

CHAPTER 6

FISCAL POLICY AND GOVERNMENT BUDGET

6.1 Fiscal policy in 1980-81 had to maintain a very difficult balance between the need to moderate aggregate demand pressures and to impart a developmental thrust to the economy. While the budget for 1980-81 provides for a 16 per cent increase in the Annual Plan outlay over the 1979-80 level, it also sought to achieve this with only a limited recourse to deficit financing. However, during the course of the year the government was faced with a number of unavoidable items of expenditure including especially additional central assistance for state plans and for drought and flood relief. Tax revenues are expected to exceed the budget estimates. Public borrowings may also be higher. Unfortunately generation of resources within the public sector was lower than anticipated because of continuing production difficulties and rising costs. As a result the budgetary deficit is expected to be higher than the level originally estimated.

Budgetary Developments during 1979-80

6.2 The spurt in the price level after the presentation of the Central Budget for 1979-80 and the

severe drought during that year had upset the budgetary calculations. The combined budgetary deficit of the Central and the State Governments (including the Union Territories) had to be revised upwards substantially from Rs. 1698 crores in the budget estimates to Rs. 2874 crores in the revised estimates. The revised expenditure at Rs. 31520 crores were Rs. 1154 crores higher than Rs. 30366 crores in the budget estimates. A major portion of this increase, i.e. Rs. 656 crores was for developmental outlays. Tax receipts also increased by Rs. 446 crores, but the increase was partly neutralised by the shortfall in foreign savings by Rs. 217 crores. As a result, the revised budgetary deficit for 1979-80 rose sharply to Rs. 2874 crores. The actual budget deficits for 1979-80 are placed at a somewhat lower figure of Rs. 2687 crores. The estimate of deficit financing which is a better indicator of the impact of the budgetary operations on the economy has been placed at Rs. 3073 crores for 1979-80 and confirms the severe deterioration in the budgetary situation during 1979-80.

TABLE 6.1
Budgetary Transactions of the Central and State Governments

	1976-77	1977-78	1978-79	(Rs. crores)		1980-81 (B.E.)
				(B.E.)	(R.E.)	
I. Total outlay	21196	23127	27692	30366	31520	35211
(a) Developmental	13134	14596	17994	19954	20610	22505
(b) Non-developmental	8062	8531	9698	10412	10910	12706
II. Current Revenues	15759	17107	20054	21946	22124	24589
(a) Tax Revenue	12332	13237	15528	16776	17222	18735
(i) Direct Taxes	2585	2680	2851	3176	3053	3466
(ii) Indirect Taxes	9747	10557	12677	13600	14169	15269
(b) Non-Tax Revenue	3427	3870	4526	5170	4902	5854
III. Gap (I—II)	5437	6020	7638	8420	9396	10622
Financed by :						
(i) Domestic capital receipts	3910	4304	6294	5636	5653	6932
(ii) Draft on foreign savings	1393	700	713	1086	869	1732
(iii) Budgetary Deficit	134	1016	631	1698	2874	1958
IV. Deficit Financing*	340	(—)238	1602		3073†	

*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 increase in long and short term borrowings of the Centre and States from the RBI plus variations 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.

†Actuals.

Budgetary Developments in 1980-81

6.3 The new Government which was installed at the Centre in January 1980 presented the regular Budget for the year 1980-81 on June 18, 1980. Nine State Governments also presented their final budgets for 1980-81 later in the year because of the mid-term poll. The Government's foremost task was to restrain inflationary pressures in the economy which were assuming threatening proportions. The malfunctioning of the infrastructure particularly power, transport and coal, had seriously affected industrial growth and therefore had to be attended to urgently. There was also the need to improve investment climate and instil confidence among various productive sectors. The new Sixth Plan was to commence with the fiscal year 1980-81 and the budget for 1980-81 had to reflect the new priorities and focusses, particularly the need for helping the weaker sections of the society through appropriate programmes for increasing productive employment opportunities.

6.4 The combined budgetary revenues and expenditures of the Centre, the States and the Union Territories for the year 1980-81 had been estimated at Rs. 24589 crores and Rs. 35211 crores respectively. The resulting financial gap of Rs. 10622 crores was to be made good by a draft on private domestic savings to the extent of Rs. 6932 crores, and Rs. 1732 crores of foreign savings. The balance of Rs. 1958 crores was to be the order of budgetary deficits.

6.5 The combined total budgeted expenditure in 1980-81 showed an increase of 11.7 per cent over the revised estimate for 1979-80. Of the total combined expenditure, Rs. 22505 crores forming 63.9 per cent was developmental expenditure. However, non-development outlay, though accounting for a little over one-third of total outlay, has shown a larger increase by 16.5 per cent over the revised outlay in 1979-80. The increase is spread over several items such as defence, police and tax collection charges. A major source of this has been the increase in interest payments due to rising public debt servicing liability on the increasing domestic public borrowings for financing increased government expenditure. Net interest liabilities have also increased because a sizeable portion of borrowed funds are loaned out by the Central Government to State Governments at low rates of interest. Public loans are also given to the priority sectors and the weaker sections at subsidised interest rates.

