

## CHAPTER 6

### FISCAL POLICY AND GOVERNMENT BUDGET

6.1 The budgetary position of the Central and State Governments was constrained during 1980-81 by the persistent inflationary and balance of payments pressures in the economy. As these pressures continued, fiscal policy during 1981-82 sought to moderate inflationary trends without inhibiting the tempo of development. Besides higher taxes, efforts were made to increase generation of resources by public enterprises through higher production and better capacity utilisation and appropriate price adjustments. The available evidence in regard to revenue collection during the year so far indicates that there is considerable buoyancy in realisation from excise and customs duties. The financial performance of the public undertakings has improved. On the expenditure side, while plan expenditures are likely to be as expected, the non-plan expenditure may exceed the budgeted level in view of unavoidable increases in costs of providing public services and higher allocations for unforeseen contingencies. However, it should be possible to contain the overall budgetary deficits within reasonable limits.

#### Budgetary Developments in 1980-81

6.2 The budgetary position of the Central and State Governments remained under considerable strain during 1980-81. There was a sizeable increase in tax revenue from Rs. 17,683 crores in 1979-80 to Rs. 19,694 crores in 1980-81 (RE) i.e. by 11 per cent, which was also higher than the level anticipated in the budget estimates. The performance was much better in the case of indirect taxes. Although non-tax revenues were also higher than the level in 1979-80, these were lower than the budgeted level. This shortfall was mainly on account of lower than anticipated contribution of the Central/State enterprises. Domestic capital receipts showed significant increase from Rs. 5,028 crores in 1979-80 to Rs. 8,064 crores (RE) mainly on account of larger market borrowings, state and public provident funds and receipts under the Special Bearer Bonds Scheme.

6.3 Development outlay by the Central and State Governments increased from Rs. 20,298 crores in 1979-80 to Rs. 23,743 crores in 1980-81 (RE) i.e. by 17 per cent. Increase in non-developmental expenditure was higher from Rs. 10,826 crores in 1979-80 to Rs. 13,181 crores in 1980-81 (RE) i.e. by 22 per cent. Although the budgetary deficit during 1980-81 (RE) at Rs. 2,387 crores was lower than Rs. 2,661 crores in 1979-80, the revised estimates were higher than the budgeted level.

#### Budgetary Developments in 1981-82

6.4 The combined budget estimates of the Centre; State Governments and Union territories in 1981-82 showed an overall deficit of Rs. 1,981 crores as against Rs. 2,387 crores in 1980-81 (RE). Their combined outlay inclusive of the Plan expenditure of the Railways, Posts and Telegraphs and non-departmental commercial undertakings was estimated at Rs. 39,883 crores. Of the total, 92 per cent i.e. Rs. 36,592 crores was to be financed by current revenues and domestic capital receipts. The budget took credit for external assistance of the order of Rs. 1,310 crores which was 3 per cent of the total expenditure. This may be compared with the reliance on external assistance during 1980-81 (RE) of Rs. 1,735 crores which was 5 per cent of the total expenditure.

6.5 Current tax and non-tax revenues of the Centre, States and Union Territories were estimated to increase by 13 per cent from Rs. 24,738 crores in 1980-81 (RE) to Rs. 28,059 crores in 1981-82. The combined tax revenues were to increase from Rs. 19,694 crores to Rs. 22,191 crores i.e. by about 13 per cent and non-tax revenues from Rs. 5,044 crores to Rs. 5,868 crores i.e. by 16 per cent. The larger increase in non-tax revenue was accounted for by the increase in gross surplus of public enterprises from Rs. 1,457 crores in 1980-81 (RE) to Rs. 1,996 crores in 1981-82 (BE) i.e. by 37 per cent. Under tax revenues, indirect taxes were to contribute more, showing an increase of 13 per cent as against 9.5 per cent under direct taxes.

6.6 Domestic capital receipts were estimated at Rs. 8,533 crores in 1981-82 compared with Rs. 8,064 crores in 1980-81 (RE). This increase was accounted for by larger market borrowing and sale of Special Bearer Bonds which were estimated at Rs. 3,522 crores and Rs. 800 crores in 1981-82 compared with Rs. 3,112 crores and Rs. 200 crores respectively in 1980-81 (RE).

6.7 Developmental outlay in 1981-82 was budgeted at Rs. 25,867 crores and showed a step-up of 8.9 per cent over the level of Rs. 23,743 crores in 1980-81 (RE). This increase was mainly accounted for by the increase in plan outlays by the Centre and the State Governments from Rs. 15,058 crores in 1980-81 (RE) to Rs. 17,417 crores in 1981-82 i.e. by about 16 per cent. Of the total Annual Plan of Rs. 17,417 crores for 1981-82, as much as Rs. 4,822 crores (about 28 per cent) was earmarked for the Energy sector. Industry and minerals were allocated another Rs. 2,686

crores (15 per cent) and Transport Rs. 2,294 crores (13 per cent). High priority was accorded to the development of basic infrastructural facilities : the installed power generating capacity was programmed to increase by 3,179 MW in 1981-82, raising the aggregate installed capacity to about 36,000 MW, which would enable generation of power of 134 billion units in 1981-82 representing an increase of about 13 per cent over the 1980-81 level. The production

of coal was targeted to increase to 121 million tonnes in 1981-82 compared with 114 million tonnes in 1980-81. The production of crude oil was proposed to be increased from 10.5 million tonnes in 1980-81 to 16.84 million tonnes in 1981-82. The allocations for coal, steel, petroleum and fertilisers represented about 3/4th of the total outlay provided for industrial and mineral development. Some of the important industries in which addition to capacity were envisaged were

