

CHAPTER 6

FISCAL POLICY AND GOVERNMENT BUDGET

The basic thrust of fiscal policy in 1984-85, as in the earlier years of the Sixth Plan, was to raise resources in a non-inflationary way, while providing sufficient incentives for growth. The Central Plan outlay was stepped up by 25 per cent over the budget allocation of 1983-84. Incentives provided for capital formation were continued and strengthened. Changes were made in the tax structure to provide relief to tax payers and improve the climate of compliance with the tax laws. The Budget also provided fiscal reliefs to industries like textiles and paper to help them overcome their difficulties and stimulate industrial growth. Efforts were directed also towards rationalisation and simplification of the tax laws. The pressure on the Centre's budgetary position in 1984-85, however, continued.

Budgetary Developments in 1983-84

6.2 The combined budgetary operations of the Central and the State Governments and Union Territories in 1983-84 reflected the revival of the economy during the year following the drought of the previous year. Tax revenues showed a growth of 16.8 per cent compared with 12.8 per cent in 1982-83. However, as GDP at current market prices increased by 19.7

per cent in 1983-84 as against 10.9 per cent in 1982-83, the tax-GDP ratio declined slightly from 16.7 per cent in 1982-83 to 16.3 per cent in 1983-84. Non-tax revenues registered an increase of 14.8 per cent. The most significant development in the non-tax revenues was a growth of 32.6 per cent in the internal and extra-budgetary resources of public sector enterprises for financing their plans.

6.3 Development expenditure which constitutes the major component of total expenditure of the Centre, States and Union Territories increased by 17.7 per cent in 1983-84 compared with 17.2 per cent in 1982-83. Non-development expenditure, on the other hand, showed a much smaller growth (15.7 per cent in 1983-84 (RE) compared with 27 per cent in 1982-83). Reduced expenditure on relief for natural calamities and smaller outgo on technical credits on bilateral trade account helped to contain the growth of non-development expenditure in 1983-84. The resource gap, as measured by the excess of total expenditure over the current revenues, however, increased by Rs. 3116 crores. This was financed mainly by larger domestic capital receipts and net external assistance. As a result, the budgetary deficit in 1983-84

TABLE 6.1
Budgetary Transactions of the Central and State Governments and Union Territories
(Including extra-budgetary resources of public sector undertakings for financing their Plans)

	(Rs. crores)					
	1980-81	1981-82	1982-83	1983-84		1984-85
				(BE)	(RE)	(BE)
	2	3	4	5	6	7
I. Total Outlay	36845	43738	52747	59364	61706	68916
(a) Developmental	(28.8)	(29.7)	(32.2)	(30.3)	(31.5)	n.a.
(b) Non-Developmental	24426	28653	33591	38292	39543	45104
II. Current Revenue	12419	15085	19156	21072	22163	23812
(a) Tax Revenue	24563	30425	35795	42089	41638	47593
(i) Direct Taxes	(19.2)	(20.6)	(21.9)	(21.5)	(21.3)	n.a.
(ii) Indirect Taxes	19844	24142	27242	31460	31817	35432
(b) Non-Tax Revenue	(15.5)	(16.4)	(16.7)	(16.1)	(16.3)	n.a.
(i) Direct Taxes	3268	4133	4492	4706	4924	5070
(ii) Indirect Taxes	16576	20009	22750	26754	26893	30362
(b) Non-Tax Revenue	4719	6283	8553	10629	9821	12161
III. Gap (I—II)	12282	13313	16952	17275	20068	21323
	(9.6)	(9.0)	(10.4)	(8.8)	(10.3)	n.a.
Financed by :						
(i) Domestic capital receipts	7161	9493	13012	13075	15823	16973
(ii) Net external assistance	1670	1301	1591	1865	1824	2011
(iii) Budgetary deficit	3451	2519	2349	2335	2421	2339
	(2.7)	(1.7)	(1.4)	(1.2)	(1.2)	n.a.

NOTES :— (i) For clarification regarding the scope of some items in the table, see footnotes to Table 2.1 in the Statistical Appendix.
(ii) Figures in brackets are percentages of G.D.P. at current market prices.

(RE) was contained at Rs. 2421 crores, which was marginally higher than that of 1982-83 and the budget estimates for the year. As a proportion of GDP, the budgetary deficit had declined from 1.4 per cent in 1982-83 to 1.2 per cent in 1983-84.

6.4 The budgetary outgo of the Central Government in 1983-84 was marked by a faster increase in expenditure (18.0 per cent) than in current receipts (17.7 per cent). However, the budgetary deficit remained at about the same level as in the preceding year (Rs. 1695 crores compared with Rs. 1655 crores in 1982-83). The Centre's tax revenues (net of States' share) increased by 20.3 per cent in 1983-84 (RE). Non-tax revenues, however, grew by only 13.2 per cent. On the expenditure side, development expenditure increased by 19.1 per cent and non-development expenditure by 16.5 per cent. The size of the Central Annual Plan for 1983-84 was higher by about 24.6 per cent than that for 1982-83 (RE) (Rs. 14059 crores as against Rs. 11285 crores). The widening resource gap during the year was met by a significant growth in the collections from small savings (24.1 per cent) and the surplus of the oil sector lodged with the Government.

6.5 The budgetary deficit of the States and Union Territories was also contained at about the same level as in the preceding year (Rs. 726 crores compared with Rs. 694 crores in 1982-83). Development expenditure increased by 17 per cent compared with 12.9 per cent in 1982-83 while non-development expenditure increased by 19.5 per cent as against 24.4 per cent in 1982-83, reflecting, partly, recovery from the effects of the drought of 1982-83.

Central Government Budget and Fiscal Developments 1984-85

6.6 The Central Budget for 1984-85, the last year of the Sixth Plan, followed the strategy initiated in the earlier years of the Plan. Highlights of the 1984-85 Budget were: further measures for resource mobilisation; changes in the income and wealth taxes to provide relief to tax payers and create a better climate for compliance; tightening of the tax laws to curb tax evasion and avoidance; widening of the incentives for saving; and changes in customs and excise duties to help domestic industries and provide a measure of relief to the common man.

6.7 The additional resource mobilisation measures taken in the 1984-85 Budget were expected to yield Rs. 287 crores, of which Rs. 173 crores were to be raised through additional taxation and Rs. 114 crores by way of revision in railway fares and freight rates. While revenue from customs duties was to yield an additional amount of Rs. 453 crores, the revisions in Union excise duties were to result in a revenue loss of Rs. 206 crores, and those in income and corporation taxes in a loss of Rs. 75 crores (Table 6.2).