6.6 The combined tax revenues of the Central and the State Governments including the Union Territories in 1980-81 budgets are estimated at Rs. 18735 crores showing a growth rate of 8.8 per cent over 1979-80. This rate of growth is about two percentage points less than that recorded in the revised estimates for 1979-80 over the actuals of 1978-79. The budget estimates indicate continued buoyancy in customs duties due to larger imports expected during 1980-81. The somewhat slower growth expected in case of the Union excise duties was due to the slowdown in industrial activity which spilled over to the first half of 1980-81.

6.7 The Annual Plan for 1980-81 envisaged an outlay of Rs. 14593 crores* which was 15.8 per cent higher than the Plan outlay for 1979-80. Primacy was given to the power sector by stepping up its outlay by 10.7 per cent to Rs. 2708 crores in 1980-81. The target for additional generating capacity for 1980-81 at 2687 MW was 49 per cent higher than the actual capacity installed (1799 MW) in 1979-80. The increased outlay was to accelerate the work on four super thermal power units. Increased emphasis was also laid on rural electrification, as indicated by higher targets for energising additional pump sets and for electrification of villages. Allocations to agriculture and other allied activities were raised by 23.8 per cent to Rs. 2247 crores over those made in 1979-80. For irrigation and flood control, Rs. 1380 crores were earmarked and the additional irrigation potential was estimated to increase by 2.5 million hectares in 1980-81. To overcome infrastructural inadequacies, the public sector investment in the industrial sector was stepped up by 24.0 per cent to Rs. 3162 crores and as much as three-fourths of this investment was earmarked for coal, steel, oil and fertilisers. The Plan outlay for the oil sector was raised to Rs. 780 crores in the current year from Rs. 575 crores in 1979-80 to increase oil production from domestic sources. In the steel sector, the budget provided an investment of Rs. 493 crores which was to be supplemented by the internal resources of the steel units by an additional Rs. 310 crores. The outlay on transport and communications was increased by 13 per cent to Rs. 2414 crores. For the social services sector, a sharp increase in Plan outlay of 36 per cent was proposed for housing and urban development, 17 per cent for water supply and sanitation and 14 per cent for health and family welfare. Provision was made in the Plan for protected drinking water supply arrangements to at least 35,000 more villages by the end of the year.

