

CHAPTER 5

FISCAL DEVELOPMENTS AND GOVERNMENT BUDGETS

5.1 A noteworthy feature of the government budgets in the past several years has been large increases in expenditure mainly, but not solely, because of the rapid growth in development expenditure. Total government expenditure which formed 20.4 per cent of GDP at market prices in 1970-71 rose to 29.6 per cent in 1978-79. Significant efforts were also made to raise revenues over this period and tax revenues as well as domestic capital receipts have increased rapidly. Nevertheless, the growth in domestic revenues has not been sufficient to finance the increase in expenditure. The draft on foreign resources has also declined significantly. As a consequence, budget deficits have increased. These pressures have been particularly marked in the past three years.

5.2 The expansionary fiscal policy in the past two years is an important factor behind the resurgence of inflationary pressures in the economy. The economic impact of budgetary operations is best measured not by the deficit as defined in budget documents but by the extent of deficit financing.* Deficit financing by the Centre and States combined increased sharply in the past two years. From a negative figure of Rs. 238 crores in 1977-78 it increased to Rs. 1602 crores in 1978-79 and is likely to be substantially higher in 1979-80. The larger deficit financing in 1978-79 was not immediately reflected in rising prices because 1978-79 saw a second good harvest following a good year in 1977-78. Furthermore, increases for a number of administered prices were held back. However, these pressures came to the surface in 1979-80 when domestic supply constraints and rising international prices served to trigger a sharp increase in prices. This occurred in an environment in which fiscal and monetary expansion had created the conditions for an inflationary upsurge.

Budgetary Developments during 1978-79

5.3 The combined budgetary outlays of the Central and the State Governments for 1978-79 were originally estimated at Rs. 27,516 crores. The revised estimates for 1978-79, however, showed an increase of Rs. 973 crores or 3.5 per cent over the budget estimates (Table 5.1). This was mainly because development expenditure was estimated to be higher than budget estimates by Rs. 885 crores. Non-development expenditure, however, exceeded budget estimates by only Rs. 88 crores. On the receipts side, larger collections from customs and sales tax by Rs. 335 crores and Rs. 56 crores respectively, were expected, while receipts from income and corporation taxes were estimated to decline by Rs. 102 crores. Aggregate tax revenues showed an improvement of Rs. 378 crores in the revised estimates compared with the budget estimates.

5.4 The revised estimates for 1978-79 showed an increase in the budgetary deficit of the Centre and States combined from Rs. 1348 crores as presented in budget estimates to Rs. 1852 crores. However, the actual budgetary deficit figure shows the combined deficit to be much lower at Rs. 632 crores. As details of actual receipts and expenditures which resulted in the lower actual deficit are not yet available it is not possible to explain the improvement in the governments budgetary position from that projected in the revised estimates. However, it must be reiterated that the budgetary deficit is not the appropriate measure of the net direct impact on the demand for domestic goods and imports arising out of the budgetary gap of the Government transactions. Deficit financing is the more appropriate measure for this purpose and the extent of deficit financing by the Centre and States combined increased sharply as pointed out above.

*The difference between the two concepts is explained in the footnote to Table 5.1

TABLE 5.1

Budgetary Transactions of the Central and State Governments

	(Rs. crores)				
	1975-76	1976-77	1977-78	1978-79 (B.E.) (R.E.)	1979-80 (B.E.)
I. Total Outlay	18933	21195	23127	27316	30366
(a) Developmental	11574	13134	14596	17652	19554
(b) Non-Developmental	7359	8062	8531	9864	10412
II. Current Revenue	14095	15759	17107	19182	21946
of which :					
Tax Revenue	11182	12332	13237	14613	16776
III. Gap (I—II)	4838	5437	6020	8334	8420
Financed by :					
(i) Domestic capital receipts	3094	3910	4304	5664	5636
(ii) Draft on foreign Savings	1757	1393	700	1322	1086
(iii) Budgetary Deficit	(—)13	134	1016	1348	1698
IV. Deficit Financing*	(—)206	340	(—)238	1602	n.a.

*Deficit financing differs conceptually from the budgetary deficit as defined in Budget documents and is a more appropriate measure of the net impact of budget operations upon domestic demand. The budgetary deficit as defined in budget documents covers net sale of Treasury bills by the Central Government excluding net purchases by the State Governments, net increase in ways and means advances to the State Governments by the Reserve Bank of India and variations in cash balances of the Central and State Governments. Deficit financing refers to net increases in long and short term borrowing of the Centre and States from the RBI plus variation in cash balances during the fiscal year. It should be noted that deficit financing has to be worked from monetary data which introduces a slight problem because of the fact that the final accounts of the Government are closed about three weeks after the end of the fiscal year whereas monetary data represent the position as on 31st March. This introduces a discrepancy in the estimate of cash balances held with the RBI as measured from monetary data and from the closed fiscal accounts.

Central and State Government Budgets (including Union Territories) for 1979-80

5.5 Budgetary policy for 1979-80 was formulated against the background of near complete stability in prices in the two preceding years. As a result, long run considerations rather than short term demand management were the major influences in the formulation of budgetary policy. The combined budget of the Centre, States and Union Territories for 1979-80 shows a continuation of the previous year's policy of maintaining a high level of public investment in the economy. There was a significant increase in expenditure over the previous year and the emphasis in investment allocation continued to favour the rural sector and employment oriented small scale production.

5.6 The Annual Plan outlay for 1979-80 was fixed at Rs. 12601 crores registering an increase of 8.2 per cent* over the figure of Rs. 11650 crores in 1978-79. Nearly 40 per cent of the plan outlay, or Rs. 5003 crores, was earmarked for agriculture and allied activities.

