

CHAPTER 5

BUDGETARY TRENDS AND FISCAL POLICY

5.1 The recovery in agricultural production following favourable weather conditions and the consequent decline in general price level in 1975-76 provided favourable conditions for a substantial step-up in investment. Furthermore unutilised capacity existed in several industries due to slackness in demand for their products. The employment situation also had continued to deteriorate. Under these circumstances an increase in development outlay became imperative to improve the prospects for economic growth and employment. However, the overall demand management policy followed since July, 1974 had to be continued with minor modifications, as it was essential to maintain price stability with growth. It is against this background that the fiscal developments of 1976-77 have to be viewed.

5.2 The budget for 1976-77 provided for a sharp step-up in public sector investment outlays. It was expected that this would have a favourable effect on private investment which had not picked up. In the distribution of public sector outlays, however, the emphasis laid was mainly on the completion of on-going projects which would augment supplies of vital inputs required by both agriculture and industry. Investment in new projects had therefore to be accorded a secondary role. The large investment envisaged in the Annual Plan could be achieved only with a higher rate of domestic savings. This was sought to be achieved by providing a package of incentives to stimulate private savings. These incentives were further buttressed by a rationalisation of the rate structure of taxation of personal income and wealth.

Budgetary Development During 1975-76

5.3 The full impact of the substantial resource mobilisation efforts of the Centre and State Governments during 1974-75 was reflected in their Budgets for 1975-76. The combined tax revenues of the Centre and States went up by 10 per cent to Rs. 10913 crores

in the revised estimates for 1975-76 from a budget estimate of Rs. 9926 crores. Among the individual taxes, substantial increases were anticipated under income and corporation tax collections (28 per cent) and from sales tax (14 per cent).

5.4 However, the overall budgetary position did not improve in 1975-76 even with the large increase in revenues as total outlay increased by 12 per cent, from Rs. 16840 crores in the budget estimates to Rs. 18832 crores in the revised estimates. Of this, developmental expenditure accounted for a much larger (15 per cent) increase than the non-developmental expenditure (7 per cent). While a part of the increase in these expenditures was due to the grant of five instalments of dearness allowance, a substantial portion was accounted for by the increase in the loan and equity capital provided to public sector undertakings, the increased outlay on purchase of fertilisers, irrigation schemes, and export promotion measures. Consequently, the gap between current revenues and total outlay widened by Rs. 926 crores to Rs. 4990 crores in the Revised Estimates. Since only about nine-tenths of this increased gap was met by larger capital receipts the uncovered gap of Rs. 312 crores in the Budget Estimates widened to Rs. 414 crores in the revised estimates. Subsequent data available, however, show that the actual budgetary position of the Central and State Governments improved substantially resulting in an actual budgetary surplus of Rs. 13 crores, instead of a budgetary deficit* anticipated in the revised estimates for 1975-76.

5.5 The conventional budgetary deficit, it may be pointed out, does not provide an appropriate measure of the impact of the budget on the rest of the economy and transactions with the rest of the world. Therefore, in the Economic Survey, 1975-76 it was stated that for measuring the net direct impact of the budgetary operations on the demand for domestic goods and imports, the concept of the net increase in Government's total indebtedness to the Reserve Bank† was

* Budgetary deficit referred to in the Economic Survey for the year for which final accounts are available comprises the Centre's deficit as measured by net increases in the holding of treasury bills by the RBI and variation in cash balances, and States' deficit as measured by ways and means advances (net) from the RBI and variations in their cash-balances. The Centre's deficit so defined is a measure of the net variation in the Central Government's short term indebtedness to the RBI and differs from the concept in the budget documents according to which the budgetary deficit equals net increase in treasury bills (i.e. net sale of Treasury Bills not only to RBI but also to all other parties such as State Governments, commercial banks, etc.) and variation in cash balances.

† While budgetary deficit is derived from budgetary data deficit financing has to be worked out from monetary data. This may introduce a slight discrepancy because of the fact that the accounts of the Government are closed about three weeks after the end of the fiscal year whereas monetary account represent the position as at the end of the fiscal year.

more relevant. Judged by this criterion the fiscal year 1975-76 ended with a surplus of Rs. 206 crores as against a deficit of Rs. 654 crores in the previous year. Admittedly, this order of surplus had a contractionary impact on the economy. The contractionary impact was perhaps even more than that indicated above since a part of the Government expenditure was on purchases of foodgrains and fertilisers abroad and did not therefore add to domestic demand. Domestic price stability during 1975-76 is partly attributable to these factors.

