

## IV. FISCAL DEVELOPMENTS

### Expenditure of the Central and State Governments

79. The budgets of the Central and State Governments for 1970-71 were designed to accelerate developmental activity in the economy. The combined expenditures of the Central and State Governments were expected to rise from Rs. 7,674 crores in 1969-70 (R.E.) to Rs. 7,946 crores in 1970-71 (B.E.), an increase of 3.5 per cent. While developmental expenditure was to rise by 6.6 per cent from Rs. 4,408 crores in 1969-70 to Rs. 4,697 crores in 1970-71, non-developmental expenditure was expected to decline marginally from Rs. 3,266 crores in 1969-70 to Rs. 3,249 crores in 1970-71.

TABLE VIII

*Expenditure and Current Revenues of Central and State Governments and Union Territories*

	Percentage increase in		
	1968-69 over 1967-68	1969-70 (R.E.) over 1968-69	1970-71 (B.E.) over 1969-70 (R.E.)
I. Total Expenditure . . . . .	5.9	12.4	3.5
Developmental . . . . .	7.1	12.0	6.6
Non-developmental . . . . .	4.3	13.0	-0.5
II. Current Revenues . . . . .	9.5	9.3	11.4
Tax Revenues . . . . .	8.8	8.4	13.0
Non-tax Revenues . . . . .	11.6	12.3	6.7

80. The fall in non-developmental expenditure budgeted for in 1970-71 contrasts with a rise of 13 per cent in 1969-70 (R.E.) and 4.3 per cent in 1968-69 (Actuals). It was assumed that larger provisions

for defence, interest payments and administrative services would be more than offset by declines in other expenditures, notably famine relief. The anticipated level of developmental expenditure for 1970-71 (B.E.), on the other hand, represented an increase, over the year, of 6.6 per cent as against 12.0 per cent in 1969-70 (R.E.) and 7.1 per cent in 1968-69 (Actuals); the budget provided Rs. 2,637 crores\* on account of Plan expenditure in 1970-71, which is nearly 17 per cent higher than the preceding year's level.

81. The accounts for 1969-70 and the revised estimates for 1970-71 reveal significant shortfalls in Plan outlays in relation to the original budget provisions. While the shortfalls in the Centre's Plan outlay have to an extent been offset by larger Plan outlays incurred by the State Governments, the aggregate Plan outlay of the Centre and States together is still likely to show a shortfall of the order of Rs. 100 crores in 1969-70 and of the same order in 1970-71. Concerned over this sluggishness in attaining budgeted Plan outlays, the Government is contemplating a thorough examination of the existing financial and administrative procedures with respect to the sanctioning and implementation of major Plan schemes. An overhaul of some of these procedures may be necessary in order to speed up development programmes and to ensure the fulfilment of the major targets of the Fourth Plan according to schedule.

82. From the budgetary point of view, another major development in the course of the year has been the grant of an interim relief of Rs. 107 crores to the Central Government employees in pursuance of the Third Pay Commission's recommendation. Of this amount, Rs. 60 crores has been borne by the general budget and Rs. 47 crores by the finances of the Railways and the Posts and Telegraphs. A number of State Governments have also sanctioned higher emoluments to their employees, resulting in substantial increases in the level of non-developmental expenditure.

83. A consolidated picture of the budgetary outturn of both Centre and States for 1970-71 (R.E.) is not yet available. However, the revised estimates at the Centre for 1970-71 suggest that while non-developmental expenditure shows an increase of 6.0 per cent over the original budgetary provision, outlays incurred for developmental purposes have been lower by about 9 per cent. The revised estimates of developmental expenditure for 1970-71 nonetheless indicate a rise of 12.6 per cent over the previous year. The revised estimates of tax revenues also show a marginal improvement over the budget provision. These estimates further reveal that loans to States have been higher than was budgeted, mainly on account of larger provision for special accommodation sanctioned for meeting the non-Plan gaps and larger assistance given for natural calamities and ways and means advances.

