

CHAPTER 6

FISCAL POLICY AND GOVERNMENT BUDGET

Fiscal policy in 1983-84 continued the thrust of earlier years by offering further stimulus to investment both in the public and the private sectors. The objective was to strengthen the process of growth while keeping inflation under control. The Union Budget for 1983-84 provided for a large increase of 26 per cent in Central Plan expenditure above the original level for the previous year. Transfers to States were also increased. These, together with other increases in non-Plan expenditure, were to be achieved while keeping the budget deficit at Rs. 1,586 crores. In view of the need to achieve speedy adjustment in the balance of payments, in the budget for 1983-84, incentives for foreign exchange remittances and investments by non-residents were strengthened. Fiscal incentives to exporters were also widened. Customs duties were raised to counter unfair competition from imports consequent upon severely depressed international prices.

6.2 There was a build up of pressure on the Central budget in the course of the year. Tax revenues did not show the expected buoyancy reflecting the sluggishness in industrial production in the first half of the year. Small saving collections were better than expected. But, internal resources of the public enterprises, including the railways, were likely to be adversely affected because of increase in wages and input costs. However, to bring about a better balance

between resources and expenditure, so as to keep the budgetary deficit within reasonable limit, the Government took various steps in January 1984 to cut both Plan as well as non-Plan expenditures.

Budgetary Developments in 1982-83

6.3 The wide-spread drought experienced during 1982-83 not only affected tax revenues but also necessitated increase in non-development expenditure. While according to revised estimates, the total expenditure of the Centre, States and Union Territories (including Plan expenditure of the public sector undertakings out of their internal and extra-budgetary resources) in 1982-83 increased by Rs. 9,817 crores (22.4 per cent) over the previous year, the budgetary deficit at Rs. 2,712 crores in 1982-83 (RE) was higher than the deficit of Rs. 2,519 crores in 1981-82 by no more than Rs. 193 crores. This was possible partly because of a significant increase (31.4 per cent) in the non-tax revenues over the previous year mainly because of the growth of 51 per cent in the internal resources of the public sector undertakings for their plan, from Rs. 2,235 crores in 1981-82 to Rs. 3,374 crores in 1982-83 (RE). Tax revenues, however, showed a slower growth and were higher by only 13.7 per cent in 1982-83 (RE) over the actuals of 1981-82 compared with a growth rate of 21.7 per cent in the preceding year. Tax collections in 1982-83 were lower by Rs. 108 crores than the

TABLE 6.1

Budgetary transactions of the Central and State Governments and Union Territories
(Including extra-budgetary resources of public sector undertakings for their Plans)

	1979-80	1980-81	1981-82	1982-83		1983-84 (BE)
				(BE)	(RE)	
I. Total Outlay	31117	36845	43738	49211	53555	59364
(a) Developmental	20298	24426	28653	32300	34291	38292
(b) Non-Developmental	10819	12419	15085	16911	19264	21072
II. Current Revenue	22545	24563	30425	35855	35714	42089
(a) Tax Revenue	17583	19844	24142	27566	27458	31460
(i) Direct Taxes	3096	3268	4133	4625	4590	4706
(ii) Indirect Taxes	14587	16576	20009	22940	22868	26754
(b) Non-Tax Revenue	4862	4719	6283	8289	8256	10629
III. Gap (I-II)	8572	12282	13313	13356	17841	17275
Financed by:						
(i) Domestic capital receipts	5021	7161	9493	10065	13467	13075
(ii) Net external assistance	890	1670	1301	1603	1662	1865
(iii) Budgetary deficit	2661	3451	2519	1688	2712	2335

Note : For clarification regarding the scope of some items in the Table, see foot-notes to Table 2.1 in the Statistical Appendix.

budget estimates on account of a shortfall in collections from Union excise duties and income and corporation taxes. The resource gap, as represented by the difference in total expenditure and current receipts, which had widened from Rs. 13,313 crores in 1981-82 to Rs. 17,841 crores in 1982-83 (RE), was met through additional capital receipts both internal and external. The net accretions to State and public provident funds registered a growth of 63.6 per cent (from Rs. 673 crores in 1981-82 to Rs. 1,101 crores in 1982-83). The market borrowings were also higher by Rs. 1,005 crores (27.2 per cent). The net collections from small savings increased by 10.8 per cent. The larger recovery of loans and advances (including technical credits) also raised the amount of the miscellaneous capital receipts.

6.4 The development expenditure of the Centre, States and Union Territories was stepped up by 19.7 per cent in 1982-83 (RE) compared with an increase of 17.3 per cent in the previous year. The growth in non-development expenditure, however, was higher by 27.7 per cent in 1982-83 (RE) compared with 21.5 per cent in 1981-82. This was mainly because of an increase in expenditure on account of relief for natural calamities, larger provision for technical credit on bilateral trade account, increase in interest payments, and defence expenditure.

6.5 The budgetary position of the Central Government in 1982-83 was marked by relatively slow growth of tax revenues and a sharp increase in non-development expenditure. Tax revenues increased by 14.7 per cent against an increase of 23.3 per cent in the previous year. At the same time, non-development expenditure showed an increase of 28.7 per cent in 1982-83 (RE) against an increase of 22 per cent in 1981-82. Even so care was taken to maintain a high level of development outlay and protect the Annual Plan. The outlay of Rs. 11,603 crores for the Annual Plan 1982-83 (RE) was higher than the original provision of Rs. 11,000 crores. The budgetary deficit was, however, contained at Rs. 1,935 crores in 1982-83 (RE).

6.6 The tax revenues of the States also grew at a slower rate in 1982-83 than in the previous year. Including the devolution from the Centre's taxes, the tax revenue of the States grew by 13.8 per cent in 1982-83 (RE) compared with 20.1 per cent in 1981-82. The States' tax revenue from their own sources registered an increase of 15.1 per cent compared with 24.5 per cent in the previous year. The non-tax revenue of the States also registered a growth of only 11.1 per cent against nearly 22 per cent in the previous year mainly because of a sharp deterioration in the internal resource position of public enterprises. Consequently, the increase in the current revenue was modest. The capital receipts, on the other hand, which had remained at the same level in 1981-82 as in the preceding year, recorded an increase of 40.6 per cent. Notwithstanding an increase in non-developmental ex-

penditure (by 27.4 per cent against 16.3 per cent), development expenditure of the States was stepped up by 16 per cent compared with an increase of 12.6 per cent in 1981-82. The Plan outlay of the States as a whole went up by 10 per cent—from Rs. 8,828 crores to Rs. 9,710 crores. The budgetary deficit of all the States taken together amounted to Rs. 777 crores in 1982-83 (RE); this was lower than the deficit of Rs. 1,127 crores in 1981-82.