Central and State Government Budgets (Including Union Territories) for 1976-77

5.6 The Annual Plan outlay for 1976-77 was raised to Rs. 7852 crores in view of the relative price stability obtaining on the eve of the budget presentation and the significant increase in the growth rate of real income in the previous year. This marked an increase of 31.3 per cent over the outlay in preceding year's plan. The outlay on agriculture was increased from Rs. 691 crores in 1975-76 to Rs. 896 crores in the 1976-77 Annual Plan recording an increase of 30 per cent. On the supporting sectors to agriculture such as irrigation, fertiliser and power (including rural electrification) the Annual outlays in 1976-77 at Rs. 687 crores, Rs. 435 crores and Rs. 1453 crores respectively were higher by 47 per cent, 43 per cent and 32 per cent respectively over the previous year's allocations. Thus, the total allocation for development of agriculture in the Annual Plan for 1976-77 was esti-

mated at Rs. 3471 crores as against Rs. 2565 crores registering an increase of more than 35 per cent. Another vital sector namely industry and minerals was allocated Rs. 2185 crores in 1976-77 showing an increase of 33 per cent over the previous year. There was also a substantial rise in the outlay on social services accounting for an increase of 29 per cent. The emphasis in the allocation of plan outlay was on the expeditious completion of on-going projects with a view to increasing vital input availabilities and infrastructure facilities in the short term. Areas selected for such increased outlay were agriculture, irrigation, power, petroleum, coal, fertilisers, steel, transport and communications. As for new projects, the approach for their inclusion in the plan was very selective depending upon their contribution to long term growth and the availability of resources.

5.7 The combined outlays of the Centre, States and the Union Territories as contemplated in the annual budgets was of the order of Rs. 19860 crores in 1976-77 and was 5.5 per cent higher than the revised estimates of 1975-76. While the growth in the developmental outlays (which include both plan and non-plan outlays under developmental heads) worked out to 4.4 per cent, non-developmental outlays were up by 7.1 per cent. The current revenues for 1976-77 which were estimated at Rs. 14826 crores showed an increase of 7.1 per cent compared with Rs. 13842 crores in the revised estimates for 1975-76. The growth in tax revenues (including receipts from additional taxation) was estimated to be slightly higher

TABLE 5.1

Budgetary Transactions of the Central and State Governments @

	1974-75 (Accounts)	1975-76		1976-77
		(B.E.)	(R.E.)	(B.E.)
I. Total Outlay	15689	16840	18832	19860
(a) Developmental	9506*	9959	11492*	12002
(b) Non-Developmental	6183**	6881	7340**	7858**
II. Current Revenue	11760	12776	13842	14826
of which :				
Tax Revenue	9223	9926	10913	11773
III. Gap (I—II)	3929	4064	4990	5034
Financed by :				
(i) Domestic capital receipts	2480	2891	3187	3414
(ii) Draft on foreign savings	758	861	1389	1288
(iii) Budgetary deficit	691	312	414	332
			(—13) @@	

@As per the budgets presented to the Parliament and to the State Legislatures.

*Excludes notional entry of Rs. 39 crores in 1974-75 and Rs. 53 crores in 1975-76 (RE) on account of conversion of loan capital into equity capital in respect of public undertakings.

**Excludes contingency fund transactions of the Central and State Governments : Rs. 22 crores in 1974-75, Rs. 20 crores in 1975-76 (RE) and Rs. 8 crores in 1976-77 (BE).

@@As per Accounts.

at 7.9 per cent, despite a likely marginal decline (1.6 per cent) in the collections from income and corporation taxes. On balance, therefore, a gap of Rs. 5034 crores emerged between the current revenues and total outlay. This gap was to be covered to the extent of 67.8 per cent from domestic capital receipts and 25.6 per cent from external assistance. The balance of Rs. 332 crores (or 6.6 per cent) was to be financed from short-term borrowings.

Central Government Budget for 1976-77

5.8 The 1976-77 Central Budget had provided for a total outlay of Rs. 13587 crores, of which 53.2 per cent was for developmental activities and the rest for items of a non-developmental nature. The Budget was left with a deficit of Rs. 328 crores (or 2.4 per cent of the total) which was to be financed from short-term borrowings. The manner of financing the rest of the outlay was : tax revenues, including accruals from fresh tax proposals (46.1 per cent); non-tax revenues (19.3 per cent); domestic capital receipts (22.8 per cent); and external assistance (9.5 per cent). Subsequently, two supplementary demands for grants involving a net outlay of Rs. 277 crores were authorised by Parliament in August and October, 1976. The bulk of this additional outlay was to be on the distribution and subsidy of fertilisers (Rs. 95 crores), payment to owners of nationalised sick textile mills (Rs. 39.18 crores), grants to States and Union territories for family planning programmes (Rs. 48 crores) and larger provision for the Oil and Natural Gas Commission (Rs. 52.30 crores).

