E.C. No. 698

ESTIMATES COMMITTEE (1968-69)

(FOURTH LOK SABHA)

EIGHTY-NINTH REPORT

MINISTRY OF FINANCE

FOREIGN EXCHANGE

Action taken by Government on the Recommendations contained in the Thirtieth Report of Estimates Committee (Fourth Lok Sabha) on the Ministry of Finance—Foreign Exchange

LOK SABHA SECRETARIAT
NEW DELHI

April, 1969/*Vaisakha*, 1891 (*S*)

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Corrigenda to the Eighty-Ninth Report of Estimates Committee (Fourth Lok Sabha) on Action Taken by Government on the recommendations contained in the Thirtieth Report of Estimates Committee (Fourth Lok Sabha) on the Ministry of Finance - Foreign Exchange.

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1) Page (vii), Line 5, add "Thirtieth" after "in the".

2) Page 2, Para 4, line 7, Read "Foreign Exchange Regulations Act" for "Foreign Exchange Regulation Act".

3) Page 4, Para 14, line 2, Delete "," appearing after "Regulations".

PAGE
(iii)
(v)
(vii)
1
5
93
109
116

CONTENTS

		PAGE
COMPOSITION OF THE COMMITTEE	.. ..	(iii)
COMPOSITION OF THE STUDY GROUP 'F'	.. .. ..	(v)
INTRODUCTION	.. ..	(vii)
CHAPTER I	Report	1
CHAPTER II	Recommendations that have been accepted by Government	5
CHAPTER III	Recommendations which the Committee do not desire to pursue in view of Government's reply	93
CHAPTER IV	Recommendations in respect of which replies of Government have not been accepted by the Committee	109
APPENDIX :	Analysis of the action taken by Government on the recommendations contained in the 30th Report of Estimates Committee (Fourth Lok Sabha)	116

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Shri B. B. Tewari—*Deputy Secretary.*

Shri G. D. Sharma—*Under Secretary.*

STUDY GROUP "F"

ESTIMATES COMMITTEE

(1968-69)

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SECRETARIAT

Shri B. B. Tewari—*Deputy Secretary,*

Shri G. D. Sharma—*Under Secretary.*

INTRODUCTION

I, the Chairman of the Estimates Committee having been authorised by the Committee, present this Eighty-ninth Report of the Estimates Committee on the action taken by Government on the recommendations contained in the Report of the Estimates Committee (Fourth Lok Sabha) on the Ministry of Finance—Foreign Exchange.

2. The Thirtieth Report was presented to Lok Sabha on the 23rd February, 1968. Government started furnishing their replies, indicating action taken on the recommendations contained in the Report, from the 19th August, 1968. Consolidated replies to most of the recommendations were received on the 28th October, 1968 and replies to the remaining recommendations and the additional information called for by the Committee on some of the replies were completed by the 19th February, 1969. The replies were examined by the Study Group 'F' of the Estimates Committee (1968-69) at their sitting held on the 26th March, 1969. The draft Report was adopted by the Estimates Committee (1968-69) on the 21st April, 1969.

3. The Report has been divided into the following Chapters

I. Report.

II. Recommendations which have been accepted by the Government.

III. Recommendations which the Committee do not desire to pursue in view of the Government's reply.

IV. Recommendations in respect of which replies of Government have not been accepted by the Committee.

4. An analysis of the action taken by Government on the recommendations contained in the Thirtieth Report of the Estimates Committee (Fourth Lok Sabha) is given in the Appendix. It would be observed therefrom that out of 110 recommendations made in the Report, 89 recommendations, *i.e.* 80·9 per cent have been accepted by Government and the Committee do not desire to pursue 17 recommendations, *i.e.* 15·45 per cent in view of Government's reply. Replies of Government in respect of 4 recommendations, *i. e.* 3·65 per cent have not been accepted by the Committee.

NEW DELHI;
April 24, 1969.
Vaisakha 4, 1891 (*Saka*).

P. VENKATASUBBAIAH,
Chairman,
Estimates Committee.

CHAPTER I

REPORT

I. Malpractices in foreign exchange

(*S. No.* 101, *Para Nos.* 10·86, 10·87 *and* 10·88)

The Committee had noted that the information furnished by the Ministry of Finance in regard to cases involving violations of Exchange Control did not indicate the total value of foreign exchange involved in such cases although this information was specifically sought by the Committee. However, from what had been stated during official evidence, it appeared that the total foreign exchange involved in cases where proceedings were initiated by the Directorate of Enforcement amounted in 1965-66, to only Rs. 7 crores to Rs. 9 crores; in earlier years the foreign exchange involved in such cases was much less. The Committee also noted that in 10 years since 1956, the total fine imposed in cases of contraventions of the Foreign Exchange Regulations Act, orders, Rules etc. amounted to only Rs. 2·634 crores; the total foreign exchange ordered to be repatriated to India during the same period came to no more than Rs. 2·46 crores while the amount of Indian and foreign currencies confiscated was negligible. When these facts were considered in the context of the widespread prevalence of various malpractices resulting in the admitted leakage of foreign exchange and the retention of foreign exchange abroad by Indian nationals, it became evident that there was something lacking in the law relating to exchange control and the machinery for its enforcemtnt.

2. The Committee were surprised that although the Foreign Exchange Regulations Act had been amended a number of times it had not been found possible to devise suitable ways and means either for securing repatriation of foreign exchange held abroad by citizens and residents of India or for preventing malpractices which resulted in leakage of foreign exchange. They observed that all that could and should have been done to make exchange control really effective had not been done. For instance, in Pakistan under a Martial Law Regulation promulgated in 1958, failure to surrender or declare foreign exchange held in contravention of any law was made punishable with rigorous imprisonment extending to seven years and with confiscation of either whole or part of the property of the offender in Pakistan. In contrast, in India, in spite of the critical foreign exchange position and in spite of the wide powers available to the Government under the emergency, Government had been content with making a few changes in Foreign Exchange Regulations Act which did not touch basic problems, like the non-repatriation of foreign exchange held abroad, at all.

3. The Committee also considered it highly anomalous that while on the one hand Government stood committed to the reduction of economic inequalities, on the other hand they had been taking a rather lenient view of Indian citizens building up or retaining large balances, securities, etc. abroad. The Committee felt that a two-pronged approach was necessary to deal with the problem or leakage and non-repatriation of foreign exchange. First, a healthy climate for investment had to be created in the country by

offering special incentives to encourage people to repatriate and surrender their foreign exchange holdings to the Reserve Bank of India. Secondly, the law relating to exchange control should be modified so as to plug all loopholes and provide deterrent punishment for violations; further, the law should be rigidly enforced whoever might be the offender.

4. Government have in their reply stated that they wished to point out that it might not be entirely appropriate to measure the work of the Enforcement Directorate purely in terms of the quantum of penalty or foreign currency recovered etc. However, Government appreciated that the provisions of the Foreign Exchange Regulations Act, even as amended in 1955, were not sufficiently stringent. Certain amendments were under consideration with a view to making the Foreign Exchange Regulation Act more effective. Among other things, it was proposed that the quantum of penalties prescribed at present should be increased considerably. While Government noted the spirit in which recommendations had been made, they did not share the view of the Committee that no effort had been made in this direction in the country. Comparisons with the powers asssumed by Martial Law countries were not tenable for a democratic administration like India. The main difficulty in tackling the problem of repatriation of foreign exchange held abroad was that foreign banks did not cooperate with us in supplying details of accounts etc. The Government Machinery had to proceed cautiously, collect evidence and proceed either on adjudication or court action. Even the promulgation of a harsh code might not be of great help in the absence of cooperation from the public. Enforcement and Exchange Control were a part of the overall economic administration and this was a continuous process. It would only be said that every effort would be made to keep a constant vigil to detect violations and simultaneously adequate powers would be given to the Enforcement to bring to book the offenders. It may be further stated that Government's own policies already provided for incentives for investment to the extent possible and to penal action in the cases of those who offended the regulations.

Review of working of exchange control in India

(*S. No.* 102, *Para* 10·89)

5. To make the law relating to exchange control fool-proof and to ensure its proper implementation, the Committee had recommended that Government might appoint, at an early date, a high powered Commission to review the working of exchange control in India with a view to identifying its shortcomings and suggesting appropriate remedial measures (including changes in the law) to make exchange control an effective instrument of conserving and augmenting the country's foreign exchange resources. The Commission might be headed by a retired Supreme Court Judge and include an adequate number of independent public men and economists and legal experts having intimate knowledge of exchange control.

6. Government have in their reply stated that the suggestion that a high powered Commission might be appointed to review the working of exchange control was not acceptable to Government. The Administrative Reforms Commission would be studying this problem as a part of Economic Administration and forwarding their recommendations to Government for consideration. These would be considered when received and appropriate decisions then taken. In view of this, it was not considered necessary

at this stage to constitute a Commission to go into the same and related matters. It was felt that the recommendations of the Administrative Reforms Commission should provide ample opportunity for Government to review these matters and to take appropriate decisions.

7. On receipt of the reply of Government, the Committee desired to know whether the Administrative Reforms Commission had submitted to Government their report in regard to making the law relating to exchange control fool-proof and to ensure its proper implementation. If not, what was the present position.

8. Government have stated in their reply that the report of the Administrative Reforms Commission, while dealing with various problems of economic administration, including functioning of exchange control in its various forms, did not specifically touch upon this particular aspect thereof. The Estimates Committee themselves had made various recommendations with a view to improving the enforcement provisions of the Act. In particular reference was invited to recommendation No. 103. Even otherwise there were on hand certain proposals to amend the enforcement provisions of the Foreign Exchange Regulations Act. The penalties in respect of serious offences were to be made more deterrent. For adjudication, etc., a scheme similar to that applicable under the Customs Act, 1962, was proposed to be prescribed and a time limit of 60 days was also intended to be prescribed for appeals to High Courts against orders of the Appellate Board with a view to reduce the total time taken in litigation/proceedings. Moreover abetment was intended to be made an offence. The provisions for recovery of dues were also intended to be tightened. Since action relating to this work was already in hand and was being pursued, Government considered that there is no need at present for any further comprehensive examination by any high-powered commission. It was Government's intention to introduce these amendments as early as possible.

9. The Committee do not consider the reply of the Government satisfactory. They feel that the law relating to exchange control needs to be modified so as to plug all loopholes regarding the leakage of foreign exchange and to provide deterrent punishment for violation of the Exchange Control Act. For this purpose they had recommended that a comprehensive review of the working of the exchange control should be carried out by a high powered commission consisting of a retired Supreme Court Judge and an adequate number of independent public men, economists and legal experts having intimate knowledge of exchange control, with a view to identifying its shortcomings and suggesting appropriate measures (including changes in law) to make exchange control an effective instrument of conserving and augmenting the courntry's foreign exchange resources. The Committee are not satisfied by the reasons advanced by Government for not appointing such a Commission. The Committee, however, urge that immediate steps should be taken by the Government for a comprehensive examination of the working of the exchange control.

II. Publication of names of persons found guilty of violating the provisions of Foreign Exchange Regulations Act.

(*S. No.* 104, *Para* 10·97)

10. The Committee had felt that publication of names and other particulars of persons who had been found guilty of contravening the provisions of the Foreign Exchange Regulations Act or rules, directions or orders made

thereunder would act as a salutary check on exchange control violations. They had suggested that Government should give full publicity to all such cases decided since April 1, 1965. For future, the Committee had desired that Government should ensure that the names and other particulars of all persons held guilty of foreign exchange offences during a particular period, say a quarter, were regularly published in the Official Gazette and other media considered appropriate for the purpose.

11. Government accepted the recommendation of the Committee. The Foreign Exchange Regulations Act, 1947 was specifically amended and section 27(c) was incorporated. Government stated that action would be taken to frame rules under section 27(c) to provide for regular publication of names of those who were convicted for violations of the Act, etc.

12. On receipt of Government's reply the Committee desired to know the present position in regard to framing the rules under Section 27(c) of the Foreign Exchange Regulations Act, 1947 to provide for regular publication of names of those who were convicted for violation of the Act, etc.

13. Government replied that action to frame the rules under Section 27(c) to provide for regular publication of names of those who were convicted for violation of the Act was being pursued.

14. The Committee are constrained to observe that Government have not yet framed rules under Section 27(c) of the Foreign Exchange Regulations, Act, 1947 to provide for regular publication of names of those persons who are convicted for violations of the Act, etc., although Section 27(c) to the Act was inserted by Amendment Act 55 of 1964 which was made effective from 1-4-65. The Committee regret the delay of about 4 years in the framing of the Rules and would urge the Government to take immediate steps in this regard.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendations (Serial No. 1, Para No. 3·89)

The Committee note that the value of import of consumer goods (other than food) increased from an average of Rs. 147·6 crores per year in 1948-51 to Rs. 176 crores per year in the First Plan.

Reply of Government

While this may be so, it should also be noted that subsequently consumer goods imports came down.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 4, Para No. 3·97)

The Committee also regret to note the absence, during the years 1948—61, of a purposive import policy aimed at ensuring the most beneficial use of available foreign exchange resources in accordance with well-defined priorities which are indispensable for a country engaged in bringing about rapid development in a planned manner with scarce resources. They would like to recall that during 1948—61 the import policy was frequently changed from 'rigid' to 'liberal' and *vice versa*. For instance, in July 1948 the rigid import policy pursued in the first half of that year was relaxed as the foreign exchange position was believed to be comfortable, but as the liberalisation of imports resulted in the emergence of a large trade deficit (of Rs. 283·8 crores) in 1948-49, the import policy was again tightened in 1949 in successive stages. An improvement in the current account position in 1950-51 (in this year there was a net receipt on current account of Rs. 36·8 crores although the trade balance had shown a deficit of Rs. 3·5 crores) again led to the adoption of a liberal import policy in 1951—the first year of the First Plan. The relaxation resulted in a record flow of imports (Rs. 962·9 crores) and a large trade deficit (Rs. 232·8 crores) in 1951-52. This again led to some tightening of import controls in the second half of 1952 and 1953. In the last two years of the First Plan the import policy was said to be "one of progressive but controlled liberalisation". The effects of the successive liberalisations of import policy were felt in the first year of the Second Plan when an unprecedented gap between imports (Rs. 1102·1 crores) and exports (Rs. 635·2 crores) brought about a sharp fall of Rs. 221·8 crores in the foreign exchange reserves in spite of net drawings of Rs. 54·7 crores from the IMF. The serious foreign exchange position in the opening year of the Second Plan necessitated a drastic cut in imports of non-essential consumer goods and the adoption of a stringent import policy. However, in the second half of 1958-59 the import policy again became less restrictive and imports of a number of non-essential consumer goods were liberalised.

Reply of Government

In the nature of the case, import policy cannot be fixed for a long period. During the latter part of the period (1948—61), the foreign exchange situation was difficult and it would not have been prudent to announce a fixed import policy in the face of many uncertainties regarding the export prospects, etc. The half-yearly or annual revisions in the import policy are also called for in view of the desirablility of promoting import substitution, the commodities produced in the country being progressively eliminated from the eligible list of imports. Government agrees that the deployment of foreign exchange resources should be in accordance with priorities defined in the context of a plan of development; but within the frame-work of such import policies, considerable flexibility is needed to take care of the ever-changing situtation within the country.

[Ministry of Finance O. M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 5, Para Nos. 3 ·98 / 3 ·99)

The Committee would also like to point out in this connection that during the years 1948—55 substantial amounts of foreign exchange were spent on the import of 'consumer goods other than food'. The annual average value of imports of this category and their average percentage to the total imports during 1948—51, the first Plan period and the Second Plan period was as under :

(*Value in Rs. crores*)

	1948—51	1951—56	1956—61
Annual Average Value	147 ·6	176	60 ·2
Average Percentage	22 ·8	24 ·8	6 ·26

Imports of such goods reached their highest level in 1954-55 when they amounted to Rs. 224 crores and formed 34 ·1 per cent of the total imports. Considering than the imports of 'consumer goods other than food' were brought down from an average of Rs. 176 crores a year during the First Plan period and Rs. 224 crores in 1954-55 to only Rs. 60 ·2 crores per year during the Second Plan period, the Committee cannot infer that during the period preceding the foreign exchange crisis of the Second Plan substantial amounts of foreign exchange were expended on avoidable imports of consumer goods consisting of various non-essential items. They are particularly unhappy that even after the country had embarked on a course of planned development as much as Rs. 176 crores a year on an average were spent on imports of this category of goods. The Committee need hardly stress that had the drastic cuts in imports of non-essential consumer goods, which the Government were obliged to enforce during the Second Plan period, been introduced earlier the foreign exchange crisis of 1957-58 might have been avoided.

Reply of Government

Consumer goods other than food include a number of commodities which are imported as a result of bilateral agreements with friendly neighbouring countries. The classification of goods as between consumer, intermediate and capital has also not been uniform throughout. It is significant that there was a large decline in the import of consumer goods in the Third Plan period as compared with the earlier years.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 6, Para No. 3.100)

The Committee are of the view that the foreign exchange crisis that overtook the Second Plan was the result of :

(*i*) Successive liberalisations of import policy in 1954-55 and 1955-56, the effects of which were felt in the first year of the Second Plan.

(*ii*) Heavy imports of iron and steel and machinery.

(*iii*) Permitting the private sector to import a much larger quantum of capital and semi-finished goods than visualised in the Plan.

(*iv*) Permitting a much larger import of consumer goods than was either allowed in the Plan or could be considered essential.

(*v*) Larger imports of foodgrains than provided for in the Plan.

(*vi*) Under-estimation of the import requirements of the Plan projects.

Reply of Government

These have been taken note for future guidance in plan formulation. Please also see reply to recommendation No. 1.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 7, Para No. 3·101)

The Committee would like to mention here that actual imports in 1956-57, the first year of the Second Plan, were of the value of Rs. 1102 crores against Rs. 783 crores estimated in the Plan document. Since imports occurring in 1956-57 must have been licensed earlier, it is evident that while making their estimate of imports in the first year of the Second Plan the framers of the Plan were unaware of the imports that had been ordered in the preceding year. The Committee are, therefore, constrained to observe that one **of the reasons why the foreign exchange estimates of the Second Plan proved so wide of the mark was an unfortunate lack of coordination between the Planning Commission, the Ministry of Finance and the Ministry of Commerce and Industry.**

Reply of Government

The prevailing practice is to get forecasts of imports and exports prepared by Sub-Groups of the Working Group set up by the Planning Commission for estimating resources for the five-year plans. The Sub-Groups on exports as well as imports as also the parent Working Group on Resources include representatives of the Planning Commission, Ministry of Finance and Ministry of Commerce as well as the Ministry of Industrial Development. As and when required representatives of other concerned Ministries are also consulted by the Sub-Groups. This ensures complete coordination between the Planning Commission and the concerned Ministry with the task of estimating exports/imports over the plan period.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 8, Para No. 3.113)

The Committee note that even with larger PL 480 imports than were anticipated at the time of the formulation of the Third Plan the actual total trade deficit during the Plan period was lower than the Plan estimates by Rs. 396·9 crores. Exclusive of PL 480 imports, the actual trade deficit was Rs. 651·6 crores less than the deficit envisaged in the Plan document.

Reply of Government

Government have no comments.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 9, Para No. 3.118)

The Committee note that while the Third Plan document had assumed that receipts and payments under the head 'invisibles (excluding official donations)' "would more or less balance" during the Plan period, transactions on this account over the five years of the Third Plan have actually resulted in net outflow of Rs. 278·7 crores from the country's foreign exchange resources. The Committee are surprised that the Plan estimates in this behalf should have proved so unrealistic. Considering that the adverse trend in respect of 'invisibles excluding official donations' became noticeable in the very first year of the Third Plan and continued to aggravate in subsequent years, the Committee cannot but regret that effective measures to improve the position were not taken in time.

Reply of Government

The divergence between the forecast and actuals on Invisible Account for the Third Plan period is attributable mainly to receipts from foreign travel not increasing as expected, higher payments on account of interest and service charges on foreign loans and higher remittances for technical and professional services and royalties.

The short-fall in receipts from foreign travel was due to tourism not having increased much due to several factors including the unsettled conditions following two cases of external aggression on this country and the state of Emergency in the country. Interest and service payments were unavoidable. However, the Government has been stressing in various international forums the need for a softening of the terms of loans, and as a result the loans obtained during the latter part of the Third Plan were on comparatively easier terms. As regards remittances account of technical and professional services etc., this only reflects to some extent the intense effort that was being made to faster growth and diversification of the industrial structures of the country.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 10, Para No. 3.121)

The Committee note that the margin of 'errors and omissions' has been very large in certain years. They feel that with better collection and processing of balance of payments data it should be possible to reduce the size of 'errors and omissions' to the minimum.

Reply of Government

Government have no comments.

(Ministry of Finance O.M. No. 22-US(W)/68 dated 28.10.1968).

Further Information called for by the Committee

Please indicate the measures proposed to be taken for better collection and processing of balance of payments data so as to reduce the size of "errors and omissions" to the minimum.

[Lok Sabha Sectt. O.M. No. 4/8(1)ECI/67 dated 5.12.1968].

Reply of Government

"Errors and omissions" in a balance of payments table provide the balancing entry in respect of two types of discrepancies that enter a balance of payments compilation. One type of discrepancy is that which arises from errors in recording, inadequate recording, unreconciled differences etc. The other type arises from leads and lags in payments and receipts. The former signifies that there is scope for improving the record of statistics. The latter is an inevitable situation. For instance, when exports are made, whereas the figures for exports will be tabulated from the basic forms filled in by the exporters at the time of shipment, inevitably export receipts will be received somewhat later. The lag may be 30 days or even 90 days, according to the commercial practice and usance bills that are negotiated. Since on the one side, statistical data of exports enter the balance of payments table and on the other side it is balanced with reference to cash inflow or outflow, naturally, there will be a balancing entry which it is the practice internationally to record under the head "errors and omissions". Similar leads and lags, in respect of imports, is however avoided, even in the existing procedure by the imports being recorded on the basis of payments data.

2. The other type of discrepancy which arises from inadequate coverage of the record data, inaccurate classification etc., can of course be improved with proper attention to details and providing for procedures for cross check from one set of data to another. Action has already been taken to put on better basis the recording of data. The improvement appears to be mainly needed on the side of the recording of import statistics. The action that has been initiated is briefly indicated in the following paras.

3. The compilation of the import arrival statistics by the Director General, Commercial Intellegence and Statistics and of import payments by the Reserve Bank of India, were, in the past under different nomenclature which rendered comparison between the two sets of figures difficult. With a view to have a common classification for commitments—(import licences and release orders), arrivals and payments, Government are introducing a common tabulation proforma. For this purpose a set of uniform licence code numbers and a common commodity code classification have been prescribed. The license code numbers will be given in all import licences, release orders etc. so that the same numbers can be copied in the invoices, bills of entry, Daily Trade Returns and other primary records from which the statistical compilations are made by the D.G.C.I.S. and the Reserve Bank of India. The licence code number will indicate the sector, licence categories, type of settlement, source of payment arrangements, period of issue of licence/order and the period of arrival/payment. It may be possible to com-

puterise the commitment and the arrival statistics in the Computer Centre at Delhi while the payment statistics may be computerised by the Reserve Bank of India. As soon as arrangements are completed to follow this procedure the payment statistics will be adequately classified, thereby reducing the magnitude of errors in the import data as entered in the balance of payments.

4. Further in order to see that imports against for foreign credits, where no remittances are made, are also correctly and completely classified, it has since been arranged that there should be a "S" form, similar to "A" forms, that are now filled up by importers, in cases where remittances are involved. This system will enable Reserve Bank of India to improve upon the balance of payments recording and presentation.

[Ministry of Finance O.M. No. 22-US(W)/68 dated 28.12.1968].

Recommendation (Serial No. 11, Para No. 3.122)

The Committee also note that as against the total outflow of Rs. 550 crores on capital transactions (excluding official donations) contemplated in the Third Plan document the actual outflow on this account together with 'Errors and Omissions' had amounted, during 1961-66, to Rs 496·8 crores.

Reply of Government

Government have no comments.

(Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68)

Recommendation (Serial No. 12, Para Nos. 3.133, 3.134 & 3.135)

3.133 The Committee note that throughout most of the Third Plan period, the balance of payments situation remained difficult and that in spite of 'a progressive increase in the utilisation of foreign aid' periodic crises in the balance of payments necessitated frequent recourse to the I. M. F. and drawing down of the foreign exchange reserves.

3.134 The Committee feel that the balance of payment difficulties of the Third Plan were essentially only a reflection of 'a basic disequilibrium in our balance of payments', caused mainly by two continuing factors, namely a growing trade deficit and the mounting burden of servicing the external debt. This is evident from the fact that the balance of payments situation 'deteriorated sharply' only in 1964-65 as exports remained stagnant while 'payments for imports and debt repayments mounted up rapidly'. In this connection the Committee wish to draw attention to the following figures indicating the magnitude of the trade deficits and debt servicing payments during the Third Plan period.

(Rs. crores)

	1961-62	1962-63	1963-64	1964-65	1965-66	Total 1961-66
(*a*) Trade deficit	328	398·1	413·3	560·2	553·5	2253·1
(*b*) External debt servicing amortization	106·3	111·8	123·6	150·0	170·1	661·8
Total (*a*) & (*b*)	434·3	509·9	536·9	710·2	723·6	2914·9

They would also like to mention that according to the Draft Outline of the Fourth Plan external debt servicing payments during the period 1966-71 are expected to amount to Rs. 2284 crores, that is about Rs. 457 crores a year.

3.135 The Committee regret that although the foreign exchange crises of the Second Plan had amply demonstrated the adverse effects of large and recurring trade deficits, the Third Plan tacitly assumed that such deficits were essential and would be fully covered by foreign aid. The actual trade deficit during the Plan period has turned out to be smaller than that estimated in the Plan document by Rs. 396·9 crores, which only means that the foreign exchange position would have been much worse had the import targets envisaged by the planners been achieved.

Reply of Government

Government have no comments.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendations (Serial No. 13, Para Nos. 3.136 & 3.137)

(*i*) The Committee need hardly stress that large trade deficits are not indispensable to the economic growth of an under-developed country, for they might well arise from shortfalls in domestic production, inflation and other similar setbacks in the internal economy.

(*ii*) In the ultimate analysis, the disequilibrium in the balance of payments can be removed only by :

(*i*) reducing the outflows on account of imports and invisibles.

(*ii*) increased earnings from visible and invisible exports.

Reply of Government

It needs to be appreciated that export performance depends on a number of factors such as the rate of growth of productivity, international demand conditions and actions of competing countries. India had to face many difficulties on each of these fronts during the period under review. The current policy is to give the highest priority to exports. There might, however, be circumstances in which a trade deficit has to be a planned one in order to absorb such foreign aid as may be considered desirable for the country's economic growth. This was the situation during the Second and Third Five-Year Plan periods. There were, of course pressures which were sought to be met by restrictions on inessential imports and efforts to augment the country's exports.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 14, Para No. 3.138)

The Committee consider that the balance of payment difficulties during the Second and Third Plan periods mainly arose on account of the following:

(*i*) Heavy inflation particularly during the Third Plan period on account of deficit financing and other factors. It is significant to note that the quantum of deficit financing which was envisaged at Rs 550 crores in the Third Plan actually mounted to Rs 1,150 crores.

(*ii*) Failure to attain self-sufficiency in food-grains and consequential need to import foodgrains both under PL 480 and with free foreign exchange resources. This was obviously due to failure to take effective steps to modernise agriculture and boost up food production.

(*iii*) Heavy investments in products having long gestation period with the result that while there was no return from these projects, the products intended to be manufactured in these projects continued to be imported.

(*iv*) Lack of integrated programme of industrialisation which resulted in creating the demands for heavy maintenance imports. This would be evident from the fact that out of total imports amounting to Rs 12,049 crores (in post devaluation rupees) envisaged for the Fourth Plan as much as Rs 8,190 crores (*i.e.* 78%) have been estimated for maintenance imports. With the setting up of industries, no serious effort appears to have been made to create indigenous capacity for the production of components, intermediaries and raw materials required by these industries which largely depended upon imports for their maintenance requirements.

(*v*) Non-attainment of the targets of production (*e.g.* fertilisers, non-ferrous metals) envisaged in the various sectors of economy during the various Plan periods, leaving wide gaps which had to be filled up by imports.

(*vi*) High costs of setting up of industries on account of tied foreign aids, as well as various other factors. The result has been that the unit cost of production in the country is much higher than the international cost of similar articles thereby inhibiting the prospects of exports on competitive basis.

(*vii*) The existence of sellers' market in the country, leaving no incentive to industrialists to export their products and to improve the quality of their goods.

(*viii*) Failure to link imports with the capacity to generate surpluses for exports required to repay the loan servicing charges.

(*ix*) Import of non-essential consumer goods particularly during the First and Second Plan periods.

Reply of Government

While some of the various factors mentioned by the Committee have influenced the balance of payments situation from time to time, it would not be correct to say that :—

(*a*) no efforts were made to increase food production, considering that foodgrains output went up by 44·5 per cent over the 15 years ending 1965-66 (Table 1·4 Economic Survey 1967-68).

(*b*) there was no return from heavy investments in projects having long gestation, considering the augmentation of irrigation facilities, the expension of fertiliser output and the substitution of imports by home-produced goods which has taken place in field such as steel, engineering goods and machinery etc. These investments have enabled the country to develop export markets in these lines also. Currently, we are in a position to meet the demand for power equipment for future power generation programmes almost entirely from within the country. Aluminium production has gone up manyfold and there is considerable import substitution. The same applies to petroleum products where we are virtually independent of imported products, the bulk of imports being of crude for refining within the country.

(*c*) efforts were not made to create indigenous capacity for production of components, intermediaries and raw materials, etc., considering that in automobile production, for instance, the import content has been progressively reduced. Similar programmes have been implemented for other engineering industries also. Aluminium and steel output resulted in considering foreign exchange saving. The fact that maintenance import requirements now constitute a large proportion of total import requirements signifies the advances within the country and the reduction and, in some fields, elimination of our need to import complete capital plants from abroad. This is a development in the right direction.

High unit costs due to tied aid have been a factor in pushing up general costs of production within the country. It is for this reason that Government has always pleaded for progressive untying of foreign aid. The efforts of our country and those of other developing countries have not yet borne fruit but these efforts will continue.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 15, Para No. 3.139)

The Committee urge that the problems posed by the chronic disequilibrium in the country's balance of payments call for a realistic approach to planning and fiscal policy and should not be viewed, in isolation, as mere problems of trade.

Reply of Government

Government agrees that balance of payments problems cannot be viewed in isolation from questions of planning and fiscal policy. The availability of foreign exchange resources and the capacity of the country to augment them constitute the main elements in determining the direction of planning.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 16, Para Nos. 4.80, 4.81 & 4.82)

4.80 The Committee note that in spite of considerable external assistance the country's foreign exchange reserves, which amounted to Rs. 1612 crores at the end of March 1948, had suffered heavy erosion, particularly during the Second Plan period, and had remained at a precariously low level for most of the Third Plan period. At the same time, while exports had ceased to grow and had even shown a declining trend in 1965-66, imports had remained at a high level despite controls. On the invisibles account too payments had grown while receipts had continued to fall off. There was thus a basic disequilibrium in the country's balance of payments. Despite the progressive increase in the utilisation of external assistance, there had been recurring crisis in the balance of payments during the Second and Third Plan periods.

4.81 Following the outbreak of the Indo-Pak conflict in September, 1965, there was a sudden pause in fresh authorisations of external assistance and the magnitude of fresh assistance authorised during 1965-66 was only Rs. 604 crores as compared to Rs. 744 crores in the previous year. In the latter half of 1965-66, government were obliged to impose a drastic cut in imports. The Committee also note that after a brief recovery, the balance of payments had again shown a deficit in the quarter April-June 1966. There was no evidence of any marked uptrend in exports. Further, the drastic cut in imports, imposed in the latter half of 1965-66, had adversely affected industrial production. In fact, the foreign exchange position was so difficult that unless aid began to flow soon in adequate quantities there was every danger of the economy receiving a serious setback. Moreover, the country had reached a stage when it had to 'incur fresh debts in order to pay off old ones'; even the finalisation of the Fourth Plan could not be undertaken in the absence of reasonable prospects of aid. However, external assistance was not readily forthcoming as the lending countries/institutions seemed to require 'demostrable evidence of our determination and capacity to push our exports and improve the external viability of our economy'. It has been acknowledged that action in regard to devaluation "could not be postponed as all further aid negotiations hinged on it."

