

CHAPTER 5

GOVERNMENT FINANCES AND FISCAL POLICY

5.1 The Central Government Budget for 1977-78 as finally presented gave primacy to agriculture and employment-oriented rural development and thus indicated the changes in the structure of the economy which the new Government would like to bring about. Since the budget had to be presented within a short period after the assumption of office by the Government, a thorough reorientation of the expenditure estimates presented in the Vote-on-Account budget in the desired directions was not possible. Nevertheless, the Budget did indicate a change of direction in fiscal policy by having a new order of priorities in its expenditure and a taxation policy which would help realise the fundamental objective of raising the levels of living of the masses, particularly in the rural areas, through productive employment.

5.2 Government had to contend during the year with an inflationary situation arising out of an imbalance between aggregate demand and supply. Moreover, private investment activity in the economy had not picked up in spite of a sizeable step-up in plan outlay in the previous year. In the circumstances, evolving a policy which, while containing inflation, would provide necessary incentives for a sufficiently high rate of saving and investment in the economy and promote rural development became the major objective of the budget. It was also part of the development strategy to utilise accumulated critical resources in the form of foodgrains and foreign exchange for achieving a higher rate of growth. Accordingly, there was a substantial step-up in the annual plan outlay which at Rs. 9940 crores for 1977-78 was about 27 per cent higher than the outlay for the Plan in the preceding year. But to restrain inflationary pressures in the economy the budgetary deficit was kept at a low level.

5.3 The Central Government's intention to restrict the budgetary deficit to a small amount was, however, offset to a large extent by the State Governments producing substantial budget deficits, particularly by those which were to elect new legislatures. A number of these States presented large budget deficits for 1977-78

by extending fiscal concessions, taking on new liabilities and announcing increased emoluments to their employees without any regard to the availability of resources. All this ran counter to the Government's anti-inflationary policy and was not conducive to economic growth. Fiscal concessions and wage and salary increases once granted are difficult to withdraw and newly formed Governments would also not like to become unpopular by resorting to such measures. Such actions by the State Governments had the undesirable effect of eroding resources for the Plan and increasing the burden on the Central Budget for financing the development outlays of the States. This only underscores the need for a healthy fiscal coordination between the Centre and the States in a federal polity like ours. The Seventh Finance Commission which is now examining the question of devolution of shareable taxes and grants-in-aid to the States, it is hoped, will have some constructive suggestions to offer on this crucial area of fiscal coordination between the Centre and the States.

The Budgetary Developments during 1976-77

5.4 The budgetary operations of the Central and State Governments in 1975-76 had resulted in a surplus after many years. In 1976-77, once again, the Central and State Budgets reverted to deficit budgets and their combined budgetary deficit* amounted to Rs. 534 crores. It would seem that this was more the result of an over-run in public expenditures, particularly of a developmental nature, than a shortfall in revenues from the levels envisaged at the time of budget formulation.

5.5 The gap between total outlay and current revenues of the Centre and the States estimated at Rs. 5,034 crores in the budget estimate for 1976-77 widened to Rs. 6,260 crores in the revised estimates. On the expenditure side the most significant increases occurred in respect of food subsidy, export assistance, subsidy on phosphatic fertilisers, and expenditure on family welfare programmes and relief expenditure for natural calamities.

*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 holdings 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.

5.6 As stated earlier, the actual budgetary deficit of the Central and State Governments in 1976-77 was Rs. 534 crores. For certain analytical purposes, especially for assessing the impact of budgetary operations of the government on money supply, etc., a wider concept of deficit is used and this is measured

by the net increase in Government's total indebtedness to the Reserve Bank † during the fiscal year. According to this concept, the deficit in the fiscal year 1976-77 works out to Rs. 340 crores which is in contrast to a surplus of Rs. 206 crores recorded in the previous fiscal year 1975-76.