5.9 The additional taxation proposed in the Central Budget for 1976-77 was of a modest order. After allowing for post-budget concessions, the yield was estimated at Rs. 40.7 crores (net of States' share), of which as much as Rs. 36.7 crores was to come from increases in customs duties. Reliefs were given in both direct and indirect taxes. While the loss in revenue in direct taxes was expected to be made good by better tax compliance, the loss in indirect taxes (Rs. 65 crores) was more than offset by the additional tax measures introduced in the Budget.

5.10 A reduction in excise duties on a selected number of items was proposed to provide a measure of relief to industries suffering from recession and stimulate demand for the products of such industries. Besides, in order to stimulate and sustain a progressive increase in production of certain essential commodities the budget also promised a relief of 25 per cent in excise duty if the production exceeded the level of the base year. The scheme which was finalised in July, 1976 covered 44 industries and was to

remain in force up to the end of March, 1979. In respect of certain items, however, excise duty was raised. The items which fell in this category were certain varieties of paper, patent and proprietary medicines, cigarettes, aerated waters, cotton fabrics of finer variety and paints and varnishes. An increase in import duties was proposed in the budget with a view to providing impetus to domestic production and siphoning off a part of the premia on particular products which were in short supply.

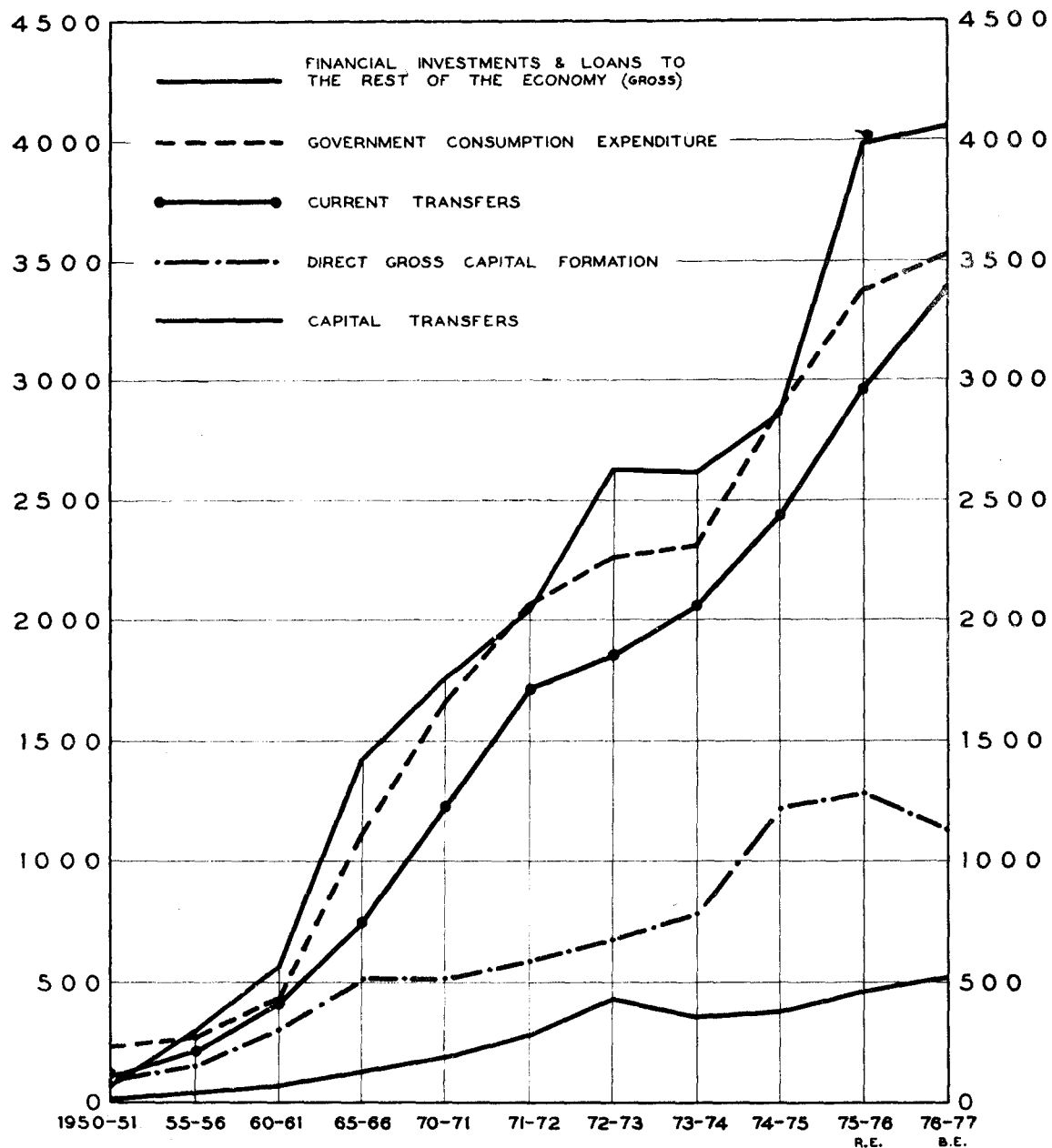
5.11 In the field of direct taxes the maximum personal income-tax rate was brought down from 77 per cent to 66 per cent with similar reductions all along the line. The wealth tax rates too were reduced (minimum rate from 1 per cent to 1/2 per cent and the maximum rate from 8 per cent to 2-1/2 per cent). The additional wealth tax on urban property was withdrawn as it was considered unnecessary after the imposition of ceilings on urban property. The new structure of income-tax and wealth tax rates was so devised as to ensure that their combined incidence in no case exceeded 100 per cent of the income.