6.8 On the direct taxes side, the most notable change was the reduction in the rates of personal income tax in almost all income slabs by 5 percentage points. The maximum marginal rate of income tax excluding surcharge was brought down from 60 to 55 per cent. Simultaneously, measures were taken to tighten the tax laws in order to counter tax avoid-

TABLE 6.2

Additional Resource Mobilisation through Central Budget for 1984-85

(Rs. crores)

	Centre's share	States' share	Total
I. Taxes*	261.60	-88.78	172.82
(a) Direct Taxes	-36.32	-38.68	-75.00
(i) Corporation tax	-20.00	..	-20.00
(ii) Income Tax	-16.32	-38.68	-55.00
(b) Indirect Taxes	297.92	-50.10	247.82
(i) Customs Duties	453.41	..	453.41
(ii) Union Excise Duties	-155.49	-50.10	-205.59
II. Revision in the Post and Telegraph Tariffs and Railway Fares and Freight rates	114.22	..	114.22
(a) Railways	114.22	..	114.22
(b) Posts & Telegraphs
III. Total (I+II)	375.82	-88.78	287.04

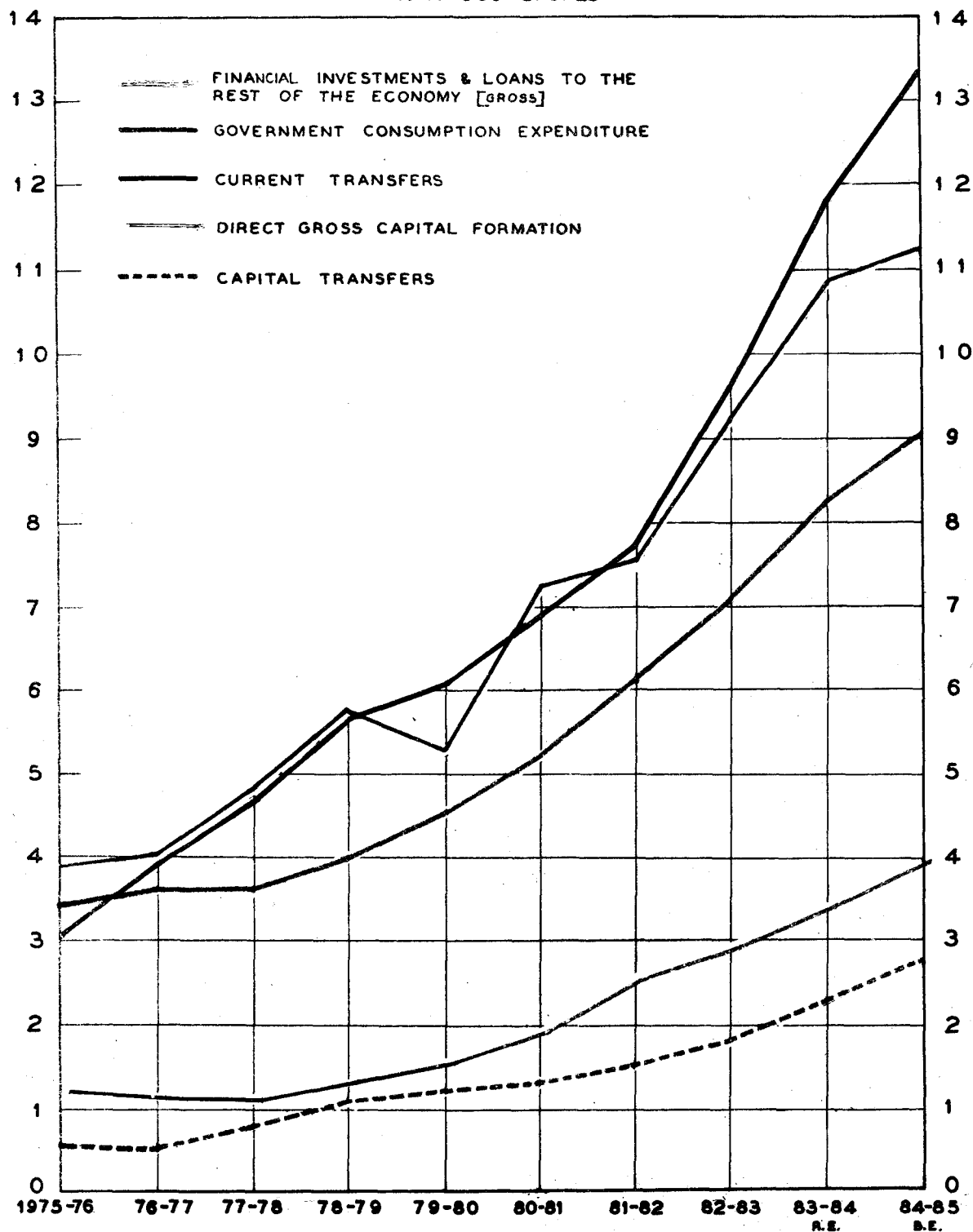
*Excluding post budget measures.

ance and evasion. Audit of accounts has been made compulsory for persons carrying on business or profession if the total sales turnover from business exceeds Rs. 40 lakhs in a year or gross receipts from profession exceed Rs. 10 lakhs. Acceptance of any loan or deposit of Rs. 10,000 or more, except through

CENTRAL GOVERNMENT EXPENDITURE

[ECONOMIC CATEGORIES]

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

account payee cheque/bank draft has been debarred by law. As a measure to curb avoidance, deduction for contribution by employers to non-statutory funds (like non-recognised provident fund etc.) has been disallowed in the computation of taxable profits of business.

6.9 Several of the expenditure—linked concessions and weighted deductions have been withdrawn or modified. The deduction available in respect of inter-corporate dividend has been made uniform at 60 per cent. The deduction available for dividend income from certain foreign companies and royalty, commission etc. from certain foreign sources has been curtailed from 100 per cent to 50 per cent.

6.10 Measures taken earlier to counter the use of "Trusts" as a medium for tax avoidance were tightened further. The Budget for 1983-84 had brought under taxation the business income of all charitable and religious trusts which had hitherto enjoyed exemption and it was made obligatory for charitable trusts to invest their funds in specified assets. The 1984 Finance Act has provided that "Trusts" and "Institutions" which fail to follow the prescribed investment pattern will be liable to income tax and wealth tax at the maximum marginal rate. In order to counter the practice of using private trusts as a medium of tax avoidance it has been stipulated that the income of such trusts from profits and gains of business shall be subject to tax at the maximum marginal rate, barring certain exceptions.

