SPEECH OF PROF. MADHU DANDAVATE, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1990-91*

Highlights

— *Highest Priority to Exports*

— *Drive Against Proliferation of Black Money*

— *Abolition of the Gold Control Act, 1963*

— *Introducing Employment Guarantee Scheme*

— *Formulation of Agricultural Policy Resolution*

— *Introducing a Scheme for Debt Relief*

— *Vocational Training Project has been Taken up*

— *Need to Review Industrial Licensing Policy Emphasised*

— *Central Investment Subsidy for Small-Scale Units*

— *Formation of Securities Exchange Board of India*

Mr. Speaker, I deem it a great privilege to have the opportunity to present the first Budget of the new Government.

Over a hundred days ago winds of political change swept of the country. The new Government, which secured a massive vote of confidence of the honourable House, transcending political affiliations, made a tryst with the nation to respect and implement the mandate it received from the people.

Let me, at the outset, deal with the economic situation that we inherited from the previous Government. I do so not in a spirit of acrimony but with a view to revealing to the House the ground realities. The Central Government's budgetary deficit was Rs. 13,790 crore as on 1 December 1989, a level nearly double the deficit projected for the whole year in the 1989-90 Budget, wholesale prices had risen by 6.60 per cent since the beginning of the financial year. The balance of

* *Lok Sabha Debate,* 19.3.1990, cc. 540-582.

payment was under strain and foreign exchange reserves [excluding gold and Special Drawing Rights (SDRs)] were down to around Rs. 5,000 crore. Stock of foodgrains had fallen to 11 million ton.

On a broader scale, the Economic Survey which was placed on the Table of the House only a few days ago deals with the current economic situation. I will not go into details but only highlight a few key points.

There has been some slowing down of growth in 1989-90. GDP is expected to rise by 4 to 4.50 per cent, industrial output by about 6 per cent and agricultural output by 1 per cent or so on the peak level reached in the previous year.

The price rise this year affects several commodity groups and the pressure of inflation is clearly linked to the fiscal imbalance. The Budget deficit and money supply growth have been running with about target. The Revised Estimates for 1989-90, which I will present a little later, indicate that the budget deficit is expected to be substantially higher than Rs. 7,337 crore projected in the Budget estimated for 1989-90. The growth rate of aggregate monetary resources was 16.50 per cent from the beginning of the financial year to 23 February 1990.

As regards the trade performance this year, exports have grown at the rate of 38 per cent and import at 21 per cent in rupee terms in the first nine months of the year. But the pressure on reserves continues as the improvement on trade account is not sufficient to counter-balance the increase in debt-service obligations.

I have drawn attention to these features in order to highlight the constraints within which the new Government has to look for ways of fulfilling its mandate.

The first task of the new Government was to contain the rise in prices. A Cabinet Committee on Prices was formed and effective steps were taken to increase the supply of essential commodities, break the inflationary psychology and contain inflation. The price situation, however, remains a matter for concern and the management of inflation is one of the priority for this Government.

Adequate stock of foodgrain are essential for maintaining price stability and our economic security. The Government has given a high priority to stepping up procurement efforts and to rebuilding of stock. As a result, the procurement of rice has touched a new high of about 10 million ton already. Foodgrains stock in the central pool have been augmented and stand at 11.67 million ton at the beginning of February compared to 8.34 million ton at the same time last year. Special attention has been given to increasing supplies of essential commodities and streamlining the Public Distribution System. Market intervention operations are being undertaken to stabilise open market prices of some sensitive commodities.

Another major problem before the country is the strain on our balance of payments position. In the last few years, large trade and current account deficits have been financed through depletion of foreign exchange reserves and growing recourse to foreign borrowings. To combat the pressures on the balance of payments and to ensure a liable situation over the Eighth Plan period exports must command the highest priority. The alternative of higher foreign borrowing to finance our essential import requirements runs the risk of mortgaging our hard won economic independence. This is clearly unacceptable. Therefore, the new Import Export Policy 1990-93, to be announced on 1 April 1990, will accord top priority to exports and will give special encouragement for exports which earn high net foreign exchange. The priority for exports will also be reflected in our industrial policy and later I will outline some fiscal measures to promote export production.

Our import bill for bulk items is increasing rapidly. The oil consumption, for example, has been rising at the rate of around 8 per cent in the recent past. There has been a huge outflow of foreign exchange on this account. India's foreign debt has been doubled in the last five years. This has added to our vulnerability. The trend has to be reversed. I am convinced that our people will make any sacrifice and meet any challenge in order to preserve our economic independence and spirit of self-reliance. We are ready to go through a period of austerity and hardship in order to avoid excessive foreign borrowings.

The fiscal imbalance is the root cause of the twin problems of inflation and the difficult balance of payment position. One of the targets of the Seventh Five-Year Plan which was over achieved was deficit financing. While the projected deficit in the Seventh Plan period was Rs. 14,000 crore, in reality it was more than double.

The management of the deficit will require the containment of expenditure growth. I can assure the House that we will spare no effort to reduce the burden of administrative expenditure. But the restraint of expenditure also requires careful consideration of other areas of public spending which involve implicit or explicit subsidies. We have to ask ourselves whether these subsidies are really reaching the people they are meant to serve or whether there is a better way of providing the same benefit.

On the revenue side the real issue is of tax compliance. Tax evasion is rampant, this generates black money and has other serious adverse effects on the economy, such as fuelling inflation and conspicuous consumption. Black money is also generated by shortages, artificially pegged prices and detailed physical control. The “leakages” from public expenditure programmes also cause serious distortions in the economic and social structure of our society.

We will launch a sustained and multipronged drive against proliferation of black money which is a social sin and an economic evil. To improve tax compliance, we shall combine reasonable tax rates and simpler tax laws with effective tax administration and strong deterrents against evasion. The Revenue Department is being instructed to pay special attention to vulgar display of ill-gotten wealth, particularly on occasions, such as wedding receptions. We will come down with a heavy hand on those who give vent to their pomp and money power, by circumventing our laws and frittering away the scarce resources of the nation. The Economic Intelligence Bureau is being revamped to co-ordinate action against tax evaders and black money operators, the Act on “*benami*” transactions will be recast to make it more difficult for economic offenders to hold wealth in “*benami*” forms.

Administrative curbs against black money must be backed by economic measures. We must reduce the scope of discretionary powers which provide sustenance to black money. Our economic policies will place greater reliance on general, non-discretionary, fiscal and financial instruments and will reduce the role of *ad hoc* discretionary physical control.

I have also received some suggestions from honourable members and fiscal experts on incentive scheme for ‘unearthing’ of black money and channelling it into desired directions. The advantage claimed for such schemes is that, instead of being used for conspicuous consumption or unproductive investment, the unaccounted money can be diverted to create jobs or to serve some other socially useful purpose. The disadvantage is that these schemes generally provide for a more concessional tax treatment of the black money than the rates normally applicable. The different schemes tried out in the past did not yield much and were open to misuse. Human ingenuity manifests itself in strange ways. In the past, it found expression in converting the bearer bonds, issued with the laudable objective of bringing out black money, into alternate currency that exchanged hands at a premium. Thus, the instrument to render black money white was itself used with vengeance to reconvert white money into black.

Nevertheless, in the present situation, when our needs are large and resources are tight, there is perhaps a case for introducing a time-bound scheme which would permit undeclared incomes and hidden wealth to be used for one or more social purposes, such as, slum clearance, building of houses for lower and middle income groups, and setting up of specified agro-based industries in rural/backward areas. Subject to certain conditions, the source of money declared under this scheme need not be questioned. There could be a suitable flat rate of tax on such income.

The Government would like to have a thorough debate in the Parliament before introducing a scheme of this type. I would very much welcome the views of the honourable members during the Budget debate. In the light of these discussions the Government will take the final decision.