TABLE 5.1
Budgetary Transactions of the Central and State Governments@

	1975-76 (Accounts)	1976-77 (B.E.)	1976-77 (R.E.)	1977-78 (B.E.)
				(Rs. crores)
I. Total Outlay	18933	19860	21538	23346
(a) Developmental	11574	12002	13227	14407
(b) Non-Developmental	7359	7858	8311	8939
II. Current Revenue	14095	14826	15278	16890
Of which : Tax Revenue	11182	11773	12077	13398
III. Gap (I—II)	4838	5034	6260	6456
Financed by :				
(i) Domestic capital receipts	3094	3414	4703	4936
(ii) Draft on foreign savings	1757	1288	1221	1256
(iii) Budgetary deficit	(—)13	332	336	214
			(534) @ @	

@ As per the budgets presented to the Parliament in June 1977 and to the State Legislatures in March 1977 in most cases.

@ @ As per accounts.

Central and State Government Budgets (Including Union Territories) for 1977-78

5.7 The Annual Plan for 1977-78 was altered to a considerable extent in the Final budget keeping in view the economic philosophy of the new Government. Accordingly outlays on agriculture, irrigation, power, khadi and village industries, sericulture, handlooms, postal and telephone facilities in rural areas were increased. In addition, for strengthening the rural infrastructure, funds were provided for durable link roads and for rural drinking water supply. The tilt in favour of the rural sector in the allocation of plan resources was quite prominent and purposive as can be seen from the outlay on agriculture and allied services. This showed an increase of 41 per cent from Rs. 895 crores in 1976-77 to Rs. 1264 crores in 1977-78, and that on irrigation and flood control by 50 per cent from Rs. 687 crores to Rs. 1032 crores. Particular attention was paid to power development and the allocation for this sector at Rs. 1890 crores represented an increase of 30 per cent over Rs. 1453 crores in the previous year. In the case of village and small scale industries, the increase in Plan outlay was even larger at 52 per cent. While the step up in outlay

for industry and minerals was 8 per cent, the increases in plan allocations for transport and communication and social service sectors at 23 per cent and 34 per cent respectively were quite substantial. Since on-going projects had to be continued and the commitments made by the earlier government had to be honoured, the annual Plan allocations despite these perceptible changes could not fully reflect the priorities and programmes of the Government.

5.8 The combined budgetary transactions of the Centre, States* and the Union Territories for 1977-78 reveal that the growth in their total outlay of Rs. 23346 crores would be about 8.4 per cent when compared with the revised estimates of Rs. 21538 crores for 1976-77. The increase in developmental outlays (both plan and non-plan) at 8.9 per cent‡ was slightly higher than the increase of 7.6 per cent in non-developmental outlays. Except for interest payments which increased by 13.5 per cent, the increase in expenditure under other major heads such as defence, police, and tax collection charges would be between 5 and 7 per cent. The current revenues were, however, likely to grow at a relatively higher rate (10.6 per cent) from Rs. 15278 crores in the revised estimates for 1976-77 to Rs. 16890 crores budgeted for 1977-78. As regards tax revenues (including receipts

† While budgetary deficit is derived from budget data, deficit financing (i.e. net increase in Government's indebtedness to the Reserve Bank) has to be worked out from monetary data. This may introduce some 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 represents the position as at the end of the fiscal year.

* Based mostly on the vote-on-account budgets of the States presented in March, 1977.

‡ 20.0 per cent when compared with the budget estimates for 1976-77.

from additional taxation), it was anticipated that their rate of growth would be nearly 11 per cent as against 8 per cent recorded in the preceding year. While the revenues from all major taxes were expected to increase by about 10 per cent, the revenue from customs duties was expected to show an increase of 16 per cent on the assumption that larger imports would result from government's liberalised import policy. As a result of the relatively higher rate of growth assumed in the budget estimates for revenues than for expenditures the gap in resources was contained at Rs. 6,456 crores in 1977-78 (budget estimates) despite sharp increases in outlays. This gap for the fiscal year 1977-78 was to be met substantially (77.2 per cent) from domestic capital receipts and the balance from external assistance (19.5 per cent), and short-term borrowings (3.3 per cent).

Central Government Budget for 1977-78

5.9 The Central Budget for 1977-78 was presented against a back-drop of resurgent inflation and slackening investment activity in the economy. The strategy of the budget, therefore, was to overcome both these obstacles in the way of the growth of the economy. Though public investment had been maintained in crucial sectors of the economy, complementary investment activity in the private sector was not responding thus inhibiting growth in output and employment. This called for an orientation of the pattern of public investment towards both employment and output. The accent therefore was more on basic sectors of the economy such as agriculture, power and rural industries.

