy but restricted the benefits of relaxation to projects that are non polluting and involved in fixed assets upto Rs. 5 crores only. The government has called upon industry to consider the protection of the environment as its primary responsibility and social obligation. While machine tool production is reported to increase by 15 per cent in 1988, the implementation of the Indira Vikas Awas Yojana (house sites to the poor) is lagging. The World Bank has in its usual somewhat official manner suggested that India should further liberalise its policy for the import of technology and capital goods under its Technical Development Fund to encourage modernisation and technological upgradation.

Public Sector

The Economic Survey reports that for the first half of the current financial year, the public sector units showed a net profit of Rs. 694 crores compared to Rs. 60 crores in that period during 1987. However the net loss of departmentally run undertakings was Rs. 1085 crores against Rs. 944 crores last year, while the net profits of project making units increased from Rs. 1475 crores in 1987 to Rs. 1928 crores in 1988 April-September. A study of their working states that heavy construction cost with long gestation period, using administered rather than market prices, managerial inefficiency and indifferences and bureaucracies inertia, dominance of politicians in policy making, insecurity of tenure of executives and unsatisfactory public relations account for this low productivity. A consortium of 3 public sector units, Vikas Nirman Technique, plans to enter real estate business. The long promised government white paper on the public sector enterprises is still not available.

National Production Front

Steel

SAIL reports that its plants production in 1988 exceeded 8 million tonnes and that its exports for 1988-89 will be Rs. 100 crores. SAIL's Rs. 10,000 crores modernisation programme has earmarked 3.0 per cent for replacing open hearth furnaces with basic oxygen furnaces and similar 30 per cent for raw material improvement, 17 per cent for blast furnace modifications and 15 per cent for rolling mills. To meet the anticipated increase in demand, modernising the existing plants is cost effective as capacity related investments have been estimated at Rs. 16,500 a tonne. There are some questions about Durgapur, Rourkela and Burnpur which have not functioned at rated capacity till now and whether the modernisation will improve capacity use. Would cost of production improve ? What happens to its surplus labour ? These questions will have to be faced and solved at the plant level. The government announced in February approval of the revised Rs. 1357 crores

investment package for the modernisation of Durgapur. It is pointed out that the country will soon save Rs. 100 crores of foreign exchange (out of the Rs. 600 crores being spent) by manufacturing steel from sponge iron but it is also believed that steel and pig iron shortage will continue into the next decade, of 10 lakh tonne for the next 10 years of HR coil sheets and 3-4 lakh tonnes of pig iron.

Crude

ONGC reports that 1988 was a good year for the southern region. In Cauvery and the Krishna Godavari's basins, ONGC has improved its productivity as shown in the decline in the cost per metre of completed wells from Rs. 19221 per metre in 1985-86 to Rs. 13515 per metre now. In February, oil and gas were struck in the second well at Bantimill, oil at 100 barrels and gas at 23,000 cm a day. For the offshore, it has declined from Rs. 30,396 per metre to Rs. 22,523 per metre. ONGC has established over 100 million tonnes of oil equivalent of gas in the two areas. On land the present potential from the Narimanam fields are estimated at 320 tonnes per day and is likely to be increased upto 0.4 million tonnes per annum. The Petroleum Conservation Research Association reports that despite crude oil production increasing by leaps and bounds, with economically recoverable reserves of 581 million tonnes and current annual production of 32 million tonnes, the demand for petroleum products will rise to 111 million tonnes by 2004 against domestic production of 54 million tonnes, increasing dependence on imports. So there is urgent need for conservation and drastic reduction in the use of petroleum and its products.

Coal

Coal India reports that it will exceed the target for the fourth consecutive year of 170.08 million tonnes for 1988-89. In the first ten months it reports a production of 134.18 million tonnes. In addition it promises to supply grade wise quality coal. It however faces several problems. Apart from being over manned, it has 3000 dumpers, half of which do not work. Hence it is rightly forcing suppliers to give performance guarantees for all equipment bought.

Non ferrous

The government reports new deposits of tin being located by the geeological survey in Mudewal in MP. NALCO states that it has exported over 3000 tonnes of aluminium from April 1988 to January 1989 and 39,800 tonnes of aluminium in January. BALCO reports that its export in 1987-88 earned a modest profit, exporting 8.8 lakhs of aluminium flat products to the UK. The government states that it is going ahead with aluminium price decontrol despite the industry's apprehension. The proposal will result in 10 to 15 per cent rise in its price.

Cement, fertiliser, sugar

The cement industry in order to export cement and earn foreign exchange, as noted earlier, is forming a cement export corporation. It estimates that exports will result in a deficit of Rs. 350 per tonne even after government's duty free import of coal, fuel oil and craft paper and so is asking its members to contribute Rs. 150 per tonne for export of cement. The Union government states that it will revise the pricing norms for phosphatic fertilisers, replacing the capacity utilisation norm by stream days as the base for computing the normative production level· This means that the effective capacity utilisation norm for price purposes will be raised from 70 per cent to 82.5 per cent. The production of sugar for the first three months ended December 1989 was 24.06 lakh tonnes (against 20 65 lakh tonnes in the same period last year) and at this rate products for the season may exceed 100 lakh tonnes. While there is keen competition for cane by gur and khandasari producers in Western UP, in Maharashtra, Tamil Nadu and Karnataka the cane supply in plentiful.

Textiles and Drugs

The textile industry faces a number of problems with NTC's 120 mills and STC's 51 mills, with 113 mills closed and several just keeping their heads above water. ICMF attributes this to a number of unwanted controls on mills from the procurement of raw materials to the sale of the finished products. Production of controlled cloth led to a loss of Rs. 500 crores upto 1978 and further controls on the mills were imposed to protect the handloom sector which now produces 10,250 million metres against 2855 million metres by mills, reducing the share of the organised sector in textile products from 40 per cent in 1978 to 22 per cent now. Rise in cotton prices and high import and excise duties are also blamed for the plight of the mill prices. On drugs, the government announced in mid February revised norms for computation of charges on account of conversion cost, packing process loss for the fixing of drug prices and new guidelines for granting exemption to certain bulk drugs manufacturing units from the Drugs Price Control Order (DPCO), these pertain to units which produce bulk drugs from the basic stage by a process developed through their own R & D. The 1987 DPCO has resulted in many multinationals — Pfizer, Ciba-Geigy, Burroughs Wellcome making high profits, outstripping growth in their sales, while a few have not profited from the order. Many have been helped to come out of the red. Further, those companies making 3 major drugs — antibiotics, vitamins and psychotropics have gained the maximum profits

Agricultural Production

As noted earlier, the union ministry reports that on the basis of states' reports the foodgrain production for 1988-89 will be between 166.5 million tonnes and 171 million tonnes, rice at 68-69.5 million tonnes, wheat 51-52 million tonnes, coarse cereals 34-35 million tonnes and pulses 13.5 million tonnes to 14.5 million tonnes; oil seeds will be between 14.5 to 15.5 million tonnes; sugarcane 196-200 million tonnes and cotton 9-9.5 million bales. The report states that in 1987-88, the the drought year, rabi output recorded 64.52 million tonnes, rabi rice being a record 7 million tonnes, rape seeds has had 3.37 million tonnes and sunflower output rose by 38.6 per cent. In this connection, a study published in the Economic Times states that an analysis of rainfall data by states shows that 1987-88 was not the worst drought of the year and century or of the 80s, that it was the worst since 1950 only for Punjab, Haryana and Orissa whose agriculture is independent of rainfall. For Karnataka, Kerala, Maharastra and Tamil Nadu it was the best of 6 droughts since 1965-66, and on this basis estimates that the growth rate

hsould have been 4.3 per cent against the 3.4 per cent announced by CSO. This analysis raises many questions as to the empirical evidence of hundreds of thousands small and marginal farmers and landless labourers being forced to migrate to other areas, the hundreds of thousands of cattle which had to be moved and lost etc. Official sources say that plentiful South West monsoon in 1988-89 has left some pockets dry and the North East monsoon from October was not favourable. Only 10 of the 35 meteorological sub divisions reported normal rainfall. In Karnataka and Tamil Nadu it was deficient and normal in MP and Kerala. The good foodgrain production was not only due to the good SW monsoon, but to the fact, that following the mid term review of the VII Plan the government concentrated on 5 major crops – rice, wheat, maize, Arhar and gram in 169 districts in 14 states. A bumper crop is the coconut crop (+20 per cent over last year's 6400 million nuts) is expected this year. The Planning Commission's agricultural adviser states that India has the potential to step up foodgrains production threefold to 450-500 million tonnes in 2000 AD by harnessing the country's water resources.

Foreign Trade

In the Annual Plan 1988-89 document, the Planning Commission has expressed its disquiet over the country's balance of payments position and has called for sustained and well directed efforts for maintaining its viability without constraining growth and capital formation. Only rapid export promotion will contain the country's trade deficit it states. Against this, the ministry of commerce announces that exports are doing well, that in the first 9 months, April to December 1988, exports increased by 26 2 per cent in rupee terms and 15 per cent in dollar terms. On this basis it forecasts that exports for 1988-89 may reach Rs. 20,000 crores against the target of Rs. 18,795 crores and the 1987-88 earning of Rs. 15,720 crores. Imports during this period rose by a higher 27 per cent at Rs. 20 528 crores mainly because of bulk items and crude imports, it is said. The 255 units in the six Export Processing Zones (EPZ), at Kandla, Santa Cruz, Cochin, Madras, Falta and Noida, have been pressing the commerce ministry for more fiscal support and further participation in the Domestic Tariff Area (DTA) and in response the government has pointed to the very poor performance of the EPZs, exporting only Rs. 1050 crores over 3 years at a stagnant Rs. 350 crores per year, in 1987-88 of Rs. 333 crores against the target of Rs. 485 crores and in 1988-89 an estimated Rs. 356 crores against a lower target of Rs. 428 crores. Similarly not only have there been little technological spin offs from the zones, they are increasingly going in for screw driver technology, merely repackaging imported items for exports in rupee area. There is need for a comprehensive review of EPZs and the NRI and MNC should not be encouraged to prefer EPZs to DTA as the avenue for entry into the Indian market. While the government is right in rejecting the continuing demand of EPZ units for more subsidies and concessions in view of their poor record, the government in its turn should look into the absence of real 'single window' clearance, the bureaucratic delay in granting CCS and the cash flow crisis they face, which could be improved. On the individual items, synthetics and rayon textiles export are booming at Rs. 156.12 crores during the first 8 months — April-November, already surpassing the year's target of Rs. 150 crores, engineering exports have similarly recorded a 30 per cent growth in the 8 months April-November ; iron ore exports have increased by 13 per cent in the 6 months April-September: government announces that it will permit export of alcohol and molasses which are in surplus and give further incentives to expand further the marine products exports EEPC announces that its target for engineering exports in 1989-90 is Rs. 2000 crores. Foreign investments have more than doubled from Rs. 110 crores in 1987 to Rs. 240 crores in 1988, with investors from US, Japan, Germany and UK taking the lead in high - tech and export areas. RBI announced on February 20 an increase in the interest rates for all persons for US dollar and Deutsch mark deposits under FCNR, in view of the rise in interest rates for deposits in these 2 currencies in the international markets.

