

## **SPEECH OF SHRI Y.B.CHAVAN MINISTER OF FINANCE INTRODUCING THE BUDGET FOR THE YEAR 1974-75**

Sir.

I rise to present the revised estimates for 1973-74 and the budget estimates for 1974-75.

2. This As the fourth regular budget of the Union Government which I have been privileged to present to this House. The principal concern of every Central budget has to be to strike a proper balance between the requirements of accelerated growth, stability, greater social justice and self-reliance. In the long run, these objectives are self-reinforcing. In the short run, however, a reconciliation of these objectives is not an easy task even under favourable conditions. During the last three years conditions have not been favourable; in fact they have been far from normal in many ways. In each of these years, we had to face new challenges of extraordinary dimensions. We have tried to meet those challenges to the best of our ability. I shall, however, readily admit that, because of unusually severe strains caused by a combination of certain national and international factors beyond our control, progress in achieving our objectives has fallen short of expectations.

3. I would like to state frankly that in the coming financial year the economy will be faced with even greater challenges. Its strength and adaptability will be severely tested. The steep rise in the price of crude oil and also some other commodities has turned the terms of trade sharply against us and has rendered our tasks exceptionally difficult. Recent developments must, however, be viewed in a wider historical perspective. Nowhere in the world has the process of social and economic change been smooth or free from ups and downs. I find no reason, therefore, to lose heart or to start questioning our basic goals and objectives. Our socio-economic objectives remain as relevant as before. Our commitment to our goals is as resolute as ever. We cannot give up the war against poverty, ignorance and disease because the going is more difficult than anticipated, though our tactics may need to be readjusted to changing circumstances.

### **THE STATE OF THE ECONOMY**

4. As the House is aware, the Government has been deeply concerned about the acute inflationary pressures that have prevailed in the economy during the last two years. The measures that have been adopted to deal with these inflationary pressures are well known to the Honourable Members. It is a matter of deep regret to me that despite these measures prices have continued to rise. The House will appreciate that

the pressure on prices was inevitable as a result of the unsatisfactory performance in the field of agricultural production in two successive years, 1971-72 and 1972-73. The steep fall of 9.5 per cent in agricultural output in 1972-73 was bound to upset the delicate balance between demand and supply. Because of a much sharper increase in international prices, the substantial imports of food grains that we arranged were also unable to exercise a stabilising influence on domestic prices. Even with a more normal kharif crop in 1973, the pressure on prices has not abated in view of other inflationary forces at work in the economy.

5. It appears certain that the national income in 1973-74 will record a significant growth; this will help to neutralise the unsatisfactory behaviour of national income in the two previous years. It is, however, a matter of deep concern to us that in the Fourth Plan our overall rate of growth has been much lower than the Plan target. It is also a matter of deep regret that the upsurge in industrial production that was evident in 1972 was not sustained in 1973. The available indicators suggest that there was hardly any increase in the rate of growth of industrial production in 1973. It will be a major objective of our economic policy to revive the tempo of industrial activity in 1974. To secure an adequate rate of growth is the challenge that we face in the Fifth Five Year Plan.

6. As the House is aware, in order to supplement domestic supplies, Government imported significant quantities of food grains and vegetable oil from abroad during 1973-74. These imports were necessary for the well-being of the nation, but have naturally greatly inflated our import bill. Fortunately, our exports have grown at a satisfactory rate and, as a result, the deterioration in our balance of payments has been contained within manageable proportions. However, it is no use minimising the likely adverse effect on our balance of payments which will inevitably arise as a result of the steep increase in the prices of crude oil and of commodities like fertilizer and non-ferrous metals. In the long run, among the most important steps by which our economy can adjust to this massive structural shift in our terms of trade, without affecting our growth prospects, is by replacing oil, wherever possible by other domestically available sources of energy, and by intensifying the programme for oil exploration. In this context, the highest priority attaches to securing a significant increase in the production of coal in the shortest possible time. Even so, a large increase in our import bill is inevitable, and this will necessitate a significant increase in our export earnings. The oil crisis, while no doubt adding to our difficulties, has already created new export opportunities in respect of products such as jute textiles, cotton textiles and leather goods. We must grasp this opportunity and do everything in our power to maximise our export earnings. A comprehensive review of our export prospects has been undertaken. This review will enable us to launch a well articulated programme for exploiting fully our export potential.

7. In my budget speech last year, I had listed control of inflation, promotion of higher levels of savings and investment, greater viability of our external payments,

and generation of new employment opportunities as the most pressing immediate tasks before the nation. The steep increase in prices in the last one year, the severe pressure on the balance of payments that will inevitably arise in the wake of higher prices of oil and other international commodities, and the stagnation of industrial production in 1973 have lent an added urgency to these tasks. The relatively poor performance of the economy last year should not give rise to a growing feeling of doubt, uncertainty and cynicism. We must combat these attitudes and preserve the people's faith in our democratic polity as an effective vehicle of social change.

