SPEECH OF SHRI CHARAN SINGH, DEPUTY PRIME MINISTER AND MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1979-80*

Highlights

— *Import Policy Liberalised*

— *Operation Flood II Programme Approved*

— *Special Component Programme for the Welfare of the Scheduled Castes and Scheduled Tribes*

— *Policy for Slum Improvement*

— *Community Health Workers' Scheme*

— *Need for Labour-Intensive Strategies Emphasised*

Sir, I rise to present the Budget for the year 1979-80.

The Economic Survey for 1978-79 placed before the House a few days ago presents a detailed account to the trends in the economy for the current year. I shall, therefore, confine my observations to a few salient aspects of the economic situation in the context of which the Budget has been formulated.

The performance of the Indian economy during the current year is a matter for great satisfaction. Agricultural production has continued at a record level for the second year in succession. This achievement is not

Budget, 1979-80

Total Receipts	—	**Rs. 16,551 crore**
Total Expenditure	—	**Rs. 18,526 crore**
Deficit	—	**Rs. 1,975 crore**

* *Lok Sabha Debate,* 28.2.1979, cc. 309-351.

due entirely to favourable seasonal factors. The increased production is in good part also the result of increased availability of irrigation and fertilizers, use of improved seeds, increased research and extension activity and extended price support and procurement operations. It is also in a great measure due to the energy and toil of millions of farmers who have undertaken investment, absorbed new technology, adopted new cultural practices and contributed to the general good by growing two years of corn in place of one.

So long as there is great poverty and unemployment in the country, particularly in the rural areas, and agriculture has the largest potential for generating employment, and providing purchasing power to the large majority of the people, there can be no let up in the task of agricultural improvement. Our objective should be to raise productivity further by using improved technology and more inputs. This requires larger investment, greater effort in a variety of ways and better organisation.

Industrial production is also expected to register an increase of 7 to 8 per cent in the current year. This is due to an improvement in the production of a large number of industries. In particular, the increase in production has been sharp in electricity generation, food industries, electrical and non-electrical machinery, metal products, textiles and transport equipment. The over-all supplies of basic materials like cement, fertilizer, steel and non-ferrous metals were augmented by sizeable imports so that shortages did not act as a constraint on domestic growth.

If this rate of agricultural and industrial growth is to be maintained in the coming year, supplies of basic goods should increase through larger investment. That is why the Government is pushing ahead with a large investment programme in irrigation, electricity generation, cement, steel, fertilizers and transport.

Price stability which this Government achieved last year has continued through the current year as well. The wholesale price index on 10 February 1979 was only 0.90 per cent above the level a year earlier and 0.40 per cent above the level two years earlier. Such a record of price stability in a period in which national income growth was about 11 per cent would be difficult to find elsewhere in the world. This has been brought about by well conceived supply and demand management policies. The role of increased agricultural and industrial production and a liberalised import policy in vital areas needs to be understood in this regard. Simultaneously, a monetary policy restricting the flow of credit for speculative activities in the economy and directing the credit towards productive sectors has been pursued.

An expanding investment programme needs an increasing volume of resources. But resource mobilisation does not seem to match requirements. Government finds that there is a tendency on the part of various sectors of the economy to look upon tax concessions as the only way of improving their sagging fortunes. It must be realised that if the resources needed for development are to be raised without inflation, there will have to be a greater readiness on the part of people who can bear further taxation to shoulder additional burdens.

Another instrument of resource mobilisation has also not yielded the results expected. The surpluses of public sector undertakings have in 1977-78 been significantly lower than anticipated. It looks as if the results may not be appreciably better in the current year as well. Considering that total investment in these enterprises is of the order of Rs. 12,800 crore, this is disappointing indeed.

Savings in the economy have to increase if a rising level of investment is to be financed in a non-inflationary way. This can be achieved, among other things, by cutting down wasteful expenditure whether in Government or in the private sector. Economy in Government expenditure can be brought about by restricting non-development expenditure particularly such subsidies as do not serve any specific social or economic purpose. Private saving should be raised by a ruthless curbing of luxury expenditure and adoption of a more austere life style in tune with our traditional values and the hard facts of our economic life.

Exports which had recorded dynamic growth in the three years prior to 1977-78, have actually shown a decline in the first eight months of the current year. This disturbing trend is due to a number of factors, including restrictions on some of our more dynamic items in importing countries, recessionary tendencies in the developed world and increased domestic demand for certain exportables. It is most essential that we reverse the declining trend in total exports by pursuing an active promotion policy.

In addition to stressing the promotion of exports of manufactured goods, we should not lose sight of the fact that as a large agricultural country there is need to pursue an active policy with regard to the promotion of exports of agricultural products. A policy which will increase exportable surpluses of such items as fruits, vegetables, certain types of vegetable oils, oil extractions and spices, needs to be pursued vigorously because it will not only raise the incomes of the farmers but also generate additional employment in the rural areas.

The rising level of imports shown that the process of utilisation of reserves for development has begun. In addition to imports of a consumer goods like edible oil, those of developmental goods like steel, cement, fertilizer, non-ferrous metals have increased substantially. Import policy has been liberalised and, wherever necessary, import duties have been reduced or waived altogether in order to facilitate imports of capital goods, spare parts, components and raw materials and thus, remove constraints on production and investment.

The rate of growth of the country's foreign exchange reserves has slackened in the current year. This is partly the result of the trends in exports and imports and the slowing down of the growth of invisible earnings. It does not look as if we can expect a continuous growth in these if account is taken of the various national and international developments. Therefore, though the level of our reserves is high at present, there is need to husband them carefully.

Revised Estimates for 1978-79

Let me take up the Revised Estimates for 1978-79.

On the expenditure side there have been a number of post-budget developments which cast additional burdens on the Centre in the current year.

As the hon'ble members are aware, some of the State Governments had in recent years, been persistently overdrawing in excess of their borrowing entitlements from the Reserve Bank. To enable the States to start with a clean slate and avoid overdrafts in future, we had decided to extend special loans to the States to clear their overdrafts as at the end of 1977-78. The payments on this account amount to Rs. 555 crore. Assistance to the States for gratuitous relief to people affected by natural calamities had to be increased to Rs. 40 crore from the original provision of Rs. 10 crore.

To give the farmers a higher return on their produce, the procurement prices of rice, wheat and coarse grains were increased during the year involving additional expenditure of about Rs. 42 crore. After allowing for certain arrear payments to the Food Corporation and large receipts following an increase in issue price of wheat from December 1978, expenditure on food subsidy during the current year will be Rs. 114 crore more than the Budget Estimate of Rs. 456 crore.

Expenditure on export assistance will be Rs. 130 crore higher than the Budget provision of Rs. 251 crore due partly to substantial spill over claims of previous year. Loss on sugar exports of 6.50 lakh tonnes in 1978 will be Rs. 23 crore more than the original provision of Rs. 10 crore.

Non-Plan assistance on a larger scale than what was anticipated at the Budget stage had to be provided to a number of public sector units which experienced financial difficulties. Coal India will be requiring assistance of Rs. 173 crore against the provision of Rs. 90 crore. Certain other units like the Fertilizer Corporation and National Textile Corporation also need substantial additional assistance. As a result, non-Plan loans to the public undertakings will be Rs. 159 crore more than the Budget Estimate of Rs. 250 crore only.

As small savings fetched more than what was anticipated to State Governments towards their share of collections will also be Rs. 165 crore more than the Budget provision of Rs. 300 crore; a part of the increase is on account of the spurt in collections towards the end of the previous year.

Defence expenditure in the current year is estimated at Rs. 2,845 crore as against the Budget provision of Rs. 2,945 crore.