Loans and Aid

In February, the World Bank and Swiss Development Corporation announced a $185 million loan for the National Sericulture programme. IFC announced a loan of $28 million to Gujarat State Fertilisers Corporation to aid expansion of the production of caprolactum and $6.3 to Titan Watches for its plant. Japan is making 4 loans of Rs. 24 crores for projects needing medical equipment, for import of fertilisers, and training and testing farm machinery institutes. Australia is giving a loan of $35 million for railways, telecommunication, and meterology. Canada is making a loan of $166 million for Coal India's Bihar mines. Belgium is making a loan of Fr 250 million to produce S & T and economic cooperation between the 2 countries. 4 international commercial market loans have been approved in February. ONGC is to raise 20 billion yen in the Japanese capital market. The Steel Authority of India through State Bank of India is to raise 186.120 million Belgian dollars of Euro-dollars to finance capital goods import for Bhilai. The Indian-Bank is to raise $ 25 million through an international banking consortium. The Housing Development Finance Corporation is to raise $ 35 million as floating rate notes in the US capital market. This increase in international commercial borrowings needs careful watching because it worsens the country's debt servicing capacity. France and India have concluded a series of agreements in February as a result of the French President's visit to the country under which France is to treat India as "a first rate business partner in the Pacific".

International

World Trade

GATT in its annual report for 1987-88 states, trade in quantum terms rose by 5 per cent (against 4 per cent in 1986) and in value terms rose by 17 per cent at $ 2490 billion due to a) increase in volume in merchandise trade, b) increase in world prices of petroleum and primary commodities, c) the appreciation of most major currencies against the US dollar and d) the impact on dollar price of the inflation rate in different countries. World Trade in manufacture rose by 5.5 per cent, in agriculture by 4.5 per cent and in mining by 1 per cent. West Europe, Japan and North America account for over 80 per cent of total

trade in manufactures. 7 Asian countries — Taiwan, South Korea, China, Thailand, Hongkong, Singapore, Malaysia and India account for 10 per cent world exports and 8 per cent of world imports of manufactures. South Korea, Taiwan, Singapore and Hongkong exported the largest in Asia in electronics and with Japan and China in textiles. The report states that the pressing debt burden, lack of hard currency, inaccessability to developed countries markets have led both to regional grouping and bilateral trade which threatens multilateral trade and counter trade deals. The future shows an increasing world economy and world trade but there are hurdles growing in the free flow of goods and services. on which the Uruguay round should act.

UNIDO

UNIDO reports that 60 per cent of the world's hydro power is in developing countries, but only 16 per cent in Asia and 13 per cent in Latin America is in use. The lowest utilisation is in Africa at 4 per cent compared to 94 per cent use in Europe. The gap between capacity and use becomes greater in the case of small hydro power projects — less than 5MW. So UNIDO engineers are at work on practical ways of introducing small hydro power plants in the third world.

United Nations

The UN centre on transnational corporation report states that investments by MNCs in the third world fell from 27 per cent of world total investment in 1981-83 to 21 per cent in 1984-87, while world foreign investments rose from $54 billion in 1983 to $134 billion in 1987. The sharp decline (50 per cent) has occurred in Latin America. But the Third World feels that they can now negotiate with MNCs on more favourable terms than in the past — which coincides with decline in investments by MNCs in their countries while increasing in industrialised countries.

World Bank

The World Bank reports that the external debt of developing countries rose by 3 per cent to $1320 billion at the end of 1988 — which was equal to about half of their combined GNP. The long term debt in 1988 was $1020 billion of which $450 billion came from official sources and $570 billion from private sources. The slower growth rate of external debt (11 per cent in 1987) was due to exchange rate fluctuations, voluntary debt reductions and continued reluctance of commercial banks to lend to highly indebted countries. The Bank has recently increased the proportion of its loans to help debtor nations finance their balance of payments problems. At the same time IMF has begun to put together financing packages which resemble and duplicate the longer term economic policy based loans which the World Bank has begun to offer. As a result of this convergence, it has become increasingly difficult for the WB and IMF to define their separate roles. G-7 tends to support IMF.

G-7

At the inter-ministerial meeting of the Group of Seven industrialised countries in early February in Washington, the problems of the third world debt, exchange rate stability and the prospects of reducing the US budget deficit were reviewed. The US agreed that it would reduce its deficit. The underlying causes of the fiscal problems of the global economy were discussed and the earlier decisions not to allow the exchange value of the dollar to rise beyond the agreed level was reiterated. No decision was reached on the $1320 billion third world debt. The Baker Plan has not had any effect on the debt burden. Japan's Miyazawa Plan to create a debt facility to be financed mostly by debtor nations from their reserve holdings for debt conversion and the French Plan to create a debt facility out of a new issue of SDRs are to be discussed at the Bank / Fund meeting in April.

World Employment

An ILO survey of the 48 countries show that 31 countries reduced their unemployment, led by Latin America, (in Chile from 9 per cent in 1986 to 8 per cent in 1987, in Colombia from 13 to 10 per cent and in Uruguay and Venezula from 11 to 9 per cent) followed by Europe (in Belgium from 12.3 to 11.9 per cent), in Canada from 10 to 9 per cent, in West Germany from 9 to 8.9 per cent, in UK from 10 to 9 per cent, and US from 6.9 to 6.1 per cent. Countries which maintained the same rates were Switzerland 0.8 per cent, Japan 3 per cent and China 2 per cent. In Asia, South Korea's rate declined from 4 to 3 per cent, Singapore from 6.5 to 5 per cent and Hongkong from 3 to 2 per cent. In other countries unemployment increased with the highest in Bolivia from 20 to 20.5 per cent, Ireland from 18.2 to 19 per cent, Italy from 11.1 to 11.9 per cent and Panama from 11 to 12 per cent. The Survey found that unemployment rates of women were lower in 1987 than in 1986, though they were still higher than that of men. In another survey, ILO reports that two thirds of regular night workers run the risk of developing health and psychological problems, taking sleeping pills in the day time and stimulants at night along with the disruption of family life and leisure time activities. This is the price that night workers pay for better salaries, longer holiday and other benefits.

Environment and Global Weather

75 countries have imposed controls to ensure protection of the environment. Such constraints add to both average and marginal costs and which will be determined by the pollutant level or degree of deforestation or the quantum of land to be rehabilitated. Against these costs to the firms are benefits to the firm and particularly to society. It is difficult to compute the benefit because of the imponderability of the effects. The type of damage from mining is dust in the air, streams filled with fine dust and deforestation has to be countered mainly by government as mining is mostly in the public sector. At present the entire systems of eco — management in India is regulated by a) the Mines and Minerals Act (1857 and 1987), b) water (Prevention and Control of Pollution) Act (1977), c) Forest Conservation Act (1980 & 1988), d) Air (Prevention and Control of Pollution) Act (1981 & 1987), e) the Environmental Protection Act (1986). While eco-management of mines is primarily a state responsibility, eco-management of forests is the responsibility of both the state and the individual who should jointly act to protect the environment. At the global level, a study of the World Watch Institute states that the best way to combat poverty, hunger,

illiteracy and ecological destruction is to forge "partnerships between grassroot level organisation and the government". It points to Gandhiji's village swaraj movement, chipko, SEWA, Sarvodaya Sharmandana in Sri Lanka, the Agha Khan Rural Support programme in Pakistan and the rural advance committees in Bangladesh as doing a good job of alleviating poverty. A meeting of SAARC ecologists in New Delhi in mid February called for urgent action to reforest the water sheds of major rivers to prevent flash floods, soil erosion and desertification. Concern is growing about world weather. British scientists report that the average temperature around the world in 1988 was the highest for a century (by 1 degree Fahrenheit). These new findings are consistent with a theory that a build up of heat trapping pollutants in the atmosphere is warming the earth, much as the glass in a green house traps heat, hence called Green House Effect. US scientists say their study of their 48 states over the last century showed no change in the average temperature over that period The UK scientists state that the recent temperature increases are consistent with the Green House Effect caused by the rise in the level of carbon dioxide and other man made gases in the atomosphere. There is a broad consensus among climatologists that the build up of industrial gases that traps radiation from the sun in the atmosphere will cause the temperature to rise. There is also agreement that a global cooling set in mid 1988 set off by the hurricane, El Nino, is likely to make 1989 cooler. The interaction between El Nino and the Green House Effect is an important uncertainty in current models of the worlds climate, scientists advise. The Delhi conference on Global warming has recommended that a National Climate Monitoring Research and Management Centre should be set up in each country to review on a continuing basis the energy trends in global warming. It has recommended the need to increase the efficiency of energy technologies on a priority basis by resorting to renewable energy sources and nuclear power(sic!) phasing out CFLs. It has recommended that the developed countries should impose a tax on fossil fuel consumption to curb its use and create a fund to help finance alternative measures.

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II. Agricultural Development in Tamil Nadu

North East monsoon, paddy and other crops

The North East monsoon brought Tiruchi-district only 10 cm of rain against the normal 40 cm, so that there is no paddy crop in 12,000 dry land hectares and the prospects of the second thaladi are bleak with farmers sowing only 4478 hectares out of the normal 19000 hectares. In Pudukkottai district, 686.10 mm of rain was recorded against the normal 940.34 mm and so paddy is being grown to yield only 92,000 tonnes against the normal 2.5 lakh tonnes.

In Salem district where the water table has sunk to the lowest in 6 years and 591 out of 822 tanks have not received any water, farmers have raised paddy over 1600 hectares leaving out the other 2000 hectares In the Thanjavur district where the North East rainfall deficit was about 50 per cent, paddy is being raised over 12 lakh acres against the normal 15.25 lakh acres. Farmers are raising only a single long duration paddy crop in 10 5 lakh acres. In Tirunelveli district only 53,041 hectares out of 72000 hectares have been brought under paddy. Hence the farmers are taking up the growing of gram, millets, bajra and jowar hoping for some summer showers. In Madurai district, where the monsoon rains were only 16.7 cm against the normal 40 cm, so that only 81,565 hectares out of one lakh hectares were cultivated, farmers lost their crop in 28,400 hectares. Only 28,000 hectares are expected to yield full harvest, 10,200 hectares between 50-75 per cent and 14,900 hectares between 25 to 50 per cent. In North Arcot district, the monsoon brought 190.6 mm against the normal 383.5 mm where the farmers are living on the abundant South West monsoon which brought 517.2 mm against the normal 440.1, but where the North East monsoon has caused 2835 tanks out of 3189 tanks to go dry. As a result only 1.22 lakh hectares out of 1.5 lakh hectares are being farmed are for navarai only 25,000 hectares out of 7,60,000. Dry crops, cholam, ragi and cotton are doing well. Farmers have lost or all losing heavily under this shadow of drought. The farmers in the Thanjavur district while grateful to Karnataka for the release of the second 5 tmcft of water, report that the water which was needed by the end of January came too late in February to save their crops. The Coimbatore district farmers report a bumper 1258 kg of groundnut per hectare in 22 of their blocks. The government has decided to raise the subsidy on seed paddy which is used by farmers in the districts of Chingleput, North and South Arcot, Thanjavur, Tiruchirapalli, Pudukottai, Madurai and Tirunelveli who operate the special food production schemes. The government reports that the monopoly paddy procurement scheme in the Cauvery delta area is not doing well. In Tiruchi district only 1000 tonnes out of the target of 1 lakh tonnes has been procured. Because of low yield, farmers are withholding their paddy for the household consumption and there is also illicit movement to neighbouring deficit districts of Salem and Coimbatore. In this situation, the offer of AP rice to the state is welcome.