5.10 Total outlay in the Central Budget for 1977-78 was Rs. 16335 crores which showed an increase of 10.3 per cent as compared to the revised estimates of 1976-77. Development expenditure formed 54.5 per cent of this total. Even so, the budgetary deficit was kept low at Rs. 84 crores as against Rs. 425 crores in 1976-77 (revised estimates) with a view to minimising the expansionary impact of the budget. The rest of the outlay was to be financed by tax revenues, including additional taxation (44.1 per cent); non-tax revenues (18.5 per cent); domestic capital receipts (29.1 per cent); and external assistance (7.7 per cent). It is significant to note that over the past two years, the dependence of the Budget on external assistance has nearly been halved—from 13.4 per cent of total outlay in 1975-76 to 7.7 per cent in 1977-78, while the share of domestic capital receipts has gone up from 22.5 per cent to 29.1 per cent over this period.

5.11 In the field of taxation, the 1977-78 Central budget shows a significant departure from the previous

budgets. Unlike in the past when the bulk of the revenue from additional taxation was raised from taxation on commodities, the current year's budget relied more on direct taxes. Out of a total additional tax revenue of Rs. 126.6 crores, as much as Rs. 88.3 crores or 70 per cent was to be raised from changes in the rates of income and wealth taxes.

5.12 The changes in the area of indirect taxes were designed to ensure that a relatively larger burden fell on inessential consumption. Therefore, excise duties on watches, clocks, timepieces, cars and scooters were raised. Although the rate of general excise duty leviable on commodities not subject to duty under any specific head was raised from 1 per cent to 2 per cent, set-off was to be allowed to minimise the cascading effect where these goods were used in the manufacture of other excisable articles. Care was also taken to see that the small manufacturers did not suffer and those whose production was below a certain level were exempted from duty payment. Rationalisation of structure of Union excise duties was pursued further by replacing some of the specific duties, such as on paints and varnishes, by *ad valorem* rates. In customs duties, in order to make indigenous industry face some foreign competition, the rates of import duty on certain articles used in the manufacture of capital goods were lowered and a decision was taken to permit imports of such capital goods without prior scrutiny from the indigenous angle.

5.13 A number of significant changes were made in the sphere of direct taxes. In order to provide relief to persons in the low income brackets, the exemption limit for personal income-tax was raised from Rs. 8,000 to Rs. 10,000. However, on equity considerations this concession was restricted to only those with an income of not more than Rs. 10,000. The existing surcharge on personal income tax of 10 per cent was increased to 15 per cent and as a result the maximum marginal rate of personal income tax went up from 66 per cent to 69 per cent. Similarly, wealth tax rates were also raised except for the lowest slab of net wealth of Rs. 2.5 lakhs.