The progress of Central Plan expenditure has been somewhat uneven and overall Budget support for Central Plan expenditure is estimated to be less by Rs. 201 crore as compared to the provision of Rs. 4,520 crore made for it. The major shortfalls are anticipated in petroleum, fertilizer and telecommunication projects. Oil and Natural Gas Commission will require Rs. 63 crore less due to rephasing and postponement of certain works of its off-shore programme. Oil Industry Development Board will also require Rs. 58 crore less due to shortfall in petroleum sector's outlay. Fertilizer projects will require Rs. 36 crore less as compared to the original provision of Rs. 236 crore; the shortfall relates mainly to Trombay V and Cochin Phase II units and the new gas based fertilizer plant to be set up in Maharashtra. The outlay on telecommunication projects, which is mostly financed out of internal resources, is anticipated to be Rs. 46 crore less, mainly due to delay in receipt of equipment and stores.

A shortfall of Rs. 25 crore is anticipated in agricultural schemes. Certain agricultural schemes have not picked up the necessary tempo owing to delays in implementation by the State Governments or in formulation of the detailed schemes and adequacy of necessary infrastructure. These problems are being tackled. Certain schemes have, however, made good progress. Hon'ble members would be glad to know that the food for work programme is becoming a major instrument of rural development and employment promotion and the provision of Rs. 30 crore made for the scheme has been stepped up to Rs. 100 crore and is expected to generate 40 crore man-days of work during the year. Dairy development, which will also provide gainful employment and increased incomes in the rural areas, has been allocated Rs. 19 crore more over the Budget provision of Rs. 11 crore.

The current Budget provides Rs. 2,761 crore for assistance to State and Union Territory Plans. As hon'ble members are aware, States affected by floods this year suffered serious erosion of resources and would not have been able to finance their approved Plan outlays without additional assistance from the Centre. It had accordingly become necessary to provide additional Plan assistance of Rs. 325 crore to those States. Rural Electrification Corporation had also to be provided with Rs. 39 crore more from the Budget to finance its approved Plan schemes which are in the State sector. According to Revised Estimates Central assistance for State and Union Territory Plans in the current year is placed at Rs. 3,112 crore.

As regards receipts in the current year, collections from small savings are expected to exceed the Budget Estimate of Rs. 460 crore by Rs. 140 crore, thanks to the sustained efforts of Central and State agencies concerned. Deposits of non-Government provident funds are also estimated to be Rs. 75 crore more than the Budget Estimate of Rs. 225 crore. Gold sales for which no credit was assumed at the Budget stage, have fetched Rs. 86 crore. Recoveries of temporary credits extended in earlier years to bilateral trading countries will also show an improvement of Rs. 75 crore following larger imports from them.

Dislocation of industrial production in the eastern part of the country consequent on floods this year, and decline in the profit margins of certain major public sector undertakings have adversely affected receipts from corporation and income taxes. The receipts are estimated to be about Rs. 102 crore less than the Budget Estimate of Rs. 2,577 crore. Union excise and customs duties taken together show an improvement of Rs. 145 crore. While consequent on liberalisation of import policy and larger imports to meet domestic requirements, customs duties are expected to yield Rs. 250 crore more than the Budget Estimate of Rs. 1,860 crore. Union excise duties, on the other hand, will fetch Rs. 105 crore less than the Budget Estimate of Rs. 5,299 crore. This shortfall is among other things due to lower realisation on sugar consequent on withdrawal of duty on khandsari sugar and fall in sugar prices after decontrol. There has been shortfall in excise revenue from kerosene, man-made fibres, aluminium and copper which is, however, more than made up by larger receipts of import duties on these commodities.

Utilisation of external aid has slowed down due to a shift from programme to project assistance by multilateral aid giving agencies and also allocation of a greater proportion of bilateral assistance from some countries to specific projects. In both cases, the concerned projects are slow moving and consequently, gross aid receipts are expected to be Rs. 447 crore less than the Budget Estimate. Steps are, however, being taken to accelerate the pace of disbursements.

Taking other variations in receipts and expenditure into account overall deficit in the current year is estimated at Rs. 1,590 crore as against the original estimate of Rs. 1,071 crore. This is exclusive of the additional burden of Rs. 555 crore cast on the Centre by the loans to certain States for clearing their past deficits which being in the nature of a book adjustment, will not have an economic impact in the current year.

Budget Estimates for 1979-80

I shall now present the estimates of expenditure for 1979-80.

This Budget reflects the impact of the recommendations of the Seventh Finance Commission which have been accepted by Government. While a larger transfer of resources to States in pursuance of the award of the Commission is eminently desirable for strengthening our federal polity, it creates serious problems for the Centre's finance in the short run. This Budget seeks to cope with these problems.

The annual Plan of the Centre, States and Union Territories for 1979-80 would be Rs. 12,511 crore compared with an approved total outlay of Rs. 11,649 crore in 1978-79. This represents an increase of 7.40 per cent. However, in assessing these figures hon'ble members should bear in mind that an estimated sum of Rs. 835 crore has been transferred as committed expenditure from the Plan side to the non-Plan side in the Central and State Plans. Taking into account this transfer the step-up in developmental effort in 1979-80 would be of a significant order.

The Central Budget for 1979-80 provides a sum of Rs. 7,108 crore for the Central Plan and for assistance towards the Plans of States and Union Territories. A provision of Rs. 2,300 crore has been made for Central assistance towards outlays of States' Plans, Union Territories' Plans, and the sub-Plans of Hills and Tribal areas, schemes of North-Eastern Council and Rural Electrification Corporation. Inclusive of their own resources, the Plans of States, Union Territories, North-Eastern Council, etc., will amount to Rs. 6,099 crore in 1979-80 as against an outlay of Rs. 5,985 crore in 1978-79.

The provision in the Budget for the Central Plan amounts to Rs. 4,808 crore. Together with the internal and other resources of public sector undertakings amounting to Rs. 1,604 crore, Central Plan in 1979-80 will, therefore, be of the order of Rs. 6,412 crore as against Rs. 5,664 crore in 1978-79.

Subsequent to the determination of the outlays for the Central Plan and the Plan of the States for 1979-80, a decision has been taken at the recent meeting of the National Development Council to effect some modifications in respect of Centrally Sponsored Schemes. The funds now allocated for some of the Centrally Sponsored Schemes will be released for distribution among the States on the basis of a new formula. Consequential adjustments, in the Budget provisions for 1979-80 for these schemes, will be made in the course of the year.

As hon'ble members are aware, the objective of eradicating poverty and unemployment is basic to our new development strategy. This calls for a radical restructuring of the priorities in our Plans. Agricultural and rural development have, therefore, been assigned the pride of place in our Plans. But Government recognises that the requisite degree of reorientation of development plans can be achieved only over a period of time. We propose, however, to accelerate the pace and thrust of programmes which have a material bearing on agricultural growth and promotion of employment.

The Plan outlay on agriculture and rural development has been raised from Rs. 1,754 crore in 1978-79 to Rs. 1,811 crore in 1979-80. An outlay of Rs. 258 crore has been provided for accelerating the integrated rural development programme in 2,000 blocks covered by anyone of the special programmes and in 300 other blocks not covered by any of the special programmes so far. The focus will be on the improvement of the economic conditions of small and marginal farmers, agricultural labourers, rural artisans and scheduled castes and scheduled tribes. A provision of Rs. 50 crore is being made for the food for work programme. I have no doubt that I shall have to raise this figure steeply taking into account the experience in the current year. Such an increase will, however, have no inflationary impact as we will be drawing upon our accumulated stocks of foodgrains.