Domestic trade in gold is regulated under the Gold Control Act which was introduced in 1963 with the broad objective of curbing the demand for gold. The Act has been largely ineffective. It has also caused hardship and harassment to small goldsmiths. There is not much point in continuing with such an ineffective legislation. The Government, therefore, proposes to abolish the Gold Control Act. This step would benefit many artisans and small goldsmiths all over the country. At the same time, we will use the Customs Act more vigorously to prevent smuggling of gold.

Let me now turn to some issues of long-term development.

In the traditional growth pattern, while the poor at the grassroot level suffered in silence without much benefit of growth trickling down to them, the affluent at the top lived in splendid isolation and monopolised most of the gains of economic growth. The new Government rejects this trickle down theory of development. Instead, it would work for growth with equity ensured through employment oriented planning in which the decentralised institutions of the four pillars State, aptly described by Dr. Ram Manohar Lohia as the '*Choukhamba Raj*' will play a pivotal role.

Our first priority is employment. In the eighties, our economy grew at around 5 per cent or more. But, according to a recent report of the National Sample Survey the number of persons who are chronically unemployed increased from 8 million in 1983 to 12 million in 1987–88. In addition, there are a vast number who are underemployed and whose earnings from work fall well short of a decent minimum. We believe that, "every citizen has the right to productive and gainful work in order to live meaningfully and with dignity". We would like to introduce an Employment Guarantee Scheme. However, the cost of doing so in all parts of the country are huge, and we do not have the necessary resources at this juncture. Nevertheless, it is proposed to make a beginning on an Employment Guarantee Scheme for the drought prone areas and areas with an acute problem of rural unemployment. The allocation for the employment schemes of the Department of Rural Development will supplement to the extent feasible, during the course of the year.

Faster growth of agriculture must be an important part of this strategy. We have achieved impressive growth in yields in the areas of good irrigation but yields remain very low in large parts of the country which are rained or semi-arid. Our strategy for agricultural development must focus on increasing output in these areas through greater investment in irrigation, land development, and soil and moisture conservation. These investments will increase production. They will also generate greater absorption of labour in agriculture. Parallel to this effort, regions of high productivity should aim at diversification of agriculture and development of agro-based processing industries. This will provide the economic linkages between the rural economy and growing markets in urban areas, as well as potential markets abroad.

The country had adopted an Industrial Policy Resolution in 1956, which through the years, has governed our broad strategy for industrial development. It is surprising that there is no similar Agricultural Policy Resolution. This Government will remove this lacuna. We will lay the basic foundations of agricultural development through the adoption of an Agricultural Policy Resolution. This will represent our national commitment in respect of a sector which is the hub of our economy. We invite all sections of the people to interact with the Government on the formulation of this Policy Resolution.

We are committed to ensuring that 50 per cent of the investable resources are deployed for the development of agriculture and rural development.

We have made a beginning, in this year's Central Plan in which the share of the rural sector in budgetary support for the Central Plan will go up from 44 per cent in 1989-90 to 49 per cent in 1990-91. In addition, on the non-plan side we are providing Rs. 1,000 crore for debt relief, and Rs. 4,000 crore for the fertilizer subsidy, which also go to benefit rural areas.

The steps for the inclusion of the land reforms legislation in the Ninth Schedule of the Constitution have already been initiated and the necessary constitutional amendment will be introduced. Simultaneously, various measures for the restructuring of the land relations are being worked out and we hope to initiate steps in this direction after due consultation with the State Governments.

Over the years, poor farmers, artisans and weavers have accumulated debt which they are unable to repay. They have been caught up in a vicious circle of indebtedness and low incomes which keeps them in perennial poverty. In order to relieve our farmers from the burden of debt, an assurance was given in the National Front's manifesto that relief will be provided to farmers with loans upto Rs. 10,000 as on 2 October 1989. I am glad to inform the House that we are now ready with the scheme of implementation of debt relief to fulfil the promise, and redeem the pledge given to the *kisans* and artisans.

It is proposed to introduce a scheme for providing debt relief which will have the following features. The relief will be available to borrowers who have taken loans up to Rs. 10,000 from public sector banks and Regional Rural Banks. The relief will cover all overdues as on 2 October 1989 including short-term as well as term loans. There will be no limit on the size of the borrower's land holdings. However wilful defaulters, who in the past did not repay loans despite their capacity to do so, will be excluded.

The Central Government will compensate the public sector banks and Regional Rural Banks suitably for the debts which are thus written off. Sir, it has been the convention of the house to allow the proposals to be put forward undisturbed. Many of those who filed insolvency petitions and had taken loans below Rs. 10,000 which were overdue as on 2 October 1989 will also be covered under the scheme.

The State Governments may also wish to introduce a scheme on the same lines in respect of cooperative banks within their purview. Subject to the constraint of resources, the Central Government will consider suggestions for helping State Governments in implementing a debt relief scheme on the same pattern in respect of cooperating credit institutions under their control.

I consider the debt relief measure as a positive step which will enable our farmers, artisans and weavers to increase their productivity. It is at the same time necessary to ensure that there is no erosion of the credibility of the banking system. Once the past over-dues are cleared, it is reasonable to expect that loans taken for current operations will be serviced promptly. The Scheme should contribute to better agricultural recoveries and better identification of wilful defaulters, who do not deserve any sympathy. Banks are being asked to set up a system of maintaining a proper credit history of their borrowers covered under the Scheme. The Government would also like to make it clear that the Scheme will not be extended nor will it be repeated.

The Government proposes to introduce changes in the formula for computing costs of production of agricultural crops for price fixations so as to take full account of all costs. In particular the formula will take into account:

(1) valuation of labour (including family labour) on the basis of statutory minimum wage, or actual wage, whichever is higher,

(2) the remunerations for the managerial and entrepreneurial efforts of the farmer,

(3) adjustment of procurement/support prices for the escalation in input cost between the announcement of the prices and the arrival of the crop in the market.

The new formula will be reflected in the procurement support prices to be announced for the next *kharif* season. As procurement prices are revised in line with costs, the revision of issue prices is also unavoidable. In future, the Government will announce revision in procurement and issue prices at the same time even though these may take effect on different dates.

The threat to our environment can no more be ignored. It has been estimated that around 139 million hectares of land is degraded through soil erosion, salinity, total loss of tree cover, etc. Our forests are under pressure from a variety of sources. In urban areas, air and water pollution from industry transport and other sources is widespread. A healthy environment is part of the quality of life and a productive environment is the basis for development. Our emphasis on rural development and decentralisation will allow us to integrate environmental considerations into the design of development.

Let me now turn to another area of great concern—that of unemployed youth. All of us who travel in our constituencies have seen the plight of young people able and willing to work, but unable to find employment. A long-term solution to this problem has to come from a shift to a more employment-oriented growth strategy. But as an immediate step, we have decided to give a boost to measures which will assist the youth of this country to acquire the skills that will improve their prospects for gainful employment. A comprehensive Vocational Training Project has been taken up covering 28 States and Union Territories. The Project will improve the quality of craftsmen training, apprenticeship training and advanced training of industrial workers. We also propose to link training and the provision of credit support for self-employment.

Under the leadership of Dr. B.R. Ambedkar thousands belonging to the Scheduled Castes had embraced Buddhist religion in 1956 to seek liberation from caste oppression to which they were subjected for centuries. However, in the eyes of the orthodoxy the social stigma on the Scheduled Castes was not erased even after their conversion to Buddhism. It has, therefore, been decided by the Union Government that all the facilities and privileges that were available to the Scheduled Caste will be available to them from the Union Government even after their conversion to Buddhism.

A strategy for greater absorption of labour in agriculture has to go hand-in-hand with faster growth of industry and balanced development of infrastructure, specially power and transport. It is self-evident that higher investment and faster growth in incomes in agriculture can be sustained only if industrial production increases to meet the rising demand for input and wage goods in particular. This Government will give priority to accelerating industrial growth in a competitive and non-monopolistic environment. The Government will review and simplify the Industrial Licensing Policy to ensure that licensing does not become an instrument for preventing competition and perpetuating monopolies.

