THE ECONOMIC IMPLICATIONS OF THE UNION BUDGET 1979-80

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

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BY

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The Union Budget for 1979-80 was presented by Mr. Charan Singh, who became the Finance Minister of India only a few days before its presentation. It was widely expected that he would therefore present a budget on the lines prepared by his predecessor, Mr. H. M. Patel, but such expectations were totally belied. Mr. Charan Singh presented a budget based entirely upon his personal beliefs and economic philosophy as a *kisan* (farmer) leader.

The implications of the Union Budget are assessed in the context of various economic indicators and factors, which operated in the economy during 1978-79 and which constituted the scenario inherited by Mr. Charan Singh for framing his budget. These indicators are first analysed.

NATIONAL INCOME

"The Economic Survey for 1978-79" of the Government of India (hereinafter referred to as "The Economic Survey") commented that "the performance of the Indian economy in 1978-79, the first year of the Five Year Plan 1978-83, must be regarded as most encouraging." It noted that "for the four years 1975-76 to 1978-79, the

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average rate of growth of GNP works out to over 5 per cent, which is substantially higher than the long-run trend rate of 3.5 per cent." The country had two excellent years of agricultural production, industrial production had resumed growth and the foreign exchange reserves stood at an all-time high. As a result of these factors, Gross National Product at 1970-71 prices which had fallen by 1.1 per cent in 1972-73, risen by 5.0 per cent in 1973-74, risen by only 0.8 per cent in 1974-75, risen by 8.9 per cent in 1975-76, risen by 1.6 per cent in 1976-77 and risen by 7.2 per cent in 1977-78, is estimated to have risen by 3.5 per cent in 1978-79. Unfortunately, these growth rates shrink dramatically when adjusted for the increase in the country's population. The population of India, which was 562.5 million in 1972 is estimated to have risen to 630.7 million in 1978. The *per capita* Net National Product at 1970-71 prices as reported in "The Economic Survey" fell by 3.6 per cent in 1972-73, rose by 2.9 per cent in 1973-74, fell by 1.0 per cent in 1974-75, rose by 6.8 per cent in 1975-76, fell by 0.6 per cent in 1976-77, rose by 5.2 per cent in 1977-78 and is estimated to have risen only slightly in 1978-79. *Per capita* Net National Product at 1970-71 prices has remained at a pathetically low level to date. "The Economic Survey" shows that *per capita* Net National Product at 1970-71 prices was Rs. 607 in 1972-73, Rs. 624 in 1973-74, Rs. 618 in 1974-75, Rs. 660 in 1975-76, Rs. 656 in 1976-77, and Rs. 690 in 1977-78.

Some statistics and data published in the Draft Five-Year Plan 1978-83 (hereinafter called the Sixth Plan) may be noted. It points out that "during the sixteen years 1961-62/1976-77, the GDP increased at a lower rate of

3.3 per cent per year. Even within this 16-year period, the growth rate decelerated in the latter eight years." The gross domestic product at 1970-71 prices during the period 1961-62 to 1968-69, rose by 3.02 per cent per year but during the period 1969-70 to 1976-77 rose only at the rate of 2.77 per cent per year. Even more tragic are the figures of *per capita* gross domestic product at 1970-71 prices highlighted in the Sixth Plan—in the 16 years 1961-62 to 1976-77 *per capita* GDP increased at the rate of 1.12 per cent per year and within this period in the eight years 1961-62 to 1968-69 *per capita* GDP increased at the rate of 0.79 per cent per year and in the subsequent eight years 1969-70 to 1976-77 it increased at the rate of only 0.62 per cent per year. The record shows, therefore, that despite two decades of planning, India remains one of the poorest countries in the world. The Sixth Plan estimates that on an all-India basis 46 per cent of the population remains below the Poverty Line. In the past the gains of the economic development were almost totally neutralised by the increase in population which grew from 442.4 million in 1961 to 620.1 million in 1977. The need of the hour is to reduce the growth rate in population drastically by launching a vigourous family planning programme throughout the country.

POPULATION AND FAMILY PLANNING

The Finance Minister in his budget speech recognised the seriousness of the problem by stating that "there is little doubt that the growth of population at the present rate needs to be checked if economic development is to lead to a perceptible increase in the standard of living of the people. Unfortunately, as a result of the wrong approach to family planning followed in the past, this programme has suffered a serious setback. It should be our endeavour to put the newly introduced family welfare programme on a sound footing so that the national objective of reducing the birth rate to 30 per thousand in 1982-83 from the current level of 33 per thousand may be achieved." At best, the effort in family planning is modest and the budget does little to tackle or highlight the gravity of this main economic problem of the country.

The Sixth Plan has as its target an average growth rate of gross domestic product of 4.7 *per cent per annum* but if this figure is adjusted for the expected increase in population estimated around 2 *per cent per annum,* it becomes clear that *per capita* GDP may grow at a rate of slightly more than 2 *per cent per annum* even if the Sixth Plan is fully achieved. The most disappointing feature of the budget is its failure to attack the population problem on a massive scale by a dynamic and much larger family planning programme. Indeed "The Economic Survey" concluded that "if the long-term rate of growth of gross national product is 3.5 *per cent* and the rate of growth of population is a little over 2 *per cent* any perceptible improvement in the standard of living of the people is hardly likely to occur ...... everything possible should be done urgently to limit numbers through an intensification of family-planning efforts. Otherewise, as a nation, we may be running as fast as we can, in Alice in Wonderland fashion, to remain in the same place."

AGRICULTURAL PRODUCTION

The Finance Minister in his budget speech proudly announced that "Agricultural production has continued at a record level for the second year in succession." The index of agricultural production which had fallen by 8 *per cent* in 1972-73, risen by 9.9 *per cent* in 1973-74, fallen by 3.2 *per cent* in 1974-75, risen by 15.2 *per cent* in 1975-76, fallen by 7.0 *per cent* in 1976-77 and risen by 13.9 per cent in 1977-78 is estimated now to rise by 2 per cent in 1978-79. The production of foodgrains which was 97.03 million tonnes in 1972-73, 104.67 million tonnes in 1973-74, 99.83 million tonnes in 1974-75, 121.03 million tonnes in 1975-76, 111.17 million tonnes in 1976-77 and 125.60 million tonnes in 1977-78 is estimated to rise slightly (to exceed the target of 126 million tonnes) which will be a very creditable performance having been achieved despite heavy floods in Rajasthan, Uttar Pradesh, Bihar and West Bengal during the year.

The encouraging performance of agriculture was undoubtedly due to good weather. Thus the Indian economy unfortunately continues to remain for its prosperity a gamble on the monsoons. But it must be stressed that there has been strengthening of the production potential of agriculture and a tendency for it to stabilise at a higher level due to various other factors which may be noted. There has been a breakthrough in rice production which has risen by 6 to 8 million tonnes above the level of the earlier seventies due to the use of new high-yielding variety rice cultivation. The output of wheat, oilseeds and cotton has also been very satisfactory. Only the output of pulses unfortunately remains stagnant.

"The Economic Survey" admitted that "there is no doubt that favourable weather during the last few years has been an important factor in the encouraging performance of agriculture. However, the growing strength of the agricultural sector is also explained by other factors such as a substantial increase in irrigation, a sharp increase in fertiliser consumption, an expansion in agricultural credit, a growing capability of agricultural research and policies such as buffer stocking, price and marketing support and other production oriented measures."

There has been a dramatic increase in the area brought under irrigation. "The Economic Survey" stresses that "the rate of addition to the irrigation potential has been considerably stepped up from around 1 million hectares per annum during 1970-71 to 1974-75, to about a little less than 2 million hectares per annum during 1975-76/1976-77. The target for 1978-79 is 2.8 million hectares." Compared with the 2.8 million hectares which are expected to be brought under irrigation in 1978-79, the target for irrigation in the coming year as provided in the budget is of 3.2 million hectares.