The target for additional irrigation was placed at 2.63 million hectares. The consumption of fertilisers was to increase from an estimated level of 50.9 lakh tonnes in 1978-79 to 59.0 lakh tonnes in 1979-80. The allocation for the power sector was also increased by 9 per cent from Rs. 2197 crores to Rs. 2396 crores. Expected addition to generating capacity in 1979-80 was 3000 MW as against the target of 2500 MW of additional capacity in 1978-79. A separate allocation of Rs. 51 crores was made to the Rural Electrification Corporation for electrification of villages.

5.7 The step-up in Plan outlay for the large industrial and mining sector was a modest 5.5 per cent from Rs. 2414 crores in 1978-79 and nearly three fourth of this was in the critical areas of coal, steel, oil and fertilisers. The allocation for village and small industries was raised by 32 per cent to a level of Rs. 289 crores. The development of transport and communications was allocated Rs. 2136 crores which was 19 per cent higher than in 1978-79. In the social services

*A sum of Rs. 835 crores was estimated to have been transferred as committed expenditure from the plan side to the non-Plan side in the Central and State Plans. Taking into account this transfer, therefore, the step-up in Plan outlay in 1979-80 would be nearly 16 per cent (which is comparable with the 17 per cent step-up in such outlays in the preceding year's Plan).

sector*, the allocation for water supply and sanitation was substantially stepped up from Rs. 339 crores in 1978-79 to Rs. 430 crores in 1979-80.

5.8 The combined budgetary expenditure of the Centre, the States and the Union Territories' Governments was estimated at Rs. 30366 crores for the year 1979-80 showing an increase of 6.6 per cent over the previous year. Development expenditure was to grow at a rate of 7.6 per cent†, while non-developmental expenditure was estimated to increase by only 4.6 per cent. Of the latter, the growth in expenditure on defence, police, interest payments and tax collection charges ranged between 7 and 13 per cent.

5.9 The current revenues of government were estimated to grow by 12.2 per cent from Rs. 19562 crores in 1978-79 (revised estimates) to Rs. 21946 crores in 1979-80 (budget estimates); this rate of growth was somewhat lower than the rate of 14.4 per cent recorded in the preceding year's revised estimate over that of the actuals for 1977-78. Similarly, the tax revenues were expected to grow at a slower rate (11.9 per cent) in 1979-80 than in 1978-79 (13.2 per cent), mainly because of the expected deceleration in the growth rate of revenue from customs duties from 20.4 per cent in 1978-79 to 8.8 per cent in 1979-80. Barring this, for the other three principal sources of tax revenue, viz., union excise duties, income and corporation taxes, and sales tax, the budgeted growth for 1979-80 was almost the same as in the preceding year.

5.10 Since the current revenues were to increase at a rate faster than the increase in the total outlay, the gap between the two narrowed by 5.7 per cent from Rs. 8927 crores in 1978-79 (revised estimates) to Rs. 8420 crores in the 1979-80 budget. About two-thirds of this gap was to be met from domestic capital receipts and external borrowing was to provide about 13 per cent. The remaining 20 per cent, amounting to Rs. 1698 crores was left as the uncovered budgetary deficit for 1979-80. At this level it was below the revised estimate of the budgetary deficit for 1978-79 but much above the actuals figure of Rs. 632 crores.

The Central Government Budget for 1979-80

5.11 Total expenditure in the Central Government budget for 1979-80 was Rs. 19686 crores which was slightly higher than the previous year's budget estimate

of Rs. 19379 crores but lower than the revised estimate figure of Rs. 20089 crores. The lower level of expenditure is largely a reflection of the decline in statutory grants to the States following the implementation of the recommendations of the Seventh Finance Commission and lower levels of loans and advances. Statutory grants declined from Rs. 688.3 crores in 1978-79 to Rs. 248.6 crores in 1979-80 and loans and advances declined from Rs. 2772 crores to Rs. 2191 crores.

5.12 Corresponding to this reduction in Central expenditure the Seventh Finance Commission's recommendations sharply increased the share of the States in Central taxes and duties. Total revenue transferred to the States was higher by Rs. 1470 crores (or 76%) compared with the previous year. This more than offset the reduction in grants, loans and advances with total net transfers increasing by Rs. 393 crores.

5.13 The high level of other expenditures combined with the increased net transfers to States because of the implementation of the recommendations of the Seventh Finance Commission necessitated a large effort in additional resource mobilisation by the Centre. Additional tax measures were proposed to bring in Rs. 625 crores (Rs. 433 crores after deducting States' share). In addition, increases in railway fares and freight rates, and in postal tariffs were to yield another Rs. 208 crores. The extension of the Compulsory Deposit Scheme (Income Tax Payers) Act, 1974 by another two years was to augment the resources further by Rs. 160 crores in 1979-80. All these efforts aggregating to Rs. 994 crores helped to contain the budgetary deficit of the Centre to Rs. 1382 crores in 1979-80, as against that in the revised estimates of Rs. 1590 crores during 1978-79. This relatively large deficit was tolerated partly because of the stability of prices in the previous year and partly because the large stocks of food and foreign exchange were expected to provide a cushion against threatened price increases. In the event this expectation was belied for a number of reasons. Domestic supply constraints and imported inflation proved to be more severe than was originally anticipated, and in any case, post budget developments tended to make the deficit larger than originally budgeted.