#### **REVISED ESTIMATES 1973-74**

8. The House will recall that the budget estimates for 1973-74 had envisaged a deficit of Rs.87 crores. This excluded provision for expenditure arising out of the recommendations of the Third Pay Commission, since the Commission's report was not available at the time of formulation of the budget proposals. It was anticipated that the acceptance of these recommendations would raise the budget deficit to a level substantially higher than Rs.87 crores. However, subsequent events, largely an outgrowth of the steep fall in agricultural output in 1972-73, have led to a much greater deterioration in the budgetary position than was originally anticipated.

9. As Honourable Members are aware, extensive drought relief operations, started on account of the widespread and unprecedented drought in 1972-73, had to be continued to a large extent in 1973-74 also. At the peak of these operations 1,43,740 relief works were opened over the entire country, and 93 lakhs of people were employed. It was hoped that with the onset of the monsoon in 1973-74, and increasing involvement of the labour force in agricultural operations, the number of people employed on relief works would diminish appreciably. Unfortunately this did not happen. Consequently the Central Government had to continue massive assistance to State Governments on this account. Honourable Members will recall that a sum of Rs.100 crores was provided in the current year's budget for this purpose. This provision proved to be wholly inadequate and had to be stepped up by another Rs.220 crores.

10. In this connection I would invite the attention of Honourable Members to the observations of the Finance Commission regarding expenditure on relief for natural calamities. The Commission has urged that instead of incurring expenditure on relief on an ad hoc basis, provision should be made on a much larger scale for development of drought and flood-prone areas in the Fifth Plan, both in the State and Central sectors. Following these recommendations it has been decided to integrate these programmes with development plans to the extent possible.

11. Apart from larger assistance provided to State Governments for expenditure on natural calamities relief, provision for special assistance to States to meet gaps in their resources and for specified projects, had also to be increased. The budget provided an amount of Rs.198 crores for this purpose, and this will have to be stepped up by nearly Rs.91 crores.

12. The Central exchequer had to bear other burdens as well. The expenditure on food subsidy will be higher than the provision of Rs.130 crores by Rs.121 crores despite some revision in the issue prices of food grains. This is essentially due to the high cost of imported food grains.

13. The direct impact of the price rise on Government spending arises from the increased quantum of dearness allowance provided to Government employees this year. Honourable Members will recall that in accepting the recommendations of the Third Pay Commission we had agreed to a liberalised formula for dearness allowance to enable low paid Government employees to get adequate compensation for the rise in the cost of living. On this basis, the four installments of dearness allowance we have sanctioned will cost the exchequer nearly Rs.100 crores.

14. The impact of the recommendations of the Third Pay Commission was estimated at Rs.150 crores. This was a large commitment, particularly in the context of the difficult economic situation prevailing in the country, and was based on the expectation that we would accept most of the Commission's recommendations. We have in fact agreed to make some significant improvements in the Pay Commission's recommendations regarding the pay structure of Government employees; these improvements alone are likely to cost the exchequer Rs.61 crores a year on a recurring, and Rs.25 crores on non-recurring basis. The Government has stretched its resources to the utmost in order to meet the demands of its employees. I sincerely hope that they will appreciate this, and do their best to improve their efficiency and productivity.

15. On the receipts side, there have been shortfalls. The stagnation in production in a number of major sectors of industry, caused by shortage of raw materials and power cuts, has adversely affected receipts from excise duties. Shortfall on this account is estimated to be Rs.107 crores.

16. As the Railway Minister stated yesterday, the finances of the Railways in 1973-74 have been under considerable strain for reasons dealt with at length in his speech. The net additional impact of the financial working of the Railways on the general budget in the current year is expected to be around Rs.109 crores

17. In order to meet the additional and inescapable demands on the Central Budget, and to contain the deficit to the minimum, Government had made serious efforts both to tap additional resources and to restrict expenditures. The net market borrowing by the Centre this year will amount to Rs.472 crores, as against the Budget provision of Rs.326 crores. The expenditure requirements of the various Ministries were carefully reviewed and savings were located in their administrative and other non-developmental expenditure. In view of the difficult resource position, a review of the Plan outlays was also undertaken, particularly in regard to schemes which were not vital to the core of the Plan.

18. Despite all these efforts, the year-end deficit will be of the order of Rs.650 crores. We are deeply concerned about the deleterious effects of deficit financing. But no Government can overlook its obligation to alleviate the hardships and sufferings of large sections of the people. It is this obligation that has rendered a larger deficit inescapable.