Research results

Research reports in February cover a statement from TNAU that it is revamping its research programmes to combat weather aberrations, develop new varieties of drought and pest resistant seeds, and provides avenues of employment for agricultural graduates, a report from the Rice Research Station at Tirur on nitrogen management on semi - dry rice, a report from Kerala's Regional Agricultural Research Station on how the gall midge incidence in rice should be treated, a demonstration from APAU Hyderabad on how a cultivator using a tractor can sow a large dry land area quickly while the soil is still wet, and also its demonstration on how an animal drawn soil crust tractor makes seeding easy, a report from the Regional Research Station, Vridachalam on the use of bio - fertiliser to increase the yield of sesamum and a demonstration from Lucknow's Indian

Institute of Sugar-cane Research on how potassium fertilisers can increase the yield of sugarcane, a statement from the Director of Horticulture, Tamil Nadu on growing cloves in well drained porous soil, a report from the Agricultural Reseach Station, Anantarajupet on extracting starch from turmeric root tubes, a statement from TNAU on means of improving fodder seed germination as well as the means of countering the nymphs and spittle pests of jack fruit, a demonstration of APAU of combating Tatepata, a crippling disease of coconut and its demonstration of developing an early bearing hybrid coconut, a report from TNAU of countering the bunchy top disease of bananas as well as its statement that yellow sticky traps are meant for the cotton white fly and how they should be used, a report from UAS, Bangalore on growing the tamarind tree particularly in drought prone areas, the Kerala Agricultural University report on how rabies in cattle could be countered, a demonstration from the Namakkal poultry centre on combating the infectious viral diseases in chicken, report from TNAU on how molasses could be used in poultry feed and a demonstration by the Murugappa Chettiar Research Centre on using a synthetic fish aggregating device cum artificial reef to improve the fish catch of the coastal artisanal fishermen, which is a simple fish harvesting technology and the report from DRR, Rajendra nagar, three new varieties of rice — sabibanhana, suraksha and tulsi which it has developed.

Mango

Dharmapuri is the district where the mango is grown. 32,500 hectares grow mangoes with a high yield of 9.73 tonnes per hectare and another 50,000 hectares dwarf planting. What is holding up the planting is the non availability of bank credit, resulting in heavy dependence on money lenders and contractors for initial investment and marketing. There is need for the government and banks to take a hand in reviving this very important industry and its large perspective for processed and preserved fruits. India produces 63 per cent of the world's mangoes but exports only 4 per cent of the value of its produce. The crop needs a lot of attention· It has no irrigation, manuring even at the nearing stage is not done, plant protection is undertaken only after the disease occurs, particularly the stem borer and white mildew. The average cost of cultivation per acre from preparation to yield which is a five year period is Rs. 7860, net income is Rs. 9750 at an average yield of 4 tonnes per acre and at Rs. 2000 per tonne at the orchard. Money lenders and contractors lend money at 36 per cent on the understanding that once the crop comes to yield, the orchard is leased to them. The result is the exploitation of the farmer. NABARD loans require 10 per cent margin money which the farmer cannot afford. Banks insist on the first mortgage of his lands which are already mortgaged to Land Development Bank. Bank managers are unsympathetic because they know that they will not be there to collect the loans, so even loans for dry irrigation are not approved. The fruit processing units are 4 in the district, 11 across the border in Karnataka and in other states. Only 15 per cent of the 24,000 tonnes produced by the district goes to the processing units, the rest are consumed as fruit. Farmers are unaware of the fertiliser dose or plant protection needed by the plant. The existing orchards are in a bad way and need rejuvenation. Grading facilities and standardisation norms should be developed and farmer trained on these and the excellent export propsects of the fruit.

Tea and coffee

Tea production which was 705 million kg in 1988 will be the same in 1989. The weather in the south this year has not been conducive for an increase over that. Nilgiris planters have had to face heavy frost. Tea exports are in the upswing with the Iraq-Iran truce, improved relation with Pakistan and China and USSR, UK and UAE being major buyers. The Union government has chosen the Nilgiris as the first plantation district in the country for beginning the micro level planning to achieve a substantial increase in tea production during the VIII Plan. The tea plan for the Nilgiris has been drafted by UPASI involving an expenditure of Rs. 162.63 crores for increasing tea production from 59.1 million kg to 106 million kg by 2000. The present production is just enough to meet domestic demand and exports. In 1988 south India produced 172 million kg against the normal 150 million kg. This year, the drought conditions and frost may not make possible a large increase. As the largest tea growing region in the south, the Nilgiris produces one tenth of national production, more than half of its cultivated area of 61,000 hectares is under tea with an annual output of Rs. 150 crores. UPASI has also recommended expansion and improvement of the 158 tea factories — 56 estate owned, 85 bought tea leaf, 13 cooperatives and 4 belongs to the Tamil Nadu Tea Plantation Corporation. Why the Union government gets involved in this matter which ought to be handled by the states concerned under the division of function in the constitution needs looking into. Coffee production in 1989-90 will swing back to 1,60,000 tonnes from the 2,20 000 tonnes in 1988-89. Exports were 95,000 tonnes covering Rs. 285 crores. 1989-90 will have the same record.

Rubber and Cardamom

Rubber grows over a large area every year, was 2,55,000 tonnes in 1988-89 and is expected to be 2,75,000 tonnes in 1989-90. Consumption is expected to be 3,30,000 involving the same gap as in 1988-89 and similar imports. The buffer may be used to raise domestic rubber prices. Cardamom which is expected to be 4200 tonnes in 1988-89 and exports at 1500 tonnes will be the same in 1989-90. Cardamom prices which are lower than the previous season are expected to rise in the last quarter of 1988-89.

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III. Agricultural Development in Tamil Nadu

Salem

The steel plant reports that it has placed an order with Nissho-Iwai Corporation, Japan, for supply and supervision of erection of the (second) sendizimir mill and an order with KCP Ltd., Madras for supply of major mechanical components to the mill, which will be manufactured as per Hitachi technology

drawings. The total value of the order is Rs. 35 crores. The State Bank of India has secured a foreign exchange loan to Salem Steel of 1.4 million yen (Rs. 20 crores) under soft terms for modernisation, including the import of the above machinery. The sharp rise in overseas hot bands due to adverse rupee parity and a mark up of ad — valorem customs has affected the plant seriously. The sharp increase in the landed cost of hot band from Rs. 25.124 per tonne in December 1985 to Rs. 75.598 a tonne makes this plant's working difficult as it is not in a position to mark up its prices given the domestic competition. There is only one way out — a reasonable fixed rate basis for levy of customs duty and this is under consideration.

Neyveli and DOE

The State government is pressing the Union government to set up a thermal power plant under the state sector based on the additional lignite deposits at Neyveli and the Jayamkondan region of Tiruchi district. This is particularly urgent in view of the power crisis faced by the state referred to earlier. The Department of Electronics (DOE) of the Union government states that it will set up a design centre in Madras for large scale integrated circuits and very large scale integrated circuits. This will involve an investment of Rs. 5 to 6 crores by DOE and it will be managed by IIT. ELCOT is arranging for locating the facility in Madras.

CECRI & ONGC & Sericulture

CECRI reports that it has designed and fabricated 3 types of electrical vehicles. One is a cycle rickshaw model fitted with a DC series drive motor powered by acid batteries — costing Rs. 10,000. The second is an auto rickshaw with horizontal and vertical mounting of motors, battery powered and costing Rs. 30,000. The third is an electric car called CECRI with DC series motor and 9 lead batteries of 135 AH capacity, which is still under trial. ONGC reports that it will be spending Rs. 331 crores in 1989-90 in the drilling and exploration activities in the Cauvery and Krishna Godavari basin. It has so far till December 1988 spent Rs. 1261 crores. During the VIII Plan it will spend Rs. 3860 crores to meet the accelerated exploratory and development works. Dharmapuri has emerged as the state's most productive sericulture area with the help of migrants from Karnataka who have the necessary hereditary skill and experience. The 5 crops a year from hybrids have made silk worm rearing the most profitable for the small/marginal farmer and being less water demanding is suited to the states needs. Dharmapuri is the state's largest cocoon market, with an average of 36 of the 60 reelers who bid for the daily flow of 2000 kg of cocoons. Hosur has 25 charkas and along with Bangalore offers a ready market for raw silk. Charka silk is in short supply in the state, where the khandiwar sarees makes the major demand on them. Employment in rural areas is 5.85 man years per hectare. The State government has approved a project to insulate cottage units of not more than 2 charkas from the fluctuation of cocoon and silk price. Charkas are to be given cash credit facility which will give Tansilk 9600 kgs of raw silk a year valued at Rs. 48 lakhs.

TIDCO & TAMIN & MRF

TIDCO states that it favours a drastic cut in its equity holding in joint units, keeping in view the growing project costs and the need to recycle funds for participating in more ventures. There is another good reason which is not stated and that it will stop leakages and losses of units. Its board has recommended to the State government that its equity could be reduced from the present 26 per cent to 10 per cent and to 5 per cent in some joint ventures. This should be approved by the government. But the Comptroller and Auditor General has critised TIDCO sharply for the manner in which it disinvested 10.33 lakh shares of Tamil Nadu chemical products. The sale was not published, it was contrived to be taken over by a liquor baron and confident of MGR. It was the manner of sale and not the sale which was criticised. The Comptroller and Auditor General in his 1986-87 report criticises the Tamil Nadu Minerals (TAMIN) as it was wrongly located in Manali instead of its plant — at Krishnagiri which could have housed the exporting unit as a fulfledged granite cutting and polishing unit : the result of the Manali site was an additional recurring expenditure in the transport of the granite, 42 per cent of which was wasted in the process from the mines in Salem, Dharmapuri and South Arcot and the added construction cost of Rs. 84.93 lakhs and the 14 months slippage which caused a production loss of Rs. 2.17 crores and a cost overrun of Rs. 2.45 crores. This is a damaging record for which there is no excuse. MRF reports that the Union government has cleared its proposal for setting up a unit in Cuddalore for the production of speciality surface coating on condition that the project is financed from its internal resources and 25 per cent of its products is exported.

MRL, Manali, Chemical plant and PTFE plant

Madras Refineries is installing an advanced control optimisation system costing Rs. 5 crores to improve its production process. The software system being installed in May will enable the staff to interact on line with 2 refineries simultaneously to achieve optimisation. A plant to manufacture methyl ethyl ketone indigenously is being set up at Manali at a cost of Rs. 13.5 crores. The project will produce annually 4000 tonnees of organic solvent, which is now imported for use in lube oil dewaxing and in the industries of paints, printing inks, adhesives, magnetic tapes and pharmaceuticals. A factory for the manufacture of a comprehensive range of polytetra fluora ethylene (PTFE) products is nearing completion in Gummidipoondi at a cost of Rs. 2.25 crores. The plant being set up, Madras Industrial linings with UK collaboration has wide ranging applications in chemicals, petro-chemicals, mechanical, electrical, electronics, telecommunication, nuclear, food processing and other industries. The plant will have a capacity of 50,000 kg of the products made of high tech polymer.