6.11 The 1984-85 Budget widened the concessions for saving given in personal income and wealth tax in several directions. A new instrument of saving in the form of deposits under the National Deposit Scheme was introduced allowing for flexibility in encashment at any time after one year. Interest on deposits under the new scheme was made eligible for the exemption of upto Rs. 10,000 which is available for specified financial assets. In addition, an exclusive exemption of upto Rs. 2000 was allowed in respect of interest from these deposits. The exemption from wealth tax available for saving in certain assets, including the exemption of Rs. 35,000 available only for UTI units, was raised from Rs. 2 lakhs to Rs. 3 lakhs. The exclusive exemption pertaining to UTI units was extended to deposits under the National Deposit Scheme. Besides, an additional exemption of Rs. 25,000 was provided for these deposits. Exemption in wealth-tax for specified financial assets thus stands enhanced

from Rs. 2 lakhs to Rs. 3.25 lakhs. The monetary ceiling for exemption from wealth tax available for one house owned by a tax payer was also increased from Rs. 1 lakh to Rs. 2 lakhs. For the convenience of small investors, widely-held companies have been allowed to pay dividend and interest on debentures upto Rs. 1,000 without deduction of tax at source.

6.12 The option allowed to companies to set off 50 per cent of the surcharge on income tax payable by them against deposit with the IDBI was enlarged. Deposits can now be made by corporate tax payers in the IDBI in lieu of the full amount of the surcharge.

6.13 To help tea plantations, the exemption in income tax for subsidy received for replantation or replacement of tea bushes was extended to subsidy received through the Tea Board for approved schemes for rejuvenation of bushes and consolidation of areas.

6.14 In the area of indirect taxes, changes were designed to provide impetus to the growth of domestic industry through adjustments in customs tariff and relief in excise duties in carefully selected areas. The auxilliary customs duty was raised by 5 percentage points across the board except for a few essential items like fertilisers, kerosene, high speed diesel oil and newsprint. Customs duty on crude petroleum, which is also collected by way of auxilliary duty, was increased from Rs. 9.50 to Rs. 100 per tonne without, however, raising the price of petroleum products. Other items on which the basic customs duty was raised included items of iron and steel, stainless steel melting scrap, zip fasteners, magnetic tapes and petroleum specialities. At the same time, to facilitate larger exports, customs duties were reduced on certain items of machinery (e.g. machines of specified categories used in gem and jewellery processing, packaging of food articles and food processing). Customs duty was also reduced on CNC machines to help technological upgradation in the machine tools industry. To enable the paper industry to obtain raw materials at reasonable prices, wood chips for making pulp were completely exempted from customs duty and the duty on imported wood pulp for the manufacture of paper and paper board was reduced.

6.15 The 1984-85 Budget proposed further measures to rationalise the structure of excise duties on textiles. Measures initiated in 1982 to encourage the production of blended fabrics and to make them available at cheaper prices were strengthened by a

substantial reduction in excise duties on desirable blends of yarn and fabrics. Excise duty on polyester cotton blended yarn with polyester content between 40 and 70 per cent which was levied earlier at rates ranging from Rs. 7.5 to Rs. 22.5 per kg. was brought down to a uniform rate of Rs. 5 per kg. For similar blends of polyester-viscose yarn the excise duty was reduced to Rs. 10 per kg. against the earlier rates ranging between Rs. 11.25 to Rs. 22.50. The incidence of duty on polyester-cotton fabrics of similar blends was brought down to only 2 per cent *ad valorem* from rates ranging from 7.5 per cent to 17.8 per cent *ad valorem*, to be collected as additional excise duty. This concession was extended with some modification also to cotton fabrics of not more than Rs. 25 per sq. metre containing polyester filament yarn. To encourage the production of cotton cloth of the cheaper varieties, handloom and powerloom fabrics of less than 51 count yarn and valued at not more than Rs. 5 per sq. metre, if processed by independent processors, were completely exempted from excise duty. The rate of duty for such fabrics produced by composite mills was also reduced to 1 per cent *ad valorem* to be collected as additional excise duty in lieu of sales tax. To help the handloom sector, the incidence of duty on cotton as well as cellulosic spun yarn in cross reel hanks supplied to registered handloom cooperative societies, and to organisations set up and approved for development of handlooms, was reduced by about 50 per cent. However, in order to recoup part of the loss in revenue, the incidence of additional excise duty was increased from 7.5 per cent to 10 per cent on man-made fabrics of assessable value exceeding Rs. 25 per sq. metre.

6.16 Keeping in view the problems faced by the paper industry caused by the rise in the cost of inputs and to stimulate the production of paper, the basic excise duty on printing and writing paper as also kraft paper produced by large mills was reduced substantially and a corresponding concession was given on the duty leviable on such paper manufactured from unconventional raw materials. The concession for use of unconventional raw materials was extended to paper boards and the basic excise duty on paper board manufactured from unconventional raw materials to the extent of at least 50 per cent was reduced particularly in the case of medium and small paper mills.

6.17 Duty concessions had been given in October 1983 to stimulate production of certain industrial goods

such as specified commercial vehicles and tyres, refrigerators, deep freezers and domestic electrical appliances. The concessions were extended for a further period of one year except in the case of tyres, and with some modifications, for commercial vehicles. However, as a measure of rationalisation, the duties in the case of tyres were changed, by and large, to a system of specific rates. Excise duty on electricity, which used to be passed on wholly to the States, was abolished with effect from 1st October, 1984 leaving it to the States to tap the source.

6.18 The excise duty concession scheme for higher production was continued for one more year. The rate of additional excise duty on cigarettes was increased with a corresponding reduction in the amount raised from this item through basic excise duty. This, along with the increase in the additional excise duties on man-made fabrics, was expected to bring the incidence of additional excise duty during 1984-85 to around 8.5 per cent of the value of clearances, thereby meeting the recommendation of the Standing Review Committee.

6.19 Basic excise duties were reduced on a number of items to provide relief to the common man and promote the production of goods of common use. Items on which reduction was made are : china and porcelain ware, table fans, small ceiling fans, shoddy blankets, evaporative coolers, imitation jewellery, stainless steel utensils, glass chimney for lanterns, high efficient wood burning stoves, umbrellas and parts thereof and saccharine. Khandsari sugar and laundry soap manufactured by KVIC units and sound recorded cassettes were completely exempted from excise duty.

6.20 There was no change in post and telegraph tariffs in the 1984-85 Budget. Railways, however, revised the fares and the freight rates to yield an additional revenue of Rs. 114 crores, mainly from passenger and coaching traffic (Rs. 104 crores). Revision in freight rates was marginal, yielding an additional amount of Rs. 10 crores only. The main revenue raising measure was the levy of a small surcharge on passenger tickets, including season tickets per passenger for different classes without reference to the distance travelled. No surcharge was, however, levied on second class ordinary single tickets. The fares in second class Mail/Express and Ordinary were rounded off to whole rupees, and as a corollary to this, the minimum fare in ordinary second class was raised

from 80 paise to Re. 1. In the case of goods traffic booked on 'To Pay' basis, the surcharge was raised from 3 per cent to 5 per cent. Railways provided certain concessions also. A reduction of 25 per cent in the season ticket fares was given to blind persons. The Budget also made certain reductions in parcel and freight rates by reclassification of certain specified commodities which included items of common consumption, such as textiles, medicines, soap, tea, coffee and milk powder.