5.14 The tax proposals in the 1979-80 Budget reflect some of the basic weaknesses in the Indian tax structure. The direct tax base, which does not include agricultural income, is very restricted and efforts to

*The allocations for sectors like education, health and family welfare, housing and urban development for 1979-80 are not comparable because of the transfer of committed expenditure from plan to non-Plan heads.

†13.0 per cent when compared with the Budget estimates for 1978-79.

raise additional tax revenue have to rely largely on indirect taxes. While it is possible to tax luxury consumption heavily the base for such taxes is quite small and the required resources cannot be raised from this source alone. As a result additional levies necessarily fall on items which enter into common

consumption. In the 1979-80 tax proposals, there was very limited recourse to direct taxation mainly directed at personal income tax and the bulk of the additional revenue was raised through indirect taxation. These tax measures were combined with some effort at giving excise tax relief to selected areas.

TABLE 5.2
Additional Resource mobilisation by the Centre during 1979-80

	(Rs. crores)		
	Centre's share	States' share	Total
1. Taxes :	432.91	192.51	625.42
(a) Direct Taxes :	44.86	8.74	53.60
(i) Income Tax	40.36	8.74	49.10
(ii) Corporation Tax	4.50	..	4.50
(b) Indirect Taxes	388.05	183.77	571.82
(i) Customs Duties	139.35	..	139.35
(ii) Union Excise Duties	248.70	183.77	432.47
2. Revision in Post & Telegraph Tariffs and Railway Fares and Freights	208.30	..	208.30
(i) Posts & Telegraphs	48.30	..	48.30
(ii) Railways	160.00	..	160.00
3. Extension of Compulsory Deposit (Income Tax Payers) Scheme	160.00	..	160.00
4. Total (1 + 2 + 3)	801.21	192.51	993.72

5.15 Over ninety per cent of the additional tax revenue was raised from indirect taxes. Most of this came from increased excise duties and countervailing import duty upon petroleum products. Excise duties were raised on a number of items of luxury consumption and articles falling under item 68 of Central Excise Tariff were subjected to an enhancement of duty from 5 per cent to 8 per cent. On the direct taxes side, the main contribution came from an additional 5 per cent surcharge on income tax. Income tax concessions for insurance premium payments and provident fund contributions were reduced. Wealth tax rates were raised in the higher slabs. The rate of surcharge on corporate taxation was increased from 5 per cent to 7.5 per cent and concessions such as the tax holiday were withdrawn for some non-priority industries. However, additional revenue raised from these tax changes was meagre.

5.16 Simultaneously, tax levies were reduced on agricultural inputs like chemical fertilisers, power tillers and PVC pipes used for irrigation purposes. Differential excise duty rates were introduced in the case of matches whereby duty rates were lowered for

matches produced in the cottage sector units, left unchanged for large units which are not mechanised and were raised for large scale mechanised units. A 30 per cent duty was imposed on machine-made carpets while hand-made carpets were totally exempted from the excise duties. The concessional rate of duty of 8 per cent on power processed white powerloom cotton fabrics of finer varieties was raised to 12 per cent. The excise duty on cotton and cellulosic spun yarn of finer counts used by composite textile mills and powerlooms was increased by about 10 per cent of the existing rates. Concessions were extended to Khadi and Village Industries Boards by exempting them from income tax. As an experimental measure, the provision of proforma credit was extended to some products of engineering industry, where the cumulative incidence of duty on inputs was considered to be high. This was in pursuance of the recommendations of the Indirect Tax Committee to avoid cascading.

5.17 Levies on bulk drugs, vanaspati, processed edible oils and footwear were reduced. The excise tax levied on unprocessed tobacco was abolished and the

revenue loss recouped by taxes levied on tobacco products. These levies were at differential rates and implied some redistribution of the tax burden away from low income consumers. Duties were increased in the case of articles consumed by the better off sections of the society.

5.18 The direct gross fixed capital formation (*i.e.* investment in building, public works, equipment and other fixed assets) at Rs. 1709 crores in 1979-80

was estimated to be higher by 28.8 per cent as against the growth of 18.7 per cent in the revised estimates for 1978-79 over 1977-78. In addition to this, the Central Government supplements the efforts of the rest of the economy for capital formation through grants, loans and investment in share capital. Including this assistance and the increase in inventories, the provision for gross capital formation out of the Centre's budgetary resources was Rs. 7,018 crores in 1979-80.

TABLE 5.3
Capital formation by the Central Government and its financing

	(Rs. crores)				
	1975-76	1976-77	1977-78	1978-79 (RE)	1979-80 (BE)
I. Gross capital formation out of budgetary resources of the Central Government	4664	4991	5686	7217	7018
As per cent of Gross Domestic Product at Current prices	7.1	7.0	7.1	8.4	n.a.
(i) Gross capital formation by the Central Govt.	1205	1112	1107	1389	1748
(ii) Financial assistance for capital formation to the rest of the economy	3459	3879	4579	5828	5270
II. Gross savings by the Central Government	991	885	1051	691	901*
As per cent of Gross Domestic savings at current prices	6.5	4.8	5.2	3.0	n.a.
III. Gap (I—II)	3673	4106	4635	6526	6117
Financed by :					
IV. Draft on other sectors of the domestic economy	1916	2713	3935	5732	5031
(i) Domestic Capital receipts	2015	2583	3003	4141	3649
(ii) Budgetary Deficit	—99	130	932	1591	1382*
V. Draft on foreign savings	1757	1393	700	794	1086

*After taking into account the post-budget concessions.

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.

This was 2.8 per cent lower than in 1978-79 when gross capital formation out of the budget increased by 26.9 per cent over the previous year. The decline in 1979-80 was wholly on account of small provisions of grants and loans to States following the increased devolution of resources to them by way of larger shares in Central taxes.