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\*Inclusive of Institutional borrowings, the retained profits of the Reserve Bank of India, and contributions of the DVC, the ARC, the IDC, the REC and the Central Power generation units, the Plan provision for 1970-71 as indicated in the Annual Plan, 1970-71 was estimated at Rs. 2,822 crores.

TABLE IX

*Expenditure and Current Revenues of the Central Government*

(Rs. Crores)

	1969-70 Actuals	1970-71		Percentage increase in	
		B.E.	R.E.	1970-71 R.E. over 1970-71 B.E.	1970-71 R.E. over 1969-70 Actuals
<b>I. Total Expenditure</b>	<b>5,025</b>	<b>5,270*</b>	<b>5,496*</b>	<b>4.3</b>	<b>9.4</b>
(i) Developmental (including grants to States and Union Territories).	1,211	1,500	1,363	—9.1	12.6
(ii) Non-developmental (including statutory grants)	2,356	2,424	2,569	6.0	9.0
(iii) Loans and Advances (gross)	1,458	1,346	1,564	16.2	7.3
(a) To States and Union Territories	1,057	879	1,040	18.3	—1.6
(b) To others	401	467	524	12.2	30.7
<b>II. Current Revenues</b>					
(i) Tax Revenues	2,201 (2,823)	2,390 (3,134)	2,442 (3,198)	2.2 (2.0)	10.9 (13.3)
(ii) Non-tax Revenues	839	838	873	4.2	4.1

\*(i) Excludes compensation paid to nationalised banks, estimated at Rs. 40 crores in the budget estimates and Rs. 84 crores in the Revised Estimates.

(ii) Excludes Rs. 113.6 crores on account of additional subscription to the IMF (Rs. 106.9 crores) and purchase of shares of the IBRD (Rs. 6.7 crores) paid in the form of non-negotiable non-interest bearing rupee securities, in the Revised Estimates.

Figures in bracket are tax revenues inclusive of States' share.

**Tax Effort**

84. The tax revenues of the Central and State Governments taken together were estimated to rise from Rs. 4,075 crores in 1969-70 (revised estimates) to Rs. 4,604 crores in 1970-71 (budget estimates) representing a rise of 13 per cent as against an average annual rise of 8.6 per cent recorded in the preceding two years. According to the revised estimates for 1970-71, tax receipts at the Centre have turned out to be better than what was visualised at the time of the framing of the budget. As a consequence, the proportion of tax revenues of the Central and State Governments to national income, which stagnated at around 13.2 per cent in 1968-69 and 1969-70, can be expected to rise to about 14 per cent in 1970-71.

85. The year thus witnessed a major effort on the part of the Union Government to raise additional resources. Additional taxation provided for in the Central Budget for 1970-71 amounted to Rs. 178 crores (excluding concessions in export duty amounting to Rs. 10 crores). Taking into account the efforts made by the Railways and the P and T to tap additional resources—Rs. 26 crores and Rs. 8 crores respectively, the total effort was of the order of Rs. 212 crores and is expected to yield Rs. 1,000 crores over the Fourth Plan period of which Rs. 200 crores are to accrue to the States and Rs. 800 crores are to be retained by the Centre. Given the anticipated five-year yield of Rs. 725 crores (net of States' share) from the additional resource effort launched in the first year of the Plan, the aggregate resource effort during the first two years of the Plan should therefore have already ensured the accretion of Rs. 1,525 crores (net of States' share) as against the Fourth Plan target of Rs. 2,100 crores.\*

86. The measures undertaken by the States to garner additional resources are estimated to have yielded Rs. 52 crores in 1969-70 and Rs. 37 crores in 1970-71. Over the five-year period, the total yield from these measures is expected to account for about three-fifths of the Plan target of Rs. 1,098 crores suggested for the State Governments. This fact notwithstanding, there is a considerable leeway to be made up if the Plan target is to be fulfilled. The effort on the part of the States to tax the rural sector remains halting and inadequate. The need for more vigorous efforts by the States to mobilize additional resources acquires greater urgency since most of the States have incurred additional commitments by way of increases in emoluments sanctioned to their employees. For a few, the need to make up for losses incurred on account of concessions given in the form of relief from land revenue should also be a compelling factor.