Revenue and Expenditure

6.21 The Budget for 1984-85 sought to contain the deficit at Rs. 1773 crores, against Rs. 1586 crores in 1983-84 (BE) and Rs. 1655 crores in 1982-83. Aggregate resources of the Central Government (including the current and capital budgetary receipts and the internal and extra budgetary resources of the public sector undertakings) were estimated to increase by 19.7 per cent, from Rs. 37972 crores in 1983-84 (BE) to Rs. 45434 crores in 1984-85 (BE), and aggregate disbursements by 19.3 per cent, from Rs. 39558 crores to Rs. 47207 crores. The growth in current revenues was expected to be modest (13.8 per cent). The total tax revenue of the Centre (net of States' share) was budgeted to increase by 13.3 per cent in 1984-85. The increase in non-tax revenues was, however, expected to be slightly higher at 14.6 per cent. The capital receipts were to increase by as much as 30.1 per cent.

6.22 After allowing for the effect of the concessions granted through the Budget, receipts from

income and corporation taxes and Union excise duties were to increase by about 8 per cent over the budget estimates of 1983-84. Customs revenue was, however, to grow by 20.8 per cent partly as a result of the upward revision in the duties.

6.23 Development expenditure was to increase by 23.7 per cent, from Rs. 23257 crores in 1983-84 (BE) to Rs. 28768 crores in 1984-85 (BE). The increase in non-development expenditure was, however, contained at 13.1 per cent, from Rs. 16301 crores in 1983-84 (BE) to Rs. 18439 crores in 1984-85 (BE).

6.24 The Central Plan outlay was stepped up by 25.1 per cent from Rs. 13870 crores in 1983-84 to Rs. 17351 crores in 1984-85. In terms of sectoral allocations, the emphasis of the Central Annual Plan was on strengthening the productive potential of the economy, on the one hand, and on expanding the programmes directly benefiting the weaker, the poor and the under-privileged sections of the society, on the other.

Saving and Capital Formation

6.25 Reversing the trend of the preceding two years, gross savings of the Central Government was expected to increase in 1984-85. Gross savings of the Centre which had declined from Rs. 1107 crores in

TABLE 6.3
Capital formation by the Central Government and its financing

	(Rs. crores)				
	1980-81	1981-82	1982-83	1983-84 (RE)	1984-85 (BE)
1	2	3	4	5	6
I. Gross Capital Formation out of budgetary resources of Central Government.	9012	10799	12403	14738	16865
As per cent of Gross Domestic Product at current market prices	(24.7)	(19.8)	(14.9)	(18.8)	(14.4)
(i) Gross Capital formation by the Central Government	1907	2552	2884	3376	3984
(ii) Financial assistance for capital formation to the rest of the economy.	7105	8247	9519	11362	12881
II. Gross Savings of the Central Government	3	1107	857	234	641
As per cent of Gross Domestic Savings at current prices	Neg.	3.4	2.3	0.5	n.a.
III. Gap (I—II)	9009	9692	11546	14504	16224
Financed by :					
IV. Draft on other Sectors of Domestic Economy	7339	8391	9955	12680	14213
(i) Domestic capital receipts	4762	6999	8300	10985	12440
(ii) Budgetary deficit	2577	1392	1655	1695	1773
V. Draft on foreign savings	1670	1301	1591	1824	2011

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 increases over the preceding year.

1981-82 to Rs. 857 crores in 1982-83 and to Rs. 234 crores in 1983-84 were to increase to Rs. 641 crores in 1984-85 (BE).

6.26 Gross capital formation out of budgetary resources of the Central Government was estimated to increase by 18.8 per cent in 1983-84 (RE) and by 14.4 per cent in 1984-85 (BE). The gap between the gross savings of the Central Government and gross capital formation was to be met largely by domestic capital receipts. Foreign savings and budgetary deficit would finance only about 12 per cent and 11 per cent of the gap respectively in 1984-85 (BE). This was also, by and large, the pattern of financing in the preceding year.

Post-budget Developments

6.27 Two supplementary demands for grants were presented to Parliament in July, 1984 and January, 1985. These demands involved additional expenditure of Rs. 1384 crores in 1984-85 after taking into account the related receipts and recoveries. A large part of the additional expenditure was on account of import of fertilizers and Plan and non-Plan releases to public sector enterprises. The increase in the quantum of import of fertilizers as well as prices involved an additional outgo of Rs. 482 crores, after providing for a recovery of Rs. 216 crores. An increase of Rs. 150 crores was also sought for subsidy on domestic fertilisers mainly because of the escalation in input costs, increase in production and extension of retention price scheme to cover ammonium sulphate and calcium ammonium nitrate. The budgetary provision of Rs. 25 crores in respect of subsidy for self-employment scheme for educated unemployed youth was further augmented by Rs. 150 crores on account of better than anticipated progress made under the scheme. The provision for subsidy to new industrial units in selected backward areas was increased by Rs. 20 crores. Additional releases to public sector enterprises under Plan heads included Rs. 160 crores to Rashtriya Ispat Nigam Limited and Rs. 40 crores to Bharat Aluminium Company Ltd. On non-Plan side, the major appropriations were for loans to National Textile Corporation towards reimbursement of cash losses and working capital requirements (Rs. 60 crores) and ways and means advances to Delhi Transport Corporation (Rs. 45 crores).

6.28 Adjustments in customs and excise duties were made during the year to meet emerging needs of the economy. Following the concessions given in August,

1983 to stimulate the growth of electronics industry further concessions in customs duties were given in respect of a number of additional specified electronic inputs and components. Glass shells and glass bulbs used in the manufacture of TV picture tubes and metallised polyester films and poly-propylene films of electronic grade and used in the manufacture of electronic capacitors were completely exempted from excise duty. To facilitate the implementation of the new computer policy announced in November 1984, a package of customs duty concessions was given in respect of computers, computer peripheral devices, computer soft-ware and parts of specified computer peripheral devices.

6.29 Excise duties on cotton yarn and cellulosic spun yarn above 35 counts were reduced in June 1984 to overcome shortage of short and medium staple varieties of cotton and to encourage the use of long and extra-long varieties. In July 1984 the basic customs duty on viscose staple fibre was also reduced from 40 to 25 per cent *ad-valorem*. However, it had to be raised again in January 1985 to counter dumping.

6.30 The duty concession scheme for new units for printing and writing paper was extended to paper board and certain other varieties of paper also, and the concessional rate of duty was allowed at 50 per cent in respect of new units set up between 1-4-1984 and 31-3-1987. The concessional duty scheme for new units in the case of tyre industry was also liberalised.