5.19 The Central Government's savings (gross) in the budget for 1979-80 amount to Rs. 901 crores which is a significant improvement over the previous year but still below the level reached in earlier years. The gap between gross capital formation out of the Central budget and the Government's own savings

was projected to narrow from Rs. 6,526 crores in 1978-79 (RE) to Rs. 6,117 crores in 1979-80 (BE). The draft on foreign resources was to increase from Rs. 794 crores to Rs. 1,086 crores while domestic capital receipts declined substantially from Rs. 5,732 crores to Rs. 5,031 crores.

5.20 One of the reasons for the sharp increase in current expenditures of the Central Government in recent years is the rapid increase in subsidies. Between 1975-76 and 1979-80 (Revised Estimates) subsidies have increased from Rs. 470 crores to Rs. 1,831 crores (see table below) :—

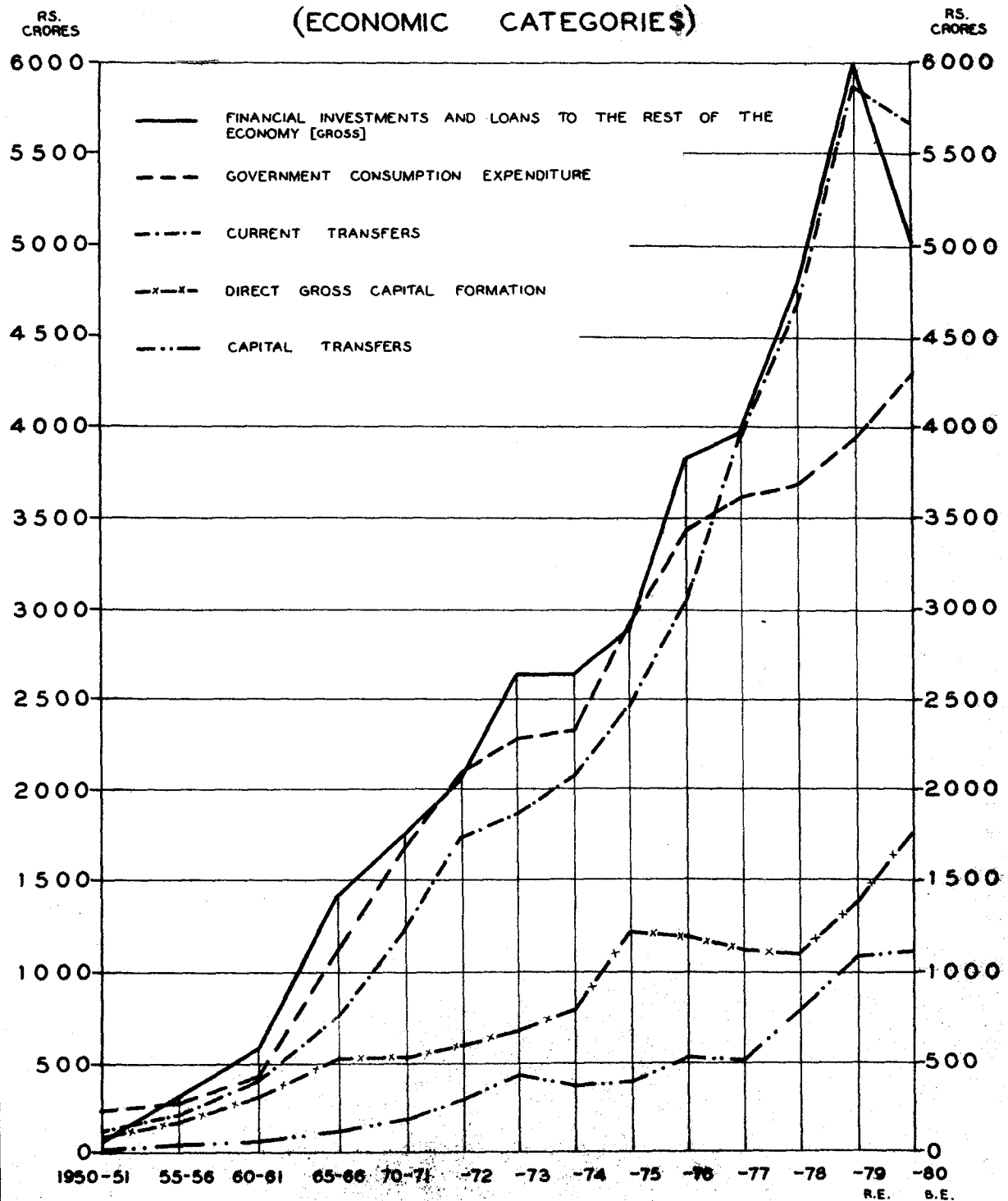
TABLE 5.4
Growth in Subsidies

	(Rs. crores)				
	1975-76	1976-77	1977-78	1978-79 (R.E.)	1979-80 (R.E.)
1. Food Subsidy	250	506	480	570	600
2. Fertilizer subsidy	N.A.	60*	266	365	643
3. Subsidy on Exports	149	269	327	414	363
4. Others	71	112	214	155	225
TOTAL	470*	947*	1287	1504	1831

*Does not include loss on imported fertilisers.