5.12 A substantial fiscal incentive in the form of an investment allowance for selected industries including all small scale industries was introduced in the Budget for 1976-77 to enable industrial units to meet the rising costs of new equipment and to facilitate modernisation of plant in industries where replacements have been slow. Investment in plant and machinery in specified industries would now secure a tax benefit in the form of a deduction of 25 per cent of the cost from taxable profits. Where the profits are insufficient, the deficiency can be carried forward for a specified period. Unlike the initial depreciation allowance introduced in the 1974-75 Budget, the investment allowance will not be taken into account for purposes of depreciation. There was a built-in provision to ensure that the investment allowance is utilised within a period of ten years of the acquisition of a new plant and machinery. Another concession allowed in the Finance Act was the exemption of companies from the payment of the surcharge of five per cent on the income tax payable by them for a period of five years, if an equivalent amount is deposited by them with the IDBI. This measure was designed to place more resources at the disposal of the IDBI for assisting industries. There was also a reduction in the rates of tax on long-term capital gains of companies to help augment their internal resources. In view of the rise in the interest rates and to allow some margin in the return on risk capital, the threshold for the determination of chargeable profits under the Companies (Profits) Surtax Act was raised from ten per cent of the capital employed by

CENTRAL GOVERNMENT EXPENDITURE

(ECONOMIC CATEGORIES)

RS. CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

the company to 15 per cent. Long-term borrowings and debentures would, however, no longer be included in the capital base. To encourage persons of Indian origin ordinarily residing abroad to bring their assets into India on repatriation an exemption was granted to such assets from the wealth tax for a period of seven years. Investment by non-resident Indian citizens in fresh equity in certain priority industries was also to be exempt from the wealth tax.

5.13 To neutralise at least partly the effect of the tax relief, the compulsory deposit scheme was extended for another year with enhanced rates for the higher income slabs under the scheme for income-tax payers. The income to be so impounded was estimated at Rs. 80 crores.

5.14 Apart from variations in the rates of Central excise and customs, the year 1976-77 witnessed some notable changes in the Central Sales Tax Act. Sales immediately preceding exports were exempted from sales tax. The list of declared goods (that is goods on which the States cannot levy a sales tax of more than the maximum laid down for inter-State sale) was extended to include certain cereals and pulses of common consumption and crude oil.

5.15 The Economic Survey for 1975-76 had stressed the need for a fresh look at the entire structure of indirect taxes in the country so as to avoid or minimise any undesirable effects on prices and distortion in the allocation of resources. A Committee has been constituted under the Chairmanship of Shri L. K. Jha, Governor, Jammu & Kashmir, to examine the structure of indirect taxes, Central, State and local, in all its aspects and recommend measures for reform. An interim report has been submitted by the Committee which is now under examination by the Government.

5.16 The structure of direct taxation too needs reform in several directions. A major deficiency of the

income tax—the principal direct tax in the country—is that it is not adequately responsive to changes in national income. Even though in absolute terms collections from income tax have improved over the years, the amounts collected as a proportion of national income from non-agricultural sources have not recorded any significant improvement. Reform of the system of direct taxation is needed to improve the elasticity of revenue from these sources. At the same time, care has to be taken to see that equity does not suffer and the incentives for work effort, saving and investment are not blunted. There is also an urgent need to reorient tax structure to the aim of promoting savings and curbing inessential consumption more effectively.