Central Government Budget and Fiscal Developments: 1983-84

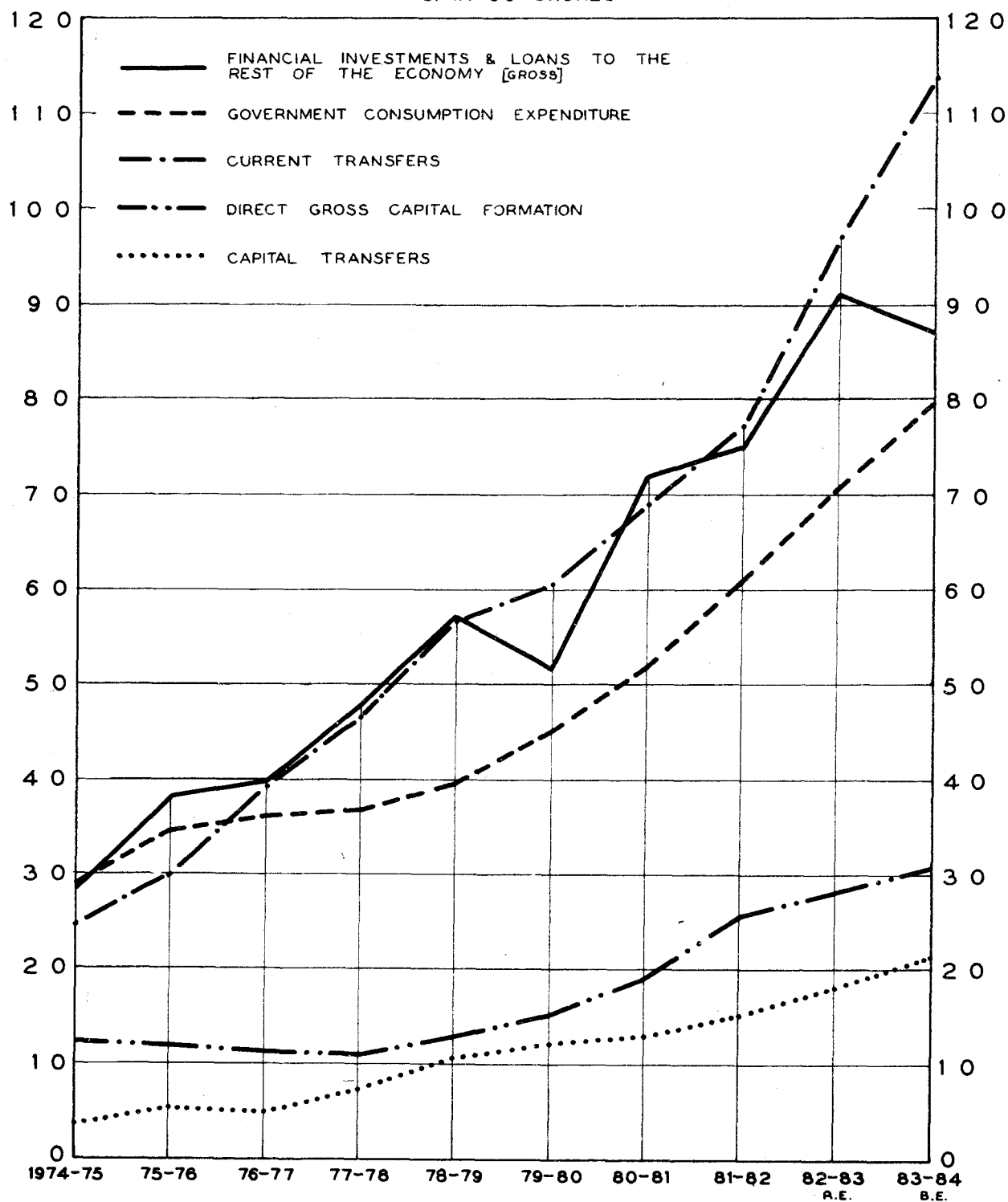
6.7 While seeking to mobilise additional resources for stepping up Plan outlay, the Central budget for 1983-84 aimed at promoting saving and investment, and strengthening the productive forces in the economy. Some relief was also provided to the low and middle income groups. The income-tax slab of Rs. 15,001 to Rs. 25,000 was split into two and the rate of income-tax on the first slab of taxable income, viz. Rs. 15,001 to Rs. 20,000 was reduced from 30 per cent to 25 per cent. In addition, to give some relief to the salary earners, the ceiling for standard deduction was raised from Rs. 5,000 to Rs. 6,000. The rate of surcharge on income-tax was increased from 10 per cent to 12.5 per cent. Nevertheless, individuals and certain categories of Hindu Undivided Families, etc., in the lower income brackets were to pay less on account of income-tax. The exemption limit for payment of income-tax on gratuities was increased from Rs. 30,000 to Rs. 36,000. The operation of the Compulsory Deposit Scheme was, however, extended for two years.

6.8 The budget contained several measures designed to strengthen the savings incentives. The rate of interest on 5-Year Post Office Deposits and Recurring Deposits was increased by one percentage point. Similar increase was made in the case of special deposits of Employees Provident Fund and other Non-Government provident, gratuity and superannuation funds. The Public Provident Fund Scheme was liberalised. The ceiling of 30 per cent of gross total income (as also the higher ceiling of 40 per cent in the case of film artists, authors, etc.) in respect of savings in specified forms like life insurance, provident funds etc., which are eligible for deduction in the computation of income (Section 80C of the Income-tax Act) was removed, while the monetary limit of Rs. 40,000 was retained. To further strengthen the incentives under this provision, National Savings Certificates Series VI and VII were included in the list of specified assets under Section 80C. The separate limit for exemption of income from specified assets, namely, bank deposits, and Government securities, was merged with the general limit, and the overall limit was raised from Rs. 6,000 to Rs. 7,000. With the additional exemption limit of Rs. 3,000 for income from units of the UTI, the overall limit of exemption in respect of income from specified financial assets thus stood enhanced from Rs. 9,000 to Rs. 10,000.

CENTRAL GOVERNMENT EXPENDITURE

[ECONOMIC CATEGORIES]

RS. IN '00 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

6.9 The provisions of Section 54E relating to exemption of capital gains were liberalised. In addition to the 7-year National Rural Development Bonds, four more investment avenues, namely, the new National Rural Development Bonds of three-year maturity, special series of units of the UTI, Government securities and debentures of the Housing and Urban Development Corporation were included as eligible assets for investment to qualify for exemption from tax on long-term capital gains. In order to discourage unproductive expenditure in business, a provision was made for disallowance of 20 per cent of expenditure on such items as advertisement, publicity, etc., in the computation of profits. However, as a measure of relief to small businesses the disallowance was made applicable only to aggregate expenditure under specified heads exceeding Rs. 1 lakh.

6.10 The budget included measures to enlarge generation of internal resources in the corporate sector and provide stimulus for investment and modernisation. The provisions for depreciation allowance were liberalised. The general rate of depreciation allowance on plant and machinery was raised from 10 per cent to 15 per cent. The monetary limit for 100 per cent write-off in respect of small items of plant and machinery was enhanced to Rs. 5,000. Devices and systems for energy saving were allowed 100 per cent write-off in the first year. Investment allowance for devices and systems for minimising pollution and conservation of natural resources was increased from 25 per cent to 35 per cent. The interest tax was reduced from 7 per cent to 3 1/2 per cent as a result of which the interest rates in respect of major categories of borrowers were reduced by the RBI. The surcharge on income tax in the case of companies was increased from 2.5 per cent to 5 per cent. However, in lieu of the additional surcharge, companies were given the option to deposit the additional amount with the IDBI which was expected to provide funds for modernisation. These deposits would carry simple interest of 7.5 per cent per annum and the amount of deposit together with interest would be repayable after five years. The scope of tax credit certificates for shifting of industrial undertakings from urban areas was enlarged.

6.11 The budget simplified and rationalised the tax structure and attempted to eliminate unjustified tax deductions and exemptions and the loopholes for tax avoidance. A minimum tax on corporate profits was introduced and it was provided that companies would pay tax on at least 30 per cent of their pre-incentive profits. The differential rates of tax in the case of domestic companies deriving income within specified limits were removed. Wealth tax at the rate of 2 per cent was imposed on selected items of the net wealth of closely-held companies. In order that the payment of income-tax was not withheld on account of liabilities which were contested by the taxpayer, it was provided that deduction for certain statutory liabilities would be allowed only in the year and to the extent they were actually paid. The provision relating to deduction in respect of expenditure on approved programmes of rural development (Section 35CC)

was modified to ensure that the concession was available only in respect of programmes of high priority. The concession under Section 35CCA in relation to rural development programmes was confined to donations made to a special fund, namely, the National Fund for Rural Development set up by the Government.