Match Units and Madura Coats

Hand made match industries in the southern districts of the state report serious difficulty because of the frequent hike in the price of paper and paper boards. It is pointed out that despite there being no additional excise on them in the last budget, the mills have increased the price of the products by Rs. 600 to Rs 750 per tonne after the budget and since then have been raising them further almost every month. The union and State governments are requested to fix a fair price for paper and paper boards (used by the hand made match districts in the southern districts) and help the closed mills to reopen to increase the supply of raw material. Madura Coats reports that its

Rs. 60 crore modernisation programme launched 2 years ago is nearing completion and as a result the target turnover will spurt from Rs. 258.49 crores in 1987-88 to Rs. 400 crores in 1990-91. It is moving into the area of ready made shoes. It has restructured its operations by creating 4 divisions dealing with industrialists fabrics, apparel fabrics (Ambasamudram), threads (Koratti) and trade (Bangalore). Exports are growing at Rs. 10 crores annually.

IV. Education, Science and Health

Educational reforms

The Indian University Association for Continuing Education has, in cooperation with UNICEF launched a programme of non formal education for rural children. This will strengthen the existing extension work of rural colleges in their field work areas, using development communication techniques. This will be used for the age group 5-14. In Madras university, the Pachiappa's college for women, Kancheepuram which is doing well in adult education and functional literacy has been selected to participate in the project. The Board of apprenticeship training at its meeting in Madras in early February has decided to implement the amendment to the apprenticeship Act by providing for stipends for the products of the vocational stream in plus 2 courses in 20 subjects — including accountancy and auditing, banking, marketing and salesmanship, office secretaryship/stenography, food preservation, poultry farming, dairying, nursing, horticulture and textile designing. The fifth All India Education Survey shows a) a substantial increase in enrolment, particularly at the +2 level where the increase is 88 per cent, since 1978 (the 4th survey), b) 43 per cent high school and c) 51 per cent in upper primary and 26 per cent in primary. In rural areas enrolment in primary schools increased by 28.6 per cent, upper primary by 62.3 per cent, in secondary by 80.8 per cent and in plus 2 127.8 per cent. Similarly girls education has increased in rural areas by 42 per cent in primary, 87 per cent in upper primary, 113 per cent in-secondary and 329 per cent in +2. But dropout rates are still high negating the gain in enrolment. At the university level, UGC states that it has framed a code of professional ethics for university and college teachers after wide discussions with teacher representatives. It has suggested that university anthorities while framing service conduct rules should refer to the code to help the higher education system. University and college teachers in Tamil Nadu will draw their February pay in the revised UGC scales, the arrears for the earlier period will be paid later. The Madras University academic council has recommended to the senate the institution of a new course — BBM — the degree of Bachelor of Bank Management. The government of India states that it is considering setting up the Administration and Assessment Council to monitor the 500 autonomous colleges and function as a link between the autonomous colleges and UGC, which seems to erode UGC's functions.

Science

India and France have signed a memorandum for cooperation in research in fertility control and human reproductive biology, communicable and non communicable diseases and epidemology and public health. The centre for biotechnology, Anna University has been sanctioned Rs 62 lakhs under the Indo-Swiss collaboration in bio-technology. The need for popularising appropriate technology for treating brackish water into potable water was emphasised at the conference on membranes. The potential of synthetic membranes in revolutionising the chemical industry, especially the process flow sheets was emphasised. Listing the large scope of application of membranes in areas like gas separation, desalination and water treatment, energy plantation and waste land development, it was stressed that membrane processes are energy efficient, cheaper and easier to operate. The union department of Science and Technology in its annual report states that of the industrial sector's total investment of Rs. 555.17 crores in R & D, the private sector accounted for Rs. 318.11 crores, and the public sector Rs. 237.06 in 1986-87. It has increased by 26.3 per cent in 1986-87 over that of the previous year. More than three fourths of the R & D units are located in Maharashtra, Tamil Nadu, West Bengal, Gujarat, Karnataka and AP. In the private sector, Maharashtra which has 298 industries has an R & D expenditure of Rs. 145.45 crores followed by Tamil Nadu with 87 industries spending Rs. 26.19 crores, WB with 63 industries and Rs. 26.13 crores and Gujarat with 71 industries and Rs. 25 25 crores. In the public sector Karnataka with 10 industries leads with Rs. 78.29 crores, followed by AP with 9 industries and Rs. 49.6 crores and Gujarat with 6 industries and Rs. 12.99 crores. The absence of Tamil nadu from the top listing is an indication of small number of public sector industries in the state. The Union government announced in February that R & D programmes may enter into foreign collaboration to promote increased collaboration between industrial enterprises in India or abroad with research and academic institutions.

Health

States have been urged to achieve 100 per cent target set for establishment of sub centres and primary health centres by the end of the VII Plan. The Central Council of Health and Family Welfare has urged the raising of the plan allocation for the health sector through allocating atleast 7 per cent of the total allocation of the total Eighth Plan allocation as against the current 3.7 per cent in the VII Plan. A survey of 11,419 families living in 86 villages in the rural areas of UP and 88,572 families in 112 villages in the hill districts showed that the presence of elderly persons in the family was associated with lower infant mortality rate which was 207.2 in the rural areas and 140.6 in hill areas. Where there were no elderly persons in the family the infant mortality rate was 218.31 in the rural areas and 141.80 in the hilly areas. It also reports that a high mortality rate of 317.1 was found in the rural groups where the birth was attended by a government doctor or 235.3 when attended by a private doctor or 226.5 when attended by a trained mid wife, whereas in the hill group the highest was 267.6 when there was none or 212.1 where there was a government doctor. This may be due to the fact that medical help is called for only where there are

serious complications at the last stage. Also the mortality rate it found was higher than the SRS rate. The highest rate was when the mother's age was below 18, lowest when mothers were between 19 and 25 and rose sharply betweeen age 26 to 35. The rate was high among children who were not breast fed.

V. Employment and Labour Relations

In mid February, the Union government announced the merging of NREP & RLEGP, to be a single rural employment programme from 1989-90. The programme will be given a new name and will have probably Rs. 2000 crores against the present Rs. 1600 crores. But the merger does not solve its many problems. There will have to be greater monitoring of the costs and benefits of the new programme. In the VII Plan a provision of Rs. 2994.59 crores was made for the 2 programmes, and in the first 3 years Rs. 3709.02 crores had been spent and for 1988-89 an outlay of Rs. 12,59.63 crores was provided. Against this total of Rs. 4963.45 crores, the benefits were 1900 million mandays of employment against the target of 2450 million man days, and excessive construction of roads and buildings. It is now shifting to soil and water conservation, minor irrigation and water improvement. The problem is that the rural labour force is growing at 2.19 per cent per annum, but the per capita availability of land is declining from 0.48 hectares in 1951 to 0.26 hectares in 1981 and by 2001 it will be 0.15 hectares. The landless labour force is increasing by 15 lakhs every year calling for programmes that can utilise this human capital. The merger of the 2 programmes will not meet this problem. The Coffee Board has drawn up a scheme to open coffee stalls and coffee centres by the educated unemployed. Coffee centres in the bus stands, railway stations and all other places where the public meet will be started by unemployed graduates with help from the Coffee Board. The State government announced that an additional Rs. 10 crores was allocated by the union to RLEGP as Rs. 45.66 crores of the year's allotment of Rs. 60 crores has already been spent, creating 25.7 lakh mandays and completing 29,121 works out of 30902 for the year. The government also announced its decision that in filling future vacancies in government and local bodies, 30 per cent of the posts will be reserved for women. A study shows that out of 179.60 million children in the age 5-14 years, 13.64 million are classified as workers. Further 261,000 children were working and also attending schools. A question is why 86.87 million children who are not working are not attending school. This should be a priority in the New Education Policy. The Committee appointed by the State government to recommend revised minimum wages for agricultural labourers in the state (68 lakh) has submitted its report to the government and the orders of the government on revised minimum wages are awaited. The last revision of these wages was in April

5, 1983. At a tripartite meeting held at the end of February, it was decided that 3 of the 25 closed textile mills in the state will reopen by March 13 and separate talks are to be held on the reopening of the other 22 mills.

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VI. Other Items

Adult education

The Bible Foundation ran a national workshop for their 60 project supervisors in Adult literacy, where the need to integrate their work in the National programme was stressed. It was reported in the workshop that adult illiterates after a 10 months course are able to read the Bible and that this was tested at a meeting in Tindivanam recently. This is rather unusual and it was decided that the Director of SRC should study the literacy techniques used in this programme.

Central University, Pondicherry

The first Indian Bank endowment lecture on growth and development in the Indian Economy was delivered at the Pondicherry university in early February. The main point made was that the experience in 7 plans had shown that to set a growth rate and try to achieve it does not solve the problems of poverty, unemployment and inequality in the country. It was suggested that future plans should set targets on these urgent lacks and derive the growth rate from them.

National Commission on Planning

To commemorate 40 years of Independence and the birth centenary of the originator of Planning in India, Jawaharlal Nehru, a national conference on Planning was organised by the Planning Commission and attended by all senior economists, and planners. The past plan performance was reviewed and the shortcomings in planning beyond resource availability, the rising ICOR, the stagnation in industry and the public sector covering areas which are not a priority were recognised. For the future it was agreed that the Plan should be based on a realistic estimate of resources — financial and human — and should aim at dealing with the urgent problems of poverty and unemployment.

International Seminar on Radhakrishnan

To celebrate the birth centenary of S. Radhakrishnan, the Indian Council of Philosophical Research organised an International Seminar on Dr. Radhakrishnan's philosophy. It was attended by 20 outstanding philosophers from US, UK, Germany, USSR and Japan and 20 Indian specialists. Radhakrishnan's advait-Vedantic philosophy was thoroughly analysed and appreciated. The many nuances in his thinking and his studies in comparative religion and comparative philosophy were examined in detail. His application of his philosophy to government and political relation (he was ambassador to USSR, Chairman of Rajya Sabha and President of India), as well as to education and culture were appreciatively examined.

IIC

There were three events in February in the India International Centre. The Board of Trustees met and reviewed and approved the budget for 1989-90 and the Directors Report of the Centre's activities for January 1988 to March 1989 to be presented to the General Assembly in March. There was the monthly panel discussion on the eighth plan perspectives on Industry where the emphasis was on building on the gains of the VII Plan with particular regard to modernisation and technological upgradation. Finally, there was a seminar on Sustainable Development where the importance of countering the damage to the forest and other natural resources was emphasised and the kind of development which will preserve the eco-system and sustain it were elaborated.

Madras Chamber of Commerce

A meeting of the Madras Chamber was held at the end of February at which the Chairman and Managing Director of the Risk Capital and Technology and Development Corporation addressed members on this new agency that has been set up with the help of IFC. The speedy manner in which it responds to requests for assistance to innovative schemes aimed at new products, new processes or new markets was stressed. The programme was welcomed and the chamber was requested to bring out a pamphlet on the proliferating schemes — venture capital, seed capital and now Risk Capital — to help the entrepreneur and businessman.