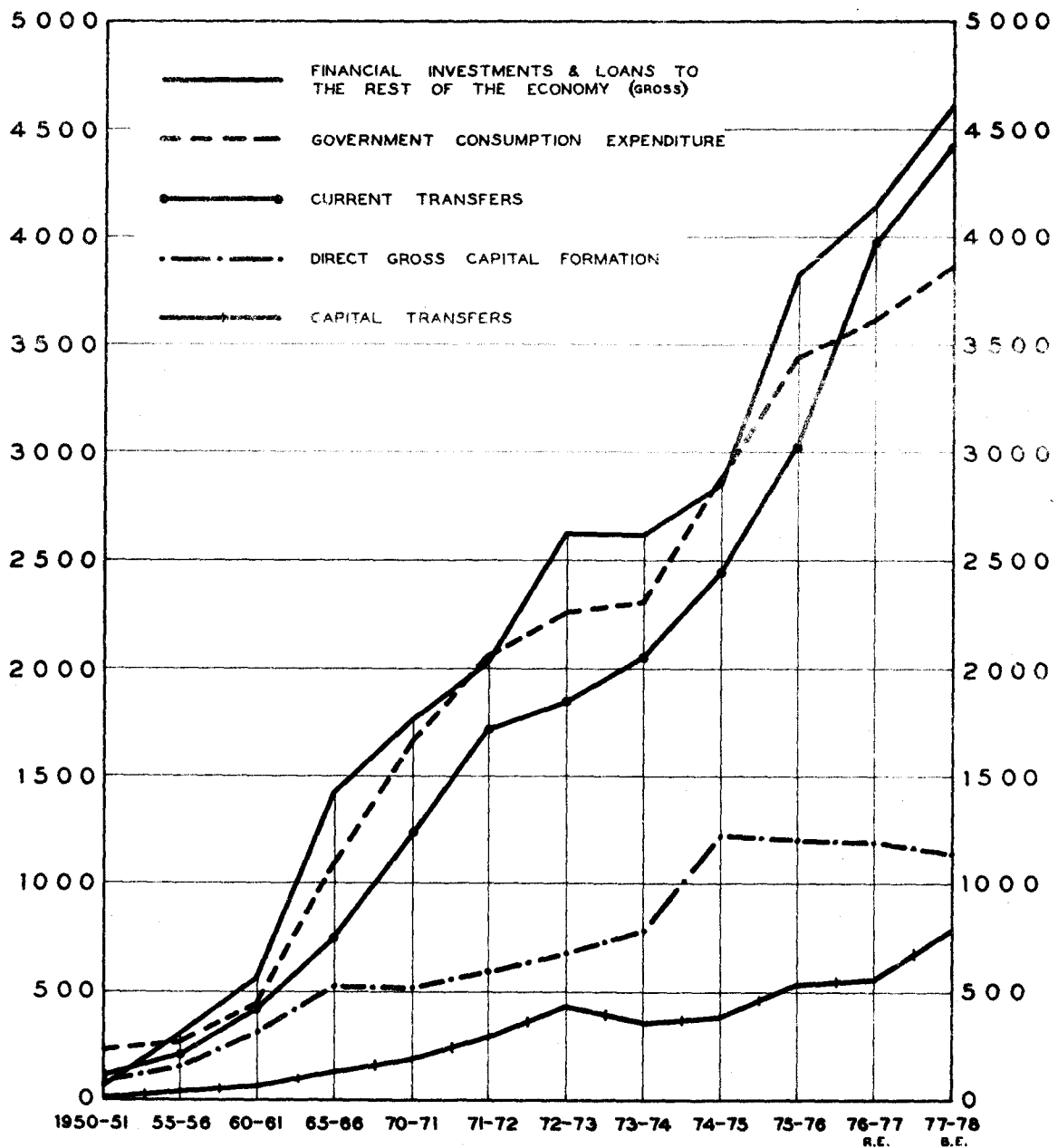
5.14 With a view to stimulating industrial investment the investment allowance of 25 per cent of the cost of new plant and machinery which had been given to only a few industries in the 1976-77 budget was extended to all industries except a few specified low priority ones. For furthering the development of indigenous technology, a higher rate of investment allowance of 35 per cent has been allowed on machinery and plant using know-how developed in government companies, universities, or other approved laboratories.

† 9.5 per cent, excluding the receipts from additional taxation.

CENTRAL GOVERNMENT EXPENDITURE

(ECONOMIC CATEGORIES)

RS. CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

5.15 To enlist corporate sector's managerial skills in the task of rural development the budget offered a deduction in the computation of taxable profits for expenditure incurred by them on approved programmes of rural development. Small scale industries set up in rural areas would also be eligible for concessions in income tax. Closely held industrial companies were exempted from the requirement of compulsory distribution of dividend with a view to helping them conserve more resources for expansion.

5.16 An attempt was also made in the Budget to rationalise the structure of the capital gains tax, the object being to secure greater mobility of investible resources as also to discourage investment in low priority assets. Firstly, the period for which the assets have to be held in order to get concessional tax treatment on capital gains was reduced from 60 months to 36 months. Secondly, long-term capital gains will be exempt from the tax if the sale proceeds of the asset giving rise to the gains are reinvested within six months in shares, bank deposits, units of the Unit Trust of India, or other specified assets.