5.17 The Economic Classification of the Central Budget shows that the direct gross fixed capital formation (i.e. investment in buildings, public works, equipment and other fixed assets) would increase by 13.3 per cent in 1976-77 as against an increase of 17.3 per cent in 1975-76 (Revised Estimates). Including inventories, however, the gross capital formation shows a decline of 12.7 per cent in 1976-77 in sharp contrast to an increase of 4.9 per cent in 1975-76 (Revised Estimates). This is mainly because of the transfer of fertiliser transactions to the Food Corporation of India from that year. The gross capital formation out of the Centre's budgetary resources (including financial assistance for capital formation to the rest of the economy) was estimated at Rs. 4905 crores in 1976-77 of which 21.5 per cent would be financed by the gross savings of the Central Government and its departmental undertakings. The rest of the financial requirements would be met by drawing upon the savings of other domestic sectors to the extent of 45.6 per cent. External assistance was to contribute 26.3 per cent leaving 6.7 per cent to be met from short-term borrowings.

TABLE 5.2
Capital Formation by the Central Government and its financing

	1974-75 (Accounts)	1975-76 (R.E.)	1976-77 (B.E.)
(Rs. crores)			
I. Gross capital formation out of budgetary resources of the Central Government	3676	4602	4905
(i) Gross capital formation by the Central Government	1227	1287	1124
(a) Gross fixed capital formation	822	964	1092
(b) Increase in inventories	405	323	32
(ii) Financial assistance for capital formation to the rest of the economy	2449	3315	3781
II. Gross savings by the Central Government	917	1022	1053*
III. Deficit (I—II)	2759	3580	3852
Financed by :			
IV. Draft on other sectors of the domestic economy	2001	2191	2564
(i) Domestic capital receipts	1417	1701	2236
(ii) Budgetary deficit	584	490	328*
V. Draft on foreign savings	758	(—98)£	1288
		1389	

*After taking into account the post-budget concessions.

£As per Accounts. Does not include RBI's transactions in long-dated securities.

NOTE : Gross capital formation in this table includes loans given for capital formation on a gross basis. Consequently domestic capital receipts include loan repayments to the Central Government.

Finances of the State Governments in 1976-77

5.18 The combined revenue and capital expenditure of the State Governments, as emerging from their budgets for 1976-77, works out to Rs. 9555 crores and represents an increase of 8.3 per cent over the revised estimates for the preceding year. The rate of growth in developmental expenditure is 7.5 per cent* and the trend over the past three years indicates that the proportion of developmental expenditure in the total expenditure has been rising. This proportion has increased from 69.3 per cent in 1973-74 to 71.3 per cent in the budget estimates for 1976-77. The increase of 10.4 per cent in non-developmental expenditure is spread over a wide range of items like interest payments, police, jails, etc. and is partly accounted for by the additional dearness allowance granted to State Government employees. The non-plan expenditure on relief on account of natural calamities, however, shows a sharp decline in 1976-77 budget estimates. However in view of floods and drought in some States in 1976-77 this expenditure is likely to be higher than provided in the Budget. In the case of developmental expenditure, the growth rates under major heads are in keeping with the priorities laid down in the Plan for 1976-77. In accordance with these priorities, the revenue and capital expenditures under irrigation show an increase of about 18 per cent, and agriculture over 12 per cent. While the expenditure under education is expected to increase by 9.3 per cent, the expenditure on family planning shows an increase of 12 per cent, and that on cooperation of 34.3 per cent.

5.19 Current revenues i.e., tax revenue and non-tax revenues of the State Governments for 1976-77 had been estimated at Rs. 7749 crores. This is only 8.6 per cent higher than in the preceding year's revised estimates. The lower rate of growth in revenues which is pronounced in tax revenues, was due to the estimated decline in the growth rate of the States' share in Central taxes as well as a lower growth rate projected for the States' own tax revenues. While the former was estimated to decline from 21.7 per cent in 1975-76 Revised Estimates to 8.0 per cent in 1976-77 Budget Estimates, the latter was expected to fall from 18.7 per cent in 1975-76 revised estimates to 13.0 per cent in 1976-77. This was due to a lower rate of growth in the taxes shared with the Centre. As far as the States' own tax revenue is concerned the increase

in sales tax revenue which is the mainstay of the States' tax revenues was lower than in the revised estimates of 1975-76. In 1976-77, revenue from this source was expected to grow by 13.9 per cent to Rs. 2120 crores from Rs. 1862 crores a year earlier, followed by a growth of 13.2 per cent in entertainment tax, and of 10.8 per cent in motor vehicles tax. In all other cases, the rate of growth in 1976-77 was less than 10 per cent, and the lowest growth rates recorded were in respect of land revenue including agricultural income tax (6.3 per cent) and electricity duties (3.7 per cent).