United Writers Association

The Association held its annual meeting at which the goals and strategies fo the next decade were discussed. Th Chairman of SICCI emphasised the im portance of the coming budget contri buting to industrial growth. The membe of the planning commission emphasise the need for the Public sector to becom selective and concentrate on the cor areas and for a system of dual exchang rates to be adopted to develop export faster. The importance of concentratin in the next decades on real issues – poverty and unemployment and for thi developing a set of policies on lan reform, urban real estate and corporat property limitation and the organisatio of the poor — was also stressed.

Ninth Finance Commission

The Ninth Finance Commission paid a day visit to the state The new govern ment set forth its views both on th state's financial needs and on centre — state financial relations very clearly The commission also met other groups, including a group of economists who emphasised the need to give effect to the constitutional provision for an inter-state council to settle delicate centre-state issues, the need to develop means of enforcing the commission's recommendations on the normative approach as applied to the Union government as to the state, and the need to review the growing expenditure of resources by the Union government and its ministries on 7 areas which are in list II of the seventh schedule — the states responsibility. The annual Plan and non-Plan resources being spent by the Union government on these activities which are not its responsibility is over Rs. 10,000 crores. Atleast half of this should be turned over to the states by the end of the VIII Plan.

March Development Seminar

The paper for the March Seminar on Union Budget 1989-90 by S. Ambirajan together with a summary of the discussion at the seminar on the paper appears as the first article.

Second Article

A note on the State's representation to the Ninth Finance Commission appears as the Second Article.

M I D S News

The Academic Council of the Institute met on 23rd March, 1989. The Council reviewed the work of the Faculty members and Ph.D. Scholars for the period July to December 1988.

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The Selection Committee of the Institute met on 25th March and made recommendations for the appointment of Fellows in the Institute. With the approval of the Executive Council which met on 27th March, Dr. Paul P. Appasamy, Dr. P. Balakrishnan and Dr. M.S.S Pandian were offered the post. Dr. Paul P. Appasamy and Dr. M. S. S. Pandian have joined the Institute as Fellows with effect from 1st April.

Dr. Appasamy has Masters Degree in Engineering and/Business Administration and Ph.D. in Urban Panning. He worked in Forsyth Country Environmental Affair Department, Winston Salem, North Carolina, USA from 1973 to 1978, as Research Associate in a project of the University of Michigan from 1980 to 1983 and as Asst. Research Scientist in a project of the University of Michigan from 1983 to 1985. Since October 1986 he has been a Visiting Fellow in the Institute.

Dr. M. S. S. Pandian completed his Ph.D. research through the Institute in October 1985. After that he worked as Fellow at the Centre for Studies in Social Sciences, Calcutta, doing research on "Subaltern Consciousness in Praxis called conformity – A case study of MGR Phenomenon" for two years. He has been a Visiting Fellow in the Institute since August 1988.

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The Institute's Finance Committee and Executive Council met on 27th March.

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Dr. C. T. Kurien gave a lecture on "Development Economics as a body of Economic Thought at the Bankers" Training College, Reserve Bank of India, Bombay on 17th March.

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From 29th to 31st March Dr. A. Vaidyanathan and Mr. D. Jeyaraj attended a National Seminar on "Non-agricultural Employment in Rural India" sponsored by Indian Society of Agricultural Economics, Bombay and The Gujarat Institute of Area Planning, Gota, Ahmedabad. Mr. Jeyaraj presented a paper on "Determinants of Rural Non-agricultural Employment".

* * * * *

From 30th March to Ist April Mr. S. Subramanian attended a seminar on "Aspects of development of the Indian Economy organised by the Centre for Economic Studies, Presidency College, Calcutta. He presented a paper on "Optimal budgetary intervention in poverty alleviation schemes".

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March Development Seminar

Union Budget 1989-1990

by

S. Ambirajan
Dept. of Humanities and Social Sciences, IIT.

The annual Budget of the Government Of India might have become a ritual in the eyes of many observers, but that shouldn't reduce its importance as an extremely useful indicator of how our Government is going about the business of running the economic engines of our country. The Budget can hardly be ignored if we really want to know how well or how badly the economy is being managed. Granting this much, how do we go about making sense out of the Budget documents ? There is a formidable body of data, general statements and also miscellaneous information about the performance of the Indian economy in the shape of the *Economic Survey*. An important job for academic analysts of the Budget is to see whether there is coherence in all this plethora of information (and misinformation) about what happened, what is likely to happen and what the Government proposes to do. This paper is a modest attempt in that direction.

Since the Budget was released more than a month ago, a lot has been written and said about it, and I have myself contributed to the deluge of words on the 1989-90 Budget within a few days of its presentation. I do not propose to make a very extensive analysis of the subject, but confine myself to certain aspects that will be of interest to scholars interested in the formation and execution of economic policy.

A Budget is basically a programme of action for the next time period — usually a year — expressed in financial terms. But a national Budget is also a policy document, and in theory in India, the Budget should be part of an overall framework provided by the Five Year Plan. The Government has many objectives and the Budget is an important means of achieving those objectives. What, then, are the objectives ? Broadly speaking, to quote Mr. Chavan, the Minister of Finance :

> "The Budget is an instrument for achieving the basic objectives of Planned development which, broadly, are growth, modernisation, self-reliance and social justice".

We are not told whether it is possible to achieve all of them or a little bit of all of them ; or whether if there is a clash of objectives, which one of them would be preferred. However, if we come to Part B of the Budget speech, a list of specific objective has been given. Whereas the order of general objectives in Part A makes one feel that Growth and modernisation are important, the order of specific objectives given in Part B puts these two objectives at the bottom. At least going by the lists in Parts A & B, one is not sure what the priorities are. If the test of the Budget is the close nexus between his listed proposals and the likelihood of their realisation, he has already confused us by giving different sets of priorities in the two Parts. Perhaps we are attaching too much importance to the way the priorities are listed, and it is quite possible that Mr. Chavan might not have seriously considered this aspect of his speech.

As we all know, macro economic performance is a key element in the success or otherwise of nations. Low levels of growth, high levels of inflation and huge trade deficits are accentuated by inappropriate macroeconomic policies. Macroeconomic policies are concerned with using the three instruments of fiscal policy (taxation, public spending and public borrowing) to manipulate aggregate economic categories and to influence the course of the national economy. Arguments about the macroeconomic management of a country fall under several categories, but in India the one plank on which most discussions rest is the question of Budgetary deficits. It is not necessary to dwell on the point that, since the writings of Lord Keynes, Budgetary deficits hold no terrors for us economists, and we have actually learned to live with them — indeed some economists enjoy them. But there are also the chicken-hearted amongst us who worry about budgetary deficits, not for the reasons that troubled Adam Smith and his followers, but for entirely other considerations.

* Are the deficits due to an impending recession ? or are they created deliberately by policy ? In other words, is it a structural or cyclical deficit ?
* Has 'Crowding Out' occurred ? (i.e. Expansionary fiscal policy leads interest rates increase thus reducing private spending) or has it 'encouraged' investment ?
* What is the true burden of the national debt ?
* What is the impact of budgetary deficits on the Balance of payments situation ?

The answers to these questions will tell us the true cost of the budgetary deficit to the economy. Budgetary deficits lead to high rates of growth in money supply which in turn leads to high rates of price inflation. Even more than its contribution to the spiralling price level, large and continuing budgetary deficits are responsible for the serious state of balance of payments is in, as the *Economic Survey* categorically concludes : Though it is not often appreciated, it must be recognized that high levels of fiscal deficits tend to spill over and contribute to high current account deficits in the balance of payments." Hence, if the Government of India will only learn to live within its own means, it can help curb the growth of inflation and improve the balance of payments position at the same time. First, however, let us look at the deficit possition. The overall deficit of the Government of India is as follows :

1987-88 (Actuals)	Rs. 5816 crores
1988-89 (Budget)	Rs. 7484 crores
1988-89 (Revised)	Rs. 7940 crores
1989-90 (Budget)	Rs. 7337 crores

Looking at the Budgeted figures, everyone has heaved a sigh of relief that our Finance Minister has reversed a trend and that in future the Budgetary deficits will be contained year after year. The very fact that the Finance Minister himself has said that the "containment of the budget deficit" needs more attention indicates that he has some reservations about the value of budget deficits. The *Economic Survey 1988-89* released a couple of days before the Budget had stated categorically : "Imbalances in the domestic fiscal situation affect the prospects for growth, price stability and external balance". In other words huge budget deficits will work against achieving the declared national economic objectives. Hence one would expect a serious effort to contain the budgetary deficits

Two things stand out in the budget in so far as the deficit is concerned. One is the moderate increase of only a measly Rs. 456 crores which is slightly more than six percent in the overall deficit for the 1988-89 year. Secondly, the overall deficit for 1989-90 is Rs. 7337 crores which is actually less than both the budgeted and revised overall deficit for the 1988-89 year.

The question is, are these a result of hard decisions or mere statistical jugglery ? Taking the very small increase in the Revised Budget of 1988-89 from the Budgeted figure first, one or two interesting things emerge. This has been possible by a larger transfer of capital receipts than what was envisaged earlier. The revenue deficit grew by Rs. 1188 crores from Rs. 9842 crores to Rs. 11030 crores. Revenue receipts grew no doubt but only by Rs. 337 crores which is less than one percent. But revenue expenditure rose from Rs. 52640 crores to Rs. 54165 crores representing an almost three percent rise. Within revenue receipts, tax revenue increased by Rs. 762 crores and non-tax revenue fell by Rs. 425 crores. And this, despite a 20% increase in external assistance. Capital receipts went up by Rs. 1430 crores and capital outlay went up by only Rs. 698 crores leaving Rs. 732 crores of capital receipts to be transferred in addition to the original figure.

Coming to the 1989-90 budget figures, we notice that a slightly different exercise has been carried out to show a large revenue receipt figure. By now even a child knows that our Government converted capital into revenue by transferring the funds in the Oil Pool Account to the tune of Rs. 2300 crores, into the pool of Non-tax revenue. Originally this fund was created to cushion the Indian consumers from severe and sudden oil price increases. Imported oil and domestic crude were sold to the Indian refineries at an artificially adjusted price. As the World price fell far below the Indian price, the

difference was pooled into an account. Right from the mid seventies, the eyes of the Finance Ministry were on this lolly. Originally the money was deposited in Banks and then the Government had the surpluses deposited in interest bearing treasury bills. In 1987 the entire surplus was mopped by additional customs (on imported) and excise (domestic) duties on crude. Since 1987 as you all know, oil imports surged for a variety of reasons and the oil pool account also swelled. Last year it was deposited in the treasury under capital receipts. This year they transferred it into revenue account because it was "interest-free" !

Why should they do it this way ? Could they not have done as in 1987 by mopping the Rs. 2300 crores by way of customs duty on imported crude and counterwailing duty on the local stuff ? Yes, Mr. Chavan could have, but then he would have to fork out 45% of the customs and excise duties receipts to the States. Then what happens to the exercise of Operation Budget deficit ?