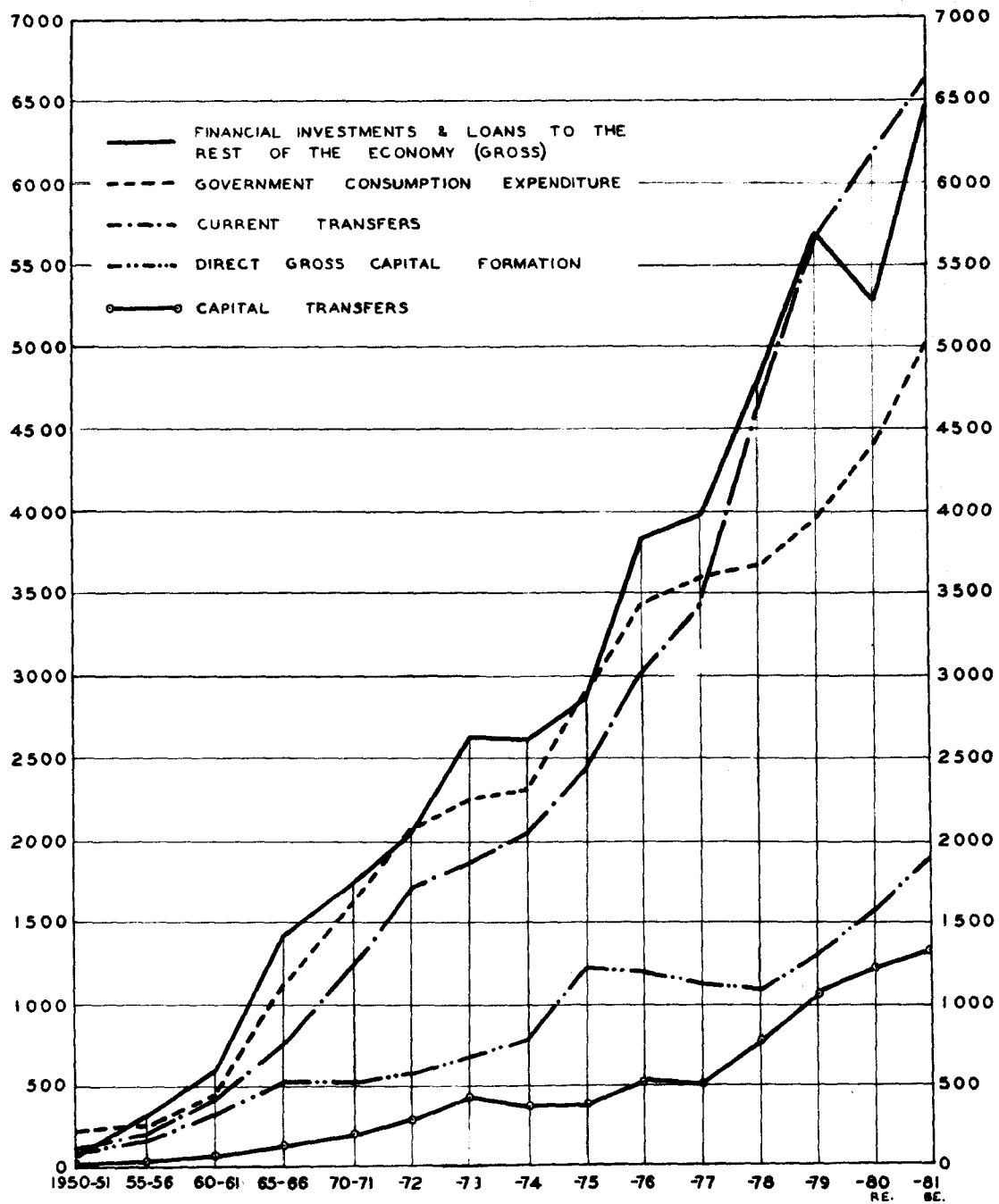
6.8 The programmes for rural uplift and provision of employment opportunities were given high priority. The Food-for-work programme as conceived in 1977 had a major shortcoming in that it did not supplement foodgrains by cash grants to States for undertaking productive work, nor was it supplemented by adequately prepared plans for the creation of productive assets. This lacuna and the *ad hoc* nature of the programme were sought to be rectified in the new programme called the National Rural Employment Programme. An outlay of Rs. 340 crores for 1980-81 was earmarked for the National Rural Employment Programme, which was to generate 850 to 900 million man-days of additional employment. The Plan also provided for several specific schemes for alleviating the socio-economic conditions of the weaker sections of the rural population. An allocation of Rs. 100 crores was made for special Central assistance to States, to be utilised for scheduled caste families with a view to enabling them to acquire income generating assets and relevant skills for improving their standard of living. Another Rs. 70 crores was provided for improving the living conditions of the tribal people.

* Since revised to Rs. 15109 crores.

CENTRAL GOVERNMENT EXPENDITURE

(ECONOMIC CATEGORIES)

RS. CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION

6.9 The combined non-tax revenues of the Central and the State Governments including Union Territories in the 1980-81 Budgets at Rs. 5854 crores show an increase of 19.4 per cent. The higher budget estimates of non-tax revenue in 1980-81 are based on the assumption that the contribution of dividends and surpluses from non-departmental undertakings to the budgets would be significantly better than in 1979-80.

The Central Government Budget : 1980-81

6.10 The Central Budget for 1980-81 earmarked Rs. 13866 crores for development outlay which was 13.6 per cent higher than Rs. 12208 crores in the revised estimates for 1979-80. Non-development expenditures at Rs. 9856 crores were 18.7 per cent higher than Rs. 8304 crores for 1979-80 (RE). An important factor responsible for this was the increasing interest burden on the budget. The Central Budget for 1980-81 provided for a deficit of Rs. 1445 crores which may be compared with Rs. 2845 crores in 1979-80. The lower budgetary deficit in 1980-81 was made possible by a substantial additional resource mobilisation effort amounting to Rs. 471 crores.

6.11 The additional taxation through the Central Budget 1980-81 was modest at Rs. 257.5 crores. The budget sought to provide incentives to raise savings and investment. Certain reliefs had to be given to reduce the incidence of levies made in the 1979-80 Budget. In regard to direct taxes, the exemption limit for income-tax on personal incomes

was raised from Rs. 10,000 to Rs. 12,000. Realistic tax rates are a necessary condition for promoting better voluntary tax compliance. The rate of surcharge on all categories of non-corporate tax payers was therefore reduced from 20 per cent to 10 per cent. This resulted in the maximum marginal rate of personal income tax declining to 66 per cent from 72 per cent. Incentives for effecting long-term savings through life insurance, provident fund contributions and other approved forms which had been scaled down in the 1979-80 budget, were restored to their earlier levels. The standard deduction in respect of salary income which had been denied to pensioners till then was extended to them as well. A new 'tax holiday' scheme was instituted for new industrial undertakings, approved hotels and new ships which would be acquired or would start functioning before the end of the Sixth Plan period. With a view to stimulating investment in new machinery and plant, an additional depreciation allowance equal to 50 per cent of the normal depreciation allowance (excluding extra shift allowance and the extra allowance in respect of machinery and plant installed in the premises used as hotels) was allowed in respect of such machinery and plant installed during the period of the Sixth Plan. The exemption limit for Wealth-tax payers was raised from Rs. 1.0 lakh to Rs. 1.5 lakhs. Wealth tax on agricultural property, other than plantations, was taken out of the purview of the wealth tax. As an anti-inflationary measure the tax on interest receipts of scheduled banks was revived and further extended to larger All India financial institutions i.e., IDBI, ICICI, IFCI and IRCL.