5.17 To put sick units on their feet, tax concessions were provided for voluntary amalgamations of such units with sound ones subject to certain conditions being fulfilled. The accumulated losses and unabsorbed depreciation of the amalgamating company would be allowed to be carried forward and set off in the hands of the amalgamated company. However, the option given to companies in the last year's budget whereby, instead of paying 5 per cent surcharge on income-tax, they could deposit an equivalent amount with the Industrial Development Bank of India for a period of five years was withdrawn in the 1977-78 Budget in order to secure these resources for the

Central Budget. As an anti-inflationary measure, the 1977-78 Budget extended the Compulsory Deposit Scheme for Income-Tax Payers for another two years.

5.18 An analysis of the Economic and Functional Classification of the Central Budget shows an increase of 19.6 per cent in the direct gross fixed capital formation (i.e. investment in buildings, public works, equipment and other fixed assets) which is slightly higher than the increase of 18.6 per cent in the revised estimates of 1976-77. Including financial assistance for capital formation to the rest of the economy, gross capital formation out of the Centre's budgetary resources at Rs. 5709 crores in 1977-78 shows an increase of 10.7 per cent over the previous year, i.e. about the same as recorded in 1976-77 (R.E.) over 1975-76. In the financing of these investments, the contribution of the Central Government's own savings (gross) had declined substantially from 21.2 per cent in 1975-76 to 10.2 per cent in the revised estimates in 1976-77. In 1977-78, however, these savings were expected to increase to 15.5 per cent of the total investment in that year. The rest of the resources were to be raised out of domestic capital receipts (61.0 per cent), external assistance (22.0 per cent), and short-term borrowings (1.5 per cent).

5.19 One significant trend revealed by the Economic Classification of the Central Budget is the rapid rise in subsidies in various forms, such as food subsidy, export assistance, fertiliser subsidy etc. These have more than doubled to Rs. 966 crores in 1976-77 from Rs. 470 crores in 1975-76. Although the growth in these subsidies in the current year's Budget is less than 10 per cent, it is doubtful if they can be contained within this limit. The growing need to subsidise

TABLE 5.2
Capital Formation by the Central Government and its Financing

	(Rs. crores)		
	1975-76	1976-77 (R.E.)	1977-78 (B.E.)
I. Gross capital formation out of budgetary resources of the Central Government	4664	5158	5709
(i) Gross capital formation by the Central Government	1205	1197	1138
(a) Gross fixed capital formation	950	1127	1348
(b) Increase in inventories	255	70	-210
(ii) Financial assistance for capital formation to the rest of the economy	3459	3951	4571
II. Gross savings by the Central Government	991	526	886*
III. Deficit (I—II)	3673	4632	4823
Financed by :			
IV. Draft on other sectors of the domestic economy			
(i) Domestic capital receipts	2015	2937	3483
(ii) Budgetary deficit	-99	425	84*
V. Draft on foreign savings	1757	1220	1256

* 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 loan given for capital formation on a gross basis. Consequently domestic capital receipts include loan repayments to the Central Government.

several activities in our economy seems to stem from the ad hoc decisions taken in regard to pricing of commodities which are not always conducive to the maximisation of the welfare of the community as a whole. While some subsidies are unavoidable or even necessary, there are others which could be minimised or eliminated through a well integrated price policy.

5.20 A number of developments that have taken place since the presentation of the budget indicate that the anticipated budgetary deficit of the Centre may turn out to be significantly larger. The main factors contributing to such a deterioration in the budgetary position are : the decision to pay the second instalment of compulsory deposits in cash rather than crediting them into the provident fund accounts of the employees; grant of minimum bonus to workers which might widen the cash losses of certain public sector undertakings ; grant of an additional instalment of dearness allowance to Central Government employees and the revision of wages of port and dock workers ; the increase in food subsidy resulting from an increase in the procurement price of wheat without a corresponding increase in the issue price ; and changes made in the sale price to consumers and the retention prices to producers of fertilisers. Further, the trend in the current year's exports so far indicates that extra cash assistance might become necessary. The requirements of technical credits to countries with which rupee payment arrangements exist are likely to go up following an increase in their purchases from India, without a corresponding increase in our purchases from them. The serious deterioration in the budgetary position of the State governments would also contribute to the enlargement of the Centre's deficit. The Supplementary Demands for Grants presented to Parliament in December 1977, provide for an additional sum of Rs. 375 crores to cover a part of the gap in the States' resources to meet Plan outlay and the expenditure on natural calamities. In addition, the States are to get Rs. 97 crores for a number of other programmes, including Rs. 35 crores for the distribution of food and fertilisers in the areas affected by floods. Including the above provisions for States, the Supplementary Demands for Grants estimate that the net additional expenditure by the Centre in the current year would be Rs. 689 crores.