The *Khadi*, village and small-scale sector has a special role to play in any strategy for employment-oriented industrial development. We will work for the harmonious development of cottage, small-and-large scale industries and give protection against encroachment of large-scale on small-scale and small–scale against cottage wherever necessary.

The withdrawal of the 15 per cent Central Investment Subsidy for Backward Areas has affected the growth of small-scale industries. We must take industry to the people and not people to the industry. We propose to reintroduce a Central Investment Subsidy for small scale units in rural areas and backward regions.

A major problem faced by small-scale industries is delay in the settlement of bills by large units. The provision of factoring services in which the task of realisation of the bill is taken on by an intermediary is one way of mitigating this. The House will be glad to know that some steps towards this end have already been taken by the Reserve Bank of India.

The problems of women entrepreneurs in the cottage and small sector are of particular concern to us. The provisions regarding margin money and seed capital for women entrepreneurs will be re-examined and liberalised.

There is a single window scheme for grant of working capital along with term assistance to new projects in the small-scale sector by State Financial Corporations. This arrangement facilitates setting up of small-scale units without waiting for finalisation of working capital limits from banks. The present limits of project cost for determining eligibility for such composite loans is being raised from Rs. 5 lakh to Rs. 10 lakh.

Reserve Bank has issued guidelines for provision of credit and rehabilitation of viable small-scale units. These guidelines are, intended to assist the small-scale sector and not create hurdles in its path. Banks are being asked to implement them faithfully.

The public sector is vital to our country's development. It has played a major role in broadening the base for industrial and technological development in this country. The overall working results for the first six months of this financial year show a significant improvement in net profit from Rs. 694 crore last year to Rs. 1,103 crore this year. In 1990-91, Central sector enterprises will finance 46 per cent of their plan investment from internal resources. We are committed to making the public sector more efficient and result-oriented so that it can generate more surpluses which can be ploughed back for development.

The health of the public enterprises depends crucially on the commitment of its employees and their full participation in management. It has been suggested that one way of securing this is to give workers a share in ownership either through stock option schemes or sale of shares to workers or to trusts owned by workers. Since the equity of public enterprises is not quoted in the market, arrangements will have to be worked out to determine the sale and purchase price of such worker's shares. I invite suggestions from honourable members on the merits of this idea and how it could be implemented.

We are also firmly committed to the healthy development of capital markets, and to strengthen the role of public financial institutions. The institutions will be given functional autonomy. However, they must also be accountable for their actions. The institutions will not be party to corporate battles and clandestine takeovers. The Government would like to create an atmosphere and a culture where financial institutions can function objectively without fear or favour.

There has been some concern about the role of financial institutions in relation to their intervention in the capital market. I have asked these institutions to frame suitable guidelines so that their actions are not only objective but seen to be so. Each financial institution is expected to operate in the interest of its depositors and investors consistent with national priorities. There may be occasions when there is an abnormal and persistent upward or downward movement in share prices because of concerted bull or bear pressures. In such situations, the financial institutions will play a stabilising role in the capital market.

The growth of banking since nationalisation has been phenomenal. The banking system has been extended to the remotest part of our country. Banks are now playing a vital role in mobilising peoples' savings and channelling them into productive areas. At the time of nationalisation, only 14 per cent of the bank credit was provided for the priority sector covering sections, such as, agriculture, rural development and small industries and businesses. Today, this proportion is nearly 45 per cent. This is the measure of the success of nationalisation.

There is one aspect of banking operations which is of concern to me. This is the low credit deposit ratio in some regions. A variety of factors determine this ratio. I have asked the Reserve Bank of India to pay special attention to this problem and further improve credit delivery in such areas consistent with financial discipline.

Our bank managers and employees are, as a group, the most qualified, dedicated and hard working. But it is also a fact that the level of public satisfaction with the banking services is not as high as it should be. Over the years, perhaps some structural rigidities have crept in. These need to be removed. There is need for greater competition and greater operational flexibility in respect of banking services. The banking culture has to be made more responsive to the needs of the public. I am requesting the Reserve Bank of India to set up a Committee of Bankers, bank employees, depositors and borrowers to consider these aspects and make recommendations to the Government.

The previous Government had announced the formation of the Securities Exchange Board of India (SEBI) in 1987. Three years have passed and the legislation for giving statutory authority of SEBI has not been introduced. We will ensure that this is done in this budget session.

Science and technology is the mainspring of development. We are proud of the capabilities that we have built up in critical areas like agriculture, space research, atomic energy and defence. We will aim at utilising the talent of our scientists and engineers towards two basic ends:

— the development of appropriate technologies for agriculture, non-conventional and renewable energy and other employment intensive activities.

— the establishment of a strong base of self–reliance in critical areas of modern technology.

Public spending on R&D, incentives for the use of indigenous technologies and policies to guide private research efforts will be oriented towards these objectives.

There is a large community of Indians settled abroad. They have achieved tremendous success in their chosen professions and occupations. True to the rich tradition of our ancient culture, their physical location has not weakened the strong intellectual, philosophical and social links that they have with the country of their origin. The Government will continue to provide special facilities for them to invest their savings in this country. The procedures will be simplified so that they can function with a sense of confidence and in line with declared national policy.

Let me now turn to the Revised Estimates for 1989-90 and the Budget Estimates for 1990-91.

Revised Estimates for 1989-90

Revised Estimates of Expenditure for the current year show an increase of Rs. 5,620 crore over the Budget Estimates. Of this, Rs. 4,958 crore are on Non-plan account and Rs. 662 crore on Plan account.

Honourable members are aware of the strains on our security environment which unfortunately coincides with the strains on our economy. Hence, on the Non-plan side, Defence Services are being provided additional Rs. 1,500 crore to meet their essential requirements and committed expenditure. The provision for fertilizer subsidy will be Rs. 950 crore more, mainly due to larger imports and clearance of arrears claims. There is an increase of Rs. 276 crore in food subsidy, mainly for clearing arrears due to Food Corporation of India. An additional provision of Rs. 468 crore has been made for export promotion and market development. Interest payments will be Rs. 710 crore higher. The Government is of the view that the amount of compensation to be paid to the victims of the Bhopal Gas tragedy under Court order is too meagre for the magnitude of sufferings of these innocent people. The matter is under review in Court and in the meantime Government have decided to pay interim relief for the victims for which a provision of Rs. 320 crore has been made which inclusive of bank interest over a period of 3 years, will amount to Rs. 360 crore. The increases are partly offset by savings in some areas notably in the lump sum provision made for dearness allowance consequent on transfer of liability on this account to the budget of the Ministries/Departments.

On the Receipt side, while collection from Corporation Tax and Customs duties are expected to more or less reach Budget estimates, the receipts from Union excise duties are estimated to be Rs. 599 crore less than the Budget. Income-tax collections, on the other hand, are expected to be more by Rs. 755 crore. States' share of taxes including the sums payable to States on the basis of collection figures certified by the C&AG for the earlier years are placed at Rs. 13,232 crore against Rs. 12,438 crore at the budget stage, *i.e.,* Rs. 794 crore more. The shortfall in net revenue receipts is expected to be more than off set by larger receipts from small savings, provident fund collections and special deposits of non-government funds, etc.

The overall deficit for the current year is now estimated at Rs. 11,750 crore against the budget estimate of Rs. 7,337 crore.

Budget Estimates for 1990-91

The next financial year is the beginning of the Eighth Five Year Plan. This Government is irrevocably committed to planned economic development, and to making the plan more meaningful to the people. As a part of the new strategy, in the next year's Plan, we have provided more for those programmes and schemes which benefit the people directly. We have favoured those programmes that create more Jobs, generate self-employment opportunities, improve the living environment in our village and strengthen our agriculture. This is the surest route to overcome poverty. An increase of 31.7 per cent on last year's budget estimate is being provided for Agriculture and Allied Services, without taking into account the budget provision of Rs. 1,000 crore for the debt relief for farmers, weavers and artisans. The allocation for anti-poverty programmes, which are spread over different budget heads is being increased by about 23 per cent over last year's budget estimate. This includes the outlay for employment programmes in rural and urban areas which is being increased by 30 per cent on last year's budget estimate.