"The Economic Survey" highlighted that the most encouraging feature on the agricultural scene "is the continued spurt in fertiliser consumption in recent years. In terms of nutrients, fertiliser consumption increased to 4.29 million tonnes in 1977-78 which is 25.7 *per cent* higher than that in the previous year and 67 *per cent* higher as compared to 1974-75. During the current year also fertiliser consumption is expected to increase by about 18 *per cent*. In per hectare terms also, the growth during the last 3-4 years has been remarkable. Consumption increased from 15.6 per hectare in 1974-75 to 24.6 per hectare in 1977-78 ...... farmers are taking to a more balanced application of various nutrients. In

1977-78 while the increase in the consumption of nitrogenous fertilisers was only 18.6 *per cent* that in phosphatic fertilisers was 36.5 *per cent* and in potassic fertilisers 58.6 *per cent.*" . This clearly shows that the use of chemical fertiliser was increasing at a very rapid rate and that at the existing levels of prices, it was profitable for farmers to use chemical fertiliser.

Foodgrains stocks are expected to increase to 20 million tonnes by the end of the coming agricultural year. It is indeed ironic and even tragic that despite more than 46 *per cent* of the population living below the poverty line, the bufferstock of foodgrains with the Government has now risen to this record figure and the Finance Minister has begun to stress in his budget speech "the need to pursue an active policy with regard to the promotion of exports of agricultural products." Surely an increase in the *per capita* consumption of agricultural products to raise the standard of living of our people should have higher priority than carrying record bufferstocks of foodgrains and exporting agricultural products!

INDUSTRIAL PRODUCTION

The index of industrial production which rose by 4.0 *per cent* in 1972-73, 2.2 *per cent* in 1973-74, 2.6 *per cent* in 1974-75, 6 *per cent* in 1975-76, 9.5 *per cent* in 1976-77, 3.9 *per cent* in 1977-78 and is estimated to rise by 7.5 *per cent* in 1978-79. The revival in industrial production is due to a number of factors. First, power shortages have eased compared to the previous year; second, industrial relations have improved; third, the demand for products of certain industries has picked up as a result of two record agricultural seasons and, fourth, there has been a better and wider utilisation of capacities in various industries. The resurgence in industrial output has been led by increased electricity generation, increased output in the food industries and a dramatic revival in the textile industry. The only unsatisfactory spots in the industrial scene noted by "The Economic Survey" were "the absence of growth in coal and cement and the decline in steel output in the main steel plants."

"The Economic Survey" highlighted that "the major policy development during the year was concerned with the implementation of the new industrial policy, the thrust of the policy being the promotion of small and cottage industries, the dispersal of industries away from large metropolitan areas, simplification of licensing procedures, removal of critical bottlenecks of capacity and shortages, liberalisation of the imports of capital goods and the removal of sickness in industry."

A new pricing policy for cement and a liberalised licencing policy allowing the MRTP industrial houses to set up new cement plants was introduced. Sugar was decontrolled. A new integrated textile policy announced in August 1978 partially helped to pull the industry out of the deepest recession experienced during the last 25 years.

The most depressing feature on the industrial front was the unsatisfactory performance of the working of the Central Government's commercial undertakings. "The Economic Survey" states that "the net profits before tax of these undertakings (excluding the National Textile Corporation and its subsidiaries) declined from Rs. 476 crores in 1976-77 to Rs. 236 crores in 1977-78. The National Textile Corporation and its subsidiaries reduced their losses to Rs. 28 crores in 1977-78, but the losses of Coal India Ltd. and its subsidiaries, Fertilizer Corporation of India Ltd., Indian Iron and Steel Co. Ltd. and National Mineral Development Corporation Ltd. more than doubled from Rs. 96.46 crores in 1976-77 to Rs. 200.51 crores in 1977-78. The Sixth Plan is based upon Central Government's commercial enterprises generating a gross surplus of Rs. 4,885 crores during the five year period. The achievement of such a surplus appears remote unless a dramatic effort is made to improve the working of these enterprises."

In his budget speech, the Finance Minister correctly stressed that "the surpluses of public sector undertakings have in 1977-78 been significantly lower than anticipated. It looks as if the results may not be appreciably better in the current year as well. Considering that total investment in these enterprises is of the order of Rs. 12,800 crores, this is disappointing indeed."

In the context of this scenario, the recent announcements by certain Ministers of the Central Government of the need and desirability of nationalising companies in the private sector in industries, such as, steel, automobiles, and other key sectors makes strange reading. Surely, the need of the hour is for these Ministers to first improve the working of the existing public sector undertakings so as to yield the surplus from them provided for in the Sixth Plan. If these undertakings continue to perform unsatisfactorily they may jeopardize the successful achievement of the Sixth Plan. Every effort should be made to run the public sector undertakings efficiently before acquiring or nationalising efficiently running existing private sector industrial units.

EMPLOYMENT

"The Economic Survey" noted that "employment in the organised sector constitutes less than one-fourth of the total number of wage and salary earners ... employment opportunities generated in the organised sector have not kept pace with the demand for employment." Employment in the public sector at the end of March each year was as follows : 113.05 lakhs in 1972; 119.75 lakhs in 1973, 124.86 lakhs in 1974, 128.68 lakhs in 1975, 133.63 lakhs in 1976, 138.76 lakhs in 1977 and is estimated at 144.02 lakhs in 1978. Employment in the private sector at the end of March each year was as follows : 67.69 lakhs in 1972, 68.49 lakhs in 1973, 67.94 lakhs in 1974, 68.04 lakhs in 1975, 68.44 lakhs in 1976, 68.67 lakhs in 1977 and is estimated at 70.40 lakhs in 1978. Thus the total employment in the organised sector stood at around 21 million people, which should be viewed in the context of the total population of India of 630.7 million in 1978.

There was a dramatic rise in the number of job seekers on the live registers of Employment Exchanges. "The Economic Survey" noted that this number rose from "9.33 million at the end of 1975 to 9.78 million in 1976, and further to 10.82 million in 1977. At the end of October 1978 the number stood at 12.33 million as against 10.81 million a year before...... " The Sixth Plan highlights the grim unemployment situation prevailing in the country and frankly concedes that the total number of educated unemployed may rise dramatically in the coming years.

SAVINGS AND INVESTMENTS

The Central Statistical Organisation data shows that gross domestic savings as a percentage of gross domestic product at market prices fell slightly from 23.3 *per cent* in 1976-77 to an estimated 22.4 *per cent* in 1977-78. However, gross domestic capital formation as a percentage of gross domestic product at market prices was 21.8 *per cent* in 1976-77 and is estimated at 21.3 *per cent* in 1977-78. Thus gross domestic savings continued to be slightly higher than gross capital formation. But the difference is narrowing and is expected to narrow further due to the deceleration of the increase in the foreign exchange reserves.

The Sixth Plan requires a very substantial step-up in the rate of gross domestic savings by 1982-83 and the Finance Minister in his budget speech stressed that "private savings should be raised by a ruthless curbing of luxury expenditure and adoption of a more austere life style in tune with our traditional values and the hard facts of our economic life."

Industrial investment appears to have picked up. Thus the sanctions and disbursements by public financial institutions show a smart increase during the last 18 months. There is also a pick-up in the capital goods licencing. "The Economic Survey," therefore, concluded that the picture of industrial investment "that emerges is one of optimism on the part of private industry. There is also some evidence of step up in private investment... Corporate news has been encouraging and the stock market has been buoyant."

The Financial Express All-India Equity Index which was 225.86 on 1st March 1978 had risen to 279.44 on

February 28, 1979 before the budget was presented, reflecting the buoyant conditions on the industrial as well as agricultural fronts.