TABLE 6.2
Additional Resource Mobilisation by the Centre during 1980-81

	(Rs. crores)		
	Centre's share	States' share	Total
I. Taxes	198.50	58.98	257.48
(a) Direct Taxes	85.00	..	85.00
(i) Interest Tax	80.00	..	80.00
(ii) Tax on Luxury Hotels	5.00	..	5.00
(b) Indirect Taxes	113.50	58.98	172.48
(i) Customs Duties	24.80	..	24.80
(ii) Union Excise Duties	88.70	58.98	147.68
II. Revision in Posts & Telegraphs Tariffs and Railway Fares and Freights	217.24	..	217.24
(i) Posts & Telegraphs	13.00	..	13.00
(ii) Railways	204.24	..	204.24
III. Abolition of Licence fees on radios and transistor sets of upto two bands	(—)4.0	..	(—)4.00
IV. Total (I+II+III)	411.74	58.98	470.72

6.12 In regard to indirect taxes, relief was provided on certain articles of common consumption by exempting them from excise duty. These were: specified life saving drugs, controlled cloth, cotton and cotton viscose blend hosiery consisting of items like

banians, cycle and cycle parts falling under tariff item 68, and sewing machines. The duty on pressure cooker was reduced from 15 per cent to 10 per cent. Excise duty on cheaper varieties of toilet soaps was decreased from 10 per cent to 5 per cent.

Likewise the duty on tooth paste was brought down from 20 per cent to 10 per cent. The excise duty on cheaper priced T.V. sets was reduced from 15 per cent to 10 per cent and on higher priced sets from 30 per cent to 25 per cent.

6.13 At the same time, existing rates of indirect taxes were raised in certain respects. This involved raising of the special excise duty rate of 1/20th of basic excise duty to 1/10th of such duty on articles which were already covered by such levy. In respect of commodities which were exempted from this duty earlier, 1/20th of basic excise duty was levied. However, all those items which were totally exempt from special excise duty like petroleum products, coal and electricity as well as matches, vanaspati and goods falling under tariff item 68 were left out of the purview of this duty. While cigarettes which were totally exempt from special excise duty were brought under its net by a levy of 1/10th of the basic excise duty, sugar and processed vegetable non-essential oils were spared from the increased levy. The excise duty on synthetic rubber was raised from 5 per cent to 10 per cent. Molasses produced by vacuum pan sugar factories were subjected to a specific duty of Rs. 30 per metric tonne under a separate item by removing it from tariff item 68. This levy was however not made applicable to molasses produced by khandasari sugar units. The excise duty on soda ash, caustic soda and starch were also raised from 10 per cent to 15 per cent to mop up excess profits resulting from the high premiums commanded by them due to shortages.

6.14 Some import duties were raised to protect indigenous industries like audio frequency amplifiers and unexposed colour positive cinematograph films. The levy on dutiable passenger baggage was increased from 120 per cent to 150 per cent as a revenue measure, while the baggage in excess of the permissible limit was made subject to a flat rate of 320 per cent.

6.15 Small scale manufacturers were given certain concessions in view of their importance in employment generation and diffusion of economic power. The tax exemption which was applicable to 70 excisable commodities upto clearance of Rs. 5 lakhs was extended to certain chemicals and paper and paper board. It was also decided to levy only three-fourths of the applicable duty to clearances between Rs. 5 lakhs and Rs. 15 lakhs. The 1979-80 budget had reduced the quantum of duty-free clearances of small manufacturers of goods under tariff item 68 from Rs. 30 lakhs to Rs. 15 lakhs. This was again restored to Rs. 30 lakhs in the case of small manufacturers whose capital investment on plant and equipment did not exceed Rs. 10 lakhs. The import duty on machines and instruments required to be imported by manufacturers in the electronics industry was reduced to 25 per cent and the duty on specified raw materials and components was reduced to 45 per cent plus countervailing duty in view of

its importance as an export oriented and labour intensive industry while excise duty on computers manufactured indigenously was reduced from 25 per cent to 20 per cent and that on ships built in Indian shipyards was totally abolished.

6.16 A new tax at 15 per cent on gross receipts of luxury hotels which charge a minimum tariff of Rs. 75 per single room per day was imposed later in the year.