TABLE 6.1  
*Budgetary Transactions of the Central and State Governments*

1	(Rs. crores)						
	1976-77	1977-78	1978-79	1979-80	1980-81		1981-82
					(BE)	(RE)	(BE)
2	3	4	5	6	7	8	
<b>I. Total outlay</b>	<b>21196</b>	<b>23127</b>	<b>27692</b>	<b>31124</b>	<b>35211</b>	<b>36924</b>	<b>39883</b>
(a) Developmental	13134	14596	17994	20298	22505	23743	25867
(b) Non-developmental*	8062	8531	9698	10826	12706	13181	14016
<b>II. Current Revenues</b>	<b>15759</b>	<b>17107</b>	<b>20054</b>	<b>22545</b>	<b>24589</b>	<b>24738</b>	<b>28059</b>
(a) Tax Revenue	12332	13237	15528	17683	18735	19694	22191
(i) Direct taxes	2585	2680	2851	3096	3466	3459	3788
(ii) Indirect taxes	9747	10557	12677	14587	15269	16235	18403
(b) Non-tax Revenue	3427	3870	4526	4862	5854	5044	5868
<b>III. Gap (I-II) :</b>	<b>5437</b>	<b>6020</b>	<b>7638</b>	<b>8579</b>	<b>10622</b>	<b>12186</b>	<b>11824</b>
Financed by :							
(i) Domestic capital receipts*	3910	4304	6294	5028	6932	8064	8533
(ii) Draft on foreign savings	1393	700	713	890	1732	1735	1310
(iii) Budgetary deficit ‡	134	1016	631	2661	1958	2387	1981

\*Includes notional transactions in respect of subscriptions to International Monetary Fund of Rs. 60 crores in 1976-77; Rs. 245 crores in 1978-79; Rs. 7 crores in 1979-80; Rs. 562 crores in 1980-81 (BE); Rs. 561 crores in 1980-81 (RE) and Rs. (—)5 crores in 1981-82 (BE).

cement, cement machinery, nitrogenous, phosphatic fertilizers, caustic soda, machine tools, hydro-turbines, power capacitors, newsprint, motorcycles and scooters, watches and electronics industries.

6.8 In agriculture, the Annual Plan for 1981-82 aimed at stepping up food production and sizeable increases in the production of oilseeds, sugarcane and cotton. Integrated Rural Development Programme and National Rural Employment Programme and various other programmes for the development of backward areas and classes were given priority.

6.9 Non-developmental outlays were to increase from Rs. 13,181 crores in 1980-81 (RE) to Rs. 14,016 crores in 1981-82 (BE), i.e. by 6.3 per cent, because of larger provision for interest payments and defence.

6.10 Foreign savings—credits and grants—would provide support to the extent of Rs. 1,310 crores in 1981-82. These were lower than that in 1980-81. The estimate under this head does not take account of any draws against the credit facility of SDR 5 billion obtained from the International Monetary Fund recently for supplying balance of payment sup-

port, or against the foreign currency commercial credits raised during the year.

#### The Central Government Budget : 1981-82

6.11 The Central Budget for 1981-82 estimated aggregate resources at Rs. 25,020 crores. As against this, aggregate outlays amounted to Rs. 26,559 crores, thus leaving a deficit of Rs. 1,539 crores in the budget after taking credit for Rs. 1,310 crores of external capital flows.

6.12 Total tax and non-tax revenues of the Centre were estimated at Rs. 15,621 crores in 1981-82 (BE) compared with Rs. 13,667 crores in 1980-81 (RE) and showing an increase of 14.3 per cent over the year. Tax revenues were expected to go up by 12.8 per cent from the level of Rs. 9,341 crores in 1980-81 (RE) to Rs. 10,537 crores in 1981-82 (BE) while non-tax revenues were to increase by 17.5 per cent over the year and estimated at Rs. 5,084 crores in 1981-82 (BE) compared with Rs. 4,326 crores in 1980-81 (RE). These included the estimated contribution of non-departmental public enterprises amounting to Rs. 1,586 crores in 1980-81 (RE) and Rs. 2,069 crores in 1981-82 (BE). Domestic capital receipts (net) were estimated at Rs. 8,089 crores in 1981-82 (BE) compared with Rs. 7,119 crores in 1980-81 (RE).

6.13 Total expenditures of the Centre were budgeted to aggregate Rs. 26,559 crores in 1981-82 (BE) showing an increase of 8.4 per cent over Rs. 24,496 crores in 1980-81 (RE). Of this, the growth in non-development expenditure was estimated at 5.5 per cent from Rs. 10,172 crores in 1980-81 (RE) to Rs. 10,732 crores in 1981-82 (BE). Development expenditure, including Plan outlays of the Centre, was budgeted at Rs. 15,827 crores in 1981-82 compared with Rs. 14,324 crores in 1980-81 (RE) and showed a step-up of 10.5 per cent over the year.