CENTRAL GOVERNMENT EXPENDITURE

(ECONOMIC CATEGORIES)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

The Centre's Revised Estimates for 1979-80

5.21 In the post-Budget period, a number of developments took place, which led to a sharp deterioration in the budgetary position of the Centre in 1979-80. As a result the budgetary deficit of the Centre has now been estimated at Rs. 2,700 crores in the Revised Estimates compared with Rs. 1,382 crores anticipated earlier in the Budget. The substantial increase in expenditure and decline in receipts are mainly responsible for the large increase in the budgetary deficit. The main contributory factors which brought about this deterioration in the financial position of the Central Government are the increases in non-plan assistance to the States for relief of natural calamities and drought (Rs. 120 crores), Plan loans and grants to States and U.Ts (Rs. 201 crores), payments to F.C.I. on account of increased food subsidy (Rs. 40 crores), additional subsidy on indigenous and imported fertilisers (Rs. 195 crores), grants for "Food for Work" programme (Rs. 300 crores), expenses connected with the mid-term general elections (Rs. 30 crores), subsidy on exports (Rs. 31 crores), grants to States for upgradation of standards of administration (Rs. 30 crores) and loans to Bangla Desh (Rs. 29 crores).

5.22 On the receipts side, despite shortfalls estimated in Corporation Tax and Union Excise Duties of Rs. 150 crores and Rs. 183 crores respectively there is an over-all improvement in tax revenues of Rs. 199 crores because of buoyancy in customs revenue which has risen sharply over the Budget Estimates by Rs. 425 crores. All the same the receipts of the Central Government have shown considerable deterioration due to decline in interest receipts, shortfall in recoveries of loans and advances and lower receipts under external assistance than originally anticipated. Taking the receipts and expenditures together the picture that emerges is one of serious imbalance in the Central finances.

The Centre's Interim Budget for 1980-81

5.23 The new government came into office on January 14, 1980 and this did not permit sufficient time for the presentation of a regular Budget for the year 1980-81. As such, an interim Budget for the year 1980-81 was presented to the Parliament for "Vote-on-Account" purposes. The Budget thus presented envisaged a budgetary deficit of Rs. 1,235 crores compared with Rs. 2,700 crores in the revised Budget for 1979-80. The improvement in the budgetary position is the outcome of improved receipts both on revenue and capital accounts. It is estimated that

Centre's tax revenues at the existing rates of taxation are expected to increase by Rs. 506 crores or 6.2 per cent in 1980-81 over the Revised Estimates of 1979-80. Non-tax revenues are expected to grow even faster at Rs. 445 crores giving a rate of growth of 15 per cent. Receipts under 'Capital' heads will be more by Rs. 1,405 crores because of larger market borrowings, external loans and other miscellaneous capital receipts. Total expenditure, taking revenue and capital together, is estimated at Rs. 20,215 crores in 1980-81 (Budget estimates) as against Rs. 19,324 crores estimated in the revised Budget for 1979-80 showing an increase of 7.5 per cent. In the final Budget for 1980-81, it is anticipated that expenditure estimates might undergo revision both dimensionally and sectorially. The interim Budget has provided for an outlay of Rs. 4,570 crores on the Central Plan and for Central assistance for States and Union territories Plans of a sum of Rs. 2,823 crores thus aggregating a total Plan outlay of Rs. 7,393 crores in the Central Budget for 1980-81. The internal resources of public enterprises available for Central Plan are estimated at Rs. 2,003 crores, which are substantially higher than the estimates of Rs. 1,421 crores in the revised Budget for 1979-80.

Finances of the State Governments for 1979-80

5.24 The overall budgetary position of the States as reflected in their budgetary deficit deteriorated in 1979-80 compared with 1977-78 (Actuals) and 1978-79 (RE) and this was despite a larger devolution on account of the Seventh Finance Commission's award effective from 1979-80. While the revenue surpluses of the States showed a marked increase (Rs. 1,251 crores) in 1979-80 compared with the previous year (Rs. 768 crores), the deficit on capital account showed a sharp deterioration (Rs. 1,569 crores) compared with 1978-79 (RE) (Rs. 1,030 crores*) resulting in a larger overall deficit in 1979-80. However, the position emerging in the revised estimates for 1979-80 (as presented in the State Budgets for 1980-81 including interim budget in many States) appears less alarming as the overall deficit shows a reduction of Rs. 187 crores i.e. from Rs. 318 crores in the Budget estimates to Rs. 131 crores** in the revised estimates for that year. While the revenue surplus shows a decline (Rs. 1,041 crores) mainly because of larger provision on account of drought relief including food-for-work programme and grant of additional dearness allowances etc., this is more than off set by higher improvement on capital account including public account because of larger loans from Centre including loans against increased Small Savings Collections etc. But if the position is

* & ** Please see footnotes on next page.

viewed with reference to the actuals for 1978-79, it appears less encouraging since the actuals reveal an overall surplus of Rs. 450 crores** as against the deficit of Rs. 262 crores shown in the revised estimates for that year.

5.25 The total expenditure (both revenue and capital) for 1979-80 (Budget Estimates), placed at Rs. 15,706 crores, was higher by 8.2 per cent than the revised estimates of Rs. 14,516 crores in 1978-79. More conspicuously the growth in development expenditure showed a sharp deceleration in 1979-80 and registered an increase of 7.1 per cent in contrast to a growth rate of 33.1 per cent in 1978-79. As a result, the proportion of development expenditure was to show a decline from 77.3 per cent in 1978-79 to 76.5 per cent in 1979-80. An apparent feature of the development outlay in 1979-80 was that while the approved Annual Plan outlay for the year showed only a marginal increase of 3.3 per cent over the approved outlay for 1978-79—this increase would be still lower if the revised estimates of Plan outlay for 1978-79 were to be compared—the total development expenditure was higher because of transfer of about Rs. 690 crores from plan account to non-plan account as committed expenditure on development schemes completed at the end of 1978-79. Thus, the overall increase in development expenditure came to 7.1 per cent in 1979-80.