6.17 The total yield from direct taxes and indirect taxes levied in the budget for 1980-81 were estimated at Rs. 85 crores (after allowing for concessions on interest tax announced later) and Rs. 172.5 crores respectively.

6.18 Railways and Posts and Telegraphs also raised their fares, freights and tariffs during 1980-81 to cover their increasing working expenses resulting from dearness allowance and bonus payments and to provide for their capital expenditures. These amounted to Rs. 204 crores by the Railways and Rs. 13 crores by the Posts & Telegraphs Department. Therefore, the total additional resource mobilisation in the Central Budget and by the Railways and Posts and Telegraphs aggregated Rs. 471 crores in 1980-81.

6.19 With a view to augmenting resources to finance the Plan, the Central Government has directed the L.I.C., G.I.C. and the U.T.I. to lodge a certain portion of their investible resources with the Government. A credit for Rs. 100 crores has been taken for 1980-81 on this account. The Government has also allowed selected public sector undertakings to raise public deposits.

6.20 The analysis of the Central Budget for 1980-81 according to the economic and functional classification revealed that the Central Government provided larger funds for investment in the economy. The total funds provided for investment in the Central Budget aggregate Rs. 8445 crores in 1980-81 and are 14.8 per cent higher than those provided in the revised estimates for 1979-80. The corresponding increases during 1976-77, 1977-78, 1978-79 and 1979-80 were 7.0 per cent, 13.9 per cent, 21.6 per cent and 6.4 per cent respectively. Of the total for 1980-81, Rs. 1894 crores were to be incurred directly on capital formation by the Central Government and the balance of Rs. 6551 crores was to be provided to the State Governments, autonomous public sector enterprises and other sectors of the economy for creation of capital assets.

6.21 In 1979-80 there was a serious erosion in the current savings of the Central Government as compared with 1978-79. Current savings of the Central Government declined to Rs. 27 crores in 1979-80 from Rs. 1175 crores in 1978-79. In 1980-81 budget estimates, current savings are placed higher at Rs. 200 crores, yet they are much lower than

those in many previous years. As a consequence, the reliance on domestic and external borrowings increased substantially during 1980-81 to finance investment outlays. The amount of domestic borrowings in 1980-81 for capital formation was estimated at Rs. 5068 crores which was 60 per cent of the

estimated capital formation. About 21 per cent of the capital formation was to be financed by a draft on foreign savings estimated at Rs. 1732 crores. Budgetary deficit amounting to Rs. 1445 crores would finance the remaining 17 per cent of the outlay on capital formation.

TABLE 6.3
Capital formation by the Central Government and its financing

(Rs. crores)

	1976-77	1977-78	1978-79	1979-80 (R.E.)	1980-81 (B.E.)
I. Gross Capital formation out of budgetary resources of the Central Government	4991 (7.0)	5686 (13.9)	6913 (21.6)	7358 (6.4)	8445 (14.8)
As per cent of Gross Domestic Product at Current Prices	6.9	7.0	7.9	7.6	N.A.
(i) Gross capital formation by the Central Government	1112	1107	1301	1551	1894
(ii) Financial assistance for capital formation to the rest of the economy	3879	4579	5612	5807	6551
II. Gross savings by the Central Government	885	1051	1175	27	200*
As per cent of Gross Domestic savings at current prices	5.0	5.4	5.0	0.1	N.A.
III. Gap (I—II)	4106	4635	5738	7331	8245
Financed by :					
IV. Draft on other sectors of the domestic economy	2713	3935	5025	6462	6513
(i) Domestic capital receipts	2583	3003	4074	3762	5068
(ii) Budgetary Deficit	130	932	951	2700	1445*
V. Draft on foreign savings	1393	700	713	869	1732

*After taking into account the post-budget concessions.

NOTES :— (i) 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.

(ii) Figures in brackets are percentage increase over the preceding year.

6.22 The budget 1980-81 also attempted to reduce subsidies. The budget estimate of subsidies for 1980-81 were Rs. 1655 crores which were Rs. 203 crores lower than the revised estimates for 1979-80. This was achieved by the reduction in the subsidies on fertilizers, by raising their prices on June 8, 1980.

6.23 In December 1980 supplementary demands for grants amounting to Rs. 1171 crores (gross) were submitted to the Parliament. A major part of this increase, amounting to Rs. 575 crores, was accounted for by increase in plan expenditure. A review of the State Plans by the Planning Commission necessitated an increase of Rs. 310 crores in Central assistance to the State Governments to supplement their plan outlays. Mainly because of the erosion in their internal resources, public sector undertakings had also to be given Rs. 231 crores to augment their plan outlays. In the case of non-plan outlays the major items for which supplementary demands for grants were made were: purchase of imported fertilizers (Rs. 50 crores), subsidy on controlled cloth (Rs. 28 crores), additional cash compensatory support for export promotion (Rs. 15 crores) and the increased working expenses

of Posts and Telegraphs Department due to the grant of additional dearness allowance and reliefs to pensioners (Rs. 40 crores). The supplementary demands for grants also show that against the above mentioned additional expenditure, Rs. 345 crores will accrue to the exchequer. As a result the net outgo will be Rs. 826 crores.