6.12 With a view to further encouraging the flow of foreign exchange remittances and investments from non-resident Indians (NRIs) and foreign nationals of Indian origin, several important tax concessions were provided for income earned in India by NRIs. The procedure for income tax assessment of NRIs was also simplified. The income derived from certain categories of investments which included securities of the Government, shares of Indian Companies, units of the UTI would be taxed at a flat rate of 20 per cent (plus surcharge). Income from these investments will not be aggregated with other Indian income for purposes of taxation. Long-term capital gains arising from such assets would also attract tax at the said flat rate. Such investments will also be exempt from wealth-tax. Gifts of these assets by an NRI to relatives were exempted from gift tax. These tax concessions were made available only to individuals, and not to corporate bodies owned by non-residents. Investments in the six-year National Savings Certificates by an NRI was allowed an additional interest of one per cent if these were subscribed in foreign exchange. In order to promote exports, the scheme of tax concession was simplified and liberalised. Indian exporters were permitted a deduction equal to one per cent of export turnover of the relevant year plus a further deduction equal to five per cent of incremental turnover of the preceding year in the computation of their taxable profits.

6.13 The instrument of customs duty was used to augment revenues as well as to provide a measure of protection to domestic industry at a time when international prices were severely depressed and many sectors faced unfair competition. The rates of auxiliary duties of customs were raised by 5 percentage points on all imported goods with a few exceptions. The existing exemption of essential items e.g. fertilisers, kerosene, HSDO from auxiliary duties was continued. The tariff as well as effective rates of customs duties were increased in the case of various chemicals. The import duties on zinc and lead metals as well as on polyester staple fibres were raised. For the benefit of the electronics industry the existing concessional import duty rates were extended to more items of raw material, components and capital goods. The duty free limit for bonafide gifts imported by post or as air freight as well as for articles of baggage was liberalised. The changes in customs duties were expected to result in a net revenue gain of Rs. 393 crores in a full year.

6.14 The basic excise duty on cement was raised from Rs. 135 per tonne to Rs. 205 per tonne for the commonly used variety and for production in mini cement plants from Rs. 100 per tonne to Rs. 170 per tonne. This measure was expected to yield an additional revenue of Rs. 182 crores. The rate of duty in

respect of central excise tariff item No. 68 was raised from 8 per cent to 10 per cent *ad valorem*. To encourage the production of blends with desirable proportions of polyester, the incidence of basic and additional duty on polyester cotton fabrics containing more than 40 per cent but less than 50 per cent polyester was reduced from 15 per cent to 6.5 per cent *ad valorem*. Similarly, the incidence of duty on cotton yarn containing more than 40 per cent but less than 50 per cent of polyester was reduced from Rs. 11.25 per kg. to Rs. 7.50 per kg. On the other hand, the duty on viscose staple fibre was raised from Rs. 4 per kg. to Rs. 5 per kg. As a measure for countering tax avoidance through under-valuation, the basic duty was changed from *ad valorem* to *ad valorem-cum-specific*/specific rates in the case of paper, motor cars, aerated waters, cigarettes and sugar. The duty on both levy and non-levy sugar was reduced. The schemes of concessional excise duty for small manufacturers were modified. In the General Exemption Scheme for small manufacturers, while the limit for duty free exemption was maintained at Rs. 7.5 lakhs, the upper limit for availing the concessional rate of 75 per cent of duty payable was raised from Rs. 15 lakhs to Rs. 25 lakhs. The ceiling for duty free clearances of goods falling under item No. 68 remained unchanged at Rs. 30 lakhs, but to restrict the benefit to really small manufacturers, the concession was made applicable to manufacturers whose aggregate clearances of all excisable goods in the preceding financial year did not exceed Rs. 40 lakhs.

6.15 In the case of cosmetics and toilet preparations as well as refrigerating and airconditioning appliances and machinery, separate exemption schemes were provided under which very small manufacturers/units with annual turnover up to Rs. 5 lakhs in the case of cosmetics and toilet preparations and Rs. 2.5 lakhs in the case of refrigerating and airconditioning appliances and machinery, were made completely exempt from duty. Manufacturers/units with annual turn-over of goods falling under these items up to Rs. 15 lakhs (or total turnover of all excisable goods up to Rs. 20 lakhs) were required to pay half the effective duty on clearances up to Rs. 15 lakhs from the beginning.

6.16 The excise duty scheme for higher production too was liberalised. Incentive was provided in two slabs instead of one. In the case of goods where the effective basic excise duty did not exceed 20 per cent *ad valorem*, credit of 30 per cent of the duty paid was given on clearances up to 110 per cent of the base. Where the clearances exceeded 110 per cent, the credit was given at a higher rate of 40 per cent. In the case of others, including those chargeable to duty at specific rates, a duty rebate of 15 per cent and 20 per cent was granted for the respective slabs. Earlier, relief of 20 per cent of the duty paid on excess clearances was available in respect of the former category of goods and at the rate of 10 per cent in respect of the latter category. Full exemption from duty was provided in the case of a few goods like pressure cookers including their specified parts, fuel-efficient kerosene stoves, electric bulbs up to 60 watts, ammonium sulphate and calcium ammonium nitrate, while the duty payable on metal containers used in

exempted specified products, namely, baby food, milk powder and ghee was removed. Excise duties were reduced in the case of certain commodities such as fluorescent tubes, multi-axled vehicles and aluminium strips used for making pipes by welding process. The yield from excise duties on these items was placed at Rs. 315 crores.

6.17 The net effect of the tax proposals in the 1983-84 Budget was to raise additional resources of Rs. 674 crores, of which Rs. 584 crores was to accrue to the Centre, and Rs. 90 crores to the States (Table 6.2).

6.18 The public sector undertakings also took measures to mobilise additional resources. In the case of the Railways, it was realised that the *ad hoc* increases in freights and fares in the past had resulted in distorting the freight and fare structure. Keeping in view the recommendations of the Rail Tariff Enquiry Committee, the National Transport Policy Committee, and the Railway Reforms Committee, the freight and fare structures were rationalised. For passenger fares, the second class ordinary fares were made the base, and fares for all other classes were fixed at appropriate higher percentages, with marginal adjustments in a few "distance" zones. The telescopic principle of fare reducing with longer distances was, however, retained. The rates of monthly season tickets were stepped up. In the case of freights, all the supplementary charges on the basis of percentages introduced in the past few years were merged in the revised freight structure. A basic class 100 freight rate scale was prescribed for various distances on the basis of the telescopic principle. The rates for goods falling in other classes (ranging from 65 to 300) were determined as percentages above or below the base class 100 rate. Traffic to and from stations in Assam and other North Eastern States was allowed a freight concession of 6 per cent. Reduced rates of freight were made applicable to some essential commodities such as foodgrains, salt for

TABLE 6.2
Additional Resource Mobilisation through Central Budget
for 1983-84

	(Rs. Crores)		
	Centre's share	States' share	Total
I. Taxes*	583.89	90.01	673.90
(a) Direct Taxes	0.27	-34.67	-34.40
(i) Corporation Tax	80.00	..	80.00
(ii) Income Tax	24.27	-34.67	-10.40
(iii) Interest Tax	-104.00	..	-104.00
(b) Indirect Taxes	583.62	124.68	708.30
(i) Custom Duties	393.03	..	393.03
(ii) Union Excise Duties	190.59	124.68	315.27
II. Revision in the Post and Telegraph Tariffs and Railway Fares and Freights	441.40	..	441.40
(a) Railways	431.40	..	431.40
(b) Posts and Telegraphs	10.00	..	10.00
III. Total (I+II)	1025.29	90.01	1115.30

*Excluding post-budget measures.

human consumption, edible oils, raw cotton (full pressed and half-pressed), cotton manufactured, hand-loom products, agricultural implements, tea, coffee, safety matches, medicines, soap, milk and books. The reductions ranged from, three to six per cent. The net effect of these measures was an additional yield of Rs. 431 crores in the current year.