PRICE BEHAVIOUR

Undoubtedly the most remarkable feature of the Indian economy during the past year has been price stability. Thus in his budget speech the Finance Minister proudly claimed that "price stability which this Government achieved last year has continued through the current year as well. The wholesale price index on 10th February 1979 was only 0.9 *per cent* above the level a year earlier and 0.4 *per cent* above the level of two years earlier. Such a record of price stability in a period in which national income growth was about 11 *per cent* would be difficult to find else-where in the world. This has been brought about by well conceived supply and demand management policies. The role of increased agricultural and industrial production and a liberalised import policy in vital areas needs to be underscored in this regard. Simultaneously, a monetary policy restricting the flow of credit for speculative activities in the economy and directing the credit towards productive sectors has been pursued."

The wholesale price index (1970-71 = 100) stood at 182.9 in March 1977-78 which was the same as for March 1977 and it rose to 184.8 in December 1978. The Consumer Price Index (1960 =100) rose from 321 in March 1978 to 335 in December 1978 showing an increase of 4.4 per cent.

It should be emphasised that this price stability occurred despite a deficit in the Central Government's budget for 1977-78 of Rs. 1,134 crores and the estimated deficit for 1978-79 of over Rs. 1,500 crores clearly indicating that large budgetary deficits do not necessarily lead to inflation.

MONETARY POLICY

The above mentioned price stability was achieved despite the fact that money supply during the last three years is estimated to have risen by close to 50 *per cent*. Money supply rose by 16.6 *per cent* in 1972-73, 15.5 *per cent* in 1973-74, 6.9 *per cent* in 1974-75, 11.3 *per cent* in 1975-76, 20.3 *per cent* in 1976-77, 14.7 *per cent* in 1977-78 and is estimated to have risen by 12 *per cent* in 1978-79. The Government continued its tight monetary policy.

FOREIGN TRADE AND BALANCE OF PAYMENTS

As a result of substantial inward remittances by the Indians working abroad, by foreign tourists visiting India and various other invisible transactions, the total foreign exchange reserves of the country rose to a record of more than Rs. 5,000 crores after making substantial re-payments to the International Monetary Fund. Thus the Finance Minister has got tremendous flexibility in relation to the foreign exchange reserves which can be used freely to import items in short supply as well as to spur investment by import of capital goods.

But the balance of trade picture is deteriorating. After many years of trade deficits the country recorded a small balance of trade surplus of Rs. 69 crores in 1976-77. However, the year 1977-78 witnessed the re-emergence of a trade deficit of Rs. 693 crores. This was caused by substantial liberalisation of imports coupled with a very disappointing performance on the export front. In 1977-78, imports soared to Rs. 6,026 crores out of which the imports of capital goods accounted for only Rs. 1,158 crores. On the other hand, exports in 1977-78 totalled only Rs. 5,373 crores. During the period April to September, imports rose from Rs. 2,707 crores in 1977-78 to Rs. 3,085 crores in 1978-79 whereas exports actually fell during this period from Rs. 2,713 crores in 1977-78 to Rs. 2,497 crores in 1978-79.

The deficit in balance of trade resulted in a deceleration in the increase in foreign exchange reserves. Thus foreign exchange reserves rose by Rs. 881 crores in 1975-76, by Rs. 1,371 crores in 1976-77, by Rs. 1,637 crores in 1977-78, but are estimated to have risen by only Rs. 582 crores in 1978-79. "The Economic Survey," therefore, noted that "the only grey spot in this otherwise bright picture relates to export performance" and stresses the need to spur exports.

BUDGETARY POSITION

The Finance Minister said that for the last year, that is 1978-79, the overall budgetary deficit which had been estimated at Rs. 1,071 crores is now estimated to have risen by Rs. 1,590 crores. Moreover, this increased figure is exclusive of Rs. 555 croes given by the Centre to the States as loans for clearing their past deficits or overdrafts. The increase in the deficit for 1978-79 is mainly attributable to the following factors: First, the expenditure on food subsidy was Rs. 114 crores more than the budget estimates. Second, expenditure on export assistance was Rs. 130 crores higher than the budget provision. Third, non-planned loans to public undertakings will be Rs. 159 crores more than the budget estimate of Rs. 250 crores. Fourth, it has been necessary to provide additional plan assistance of Rs. 325 crores to certain States. The Central Plan expenditure was lower than the budget estimates by Rs. 201 crores.

At current levels of taxation, the Finance Minister announced that tax revenues in 1979-80 were expected to increase by Rs. 658 crores over the Revised Estimates of the current year. In spite of this anticipated increase in tax revenues, the overall budgetary deficit in 1979-80 is estimated at Rs. 1,975 crores but the Finance Minister was quick to point out that this deficit has to be viewed in the context of the plan that "substantially larger devolution of Central taxes and duties will have to be made to the States from the next financial year in accordance with the recommendations of the Seventh Finance Commission. At the present level of taxation, States' share next year is estimated at Rs. 3,235 crores which is Rs. 1,278 crores more than in the current year." Hence the real net deficit for 1979-80 excluding the impact of the recommendations of the Seventh Finance Commission which only involves a transfer of resources from the Centre to the States would be Rs. 697 crores which is a modest deficit. Such a deficit could have been left open or even allowed to increase without resulting in inflationary pressures. Alternatively, the Finance Minister could have taken credit for a borrowing from the Reserve Bank of India against drawals of foreign exchange reserves of say Rs. 2,000 crores and then attempted a much larger Plan Outlay in the coming year than the one contained in the present budget. There was absolutely no need for any additional taxation to be imposed in the budget. With price stability, bulging foodgrains buffer stocks of 20 million tonnes and foreign exchange reserves of over Rs. 5,000 crores, the Finance Minister had a one in a million opportunity to go in for a massive Plan Outlay without any additional tax effort in order to push the economy into faster growth. Unfortunately, the budget has lost this oppotunity by attempting in a stereo-typed fashion to fill a part of the budgetary deficit through a gigantic dose of additional taxation and by having only a modest Plan Outlay for the coming year.

PLAN OUTLAYS

The Finance Minister announced that "the annual Plan of the Centre, States and Union Territories for 1979-80 would be Rs. 12,511 crores compared with an approved total outlay of Rs. 11,649 crores in 1978-79. This represents an increase of 7.4 *per cent*. However, in assessing these figures Hon'ble Members should bear in mind that an estimated sum of Rs. 835 crores has been transferred as committed expenditure from the Plan side to the non-Plan side in the Central and State Plans." But even if this transfer is taken into account, the total Plan Outlay will rise in 1979-80 by only 15 per cent over that of the previous year.

A most disturbing feature of the total Plan Outlays in recent years has been a consistent decline in the percentage increase of total Plan Outlays annually. Thus the total Plan Outlay in 1976-77 was higher by 31 *per cent* than the total Plan Outlay of the previous year. In 1977-78 it was only 27 *per cent* higher than that of the previous year. In 1978-79, it was only 17 *per cent* higher than that of the previous year and in 1979-80 it will be 7.4 per cent higher (or even taking into account the above mentioned adjustment at most 15 *per cent* higher) than that of the previous year. This indicates a deceleration in the relative tempo of Plan Outlays containing extremely serious implications for long-term growth of the economy.

The total public sector Plan Outlay of the Sixth Plan is estimated at around Rs. 69,000 crores. The Plan Outlays for 1978-79 and 1979-80 will amount to around Rs. 25,000 crores taking credit for a sum of Rs. 835 crores transfer from the Plan side to the non-Plan side noted above. It is extremely unlikely that the balance of Rs. 45,000 crores required in respect of total Plan Outlays can be achieved in the remaining three years of the Sixth Plan. If the Sixth Plan was to have a reasonable chance of achievement the Finance Minister should have attempted a total Plan Outlay in the region of Rs. 15,000 crores compared with the figure contained in the present budget.