#### **BUDGET ESTIMATES 1974-75**

19. The next financial year is the first year of the Fifth Plan. A significant step-up in the rate of investment is clearly an essential condition for the realisation of basic objectives of the Plan. At the same time, the general economic situation renders the task of raising the needed financial resources more difficult. The sharp rise in prices in the last two years has greatly increased non-developmental expenditure, particularly on pay and allowances, thereby reducing the surpluses for development. In addition, the continued sluggishness of industrial production has affected the growth of revenues. In framing the budget for 1974-75, we also have to take into account the likely impact of the oil crisis and very high prices of many imported commodities on the country's balance of payments, the pattern of imports, and the growth of agricultural and industrial output on government revenues. I would be the last to deny that there are many sources of uncertainty and anxiety in the present situation. Nevertheless, I am convinced that a legitimate concern with our immediate problems must not lead to a neglect of our long-term growth objectives. That would be a self-defeating exercise. In my view, recent events have only further vindicated the soundness of a development strategy which must succeed in strengthening the country's industrial and energy base.

20. The Budget for 1974-75 provides for a total outlay of Rs.2966 crores for the Plan. Out of this Rs.911 crores have been provided as assistance to State and Union Territories Plan, while the provision for the Central Plan is Rs.2055 crores. This provision represents a difficult compromise between two conflicting considerations, namely to keep deficit financing to the minimum and to keep the wheels of production moving. Particular care has been taken to make adequate provision for such industrial and agricultural schemes and projects as are essential for the future growth of the economy, and are likely to be completed in the first two years of the Fifth Plan, so that the economy derives the benefits from investments early enough in the Plan period.

21. The role of coal as the most important source of commercial energy has been underlined by the current shortage of oil and the resultant energy crisis. The development of coal has, therefore, been accorded very high priority in the budget for 1974-75. Rs.97 crores have been earmarked for this purpose. In other words the outlay on coal has been increased four times as compared to the provision of Re. 24 crores last year. Later in my speech, I shall outline certain fiscal measures which are designed to encourage industry to switch over, as early as possible, from the use of oil to coal as a source of energy.

22. No less critical is the role of steel in our economic development. The availability of steel has a major influence not only on the pace of industrial development, but also on the viability of our international payments. For all these reasons, the budgetary provision for steel production has been fixed at Rs.162 crores. If one adds to this figure the internal resources available the total figure amounts to Rs.276 crores, which is Rs.75 crores more than the total of Rs.201 crores available this year.

23. In order to reduce the country's acute dependence on imported supplies of non-ferrous metals it is also necessary to push ahead with the development of domestic resources as fast as we can. Accordingly, a provision of Rs.75 crores is being made in the budget for 1974-75 for the development of this vital sector. This is against Rs.56 crores provided this year.

24. In view of the predominant role the railways play in our transport economy we have ensured that adequate finances are provided for the development of railways. As Honourable members are aware, the railways have run into serious financial difficulties and their own resources may not be sufficient to finance a Plan of an order which will meet the requirements of our economy. I have, therefore, considerably stepped up the budgetary support for the Railways to Rs.342 crores next year, as against Rs.181 crores in the current year.

25. Power is a vital input for both industry and agriculture. The power shortages that developed during recent years have had a crippling effect on the economy and have highlighted the urgent need for augmenting our generating capacity and improving the operational performance of existing plants. The Fifth Plan envisages that installed capacity of power generation will be stepped up to 33 million k.w. by the end of the Plan. The strategy is to expedite the completion of projects which are already under construction, and to go in for new thermal schemes which have short gestation periods. The importance of rural electrification in developing the rural economy can hardly be over-emphasised. Though many of the rural electrification schemes fall in the State Plan sector, as a special case, I am providing Rs.40 crores for the Rural Electrification Corporation over and above Rs.790 crores of assistance provided to States for their Plan. The total budgetary provision for power in the Central Budget during 1974-75 will be Rs.121 crores.

26. Considering the current shortage of fertilizers and difficulties in procuring these from abroad, the thrust of next year's Plan will be to maximise production from installed capacity and to speed up the implementation of projects already under way. The budget provides Rs.163 crores for this sector as against Rs.94 crores in the current year which is a substantial increase.

27. While every effort has been made to provide resources to stimulate industrial production, the requirements of the agricultural sector have not been ignored. We are providing Rs.246 crores as budgetary support for agricultural programmes. The behaviour of agriculture has a crucial impact on the growth of national income,

prices, industrial production, balance of payments and the distribution of income. Accordingly~ shall not allow paucity of resources to stand in the way of maximising our agricultural output. Honourable Members will be happy to note that various agricultural schemes which we have undertaken in the last few years such as schemes for small and marginal farmers, tribal development, development of hill areas, provision of institutional credits, drought-prone areas programmes, and the applied nutrition programme are making satisfactory progress.