6.14 According to the Economic and Functional Classification of the Central Government Budget for 1981-82 gross capital formation out of the budgetary resources of the Central Government, showed a sharp increase from Rs. 7,228 crores in 1979-80 to Rs. 9,142 crores in 1980-81 (RE). The budget indicated a further step up of 10.6 per cent in gross capital formation in 1981-82.

6.15 Gross savings by the Central Government in 1981-82 (BE) were estimated at Rs. 389 crores compared with Rs. 249 crores in 1980-81. This increase had been made possible by the substantial additional resource mobilisation undertaken by the Central Government in 1981-82. Domestic capital receipts were to finance about 57 per cent and 68 per cent of gross capital formation in 1980-81 and 1981-82 respectively.

6.16 Compared with 1980-81 (RE), the budget estimates for 1981-82 visualised lower dependence on both budgetary deficit and foreign savings for financing capital formation. Budgetary deficit and foreign savings would finance capital formation to the extent of 15.2 per cent and 13 per cent respectively in 1981-82 compared with 21.6 per cent and 19 per cent respectively in 1980-81.

6.17 The first batch of Supplementary Demands for Grants for 1981-82 providing gross additional expendi-

ture of Rs. 421 crores, was presented to the Parliament in September, 1981. Receipts and recoveries relating to these demands were of the order of Rs. 275 crores. On a net basis, these demands involved an additional expenditure of Rs. 146 crores of which Rs. 80 crores were earmarked for the Agricultural Refinance and Development Corporation for financing foreign aided projects, Rs. 29 crores for subsidy payments to the National Consumers' Cooperative Federation for controlled cloth and Rs. 25 crores for nationalised banks. The second set of Supplementary Demands for Grants for 1981-82, presented in December 1981, provided for gross additional expenditure of Rs. 333 crores. Recoveries relating to these expenditures were estimated at Rs. 83 crores and, as a result, a net additional outgo of Rs. 250 crores was envisaged during the year. Major items accounting for the supplementary demands were: Rs. 89 crores for Coal India for development of major coal projects linked to steel plants and thermal power stations; Rs. 86 crores for providing cash compensatory support for export promotion; Rs. 41 crores as additional transfers to States; and Rs. 20 crores for additional subsidy payments on mill made controlled cloth because of increased production and revision of subsidy rates.

6.18 Data in regard to tax collections during the first nine months of 1981-82 show that receipts from major Central taxes, at Rs. 10,750 crores were 19 per cent higher than the amount collected during the corresponding period last year. A notable increase was evident in case of customs duties where the receipts increased by 29.4 per cent over the collection in the same period last year, followed by excise duties which increased by 16.8 per cent. The collection under income and corporate taxes, however, increased at a lower rate of 11.6 per cent. Receipts from

TABLE 6.2  
Capital formation by the Central Government and its financing

	(Rs. crores)					
	1976-77	1977-78	1978-79	1979-80	1980-81 (RE)	1981-82 (BE)
<b>I. Gross Capital formation out of budgetary resources of the Central Government.</b>	<b>4991</b>	<b>5686</b>	<b>6913</b>	<b>7228</b>	<b>9142</b>	<b>10110</b>
	(7.0)	(13.9)	(21.6)	(4.6)	(26.5)	(10.6)
As per cent of Gross Domestic Product at current prices	7.0	7.0	8.0	7.7	8.2	NA.
(i) Gross Capital formation by the Central Government	1112	1107	1301	1527	1817	2362
(ii) Financial assistance for capital formation to the rest of the economy	3879	4579	5612	5701	7325	7748
<b>II. Gross savings by the Central Government</b>	<b>885</b>	<b>1051</b>	<b>1175</b>	<b>231</b>	<b>249</b>	<b>389*</b>
As per cent of Gross Domestic savings at current prices	5.0	5.5	4.9	1.0	0.9	N.A.
<b>III. Gap (I—II)</b>	<b>4106</b>	<b>4635</b>	<b>5738</b>	<b>6997</b>	<b>8893</b>	<b>9721</b>
Financed by :						
<b>IV. Draft on other sectors of the domestic economy</b>	<b>2713</b>	<b>3935</b>	<b>5025</b>	<b>6107</b>	<b>7158</b>	<b>8411</b>
(i) Domestic capital receipts	2583	3003	4074	3674	5183	6872
(ii) Budgetary Deficit	130	932	951	2433	1975	1539*
<b>V. Draft on foreign savings</b>	<b>1393</b>	<b>700</b>	<b>713</b>	<b>890</b>	<b>1735</b>	<b>1310</b>