4.82 The fierce reaction both in Parliament and outside to Government's decision to devalue in June 1966 is indicative of the far-reaching repurcussions of this measure on the Indian economy. It should have been possible for Government to foresee in the beginning of Second Plan the critical position which was bound to be reached in the balance of payments, if timely and effective measures were not taken to generate enough export surpluses to pay for large imports and to service heavy loans which were being taken from foreign countries and international bodies, to force the pace of industrialisation.

Reply of Government

Government have no comments.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 17, Para Nos. 4.83, 4.84,4.85 & 4.86)

(*i*) The Committee feel that the chronic and growing deficits in India's trade and invisibles accounts were essentially due to inflation and the attendent overvaluation of the rupee.

(*ii*) Inflation had meant not only higher costs for exporting industries, as a result of which Indian exports were priced out inforeign markets, but also diversion of investment as well as supplies to meet domestic demand. The selective export incentive measures in operation before devaluation, such as import-entitlements, tax credit certificates, subsidised etc. had proved clearly inadequate considering that exporter in 1964-65 were almost at the same level as in the previous year while in 1965-66 they actually registered a slight fall. Moreover, in the context of the inflationary situation, these incentive schemes had called for periodic increases in their range and quantum, they also lacked the potential for bringing about a lasting solution in the form of increases in output or lowering of the costs of production. It became evident that these *ad hoc* measures could not provide an enduring solution to the country's export problems.

(*iii*) The effects of inflation had been equally harmful in regard to imports. Despite a progressive increase in import duties, imported goods continued to command a premium as Indian prices of comparable goods were well above world prices. This hampered the progress of import-substitution. The relative cheapness of imports also gave rise to severe import restrictions which affected the growth of industrial production and enabled importers to make large profits without any benefit to the consumer.

(*iv*) The over-valuation of the rupee had also adversely affected the position on the invisibles account. Private foreign investors, who had earned substantial profits as a result of scarcity, were able to remit their profits at the over-value rate, thus involving the country in an undue brain of foreign exchange. Moreover, overvaluation had given rise to leakage of foreign exchange through various anti-social practices, such as, under-voicing of exports, over-invoicing of imports, retention of illegal earnings abroad, smuggling etc.

Reply of Government

It may be that inflation aggrevated the balance of payments problems, but it is necessary to recognise that to a considerable extent deficits in balance of payments were inherent in the programme of development. Government also had to balance the need for restricting imports or pricing them sufficiently high to contain demand and the requirement that development imports (e.g. plant and machinery and essential materials and components) are not so high price as to endenger the programme of development. (The devaluation of the rupee in June 1966 was an attempt to correct some of the tendencies to which the Committee refers).

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 20, Para Nos. 4.89, 4.90 & 4.91)

4.89 The Committee need hardly stress that if inflationary pressures continue to grow, as they have during the past year, the usefulness of devaluation might get eroded.

4.90 The Committee would like Government to take speedy and effective measures to attack the root causes of the malady of inflation which can be traced to ever-ambitious Plans which have tended to emphasise requirements rather than resources and are not moderated in the light of actual achievements and resources available from year to year. More specificially, the Committee consider that the size and the contents of the Third Plan should have been reviewed pragmatically in 1962 when Chinese aggression and the growing menace of Pakistan made it abundantly clear that defence requirements had to be given top priority in the interest of national security. Government should at that time have curtailed non-developmental civil expenditure specially on schemes which held out little promise of reutrn so as to accommodate perceptible increase in the outlay of defence. It is evident that if inflation is to be curbed effectively the size, contents and strategy of the Fourth Plan would have to be radically changed so as to enforce economic discipline by curtailing expenditure on non-developmental schemes and accord the highest priority to agricultural production and industries catering to the basic requirements of the common man *viz.* food, clothing and shelter. Simultaneously, concerted efforts would have to be made to develop the exports of the country to pay for heavy imports of capital goods and machinery and to service large loans which have been taken from foreign countries.

4.91 The Committee would like to stress the imperative need of securing an appreciable increase in production and productivitiy in both agriculture and industry so as to augment export supplies and also provide an enduring solution to the problem of rising prices in the context of persistent scarcity conditions. They hope that Government would lose no time in initiating suitable measures in this behalf.

Reply of Government

Reference is invited to the document on : "Approach to the Fourth Five Year Plan" which emphasises the need for limiting non-developmental expenditure and raising domestic savings to match the requirement of investment with a greater measure of self-reliance. It also emphasises the need for stepping up the agricultural and industrial production, stabilising prices and recommends measures for achieving these objectives. Vigorous export promotion and more effective import substitution is another aspect of the Plan objective for which measures have been indicated.

Please also see replies to recommendation Nos. 17, 25 and 106.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 21, Para No. 4.92)

The Committee feel that time has come when the Plan will have to accord with economic realities and be flexible enough to be rolled forward or back in the light of achievements from year to year.

Reply of Government

Annual plans are being progressively used as more effective instruments for providing flexibility to the five-year plans in the course of their implementation.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 23, Para Nos. 4.94 & 4.95)

4.94 The Committee would like to recall that the main objectives of devaluation were :—

(*i*) That it would bring about a steady and appreciable increase in exports by providing an enduring and stable stimulus to the export effort and investment in export industries ;

(*ii*) That it would discourage imports and encourage imports substitution ;

(*iii*) That it would improve the country's position on the invisibles account by (*a*) encouraging remittances into India and discouraging outward remittances and (*b*) reducing the leakage of foreign exchange due to various unhealthy practices which would become "substantially less attractive" with the change in the rate of exchange.

4.95 The Committee need hardly emphasize that the desirability and efficacy of devaluation and the follow-up measures taken by Government can be judged only by the effect they have on the country's exports, imports and invisible earnings and payments.

Reply of Government

Government have no comments.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 24, Para Nos. 4.96 & 4.97)

4.96 Considering that one of the main objects of devaluation was to provide a boost to exports the Committee cannot but feel concerned that exports during the ten months following devaluation were nearly 11 per cent lower even as compared to the corresponding period of 1965-66 which itself was a 'bad year' from the point of view of exports. They note that the downward trend in exports since devaluation is at least partly attributable to delays in introducing requisite follow up measures. First, while pre-devaluation export incentive schemes were abolished simultaneously with the devaluation of the rupee, new schemes of export assistance were announced more than two months after devaluation. Secondly, the admitted delay in settling the transitional problems arising in respect of trade with rupee payment countries, created understandable dificulties for Indian exporters.

4.97 In view of the adverse trend in exports since devaluation the Committee would like the Government to keep a continuous watch on the behaviour of the country's exports and the trends in international trade and take timely and effective measures to ensure that Indian goods are not priced out of world markets due to such factors as high export duties or inadequate assistance.

Reply of Government

One main factor leading to a fall in exports in the period after devaluation was the wide-spread failure of crops and the resultant low output recorded by agriculture based industries. There was also a slackening of economic activity in some of the markets for our major exports ; for example, the slowing down of income and import growth in U.K., which absorbs nearly a fifty of our exports, adversely affected Indian tea, textile products and oil-cakes. So far as delay in taking requisite follow up measures after devaluation is concerned, it may be stated that immediately after the devaluation the extent of assistance required to promote exports in the circumstances obtaining in the post-devaluation period was considered and it was broadly decided that export industries should be assured of imported raw material through a policy of replanishing the import content of the export product. It was also decided that even after devaluation certain industrial products would still be priced out in international markets and would need direct assistance. While the dtermination of the import contents to be replinished in the case of various products and the requisite cash subsidy would take time as necessary technical data had to be collected and examined by concerned Ministries, exporters were given a broad indication of the Government's thinking on the subject and were given an assurance that decisions taken by the Government would apply retrospectively from the date of devaluation. Detailed decisions were announced in about two months after the devaluation, which does not seem to be undue delay.

Besides, devaluation had the immediate effect of unsettling our trade with countries in Eastern Europe. In the case of other countries adjustments had to be effected between individual exporters and importers without any intervention on the part of the Government. But in view of the bilateral trade arrangements with East European countries discussions at governmental level were necessary. Talks with these countries were initiated soon after the devaluation and the first arrangement was reached, with USSR, on 11th July 1966 in Moscow. Transitional problems with other East European countries were also sorted out expeditiously and by the beginning of September 1966 solutions had been reached in case of our all trade partners in Eastern Europe.

The recommendation contained in para 4·97 is noted. In addition to Government keeping a watch there is also a regular flow of representations from the exporting interests as well as from organised bodies like Export Promotion Councils and Commodity Boards, drawing Government's attention to problems which arise in the matter of maintaining and promoting exports and the remedial action which they consider necessary. It will be recalled that export duties were reviewed particularly in the light of the devaluation of the pound sterling, and a reduction of export duties on a wide range of products was announced on 7th February 1968. Increased cash assistance was also announced on selected products effective from 1st March 1968.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 25, Para No. 4.98)

The Committee cannot help concluding that by economy of the country is at present under-going a heavy strain on account of inflation and balance of payment difficulties. They would like to reitereate that the situation calls for strict economic discipline to curtail all avoidable non-developmental expenditure and a determined effort to achieve a break-through in agriculture which would make the country not only self-sufficient in foodgrains but also provide a broad base for development of industries, particularly those which are export-oriented.

Reply of Government

Since the time of the assessment by the Committee, there has been a distinct improvement in the price situation as a result, primarily, of the large increase in agricultural production in 1967-68 which signifies in some measure the success of the efforts which Government has been making to achieve a break-through in agriculture. Export performance has also shown improvement. Government agrees that agriculture and exports should be accorded a very high priority in all programmes and policies.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 26, Para No. 5.109)

The Committee note that the achievements of the Second Plan were below expectations. The Third Plan's performance has been highly unsatisfactory—the progress of the economy has been uneven and very much slower than what was envisaged and for the most part of the plan period, as well as in 1966-67, the economy has operated under great strain due to mounting inflationary pressures. The Committee realise that the last six years have been in a sense a rather abnormal period as the country had to face external aggression twice and two successive droughts. While adverse weather conditions and the stepping up of the defence expenditure after the Chinese aggression have undoubtedly added to the pressures on the economy, the Committee strongly feel that the failure of the Third Plan in achieving its principal targets and objectives and the present state on the economy cannot be attributed wholly to these two factors. They would like to add that planning cannot be said to be sound and realistic if its success requires that the country would have ideal weather conditions all the time or that it would not be called upon to take all necessary measures to protect its sovereignty and territorial integrity from external dangers. The Committee are of the view that with more careful and realistic planning and better implementation it should have been possible to impart the economy greater strength and provide it with a safety margin to offset the effect of uncontrollable and uncertain factors like war and bad weather.

Reply of Government

The formulation as well as the implementation of the five-year plans are both being streamlined for the purpose of securing better performance. The technique of annual planning is being evolved to deal with year to year deviations from the original assumptions in the plan.

(Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68)

Recommendation (Serial No. 27, Para Nos. 5.110 & 5.111)

5.110 So far as the effect of defence expenditure on the country's development effort is concerned, the Committee would like to point out, in the first place, that in spite of the increased defence expenditure since the Chinese aggression, the developmental outlay in the public sector during the Third Plan period has exceeded the Plan target by as much as Rs. 1131 crores. It is evident that there was no diversion of resources from development to defence and that, therefore, the slow rate of economic growth during the Plan Period cannot be attributed to be increase in defence expenditure. Secondly, even the present level of defence expenditure in India—about 4 per cent of the national income—cannot be considered very high if it is remembered that certain other developing countries like Turkey, Pakistan, Burma and Israel have been devoting an equally high or much higher proportion of their national income to defence. Thirdly, the Committee would like to note that although there could have been no doubt about China's aggressive postures towards us after the construction of the Aksai Chin road by the Chinese and their repeated intrusions in Ladakh, during 1956-60, India's defence expenditure in 1961 was still only 2·1 per cent of the national income. Similarly, the threat from Pakistan had been there all along.

5.111 In view of the above, the Committee would like to emphasize that if defence expenditure had to be stepped up abruptly after the Chinese aggression, it was only because it had been kept at an unrealistically low level in the earlier years. They are constrained to observe that the country's defence needs did not receive the attention they deserved, during the first two Plan periods. The Committee would urge that if abrupt and steep increase in defence expenditure which inevitably intensify the inflationary pressures, are to be avoided in future, it would be necessary to ensure effective integration between the requirements of defence and economic development. The Committee, therefore, suggest that the size and priorities and pattern of investment of the Five Year Plans should be determined after carefully assessing and taking into account the country's overall defence needs. Positive measures should also be taken to secure proper co-ordination and integration between civilian and defence production so that the industrial capacity available within the country is put to optimum use and reliance on foreign sources for supply of defence requirements is kept to the unavoidable minimum.

Reply of Government

Government agrees with the need for proper co-ordination between civilian and defence requirements of any development plan.

(Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68)

Recommendation (Serial No. 28, Para Nos. 5.112, 5.113 & 5.114)

5.112 The Committee are of the view that the most important single factor responsible for the continuing strains on the domestic economy as well as the balance of payments is the failure of the agricultural sector. The setback in agriculture has had for reaching repercussions on the economy. It has not only depressed industrial growth,—a substantial part of India's industrial production being accounted for by industries based on agriculture but it has also hampered the country's export effort and necessitated increased imports, and aggravated the inflationary pressures generated by the ever-growing Governmental expenditure.

5.113 The Committee would like to recall that the First Plan had accorded the top-most priority to agriculture and irrigation on the ground that it was essential "to strengthen the economy at the base" by creating "conditions of sufficiency and even plantitude", in respect of food and raw materials as these were "the wherewithals for further development" and without substantial increase in their production "it would not be possible to sustain a higher tempo of industrial development." Although agricultural production during the first two Plan periods was above Plan targets, large imports of foodgrains and other agricultural commodities, notably cotton and jute had to be made from year to year to meet domestic requirements. Foodgrains imports alone averaged Rs. 120 crores a year during the First Plan period and Rs. 160 crores a year during the Second Plan period. It is evident that at the end of the First Plan period the Country was far from having reached the stage of self sufficiency in respect of food and raw materials for industry, which the First Plan report had regarded as a prerequisite for a higher tempo of industrial development. Nonetheless, in the Second Plan the first priority was given to rapid industrialisation, "especially the development of heavy industry and the necessary ancillaries like Transport" while agricultural and Irrigation programmes were relegated to a secondary place. Thus, the share of 'Agriculture and Community Development' and 'Irrigation and Power' in the total public sector outlay (actual) declined, respectively, from 15 per cent and 30 per cent during the First Plan period to 11.7 per cent and 18.9 per cent during the Second Plan period, while that of 'Industry and Mining' increased from 5 per cent to 24.1 per cent and of 'Transport and Communications' from 26 per cent to 27 per cent. Although the Third Plan Report recognised that the rate of growth in agricultural production had proved to be one of the main limiting factors in the progress of the economy and purported to give the first priority to agriculture, it is observed that of the total public sector outlay of Rs. 8631 crores during the Plan period 'Agriculture and Community Development' have got only 12·7 per cent and Irrigation 7·6 per cent whereas 20 per cent has gone to 'Industry and Minerals' and 24·3 per cent to "Transport and Communication." The Committee regret to note that the importance and high priority attached to the development of agriculture in the Third Plan Report has not been reflected in the actual pattern of outlays. The heavy shortfalls in the Third Plan's programmes for irrigation and fertiliser production provide further evidence of the lack of a serious concern for achieving "self-sufficiency in foodgrains" and increasing agricultural production to meet the requirements of industry and exports, which were among the principal aims of the Plan.

5.114 The Committee feel that the shift in emphasis, in the Second Plan, from agriculture to heavy industry was premature and ill-advised as it sought to build on imposing industrial super structure on an obviously week base and without the requisite wherewithals which only a high rate of growth in agriculture could provide. The Committee are surprised at the lac of realization on the part of the Planning and the Government that the enormous outlays on heavy industries, transport and communications, and social service, envisaged in the Plans, could not but lead to spiralling prices unless the increase in the purchasing power in the economy was offset by a rapid growth in agricultural production.

Reply of Government

Reference is invited to the document "Approach to the Fourth Five Year Plan" which emphasises high priority to agriculture and a rate of growth of 5 per cent to be obtained in agricultural production. Policy requirements for attaining this rate of growth in agriculture are also indicated in the document. The evaluation machinery at the Centre as well as in the State is being reorganised and strengthened for more effective and extended evaluation of the programmes and projects under implementation as recommended by the Administrative Reforms Commission.

Reference is invited to the Section on "Water Resources management" in the document referred to above which clearly recognises extension as well as greater exploitation of water resources for agriculture.

(Ministry of Finance O. M. No. 22-US (W)/68, dated 28-10-68)

Recommendation (Serial No. 29 Paras Nos. 5.115 and 5.116)

5.115 The Committee cannot too strongly urge that to remove the chronic imbalances and strains to which the country's economy, in general, and its balance of payments, in particular, have been subject for long, the first and foremost objective of planning today should be to achieve an early and enduring breakthrough in agriculture. The aim should be not only self-sufficiency in foodgrains but a substantial increase in overall agricultural production to meet the growing requirements of essential consumer industries and attain a much higher level of agriculture based exports than has been found feasible so far.

5.116 To achieve the above aims the Committee urge that Government should, at a very early date, draw up a comprehensive programme to step up per acre yields in foodgrains and the main commercial crops (such as jute, cotton, sugarcane, oilseeds, tobacco) and also set up, in cooperation with the States, an effective machinery to ensure the proper implementation of the programme and the attainment of the physical targets laid down. The progress of the programme in each State and all over the ountry should be evaluated periodically preferably every half year, so that any deficiencies revealed can be removed in time.

Reply of Government

Reference is invited to the document "Approach to the Fourth Five Year Plan" which emphasises high priority to agriculture and a rate of growth of 5 per cent to be obtained in agricultural production. Policy requirements for attaining this rate of growth in agriculture are also indicated in the document. The evaluation machinery at the Centre as well as in the States is being reorganised and strengthened for more effective and extended evaluation of the programmes and projects under implementation as recommended by the Administrative Reforms Commission.

Reference is invited to the Section on "Water Resources management" in the document referred to above which clearly recognises extension as well as better exploitation of water resources for agriculture.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 30, Para No. 5.117)

The Committee would also like to make it clear that the programme for agricultural development should on no account be allowed to be slowed down for want of adequate resources. They would like the Government to re-examine and revise the pattern of public sector outlays envisaged in the Draft Outline of the Fourth Plan so that requisite resources are made available for programmes of agricultural development by making, if necessary, appropriate cuts in other sectors where expenditure is not likely to contribute directly and immediately to higher production.

Reply of Government

Reference is invited to the document "Approach to the Fourth Five Year Plan" which emphasises high priority to agriculture and a rate of growth of 5 per cent to be obtained in agricultural production. Policy requirements for attaining this rate of growth in agriculture are also indicated in the document. The evaluation machinery at the Centre as well as in the States is being reorganised and strengthened for more effective and extended evaluation of the programmes and projects under implementation as recommended by the Administrative Reforms Commission.

Reference is invited to the Section on "Water Resources management" in the document referred to above which clearly recognises extension as well as better exploitation of water resources for agriculture.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68)

Recommendation (Serial No. 31, Para No. 5.118)

The Committee are of the view that the most essential condition for increasing agricultural production is a substantial expansion of irrigation facilities. They regret to note that the net additional area brought under irrigation has consistently fallen short of the Plan targets during each of the first three Plan periods and are particularly distressed to find that of an estimated 270 million acres under food crops today only 60 million acres are believed to be an-all-out effort to extend irrigation facilities to the maximum extent possible. They would suggest that top priority should be given to the completion of the major and medium irrigation projects in hand as also to the fullest utilization of irrigation potential already created. Every effort should also be made to accelerate minor irrigation schemes and to exploit underground water resources particularly in areas where canal irrigation is not considered feasible.

Reply of Government

Reference is invited to the document "Approach to the Fourth Five Year Plan" which emphasises high priority to agriculture and a rate of growth of 5 per cent to be obtained in agricultural production. Policy requirements for attaining this rate of growth in agriculture are also indicated in the document. The evaluation machinery at the Centre as well as in the States is being reorganised and strengthened for more effective and extended evaluation of the programmes and projects under implementation as recommended by the Administrative Reforms Commission.

Reference is invited to the Section on "Water Resources management" in the document referred to above which clearly recognises extension as well as better exploitation of water resources for agriculture.

[Ministry of Finance O.M. No. 22-US (W)/68, dated 28-10-68]

Recommendation (Serial No. 32, Para No. 5.119)

The Committee would like to state further that the areas with assured water supply offer very great scope for increasing agricultural yields per acre provided the needed inputs are made available to the farmer on reasonable terms. They would like the Government to formulate a well-coordinated scheme for ensuring adequate supplies of high-yielding varieties of seeds, fertilisers, pesticides and improved agricultural implements to farmers in such areas.

Reply of Government

The idea of concentrating efforts in a few areas which have necessary potential and which are relatively free from natural hazards, particularly those having assured water supply, has been recognised as the right approach to the development of Indian agriculture. This was given practical shape in the form of the package Programme. With the appearance of high yielding seeds of foodgrains crops the 'package' approach has received a tremendous boost and as a consequence High Yielding Varieties Programme was launched in kharif 1966-67. The programme constitutes the major plank in the new agricultural strategy under the Fourth Plan. It involves adoption by cultivators of new technology required for cultivation of high yielding varieties, both exotic and local, of paddy, wheat and hybrid of maize, jowar, bajra whlch are responsive to high dosses of fertilizers over large areas. In the wake of this programme, a Multiple Cropping Programme for raising more than one crop and short duration varieties of different foodgrains and pulses in areas having necessary irrigation potential has been launched from the year 1967-68.

By 1973-74 it is tantatively proposed to increase the converage of H.V.P. to 60 million acres from the present level of about 15 million acres. Similarly the Multiple Cropping Programme is also tentatively proposed to be extended to 40 million acres from the present level of 20 million acres.

The success of intensive cultivation efforts would largely depend on the availability of inputs like high yielding seeds, fertilizers, pesticides, improved agricultural implements and credit to the farmers. Concrete proposals for ensuring supply of these inputs are being formulated.

[Ministry of Finance O.M. No. 22-US (W)/68, dated 28-10-68]

Recommendation (Serial No. 33, Para No. 5.120)

In view of the heavy shortfalls in fertiliser production during the Third Plan period large imports of chemical fertilisers may be unavoidable for some time. The Committee however, feel that extensive use of fertilisers, will not be possible unless at least the bulk of the requirements are produced indigenously and cheaply. They hope that Government would take vigorous measures to attain self-sufficiency in fertilisers and to bring down the cost of production in the fertiliser industry, particularly in units in the public sector.

Reply of Government

The recommendation has been noted. The programme of production of fertilizers is briefly explained below :—

The present installed capacity of nitrogen production in the country is 0·894 million tonnes of nitrogen and will be increased to 2·164 million tonnes by 1971-72.

Three more projects *viz.* Kandla, Trombay Expansion and D.M.C.C. have been approved and foreign collaboration/financing arrangements for them are being finalised. These projects are expected to be completed by 1972-73. This will add a further capacity of 0·534 million tonnes of Nathus raising the installed capacity to 2·698 million tonnes of nitrogen by 1972-73.

Establishment of fertilizer projects at Haldia, Kothagudam/Ramagundam, Korba, expansion of Nangal in the Public sector and Mirzapur, the Occidental project and the Tata proposal in the private sector for a total capacity of 1·3 million tonnes of nitrogen is under consideration. These projects are expected to be completed by the end of the Fourth Plan (1973-74).

With the completion of the above projects, the bulk of the requirements of fertilizers will be met by 1973-74.

Measures have been taken to remove the imbalance in certain plants and to modernise others so that they will work to full capacity at reduced cost. The new fertilizers plants that are under construction are based on the latest technology and are using naptha as raw material at a low investment cost. The large size of the plants and the adoption of the latest technology will reduce the cost of production considerably.

[Ministry of Finance O.M. No. 22.US (W)/68, dated 28-10-68]

Recommendation (Serial No. 34, Para No. 5.121)

The Committee feel that planning in India has suffered from an undue emphasis on the size of the Plans and more specifically, of the outlays in the public sector, the presumption of the Planners being that an increase in the plan outlays would automatically lead to a higher rate of growth. Thus, with the enormous increase in plan outlays, provided for in the Second and Third Plans, national income was expected to go up from 3·7 per cent per annum during the First Plan period to 5 per cent per annum during the Second Plan period and 6 per cent per annum during the Third Plan period. The expectations were not fulfilled. The experience of the third Plan period, when the rate of growth achieved was less than half of that anticipated in spite of the fact that the actual public sector outlay was considerably higher than what was originally envisaged, would appear to show that much more important than the size of the Plan is its contents and implementation. The Committee are glad to note that Government now recognise the need to enforce economy in development expenditures, and even, postpone such expenditure to the extent feasible. They would like to urge, however, that while outlays on projects and schemes which do not contribute to development except indirectly or in the long run might well be kept to the minimum or deferred, postponement of developmental activities intended to raise the production of essential consumer goods and export commodities will only aggravate the present economic difficulties. The Committee hope that Government/Planning Commission will keep these considerations in view while determining the size of the Fourth Plan and its pattern of outlays.

Reply of Government

The document "Approach to the Fourth Plan" deals with the relevance of these various considerations for the formulation of the Plan.

[Ministry of Finance O.M. No. 22-US (W)/68, dated 28-10-68]

Further information called for by the Committee

Please furnish a detailed and self-contained reply giving relevant extracts from the 'Approach to the Fourth Plan', if necessary.

[Lok Sabha Sectt., O.M. No. 4·18 (1) ECI/67 dated 5-12-1968]

Reply of Government

The document "Aproach to the Fourth Five Year Plan" deals with the relevance of these various considerations for the formulation of the Fourth Five Year Plan, commencing from April, 1969.

To attain a rate of growth of 5 to 6 per cent per annum, whilst at the same time reducing the net foreign aid to half of the present level, will call for a much greater effort in raising domestic resources. While a closer scrutiny of expenditure, particularly in defence and administrative expenditure, is imperative, any large economy in the short run may not be feasible.

For a 5 per cent rate of growth, the average rate of domestic savings will have to be stepped up from the current level of about 8 per cent to around 12 per cent. In the public sector, this would imply additional resource mobilisation to the extent of about Rs. 250 to 300 crores per year by the Centre and the States, but it will build up a sound base for future growth.

The means to be employed to raise these additional resources will include loans, profits of public enterprises through better performance and price adjustments a more effective drive in the field of small savings, particularly in the rural areas, and also additional taxation. The kind of measures required in all these fields will have to be carefully worked out to ensure that resource mobilisation of this order is practicable and acceptable. This order of mobilisation, while difficult, seems to be inescapable if we are to attain a rate of growth of 5 to 6 per cent during the Fourth Plan period and reduce the reliance on the net foreign aid to half by the end of the Plan period. Some reduction in the resources available for plan outlay may be expected as a result of current plan expenditure becoming committed non-plan expenditure. In the circumstances additional resource mobilisation will be necessary even to maintain the 1968-69 level of plan outlay.

[Ministry of Finance O.M. No. 22 US (W)/68 dated 7-1-1969]

Recommendation (Serial No. 35 (i), Para No. 5.112)

The Committee note with concern the rapid increase in non-developmental Civil expenditure from Rs. 337 crores, or 3·5 per cent of the national income, in 1950-51 to an estimated amount of Rs. 1280 crores, or 6·1 per cent of the national income, in 1965-66. In 1966-67, such expenditure is stated to have gone up further to about Rs. 1634 crores or 6·8 per cent of the national income due largely to higher service charges on external debt, resulting from devaluation, increased subsidy on foodgrains and increases in dearness allowance of public employees. The Committee also note that a very substantial part of the non-developmental civil expenditure is accounted for by debt servicing and expenditure on tax collection and administrative service. Between 1950-51 and 1966-67, debt-servicing charges are stated to have risen from Rs. 52 crores to Rs. 473 crores and expenditure on tax collection and administrative services from Rs. 153 crores to Rs. 454 crores. Revision of pay scales and allowances of Centre and State employees, announced during the Third Plan period alone, is stated to have increased the cost of administration by about Rs. 260 crores a year.

Reply of Government

A large part of the increase in non-developmental Civil expenditure is accounted for by the debt servicing. This is a corollary to the raising of debt both internally and from friendly foreign countries, for the economic development of the country and is thus inherent in the development effort.

2. Expenditure on Administrative Services includes expenditure on General Administration, Police, Audit, External Affairs, etc., apart from tax collection agencies. Under this head the bulk of increases have taken place mainly under essential services like Police and Audit. The expenditure on Police has gone up consequent on the increased requirements of internal security and keeping in view the requisite law and order arrangements

in the country. The expenditure on Audit has increased as a result of larger financial outlays both in the Centre as well as the States aid is therefore, relatable to some extent to the economic development to the country. The expenditure on missions abroad has increased mainly on account of devaluation of the rupee.

The growth of expenditure on "General Administration"—which term includes all Secretariat Departments and attached and subordinate offices—has to be looked at in the context of the increases in the developmental expenditure from one Plan to another. The increases in dearness allowance that had to be sanctioned to Central Government employees in recent years must also be taken into account. Some increase in the administrative costs will have to be allowed for annual increments in the pay scales of staff. Even so the percentage of growth of expenditure under this head has been steadily brought down from 17 in 1965-66 to 8 in 1967-68 (R.E.) and 4 in 1968-69 (B.E.) This is well within the limit of 5 per cent envisaged by the Planning Commission in the draft outline of the Fourth Five Year Plan.

3. Growth of expenditure on tax collection also has been kept under control as will be seen from the following figures (pertaining to Central Government) :—

Year	Gross Tax Revenue	Expenditure on tax collection	Percentage of expenditure on tax collection to Gross Revenue
	(Rs. in crores)		
1964-65	1817·28	23·16	1·27
1965-66	2056·96	26·28	1·27
1966-67	2302·54	28·46	1·23
1967-68 (RE)	2357·45	31·88	1·35
1968-69 (BE)	2520·48	34·56	1·37

4. The above facts will show that there has been a continuous and consistent effort by Government to control the growth of administrative expenditure. Economy in Government expenditure is a continuing process and further avenues will continue to receive attention, consistently with the needs of administrative efficiency. It must, however, be recognised that there are certain limitations in curtailing non-developmental expenditure. Some of it, like that on Audit, is relatable to increases in developmental expenditures themselves. Some other, like that on Police, is relatable to security which is a pre-condition for development.

Recommendation (Serial No. 35 (ii), Para No. 5.123)

The Committee understand that Government have requested the Aid India Consortium to consider some form of debt re-scheduling in respect of foreign loans. They hope that negotiations in this behalf will succeed, but they would like to emphasise that rescheduling of external debt payments, if agreed to by the lending countries, can only provide a temporary relief.

Reply of Government

India's debt service burden has been increasing in the past few years. It will continue to be heavy during the next few years too. The hump of debt service payments that we have now reached is due to the fact that in the earlier year in which we took aid, aid was generally available on relatively hard terms. Subsequently the international concept of appropriate terms of aid has changed and aid has been generally available to developing countries in more recent years on softer terms. However, the earlier hard loans have cast a heavy burden on us. Since it is generally recognised that for our development effort, there will have to be a flow of capital from the developed countries to India, it becomes important to see that the net inflow is not unduly impaired by the outflow on account of debt servicing. Besides, whereas most of the aid is tied to purchases from the donor countries, debt servicing has to be done (except in the case of the East-European countries) with untied free foreign exchange. Thus, besides the quantitative limitation on the net availability of aid mentioned earlier, there is also a qualitative deterioration inasmuch as, with more debt servicing payments, lesser amounts of foreign exchange from our own earnings are available to us for free use for import from countries and for items not covered by aid. It is in this context of a desire to improve both quantitatively and qualitatively our total external resources, that we approached, through the World Bank, the Consortium countries requesting them to consider some form of debt itself. We have held a clean record of honouring all our obligations and the Deputy Prime Minister has reiterated several times that we would continue to do so. The debt relief request was thus a request in the context of and as a form of development aid. The Consortium members considered this among themselves and the World Bank as the convenor and the Secretariat of the Consortium requested Mr. Guindey, a French financial expert, to examine the matter.