87. Efforts to rationalise and simplify the tax structure and enlarge the base have continued at the Centre. In 1969-70, steps were initiated to shift the basis of the Union Excise duties from

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\*During 1970, the proposed financial outlays suggested earlier for the Fourth Plan were finalised ; as a result, the public sector outlay was raised from Rs. 14,398 crores to Rs. 15,902 crores. This increase followed a re-assessment of resources of the Central and State Governments, consequent on the award given by the Fifth Finance Commission and the nationalisation of 14 leading commercial banks. The revised outlay involved stepping up of the outlay by Rs. 964 crores in the case of the Centre and Rs. 540 crores in the case of the States. A part of the increase in the Central outlay was on account of the inclusion of Schemes not originally included, for example, provision for borrowings by the financial institutions and credit taken for contributions by the Agricultural Refinance Corporation, the Damodar Valley Corporation, the Indian Dairy Corporation, the Rural Electrification Corporation and Central Power Generation. At the same time, the original target for additional taxation by the Centre (net of States' share) of Rs. 1,600 crores was raised to Rs. 2,100 crores. Similarly, the provision for total market borrowings by the public sector agencies (including financial institutions) was raised from Rs. 1,282 crores in the draft Plan to Rs. 2,078 crores in the final document ; it was assumed that not only would commercial banks be investing Rs. 955 crores as against Rs. 400 crores estimated earlier but also that investments in the Securities of these public sector agencies from the Life Insurance Corporation and the Provident Fund Accounts would be larger than estimated earlier.

specific to *ad valorem* in the case of a number of commodities and extend the scope of the Wealth Tax to agriculture. Also, rates of income tax on income slabs between Rs. 10,000 and Rs. 20,000 were raised so as to smoothen the rate structure. The process of enlarging the tax base through reorientation of the structure and through measures to check avoidance and evasion was continued in 1970-71. The rates of personal taxation on income slabs above Rs. 40,000 were raised and the rates of Wealth Tax and additional Wealth Tax were adjusted upwards. In the field of indirect taxation too, the process of conversion of specific duties into *ad valorem* ones was continued, for example, in the case of aluminium and artificial silk fabrics. In order to widen the scope of excise taxation, a 10 per cent *ad valorem* duty was imposed on a number of new items including office machines, metal containers, sparking plugs, stainless steel blades, slotted angles, iron safes and safe deposit vaults as well as on certain chemical products and processed foods and drinks. Equally noteworthy is the attempt to tax, as far as possible, final goods rather than intermediates and producer goods.

88. The tax proposals for 1970-71 also reflected the Government's concern with the objective of promoting greater equality in the distribution of incomes and wealth. The highest marginal rate of personal income tax was raised from 82.5 per cent to 93.5 per cent; simultaneously, the combined maximum marginal rate of wealth tax and additional wealth tax was increased to 12 per cent. At the other end, care was taken to ensure that certain marginal benefits accrued to people in the lower income brackets: the exemption limit for personal taxation was raised to Rs. 5,000 and a minimum conveyance allowance of Rs. 35 per month was allowed in the case of every salaried assessee. More importantly, in order to create a stable framework for private investment activity, the rates of corporation tax were left undisturbed.