6.31 Excise duty on specified ferro-alloys when used for the manufacture of dutiable iron and steel was completely withdrawn and the duty on primary aluminium metal was reduced. Further, keeping in view the requirements of the industry and to make available raw materials and essential inputs at reasonable prices, customs duties were reduced in the case of several products such as hot rolled stainless steel coils, ferrous-nickel, specified types of mild steel, glass shells for manufacturing electric lamps and fluorescent tubes, butadiene, cork wood and cork waste. Customs duty on components of fuel efficient commercial vehicles was reduced to encourage the manufacture of such vehicles. To promote the production and exports of grapes, the customs duties on grape guard and gabballic acid were removed.

6.32 In September, 1984, amendments were made in the laws relating to direct taxes, namely, income-tax, wealth tax, gift tax, sur-tax and interest tax as well as the compulsory deposit scheme for income tax payers

through the Taxation Laws (Amendment) Act, 1984. The amendments were intended mainly to streamline procedures, avoid inconvenience to tax-payers, reduce litigation, remove certain anomalies and counter-act avoidance and evasion. While many of the amendments were clarificatory in nature, some provided relief to tax-payers. Particular mention may be made of the provision granting exemption from tax on capital gains on sale of residential house property where the consideration for the transfer does not exceed Rs. 2 lakhs.

6.33 In pursuance of the announcement made at the time of the presentation of the Budget, a Technical Study Group was appointed to conduct a comprehensive enquiry into the structure of Central Excise Tariff and to recommend the lines on which it may be revised and rationalised.

The Eighth Finance Commission

6.34 The Eighth Finance Commission which was appointed in June 1982 submitted its Final Report on April 30, 1984. The recommendations made by the Commission in its Final Report covered the five-year period commencing from April 1, 1984. The Government has accepted the recommendations of the Finance Commission for the four-year period 1985-86 to 1988-89.

6.35 The Commission had submitted, in November 1983, an interim report covering recommendations for 1984-85 which were accepted and acted upon by the Government. By the time the Final Report could be considered, the Budgets and the Annual Plans of the States for 1984-85 were already in operation and it would have caused undue disruption in the economy if the Budgets and Annual Plans were to be modified. Also, it would have involved reduction or increase in the shares of different States.

6.36 Following the Commission's recommendations, the States' share in income tax was retained at 85 per cent of the net proceeds and of the Union excise duties at 40 per cent of the net proceeds. An additional 5 per cent of Union excise duties will be set aside and distributed amongst those States having deficits after taking into account the devolution of taxes and duties. The share of the States in income tax will be determined by a formula, according to which 10 per cent is to be distributed on the basis of contribution and the remaining 90 per cent on the same criteria as applicable to the distribution of the Union duties of excise, viz.,

25 per cent on the basis of population, 25 per cent on the basis of the inverse of per capita income multiplied by population, and 50 per cent on the basis of the distance of per capita income from that of the State with the highest per capita income multiplied by the population of the State.

6.37 The Commission's other recommendations included (i) grants-in-aid to 11 States to cover their revenue deficits with a built-in buoyancy of 5 per cent per annum; (ii) grants for upgradation of standards of administration and to meet expenditure on special problems to 17 States; and (iii) grants to all the 22 States to meet margin money requirements for financing their relief expenditures. The scheme of debt relief recommended by the Commission was also accepted by the Government. The recommendations relating to the enhancement in the grant given in lieu of the repealed tax on railway passenger fares will be referred to the Railway Convention Committee.

Finances of the States and Union Territories : 1984-85

6.38 The overall budgetary deficit of the States and Union Territories was lower in 1984-85 (BE) (Rs. 565 crores) than in the preceding year (Rs. 749 crores). Aggregate resources were to increase by 15.6 per cent, from Rs. 28671 crores in 1983-84 (BE) to Rs. 33136 crores in 1984-85 (BE), while total expenditure was to increase by 14.6 per cent, from Rs. 29420 crores in 1983-84 (BE) to Rs. 33701 crores in 1984-85 (BE).

6.39 Current revenues, comprising tax and non-tax receipts, of the States and Union Territories were estimated to increase by 16.6 per cent in 1984-85 (BE) over the previous year's budgeted level. Receipts from tax revenues in 1984-85 were put at Rs. 17920 crores marking an increase of 11.7 per cent compared with growth of 13.4 per cent in the preceding year. States' own tax revenues showed an increase of 13.3 per cent in 1984-85 as against 13.9 per cent in 1983-84.

6.40 Non-tax revenues of the States and Union Territories were to increase by 20.9 per cent in 1984-85 (BE) as against 23.3 per cent in 1983-84 (RE). The gross internal resources of non-departmental undertakings available for financing their Plans were estimated at Rs. 773 crores in 1984-85 (BE), about 21 per cent higher than the budget estimates of 1983-84.

6.41 The capital receipts (net) of the States and Union Territories were to increase by 11.7 per cent, from Rs. 6080 crores in 1983-84 (BE) to Rs. 6794 crores in 1984-85 (BE). Almost the entire increase was accounted for by additional market borrowings and loans from the Centre. Receipts from State provident funds were also estimated to increase by Rs. 58 crores (9.3 per cent) in 1984-85.

6.42 Development expenditure of the States and Union Territories which constituted about 74 per cent of their aggregate expenditure was to increase by 13.9 per cent to Rs. 25110 crores in 1984-85 (BE). Non-development expenditure was to increase a little faster (16.6 per cent), from Rs. 7366 crores in 1983-84 (BE) to Rs. 8591 crores in 1984-85 (BE). The step-up in the Annual Plans of the States and the Union Territories was moderate (10.4 per cent), from Rs. 11610 crores in 1983-84 to Rs. 12818 crores in 1984-85. Additional resource mobilisation measures were expected to yield Rs. 1022 crores in 1984-85 compared with Rs. 830 crores in the preceding year.

Central and State Governments—Combined

6.43 The overall budgetary deficit of the Centre, States and Union Territories in 1984-85 (BE) was placed at Rs. 2339 crores which was of the same order as in 1983-84 (BE). Current revenues were estimated to increase by about Rs. 5500 crores (13.1 per cent), capital receipts by about Rs. 4000 crores and total outlay by about Rs. 9550 crores (16.1 per cent).

6.44 Among current receipts, tax revenues were to increase by 12.6 per cent and non-tax revenues, including internal and extra-budgetary resources of public sector enterprises for their Plans, by 14.4 per cent. On the expenditure side, development outlay was to grow by 17.8 per cent, and non-development outlay by about 13 per cent. The bulk of the increase in capital receipts was accounted for by higher receipts under small savings and the surplus of the petroleum sector. Reliance on external assistance continued to be marginal, financing about three per cent of the total expenditure.