28. Within the overall constraints of resources, and after meeting the minimum needs of the core sectors of development I have attempted to provide as large funds as possible for social services like education, health, family planning, social welfare and housing. The provisions made in earlier Plans for meeting minimum essential needs for social consumption did not achieve the desired results, mainly because related programmes were not given due priority, and an effective integration of facilities was not attempted. Honourable Members are aware that the draft Fifth Plan has provided for a National Programme of Minimum Needs to achieve a certain minimum level of social consumption in the form of elementary education, rural health, drinking water, provision for slum clearance, rural roads and rural electrification. I hope that the State Governments will be able to ensure effective utilisation of the resources allocated for this programme.

29. The total provision for the Central Plan in the Budget inclusive of Union Territory Plan of Rs.81 crores will amount to Rs.2136 crores excluding Central assistance of Rs.830 crores for the Plans of the States. In addition, extra budgetary resources for financing the Central Plan will amount to Rs.574 crores. The resources for State Plans for 1974-75 will be of the order of Rs.2059 crores. Thus, the total Plan outlay during 1974-75 will amount to Rs.4769 crores as against Rs.4364 crores in 1973 -74.

30. We have decided in favour of a larger Plan outlay to enable us to move faster towards the twin objectives of removal of poverty and attainment of economic self-reliance. I am however convinced that Plan investments can yield benefits on the scale anticipated only if the Plan is implemented efficiently and all the participants in the productive process-management and labour-accept the larger obligations they owe to the community. Maintenance of satisfactory industrial relations particularly in key sectors is absolutely essential if the Plan targets are to be achieved. Monetary and fiscal policies should also be directed towards the achievement of Plan objectives. These policies will have to be supplemented by the adoption of effective management techniques in the allocation of resources, proper selection and phasing of projects and programmes and close monitoring of programmes. The productivity of public expenditure programmes can be enhanced considerably if continuous attention is paid to the flow of expenditure so that appropriate corrective action is taken well in time to ensure that the benefits expected are fully realised. This can be achieved only if financial control and management accounting functions are, dovetailed with the-

responsibility for execution of programmes. We are, therefore, contemplating some structural changes in the financial management system so as to match the authority for taking decisions with the responsibility for producing results.

31. The new accounting classification prescribed by the Comptroller and Auditor General reflects more meaningfully the functions, programmes and activities of the Government. The Budget is framed on the basis of this new classification. With this, Performance Budgeting, which is already in vogue, will, I believe, receive a further impetus and it will be made an effective instrument to measure the efficacy of the allocation of resources and the returns there from.

32. The outlay on Defence has been provided at Rs.1915 crores which includes the provision for additional funds required on account of the acceptance of the recommendations of the Third Pay Commission. Keeping in view the large requirements of national defence and security, the provision for Defence could not possibly be kept at any lower level.

33. On the side of resources, we have to reckon with the likely adverse impact of the energy crisis on revenues, though it is difficult to estimate the impact at this stage with any degree of certainty. As an allowance for this factor, we have assumed some deceleration in the growth of revenues from excise and customs. Together, these two sources are expected to yield Rs.3769 crores in 1974-75 as compared to Rs.3608 crores in 1973-74 according to the revised estimates. The estimated yield from direct taxes is Rs.1423 crores as against Rs.1354 crores in 1973-74 revised estimates.

34. The progress in small savings collections is gratifying and estimates for 1974-75 are placed at Rs.360 crores. The estimated net receipts from market borrowings at Rs.498 crores also show a marginal improvement over 1973-74.

35. Taking into account all the provisions for expenditure and the estimates of resources, the budgetary gap at existing rates of taxes will amount to Rs.311 crores. The House will naturally be anxious to know as to how I propose to meet this gap. I now turn to this task.

## **PART B**

### **DIRECT TAXES**

36. I come first to the proposals in the field of direct taxes. As Honourable Members are aware, the Direct Taxes Enquiry Committee has made a number of recommendations in regard to direct taxes. Several of these recommendations have already been implemented. Provisions to give effect to some other recommendations are included in the Taxation Laws (Amendment) Bill, 1973 which is at present before



a Select Committee of this House. One of the important recommendations of the Committee relates to reduction in the rates of taxes. The Committee has expressed the view that prevalence of high rates is the first and foremost reason for tax evasion, because this is what makes the evasion, in spite of attendant risks, profitable and attractive. The Committee has, accordingly, recommended that the maximum marginal rate of income-tax, including surcharge, should be brought down from its present level of 97.75 per cent to 75 per cent. Simultaneously, there should be a reduction in tax rates at the middle and lower levels. This recommendation of the Committee has been accepted by Government with minor modifications. I, accordingly propose to lower taxes at all levels of personal incomes. Under the proposed rate schedules, no income-tax will be payable by individuals or Hindu undivided families having income not exceeding Rs.6,000. The marginal rate of basic income-tax will stand at 70 per cent on the income in the slab over Rs.70,000. In the case of Hindu undivided families having at least one member with an independent total income exceeding the minimum exemption limit, the marginal rate of 70 per cent will be attracted at income levels over Rs.50,000. The rate of surcharge will be reduced to a uniform level of 10 per cent in the case of all categories of non-corporate taxpayers. The combined incidence of income-tax and surcharge, in the case of individuals and Hindu undivided families, will stand at 77 per cent of the taxable income in the highest slab.