As a result of internal discussion amongst Consortium members of the recommendation made by Mr. Guindey, the Consortium members agreed at the meeting held on May 23-24, 1968 to provide, in the first instance, debt relief of $ 100 million for 1968-69. This was subject to, where necessary legislative approvals. The members also agreed to considere favourably a similar amount of debt relief for the following two years. The amounts of debt relief offered by the various members of the Consortium for 1966-67, 1967-68 and their share in the debt relief exercise for 1968-69 is given below :

(*US $ Million*)

	1966-67	1967-68	1968-69
Consortium Member			
1. Austria	0·88	0·45	1·40
2. Belgium	..	..	1·10
3. Canada	8·05	1·91	1·98
4. France	..	..	5·00
5. Germany	..	7·25	27·29
6. Italy	..	..	5·50
7. Japan	2·50	6·11	16·83
8. Netherlands	..	..	0·58
9. U.K.	22·96	32·48	18·00
10. U.S.A.	..	..	8·73
11. I.B.R.D.	..	15·00	15·00
TOTAL	34·39	63·20	101·41

The Government is fully aware that the debt relief already received/likely to be received in future from Consortium members can only provide temporary relief. On a long-term basis we have to meet the requirements of foreign exchange in terms of imports and debt service payments from our own earnings mainly through exports. For this the Government is placing a great deal of emphasis, on import substitution, reducing dependence on imports to the absolute minimum necessary and on export promotion.

[Ministry of Finance O.M. No. 22-US (W)68, dated 28-10-68]

Recommendation (Serial Nos. 36 Para No. 5.124)

The Committee are unhappy to note that expenditure on tax-collection and administrative services has continued to grow at a fast rate although the need for curtailing it is recognised on all hands. In view of the difficult resources position and the adverse effect of increase in non-productive expenditure on the price situation, the Committee strongly urge that Government should at least now take firm measures to bring down the present level of expenditure on the administrative services.

Reply of Government

A large part of the increase in non-developmental Civil expenditure is accounted for by the debt servicing. This is a corollary to the raising of debt, both internally and from friendly foreign countries, for the economic development of the country and is thus inherent in the development effort.

2. Expenditure on Administrative Services includes expenditure on General Administration, Police, Audit, External Affairs, etc., apart from tax collection agencies. Under this head the bulk of increases have taken place mainly under essential services like Police and Audit. The expenditure on Police has gone up consequent on the increased requirements of internal security and keeping in view the requisite law and order arrangements in the country. The expenditure on Audit has increased as a result of larger financial outlays both in the Centre as well as the States and is, therefore, relatable to some extent to the economic development of the country. The expenditure on missions abroad has increased mainly on account of devaluation of the rupee.

The growth of expenditure on "General Administration"—which term includes all Secretariat Departments and attached and subordinate offices—has to be looked at in the context of the increases in the developmental expenditures from one Plan to another. The increases in dearness allowance that had to be sanctioned to Central Government employees in recent years must also be taken into account. Some increase in the administrative costs will have to be allowed for annual increments in the pay scales of staff. Even so the percentage of growth of expenditure under this head has been steadily brought down from 17 in 1965-66 to 8 in 1967-68 (R.E.) and 4 in 1968-69 (B.E.). This is well within the limit of 5 per cent envisaged by the Planning Commission in the draft outline of the Fourth Five Year Plan.

3. Growth of expenditure on tax collection also has been kept under control as will be seen from the following figures (pertaining to Central Government) :—

(Rs. in crores)

Year	Gross Tax Revenue	Expenditure on tax collection	Percentage of expenditure on tax collection to Gross Revenue
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1967-68 (R.E.)	2357·45	31·88	1·35
1968-69 (B.E.)	2520·48	34·56	1·37

4. The above facts will show that there has been a continuous and consistent effort by Government to control the growth of administrative expenditure. Economy in Government expenditure is a continuing process and further avenues will continue to receive attention, consistently with the needs of administrative efficiency. It must, however, be recognised that there are certain limitations in curtailing non-developmental expenditure. Some of it, like that of Audit, is relatable to increases in developmental expenditures themselves. Some other, like that on Police, is relatable to security which is a pre-condition for development.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 37 Para No. 5.136)

The Committee are greatly distressed to find that the majority of the public enterprises have suffered from delays in execution of projects, high capital costs, long gestation and operational difficulties as a result of which the returns on capital have been much below expectations. They note that even the manufacturing and trading concerns of the Central Government, which are supposed to be guided by sound commercial considerations, have, in 1965-66, given a return of only 2·4 per cent—Rs. 53·03 crores on a total investment of Rs. 2,225·88 crore —as compared to a marginal return of 19 per cent for all industry groups in the private sector. What is even more disconcerting is that, in spite of substantial concessions like supply of capital on easy terms, interest holidays, moratoriums on loans re-payments, etc., the performnce of industrial enterprises in the public sector has deteriorated perceptibly over the years. Thus, in 1965-66, the running concerns in the public sector showed a profit of only 1·1 per cent against 2·9 per cent in the previous year. Again, the income (i.e. value added by manufacture) generated per unit of capital employed in state-owned undertakings is stated to have declined from Rs. 13·4 per 100 rupees invested, in 1958-59, to Rs. 7·8 in 1963-64. The record of the numerous promotional and developmental enterprises in the public sector, which are not governed solely by commercial considerations, is likely to be as unsatisfactory, if not more, as that of the manufacturing concerns. As the bulk of the investible resources available during the Second and Third Plans have been appropriated for the expansion of the public sector, it would be only reasonable to hold that the declining trend in the rate of growth of the national economy is, in no small measure, attributable to the poor performance of the public enterprises. The Committee urge that before making heavy investments in the public sector Government should make a concerted effort to consolidate and rationalise the existing public enterprises and devise dependable measures to ensure a satisfactory rate of return on the capital invested in such enterprises.

Reply of Government

The Characteristics of long period for construction of project, high capital costs, long gestation and operational difficulties of the major Public Enterprises are due to the fact that these enterprises belong to capital intensive sector, consequently entailing high level complex technology etc., The investment in the Central Government industrial and commercial undertakings at the end of the 1966-67 amounted to Rs. 2841 crores, the industry-wise break-up of which is indicated below.:

	Rs. in crores
Steel	1,067
Engineering	622
Petroleum & Oil	337
Fertilizers and Chemicals	282
Mining & Minerals	234
Aviation & Shipping	139
Others	160
TOTAL	28,41

Evidently the performance of public sector should not be judged in mere financial terms of profit and loss; it would also be necessary to measure the contribution made by the public sector in building up the national economy, most of these enterprises being engaged in the development of basic industries. There has been substantial increase in the production capacity in the country of such items as steel, iron-ore, coal, heavy electricals, fertilizers, etc., for which the Public Enterprises are most responsible. If the public sector had not contributed this output, the country would have had to import these products by spending valuable foreign exchange. Apart from the foreign exchange savings, the Public Enterprises have also earned foreign exchange by export of their products; the value of exports has been increasing over the years. It may be mentioned that while greating the capacitites of the various Public Enterprises, the rates of growth assumed in the different Plans, which envisaged the achievement of certain specific targets in the different fields, were also kept in view.

As regards the performance of Public Enterprises, the position is that some enterprises have done well while the others have not done so. To appreciate the working of these enterprises in the proper perspective it would obviously not be correct to lump together the diverse types of concerns—even amongst the running concerns—which are in various stages of development. In any case the working of the Public Enterprises is kept under constant review with a view to increasing their productivity and profitability. Mention may, however, be made of the following specific steps taken in this regard.

Management Personnel : Measures are securing top management personnel for Public Enterprise from talents, wherever it is available, and also to build up management cadres through systematic training of managers, have been taken. For development of competent management cadres, it has been now decided to utilise to a greater extent the facilities available with the Institute of Management at Calcutta and Ahmedabad, Administrative Staff College, Hyderabad, National Productivity Council, Delhi and other institutions in the country.

Preparation and scrutiny of the project repairs : In order to improve the techniques of project appraisal, the need for preparation of proper feasibility studies has been stressed to various administrative Ministries, principally concerned with industrial projects. Bureau of Public Enterprises also now assists the enterprises and Ministries in the scrutiny of project proposals with reference to the basic issues of demand estimates, production pattern, etc., taking into account the existing production facilities available in the country both in the private and public sectors.

Inventory control : A detailed study of the levels of inventories and the systems of inventory planning and control in selected enterprises has been undertaken by a high level Committee. The results of the study, expected to be ready by October, 1968, would also be considered for application to all the enterprises.

Administrative Reforms Commission : Certain recommendations have been made by the Administrative Reforms Commission in their Report on "Public Sector Undertakings" to improve the performance of the public sector undertakings. Decisions have been taken by Government on certain recommendations; the others are now under consideration of Government.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 38 Para No. 5.145, 5.146 & 5.147)

(i) The Committee note that there has been a tremendous increase in the range and incidence of taxation since the commencement of the Second Plan. They feel that in a planned economy a continuing rise in taxes had to be justified and sustained by a satisfactory rate of growth in national and *per capita* incomes particularly the latter as it provides a more reliable measure both of the success of planning and the people's capacity to pay for it. In India, the position has been very different. During the Second Plan, the tax burden rose by 76 per cent, but national income increased by only 20 per cent-against the target of 25 per cent—and *per capita* income at a still lower rate of 8·6 per cent. In the Third Plan tax revenues increased further by about 116·4 per cent and additional taxation provided for Plan purposes as much as Rs. 2880 crores which was Rs. 1170 crores more than what was anticipated in the Plan document. In contrast, the total increase in national income during the Third Plan period was only 12·5 per cent as compared to the targeted increase of 30 per cent. Even this small increase in national income was neutralised by the rise in population with the result that *per capita* income remained at the same level at which it stood five years earlier.

(ii) The Committee consider that with *per capita* income remaining static over a period of five years the burden of taxes on the conomy and on the common man was already too high at the end of the Third Plan. They are also of the view that the successive increases in commodity taxes have been, in the context of acute shortages, an important factor contributing to the rise in the prices of essential commodities many of which, like sugar, cotton fabrics, kerosene and tobacco bear a higher burden of duty than non-essential or luxury goods like cosmetics, china-ware, wireless receiving sets, refrigerating and air-conditioning appliances, etc. Further, the high incidence of direct taxes has an adverse affect on the capacity to save and consequent capital formation for financing productive enterprises outsides the public sector. It has also encouraged tax-evasion.

(iii) The Committee note that although the economic situation continues to be as difficult as it was at the end of the Third Plan—aggregate production of goods and services has been virtually at a standstill for the past two years —the tax burden in 1966-67 was heavier by nearly Rs. 300 cores as compared to the previous year. The budget for 1967-68 provides for further levies. The Committee feels that Government should re-orientate their fiscal policy with a view to hold the price line and stimulate savings and production. They feel that the temporary sacrifice of revenue that such reorientation may entail can be made up by economies in Plan and non-Plan expenditure and higher returns from public enterprises. Moreover, as the economy picks up again—with concerted efforts this should not take long-and individual and corporate earnings increase, yields from taxes are bound to improve Government may also be able to obtain larger resources than hitherto by mobilising small savings.

Reply of Government

Government would like to point out that fiscal policy has to be flexible and has to adjust itself to the changing needs of the situation. Government cannot, however, accept the criticism that the progressive increase in taxation has been inflationary. The objective of taxation has been to control the rate of growth of consumption and to keep it within the limits of the productive capacity of the economy.

(Ministry of Finance O.M. No. 22-US (W)/68, dated 28-10-68)

Recommendation (Serial No. 40 Para No. 5.155 & 5.158)

5.155 The Committee would like to emphasise here that increasing dependence of foreign aid for executing the Plans has tended to make the whole planning process undertain and made the economy vulnerable to external pressures. That this is not just, a hypothetical fear has been amply proved by the abrupt suspension of even pledged aid following the outbreak of the Indo-Pakistan conflict in September, 1965. The impact of this hiatus was reflected in the immediate tightening of import restrictions and the resulting slow-down in industrial production. The Committee regret that Government should not have paid adequate heed to the very clear warning of the risks involved in excessive reliance on foreign aid, contained in the First Plan Report.

5.158 The Committee hope that Government would realise the urgency of making the country's developing process independent of the availability of external assistance. The Committee recognise that foreign aid can help in accelerating the pace of economic progress, but it can lead to this result only if there is reasonable certainty of its continuity and the terms on which it is made available, do not burden the country with onerous debt servicing obligations and costly imports. They feel that while it may be possible to get some concessions in respect of repayment liabilities for existing debts and the financial terms of future aid, in view of our recent experience it would be too optimistic to hope that the flow of aid would not be affected by political developments. The Committee would, therefore, like the Government to take concerted measure to achieve self-reliance so that dependence on foreign aid may be avoided as early as possible.

Reply of Government

The document "Approach to the Fourth Plan" deals with the relevance of these various considerations for the formulation of the Plan.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-1968].

Further Information called for by the Committee

Please furnish a detailed and self-contained reply giving relevant extracts from the "Approach to the Fourth Plan", if necessary.

[Lok Sabha Secretariat O. M. No. 4/8(1) ECI/67 dated 5-12-1968]

Reply of Government

A major objective of the Fourth Plan is to move towards self-reliance as speedily as possible. A process of development sustained by continuous foreign aid (inclusive of food aid) cannot be healthy. The attempt should, therefore, be to reduce foreign aid net of interest and loan repayment to about half the present level by the last year of the Fourth Plan. This will entail concerted effort both in reducing imports and increasing exports.

[Ministry of Finance O. M. No. 22-US (W)/68 dated 7--1-1969].

Recommendation (Serial No. 41 Para No. 5.159)

The Committee note that the increased reliance on external assistance for financing investment during the Second and Third Plans was essentially due to the growing gap between investment and domestic savings. It is evident that if the country's development process is to be freed from dependence on foreign aid the gap between investment and domestic savings will have to be removed. The Committee have no doubt that this can be accomplished provided appropriate changes in the techniques of planning and the implementation of the plans are introduced, without delay, so as to obtain the optimum results from the available domestic resources. Various suggestions in this behalf have been made in the earlier parts of this chapter, *viz.*, (i) greater stress on the development of agriculture which incidentally will make it possible to achieve a higher rate of economic growth than has been attained hitherto as the capital output ratio is more favourable in agriculture than in other sectors; (ii) substantial reduction in public expenditure by keeping non-developmental outlays to the minimum, strict economy in the implementation of plan projects and postponment of schemes which have no immediate bearing on productivity; (iii) improving the performance of deficit financing to check inflation and the consequential strains on the economy; and (v) suitable changes in fiscal policy to stimulate production and voluntary savings. If in addition to these measures sustained efforts are made to boost exports and accelerate the process of import substitution the Committee see no reason why the country cannot dispense with foreign aid within a short time.

Reply of Government

The document "Approach to the Fourth Plan" deals with the relevance of these various considerations for the formulation of the Plan.

[Ministry of Finance O. M. No. 22-US (W)/68, dated 28-10-1968].

Further Information called for by the Committee

Please furnish a detailed and self-contained reply giving relevant extracts from the "Approach to the Fourth Plan", if necessary.

[Lok Sabha Secretariat O. M. No. 4/8 (1) ECI/67, dated 5-12-1968]

Reply of Government

As indicated in the document "Approach to the Fourth Five Year Plan" reliance from foreign aid intended to be progressively reduced and finally eliminated. Targets in the Fourth Plan in respect of exports, savings etc. have been indicated in paras 4, 5, 6, 8 and 9 of Chapter I of 'Approach' document and so are the policies required for obtaining the increases in exports, savings etc. If measures indicated are taken, it should be possible to reduce foreign aid (inclusive of food aid), net of interest and loan repayment to half the present level by 1973-74.

2. *Extracts of paras 4, 5, 6, 8 and 9 of Chapter I of 'Approach' document are enclosed.

[Ministry of Finance O. M. 22-US(W)/68, dated 7-1-69]

Recommendation (Serial No. 42 Para Nos. 5. 162 and 5.163)

(i) The Committee regret to note that although the fullest mobilisation of resources and the channelling thereof into priority investment is the very *raison d' etre* of planning. Government have not been able to evolve in all these years of planning purposive measures to restrain non-essential consumption and prevent diversion of scarce resources to the production of non-essential commodities. They would like to recall that the First Plan Report while calling for restraint on consumption to accelerate to pace of development, had emphasised that "there is clearly far more scope for cutting down consumption expenditure in the higher income groups than for tightening of the belt in the lower income ranges". The Report had also underlined the need to check conspicuous consumption which not only "discourages saving in the economy as a whole by initiating a process of wasteful emulation" but also "increase discontent in the community". This is the direction in which restraint on consumption should have been sought. But, as will be explained presently, Government have adopted an altogether different course.

(ii) The Committee are unable to agree with the view or the Government that the only effective way of restraining consumption is by imposing excise duties. In the first place, so far as articles of mass consumption are concerned, *per capita* consumption is already so low due to scarcity and high prices that any further increase in the range and incidence of excise duties,

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or for that matter of any other indirect taxes, will only add to the hardships of the people in the low income ranges without bringing in any significant reduction in aggregate consumption. Secondly excise duties do not touch the problem of diversion of resources to the production of non-essential goods and services. In fact, the primary objective of restraining consumption being to encourage savings, it is strange that Government should, in the first instance, allow scarce resources to be used for producing non-essential goods and then dissuade people from buying such goods so that the savings thus effected could be available for investment. From the point of view of mobilising resources it would be obviously more rational to check or prevent the production of non-essential goods.

(iii) Thus, as a means of restraining consumption, the utility of excise duties would appear to be limited to such "relatively non-essential goods" as are being allowed to be produced. This being so, it is surprising that quite a few of the relatively non-essential goods, like cosmetics, china-ware, refrigrating and air-conditioning appliances, etc. are subject to a lower rate of excise duties than essential goods like sugar, cotton fabrics, kerosene etc.

Reply of Government

Its is generally true that production of non-essential goods needs to be discouraged; at the same time there are circumstances in which such production on which Government is able to levy taxes can help in mobilising resources. Considering that direct taxes cannot reach all the income levels, it becomes necessary to tax essential commodities also in the interest of harnessing resources for development. In the Budget for 1967-68 duties on some non-essential consumer goods was raised precisely from this point of view. For instance, duties of imported alcoholic liquors and spices the use of which is confined to the comparatively affluent sections of the community, were raised. Duties on radio components, refrigerators and air-conditioners were also increased.

[Ministry of Finance O. M. No. 22-US (W)/68, dated 28-10-68]

Recommendation (Serial No. 43 Para No. 5.165)

The Committee are constrained to observe that Government's entire approach to the question of restraint consumption has been ineffective for while it has added to the privations of the common man who can barely efford to meet even his most essential needs, it has made hardly any difference to non-essential consumption and has not even endeavoured to come to grips with the major problems of conspicuous consumption and diversion of resources to the poroduction of non-essential goods and services. The Committee feel that the first pre-requisite for an effective restraint on consumption is to ban the production and import of non-essential goods. This has been recognised in the plan documents but never seriously pursued. The Committee hope that Government will at least now realize the colossal waste of savings and resources involved in the consumption and production of non-essential goods. They expect Government ot take effective measures to ensure that scarce resources—whether domestic or external—will not hereafter be allowed to be diverted for producing goods and services which have no relevance to the needs of the common people or to the requirements of economic development. The Committee would also like the Government to consider the feasibility of raising the execise duties on non-essential goods, which are already being produced, with a view to restrain consumption and augment public savings (*i.e.* revenue).

Reply of Government

It is generally true that production of non-essential goods needs to be discouraged ; at the same time there are circumstances in which such production on which Government is able to levy taxes can help in mobilizing resources. Considering that direct taxes cannot reach all the income levels, it becomes necessary to tax essential commodities also in the interest of harnessing resources for development. In the Budget for 1967-68 duties on some non-essential consumer goods were raised precisely from this point of view. For instance, duties on imported alcoholic liquors and spices the use of which is confined to the comparatively affluent sections of the community were raised. Duties on radio components, refrigerators and air-conditioners were also increased.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-1968].

Recommendation (Serial No. 44 Para No. 5.166)

As regards conspicuous consumption, the Committee need hardly stress that it is steadily on the increase. The fast growing luxury houses in the big cities, the growing clientele of expensive restaurants, hotels and clubs, the ready market which foreign consumer goods, whether imported or smuggled, command inspite of their high prices, the rising demand for cars, air-conditioners, refrigerators, television sets, etc., the lavishness which marks the social functions of the rich, are a few examples of the trend. The Committee feel that to deal with the problem of conspicuous consumption it is necessary to go to its root causes. They are of the view that the main factors contributing to this phenomenon are (a) a widespread feeling that saving and investment are not worthwhile due to the high rates of taxes on profits and dividends and the continuing erosion in the value of money ; (b) various perquisites and amenities, enjoyed by higher functionaries in both the public and private sectors ; (c) unaccounted money and (d) the human tendency to emulate which impels even those who can ill-afford it to go in for conspicuous consumption. The committee have already dealt with the need to reorientate fiscal policy to stimulate savings and investment (see para 5.147).

Reply of Government

Government agrees that conspicuous consumption can become possible as a result of tax evasion and evasion of various Government controls relating to prices, foreign exchange etc. An approach to the solution of this problem would include removal of unnecessary controls and tightening of the tax administration. In both these fields a number of measures have been taken in the recent past. The Budget for 1968-69 includes provisions for stricter tax administration and deterrent penalties for tax evasion. To the extent that there are prospects for restoring price stability there would be a greater incentive to save and to that extent lesser propensity to waste income and wealth in conspicuous consumption.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68].

Recommendation (Serial No. 45 Para No. 5.167)

As regards perquisites and amenities attached to high offices (such as those in regard to housing medical aid, travel or telephone facilities etc.), the Committee would like to state that these tend to encourage conspicuous consumption by providing the beneficiaries, who are even otherwise quite well to do, a large measure of insulation from the effects of inflation. It is also pertinent to remember that such facilities are susceptible to misuse because they are free or nearly so, and that the cost therefore of has to be borne either by the public exchequer or, in the case of the private sector, ultimately by the consumer. In view of these considerations the Committee would like the Government to take appropriate measures to limit perquisites and amenities, in both the public and private sectors, to the minimum.

Reply of Government

Public Sector

The perquisites and amenities attached to certain "high offices" in the Public Sector are provided either by virtue of Statutes or by Constitutional provisions. For example, Ministers are entitled to free furnished house according to the provisions of the Salaries and Allowances of Ministers Act., 1952, and similarly the entitlement of the Judges of the Supreme Court to rent free house is covered by Article 125(2) read with Part D of Second Schedule to the Constitution. Any curtailment of such perquisites and amenities will necessitate the amendment of the Acts or of the Constitution.

2. Keeping in view the status, the need for facilities which would help in proper discharge of official duties, and the totality of benefits, of the high functionaries, and the present high cost of articles like furniture and electrical appliances, the perquisites and amenities provided to them cannot be regarded as unreasonable or extravagant. Further, all the amenities and perquisites provided are not free or unlimited. As briefly indicated in the following summary of the concessions at present available, either recoveries are being effected from the beneficiaries or some ceilings are imposed on the perquisites and amenities :—

(*A*) *Housing facilities*

In the case of Ministers and Deputy Ministers, the size of the residence provided should be normally such that its rental value does not exceed Rs. 650/- and Rs. 350/- respectively. The entitlement to free supply of furniture and electrical appliances in the case of a Minister and Deputy Minister is subject to a maximum value of Rs. 38,500 and Rs. 22,500 respectively. For articles/appliances provided in excess of these limits, a Minister or Deputy Minister is liable to the payment of rent. As regards water and electricity changes though, according to the Salaries and Allowances of Ministers Act, 1952, each Minister is entitled to free use of water and electicity in the residence allotted to him, with effect from the 1st April, 1963 the Ministers have agreed to a voluntary ceiling of Rs. 2,400 per annum on the consumption of water and electricity in the rasidential portion of their bungalows and to reimburse to Government the charges in excess of that ceiling.

The Judges of the Supreme Court are also entitled to free furnished accommodation. But the furniture and electricity appliances provided at residences free of rent are subject to a monetary ceiling of Rs. 30,000 in the cases of Chief Justice and Rs. 20,000 in the case of other Judges.

The Chairman and Members of the Union Public Service Commission are entitled only to the same facilities, in the matter of residential accommodation, as are applicable to Secretaty and Additional Secretary to the Government of India.

As for top civil servants, they are provided Government accommodation according to their entitlement in the allotment rules on payment of rent under the provisions of Fundamental Rules 45-A. In the case of Chairman and Members of important Commissions/Committees, the facility of rent free accommodation is allowed only in very special cases.

(B) *Medical aid*

The holders of high offices are not given any special concession. In places like Delhi, where the Central Government Health Services Scheme is in force, the benefits of that scheme are available to them equally with other beneficiaries of that scheme, and for this purpose monthly contributions are recovered from all the beneficiaries. In other places, a Minister and the Members of his family are entitled free of charge to medical attendance and treatment on the scale and conditions applicable to member of the All India Services and their families under the All India Services (Medical Attendance) Rules 1954, in the case of other the medical charges incurred are reimbursed according to rules prescribed by Government *e.g.* Central Services (Medical Attendance) Rules, 1944 etc.

(C) *Telephone facilities*

Residential telephones are provided for facilitating the transaction off official work. At present, the free use of such telephones is limited to a ceiling of 1500 calls per quarter (excluding the free calls allowed by the P. & T Department) beyond which officers have to pay from their pockets. This applies to all officials including Secretaries to the Government. Ministers and Judges of Supreme Court have, however, been exempted from the above restrictions in view of their special needs.

(D) *Travelling allowance*

The facilities allowed to high functionaries in Government while travel ling in connection with official work, *e.g.* by air, A.C.C. etc., and the Travelling Allowance paid to them for meeting the expenditure incurred in connection with tours, transfers etc. cannot be deemed to be a perquisite of amenity.

3. So far as the Public Sector Undertakings are concerned, the scales of accommodation laid down by Government are more austere than the scales followed in respect of the employees of the Central Government. Where furnished accommodation is provided, recovery of charges for the same is provided for. Till 1967, there was a provision for grant of entertainment allowance of Rs. 3,000/- per annum for the Chief Executives of the Public Enterprises but this has since been discontinued and the Board of Directors of the Undertakings have been empowered to make necessary budget allotments for the various officers including the Chief Executives strictly according to actual needs for entertainment in connection with Company's work. In the matter of conveyance, the facility of the use of

the Company's cars for private purposes is allowed to the Chief Executives, whole-time functional Directors and certain top level appointments, and for this facility, recovery is made at specified rates and certain limits have also been fixed for the non-duty journeys.

In regard to medical facilities normally the Public Sector Undertakings have their own arrangements. Some of the Undertakings have adopted the Control Rules.

4. It will thus be seen that perquisites attached to high offices are on a modest scale and there is not much scope for effecting any immediate reduction. However, the observations of the Committee have been noted and brought to the notice of all the Ministries/Departments for taking necessary action to ensure that the perquisites and amenities provided to holders of high offices are kept to the minimum.

Private Sector

In so far as the private sector is concerned the provision of Sections 198 and 309 of the Companies Act, 1956, already place a ceiling on the managerial remuneration including perquisites payable by public companies and private companies which are subsidiaries of public companies both in the private and in the public sectors. Apart from the statutory ceiling the government has also prescribed an administrative ceiling on the total remunerations that could be drawn by managing and wholetime directors getting huge salaries by way of commission on net profits or by way of fixed salary or both.

2. The government has all along been endeavouring to regulate the managerial remuneration drawn by company managerial personnel not only to ensure that it is consistent with the size and resources of the company concerned but also with a view to preventing top managerial personnel in the public companies from getting fabulous incomes not in keeping with the social and economic objectives of the Government.

3. According to the present policy of the Company Law Board, while sanctioning the minimum remuneration to top executives/managerial personnel, care is taken to ensure that the monetary value of the benefits and perquisites does not ordinarily exceed 50 per cent of their basic salary.

There are certain ceilings on individual perquisites and amenities such as 37½ per cent on house rent in cities like Bombay, Calcutta, Delhi and Madras and 25 per cent in other important cities. Medical expenses and provident fund contributions are also restricted to one month's salary per annum. Apart from these perquisites, certain small amenities such as free use of car, telephone, servants, etc., are also allowed but in such cases also, it is always stipulated that the total cost on all perquisites does not exceed 50 percent of the basic remuneration.

5. The policy of the government in regard to the fixing of managerial remuneration including perquisites and amenities is also presently under review.

6. The perquisites and amenities allowed to the salaried executived are kept within reasonable limits through the provisions of the Income-tax Act. Changes have been made in the Income-tax Act from time to time to tighten these provisions.

7. The Income-tax Act at present provides that "perquisites" include :

(i) the value of rent-free residential accommodation provided to the employee by his employer ;

(ii) the value of any concession in the matter of rent respecting any accommodation provided to the employee by his employer ;

(iii) the value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases :

(a) by a company to an employee who is a director thereof ;

(b) by a company to an employee being a person who has a substantial interest in the company ;

(c) by any employer (including a company) to an employee to whom the provisions of paragraphs (a) and (b) above do not apply and whose income under the head "Salaries" exclusive of the value of all benefits or amenities not provided for by way of monetary payment, exceeds eighteen thousand rupees ;

(iv) any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the employees; and

(v) any sum payable by the employer, whether directly or through a fund, other than a recognised provident fund or an approved superannuation fund, to effect an assurance on the life of the employee or to effect a contract for an annuity ;

The value of perquisites enjoyed by an employee is included in his taxable salary income.

8. The deductible amount of expenditure incurred by a corporate or a non-corporate employer in providing perquisites, benefits or amenities (subject to certain exceptions) to its higher paid employees (i.e. employees getting more than Rs. 7,500 per annum) is limited to 20 per cent of the basic salary of each employee or Rs. 1,000 per month, whichever is less.

9. The deductible amount of entertainment expenditure in a business or profession is subject to certain limits, the maximum amount admissible for the largest business or profession being Rs. 30,000. The entertainment expenditure incurred through employees for the business or profession out of their entertainment allowance of 'expense accounts' operated by them has also been brought within the purview of these limits.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 23-12-68].

Recommendation (Serial No. 46 Para No. 5.168)

By far the most important cause of conspicuous consumption is unaccounted money which is unable to find its way into productive investment. Unaccounted money owes its origin to various illegal or irregular practices ranging from tax evasion, blackmarketing, smuggling and corruption to profiteering in cars and scooters by those who, by reason of their position or resourcefulness, are able to get the necessary permits more easily than others. It is also the main source of antisocial activities like hoarding, speculation, smuggling, black-marketing etc. The Committee feel that the volume of unaccounted money in the country is fast assuming menacing proportions and that the problem can no longer be ignored. They hope that

Government will address themselves to the problem without delay and take firm measures not only to deal with the unaccounted money already in existence but also to curb the various illegal or irregular practices which are the source of unaccounted incomes.

Reply of Government

Government agrees that conspicuous consumption becomes possible as a result of tax evasion and evasion of various Government controls relating to prices, foreign exchange etc. An approach to the solution of the problem would include removal of unnecessary controls and tightening of the tax administration. In both these fields a number of measures have been taken in the recent past. The Budget for 1968-69 includes provisions for stricter tax administration and deterrent penalties for tax evasion. To the extent that there are prospects for restoring price stability there would be a greater incentive to save and to that extent lesser propensity to waste income wealth in conspicuous consumption.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-1968]

Further information called for by the Committee

Please indicate what specific measures have been taken not only to deal with the unaccounted money already in existence but also to curb the various illegal or irregular practices which are the source of unaccounted incomes.

[Lok Sabha Secretariat O.M. No. 4/8(1)ECI/67, dated 5-12-1968]

Reply of Government

As already stated in reply to recommendation No. 46, Government's broad approach is to deal with the problem of unaccounted money through the tightening of tax administration and the removal of unnecessary controls. Specific measures taken in these fields are listed below.

I. TIGHTENING OF TAX ADMINISTRATION

(a) *Legislative Measures*

1. Provision has been made for assessment of unexplained money, bullion, jewellery etc. and investments not fully disclosed in books.