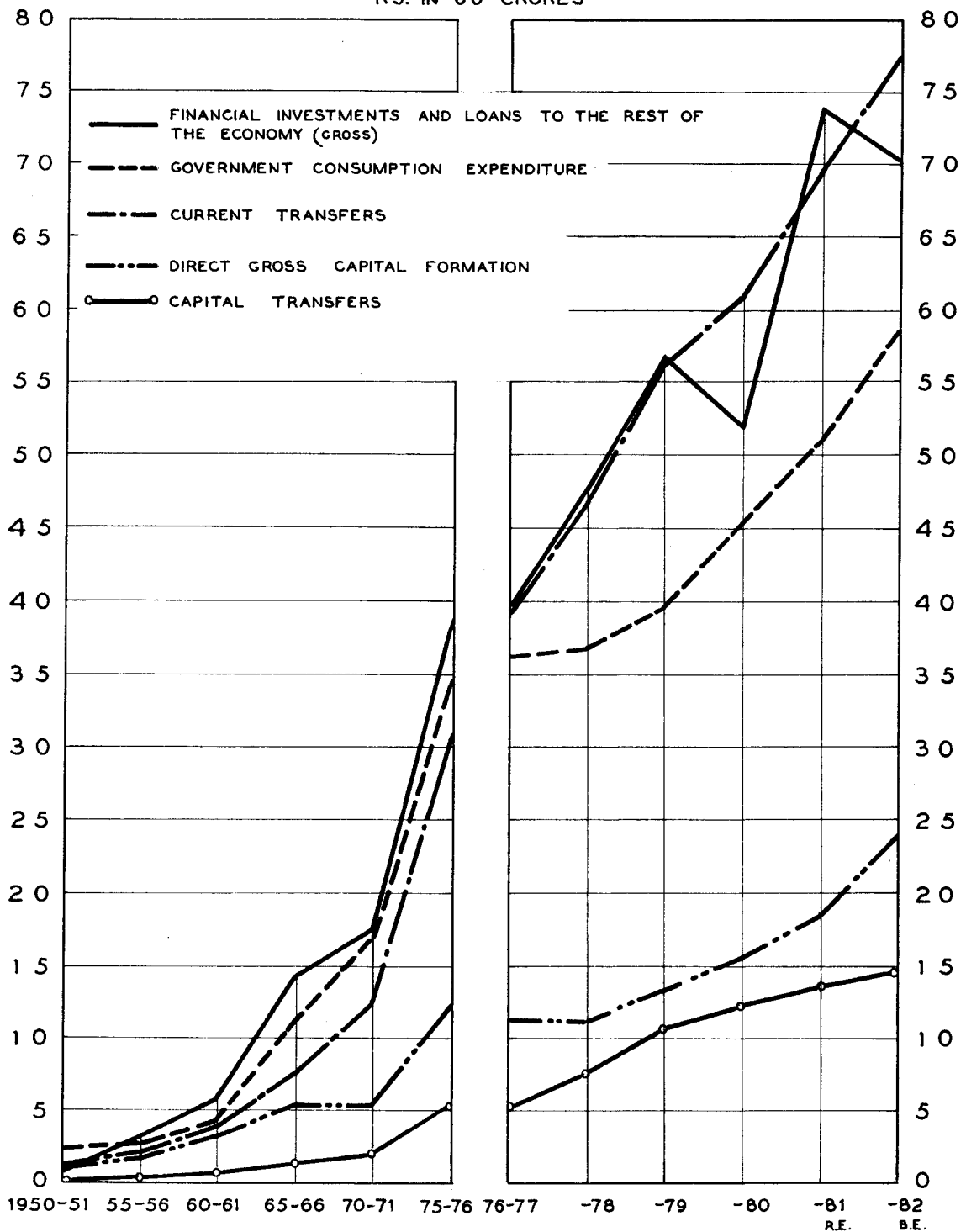
\*After taking into account the post-budget concessions.

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.

# CENTRAL GOVERNMENT EXPENDITURE (ECONOMIC CATEGORIES)

R.S. IN '00 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

the Special Bearer Bonds, upto 9th January 1982, when the sales were closed, aggregated Rs. 963 crores of which Rs. 89 crores were collected in 1980-81. The improved financial performance of public undertakings, will result in higher surpluses from these undertakings. On current trends, the overall receipts of the Central Government would be much higher during the year than the budgeted level.

#### *Policy Developments and Resource Mobilisation*

6.19 The Central Government made massive efforts to mobilise additional resources in 1981-82. As a result, the resource mobilisation in 1981-82 including

Railways and Posts and Telegraphs would yield Rs. 729 crores to the Centre during the year.

6.20 The tax proposals in the Central Budget for 1981-82 contained several new incentives and concessions. The income tax exemption limit was raised from Rs. 12,000 to Rs. 15,000 with the result that approximately 14 lakh assesseees were excluded from the tax coverage. The rate of standard deduction in respect of salaried tax payers was also raised to 20 per cent subject to a maximum of Rs. 5,000 compared with 20 per cent on the first Rs. 10,000 and 10 per cent on the balance amount, subject to a maximum of Rs. 3,500 earlier. These concessions would involve a loss of Rs. 115 crores in 1981-82.

TABLE 6.3

*Additional Resource Mobilisation by the Centre during 1981-82*

(Rs. crores)			
	Centre's share	States' share	Total
1	2	3	4
<b>I. Taxes</b>	<b>271.01</b>	<b>-74.89</b>	<b>196.12</b>
(a) Direct Taxes	-29.39	-85.61	-115.00
Income tax	-29.39	-85.61	-115.00
(b) Indirect Taxes	300.40	10.72	311.12
(i) Custom Duties	282.70	..	282.70
(ii) Union Excise Duties	17.70	10.72	28.42
<b>II. Revision in Posts and Telegraphs Tariffs and Railway Fares and Freights</b>	<b>457.86</b>	<b>..</b>	<b>457.86</b>
(a) Posts and Telegraphs*	25.00	..	25.00
(b) Railways			
(i) Measures effective 1-4-1981	352.86	..	352.86
(ii) Measures effective 1-1-1982	80.00	..	80.00
<b>III. Total (I + II)</b>	<b>728.87</b>	<b>-74.89</b>	<b>653.98</b>

\*Does not include the effect of the upward revision in certain postal and telecommunication tariffs which are to come into force with effect from March 1, 1982.