5.20 The receipts from States' non-tax revenues continue to be a source of concern. In contrast with a modest increase of 1.6 per cent in 1975-76, these were likely to decline by 2.5 per cent in 1976-77. The primary cause for this unsatisfactory situation continues to be the losses incurred by the departmentally run state public undertakings. The analysis of the State Budgets indicates that the net contribution (i.e. excess of revenue over non-plan working expenses and interest on capital employed) of these undertakings showed further deterioration in 1976-77 compared with the revised estimates of 1975-76 with the exception of forests, mines and minerals, and road and water transport services. These, however, made positive contributions to the revenue. The other undertakings particularly irrigation (commercial) and multipurpose river projects continued to incur heavy losses.

5.21 In 1976-77 the State Budgets showed a small deficit of Rs. 5 crores in contrast to a surplus of Rs. 16 crores in their budgets for 1975-76. The budget surplus in 1975-76 was largely due to the windfall in the form of a share in income tax collections from the Voluntary Disclosure Scheme. If this exceptional item is not to be taken into account, the State Governments' budgetary position in 1976-77 certainly showed a marked improvement. However, this small aggregate deficit for all States in 1976-77 obscures the individual State's budgetary position. A disquieting trend observed in the State budgets in recent years has been that some of the States whose finances were hitherto viable are showing signs of deterioration. This trend needs to be corrected. Likewise, the problem of overdrafts by certain States has again become a cause for concern. This again underscores the need for such States to improve their financial administration.

5.22 A significant aspect of the State Governments' finances since the beginning of the Fifth Plan has been

*In 1975-76, there was an outlay of Rs. 88 crores on the purchase and distribution of foodgrains and fertilisers but in 1976-77, there is a negative figure of Rs. 37 crores under these two heads, signifying withdrawals from stocks. If adjustment is made for this, the growth in developmental expenditure during 1976-77 will be 9.6 per cent.

the encouraging resource mobilisation effort put forth by them. As against the target of Rs. 2,550 crores set for them in the Draft Fifth Five-year Plan, the measures taken by the States in the first three years of the plan would yield Rs. 5498 crores during the five-year period, thus, far exceeding the original target. However, the plan as finalised in September, 1976 has set the target for additional resource mobilisation by the States at Rs. 6199 crores, which calls for an additional resource mobilisation of Rs. 701 crores by them in the remaining two years of the plan over and above the level already reached. It is worth emphasising, however, that so far the States have not made any serious attempt to tax relatively undertaxed sectors. Considering the priority accorded to investment in agriculture and the huge investments that have been made on irrigation works and rural electrification and various subsidies given to this sector, the revenue accruals are hardly commensurate with even the maintenance expenditure on irrigation and other infra-structural facilities provided. Increasing the rates of existing taxes, which in the case of the States are mostly on commodities, is becoming increasingly difficult. Hence, there is an urgent need for the States to seriously consider ways of augmenting their revenues and simultaneously bringing about better equity in their tax structure. This should be done in such a manner that it brings greater elasticity to the State tax revenues and ensures a better balance in their budgets.

5.23 There is also a tendency among the States to slacken their effort at additional resource mobilisation when the appointment of a Finance Commission is due because of the fear that resources from such measures would enter the base level figures of State revenues which the Finance Commission might take for purposes of projecting the States' requirements of funds over the period covered by its recommendations. There is already some evidence of this trend in some of the State Governments' budgets presented for the year 1977-78. The concessions announced recently by several States with regard to the profession tax, sales tax, property taxes and land revenue compound this problem. Their tax revenue would be eroded further and their resource position will worsen to the obvious detriment of their growth.

Performance of Public Sector Commercial Undertakings

5.24 The financial results of Central Commercial Undertakings for 1974-75 showed a substantial improvement inasmuch as their pre-tax profits for

that year at Rs. 312 crores were more than double that of Rs. 149 crores in 1973-74. The provisional data for 1975-76 in respect of these undertakings show that the profit at Rs. 305 crores in 1975-76 was two per cent less than the level in the preceding year.

5.25 The enterprises which incurred significant losses were : Coal India Ltd. (Rs. 27.93 crores), Fertiliser Corporation of India Ltd. (Rs. 24.56 crores), Bokaro Steel Ltd. (Rs. 16.94 crores) and Fertilisers and Chemicals (Travancore) Ltd. (Rs. 12.84 crores). Excepting in the case of Coal India Ltd. where over the previous year's loss, there was a decline of Rs. 32.12 crores in the loss incurred in 1975-76, in all other cases, the magnitude of loss widened considerably. By far the largest contribution to pre-tax profits came from the oil producing enterprises i.e., Indian Oil Corporation Ltd. (Rs. 52.41 crores) and Oil and Natural Gas Commission (Rs. 38.21 crores) followed by Bharat Heavy Electricals Ltd. (Rs. 57.24 crores), Hindustan Steel Ltd. (Rs. 44.66 crores), Minerals and Metals Trading Corporation (Rs. 29.92 crores), Hydro Carbons Pvt. Ltd. (Rs. 23.72 crores), Indian Petrochemicals Ltd. (Rs. 14.47 crores), and Hindustan Zinc Ltd. (Rs. 10.63 crores).