### Measures to stimulate savings

89. The budget for 1970-71 also contained several measures to stimulate savings. The income tax exemption for interest on investments was raised to Rs. 3,000, the choice of assets was widened to include the small savings schemes, deposits with commercial and cooperative banks and State Financial Corporations, investments in the Unit Trust of India, Government securities and company shares. As a further stimulus to savings, the area of investments in financial assets eligible for exemption from Wealth Tax was also widened and the amount of exemption enjoyed by such investments raised. Investments in a large category of financial assets (*viz.*, the different savings schemes offered by the Union Government, investments in shares of Indian companies, the Unit Trust of India, approved debentures, deposits with commercial and cooperative banks and government securities) have been made exempt from the Wealth Tax upto a maximum of Rs. 1.5 lakhs. Other measures to encourage savings included introduction of a new series of

time deposits, recurring deposits and savings certificates. This new package of savings schemes was designed for people in the low income groups to whom a higher rate of interest has relatively a greater attraction than tax concessions as such; the existing tax free facilities were continued with slightly higher rates of interest. The rates of return on contributions to the General Provident Fund and the Public Provident Fund were raised. More recently, following the rise in the Bank rate, interest rates on various savings schemes and certificates have been stepped up further.

### **Borrowings by the Central and State Governments**

90. According to the budget estimates for 1970-71, the gap in the resources of the Central and State Governments taken together was placed at Rs. 1,923 crores, to be met by accrual of Rs. 563 crores from net external assistance and Rs. 949 crores from domestic capital receipts; the residue of Rs. 411 crores was to be covered by deficit financing.

91. The revised estimates for 1970-71 place net receipts from external assistance at Rs. 518 crores, indicating a shortfall of Rs. 45 crores in relation to the budgetary provision for 1970-71 and of Rs. 61 crores over the actual collections in 1969-70.

92. Latest estimates indicate that net collections of small savings would attain a record figure of Rs. 183 crores, showing an improvement of Rs. 43 crores over the budgetary provision and of Rs. 54 crores over the actual collections in 1969-70.

93. The Union budget for 1970-71 provided for net borrowings of Rs. 162 crores as against Rs. 143 crores raised in the preceding year. The Central borrowing programme was completed in two phases. During the first phase, subscriptions amounted to Rs. 290 crores, of which Rs. 150 crores were in cash and Rs. 140 crores in conversion. The second phase comprised two loans and raised Rs. 138 crores of which Rs. 76 crores were in cash and Rs. 62 crores in conversion. Allowing for cash repayments, the net market borrowings of the Central Government have amounted to Rs. 136 crores in 1970-71, Rs. 26 crores less than what was visualised in the budget. This shortfall in public absorption was, however, more than offset by the Reserve Bank of India's net sales of Government securities in the course of the year.

94. During 1970, fifteen State Governments approached the market. The total subscriptions retained by State Governments aggregated Rs. 157 crores; allowing for repayments provided in the budget, the net market borrowings by State Governments amounted to Rs. 98 crores as against Rs. 83 crores in the preceding year. In addition, State Government enterprises, financial institutions and municipal corporations also approached the market. The borrowings by the State Electricity Boards amounted to Rs. 68 crores, about the same as in the preceding year; the borrowings of other State Gov-

ernment public sector agencies (*viz.* State Financial and Development Corporations, Municipal Corporations, and Housing Boards), aggregated Rs. 48 crores in 1970-71.

95. Given the available resources of the commercial banks and other institutional investors and the competing claims on these resources by the Government and the priority sectors, whether the market has the necessary absorptive capacity to cope with the cumulative demand is a moot question. In this context, the exceptionally large accommodation which the commercial banks have been seeking from the Reserve Bank of India appears as a disquieting development and underscores the need for a continued effort at mobilising larger deposits and widening the market for Government securities.

### Deficit Financing

96. The over-all deficit of the Central and State Governments (including RBI support to the long-dated securities) had aggregated to Rs. 58 crores in 1969-70, the lowest in absolute magnitude since the beginning of the Second Plan. This low level of deficit, however, reflected as much the slow tempo of developmental activity in the economy as an unanticipated improvement in tax receipts. For 1970-71, the Central budget provided for a deficit of Rs. 227 crores and the budgets of the States taken together of Rs. 184 crores.\* According to provisional data, the deficit at the Centre in 1970-71 has turned out to be marginally higher than the budgetary provision; at the States, the deficit is likely to be lower than what was budgeted due mainly to additional transfer from the Centre. The combined deficit of the Centre and States, however, would work out to more or less the magnitude as provided in the budget; if allowance is made for the R.B.I.'s net sales of Government securities, it would be lower than the budgeted figure.