5.26 The State Budgets like that of the Centre placed emphasis on programmes which promoted agricultural growth and employment. Agriculture and allied services accounted for nearly 16.5 per cent of the share in total development expenditure and grew by 15.1 per cent. Public works with large employment potential accounted for a growth of 22.2 per cent while medical and family welfare showed an increase of 12.0 per cent and education 11.6 per cent.

5.27 Among the non-developmental categories of expenditure, interest payments went up by 8.0 per cent, tax collection charges by 9.1 per cent, and expenditure on police and other administrative services by 9.9 per cent. States' expenditure for relief on account of natural calamities—mainly because of floods in many parts of the country—was estimated at Rs. 119 crores—Rs. 85 crores under non-developmental outlay and Rs. 34 crores under developmental

side—in 1978-79 (RE). The budgetary provision for relief on account of natural calamities which was kept at Rs. 65 crores in 1979-80 proved to be grossly inadequate because of the unprecedented drought in many parts of the country. With the liberalisation of the scheme of assistance recommended by the Seventh Finance Commission for relief on account of natural calamities, advance plan assistance of Rs. 125 crores was sanctioned to 15 States for drought relief in 1979-80. Besides, additional non-plan assistance was given to certain States affected by cyclone, floods and the like in that year. Thus, the increase in non-developmental expenditure on this account was likely to be substantially higher than that indicated in the budget estimates.

5.28 The States' total receipts from taxes are expected to show a substantially large increase (27.0 per cent) in 1979-80 (Budget Estimates) compared with 10.1 per cent recorded in the revised estimates 1978-79 mainly because of larger devolution of share in Central taxes, as recommended by the Seventh Finance Commission. The growth of the States' tax revenue at 10.3 per cent in 1979-80 (BE) had turned out to be the same as recorded in 1978-79 (R.E.). This was because the expected growth rate was practically the same (11.6 per cent) under sales tax† which constitutes about 53.0 per cent of States' own tax revenue. The rate of growth of sales tax receipts had declined sharply from 26.6 per cent in 1975-76 to 6.6 per cent in 1977-78. The growth rate picked up to 11.7 per cent in 1978-79 (R.E.) but was not expected to accelerate in 1979-80 (B.E.). In view of the sharp price rise in many consumer goods in 1979-80 the growth rate might turn out to be better than estimated at the Budget stage. The growth rates were, however, better in respect of collections under stamps and registration (12.0 per cent), Motor Vehicles Tax (18.5 per cent) but were lower in the case of entertainment tax (9.8 per cent against 11.7 per cent), goods and passenger tax (6.5 per cent against 10.5 per cent) and electricity duty (17.8 per cent against 34.8 per cent). In the case of entertainment tax, there is not enough growth because of concessions, exemptions and incentives granted to cinematographic films produced and exhibited in local languages. The decline in growth rate of receipts from taxes on goods and passengers is because of a combination of factors like inadequate expansion of transport capacity and leakage in collections though the fares have risen over the years. In regard to State excise duties, following the decision to

*This excludes Rs. 555 crores of loan given to the States by the Centre for clearing their overdrafts.

**Excluding Tripura as its cash balance position is not available. The surplus in the case of U.P. for 1978-79 included above is alone placed at Rs. 321 crores.

†Excluding sales tax on Motor Spirit.

introduce prohibition in stages, the growth in receipts from State excise duties has come down to just 1 per cent against an average growth of about 12 per cent per annum in the past few years. The position, however, differs from State to State.

5.29 On the whole, the States' tax¹ revenues had shown a decline during 1975-76 to 1977-78 and showed no growth during 1979-80 over 1978-79. This deceleration is attributable to introduction of partial prohibition in some more States. But more importantly, the inadequate expansion of the tax bases and/or erosion of tax bases because of concessions and exemptions in case of major State taxes seem to have adversely affected the growth of States' tax receipts and consequently their total revenue receipts. This trend needs to be reversed.

State Governments' Commercial Undertakings

5.30 Non-tax receipts have also shown a significant deceleration; the rate of growth of such receipts declined from 12.4 per cent in 1978-79 (RE) to 8.4 per cent in 1979-80 (BE). This could be mainly ascribed to increased losses from departmental commercial enterprises and deceleration in receipts from general services and social and community services. The Seventh Finance Commission had assumed in its calculations that during the period covered by its report (i.e. 1979—84), receipts from multi-purpose, major and medium irrigation schemes should not only cover working expenses but also provide for a return by way of interest at 1 per cent (in stages) on the total capital invested at the end of 1978-79. Contrary to this expectation, the 1979-80 Budgets revealed a decline in gross receipts (19.2 per cent) from multi-purpose river projects whereas the working expenses (excluding interest charges) showed an increase (17.9 per cent) over the previous year. In the case of commercial irrigation schemes, the position was somewhat better as the gross receipts showed an increase of 19.3 per cent while working expenses (other than interest charges) increased at a lower rate of 11.4 per cent thus reducing the net loss considerably. States have still to go a long way to bring down the losses from irrigation schemes to zero before starting to earn a minimum return of 1 per cent as stipulated by the Seventh Finance Commission. This could be achieved by better utilisation of the available potential, efficient and economic maintenance and management of the irrigation systems, raising water rate demand correctly and collecting them fully will all contribute to the desired result.