6.45 In the allocation of the 1984-85 Plan outlays high priority continued to be given to the development of the agricultural sector. Large allocations were also made to strengthen infrastructure, particularly power, coal, railways and oil exploration. Provision for the energy sector, which absorbs roughly one-third of

the total Plan outlay, was Rs. 9545 crores and represented an increase of 14.7 per cent.

6.46 Higher support was provided for the special programmes meant for the weaker sections of the society, viz., the Integrated Rural Development Programme (IRDP), the National Rural Employment Programme (NREP), the Rural Landless Employment

TABLE 6.4

Annual Plan Outlay: Centre, States and Union Territories
(Rs. Crores)

Head of Development	Annual Plan 1983-84	Annual Plan 1984-85	Percentage increase in 1984-85
1. Agriculture	1397.6	1564.3	11.9
2. Rural Development	1278.7	1808.2	41.4
3. Special Area Programme	362.5	424.5	17.1
4. Irrigation and Flood Control	2464.2	2681.5	8.8
5. Energy	8323.4	9545.0	14.7
6. Industry and Minerals	3492.5	4595.6	31.6
7. Transport	3033.6	3454.7	13.9
8. Communications, Information and Broadcasting	704.5	980.4	39.2
9. Science and Technology	238.7	346.5	45.2
10. Social Services	3682.1	4334.6	17.7
11. Others :			
(a) Special incentive scheme for better performance by the States	300.0	200.0	..
(b) Others	202.5	234.1	15.6
Total	25480.3	30169.4	18.4

Guarantee Programme (RLEGP), and the scheme for providing self-employment opportunities to the educated unemployed youth. Allocations were stepped up for the accelerated rural water supply programme and the integrated child development services programme.

6.47 The special incentive scheme under which the States were given grants on the basis of their performance in implementing the specific programmes meant to benefit the weaker sections, and for improving the functioning of the State Electricity Boards, was continued in the current year and a provision of Rs. 200

crores was made under this head in the 1984-85 Annual Plan.

Central Government Departmental Enterprises

Railways

6.48 The finances of the Railways have been under strain for the last few years. According to the revised estimates for 1983-84, the Railways incurred a loss of Rs. 112 crores while the Budget for the year had shown a surplus of Rs. 206 crores. The deterioration was attributable mainly to the tardy growth in goods and passenger traffic. As against the expectation of 241 million tonnes of revenue earning goods traffic, the re-assessed volume of traffic to be carried by the Railways was 230 million tonnes. The other important factors responsible for the deterioration were the grant of interim relief and additional instalments of dearness allowance, increases in fuel prices and expenditure entailed by upgradation of posts.

6.49 Even with additional resource mobilisation of Rs. 114 crores, the Railway Budget for 1984-85 envisaged a deficit of Rs. 70 crores. Anticipating revival in the economy a target of 245 million tonnes of revenue earning traffic—an increase of 15 million tonnes over the last year's revised traffic—was fixed for the current year, and for passenger traffic, a 3 per cent increase was assumed in terms of passenger kilometres. Thus, the total gross traffic receipts were budgeted to go up by 9.2 per cent in 1984-85 over the revised estimates of 1983-84, while ordinary working expenses were expected to go up by 9.1 per cent, and the provision for depreciation was maintained at the last year's level of Rs. 850 crores. The liability on account of pensions was estimated to increase from Rs. 183 crores in 1983-84 (RE) to Rs. 221 crores in 1984-85 (BE), and the dividend liability to the general revenues from Rs. 450 crores to Rs. 490 crores. As the year progressed, the financial position of the Railways came under severe strain on account of inadequate growth in goods traffic and grant of several instalments of dearness allowance.

Posts and Telegraphs

6.50 The financial position of the Posts and Telegraphs (P&T) Department deteriorated during 1983-84 (RE) from the budget estimates of that year due mainly to a shortfall of Rs. 66 crores (5.8 per cent) in receipts from telecommunications. Receipts from postal operations, as well as net working expenses of both

postal and telecommunications wings of the Department, were more or less in line with the budget estimates. However, the provision for dividend to General Revenues was enhanced from Rs. 81 crores to Rs. 96 crores. The cumulative result of these transactions was that against the budgeted surplus of Rs. 242 crores, the surplus in the revised estimates for 1983-84 declined to Rs. 162 crores. In 1984-85, these surpluses were projected to go up slightly to Rs. 187 crores. The losses of the postal wing were to widen from Rs. 112 crores to Rs. 142 crores. This was to be offset by the increase in the surpluses of telecommunications operations from Rs. 274 crores to Rs. 329 crores. In overall terms, the revenues of the P & T Department were expected to increase by 15.5 per cent in 1984-85 (BE) as against an increase of 14.7 per cent in net working expenses. With the increase in capital-at-charge, the P&T Department's contribution to General Revenues, in the form of dividends was stepped up to Rs. 121 crores in the current year.

Performance of Central Government Public Enterprises

6.51 The performance of public sector enterprises suffered a set back in 1983-84. Net profit after tax of 201 running public enterprises amounted to Rs. 246 crores in 1983-84 as against Rs. 446 crores in 1981-82 and Rs. 614 crores in 1982-83. A further break-up of the data shows that while the net profit before tax of profit-making enterprises increased from Rs. 2523 crores in 1982-83 to Rs. 3018 crores in 1983-84, the losses of loss-making units widened from Rs. 981 crores to Rs. 1533 crores during this period. Nearly two-thirds of the profit before tax of the profit-making companies was contributed by the petroleum group of companies whose profit before tax increased from Rs. 1628 crores in 1982-83 to Rs. 2017 crores in 1983-84.

6.52 The deterioration in the financial performance of public sector enterprises during 1983-84 was attributable mainly to lower capacity utilisation resulting from scarcities and quality problems with infrastructural inputs like coal and power and increases in the input costs, arising especially from wage revisions. The soft demand for steel and recessionary conditions in the textile sector also adversely affected the profitability of concerned units. The major loss-making units during 1983-84 were : Steel Authority of India Ltd. (Rs. 215 crores), Bharat Coking Coal Ltd. (Rs. 191 crores), Eastern Coalfields Ltd. (Rs. 128

TABLE 6.5
Profile of Public Enterprises (1979-80 to 1983-84)