5.21 As against these increases in expenditures there are indications of some compensatory improvement in the Centre's revenue position. Market borrowings have been higher by about Rs. 183 crores over the budget estimates. The financial position of Railways has shown some improvement over the budget estimates. On the other hand, available data on tax collection do not show any improvement in the rate of collection. On the whole the indications are that

the budgetary deficit for the current year may turn out to be larger than in the Budget.

Finances of the State Governments for 1977-78

5.22 Since the final budgets of many States with newly elected legislatures were not available in time, the analysis of State government budgets given below is mostly based on Vote-on-Account budgets. The analysis of these budgets for 1977-78 reveals that total expenditure (both revenue and capital) of the States would increase by 7.5 per cent from Rs. 10388 crores in 1976-77 (R.E.) to Rs. 11169 crores in 1977-78. While the growth in developmental expenditure has been estimated to slow down from 16.2 per cent in 1976-77 (R.E.) to 8.2 per cent in 1977-78 (B.E.), the growth of non-developmental expenditure declined from 15.5 per cent to 5.9 per cent during the same period. In consequence, the proportion of developmental expenditure to total expenditure which on an average was 72.4 per cent during the three-year period i.e. 1974-75 to 1976-77 has shown a marginal increase to 72.8 per cent in 1977-78 (B.E.). However, this ratio might undergo some change when the final budgets of the States for the year 1977-78 are analysed. As of now, available data on expenditure reveal a considerable step-up in expenditure under developmental heads like agriculture and allied services (10.5 per cent), irrigation and multipurpose river projects (12.3 per cent), medical and public health excluding family welfare (11.1 per cent), education (9.0 per cent) and roads and bridges (5.3 per cent). Although non-developmental expenditure does not show much increase, this appears to be more due to inadequate provision made for the relief on account of natural calamities, the expenditure on which, is bound to show a substantial increase during the year.

5.23 The growth in the total tax revenue of the States has been estimated to be 9.0 per cent in 1977-78 (B.E.) which is slightly lower than the growth of 9.3 per cent recorded in 1976-77 (R.E.). The deceleration in the rate of growth of States' own tax revenue has been even more i.e. from 11.8 per cent to 9.9 per cent in these two years thus indicating lack of effort at additional mobilisation of resources by the States in 1977-78. In fact, as pointed out earlier, many States have given tax concessions leading to a deterioration in their financial position. The figures relating to the States' non-tax revenues are even more disturbing. These have declined by 8.4 per cent in 1977-78 (B.E.) in sharp contrast to a rise of 6.1 per cent registered a year earlier. The disappointing financial results of the working of the States' commercial undertakings, especially in irrigation and electricity, mainly account for this serious erosion in non-tax revenues of the States. Though some relief to the State budgets has come from the

grants given by the Centre the growth in such grants at only 10 per cent in 1977-78 (B.E.) is much lower than the growth of 22.6 per cent in 1976-77 (R.E.). In sum, therefore, the States total current revenues (i.e. tax revenues, non-tax revenues and grants from the Centre) would show a much lower rate of growth in 1977-78 at 6.9 per cent as compared to a growth of 11.2 per cent in 1976-77 (R.E.). However, among the individual taxes, the revenues from sales tax and state excise duties have continued to be the mainstay of the States' tax revenues and have recorded better rates of growth than the average growth of 9.9 per cent in their own tax revenues.

5.24 The State governments' efforts at additional resource mobilisation this year have been generally disappointing. The annual Plan outlays of the States in the current year aggregating Rs. 4705 crores were settled after taking into account the commitments given by the States for additional resource mobilisation of Rs. 279 crores during this year. On the basis of measures taken so far a substantial shortfall appears likely in resources. Moreover, the resource gap has further widened by about Rs. 450 crores on account of a number of State governments giving several tax concessions taking on new liabilities and increasing pay and allowances of their employees. As the States would not be in a position to cover such a wide resource gap, the Centre in its desire to see that the States would reach their plan outlays and thus maintain the tempo of development, has agreed to cover half the residual gap in resources.