Government does not have to stress in this House the importance of irrigation for agricultural development. The outlay on major, medium and minor irrigation projects including flood control for 1979-80 will be Rs. 1,488 crore compared to Rs. 1,401 crore in 1978-79. Most of this outlay will be in the Budget of State Governments. The target for the creation of additional irrigation potential in 1979-80 has been fixed at 3.20 million hectares as against a target of 2.80 million hectares in 1978-79. In order to increase the pace of development of minor irrigation, a scheme is being worked out for extending the subsidy on minor irrigation, given at present only to small and marginal farmers to farmers whose land holding is between 2 and 4 hectares, but at a reduced rate. To this end a provision of Rs. 10 crore is being made. The Plan provision for the minor irrigation programme will be supplemented with resources available from the Agricultural Refinance and Development Corporation. The financial support made available to the Agricultural Refinance and Development Corporation from the Central Budget has been increased from Rs. 133 crore in 1978-79 to Rs. 159 crore in 1979-80.

In the context of the great importance we attach to rural development and employment-oriented programmes in rural areas, it is necessary to ensure that in the coming years the flow of institutional finance to rural areas will be smooth, steady and at reasonable rates of interest. In addition to many steps already taken, Government has decided to exempt the Agricultural Refinance and Development Corporation, the premier refinancing agency for agricultural term loans from income-tax.

This concession, together with other measures we are contemplating, will enable the Agricultural Refinance and Development Corporation to reduce the rate of interest at which it refinances loans for minor irrigation and land development by about 1 per cent.

The Reserve Bank will take corresponding steps to ensure that the full benefit of this reduction of about one per cent is passed on by the commercial banks to the ultimate borrower. As a result, farmers will find it cheaper and, therefore, more attractive to invest in minor irrigation and land development.

Hon’ble members are aware that as part of the strategy of rural development, a National Dairy Development Programme, known as Operation Flood II, intended to raise the nutritional standards of the people, generate employment and augment income in rural areas through a viable subsidiary occupation had been approved earlier this year. An outlay of Rs. 32 crore has been provided in the Central Plan for 1979-80 for this programme. On completion it will provide gainful employment for about 10 million farmer families and assure increased availability of milk to our people.

Rural electrification plays an important part in agricultural and rural development. The total outlay for the electrification programme will be Rs. 285 crore in 1979-80. An additional sum of Rs. 50 crore will be mobilised for this purpose through commercial banks, the Agricultural Refinance and Development Corporation and the Rural Electrification Corporation. Comparable figures in 1978-79 are Rs. 277 crore and Rs. 20 crore respectively. As against 22,000 villages expected to be electrified in 1978-79, the target for 1979-80 has been set at 25,000 villages.

With the increase in agricultural output there is an obvious need for increased storage to minimise wastage. A scheme is, therefore, being worked out to have subsidised storage facilities in rural areas. This will have two-fold benefits; grain can be stored near the place of production, thus, reducing wastage; and it will reduce the cost of storage for Government because godowns can be built cheaper and the cost of holding inventories will be borne by the farmers.

This Government is committed to the acceleration of the rural water supply programmes so as to make safe and reliable drinking water available in all problem villages. The Central Plan for 1979-80 includes a provision of Rs. 80 crore for this programme as against Rs. 60 crore allocated in 1978-79. After this Government came to power in March 1977, 18,000 villages were provided with water supply in 1977-78. The target for 1978-79 is 27,000. I wish to assure the House that Government will have no hesitation in allocating more funds for this purpose if the programme makes faster progress.

Economic exploitation and social discrimination against scheduled castes and scheduled tribes will not cease unless programmes for their development are built upon a sound economic basis. Therefore, Central ministries and State Governments have been asked to incorporate a special component in their Plan for 1979-80 for these categories so that they may secure an adequate flow of benefits from the various sectoral programmes. The outlay on welfare programmes for scheduled castes and other backward classes will be Rs. 117 crore in 1979-80.

A provision of Rs. 70 crore has been made for tribal sub-plan for 1979-80. This will supplement the flow of funds from State Governments under different heads of development. The States would also be receiving grants under the recommendations of the Seventh Finance Commission for providing incentives to their staff working in the difficult conditions in the tribal areas.

The development of Village industries is an important component of the Central Plan. A provision of Rs. 193 crore has been made in 1979-80 in the Central sector as against Rs. 140 crore originally provided for in the current year. This outlay would be supplemented by suitable provisions in the State Plans and by institutional resources available on easy terms and conditions.

Handloom is our most important village industry. There are nearly 4 million handlooms providing employment to about 10 million people. They produced 2,500 million metres of cloth in 1978-79 and the target for 1979-80 is 2,700 million metres. A provision of Rs. 28 crore is being made in 1979-80 to organise weavers into cooperative societies, to enable apex cooperative bodies in this sector to do better marketing and to promote intensive development for export.

In keeping with the Government's policy of extending postal services in rural areas, it is proposed to open 5,000 new post offices and provide 10,000 postal counters through mobile post offices in 1979-80. Outlay on Telecommunications will be Rs. 359 crore in 1979-80 with greater emphasis than hitherto on extending these facilities to rural areas.

Care has also been taken to provide adequately for the development of the basic infrastructure on which the progress of agriculture and industries alike would be dependent. Thus, the provision for power, coal, fertilizers and chemicals, minerals, petroleum, steel and roads and railways has been increased from Rs. 2,733 crore in the Central Plan for 1978-79 to Rs. 3,122 crore in 1979-80.

The growth of power production has an important role to play in the development of agriculture as well as industry. Allocation for the power sector in 1978-79 had been stepped up substantially to Rs. 2,217 crore. The tempo of development is sought to be speeded up still further in 1979-80 and an outlay of Rs. 2,466 crore is being provided. The bulk of the Plan provision for power will be in the State Plans but an allocation of Rs. 382 crore is for power projects in the Central sector. A major start in 1979-80 will be the super thermal station at Farakka. It is expected that 3,000 MW generating capacity will be added in 1979-80 as against 2,500 MW in the current year. The facilities for distribution of power are also being improved.

Self-sufficiency in fertilizer production is an important objective of Government policy. A provision of Rs. 254 crore for investment in fertilizer plants has been made in the Plan for 1979-80. This will cover expenditure on a number of on-going projects which will raise production in the public sector from 12 lakh tonnes of nutrients this year to 20 lakh tonnes in 1979-80. Also, starts will be made on two off-shore gas based plants on the west coast and an additional gas based unit in Assam.

The demand for steel has increased by about 15 per cent in the current year due to increased activity and investment in the economy. The increased production of mini steel plants has averted a serious shortage which would have otherwise occurred. An outlay of Rs. 600 crore being made for the steel sector in 1979-80 has to be viewed in the context of the growing demand. This provision will enable work on the expansion of Bokaro and Bhillai Plants and on the new plant at Salem to be continued.

Coal is as basic to our development as power and there is an urgent need to raise its production. Coal production in the current year is estimated not to exceed a figure of 102 million tonnes as severe floods affected production. The allocation for the coal sector has been raised from Rs. 267 crore in the current year to Rs. 346 crore in 1979-80.

Oil is an equally important source of energy and Government attaches great importance to the exploration and development of oil fields so that our dependence on imported oil is minimised. The development of Bombay High will be substantially completed next year. With the commissioning of the 3 million tonne expansion at the Koyali refinery, the country's refining capacity has touched 30 million tonnes per year. Allocations to this sector in 1979-80 will be Rs. 622 crore.

Roads are of vital importance to the nation and a provision of Rs. 120 crore is proposed for 1979-80 for national highways, strategic roads, roads in the border areas in the north and roads of inter-State economic importance. This will be supplemented by allocations from the State Plans to cover State highways and district and rural roads.

In our country urbanisation has led to a growth of slums and squatter settlements. Essential facilities like water supply, community latrines and baths, wide and paved streets and provision of street lighting have been badly lacking for these people. Government has decided, therefore, to pursue actively a policy of slum improvement. Against a total expenditure of Rs. 43 crore on slum improvement in 1974-78, an outlay of Rs. 190 crore has been envisaged in the period 1978-83. The States will have to push through this programme in a big way. If they undertake to mobilise additional resources for this purpose by taxing the affluent sections in the urban areas, Government will be happy to supplement their efforts. Government will examine in consultation with the States how the slum improvement programme can be accelerated so as to alleviate the living conditions of the urban poor.