5.26 The figures of profits/losses in the preceding paragraph do not include the sick textile mills numbering 105 taken over by the Government, and constituted into nine subsidiaries of the National Textile Corporation under the provisions of Sick Textile Undertakings (Nationalisation) Act, 1974. According to provisional data, they would have incurred losses amounting to Rs. 60 crores in 1975-76.

5.27 The provisional data show that the return on capital employed in the Central Public Sector enterprises, namely, ratio of gross profits after providing for working expenses and depreciation but before deducting interest and tax liability declined from 8.4 per cent in 1974-75 to 7.6 per cent in 1975-76. The dividends declared by 41 enterprises amounted to Rs. 20.77 crores as against Rs. 19.63 crores in 1974-75 by 36 enterprises. The gross internal resources comprising retained profits, depreciation and deferred revenue expenditure written off during the year generated by 98 enterprises stood at Rs. 526 crores compared to Rs. 580 crores generated by 91 enterprises in 1974-75. This would indicate that barring a few the working of most enterprises leaves much to be desired and the return on resources employed far from adequate.

5.28 After reporting substantial losses successively for 1973-74 and 1974-75, the Railway Budget for 1975-76 had anticipated a surplus of Rs. 23.03 crores. However, the actuals for 1975-76, show a deficit of Rs. 61.11 crores despite an improvement in traffic earnings of Rs. 96.15 crores. Besides the burden of increased dearness allowances to the employees, the escalation in costs of fuel and other materials were responsible for this deterioration in the revised over the budget estimates. Even on the assumption of a 4 per cent rise in passenger traffic and a 12 per cent increase in revenue-earning traffic at the existing rates of freights and fares the Railway budget for 1976-77 estimated a deficit of Rs. 78.37 crores. For several years now railways have been financing their deficit through loans from the General Budget. This has imposed a considerable burden on the Central Budget. One chief reason for the railways' losses has been that the freight rates charged are below the cost of haulage even on goods which can bear higher freight rates. To correct this situation partially and to cover their estimated losses in 1976-77, the railway budget increased freight rates selectively to earn an additional revenue of Rs. 87.35 crores which after covering the estimated deficit, was expected to leave a small surplus of Rs. 8.98 crores. The railways showed a promising improvement in 1976-77 in their passenger and freight traffic, the latter having increased by more than the target of twelve million tonnes set for the year. Consequently, the revised estimates for 1976-77 show a surplus of Rs. 35.67 crores.

5.29 The working of the Department of Posts and Telegraphs has also come under strain in the past few years. The final accounts for 1974-75 show only a nominal surplus of Rs. 2.33 crores against a surplus of Rs. 64.84 crores envisaged in the Budget. Likewise, the surplus of Rs. 14.52 crores budgeted for 1975-76, has turned out to be a deficit of Rs. 4.41 crores. More or less the same reasons as in the case of the railways are responsible for the deterioration in the working results of the P & T Department. With a view to bring viability to their finances the post and telegraph tariffs had to be revised upwards from 1st March, 1976. As a result of this upward revision, which 1976-77 budget estimated at Rs. 141 crores, the Posts and Telegraphs Department was expected to achieve

a surplus of Rs. 117.72 crores. In the revised estimates, however, the surplus estimated shows a small decline at Rs. 111.02 crores.