	Unit	1979-80	1980-81	1981-82	1982-83	1983-84 (Provisional)
1	2	3	4	5	6	7
1. Number of running public enterprises	Numbers	169	168	188	193	201
2. Capital employed	Rs. crores	16182	18207	21935	26526	29896
3. Turnover	Rs. crores	23290	28635	36482	41989	47294
4. Gross margin (profit before depreciation, interest, and tax)	Rs. crores	2055	2401	4012	5184	5775
5. Depreciation*	Rs. crores	826	983	1358	1719	2206
6. Gross profit before interest and tax	Rs. crores	1229	1418	2654	3465	3569
7. Interest	Rs. crores	1004	1399	1630	1923	2084
8. Net profit before tax	Rs. crores	225	19	1024	1542	1485
9. Tax	Rs. crores	299	222	578	928	1239
10. Net profit after tax	Rs. crores	-74	-203	446	614	246
11. Internal resources generated	Rs. crores	1030	1225	2261	2753	3282
12. Gross profit to capital employed	Per cent	7.6	7.8	12.1	13.1	11.9

*Includes deferred revenue expenditure

crores), Delhi Transport Corporation (Rs. 101 crores), Fertilizer Corporation of India (Rs. 83 crores), Hindustan Fertilizer Corporation Ltd. (Rs. 72 crores) and Kudremukh Iron Ore Co. Ltd. (Rs. 70 crores). The National Textile Corporation and its subsidiaries incurred a loss of Rs. 137 crores during 1983-84.

6.53 In terms of sales turnover, 201 running public enterprises registered a growth of over 12.6 per cent, from Rs. 41989 crores in 1982-83 to Rs. 47294 crores in 1983-84. The gross internal resources generated by 116 enterprises amounted to Rs. 3282 crores in 1983-84 compared with Rs. 2753 crores by 115 enterprises in 1982-83. While the capital employed increased by 12.7 per cent in 1983-84 to Rs. 29896 crores, the ratio of gross profits to capital employed declined to 11.9 per cent from 13.1 per cent in the preceding year.

6.54 Data available for the first nine months of 1984-85 indicate an improvement in the financial results of public sector enterprises. As against a loss of Rs. 107 crores incurred by 176 enterprises during the first three quarters of 1983-84, 186 enterprises are estimated to have earned a net profit of Rs. 73 crores during the same period of the current financial year. However, the losses of the textile group of companies had, during this period widened, from Rs. 73 crores

to Rs. 152 crores. The ratio of gross profit to capital employed has gone up somewhat from 10.76 per cent in April—December, 1983 to 10.91 per cent in April—December, 1984.

State Governments' Commercial Undertakings

6.55 The departmentally-run undertakings of the States and Union Territories, other than forests and mines and minerals, continued to incur losses. These aggregated Rs. 790 crores in 1984-85 (BE) compared with Rs. 720 crores in 1983-84 (BE). Irrigation (commercial) losses increased from Rs. 496 crores in 1983-84 (BE) to Rs. 534 crores in 1984-85 (BE). Losses of multi-purpose river projects averaged about Rs. 95 crores in these two years. Losses of departmentally-run power projects were expected to be higher (Rs. 75 crores) in 1984-85 than in the preceding year (Rs. 48 crores). Losses incurred in providing road and water transport services, dairy development and industries, however, remained unchanged at Rs. 82 crores. Net receipts from forests were expected to increase by 11 per cent to Rs. 503 crores in 1984-85 (BE). Net receipts from mines and minerals were placed higher at Rs. 29 crores in 1984-85 (BE) compared with Rs. 27 crores in 1983-84 (BE). Similarly, dividends from non-departmental undertakings were to increase slightly over the year, from Rs. 39 crores to Rs. 41 crores.

6.56 Performance of the two major non-departmental undertakings of the States, viz., State Electricity Boards (SEBs) and the State Road Transport Corporations (SRTC) remained unsatisfactory and their commercial losses during the current year were estimated at Rs. 982 crores for SEBs and Rs. 127 crores in respect of SRTCs, compared with losses of Rs. 959 crores and Rs. 149 crores in 1983-84 respectively. Even with massive additional resource mobilisation of around Rs. 5,000 crores during the Sixth Plan period (1980-85), the SEBs were likely to end up with a loss of over Rs. 4300 crores. The Sixth Plan document had envisaged that, at 1979-80 prices, the losses of SEBs would amount to Rs. 4381 crores. It now appears that the entire additional resources mobilised by the SEBs during the Sixth Plan period had been just enough to meet their rising expenses. As for SRTCs, the losses during the Sixth Plan period would be in the region of Rs. 800 crores in current prices (The Sixth Plan had originally anticipated a loss of Rs. 1337 crores in the five-year period).

6.57 All this underscores the critical need for public sector undertakings to improve their performance significantly, so that they can generate surpluses necessary to meet the growing resource requirements for public sector investment in the Plan. Continued poor performance in this arena will inevitably slow the economy's pace of development.

Plan Financing

6.58 The current year is the last year of the Sixth Five Year Plan and formulation of the Seventh Plan is on hand. It would be useful to take a look at the pattern of financing of the Sixth Plan that has actually emerged as against the pattern originally envisaged. In nominal terms, the total Plan expenditure during 1980-85 is likely to exceed the target of Rs. 97,500 crores by about 13 per cent and go upto Rs. 110,000 crores¹ (excluding the expenditure by the States of about Rs. 1,000 crores on works financed by Central assistance for relief from natural calamities). However, if allowance was made for the price rise² during this

period, the Sixth Plan outlay in 1979-80 prices would fall short of the original target by about 20 per cent. As between the Centre (including Union Territories) and the States, the Plan expenditure in current prices is likely to be 25 per cent higher for the Centre, and only marginally higher for the States (Rs. 50,000 crores as against the Sixth Plan target of Rs. 48,600 crores), implying that the shortfall in expenditure in 1979-80 prices has been much sharper in the case of the States than for the Centre.

6.59 An analysis of the various sources of financing of the Sixth Plan shows that despite massive additional resource mobilisation of over Rs. 34,000 crores against the target of Rs. 21302 crores, "Own Resources" of the Centre, States and Union Territories (comprising balance from current revenues and contribution of public enterprises at 1979-80 rates of taxation, tariffs, freights and fares, together with additional resource mobilisation) would fall short of the target by about Rs. 2600 crores (6 per cent)³ in nominal terms. While the shortfall in the States' "Own Resources" is estimated to be about Rs. 5800 crores (27 per cent), the Centre's performance in this respect shows an improvement of around Rs. 3200 crores (14 per cent). The additional resource mobilisation effort of the States has exceeded the Plan target by over Rs. 5,700 crores, but the shortfall under other heads of their "Own Resources" has been as large as Rs. 11,500 crores.

6.60 Market borrowings during the Sixth Plan period will exceed the target of Rs. 19,500 crores by about Rs. 2,600 crores (13 per cent) in part because of support available from the IMF's Extended Fund Facility. Targets will also be exceeded in the collections of small savings (36 per cent) and provident funds (9 per cent). However, term loans from financial institutions may fall short of target by Rs. 165 crores (6 per cent). The inflow of foreign resources, comprising net external assistance, external commercial borrowings of the public sector undertakings, and the IMF's Extended Fund Facility (EFF)

¹ Comprising actuals for the first three years, revised estimates for the fourth year and the Annual Plan estimates for the fifth year. These would undergo revisions when actuals for 1983-84 and 1984-85 become available.