We have a firm commitment to accord highest priority to agriculture and rural development and our thrust and actions are in conformity with that commitment.

For the Central Plan 1990-91, I propose an outlay of Rs. 39,329 crore—an increase of Rs. 4,883 crore or 14.2 per cent over the current year's outlay. Of this, Rs. 17,344 crore will be provided as budgetary support and the balance of Rs. 21,985 crore will be mobilised by the public sector enterprises through their internal resources as well as borrowings.

For the year 1990-91, an outlay of Rs. 905 crore is proposed for the Department of Agriculture and Cooperation which represents an increase of 17.50 per cent over the budget estimates for the current year. In addition, I am also proposing an outlay of Rs. 155 crore for Agricultural Research and Education compared to the provision of Rs. 110 crore in 1989-90, an increase of 41 per cent.

I have already referred to the intention of the Government to make a beginning in respect of an Employment Guarantee Scheme. The Annual Plan outlay proposed for the Department of Rural Development is Rs. 3,115 crore. It is my intention to provide some additional funds, within the constraint of resources to enable an Employment Guarantee Scheme to be introduced in selected areas.

The Government is pledged to securing a fair deal for the most oppressed, exploited and deprived sectors of the society, namely, the Scheduled Castes and Scheduled Tribes. It is proposed to make a provision of Rs. 320 crore for the schemes for Scheduled Castes and Scheduled Tribes in the Annual Plan 1990-91 as against Rs. 269 crore in 1989-90 Budget estimates. The Special Central Assistance to Special Component Plans and Tribal sub-Plans of States has also been increased.

The Government would intensify the efforts for eradication of illiteracy. The very fact that millions of voters in the country have to identify the names of candidates on the ballot papers only from the election symbols is itself a symbol of the extent of illiteracy. We have made 25 per cent increase in allocation for National Literacy Mission. Special attention to vocational programmes at all levels will be given. The process of modernisation of technical education, and support to thrust and frontier areas in science and technology will be maintained. I am proposing an outlay of Rs. 865 crore for the Department of Education during 1990-91.

In all the programmes of health and family welfare services, special attention will be paid to the needs of the rural people. I am proposing an outlay of Rs. 950 crore for the Ministry of Health and Family Welfare for 1990-91.

The Government attaches great significance to the welfare of the weak, the poor and the deprived living in the urban areas. Major initiatives for employment, low cost sanitation for liberation of scavengers and provision for night shelters are proposed to be launched. The plan outlay of the Urban Development Sector is being increased to Rs. 272 crore in 1990-91 from Rs. 89 crore in 1989-90 Budget Estimates for this purpose.

The Annual Plan outlays for 1990-91 for the infrastructure sectors are proposed to be stepped up. The outlays for Petroleum and Natural Gas is proposed to be increased by 18.6 per cent, Railways by 12.4 per cent and Power by about 10 per cent.

The details regarding Central Plan outlays for these and other sectors are in the Budget documents. I do not wish to take the time of House in making my speech a substitute for the voluminous budget document, and thus deprive the members of the excitement of reading these documents.

Honourable members will be happy to know that the Central assistance for State and Union territories Plans next year will be Rs. 12,848 crore, including the Plan revenue grants recommended by the Finance Commission as against Rs. 10,450 crore excluding drought assistance provided in Budget Estimates for the current year. This represents a substantial step up of 22.9 per cent.

Budget Estimates for the next year provide Rs. 64,515 crore for non-Plan expenditure as against Rs. 59,220 crore in revised Estimates for the current year. The main increase next year, is under interest payments provision for which, goes up from Rs. 17,710 crore this year to Rs. 20,850 crore next year.

The Government have appointed a Committee to consider the issue of One Rank One Pension in all its aspects. The Report of the Committee is expected by end of March 1990 and Government will take further action thereafter.

For Defence Services, a provision of Rs. 15,750 crore has been made in the Budget Estimates. The increase in the defence expenditure is not of our choice. It is direct result of the situation on our borders.

Freedom struggle is indivisible and, therefore, it has been decided that those who fought for Goa's liberation from the Portuguese rule will be eligible for Union Government's pension and all other benefits available to other freedom-fighters.

The Ninth Finance Commission has submitted its second report covering the period 1990-95, a copy of which was laid on the Table of the House last week along with a statement of decisions of Government on the recommendations. These have been taken into account while framing the Budget for next year. The recommendations of the Finance Commission accepted by Government will cast an additional burden of the order of Rs. 773 crore on the Central Budget in 1990-91.

Government are alive to the important issue of checking proliferation of Government expenditure especially in non-priority and non-developmental areas. I am requesting all the Ministries and Departments to absorb the liabilities on account of additional instalments of Dearness Allowances (DA) which will be payable next year from within the budget provisions made for them by effecting economies and eliminating non-essential expenditure. I am, therefore, including only a nominal provision of Rs. 100 crore in the next year's budget as lump sum provision for D.A. This is mainly to meet the possible requirement of small Departments with limited budgets who may not find it possible to absorb D.A. increases to the full extent.

On the Receipts side, Gross Tax Revenue at the 1989-90 rate of taxation is estimated at Rs. 57,988 crore and the net tax revenue after payment to States of their share of taxes is placed at Rs. 43,507 crore compared to Rs. 37,798 crore in the Revised Estimates for the current year.

I have taken a credit of Rs. 8,000 crore on account of market borrowings as against Rs. 7,400 crore in the current year. External assistance net of repayment is expected to be of the order of Rs. 4,327 crore in the next year as against Rs. 3,901 crore in the current year. Taking into account the other variations in receipts and expenditure the overall deficit for next year at the 1989-90 rate of taxation is estimated at Rs. 9,165 crore.

Having taxed your patience so far, now let me turn to areas of taxation and reliefs for which you must have been waiting impatiently. Let me begin with my proposals in respect of direct taxes. I am introducing certain major changes in the rate structure for personal income-tax with a view to providing relief to low and middle income groups, and to make the savings linked incentives more equitable for tax-payers in different income slabs. My first proposal to raise the exemption limit is in fulfilment of a promise made in the National Front manifesto. I am raising the exemption limit for personal income taxation from Rs. 18,000 to Rs. 22,000. Roughly, one million persons will go out of the tax net as a result of this change. In deciding the new limit I have had to balance two conflicting considerations. On the one hand, it is a factor that the lower income groups have been affected the most by price rise, and there is a case to raise the exemption limit. On the other hand, an increase in the limit narrows the tax base and involves substantial loss of revenue as the benefit of the increase is spread over all tax-payers, and is not confined to the lower end of the income levels. Experts have often argued that keeping in view our per capita income, raising of the exemption limit is not justified. However, as I temperamentally prefer to avoid taking extreme positions, I have chosen the middle course which I believe is fair and reasonable.

As further measure of relief to the lower and middle income groups, I am extending the lowest rate of 20 per cent from the present limit of Rs. 25,000 to Rs. 30,000.

Last year, a surcharge at the rate of 8 per cent was introduced for financing employment programmes. Dropping this employment surcharge would have brought into question my irrevocable commitment to employment oriented planning. I, therefore, have no choice but to continue the surcharge. This will now be applicable beyond taxable income of Rs. 75,000 as against the present limit of Rs. 50,000.

As the honourable members are aware, the existing schemes of tax incentive to promote savings are based on deductions from income. A person gets tax relief at the highest marginal rate of tax applicable to him. Accordingly, it confers higher amount of tax benefit to a person with higher income *vis-a-vis* a person with a lower income. With a view to removing this inequity, I propose to introduce a system of tax rebate on the gross amount of savings under section 80C. Under the new system, a person contributing to provident fund, life insurance, National Savings Certificates, etc., as earlier, will now be entitled to a tax rebate calculated at the rate of 20 per cent, on such savings. The maximum tax rebate allowable will be Rs. 10,000 generally and Rs. 14,000 in the case of authors, playwrights, artists, musicians, actors, sportsmen and athletes. This is broadly equivalent to the maximum relief available now. All persons will get the same amount of tax benefit on a given amount of savings, irrespective of their levels of income. The low income tax-payer will benefit.