Some of the Plan Outlays provided in the budget may be noted. The Plan Outlay on Agricultural and rural development is budgeted to rise from Rs. 1,754 crores in 1978-79 to Rs. 1,811 crores in 1979-80 which represents an increase of only 3 *per cent*. The Plan Outlay on major, medium and minor irrigation projects for 1979-80 will be Rs. 1,488 crores compared to Rs. 1,401 crores in 1978-79 which is an increase of only 6 *per cent*. The total Plan Outlay on rural electrification programmes will be Rs. 335 crores in 1979-80 compared to Rs. 297 crores in the previous year, which is an increase of 12 *per cent*. The Plan Outlay on power will rise from Rs. 2,217 crores in 1978-79 to Rs. 2,466 crores in 1979-80 which is an increase of 11 *per cent*. The Plan Outlay on oil which was budgeted at Rs. 630 crores in 1978-79 is estimated to drop to Rs. 622 crores in 1979-80—a decline of 1 *per cent* which is most strange in the context of the present international oil shortages and increases in the world prices of oil. The Plan Outlay on steel which was Rs. 563 crores in 1978-79 is budgeted at Rs. 600 crores in 1979-80 which is an increase of 6 *per cent.* The Plan Outlay on coal has been raised from Rs. 267 crores in 1978-79 to Rs. 346 crores in 1979-80.

A provision of Rs. 254 crores for investment in fertiliser plants has been made in 1979-80. The Finance Minister has said that "this will cover expenditure on a number of on-going projects—also starts will be made on two off-shore gas based plants on the west coast and an additional gas based unit in Assam." In the context of the mounting losses of the Fertiliser Corporation of India Ltd. highlighted in "The Economic Survey," it should be questioned why new fertiliser plants should be started in the public sector when the existing ones are generating massive losses. The Finance Minister should have asked the private sector to start the three new fertiliser plants referred to above instead of locating them in the public sector.

There are various modest Outlays for rural water supply, welfare of scheduled caste and tribal sub-plan, village industry development and handloom development. Thus the total picture of the Plan as contained in the budget is one of very modest increases in total Outlays in various sectors.

A careful comparison of the Fifth Plan with the Sixth Plan reveals that the Sixth Plan attempts an increased emphasis on agriculture, irrigation and flood control but that the total shift as a percentage of the total Outlay of the Plan in favour of these sectors is about five percentage points compared with the Fifth Plan. The Sixth Plan does not envisage or provide for the levy of massive tax burdens on the urban sector and a complete tilt or U-turn in favour of the rural sector as has been attempted by Mr. Charan Singh in the present budget. Thus the budget goes beyond the balance between urban and rural development envisaged in the Sixth Plan and seems to be a reflection of the personal priorities of Mr. Charan Singh's beliefs and philosophy.

NEW COMMISSIONS OF ENQUIRY

During recent years, it has become the practice of the Government to appoint commissions or committees of enquiry. The working of such bodies has cost crores of Rupees. But the follow-up action by government on their recommendations after they have submitted their reports has been next to nil. Thus even the recommendations of the Jha Committee on Indirect Taxation and the Chokshi Committee on Direct Tax Laws remain largely ignored.

Nevertheless, Mr. Charan Singh has announced his intention to have two more such bodies set up. In his budget speech, Mr. Charan Singh said that "the Government is sure that Hon'ble members will share its concern at the growing volume of Government expenditure. It is therefore important to contain the growth of this expenditure and also to ensure that the funds are utilised effectively for the promotion of the common good. Government has therefore decided to appoint a Commission with suitable terms of reference to conduct a comprehensive enquiry into Government expenditure. It will, among other things, examine the impact of public expenditure on the promotion of growth and reduction of poverty and recommend ways and means of making public expenditure more effective in solving the problem of poverty."

This approach will only result in postponing an urgently needed attempt to check the wasteful expenditure of the Government. "The Economic Survey" shows that the Central Government's consumption expenditure rose from Rs. 433 crores in 1960-61 to over Rs. 4,000 crores in 1978-79. Indeed there is approximately a ten-fold increase in such expenditure over the eighteen-year period. Officials of the Central Government are well aware of the areas in which such expenditure is totally wasteful and can be eliminated. It would have been relatively easy to eliminate wasteful consumption expenditure of the Central Government of approximately Rs. 500 crores or Rs. 600 crores by selective cuts in such expenditures. The appointment of a commission of enquiry indicates the reluctance of the Finance Minister to tackle this problem which is eroding the base of the Indian economy.

Secondly, in Part B of his budget speech, the Finance Minister said "I, therefore, propose to appoint an expert committee of economists and tax administrators to study the impact of concessions provided for in our tax laws—particularly those relating to corporation tax and Central excise—on the techniques of production used in industry and make recommendations which will encourage the adoption of labour intensive methods of production."

This announcement is bound to cause considerable apprehension in the minds of those running organised industry and in effect serves notice on large-scale industries that the existing few tax concessions given to them may be withdrawn. Such an announcement is bound to send a chill through the spine of those who are planning the expansion of large-scale industries and indicate to them that the already high burden of corporation tax and Central excises is likely to be enhanced in the near future to their disadvantage. It will act, therefore, as a severe damper to industrial expansion and growth.

GOALS OF THE BUDGET

The Finance Minister has imposed through the budget the most draconian dose of direct and indirect taxation ever witnessed in the budgetary history of India. In outlining the goals of the tax efforts, he has said, "tax policy should seek to reduce......disparities, ...aim at increasing production and avoid waste ... and aim at eliminating unemployment and underemployment by stimulating agriculture production, by encouraging labour intensive techniques of production and by improving the competitive capacity of small-scale and cottage industry in relation to large-scale industry." Such goals of tax policy have been announced for decades by various Finance Ministers in India.

What Mr. Charan Singh has really done is to raise taxes savagely on the urban classes and even on the rural poor. The goal of his budget appears to be to put Rs. 233 crores as a windfall into the pockets of rural rich!

DIRECT TAXES

The Finance Minister has proposed direct taxes which will yield Rs. 101.2 crores in a full year and Rs. 58.6 crores in 1979-80. Furthermore, a burden of Rs. 160 crores per year on account of the Compulsory Deposit Scheme for income tax-payers is to continue during 1979-80 and even in 1980-81.

PERSONAL INCOME-TAX RAISED

The Finance Minister said in his budget speech, "I propose to raise only the rate of surchage for Union purposes on income-tax in the case of all categories of non-corporate taxpayers from 15 *per cent* to 20 *per cent*. The effect of this proposal will be to raise the marginal rate of personal income tax from 69 *per cent* at present to 72 *per cent*. This measure will yield an additional revenue of Rs. 46 crores in a year. The accretion during 1979-80 will, however, be of the order of Rs. 37 crores. This is a small sacrifice I am asking the 35 lakh taxpayers, who constitute an insignificant proportion of the total population, and who receive a substantial share of the country's income to make for their poorer fellow citizens." The Chokshi Committee on Direct Tax Laws had recommended that the maximum rate of income-tax should not exceed 60 *per cent* on income over Rs. 2 lakhs per year: the Finance Minister has totally ignored this important and fundamental recommendation. In justifying this recommendation for a maximum rate of income tax of 60 *per cent* on income exceeding Rs. 2 lakhs the Chokshi Committee correctly noted "that the experiment on the part of the Government over the last 5 years in reducing tax rates has proved to be successful and there has been no fall in the tax collections. On the contrary, there has been a marked increase in the tax revenues largely due to a better measure of compliance on the part of the taxpayers. It may be further desirable to extend this experiment to the stage of reduction on the lines as suggested earlier."

As a result of the change in income-tax surcharge, there will be some very minor reductions in the total burden of income-tax on individuals having incomes between

Rs. 10,100 and Rs. 12,000 *per annum* but the income-tax on individuals having income above Rs. 12,000 *per annum* will rise on all slabs of income.

COMPULSORY DEPOSIT SCHEME CONTINUED

The Janata Party had promised to abolish the compulsory deposit scheme. Nevertheless, in his budget speech, the Finance Minister said, "I propose to continue the Compulsory Deposit Scheme for income-tax payers for a further period of two years. This will generate additional resources to the tune of Rs. 160 crores during the financial year 1979-80." This will result in draining Rs. 160 crores of private sector savings into the Government exchequer and thus reduce the resources for private sector investment.