5.25 Meanwhile, the question of overdrafts of some States with the Reserve Bank crops up periodically and the Centre has been compelled to help them by giving advance plan assistance and ways and means advances. All this goes to show that serious efforts are called for by State Governments to restore financial viability. The States have often argued that their financial difficulties are due to their inelastic tax structure. The revenue situation can be considerably improved if they would tap all available resources, earn surpluses from their commercial undertakings through proper management and pricing and tax policies and improve their tax administration.

Measures towards Rationalisation of the Tax System

5.26 The system of both direct as well as indirect taxation in India as operating at present is largely the outcome of changes made from time to time to meet the exigencies of the emerging situation. Though attempts have been made in the past to reform them, these have not succeeded in simplifying and rationalising the tax system adequately.

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5.27 The laws relating to the principal direct taxes viz. income tax, surtax, wealth tax, gift tax and estate duty remain needlessly complicated and the procedures are cumbrous. With a view to making these laws readily comprehensible to taxpayers, reducing litigation and subserving the interests of the national economy, the new Government appointed a Committee consisting of eminent experts in the field to recommend measures to simplify and rationalise the laws relating to direct taxes. The Committee is also expected to suggest ways and means of improving the administration of the laws and expediting assessments appellate and other proceedings under these laws. The advisability of consolidating the four laws relating to income-tax, surtax, wealth tax and gift tax into one Act will also be examined by the Committee. The Committee submitted an interim Report in December. The recommendations will be duly considered by Government. Meanwhile, sustained efforts will have to be made to orient fiscal policy to the new priorities of planning.

5.28 In the field of indirect taxation, the Committee appointed in 1976 under the Chairmanship of Shri L. K. Jha submitted its final report. The Committee has made a number of suggestions for the reform of the system of commodity taxation in the country towards a system which will be elastic in its yield with respect to national income and at the same time progressive in incidence and also oriented to the aims of national policy. One of the major deficiencies of the system of indirect taxation noted by the Committee is the taxation of inputs. This not only causes unintended distortions in the allocation of resources but also adds to escalation of costs via the cascading and other effects. Therefore, the Committee has recommended a gradual shift to taxation of final products and the introduction of a modified form of value added tax.

5.29 A major obstacle to the rationalisation of the indirect tax system in the country is the levy of tax on commodities by Government at different levels viz., Centre, States and Local Authorities. Apart from causing lack of uniformity and harassment, such a system impedes any attempt to design the system of commodity taxation in a planned manner. Attempts have therefore to be made within the existing constitutional framework to bring about a degree of uniformity in the pattern of commodity taxation and reduce the scope for harassment to the public arising from multiple taxation.

5.30 The question of introducing any form of value added tax however calls for very careful examination.

The constraints of revenue and administrative convenience have to be taken into account in the effort to mitigate the ill effects of input taxation. Similarly, the suggestions made by the Committee for rationalisation of the excise duties on consumer products and capital goods and also of customs duties have to be considered in the light of their budgetary implications and administrative feasibility.

5.31 A notable finding of the Jha Committee is that, contrary to the widely held impression, the commodity taxes in the country are progressive in their incidence in that a relatively high burden of tax falls on the higher expenditure groups. Even so, a part of the burden is borne by households in the lowest expenditure groups. Although the major items consumed by the poorer sections such as foodgrains are not subjected to Central excise, they have to bear the sales and other taxes levied by the States and local authorities. Central excise duties levied on several items also impinge on the poorer sections indirectly. It will be the endeavour of the Government to see that the poorer sections are spared the burden of taxation to the maximum possible extent.