Let me illustrate the impact of the above proposals. A person with a salary income of Rs. 3,500 per month, *i.e.* Rs. 42,000 per year, who saves Rs, 8,000 per year in provident fund and insurance presently pays Rs. 1,000 per year as tax. Under the new dispensation, he will not have to pay any tax at all. The upper income group will have to save Rs. 50,000 to get the full relief of Rs. 10,000. Under the old system they would have got the same relief by saving only Rs. 39,500. I may mention, in passing, that the new system of a uniform tax rebate will also lead to a substantial simplification in tax deduction at source by employers.

As a further incentive to save, I propose to increase the limit available for the savings incentives under section 89 CCA from Rs. 30,000 to Rs. 40,000. Since the savings under this are on a netting principle and are added back to income when withdrawn, the present system of deduction from taxable income will continue.

In addition to this, the Equity Linked Savings Scheme (ELSS) announced last year has now been finalised on a "netting" principle. Investment in units under the Scheme, will be eligible for deduction upto a maximum of Rs. 10,000 from the total income. The annual return on the investment in the units will be eligible for tax concession under section 80L. On repurchase of the units by the Mutual funds, the capital amount representing the cost of the units will be taxed as income in the year of repurchase and the excess will be liable to tax as capital gains. The Equity Linked Savings Scheme will eventually replace the present deduction under section 80CC. Meanwhile, this provision is being extended for investments made upto 31 March 1991.

In an effort to mitigate in some small measure, the hardship of parents or guardians of physically handicapped or mentally retarded persons with incomes upto Rupees sixty thousand per annum, I propose allowing a deduction of Rs. 6,000 from the parent's or guardian's total income to cover expenses on medical treatment, training and rehabilitation of such persons.

I propose to increase the deduction in respect of professional income from foreign sources, available to authors, playwright, artists, musicians, actors and sportsmen including athletes, from the existing rate of 25 per cent to 50 per cent of the income or 75 per cent of the foreign exchange brought into India, whichever is higher. In the case of professors, teachers and research workers also, the present provision has been liberalised to allow deduction of 75 per cent of the foreign exchange brought into India.

I will now make my proposals in regard to corporate taxation. The corporate sector has often claimed that the rate of Corporate Tax is high and that this inhibits growth as well as tax compliance. One closer scrutiny, I find that the rate is only seemingly high, because the system provides too many exemptions. After all the admissible exemptions and deductions, the effective rate falls drastically. Many large and high profit making companies had been able to escape the tax net altogether and were paying zero tax for a long time. That is why the contribution of the corporate sector to tax revenue was not commensurate with the profits they earned; nor with the needs of national development. The tax system also tilted the balance in favour of capital intensive production.

To ensure better tax compliance, I propose a twin strategy. I am abolishing major incentives like Investment Allowance and Investment Deposit Account with a view to closing the escape route for the corporate sector to go out of the tax net; and having closed that route, I propose to fix the tax rate for widely-held domestic companies at 40 per cent with corresponding changes in rates for other domestic companies. This twin strategy will raise the effective tax rate and will also give substantial additional revenue of Rs. 800 crore.

The only major deductions that will now be permitted are those relating to foreign exchange earnings and for setting up new industrial undertakings. The deduction for setting up new industries is being raised from 25 per cent to 30 per cent in the case of companies and from 20 per cent to 25 per cent for others. That period during which the benefit can be availed of is being extended from 8 to 10 years.

With the abolition of the major exemptions, there is a case for also removing the special provision regarding tax on minimum profits contained in section 115J of the Income-tax Act. Accordingly, I propose to discontinue that provision with effect from the assessment year 1991-92.

I am also Introducing an Important change in the taxation of intercorporate dividends. At present 60 per cent of the dividend income received by a domestic company from another is exempt from tax. There is a tendency towards holding of personal wealth in the form of companies which are in effect closely-held. In order to encourage genuine investment activity while at the same time discouraging the use of corporate framework for holding personal wealth, I propose to exempt dividends received by domestic companies from other domestic companies to the full extent to which they themselves declare dividends during the relevant period. However, scheduled banks and public financial institutions would, in substance, continue to be governed by the provisions of section 80M as they presently stand.

The result of the reform of the corporate tax system proposed by me will be to increase the buoyancy, simplify the tax structure and make it neutral as between small and large companies. At the same time, it will provide strong incentive for export and for investment in new industrial undertakings.

Many small scale industries are organised as partnerships. I propose to raise their exemption limit from Rs. 10,000 to Rs. 15,000 and to lower the tax rates suitably.

Restoration of ecologically degraded areas fulfils the objectives of employment generation, enhances the supply of fuel wood and fodder and also contributes to the over all social, economic and environmental stability of the rural areas. In order to promote afforestation, I propose to extend the provisions of section 35CCB and section 80GGA to tax-payers who contribute to a fund or programme for afforestation approved by the prescribed authority.

As in the case of personal income tax, I propose to continue the existing surcharge of 8 per cent on corporate tax-payers also on all incomes above Rs. 75,000.

I also propose to make a major change in the taxation of gifts. At present, gifts are taxed in the hands of the donor, but there is no limit on the amount which donee can show as having been received by way of gifts. Because of this, the mechanism of gifts is used to split up capital and launder black money. Some instances have also come to notice recently where attempts have been made to explain away wasteful and ostentatious expenditure on marriage receptions and other functions as having been financed out of gifts. With a view to curbing such practices, I have decided to substitute the present gift-tax on donors with a donee based gift-tax. Any person, who claims his assets or his expenditures as having been financed from gifts, will not be liable to a gift-tax on a graduated scale. Thus, he will have the pleasure of transferring a part of his bounty as a gift to the exchequer.

The primary purpose of the donee-based gift-tax is not to raise revenue but to check tax evasion and conspicuous consumption. In order to take care for legitimate gifts, there will be a basic exemption limit of Rs. 20,000 per year. In the case of total gifts exceeding Rs. 20,000 but not exceeding Rs. 50,000 gift-tax will be levied at 20 per cent; for total gifts exceeding Rs. 50,000 but not exceeding Rs. 2,00,000 at 30 per cent; and for total gifts exceeding Rs. 2,00,000 at 40 per cent. In addition. I also propose to allow for a substantially higher limit of rupees one lakh for gifts received from all sources by an individual at the time of marriage. Further, gifts received in foreign exchange through official channels will also be exempt.

I propose to make the new system applicable in respect of gifts made on or after 20 March 1990. Consequently, the existing Gift-Tax Act taxing the gifts in the hands of donors will cease to be operative in respect of gifts made on or after that date.

Legislation to give effect to this new scheme is proposed to be introduced during the current session of Parliament.

I do not propose to take up the time of the House with other minor changes in the Direct Tax Laws.

As I mentioned earlier, there will be again in revenue from corporate tax to the extent of Rs. 800 crore. The loss in revenue from income-tax other than corporate tax after providing for better compliance is expected to be Rs. 250 crore. There will, therefore, be an additional accrual of Rs. 550 crore in respect of direct taxes.

Sir, I shall now deal with my proposals relating to indirect taxes. The main thrust of the proposals is on simplification and rationalisation. Simultaneously, I have also attempted to mobilise some resources in a manner that does not hurt the common man and at the same time helps to curb elitist consumption. A major emphasis has been on strengthening impulses for growth and exports. Significant changes in duty structure are also proposed to develop a quality culture in our industry. I have also not failed to give relief to the deserving sectors, particularly small-scale industry, agriculture and environmental protection. All these measures have been described in some detail in the Explanatory Memorandum to the Finance Bill and I shall deal briefly with the more important of these proposals.