In realigning the priorities in the educational sector, Government attaches the highest importance to the education of the masses. The provision for adult education in the Central Plan for 1979-80 is being accordingly increased and comes to nearly 20 per cent of the total outlay of Rs. 84 crore for education in the Central Plan.

It is now widely accepted that the programmes of development of agriculture or rural industries will not make sufficient progress unless the rural population acquires the relevant skills. Very little headway has, however, been made in the training of rural youth to acquire these skills. This is partly because of a lack of an effective training programme and partly a lack of proper organisation linking skills with capital. Since such training is an essential precondition of the success of the production programme, Government proposes to make financial provision for a programme of 'training rural youth for self-employment' in the course of the year as soon as the details of such a programme are worked out.

There is little doubt that the growth of population at the present rate needs to be checked if economic development is to lead to a perceptible increase in the standard of living of the people. Unfortunately, as a result of the wrong approach to family planning followed in the past, this programme has suffered a serious set back. It should be our endeavour to put the newly introduced family welfare programme on a sound footing so that the national objective of reducing the birth rate to 30 per thousand in 1982-83 from the current level of 33 per thousand may be achieved. The Community Health Workers Scheme which was started in October 1977 in 741 primary health centres was a significant innovation of the Janata Government in extending elementary medical care to rural areas. It is proposed to cover a third of the country under the scheme in 1979-80 and the entire country by 1982-83.

Non-Plan expenditure has been limited to what is strictly necessary keeping in view the need for economy consistent with efficiency.

Defence expenditure is estimated at Rs. 3,050 crore as against Rs. 2,845 crore in the current year.

Provision for food subsidy at Rs. 560 crore will be Rs. 10 crore less than in the current year. Rs. 448 crore have been provided next year for fertilizer subsidies as against Rs. 319 crore in the current year.

Debt service charges at Rs. 2,161 crore will be about Rs. 304 crore more than in the current year, the increase being mainly on account of internal debt.

Statutory grants to States will be Rs. 232 crore as compared to Rs. 514 crore in the current year. The provision next year is based on the recommendations of the Seventh Finance Commission. The Commission has also recommended additional grants to certain States to cover their net interest liability and for upgradation of standards of administration. I have not, at this stage, included any provision for payment of grant-in-aid for these purposes and shall come before the House with request for supplementary funds after the action programmes for schemes of upgradation are drawn up and finalised by the State Governments concerned and the net interest liability assessed as recommended by the Commission.

Government is sure that hon'ble members will share its concern at the growing volume of Government expenditure. It is, therefore, important to contain the growth of this expenditure and also to ensure that the funds are utilised effectively for the promotion of the common good. Government has, therefore, decided to appoint a Commission with suitable terms of reference to conduct a comprehensive inquiry into Government spending. It will, among other things, examine the impact of public expenditure on the promotion of growth and reduction of poverty and recommend ways and means of making public expenditure more effective in solving the problem of poverty.

Coming now to Receipts, gross tax revenue in 1979-80 at existing rates of taxation is estimated at Rs. 10,822 crore, showing an increase of Rs. 658 crore over the Revised Estimates for the current year. Of this increase, Union excise duties will contribute Rs. 381 crore and corporation and income taxes Rs. 248 crore.

As mentioned earlier, substantially larger devolution of Central taxes and duties will have to be made to the States from the next financial year in accordance with the recommendations of the Seventh Finance Commission. At the present level of taxation, States' share next year is estimated at Rs. 3,235 crore which is Rs. 1,278 crore more than in the current year. Consequently, Centre's net tax revenue at Rs. 7,587 crore, will be Rs. 620 crore less than in the current year.

Market loans will yield Rs. 1,850 crore as against Rs. 1,653 crore in the current year. Net external assistance, after meeting repayment and interest liabilities, is estimated at Rs. 878 crore, including drawals against new credits. Small savings collections will fetch Rs. 650 crore. Loan repayments by States, excluding ways and means advances are placed at Rs. 554 crore as against Rs. 754 crore in the current year. The decline is due to debt rescheduling recommended by the Seventh Finance Commission.

The total receipts of the Central Government for 1979-80 will be Rs. 16,551 crore. Total expenditure for the coming year will be Rs. 18,526 crore. The overall budgetary gap at the existing rates of taxation will, thus, be Rs. 1,975 crore.

I now come to my proposals on fresh taxation.

A gap of this magnitude cannot obviously be covered without a large tax effort. However, in addition to mobilising the required resources, my tax proposals aim at three objectives which, I think would be acceptable to everyone in this House. In a country in which the bulk of the population lives below the poverty line, disparities in income have to be minimised.

Such disparities lead to luxury consumption which affects the propensity to save and the will to work hard. Therefore, tax policy should seek to reduce such disparities.

Secondly, they aim at increasing production and avoiding waste. Poverty elimination requires primarily an increase in production. Since resources are scarce, tax policy should prevent a diversion of resources to wasteful and unproductive uses and conserve them for productive purposes. It should also discourage such consumption as is positively injurious to people's health.

Thirdly, they aim at eliminating unemployment and underemployment by stimulating agricultural production, by encouraging labour intensive techniques of production and by improving the competitive capacity of small-scale and cottage industries in relation to large-scale industry.

Let me take up direct taxes first.

I propose to raise only the rate of surcharge for Union purposes on income-tax in the case of all categories of non-corporate tax-payers from 15 per cent to 20 per cent. The effect of this proposal will be to raise the marginal rate of personal income-tax from 69 per cent at present to 72 per cent. This measure will yield an additional revenue of Rs. 46 crore in a year. The accretion during 1979-80 will, however, be of the order of Rs. 37 crore. This is a small sacrifice I am asking the 35 lakh taxpayers, who constitute an insignificant proportion of the total population, and who receive a substantial share of the country's income, to make for their poorer fellow citizens.

I am aware of the views of the State Government against recourse to surcharge for Union purposes as the revenue accruing from surcharge is not shareable with the States. But in framing my other fiscal proposals I have taken care to see that the States get their legitimate share of the gains from the additional tax effort of the Centre.

Under the rate schedule prescribed in the Finance Act, 1978, in cases where the taxable income exceeds the exemption limit by a small margin, the tax liability is limited to 70 per cent of the excess over Rs. 10,000. This provision operates rather harshly in some cases. In order to provide for a smoother progression in marginal cases, I propose to limit the tax payable in such cases to 30 per cent of the excess over Rs. 10,000. This will benefit individuals having incomes up to Rs. 12,000.

In view of the imperative need for resources, I propose to continue the Compulsory Deposit Scheme for Income-tax Payers for a further period of two years. This will generate additional resources to the tune of Rs. 160 crore during the financial year 1979-80.

Inequalities of wealth have even less justification than inequalities of income. I, therefore, propose to raise the rates of wealth-tax on high slabs of net wealth. The rate will now be 3 per cent, as against the current rate of 2.50 per cent on the net wealth between Rs. 10 lakh and Rs. 15 lakh, and 5 per cent, as against 3.50 per cent, on the net wealth over Rs. 15 lakh. The rates of wealth tax on slabs up to Rs. 10 lakh will remain unchanged. There will be corresponding changes in the rates applicable to Hindu undivided families having one or more members with independent net wealth exceeding the exemption limit. These changes will yield an additional revenue of Rs. 6.60 crore in a year. Since, however, the new rates of wealth-tax will apply prospectively from the assessment year 1980-81, there will be no accretion to revenue during 1979-80.

It has to be recognised that by merely adjusting direct tax rates we cannot reduce disparities in income and wealth to tolerable levels. As the House knows, tax evasion which is the basic cause of generation of black money greatly affects the progressive impact of direct taxes. Black Money is a corrosive influence which works through the entire economy. It is important that this scourge is fought through the effective implementation of our tax laws. I wish to assure the House that I shall address myself to this task with the utmost zeal and vigour.