### Centre-States financial relations

97. As per the Fifth Finance Commission Award, the States' share in Central taxes and statutory grants was estimated to rise from Rs. 774 crores in 1969-70 (R.E.) to Rs. 885 crores in 1970-71 (B.E.). Also, Central assistance towards the Plan outlays of the States was raised from Rs. 615 crores in 1969-70 (R.E.) to Rs. 635 crores in 1970-71 (B.E.). The total transfer of resources as budgeted in 1970-71 was, however, lower than in 1969-70, mainly on account of the lower provisions of assistance to States for natural calamities and due to an anticipated reduced volume of special assistance.

98. According to the revised estimates for 1970-71, the States' share in Central taxes and statutory grants is expected to be Rs. 12 crores higher than the provision in the budget. The revised estimate, at Rs. 638.5 crores for Central assistance for the Plan outlays of the States is roughly of the same order as indicated in the budget.

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\*States' overall deficit was reckoned before taking into account their share in the additional taxation proposed at the Centre. Also, credit taken in States budgets in respect of loans and grants from the Centre was smaller than what was provided in the Central budget.

On the other hand, assistance for natural calamities is now estimated at Rs. 100 crores; Rs. 50 crores higher than what was budgeted. Similarly, special assistance for the States, which was expected to decline from Rs. 279 crores in 1969-70 to Rs. 175 crores in 1970-71, is estimated to be higher at Rs. 195 crores.

99. The scheme of special assistance was evolved so as to help certain States fulfil their targets of Plan outlays, the expectation being that the additional accommodation offered by the Centre would enable these States to cover the inescapable gaps in their resources. As a result of this measure, it was hoped these States would be able to contain their non-Plan gaps and implement larger Plans through additional resource mobilisation.

100. The general financial position of the States, however, continues to cause concern, judged by the low level of tax effort and the continued indebtedness to the Reserve Bank of India. At the end of March 1970, the adjusted overdraft by the States with the Reserve Bank of India amounted to Rs. 153 crores despite the sanction of special assistance of the order of Rs. 279 crores during 1969-70. Despite the fact that, in actuality, special accommodation provided to the States has been Rs. 20 crores more than what was budgeted for 1970-71, there has been no abatement in the States' recourse to the R.B.I. during the year. At the end of March 1971, there were fourteen States having overdraft with the Reserve Bank amounting to Rs. 260 crores. The problem assumes additional gravity in view of the fact that special assistance to States is expected to taper off in the coming years. The question of raising further resources and observing a strict discipline on the growth of non-Plan expenditure, therefore, remains a matter of the highest priority so far as the finances of the States are concerned.

### **Performance of public undertakings**

101. The Railways Budget for 1970-71 indicated a surplus of Rs. 9.38 crores, after taking credit for an additional resource effort of Rs. 26 crores. This picture has been belied in reality. The revised estimates for 1970-71 show a considerable deterioration in the finances of the Railways, attributable, among other things, to the implementation of interim relief—costing Rs. 36 crores—recommended by the Third Pay Commission. Also, the growth in the freight traffic has been much lower than originally anticipated. Consequently, the Railways are expected to disclose a deficit of Rs. 23.69 crores in 1970-71. This will be the fourth year in succession that the Railways will be in the red.

102. There has also been a downward revision in the estimated surplus of the Posts and Telegraphs Department. The budget for 1970-71 had estimated a surplus of Rs. 12 crores, after taking credit for an additional resource mobilisation of Rs. 8 crores. The revised estimates place the surplus at only Rs. 7.9 crores.