Presently, the import duty rates are widely dispersed. With a view to rationalising the rates and bringing down their multiplicity, the total of the basic and auxiliary duty rates of customs are being placed in a limited number of slots in the range of zero to 125 per cent in respect of most items. Further, as a step towards rationalisation and simplification of the Central Excise Tariff, the duty rates are proposed to be recast for a large number of goods. Though as a result of the rationalisation, the duty rates on certain commodities may marginally go up or down, the proposals on the whole are intended to be broadly revenue neutral. The reduction in the number of rates in each Chapter of the Tariff will simplify assessment. It will be our endeavour to ensure a measure of stability for the *ad valorem* rates.

First, I shall take up the proposals which are in the nature of concessions in customs and excise duties.

Agriculture is a priority area in our framework of development and tax rates are already kept low on most of the inputs used in this sector. Specified pesticides and pesticide intermediates enjoy concessional rates of import duty of 70 per cent and 60 per cent respectively. I propose to reduce the import duty on a few more specified bulk pesticides and pesticide intermediates to these levels. The proposal involves a revenue loss of about Rs. 16 crore.

In order to encourage the use of rapeseed oil and mustard oil, of which there is an abundant production in the country, I propose to completely exempt refined rapeseed oil and mustard oil which are currently attracting excise duty of Rs. 750 per ton. The revenue loss on account of this proposal is estimated to be Rs. 8 crore.

I propose to remove excise duty on pickles altogether in the hope that this will lend some flavour and spice to my Budget.

Excise duty on coffee is presently levied at the rates of Rs. 78 and Rs. 105 per quintal depending upon the variety. As a measure of relief of the coffee growers, I propose to reduce the duty to a uniform level of Rs. 50 per quintal. This concession involves a revenue loss of Rs. 4 crore.

Marine products constitute a major thrust area of the country's exports. In order to make imported prawn feed more economical, I propose to reduce the duty on this item to 25 per cent. In order to help modernisation of food processing and sea food Industries, I propose to extend the concessional rate of import of 40 per cent now available to certain specified machinery to a few more items.

With a view to reducing the cost of cattle feed, I propose to completely exempt molasses used in its manufacture from the whole of excise duty. I also propose to prescribe concessional import duty of 40 per cent in respect of certain items of equipment required in cattle breeding and dairying.

I propose to exempt full foot-valves of certain specifications from excise duty in order to promote efficiency of agricultural pumps.

Presently, craft paper and craft paper-board used for apple packaging in Himachal Pradesh, Jammu and Kashmir and Uttar Pradesh are exempted from excise duty, as a measure to conserve forest wealth. I propose to extend this concession to packaging of all horticultural produce all over the country. This is expected to result in revenue loss of Rs. 5 crore.

I propose to extend M11 exemption from excise duty to hand made paper and paper board manufactured by units of Khadi and Village Industries Commission (KVIC) even when power is used in the process of sheet forming. I also propose to enhance the value limit for the purposes of excise duty exemption on footwear from Rs. 75 to Rs. 100 per pair in respect of such footwear made by units under KVIC as well as those run with the assistance of Integrated Rural Development Programme (IRDP).

In addition to the measures outlined in the earlier part of my speech for the promotion of small-scale sector, I also propose to extend some more fiscal concessions to this sector. Presently, small-scale units are allowed complete exemption from excise duty in respect of clearance of goods up to a value of Rs. 15 lakh in case such goods fall under only one chapter of the Central Excise Tariff. I propose to increase this value limit to Rs. 20 lakh. The total exemption available to goods cleared up to a value limit of Rs. 30 lakh when such goods fall under more than one chapter of the Tariff, will remain unchanged. The increase in exemption limit for small scale units involves a revenue loss of Rs. 67 crore. The scheme of notional credit of 5 per cent in the case of inputs manufactured in the small-scale sector is also being continued for more year from 1 April 1990. Further the limit of value of clearance of goods in a financial year for the purpose of obtaining a central excise licence is being increased from the existing level of Rs. 10 lakh to Rs. 15 lakh. It has also been decided that the licensed small-scale units having value of clearances up to Rs. 20 lakh in a year will henceforth be required to furnish only quarterly returns of production, clearance and duty payment. These changes are proposed to take effect from 1 April 1990.

In order to reduce the prices of life saving drugs, I propose to exempt certain finished formulations containing Rifampicin, which is an anti-TB drug, from central excise duty. Specified bulk drugs which are required for the manufacture of certain life-saving medicines are also being exempted from customs duty. I propose to reduce the import duty on certain specified drug intermediates to 90 per cent. These proposals involve a loss of revenue of nearly Rs. 17 crore.

We are all aware of some recent tragedies involving unhygenically packed intravenous fluids. In order that the pharmaceutical industry is encouraged to employ latest techniques of aseptic packaging, I propose to reduce the import duty on aseptic form fill seal machines for use by that industry from the present level of 147.25 per cent to 40 per cent.

Certain life-saving equipments are eligible for complete exemption from import duty. I propose to extend this benefit to certain specified instruments and implants for physically handicapped persons. I also propose to give some concessions in customs duty to components of hearing aids.

I propose to reduce the import duty on homoeopathic medicines as well as on certain inputs for the manufacture of such medicines. This involves a revenue loss of about Rs. 5 crore.

With a view to giving an impetus to industrial production and to boost exports, I propose to grant some concessions to capital goods and machinery.

There has been a feeling that our exports are not able to face international competition due to high cost of imported capital equipment. A scheme is being worked out for making available to registered manufacturer-exporters the facility of import of capital goods at concessional rate of duty against suitable export obligation. Broadly, capital goods up to a specified value limit imported under the scheme would be eligible to a concessional import duty of 25 per cent. This will be subject to the condition that goods of a minimum of three times the value of the imported capital goods are exported within four years from the date of importation. The details of this scheme will be announced in the new Import and Export Policy.

Concessional import duties have been prescribed from time to time on machinery required for various export thrust sectors. I propose to extend the concession to specified items of machinery for rubber belting industry and forged hand tool industry. The concession involves a revenue loss of Rs. 8 crore.

In order to promote investment and strengthen indigenous capital goods sector, I propose to reduce the excise duty on such machinery on a selective basis by 5 percentage points. This concession will lead to loss of revenue to the extent of Rs. 60 crore. I am one of those who believe that the indigenous capital goods sector is integral to our search for self-reliance. I hope, the reduction in excise duty will make our capital equipment more competitive and spur modernisation.

With a view to encouraging industrial units to invest in quality upgradation and strengthen quality control, I propose to prescribe a concessional import duty of 40 per cent on specified instruments and equipments. The proposal involves a revenue loss of Rs. 30 crore. This substantial revenue loss is worthwhile in the interest of improving the quality of indigenous products.

In the interest of better environmental protection and pollution control, I propose to extend the present concessional customs duty of 40 per cent to some more specified air and water pollution control equipments. At the same time, I propose to reduce the excise duty on certain specified pollution control equipments from 15 per cent to 5 per cent.

Heavy investments are required for the upgradation of the facilities available at the airports. I propose, as measure of relief, to reduce the import duty on navigational, communication, air traffic control and landing equipments imported by the National Airports Authority of India to a level of 25 per cent. The proposal involves a revenue loss of Rs. 7.50 crore.

In order to promote establishment of telecommunication network in rural areas, I propose to reduce the excise duty on specified telecommunication equipment from the existing rate of 20 per cent to 15 per cent. This will lead to a revenue loss of Rs. 15 crore.

I propose to reduce the excise duty on dry cell batteries from 35 per cent to 30 per cent. The relief will involve a revenue loss of Rs. 10 crore.

It has been represented that film industry is facing difficulties on account of video piracy. In order to help combat this menace by simultaneous release of prints in a number of cinema houses, I propose to fully exempt feature films from excise duty. The proposals would involve a revenue loss of Rs. 8 crore. I hope, with this incentive, the films which had gone into slow motion will regain their loss momentum.

In order to give relief to the newspaper industry, I propose to reduce the import duty on standard newsprint by Rs. 100 per ton.