2. Powers of search and seizure and power of entry and survey have been enlarged. Under the enlarged powers the Department is authorised to seize unaccounted cash and other valuable assets.

3. Provision has been made for rigorous imprisonment for a minimum period of six months (unless there are special reasons for awarding a lesser sentence) for false verification of return or abetment thereof and raising the maximum to two years rigorous imprisonment in place of simple imprisonment for six months only.

4. Deletion of the old provision under which an assessee could either be subjected to penalty or prosecution and not both. The Department can now take both measures against an assessee for the same offence.

5. Provision has been made for publication of names and other particulars relating to any proceedings under the Direct Taxes Acts if it is considered necessary or expedient in the public interest.

6. Furnishing of information relating to any assessee on application by any person to the Commissioner of Income tax concerned.

7. Provision has been made that persons taking contracts the value of which exceeds Rs. 50,000 shall report its particulars to the Income tax Officer concerned within one month of the taking of the contract.

8. The expenditure incurred in a business or profession for which payment has been or is to be made to the tax payers relatives or associate concerns is liable to be disallowed in computing the profits of the assessee to the extent that such expenditure is considered to be excessive or unreasonable.

9. A provision has been made for disallowance of expenditure incurred in business and profession if it exceeds Rs. 2,500 and payment is made otherwise than by crossed cheque drawn on a bank or a crossed bank draft.

10. The minimum penalty leviable for concealment of income or wealth has been raised to a sum equal to the amount of income or wealth concealed. The maximum penalty will be twice the amount of income or wealth concealed.

11. Punishment for default in the statutory obligations to deduct tax at source and pay it to the credit of the Government will be rigorous imprisonment up to 6 months and also fine which will not be less than an amount of 15 per cent per annum of the tax in default.

(b) *Administrative Measures*

1. Liberalisation of reward rules for giving information in cases of tax evasion.

2. Resorting to prosecutions for concealment of income in more number of cases during the recent past.

3. Central Circles dealing with large scale tax evasion cases have been strengthened by putting more officers there.

4. The strengthening of the four Intelligence Units at Bombay, Calcutta, Delhi and Madras is under consideration for collecting intelligence and organising searches etc. in dealing with cases of tax evasion and for processing prosecution cases.

5. Departmental valuers have been appointed for valuation of immovable properties and other assets under various Direct Taxes Acts.

6. A committee of Departmental officers was appointed to study the problem of tax evasion. The report received is under consideration.

7. Appointment of legal counsel on retainer basis in each Commissioner's charge is under consideration in order to deal with prosecution cases.

II. REMOVAL OF CONTROLS

Beginning with December 1963, Government has been following a policy of gradual relaxation of controls over prices and distribution. Items in respect of which statutory controls have since been removed include Rayon Yarn, Staple Fibre, Caustic Soda, Soda Ash, Chilean Nitrate, Muriate of Potash, Sulphate of Potash, Paper Board, Paper, Tyres and Tubes, Coal, Iron and Steel, Non-Ferrous metals, Commercial Vehicles and Jeeps, Motor

Cycles, Raw Cotton and Natural Rubber. Besides, in respect of Cotton Textiles and Sugar, the current position is that there is no control in respect of 75 per cent of cloth production and 30 per cent of sugar production.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 19-2-1969]

Recommendation (Serial No. 47 Para No. 6.21 and 6.22)

6.21 The Committee note with concern the persistent decline in India's exports during the last two years. Compared to the peak level of Rs. 802.7 crores attained in 1964-65 the country's export earnings in 1965-66 amounted to only Rs. 781.8 crores and dropped further to about Rs. 744·3 crores (in pre-devaluation terms) in 1966-67. They are particularly perturbed to note that although devaluation was expected to stimulate exports, acutual exports during the ten months following devaluation have been 11 per cent lower as compared to the same period of 1965-66.

6.22 The Committee also note that during the 15 year period covered by the first three Plans, India's share in world exports has declined from 2.1 per cent in 1950 to one per cent at the end of the Third Plan. This is because India's exports have been rising at a much slower rate than world exports. Thus, even during the Third Plan period when Indian exports were appreciably higher than in the preceding two Plans. India's exports increased only by about 4 per cent per annum on an average whereas world exports increased at a rate of 8.7 per cent per annum. The Committee would also like to point out that the rate of growth in India's exports does not compare favourably with that of many developing countries. According to the data contained in the U. N. 'Year book of International Trade Statistics 1965' the increase in India's exports during the period 1960 to 1965 works out to 23.4 per cent. During the same period Israel's exports increased by 94.3 per cent, Thailand's by 53.6 per cent, Syria's by 52.7 per cent, Uganda's by 49 per cent, Pakistan's by 37 per cent and Kenya's by 30 per cent. On the whole, the exports of 'Economic Class II Countries' —a category which covers most of the developing countries—rose between the years 1960-65 from 27300 million US dollars to 36400 million US dollars, that, is by about 33 per cent or 6.6 per cent a year.

Reply of Government

The position is that the rate of growth of world exports (which was 8.7 per cent during the period 1960-65) was strongly influenced by the growth of exports of the developed countries, Exports from developing countries as a group increased at a much lower rate. The relatively slower growth of India's exports when compared with those of certain other developing countries such as Israel and Thailand was due to a variety of reasons. India has in the past relied on three or four traditional commodities such as jute manufactures, tea, cotton, textiles, etc. and the world exports of these commodities have themselves been stagnant or have been growing at a slow pace. The world prices of these commodities have also declined considerably. As regards non-traditional items, India's participation in world trade in these is a relatively recent development. On the other hand, Israel's economy, being a modern and sophisticated one, relies more on the exports of non-traditional goods; and Thailand has benefited significantly from the export of rice, particularly because of the recent world shortage of that commodity.

India's exports during the Third Plan showed a significant rise over the first two Plans. The average annual exports during the Third Plan was about Rs. 762 crores, as against exports which were static at amount Rs. 600 crores during the first two Plans. The increase during the Third Plan period would have been much larger, but for the steep fall in the production of agricultural and plantation crops because of drought conditions during 1965-66. Exports during 1966-67 at Rs. 1,156.53 crores showed a sharp decline compared to the figure of Rs. 1,263·89 crores (in terms of the post-devaluation rupee) during 1965-66. The main reasons for the fall were the temporary uncertainties caused by devaluation and the unprecedented droughts in two successive seasons resulting in low agricultural production.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68].

Recommendation (Serial No. 48 Para No. 6.23 & 6.24)

6.23 The Committee feel that the main reasons for India's poor export performance, particularly during the last two years, are :

(i) Inadequate export surpluses resulting from the slow rate of development in agriculture. This difficulty has been aggravated by the failure of crops during the last two years and the low output recorded by agriculture-based industries.

(ii) Domestic inflation which has resulted in diversion of supplies to the home market and also in increased cost of exports.

(iii) Lack of export motivation. Domestic producers have no urge to export because of the existence of a sellers' market at home, which in turn, is partly the result of inflation and partly of import restrictions necessitated by the difficult foreign exchange position.

(iv) High cost of production. It is well-known that many of India's exports, notably manufactures, find it difficult to compete in the world markets due to their high costs, Apart from inflation this is largely attributable to :

(a) High cost of indigenous raw materials (*e.g.*, jute, cotton, sugar-cane) due to low per acre yield.

(b) Some of our export products depend upon imported raw materials and components, the cost of which is high due to import duties, cost of transport and recently devaluation.

(c) Lack of cost consciousness among manufacturers. This again in largely due to the existence of a sellers' market at home.

(d) Idle capacity in many industries because of shortage of raw materials, both imported and indigenous.

(e) Many of our exporting units do not have economies of scale due to their relatively small size.

(f) Resistance to modernisation of plants and adoption of scientific techniques of production. The textile industry is a case in point.

(g) Low productivity of labour. This is partly due to the scarcity of skilled labour and partly due to the relatively higher labour absenteeism.

(v) The withdrawal of certain export incentives and the imposition of export duties on a number of commodities after devaluation have also tended to make Indian exports uncompetitive.

6.24 The Committee note that the Draft Outline of the Fourth Plan envisages total exports during the Fourth Plan period of the order of Rs. 5,100 crores in pre-devaluation rupees or Rs. 8,030 crores in post devaluation rupees. They need hardly stress that the most essential pre-condition for the fulfilment of the export programme is the realisation of the production targets set for exportable commodities in the agricultural, industrial and mineral sectors. Secondly, for achieving export objectives, it is necessary not only to create the surpluses for exports, but also to ensure that the surpluses become available at prices competitive with those of other suppliers in the international markets. The need for bringing down costs in agricultural, industrial and mineral production is, therefore, obvious.

Reply of Government

A series of measures were taken by Government which began to show results especially during the latter half of 1967-68. India's exports during 1967-68 at Rs. 1,198·67 crores were higher by Rs. 42·14 crores or 3·6 per cent when compared with the exports during 1966-67. The picture becomes even brighter during 1968-69. Exports at Rs. 211·17 crores during April-May 1968 touched an all-time high in the recent past—they were higher by 3·7 per cent compared to April-May 1964, the best corresponding period in the recent years.

2. A number of measures are in force which are designed to maintain and improve the present buoyance in exports. These are as follows :—

(1) the provision of iron and steel for export fabricators of engineering goods and of PVC resin, PVC sheets and polythene moulding powder at international prices for production of plastics-fabricated products for export ;

(2) a registered exporters' import policy which guarantees imports of indigenously non-available raw materials for export production from the cheapest and best global sources of supply ;

(3) cash assistance to selected industrial products at rates ranging from 10 per cent to 30 per cent to defray various non-refundable tax burdens on export production and to counteract the disadvantages inherent in scale of production, technology, etc. ;

(4) the import of capital equipment for exporting units and industries for modernisation, diversification and upgrading of the quality of production for export ;

(5) the provision of export credit at preferential rates of interest both at pre-shipment and post-shipment stages ;

(6) refinance to facilitate the extension of deferred payment terms on the export of capital goods ;

(7) assistance from the Marketing Development Fund for market studies and surveys ;

(8) blanket releases of foreign exchange for business visits for promoting exports, market studies and advertising abroad, overseas exhibitions and securing of samples and technical information ;

(9) the recognition of and support to agencies specially qualified to promote exports, such as Export Promotion Councils and Export Houses ;

(10) tax concessions for expenditure connected with export marketing, such as the maintenance of branch offices outside India, obtaining of technical data and tender documents, publicity and sales contracts, and performance of services outside India.

Some of the reasons for the slow growth of India's export have been mentioned earlier. Others mentioned by the Estimates Committee, such as inadequate exportable surpluses resulting from the slow growth of agricultural production, the existence of a sellers' market at home acting as a disincentive for export, the high cost of production, etc., have doubtless been in operation. Action taken to counter some of the inhibiting factors has been explained above. The question of high cost of production has been dealt with in the reply to Serial Nos. 50, 51, 57 and 69.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68].

Recommendation (Serial No. 50, Para No. 6.28)

Considering the magnitude of the Country's foreign exchange requirements and the fact that the bulk of her exports, being based on agriculture, are subject to strong seasonal influences, the Committee can hardly overstress the need for boosting up the exports of industrial products, particularly of products of engineering, metallurgical, chemical and plastic industries for which world demand conditions are considered to be very favourable. As many of India's manufactures are handicapped by high prices compared to international prices, the need for bringing down costs in the important export industries becomes obvious. The problem of inflation—which is an important factor contributing to the high cost structure of our industries—has been dealt with at some length in Chapters IV and V. Further, so far as the agriclture-based exports are concerned increases in the production and productivity of the respective crops (as suggested in Chapter V and earlier paras of this chapter) may also help in reducing the costs of the manufactured products to some extent. However, the Committee feel that action on a wide front would be necessary to place the cost structure of Indian manufactures on a sound footing to enable them to hold their own against foreign goods in the highly competitive world markets.

Reply of Government

The recommendation brings out the need for stepping up the exports of non-traditional industrial products, the handicap of high costs of production and the lack of cost-consciousness both in the traditional agricultural field and the non-traditional items of exports.

2. The steps taken to boost exports of non-traditional items of engineering goods have been enumerated in reply to recommendation No. 70.

3. The Government is fully conscious of the need to reduce costs in order to boost exports. In order to neutralize the disadvantage of high cost of indigenous content the Steel industry has worked out an arrangement under which iron and steel required for export production is made available to fabricators of engineering goods for exports, at international prices. A similar scheme has also been evolved for the supply of major indigenous plastics raw materials *i. e.* polyethylene and PVC, at international prices for export.

4. The exporter of the finished product using an indigenous component can also obtain the rebate of the Customs and Central Excise duty on such component, as port of the amount of drawback permissible on the finished export product.

5. The system of cash assistance on exports of selected products also compensates to some extent for the higher cost of indigenous raw materials.

6. Cost reduction in an industry also depends upon improvement of productivity, use of more efficient methods of production, efficient management, marketing, etc. The Government encourages and fosters these objectives to the extent possible, by facilitating the availability of training and advice through bodies like the National Productivity Council, the Indian Institute of Foreign Trade, the Indian Institutes of Management, etc. Rationalisation is also encouraged with due regard to other relevant considerations like the impact on employment, balanced regional growth, etc. Taxes are reviewed from time to time and changes consistent with budgetary needs are considered.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28.10.68]

Recommendation (Serial No. 51, Para No. 6.29)

As already noted, Indian manufacturers generally lack cost consciousness due to the existence of a sellers' market at home. In view of this, the Committee consider it essential that a determined drive be made far imporving productive efficiency through rationalisation of methods of production, better management development of technology etc., leading to a reduction in the cost of the end-products of industries having significant export potential. This aspect of the export promotion has to be fully recognised by productive enterprises in both the public and private sectors. However, the matter cannot be left entirely to the discretion or convenience of the industry. The Committee would therefore, like the Government to set up specific machinery for dealing with the problems of cost reduction in the industrial sector—the need for which has also been recognised in the Draft Outline of the Fourth Plan.

Reply of Government

The recommendation brings out the need for stepping up the exports of non-traditional industrial products, the handicap of high costs of production and the lack of cost-consciousness both in the traditional agricultural field and the non-traditional items of exports.

2. The steps taken to boost up exports of non-traditional items of engineering goods have been enumerated in reply to recommendation No. 70.

3. The Government is fully conscious of the need to reduce costs in order to boost exports. In order to neutralize the disadvantage of high cost of indigenous content the Steel industry has worked out an arrangement under which iron and steel required for export production is made available to fabricators of engineering goods for exports, at international prices. A similar scheme has also been evolved for the supply of major indigenous plastics raw materials, *i.e.*, polyethylene and PVC, at international prices for export production.

4. The exporter of the finished product using an indigenous component can also obtain the rebate of the Customs and Central Excise duty on such component, as part of the amount of drawback permissible on the finished export-product.

5. The system of cash assistance on exports of selected products also compensates to some extent for the higher cost of indigenous raw materials.

6. Cost reduction in an industry also depends upon improvement of productivity, use of more efficient methods of production, efficient management, marketing, etc. The Government encourages and fosters these objectives to the extent possible, by facilitating the availability of training and advice through bodies like the National Productivity Council, the Indian institute of Foreign Trade, the Indian Institutes of Management, etc. Rationalisation is also encouraged with due regard to other relevant considerations like the impact on employment, balanced regional growth, etc. Taxes are reviewed from time to time and changes consistent with budgetary needs are considered.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68].

Recommendation (Serial No. 52, Para No. 6.30)

Government should also give a lead by introducing modern production schedules and cost control systems in the public undertakings. This would help in creating cost and quality consciousness among other producers also.

Reply of Government

The Production Division of the Bureau of Public Enterprises assists the undertakings and the Ministries in the scrutiny of project proposals with reference to the basic issues of the demand estimate, production pattern, etc., taking into account the existing production facilities available in the country, both in the private and the public sectors. The Division also undertakes analysis of periodical production reports from the various units. Based on these reports, the performance of the units is reviewed against the background of their rated and installed capacity to ascertain reasons for shortfall in production, if any, and focus attention on factors that militate against the achievement of set targets. The Division also tenders advice on the measures to improve the productivity and the profitability of the projects.

As regards the cost control systems in Public Enterprises, the Bureau has been emphasising from time to time to the undertakings, the need for installing proper cost accounting systems in the various organisations, so that cost data is collected, analysed and presented regularly and promptly to the management. Finance Division of the Bureau also advises individual undertakings, wherever necessary, on the lines in which the existing cost systems should be revised. Finance Division has advised public undertakings to develop standard costing system, marginal costing system etc. depending on the actual requirements.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 53, Para No. 6.31)

The Committee would also suggest that in industries which are important for developing exports, licencing policies should take due account of the economies of scales so that the cost of the exports may be kept as low as possible. With the same end in view expansion of existing units may be preferred to the establishment of new units.

Reply of Government

The need for the substantial expansion of industrial units to make them economically viable has been recognised and kept in view by the Licensing Committee and licences for substantial expansions are liberally granted in deserving cases.

So far as the cost factor in location of individual units is concerned, the position is that the Licensing Committee when considering applications for the grant of industrial licences examines *inter alia* the merit of the proposed location, taking into account techno-economic considerations which would determine the cost of production and also other relevant factors like regional imbalances, desirability of industrial dispersal from the point of view of avoiding both urban concentration and concentration of power in large industrial groups. Recommendation made by the Estimates Committee with regard to the cost factor in determining the location of individual industries has been noted. It may, however, be mentioned that this cost consideration is for general application and does not apply only to export-oriented units.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 54, Para No. 6.32)

Further, the cost factor should be given weight in determining the location of individual export-oriented units. As the level of cost has over-riding importance in these industries, the Committee urge that in the national interest this consideration should receive due precedence.

Reply of Government

The need for the substantial expansion of industrial units to make them economically viable has been recognised and kept in view by the Licensing Committee and licences for substantial expansions are liberally granted in deserving cases.

So far as the cost factor in location of individual units is concerned, the position is that the Licensing Committee when considering applications for the grant of industrial licences examines *inter alia* the merit of the proposed location, taking into account techno-economic considerations which would determine the cost of production and also other relevant factors like regional imbalances, desirability of industrial disposal from the point of view of avoiding both urban concentration and concentration of power in large industrial groups. Recommendation made by the Estimates Committee with regard to the cost factor in determining the location of individual industries has been noted. It may, however, be mentioned that this cost consideration is for general application and does not apply only to expert-oriented units.

[Ministry of Finance O. M. No. US(W)/68, dated 28-10-68]

Recommendation (Serial No. 55, Para No. 6.33)

So far as the problem of idle capacity is concerned, the Committee note that by and large, industries having export potential are included among the 'priority industries' for which imports of raw materials, components etc. have been liberalised under the new import policy introduced after devaluation. Although the cost of the imported materials would be higher as a result of devaluation the Committee feel that this disadvantage can and should be overcome by optimum utilisation of installed capacity, determined efforts to improve productive efficiency and imaginative import substitution .

Reply of Government

As a part of the policy for arresting recession in industries, a number of steps have been taken to encourage units to utilise idle capacity for meeting export orders. The current import Licensing Policy provides for liberal foreign exchange allocation to units exporting goods. Although because of devaluation, the per unit cost of import have increased, with increased import substitution the proportion of imported componets in the finished product is going down. As a result, Indian products are becoming more and more competitive. For ecncouraging export a number of concessions have also been announced which include drawback of excise and custom duties, provision of additional incentives by way of import replenishment increase in the rate of cash assistance etc. In a number of cases, indigenous steel is also being supplied at international prices and there is reduction in rail and ocean freights. All these measures are likely to outweigh any possible incrase in the cost because of the devaluation of the rupee. The better utilisation of the capacity is also expected to bring down the overhead charges so that the total cost would gradually come down. Already, a sizeable export order has been received in respect of railway wagons, cables and a sustained effort is being made to build a stable and regular export market in machine tools. These are the industries which suffered considerably because of idle capacity.

[Ministry of Finance O. M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 56, Para No. 6.36)

The Committee regret to note that although as far back as August 1966, Government had announced that allotment of indigenous raw materials to exporting units would receive highest priority "so that they can obtain the required indigenous raw materials... off the shelf", the actual arrangements made in this behalf are far from satisfactory. The Committee also note that the Commerce Minister's statement of August 16, 1966, had, *inter alia*, envisaged that 'essential raw materials' (whether indigenous or imported) would be stock-piled in the raw materials Divisions of the STC and the

MMTC for being made available to exporting units. This scheme does not seem to have been pursued with any effect, at least so far as indigenous raw materials are concerned. The Committee hope Government would lose no time in implementing this scheme and taking other appropriate measures to ensure adequate and regular supplies of indigenous as well as imported raw materials to exporting units.

Reply of Government

Some exporting Units had complained early 1966 that they were finding it every difficult to procure even indigenous raw materials due to shortage in India. To help the exporters, the Government of India promulgated on 26th March, 1966 the Essential Commodities (Regulation of Production and Distribution for Purposes of Export) Order, 1966 whereby an officer of the Ministry of Commerce was appointed as Director of Export Production. The Director was empowered to direct any producer, manufacturer or stockist to sell any raw materials or finished products to a particular party for export. The raw materials to be supplied on a priority basis under this scheme known as the 'Green Form Allotment' of indigenous raw materials are listed below:-

1. Prime iron and steel
2. Commercial and Electrical conductivity grade aluminium
3. Cycle tyres, tubes and rims
4. Sulphuric acid
5. Titanium Dioxide
6. Formaldehyde
7. Borax
8. Benzene
9. Toluene
10. Xylene
11. Solvent Naptha
12. Napthalene
13. Natural Rubber
14. Synthetic Rubber
15. Rayon Cord
16. Carbon Black
17. PVC and Polyvinl Chloride (PVC) resins and compounds
18. Polythylene and Polyethylene moulding powder
19. Polysterene and Polysterens moulding powder
20. Sugar; and
21. Cotton fabrics.

After some experience in the working of this Order and with a view more effectively to streamlining the procedure in respect of iron and steel materials, the Iron and Steel Gontroller was declared the Director of Export Production in respect of iron and steel items. The availability of indigenous raw materials for export production is ensured under his scheme of "Green Form Allotment". The scarce indigenous raw materials required for export production are supplied at the direction of the Government of India by the supplier to the manufacturers of export products, thus doing away with the need for stock-piling by any agency.

Further, the State Trading Corporation/Minerals and Metals Trading Corporation are, as and when considered necessary, directed by the Government to import and stock essential raw materials especially those in short supply. The main items so imported in the past and stored for issue to actual users were Soyabean oil, certain chemical items, stainless steel, raw wool, nylon yarn, non-ferrous metals etc.

[Ministry of Finance O. M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 57, Para No. 6.37)

The Committee would also like the Government to look into high costs of the indigenous raw materials and intermediates and work out a suitable scheme to neutralise any disadvantage which India's manufactured exports may suffer due to the high cost of their indigenous content.

Reply of Government

The recommendation brings out the need for stepping up the exports of of non-traditional industrial products, the handicap of high costs of production and the lack of cost-consciousness both in the traditional agricultural field and the non-traditional items of exports.

2. The steps taken to boost up exports of non-traditional items of engineering goods have been enumerated in reply to Recommendation No. 70.

3. The Government is fully conscious of the need to reduce costs in order to boost exports. In order to neutralize the disadvantage of high cost of indigenous content the steel industry has worked out an arrangement under which iron and steel required for export production is made available to fabricators of engineering goods for exports, at international prices. A similar scheme has also been evolved for the supply of major indigenous plastics raw materials, *i.e.*, polyethylene and PVC, at international prices for export production.

4. The exporter of the finished product using an indigenous component can also obtain the rebate of the Customs and Central Excise duty on such component, as part of the amount of drawback permissible on the finished export product.

5. The system of cash assistance on exports of selected products also compensates to some extent for the higher cost of indigenous raw materials.

6. Cost reduction in an industry also depends upon improvement of productivity, use of more efficient methods of production, efficient management, marking etc. The Government encourages and fosters these objectives to the extent possible, by facilitating the availability of training and advice through bodies like the National Productivity Council, the Indian Institute of Foreign Trade, the Indian Institutes of Management, etc. Rationalisation is also encouraged with due regard to other relevant considerations like the impact on employment, balanced regional growth, etc. Taxes are reviewed from time to time and changes consistent with budgetary needs are considered.

[Ministry of Finance O. M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 58, Para Nos. 6.40, 6.42 & 6.43)

The Committee note that labour productivity in Indian industries is as low as one-half to one-sixth as compared to industries in other countries. It is evident that man-hour output will have to be stepped up appreciably not only for increasing production of export goods but also for making them competitive.

(i) While the Committee generally agree with the above proposal for increasing labour productivity they would like to urge that the really important point is the speed and the manner in which these concepts will be implemented. They feel that not much progress in the desired direction can be expected unless Government themselves take the initiative by securing the acceptance of these schemes by the concerned interests, *viz.* representative bodies of workers and employers. The Committee would, therefore, like the Government to come forward as early as possible, with concrete measures to improve labour productivity particularly in industries which are either directly manufacturing exportable goods or which produce intermediates, components etc. required for such goods. In particular, the Committee would suggest urgent action on the part of Government on the following points:

(a) Evolution of norms of productivity in the key industries, including those which are important from the point of view of exports.

(b) Formulation of simple inventive scheme industry-wise.

(c) Evoluation of suitable schemes for linking increases in wages with increases in productivity the need for such schemes has been recognised in the Draft Outline of the Fourth Plan.

(d) Formulation of schemes of non-financial incentives to workers.

(e) Provision of wider opportunities to workers by way of training and education and attainment of higher level of skills.

(f) Formulation and implementation of schemes for securing workers, participation in management.

(ii) The Committee hope that Government would present the various proposals for increasing labour productivity at a tripartite conference at an early date. They would like to add that while the proposals should be finalised only after full consultations with the concerned interests, no time should be lost thereafter to ensure their proper implementation.

Reply of Government

The Ministry of Labour, Employment and Rehabilitation are full aware of the need for increasing labour productivity and have been impressing its necessity on both the public and the private sector employers. In the Chapter on 'Labour Policy and Programmes' in the Draft Fourth Five-Year Plan it is stated that at the level of the production unit, as an immediate step, simple incentive schemes should be evolved jointly by employers and workers in keeping with their specific requirements and circumstances. It need hardly be mentioned that introduction of incentive schemes depends, to a great extent, on individual employers. It may, however, be easier for the Government to pursuade the public sector units to introduce incentive schemes. In fact, some such schemes are already in existence in a number of units and according to the available information there has generally been an increase in labour productivity due to these schemes. The Director, Labour Bureau is currently engaged in collecting detailed information from 48 manufacturing units in the public sector to study the impact of incentive schemes on productivity. It is expected that study when complete, will help Government examine the question of extending incentive schemes to units which do not have them at present.

It may be mentioned that the National Commission on Labour set up a separate Study Group for Productivity and Incentives; the Group has since submitted its report to the Commission. It is felt that it would be desirable to await recommendations of the Commission so that action on these recommendations as well as the suggestions made by the Estimates Committee could be examined simultaneously and concrete proposals placed before the appropriate tripartite body for decision. The Commission is expected to submit its report by March, 1969.

[Ministry of Finance O.M. No. 22-US (W)/68, dated 28-10-68]

Recommendation (Serial No. 59, Para No. 6.44)

For the promotion of productive efficiency on the part of workers as well as individual enterprises, it is necessary to secure the economy against interruptions to production by promoting a climate of industrial peace. The Committee feel that a better deal to labour through various incentives (suggested earlier) would go a long way towards ensuring industrial peace. With the same end in view, they would like the Government to take necessary steps to ensure (a) effective operation of the machinery for the identification and speedy settlement of legitimate grievances, and (b) avoidance of unilateral action on the part of employers as well as workers, which might interrupt, or otherwise adversely affect, production, *e.g.* lock-outs, lay-offs, strikes, Gherao's etc.

Reply of Government

It has always been the attempt of the Government to make both employers and workers aware of their responsibility for promoting industrial peace and avoiding any act which may hamper production. The Code of Discipline adopted by the Central organisations of employers and workers in 1958 requires both the parties to avoid strikes, lock-outs, etc. Under the Industrial Truce Resolution adopted in November, 1962, after the Chinese aggression, both employers and workers have agreed that "under no circumstances shall there be any interruption in or slowing down of production of goods and services." The Truce Resolution also provides that all complaints pertaining to dismissal, discharge, etc. not settled mutually should be settled through arbitration and that the Labour administration at the Centre and States should be stream-lined so that grievances and disputes are settled promptly and cordial relations are maintained. These two instruments had a salutory effect in the initial stages in improving the industrial climate in the country. But there was an appreciable increase in the number of man-days lost due to work-stoppages in 1966 as compared to the previous year. The year 1966 accounted for a loss of man-days to the tune of 138.40 lakhs as against 69.04 lakhs in 1965. This abnormal increase probably was due to the generally distress caused by the rising prices and the consequent hardships to the workers. The industrial climate during the year 1967 was vitiated by the phenomanon of 'gheraos' and lock-outs.

The Department of Labour and Employment has been taking steps from time to time to impress upon the parties the need for strict adherence to the Code of Discipline and the Industrial Truce Resolution. Employers both in the public and the private sector are also being asked, wherever necessary, to establish grievance machinery to attend to day-to-day grievances of workers which, if allowed to accumulate, often lead to explosive situations. Some success has been achieved in this respect.

Attempts have also been made to streamline the Implementation Machinery both at the Centre and in the States to secure effective implementation of the Code and labour laws. At the last session of the Labour Ministers' Conference (April 19, 1968) an item regarding 'Strengthening of plementation Machinery' was discussed. The discussions revealed that most of the State Governments had taken necessary steps in this direction.

[Ministry of Finance, O.M. No. 22-US (W)/68, dated 28-10-68]

Recommendation (Serial No. 60, Para No. 6.46)

The Committee note that certain practical difficulties (like those enumerated in para 6.45) have been experienced in the working of the Export (Quality Control and Inspection) Act. They hope that Government will take early action to remove lacunae in the provisions of the Act or the Rules made thereunder.

Reply of Government

The difficulties mentioned at (I) to para 6.45 are being satisfactorily solved with the assistance of the Customs. Wherever necessary, the Customs are asked to open the cases and get the goods re-examined.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 61, Para No. 6.47)

The Committee would also urge that exportable commodities which are not yet covered by the scheme of quality control should be brought under the perview of the Export (quality Control and Inspection) Act as early as possible.

Reply of Government

The recommendation of the Estimates Committee is being implemented. The items covered so far under the Compulsory Quality Control and/or pre-shipment Inspection Scheme are contained in pages 37-48 of the booklet "INDIA—Quality Control and Pre-shipment Inspection." It is proposed to cover the following commodities during the year 1968-69 :

1. Hessian Bags.
2. Pig Iron.
3. Steel Pipes.
4. Cast Iron Spun Pipes.
5. Human Hair.

6. Palmyra Fibre.
7. Crude Drugs and Medicinal Plants.
8. Crushed Bones, Hooves and Human.
9. Vinyl Films and Sheetings.
10. Lac.
11. Ceramic Products.
12. Vacuum Flasks.
13. Sodium Citrate.

The Government's decision is to cover more and more items every year.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68.]

Recommendation (Serial No. 62, Para No. 6.51)

The Committee feel that in cases where the rules do not provide for a pre-determined rate of drawback of import and excise duties, the existing procedure for claiming drawback is too complex and dilatory. They would like the Government to vigorously pursue that new policy of fixing more and more 'All Industry' rates of drawbacks so that the facility of pre-determined rates of drawbacks becomes available to most of the Country's exports before long.

Reply of Government

The policy of fixation of 'All Industry' rates is being vigorously pursued. 99 exportable commodities have already been brought under 'All Industry' category of which a few are given below—

1. Fabrics, hosiery, cords, fringes, watch straps, etc.
2. Plastic goods other than spectacle frames, leather cloth, polyvinyl chloride cables and Plastic sequins.
3. Cigarette in the manufacture of which foreign tobacco other than tobacco of Pakistan and Burma origin has been used.
4. Tin plate products.
5. Hurricane Lantern.
6. Steel products.
7. Potassium citrate monohydrate.
8. Chromic Acid.
9. Paper products (Some specified items).
10. Ivory products.
11. Zinc oxide.