37. In view of the reduction in taxes on personal incomes, I do not think it is necessary to continue the preferential tax treatment in respect of incomes derived by non-corporate taxpayers through providing technical 'know-how' and technical services to Indian or foreign enterprises. I, accordingly, propose to withdraw the existing concession in this regard.

38. In order to ensure that the effectiveness of the fiscal instrument for reducing disparities in incomes and wealth is not impaired, I propose to increase the rates of wealth-tax on the slabs of net wealth over Rs.5,00,000 in the case of individuals and Hindu undivided families, where no member has net wealth exceeding Rs.1,00,000. The rate of wealth-tax on the slab of Rs.5,00,001 to Rs.10,00,000 will be increased from 2 per cent to 3 per cent, and on the slab of Rs.10,00,001 to Rs.15,00,000 from 3 per cent to 4 per cent. In the case of Hindu undivided families having at least one member with net wealth exceeding Rs.1,00,000, the rate of wealth-tax on the first slab of Rs.5,00,000 will be raised from 2 per cent to 3 per cent and on the slab of Rs.5,00,001 to Rs.10,00,000 from 3 per cent to 4 per cent.

39. I also propose to rationalise some of the exemptions available at present under the Wealth tax Act. I propose to withdraw the separate exemption in respect of farm houses. Tax payers will, however, have the option to claim exemption in respect of one farm house, or one other house property within the existing limit of Rs.1, 00, 000. Exemption in respect of agricultural land will be linked with the exemption in respect of specified financial assets, so that the total exemption in respect of agricultural land and specified financial assets will be limited to Rs.1,50,000. At present, the value

of the taxpayer's interest in insurance policies before their maturity is completely exempt from wealth-tax. A similar exemption is also available in respect of the taxpayer's right in any annuity which is not commutable into a lump sum grant. These exemptions have been exploited by certain individuals by taking out single premium policies of very large amounts. I propose to modify these provisions so that complete exemption will be available in respect of insurance monies only where premia have been paid over a period of 10 years or more. As regards annuities, I propose to withdraw the exemption in respect of non-commutable annuities if such annuities have been purchased by the taxpayer himself, or by any other person in pursuance of a contract with him.

40. The changes in the Wealth-tax Act will yield about Rs.9.5 crores in a full year, which will accrue in the financial year 1975-76. The reduction in the rates of income-tax on personal incomes would ordinarily have resulted in a loss of about Rs.60 crores in a full year and Rs.36 crores in the financial year 1974-75. I am, however, not taking any loss into account for budgetary purposes as I expect that the reduction in the rates of taxes will lead to better tax compliance, and full disclosures of incomes by all taxpayers.

41. In the case of registered firms, two surcharges are presently levied. I propose to merge the ordinary surcharge payable by such firms with the basic income-tax, and specify only one surcharge at the uniform rate of 10 per cent. In order to retain the liability in respect of basic income tax in the case of professional firms as well as other firms at more or less the existing levels, I propose to prescribe two separate rate schedules in the case of such firms.

42. In my budget speech for 1971-72, I gave notice of Government's intention to withdraw the development rebate in respect of ships acquired or machinery and plant installed after May 31, 1974. It now appears that industry has in some cases not been able to secure timely delivery of plant and machinery both from foreign and indigenous manufacturers which has caused a setback to the timely completion of some of the industrial projects which would in the normal course have been completed before May 31, 1974. Several unforeseen factors are responsible for this, such as uncertainty prevailing in the international market, dependence of indigenous manufacturers on imports in respect of critical parts or raw materials, difficulties in the availability of shipping space, power shortage, etc. Relief is deserved in such cases, and I propose to extend the operation of the development rebate by one year in cases where there is conclusive evidence to show that contracts for purchase of machinery and plant were finalized before December 1, 1973. This extension will also be available in respect of ships acquired up to May 31, 1975, if the contracts for purchase were made before December 1, 1973.

43. The critical shortage of petroleum products has resulted in an unexpected crisis as a result of which industry has to be encouraged to switch over to other sources of energy. I, accordingly, propose to allow development rebate in respect of

coal-fired boilers or any machinery or plant for converting oil-fired boilers to coal-fired boilers where these are installed before June 1, 1975.