6.21 In order to raise the level of savings in the economy and restrain conspicuous consumption, the Compulsory Deposit Scheme for income-tax payers was extended for a further period of two years and the rates of compulsory deposit on the income slab of Rs. 50,001-70,000 were raised from 12.5 per cent to 15 per cent and on income above Rs. 70,000 from 15 per cent to 18 per cent.

6.22 In the case of corporate sector, the surcharge on income-tax payable by all classes of companies was reduced from 7.5 per cent to 2.5 per cent with a view to improving the scope of investment financing from their own internal resources. Surtax by companies

was also made payable in advance. Certain industries such as electric fans, pressure cookers, glass and glassware, pigments, colours, paints, enamels, varnishes, blacks and cellulose lacquers, chinaware and porcelainware, mosaic tiles and glazed tiles, synthetic detergents, amplifiers or any other apparatus used for addressing the public, vacuum flasks and other vacuum vessels etc. were removed from the Eleventh Schedule of the Income-tax Act so that they could become eligible for tax concessions.

6.23 The electronic industry, which is both labour intensive and export oriented, was included in the Ninth Schedule as well as in Section 80-M of the

Income Tax Act so that dividends derived by a domestic company from an Indian company engaged exclusively in the manufacture of electric components could be completely exempt from income-tax. With a view to accelerating the development and use of renewable energy resources and to promote their utilisation, the depreciation allowance on machinery and plant installed for manufacturing renewable energy devices and systems was raised from 10 per cent to 30 per cent. This was also applicable to renewable energy device and system used for business or profession. In order to curb the use of private discretionary trusts as a device for tax avoidance, the 1981-82 Budget subjected the oral trusts to income-tax at the maximum marginal rate and wealth tax at a flat rate of 3 per cent, or at the appropriate rate applicable to the individual, whichever course was more beneficial to revenue.

6.24 Further, the Finance Act 1981 allowed the option of complete tax holiday to units set up in Free Trade Zones for an initial period of five years in lieu of other existing concessions, such as investment allowance, partial tax holiday, export market development allowances etc. It was proposed to raise the exemption limit of Estate Duty from Rs. 50,000 to Rs. 1.5 lakh in line with the similar exemption under Wealth Tax.

6.25 No change was made in the structure of excise duties for raising revenues, except for some adjustments in additional excise duties in lieu of sales tax. The major thrust of tax effort in respect of indirect tax was in raising revenues from customs duties to the extent of Rs. 283 crores in 1981-82. Auxiliary duties of customs were raised by 5 per centage points ad valorem on all categories of imports, except certain items like crude petroleum, edible oils and steel for buffer stock operations. Certain items enjoying full exemption from auxiliary customs duties were made liable to such duties at the rate of 5 per cent ad valorem. Import of newsprint was subjected to an effective custom duty of 15 per cent ad valorem, at the same time allowing concession to small and medium newspapers. Customs duty on stainless steel bars and wire rods was increased from 75 per cent to 175 per cent ad valorem and on plain shaft bearing from 60 per cent to 100 per cent ad valorem. The basic import duty on computers and computer peripheral units was raised from 40 per cent to 50 per cent ad valorem. Relief from customs duty was given on certain intermediates for the manufacture of drugs, certain instruments for electronic industry, hearing aid appliances and braille watches, etc.

6.26 With a view to providing incentives for long-term savings, two new series of National Savings Certificates were issued with effect from May 1, 1981 carrying interest at the rate of 12 per cent per year compounded half-yearly.

6.27 In order to mop up black money, Government issued Special Bearer Bonds which were on

sale from February 2, 1981 to April 30, 1981 and again from December 1, 1981 to January 9, 1982. The Bonds, issued at par, had a face value of Rs. 10,000 and a maturity period of 10 years. On maturity these Bonds are redeemable at Rs. 12,000 per Bond. The holders of such bonds are assured immunity from disclosing the source of money and the value of the Bonds is exempt from Wealth Tax. The transfer of bonds will also not attract Capital Gains and Gift taxes and their premium income on redemption would be free from income tax.

6.28 Additional resources were also mobilised by an upward adjustment in certain administered prices. Prices of petroleum and petroleum products and the production cess were increased with effect from July 11, 1981. The increase was aimed at moderating the growth of consumption of these products and at the same time mobilising non-inflationary resources for the accelerated development programme for oil exploration. Additional revenue from the revision in petroleum prices was estimated at about Rs. 1070 crores in a full year and about Rs. 936 crores in 1981-82. Bulk of the amount would accrue to the oil refineries and the Oil and Natural Gas Commission which would enable these organisations to finance their development programmes.