6.24 There are indications that tax receipts in 1980-81 may be better than envisaged in the budget estimates. Public borrowings may also be larger and capital receipts will be augmented by the proceeds of the Special Bearer Bonds recently floated. But in view of the larger budgetary support to central and state plans and other additional unavoidable expenditure during the year the budgetary deficit in 1980-81 may be higher than that estimated in the budget.

Performance of Central Government Public Enterprises

6.25 The vote on account Budget of the Railways presented in March 1980 had outlined the revenue deterioration in railway finances caused by mounting working expenses and the decline in revenue earning

freight traffic. Therefore, some increases in freights and fares to cover the yawning deficit were inevitable. Accordingly, the railway budget presented to the Parliament in June 1980, proposed an increase of passenger fares by 5 to 20 per cent depending on the various classes of passenger traffic. In respect of freight a flat surcharge of 15 per cent on all freight traffic was imposed. However, certain exemptions were allowed. Essential commodities having a direct impact on daily life of the common man were exempted from the additional charge. In regard to passenger fares some concession was given to ordinary Second Class passengers by exempting them from the enhancement of fare upto a distance of 100 kilometers as against 50 kilometers proposed in the budget. The proposals were to yield an additional revenue of Rs. 204 crores.

6.26 The budget anticipated an increase in the revenue earning freight traffic from 194 million tonnes in 1979-80 to 214.5 million tonnes in 1980-81. A large part of railways' rolling stock and other fixed assets needed urgent renewal and replacement. Keeping this in view the provision for depreciation was enhanced to Rs. 220 crores in the 1980-81 budget. Though still inadequate in relation to the needs of renewals and replacements, the larger provision was a recognition of the problem and thus constituted an important aspect of the railway budget 1980-81. Railways are a crucial part of the infrastructure in our economy and any deficiency in their maintenance results in serious dislocation of the production and the distribution activities in the economy.

6.27 The financial position of the Posts and Telegraphs is much better than that of the railways,

though of late, the increased working expenses due to the payment of dearness allowance and productivity linked bonus have started making inroads into their surpluses. In an effort to recoup some of the additional expenditures, a modest effort was made to mobilise additional resources amounting to Rs. 13 crores through an upward revision of certain postal tariffs. As a consequence, the surplus of the Posts and Telegraphs Department in 1980-81, estimated at Rs. 184.6 crores remained at about the same level (Rs. 183.4 crores) as in the revised estimates for 1979-80. Incidentally, it may be pointed out that on the postal side losses estimated at Rs. 3.5 crores in 1980-81 were incurred as against small surpluses of Rs. 2.3 crores and Rs. 5.8 crores in 1978-79 and 1979-80 (RE) respectively. The surplus for 1980-81 referred to above was, therefore, entirely on account of the telecommunications side of the Department.

6.28 In 1979-80, the overall performance of Central Government's autonomous undertakings, judged by their profitability, showed a deterioration. The small improvement shown by them in 1978-79 when their losses were reduced to Rs. 40 crores compared with Rs. 91 crores in 1977-78 has not been maintained. On the contrary, their losses have increased to Rs. 74 crores in 1979-80. However, their performance in terms of net profit before tax show an improvement from Rs. 185 crores in 1978-79 to Rs. 227 crores in 1979-80. While the profits of profit making units have shown an increase from Rs. 686 crores in 1978-79 to Rs. 762 crores in 1979-80, the losses of loss making units have widened from Rs. 501 crores in 1978-79 to Rs. 535 crores in 1979-80.

TABLE 6.4

Five-Year Profile of Public Enterprises

	Unit	1975-76	1976-77	1977-78	1978-79	1979-80
1. Number of Running Public enterprises	Numbers	121	149	155	159	169
2. Capital employed	Rs. crores	8824	10887	12130	13969	16354
3. Turnover	Rs. crores	11688	14911	18028	19061	23124
4. Gross Profit before interest and tax	Rs. crores	668	1028	915	1071	1264
5. Net Profit before tax	Rs. crores	306	421	160	185	227
6. Net Profit after tax	Rs. crores	129	184	—91	—40	—74
7. Internal Resources generated	Rs. crores	526	719	708	906	1034
8. Return on Capital employed	per cent	7.6	9.4	7.5	7.7	7.6
9. Return on paid-up capital	per cent	2.9	3.5
10. Employment	lakhs	15.05	15.75	16.38	17.03	17.55

6.29 The loss incurred by Coal India Ltd. and its subsidiaries was the main contributory factor in the deterioration of the profitability of public enterprises in 1978-79. However, with the upward revision in coal prices towards the middle of 1979-80, they were able to reduce their loss to Rs. 115 crores in that year

as against a loss of Rs. 212 crores in 1978-79. In contrast, a contrary trend is noticed in regard to steel units and fertilizer factories: the former showing a loss of Rs. 4.4 crores in 1979-80 as against a profit of Rs. 38.7 crores in 1978-79 and the latter increasing their losses from Rs. 27.0 crores to Rs. 82.8 crores in the corresponding years.