44. In order to simplify the assessment procedure in the case of salaried taxpayers, I propose to substitute the separate deductions in respect of traveling, books, taxes on professions and expenditure incurred in the performance of duties by a standard deduction up to a maximum of Rs.3, 500. Simultaneously I propose to place the valuation of perquisites of employees on a more realistic basis, I also propose to liberalise the tax treatment of retirement benefits in certain directions. The retiring gratuities payable under the Payment of Gratuities Act, 1972 will be completely exempt from income-tax. In the case of employees not covered by that Act, the alternative ceiling limits on the exempted amount of gratuities will be raised from Rs.24, 000 to Rs.30, 000 and from 15 months' salary to 20 months' salary.

45. In order to enable State Financial Corporations to build up reserves at an accelerated pace, I propose to raise the ceiling limit in respect of amounts transferred to tax exempt reserves to 40 per cent of the current profits.

46. There are a large number of public charitable trusts and -registered societies engaged in the development of khadi and village industries. These trusts and societies are doing commendable work under the direct supervision of the Khadi and Village Industries Commission. I propose to exempt all such Institutions from income-tax provided they are approved by the Khadi and Village Industries Commission.

47. As a result of the change in pricing policies, some of the industrial companies are making windfall profits. I feel that the exchequer should also secure a larger share of these profits. I, accordingly, propose to increase the rate of surtax from 30 per cent to 40 per cent in respect of chargeable profits of companies exceeding 15 per cent of the capital. This measure will yield Rs.5 crores in a full year and this will accrue in 1975-76.

48. To sum up, in the field of direct taxes no effect is expected on tax revenues during the next financial year as a result of the proposals outlined by me. In the financial year 1975-76, there will be an addition of Rs.14.5 crores as a result of these changes.

#### **INDIRECT TAXES**

49. Sir, I will now move on to the proposals relating to indirect taxes.

50. As in the past, I have necessarily to rely more heavily on indirect taxes, particularly excise duties. The scope for raising resources from other measures having become severely limited, the choice before me has really been between raising indirect taxes and resorting to deficit financing and the former, I feel, is the better alternative.

## **EXCISE DUTIES**

51. Taking up Central Excises, I shall first deal with some important measures for raising resources exclusively for the Centre. Honourable Members are aware that a new provision was made last year for levying auxiliary duties of excise on all excisable goods at an amount equal to 20 per cent of the value of the goods. These levies were restricted to certain selected items at a level needed to meet the demands of the Centre then. I propose to continue this provision for another year. While the effective levies on the items chosen last year will remain unchanged, I propose to add selectively some more to the list.

52. Briefly, my proposal is to levy auxiliary duties at the rate of ten per cent of the effective basic duty on un-manufactured tobacco, cigarettes, smoking mixtures, plywood and cement; at the rate of twenty per cent of the effective basic duty on dyestuffs, optical bleaching agents, gases, rubber products and plastics; at the rate of thirty-three and one-third per cent of the effective basic duty on paints and varnishes; and at the rate of fifty per cent of the effective basic duty on aerated waters, glycerine, cosmetics and toilet preparations. Through these proposals and as a result of the modifications of the basic excise duties I am proposing on the existing items, I expect to raise Rs.62.38 crores in a year, by way of auxiliary duties.

53. In the case of steel as well as other metals, the auxiliary duties are proposed to be applied only to indigenous production and will not be attracted by way of countervailing duty on imports, as hitherto. I propose to extend a similar exemption in the case of plastics.

54. In the sphere of basic excise duties, my proposals naturally cover a wider range and have been made with the multiple objects of rationalisation, curbing consumption, mopping up fortuitous gains and, not the least important, I must confess, raising revenue. In November, 1973, following successive increases in crude oil prices and cuts in crude oil supplies, and as one of a series of measures, the basic excise duty on motor spirit was raised from Rs.1000 per kilolitre to Rs.2000 per kilolitre. In view of the continuing need for exercising restraint and economy in the consumption of a number of other petroleum products, and to prevent their misuse, I propose to increase substantially the basic excise duties in respect of "special boiling point" spirits, raw naphtha intended for methanol and petro-chemicals, benzene etc. used for a variety of purposes, asphalt and bitumen, mineral turpentine oil, waxes and blended or compounded lubricating oils and greases. Through these proposals, I expect to raise an additional revenue of Rs.22.48 crores from the petroleum group.

55. The rates of excise duty on various types of motor vehicles have remained unchanged for some years now. I, therefore, propose to rationalise the rates of duty by replacing the existing alternative rates by ad valorem rates. I intend imposing a uniform rate of 9 per cent ad valorem on vehicles like scooters, motor-cycles, mopeds, auto-rickshaws and other three-wheelers. Motor vehicles of not more than 16 H.P.

by R.A.C. rating, which cover passenger-cars, jeeps, etc., are at present assessable at a rate of duty of 13.33% ad valorem. I propose to increase this rate to 20% ad valorem in respect of vehicles with body and to 25% ad valorem in respect of others, including those cleared as drive-away chassis. Big-sized cars will pay a higher duty at 40% ad valorem.