6.29 In the context of escalation in the cost of petroleum feed stock and prices of imported fertilizers the consumer prices of fertilizers were increased by about 38 per cent during 1980-81. These were further increased by about 17.5 per cent with effect from 11th July, 1981. Increase in fertilizer prices was estimated to reduce subsidies by about Rs. 162 crores in 1981-82. Steel and coal prices were raised in January, 1981 with a view to meeting the increased costs and reducing the losses in the industry. These increases were estimated to yield about Rs. 300 crores in the current year after deducting the escalation in costs.

#### **Performance of Central Government Public Enterprises**

6.30 The Railway budget for 1981-82 anticipated gross traffic receipts of about Rs. 2921 crores and total expenditure, including appropriations to funds, of about Rs. 2,877 crores, leaving a net balance of Rs. 44 crores to meet the Railways' dividend liability to the Centre amounting to Rs. 350 crores. In order to generate resources for development works, the Railways levied supplementary charges on percentage basis, as an *ad hoc* measure, pending adoption of the revised fare and freight structure on the basis of the Rail Tariff Enquiry Committee, 1980, whose Report was under Government's consideration.

6.31 On non-suburban passenger traffic, a surcharge of 15 per cent for air conditioned first class, 12.5 per cent for first class and 10 per cent for air conditioned chair car and also second class, both Mail/Express

was levied. For second class ordinary, existing fares were raised by 5 per cent for distances beyond 200 kilometres. The rates of reservation fees for different classes, sleeper charges, superfast supplementary charges and cloakroom charges were also revised. In the case of freight, a flat 15 per cent surcharge over the existing rates, except for certain exempted articles, was levied on all freight traffic, excluding luggage and parcel traffic for which the rate was 10 per cent. The changes proposed in the budget would yield an additional revenue of about Rs. 353 crores. It was anticipated in the budget that after the fare and freight adjustments, the overall surplus of about Rs. 50 crores would be available for utilisation for development works and for a partial liquidation of the Deferred Dividend liability.

6.32 Certain unforeseen post-budgetary developments, however, adversely affected the Railway finances during the year. There were increases in working expenses on account of the grant of additional dearness allowance to the railway employees, increase in cost of materials and stores, petroleum products, including high speed diesel oil, electricity tariffs, steel and other inputs. Together with the expenditure requirements for carrying additional traffic, the total increase in working expenses, net of economies in expenditure, was estimated at Rs. 245 crores in 1981-82. The Railways expected additional revenue earnings of Rs. 170 crores from goods, passenger and other coaching traffic and, accordingly anticipated a net gap of Rs. 75 crores in 1981-82 requiring additional effort at resource mobilisation. The Railways levied additional supplementary charges on freight, effective January 1, 1982, which were expected to yield around Rs. 80 crores during the current year.

6.33 The Railways' Annual Plan for 1981-82 amounting to Rs. 980 crores showed an increase of about 29 per cent over the previous year's level of Rs. 762 crores. This was subsequently raised by Rs. 157 crores through supplementary demands for grants taken in August and September 1981. The Annual Plan provided for accelerated procurement of 18,000 wagons in replacement of overdue stock, speedier electrification and retiring of a large number of steam locomotives to reduce coal consumption. It also aimed at speeding up of the completion of on-

going schemes with a view to meeting the growing requirements of traffic in core sectors of the economy, notably, coal and cement.

6.34 Gross receipts of the Posts and Telegraphs Department were estimated at Rs. 1130 crores in 1981-82 as against Rs. 1000 crores in 1980-81 (RE) showing an increase of 13 per cent over the year. Net working expenses were expected to go up in the corresponding period from Rs. 787 crores to Rs. 873 crores i.e. by about 11 per cent. After taking into account the payment of dividend to the General Revenues, the surplus of the Posts and Telegraphs Department was estimated at Rs. 217 crores in 1981-82 as against Rs. 178 crores in 1980-81 (RE).

6.35 The Budget for 1981-82 included capital outlay on Posts and Telegraphs of the order of about Rs. 512 crores as against Rs. 411 crores in 1980-81 (Revised Estimates). In order to meet the increased capital outlay, tele-communication tariffs were revised as a part of the budget proposals and were expected to yield about Rs. 25 crores in 1981-82. There was no change in post and telegraph rates.

6.36 The programmes envisaged during the year comprised addition of (i) 1600 new post offices and 2800 telegraph offices; (ii) 2,25,000 switching equipment lines; (iii) 2,00,000 new telephone connections; (iv) 5700 new trunk automatic exchange lines; (v) 14 new STD routes and extensive addition to cable and microwave systems. To serve villages, hilly and backward areas, 2800 additional long distance public call offices were also envisaged for 1981-82.

6.37 The overall financial performance of Central Government's autonomous undertakings showed deterioration despite the turn around in industrial activity since the middle of 1980-81. Net losses after tax of running public enterprises, amounted to Rs. 182 crores in 1980-81 compared with Rs. 40 crores in 1978-79 and Rs. 74 crores in 1979-80. Of the 168 running enterprises whose financial performance was analysed, 93 enterprises made a profit of Rs. 572 crores and 75 incurred a loss of Rs. 754 crores in 1980-81. Internal resources generated aggregated Rs. 1214 crores in 1980-81 compared with Rs. 1030 crores in 1979-80.