WEALTH TAX RAISED

The Finance Minister said, "Inequalities of wealth have even less justification than inequalities of income. I, therefore, propose to raise the rates of wealth tax on high slabs of net wealth. The rate will now be 3 *per cent* as against the current rate of 2.5 *per cent* on the net wealth between Rs. 10 lakhs and Rs. 15 lakhs and 5 *per cent* as against 3.5 *per cent* on the net wealth over Rs. 15 lakhs ...... These changes will yield an additional revenue of Rs. 6.6 crores in a year. Since. however, the new rates of wealth tax will apply prospectively from the assessment year 1980-81, there will be no accretion to revenue during 1979-80."

There is absolutely no justification for raising the rates of wealth tax in this fashion. There will be no accretion in the revenue during the coming year and the increase in wealth tax announced by the Finance Minister is entirely based upon doctrinaire populist ideas which will lead to a further reduction in private savings and investments.

CONFISCATORY DIRECT TAXATION

The total result of the increase in surcharge of income-tax and continuing of compulsory deposit scheme is that their total rate or burden in the highest slab of income will be now 87 *per cent* of the gross income of an assessee. If the burden of the new wealth tax rates is added to this burden, more than 100 *per cent* of the income of an assessee derived from wealth over Rs. 10 lakhs will be confiscated by these three levies. This was the situation which prevailed some years ago which led to rampant tax evasion and which was ultimately recognised as being totally unhealthy. The Chokshi Committee in this context stated, "It would be appropriate in this context to refer to the following observations of the National Council of Applied Economic Research : 'As regards personal taxation, the cumulative impact of income and wealth taxes on entrepeneurs in the higher income groups, who play a crucial and dynamic role in creating new enterprises and pioneering new industries, seriously curtails their capacity to save. After a point the disposable income of an individual declines with every addition to his wealth through savings. At such a limit of income the tax liability is generally met at the expense of savings which in the case of most businessmen are likely to be invested. Since the incentive to save is virtually eliminated at this level there is a sound economic justification, for slowing down the pace of progression of taxes at very high income levels." Almost the entire burden of these levies will fall on the urban classes.

It must be asked : Why did the Finance Minister not impose direct taxes on the rural rich as recommended in the Sixth Plan? The Sixth Plan stressed the need for the taxation by the Central Government of agricultural incomes by stating clearly : "Direct tax receipts from agriculture, chiefly land revenue and agricultural income tax constitute only about 1 per cent of the net domestic product from agriculture. The burden of commodity taxation also falls less heavily on agriculturists than on people in the urban areas. According to the Agricultural Census, 15 *per cent* of cultivators accounted for 60 *per cent* of the total operational net cultivated area in 1970-71. A major share of higher agricultural incomes, therefore, must have accrued to a small proportion of cultivators, constituting the upper strata of rural society. But these incomes remain untaxed while similar urban incomes are subject to substantial taxation. Progressive taxation of these incomes at rates comparable to those payable by non-farm earners is now essential in order to secure horizontal equity as between the taxation of agriculturists and non-agriculturists, and to reduce the disparity between the less affluent and more affluent sections of the rural community itself." If the Finance Minister wanted to reduce disparities in income and wealth, he should have implemented the above recommendation of the Sixth Plan and should have imposed Central agricultural income tax (by amending the Constitution) and brought agricultural assets effectively into the wealth tax net or levied other direct taxes on high rural incomes.

APPROVED SAVINGS SCHEMES ATTACKED

In his budget speech, the Finance Minister said, "the present concessions in respect of long-term savings through life insurance premia, provident fund contributions and other approved forms of savings, though they subserve certain desirable social and economic objectives, give a disproportionately large tax benefit to taxpayers in higher income brackets. At present, 100 *per cent* deduction is allowed in respect of first Rs. 5,000 of qualifying savings, 50 *per cent* on the next Rs. 5,000 of such savings and 40 *per cent* on the balance. Under my proposal, while the first Rs. 5,000 of qualifying savings will continue to be eligible for 100 *per cent* deduction, the deduction in respect of the next Rs. 5,000 of such savings will be reduced to 35 *per cent* and in respect of the balance to 20 *per cent*. This measure will yield Rs. 9.6 crores annually. The accretion during the financial year 1979-80 will be Rs. 7.6 crores." This step flies in the face of the claim made by the Finance Minister in Part A of his budget speech where he emphasised that "private savings should be raised." The Chokshi Committee had appreciated the importance of the existing tax concessions in respect of approved savings and had actually recommended that additional types of savings should be included under this tax concession : The Finance Minister has done the exact reverse in the budget.

All Finance Ministers, since India became independent, have recognised the need and importance of encouraging such private savings which are essentially of a long-term nature and are put into channels which have always been emphasised as being most desirable. The Finance Minister's proposal is also unfair in so far as it will increase the burden of tax on those who are locked into long-term life insurance policies from which they will now not be able to withdraw and to that extent the measure is inequitable, and even retrospective. It will adversely affect the income of the Life Insurance Corporation of India over the long haul. The entire burden of this measure will fall upon the urban classes in so far as rural incomes are not subject to Central income-tax and do not, therefore, benefit from the tax concession.

CAPITAL GAINS TAX EXEMPTION

In 1977, presenting the Union Budget for 1977-78, the then Finance Minister, Mr. H. M. Patel, correctly said as follows : "The present structure of capital gains taxation stands in the way of adequate mobility of investible resources and perpetuates investment in low priority assets...moreover, capital gains arising from the transfer of assets held over a length of time is in a world of rapid and continuing inflation to a great extent illusory in nature." He had, therefore, inserted Section 54E in the Income Tax Act which provided that the capital gains arising on the transfer of capital assets which had been held by assessees for more than thirty six months were exempted from income tax if the value of the consideration received or accruing as a result of the transfer or sale was invested or deposited in the specified financial assets within a period of six months. It was also provided that the specified assets would have to be held by the assessees for a further period of three years from the date of their acquisition. As a result of this concession introduced in 1977, many individuals sold unproductive assets like land, jewellery, real estate, etc. and invested the sales profits in the specified assets which included government securities, Government Saving Certificates, Units of the Unit Trust of India, debentures approved by Government, specified shares of new industries, and fixed deposits in banks. The provision also encouraged assessees to fully reveal the sale consideration which they had got from the sale of their assets and not to take a portion of it in black or unaccounted money. The Chokshi Committee had recommended an enlargement in the scope of Section 54E of the Income-Tax Act because of its many merits : The Finance Minister has ignored the Committee's expert wisdom-.

The Finance Minister has struck down the exemption from the taxation of capital gains outlined above. This appears to have been done on purely populist grounds. In his budget speech, he claimed : "Since asset owners secure capital gains largely through no effort on their own part, this exemption confers an unfair advantage on asset holders as compared to income earners and thus contributes to the disparity in society. I, therefore, propose to withdraw this exemption of capital gains in respect of transfers made after 28th February 1979. Thus measure will yield an additional revenue of Rs. 14 crores annually. Since, however, advance tax is not payable in respect of capital gains, there will be no accretion to revenue during the year 1979-80."

This is a thoroughly retrograde step which will destroy the liquidity of capital market. Initially it will create a shortage of scrips in the stock exchanges and push up the prices of shares because investors will stop selling shares rather than pay huge taxes on the capital gains derived from such sales. Over a period of time, it will reduce the inflow of funds into the Unit Trust of India because people who will sell land, jewellery, real estate, etc. will no more be interested in re-investing the sale proceeds in the Units of the Unit Trust of India as they were doing hitherto. It will also encourage widespread tax evasion and generation of black money on a gigantic scale. Whereas the measure may yield in 1980-81 additional revenue of Rs. 14 crores, it may result in the generation of black money to the tune of Rs. 500 crores annually.

AUTHORS' TAX CONCESSION

The Finance Minister said in his budget speech, "In order to encourage the writing of University level text-books in Hindi and other Indian languages, I propose to allow a deduction equal to 25 per cent of the income derived by the authors of such books. Authors of dictionaries and encyclopedias in these languages will also get the benefit of a similar deduction in the computation of their taxable income. The concession will be available for the assessment year 1980-81 and four subsequent years."