As I am raising the surcharge on income-tax on personal incomes, I think the corporate sector should also be required to contribute a little more to the Exchequer. I accordingly propose to raise the surcharge on income-tax in the case of companies from 5 per cent to 7.5 per cent. This will not cast a heavy burden on them, because the effective rate of taxation on corporations is lower than the nominal rates. This measure will yield an additional revenue of about Rs. 35 crore in a year. The accretion during the year 1979-80 will, however, be of the order of Rs. 28 crore.

The scheme of taxation of capital gains was modified in 1977 in several directions. One of the changes made was to provide for exemption from income-tax on long-term capital gains if the sale proceeds of any asset were re-invested within six months in certain preferred assets. Since asset owners secure capital gains largely through no effort on their own part, this exemption confers an unfair advantage on asset holders as compared to income earners and thus contributes to the disparity in society. I, therefore, propose to withdraw this exemption of capital gains in respect of transfers made after 28 February 1979. This measure will yield an additional revenue of Rs. 14 crore annually. Since, however, advance tax is not payable in respect of capital gains, there will be no accretion to revenue during the year 1979-80.

The present concessions in respect of long-term savings through life insurance premia, provident fund contributions and other approved forms of savings, though they subserve certain desirable social and economic objectives, give a disproportionately large tax benefit to taxpayers in higher income brackets. At present, 100 per cent deduction is allowed in respect of first Rs. 5,000 of qualifying savings, 50 per cent on the next Rs. 5,000 of such savings and 40 per cent on the balance. Under my proposal, while the first Rs. 5,000 of qualifying savings will continue to be eligible for 100 per cent deduction, the deduction in respect of the next Rs. 5,000 of such savings will be reduced to 35 per cent and in respect of the balance to 20 per cent. This measure will yield Rs. 9.60 crore annually. The accretion during the financial year 1979-80 will be Rs. 7.60 crore.

I propose to lower the threshold for payment of advance tax by the registered firms from Rs. 30,000 to Rs. 20,000. This measure will yield an additional revenue of Rs. 12 crore during 1979-80.

The large scale unemployment in the country requires the promotion of labour-intensive techniques instead of capital-intensive techniques. While it may be true that in some industries the choice of techniques is limited, our preference should be for labour-intensive methods of production wherever feasible. Our fiscal laws and tax concessions in particular should be so designed as to foster production techniques which enlarge opportunities for employment.

I, therefore, propose to appoint an Expert Committee of economists and tax administrators to study the impact of concessions provided for in our tax laws—particularly those relating to corporation tax and Central excise—on the techniques of production used in industry and make recommendations which will encourage the adoption of labour-intensive methods of production. The composition of the Committee and its terms of reference will be settled soon and it will be asked to submit its Report with the least possible delay.

One of the tax concessions which is related to the employment of capital is the “tax holiday” provision in the income-tax Act. This concession is at present available in respect of all industrial undertakings that go into production before 1 April 1981. I propose to withdraw this concession in the case of industrial undertakings engaged in non-priority industries listed in the Eleventh Schedule to the Income-tax Act, if they go into production after 31 March 1979.

In recent years, commercial banks particularly public sector banks, have been asked to reach out into the rural areas and to expand rural credit, in order to promote rural banking and to assist the scheduled commercial banks in making adequate provisions from their current income to provide for risks in rural advances. I propose to amend the Income-tax Act to grant a deduction in respect of provisions made for bad and doubtful debts by scheduled commercial banks relating to advances made by their rural branches. Such a deduction will, however, be limited to 1.5 per cent of the aggregate average advances made by the rural branches. This measure will result in a revenue loss of Rs. 12 crore during 1979-80 but it will be in a good cause.

I have earlier referred to the exemption from the corporation tax which I wish to extend to the Agricultural Refinance and Development Corporation. This is in line with a similar exemption already being enjoyed by the Industrial Development Bank of India. This decision will result in a revenue loss of Rs. 5 crore annually. The loss during 1979-80 is estimated at Rs. 10 crore because advance tax paid during 1978-79 also is refundable.

At present, expenditure incurred by companies and co-operative societies on approved programmes of rural development qualifies for deduction in computing their taxable profits. For this purpose, the programme has to be approved by the "prescribed authority", which is an inter-Ministerial Committee headed by the Secretary, Ministry of Agriculture and Irrigation. Companies and co-operative societies have shown considerable interest in rural development programmes. To expedite the clearance of such schemes of rural development, I propose to provide that they will henceforth be approved at the State level by a Committee consisting of the Commissioner of Income-tax and a senior officer of the State Government nominated by it.

I also propose to exempt from income-tax donations made by tax-payers to approved institutions engaged in imparting training to persons to equip them for implementing rural development programmes.

At present taxpayers engaged in business or profession alone are entitled to 100 per cent deduction in respect of donations made to approved institutions engaged in carrying out programmes of rural development. I propose to extend this concession to other categories of tax-payers as well. A similar dispensation will be extended to donations for scientific research made to approved scientific research associations, universities, colleges and other institutions.

I propose to provide that insurance premia paid by federal milk cooperative societies for insuring cattle belonging to members of affiliated primary co-operative societies shall be allowed to be deducted in computing their taxable profits.

In order to promote the cultivation of mushrooms, I propose to exempt from income-tax one-third of the income derived from the business of mushroom growing under controlled conditions, or Rs. 10,000 whichever is higher.

As hon'ble members are aware, the Finance (No.2) Act, 1977 has conferred exemption from income-tax on the Khadi and Village Industries Commission. I now propose to exempt from income-tax the income of the State Khadi and Village Industries Boards set up under the State Acts.

Consumer cooperative societies have been doing commendable work in supplying goods to consumers at reasonable prices. In order to encourage the development of such societies so that they can play a proper part in the public distribution system that is sought to be developed. I propose to raise the quantum of tax-exempt profits in the case of such societies from the present level of Rs. 20,000 to Rs. 40,000.

The scope of Section 25B of the Income-tax Act relating to export markets development allowance was curtailed last year. I have referred earlier to the decline in exports in the current year and the need to promote them. Therefore, to enable exporters to develop export markets on a long-term basis, I propose to liberalise the scope of the export market development allowance. A weighted deduction under Section 35B of the Income-tax Act will now be available to all exporters at a uniform rate of 133.3 per cent of the qualifying expenditure. For this purpose expenditure on advertisement or 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 will included in the qualifying expenditure. This concession will result a revenue loss of about Rs. 5 crore annually. The loss in 1979-80 will, however, be of the order of Rs. 4 crore.

In order to encourage the writing of University level text books in Hindi and other Indian languages, I propose to allow a deduction equal to 25 per cent of the income derived by the authors of such books. Authors of dictionaries and encyclopaedias in these languages will also get the benefit of a similar deduction in the computation of their taxable income. This concession will be available for the assessment year 1980-81 and four subsequent years.

While I want to step up the drive against tax evasion, I also would like to promote greater expedition in the settlement of income-tax cases. At present, the Income-tax Settlement Commission is debarred from proceeding with a case if the Commissioner of Income-tax objects to the application being proceeded with on certain grounds. The Direct Tax Laws Committee has recommended that the application for settlement should be rejected only after the Commission is satisfied that the objection has been raised by the Commissioner on proper and valid grounds. It is proposed to implement this recommendation subject to the safeguard that before over-ruling the objection raised by the Commissioner of Income-tax, the Settlement Commission should hear him.

The Direct Tax Laws Committee has also proposed certain amendments to the Income-tax Act and the Wealth-tax Act with a view to plugging some loop-holes in the provisions relating to prevention of tax avoidance through intra-family transfers of income and wealth. I have accepted their recommendations and given effect to them through the Finance Bill.