As a matter of administrative simplification, I propose to shift the incidence of excise duty from truck body building activity, which is mostly in the unorganised sector, to motor vehicle chassis.

Now I move on to a package of proposals relating to the textile industry. These aim mainly at simplifying and rationalising the tariff structure, minimizing the scope for evasion and ensuring a lower rate of duty for most varieties of cheaper fabrics. There are essentially two sets of proposals. The first relates to duty rationalisation at the fabric stage and the second, to changes in excise and import duties on man-made fibres and yarns as well as the intermediates used to produce them.

There is a growing concern about the plight of the handloom weaver. It is widely believed that one of the main causes of the distress is the neutralisation of the tax concessions given to this sector by wide-spread tax evasion at the procession stage. There is thus a near unanimous view in favour of transferring the excise duty from fabrics to yarn, which I share. However, in the case of man-made fabrics, the entire duty is by way of additional excise duty in lieu of sales tax. Therefore, any change in the duty structure can be made only in consultation with the States, I propose to consult the Chief Ministers shortly in this regard.

A part of the duty on cotton fabrics is, however, in the shape of basic excise duty. As a first step, I propose to transfer the whole of the bias duty on cotton fabrics to yarn. As the hank yarn used by handlooms will continue to be exempted, the price differential between hank yarn and cone yarn would be widened and this should greatly improve the competitiveness of the handloom sector.

Since at present the additional excise duty at the processing stage cannot be shifted to yarn without consultation with the States, I have attempted to rationalise the duty structure on fabrics. The number of slabs in the case of man-made fabrics is being reduced in a manner that the duty on fabrics becomes more equitable and the administration of tax laws more efficient. The rationalisation will also, I believe, greatly reduce evasion and consequently improve realisation.

Let me turn to man-made fibres, yarns and the intermediates used to produce them. Honourable members will recall that duties were reduced substantially on man-made textiles in 1985 and 1988. While the incidence of taxes was lowered, there have been complaints that the consumer did not get the corresponding benefit. I have thus tried to revise the duty structure keeping in mind the ability of different sector to bear the additional burden. This will also help the competitiveness of the handloom sector where the dominant fibre is cotton. The major changes I am proposing are:

— imposition of a basic excise duty of Rs. 4.40 per kg. on PTA and Rs. 3.60 per kg. on DMT which will yield Rs. 80 crore;

— increase in the basic excise duty on polyester filament yarn from around Rs. 50 to Rs. 55 per kg. and on nylon filament yarn from around Rs. 37 to Rs. 50 per kg. yielding additional revenue of Rs. 156 crore;

— increase in the basic excise duty on viscose staple fibre from around Rs. 7 to Rs. 8.50 per kg. leading to a revenue gain of Rs. 15 crore;

— reduction in the basic duty on polyester staple fibre from around Rs. 14 to Rs. 8.50 per kg. involving a revenue loss of Rs. 65 crore; and

— some reduction in the basic duties on various polyester blended yarns.

In order to ensure a measure of price discipline in this industry, I propose to reduce import duties:

— on DMT and PTA from 195 per cent to 150 per cent;

— on NFY from 130 per cent to 100 per cent;

— on PFY from 205 per cent to 180 per cent; and

— on VSF from 55 per cent to 40 per cent.

The revenue loss from these duty reductions will be marginal since actual imports are not expected to be significant.

Keeping in view the sharp decline in the international price of MEG, I propose to raise the import duty on this item from 90 per cent to 150 per cent. This will result in an additional revenue of nearly Rs. 48 crore.

Honourable members may recall that for providing cheap cloth to the weaker sections of the society and to encourage in development of the handloom sector, additional excise duty under Textiles and Textile Articles Act was levied in 1978. The present rate of this duty is generally 13.64 per cent of the basic excise duty. In addition to this duty, a cess at the rate of 2.50 paise per square metre is levied on fabrics for the purpose of developing *khadi* and other handloom industries. I propose to merge both these levies by raising the additional duty from 13.64 per cent to 15 per cent of the basic excise duty.

There are certain other rationalisation measures relating to textiles including marginal adjustment of duty rates on acrylic fibre, polypropylene staple fibre and filament yarn, etc., without significant revenue implications.

The jute industry needs encouragement for diversification of its products. I propose to fully exempt jute blankets, floor coverings, mattings and bleached, printed and dyed jute fabrics from excise duty. Full exemption available to jute yarn supplied to KVIC units is also being extended to the handicraft sector.

I hope, having relished so far the liberal reliefs, the honourable members will not now grudge some revenue earning measures also.

The family members of my smoker friends would, I am sure, be expecting an increase in the rates of excise duty on cigarettes in the interest of the health of the smokers. I will not disappoint them. The increase in duty will be 15 paise for the cheaper cigarettes and 75 paise in the case of costlier cigarettes per packet of ten. There will be no change in the duty rate on non-filter cigarettes of length up to 60 mm. I would hasten to add that I do not propose any change in the excise levy on *biris*. This measure is estimated to yield additional excise revenue of Rs. 131 crore. I shall be more than happy if my actual collection are much less due to fall in cigarette consumption.

Some sympathetic increase in the excise duty rates on *pan masala* is also being made to yield additional revenue of Rs. 6 crore.

I propose to increase the excise duty on cocoa and cocoa preparations from 10 per cent to 15 per cent on jams, marmalades, etc., from 5 per cent to 10 per cent and on ice cream from nil to 10 per cent. The revenue gain from these measures will be of the order of Rs. 26 crore.

The House will agree that items used by the affluent sections of the society must bear a higher burden of levies. I propose to increase the excise duty on certain items like microwave oven, washing machine, certain sophisticated varieties of audio systems, video cassette recorder and player, electronic games and relatively high priced cooking ranges.

I propose to increase the excise duty on motor cars from 35 per cent to 40 per cent. This measure will yield additional revenue to the tune of Rs. 79 crore. I do not propose to make any change in the excise duty on two wheelers and tractors.

The specific duty rates of excise on refrigerators, air-conditioners of capacity up to 1.5 ton and automotive gas compressors are being increased. I propose to enhance the excise duty on car air-conditioning parts including those forming the kit from 40 per cent to 65 per cent. These proposals involve a revenue gain of Rs. 14 crore.

Tyres and tubes, except for a few varieties, are currently subject to Central excise levy at specific rates. On these items, owing to recurring increase in prices, the duty incidence in *ad valorem* terms has come down. As a corrective measure, I propose to raise the existing specific rates on tyres and tubes. However, I do not propose any increase of duty on tractor, trailer and two-wheeler tyres and tubes. This, alongwith certain other rationalisation measures, is likely to yield a revenue gain of about Rs. 40 crore.

I propose to raise the specific rates of basic duties of excise on iron and steel. The increase will generally be Rs. 500 per ton in the case of stainless steel items and Rs. 100 per ton in the case of other items. In the case of downstream dutiable products, MODVAT credit would continue to be available. The revenue gain from this proposal is of the order of Rs. 104 crore.

Presently, the total rate of import duty on most of the stainless steel and articles thereof is 345 per cent. I propose to bring down the rate to the level of 200 per cent. The proposals in regard to customs duties on these and the steel items are expected to result in the loss of revenue to the tune of Rs. 10 crore.

At present, the country has a surplus production of aluminium. In order to discourage imports, I propose to increase the basic customs duty on aluminium ingots by Rs. 3,500 per ton.

Major plastic raw materials attract excise duty ranging from 30 per cent to 65 per cent. However, the rate of duty on polystyrene is only 20 per cent. As a measure of rationalisation, I propose to increase this rate to 30 per cent. The proposal is expected to yield additional revenue of Rs. 5 crore.

I propose to increase the basic excise duty on paste grade PVC used in the manufacture of leather cloth from Rs. 15,000 to Rs. 20,000 per ton as an anti-evasion measure. The excise duty rates on PVC coated textiles are also proposed to be revised upwards. These measures are expected to yield Rs. 17.50 crore.