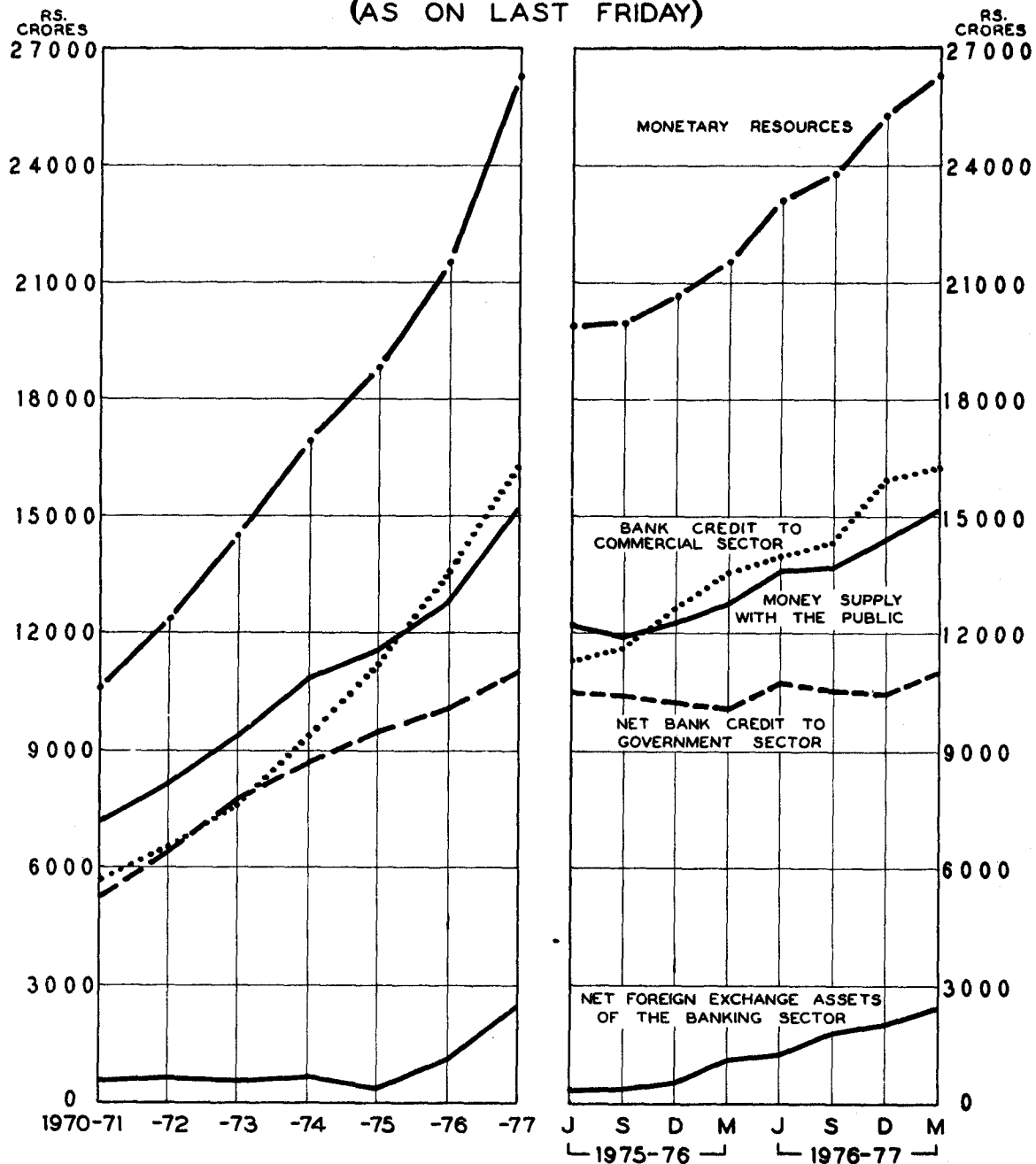
5.30 The working of the commercial undertakings of State Governments continues to be a cause for concern. In the Economic Survey for 1975-76, the problem facing the State electricity undertakings and the irrigation projects were dealt with in greater detail. These problems continue to operate even during 1976-77 despite efforts made by the States to raise the electricity and irrigation rates to cover the rising operating costs. According to the latest available data, the additional yield from the revision of electricity rates during the first three years of the Fifth Five Year Plan comes to about Rs. 775 crores.* Even so, the operating results of State Electricity Boards in 1976-77 are likely to show a deficit of about Rs. 110 crores, although this deficit is comparatively less than that recorded in 1974-75 (Rs. 137.5 crores) and in 1975-76 (Rs. 120 crores approx.). Out of 18 Electricity Boards for which data are available, only 6 are expected to show some surplus (Rs. 34 crores) in 1976-77. The solution to the problem of deficits lies in improved efficiency, prevention of thefts of material and power, reduction of transmission losses and suitable revision in tariffs.

5.31 The financial results of irrigation works operated by the States are even more alarming. The losses on this account which amounted to Rs. 216 crores in 1975-76 are expected to be Rs. 253 crores in 1976-77. In relation to these losses incurred on irrigation works, the States' efforts to raise irrigation rates in the first three years of the fifth plan would yield only Rs. 175 crores over the plan period. If the States are to avert these huge losses they have to make determined efforts to raise the irrigation rates substantially.

5.32 When compared to electricity undertakings and irrigation works, the road transport undertakings of the States have not done too badly. The resources raised through fare revisions and other measures during the first three years of the Fifth Plan are expected to yield Rs. 555 crores over the plan period. However, most of the State transport undertakings are faced with the problem of replacing their fleet which has become obsolete and would entail heavy investment.

*The five-year yield for the duration of the fifth plan from the measures so far taken is estimated at Rs. 1,809 crores.

MONEY SUPPLY WITH THE PUBLIC AND MONETARY RESOURCES (AS ON LAST FRIDAY)



MINISTRY OF FINANCE, ECONOMIC DIVISION.