6.19 The additional resource mobilisation effort of the Posts and Telegraphs (P&T) Department through the budget was modest. The tariff in respect of parcels was raised to yield Rs. 10 crores in 1983-84 (Rs. 12 crores in a full year). It may be mentioned that towards the close of 1982-83, the P & T Department had revised some of their tariffs through notifications, the yield from which was estimated at Rs. 70 crores in a full year.

6.20 In the case of non-departmental undertakings, the Joint Plant Committee revised and rationalised the prices of various steel items twice during the course of the year. The first revision was effective from April 1, 1983 and the second from July 24, 1983. The revisions were made mainly to meet the increase in costs arising on account of increase in railway freights, revision in excise duties and extra incidence of fuel costs. In view of the rise in the costs of production, prices of coal were raised by 25 per cent from January 8, 1984. The average coal price for Coal India Ltd. was increased from Rs. 145.90 per tonne to Rs. 183 per tonne and in the case of Singareni Collieries from Rs. 154.75 per tonne to Rs. 192 per tonne. Earlier in February 1983, cess on crude oil and the prices of petroleum products were raised; the cess was estimated to yield an additional amount of about Rs. 500 crores in 1983-84.

Revenue and Expenditure

6.21 The aggregate resources of the Central Government (including the internal and extra-budgetary plan resources of its undertakings) for 1983-84 (BE) were estimated at Rs. 37,972 crores, 23.8 per cent higher than in 1982-83 (BE). The aggregate disbursements were placed at Rs. 39,558 crores implying an increase of 23.4 per cent over the budget estimates of the preceding year. The resultant budgetary deficit was Rs. 1,586 crores compared with Rs. 1,375 crores in the budget estimates of 1982-83 and Rs. 1,935 crores in the revised estimates.

6.22 Including additional taxation, the total tax revenue of the Centre in the 1983-84 budget (net of States' share) was estimated to show an increase of 15.7 per cent over the budget estimates and of 16.5 per cent over the revised estimates of 1982-83. Most of the additional tax revenue was expected to be realised from union excise duties and customs duties, and the collections from these sources were expected to go up by 24 per cent and 18 per cent respectively over the budget estimates of 1982-83. In the case of income and corporation taxes, a nominal increase of 2 per cent was projected. The estimate of non-tax revenues at Rs. 8,877 crores in 1983-84

was nearly 33 per cent higher than Rs. 6,679 crores in the budget estimates of the preceding year. A substantial part of it was because of the expected growth in the internal resources of public sector undertakings of the Centre, from Rs. 3,285 crores in 1982-83 (BE) to Rs. 4,782 crores in 1983-84 (BE). The domestic capital receipts of the Centre were to go up by about 30 per cent from Rs. 9,037 crores in 1982-83 (BE) to Rs. 11,770 crores in the current fiscal year. However, the increase was marginal compared with the revised estimates for 1982-83. Market loans were budgeted to increase by Rs. 800 crores (25 per cent) and collections from small savings by Rs. 300 crores (21 per cent). The accretions from special deposits of non-Government provident funds were placed at Rs. 850 crores *i.e.* Rs. 150 crores more than in the budget estimates of the preceding year. The Budget for 1983-84 had also taken a credit of Rs. 4,600 crores from miscellaneous capital receipts. The receipts from net external assistance were expected to be higher than in the budget estimates of 1982-83 (Rs. 1,865 crores as against Rs. 1,603 crores).

6.23 Nearly 59 per cent of the aggregate expenditure of the Centre in 1983-84 amounting to Rs. 23,257 crores was allocated for development purposes and represented an increase of 22 per cent over the development outlay budgeted for 1982-83. The outlay for the Central Plan for 1983-84 was raised to Rs. 13,870 crores representing a step up of over 26 per cent compared with the original provision of Rs. 11,000 crores for the Annual Plan 1982-83. Non-development expenditure was also expected to grow by 25.3 per cent over that in 1982-83 (BE).

6.24 An analysis of the Centre's non-Plan revenue expenditure in recent years indicates that a large part (over 70 per cent) was accounted for by three items, namely, interest payments, defence and subsidies. As a proportion of GDP, expenditure on defence has remained almost stable, but interest payments and subsidies have grown at a relatively rapid rate. The expenditure on these three items which formed 4.7 per cent of GDP in 1970-71 is estimated to be around 7.5 per cent of GDP currently. Other non-Plan items have, on the whole, grown more modestly and as a proportion of GDP remained more or less at the same level.

Saving and Capital Formation

6.25 According to the Economic and Functional Classification of the Central Government Budget for 1983-84, the gross savings of the Centre estimated at Rs. 1,424 crores in 1982-83 (BE) came to Rs. 700 crores according to the revised estimates. The Centre's gross savings were estimated to go up to Rs. 967 crores in 1983-84 (BE) representing an increase of 38 per cent over the revised estimates of the previous year.

6.26 The gross capital formation out of the Centre's budgetary resources in 1983-84 was, however,

estimated at Rs. 13,071 crores showing an increase of 12.7 per cent over the budget estimates and 5.5 per

TABLE 6.3

Capital Formation by the Central Government and its Financing

	(Rs. Crores)				
	1979-80	1980-81	1981-82	1982-83 (RE)	1983-84 (BE)
I. Gross Capital Formation out of budgetary resources of the Central Government	7228	9012	10799	12389	13071
	(4.6)	(24.7)	(19.8)	(14.7)	(5.5)
As per cent of Gross Domestic Product at current market prices	6.7	7.1	7.3	7.5	n.a.
(i) Gross Capital formation by the Central Government	1527	1907	2552	2806	3991
(ii) Financial assistance for capital formation to the rest of the economy	5701	7105	8247	9583	9980
II. Gross Savings by the Central Government	231	3	1107	700	967
As percent of Gross Domestic savings at current prices	0.9	neg.	3.2	1.9	n.a.
III. Gap (I—II)	6997	9009	9692	11689	12104
Financed by :					
IV. Draft on other sectors of the Domestic Economy	6107	7339	8391	10027	10239
(i) Domestic capital receipts	3674	4762	6999	8092	8653
(ii) Budgetary Deficit	2433	2577	1392	1935	1586
V. Draft on Foreign Savings	890	1670	1301	1662	1865

NOTES : (i) Gross capital formation in this table includes loans given for capital formation on a gross basis. Consequently, domestic capital receipts includes loan repayments to the Central Government.

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

cent over the revised estimates of 1982-83. The pattern of financing the gap between the capital formation and the savings of the Central Government in 1983-84 more or less corresponded to that in 1982-83 (BE). Nearly 72 per cent was expected to be financed out of domestic receipts. Foreign savings were to contribute 15.4 per cent against 15.7 per cent in 1982-83 (BE). The balance of 13 per cent was to be financed through budgetary deficit.

Post-Budget Developments

6.27 Tax collections from excise duties and income and corporation taxes till December 1983 show that although the aggregate collections were appreciably higher than in the previous year, the buoyancy of these sources has fallen short of expectations. Certain concessions were given in excise and customs duties in the course of the year. The provisions for both Plan and certain essential items of non-Plan expenditure were increased as a result of which the gap between resources and expenditure tended to be larger than anticipated. Accordingly, certain corrective measures were taken in January, 1984 to cut down expenditure under both Plan and non-Plan heads.