India imports annually over Rs. 10 crores worth of books in the English language including fiction. Surely, in order to spur import substitution, the tax concession given in the budget to authors should be extended to books written in the English language by Indian authors. Also it should be given to authors who write all types of books and not be restricted to a narrow range of books which the Finance Minister thinks are desirable. Nevertheless, the tax concession contained in the budget is to be welcomed as a small step in the right direction.

BUSINESS TAXATION

The budget proposes to raise the surcharge on income-tax in the case of companies from 5 *per cent* to 7.5 *per cent*. It was claimed that "this measure will yield an additional revenue of Rs. 35 crores in a year. The accretion during the year 1979-80 will however be of the order of Rs. 28 crores." This is one further impost on the private sector which will transfer corporate savings to the coffers of the public exchequer and reduce corporate investment in the coming years.

TAX HOLIDAY OF NEW NON-PRIORITY INDUSTRIES WITHDRAWN

Under the existing law, new industrial undertakings were exempt from income tax on their income upto 7.5 *per* cent of their capital for a period of five years. This provision was an important one which spurred the growth of new industries. It was also available for new hotels and ships. The Finance Minister has now proposed that this concession be withdrawn in respect of so-called non-priority industries listed in the Eleventh Schedule of the Income-Tax Act if they go into production after 31st March 1979. This will completely upset the cash flows and the fiscal planning of many industrial units in the non-priority sector which were on the verge of going into production but may not be able to meet the deadline. Surely, when removing such a tax concession, it is necessary that notice of at least two or three years should be given in the interest of equity and fair play. Moreover, the withdrawal of the tax concession for new industrial units will severely hit many small-scale units which may be on the verge of going into production and plan to produce the articles listed in the Eleventh Schedule. The Eleventh Schedule contains a number of articles which the Government has often said should be produced by the small-scale sector and the Government had given special protection and encouragement to small-scale units producing such items. Withdrawal of *"tax free holiday"* for the first five years even in respect of small-scale undertakings is a contradiction in the terms of Government policy. Thus the Eleventh Schedule contains items like soap, toothpowder, dental cream, toothpaste, detergents, electric fans, furniture, utensils, etc. all of which can be economically produced in the small-scale sector. The Finance Minister should at least be consistent in his approach to encouraging the production of these articles in the small-scale sector by providing that new units in the small scale sector will still continue to get the benefit of the tax holiday for the first five years even if they produce items contained in the Eleventh Schedule of the Income Tax Act. An amendment must at least be done in this respect in the budget proposals to encourage new small-scale units to be started for making such items.

RURAL DEVELOPMENT

The budget contains a number of concessions for rural development. These may be briefly mentioned. First, the Agricultural Refinance and Development Corporation is to be exempt from income-tax. Second, banks will be allowed to make a tax deductible provision for bad debts upto 1.5 *per cent* of the advances made by their rural branches. Third, donations to train people for rural development will now be eligible for deduction from taxable income. Fourth, individuals will be eligible to make donations for rural development out of their personal incomes and get full deduction thereof for computing the tax deduction. Fifth, Khadi and Village Industries Boards promoted by the States will be exempt from income-tax.

MUSHROOMS GROWING AIDED

Sixth, indicative where the Finance Minister's heart lies, he said in his budget speech that, "in order to promote the cultivation of mushrooms, I propose to exempt from income tax one-third of the income derived from the business of mushroom growing under controlled conditions, or Rs. 10,000 whichever is higher." The budget papers make a feeble defence of this concession by stating that income from mushrooms grown on land is treated as agricultural income and is exempt from Central income tax. The new provision is to give tax concessions "where cultivation of mushroom is undertaken in rooms or sheds with soil put into wooden beds." This is clearly a tax concession for the rich farmers who are cultivating mushroom in controlled conditions in bouldings or hot houses.

EXPORT MARKET DEVELOPMENT ALLOWANCE

Perhaps the only good feature of the budget is the proposal to extend the export market allowance to all exporters. It is proposed to give a weighted deduction to all exporters at the rate of 133.3 *per cent* of various types of specified expenditure incurred for export promotion. These expenditure will now also include advertisements or publicity outside India done by the assessees. The concession will result in a revenue loss of Rs. 5 crores annually and the loss in 1979-80 will be of the order of Rs. 4 crores. This small concession will help to reverse the declining trend of Indian exports and is to be heartily welcomed.

HOTELS TO BE TAXED

The Finance Minister said that, "the second objective of my proposal is to prevent the lifestyle of the affluent sections from having an adverse impact on saving and investment through the demonstration effect. In this connection, the lavish manner in which expenditure is incurred on accommodation and entertainment in luxury hotels calls for serious notice. With a view to checking such conspicuous consumption in luxury hotels, I propose to levy a new tax on the gross receipts of the hotels... the details of this new measure are being worked out and the necessary legislation in this regard will be introduced in Parliament soon." This measure of which the details are not known is clearly a further attack on the spending habits of the urban middle classes and the urban rich. Whilst it may be justified, the question should be raised why similar ostentatious expenditure on occasions like weddings and festivals incurred by the rural rich in rural areas should not be discouraged through a similar tax. Newspapers in India have reported in recent years of weddings in rural areas where huge sums running into lakhs of Rupees have been spent on celebration and entertainment. Should not the Finance Minister also take some steps to curb such expenditures?

INDIRECT TAXATION

Mr. Charan Singh has proposed a gigantic dose of customs duties and excise duties. These duties are mainly levied on petroleum products and on final products and as such will be or have been passed on to the consumers. They have raised the prices of almost every conceivable item used by the urban classes. They will unleash inflationary pressures of a type never witnessed in the recent history of India.

On the other hand. Mr. Charan Singh has been extremely generous in giving vast handouts or windfall gains exculsively to the rural rich by cutting excise and customs duties on items used by this class. Never has a Finance Minister presented a budget that encompassed so many items on which customs duties and excise duties were dramatically raised in this harsh fashion and which was blatantly partisan towards a particular class, namely, the rural rich.

DUTIES CUT FOR RURAL RICH

The various reductions in excise duty proposed by the Finance Minister can first be analysed.

The Finance Minister said in his budget speech, "the Central excise duties on all chemical fertilisers will be reduced to 50 per cent of the existing rates. This will mean that the basic Central excise duty on urea, which is the most important chemical fertilizer will be reduced from 15 *per cent ad valorem* to 7½ *per cent ad valorem;* that on single and triple super phosphate fertiliser will be reduced from 7.5 *per cent* to 3.75 *per cent ad valorem.* This reduction will also be correspondingly reflected in the countervailing duties leviable on imported chemical fertilisers. With this change, it should be possible to reduce the price of urea by about Rs. 100 per tonne. The prices of other kinds of fertilisers will also become lower with reference to the excise duty relief now announced. This decision will result in a sacrifice of revenue of Rs. 75.6 crores under Central excise and Rs. 30 crores under customs." There was absolutely no justification for sacrifice of Rs. 105.6 crores in revenue to lower the prices of chemical fertilizers. As has been noted earlier, the consumption of chemical fertilizers has been increasing very rapidly. Clearly at existing levels of prices it has been very profitable for farmers to use chemical fertilizers. The budget moreover already bears the burden of subsidy given to fertilizers amounting to Rs. 448 crores. Chemical fertilizers are exclusively used by the rural rich. A cut in their prices cannot possibly benefit the landless labourers or the rural poor. The change proposed by the Finance Minister is totally unjustified and is tantamount to handout of Rs. 105.6 crores to the rural rich for which there can be no justification.