56. Commercial Vehicles have had the benefit of concessional 'specific' rates fixed some years ago. I propose to discontinue these and impose a uniform ad valorem rate of  $12\frac{1}{2}$  per cent. In that process, certain extra-heavy vehicles, which are at present paying duty at the tariff rate, will get an incidental benefit of  $2\frac{1}{2}$  per cent. I do not, however, propose to change the existing rates on tractors and trailers.

57. The proposals relating to motor vehicles are estimated to net an additional revenue of Rs.16.25 crores.

58. As part of the socio-economic objectives of the Government, I have some proposals to restrain consumption by the more affluent section of the community. The existing rates of duty on refrigerators, air-conditioners, refrigerating and air-conditioning machinery, appliances, and parts, are being stepped up, with certain modifications in respect of a few existing exemptions. The present concessional rates in favour of public-run hospitals, cold-storage plants and factory establishments are not, however, being disturbed. These changes are expected to bring in additional revenue of Re.5 crores in a year.

59. Some of the manufacturers of T.V. sets have been regaling us with advertisements exhorting the public to "budget for a T.V. set to forestall the Central Government Budget. As a compliment to these soothsayers on the accuracy of their prediction, I propose to increase the duty on T.V. sets from 10 per cent ad valorem to 20 per cent ad valorem. Extended play records are also being brought within the dutiable category. While these proposals will make entertainment costlier for the wealthy, I am anxious that music, entertainment and knowledge should reach the less privileged in wider measure at lesser cost. To this end, I propose to exempt totally all radio-sets produced in the small scale sector and sold to the consumer at a price of not more than Rs.225 per set. These measures are estimated to bring in a net revenue of Rs.1.20 crores.

60. I have been avoiding major changes in the rates of duties on various cotton textiles, including cotton yarn, except to the limited extent of raising resources for the States. The rates of duty are 'specific' and were fixed in 1969 at a time when the industry was beset with difficulties. There is, therefore, a clear need for revision, especially as the industry has since recovered. Cotton textiles being an item of mass consumption, I am quite alive to the need for forbearance in increasing the rates of duty on certain categories of yarn and fabrics. My proposals, therefore, cover only superfine, fine and medium-A fabrics, which are subjected to sophisticated processes, such as, mercerising/shrink-proofing/sanforizing. In the case of cotton yarn, the

escalations are confined to higher count groups. I have, however, not disturbed the existing exemptions and concessional rates in respect of yarn in straight- reeled hanks mostly consumed by the handloom sector. I have also rationalised certain exemptions and compounded levy rates. These measures relating to cotton yarn and cotton fabrics are estimated to yield an additional revenue of Rs.22.05 crores.

61. As a measure of rationalisation, which will also earn revenue, I propose to increase the existing two rates of duty on polyester fibre to a uniform rate of Rs.40 per kilogram. Suitable in creases in the existing rates applicable to different denier groups of polyester filament yarn, sympathetic revisions in the rates of duty on staple fibre spun yarn, certain categories of blended yarn, and an increase in the rate of duty on resin-bonded slagwool, are also being proposed. These proposals would bring in an additional revenue yield of Rs.13.99 crores.

62. In regard to iron or steel, I propose to rationalise certain exemptions relating to pig iron, steel ingots and products produced with the aid of electric furnace, and to products made out of duty paid cut-pieces of steel ingots, which will result in an additional revenue of Rs.7.20 crores.

63. The rates of duty for various categories of paper and board are 'specific' and require review from time to time. I propose to make suitable upward revisions in the existing rates on paper and paper board, apart from rationalising certain exemptions and classifications. The concessional rate of 15 paise per kilogram applicable to the commoner varieties of printing and writing paper falling within the grammage limit not exceeding 65 grammes per square metre, the total exemption in favour of newsprint, hand-made paper and board, as well as existing concessions for smaller paper mills and newly established units, will, however, continue. These measures will result in an additional revenue of Rs.10 crores.

64. As straight revenue-raising measures, I propose to increase by 5 per cent ad valorem the existing rates of duty on surface active agents, office machines, metal containers, rolling bearings, welding electrodes, coated abrasives and grinding wheels, dry batteries, certain categories of glass and glassware, chinaware and porcelainware and thereby raise an additional revenue of Rs.20.17 crores.

65. As a part of our efforts to mobilise resources, I propose to levy for the first time excise duties at varying rates on tooth-paste (including dental cream), electrical stampings and laminations, specified cutting tools, tape and cassette recorders, cast-alloy permanent magnets and sensitised photographic paper and board. In the matter of new levies, Members will be reassured to know that suitable exemptions for smaller manufacturers have been provided wherever necessary. These new levies would bring in an-additional revenue of Rs.8.20 crores.