6.28 In order to stimulate demand, relief in union excise duties entailing a revenue sacrifice of Rs. 46 crores was granted on certain specified categories of tyres, motor vehicles, refrigerators, deep freezers and

parts of refrigerating and airconditioning appliances and machines, storage batteries and domestic electrical appliances with effect from October 1, 1983. The relief will be in operation up to February 29, 1984. Earlier, with a view to providing fiscal support to the policy of liberalisation announced by the Government for rapid growth of the electronics industry, relief in union excise duties was provided for several electronic items such as record-players, radio sets, tape recorders, certain varieties of T.V. sets and computers. Concessions in custom duties were allowed in the case of certain inputs, components and sub-assemblies used in the electronics industry. The revenue cost of the concession was estimated at nearly Rs. 100 crores in a full year. Further, to facilitate modernisation of textile mills, relief in customs duties was given for the import of specified textile machinery. The duty was reduced from 76 per cent to 20 per cent ad valorem and was linked to export obligation.

6.29 In order to encourage import substitution, customs duty concessions were given in respect of raw materials and components for manufacture of goods meant for ONGC and Oil India Ltd. Other major customs duty concessions related to glass shells for manufacture of electric lamps and tubes, hot rolled coils for manufacture of cold rolled products and palm stearin for manufacture of soap. Drilling rigs for rural drinking water supply projects and wood pulp for manufacture of newsprint were also totally

exempted from customs duty. With a view to encouraging manufacture of higher powered fuel efficient cars, concessions in customs and excise duties were extended with effect from 21st December, 1983. These concessions were parallel to similar relief given in respect of fuel efficient small cars in February, 1983. A notable development bearing on the yield of excise duties during the year was the judgement given by the Supreme Court in May 1983 on the writ petitions filed by manufacturers claiming deduction on account of post manufacturing expenses and profits in the computation of the assessable value of goods for purposes of excise duty. The Court pronounced that for determining the excisable rates of a commodity no deduction was to be allowed on the sale price of manufacturers except for trade discount, amount of excise duty, sales tax and other taxes payable, if any, and the average amount of freight. Expenses under other heads such as advertisement, publicity, storage, sales organisation or on primary and secondary packing (except special packing) would not be deductible.

6.30 On the expenditure side, according to the three supplementary demands for grants presented to Parliament in the current year so far, the expenditure of the Central Government was likely to go up by about Rs. 1,660 crores, after taking into account the related receipts and recoveries. Of this, the additional releases for public sector undertakings amounted to nearly Rs. 900 crores, made up of Rs. 750 crores for Plan schemes and the balance for non-Plan purposes. The bulk of the non-Plan releases were for reimbursing the cash losses, ways and means advances and subsidy on imported cotton.

6.31 The resources of the Railways and the P&T Department were also augmented. The additional net transfers to the States and the Union Territories amounted to about Rs. 250 crores, of which Rs. 90 crores were provided for a new programme, namely, the Rural Landless Employment Guarantee Programme to expand opportunities of employment for the weaker sections. The provision for subsidy on fertiliser was increased by Rs. 200 crores on account of the increase in input costs, and the reduction effected in the selling prices of fertilisers by 7.5 per cent with effect from June 29, 1983. An additional provision of Rs. 35 crores was made on account of subsidy to new industrial units in the backward areas following the liberalisation of the scheme and its coverage to attract larger investments. Provision for a subsidy of Rs. 20 crores was made for a new self-employment scheme for the educated unemployed youth who were not able to muster their own capital to set up small business ventures. There is likely to be further increase in expenditure on account of grant of interim relief and bonus to Government employees.

6.32 With a view to restraining the growth of expenditure and keeping down the budgetary deficit, a package of measures was taken by the Central Government in January 1984. After a project by project

examination, Plan expenditure was to be reduced by 5 per cent over the approved levels for 1983-84, including supplementary grants during the course of the year. Non-Plan expenditure (excluding interest payments and transfers to States) was cut by 3 per cent. No further allocations were to be permitted to the public enterprises for financing their losses during the remaining period of 1983-84. The Ministries were directed not to create new posts for the next nine months and keep existing vacancies in abeyance except under exceptional circumstances.

6.33 A Conference of Chief Ministers of States was held in November, 1983 to discuss the report of the Expert Committee on replacement of sales tax by additional excise duty on vanaspati, drugs and medicines, cement, paper and paper board and petroleum products. The Conference also considered the lines of action to be taken for levying tax on inter-state consignment of goods following the amendment of the Constitution authorising the levy as well as the restrictions and conditions to be laid down on the levy of sales tax on indivisible works contracts, hire purchase transactions and lease of goods. Since some of the Chief Ministers expressed reservations in regard to the scheme suggested by the Expert Committee, it was resolved that efforts should be continued to bring about a consensus among the State Governments. As regards the consignment tax, it was decided to set up a Group consisting of the Union Finance Minister, Chief Ministers of West Bengal, Tamil Nadu, Maharashtra, Uttar Pradesh, Meghalaya, Karnataka, Gujarat and Rajasthan to go into the various aspects connected with the levy of the consignment tax so that necessary legislative measures could be proceeded with expeditiously. As for the levy of sales tax on indivisible works contracts, hire purchase transactions and lease of goods, it was agreed that the State Governments should initiate legislation on these items.

Finances of the States and Union Territories : 1983-84

6.34 The own tax revenues of the States were estimated to increase by 14.7 per cent, from Rs. 9,434 crores in 1982-83 (BE) to Rs. 10,822 crores in 1983-84(BE). This compared with a growth of 15.1 per cent in 1982-83, a year of sluggish economic activity and of 24.5 per cent in 1981-82. The yield from sales tax which constitutes nearly 60 per cent of States' own tax revenues was expected to increase by 16 per cent, compared with the growth rate of 13.5 per cent in 1982-83 (RE) and 26 per cent in 1981-82. Revenue from State excise duty, another important source, was also expected to show a growth rate of 15.5 per cent as against an increase of 19 per cent in 1982-83 (RE) and of nearly 35 per cent in 1981-82. The yield from taxes on goods and passengers was projected to be more or less of the same order as in 1982-83 (RE) but lower than the budget estimates of 1982-83. The revenue from taxes on

vehicles, however, was expected to record an increase of 21 per cent over the budget estimates of 1982-83. Collections from land revenue were anticipated to recover from the negative growth of 9 per cent in 1982-83 to a positive growth of 19 per cent in the current year. The States' share in Central taxes was to increase in 1983-84 by about 11 per cent, i.e. at the same rate as in the previous year.

6.35 The non-tax revenues of the States and the Union Territories (including the internal resources of the States' public sector undertakings for the Plan at current prices) were budgeted to increase by 11.6 per cent, from Rs. 2,646 crores in 1982-83 (BE) to Rs. 2,952 crores in 1983-84 (BE). The aggregate internal resources of the undertakings for 1983-84 were estimated at Rs. 637 crores which were higher by about 5 per cent than the budget estimates of 1982-83.

6.36 The net capital receipts in the current year were budgeted to grow by 17 per cent over those in 1982-83 (BE) but were placed at almost the same level as in the revised estimates for 1982-83. To some extent, the large recourse to capital receipts in 1982-83 limited the scope for further step up in mobilisation of resources through these during the current year. The total capital receipts would have been smaller than even the revised estimates of 1982-83 but for a significantly higher contribution of net market borrowings of the States and their enterprises which were expected to increase from Rs. 904 crores in 1982-83 (BE) to Rs. 1,109 crores in 1983-84 (BE). Moreover, a part of the increase in the resources of the States was on account of enhancement in Central assistance by Rs. 1,650 crores over the original allocation in the Sixth Plan to provide step up in their Annual Plan. Of this, an allocation of Rs. 923 crores was made in 1983-84.