TABLE 6.4  
Five-year Profile of Public Enterprises

	Unit	1976-77	1977-78	1978-79	1979-80	1980-81
1	2	3	4	5	6	7
1. Number of Running Public enterprises	Number	149	155	159	169	168
2. Capital employed	Rs. crores	10887	12130	13969	16182	18231
3. Turnover	Rs. crores	14911	18020	19061	23290	28645
4. Gross Profit before interest and tax	Rs. crores	1028	915	1071	1229	1422
5. Net Profit before tax	Rs. crores	421	160	185	225	39
6. Net profit after tax	Rs. crores	184	-91	-40	-74	-182
7. Internal Resources generated	Rs. crores	719	708	906	1030	1214
8. Gross profit to capital employed	Per cent	9.4	7.5	7.7	7.6	7.8
9. Employment	Lakhs	15.75	16.38	17.03	17.75	18.38

6.38 Total capital employed in Central Government autonomous undertakings aggregated Rs. 18231 crores in 1980-81 and showed an increase of Rs. 2049 crores over the previous year's level. Gross profit to capital employed worked out to 7.8 per cent in 1980-81 compared with 7.7 per cent in 1978-79 and 7.6 per cent in 1979-80. Sales amounted to Rs. 28645 crores in 1980-81 which were higher by 23 per cent than the level achieved in 1979-80.

6.39 In 1980-81, the performance of major enterprises for steel, coal, fertilisers and chemicals and heavy engineering, however, showed certain constraints. Interruption in power supply considerably handicapped the production in steel, non-ferrous metals and certain heavy engineering units. Problems in regard to industrial relations in certain Bangalore based enterprises also adversely affected their performance. The disturbed conditions in Assam as well as the reduced crude supplies led to difficulties in the availability of feed stock to fertiliser units. The revision in steel and coal prices in January, 1981 and fertiliser and petroleum prices later in the year was expected to generate more resources for development of these industries.

6.40 The Fertiliser Corporation of India, Hindustan Fertilizers Ltd. and National Fertilisers Ltd. incurred substantially higher losses in 1980-81 compared with the previous year. The total loss of these enterprises increased from Rs. 99 crores in 1979-80 to Rs. 196 crores in 1980-81. Losses by Eastern Coalfields Ltd. and Bharat Coking Coal Limited were, however, marginally lower at Rs. 126 crores in 1980-81 as against Rs. 129 crores in 1979-80. Losses by Hindustan Steel Works Construction Ltd. went up from Rs. 6.5 crores in 1979-80 to Rs. 33 crores in 1980-81 while Heavy Engineering Corporation incurred a higher loss of Rs. 51 crores in 1980-81 compared with Rs. 35 crores in 1979-80.

6.41 The available data on financial performance of public sector enterprises during the first nine months of the current year shows a substantial improvement. As against a net loss of Rs. 475 crores during April-December, 1980, the public sector enterprises made a profit of Rs. 134 crores during the same period in the current financial year. In terms of ratio of gross profits to capital employed, the improvement is from 3.4 per cent to about 10 per cent during the two periods.

#### Finances of States and Union Territories in 1981-82

6.42 The combined budgetary position of the States and Union Territories for 1980-81 (RE) showed a deterioration compared with 1979-80 (Accounts). The revised estimates for 1980-81 placed total receipts at Rs. 19046 crores and aggregate expenditure at Rs. 19458 crores as against Rs. 16254 crores and Rs. 16482 crores respectively in 1979-80. As a result, the revised estimate of budgetary deficit for 1980-81 worked out to Rs. 412 crores as against Rs. 228 crores in 1979-80.

6.43 The financing of a much higher level of expenditure in 1980-81 (RE) than in 1979-80, was made possible mainly by larger Central transfers as reflected in the State budgets (Rs. 1312 crores); increase in State tax revenues both on account of buoyancy as well as additional taxation (Rs. 852 crores); larger interest and other administrative receipts (Rs. 195 crores); increased level of borrowings (Rs. 262 crores); and larger net inflow of miscellaneous capital receipts (Rs. 647 crores) compared with 1979-80.

6.44 For 1981-82, the budget estimates of the overall deficit were Rs. 442 crores as against revised estimates of Rs. 412 crores for 1980-81. The budget estimates for 1981-82 took credit for total receipts of the order of Rs. 19858 crores and provided for total expenditures amounting to Rs. 20300 crores which were higher by about 4 per cent each compared with corresponding estimates for 1980-81 (RE). The developmental expenditure was budgeted to increase by 3 per cent from Rs. 14734 crores in 1980-81 (RE) to Rs. 15229 crores in 1981-82 and non-developmental expenditure by 7 per cent from Rs. 4724 crores in 1980-81 (RE) to Rs. 5071 crores in 1981-82.

6.45 States' share of Central taxes during 1981-82 was expected to be about Rs. 339 crores higher than the revised estimates for the previous year. This increase mainly reflected the normal increase in shareable Central taxes and took into account the effect of changes in tax rates announced as a part of the Centre's budget proposals for 1981-82. The States' share in income-tax and Union excise duties in the current year was expected to go up by 3 per cent and 11 per cent respectively over the last year's revised estimates.