Finances of State Governments for 1980-81

6.30 The State Governments' combined budgetary position (inclusive of gross surpluses as well as borrowings of State enterprises for financing their plans) in 1980-81 revealed an overall deficit of Rs. 513 crores compared with Rs. 173 crores in 1979-80 (RE) and an overall surplus of Rs. 320 crores in 1978-79 (Actuals). The deterioration in the overall budgetary position is due to a decline in the revenue surplus which was estimated at Rs. 850 crores in 1980-81 as against Rs. 1135 crores in 1978-79 (Actuals) and Rs. 1044 crores in 1979-80 (RE). The deficit on capital account also increased to Rs. 1364 crores in the current year as against Rs. 1217 crores in 1979-80 (RE).

6.31 Aggregate receipts—both revenue and capital—are estimated to increase by 5 per cent to Rs. 17509 crores in 1980-81 from Rs. 16677 crores in 1979-80 (RE) which had recorded an increase of 14.6 per cent over 1978-79 (Actuals). The deceleration in receipts in 1980-81 is on account of an estimated fall of Rs. 139 crores (3.8 per cent) in capital receipts to Rs. 3518 crores in contrast to a rise of Rs. 274 crores (or 8.1 per cent) in 1979-80 (RE). The revenue receipts which are placed at Rs. 13991 crores would record a growth of Rs. 971 crores (or 7.5 per cent) which is considerably lower than Rs. 1850 crores (or 16.6 per cent) in 1979-80 (RE). It may, however, be noted that since three-fourths of the increased receipts in 1979-80 were on account of increased share in the Central taxes following the Finance Commission's award, this year's growth in revenue receipts will in fact be an improvement over last year.

6.32 States' own tax revenues (other than their share in Central taxes) are estimated to increase slightly less at Rs. 559 crores (or 10 per cent) in 1980-81 compared with the increase of Rs. 595 crores (or 11.9 per cent) in 1979-80 (RE). The estimates of tax revenues for 1980-81, however, do not take into account the effect of post-budget measures of additional resource mobilisation undertaken by the State Governments subsequent to the presentation of their Budgets. A major portion of the receipts in States' own tax revenues in 1980-81 is expected from taxes on commodities and services (Rs. 446 crores). Contribution of sales tax alone to this rise is placed at Rs. 339 crores (or 10.8 per cent—the corresponding increase in 1979-80 was 14.5 per cent), of taxes on vehicles and passengers and goods at Rs. 45 crores (or 7 per cent—the corresponding increase in 1979-80 was 22.2 per cent) and of electricity duty at Rs. 31 crores (or 14.3 per cent). Among the taxes on property and capital transactions, receipts from stamps and registration are estimated to rise by Rs. 27 crores (or 7.5 per cent—the corresponding increase in 1979-80 was 8.2 per cent). Collections under land revenue and agricultural income-tax in 1980-81 are estimated to show a recovery over the 1979-80 level (last year the collections under the above taxes had declined due to drought in many parts of the country) but compared to their level in 1978-79, the collections in the current year show only marginal improvement.

6.33 Aggregate expenditure (revenue and capital) is estimated to rise by Rs. 1170 crores (or 6.9 per cent) to Rs. 18022 crores in 1980-81 from Rs. 16852 crores in 1979-80 (RE) when the increase was Rs. 2619 crores (or 18.4 per cent) over the preceding year. Although the overall expenditure is estimated to rise faster than the aggregate receipts, its growth is budgeted lower in 1980-81 than is reflected by the figures of 1979-80 (RE). There is thus a deceleration in the growth of both development and non-development expenditures in 1980-81 compared with 1979-80. Under non-development expenditure, there is some savings in 1980-81 on account of lower provision under 'Natural Calamities' and 'Elections'. As regards development expenditure, the total expenditure at Rs. 13572 crores in 1980-81 is budgeted higher by Rs. 752 crores (or 5.9 per cent) as compared to the increase of Rs. 1807 crores (or 16.4 per cent) in 1979-80 (RE). The deceleration in expenditure growth in 1980-81 (BE) is mainly under Education (increase of 9.1 per cent as against 14.7 per cent in 1979-80 (RE)). Medical and Public Health (increase of 8.4 per cent as against 25.0 per cent in the preceding year), Agriculture and Allied Services (increase of 6.6 per cent against 30.3 per cent in the preceding year), Industries and Minerals (increase of 0.5 per cent against 26.6 per cent in the preceding year). The loans and Advances (net) to third parties in 1980-81 are also budgeted lower (by Rs. 180 crores) as compared with 1979-80 (RE). Also, the proportion of development expenditure is somewhat lower at 75.3 per cent in 1980-81 (BE) as against 76.1 per cent in 1979-80 (RE).