As I mentioned earlier the second objective of my proposals is to prevent the life style of the affluent sections from having an adverse impact on saving and investment through the demonstration effect. In this connection, the lavish manner in which expenditure is incurred on accommodation and entertainment in luxury hotels calls for serious notice. With a view to checking such conspicuous consumption in luxury hotels, it is proposed to levy a new tax on the gross receipt of hotels. Since it is my intention that State should continue to levy sales tax as hitherto on items of food and drink supplied to guests in hotels, the sale proceeds of these items will not be included in the tax base. The details of this new measure are being worked out and the necessary legislation in this regard will be introduced in Parliament soon.

Other changes being made in the Income-tax law through the Finance Bill are of minor significance and are largely in the nature of clarification and rationalisation of existing provisions.

The total addition to revenues from all these tax measures will be Rs. 101.20 crore in a full year and Rs. 58.60 crore during 1979-80. Of this, about Rs. 12 crore will accrue to the States as their share in 1979-80. Besides, additional resources of Rs. 160 crore will accrue in 1979-80 from the continuance of the Compulsory Deposit Scheme for Income-tax Payers.

I now turn to indirect taxes.

I would like to straightway indicate the more significant reliefs in excise duties which I propose to provide. The Central excise duties on all chemical fertilizers, will be reduced to 50 per cent of the existing rates.... This will mean that the basic Central Excise duty on urea, which is the most important chemical fertilizers, will be reduced from 15 per cent *ad valorem* to 7.5 per cent *ad valorem*; that on single and triple super phosphate fertilizer will be reduced from 7.5 per cent to

3.75 per cent *ad valorem*. This reduction will also be correspondingly reflected in the countervailing duties leviable on imported chemical fertilizers. With this change, it should be possible to reduce the price of urea by about Rs. 100 per ton. The prices of other kinds of fertilizers will also become lower with reference to the excise duty relief now announced. This decision would result in a sacrifice of revenue of Rs. 75.60 crore under Central Excise and Rs. 30 crore under customs.

Although the number of electric pumpsets is increasing rapidly with increasing rural electrification, farmers have still to use pumpsets driven by diesel engines in large parts of our country. As a measure of relief of this large class, it is proposed to reduce the excise duty on light diesel oil from the existing level of Rs. 155.72 per kilolitre to Rs. 75 per kilolitre. I am aware that only 45 per cent of this oil is used in the agricultural sector. Since, it is difficult to monitor end-use and a significant quantity of even the balance is used for generating power and by small industry, it is proposed to extend the benefit of this reduction in excise duty to all users without any distinction. The loss to the exchequer on account of this concession will be Rs. 12.40 crore per annum.

It is also proposed to exempt power tillers imported by State Agro-Industries Corporations and the Central Government totally from customs duty as these implements can promote agricultural production in small holdings.... Hon'ble members are already aware that indigenously manufactured power tillers are already exempt from Central Excise duties.

Pipes made of PVC resins can reduce seepage and wastage of water in the fields and thereby increase the effectiveness of irrigation. Since, I wish to make this raw material available at cheaper prices for the manufacture of PVC pipes for irrigation and at the same time prevent a misuse of the concession for other purposes, it is proposed as an experimental measure, to exempt PVC resins imported for the purpose from customs duties as soon as the modalities of a scheme which will serve both the objectives have been worked out....

I would also refer to the relief in the field of drugs and medicines. It is proposed to fully exempt from customs duties 22 specified bulk drugs required for the formulation of life saving drugs, and to reduce the customs duty on 17 specified bulk drug intermediates from a total of 75 per cent *ad valorem* to 25 per cent *ad valorem*. On the excise side, I propose to exempt patent or proprietary medicines, including life saving drugs, from the levy of the special excise duty. Taking these measures together, the revenue sacrifice is estimated to be of the order of Rs. 7.04 crore a year.

I now turn to a proposal of far-reaching significance. This concerns unmanufactured tobacco, excise on which dates back to the year 1943. This levy brings the excise machinery into contact with a large number of growers and licensees. It is proposed to completely exempt unmanufactured tobacco from excise duties,... including additional excise duties and thus relieve at one stroke, nearly a million tobacco growers, curers, small dealers and warehouse licensees from excise control. I have no doubt that this bold decision to do away with a vexatious levy—a legacy of the colonial era—will be widely welcomed by farmers in the tobacco growing tracts of our country. This measure would involve loss of Central excise revenue of the order of Rs. 121.20 crore. I, however, propose to recoup Rs. 115.71 crore of this loss through suitable upward adjustments in the rates of duties on manufactured tobacco products...

I shall touch upon cigarettes later. For the present I shall deal with the other manufactured tobacco products. In respect of branded *biris*, the present tobacco stage duty plus *biri* duty comes to about Rs. 3 per thousand *biris*; it is proposed to fix a consolidated rate of Rs. 3.60 per thousand branded *biris*. Unbranded *biris* produced by manufacturers of both branded and unbranded *biris* will pay the same duty. At present, unbranded *biris* are exempt from *biri* duty; but they are subject to tobacco stage duty which works to about ninety paise per thousand *biris*. It is proposed to levy a nominal consolidated duty of Rs. 1.60 per thousand on other unbranded *biris*. However, to provide relief to the small manufacturers of unbranded *biris* alone I propose to exempt manufacturers who produce only unbranded *biris* from payment of duty on their clearances of the first 60 lakh *biris* in a year. It is also proposed to make suitable upward duty adjustments in respect of chewing tobacco, snuff and smoking mixtures. I also propose to levy a duty of 20 per cent *ad valorem* on branded manufactured *hookah* tobacco.

As an interim measure, it is proposed to provide for suitable relief in product stage duty in the case of those products manufactured out of duty-paid unmanufactured tobacco except in respect of smoking mixtures and manufactured *hookah* tobacco.

Hon'ble members will recall that the Indirect Taxation Enquiry Committee under Shri L.K. Jha submitted Part II of its final report in January 1978. The Committee has indicated the broad lines on which rationalisation of the excise tariff should be attempted both in the short-term as well as in the long-term. I have given close and careful consideration to the Committee's recommendations. A major restructuring of the excise tariff has to be ruled out in view of the need for resources and on other pragmatic considerations. Also, there is reason to apprehend that a major departure from the present pattern of excise taxation may upset the balance between different sectors of production. However, as part of the follow-up action on the Committee's recommendations, I have attempted to restructure the excise duty rates on a wide range of consumer and finished products.

Let me state at the outset that as a result of this restructuring, the number of effective excise duty rates have been reduced from 28 to 16 in respect of commodities covered by the present exercise. I have also availed of this opportunity to introduce further progression in the duty structure and stepped up the duty on quite a few luxury and semi-luxury items. Excise duties are being increased on cosmetics and toilet preparations (other than perfumed hair oil) from 63 per cent to 100 per cent, on air-conditioners from 105 per cent to 110 per cent, on parts of refrigerating and air-conditioning machinery from 105 per cent to 125 per cent, on stereo and hi-fi equipment from 36.75 per cent to 40 per cent, on higher priced television sets from 21 per cent to 30 per cent, on higher priced radios and radiograms from 36.75 per cent to 40 per cent. I have maintained the duty differential of 15 per cent *ad valorem* in respect of those electronic products where such duty differential exists for small-scale units.

I have also taken this opportunity to step up suitably the duty rates on durable consumer articles on the consideration that the outlay on these items is mostly of a non-recurring nature and the incidence of duty is spread over a period of time. In this category, it is proposed to increase excise duties on pressure cookers from 10.5 per cent to 15 per cent on steel furniture from 21 per cent to 25 per cent, on domestic electrical appliances from 26.25 per cent to 30 per cent and on safe and strong boxes from 21 per cent to 35 per cent.