Second, the Finance Minister said that, "although the number of electric pumpsets is increasing rapidly with increasing rural electrification, farmers have still to use pumpsets driven by diesel engines in large parts of our country. As a measure of relief to this large class I propose to reduce the excise duty on light diesel oil from the existing level of Rs. 155.72 per kilolitre to Rs. 75 per kilolitre. I am aware that only 45 per cent of this oil is used in the agricultural sector.... The loss to the exchequer on account of this concession will be Rs. 12.40 crores per annum." The owners of diesel engine and pumpsets are the rural rich. This is the second windfall bestowed on them by the budget.

Third, the Finance Minister has proposed to exempt powertillers imported by State Agro-Industries Corporations and the Central Government totally from customs duties involving a sacrifice of Rs. 75 lakhs. Imported powertillers are again an item used by the rural rich.

Fourth, the Finance Minister announced that he plans to exempt PVC resins from customs duties in order to promote the manufacture of PVC pipes for irrigation. He has not however quantified this exemption. PVC pipes are an item used by affluent farmers.

Finally, the Finance Minister announced in his budget speech: "I now turn to a proposal of far reaching significance. This concerns unmanufactured tobacco, excise on which dates back to the year 1943. This levy brings the excise machinery into contact with a large number of growers and licensees. I propose to completely exempt unmanufactured tobacco from excise duties, including additional excise duties and thus, relieve at one stroke, nearly a million tobacco growers, curers, small dealers and warehouse licensees from excise control. I have no doubt that this bold decision to do away with a vexatious levy—a legacy of the colonial era—will be widely welcomed by farmers in the tobacco growing tracts of our country. This measure would involve loss of central excise revenue of the order of Rs. 121.20 crores." This change will benefit one million rural rich individuals.

The Finance Minister said that he would recoup the loss in the excise duties on unmanufactured tobacco by levying duties on manufactured tobacco products estimated to yield Rs. 115.71 crores but this levy may not fall on the shoulders of the rich farmers and may have to be borne by the consumers.

Rs. 233 CRORE GIFT FOR RURAL RICH

All the reductions in excise and customs duties are to be fully passed on to the consumers of these items. Thus the Finance Minister's excise duties and customs duties concessions announced for the rural rich are fertilizers Rs. 105.6 crores, dieesl oil Rs. 5.5 crores (being 45% of 12.40 crores), power tillers Rs. 0.75 crores, unmanufactured tobacco Rs. 121.20 crores, giving a total of Rs. 233 crores. In the entire fiscal history of India no Finance Minister has ever bestowed at one stroke a direct benefit of Rs. 233 crores on the most affluent section of the society living in the rural areas!

PETROLEUM LEVIES

The Finance Minister attempted to justify a massive dose of excise duties on petroleum products by stating in his budget speech, "the OPEC countries have announced a phased programme of increase in the price of crude oil. We are still, to a significant extent, dependent on imports of crude oil and the anticipated increase in the out-flow of foreign exchange consequent on the increases in crude prices is substantial. After the initial drop in consumption of petroleum products in the wake of the steep increase in crude prices in the year 1973, consumption has registered a sizeable upward trend. From the point of view of evolving available energy policy which minimises the strain on our foreign exchange resources, I have no doubt that it is essential to restrain the consumption of the more important petroleum products. My revenue proposals have been formulated keeping this important objective in mind." Even if this argument is valid, it should be asked why the

Finance Minister cut the excise duty on light diesel oil for benefit of the rural rich.

Announcing various harsh excise duties on petroleum products, the Finance Minister said "I propose to raise the Central excise duty on motor spirit from the existing level of Rs. 2,253.88 to 2,750 per kilolitre. Since the bulk of the consumption of petrol is by the upper classes in society, I have no regrets in doing this. I also propose to raise the duty on high speed diesel oil from the existing level of Rs. 404.04 to Rs. 500 per kilolitre because of the rapid growth in its consumption." These levies have already resulted in increases in the price of petroleum by more than 54 paise per litre and in price of high speed diesel oil by around 10 paise per litre.

The Finance Minister has increased the duty on kerosene from the existing level of Rs. 408.9 to Rs. 500 per kilolitre. This has resulted in pushing up the price of kerosene by around 10 paise per litre. Kerosene is used by millions of poor people and the Finance Minister had absolutely no justification for increasing the excise duty on kerosene which will impose the burden of Rs. 36 crores annually on the poorest sections of the society including those living in the rural areas.

An increase in the excise duty on liquified petroleum gas has also been announced which has increased the price per cylinder of such gas by around Rs. 2. This levy was sought to be justified by the Finance Minister by stating that this item "is primarily used as a cooking fuel in urban areas and semi-urban areas." This highlights his approach of savagely taxing people living in urban and semi-urban areas. The total changes in increases in the excise duties and the countervailing customs duties on petroleum products are estimated to yield Rs. 223 crores in Central excise duty and Rs. 56 crores in customs duties giving a total burden of Rs. 279 crores. The entire increase in these duties has been passed on to the consumer pushing up dramatically fuel and transport costs throughout the economy.

The Jha Committee on Indirect Taxes had noted that the prices of petroleum products had an all pervasive impact on the key sectors of the economy, not only on transport but on both industry and agriculture. It had specially pleaded for reducing the prices of diesel oil as well as kerosene in the interest of the development of backward areas in which no railway facilities were available. The Finance Minister's proposals run counter to the Jha Committee's recommendations.

TRANSPORT VEHICLES TAXED

The Finance Minister has increased the excise duty on all types of transport vehicles except Mopeds. Thus in his budget speech he said that "Mopeds, which are used by comparatively less affluent people and consume less fuel, will bear a lower duty of 10 *per cent* as against the existing rate of about 13.1 *per cent.* Scooters, motor cycles and three wheelers will bear 20 *per cent* as against the existing level of 13.13 *per cent,* while cars will pay duty at 25 *per cent* as against the existing rate of 18.38 *per cent.* The concessional rate applicable to cars used as taxis and auto-rickshaws will be increased from 10 *per cent* to 15 *per cent.* The rate on commercial vehicles will also go up marginally from 13.1 *per cent* to 15 *per cent.*" These changes in excise duties on transport vehicles are estimated to impose a burden of Rs. 20 crores on consumers and will have to be fully borne by them. They will or already have pushed up the prices of all transport vehicles except mopeds.

The Railway Budget increased railway freight charges and fares and specially increased suburban railway pass fares to impose a total burden of Rs. 178 crores in the coming year. If we add to this figure the increased burden of excise and customs duties on petroleum, high speed diesel oil and on transport vehicles, the total increase in transportation costs throughout the economy imposed by the Union Budget, together with the Railway Budget, will exceed Rs. 440 crores. This will have a ripple inflationary impact throughout the economy and increase the cost of transporting agricultural produce to the urban centres, the cost of personal transportation and cost of every other conceivable form of transportation.

URBAN CONSUMPTION ARTICLES

The Finance Minister has announced increases in the excise duties on a vast range of items consumed by the urban classes. A list of such excise changes looks like a catalogue of urban consumables. He has increased excise duties essentially on consumer and finished products so that the entire increase in excise duties will be passed on to the consumers and will have to be borne by them. The increases in the excise duties have already pushed up the prices of vast range of items covered by them.

The Finance Minister proposed to increase excise duties on what he considered luxury and semi-luxury items. Thus excise duty is increased on cosmetics and toilet preparations, air conditioners, parts of refrigerating and air conditioning machinery, stereo and hi-fi equipment, television sets, radios and radiograms, pressure cookers, steel-furniture, domestic electrical appliances, safes and strong boxes.

The Finance Minister said, "I have also selected some consumer items like soap, toothpaste, toothbrush and detergents for increase in duties taking care, at the same time, to see that the goods produced by the small units in the decentralised sector are not adversely affected by this increase.... Let me state clearly that my objective in increasing the rates on these commodities is partly to ensure that the small-scale manufacturers, with the advantage of duty exemption, are able to increase their share of the market for these products." However, as pointed out earlier, since soap, toothpaste, dental cream, detergents, etc. are items in the Eleventh Schedule of the Income Tax Act, the Finance Minister has proposed depriving new small-scale manufacturers of such items of the five year tax holiday which runs counter to his claim of encouraging the small-scale sector to expand in these areas.