Similarly profitable public sector units have been asked to deposit Rs. 500 crores interest-free with treasury. Because they don't carry any interest, they are classified as revenue receipts. Thus in all Rs. 2800 crores have been brought into the revenue receipts artificially to show a reduced deficit. One or two items in the receipts are also somewhat suspicious. Take under the heads of Non-Tax Revenue and under 'Dividends and Profits' from public sector enterprises, Rs. 1135.55 crores has been shown which is Rs. 553.33 crores above the Revised estimate of the previous year. There was a fifty crore and odd difference between the Budgeted and Revised figure and one wonders how this year a miracle is going to be achieved. As a matter of fact 'Dividends and Profits', excluding the Rs. 210 crores that RBI gives year after year have been growing steadily if not spectacularly except of course this year :

1981-82	112	
83	209	
84	241	
85	197	
86	205	
87	297	
88	395	
89	410	(Revised)
90	926.	

We have also been assured that the 8% surcharge on incomes tax of taxpayers with incomes more than Rs. 50,000 will bring Rs. 500 crores. The revised estimate for 1988-89 gives total receipts from Income and Corporation Taxes as Rs. 7930 crores and after all the reduction in tax rates and removal of surcharges and imposition of surcharge, the total budgeted receipt comes to Rs. 8500 crores representing an increase of only Rs. 570 crores. As a result of the surcharge, the increase in tax rates will in an overall sense be modest. While the high income earner will pay the surcharge, he also gets relief at the lower end of his income. In the result, all that the surcharge has done is to increase the top tax rate from 52.5% to 54%. If 8% surcharge should bring in Rs. 500 crores, then the total tax collected from this sector should be Rs. 6250 crores. Does this mean that the total income and corporate taxes paid by all those earning Rs. 50,000 and less is around only Rs. 2250 crores ? This does not seem plausible because even the Black Money Committee Report of Chelliah has not found such a large inequality of the distribution of income above those earning above Rs. 20,000 per annum. We should also remember that many mega-buck companies hardly pay any tax. The claim that the 8% surcharge will bring in Rs. 500 crores will have to be treated with suspicion. The general buoyancy of the Income and Corporation Taxes will have brought that increase to compensate for the lenient treatment of those taxes. The following table shows the year to year difference of receipts from Income and Corporation Taxes :

1982-83	+ 309
84	+ 437
85	+ 293
86	+ 890
87	+ 664
88	+ 582
89	+ 1310
90	+ 570

Of the last five Budgets, this Budget has the distinction of achieving the most modest increase.

So much for the attempts to exaggerate the receipts side of the Budget. What of the Expenditure side ? Here one finds the opposite tendency, i. e. to understate the expected expenditure. Let us take the case of the Defence Expenditure about which everyone has commented very favourably. Has not the Finance Minister brought the 1989-90 Budget figure to Rs. 200 crores less than the revised figure for the previous year ? The 1988-89 budgeted for Rs. 1100 crores as defence pensions and this year the figure is Rs. 1350. The item 'defence pensions' was shifted away from the Defence category three years ago. More than most ministries, the Defence Ministry is allowed to go beyond the Budgeted expenditure. Already we have had Mr Chavan saying that if necessary, defence will get additional funds. The Budget shows major cuts in items such as 'Pay and Allowances' and minor cuts in Stores for army and navy. But one does find substantal increase in the capital outlay on defence services from Rs. 3729.95 crores (revised) to Rs. 3907.37 crores. If past action is any guide, Defence expenditure will be a good deal more than the Budgeted figure.

Similarly the provision for Fertiliser subsidy is most unrealistic.

As you can see, the provision for freight has been reduced which doesn't seem quite logical. Take the Nitrogenous fertilisers. Budget estimates do not include reimbursements of 7.5% discount given by the industry (at the Government's suggestion during Kharif 1988. The increase in Revised estimates will not cover the additional expenditure which will be a lot more than Rs. 50 crores. Again under this head, Budget next year allows Rs. 20 crores more because of many reasons. But most importantly because of a good monsoon season, the output will increase as a result of increased demand for fertilisers. Fertiliser subsidies will increase not only due to the increased output but also because of increases in railway freights. additional excise duties on naptha, cost of coal and electricity which will contribute to increased fertiliser prices. There is no doubt that the revised estimate next year will show a substantial rise in fertiliser subsidy.

	1988-89BE	1988-89RE	1989-90BE
Nitrogenous Fertiliser	1745	1795	1815
Phosphates	411	551	649
Freight	420	460	451
Imported Fertiliser	250	250	530

On the whole one cannot but come to the conclusion that this reversal of trend of large deficits is more an illusion than reality. Given the current political situation, one cannot expect anything else. The bulk of the economic decisions have already been made. Even before the Budget is made, there are prior legislative / executive commitments requiring continued expenditures and obligations under numerous heads, not to mention the cost increases. The logic of the current style of political and economic management does not indicate the possibility of a sharp reduction in deficits in the foreseeable future. The State Governments are happy to follow the Central Government in running large deficits. As can be seen from recent reports, every single state except West Bengal has shown substantial deficit Budgets.

If at the level of Macro-management, this Budget is nothing spectacular, how about the ancillary objectives ?

Mr. Chavan concluded his Budget speech with the following statement :

> "The journey along the path of development is hard and long. It invloves sacrifices. The question is who will make such sacrifices for future growth and prosperity. The answer of these budget proposals is clear and categorical. It is the relatively affluent who will have to share a larger burden so that the weaker and vulnerable sections of society may share in the fruits of growth"

Is it mere rhetoric or should we take the statement seriously and look for evidence ? Let us try the latter.

On the face of it the taxation proposals cannot be considered 'progressive' because of the far too much reliance on indirect taxation. In all, Customs and Excise duties are to bring an additional Rs. 6222 crores, whereas direct taxes on income and wealth will not bring an addition of even Rs. 600 crores. One can always argue that a large part of the indirect taxes is aimed at the wealthy consumer, but still a considerable part of the taxes will be borne by the less affluent.

A word about prices. It is certain that price levels will not remain stationary. According to Nitin Dasai, Chief Economic Adviser, the Wholesale Price Index will go up by 0.3% only as a result of the excise duty hikes. But we do know that prices have already started going up. *The Economic Times* reported on 3rd March that the mark up in excise duty on pig iron and steel items has already been passed by the Joint Plant Committee resulting in increased prices by Rs. 130 to Rs. 280 per tonne. The same newspaper carried the news that cement prices had gone up by Rs. 7 per bag. Let us not forget the contribution of the Maharajah of Scindia. He also claimed that the hike in freight rates would result in the

Wholesale price index going up by only 0.3%., but admitted that the cascading indirect effect would be 0.54%. Coming to specific items, he claimed that prices will rise by 2.5 paise per litre of kerosene, 2.5 paise per kilo of salt, 4 paise per kilo of wheat, pulses, groundnut oil and 6.2 paise per kilo of sugar. It all goes to show that indirect taxes will not hit the affluent all that exclusively.

In any case, there are little hidden goodies for those with more than Rs 50,000 per annum income, at present depressed because of the 8% surcharge. To give an example, they have dropped the provison to section 16(i) The present explanation has a restrictive clause on those who get a Company car for transport. Not only they had to add the value of the perq of free car, but also their standard deduction was limited to Rs. 1000 only. Now this restriction has been removed. The admirable Mr. Lakhotia has given an illustration how this supposedly poor man's Budget is going to help the poor :

Present		
	Gross salary	60,000
	Less standard deduction	1,000
	Value of Car : Rule 3(c)	3,600
	IT on Rs. 62,600	14,290
	Surcharge at 5%	715
	Total tax payable	15,005
Proposed		
	Gross salary	60,000
	Value of car	3,600
	less Standard deduction	12,000
	Let us say that Profession tax will be levied at Rs. 1600 per year	1,600
	Taxable income	50,000
	IT total	8,900

Thus there is a saving of Rs. 6,105 for the man on whom Mr. Chavan was going to put a larger share of burden !

It must also be noted that the 10% drought surcharge on the Wealth tax has been removed. The Tax concessions in respect of deposits with National Housing Bank also will go to the relatively affluent and not to what Mr Chavan calls "weaker and vulnerable sections of society".

The Finance Minister has made much of the 8% surcharge. He said :

> "I propose to levy a surcharge at the rate of 8 per cent On resident taxpayers with incomes above Rs. 50,000/- from assessment year 1990-91. I am sure that those who are privileged to have employment in society, where there are so many who are deprived, will not mind this sacrifice in the interest of creating employment for those not so fortunate".

Very admirable sentiment. But two paragraphs later he takes credit for making the tax structure such that "a person with a taxable income of below Rs. 56,000/- will pay less tax than at present". He proposes to use Rs. 500 crores so garnered for providing employment opportunities for the unemployed. This system of earmarking taxes for specific expenditure programmes raises some interesting issues for economists. There is a considerably large and sophisticated literature on the subject of earmarking.

On the whole, fiscal authorities like Richard Musgrave and James Buchanan approve of Earmarking only under very special conditions. They feel that as a general rule it is a poor budgeting procedure because it does not permit proper allocation of the revenue receipts among competing uses. Julius Margolis and Walter Heller have categorically stated that earmarking tends to reduce the willingness of taxpayers to approve expenditures on specific public services.

When you have a large number of Quasi-private or quasi-public goods where 'exclusion' principal can be applied, you can finance them with either general revenue or earmarked taxes (or user prices). What in fact the authorities do is to tie a particular item of expenditure which according to the Benefit Principle of Taxation relates in some meaningful way with the payment of tax. In the United States, they use taxes on petrol ssecifically to build roads. This in some way helps generate taxpayer support for expanding particular government services. It is considered both efficient because it enables the public authorities to realise the variable costs, and equitable because the benefits are taken into account in distributing costs. There are problems as well. Will the services be limited to the amount realised by way of taxes ?

Earmarked taxes are in general welcomed because they can increase allocational efficiency by giving freedom to the individuals to appraise more carefully the relevant costs and benefits of particular government supplied goods and services. But that is only when there is clear *quid pro quo* between the Government and the taxpayer. James Buchanan in a classic paper on the Earmarked Taxes in 1963 specifically mentioned that financing from consolidated revenue will tend to attract a greater supply of public goods with 'elastic' demands than will earmarked funding.

In a sense the system will actually decrease willingness to avoid tax evasion There is first of all the question of direct benefit. The tax payer can think that he is not getting any benefit, then why should he pay the tax ? Again when originally the 5% drought surcharge was levied, the tax payer had the assurance that once the drought ended, he would not have to pay the surcharge. But who can say when the problem of unemployment will vanish ? This is tantamount to encouraging tax evasion which will only add to the Black money in the economy. In any case speculative money will flow into Gold because of the proposed changes in the Gold Control Order.

Another serious inconsistency in Mr. Chavan's Budget is that it gives contradictory signals all the time. We are not sure what he ultimately wants. He has a penchant for giving with one hand and taking it back with the other. Firstly, he gives incentives to the housing industry but hikes the price of aluminium, cement and steel. Secondly, he gives excise duty relief for safety match units but levies a steep excise duty on potassium chlorate just when the material is in short supply and commanding higher prices. Thirdly, he has the Constitution amended to raise the upper limit for profession tax to Rs. 2500 and then he makes it tax deductible. Fourthly, he decontrols the pricing and distribution of aluminium but slaps an increase excise duty. Fifthly, he gives customs duty concessions on integrated circuits but increases the excise duty on computers. One can go on and on.