Performance of Public Sector Undertakings

5.32 The Railways which had been incurring losses for quite some years, were expected to show some recovery in 1976-77 after freight rates were revised upwards in that year's budget. The 1977-78 Railway Budget did not make any alterations either in the freight rates or in the passenger fares. On the other hand a small concession was given by reducing the price of platform tickets from 50 paise to 30 paise. The Railway budget had been framed in anticipation of an increase in originating revenue earning goods traffic from 217 million tonnes envisaged in the interim budget for 1977-78 to 220 million tonnes envisaged in the Final budget. It was expected that passenger earnings would go up by 6.1 per cent and goods earnings by 6.9 per cent in 1977-78 (B.E.) over 1976-77 (R.E.), and that after meeting their expenses, the Railways would have a surplus of Rs. 32.50 crores in the current year. Available data indicate that a slight shortfall in the growth of earnings from goods traffic would be more than made good by a substantial pick-up in earnings from passenger traffic.

5.33 A steep upward revision in post and telegraph tariffs in March 1976 enabled the Posts and Telegraphs department to show a surplus of Rs. 111 crores in 1976-77 (R.E.) compared to a nominal loss of Rs. 4.41 crores in 1975-76. Even so, the postal side of the department was estimated to incur a loss of Rs. 42.49 crores in 1976-77 (R.E.). It was only on account of substantial profits under telecommunications that the department was able to

show a surplus. In the budget estimates for 1977-78 the losses on account of postal activities would go up further to Rs. 48.84 crores. In sharp contrast, the surplus on telecommunication account would be some 19 per cent more (Rs. 182.38 crores) than in 1976-77 (R.E.). The increase in losses on postal activities in the current year has been attributed to slower growth in their revenues while their net working expenses are increasing rapidly. Quite the opposite is happening in telecommunications. Taking both activities together, the overall surplus of the Posts and Telegraphs department in 1977-78 has been estimated at Rs. 133.54 crores.

5.34 After a slight set-back in the preceding year, the financial results of the Central Government's commercial undertakings in 1976-77 are encouraging. The provisional data available indicate that the pre-tax profit of these undertakings (excluding the sick textile mills) increased by 56 per cent, from Rs. 306 crores in 1975-76 to Rs. 476 crores in 1976-77. What is more encouraging is that even the sick textile mills run by the National Textile Corporation have reduced their losses from over Rs. 60 crores in 1975-76 to Rs. 36 crores in 1976-77.

5.35 As in the past the oil producing enterprises continued to make the largest contribution to pre-tax profits in 1976-77. Whereas in the case of Indian Oil Corporation Ltd., such profits more than doubled to Rs. 106.41 crores in 1976-77, the profits of the Oil and Natural Gas Commission were almost the same around Rs. 38 crores in both these years. Other undertakings recording sizeable profits in 1976-77 included : Hindustan Steel Ltd. (Rs. 79.46 crores), Bharat Heavy Electricals Ltd. (Rs. 59.62 crores), Minerals and Metals Trading Corporation (Rs. 49.05 crores), State Trading Corporation (Rs. 32.02 crores), Hydro Carbons Pvt. Ltd. (Rs. 20.43 crores), Indian Petrochemicals Corporation Ltd. (Rs. 12.84 crores), Neyveli Lignite Corporation Ltd. (Rs. 11.73 crores), and Indian Telephone Industries (Rs. 10.38 crores). Among the enterprises which suffered considerable losses were : Coal India Ltd. and its subsidiaries (Rs. 45.49 crores), Fertiliser Corporation of India Ltd. (Rs. 34.45 crores), and Fertilisers and Chemicals (Travancore) Ltd. (Rs. 13.96 crores).

5.36 The return on capital employed (i.e. the ratio of gross profits after providing for working expenses and depreciation but before deducting interest and tax liability) by the Central Public Sector enterprises had received a set-back in 1975-76 when it declined from 8.4 per cent in 1974-75 to 7.6 per cent in 1975-76. In 1976-77 there was an appreciable recovery when the ratio touched 9.7 per cent.

The dividends declared also went up two and a half times to Rs. 50 crores in 1976-77 from Rs. 21 crores in the preceding year. The gross internal resources (comprising retained profits, depreciation and deferred revenue expenditure written off) generated by public enterprises also showed a significant improvement from Rs. 526 crores in 1975-76 (in res-

pect of 98 enterprises) to Rs. 719 crores in 1976-77 (in respect of 101 enterprises). While these results are no doubt encouraging, in view of the reliance placed on these enterprises to generate resources for the plan, there is a large scope for improving their working results so that they can contribute even more towards financing the plan.