103. The latest available information regarding the financial performance of the non-departmental undertakings of the Union Government relates to 1969-70. In the case of sixty seven running concerns other than Hindustan Steel, the total gross profit (after providing for working expenses, depreciation and write-off of deferred revenue expenditure but before providing for interest) amounted to Rs. 117.27 crores during 1969-70 and gave a return of 4.9 per cent on capital employed as against 4.7 per cent in the previous year.

104. Of the sixty seven concerns, 39 made a net profit of Rs. 71.20 crores and 28 incurred a loss of Rs. 64 crores. The aggregate net profit therefore amounted to Rs. 7.2 crores in 1969-70. If the net expenditure on the maintenance of townships and other social overheads is excluded, net profit for 1969-70 would work out to Rs. 28.22 crores. The concerns showing losses included the Heavy Engineering Corporation, the Indian Drugs and Pharmaceuticals, the Mining and Allied Machinery Corporation, the Heavy Electricals, the Bharat Heavy Electricals, the Neyveli Lignite Corporation and the National Mineral Development Corporation; those making profits included the Indian Oil Corporation, the Shipping Corporation of India, the Fertiliser Corporation of India, the Cochin Refineries, the Bharat Electronics, the Hindustan Aeronautics, the Indian Telephone Industries, the Hindustan Cables, the Hindustan Antibiotics and the Hindustan Insecticides. Of the undertakings making profit, twenty two declared dividends totalling Rs. 12.31 crores, equivalent to 7.7 per cent of the paid-up capital of these concerns.

105. The financial working of the Hindustan Steel shows that, during 1969-70, it incurred a net loss of Rs. 10.91 crores (after providing for depreciation amounting to Rs. 64.38 crores and interest amounting to Rs. 29.46 crores) as against a net loss of Rs. 39.90 crores in 1968-69. The gross surplus during 1969-70 (before charging depreciation and interest) however amounted to Rs. 82.93 crores and was substantially higher than the gross surplus of Rs. 49.2 crores in 1968-69.

106. For 1970-71, the net loss in the case of Hindustan Steel is expected to be of the order of Rs. 12 crores; the increased loss is mainly on account of upward adjustment in wages and lower production. However, an analysis of the performance of the 67 other running concerns indicates that no net loss is likely to emerge.

107. This review of the financial results of the working of the public undertakings thus brings out that, in a fairly large number of cases, returns so far have been scarcely commensurate with the investments made. Attention is being concentrated on better utilisation of capacity through improved maintenance, adoption of new techniques of management such as performance budgeting and inventory control, development of incentives and better training of industrial workers; these measures are expected to yield encouraging results in the near future. The problem of securing adequate returns from the public sector undertakings has to be viewed as an integral part of the wider strategy of widening and deepening the resource base. In the case of the States too, the unremunerative

working of the irrigation and multipurpose river schemes is indicative of the huge potential which exists for tapping additional resources from the rural sector.

### **Outstanding tasks**

108. Certain lessons in respect to fiscal policy in the coming years stand out from this review. The Fourth Plan as finalised postulates that the rate of domestic savings will rise from 8·8 per cent of national income in 1968-69 to 13·2 per cent of national income in 1973-74. To attain this progressive rise in domestic saving, a significant increase in the rate of public savings has been assumed in the Plan—from 1·4 per cent of national income in 1968-69 to 4·5 per cent in 1973-74. Despite the noteworthy tax efforts at the Centre, the available data suggest that public saving in 1970-71 was hardly more than 2 per cent of national income; if the Plan projection is to be realised, the doubling of this rate in the course of the next three years is minimally necessary. The fiscal system has, in other words, to be geared, to a far greater degree than in the past, to the task of mobilising domestic savings in a manner consistent with the requirements of equity and social justice. Besides, in view of the rising trend in prices, this task of raising domestic savings has to be implemented largely *via* non-inflationary modes of finance.