6.37 The aggregate resources (current plus capital) of the States and the Union Territories, including the internal and extra-budgetary resources of their enterprises for the Plan, amounted to Rs. 28,671 crores in 1983-84, 14.3 per cent higher than the budget estimates and 9.3 per cent higher than the revised estimates. The budget estimates of aggregate resources for 1982-83 showed an increase of 16.0 per cent over those of 1981-82. The total disbursements were, however, expected to grow by 15.8 per cent, from Rs. 25,411 crores in 1982-83 (BE) to Rs. 29,420 crores in 1983-84 (BE) as against a growth of 18.7 per cent in the previous year. Thus the budgets of the States and the Union Territories for 1983-84 taken together showed a deficit of Rs. 749 crores, whereas their Annual Plans did not envisage any deficit.

6.38 Development expenditure of the States and the Union Territories was expected to increase by 14.8 per cent, from Rs. 19,218 crores in 1982-83(BE) to Rs. 22,054 crores in 1983-84(BE). The

increase of Rs. 2,836 crores constituted nearly 71 per cent of the projected increase in the aggregate expenditure. The outlay for the Annual Plans of the States and the Union Territories for 1983-84 was stepped up by 16.9 per cent over the original provision for 1982-83. Non-development expenditure which had shown an increase of 27.4 per cent in 1982-83 over that of the previous year was envisaged to grow by 18.9 per cent in 1983-84(BE). Compared with the revised estimates of 1982-83, the increase in 1983-84(BE) was 6.6 per cent. The target for additional resource mobilisation for the current year was fixed at Rs. 830 crores as against Rs. 656 crores in 1982-83.

Central and State Governments—Combined

6.39 The combined expenditure of the Centre, the States and the Union Territories (including the internal and extra budgetary resources of their undertakings for their plans) was estimated to go up by 20.6 per cent, from Rs. 49,211 crores in 1982-83 (BE) to Rs. 59,364 crores in 1983-84(BE). Most of it was to be financed by current revenues and domestic capital receipts. External assistance was expected to contribute, as in the previous year, a little over three per cent. Aggregate receipts of the Centre, the States and the Union Territories during 1983-84 were estimated in the Budget at Rs. 57,029 crores marking an increase of Rs. 9,506 crores (20 per cent) over Rs. 47,523 crores in 1982-83(BE). Nearly three-fourths of the total receipts were to come from current revenues. The tax revenues of the Centre, the States and the Union Territories were budgeted to increase by about 14 per cent in 1983-84; this was the growth rate obtaining in 1982-83 as well. As in the past, yield from the union excise duties, customs duties and sales tax were to contribute the bulk of the growth in the tax revenues in the current year also. Non-tax revenues were anticipated to increase by 28.2 per cent in 1983-84, the internal resources of the public undertakings for the Plan going up by nearly 39 per cent, from Rs. 3,890 crores in 1982-83(BE) to Rs. 5,419 crores in 1983-84(BE). Among capital receipts, net market borrowings were expected to show an improvement of about 25 per cent over 1982-83(BE), small savings and special deposits of non-Government provident funds increasing by 21 per cent each and State and Public Provident Funds by 17 per cent. Domestic capital receipts(net) as a whole were expected to record a growth of nearly 30 per cent in 1983-84 (BE) over 1982-83 (BE).

6.40 Of the total increase of Rs. 10,153 crores in the aggregate expenditure of the Centre, the States and the Union Territories, non-development expenditure accounted for Rs. 4,161 crores signifying an increase of 24.6 per cent over the budget estimates of 1982-83. Further, as indicated earlier, this was largely on account of the increase in interest payments and defence expenditure. On the other hand, develop-

ment expenditure was expected to increase by Rs. 5,992 crores (19 per cent) from Rs. 32,300 crores in 1982-83 (BE) to Rs. 38,292 crores in 1983-84 (BE).

6.41 The outlay for the Annual Plan 1983-84 was stepped up to Rs. 25,480 crores against the original outlay of Rs. 20,934 crores for 1982-83, representing a growth of 21.7 per cent. Nearly 40 per cent of the current year's plan outlay *i.e.* Rs. 10,090 crores was envisaged for the schemes covered under the Revised 20-Point Programme. This indicated an increase of about 20 per cent over the provision for 1982-83.

6.42 In line with the strategy of the Sixth Plan, high priority was accorded to the development of infrastructure sectors of energy and transport (Table 6.4). The outlay for energy was increased by 24.2 per cent to Rs. 8,323 crores. The step up for the petroleum sector was 45 per cent over the budgeted outlay of 1982-83. The provision for transport was increased by about 20 per cent. The outlay for industry and minerals was stepped up by nearly

16 per cent and a major share was allocated to industries providing essential inputs, *e.g.*, iron and steel, fertilisers and non-ferrous metals. Agriculture, rural development and irrigation together were allocated Rs. 5,140 crores which represented a step up of 12 per cent over the Plan outlay in the previous year. Provision was also increased sizably for the poverty alleviation programmes such as the Integrated Rural Development Programme (IRDP) and the National Rural Employment Programme (NREP). The IRDP which has assisted about three million families on an average per annum during the first three years of the Sixth Plan period was targeted to cover another three million families in the current year. The provision for the NREP was enhanced to Rs. 400 crores and this was expected to generate additional gainful employment of 300 to 400 million man-days during 1983-84. The 1983-84 Annual Plan contemplated an increase of nearly 33 per cent in the allocation for the Minimum Needs Programme (from Rs. 1,174 crores in 1982-83 to Rs. 1,559 crores in 1983-84) aiming at providing certain minimum basic amenities and facilities particularly for the weaker sections.

6.43 A special feature of the 1983-84 Annual Plan was the allocation of Rs. 300 crores set apart by the Centre to be provided as grants to the States on the basis of their performance in implementing the specific programmes meant to benefit the weaker sections of the community and for improving the functioning of the State Electricity Boards. A provision of Rs. 125 crores was made for providing assistance to small and marginal farmers for improving the productivity of land and Rs. 50 crores were earmarked for incentive payment to the State Electricity Boards for better performance. The balance of Rs. 125 crores was allocated for water supply schemes in problem villages (Rs. 75 crores), construction of field channels in the command areas of irrigation projects under the centrally sponsored Command Area Development Programme (Rs. 25 crores), environmental improvement in urban slums (Rs. 15 crores), and promotion of elementary education for girls and adult literacy for women (Rs. 10 crores). Under the scheme of assistance for small and marginal farmers an outlay of Rs. 5 lakhs per block was envisaged which was to be shared equally by the Centre and the States. Additional Central assistance for implementing schemes for water supply in problem villages, construction of field channels and for environmental improvement was to be provided only where achievements exceeded targets in the approved Plan for 1983-84. Preference was to be given to schemes which benefited the scheduled castes and scheduled tribes. Similarly, a scheme for meritorious productivity award was instituted for thermal power stations and incentive payment scheme to employees to induce desired response in terms of quantum of power generation.

TABLE 6.4

Annual Plan Outlay: Centre, States and Union Territories

Heads of Development	(Rs. Crores)		
	Annual Plan 1982-83	Annual Plan 1983-84	Percentage increase
1. Agriculture	1185.7	1397.6	17.9
2. Rural Development	1212.4	1278.7	5.5
3. Special Area Programme	308.5	362.5	17.5
4. Irrigation and Flood Control	2203.2	2464.2	11.8
5. Energy	6700.0	8323.4	24.2
6. Industry and Minerals	3019.1	3492.5	15.7
7. Transport	2526.7	3033.6	20.1
8. Communications, Information and Broadcasting	614.7	704.5	14.6
9. Science and Technology	188.3	238.7	26.8
10. Social Services	2821.6	3682.1	30.5
11. Others	153.5	502.5*	227.4
TOTAL	20933.7	25480.3	21.7

*Includes Rs. 300 crores for special incentive scheme for better performance by the States.