6.34 Though the development expenditure for 1980-81 as a whole is budgeted higher by 5.9 per cent, the Annual Plan outlay for the current year was to show a step up of 21.7 per cent over the approved plan outlay for 1979-80. However, the increase in Annual Plan outlay for the two years i.e., 1979-80 and 1980-81 would not be strictly comparable with the increase in the total developmental expenditure budgeted for the current year, partly because of its comparison with the revised estimates for 1979-80 which themselves showed a substantial increase of 16.4 per cent over the actual for 1978-79 and partly because the revised estimate of Plan outlay for 1979-80 also turned out to be higher than the approved outlay for that year. While the overall deficit of State Governments budgeted for 1980-81 is placed at Rs. 513 crores, it may eventually turn out to be higher because of shortfall in resources of State enterprises and increase in non-plan expenditure e.g., police, natural calamities, D.A. and pay revisions and grant of other social benefits like pensions, etc.

6.35 The measures for additional resource mobilisation announced by the State Governments at the time of the presentation of budgets for 1980-81 totalled Rs. 47 crores only. Many State Governments and their enterprises, however, announced measures of additional resource mobilisation after the presentation of the Budgets. The estimate of total yield from fresh measures, including post-budget measures in 1980-81 is not possible to quantify at this stage. The total is

however, likely to fall short of the target for additional resource mobilisation fixed for the Annual Plan 1980-81.

State Governments' Commercial Undertakings

6.36 Non-tax receipts (including the contribution of non-departmental enterprises) estimated at Rs. 1856 crores for 1980-81 show an increase of Rs. 161 crores (or 9.5 per cent) as against an increase of only Rs. 48 crores (or 2.9 per cent) in 1979-80 (RE). Excluding the contributions of non-departmental enterprises, however, non-tax receipts have shown a significant deceleration—the receipts are estimated to show an increase of Rs. 39 crores (or 2.8 per cent) in 1980-81 as against an increase of Rs. 87 crores (or 6.5 per cent) in 1979-80 (RE). This could be partly ascribed to reduction in receipts under 'General Services' and partly on account of deceleration under 'interest receipts' as well as receipts from 'social and community services'. Under departmental enterprises, while the gross receipts under Irrigation (Commercial) are estimated to increase by Rs. 13 crores (or 14.6 per cent) in 1980-81, the working expenses (excluding interest charges) show an increase of Rs. 14 crores (or 7.7 per cent), thereby increasing the net loss of these enterprises to Rs. 100 crores in 1980-81 as against Rs. 99 crores in 1979-80 (RE). In the case of Multi-purpose River Valley Projects, the irrigation receipts are estimated to increase by Rs. 5 crores to Rs. 24 crores in 1980-81 (BE) but compared with 1978-79 (Actuals), no increase is registered. However, after allowing for working expenses (excluding interest charges) net loss in 1980-81 will decline to Rs. 4 crores from Rs. 7 crores in 1979-80 (RE) and Rs. 11 crores in 1978-79 (Actuals).

6.37 As regards non-departmental undertakings, on the basis of the latest estimates there appears to be

large deterioration in the contribution of the State Electricity Boards and Road Transport Corporations for the Annual Plan 1980-81. The commercial losses of the State Electricity Boards for 1980-81 are now estimated at Rs. 679 crores which will exceed the Annual Plan 1980-81 estimate of Rs. 473 crores. It is expected that at this rate, the cumulative loss of State Electricity Boards during the 6th Plan will reach a formidable figure of Rs. 4400 crores. It is, therefore, essential to take early steps to eliminate the losses of the State Electricity Boards through improvements in their efficiency of operations and revision of tariffs based on cost of production and operation. The least that they can do is to eliminate the losses and break even. The financial performance of the State Road Transport Corporations has also been showing deterioration resulting in substantial losses. It is necessary that these undertakings earn sufficient revenue to make not only reasonable profits on investments made in them, but also generate enough surplus for replacement of old vehicles which involve heavy repair and maintenance.

6.38 To sum up, the problem of raising adequate resources for the 6th Plan can only be solved if adequate returns are earned on large investments made in the public enterprises both at the Centre and in the States. In this context, the whole question of pricing of products of public enterprises needs to be critically examined. It will be necessary to reduce budgetary subsidies and review the lending rates structure on loans advanced by the central and state governments. An all out effort at eliminating wasteful expenditure, both under non-plan and plan heads will be necessary to bring about a better balance to the Central and State budgets. It will also be necessary to minimise tax evasion and avoidance and to improve the low elasticity of taxation with respect to income and prices.