FOOD ITEMS

In food items, the excise duty on vanaspati is to be slightly reduced but the Finance Minister has increased substantially the excise duties on prepared or preserved food, instant coffee, biscuits, processed cheese, chocolates, cocoa powder, chewing gum and aerated waters justifying these imposts by arguing that the choice of these items has been done "bearing in mind the sections of the society which consume such items," obviously referring to the urban classes.

There is a slight reduction in excise duty on fluorescent lighting tubes and low priced footwear which is welcome. The excise duty on cigarettes has been further increased to yield an additional sum of Rs. 60 crores. The prices of cigarettes have moved up after the budget.

MATCHES AND CARPETS

The excise duty on matches made by the mechanised sector has been raised in order to encourage production of matches in non-mechanised or small-scale sector. As a result of this change, a tax burden of Rs. 8 crores will be passed on to the consumers of machine-made matches.

The Finance Minister stated, "Machine-made carpets produced in a few organised units constitute an item of elite consumption. I can see no justification for encouraging this line of production when we have a large number of traditional carpet weavers whose skills have won international renown. I would not like the livelihood of these weavers to be threatened by the proliferation of machine-made carpets. I, therefore, propose to impose a duty of 30 per cent on such machine-made carpets. Handmade carpets will be totally exempt from this levy. The estimated additional yield from this proposal is Rs. 1.9 crores." Traditional carpet weavers make the most expensive type of carpets which are used by the rural rich and the urban elite whereas the cheaper machine-made carpets are used by the middle classes. The new levy is, theerfore, ill-conceived.

EXCISE AND CUSTOMS DUTIES

Some years ago, excise duty at the rate of 1 *per cent* was imposed on the residuary heading item 68 of the Central

Excise Tariff which encompasses all items not elsewhere specified in the tariff. The rate of excise duty on such items was progessively increased to 5 *per cent.* The Finance Minister has now proposed that the excise duty on items not elsewhere specified be raised from 5 *per cent* to 8 per cent to yield additional revenue of Rs. 100 crores. Furthermore, such items were hitherto exempted from corresponding countervailing duty of customs. It is now proposed to levy countervailing duty of customs on all items not elsewhere specified. The duty will be levied at the rate of 8 *per cent* and it is estimated that this measure will yield an additional revenue of Rs. 96 crores by way of countervailing duty. These two measures will push up or have already pushed up the prices of almost all items which are not subject to specific excise duties. Small scale units have been given a favourable differential in this excise duty levy in order to encourage their production.

IMPORTED EDIBLE OILS TAXED

The Finance Minister announced, "in the context of the sizeable gap between supply and demand of edible oils, substantial imports of these oils have been taken place in the past and are continuing. As a means of assuring remunerative prices to indigenous producers of oil seeds, I propose to levy basic customs duty on palm oil, rapeseed oil, soyabean oil, sunflower oil and palmolein oil at 12½ *per cent ad valorem.* They will, however, be exempt from auxiliary and countervailing duties. This measure is expected to yield an additional revenue of Rs. 33.5 crores". As a result of this proposal prices of edible oils have risen dramatically giving windfall profits to rich farmers, who mainly produce them.

INDUSTRIAL PRODUCTION DISCOURAGED

The Finance Minister has withdrawn the excise duty rebate scheme which was introduced to encourage higher production in selective industries. Thus he said, "the scheme of excise duty concession to encourage higher production in selected industries, which was announced in th year 1976, is due to expire on 31-3-1979. I do not propos to continue the scheme beyond this date. This withdraw is expected to yield an additional revenue of Rs. 40 crores

POST AND TELECOMMUNICATION CHARGES

As a final savage blow, the Finance Minister announc an overall increase in postal and telecommunication tarif The postal charges for inland letters and ordinary lett have been raised. Charges for telegrams and phone ca have been similarly revised upwards. These tariff revisic are expected to yield Rs. 57.96 crores per annum and es mated to yield in 1979-80 Rs. 48.30 crores.

Rs. 1,000 CRORE BURDEN ON URBAN SECTO

The total burden of tax levied by the Finance Minis in the Union Budget and the fresh burdens imposed in Railway Budget can now be evaluated on an annual ba thus: Additional excise and customs duties Rs. 860 cro plus increases in post and telegraph charges Rs. 57 cro plus increases in railway freight and fares Rs. 178 cro plus increases in direct taxes Rs. 101 crores plus comp sory deposit scheme on income tax payers Rs. 160 cror giving a total annual burden of all these imposts of Rs. 1,3 crores. It is estimated that out of this total burden Rs. 1,356 crores, around Rs. 356 crores will fall on th *rural poor, leaving an annual burden of Rs. 1,000 crores to be painfully borne by the urban classes—rich, middle class and poor.* As pointed out earlier, the rural rich have been given bonanza or windfall of Rs. 233 crores per annum!

The Finance Minister has therefore imposed the largest and most savage burden of tax ever levied in the fiscal history of the country. The Budget has attacked primarily the urban poor, urban middle class and urban rich. It has also not hesitated to attack the rural poor. The only class which will benefit from this budget is the rural rich.

As a result of the new levies, the Finance Minister said that, "our tax effort will bring in about Rs. 655 crores, of which Rs. 205 crores will accrue to the States leaving Rs. 460 crores with the Centre. Taking into account Rs. 160 crores of accretions of compulsory deposits by income tax payers, there will be a residual deficit of Rs. 1,355 crores, which I propose to leave uncovered."

The entire budget seems to be based on populist dogma and dislike for the urban middle classes and urban rich and is an effort to make the rural rich richer. It is ironical that towards the end of his budget speech, the Finance Minister once again emphasised: "I have no sympathy with those industries which cater to the wants of the rich. We can have no room for production which caters to the rich and is thus a visible manifestation of the disparities which exist in society." The statement is inaccurate in so far as it should have specifically stated that it did not apply to the rural rich who have received the maximum benefit from this budget.

CONCLUSIONS AND RECOMMENDATIONS

The effects of the budget may be summed up thus: Firs the budget will increase disparities, which will make th rural rich richer. Second, the budget will not increase pr duction. Third, the budget will not increase employmen Fourth, the budget contains nothing to eliminate wastef governmental expenditure. Fifth, the budget has unleash a gigantic wave of inflation which may not be reflected the consumer price index because the index is heavi weighted with food, shelter and clothing items. Howeve if all the increases in prices induced by the budget a taken into account, the cost of living of the urban ri is likely to go up by 30 *per cent* the cost of living of th urban middle-classes is likely to rise by 20 *per cent* and th cost of living of the urban and rural poor is likely to ri by up to 10 *per cent* in the coming year. This is likely increase industrial unrest in the urban areas.

Sixth, the budget will introduce a new socio-econom conflict. Hitherto, the socio-economic conflict was betwee rich, middle class and poor. The Finance Minister has no added a new dimension by bringing the rural classes in con flict with the urban classes. This is a deplorable develop ment which will increase political and social tension throughout the country.

It may be asked what should the Finance Minister hav done? The correct course of action surely must have bee known to his economic advisers but was avoided on ac count of non-economic considerations. In the context o gigantic foreign exchange reserves and huge buffer stocks of foodgrains, the Finance Minister should have left the budgetary deficit open or reduced it by taking credit against drawals of foreign exchange from the Reserve Bank of India. He should have attempted a much bigger Plan Outlay. Wasteful government expenditure should have been ruthlessly pruned. Direct and Indirect taxes should have been cut or changed as per the recommendations of the Chokshi and Jha Committees. Steps should have been taken to improve the working of the public sector undertakings so that larger surpluses are generated by them. If taxes had to be levied for political considerations they should have been spread equitably between the rural and urban sectors. Such an approach to the budget would have been a constructive one and would have spurred growth. The present budget will be the foundation for the failure of the Sixth Plan and for long-term economic stagnation.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"Free Enterprise was born with man and shall survive as long as man survives."

--A. D. Shroff
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