5.31 Among the State autonomous enterprises, the State Electricity Boards' account for a large proportion of the investment by State Governments. The bulk of the investment of the State Governments is by way of loans and advances to the Boards. The Seventh Finance Commission had noted that financial performance of the Electricity Boards could be improved by better and efficient management and revisions of tariffs need only be a last resort. The Commission had assumed that given efficient management, the Electricity Boards could be expected to do much better than in the past and adopted a normative return of 6 per cent on the total investments in the States as estimated at the end of 1978-79. The actual performance falls far short of this target. The Planning Commission has estimated that the total losses of the State Electricity Boards (inclusive of interest payments due to the States) were expected to increase from the Annual Plan estimate of Rs. 388 crores to Rs. 542 crores in 1979-80. If the revenue from revision of tariffs estimated at Rs. 102 crores during that year is also taken into account, the losses would work out at Rs. 440 crores during 1979-80. The deterioration in the financial performance of the Electricity Boards in 1979-80 is attributed to : (a) fall in hydel generation because of insufficient rainfall and in some cases delay in commissioning of units (both hydel and thermal) ; (b) fall in thermal generation due to bottlenecks in the supply of coal both in terms of quantity and quality ; (c) fall in revenue earnings because of larger diversion of power in drought affected States for agricultural use which normally carries lower tariff rates; and (d) increase in working expenses because of upward revision of fuel prices (both coal and oil).

5.32 In summary, the preformance of the States in mobilising resources has fallen far short of expectations. They were able to raise only about Rs. 195 crores in 1978-79. In 1979-80, the yield from measures announced at the time of presentation of State Budgets was placed at Rs. 215 crores (excluding revision of electricity tariffs). The yield from revision of tariffs by Electricity Boards was estimated at Rs. 102 crores in that year. According to the information available, the total yield from additional resource mobilisation is estimated at Rs. 340 crores against the Annual Plan target of Rs. 436 crores.

Performance of Public Sector Undertakings

5.34 The financial performance of the Railways deteriorated sharply in 1978-79. The net surplus of the Railways increased from Rs. 87.24 crores in 1976-77 to Rs. 126.23 crores in 1977-78. The Railway Budget for 1978-79 had estimated a lower surplus

of Rs. 65.43 crores, but at the revised estimates stage, the surplus had declined further to Rs. 27.73 crores. The year, however, closed with an actual surplus of Rs. 36.66 crores. This decline in actuals over budget estimates was mainly because of a fall of nearly Rs. 125 crores in earnings from goods traffic caused by floods which restricted the revenue earning traffic to only 199.6 million tonnes—a drop of about 10 per cent from the earlier target. Moreover, the Railways had to bear an additional burden of Rs. 64 crores because of the new levies on coal and electricity, the payment of additional instalment of dearness allowance and an increase in the price of steel.

5.35 The Railways' Budget for 1979-80 envisaged a surplus of nearly Rs. 70 crores, after taking into account a receipt of Rs. 160 crores by way of additional resource mobilisation, the bulk of which was to be garnered by an upward revision in the freight rates. Passenger fares were not altered but the fares of suburban and non-suburban monthly/quarterly season tickets were revised upwards. Certain concessions were also given such as the raising of the age-limit for free rail travel for children from 3 years to 5 years. Another feature of the current year's railway budget was the substantially enhanced provision for depreciation from Rs. 145 crores in 1978-79 to Rs. 200 crores, and for pension fund from Rs. 50 crores to Rs. 65 crores. The revised estimates for 1979-80 assume a substantial decline in the movement of goods traffic at 194 million tonnes by the Railways which is expected to be even lower than the previous year's level. The gross receipts are now placed lower by Rs. 83.64 crores compared with the Budget estimates. On the other hand expenditure is estimated to be higher than the Budget estimates mainly on account of additional provision for ad hoc payment of 15 days wages to Railways' employees costing Rs. 36.18 crores as part of the Scheme of Productivity Linked Bonus, upward revision in the rates of Dearness allowance etc. As a result the surplus of Rs. 70 crores anticipated in the Budget is expected to turn into a loss of Rs. 42 crores in the revised estimates for 1979-80. The interim Railways' budget for 1980-81 estimates the movement of goods traffic at 214.50 million tonnes. In regard to passenger traffic, based on past trends, a growth of 6 per cent has been assumed in the Budget Estimates for the current year. On the whole, with the gross receipts estimated at Rs. 2545.4 crores and the total expenditure at Rs. 2583.5 crores including Rs. 56.3 crores towards payment of Productivity Linked Bonus to the staff, a net deficit of Rs. 38.1 crores is anticipated during 1980-81.

5.36 The Post and Telegraphs Department has shown a promising performance. The postal branch which had been incurring huge losses seems to have reversed this trend considerably during 1977-78. As against the loss of Rs. 48.84 crores estimated in the 1977-78, budget, the actuals show a nominal loss of Rs. 1.98 crores. Even in 1978-79, the budget estimate for the postal branch had booked a loss of Rs. 18.07 crores, which in the revised estimates, was expected to be no more than Rs. 2.62 crores. In fact the year has ended with a surplus of Rs. 2.27 crores which resulted from an improvement in receipts and lower expenses on postal account. Contrary to earlier expectations, the operations of telecommunications has also resulted in the surplus being higher at Rs. 143.61 crores as against the projected smaller surplus of Rs. 136.07 crores in the revised estimates for 1978-79. In consequence, the total surplus of the Post and Telegraphs Department in 1978-79 amounted to Rs. 145.88 crores which is a shade better than the actuals of Rs. 127.03 crores for 1977-78. In the 1979-80 Central Government budget, the postal and telecommunication tariffs were revised so as to bring an additional revenue of Rs. 48.30 crores in that year (Rs. 57.96 crores in a full year). More than four-fifths of the additional resources were to come from revision in the telecommunications tariffs. As a result of this, the Post and Telegraphs Department was to show a surplus of Rs. 225.13 crores in 1979-80. According to the revised estimates for 1979-80, the estimated surplus are likely to be less at Rs. 183.35 crores because of a decline in surpluses expected from the telecommunications branch, although the surplus of the postal branch shows a marginal improvement. The Interim Budget for 1980-81 has projected the surpluses of the postal branch and telecommunications branch at Rs. 9 crores and Rs. 195 crores respectively aggregating Rs. 204 crores for the Posts and Telegraphs Department as a whole.