12. Staple fibre yarn and fabrics.
13. Lauric Acid.
14. Myristic Acid.
15. Handicrafts and other articles made of Alabastar.
16. Polo sticks.
17. Complete Tea Chests (filled) made of plywood panels (3 ply).
18. Silk fabrics and ready-made garments made therefrom excluding Tasser Silk.
19. Paper Wrapped Biscuits.
20. Articles made from Aluminium.
21. Flat files fitted with clips.
22. Coir products and sisal mats or mattings.
23. Zip fasteners.
24. Copra Cake.
25. De-oiled Copra Cake.
26. Printing Inks.
27. Silver Nitrate.
28. Bicycle spokes with nipples and washers complete.
29. Jute manufactures [including manufactures of Bipallapatam jute of Mesta (all sorts)].
30. Match boxes.
31. Bicycle with tyres, tubes and saddle complete or in SKD condition.
32. Umbrellas and Umbrella ribs.
33. Spectacle frames.
34. Cork products.
35. Cotton Textiles.
36. Tin containers containing Cashew Kernels for which Carbon Dioxide is used for preservation.
37. Handloom fabrics made of cotton yarn and Ready-made Garments made therefrom.
38. Bicycle components, spare parts, and accessories but excluding Bicycle spokes, nipples and washers.
39. Cotton Hosiery.
40. Tyres and Tubes all sorts excepting bicycle tyres and tubes, including Flaps and Tread Rubber.
41. Steel files not exceeding 30.56 cm. in length.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68.]

Recommendation (Serial No. 64, Para No. 6.54)

The Committee also note that the scheme of issuing tax credit certificates to exporters, introduced in 1965, has been abolished after devaluation. In view of the persistently adverse trend in exports since devaluation, the Committee feel that direct tax concessions to exporters may be helpful in stimulating exports and investment in export-oriented industries. They would like the Government to examine this matter carefully and formulate a comprehensive and integrated scheme in this behalf.

Reply of Government

Government considered, at the time of the formulation of the proposals in the Finance Bill, 1968, the matter of granting direct tax concessions to exporters for the purpose of stimulating exports and investment in export-oriented industries. In this behalf, the following provisions have been made in the Finance Bill, 1968.

1. *Export Markets Development Allowance*

Domestic companies, and also non-corporate tax-payers resident in India, will be granted an export markets development allowance in the computation of business profits, with effect from the assessment year 1968-69. This allowance will be in a sum equal to 1½ times the revenue expenditure incurred by the tax-payer after 29th February, 1968 for development of export markets. The specific heads of expenditure qualifying for the allowance as already enumerated in the relevant provision, are as follows:—

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

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

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

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

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

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

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

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

Power has been taken to notify in the Income-tax Rules any other heads of expenditure qualifying for the export markets development allowance. The allowance will be granted where the qualifying expenditure is incurred by the tax payer directly and also where it is incurred through participation in joint export promotion arrangements.

2. *Tax incentives to Indian Companies for export of technical 'know-how' and expertise*

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

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

3, *Tax incentive for expansion of capacity in export-oriented industries*

New machinery or plant installed in industries producing the under-mentioned articles or things will qualify for deduction, on account of development rebate, at the higher rate of 35% of the cost thereof:—

(i) Processed concentrates for cattle and poultry feed.

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

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

The proposed provision will take effect for and from the assessment year 1969-70. Thus, the above-mentioned industries which instal any new machinery or plant during the financial year 1968-69 or any other accounting year relevant to the assessment year 1969-70 will qualify for deduction on account of development rebate at the higher rate of 35% of the cost of the machinery or plant.

It may be mentioned here that several other industries which are export-oriented or whose products would help in import substitution, (e.g. fertilisers, electronic equipment, petro-chemicals and tea) already qualify for development rebate at the higher rate of 35% of the cost of their equipment, by virtue of being included in the Fifth Schedule to the Income-tax Act.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68].

Recommendation (Serial No. 65, Para No. 6.57)

The Committee note that against an investment of over Rs. 2000 crores in 68 public sector undertakings the level of exports by these undertakings in 1965-66 was of the order of only Rs. 6 crores. Considering that a very large part of this investment has been made in metallurgical engineering and other industries which are known to have significant export potential, the Committee are constrained to observe that the export performance of public sector industries so far has been far from satisfactory. They feel that the target of Rs. 100 crores for annual exports by public undertakings be reached by 1970-72 is quite modest and would urge that every effort should be made to reach and, if possible, to exceed this target. The Committee need hardly stress that the realisation of the export targets would require a large measure of coordination between the public undertakings and the Administrative ministries concerned. In particular, adequate arrangements will have to be made for periodical review of the progress made by individual units to achieve the targets. The Committee hope that these and other requisite measures to ensure the achievement of the targets will be taken by Government without delay.

Reply of Government

In 1965-66 exports of the major public sector undertakings amounted to Rs. 6.3 crores (in post-devaluation rupees). After a moderate rise to Rs. 12.75 crores in 1966-67, these exports rose sharply to over Rs. 35 crores in 1967-68. Hindustan Steel, Mazagon Docks and India Rare Earths mainly contributed to this. Keeping in view the difficulties following devaluation and the recession which affected the Engineering Industry both in India and outside, the performances of public sector undertakings in 1966-67 and 1967-68 cannot be considered unsatisfactory. If present trends continue, there will be good prospects of these undertakings achieving the target of Rs. 100 crores by 1970-72.

2. Efforts have continuously been made to increase the exports of public sector undertakings, as in fact, the exports from the country as a whole. In 1965-66 the Commerce Secretary discussed with the heads of the public sector undertakings the possibilities of export promotions. Subsequently, discussions have taken place between officers of the Ministry of Commerce and the Director General of Technical Development, where the possibilities of exports by various undertakings were gone into in considerable details. Efforts are being made to remove the difficulties which these undertakings are facing. For about a dozen of such undertakings, which include Hindustan Steel Limited, India Telephone Industries, Indian Oil Corporation, Integral Coach Factory, etc., the States Trading Corporation and the Minerals and Metals Trading Corporation have offered their marketing services, have undertaken to study selected export markets for their products and to function as their sole selling agents.

3. The Government will continue to keep under constant review the progress in exports by these undertakings and take measures as and when necessary.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 66, Para No. 6.61)

The Committee note that India has been fast losing ground to Pakistan in the export of jute manufactures. They are also concerned at the sharp decline in India's exports of this commodity since devaluation. The Committee feel that unless Government take prompt steps to counteract Pakistani undercutting, export prospects of the country's largest foreign exchange earning industry might be permanently damaged. In the long run the country's jute industry can be put in a position of competitive strength in relation to Pakistan only by achieving self-sufficiency in raw jute and reducing manufacturing costs. However, as an immediate measure to arrest the continuing fall in export since devaluation the Committee suggest that the export duties on jute manufactures by suitably readjusted so as to leave a reasonable margin to the exporter. The Committee would also like the Government to introduce positive measures to assist the jute industry in building buffer stocks of jute goods and disposing of its accumulated stocks through exports.

Reply of Government

Exports of jute manufactures reached the record level of 950.200 tonnes in 1964-65 valued at Rs. 168.34 crores (pre-devaluation). In the following year, there was a decline in the level of exports to 895,600 tonnes but the value was higher at Rs. 182.71 crores largely because of the higher level of prices. Exports continued to decline in the year 1966-67 when there was a fall of nearly 1.6 lakhs tonnes to 734,200 tonnes. This was due mainly to the very high level of prices consequent on the short crop, competition from Pakistan especially in the sacking sector, and completion from synthetics. Mention may be made particularly of the steep fall in exports of sackings, a sector which has been assailed by increasing exports from Pakistan and from the emergence of synthetics. Whereas sacking exports from India fell from 258,700 tonnes in 1964-65 to 180,800 tonnes in 1966-67, exports from Pakistan rose during the same period from 153,200 tonnes to 258,800 tonnes. Pakistan's main advantages over India have been the availability of jute at cheaper prices locally and above all, the operation of the Export Bonus Voucher Scheme which enables her exporters to underquote Indian prices. (The Export Bonus on sacking was(raised from 20 per cent to 30 per cent from 8th July, 1967). During the years 1965-66 and 1966-67, there were shortages of fibre within India and large quantities of jute and mesta had to be imported from outside. Although a part of the increased rupee cost of the imports was not as a subsidy to the industry, the cumulative effect of shortages and competition could not but be reflected in the quantitative level of exports of sackings.

The consensus of current opinion points to the conclusions that the future of the jute industry lies in diversification and the exploration of new avenues for its usage. There is an awareness. even in Pakistan. that jute no longer holds a monopoly in the packaging field. Exports of carpet backings from India are steadily on the increase, and this item has been the saviour of the industry. Some of the other new developments are bleached/dyed/printed hessian for use in decorative fabrics, coated/laminated fabrics/cloth for packing, union fabrics (i.e. jute-and-cotton, jute-an-rayon mixed fabrics) which command a higher unit value. It is only by encouraging the production and export of these and other specialities that the gap left by the decline in the exports of sackings can be close. Efforts in this direction are in progress.

In line with Government's policy, the performance of exports is kept under constant review for taking appropriate steps as may be necessary. Export duties levied in the wake of devaluation of the Rupee were reduced from 26th May, 1967, and again from 7th February, 1968. Certain anomalies pointed out by the industry in the structure of the duties were also removed in June, 1968. No duty is at present levied on jute specialities, namely—(a) polythene-laminated or extrusion-coated or paper-*cum*-polythene-lined jute fabrics and bags made therefrom, whose F.A.S. value (i) is not less than Rs. 2,500 per tonne in respect of sacking-based cloth and bags, and (ii) is not less than Rs. 3000 per tonne in respect of other bags and cloth. and (b) other jute manufactures whose F.A.S. value is not less than Rs. 3500 per tonne, excluding carpet backing, jute webbing, jute canvas, jute tarpaulin cloth and manufactures thereof. When reducing export duties, certain other consideration also have to be borne in mind. Reduction by India almost invariably results in retaliation by Pakistan who raise the bonus voucher percentage. The net effect is lower unit realisations, both India and Pakistan losing. While the lower prices of jute goods might stem the advance of synthetics and bulk handling methods in the long run, in the short run, it means lower foreign exchange earnings for the exporting countries. The industry should look more and more to diversification in these and other sectors. Government are giving all encouragement and assistance for such development. A sum of Rs. 5 crores has been earmarked for financial assistance to the jute mills for diversification into the production of those items which had promise of large exports in the near future.

The Ministry of Food and Agriculture are engaged in the programme of achieving self-sufficiency in fibre requirements not only in terms of quantity but also in terms of the quality of fibre required for speciality goods. Almost 60 per cent of the cost of finished goods is constituted of the price of raw material, and the availability of indigenous supplies of fibre at economic prices will go a long way to reduce costs. The modernisation of the post-spinning sectors in mills will also be encouraged with a view to reducing costs.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 67, Para No. 6.65)

The Committee are concerned to note the persistent decline in India's share in world tea exports. There is a feeling that the benefits which might have accrued to the tea industry from devaluation have been largely offset by the export duties and additional taxes imposed since devaluation and the increased cost of production resulting from higher wages, bonus, higher freight charges, etc. The position has been further aggravated by the glut in the world tea market. As a result exports of tea since devaluation have been considerably lower than in the year preceding devaluation. In view of this, the Committee urge the Government to re-examine the matter in the light of the latest trend in tea exports and provide, if necessary, suitable fiscal relief to the tea industry so as to strengthen its competitive position in the world market. Government should also take immediate measures to promote the sale of Indian tea abroad through vigorous publicity and propaganda.

Reply of Government

Though it is a fact that during the years 1965-66 and 1966-67, exports of Indian tea were lower than in 1964-65, the figures for exports of tea for 1967-68 showed a distinct improvement over the previous two years. The quantity and value of tea exported from India during the years 1964-65 to 1967-68, were as under :—

Year	Total Quantities (in M. Kg.)	Actual Value (in Rs. crores)	Pre-Devaluation (Value in Rs. crores)
1964–65	212.25	124.66	-
1965–66	197.38	114.84	-
1966–67	190.38	156.22	102.26
1967–68	203.33	180.20	113.92

On a calendar year basis, which is the one usually adopted in the tea industry, the improvement in our tea export performance over that of the two previous years is even more noticeable; in 1967, India exported 213.7 million kgs. of tea valued at Rs. 120 crores (pre-devaluation) compared to 179.2 million kgs. valued at Rs. 98.8 crores (pre-devaluation) in 1966 and 199.3 million kgs. valued at Rs. 115 crores in 1965. India's share of world tea exports also showed some improvement—from 34 per cent in 1965 and 32.5 per cent in 1966 to 34.8 per cent in 1967. The unit-value of tea exported in 1967 (*viz.* Rs. 5.62 per kg. in pre-devaluation terms) was also slightly better than the unit value realised in 1966 (*viz.* Rs. 5.62 per kg., also in pre-devaluation terms).

Government, however, agree that the situation needs to be carefully watched and have, in fact, been keeping a close and constant watch on our tea exports, and particularly on the competitive position of Indian tea in the world market. Both the export duties and the excise duties on tea have been under continuous review. Since there is no system of drawback of excise duty, reduction in these duties also improves the competitive position of Indian teas. Besides changes in these duties, the Government have taken several steps for encouraging replantation of areas with overaged tea bushes and the modernisation, etc., of factories. Thus, a development allowance is at the rate of 50 per cent for new areas and at 30 per cent for replantated areas. Loans are granted through the Tea Board for hire purchase of machinery and for financing the cost of replantations and extensions. It was as a result of this that adjustments in export duty and excise duty were made recently.

India, however, faces in common with other tea producing countries, the problem of a continuing decline in tea prices in the export market. To arrest this trend, India and Ceylon the two leading producers of tea in the world have, after mutual consultations, agreed upon certain joint measures. Some of the more important of these relate to measures for joint tea promotion, joint market surveys in selected areas, the setting-up of a joint consortium for marketing blended and packaged teas in selected markets and consultations with other producer-governments as well as trading interests in the tea-consuming countries.

In the field of promotion, in addition to joint measures for increasing the consumption of tea as a beverage in the importing countries, specific measures to promote the exports of Indian tea, appropriate to the requirements of each tea-consuming region, are also being carried on through the Tea Board's foreign offices at London, New York, Brussels, Cairo and Sydney. These promotional measures are also being kept under constant review and will be strengthened, where necessary in the light of experience, keeping in view also the observations of the Estimates Committee. Some suggestions in this regard are also expected to be made by a Committee set-up by the Government for undertaking a comprehensive review of the economic conditions and problems of the tea industry in all its aspects.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 68, Para No. 6.69)

The Committee cannot but view with concern the continuing decline in India's share of world exports of cotton manufacturers. It is obvious that India's ability to compete in the external textile market is in the ultimate analysis bound up with increased domestic production of raw cotton and the modernisation of the textile industry. However, in view of the precipitous fall in cotton textile exports since devaluation the Committee would urge the Government to evolve in the light of experience a purposeful scheme of export assistance to the textile industry. They regret that effective measures in this behalf have not been taken in time although as far back as November, 1966, the Board of Trade has strongly recommended the need for concrete assistance to the industry to avoid a fall in textile exports.

Reply of Government

The exports of cotton textiles during the years 1965 to 1967 and the period January—June, 1968 have been as follows :—

Year	Value of exports
	(in lakh Rs.)
1965	6373.2
1966	7061.4*
1967	8221.3
1968 (January—June)	4277.6

*Devalued Rupee since June, 1966.

Immediately after devaluation, the exports of cotton textiles showed a sudden decline. The main reason for this was the withdrawal of the Cotton Textiles Export Promotion Scheme. Competition from other sources of supply such as China, Hong Kong, etc. has also contributed to the decline. The ICMF, with the approval of the Government, introduced a scheme for the grant of cash assistance with effect from 1st September, 1967. After the introduction of this scheme there was some slight improvement in the exports, but the volume of exports was still not satisfactory. Discussions with the industry and trade continued, and as a result, a new scheme for the grant of cash assistance with effect from 1st April, 1968, has been introduced. This scheme provides for the grant of higher cash assistance than before for the export of cotton textiles. Government have agreed to supplement the funds of the ICMF for the purpose of making a grant at a flat rate of 5 per cent of the exports estimated during 1968-69 at Rs. 120 crores.

In addition to the measures enumerated above the following steps have also been taken to increase exports of cotton textiles :—

1. Reduction in customs duties on cotton textiles have been secured from the USA, EEC, Japan, Austria and Nordic countries. These reductions range between 7 per cent and 30 per cent of the existing tariffs.

2. Bi-lateral arrangements have been entered into wtih certain countries under which higher export quotas for cotton textiles have been secured.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 69, Para No. 6.71)

The Committee feel that the current recessionary trends in certain industries call for all out efforts to promote the exports of the products of the affected industries. While the scheme of cash assistance to exports of engineering goods, iron and steel, steel scrap etc. may be useful as a temporary expedient to develop exports the Committee would like to caution that too much reliance on this method would not only encourage inefficient units and add to the budgetary burdens of the Government but may also provoke retaliatory measures by other countries. The Committee would, therefore, urge the Government to pay immediate attention to cost reduction and quality improvement in the important export oriented industries particularly those which are faced with recession.

Reply of Government

The recommendation brings out the need for stepping up the exports of non-traditional industrial products, the handicap of high costs of production and the lack of cost-consciousness both in the traditional agricultural field and the non-traditional items of exports.

2. The steps taken to boost up exports of non-traditional items of engineering goods have been enumerated in reply to recommendation No. 70.

3. The Government is fully conscious of the need to reduce costs in order to boost exports. In order to neutralize the disadvantage of high cost of indigenous content the Steel industry has worked out an arrangement under which iron and steel required for export production is made available to fabricators of engineering goods for exports, at international prices. A similar scheme has also been evolved for the supply of major indigenous plastics raw materials, *i.e.*, polyethylene and PVC, at internaitonal prices for export production.

4. The exporter of the finished product using an indigenous component can also obtain the rebate of the Customs and Central Excise duty on such component, as part of the amount of drawback permissible on the finished export product.

5. The system of cash assistance on exports of selected products also compensates to some extent for the higher cost of indigenous raw materials.

6. Cost reduction in an industry also depends upon improvement of productivity use of more efficient methods of production, efficient management, marketing, etc. The Government encourages and fosters these objectives to the extent possible, by facilitating the availability of training and advice through bodies like the National Productivity Council, the Indian Institutes of Management, etc. Rationalisation is also encouraged with due regard to other relevant considerations like the impact on employment, balanced regional growth, etc. Taxes are reviewed from time to time and changes consistent with budgetary needs are considered.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 70, Paras Nos. 6.72 and 6.73)

6.72. The Committee would also like the Government to take energetic measures to explore new markets for India's capital goods and engineering products. They feel that the developing countries of Asia and Africa offer a promising market for a number of such goods (*e.g.*, capital goods for cement and sugar industries, light engineering goods, which India is in a position to supply. These avenues offer the added advantage of a continuous flow of spare parts and components till the entire range of manufacturing activity is established in these countries.

6.73. In this connection, the Committee would like the Government to consider the feasibility of organising industry-wise consortia of manufacturers from both the public and the private sectors for selling complete industrial plants abroad for manufacturing cement, sugar, iron and steel, chemicals and other end-products.

Reply of Government

Exports of engineering goods a decade ago consisted mainly of simple items like fans, sewing machines, etc. Today exports of engineering goods include railway rolling stock, machine tools, industrial machinery and so on. Competence is also increasingly becoming available for undertaking turn-key contracts abroad, involving exports not merely of plant and equipment but also of engineering services such as design, erection, etc. Intensive efforts are being made by the exporters and the Export Promotion Councils towards the exploitation of the possibilities of exports of engineering goods including capital goods to developing countries. Trade delegations and sales teams are being sent out according to a regular programme, market surveys are conducted through the foreign offices of the Engineering Export Promotion Council, the Indian Missions abroad and the service agencies; participation in exhibitions and publicity in foreign markets is also being undertaken on a regular basis.

Some of the measures and facilities introduced by the Government which have a particular importance from the point of view of exports of engineering goods, especially capital goods, are as follows :—

(1) The availability of iron and steel at international prices to the exporters.

(2) Facilities such as railway freight concession.

(3) The issue of import licences for replenishing the indigenous material and components used in the manufacture of the product exported.

(4) Cash assistance.

(5) The IDBI's refinance scheme which facilitates the availability of export credit at concessional rates of interest, and enables the Indian exporters to offer terms of deferred payments to the foreign buyers.

(6) The commercial and political risks policies of the Export Credit & Guarantee Corporation which offers protection to the Indian exporters against the risks involved in the extension of deferred payment terms, as also the ECGC's guarantee schemes which facilitate the smooth flow of both pre-shipment finance from the banks.

As a result of the efforts made by the Indian exporters and Export Promotion Councils as well as the facilities offered by the Government and by the financial institutions, it has been possible for Indian exporters to secure a number of high-value contracts from various developing countries. A list of such contracts amounting to Rs. 45 crores is given in Annexure.* The exports of Engineering goods as a whole have been progressing satisfactorily. Starting from about Rs. 3 crores in 1956-57 these have gone up to Rs. 41 crores in 1967-68. The target for 1968-69 is Rs. 65 crores. From the trend of exports during April to June 1968 (approximately Rs. 17 crores) it seems likely that the target for the current year will be achieved.

Some Consortia for the export of engineering goods like aluminium conductors, power cables and other electrical equipment have been organised. There is also a Consortium for erection and installation of High-tension Transmission Lines.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 71, Para No. 6.75)

The Committee welcome the scheme of preferential treatment for imports from developing countries introduced by the Government of the Commonwealth of Australia in April 1966. They hope that Government would take all necessary measures (e.g. extensive publicity to the Australian scheme within the country, publicity for the concerned Indians products in Australia, studies of the tastes and requirements of Australian consumers, etc.) to ensure the fullest utilisation of the scheme to push up exports to Australia. The Committee would also urge the Government to persuade other developed countries to extend similar concessions to developing countries.

Reply of Government

Government has welcomed the Australian gesture. Full details of the Australian Tariff Preference Scheme for Less-Developed countries have been circulated to all the Export Promotion Councils, Export Houses, etc., for being brought to the notice of the intending exporters of the commodities covered under the scheme. These Councils have given this Scheme wide publicity among the exporters of the commodities under their jurisdiction so that they may avail themselves of the tariff preference and export advantage. The exporters have also been given other relevant information with a view to helping them to establish contact in Australia. The Indian High

*Not printed

Commission in Australia has been working vigorously to establish contacts between the Australian importers and Indian exporters. Two officers of the Ministry of Commerce visited Bangalore, Madras, Bombay, Calcutta and Kanpur between 30th June and 11th July, 1966 to explain to the Indian manufacturers and exporters the details of the scheme. Progress made was further reviewed by another team which visited Bombay/Bangalore/Madras in May this year and met representatives of various export promotion councils and others. Efforts are being made continuously for the expansion of the scope of the scheme. From the review, so far, it seems that India has been one of the major beneficiaries of the scheme.

In the Kennedy Round Trade Negotiations (1964—67), a duty-free quota of $ 1 million each in respect of handloom, cotton and silk fabrics was negotiated with the European Economic Community. The detailed administrative arrangements for implementing this concession are under discussion with the Community. The USA offered, during the negotiations, a 50 per cent cut in the duties on handloom products from India. Our Commercial Representative in USA has been asked to move the US Government in this regard. Our exports of handloom cotton fabrics already enjoy dutyfree concessions in the UK and our Commercial Representative in London has been asked to take up with the UK Government the question of dutyfree treatment being accorded to our exports of handloom silk fabrics also. The Nordic countries have already passed the necessary legislation for the grant of duty-free entry to our cotton handloom fabrics and the details of the administrative procedure are being finalised.

During the Second UNCTAD, at the instance of the developing countries including India, a resolution was passed on the question of a generalised non-reciprocal, non-discriminatory system of preferences in favour of developing countries. The Resolution has established a Special Committee on Preferences to work out the details.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 72, Para No. 7.14)

The Committee commend the change in the presentation of balance of payments statistics whereby certain receipts (like refund of freight on PL 480 imports, U.S. Embassy expenditure in India out of PL 480 funds, various grants) which are more in the nature of external assistance have been excluded from the 'Invisibles' head. They are of the view that the inclusion of such receipts under Invisibles tends to give an inflated and unrealistic picture of invisible earnings. The Committee suggest that the practice of excluding such receipts from invisible earnings should be uniformly adhered to in the presentation of balance of payments data.

Reply of Government

Government have no comments.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68.]

Recommendation (Serial No. 75, Para Nos. 7.38 & 7.39)

(i) The Committee note that foreign exchange earnings from tourism have remained almost stagnant over the Second and Third Plan period. Thus, total receipts from this source in 1963-64 amounted to only Rs. 16.6 crores as against Rs. 14.7 crores in 1956-57. Final figures for receipts under foreign travel in the last two years of the Third Plan are not yet available. However, in view of the decline in the number of tourist arrivals in 1965, there is hardly any ground to expect that receipts in 1965-66, the closing year of the Third Plan, could be higher than in 1963-64. From the data supplied by the Department of Tourism the Committee also note that the rate of increase in tourist traffic to India has perceptibly slowed down during the Third Plan period. The Committee feel that the poor progress made by India in attracting foreign tourists is primarily due to lack of recognition of the value of tourism in augmenting the country's foreign exchange earnings. The fact that the total expenditure on the development of tourism during the whole of the Third Plan period was only Rs. 4.63 crores, or 57.5 per cent of the outlay proposed in the Third Plan, is itself an evidence of the low priority attached to this work by Government. The Committee cannot but regret that although the actual total outlay on the Third Plan was Rs. 1,130 crores higher than what was originally proposed (i.e. Rs. 7,500 crores) Government thought it necessary, for reasons of economy, to drastically curtail the Plan outlay on tourism development schemes which might have helped the country to earn much needed foreign exchange.

(ii) Keeping in view the remarkable progress made by a number of countries, notably, Yugoslavia, Thailand, Italy and Greece, in increasing their earnings from foreign tourism, the Committee have no doubt that given adequate organisation, facilities and publicity the amount of foreign exchange that India can earn through tourists can be increased considerably which can make substantial improvement in her balance of payments. The Committee feel that the present target for earnings from foreign tourists—Rs. 137 crores for the whole of the Fourth Plan period (i.e. 1966—71)—is far too modest and should be raised upwards. They also urge that Government should accord the highest priority to the development of tourism and take imaginative measures to attract an increasing number of foreign tourists to India with a sense of paramount urgency.

Reply of Government

One of the main reasons for the foreign exchange earnings from tourism being on the low side is that much of it is lost through leakage. To recommended suitable measures for eliminating this loss, the Government has set up a Committee headed by the Secretary, Ministry of Tourism & Civil Aviation. The Committee will be giving its report shortly.

The declaration of emergency twice during the Third Plan period has to a certain extent been responsible for the slowing down in the rate of increase in tourist traffic to India. The emergency also gave a setback to our promotional efforts and developmental activities as tourist schemes were given low priority. The greatest deterrent however to the rapid growth of tourist traffic is the high air fare to India from its tourist generating markets, and inadequate tourist infrastructure in the country to meet the growing requirements of tourists. With the operation of charters of India and introduction of group and creative air fares, it should be possible to overcome the barrier of distance and encourage greater flow of tourists to India.

The Government agrees that high priority should be accorded to tourism as it is an important source of earning the much needed foreign exchange for the country. It is proposed to launch an ambitious plan covering a wide range of activities with the object of building up the tourist infrastructure and other facilities during the Fourth Plan period and to achieve the target of 600,000 tourists by the end of the Fourth Plan.

The Government has accepted in principle that development and promotion of tourism should be accorded high priority.

The Department of Tourism has been utilising all the existing channels of publicity and promotion to project abroad the image of India as a tourist destination. Apart from the traditional media of institutional advertising, radio, television, films and displays, a considerable amount of allied publicity and public relations work is done by the Department's officers in the nine regions of the world where Tourist Offices function today.

The Department of Tourism also brings to India every year a number of travel agents and tour operators on familiarisation tours to enable them to see the country's tourist attraction as well as facilities on the spot and thus promote tourist traffic to India more convincingly and with a greater degree of effectiveness. Similarly, the Department brings a large number of travel writers, photographers, documentary film producers and radio and TV men who go round the country and, on their return home, write about India's tourist attractions or show photographs and films made by them with the help of the various media of communication available to them. The expenditure on such familiarisation tours and hospitality projects has the advantage of supplementing the advertising campaign abroad without incurring foreign exchange, while the publicity thus created is definitely more effective coming as it goes from foreigners themselves who also happen to be specialists in mass communication methods.

Efforts are also being made to publicise New Delhi as a convenient place for holding international conferences/conventions/seminars.

The advertising and publicity budget of the Department has increased over the last three years from Rs. 31 lakhs in 1965-66 to Rs. 48 lakhs in 1966-67 and to Rs. 60 lakhs in 1967-68. An amount of Rs. 66 lakhs has been provided in the current years' budget.

The Department of Tourism is also conscious of the fact that facilities at home have to keep pace with the increase in the number of tourists, present as well as anticipated. The Department of Tourism is, therefore, endeavouring to maintain a proper balance between its advertising and publicity campaigns overseas and the development of the tourist infrastructure within the country.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 76, Para Nos. 7.40, 7.41 and 7.42)

(i) The Committee are of the view that the first task to which urgent attention has to be bestowed is that of ensuring that every tourist who comes to India, goes away satisfied and happy with his stay. This requires a speedy improvement of the facilities at our airports which are, as a rule, both the first and the last points of contact between the tourist and the country and a simplification of the formalities which a tourist has to comply with when coming and leaving, as well as during his stay in the country.

(ii) Secondly, urgent measures should be taken to augment hostel accommodation for tourists. It is understood that the present total bed capacity in hotels considered suitable for foreign tourists is less than 7,500 beds for the entire country. To reach a modest target of 300,000 tourists a year, an additional 7,500 bed would be needed. The Committee would like the Government to draw a firm plan for providing a minimum of 7,500 additional beds for foreign tourists within a short time. They need hardly stress that this can be achieved only through a concerted effort of both the private and public sectors.

(iii) Thirdly, efforts should be made to improve transport arrangements and shopping facilities for foreign tourists.

(iv) Lastly, publicity arrangements abroad should be strengthened to attract foreigners to India. Few countries in the world can offer such a wide range of attractions to the tourists as India with her ancient monuments, landscapes of exceptional beauty, opportunities for game and mountaineering etc. The need is to bring these to the notice of people in other lands. The Committee would like the Government to launch aggressive publicity campaigns abroad, particularly in the affluent countries, by such methods as opening tourist offices, enlisting the cooperation of travel agencies and inviting foreign travel editors, leading broadcasting and TV personalities, columnists, authors, writers etc. to visit India as Government guests. Appropriate publicity efforts should also be made to attract a larger number of visitors from countries of the East for whose people India's holy places, especially those associated with the Buddha, are of special interest.

Reply of Government

The Government is very much conscious of improving facilities for tourists at the airports as well as simplifying the procedure of formalities for tourists. Certain improvements have definitely been made at the airports and a system of charging an entry fee is being started so that such facilities are utilised by the genuine travellers. There has been considerable improvement in the Customs and Immigration formalities and steps are being taken to train the officers in handling the incoming tourists.

In order to encourage the construction of hotels, Government has announced tax and fiscal reliefs which consist of (i) exemption from taxation on 8 per cent of taxable profits; (ii) holiday from taxation for new hotels (6 years) up to 6 per cent of their profits, (iii) development rebate as is applicable to priority industries and (iv) depreciation of 25 per cent on the buildings of new hotels. A Hotel Development Loan Fund of Rs. 5 crores has been set up. In Delhi, land would be sold to hoteliers on which, instead of charging the full price, only ground rent would be charged. In addition, the India Tourism Development Corporation has also a programme of building 8 to 9 hotels. All these measures, when implemented in full, will go a long way towards the construction of additional bed capacity needed for the expansion of tourism. The Government is fully aware of the challenging need to meet the minimum target indicated by the Estimates Committee.