I have also selected some consumer items like soap, tooth paste, tooth brush and detergents, for increase in duties taking care, at the same time, to see that the goods produced by the small units in the decentralised sector are not adversely affected by this increase. Excise duties will go up on household and laundry soap from 5.25 per cent to 20 per cent,... on low priced toilet soap from 10.50 per cent to 15 per cent, on high priced toilet soap from 15.75 per cent to 20 per cent, on detergents from 13.13 per cent to 20 per cent and on tooth paste from 10.50 per cent to 25 per cent.

I also propose to impose a 25 per cent duty on tooth brushes. Let me state clearly that my objective in increasing the rates on these commodities is partly to ensure that the small-scale manufacturers, with the advantage of duty exemption are able to increase their share of the market for these products.

Among food items, I have avoided imposing any further burden on articles of mass consumption such as processed edible oils or *vanaspati*. I have, in fact, reduced the duty on *vanaspati* by exempting it from special excise duty.

Whatever it may be, I have considered items like prepared or preserved food, instant coffee, biscuits, processed cheese, cocoa powder, chewing gum and chocolate as fit for further increases, bearing in mind the sections of the society that consume such items. Thus, excise duties are increased on instant coffee from 21 per cent to 25 per cent, on prepared or preserved food, biscuits and processed cheese from 10.5 per cent to 15 per cent, and on cocoa powder, chewing gum and chocolates from 10.5 per cent to 20 per cent.

Let me proceed. In aerated waters, I propose to increase the duty rate on plain soda from 15.75 per cent to 20 per cent. In respect of other aerated waters, I propose to have two rates—one of 60 per cent for those containing caffeine and the other of 30 per cent for those not containing caffeine. It is also proposed to withdraw the present concessional rate applicable to clearances of the first 50 lakh bottles in a financial year. However, the existing exemptions in respect of aerated waters in favour of small manufacturers will continue.

In restructuring the duty rates on consumer products, I have reduced the incidence on a number of items by exempting them from special excise duty. I would like to make particular mention of the duty reduction from 42 per cent to 30 per cent on fluorescent lighting tubes, which are widely used for street lighting and which help in reducing the consumption of electricity. It is also proposed to extend the scope of the present excise exemption for low priced footwear valued upto Rs. 5 per pair to footwear valued upto Rs. 10 per pair.... What I mean is that I propose to extend the excise exemption to footwear valued upto Rs. 10 per pair.

I have also rationalised the rates applicable to personalised modes of transport. Mopeds, which are used by comparatively less affluent people and consume less fuel, will bear a lower duty of 10 per cent as against the existing rate of about 13.10 per cent. Scooters, motor cycles and three-wheelers will bear 20 per cent as against the existing level of 13.13 per cent, while cars will pay duty at 25 per cent as against the existing rate of 18.38 per cent. The concessional rate applicable to cars used as taxis and auto-rickshaws will be increased from 10 per cent to 15 per cent. The rate on commercial vehicles will also go up marginally from 13.10 per cent to 15 per cent as part of the scheme of rationalisation.

In manufactured inputs, I have mainly confined myself to streamlining the existing rate having regard to their usage and their relative importance. The details of these changes are contained in the Budget papers.

Another tax reform suggested by the Indirect Taxation Enquiry Committee is to extend proforma credit facilities in respect of the duty paid on inputs used in the manufacture of finished products. Presently, such facilities are available in a limited area. Wide extension of these facilities as recommended by the Committee would have major revenue implication apart from throwing additional administrative burden in working these procedures. However, industry has been urging that this measure be given a trial. I propose to extend, as an experimental measure, the provision of proforma credit to some of the products of the engineering industry, where the incidence of duty on inputs is perceptible. While doing so, I have also proposed upward rate adjustments in respect of some of the final products. The details of these changes are available in the Budget papers.

The net revenue effect of the proposals for restructuring the Central excise tariff, along with a few minor changes in some of the items affected, is a gain of about Rs. 100 crore in full year.

I now turn to substantive proposals to raise resources.

On the excise side, the most important proposals relate to a few major products of the petroleum group. Hon'ble members are aware that the Organisation of Petroleum Exporting Countries (OPEC) have announced a phased programme of increase in the price of crude oil. We are still, to a significant extent, dependent on imports of crude oil and the anticipated increase in the out-flow of foreign exchange consequent on the increases in crude prices is substantial. After the initial drop in consumption of petroleum products in the wake of the steep increase in crude prices in the year 1973, consumption has registered a sizeable upward trend. From the point of view of evolving a viable energy policy which minimises the strain on our foreign exchange resources, I have no doubt that it is essential to restrain the consumption of the more important petroleum products. My revenue proposals have been formulated keeping this important objective in mind.

It is proposed to raise the Central excise duty on motor spirit from the existing level of Rs. 2,253.88 to Rs. 2,750 per kilolitre. Since the bulk of the consumption of petrol is by the upper classes in society I have no regrets in doing this. I also propose to raise the duty on high speed diesel oil from the existing level of Rs. 404.04 to Rs. 500 per kilolitre because of the rapid growth in its consumption.

As hon'ble members are aware, kerosene was being used, in the past, to adulterate high speed diesel oil when there was a price differential in favour of kerosene. It has been our endeavour in the last few years to check this tendency by maintaining, as far as possible, parity between the rates of duty on these two products. Besides, we have had, in the recent past, to rely heavily on imports of kerosene. Bearing these considerations in mind, I propose to increase the duty on kerosene from the existing level of Rs. 408.19 to Rs. 500 per kilolitre.... I also propose to effect a sympathetic increase in the rate of duty on Liquefied Petroleum Gas (LPG), which is primarily used as cooking fuel in urban and semi-urban areas, from the existing level of Rs. 262.50 per metric ton to Rs. 400 per metric ton .... I request my hon'ble friends to kindly bear with me and listen to me.

My proposals relating to the petroleum products are expected to yield an additional revenue of Rs. 223.25 crore under Central Excise and Rs. 55.70 crore under customs.

Next, it is proposed to increase the rate of duty on the residuary heading Item 68 of the Central Excise Tariff from the existing level of 5 per cent to 8 per cent *ad valorem*. This will yield an additional revenue of Rs. 100 crore. As hon'ble members are aware, there is already a provision for giving set off of the duty paid on goods falling under Item 68 which are used in the manufacture of other excisable goods. The increased levy should, therefore, not have any appreciable cascading effect.

As the House is aware, small-scale manufacturers producing goods falling under Item 68, whose clearances of all excisable goods during the preceding year had not exceeded Rs. 30 lakh, presently enjoy exemption from duty payable on their first clearances up to a value of Rs. 30 lakh. There have been persistant representations that in computing the eligibility of a small-scale unit for this concession, the value of goods falling under Items other than Item 68 should be excluded. There have also been demands that clearances for exports should be excluded so that the units in the small-scale sector are encouraged to step up their export efforts. I accept the validity of these demands. Keeping these as well as the proposed increase in duty under Item 68 in view, it is proposed to rationalise the existing scheme of exemption. Under the revised scheme which would be effective from 1 April 1979, small-scale manufacturers whose clearances for home consumption of goods falling under Item 68 in the preceding financial year did not exceed Rs. 30 lakh would enjoy complete exemption from the duty payable under Item 68, on their first clearances of a value up to Rs. 15 lakh; they would pay duty at 4 per cent which is half of the rate of duty proposed for this item, on clearances between Rs. 15 lakh and Rs. 30 lakh.

As the hon'ble members are aware, the scheme of excise duty concession to encourage higher production in selected industries, which was announced in the year 1976, is due to expire on 31 March 1979. I do not propose to continue the scheme beyond this date. This withdrawal is expected to yield an additional revenue of Rs. 40 crore.

I am also taking this opportunity to review a number of existing notifications and I propose to modify or withdraw some of them. The details of this will be found in the Budget papers.