At present, various categories of paints and varnishes are liable to excise duty at different rates ranging between 15 per cent and

35 per cent. I propose to rationalise the rates by keeping only two levels of duty at 15 per cent and 30 per cent as against the present five rates. The proposal involves prescribing a uniform excise duty of 15 per cent on insulating varnishes and water based paints and 30 per cent on oil based and plastic based decorative paints. The proposal would yield a revenue of Rs. 9 crore.

Currently special excise duty at the rate of 1/20th of the basic duty of excise is being levied on indigenously produced goods. However, for the computation of countervailing duty of customs on imported goods, special excise duty is not taken into account. I do not think such a distinction is warranted. I propose to subject the imported goods to countervailing duty on the basis of the excise duty inclusive of special excise duty. This proposal is expected to yield customs revenue of Rs. 60 crore.

The Baggage Rules relating to free allowance admissible to passengers arriving from foreign countries are being modified. The general free allowance is being increased from the existing level of Rs. 1,250 to Rs. 2,000 per passenger. There will be a uniform duty rate of 250 per cent for baggage in excess of this limit as against the existing 175 per cent and 245 per cent. I also propose to prescribe a uniform duty rate of 25 per cent on specified articles brought by passengers coming from abroad after a period of stay of more than one year, subject to certain conditions. The revised measures will take effect from 1 April 1990.

Provision is being made for continuance of auxiliary duty of customs and special excise duty at the existing rates.

As the honourable members are aware, Inland Air Travel Tax was introduced in the Budget of last year. The tax is leviable at 10 per cent of one component of the total air fare, namely, basic fare. I propose to levy the tax at the existing rate on the full air fare. The estimated revenue gain from the proposal will be Rs. 15 crore.

As I mentioned in the earlier part of my speech, in recent years our consumption of petroleum products has risen sharply. Honourable members are also aware that petroleum prices abroad have been hardening. The greater dependence on imports has led to a large outflow of foreign exchange and higher overall foreign borrowing. It has now become necessary to review the domestic prices of petroleum products. Keeping in view the interests of the common man, there will be no increase, I repeat, no increase in prices of kerosene and LPG cylinders. There will also be no increase in prices of naphtha for fertilizers and other uses, natural gas, furnace oil for industry, bitumen for roads and low speed diesel oil for farmers. Among the selected items whose prices are being revised with effect from this midnight rate motor spirit, high speed diesel oil and aviation turbine fuel for domestic users. While the price of motor spirit is being raised by Rs. 1.25 per litre ex-storage, the price of high speed diesel oil will go up by 54 paise per litre. The price of aviation turbine fuel will increase by Rs. 1,320.45 per kilolitres. The increase in retail prices will vary from State to State depending on transportation charges and the incidence of local taxes and levies. I propose to mop up a part of the gain accruing to the oil companies as a result of price revision. The import duty on crude oil is being increased from Rs. 1,060 to Rs. 1,500 per ton. This will yield a revenue of Rs. 836 crore.

The Government is compelled to perform this painful duty of increasing the prices of some petroleum products. But these are the hard options forced on us by the grave fiscal situation, rising external debts, and the difficult balance of payments position. We could have postponed these options only at the peril of our economic independence and self-reliance.

I have also proposed certain amendments in the Finance Bill seeking to effect changes in the excise and customs tariffs. These amendments are generally enabling provision and have no revenue significance. Besides, there are proposals for amendment of some of the existing notifications. In order to save the time of the House, I do not propose to recount them.

The proposals in regard to changes in the excise duties outlined above are likely to yield additional revenue of Rs. 778.63 crore. The concessions and reliefs announced aggregate to Rs. 388.44 crore. Out of the net additional shareable revenue from Excise duties of Rs. 390.19 crore, the Centre's share would be Rs. 217.12 crore and the States' share is Rs. 173.07 crore.

My tax effort in respect of Customs duties will bring in Rs. 979.79 crore. Net of reliefs amounting to Rs. 144.76 crore, the additional revenue from Customs duties accruing to the Centre will be Rs. 835.03 crore. Besides, the changes in the Inland Air Travel Tax would yield Rs. 15 crore.

Copies of notifications giving effect to the change in Customs and Excise duties effective from 20 March 1990 will be laid on the Table of the House in due course.

I now have something to say on behalf of my honourable colleague, the Minister of Communications. Postal Service is highly employment intensive and salary and allowances constitute a major part of the operating expenses of the Postal Department. The grant of additional instalments of Dearness Allowance and increases in other operational expenses add significantly to these cost. The postal rates do not meet even the direct cost of most of the services. A revision of tariff for some postal services has, therefore, become unavoidable. However, in the interest of the common man and cheap and wider dissemination of information, there will be no change in the tariff for ordinary postcards and registered newspapers. The rate of printed postcard, which is used mainly for business purposes, is being raised from 40 paise to 60 paise, of Inland letter card from 50 paise, inclusive of the stationery charge, to a consolidated amount of 75 paise, and of envelopes to a uniform rate of Re. one for every 20 grams without any stationery charge. There are also certain other changes which are explained in the memorandum circulated along with Budget documents. The changes would take effect from a date to be notified after the Finance Bill is passed. The revisions proposed are estimated to yield an additional revenue of about Rs. 207 crore in a full year and about Rs. 172 crore in 1990-91.

Honourable members will recall that the 46th Constitution Amendment Act, 1982 gave enabling powers to the Parliament to levy a tax on consignment of goods where such consignment takes place in the course of inter-state trade or commerce. However, there have been differences of opinion on the modalities of implementation of this law and the matter has been discussed in various meetings of the Chief Ministers. The broad parameters have now been settled and a Committee of Chief Ministers was appointed to work out the guidelines for granting exemptions from this tax, both by the Centre and the States. I propose to consult the Chief Ministers shortly to take a final view in the matter.

I had earlier mentioned that the budget deficit at the existing rates of taxes would be Rs. 9,165 crore. Taking into account the net additional yield from the modifications proposed in direct and indirect taxes and the revised postal tariff, deficit for the next year is estimated at Rs. 7,206 crore. Honourable members will note that this deficit is substantially lower than the deficit of Rs. 11,750 crore in the Revised Estimates of 1989-90. In order to give the right signal and contain inflationary pressure, I have also tried to keep next years deficit even lower than the Budget Estimate of Rs. 7,337 crore for the current year.

It is my firm determination that the deficit provided for in the Budget should not be exceeded. A half-yearly review of the actual developments in the budgetary situation will be made, and the people and the Parliament kept informed about the performance in relation to the deficit.

We need to make our fiscal and tax system more stable and predictable. The system of making a large number of changes in the tax rates and tax laws every year, apart from introducing uncertainty, casts a severe burden on the administrative system. It also affect compliance and increases litigation. While some changes in tax rates and laws are inevitable, it is desirable to keep the basic structure stable at least for some time. With this end in view, the Government will present a document on the Long Term Fiscal Policy to Parliament.

With this, I have come to the end of my labours. We faced a fiscal situation which constituted a threat to the economic strength and stability of our country. The choice before us was to let things drift, borrow more and consume more or to take the corrective action now, however difficult. We have made our choice. We have taken some resources from the rich and used them to give some relief to the poor and the common man. We have begun a process to restrain the budgetary deficit and contain the inflationary pressure. We have tilted the balance of planning and investment towards the rural areas and in favour of employment.

As a man of science, wedded to non-doctrinaire socialism, I consider experimentation and its results the touchstone on which can be tested the relevance of all social and economic perceptions and policies.

This is the essence of pragmatism and the quintessence of the unending quest of socio-economic experimenters like Gandhiji, Jaya Prakash and Acharya Narendra Deva.

Mr. Speaker, with my irrevocable commitment to such a pragmatic approach, I present this Budget to this august House as a short-term device to more steadily, and yet resolutely, towards the long-term objective of ensuring growth with equity and self-reliance. In this endeavour, I seek the whole-hearted support of the people through their chosen democratic instrument—this honourable Parliament.

Sir, I commend the Budget to the House.