Efforts are being made to improve transport arrangements and to see that the existing shopping facilities, which are quite considerable are so organised that foreign tourists are not left feeling that they are being cheated and basic business standards are maintained. However, in the field of transport and shopping, the public tendency is to try and obtain maximum out of the tourists giving the least benefit and this is not easy to correct. It may become easier in transport, if arrangements, as at present contemplated to allow Air-India to enter into a special agreement to import cars in lieu of transportation materialises and we are able to present larger number of cars and ensure greater competition.

A major promotion effort is indeed being made to step up publicity abroad. It is hoped to open additional Tourist Offices in Latin America and South East Asia and possibly Africa. The publicity budget has definitely gone up and it is intended to produce really first-class material utilising the talent and facilities of the highest standards available in India.

The existing publicity is extremely well received. Programmes have been planned on all the points mentioned with such good effect that the traffic increase in 1967 roughly at 1,80,000 represents 12 per cent increase over 1966 compared with an 8 per cent increase in 1966 over 1965.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 77, Para Nos. 7.52 and 7.53)

(i) The Committee note that in 1965-66 Indian shipping with a total tonnage of 1.5 million GRT was able to carry only 12.9 per cent, or slightly more than one-eighth, of the country's foreign trade. Since dependence on foreign shipping for carrying the bulk of the country's overseas trade results in an enormous drain of foreign exchange from year to year, the Committee need hardly emphasise the importance of securing a speedy expansion of India's merchant navy. Apart from the fact that investment in shipping represents a 'must' for earning or saving foreign exchange Committee feel that the case for the fast expansion of Indian shipping is further strengthened by factors such as:

(i) As Indian shipping is carrying at present only a small portion of the country's large and expanding sea-borne trade gainful employment for Indian ships is reasonably assured.

(ii) Unlike some other projects with export potential there is no gestation period in respect of a vessel which starts earning from the day it is put into operation.

(iii) It has been authoritatively stated that if 'down payment' to the extent of 15 per cent to 20 per cent of the total price can be arranged, no additional burden in terms of foreign exchange is involved in the acquisition of new ships from abroad on deferred payment terms over 7-8 years. The net foreign exchange earnings of vessels as well as the interest on the deferred payment, and thereafter each vessel makes a distinct contribution to the country's foreign exchange pool.

(ii) The present Fourth Plan target for shipping is 3 million GRT. As the volume of India's foreign trade is expected to increase considerably during the Fourth Plan period it would appear that even with the attainment of the proposed target Indian shipping would be able to carry only about 20 per cent of the country's foreign trade at the end of the Fourth Plan. In view of the considerations set out in the preceding paragraph the Committee suggest that the shipping development programmes for the Fourth Plan (1966-67) should aim at a higher target so that by the end of the Plan period (1970-71) India's merchant navy is able to handle at least one third of the country's overseas trade. The Committee need hardly stress that the Government should aim at Indian shipping handling about fifty per cent of the country's overseas trade as early as possible. While any foreign exchange spent on the acquisition of ships from abroad would be fully justified by the larger earnings or savings instead of foreign exchange that an expended fleet would bring in, the Committee feel that the expenditure of foreign exchange on the expansion of Shipping can and should be greatly reduced by accelerating the development of the indigenous shipbuilding industry.

Reply of Government

(i) The views of the Committee regarding the importance of a speedy expansion of our shipping tonnage are fully shared by Government who are doing whatever is possible in this direction, having regard to the requirements of other sectors of our economy. The shipping tonnage which stood at 1.54 million GRT on 1-4-1966 has now increased to 1.90 million GRT within two years and, in addition, more than .6 million GRT are firmly on order.

(ii) The target of 3 million GRT by 31-3-1971 referred to by the Committee has has now lost its relevance because a new Fourth Plan for the period 1-4-1969 to 31-3-1974 is going to be formulated. Efforts will be made, as far as possible, to provide for a tonnage target for 31-3-1974 which would be adequate to cater for about one-third of India's overseas trade, as recommended by the Committee.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68.]

Recommendation (Serial No. 78, Para Nos. 7.58, 7.61 & 7.63).

(i) The Committee note that during the Second and the Third Plans, the Hindustan Shipyard—the only major ship-building unit in the country—was able to deliver only 26 ships. The total tonnage constructed by the shipyard during the decade was 1.53 lakhs GRT; the aggregate value of the ships constructed being Rs. 41.39 crores. During the same period 161 vessels with a total tonnage of 12.55 lakhs GRT were acquired from abroad involving an expenditure of Rs. 127.50 crores in foreign exchange.

(ii) In view of the considerable saving in foreign exchange that would accrue from the construction of ships in India the Committee consider it imperative that the development of the indigenous ship-building industry should be accorded the highest priority. They would like the Government to take urgent measures to promote efficiency and improve productivity at the Hindustan Shipyard whose performance so far has been far from satisfactory. Government should also take all requisite measures to ensure the speedy completion of the Second Shipyard at Cochin and its efficient working.

(iii) The Committee would like to stress that the need for accelerating the pace of import substitution in the ship building industry has become all the more imperative in view of the higher cost of imports resulting from devaluation and the growing requirements of an expanded ship-building programme. The Committee urge that Government should lose no time in drawing up and executing a practical programme of indigenous production of materials, equipment and components needed by the ship-building industry so that the degree of dependence on foreign sources for the supply of these goods is substantially reduced within a short period, say in two to three years.

Reply of Government

The observations of the Committee have been noted.

Government have been quite alive to the need for the development of ship-building industry in the country. In view of the strategic and national importance of the ship-building industry and in view of the hesitancy of private enterprise to take the risks involved in its development, the Hindustan Shipyard, Visakhapatnam, the only shipyard capable of building Ocean-going ships in the country, was taken over by Government in 1952 from the Scindia Steam Navigation Company Limited. A phased programme of development of this Shipyard has been undertaken since it was taken over by Government. The programme which has been completed at a cost of Rs. 3.00 crores included the construction of two additional berths, a prefabrication shop, General Stores building, modernisation of machine shops, provision of Travelling Cranes, extension of fitting out jetty, acquisition of new machines etc.

The present capacity of the Shipyard is three ships of 12,500 DWT each per year. The Shipyard have been taking concrete measures for the further development of the Yard so as to increase its production capacity to four ships of 12,500 DWT each during 1968-69.

Various steps have been taken to reorganise the administrative set-up of the Shipyard following the recommendations made by the Committee on Public Undertakings in its 37th Report. An Officer has also been appointed in the Ministry of Transport & Shipping, one of whose special responsibilities is to attend to the work relating to the Shipyard. An *ad-hoc* Committee under the Chairmanship of Shri M. P. Pai, Chairman of the Board of Directors of the Hindustan Shipyard has been appointed to examine the organisational set up of the Shipyard and recommend measures for improving operational efficiency etc.

Action is also being taken to carry out the recommendations of the Production consultants of the Shipyard.

In order to increase the indigenous ship-building capacity, Government approved in August, 1967, the establishment of a second ship-building Yard at Cochin, planned to build ships of 66,000 DWT each and to repair ships upto 85,000 DWT each. The estimated cost of the project is Rs. 36.00 crores with a foreign exchange component of Rs. 5.00 crores. In view of the modification in the scope and size of the project, M/s Mitsubishi Heavy Industries Ltd., Japan, who had prepared the Project Report have been approached for the revision of the project report and for technical collaboration in the Project.

The Government of India set up a Ship Ancillary industries Committee in 1957 to advise the Government on the steps to be taken to encourage the indigenous production of materials and ancillary equipment for Ship-building and Ship-repairing industries. This Committee submitted two reports, one in September 1959 and the other in April, 1966 and have recommended the various steps that should be taken for the manufacture of ship ancillaries in India.

In addition to the above, a Council known as the Central Advisory Council for ship-building and ship-repairing was set up in March, 1964 to advise the Government on all matters relating to ship-building and ship-repairing industries including their development.

As a further measure to ensure prompt action on the recommendations made by the Ancillaries Industries Committee and to accelerate the pace of development of ship ancillary industries and the ship-building and ship-repair industries, the Government has also since set up at the centre, in the Ministry of Transport & Shipping, a high powered Implementation Committee.

The Ship Ancillaries Industry Committee has from time to time encouraged the manufacturers to undertake manufacture of equipment required by the Ship-building and Ship-repairing Industries. As a result of persistant efforts of the Committee, quite a few items of marine equipment have been developed indigenously and the manufacturers are now in a position to undertake manufacture and supply these items.

The setting up of Development Cell and Implementation Committee

The Ship Ancillary industries Committee in its second report made two important recommendations for promoting the development of indigenous marine ancillaries. One was the setting up of a high-powered Implementation Committee at Delhi for the purposes of taking quick action on the recommendations made by the Committee and the other for the setting up of the common Development Cell between the three public sector shipyards with a view to codifying and categorising the various items of marine ancillary industry and lay priorities for indigenous production. Government have accepted both these recommendations.

The Development Cell is expected to be set up shortly with headquarters at Calcutta. The Implementation Committee which has already been set up under the Chairmanship of Secretary, Ministry of Transport and Shipping, has met twice during 1966-67. As a result of the efforts of the Committee steps have been taken to finalise the organisational set up, functions and finance of the Development Cell.

An idea of the progress in the indigenous manufacture of ship ancillary items can be got from the fact that during the 9 year period (1957-1966), orders for about 85 items costing about Rs. 82 lakhs have been placed by the Hindustan Ship-yard on indigenous manufacturers. During the year 1966-67, orders worth Rs. 25.76 lakhs were placed on indigenous manufacturers for the first time in lieu of material imported hitherto.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 79, Para No. 8.24).

The Committee note that due to the increasing dependence on foreign aid to finance imports the country has to pay a much higher price for its imports of machinery and goods than would be the case otherwise. In view of this and the persistent balance of payments difficulties the Committee urge the Government to take well thought out an determined measures to keep down imports to as low a level as possible consistently with the requirements of food, defence and economic development.

Reply of Government

Government's policies are designed to keep down imports to the minimum consistently with the inescapable requirements of food, defence and economic development. Attention is also invited to Government's reply to recommendation No. 108.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 80, Para No. 8.26).

The importance of import substitution in conserving foreign exchange and accelerating economic development can hardly be over-emphasized. The Committee would, however, like to caution against indiscriminate import substitution which might either result in production of excessively high cost goods or entail dissipation of scarce resources by their application to the production of relatively non-essential commodities. Keeping this in view, the Committee would like the Government to formulate a well defined import substitution policy which would aim on the one hand at speedy achievement of self-reliance in selected spheres and on the other at preventing the diversion of resources to non-priority areas.

Reply of Government

At present the drive for import substitution is being pursued in one or more of the following manners :—

(i) substitution of imported raw materials, components and spare parts with indigenously manufactured materials and components of same specification or of comparable specifications and according priority for their rapid development;

(ii) reduction in the consumption of imported raw materials and components per unit of production;

(iii) change over of production of chemicals and chemical products from intermediates to their production from basic raw materials;

(iv) substitution of imported raw materials or components by suitable alternative with consequential changes in the specification of the end product; and

(v) acceleration of phased manufacturing programmes to achieve a greater indigenous content in the shortest possible time.

As is known the concept of import substitution is a part of our national policy and aims at achieving the maximum possible degree of self-sufficiency in the industrial field. This has been a continuing drive though it acquired increased emphasis after the Chinese Aggression in 1962 and then again in 1965 after the Conflict with Pakistan.

The recommendation now made by the Estimates Committee envisages the indentifying of sectors where indiscriminate import substitution might have been practised resulting in production of excessively high cost goods or entailing dissipation of scarce resources by their application to the production of relatively non-essential commodities, as a necessary pre-requisite to the well-defined import substitution policy which should aim on the one hand at speedy achievement of self-reliance in selected spheres and on the other hand at preventing the diversion of resources to non-priority areas.

In so far as Director General of Technical Development is concerned, there is no sector of industries where indiscriminate import substitution is being practised resulting in production of excessively high cost goods or entailing dissipation of scarc resources by their application to the production of relatively non-essential commodities.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 81, Para No. 8.27)

The greatest scope for import substitution lies obviously in the field of agriculture. The Committee note that imports of cereals, cotton and raw jute during the Third Plan period amounted to Rs. 1328.9 crores. They would like to add that had it been possible to avoid these imports, the total trade deficit during the Third Plan period would have been only about Rs. 1067 crores as against the actual trade deficit of Rs. 2696 crores. It is evident that the continuing balance of payments difficulties of the country have been largely due to the failure in the key sector of agriculture and cannot be explained away—as is some time done—as an inevitiable feature of economic development. The Committee would, therefore, like to reiterate the urgent need for all-out efforts to develop agriculture to that the country may be able to dispense with imports of cereals and other agricultural commodities such as cotton, jute and oilseeds etc., at an early date.

Reply of Government

The imports of cereals, cotton and raw jute during the Third Plan period amounted to Rs. 1328.9 crores. Out of this imports of cereal and cereal preparations were of the value of Rs. 1033.0 crores (of which PL-480 foodgrains accounted for Rs. 849.0 crores). Raw cotton other than linters accounted for Rs. 272.8 crores of imports and raw jute for Rs. 23.1 crores.

According to the New Strategy for Agricultural Development which is being implemented since 1966-67, highest priority is being given to agricultural development. Attempts are being made to increase foodgrains production largely through cultivation of high yielding varieties on areas with assured irrigation/assured rainfall, multiple cropping, extended use of fertilizers and adoption of plant protection measures and development of minor irrigation. For commercial crops, productivity is being raised through adoption of package programme approach.

It is proposed that by 1970-71 foodgrains production should be raised to the level of 120 million tonne, where it will match the country's requirements. Similarly, the production of commercial crops over the Fourth Plan is proposed to be increased so as to reduce the reliance on imports in the case of important products like jute and cotton.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 82, Para Nos. 8.28, 8.29, 8.30 & 8.31)

8.28. The Committee note that during the Third Five Year Plan maintenance imports, valued at Rs. 3,811 crores, accounted for about 60 per cent of the country's import bill. Maintenance imports for Machine Building Industries registered a marked rise. In fact, the value of such imports during the Third Plan period (Rs. 1,178.18 crores) was considerably higher than that of imports of complete machinery and equipment (Rs. 1.024.74 crores). Imports of non-ferrous metals also showed an upward trend their total value for the Plan period being Rs. 236.5 crores. Iron and steel imports, though marginally lower than during the Second Plan, were still sizeable and entailed an outflow of Rs. 493 crores during the Third Plan period. Imports of fertilizers also registered a significant increase (from Rs. 15 crores in 1961-62 to Rs. 44.8 crores in 1965-66), their aggregate value during the Plan period being Rs. 160.3 crores. In the Draft Outline of the Fourth Plan, maintenance import requirements for the Fourth Plan period have been placed at Rs. 8,190 crores in post-devaluation terms. It has been estimated that nearly two-thirds of this total would be accounted for by imports of iron and steel, non-ferrous metals, petroleum and petro-chemical products, fertilisers and components and spares for machinery and transport equipment.

8.29. The Committee are greatly concerned at the growing volume of maintenance imports required to keep the country's industries running. It cannot be gainsaid that with her difficult balance of payments position the country can ill-afford this recurring drain on her foreign exchange resources. The Committee feel that the present situation necessitating heavy maintenance imports is mainly due to faulty planning. Had greater priority been given in the Five Year Plans to the development of basic raw materials, intermediates and ancillary industries concurrently with the setting up of basic and heavy industries on a phased basis, the country's industrial growth would have been basically sound and the requirements of maintenance imports would have been much lower.

8.30. A conspicuous example of bad planning is provided by the steel industry. From the Economic Survey 1966-67, the Committee note that output of finished steel in April—December 1966 was lower than in the corresponding period of the previous year, but unsold stocks rose sharply. The position is known to have further worsened in recent months. Thus, while the indigenous steel industry is faced with a serious marketing problem, the country continues to spend sizeable amounts of foreign exchange every year on the import of certain varieties of steel. This situation could have been avoided had the development of the steel industry been planned realistically to suit the pattern of domestic demand.

8.31. The Committee hope that Government would lose no time in rectifying these anomalies of planning and initiating imaginative import substitution measures with a view to minimise imports of iron and steel, non-ferrous metals, components and spares for machinery and transport equipment, fertilisers and petroleum and petro-chemical products. They would like to stress that wherever possible, the objective of replacing imports should be achieved by diversifying the pattern of production in existing units In this connection the Committee would also like to draw the attention of the Government to the recommendations made by them in regard to the development of certain important industries (such as, heavy engineering industries, non-ferrous metals, special steel and fertilizers) and import substitution in Chapters II and IV (paras 4.19 and 4.20) of their Ninth Report (Fourth Lok Sabha) on the Ministry of Industrial Development and Company Affairs—Industrial Licensing.

Reply of Government

Import substitution with a view to containing maintenance imports within reasonable limits is being given close attention. Due to lag in production and non-materialisation of planned programmes according to schedule, maintenance imports have not always conformed to original expectations. There are also limitations in terms of natural endowment and physical capabilities within a given time dimension in securing production levels of the order required for the maintenance of the economy.

The requirements of imported non-ferrous metals are now being further studied in detail by the Planning Group on Non-ferrous Metals recently set up by the Planning Commission in connection with formulation of developmental plans for the new Fourth Five Year Plan commencing from 1st April 1967.

So far as non-ferrous metals are concerned, aluminium is the only metal for the development of which adequate ore reserves exist in the country. Steps have been taken to increase the production of this metal and the installed capacity has gone up to 115,800 tonnes per annum from 7,500 tonnes in 1950-51. With a view to achieving self-sufficiency and to obviate imports of aluminium an additional capacity of 327,500 tonnes is proposed to be set up. It is expected that self-sufficiency will be achieved by about 1972-73.

The requirements of copper are estimated at 1,80,000 tonnes by 1970-71. There is only one unit in private sector engaged in the production of copper in the country. Their production during 1966 and 1967 was, 9,333 and 8,904 tonnes respectively. They have been granted an Industrial Licence to set up a flash smelter of 16,500 tonnes capacity of blister copper metal which is to be commissioned by the middle of 1970.

Another undertaking in Public Sector is developing copper deposits in Rajasthan for the production of 31,000 tonnes copper per annum by 1972. This unit has prepared a scheme for the exploitation of Rakha Copper deposits in Bihar for the production of 3,500 tonnes of copper per annum. It is proposed to develop copper deposits in Rajasthan and Andhra Pradesh.

In respect of Zinc and lead every effort is being made to increase its production to the extent possible. Scheme for further development and creating additional Zinc Smelting capacity are being drawn up. It is also proposed to set up a Zinc Smelter with a capacity of 30,000 tonnes capacity per annum in the public sector at Vishakhapatnam for production of Zinc metal.

In the private sector, a zinc smelter of 20,000 tonnes per annum capacity has been established at Alwaye to produce Zinc metal from imported conventrages. As for lead, there is only one Smelter in the country based on Zawar deposits with a capacity of 5,400 tonnes per annum. The present production is only 2,500 tonnes per annum on account of fall in the lead content produced in Zawar. The question of increasing the production in this smelter by importing concentrates is under consideration.

Keeping in view the achieving of target of production in iron & steel care is exercised to ensure that steel materials are produced on the basis of indents/orders secured from the consumers. For the Fourth Plan, a category-wise demand study for steel has been obtained from the National Council of Applied Economic Research to decide about the future programme of development, and the same will be considered in details by the Planning Group on Iron and Steel of the Ministry of Steel, Mines and Metals.

In developing economy, demand is more than consumption and this had much influenced the decision at the time of setting up the production capacity. The economy development has not come up to the anticipation made at the time of planning production due to combination of adverse circumstances.

India have been importing plates, sheets, strips and tool & alloy steel for several years to meet the domestic demand. During 1964-65 imports were of the order of 515,000 tonnes costing Rs. 412 million and in 1965-66 imports were 397,000 tonnes at a cost of over Rs. 366 million. In 1966-67 the imports decreased to the order of 186,000 tonnes costing Rs. 246 million. Efforts have been made to step up the production of above categories of steel to the extent possible and it is expected that a part of the demand will be met indigenously and a part of the demand will continue to be met from imports as at present. Various technological measures are being adopted in a phased manner to increase efficiency, thereby reducing the cost of production. It is also proposed to expand capacity to meet the country's demand and also to expand our exports. Moreover, steps have already been taken to develop suitable substitutes of items which were hitherto imported. For this purpose technical know-how collaboration agreements are being reviewed.

Petroleum and Fertilisers

The Oil and Natural Gas Commission and Oil India Limited are stepping up the pace of their exploration and production activities. The annual requirements of crude oil for various refineries by 1970-71 will be over 20 million tonnes against which the production is expected to be only 9.23 million tonnes. Thus there will be a gap of about 11 million tonnes between requirements and supply at the end of 1970-71. Regarding Kerosene it is expected that India will be self-sufficient by 1970-71 when the Haldia refinery is scheduled to be commissioned. At present the production of lubricants is negligible as compared to the demand. A number of new plants are being set up and the country is expected to become self-sufficient by the end of 1970-71 when the total indigenous production is estimated to reach 7,75,000 tonnes against the expected demand of 8,00,000 tonnes.

The manufacture of petro-chemical products often entails the use of sophisticated technology and heavy capital investment in certain of the basic plants like the naphtha cracker forming part of an olefins complex. Aware of the ample possibilities of import substitution of synthetic organic chemicals Government are planning the manufacture of petro-chemical products during the Fourth Plan period. An aromatic project in Gujarat State to produce ortho xylene, mixed xylene and DMT (a synthetic fibre intermediate) is being set up in the public sector during the Fourth Plan period. DMT from this plant is expected to take care of the requirements of this intermediate of all the polyester fibre plants existing and to be set up in the near future. Similarly the requirements of caprolactam, an intermediate in the manufacture of Nylon, for the Nylon units in the country, is expected to be taken care of by an indigenous plant to be set up, also in Gujarat State. Presently a Working Group in the Ministry of Petroleum and Chemicals is working out the further feasible schemes of petro-chemical manufacture that can be undertaken during the Fourth Plan period.

Para 4.19 of Chapter IV of the Ninth Report of Estimates Committee (F.L.S.)

In order to effect a break-through in our dependence on imported know-how and technology for the production of non-ferrous metals, the question of setting up a Central Design Organisation of the Metallurgical Industries to both ferrous and non-ferrous metals is under consideration. As a result of steps taken recently, it has been found possible to reduce considerably the import content of equipment for aluminium projects.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 83, Para No. 8.34)

In view of the problems of idle capacity and unsold stocks in the capital goods industries, the Committee feel that project imports for the Fourth Plan can be pruned to a level considerably below that envisaged in the Draft Outline of the Fourth Plan. The Committee hope that in sanctioning new projects Government would take care to ensure that excessive capacity, involving wasteful blocking proof rupee or foreign exchange resources, is not created in any sector. They would also like to stress the need to ensure the maximum use of existing capacity in the machine-making industries to meet the requirements of new projects.

Reply of Government

The Recommendation has been noted and is in line with present Government policy.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 84, Para No. 8.36)

The Committee entirely agree with the views and suggestions contained in the above excerpts from the Annual Plan 1967-68. They would only like to add that built-in preferences for imports exist not only in regard to capital goods but also other materials, spares and components. The Committee hope that Government would soon initiate concrete measures, on the lines suggested in the above passage from the Annual Plan 1967-68, to curb the imports of goods which (or whose close substitutes) are available indigenously.

Reply of Government

There is persisting bias both in the private and public sector of the industry for plant and equipment etc. of imported origin in preference to plant and equipment from indigenous sources and the Government are trying to ensure that plant and equipment which could become available from indigenous sources is not allowed to be imported even if the indigenously manufactured plant and equipment should cost somewhat more to the entrepreneur. The Director General of Technical Development have, therefore, been instructed to tighten up the scrutiny of the requests for import made both by the private and the public sector of the industry. As a matter of fact, this aspect of the problem has already attracted the attention of the Cabinet Committee on Prices, Production and Exports who had directed sometime back that a review should be undertaken of the imports already authorized but not irrevocably committed with a view to ensure that such of the plant and equipment which could be had from indigenous sources is not allowed to be imported. The Committee of Economic Secretaries has also recently gone into this problem and have constituted a Group of Secretaries to go into the procedure by which the imports of plant and equipment etc. which could be manufactured indigenously are not allowed to be imported.

It has been stated in the Annual Plan 1967-68 that insufficient utilisation of the indigenous capacity has for some time now been a factor hampering growth of industrial production. Presumably, here the reference is to the under-utilisation of the capacity due to the current recessionary trends. As is known concerted efforts are being made for the greater utilisation of the capacity which include the review of the various developmental programmes with a view to reviving the demand for capital goods to the extent possible; encouraging the possible diversification in the manufacturing programmes of the various industries; emphasis on the development of regular export markets through stronger marketing structures both for the public and private sectors; banning of imports to the extent the indigenous capacity can meet the requirements; including the review of imports already authorised but not irrevocably committed, announcement of liberalised credit policy including the recent reduction in the Bank Rate and other allied matters.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 85, Para No. 8.41)

The Committee would like to emphasise that in view of the acute overall shortage of resources, Government should take positive measures to discourage the establishment of low priority industries, particularly if foreign exchange is required not merely for initial establishment but also for maintenance of production subsequently.

Reply of Government

While examining the applications for licences under the Industries (Development and Regulation) Act, 1951, the Licensing Committee keeps in view the following more important points in making its recommendations to the Government for grant of the licences or otherwise :—

(i) Need for developing industries in accordance with priorities and targets laid down in the Five Year Plans;

(ii) Need for canalisation of investments into priority industries and the discouragement of investment in comparatively non-essential industries;

(iii) Need for establishment of export oriented/import saving industries and the foreign exchange expenditure involved in a particular scheme;

(iv) Supply position of raw materials;

(v) Desirability of avoiding concentration of ownership and control of industries in a few hands;

(vi) Need for balanced regional development;

(vii) Need to protect small scale and cottage industries and prevent undue competition between the large scale and the small scale sectors; and

(viii) Availability of power, water and transport facilities at the site where the unit is proposed to be set up.

Also in the matter of registration of industrial units having fixed assets of over Rs. 7.5 lakhs but up to Rs. 25 lakhs with the Directorate General of Technical Development and other technical authorities concerned, while such registration is automatic for industries based on indigenous machinery and raw materials, in the case of industries which require import of capital goods or raw materials, prior clearance of the Government is necessary.

A list of priority industries has been drawn up for the purpose of allocation of foreign exchange required for import of raw materials. Thus the scope for allocation of foreign exchange for import of raw materials for low priority industries is very much restricted.

It would thus be seen that adequate measures have been taken to discourage the establishment of low-priority industries particularly those which involve foreign exchange for import of capital goods or raw materials.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 86, Para No. 8.42)

The Committee would also like to express their disagreement with the categorisation of items like domestic refrigerators, domestic food processing appliances, T. V. sets, toys, wash-basins, etc. as 'essential' goods. They feel that in the context of the difficult foreign exchange position there can be no justification for spending foreign exchange on imports of consumer goods which cannot be classed as 'necessaries' for the common people.

Reply of Government

The imports of items referred to above are all banned except as a part of personal baggage.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 87, Para No. 9.5)

The Committee regret the discontinuance of foreign exchange budgeting during 1953—57. As foreign exchange is a key resource for development the Committee cannot overstress the necessity of regular and systematic foreign exchange budgeting to ensure the most productive use of the limited foreign exchange available to the country.

Reply of Government

Government have no comments.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 89, Para No. 9.12)

The Committee entirely agree with the view of the Study Team on Economic Administration (A.R.C.) that periodical crises in foreign exchange are a sad commentary on the Government's management techniques in relation to foreign exchange. They also endorse the Study Team's recommendations for improving the system of compiling and processing balance of paymnt data so as to provide a reliable basis for estimating the availability and expenditure of foreign exchange. The Committee would like to urge the Government to take expeditious measures in this behalf. They hope that with the introduction of an improved data processing system Government will be able to ensure avoidance of periodical foreign exchange crisis, which are often attributable to the bunching of past commitments during a particular period.

Reply of Government

The Government are alive to the need for improving the system of compiling and processing payments and allied data in a manner that it will provide a reliable basis for estimating the availability and expenditure of foreign exchange. Certain steps have already been initiated in this direction and the question of effecting improvement in the availability of data will be constantly kept in view and further steps will be taken as and when necessary.

Apart from limitations of statistics there are other and more important reasons for foreign exchange crisis such as inherent uncertainties in the forecast of resource availability, both export earnings and aid commitments; there being no cushion in our present situation to meet emergent demands and the difficulties of manipulating import controls in order to derive quick results, and the need to postulate development programmes on the basis of large aid in-flows, which depend upon a series of uncertain factors.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 91, Para No. 9.23)

The Committee regret to note that in spite of the difficult foreign exchange situation there have been many instances where public undertakings have placed orders abroad for items which (or whose close substitutes) were indigenously available. They cannot too strongly urge that the machinery for screening import applications should be suitably tightened to avoid the recurrence of such cases, for Government's policy of accelerating the pace of self-reliance through import substitution can have little meaning if their own undertakings are allowed to fritter away scarce foreign exchange on avoidable imports. In this connection the Committee would also like to suggest that the D.G.T.D. should maintain detailed and up to date information regarding the equipment that is actually being manufactured in the country or is likely to be manufactured in the near future, say within a year. This information would be a useful for screening applications for imports.

Reply of Government

The Government is aware of the situation where attempts are being made by the Public Sector Projects/Undertakings to import plant and equipment etc. which or close substitutes thereof could be made available from indigenous sources. Directorate General of Technical Development have been instructed to be more rigorous in the scrutiny of the requests for imports both by the public sector and the private sector units so that the imports are reduced to unavoidable minimum. The DGTD is already maintaining detailed and up to date information regarding the equipment that is actually being manufactured in the country and/or is likely to be manufactured in the near future with a view to ensure that the stores and equipments available from indigenous sources are not allowed to be imported.

This matter was also recently brought to the notice of the Committee of Economic Secretaries who have nominated a Group of Secretaries to go into this problem and to devise stringent procedure with a view to ensure that the import of stores and equipment etc. is avoided to the extent these could be had from indigenous sources.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 92, Para No. 9.24)

The Committee are also concerned at the high level of inventories in the public undertakings. As those inventories have a large import content it is obvious that they have resulted in unnecessary locking up of foreign exchange. The Committee endorse the suggestions for reducing the inventories in public undertakings made by the Committee on Public Undertakings (Third Lok Sabha) in their Fortieth Report, paras 11, 12, 13 and 15. They would like the Government to take speedy measures to reduce inventories in the industrial concerns in the public sector. As a rule, the inventories in the running industrial concerns should not exceed six months production.

Reply of Government

The recommendation of the Committee on Public Undertakings at Serial No. 3 (para 15) of their Fortieth Report (Third Lok Sabha) in which the Committee emphasised the need for introduction of proper materials management system in Public Enterprises and for which suitable instructions were to be issued, is under consideration in consultation with the administrative Ministries.

The importance of keeping inventories as low as possible has been fully realised by Government, and a detailed study of the levels of inventories and the system of inventory planning and control in selected enterprises has been undertaken by a high level Committee. The results of the study are expected to be ready by October, 1968. The results of this study, when received will also be considered for application to all the enterprises.

Although it may not always be possible to limit the inventories to the level of six months' production, attention of the enterprises has been drawn to the need for keeping the level of inventories as low as possible. The enterprises have also been requested to send a report on the action taken in this regard.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 93, Para No. 9.25)

The Committee are glad to note that as a result of recent changes in import policy all applications for imports of components and raw materials by the public sector units in the 59 priority industries are now being treated in exactly the same manner as applications from private sector units. They would like this practice to be continued and implemented strictly so as to ensure unit to unit parity between the public and the private sector so far as maintenance imports are concerned. However, in view of the large stockpiles of raw materials and components with many of the public undertakings and the need to bring down the same, the Committee consider it necessary that before taking a decision on an application for import of raw materials or components by a public undertaking the D.G.T.D. should fully take into account the existing inventory stock with such undertaking.