This leads us to the logic of excise duty hikes and deductions. One can understand the need to curb conspicuous consumption and use the ability to pay doctrine to extract money from the tax payer, but how does one decide what is conspicuous consumption and what is not. Is raw silk such an item used by those below poverty line that its import duty should be slashed? Yes Two-in-ones, watches, colour TVs are items of our KIT CULTURE Consumerism But we were told not so long ago that the Government was going to encourage electronic, hi-tech and computer industries in a very big way. Do the frequent increases and or changes in the excise duties help to stimulate those industries?

Even more bizarre are the sharp increases in excise duty on pig iron, steel forgings and castings. It was only a few weeks before the Budget that the administered prices of steel and coal went up. Railway freights were savagely increased but six weeks ago. State electricity boards, of course, keep on increasing their HT electricity rates with monotonous regularity. Even the captive power plants have not escaped. Sixty per cent *ad valorem* intermediate tax has been clamped on them. All these will undoubtedly lead us to a state of high cost economy.

The many items supposedly intended to soak the rich will eventually be borne by the corporate and public sector. They would of course not be unduly concerned. As for the public sector is concerned there is the Indian tax payer to take care. And as for the private sector, one cannot do better than cite what a senior executive remarked in a private conversation : "An Excise duty hikes. We expect them. But we have stopped worrying and learned to enjoy them. We simply increase our prices. It is rather good because it pushes up our turnover and jolly good for the Company's image".

The Budget, in the final analysis, has not done anything about remedying the structural weaknesses of our fiscal system. A very heavy outlay on defence, increasing outlays on subsidies and interest payments and a tax system skewed in favonr of indirect taxes continue. No serious attempt to identify and curb unnecessary and wasteful expenditure is in view. Neither is any sustained effort visible to get the best out of ever Rupee spent by the Government and quasi-Government organisations. As a matter of fact the Budget has given an alibi for the Government's inefficiencies.

"As much as two thirds of the Budget expenditure really takes the form of financial transfers to other spending entities by way of interest, subsides, grants, loans, etc. In fact, a significant part of what is shown as expenditure in the Budget is only the financial intermediation of funds shown as a capital receipt on the one side and as expenditure in the form of loans or equity investment on the other

I am drawing attention to the structure of the expenditure side of the Central Budget in order to emphasise that the exercise of due prudence is not merely a matter of economs instructions recording staff or travel or purchases".

When a Nation is facing a constricting internal and external debt trap, it is indeed strange to see the *Diwan* running for cover. He ought to know that much of the inefficiencies in the private sector is due to the nature of our bureaucratic and political machine. Two instances will suffice. Recently we have seen a spate of wage agreements concluded with the trade unions belonging to BHEL, SAIL, IOC, ONGC and a few others. All of them have flouted the norms set by Bureau of Public Enterprise only late last year. For example the norms specified that there should be no wage rise more than 15% and and that they should not be accorded retrospectively. Many managers claim privately that in an election year they cannot afford to go against the indirect prodding from New Delhi. Again for good and effective administration, both continuity and autonomy are essential. From what I gather the recently announced Memorandum of Understanding between the Government and the Public Sector enterprises will not work unless there is proper political direction which is too much to expect in the present climate.

We have been told by no less a persor than Mr. V. Krishnamurty what ails the public sector enterprises : Talking of TISCO he made the remark : "Russ Mody has been there for 40 years, he knows every employee by name. This is not the case in SAIL, where the Chairman, minister and secretary change all the time", (*Economic Times* 28/3/89)

Often our Government announces grandly measures to keep our economy to function better. But that is usually the end. Take for example the measures announced during the last Budget : (a) Small industries development bank, (b) National agricultural relief fund, (c) Scheme for hedging against fluctuations in exchange rates, and (d) conversion of the Securities and Exchange Board of India into a Statutory body. None of them have been implemented to the best of my knowledge. It only leads us to one conclusion, that is our politicians are interested in somehow getting on and living from day to day. We can no longer see the State as an instrument that will provide us with optimal solutions to the problem of maximising the social welfare. We cannot assume our rulers (Ministers members of Parliament, bureaucrats advisers and so on) as benevolent despots trying to do what is best for all of us taking into account our desires and our resources. One cannot be too careful in analysing their activities.

Summary of Discussion

The April Seminar on 'The Union Budget 1989-90' was Presented by Prof. S. Ambirajan.

The Speaker felt that structural weaknesses in the economy has not been taken care of in the budget. To this a participant said that the budget is just a financial statement and cannot do certain things largely due to political pressure. He also pointed out that in the 1950's revenue from direct taxes was about 50% of the total tax revenue but now it is only about 10% of the total tax revenue.

A Summary of the discussion is given below :

While discussing the growing deficits in the budget over the years and the jugglery of data used to show moderate deficits, one participant said that the Central and State deficits should be treated separately and should not be compared as the consequences of each one is very different from the other.

While discussing the inconsistencies in the budget, a participant felt that there exists no inconsistency in reducing tax for small scale match production and increasing tax for one of its input viz. Pottasium chloride, as a unit like Wimco manufactures its own input and does not buy it from outside. Another participant felt that the main inconsistency lies between economic development and fiscal policies pursued.

Mr. S. Sarat Chandran chaired the Seminar.

Asha Krishnakumar

Ninth Finance Commission*

1. The Second Supplementary Memorandum we have furnished to you today has been prepared on the basis of the new Government's study of the State's financial situation and of its needs during your award period of 1990-95. It is also based on our philosophy and approach to Centre-State fiscal relations. This Memorandum follows the initial Memorandum submitted to the Commission in February 1988 by the previous Government and its First Supplementary Memorandum of January 1989. I shall confine my speech to the major issues dealt with in these Memoranda. They fall into three broad categories : first, certain general issues relating to Centre-State fiscal relations ; second, the concerns that arise from your First Report of July 1988 ; and third, the specific and special problems of Tamil Nadu.

2. By way of background, I would like to begin by giving you a profile of our State. Tamil Nadu has 7 per cent of India's population but only 4 per cent of the country's area with the result that population density and the man-land ratio are adverse. About one third of our population is urban which necessitates large investments on basic services such as housing, slum improvement, water-supply, sanitation, transport and roads. Except for lignite and some oil deposits we do not have any significant mineral resources. We are also located far away from the coal belt of India. All modes of irrigation in Tamil Nadu — rivers, tanks and ground water — depend on rainfall in respect of which the State falls in the low-to-moderate zone. Tamil Nadu is subject to frequent and prolonged spells of drought as also to floods and cyclones during the north-east monsoon. Surface irrigation potential has already been more or less fully exploited. We have to depend on inter-State co-operation for future development and even for the maintenance of established flows. The agricultural economy is primarily based on paddy cultivation in which there has been no striking growth in productivity comparable to that in wheat. Tamil Nadu has thus to contend with a variety of basic problems such as demographic pressure, limited resource endowments, and locational disadvantages. Mainly because of these circumstances, Tamil Nadu is among the poorer States in India. Our per capita income is below the all-India average ;

* Statement fo Chief Minister to the IX Finance Commission

the poverty ratio is relatively high ; and the State has a very high rate of unemployment.

3. At the same time, Tamil Nadu has been able to maintain a leading position in the industrial map of India although there has been a great deal of slippage in this respect in the last decade. We have made considerable investments on irrigation and power, including rural electrification. This in turn has enabled an extensive exploitation of ground water for promoting irrigation, a development which has not been without its problems. The literacy rate and schooling proportions in Tamil Nadu are relatively high although far behind our neighbouring State of Kerala. The birth rate is on the low side but death rates and infant mortality rates continue to be high. They will need to be reduced in as short a period as possible. In other social welfare sectors such as housing and house-sites, drinking water, nutrition, and the welfare of Scheduled Castes, Scheduled Tribes and Backward Classes, Tamil Nadu has a fair record. We will have to strive hard to improve the access of the people to these basic minimum needs. It is the firm policy of our Government to provide adequate resources, directly and through well-conceived subsidies, to cost-effective welfare programmes that can improve the conditions of life of our people.

4. The picture I have sketched will indicate that Tamil Nadu does not lend itself to be easily classified either as an advanced State or as a backward one just as, among the developing countries of the world, India itself is in some ways advanced and in many other ways less developed. Given its relatively low per capita SDP, the high poverty proportion, and serious unemployment, it is clear that whatever progress Tamil Nadu has achieved cannot lull us into complacency. We shall have to achieve much more progress on several fronts. For this, our own sustained efforts for resource mobilisation will need to be supported and supplemented with transfers from the Centre.

5. In this connection it is a matter of serious concern that Tamil Nadu has consistently failed to receive a fair share in Central transfers, whether effected through the Finance Commission or the Planning Commission or by way of non-Plan non-statutory transfers or net Central loans. The data furnished in our Memorandum fully substantiates this. As far as Finance Commission transfers are concerned, the gap-filling approach followed by earlier Commissions has had the effect of penalising Tamil Nadu which has made an outstanding effort at resource mobilisation and prudent fiscal management, despite its relatively low per capita income. The replacement of the gap-filling approach by the normative appproach in your terms of reference should make it possible to redress the past inequity of the prudent being penalised instead of being rewarded. We hope that this aspect will be borne in mind in your report.

6. The Finance Commission is concerned with vertical transfers from the Union to the States as a whole and with the horizontal distribution of such transfers among the States. Your visit to Tamil Nadu is taking place towards the end of your discussions with various States in India. I am sure that all States must have strongly put forward the case for increasing the quantum of vertical transfers, whether they are under Governments formed by the ruling party in the Centre or by other political parties. In appreciating the case for a substantial increase to State's share in

Central taxes, I would invite you to give careful consideration to the following factors.

7. The States' share in shareable taxes was significantly improved by the Seventh Finance Commission in 1979-84 by increasing their share in Union excise duties from 20 to 40 per cent. There was only a slight improvement of 5 per cent over this in the award of the Eighth Finance Commission which covered the period 1984-89 ; also, the Eighth Commission set apart the increased share of 5 per cent for deficit States. In your own first Report, the State's share in shareable taxes has been maintained at the previous level. Thus, for a whole decade, there has been only a marginal improvement in the proportion of vertical transfers. In order to set this right we will have to explore various methods. These can consist of larger transfers from better collections of the two shareable taxes, a good increase in the share from Union excise duties, and mobilisation of new taxes which can benefit the States such as the consignment tax and levies under Articles 268 and 269 of the Constitution.

8. As is well-known, there is considerable evasion in the direct and indirect taxes which accrue to the Centre. The National Institute for Public Finance and Policy estimated, on a careful and conservative basis, that incomes that are taxable in India but not reported to tax authorities were of the order of Rs. 32,000 to Rs. 37,000 crores in 1983-84. On a reasonable estimate, the revenue loss on account of evasion in shareable taxes might be of the order of Rs. 10,000 crores per annum. This would mean that the States as a whole are likely to be losing a devolution of the order of Rs. 5,000 crores annually on account of the Centre's unwillingness or inability to effectively curb evasion.