6.46 Grant assistance from the Centre to the States was budgeted at Rs. 2768 crores in 1981-82 as against Rs. 2907 crores in 1980-81 (RE). The difference was accounted for by lower provision for assistance for the National Rural Employment Programme and schemes under Integrated Rural Development Programme in the Central Sector Plan. Loans from the Centre to the States for Plan and Non-plan schemes, were budgeted at Rs. 3319 crores as against Rs. 3310 crores in 1980-81 (RE). Taking all Central transfers together, the budget estimates for 1981-82 had been placed at Rs. 9041 crores as against Rs. 9011 crores in 1980-81 (RE).

6.47 The tax revenues of the States and Union Territory Governments were expected to increase by 13 per cent in 1981-82 compared with 12.6 per cent in 1980-81 (RE). Bulk of this increase would come from sales tax and State excise duties, which were expected to grow by 14 per cent and 10.8 per cent respectively in 1981-82 (BE). Sales tax and State excise duties constituted as much as 56.9 per cent and 11.6 per cent of the total State tax revenues. Administrative receipts and receipts from interest on State Governments' loans were expected to increase from Rs. 1782 crores in 1980-81 (RE) to Rs. 1883 crores in 1981-82 (BE) i.e. by 5.7 per cent.



6.48 The total capital receipts of the States and Union Territories were estimated to be lower by Rs. 455 crores during 1981-82 compared with the receipt of Rs. 4456 crores in 1980-81 (RE); this was mainly on account of the decline in loans from the Centre (Rs. 267 crores) and shortfalls in miscellaneous capital receipts (Rs. 253 crores). On the other hand, market loans (net) were budgeted to show an improvement of Rs. 214 crores over the 1980-81 (RE) levels, but loans from all other sources were expected to be lower by Rs. 152 crores during 1981-82.

6.49 The States' Annual Plan outlay for the year 1981-82 was fixed at Rs. 8471 crores as against Rs. 7555 crores on the basis of the revised estimates for 1980-81. To finance the outlay of Rs. 8471 crores in 1981-82, Central assistance would amount to Rs. 3000 crores, while States' own resources, without taking into account the additional resource mobilisation to be undertaken in 1981-82, would aggregate Rs. 4719 crores. The State Governments agreed to undertake additional resource mobilisation of Rs. 752 crores in 1981-82 to finance the Annual Plan for the year. Latest estimates show that the measures introduced in the current year would yield about Rs. 850 crores.

6.50 The question of effecting basic reforms in the sales tax system has been engaging the attention of the Government for some time. As a follow up of the resolution adopted at a Conference of State Chief Ministers and Ministers in-charge of Sales Taxes, the Government has appointed an Expert Committee to consider the extension of the levy of additional excise duty in lieu of sales tax on mass consumption items with the following terms of reference : (a) To study the financial implications of the proposal for inclusion in the list of declared goods and for levy of additional excise duty in lieu of sales tax on vanaspati, drugs and medicines, cement, paper and paper board, and petroleum products and the manner in which the financial interests of the States can be safeguarded; (b) to suggest necessary changes in the relevant Central and State tax laws to give effect to the Committee's recommendations; and (c) to make recommendations regarding any other related matter.

#### **State Governments' Commercial Undertakings**

6.51 The Budget anticipated reduction in the losses of the departmental commercial undertakings from the level of Rs. 165 crores in 1980-81 (RE) to Rs. 137

crores in 1981-82 (BE). While losses in Irrigation (Commercial) and Multi-purpose River Projects would go up from Rs. 339 crores and Rs. 64 crores in 1980-81 (RE) to Rs. 356 crores and Rs. 69 crores in 1981-82 respectively, losses would be lower in the case of road and water transport services, dairy development and industries. Net receipts from Forests and Mines and Minerals were expected to increase to Rs. 336 crores in 1981-82 compared with Rs. 307 crores in 1980-81 i.e. by about 9 per cent. Dividends and profits from non-departmental undertakings were also expected to be marginally higher.

6.52 As regards non-departmental enterprises, on the basis of the Plan estimates, their contribution at 1979-80 fares and tariffs was estimated at Rs. (—) 73 crores in 1981-82 (BE) compared with Rs. (—) 129 crores in 1980-81 (RE). Measures of additional resource mobilisation undertaken by the State Electricity Boards and Road Transport Corporations in 1980-81 and 1981-82, as part of their contribution for financing their Plans, were expected to yield Rs. 195 crores in 1980-81 and Rs. 821 crores in 1981-82. Taking this yield and cost escalations into account, the total contribution of States' non-departmental enterprises would work out to Rs. 22 crores in 1980-81 (RE) and Rs. 128 crores in 1981-82. It is necessary that the financial performance of departmental and non-departmental enterprises is geared up in order to cut out losses and improve profitability.

6.53 To sum up : it would appear that the financial position of the States which had improved considerably as a result of the recommendations of the Seventh Finance Commission has been showing signs of mounting strain in recent years. The financial performance of individual States, both in 1980-81 and 1981-82, has been uneven. While some States have made a commendable effort to mobilise additional resources, the performance of some others has not been satisfactory, resulting in an increase in overdrafts from the Reserve Bank. Unfortunately, in some cases additional expenditure commitments, including new Plan Programmes, have been made without regard to States' own capacity to mobilise additional resources. The resource position of all States was reviewed in the middle of the year and the States facing gaps in resources were advised to adopt concrete measures to restrain public expenditures and mobilise additional resources.