The Central Government Departmental Enterprises

6.44 After undergoing strain for some years, the finances of the Railways had shown a surplus of Rs. 47 crores in 1981-82, which was improved upon in 1982-83 (RE). The budget estimates had shown a surplus of Rs. 106 crores which came down to Rs. 75 crores in the revised estimates. However, if allowance is made for the higher provision of Rs. 56 crores for depreciation, and of Rs. 53 crores for payments to general revenues, the financial position of the Railways showed considerable improvement in 1982-83 (RE) over the position envisaged in the budget for the year, with gross traffic receipts showing an increase of Rs. 204 crores, and ordinary working expenses rising by Rs. 134 crores.

6.45 The Railway Budget for 1983-84 had sought to raise additional resources of Rs. 489 crores (a concession of Rs. 57.5 crores was announced subsequently) and, after taking this into account, had shown a surplus of Rs. 206 crores. Nearly three-fifths of the additional resources were raised through revision in freight rates, and the remaining two-fifths through revision in passenger fares. The Railway Budget had assumed that the originating revenue earning traffic would go up to 241 million tonnes in 1983-84 as against an estimated 227 million tonnes in 1982-83. The growth in passenger traffic was assumed at five per cent for suburban traffic and three per cent for non-suburban traffic. Gross traffic receipts were thus expected to rise by 17.6 per cent in 1983-84, over the previous year's receipts. Although the ordinary expenses of the Railways were estimated to go up by 9.4 per cent in 1983-84, the provision for depreciation was substantially stepped up from Rs. 556 crores in 1982-83 (RE) to Rs. 850 crores in 1983-84 (BE) in order to provide adequate funds for clearing the backlog in renewals and replacements. The appropriation to Pension Fund was increased from Rs. 148 crores in 1982-83 to Rs. 183 crores in the current year. As a result, the total working expenses of the Railways were budgeted to increase by 16.2 per cent in 1983-84 over the revised estimates of 1982-83. Traffic haulage was somewhat lower in the first half of the current year and practically no growth

took place in suburban traffic in the metropolitan towns. Working expenses increased because of higher wage payments and other input costs. All these are likely to affect the financial position of the Railways adversely.

6.46 The working results of the P&T Department as revealed by the revised estimates for 1982-83, showed a surplus of Rs. 168 crores, which was lower than the budget estimate of Rs. 245 crores. This was because of an increase of 11.0 per cent in their working expenses (including dividend to general revenues) over and above the budgeted amount while the receipts showed an improvement of 3.1 per cent. Accordingly, as stated earlier, the P&T Department revised their tariffs towards the close of 1982-83 and the additional yield was estimated at Rs. 70 crores in a full year. The Budget for 1983-84 revised the P&T tariffs upward to raise Rs. 10 crores in the current year (Rs. 12 crores in a full year). Including these measures, the total receipts of the P&T Department were placed at Rs. 1,581 crores, an increase of 18.2 per cent over the revised estimates of 1982-83. Receipts from telecommunications were estimated to go up by 20.7 per cent and those from postal operations by 12 per cent. The working expenses (including dividend to general revenues) of the P&T Department were to increase by 14.4 per cent from Rs. 1,170 crores in 1982-83 (RE) to Rs. 1,339 crores in 1983-84 (BE). In the result, the surplus envisaged for 1983-84 amounted to Rs. 242 crores, made up of Rs. 360 crores on account of telecommunications and a deficit of Rs. 118 crores because of postal operations. The Annual Plan of the P&T Department for 1983-84 provided for an outlay of Rs. 551 crores, 8.9 per cent higher than the budget provision of Rs. 506 crores in the previous year.

Performance of Central Government Public Enterprises

6.47 The improvement that had occurred in the profitability of the Centre's autonomous undertakings in 1981-82 continued in 1982-83 as well. Preliminary data indicate that net profits after tax of these enterprises had increased from Rs. 446 crores in 1981-82 to Rs. 618 crores in 1982-83. The capital employed

TABLE 6.5
Five-Year Profile of Public Enterprises

		(Rs. crores)				
	Unit	1978-79	1979-80	1980-81	1981-82	1982-83 (Provisional)
1. Number of running public enterprises	Numbers	159	169	168	188	193
2. Capital employed	Rs. crores	13969	16182	18207	21935	26590
3. Turnover	Rs. crores	19061	23290	28635	36482	41984
4. Gross profit before interest and tax	Rs. crores	4071	1229	1418	2654	3469
5. Net profit before tax	Rs. crores	185	225	19	1025	1545
6. Net profit after tax	Rs. crores	-40	-74	-203	446	618
7. Internal resources generated	Rs. crores	906	1030	1225	2261	2756
8. Gross profit to capital employed	per-cent	7.7	7.6	7.8	12.1	13.1
9. Employment	Lakhs	17.03	17.75	18.39	19.39	20.09

increased by 21.2 per cent, from Rs. 21,935 crores in 1981-82 to Rs. 26,590 crores in 1982-83. Gross profit as a ratio of capital employed which had improved from 7.8 per cent in 1980-81 to 12.1 per cent in 1981-82 moved up further to 13.1 per cent in 1982-83. The total sales turnover had grown by 15.1 per cent to Rs. 41,984 crores in 1982-83.

6.48 Of the 193 running public enterprises in 1982-83, 110 had made pre-tax profit amounting to Rs. 2,520 crores, of which Rs. 1,628 crores were contributed by 12 petroleum companies. The remaining enterprises made a loss of Rs. 975 crores, of which Rs. 618 crores were accounted for by 10 companies alone. Of the enterprises making losses in 1982-83, the important ones were : the Steel Authority of India Ltd. (including the I.I.S. Co.), the Delhi Transport Corporation, the Kudremukh Iron Ore Co. Ltd., the Fertiliser Corporation of India Ltd., the Hindustan Fertilisers Ltd., the Eastern Coalfields Ltd., the Bharat Aluminium Co. Ltd., the Heavy Engineering Corporation Ltd., and the Hindustan Copper Ltd. Loss of about Rs. 175 crores in 1982-83 was on account of the sick units taken over from the private sector. The profitability profile had changed drastically in the case of the SAIL which suffered a net loss of Rs. 106 crores in 1982-83 in contrast to a net profit of Rs. 39 crores in 1981-82, although all units under the SAIL except Rourkela, showed higher production and capacity utilisation.

6.49 After an improvement in the previous two years, the financial performance of the public enterprises appears to have come under strain during the current year. This has been mainly on account of continued sluggishness of demand and lower offtake such as in the case of steel in the first half of the year, power shortages and substantial increase in wage bills because of revision in wage agreements such as in the case of steel and coal industries.

6.50 Data available for the first half of 1983-84 indicate that all public enterprises taken together had incurred a net loss of Rs. 113 crores, as against a net profit of Rs. 72 crores in the same period of 1982-83. This indicated a deterioration of Rs. 185 crores. The main sectors contributing to this deterioration were steel, coal and chemicals and fertilisers. The deterioration was the sharpest in the case of steel where the net loss had widened by Rs. 195 crores, from Rs. 133 crores in April—September, 1982 to Rs. 328 crores in the same period in the current year. In the case of coal, the net loss had increased from Rs. 47 crores to Rs. 130 crores during the two respective half year periods. The profitability ratio, *i.e.*, gross profits as per cent of capital employed, declined from 11.1 per cent in April—September 1982 to 10.4 per cent during the first half of 1983-84.