Reply of Government

The recommendation is accepted and necessary instructions have been issued to the DGTD in the matter.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968]

Recommendation (Serial No. 94, Para No. 10.24)

The Committee note that under the notification dated the 25th March, 1947 issued under section 9 of the Act, the only obligation which was cast upon a person was to surrender to authorised dealers the currency of the United States and Phillipine Islands of which he was or became owner. Thus, until the promulgation of the subsequent notification dated 25th September, 1958, there was no obligation cast upon any one to surrender the foreign exchange of any other country acquired in any manner. The Committee are surprised that Government did not consider it necessary to assume wider powers to acquire foreign exchange holdings of persons in, or resident in India, till the end of September 1958, in spite of the fact that the country's external resources had been under heavy strain since the commencement of the Second Plan in April 1956.

Reply of Government

The observations made by the Committee have been noted. It may, however, be explained that the 25th March 1947 Notification was issued at a time when the Sterling Area had a special position and significance. At that time it was not considered necessary to impose any detailed instructions regarding surrender of this currency. Further when the Sterling Balances Agreement was signed later in 1947 a special treatment was given to Sterling holdings. For these reasons the 1947 Notification mentions only of surrender of Dollars only. By 1958 the special position of the sterling Area had abated. The Notification of September 25, 1958 therefore prescribed a uniformed surrender position for such currencies. While the observations made by the Committee have been noted, no further specific action seems to be called for at this stage.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 96, Para Nos. 10.28, 10.29, 10.30 & 10.31)

10.28 (i) The Committee are unable to share the Ministry's views as to the meaning, scope and effect of Section 9 of the Foreign Exchange Regulation Act.

10.29 (ii) The Ministry have stated that, "the Act (the Foreign Exchange Regulation Act) provides under different sections that certain activities connected with foreign exchange can be undertaken only under the prescribed manner and by following procedures as indicated for each such provision in the Act. The purpose of section 9 and of the Government Notification issued thereunder is really to reiterate the general position that all foreign exchange earned in any manner by any one who is a resident in India really belongs to the foreign exchange pool of the country and that all such exchange must be surrendered within one month of the party acquiring it...... This is almost an automatic process because of the imposition of exchange control in India and it would not be quite appropriate to take the view that it is section 9 and the notification issued thereunder which is achieving all this by itself." This amounts to saying that section 9 is more or less superfluous since what it seeks to achieve, *viz.* the compulsory repatriation of foreign exchange owned or held by persons in, or resident in, India is already ensured by other provisions of the Act dealing with specific activities connected with foreign exchange. The Committee cannot accept this interpretation.

10.30 (iii) The Committee are of the opinion that the object scope and effect of section 9 are clearly distinguishable from other provisions of the Foreign Exchange Regulation Act. They would like to emphasise that section 9 was enacted with the specific objective of enabling Government, to assume, as and when necessary, special and over-riding powers to strengthen the foreign exchange resource of the country. Once a notification under Section 9 is issued by Government, it becomes incumbent upon "every person in, or resident in, India who owns or holds such foreign exchange as may be specified in the notification", to offer it, or cause it to be offered for sale to the Reserve Bank on behalf of the Central Government or to such person as the Reserve Bank may authorise for the purpose, within the period stipulated in the notification. No other provision of the Act casts a similar obligation on all those who happen to own or hold foreign exchange. For instance, Section 4 provides, *inter alia,* that no person in, or resident in India, shall "buy or otherwise acquire or borrow or sell or otherwise transfer or lend etc." any foreign exchange except to or from an authorised dealer. Unlike Section 9, Section 4 does not make it obligatory for any one to divest himself of the foreign exchange owned or held by him. It is also to be noted that Section 9 applies not only to future acquisitions of foreign exchange but also to all such foreign exchange as is owned or held by any person at the date of the issue of a notification under that section.

10.31 (iv) The Committee would like to stress that after the issue of the notification under Section 9 on the 25th September 1958, no person in, or resident in, India can own or hold foreign exchange beyond a specified period (that is, one month from the date of notification if the foreign exchange was owned or held on 25th September, 1958 and one month from the date of a person becoming the owner or holder of the foreign exchange in other cases) unless permitted to do so by the said notification itself. The effect of this prohibition should have been reflected in significantly higher earnings under invisibles in the period following the notification due to compulsory repatriation of both the pre-zero holdings and subsequent acquisitions of foreign exchange. This, however, does not appear to have come about.

Reply of Government

The observations of the Committee have been noted. The main problem relating to repatriation of foreign exchange has been that, while notifications impose an obligation to declare and surrender foreign exchange, there is difficulty when parties suppress information and keep foreign exchange abroad surreptitiously. The question becomes one of 'Enforcement'. There is the basic handicap arising from the fact that such transactions take place mostly outside the territories of India and the foreign banks abroad are under no obligation to cooperate with the Enforcement machinery and give out relevant information. Government are, however, constantly reviewing the position from time to time with a view to making Enforcement more effective.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 5-12-68]

Recommendation (Serial No. 97, Para No. 10.33)

In view of the declining trend in invisible receipts on private account and the admitted leakage of foreign exchange through the so-called free market, the Committee are constrained to infer that efforts have not been made to strictly enforce the Order promulgated by the Government on the 25th September, 1958 in exercise of their powers under Section 9 of the Foreign Exchange Regulation Act. They need hardly add that an Order of this nature has little meaning unless effective measures are taken to detect and deter violations. This aspect has been considered in some detail in the comments on Section 23 of the Act.

Reply of Government

The observations of the Committee have been noted. The main problem relating to repatriation of foreign exchange has been that, while notifications impose an obligation to declare and surrender foreign exchange, there is difficulty when parties suppress information and keep foreign exchange abroad surreptitiously. The question becomes one of 'Enforcement'. There is the basic handicap arising from the fact that such transactions take place mostly outside the territories of India and the foreign banks abroad are under no obligation to cooperate with the Enforcement machinery and give out relevant information. Government are, however, constantly reviewing the position from time to time with a view to making Enforcement more effective.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 5-12-68]

Recommendation (Serial No. 100, Para Nos. 10.57 and 10.58)

10.57 (i) The Committee note that sub-section (3B) of the Section 18 of the Foreign Exchange Regulation Act prohibits persons resident in India from transferring any interest in any business in India, or creating any interest in such business, to or in favour of 'a national of a foreign State'. They feel that the use of the words 'national of a foreign State' in sub-section (3B) in preference to the expression 'person resident outside India' (which has been used in other sub-sections of section 18) is significant in as much as it makes the provisions applicable to cases involving even foreigners who may be resident in India but continue to be nationals of foreign States.

10.58 (ii) The Committee consider that the general permission in respect of transfer of securities, etc. to foreign nationals resident in India, granted under the Reserve Bank Notification No. FERA 164/5B-RB., dated the 12th September, 1958, is capable of being misused. They would like the Government to consider whether it would not be safer to require the special permission of the Reserve Bank for all transactions coming within the purview of sub-section (3B) of section 18 of the Foreign Exchange Regulation Act.

Reply of Government

The view of the Estimate Committee have been noted. The general permission given by RBI was to prevent day-to-day difficulties in the working of foreign banks, assurance companies etc. in India. It was also felt that the restriction on such transfers in favour of foreign nationals resident in India may discourage foreign investment in India.

The Estimates Committee have suggested a change on the ground that this general permission is capable of being misused. The RBI were consulted and they have stated that this provision has now existed for almost 10 years and no evidence of misuse has come to their notice. No evidence or instances regarding misuse have come to notice of the Government from any other source either. Government therefore feel that the existing provision may continue. If at a later stage any evidence of misuse comes to notice, then the question of amendment could be considered in the light of the facts of misuse as brought out.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 5-12-68]

Recommendation (Serial No. 105, Para No. 11.6)

In retrospect, the Committee would like to state that the large foreign exchange reserves, build up at considerable sacrifice during World War II, were a valuable asset which could have been used, in the early years of planning, to strengthen the agro-industrial base of the economy. This was unfortunately, not done and till about the end of the First Plan large amounts of foreign exchange were frittered away, year after year, on imports of non-essential goods which the country might well have done without.

Reply of Government

Government have no comments.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 19-11-68]

Recommendation (Serial No. 108, Para No. 11.18)

The Committee would also like to reiterate the urgent need of increasing exports and accelerating the pace of import substitution particularly in respect of maintenance inputs which account for the bulk of the country's imports at present. They need hardly stress that enduring results in regard to exports can be achieved only by bringing down costs of production of our products, which are, at present, quite high by international standards. Meanwhile, the export effort will have to be supported by various forms of incentives and assistance.

Reply of Government

The Government are alive to the urgent need for increasing exports and accelerating the pace of import substitution. As far as exports are concerned, the steps taken to boost India's exports, including cost reduction etc., have been enumerated in replies to recommendation Nos. 47, 48, 50, 51, 57, 69 and 70. As regards the objective of import substitution it is the sheet-anchor of our import policy, whether in regard to the maintenance inputs needed for industrial production or in regard to the import of capital goods. Taking maintenance imports first, special care has been taken in framing the current import policy to see that no avoidable outgo of foreign exchange is incurred on items which are available within the country. In the light of the progress made by domestic industries, as many as 260 items have been taken off the permissible list. A number of items have also been shown in the Red Book as permissible on a restricted basis only, which means that the import of these items will be allowed only after a vigorous scrutiny, and will be limited to precise specifications and prescribed values. There is also an inter-departmental committee for considering representations received after the announcement of the import policy, suggesting a ban on the import of certain items on the ground that they have become available in the country. As a result of such representations as many as 11 items have been excluded from the permissible list after the publication of the Red Book. It has also been decided that while revalidating the licences, the Licensing Authority will delete from the licences such of the items as have come under a ban subsequent to the issue of the licences.

Turning to plant and equipment, an important innovation recently introduced was that new units or expanding units wanting to import plant and equipment of a value exceeding Rs. 7.5 lakhs must advertise their requirements in detail before submitting import applications; the intention is to give an opportunity to the indigenous manufacturers to say whether they will be in a position to meet the requirements partly or wholly. The advertisement procedure will also be applicable to steel castings and forgings, if the value of the order exceeds Rs. 50,000. Before allowing the import of capital goods there is invariably a rigorous scrutiny from the indigenous angle by the Directorate General of Technical Development. Even in regard to projects the foreign currency requirements of which are proposed to be financed out of credits, care is taken to get a rough-and-ready dimensional assessment of the foreign exchange component of the projects before the credit negotiations are even informally undertaken.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 19-11-68]

Recommendation (Serial No. 109, Para No. 11.20)

The Committee would like the Government to act with speed in assessing the impact of the recent devaluation of the pound sterling and other currencies on India's exports and take timely measures to counter any adverse effects that these developments may have on the country's export effort.

Reply of Government

The measures taken just before the introduction of Budget for 1968-69 and those contained in the Finance Act of the same year for promoting exports took into account such adverse effects as were likely to occur on India's exports as a result of sterling devaluation.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 19-11-68]

Recommendation (Serial No. 110, Para No. 11.21)

Finally, the Committee note the Government's decision to postpone the commencement of the Fourth Plan to April 1969. They would like the new Plan to embody a pragmatic approach to the pressing economic problems facing the country *viz.*, rising prices, recurring balance of payments difficulties, and fall in production and the rates of domestic savings and investment. To strengthen people's faith in planning, which has been shaken by the unsatisfactory performance of the Third Plan and the growing economic difficulties, it would be necessary to ensure that the principal targets of the Plan are realistic and are such as can be achieved without producing fresh distortions and strains in the economy which may result in aggravating the lot of the common people. With this object in view, the Committee would suggest that the new Plan should not only lay down physical targets of achievements in various sectors but also set out practical and concrete measures to bring about the targeted increases in production, exports, savings etc. They would also suggest that the formulation of the new Plan may be preceded by an objective assessment of the reasons for the failure of the Third Plan so that the errors in planning which have led to the present difficulties in both the internal and external sectors of the economy may be avoided.

Reply of Government

Reference is invited to the document "Approach to the Fourth Five Year Plan" which provides the guide lines to the detailed preparation of the Fourth Five Year Plan.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 19-11-68]

Further Information called for by the Committee

Please furnish a detailed and self-contained reply giving relevant extracts from the "Approach to the Fourth Plan", if necessary.

[Lok Sabha Secretariat O.M. No. 4/8(1)ECI/67, dated 5-12-1968]

Reply of Government

The document 'Approach to the Fourth Five Year Plan' provides the necessary guidlines to the detailed preparation of the Fourth Five Year Plan commencing from April, 1969. The Government has taken note of the suggestions made in the above recommendation and these will be kept in view in formulating the new Fourth Five Year Plan and set out realistic policies for achieving the targeted increase in production, exports and domestic savings.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 7-1-69]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

Recommendation (Serial No. 2, Para Nos. 3.91 and 3.92)

(i) On a review of India's balance of payments during the 1948—61, the Committee note that India had an adverse balance of trade throughout these thirteen years, though the size of the trade deficits varied from year to year. Briefly, the aggregate and average annual trade deficits during the three periods—the pre-plan period (1948—51), the First Plan period (1951—56) and the Second Plan period (1956—61)—covered in this span of thirteen years, were as under :—

period	Trade Balance	Annual Average
1948—51	(—) 377	(—) 126
1951—56	(—) 542	(—) 108
1956—61	(—) 2336	(—) 467

The impact of the trade deficits on the country's balance of payments was to some extent softened by net receipts from Invisibles. But earnings from invisibles being generally very small compared to the size of the trade deficits, the country had a negative current account in all but two years, viz., 1952-53 and 1953-54, the annual average current account deficit being Rs. 88 crores in 1948—51, Rs. 30 crores during the First Plan period and Rs. 382 crores during the Second Plan period. The recurring trade and current account deficits inevitably led to the erosion of the country's foreign exchange reserves, which declined from Rs. 1,612 crores at the end of March 1948 to Rs. 303.6 crores at the end of the Second Plan period. Besides, to meet the payments arising out of excess of imports over exports the country had to go in for external assistance on an extensive scale.

(ii) The Committee feel that the persistent current account deficits during the period 1948 to 1961 were due mainly to failure to evolve and implement a consistent trade policy which would maximise exports and minimise imports.

Reply of Government

It needs to be appreciated that export performance depends on a number of factors such as the rate of growth of productivity, international demand conditions and actions of competing countries. India had to face many difficulties on each of these fronts during the period under review. The current policy is to give the highest priority to exports. There might, however, be circumstances in which a trade deficit has to be a planned one in order to absorb such foreign aid as may be considered desirable for the country's economic growth. This was the situation during the Second and Third Five Year Plan periods. There were, of course pressures which were sought to be met by restrictions on inessential imports and efforts to augment the country's exports.

[Ministry of Finance, O.M. No. 22-US(W)/68. dated 28-10-68]

Recommendation (Serial No. 3, Para Nos. 3.93, 3.94, 3.95 & 3.96)

(i) The Committee note that during the period 1948—51 the policy relating to exports was, by and large restrictive, guided as it was by the need to enure adequate supplies to meet the home demand. Although exports rose during this period from Rs. 482.5 crores in 1948-49 to Rs. 464.8 crores in 1950-51, the increase in exports earnings was purely fortuitous being largely due to higher prices resulting from rising world demand occasioned by the Korean War boom of 1950-51.

(ii) During the First Plan period the exports policy was liberalised somewhat by reducing or removing export duties, liberalising export quotas and removing destinational restrictions in the case of certain commodities. The annual average exports during the plan period amounted to Rs. 622 crores as against Rs. 548 crores during 1948—52, marking an increase of about 14 per cent. It has to be noted, however, that the improvement was largely accounted for by the fact that under the impact of Korean War boom exports had reached an all-time peak of Rs. 730 crores in 1951-52. With the tapering off of the Korean War boom, exports again came down and the annual average for the remaining four years of the First Plan period was only Rs. 594.5 crores.

(iii) The Second Five Year Plan while anticipating a large foreign exchange gap had stressed that "the accent of policy must necessarily be on maximising export earnings and economising to the utmost on imports." However, in the balance of payments estimates of the Plan annual average exports during 1956—61 were assumed to amount to only Rs. 593 crores, i.e. Rs. 29 crores lower than the level attained during the preceding plan period. It is significant that even after the drastic fall in foreign exchange reserves in the first two years of the Second Plan had focussed attention on the need to promote exports and certain promotional measures to step up export earnings were initiated, exports failed to pick up appreciably. In fact, the level of export earnings in the last four years of the Second Plan was lower than that in the first year of the Plan. The annual average of actual exports during the Second Plan period was only Rs. 613 crores which was Rs. 9 crores less than the average for the First Plan period.

(iv) The Committee are distressed so note that in spite of a decade of planning exports had remained stagnant during the first two Plans. They consider it regrettable that in spite of the large foreign exchange requirements of the two Plans, no serious effort was made to earn additional foreign exchange through increased exports. In fact, till the cushion provided by the accumulated sterling balances very nearly disappeared in 1957-58, there was hardly any awareness that exports had an effective role to play in augmenting the country's foreign exchange resources. In the Third Plan document itself, it has been stated, "One of the major drawbacks (of export promotion) in the past has been that the programme for exports has not been regarded as an integral part of the country's development effort under the Five Wear Plans."

Reply of Government

It needs to be approciated that export performance depends on a number of factors such as the rate of growth of productivity, international demand conditions and actions of competing countries. India had to face many difficulties on each of these fronts during the period under review. The current policy is to give the highest priority to exports. There might, however, be circumstances in which a trade deficit has to be a planned one in order to absorb such foreign aid as may be considered desirable for the country's economic growth. This was the situation during the Second and Third Five-Year Plan periods. There were, of course pressures which were sought to be met by restrictions on inessential imports and efforts to augment the country's exports.

[Ministry of Finance, O.M. No. 22-US(W)/68. dated 28-10-68]

Recommendation (Serial No. 18, Para No. 4.87)

The Committee are glad to note that Government recognise the imperative need of observing the 'necessary discipline' to keep inflationary pressures under control so that the country is not again faced with a situation where further devaluation becomes unavoidable. They regret to observe. however, that judging by results there has been little evidence so far of Government's determination to hold inflation in check.

Reply of Government

Government does not accept the judgment that there is "little evidence so far of Government's determination to hold inflation in check". A number of policy measures have been taken to control expenditure and to augment supplies of essential commodities. More recently, the price situation has shown considerable improvement. In periods of acute stress caused by failure of monsoons it is not possible to maintain absolute price stability, and efforts made by Government have to be judged on merits in such circumstances. Government will continue to endeavour to hold inflation in check but this is an activity which cannot fully succeed without cooperation from all sections of the community.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 19, Para No. 4.88)

The committee also note Government's decision to effect a modest economy of Rs. 101 crores in the expenditure during 1966-67 as a post-devaluation measure. They would, however, like to underline the very distressing fact that, in sharp contrast to 1949 when devaluation was followed by volutary cuts in salaries of Ministers and schemes of compulsory savings or cut in salaries applicable to all Government employees, the present devaluation has been followed by increases in emplunments of Government employees all over the country necessitated by the spiralling up of prices.

Reply of Government

Owing to the constraints on resources and as a follow-up action on devaluation the question of economy in expenditure had been receiving the special attention of the Government for some time past. Various measures have been taken by Finance Ministry to achieve this objective. In reply to several Questions on the subject raised in Parliament, Finance Ministry have placed on the Table of the House from time to time various statements indicating the economy measures taken by the Government and their resultant effect. Some of the important measures taken during the last two/three years are indicated in the *Statement enclosed.

2. Apart from these measures, the work measurement studies by the Staff Inspection Unit of Finance Ministry had also been intensified during the last few years resulting in sizeable economies in staff including preventive economy by withdrawal or modifications of proposals for extra staff. The results of the studies conducted by the S.I.U. during the last three years are as under :—

Year	No. of reviews conducted	No. of surplus Posts located.	Economy per annum (Rs. in lakhs)
1965	31	833	80.55
1966	47	4929	197.95
1967	55	3999	205.01

3. Incidentally it has to be recognised that the situation in 1966 was not comparable to the situation which existed in 1949. In the first place we now have to make allowance for the increased strain on the economy resulting from the massive developmental effort. Secondly in 1966 and 1967 there was a serious set back on the agricultural front.

[Ministry of Finance, O.M. No. 22-US(W)/68. dated 28-10-68]

Recommendation (Serial No. 22, Para No. 4.93)

The Committee would also like to draw attention to the inordinate delay in the setting up of a high-powered Inter-Ministerial Committee to work out the details of the 'various programmes for development of the production of the principal export-oriented agricultural commodities' and to supervise the implementation of these programmes. The constitution of such a committee was envisaged in the 'Selected Immediate Programmes to help and develop exports' announced by the Minister for Commerce in his statement of August 16, 1966, that is nearly four months after the announcement of the 'Immediate Programmes and over six months after the devaluation of the rupee.

Reply of Government

The decision to set up an Inter-Ministerial Committee to increase production of raw jute was no doubt taken on the 10th August, 1968. The question whether there should be a separate committee or whether one of the committees which had already been set up to review the production of, raw jute should function as the High Power Committee was examined and a decision was taken on 17th October, 1966 for setting up a High Power Committee with the Agriculture Secretary as Chairman and Convenor. Subsequently the Commerce Ministry had to obtain the concurrence

*Not printed.

of the other members and the final acceptances came in the first week of December, 1966 and the resolution setting up the Committee, was issued on the 13th December, 1966. It was decided that this High Power Committee should not only be concerned with jute but also with other export-oriented agricultural commodities.

[Ministry of Finance, O.M. No. 22-US(W)/68. dated 28-10-68]

Recommendation (Serial No. 39, Para No. 5.150)

The Committee need hardly stress that in view of the price increases and the other strains which have developed in the economy it is of the utmost importance to avoid other deficit financing. They are unhappy that inspite of the clear understanding that there would be no deficit financing during the Fourth Plan, large budgetary gaps in the very first year of the Fourth Plan made it necessary for the Government to have recourse to deficit financing on an extensive scale. The Committee are of the view that if deficit financing is to be eschewed, immediate measures must be taken to curtail non-developmental expenditure both at the Centre and State levels. Further, developmental outlays should we strictly limited to resources in sight on the basis of existing taxation. Government must also take effective measures to check the practice of the States' overdrafting on the Reserve Bank, as this is an important factor necessitating recourse to deficit financing by the Centre.

Reply of Government

The extent of deficit financing in any particular year has to be viewed in the light of the prevailing circumstances. While Government would seek to avoid inflationary financing of expenditures, it does not follow that a Budgetary deficit necessarily adds to inflaction. When there are unused resources in the economy which can be brought into effective play, it may well be necessary for the health of the economy to inject extra purchasing power into it.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 49, Para Nos. 6.25 & 6.26)

6.25. Considering that the bulk of the Country's Export consists of agricultural commodities and manufactures based on agriculture whose increase requires long-term investments, the Committee suggest that the comprehensive cooperational plan should be prepared for each of the agricultural and plantation crops which are important from the point of view of exports (such as, jute, tea, cotton, tobacco, coffee, cashew nuts, oilseeds etc.) Such a plan should indicate the inputs in the shape of fertilisers, irrigation, area of planting and replanting, amount of investment and loans required from year to year and relate these to specific annual targets of production, increases in per acre yields and exports.

6.26. An integrated programme of the type indicated above would naturally call for a high degree of coordination between the Central and State Governments to ensure that State policies-land and agriculture are State subjects do not run counter to the Central Government's efforts to create adequate surpluses for feeding the export markets. The Committee feel that the existing institutional arrangements for securing uniformity of policy in this sphere between the Central Government and the State Government require to be improved. The Inter-Ministerial Committee on export-oriented agricultural commodities, set up by the Central Government in December 1966, may be quite competent to prepare detailed programmes for the development of the production of the principal export-oriented agricultural commodities. However, as that body consists of Central officers only, it is doubtful whether it can secure the necessary coordination between the Central and the States which is a pre-requisite for the successful implementation of these programmes. The Committee, therefore, suggest the creation of a high level, Coordination Committee consisting of the Ministers in charge of Finance, Commerce and Agriculture, Government of India, and the concerned Ministers of those State Governments where the export commodities are predominently grown. The main object of this body should be to secure the cooperation of the States in implementing the production programmes in respect of specific export-oriented agricultural commodities. It may meet periodically to review the progress of the various programmes, take decisions on remedial measures that may be considered necessary to remove any bottle-necks, and resolve any differences that may arise between the Central and State Governments in regard to the scope or the implementation of the production programmes.

Reply of Government

The agricultural commodities and agro-based industrial products are no doubt still of great importance in the sphere of exports from India. The problems connected therewith are being tackled from various angles.

CASHEW : In order to reduce the dependence on imports, constant efforts are being made to increase the production of raw cashewnuts within the country. The total production of raw nuts increased from 1.12 lakh tonnes at the end of the Second Plan (Acreage 5.08 lakh acres) to 1.57 lakh tonnes at the end of the Third Plan (Acreage 12.37 lakh acre). During the Third Five Year Plan, a provision of Rs. 1.90 crores was made for the development of cashew with a view to bring additional 8.08 lakh acres under cashew. The freshly planted cashewnut during the Third Plan together with the higher yield obtained as a result of intensive measures in old plantations and adoption of more efficient collection methods is expected to give annual production of 3.28 lakhs tonnes by the end of 1970-71. The development programme under the Third Five Year Plan included incentives to growers in the shape of loan facilities, assignment of land on lease, distribution of planting material, adoption of plant protection measures etc. During the Fourth Five Year Plan the programme includes extension in area, more intensified application of imported agricultural practices, grant of long term loans, fertilisation of cashew plantations and demonstration of manurial trials in growers gardens.

TOBACCO : The overall total production of different types of tobacco in the country was about 384 millions kgs. during the Third Plan period. The Government of India sanctioned during 1966-67 a Centrally sponsored scheme for the development of exportable types of tobacco in the States of Andhra Pradesh, Mysore, Gujarat and Madras. The scheme has since been functioning and has covered an area of about 2024 hectares in Andhra Pradesh, 486 hectares in Mysore, about 142 hectares in Gujarat and about 81 hectares in Madras State during the last two years. The scheme has been sanctioned by the Government of India as a central project with 100 per cent financial assistance from the centre during 1966-67 and 1967-68. It is being continued in 1968-69.

Development plans have been drawn up. Additional production of tobacco for the Fourth and Fifth Five Year Plan is projected at 89 and 230 million kgs. respectively. Type-wise additional production during the Fourth Five Year Plan is projected at 32.4 million kgs. for virginia flue-cured, 17 million kgs. of tobacco other than Virginia flue-cured used in cigrattes, 25.6 million kgs. of bidi tobacco and 14 million kgs. of chewing, cigar and choroot tobacco.

OIL SEEDS : As a result of specific projects, an additional production of about 2.122 million tonnes of the five major and two minor oilseeds has been estimated during the Fourth Five Year Plan. As per the schemes formulated by the States for 1968-69 and the expected production of over 8 million tonnes of oilseeds during 1967-68, the production during the base year (1968-69) is estimated at 9.878 million tonnes including safflower and niger. Thus, the total production of cultivated oilseeds by the end of the Fourth Plan may stand at 12.00 million tonnes.

So far as the plantation industries of tea, coffee, rubber and cardamom are concerned, the development of each of the industries in the 'Third Five Year Plan' period was guided by plans formulated by Working Groups set up by the Commerce Ministry in which representatives of the Industry were also associated. The Working Group set up for development of each plantation industry worked out the targets of production and exports to be realised, suggested the extent of new plantation and replanation to be undertaken and the yield for hectare to be attained, assessd the extent of inputs to be arranged (machinery and equipment including artificial irrigation equipment, fertilizers, plant protection chemicals and equipments required for research) and formulated schemes of financial and other assistance that should be given to planters in order to realise the suggested production and exports targets. Similar development plans were also formulated for each of the commodities for the original Fourth Plan period (*i.e.* for the period 1966-67 to 1970-71) by Working Groups set up for the purpose but, at the instance of the Planning Commission, the targets and schemes suggested by the Working Groups for each commodity are being reviewed and reformulated by the respective commodity Boards concerned for the rephased Fourth Five Year Plan period (1969-70 to 1973-74). The National Development Council will have occasion to review these as part of their review of the Fourth Plan both at the formulation and the implementation stage. It will thus be seen that so far as the plantation industries are concerned, the recommendations of the Estimates Committee are to a large extent already being followed. They have, however, been carefully noted for implementation to the utmost extent possible.

The Board of Trade, which is the highest advisory body in the matter of exports, had also occasion to discuss the problems of agricultural and plantations products. The Board had set up study groups to examine the problems faced by the exporters of these commodities. The recommendations of the study groups are being implemented., For this purpose an operational Committee with Commerce Secretary as Chairman has been set up by the Government. This Committee reviews the progress of implementation of the recommendations.

In view of what has been stated above a high level Co-ordination Committee consisting of the concerned Ministers in the Government of India and the State Governments where the export commodities are predominently grown is not necessary.

[Ministry of Finance, O.M. No. 22-US(W)/68. dated 28-10-68]

Recommendation (Serial No. 63, Para No. 6.53)

The Committee commend the suggestion made by the Study Team on Economic Administration, set up by the Administrative Reforms Commission, for providing a measure of relief to export goods from sales taxes levied by State Governments. They hope that Government would soon work out, in coordination with the State Governments, an effective scheme to ensure that the export effort of the country is not hampered by unduly high and varying rates of sales taxes.

Reply of Government

The question of exemption of sales tax on transactions immediately preceding exports, has been examined on the basis of the Saraiya Committee but no progress could be mode as it was not found possible for the Central Government to agree to compensate the States to the extent of loss of revenue involved in this respect.

In regard to allowing a draw back of sales tax a recommendation to this effect, made by the Drawback Enquiry Committee is under consideration of the Ministry of Finance (Department of Revenue and Insurance).

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 73, Para Nos. 7.20, 7.21 & 7.22)

7.20 The Committee note with concern the sharp deterioration in the country's invisible account during the Third Plan period. Invisible items were a net source of foreign exchange earnings in the preceding Plan periods, the annual average of net receipts from invisible (excluding official donations) being Rs. 78.2 crores in the First Plan period and Rs. 85.4 crores in the Second Plan period. However during the Third Plan period, these items caused a new outflow of Rs. 278.7 crores, or Rs. 55.7 crores a year, from the country's foreign exchange resources. In fact, a declining trend in net earnings from this source had set in as far back as 1957-58 and had continued unchecked throughout the rest of the Second Plan period. The position was further aggravated during the Third Plan period when net receipts gave way to net payments.

7.21. The Committee also note the Ministry's admission that the continuing deterioration in the invisible account during the Third Plan period was due, *inter alia,* to :

(i) Heavier taxation in India which discouraged inflow of earnings into India;

(ii) Greater profitability of reinvesting earnings abroad as compared with profitability of investment in India;

(iii) Growing tendency to repatriate earnings through free market channels rather than official channels and leakage of foreign exchange through various other antisocial practices, such as retention of illegal earnings abroad, sale of travellers' cheques in the unofficial markets, under-invoicing of exports and over-invoicing of imports, smuggling etc.

7.22. Frome the limited data avialbe it appears to the Committee that official expectations that devaluation would bring about an improvement in the invisible account by encouraging increased remittances and discouraging outward remittances as well as irregular practices resulting in leakage of foreign exchange through unofficial channels have not been fulfilled. On the other hand, the net outflow on account of invisible (current account) transactions during the three months following devaluation has, in fact been larger than in the preceding quarter, while receipts have been substantially smaller.

Reply of Government

The data on invisibles for the First and Second Plan periods is not comparable with that of the Third Plan period because of the difference in coverage with regard to PL-480 Title I transactions. The figure of Rs. 278.7 crores for the Third Plan period, based on data furnished in June, 1967, excludes reimbursement of freight on PL-480 initially paid for by India, grants under PL-480 Title I, U.S. Embassy expenditure out of PL-480 funds and other miscellaneous receipts under PL-480 and PL665. But for these adjustments the invisible figures (excluding official donation receipts) for the Third Plan period will be as under:

		(*Rs. Crores*)
1961-62	—	14.6
1962-63	—	15.3
1963-64	+	10.6
1964-65	+	16.8
1965-66	+	20.1
Total	+	17.6
Annual Average	+	3.5

Thus, as compared to the annual average inflow of Rs. 78.2 crores and Rs. 85.4 crores in the First and Second Plan period respectively, the inflow in the Third Plan period was Rs. 3.5 crores. Invisible position during the Third Plan deteriorated, mainly on account of non-materialisation of increased earnings from foreign travel, heavy outgo on account of interest on foreign loans and remittances of profits, dividends and royalties.