66. Some minor proposals for changes in excise duty will yield an additional Rs.3.05 crores. The proposals relating to excise duties account for a net gain in revenue

of Rs.191.97 crores in 1974-75, of which Rs.25.92 crores will accrue to the States and Rs.166.05 crores to the Centre.

### **Customs Duties**

67. In the matter of customs duties, in view of the mounting world-wide shortages and unprecedented rise in international prices of a wide array of imported goods, my proposals in regard to import duties are no more than marginal. Briefly, I propose to continue for another year the auxiliary duties of customs and the exemptions relating to them, with a slight modification. At present, these duties are levied at three differential rates of 20%, 10% and 5%. I propose to raise the rate applicable to the middle slab from 10% to 15%. This modification will yield an additional revenue of Rs.16 crores in a full year.

68. The only other proposal I have to make concerns whisky, brandy, gin and certain other spirits by way of an increase in the basic duty from Rs.60 per litre to Rs.80 per litre. While society at higher levels may, as a result, have to pay a little more for their' spirituous relaxation, it will help me in getting some revenue for the exchequer.

69. Inclusive of additional duties, consequential to the changes in excise duties, the additional revenue from import duties will amount to Rs.20.05 crores annually.

70. Taking Customs and Central Excise duties together and exclusive of States' share, the additional revenue accruing to the Centre will be of the order of Rs.186. 10 crores in a full year.

### **Posts and Telegraphs**

71. I need now to say a word on behalf of my colleague the Minister Of Communications. As the House is aware, postal rates have not kept pace with rising costs. The frequent increases in Dearness Allowance and the heavy additional expenditure incurred on account of implementation of the Pay Commission's recommendations have further pushed up the establishment cost in the Postal Branch which is highly labour oriented. On the Telecommunications side, also, the operational costs as well as the cost of equipment required for various projects have been going up steadily. The Department's developmental programme to improve the Trunk Telephone Service by provision of high grade media like Microwave and Co-axial systems, to install new Exchanges and expand existing ones for meeting the fast growing demand for telephone connections and to expand the Trunk Dialling and Teleprinter facilities all entail heavy investments. These various factors necessitate an upward revision of tariffs in the Postal, Telegraph and Telephone Branches of the Department. A Memorandum showing the proposed changes in the Posts and Telegraphs Tariffs is being circulated along with Budget papers. I shall therefore mention only the more important changes.

72. The tariff for Postcards is proposed to be increased from 10 Paise to 15 Paise. Even after this revision, the Department will be incurring a loss of Rs.2.43 crores per annum in running this service. It is proposed to raise the rate of Letter cards from 15 Paise to 20 Paise and that of Letters weighing upto 15 grams from 20 Paise to 25 Paise. The Registration Fee is being increased from Re.1/- to Rs.1.25 and the Parcel rate from Re.1/- for every 400 grams to Rs.1.50 for every 500 grams. The Posting Fee for Value Payable Post and the tariff for Business Reply Permits are being revised. The minimum charge for a Non-Press Telegram of 'Ordinary' category with eight words or less is being increased from Rs.1.20 to Rs.1.50 and for the 'Express' category from Rs.2.40 to Rs.3.00. The charge for each additional word will, however, remain the same. It is also proposed to increase the rental for telephone connection both in the 'measured rate systems' and the 'flat rate systems'. As against this, the number of free calls allowed during a quarter will be raised from 250 to 300. The rate for each additional call after 300 will be increased from 20 paise to 25 Paise. The Trunk Call rate structure is being rationalized. While this will involve increase in Trunk Call charges for distances between 100 and 1300 kilometers, in respect of calls between stations within 20 kilometers, only the unit fee of 25 Paise will be charged for an 'ordinary' call as against the present 50 Paise for such calls.

73. These tariff revisions are estimated to bring in additional revenue of Rs.57.08 crores per annum. The changes would be given effect to from dates to be notified after the Finance Bill is passed by Parliament. The yield during the financial year 1974-75 will be of the order of Rs.42.80 crores.

74. The results of these changes have been accounted for in reckoning the internal resources of Posts and Telegraphs Department.

75. So far as the Union Budget is concerned, the various proposals would imply, for 1974-75 additional revenue aggregating Rs.186 crores. The budgetary gap of Rs.311 crores I had indicated earlier will accordingly be now scaled down to Rs.125 crores.

76. In conclusion, I would like once again to draw the attention of the House to the developments of last two years which have shown how certain events can greatly upset the original budgetary calculations. In the year ahead lie more sources of uncertainty than ever before, which must be tackled speedily and with flexibility. I would, however, like to say that we do not propose to allow these uncertainties to blur our vision of the future. The social and economic problems that we currently face can be resolved in the long run only in the frame-work of a rapidly expanding economy with socialist objectives. I trust this budget is one more step in that direction.

(February 28, 1974)