9. It is also possible to increase vertical transfers by reducing the Centre's involvement in programmes that should be more appropriately left to the States to implement. Your first Report points out that, despite the decision of the National Development Council in 1979 to reduce the scope of Centrally sponsored schemes, there are even now as many as 262 such schemes. You have rightly stressed the need to reduce some of the schemes and / or eliminate others altogether.

10. In the longer run, the divisible pool will need to be enlarged. For several years, several States have urged that the corporation tax, which has proved to be a much more buoyant source than the personal income tax, should be brought into the divisible pool. The Commission on Centre-State Relations has also recently supported this proposal. We would urge the Ninth Finance Commission to endorse the just and legitimate claims of the States for a share in the corporation tax.

11. It is equally important that the Centre should desist making inroads into revenues that are now available to the States. In this context, our Government is opposed to the replacement of sales taxes on specified commodities by additional duties of Union excise. In our view, the present scheme which covers sugar, tobacco and textiles has not been satisfactorily implemented. On grounds of both principle and experience, we are firmly opposed to any proposal to extend the domain of additional excise duties to a further list of commodities. This was also the consensus of State Chief Ministers in

the conference held earlier this month in New Delhi.

12. You have been requested in your terms of reference to examine the feasibility of the merger of additional duties of excise in lieu of sales tax with basic excise duties and to evolve a suitable formula for allocating a part of the merged duty for distribution among the States. In as much as the additional excise duty represents a tax-rental arrangement, our position is that any such proposal should be first discussed in the National Development Council. Our position is that this important issue is a matter for Centre-State cnnsultations and cannot be appropriately decided in an award of the Finance Commission.

13. I shall now turn to certain important concerns of Tamil Nadu in regard to the equitable distribution among States of Central transfers. Most of these concerns arise from the procedures followed in your first report. While the first report has arrived at normative tax estimates, these have been further moderated in actually fixing the estimates for different States. In the case of States which are under-taxed, i.e., where actual tax performance is below the normative estimate, some moderation, particularly in the case of low-income States, is understandable. Tamil Nadu itself belongs to the category of overtaxed States, i.e. States where actual tax performance is better than the normative one. In fact, amongst such States Tamil Nadu is the best performer with the highest tax-income ratio. In the case of such over-taxed States, the Commission has adopted a " moderated " normative estimate which is higher than the norm. For 1989-90, the normative estimate for tax revenues in Tamil Nadu is Rs. 2,040 crores while the "moderated" estimate is Rs. 2,156 crores, i.e., Rs. 116 crores higher. This amounts to a penalty for prudence. I would urge that in the final report this anamoly should be corrected with only the normative estimates being adopted, without any upward revision, for over-taxed States so that good tax performance is fully recognised and rewarded.

14. The loss on account of prohibition is a connected issue. We are greatly disappointed that in its first report the Commission has thought it fit to allow for only 50 per cent of the loss arising from the closure of country liquor shops in Tamil Nadu with effect from 1st January 1987. Prohibition policy has the sanction of the Constitution behind it (Article 47) and it is illogical to take the view that a policy that has been enshrined as a Directive Principle in the fundamental law of the land is not "normative". It is only because of financial constraints that we are unable to follow a policy of full prohibition but at least the sale of country liquor which is consumed by the poorest sections of the people has been banned. The closure of country liquor shops will continue to be our firm policy. In these circumstances, it is only just and proper that the Commission should allow for the entire loss consequent on this decision.

15. In estimating non-tax revenues, your Commission, like its predecessors, has adopted various norms for returns from commercial irrigation and from public sector enterprises, particularly the Electricity Board and Road Transport Corporations. In our Memoranda, we have argued that these norms will have to be reconsidered in the light of some of the special factors that have an

impact on returns from public enterprises in our State, particularly the Tamil Nadu Electricity Board. We trust that the considerations we have put forward will receive a sympathetic response from the Commission. As a general point, I would like to underline that returns from the Electricity Board and Road Transport Corporations are constantly eroded on account of increases in administered prices, such as on coal, oil, and railway freight, which are now being imposed from time to time by the Centre. As a result, the States have to face a double loss. First, because administered price increase erode revenues to enterprises and second, because norms of Finance Commissions are unrealistically high. This double loss is compounded by the fact that if the Centre had raised excise duties instead of increasing administered prices, the States might have at least benefitted from a share in the revenues so mobilised.

16. The next major issue relates to the expenditure of the Government on the salaries and wages of its employees. This is a function of the total number of employees and the average cost per employee. Comparisons of the number of employees to population or to area might give the impression that the number of employees in Tamil Nadu —in Government, Local Bodies and Aided Institutions—is relatively large. However, the important reason for this is one for which we need not be apologetic. Tamil Nadu has consistently limited its expenditure on non-developmental purposes such as police and general administration. In fact some of these services, particularly the administration of justice, need upgradation. The fact is that a very large number of our staff are engaged in developmental activities such as education, health, water-supply and sanitation, nutrition, agricultural extension and in various schemes devoted to the welfare of Scheduled Castes, Scheduled Tribes and Backward Classes. We have also believed in providing an intensive delivery of these various services to our people in order to improve their effective access to basic human needs. Our future policy will also be on the same lines. With this background, we would request you not to impose any abstract or artificial norm in regard to the number of employees but instead to take account of the actual number in the State.

17. Turning to emoluments levels in Tamil Nadu, our levels in this respect are lower than the all-States' average and distinctly lower than that of corresponding emoluments extended by the Centre to its employees. Our employees, aggrieved by this continuing disparity, have been pressing for parity with Central scales. In response, the previous Government under President's rule, had appointed the Fifth Tamil Nadu Pay Commission in July 1988 and their report is expected by the end of April 1989. We would urge that the Finance Commission should adopt an even-handed approach between the Centre and the States and among States in this important matter and should enable us to respond to the claims of our employees. It will also be appropriate for the Commission to recommend that, in future whenever Central scales or rates of dearness allowance or pensionary benefits are increased, the Centre should undertake the responsibility to meet 50 per cent of the additional expenditure accruing to the States on account of similar increases which the latter might be obliged to extend. This is the only practical way in which we can move

towards a national wage policy, at least in the matter of public employees.

18. We must express our deep concern at the fact that your first report has not made due allowance for existing subsidies and social welfare schemes being implemented in the States. For 1990-95, the report further indicates that the Commission proposes to take a view as to which expenditures on various welfare programmes and subsidies are to be, partially or fully, disallowed by applying uniform criteria. In our view, this approach is unacceptable for two main reasons. First, it involves a discrimination between the Centre and the States. There is no rationale for disallowing, fully or partially, expenditures on food subsidies, or on noon-meal schemes, or the subsidy for rural electrification on the part of States while providing for large subsidies on account of food, fertilizer, export promotion, and a number of other items in the account of the Centre. Second, we feel that the Finance Commission will be invading the autonomy and jurisdiction of the States by taking a unilateral view on the subsidies and welfare programmes for which they should be "allowed" to provide resources in their non-plan or plan revenue account. We are therefore firmly opposed to any so-called normative approach in these matters and would wish to insist that the status quo should be safeguarded.

19. Our position on distributive criteria for shares in taxes and grants can be quickly summarised. We are in favour of a common formula for the sharing of income-tax and Union excise duties. This formula can be most appropriately related to population and per capita income. We are not in favour of any weightage for collection in income tax sharing because that tends to unduly favour a couple of States in one part of India at the expense of other States in the Union. Recognising that the additional excise duty is a tax-rental arrangement, we are in favour of its proceeds being shared according to sales tax collections. We would urge that the quantum of grants in lieu of the repealed tax on railway passenger fares should be suitably upgraded in the light of the current situation.

20. The terms of reference for your Commission have broken new ground in that you have been asked to assess the requirements of the States in their entire revenue account, both non-plan and plan. We are however not clear as to how you propose to take into account the plan revenue expenditures of the States during the Eighth Plan period. These requirements will have to be derived with reference to the size of the Eighth Plan, the distribution of outlays between the Centre and various States, and the scheme of financing in each case. On all these matters it has been the past practice for the States to be individually consulted by the Planning Commission and for the Centre to collectively consult them at the National Development Council. Pending such consultations, we believe that the Finance Commission should not include ad-hoc provisions for plan revenue expenditures on the basis of its own exercises or even on the basis of exercises which it might undertake in collaboration with the Planning Commission at the official level. Moreover, at present, Central assistance for State's plans is being provided on the basis of the Gadgil formula which was approved as far back as 1968 in the National Development Council. This formula should not be set aside or modified as a by-product of the Finance Commission's report

without the States being given a full opportunity to understand and to react to all the implications that might be involved.

21. I shall now turn to some of the special problems affecting Tamil Nadu which we have placed before you in our Memorandum. These include (i) drinking water problem in Madras City, (ii) grants for slum improvements in Madras city, (iii) environmental improvements to waterways in the Madras City, (iv) school buildings, (v) upgradation of judicial administration and (vi) prevention of sea water ingress in coastal districts. Details regarding these matters have been furnished in our Memorandum. We trust that these special problems will receive your full and sympathetic consideration. In this connection, I would be less than frank if I did not express our deep disappointment at the fact that the Commission has ignored the case of Madras for slum improvement while recommending grants of Rs. 50 crores each to the other two metropolitan cities of Bombay and Calcutta, despite the fact that Madras suffers from comparable proportions of slum population dispersed over a larger number of slums. Similarly, although Tamil Nadu is not backward in educational enrolment at the primary level, it is backward when it comes to school buildings. In fact, precisely because the State has progressed in primary education that far more attention needs to to be paid to the provision of buildings and other amenities for school-going children. We therefore have a legitimate claim to special assistance for these items. May we hope that in these and similar items the Commission will avoid discrimination between the States and allot special grants based on thoroughly objective criteria ?

22. We sincerely hope that your Commission, composed as it is of eminent and experienced Members, will adopt a sympathetic approach to the representations of States as a whole and, within that framework, to the special problems of Tamil Nadu. We hope that your approach will be symmetrical and even-handed in the matter of assessing the receipts and exdenditures of the Centre and the States. We hope that you will be fair and equitable in devolving taxes and grants among individual States giving due regard to their special problems.

23. We also hope that in the desire of reducing the revenue deficit of the Centre your recommendations will not shift an unsupportable burden to the accounts of the States. This is of fundamental importance because the instrument of deficit financing which is available to the Centre is not open to the States. We will therefore have to live within the means provided to us. These means will have to be liberal enough to meet our vast and growing responsibilities for the welfare and development of our people. In this context, while we are ourselves keen on reducing revenue deficits to the maximum extent possible, I would urge the Commission not to set any unduly harsh target for wiping out revenue deficits on the part of the States. Adjustment towards this desirable end will have to be phased over a realistic and reasonable period of time. The process of adjustment should not be compressed to an extent where it will seriously damage existing levels of welfare. As the Commission is aware, this in essence is the plea that is put forward by developing countries before international financial institutions in the

matter of achieving balance in their external account. The Government of India has been in the forefront of developing countries in arguing for adjustment with growth and social justice before international organisations. We would urge that the same rationale should apply to Centre-State fiscal transfers as well.

Once again, let me wish all of you a useful and pleasant stay in Tamil Nadu. I have only touched upon our major concerns in this speech. They have been elaborated in the Memoranda furnished to you and we shall be supplying further clarifications and details during our discussions.

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