Attention is invited to reply to recommendation No. 74 (Para No. 7.23).

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-68]

Recommendation (Serial No. 74, Para No. 7.23)

The Committee are of the view that the devaluation of June 5, 1966 by itself cannot reverse the adverse trend in invisibles. They feel that the solution to the problem really lies in the adoption of fiscal and economic policies which would create a healthy climate for investment. The Committee need hardly stress this point as the Government have themselves recognised that the continuing and increasing losses on account of invisible items are in no small measure due to heavy taxation and relatively lower profitability of investment in India. They would, however, suggest that in addition to general measures for improving the climate for investment in the country, Government should devise special incentives to encourage (a) foreign companies to re-invest their earnings in India and (b) repatriation of foreign exchange earned or held abroad by Indian nationals.

Reply of Government

It is of course true that the devaluation of June 6, 1966, was not expected by itself to reverse the adverse trend in invisibles. The deterioration in India's invisible payments position arises because of the large interest payments on external debt, and similar payments for royalties, remittance of dividends, etc. in face of a somewhat stagnant inflow of remittance from abroad. The Indian tax system does not have any special incentives for reinvestments of profits either by Indian companies or foreign companies. It is felt that the basic problem is that of improving the climate for foreign investments and the measures taken in this regard would also help in persuading foreign investors to retain their profits in India. In other words, it is not necessary to distinguish between fresh inflow of capital and reinvestment of earnings since both depend primarily on the profitability of foreign investments in India and the general climate for such investments.

As regards repatriation of foreign exchange by Indian nationals abroad a substantial incentive was provided by the devaluation itself. Incentives which would work through the exchange system cannot be considered as that would undermine the system itself.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 28-10-1968].

Further Information called for by the Committee

Please state what measures have been taken to encourage investment of capital in India by Indians living abroad.

[Lok Sabha Secretariat, O.M. No. 4/8(1)ECI/67, dated 5-12-1968]

Reply of Government

Until recently when people of Indian origin wanted to make investments in India, the rule was that the investment had to be only in industrial concerns and it had to be a public limited company or a private limited company in which there should be a majority share holding of the residents. Several representations were received against this rule seeking that the investment should be sossible not only in private limited companies but also in partnerships and urging that there should be no bar on the non-residents of Indian origin having a majority holding or even a 100 per cent holding. There were also representations that the activity should not be confined only to industrial concerns and that trading and business should also be allowed. With a view to giving a fillip to investment in India by people of Indian origin, Government have decided that with effect from 10th December 1968, there would be no bar to investments being made in partnerships or proprietorships nor would there be any bar to majority or full holding of shares by non-residents of Indian origin in private limited companies. It has also been agreed that non-residents of Indian origin may undertake any business or industrial activity. Of course in respect of these arrangements, as before, there is the requirement that the capital and dividend cannot be repatriated. There are also certain requirements about the auditing of accounts etc. These concessions have also been made applicable to funds held in India under what has been known as the National Defence Remittance Scheme.

2. Apart from the major changes which have been recently made as indicated in para 1 above, even in the past, some special concessions were offered to people of Indian origin. For example, as early as in 1962 or so, it had been agreed that people of Indian origin could invest in manufacturing concerns in any field of manufacturing activity, which may not otherwise be open to non-residents of foreign origin provided they agreed not to repatriate capital and dividend. Likewise, at a later date, it had been agreed that investments could take place in private limited companies subject to association of resident capital to a majority extent. The recent changes as summarised in para 1 above of course take things very much further now and in all respects, one can say that the investment facilities available to non-residents of Indian origin in the matter of business, industry etc. are now on par with those available to resident Indians. It is true that the non-resident Indians have to agree to the condition that the capital, dividend, profits, interest etc. will not be repatriated. However, the obligation in this respect of resident Indians is also the same. Full publicity to these measures has recently been given through an article which has been specially written on the subject and copies of which have been distributed to all our Missions abroad located in countries having Indian population.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 19-2-1969].

Recommendation (Serial No. 88, Para No. 9.9)

The Committee note that at present foreign exchange budgeting is primarily a system of estimating the receipt and expenditure of foreign exchange over a given period. They would like to recall that during the first three plan periods the actual plan-wise balance of payments varied considerably from what was anticipated in the Plan documents. During the Second and Third Plan periods particularly the calculations of the planners were seriously upset by recurring foreign exchange crisis which could have been avoided by better management of the country's foreign exchange resources. The Committee would like to urge that if such situations are to be avoided in future the size and the composition of the development plans should be determined on the basis, *inter alia* of a realistic assessment of foreign exchange availability and demand. It is also imparative that the method of operation as well as the criteria adopted by the foreign exchange budget should be integrated with the requirements of the overall Plan. This would imply that the foreign exchange budget should not merely provide estimates of resources and requirements over a given period but also attempt to allocate scarce foreign exchange resuorces among competing users on the basis of the order of priorities laid down in the Plan. The Committee would like the Government to suitably modify the character and scope of the foreign exchange budget in the light of these considerations.

Reply of Government

There seems to be some misconception about the nature of foreign exchange budgeting. The assessment of receipt and expenditure of foreign exchange over a given period is only a part of the budgetary exercise and is the foundation on which the foreign exchange budget is framed. The objective of foreign exchange budgeting is to make the best possible allocation of the available resources, net of obligatory payments, for the various competing demands. As the available resources are insufficient to cover all the demands, priorities are kept in view while making the allocations. These priorities follow the framework of the Five Year Plan and the Annual Plans. Since the foreign exchange budget has to be as realistic as possible, it has to take note of various developments and actual state of affairs while determining the priorities and the allocations. For example, if due to the vagaries of monsoon, it becomes necessary to import fooodgrains in excess of what was contemplated in the Plan document, then foreign exchange allocation would have to be made available for the purpose with adjustments elsewhere. Thus in fact foreign exchange budgeting is actually designed, as recommended by the Committee, to allocate scarce foreign exchange resources among competing users on the basis of the order of priorities accepted by the Government in the framework of the Five Year/ Annual Plans.

[Ministry of Finance, O.M. No. 22-US(US(W)/68, dated 28-10-68].

Recommendation (Serial No. 90, Para No. 9.14)

The Committee hope that Government would soon adopt the practice of presenting balance of payments estimates to Parliament every half year. They would like to suggest that these estimates should be accompanied by suitable explanatory notes bringing out the significance of the data presented.

Reply of Government

The suggestion has been made that the Government of India should adopt the British practice to present the balance of payments estimates to Parliament every half year. The British Government used to prevent a White Paper on U.K. balance of payments to the British Parliament every half year. The practice has now been changed and the balance of payments data is presented to the House of Commons every year, about the time the British Budget is presented. Apart from this an Economic Report is also presented to the House of Commons at the time of the Budget; this also contains chapter on balance of payments. Thus, the British practice now is, more or less, what the Government of India have been doing. At the time of the Budget we are presenting to Parliament an Economic Survey which gives balance of payments data. Besides, a quarterly review of balance of payments is being made by the Reserve Bank of India in its Bulletin, which is available to Parliament.

[Ministry of Finance, O.M. No. 22-US(US(W)/68, dated 28-10-68].

Recommendation (Serial No. 95, Para No. 10.25)

The Committee also note that even under the notification dated the 25th September, 1958, Government's powers to acquire foreign exchange holdings do not extend to (a) holdings expressed in certain currencies like those of Pakistan, Burma and Ceylon and (b) sums held as on 8th July, 1947, in an account expressed in pound sterling and in existence prior to that date. Further, accounts expressed in pound sterling opened on or after the 8th July, 1947 are also exempted from the requirement of surrender provided general or special permission has been granted by the Reserve Bank for the maintenance of such accounts. The Committee are unable to appreciate why holdings of foreign exchange expressed in certain currencies, should be wholly exempted from the requirement of surrender especially when this requirement is not applicable to accounts in foreign currency maintained outside India by 'persons in or resident in India but not domiciled therein'. They would like the Government to consider whether the afore-mentioned exemptions, particularly those in respect of holdings of Pakistani currency and accounts in pound sterling, should not be withdrawn in view of the need to strengthen the country's foreign exchange resources and prevent dealings in foreign exchange by persons other than authorised dealers.

Reply of Government

It may be clarified that in so far as current exports to countries like Burma and Ceylon are concerned, these exports are permitted only when the exporter undertakes, as is the procedure in respect of other destinations, to repatriate convertible foreign exchange within 180 days. In fact, in so far as payment for our exports is concerned, there are no restrictions in Burma and Ceylon and the foreign exchange thus earned is repatriated to India. So far as Pakistan is concerned, the same is the rule, *viz.*, that exports are permitted only when the exporter is in a position to repatriate to India in foreign exchange the sale proceeds of the goods to be exported. There has been no difficulty in this respect, even in respect of Pakistan except when the exports to that country were banned as a result of Pakistan aggression.

While the above is the position in regard to the repatriation of foreign exchange pertaining to export of goods to these countries, the position as regards foreign exchange left behind in these countries by people who were once residing there and who have since come away to India is quite different. For such funds, these countries have severe restrictions and remittances to India or to other countries are not permitted. That being so, there would not be any point in making it obligatory, under our regulations, by extending the scope of the notification, for Indians who were erstwhile residents of these countries to surrender these currencies. Any requirement to report and surrender the currencies would be unrealistic in the sense that while our notification would require them to surrender the foreign currencies, they would not be able to do so for reason beyond their control.

So far as sterling accounts opened prior to 8th July 1947, a special treatment was given to these in the context of the agreement between the Government of India and the Government of the U.K. The present holdings of this nature are small in value and sustantial benefit is not likely to accrue to the country by withdrawing the facility at this stage.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 19-11-1968].

Recommendation (Serial No. 98, Para No. 10.45).

The Committee note that the object of section 14 of the Foreign Exchange Regulation Act is to ensure strict observance of the restrictions on the export and transfer of securities provided for under section 13. It is, therefore, rather surprising that the powers vested in the Government under section 14 should have remained unused for all these twenty years since the Foreign Exchange Regulation Act was enacted.

Reply of Government

Section 14 confers additional powers on the Central Government to cause all securities to be held by designated agencies instead of the holders themselves. Section 13 as it exists gives adequate powers to Reserve Bank of India to regulate and to keep a check on all such securities. No need has therefore been felt to take recourse to the additional powers granted by Section 14.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 28-10-68].

Recommendation (Serial No. 99, Para Nos. 10.50 & 10.51).

10.50. The Committee note that the power to compulsorily acquire foreign securities vested in the Central Government under section 16 of the Foreign Exchange Regulation Act has not been availed of so far. They would also like to recall that during the Second World War period similar powers available to Government under the Defence of India Rules were made use of to issue a direction that all dollar securities should be converted and held in sterling. This measure was considered necessary in view of the 'dollar gap' which the sterling area was then facing. According to the Ministry, the reasons for not invoking the provisions of section 16 are that "a wholesale direction for repatriation of all securities held abroad" could not be issued because (a) "in many instances securities are held in Countries where because of balance of payments difficulties, in any case, those countries do not permit repatriation of the sale proceeds," and (b) "Corporations like the L.I.C. have foreign liabilities abroad and they have of necessity to keep some securities there." The Ministry have further stated that even in that sector where it might be possible to issue a direction that all securities should be repatriated to India, "such pre-emptory orders have not been issued as it might lead to distress sales causing loss of foreign exchange." The Committee feel that the Ministry's explanation is not very convincing. In the first place, there is no warrant foı the presumption that an order issued by the Government under section 16 has necessarily to be in the nature of what the Ministry call "a wholesale direction for repatriation of all securi-held abroad". Section 16 authorises the Government not only to limit the application of such order to the foreign securities specified in the notification' but also to grant such exemptions as it may consider necessary even in respect of the notified securities. Secondly, keeping in view that the provisions of the Defence of India Rules (1939), relating to acquisition of foreign securities, were actually used during war time to help the sterling area cover its dollar gap, it is difficult to agree with the Ministry's stand that similar action under section 16 of the Foreign Exchange Regulation Act has not been taken because of any insuperable difficulties, or adverse consequences that might result from such action.

10.51. In view of the above, it is evident that had Government really desired to avail of the power to compulsorily acquire foreign securities vested in them under section 16 of the Foreign Exchange Regulation Act they might well have done so by issuing appropriate orders in this behalf making due

allowance for any practical difficulties. The Committee regret to note that although the statute has conferred this power on the Government explicity "for the purpose of strengthening its foreign exchange position", Government could find no use for it in dealing with the extremely difficult foreign exchange position which the country has been facing for nearly a decade. The Committee hope that Government would give thought to the need of taking effective action under section 16 to strengthen the country's foreign exchange reserves.

Reply of Government

With the permission of the Reserve Bank of India, Securities can be held abroad. Section 16 empowers Government to enforce sale of such holdings and the repatriation to India of such sale proceeds. The Estimates Committee have regretted that Government have so far not used or invoked this provision. Government do not share this view. While Section 16 no doubt confers these powers on Government, Government look upon these securities as a small reserve which could be availed of in dire necessity. It may be mentioned that savings/dividend on these securities held abroad with the approval of the Reserve Bank of India, are, in any case required to be repatriated to India. Moreover, orders also provide for gradual repatriation of the holdings when securities mature.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 19-11-1968].

Recommendation (Serial No. 106, Para No. 11.15).

The Government feel that the expected improvement in the country's balance of payments, as a result of devaluation, has not materialised so far mainly because of three factors viz., (i) continuing inflation, (ii) the lack of adequate export surpluses and (iii) the abrupt withdrawal of pre-devalution export-incentive schemes and imposition of export duties on many important items of export. According to the Annual Plan 1967-68, the overall index of wholesale prices has risen by 15.7 percent in 1966-67. This abnormal rise in prices the highest annual increase experienced so far since the commencement of planning—has naturally neutralised to a great extent the usefulness of devaluation which was meant to be a corrective to the chronic disequilibrium in the balance of payments resulting from the earlier erosion in the value of the rupee under inflationary pressures.

Reply of Government

The balance of payment situation is influenced by a number of factors and in assessing the impact of any one of them the effect of all others should also be taken into account. These factors include the second successive drought in the year 1966-67 and the consequent shortages of food as well as raw materials needed by export industries. The price situation also worsened in the wake of these shortages thereby increasing industrial costs. There was a decline in India's imports as well as export and trade deficit was smaller than in the previous year. More recently, the export performance has improved. It is, of course, true in a general sense that inflation neutralises the effects of devaluation; but Government did keep a tight fiscal and monetary control to the extent feasible in the circumstances. The need to keep such restraint continues as also the need to take all possible measures to promote exports.

[Ministry of Finance O.M. No. 22-US(W)/68, dated 19-11-1968].

Recommendation (Serial No. 107, Para Nos. 11.16 & 11.17).

(i) The Committee would like to reiterate that the most essential condition for bringing about an enduring improvement in the country's balance of payments is to keep inflationary pressures firmly under control. To do so, it is necessary to identify and eliminate the factors contributing to inflation. The Committee are of the view that the most important cause of inflation lies in the size, strategy and implementation of the Five-Year Plans. In brief, the Plans have led to inflation because the enormous outlays made thereunder have not been matched by a corresponding increase in production. Rapid increases in non-developmental expenditure have further aggravated the inflationary pressures.

(ii) To remedy the situation it would be necessary, in the first place, to limit public expenditure to the resources Government can mobilise without recourse to deficit financing which aggravates inflation. This means that considerable economies have to be made in both developmental and non-developmental outlays. Secondly, to eliminate the all-round shortages, responsible for the spiralling up of prices concerted measures will have to be taken to bring about a rapid increase in production particularly of essential consumer goods and export commodities. In view of the difficult resources position this would imply that expenditure on schemes which do not contribute to development except indirectly or in the long run will have to be kept to the minimum or deferred so as to cater fully to the developmental needs of agriculture and important consumer and export industries. Thirdly, fiscal policy will have to be reoriented with a view to hold the price-line and stimulate savings and investment for higher production. Fourthly, early steps will have to be taken to improve the efficiency of the public sector enterprises so that they are able to attain higher levels of production and productivity and yield adequate returns on the large investments made in them.

Reply of Government

It is necessary to keep inflationary pressures under control not merely from the point of view of balance of payments but also more generally in order to promote savings, for investments to grow in an orderly fashion and to avoid hardships to the vulnerable sections of the community. The objective always has been growth with stability, and if prices have risen the cause lies in the failure of output to grow at an adequate rate and the intervention of unforeseen factors. The Approach to the Fourth Five-Year Plan visualises the maintenance of price stability as one of the objectives of planning. In order to attain this objective, it would be necessary to mobilise adequate resources for development, and to improve an efficiency of investments both in the public and the private sectors.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 19-11-68].

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 101, Para Nos. 10.86, 10.87 & 10.88).

10.86. (i) The Committee note that the information furnished by the Ministry in regard to cases involving violations of Exchange Control does not indicate the total value of foreign exchange involved in such cases although this information was specifically sought by the Committee. However, from what has been stated during official evidence it would appear that the total foreign exchange involved in cases where proceedings were initiated by the Directorate of Enforcement amounted in 1965-66, to only Rs. 7 crores to Rs. 9 crores; in earlier years the foreign exchange involved in such cases was much less. The Committee also note that in 10 years since 1956, the total fine imposed in cases of contraventions of the Foreign Exchange Regulations Act, orders, Rules, etc. amounts to only Rs. 2.634 crores; the total foreign exchange ordered to be repatriated to India during the same period comes to no more than Rs. 2.46 crores while the amount of Indian and foreign currencies confiscated is negligible. When these facts are considered in the context of the widespread prevalence of various malpractices resulting in the admitted leakage of foreign exchange and the retention of foreign exchange abroad by Indian nationals, it becomes evident that there is something lacking in the law relating to exchange control and the machinery for its enforcement.

10.87. (ii) The Committee are surprised that although the Foreign Exchange Regulations Act has been amended a number of times it has not been found possible to devise suitable ways and means either for securing repatriation of foreign exchange held abroad by citizens and residents of India or for preventing malpractices which result in leakage of foreign exchange. They regret to observe that all that could and should have been done to make exchange control really effective has not been done. For instance, in Pakistan, under a Martial Law Regulation promulgated in 1958, failure to surrender or declare foreign exchange held in contravention of any law was made punishable with rigorous imprisonment extending to seven years and with confiscation of either whole or part of the property of the offender in Pakistan. In contrast, in India, in spite of the critical foreign exchange position and in spite of the wide powers available to the Government under the emergency, Government have been content with making a few changes in Foreign Exchange Regulations Act which do not touch basic problems, like the non-repatriation of foreign exchange held abroad, at all.

10.88. (iii) The Committee consider it highly anomalous that while on the one hand Government stand committed to the reduction of economic inequalities, on the other hand they have been taking a rather lenient view of Indian citizens building up or retaining large balances, securities etc. abroad. The Committee feel that a two-pronged approach is necessary to deal with the problem of leakage and non-repatriation of foreign exchange. First, a healthy climate for investment has to be created in the country by offering special incentives to encourage people to repatriate and surrender their foreign exchange holdings to the Reserve Bank of India. Secondly, the law relating to exchange control should be modified so as to plug all loopholes and provide deterrent punishment for violations; further, the law should be rigidly enforced whoever might be the offender.

Reply of Government

While noting the views expressed in para 10.86 Government wish to point out that it may not be entirely appropriate to measure the work of the Enforcement Directorate purely in terms of the quantum of penalty levied or foreign currency recovered etc. However, Government do appreciate that the provisions of the Foreign Exchange Regulation Act, even as amended in 1965, are not sufficiently stringent. Certain amendments are under consideration with a view to making the Foreign Exchange Regulation Act more effective. Among other things, it is proposed that the quantum of penalties prescribed at present should be increased considerably. While Government take note of the spirit in which recommendation [101 (ii)] has been made, they do not share the views of the Committee that no effort has been made in this direction in the country. Comparisons with the powers assumed by Martial Law countries are not tenable for a democratic administration like India. The main difficulty in tackling the problem of repatriation of foreign exchange held abroad is that foreign banks do not cooperate with us in supplying details of accounts etc. The Enforcement Machinery has to proceed cautiously, collect evidence and proceed either on adjudication or court action. Even the promulgation of a harsh code may not be of great help in the absence of cooperation from the public. Enforcement and Exchange Control are a part of the overall economic administration and this is a continuous process. It can only be said that every effort will be made to keep a constant vigil to detect violations and simultaneously adequate powers will be given to the Enforcement to bring to book the offenders. As regards recommendation 101(iii) it may be stated that Government's own policies already provide for incentives for investment to the extent possible and to penal action in the cases of those who offend the regulations.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 5-12-1968]

Comments of the Committee

Please see comments in para 9 of Chapter I of the Report.

Recommendation (Serial No. 102, Para No. 10.89)

To make the law relating to exchange control fool-proof and to ensure its proper implementation the Committee recommend that Government may appoint at an early date a high powered Commission to review the working of exchange control in India with a view to identifying its shortcomings and suggesting appropriate remedial measures (including changes in the law) to make exchange control an effective instrument of conserving and augmenting the country's foreign exchange resources. The Commission may be headed by a retired Supreme Court Judge and include an adequate number of independent public men and economists and legal experts having intimate knowledge of exchange control.

Reply of Government

The suggestion that a high powered Commission may be appointed to review the working of exchange control is not acceptable to Government. The Administrative Reforms Commission will be studying this problem as a part of Economic Administration and forwarding their recommendations to Government for consideration. These would be considered when received and appropriate decisions then taken. In view of this, it is not considered necessary at this stage to constitute a Commission to go into the same and related matters. It is felt that the recommendations of the Administrative Reforms Commission should provide ample opportunity for Government to review these matters and to take appropriate decisions.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 19-11-1968]

Further Information called for by the Committee

Please state whether the Administrative Reforms Commission have submitted to Government their report in regard to making the law relating to exchange control fool-proof and to ensure its proper implementation. If not, what is the present position?

[Lok Sabha Secretariat, O.M. No. 4/8(1)ECI/67, dated 5-12-1968]

Reply of Government

The report of the Administrative Reforms Commission, while dealing with various problems of economic administration, including functioning of exchange control in its various forms, does not specifically touch upon this particular aspect thereof. The Estimates Committee themselves have made various recommendations with a view to improving the enforcement provisions of the Act. In particular reference is invited to recommendation No. 103. Even otherwise there are on hand certain proposals to amend the enforcement provisions of the Foreign Exchange Regulation Act. The penalties in respect of serious offences are to be made more deterrent. For adjudication, etc., a scheme similar to that applicable under the Customs Act, 1962, is proposed to be prescribed and a time limit of 60 days is also intended to be prescribed for appeals to High Courts against orders of the Appellate Board with a view to reduce the total time taken in litigation/proceedings. Moreover abetment is intended to be made an offence. The provisions for recovery of dues are also intended to be tightened.

Since action relating to this work is already in hand and is being pursued, Government consider that there is no need at present for any further comprehensive examination by any high-powered commission. It is Government's intention to introduce these amendments as early as possible.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 15-1-1969]

Comments of the Committee

Please see Comments in Para 9 of Chapter I of the Report.

Recommendation (Serial No. 103, Para Nos. 10.90, 10.91, 10.92, 10.93, 10.94 & 10.95)

10.90. (i) As the Commission suggested above might take some time to report, the Committee would like the Government to take urgent measures for removing obvious deficiencies and lacuna in the provisions of the Foreign Exchange Regulation Act relating to penalties and procedure in respect of violations of the Act and rules directions and orders made thereunder. Some of these shortcomings and the changes, which the Committee consider necessary, are indicated, in general terms in the paragraphs that follow.

10.91. (ii) At present, the maximum punishment for exchange control offences is two years' imprisonment. The Committee feel that this is not sufficiently deterrent. They recommend that section 23 of the Act may be suitably amended so as to raise the punishment provided for thereunder to five years rigorous imprisonment and also to make it obligatory on the Courts to pass a minimum sentence of one year's imprisonment in cases of serious contraventions. The amended section may also provide for punishment in the form of confiscation either of the whole or a part of the property of the offender in India. The Committee feel that provision on these lines is essential to get over the difficulties faced by the administration in securing repatriation of foreign exchange held abroad.

10.92. (iii) There is no provision in the Act for penalising persons who conspire, or aid, or abet or counsel, or procure any other person, to contravene the restrictions or requirements imposed by or under the Act. This lacuna should be removed by introducing a suitable provision in the Act.

10.93. (iv) The Committee note that under section 23 of the Act it is left to the Director of Enforcement to decide whether or not proceedings will be taken up against a person who has committed an offence under the Act. The Director is also free to decide whether he would himself proceed against the alleged offender or make a complaint to the appropriate court. It may be mentioned that when a person is tried in a court the sentence on conviction may be that of imprisonment and fine in any amount, but if he is proceeded against before the Director of Enforcement, he cannot be sentenced to imprisonment and the maximum fine that can be imposed upon him cannot exceed three times the value of foreign exchange involved in the offence or Rs. 5,000 whichever is more. The Committee cannot approve of the wide and unfettered discretion which section 23 of the Act confers upon the Director of Enforcement. In particulars, they can see no reason why initiation of proceedings for violations of exchange control should be subject to the veto of the Director of Enforcement.

10.94. (v) The Committee need hardly stress that the very object and purpose of the Foreign Exchange Regulations Act would be defeated unless effective arrangements exist for bringing offenders to justice. They suggest that offences against the provisions of the Act, and rules, directions and orders issued thereunder, should be made congizable and every Sessions Judge should be declared to be a Tribunal for the trial of such offences. As a corollary, the Director of Enforcement would have to be divested of his judicial functions and a complaint by him would no longer be an essential precondition for the initiation of proceedings in cases of violations of exchange control. The Committee would like the Directorate of Enforcement to function as the main agency for investigation and prosecution of foreign exchange violations. To strengthen intelligence and investigation arrangements in regard to breaches of exchange control the Directorate of Enforcement should work in close cooperation with officers of the Customs Department. Central Excise and Police, particularly the Central Bureau of

Investigation. Further, it should be made obligatory on the part of the Directorate of Enforcement to report to the CBI all serious cases of violations of Exchange Control. A duty should also be cast on officers of Enforcement, police officers and such other officers as may be specified in this behalf by the Central Government to launch prosecutions wherever there is a *prima facie* case of contravention of exchange control provisions.

10.95. (vi) The Committee feel that the existing provisions relating to appeal, sections 23E and 23EE of the Foreign Exchange Regulations Act, contribute to protracted litigation. They would like these provisions to be replaced by one of the following lines :—

(1) Any person aggrieved by a judgement of a Tribunal may, within three months from the date of the judgement, appeal to the High Court.

(2) Save as provided in the preceding sub-section, all judgements and orders passed by a Tribunal shall be final.

Reply of Government

Government take note of the recommendation of the Committee made in para 10.91 (ii) of the Report. It is realised that the present provision of imprisonment of two years does not operate an adequate deterrent to potential offenders. Action is being taken to amend the Foreign Exchange Regulation Act to provide for imprisonment of 5 years for serious offences. As regards para 10.92 of the Report, a similar suggestion has been separately under Government's consideration. If feasible from the legal point of view this will be included in the proposals to be taken up in the near future to amend the Foreign Exchange Regulation Act.

Government take note of the Recommendation of the Committee contained in para 10.93 of the Report.

2. The quantum of evidence in different cases is bound to vary from case to case. The Director of Enforcement therefore has to consider each case in the light of the strength of the evidence available and thereafter has to decide whether the case should be sent for prosecution or should be adjudicated. Where evidence available is not adequate for court purposes, it is better to hold only adjudication proceedings.

3. Nevertheless action is being taken—it had been initiated even earlier—to modify the present procedure and to provide the same scheme as is applicable under the Customs Act 1962. Under this latter Act, Courts can take cognizance of offences provided the previous sanction of the Government or the Collector of Customs has been taken. It is proposed to provide a similar provision under the FER when it is next amended in the near future. Under the revised arrangements, persons other than the Director of Enforcement, will also become competent to file a complaint Proposals also are in hand to vest the powers of adjudication in smaller cases in the zonal Deputy Directors.

With regard to the recommendation made in para 10.94 it may be stated that the Foreign Exchange Regulation Act was amended in 1956 to provide for adjudication by the Director of Enforcement as it was felt then by the Central Bureau of Investigation and the Ministry of Home Affairs that they were not in a position to go in for prosecution in a large number of cases on account of the technical nature of the offences and also the difficulties experienced by them in obtaining evidence necessary for successful prosecution in Courts of Law. The Enforcement Directorate was set up in this background and should continue as a distinct entity.

The Enforcement Machinery works in close liaison with the Revenue Intelligence, C.B.I., etc. However the recommendation of the Committee in this behalf will be brought to the notice of all the organisations concerned to re-emphasise the need for collective effort to track offences.

Government take note of the recommendation 103(iv) of the Committee in so far as it relates to protracted nature of the litigation which the existing section 23E gives rise. There is already a time limit of 45 days for appeals against the order of the Director of Board. Government also propose to amend the Act providing for a time limit of 60 days for appeals to High Courts against orders of the Appellate Board. This amendment would reduce the time taken in litigation proceedings.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 19-11-1968]

Recommendation (Serial No. 104, Para No. 10.97)

The Committee feel that publication of names and other particulars of persons who have been found guilty of contravening the provisions of the Foreign Exchange Regulations Act or rules, directions or orders made thereunder would act as a salutary check on exchange control violations. They would like the Government to give full publicity to all such cases decided since April 1, 1965. For future, Government should ensure that the names and other particulars of all persons held guilty of foreign exchange offences during a particular period, say a quarter, are regularly published in the Official Gazette and other media considered appropriate for the purpose.

Reply of Government

Government accept the recommendation of the Committee. The Foreign Exchange Regulation Act, 1947 was specifically amended and section 27(c) was incorporated. Action will be taken to frame rules under section 27(c) to provide for regular publication of names of those who are convicted for violations of the Act, etc.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 15-1-1969]

Further Information called for by the Committee

Please state the present position in regard to framing the rules under Section 27(c) of the Foreign Exchange Regulation Act, 1947 to provide for regular publication of names of those who are convicted for violation of the Act, etc.

[Lok Sabha Secretariat, O.M. No. 4/8(1)ECI/67, dated 5-12-1968]

Reply of Government

Action to frame the rules under Section 27(c) to provide for regular publication of names of those who are convicted for violation of the Act is being pursued.

[Ministry of Finance, O.M. No. 22-US(W)/68, dated 15-1-1969]

Comments of the Committee

Please see comments in para 14 of chapter I of the Report.

P. VENKATASUBBAIAH,
Chairman,
Estimates Committee.

NEW DELHI;
April 24. 1969
Vaisakha 4, 1891 (*Saka*)

APPENDIX

(*vide* Introduction)

Analysis of the action taken by the Government on the 30th Report of the Estimates Committee (Fourth Lok Sabha).

I.	Total number of Recommendations	110
II.	Recommendations which have been accepted by Government (*vide*-recommendations at S. Nos. 1, 4, 5, 6, 7, 8, 9,10, 11, 12, 13, 14, 15, 16, 17, 20, 21, 23, 24, 25. 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 40, 41, 42, 43, 44, 45, 46, 47, 48, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 64, 65, 66, 67, 68, 69, 70, 71, 72, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 89, 91, 92, 93, 94, 96, 97, 100, 105, 108, 109 and 110).	
	Number	89
	Percentage to total	80·9%
III.	Recommendations which the Committee do not desire to pursue in view of Government'sreply (*vide*-recommendations at S. No. 2, 3, 18, 19, 22, 39, 49, 63, 73, 74, 88, 90, 95, 98, 99, 106 and 107)..	
	Number	17
	Percentage to total	15·45%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*vide*-recommendations at S. Nos. 101, 102, 103 and 104)	
	Number	4
	Percentage to total	3·65%

L13LSS/69—1,135—17-5-69—GIPF.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
	DELHI		34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
24.	Jain Book Agency, Connaught Place, New Delhi.	11	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	36.	Hind Book House, 82, Janpath, New Delhi.	95
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9	37.	Bookwell, 4, Sant Narankari Colony, Kingsway Camp, Delhi-9.	96
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11		MANIPUR	
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15	38.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20		AGENTS IN FOREIGN COUNTRIES	
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W.C.—2.	59
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27			
32.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66			
33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1.	68			

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