² Using the CSO's investment cost deflator for the first four years and the expected cost increase in the final year of the Sixth Plan.

³ Adjusted for external commercial borrowings undertaken by the public sector undertakings.

is, however, expected to be larger by about Rs. 4000 crores than the original Plan estimate of Rs. 10,929 crores. The budgetary deficit in nominal terms is likely to total Rs. 12,835 crores compared with the Plan target of Rs. 5000 crores (at 1979-80 prices).

6.61 Central assistance earmarked for State Plans stood at Rs. 15,350 crores in the original scheme of States' Plan financing, but the actuals are now likely to be higher by Rs. 3200 crores (21 per cent); this, however, includes a little over Rs. 1000 crores given by way of assistance for relief expenditure on account of natural calamities. Moreover, as against no provision for budgetary deficit in the original Plan, the States had incurred large deficits aggregating Rs. 3700 crores, underscoring the severe strain which the States' finances have undergone during the Sixth Plan period.

6.62 The Central Budget also has experienced increasingly acute strain during the Sixth Plan. Although the contribution of Centre's "Own Resources" in Plan financing exceeded the original estimates in nominal terms, the balance from current revenues showed a sharp decline after 1981-82. As a proportion of GDP, the balance from current revenues at current prices had gone upto 1.24 per cent in 1981-82 but declined to 0.66 per cent in 1983-84. This has happened be-

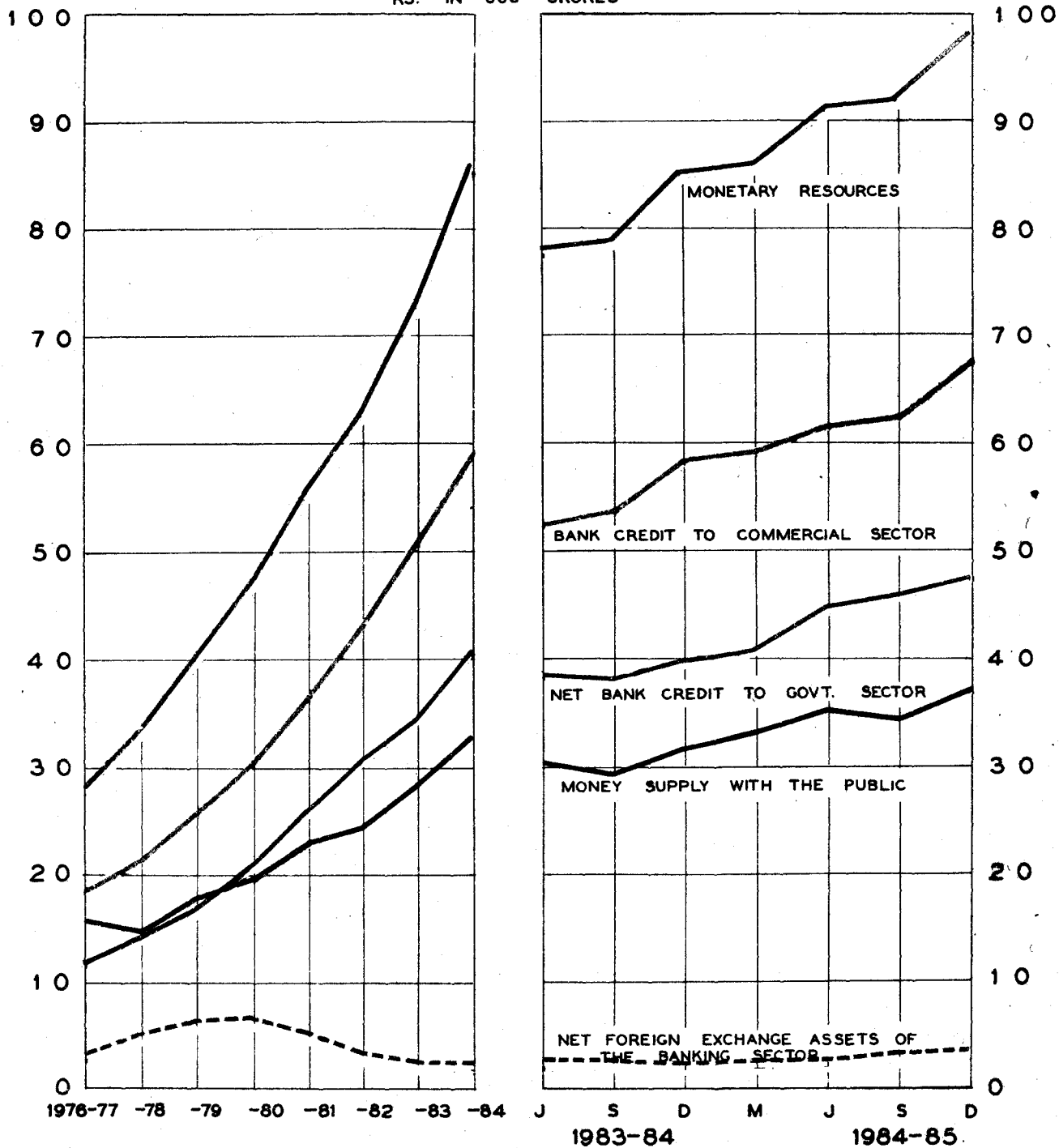
cause non-Plan revenue expenditure has grown at a faster rate (about 20 per cent per year) than current revenue (17 per cent). Resources of the public sector undertakings showed a rapid increase upto 1982-83, mainly reflecting the large resources in the oil sector arising out of higher oil production and oil prices. But the increase tapered off thereafter. Consequently, recourse to borrowing increased substantially. The larger recourse to borrowing was facilitated in the first four years of the Sixth Plan by a variety of factors such as the availability of non-recurring receipts like the IMF loan and special bearer bonds in 1981-82.

6.63 In the coming years, growth of internal resources of the public sector undertakings will have to depend primarily on the surpluses of enterprises in the non-oil sector, whose performance in the Sixth Plan fell short of expectations. Therefore, if the Central Plan outlay is to be stepped up without recourse to inflationary financing, there has to be a massive effort towards improving the efficiency of the public sector undertakings. Every possibility of raising the balance from current revenues by improving tax collections and effecting saving in current expenditures (e.g. by reducing all non-productive subsidies whether implicit or explicit) would also need to be explored.

MONEY SUPPLY WITH THE PUBLIC AND MONETARY RESOURCES

{AS ON LAST FRIDAY}

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.