In my search for additional resources I have, of necessity, to fall back upon the old faithful cigarettes, I have already referred to the withdrawal of the duty on tobacco at the unmanufactured stage which is borne by cigarettes. I now propose to adjust the rate structure on cigarettes in such a way as to further secure an additional sum of Rs. 60 crore from this item. Taking into account the revenue expected to accrue from this measure and the recasting of the rate structure applicable to the manufactured tobacco products, which I have referred to earlier, the States share in respect of additional excise duty *in lieu* of sales tax will go up by Rs. 18.31 crore a year.

As hon'ble members are aware, the excise duty mechanism has been used consciously to encourage the production of matches in the non-mechanised sector. I propose to carry this process farther by stepping up the duty on matches produced by the mechanised sector from the existing level of Rs. 4.83 per gross boxes of 50 matches to Rs. 9.20.... I also propose to round off the existing level of duty applicable to the non-mechanised sector, other than cottage units, from the existing level of Rs. 4.52 to Rs. 4.50. As regards cottage sector units, it is proposed to reduce the duty applicable to them from Rs. 3.36 to Rs. 1.60. I am sure this package of measures will result in a further accelerated growth of the non-mechanised sector in general and cottage units in particular. The additional revenue yield from this measure is expected to be of the order of Rs. 8 crore during a year.

Machine-made carpets produced in a few organised units constitute an item of elite consumption. I can see no justification for encouraging this line of production when we have a large number of traditional carpet weavers whose skills have won international renown. I would not like the livelihood of these weavers to be threatened by the proliferation of machine-made carpets. I, therefore, propose to impose a duty of 30 per cent on such machine-made carpets. Hand-made carpets will be totally exempt from this levy. The estimated additional yield from this proposal is Rs. 1.90 crore.

Consistent with the above approach, with a view to encouraging labour oriented non-power processing sector of the cotton textile industry, I propose to withdraw the concessional rate of 8 per cent *ad valorem* on power-processed white powerloom cotton fabrics of finer varieties so that such fabrics also pay the same rate of 12 per cent *ad valorem* as is applicable to other power-processed fabrics.

This Government is committed to the encouragement of the handloom sector. The competitive capacity of handloom fabrics in relation to fabrics produced by powerloom and composite mills has to be improved further. I, therefore, propose to increase the excise duty on cotton and cellulosic spun yarn of finer counts used by composite textile mills and powerlooms by about 10 per cent of the existing rates. Details of these changes are available in the Budget papers. Additional revenue expected from these measures is about Rs. 10 crore.

The special duties of excise imposed as a part of the 1978 Budget are due to expire on 31 March 1979. I propose to continue these levies for another year at the existing rate of 1/20th of the effective basic excise duties. However, it is proposed to exempt from this levy items in respect of which the rates have been restructured as well as the new levies; the existing exemption in respect of electricity, coal and Item 68 will also be continued.

I shall now deal with the proposals concerning customs duties. The most important of them relates to withdrawal of the existing exemption from countervailing duties of customs applicable to imported goods, which attract classification under Item 68 of the Central Excise Tariff. When this residuary entry was introduced in that Tariff in 1975, imported goods were exempt from the corresponding countervailing duty of customs. This exemption which was initially granted when the excise duty on indigenous goods was 1 per cent *ad valorem* has continued, even though the rate has successively been stepped up to 5 per cent. As I have already stated, I have proposed a further increase in the Central excise duty under Item 68, from 5 per cent to 8 per cent *ad valorem*. In this context and as a measure of protection to the indigenous goods classifiable under Item 68, I propose to withdraw the existing exemption in respect of imported goods. In withdrawing this exemption, however, I have not proposed any change in the duty in regard to project imports and also the items of machinery on which the customs duty was, in the recent past, reduced to 25 per cent *ad valorem* on the consideration that such machinery is not indigenously produced. This measure will yield an additional revenue of Rs. 96 crore by way of countervailing duty.

In the context of the sizeable gap between supply and demand of edible oils, substantial imports of these oils have taken place in the past and are continuing. As a means of assuring remunerative prices to indigenous producers of oil seeds, I propose to levy basic customs duty on palm oil, rape-seed oil, soyabean oil, sunflower oil and palmolein oil at 12.50 per cent *ad valorem*. They will, however, be exempt from auxiliary and countervailing duties. This measure is expected to yield an additional revenue of Rs. 33.50 crore.

It is proposed to continue the auxiliary duties of customs for the next financial year at the existing levels.

Taking Union excise duties and customs duties together, my proposals will lead to a net revenue gain of Rs. 606.14 crore in a full year of which Rs. 413.15 crore will accrue to the Centre and Rs. 192.99 crore to the States.

Where changes are proposed to be made by notifications, effective from 1 March 1979, copies of such notifications will be laid on the Table of the House in due course.

As Members are aware that in respect of every international journey paid for in Indian currency, Foreign Travel Tax is being collected from passengers. In order to simplify the administration of the tax, and to guard against the possibility of evasion, I propose to revise the scheme and replace the *ad valorem* levy with a specific one. The new arrangements will be brought into force as soon as possible after legislation in this behalf is enacted. This measure will not have any significant revenue effect.

I have now a few words to say on behalf of my colleague, the Minister of Communications. As hon'ble members are aware, the unit costs of a number of our postal services exceed the revenues they fetch. Moreover, the modernisation of telecommunication services involves large capital investment. These factors necessitate an increase in postal and telecommunication tariffs. A memorandum showing the proposed tariffs is being circulated along with the Budget papers. The letter card (inland letter) and the letter will cost five paise more. The rate for the Post Card has been left untouched. As regards telecommunication tariffs, the ordinary telegram of 8 words will cost Rs. 2.25 as against Rs. 2 at present and each additional word will cost 30 paise as against 25 paise at present. The rate for Press telegrams will, however, remain unchanged. Local call charges, beyond 1750 calls per quarter, will be 40 paise per call, as against 30 paise at present. I will not go into other details which are given to the memorandum. The tariff revisions, which will be given effect to from a date to be notified by the Government after the Finance Bill is passed, are estimated to result in additional revenue of Rs. 57.96 crore per annum. The yield during 1979-80 is placed at Rs. 48.30 crore and has been accounted for in estimating the internal resources of the Posts and Telegraphs.

Our tax effort will bring in about Rs. 665 crore, of which Rs. 205 crore will accrue to the States leaving Rs. 460 crore with the Centre. Taking also into account Rs. 160 crore of accretions of compulsory deposits by income-tax payers, there will be a residual deficit of Rs. 1,355 crore, which I propose to leave uncovered. I have assessed carefully the inflationary potential of a deficit of this size. The large food output of the current year, the large stocks of food and other commodities that we have, the large volume of foreign exchange reserves and a continuation of the current supply management and restrictionist monetary policies give me confidence that we shall be able to maintain reasonable price stability in the coming year.

With this I have come to the end of my labours. I have attempted in this Budget to put the maximum emphasis on agricultural and rural development and labour-intensive industry, because it is now accepted by all that only that way we can eradicate poverty and unemployment in the country. I have, however, not neglected large industry and infrastructure in the process. On the contrary, I have positively encouraged them. But I have no sympathy with those industries which cater to the wants of the rich. We can have no room for production which caters to the rich and is, thus, a visible manifestation of the disparities which exist in society.

The elimination of the kind of poverty which exists in our country cannot be achieved overnight. It is a long process which involves large investment through the mobilisation of surplus resources wherever they exist in society, better organisation and the development and transfer of appropriate know-how to millions of small persons engaged in agriculture and allied occupations and village industries throughout the country.· The ultimate objective is not merely to raise the standard of living of the poor but to build a society of men and women with skills, resources, imagination, and above all, hope. I like to think that this Budget is a small step in that direction. But its success really depends upon a national consensus about the desirability of the objective and the need to work hard for it and a willingness on the part of the powerful and affluent sections of society to make the necessary sacrifices. I seek the help of this House in achieving such a consensus and securing the required sacrifices.