5.37 The performance of Central Government's autonomous commercial undertakings continues to fall short of expectations. At the end of 1978-79, the total cumulative investment in these undertakings stood at Rs. 15602 crores which included enterprises under construction, textile group of companies, insurance companies and Delhi Transport Corporation. The table below presents the profile of these enterprises for the period 1974-75 to 1978-79. It may be seen there from that during this period the return on capital employed which is an index of profitability of commercial enterprises in operation (excluding textiles and insurance) had reached a maximum of 9.4 per cent in 1976-77. In the next year it dropped to 7.5 per cent and has not shown any recovery in 1978-79. The return on paid-up capital which was

already low by any standards turned negative in the last two years. Despite an increase in sales turn over by more than 85 per cent between 1974-75 and 1978-79, the gross profits ratio to sales turn over has shown only a marginal increase from 5.47 per cent in

1974-75 to 5.68 per cent in 1978-79. The net profits before tax of the running enterprises has declined sharply from Rs. 421 crores in 1976-77 to Rs. 193 crores in 1978-79. As regards the gross internal resources (comprising retained profits, depreciation,

TABLE 5.5

Five-year Profile of Public Enterprises

	Unit	1974-75	1975-76	1976-77	1977-78	1978-79
1. Number of Running Public enterprises	Numbers	120	121	149	155	159
2. Capital employed	Rs. crores	6627	8824	10887	12130	14173
3. Turnover	Rs. crores	10217	11688	14542	18020	18936
4. Gross Profit before interest and tax	Rs. crores	559	668	1028	915	1076
5. Net Profit before tax	Rs. crores	312	306	421	160	193
6. Net Profit after tax	Rs. crores	184	129	184	—91	—32
7. Internal Resources generated	Rs. crores	580	526	719	708	906
8. Return on Capital employed	per cent	8.4	7.6	9.4	7.5	7.6
9. Return on paid-up Capital	per cent	4.9	2.9	3.5	Loss	Loss
10. Employment	Lakhs	14.08	15.05	15.75	16.38	18.71

and deferred revenue expenditure written off) generated by these enterprises, though there is some improvement from Rs. 580 crores in 1974-75 to Rs. 906 crores in 1978-79, it was far too short of Draft Plan estimates. Fifty three enterprises incurred cash losses amounting to Rs. 297 crores during 1978-79, and as such could not contribute towards generation of internal resources.

5.38 The enterprises which were largely responsible for the losses during 1978-79 included : Coal India Ltd. (Rs. 212.16 crores), Shipping Corporation of India Ltd. (Rs. 37.01 crores), Heavy Engineering Corporation Ltd. (Rs. 27.48 crores), Indian Iron and Steel Co. Ltd. (Rs. 27.19 crores). Hindustan Fertilizer Corporation (Rs. 22.92 crores), Delhi Transport Corporation (Rs. 17.49 crores), Fertilizer Corporation of India (Rs. 15.24 crores), Indian Petro-Chemicals Corporation Ltd. (Rs. 13.10 crores), and Mining and Allied Machinery Corporation Ltd. (Rs. 10.06 crores).

5.39 Among the profit making enterprises during 1978-79, the share of the following was considerable : Oil and Natural Gas Commission (Rs. 72.52 crores),

Indian Oil Corporation (Rs. 69.20 crores), Steel Authority of India Ltd. (Rs. 65.84 crores), Air India (Rs. 34.09 crores), Bharat Heavy Electricals Ltd. (Rs. 25.15 crores), Madras Fertilizers Ltd. (Rs. 18.15 crores), Minerals and Metals Trading Corporation (Rs. 16.75 crores), State Trading Corporation of India (Rs. 13.64 crores), Hindustan Petroleum Corporation Ltd. (Rs. 11.96 crores), and Indian Airlines (Rs. 11.42 crores).

5.40 An aggregate analysis of the public enterprises tends to be somewhat misleading. Generalisations about the over-all performance of the public sector are not very meaningful since the public sector covers a wide variety of enterprises operating under very different sets of constraints. There is a wide variety of performance within this category. Of the 159 running enterprises, 88 enterprises had shown profits in their operations in 1978-79 while 69 had incurred losses whereas two had broken even. Even among the loss making units, quite a few were able to reduce their losses. Some large units account for a very substantial proportion of the total loss. It is also worth noting that in the case of some of the loss making units, price controls imposed by the Government on

output of these units despite the sharp rise in the cost of various inputs including labour have been partly responsible for such losses. This restraint has been further compounded by the fact that there has been general deterioration in labour relations. Power shortages and transport bottlenecks also affected the capacity utilisation of these enterprises. These pro-

blems have to be overcome. At the same time it is necessary to emphasise the point that resources for the future plans crucially depend on the ability of these enterprises to generate resources in adequate measure. This has become all the more imperative in the context of increasing limitations encountered in raising resources through taxation.