State Governments' Commercial Undertakings

6.51 The departmentally run undertakings of the States and the Union Territories, excepting forests and mines and minerals, have been incurring losses for

quite some time. These losses were expected to widen further in most cases during the current year. By far the largest amount of loss was anticipated in the case of commercial irrigation, Rs. 496 crores as against Rs. 390 crores in 1982-83 (BE) and Rs. 356 crores in 1981-82 (BE). The losses in respect of multipurpose river projects were likely to go up from Rs. 76 crores in 1982-83 (BE) to Rs. 94 crores during 1983-84 (BE). Losses under departmentally-run power projects, road and water transport service and dairy development were anticipated to be Rs. 48 crores, Rs. 35 crores and Rs. 32 crores respectively in 1983-84. The net receipts from forests were, however, estimated to go up by over 20 per cent to Rs. 453 crores in the current year. Mines and minerals were expected to contribute Rs. 27 crores as in the previous year. As regards the States' non-departmental undertakings, the commercial losses of the State Electricity Boards were estimated at Rs. 1,850 crores at current prices during the three years 1980-81 to 1982-83. Similarly in the case of the State Road Transport Corporations, losses during this period were placed at about Rs. 550 crores. It was estimated that at 1982-83 rates of tariffs and prices, the commercial losses of the State Electricity Boards and the State Road Transport Corporations in the current year would be about Rs. 720 crores and Rs. 170 crores respectively. Their finances are not likely to show any improvement in the current year consequent on the grant of several instalments of dearness allowances and the rise in the prices of other inputs. Serious and sustained efforts are needed to improve the performance of these undertakings.

Resource Mobilisation Issues

6.52 The analysis of the budgetary operations of the Centre, States and Union Territories presented above shows that the overall resource situation has been under strain. Non-Plan expenditures have continued to grow, at a relatively high rate and this has eroded the availability of resources for Plan investment, particularly of the States. Although additional resource mobilisation of Rs. 21,916 crores in the first four years of the Sixth Plan has already exceeded the five-year target of Rs. 21,302 crores, and the Plan outlay in these four years constituted over 80 per cent of the total outlay contemplated for the entire Sixth Plan period, there have been shortfalls in investment in real terms. Despite the strain on resources, it has been the endeavour of the Central Government to maintain the tempo of Plan investment within an environment of stability. The budgetary deficit has been kept within reasonable limits and financing of development has been undertaken mostly through non-inflationary means. For the future, however, it is necessary to ensure that aggregate expenditure is kept within strict control so that there is no strain on prices.

6.53 The need for utmost vigilance on expenditure is underlined by the fact that despite a fairly high tax-income ratio, the balance from current revenues has fallen short of the requirements of the Plan. Along with expenditure on subsidies an important

factor underlying the growth of non-Plan revenue expenditure has been the steadily rising proportion of interest payments, reflecting the heavy reliance on borrowings for financing Government expenditures. Receipts from interest, on the other hand, have not increased commensurately as lending rates have not been increased on loans to the States and the financial institutions and also because a number of public enterprises have not been able to pay interest on the loans advanced to them by the Government. Furthermore, budgetary support had to be provided to cover the losses of several enterprises.

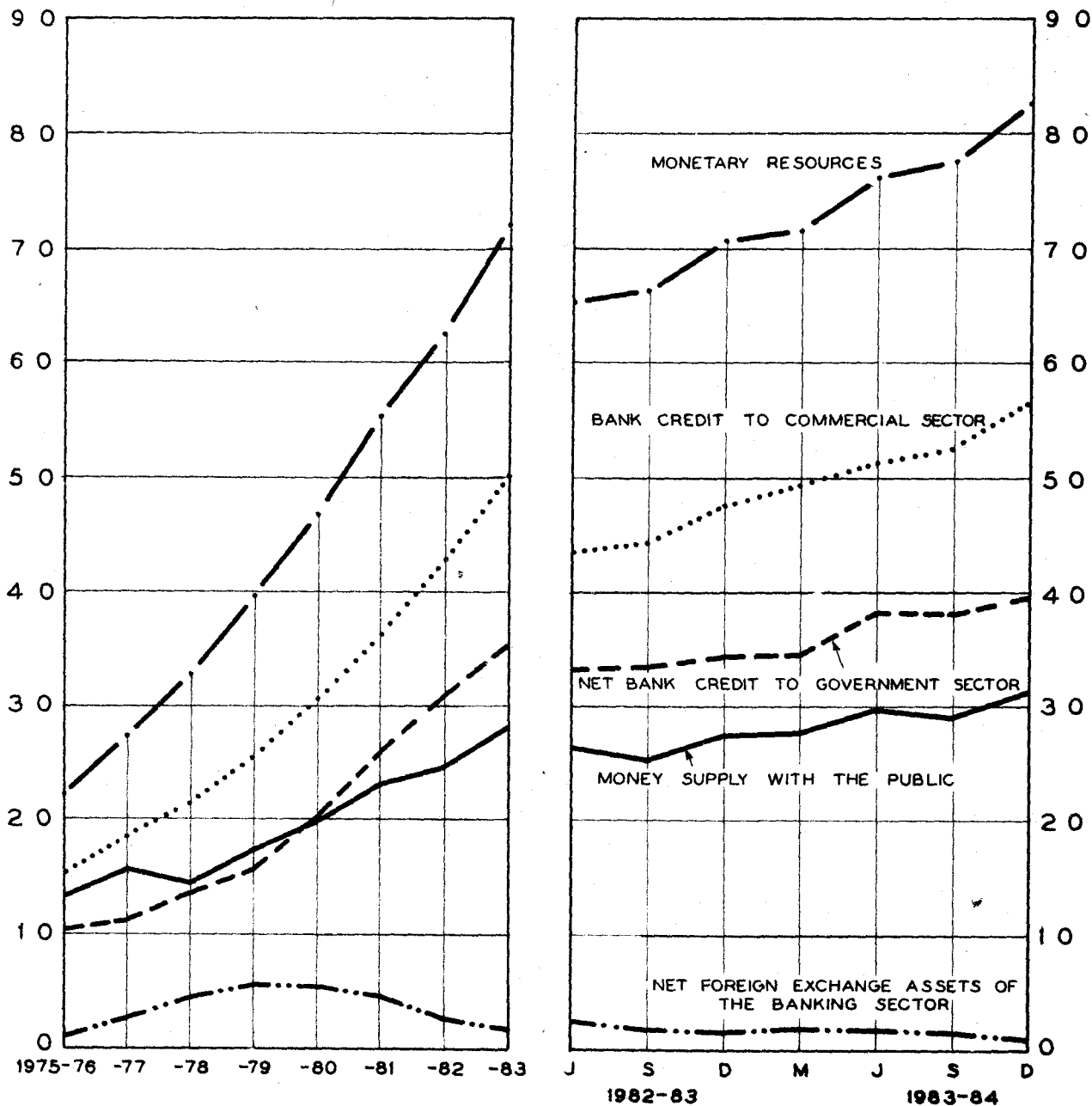
6.54 If investment in the public sector is to be maintained at a high level, efforts have to be

intensified to secure better returns from the public sector undertakings, improve the elasticity of the existing taxes, as well as to raise the level of savings in the community and induce the flow of available savings into financial assets. The attempt to achieve a multiplicity of objectives through the tax instrument may be counter-productive; both equity and efficiency suffer while elasticity is undermined. One of the urgent tasks in the field of fiscal policy is to improve the elasticity of the tax system along with its equity and efficiency. It is equally important to see that the investments already made in the public sector yield adequate return and there is a regular and automatic flow-back of resources from sectors benefiting from growth.

MONEY SUPPLY WITH THE PUBLIC AND MONETARY RESOURCES

[AS ON LAST FRIDAY]

RS IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION