THE ECONOMIC IMPLICATIONS OF UNION BUDGET 1978-79

Professor Russi Jal Taraporevala

FORUM OF FREE ENTERPRISE
PIRAMAL MANSION, 235 DR. D. N. ROAD,
BOMBAY 400 001.

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By

PROFESSOR RUSSI JAL TARAPOREVALA*

The Union Budget for **1978-79** presented by the Finance Minister, Mr. H. M. Patel, came at the end of a year's rule by the Janata Party at the Centre. It was presented in the context of an economy in which growth had been resumed, the agricultural situation was extremely favourable, buffer stocks of foodgrains stood at unprecedented levels and the foreign exchange reserves of the country reached the highest point ever witnessed in the last three decades.

The implications of the Union Budget have to be assessed in the context of the various factors which have operated in the Indian economy during the past year and which are first analysed.

NATIONAL INCOME RESUMES GROWTH

"The Economic Survey" for 1977-78 of the Government of India commented that "the most notable feature of the economic situation in **1977-78** was the absence of any serious constraint on economic growth". The country for the first time in many decades had substantial surpluses of food and foreign exchange. As a result of these factors, gross natioaal product at **1970-71** prices which had risen by **1.5**

*** The author is an eminent economist and an authority on taxation and capital market. This text is based on the lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on 3rd March, 1978. The views expressed are the personal ones of the author and not of any institution or organisation with which he is associated.**

per cent in 1971-72, fallen by 1.1 per cent in 1972-73, risen by 5.2 per cent in 1973-74, risen by only 0.5 psr cent in 1974-75, risen by 8.5 per cent in 1975-76 and risen by 1.6 per cent in 1976-77, is estimated to have jumped by 5 per cent in 1977-78. Hence, the Finance Minister in his budget speech could announce that "the gross national product will register a satisfactory growth of 5 per cent in the current year as compared to 1.6 per cent in 1976-77". Unfortunately, as in the past, a large portion of the rise in the gross national poduct was neutralised by the increase in the population of the country. Thus per capita net national product at 1970-71 prices rose by 1.1 per cent in 1971-72, fell by 3.7 per cent in 1972-73, rose by 3.3. per cent in 1973-74, fell by 1.3 per cent in 1974-75, rose by 6.6 per ctnt in 1975-76, fell by 0.6 per cent in 1976-77 and is estimated to have registered a small rise in 1977-78. Per capita net national product remained at abysmal low levels between 1970-71 to date. Thus per capita net national product at 1970-71 prices was Rs. 636 in 1970-71, Rs. 629 in 1971-72, Rs. 606 in 1972-73, Rs. 626 in 1973-74, Rs. 618 in 1974-75, Rs. 659 in 1975-76 and Rs. 655 in 1976-77, indicating the extremely low level of economicdevelopment of the country and its relative stagnancy in the various years of the 1970s.

As aresult of the favourable agricultural situation and unprecedented rise in the foreign exchange reserves, the growth of 5 per cent of gross national product estimated to have occurred in 1977-78 offered the opportunity to push the Indian economy into anew pattern of growthand development which the Finance Minister has attempted to do through the budget.

AGRICULTURAL PRODUCT10 N

The Finance Minister announced in his budget speech that "agricultural production which had declined sharply last year

is expected to more than make up the lost ground. Foodgrain production is expected to exceed last year's level by about 10 million tonnes despite the natural disasters in the South. The production of commercial crops is also expected to improve considerably .... This has been achieved in part due to good weather but to an even greater extent because of the increased irrigation potential, increased use of fertilizers, pesticides and high yielding variety seeds."

Thus the index of agricultural production which had fallen by 0.4 per cent in 1971-72, fallen by 8.0 per cent in 1972-73 risen by 10.7 per cent in 1973-74, fallen by 3.5 per cent in 1974-75 risen by 15.6 per cent in 1975-76 and fallen by 6.7 in 1976-77, is estimated now to have risen by 7 per cent in 1977-78.

The production of foodgrains in the country was 105.17 million in 1971-72, 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 and 111.57 million tonnes in 1976-77, and is estimated to have risen to around 121 million tonnes in 1977-78.

"The Economic Survey" noted that "the kharif season in the year 1977-78 had been good because of satisfactory rainfall over most of the country. It is estimated that foodgrains production would be 71-73 million tonnes, i.e., 4-6 million tonnes more than in the kharif season of 1976-77, and close to that in 1975-76. Although it is too early to say anything about the rabi season, weather conditions and sowings indicate that rabi output may be higher than last year. Total foodgrains production is thus expected to be about the same as in 1975-76, viz., 121 million tonnes as against 111 million tonnes last year". It also emphasises that "the current year began with stocks of foodgrains of 18 million tonnes which rose to 20 million tonnes by the end of January 1977" and stresses that "the key to a higher and more stable level of production is increased irrigation."

The Government continued its agricultural strategy by emphasising the importance of rural development in all aspects. The Finance Minister, in his budget speech, said that "additional irrigation potential created during the year will be 2.3 million hectares—the highest achieved in a single year so far." "The Economic Survey" pointed out that "the price of urea has been further reduced by Rs. 100 per tonne with effect from 12.10.1977 and the excise duty on triple super phosphate has been reduced from 15 per cent to 7½ per cent". Total fertilizer consumption which was 2.9 million tonnes in 1975-76 is estimated to have exceeded 3.4 million tonnes in 1976-77 and is expected to reach a level of 4.2 million tonnes during 1977-78. Moreover, the consumption of phosphatic and potassic fertilizers increased by 42 per cent and 51 per cent respectively, in the last year.

"The Economic Survey" emphasises the need for better water management, control of pests and diseases of crops, better support or procurement prices, better provision of credit to farmers and various projects to help and benefit small farmers as part of the integrated strategy to develop the agricultural economy. The Finance Minister concluded that "clearly the basis now exists for a more dynamic growth of agriculture in the years to come."

INDUSTRIAL PBODUCTLON

Industrial production during 1977-78 received a slight setback as a result of various factors. The index of industrial production which had risen by 3.3 per cent in 1971-72, risen & 4.0 per cent in 1972-73, risen by 2.2 per cent in 1973-74, risen

by 2.6 per cent in 1974-75, risen by 6.1 per cent in 1975-76 and jumped by 10.4 per cent in 1976-77, is estimated to have risen only by between 5 per cent and 6 per cent in 1977-78. The main causes for the setback in the growth rate of industrial production were :

First, Power shortages : The Finance Minister in his budget speech said that "the lower growth rate this year is to a large extent due to the shortage of power which is directly attributable to the past neglect of this vital sector."

Second, Strained Industrial Relations : As a result of the lifting of the Emergency, there was considerable labour unrest which erupted throughout the country and disrputed industrial production.

Third, Lack of Demand : The demand for many products seems to have either declined or remained stagnant.

Fourth, Lack of new capacity : In a number of industries, capacity utilization was high so that the scope for expansion was limited, but new capacity has not been coming into existence for variety of reasons.

"The Economic Survey" noted that "the general impression is more one of relative stagnation than of sustained progress." Certain key industries producing coal, pig iron, cotton yarn, cloth, cement and electricity generation have either substantially declined in output or remained relatively stagnant. Power shortages seriously crippled the out-put of power-intensive industries like aluminium, basic metals and heavy chemicals. On the other hand, industries which showed some growth were electrical machinery, food manufacturing, chemicals, non-electrical machinery, rubber products, etc.

The Government continued its new industrial policy with its emphasis on village, cottage and small scale industries. "The Economic Survey", therefore, stresses that areas for "large scale industry will be : —

"(a) basic industries, such as steel, non-ferrous metals, cement and oil refineries;

"(b) capital goods industries, for meeting the machinery requirements of basic as well as small-scale industries;

"(c) high technology industries, which require large scale production (e.g. fertilisers);

"(d) other industries which are outside the list of reserved items for the small-scale sector, which are considered essential for the development of the economy (such as machine tools, and organic and inorganic chemicals)."

The activities of the Large Houses continue to be regulated and the Government has emphasised that "they will in future be required to rely on internally generated resources for expansion,"

Although the Union Budget for 1977-78 had made provision for enabling voluntary amalgamation of sick industrial units with healthy ones by allowing the accumulated losses and unabsorbed depreciation of the amalgamating company to be carried forward and set off in the hands of the amalgamated company the various conditions attached for such an amalgamation to be eligible for tax benefits were so numerous and administratively impractical that throughout 1977-78, not a single such amalgamation could be put through. The Finance Minister has realised the impracticability of the existing provision and in the budget of 1978-79, he has provided that such schemes for

amalgamation can be submitted to the Government and approved or cleared before they are passed by the shareholders of the companies and put into effect. Such advance clearance or approvals should do much to speed up the amalgamation of such units with the healthy ones and to tone up the industrial sector in the coming year.

EMPLOYMENT

Employment continues to be the most dismal feature of the Indian economy. Employment of persons in the public sector at the end of March, each year was as follows: 107.31 lakhs in 1971, 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, and 138.19 lakhs in 1977. But employment in the private sector between the years ending in March 1966 upto 1977 has stagnated showing only minor fluctuations between 66.85 lakhs and 68.54 lakhs of persons.

"The Economic Survey" noted that "according to Employment Exchange statistics, the number of applicants on the live register stood at 10.8 million at the end of October 1977 as against 9.6 million at the end of October 1976—an increase of 12.5 per cent. Registrations, vacancies and placements were all lower in 1977 than in 1976 .... Since there was a decline in both vacancies notified and in placements, it is not possible to say that there has been an improvement in the employment situation merely because registrations have been less. However, it can at least be concluded that no ground has been lost...." Nevertheless, the statistics clearly show a most unsatisfactory situation on the employment front and indeed the deterioration in it which has continued for many years. This highlights the seriousness of the challenge on the employment front facing the Government.

SAVINGS AND INVESTMENT

According to the statistics prepared by the Central Statistical Organisation, gross domestic saving as percentage of gross domestic product at market prices rose from 19.7 per cent in 1975-76 to an estimated 21.1 per cent in 1976-77. However, gross domestic capital formation as a percentage of gross domestic product at market prices declined slightly from 19.6 per cent in 1975-76 to an estimated 19.2 per cent in 1976-77. Hence "The Economic Survey" commented that "the proportion of savings to GNP was higher which led to an increase in foreign exchange reserves." It stressed that "there is great urgency to raise private savings as well. This requires greater austerity on the part of the people particularly those whose incomes are such that they have choice between savings and consumption".

The data on industrial investment is scattered but may be noted. The sanctions of direct loans to industrial concerns by the financial institutions like IDBI, IFCI and ICICI were higher than in the previous year. On the other hand, the consents given by the Controller of Capital Issues to non-Government companies to issue capital other than bonus issues appears to have declined slightly by about 4 per cent.

The Financial Express Equity Index declined substantially during the year and the stock market remained depressed throughout the year. Thus, the Financial Express Equity Index slumped from a high of 242.48 to a low of 207.34 during 1977. It rose to 225.86 on March 1, 1978 immediately after the budget was presented. Thus, conditions in the capital market remained depressed or sluggish throughout the year.

PRICE BEHAVIOUR

Opening the budget speech, the Finance Minister said, "we inherited a highly explosive inflationary situation when we

took office. Prices in 1976-77 went up by over 12 per cent... It is most gratifying that the economy has been so managed during the current year as to ensure that prices did not increase. Hon'ble Members will be pleased to note that the wholesale price index is today lower than the level inherited by us from the previous Government."

The relative price stability achieved due to careful management of the Indian economy during 1977-78 is undoubtedly a great achievement of the present Janata Government, but "The Economic Survey" correctly cautions that "the price situation does not call for any complacency", and points out that "a more long-term solution to the problem of rising prices is increase in domestic production". The Government has been able to control prices became of the very comfortable foreign exchange reserves situation. Thus, it was able to regulate the export of items like fruits, vegetables, etc. and even ban the export of certain items which were in short supply within the country. It was able to use the massive foreign exchange to import large quantities of items which were in short supply like oilseeds and thus dampen down the inflationary pressures of the Indian economy. This indicates the scope which the mounting foreign exchange reserves give for a more flexible management of the economy and for restraining inflation.

MONETARY POLICY

Money supply with the public rose by 12.9 per cent in 1971-72, 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 and is estimated to have risen by only 8.7 per cent in 1977-78. In analysing the fluctuations in money supply, "The Economic Survey" noted that unprecedented increase in money supply of Rs. 2,699 crores or 20.3 per cent took place in the fiscal year 1976.77. The three principal factors responsible for this expansion of money supply were (a) an increase in bank credit to the commercial sector (b) an increase in net foreign exchange assets of the banking sector (c) an increasein net bank credit to Government. Of these, the most important one was the increase in bank credit to the commercial sector. Bank credit to the commercial sector rose by Rs. 3,240 crores in 1976-77 as compared to Rs. 2,883 crores in 1975-76. The next in importance was the increase in net foreign exchange assets of the banking sector. These recorded an increase of Rs. 1,675 crores in 1976-77 as compared to Rs. 525 crores in 1975-76. The increase in net bank credit to Government was, however, lower at Rs. 640 crores". But more interesting and revealing is the analysis of the increase in money supply for the comparable periods of the fiscal year up to January 20,1977, as compared with 1978. "The Economic Survey" analysed the trends succinctly thus: "In the fiscal year 1977-78 till January 20, 1978, money supply has shown an increase of Rs. 1,401 crores or 8.7 per cent as compared with an increase of Rs. 1,650 crores or 12.4 per cent in the corresponding period of last year. All the three factors, namely bank credit to the commercial sector, net foreign exchange assets of the banking sector and net bank credit to Government have contributed more or less equally to the expansion during this period. However, the increase in net bank credit to Government this year has been very sharp i.e. Rs. 1,002 crores in this period as compared to only Rs. 63 crores in the corresponding period last year. The increase in net foreign exchange assets of the banking sector has also been larger this year at Rs. 1,544 crores due to the continued rise in invisible receipts as against Rs. 1,196 crores in the corresponding period last year. Bank credit to the commercial sector, however, shows a much smaller increase this year, namely, Rs. 1,425 crores as compared to Rs. 2,702 crores last

year. This was due to deceleration in the growth of public food procurement as well as other advances."

These figures clearly indicate that the increase in nett foreign exchange assets of the banking sector is playing a major role in increasing the money supply and highlights the need for spending the rapidly rising foreign exchange reserves in order to control inflation as well as develop the Indian economy. The greatest failure on the part of the Government has been in respect of its inability to utilise the foreign exchange reserves in a productive and efficient fashion last year. In the coming years this unsatisfactory situation should be set right.

FOREIGN TRADE AND BALANCE OF PAYMENTS

The most glowing aspect of the Indian economy was in the area of its foreign trade and balance of payments. For many years, the value of total imports into India had exceeded value of India's exports resultingin a substantial deficit in the balance of trade. "The Economic Survey" points out that "the year 1976-77 marked a turning point in India's external trade transactions. This sharp deterioration suffered in the wake of the rise in the prices of petroleum, food, fertilisers and industrial raw materials was checked in 1976-77 and a small surplus of Rs. 69 crores emerged on trade account."

Thus, the total value of India's imports fell from Rs. 5,265.2 crores in 1975-76 to Rs. 5,074.4 crores in 1976-77, whereas the value of India's exports jumped dramatically from Rs. 4,042.8 crores in 1975-76 to Rs. 5,143.4 crores in 1976-77. Moreover, for the period April to June, of which statistics are available, value of imports declined from Rs. 1,061.7 crores in 1976-77 to Rs. 979.1 crores in 1977-78, whereas the value of exports in the corresponding period rose from Rs. 1,108.9 crores in 1976-77 to Rs. 1,224.7 crores in 1977-78. However, it should be noted that export growth appears to have decelerated to about 9 per cent from the rate of 27 per cent in 1976-77. "The Economic Survey" estimates that the trade surplus for the first eight months of 1977-78 can be put at Rs. 72 crores.

The foreign exchange reserves of the country soared dramatically throughout the year, aided by the favourable balance of trade, together with mounting inward remittances effected by the Indians working abroad to their dependents in the country. Thus, foreign exchange reserves are estimated to have crossed Rs. 4,000 crores and are approaching Rs. 5,000 crores despite repayments of various IMF and foreign loans by the Government of India. It is estimated that foreign exchange reserves are rising monthly at a rate of between Rs.130 crores and Rs. 150 crores and that during the coming twelve months, there could be further accretion in the foreign exchange reserves of between Rs. 1,500 crores and Rs. 2,000 crores. This would mean that our foreign exchange reserves may approach Rs. 7,000 crores by 1979 unless a dynamic new policy to use these reserves is implemented immediately.

The Finance Minister in his budget speech said that "the country's foreign exchange reserves have risen further, despite an increase in imports, because of continued inward remittances and a small surplus on trade account. Since reserve accumulations amount to lending abroad, these should be drawn down and used for internal development by a poor country like India." Yet, later on, in the budget speech, the Finance Minister admitted that he has totally failed to use the figure of Rs. 800 crores for which he had taken credit for borrowing from the Reserve Bank of India against drawals of foreign exchange reserves for the last year's budget in the anticipation that the foreign exchange reserves would be drawn down during the year.

"The Economic Survey" also emphasises the need to use India's foreign exchange reserves to promote growth and development and to restrain the money supply. It states that "an expansion in imports can then take place in only three ways: (i) increase in the imports of materials not available in India such as non-ferrous metals (ii) increase in the import of equipment not made in India (iii) increase in the import of those items produced in India because demand exceeds domestic output". But, "The Economic Survey" attempts to give various feeble reasons why a step-up in imports has not materialised.

It is quite clear that the key to India's economic development lies in adopting a fresh approach to the country's foreign exchange reserves in order to utilise the same for spurring economic growth. It appears that the administrative machinery has not adjusted itself and its attitudes to the new situation which has risen on the foreign exchange reserves front. The administrative machinery appears to be suffering from a hang-over of thirty years' foreign exchange shortages and crises and its mental attitude appears to prevent the effective utilisation of foreign exchange reserves for development. The time has come to take drastic and perhaps administratively unpopular policy decision to use the mounting foreign exchange reserves in a productive and imaginative manner to spur the growth of national income. If the present administrative machinery fails to ensure the utilization of these foreign exchange reserves in the coming year, the Finance Minister must consider drastic remedies like making the Indian Rupee progressively or at least partially convertible and in the ultimate scenario even fully convertible in order to break through the bottlenecks which prevent the use of the foreign exchange reserves in a proper manner. The situation is growing more serious daily in so far as monthly accretions to foreign exchange reserves increase the money supply and hence can lead to inflation in the Indian economy. If the problem is not tackled now, it will assume draconian proportions in two or three years and may require remedies at that time which will be far more painful than what can be done now to utilise the foreign exchange reserves.

BUDGETARY POSITION

In his budget speech the Finance Minister stated : "When I presented the Budget last year, I had estimated a budgetary deficit of Rs. 84 crores......... The total budgetary deficit is now expected to be of the order of Rs. 975 crores. This may appear to be a sizeable sum but let me first clarify that of this amount, the sum of Rs. 414 crores is directly accounted for by the additional assistance which I was compelled to make to the States on account of their deficits." However, the main cause of the increased deficit was due to the Finance Minister not having been able to draw down foreign exchange reserves of Rs. 800 crores for which he had taken credit for a borrowing from the Reserve Bank of India on the assumption that the foreign exchange reserves would be drawn down during the year. Explaining this unsatisfactory situation in respect of the failure to draw down the foreign exchange reserves, the Finance Minister stated, "my anticipation of the country's ability to draw down the foreign exchange reserves has not materialised.' This highlights the main failure on the part of the administration in fiscal management last year and points to the direction in which policy and action should be aimed in the coming year. The drawing down of the foreign exchange reserves should be the topmost priority of the Government of India.

At current rates of taxation, the Finance Minister estimated the budgetary deficit for the coming year, 1978-79, at Rs. 1,396 crores. He should have filled this deficit and even could have

cut taxation by drawing down the foreign exchange reserves. Unfortunately, he had failed to take credit for drawals against foreign exchange reserves in the budget and has attempted to fill a part of the deficit by proposing additional taxation which is estimated to yield to the Central Government Rs. 346 crores during 1978-79, reducing the budgetary deficit to a figure of Rs. 1,050 crores.

PLAN OUTLAYS

The total outlay on the Annual Plans of the Centre, States and union territories for 1978-79 is proposed in the budget to be Rs. 11,649 crores as against Rs. 9,960 crores in 1977-78 which represents an increase of 17 **percent.** But it is interesting to note that "continuing schemes absorb as much as Rs. 10,465 crores of thisoutlay". This clearly indicates the constraints within which the Finance Minister has had to operate and the fact that the old pattern of planning priorities had to be continued even in the current year in order to finish schemes which had been launched by the earlier Government. Thus basically the structure of the Plan remains similar to that adopted by the Congress Government before the Janata Party took over. Of the plan outlays left after making the allocations for continuing schemes, the Finance Minister was able to allocate Rs. 828 crores to agriculture and other schemes subserving the development of rural areas...... whereas under the Janata Party's announced economic policies this figure should have been substantially higher.

Despite the constraints inherited by the Finance Minister in respect of continuing schemes of the earlier Government, it is heartening to note that he has been able to fulfil the Janata Party's commitments to decentralise planning to the State level. Thus the Finance Minister was able to announce that "for the first time in many years, the States and union territories' Plans together will be larger than the Central Plan. The step up in the outlay on States' Plans as a whole is 19 per cent while the Plans of the union territories will go up by 27 per cent. The Central Plan, on the other hand, will increase by 15 per cent. This reflects a reordering of the Plan priorities in favour of agriculture, irrigation, power and rural development all of which figure prominently in States' Plans and in some measure a shift towards greater decentralisation in planning."

The Plan Outlay on agriculture has been raised by Rs. 490 crores to Rs. 1,754 crores for 1978-79. This is a step in the right direction but in the coming year, the outlays should be stepped up very much more.

The Finance Minister announced that "as a part of the new strategy for rural development, it is proposed to launch a massive programme of dairy development—Operation Flood 11—which will raise the nutritional standards of the people, generate employment for about 4 million people in the first phase and augment the incomes in rural areas through a viable subsidiary occupation". The project in the coming years will cost almost Rs. 500 crores but its launching this year is greatly welcomed as an essential ingredient in the programme of rural development and uplift.

The outlay on fisheries in the Central Plan is to be raised from Rs. 33 crores in 1977-78 to Rs. 61 crores in 1978-79. The outlay for the development of rural and small-scale industries is being raised from Rs. 145 crores in 1977-78 to Rs. 219 crores in 1978-79.

The plan outlays in construction of all weather approach roads and the provision of drinking water facilities in the problem village are also to be stepped up sizeably in the coming

year. The outlays on Programmes for the welfare of the scheduled castes and other backward classes and the outlays in the States' plans for tribal development are to rise substantially in the coming year.

The Finance Minister has stressed the importance of additional irrigation facilities being extended to 17 million hectares during the next five years. This total outlay on irrigation is to rise from Rs. 1,238 crores in 1977-78 to Rs. 1,401 crores in 1978-79.

In his budget speech, the Finance Minister said, "inadequate allocations in the past for power and the leisurely pace of execution of electricity projects have led to a chronic shortage of this basic infrastructure facility. Both these need to be corrected if recurrent power shortages are not to hold up our progress." However, the total outlay on power of the Central and the States is estimated at Rs. 2,217 crores in 1978-79 compared with Rs. 1,925 crores in the current year. This represents a very modest increase in the outlay on power which is totally inadequate. The Finance Minister should have used the large foreign exchange reserves to import on a massive scale power generating and other equipment and should have stepped up the outlay on power on a crash basis to a figure of say Rs. 4,000 crores in order to break the power shortage, which is strangulating Indian industry and also retarding the progress of agriculture. Here is a fruitful avenue in which the huge foreign exchange reserves could have been productively used if the administration had launched a crash programme to do so.

The outlay for the oil sector for 1978-79 is only Rs. 630 crores against last year's figure of Rs. 677 crores. The Finance Minister said that "there can be no slackening of our efforts towards self-sufficiency in crude oil". Yet the outlay on oil is not really substantial. Here again it can be argued that India's vast foreign exchange reserves should have been utilised by importing oil drilling rigs and other such equipment on a massive scale and a crash programme should have been launched through the active utilisation of foreign exchange reserves to make the country self-sufficient in oil.

The outlay on steel is to rise from Rs. 511 crores in 1977-78 to Rs. 563 crores in 1978-79. The outlay is on continuing projects which could not have been abandoned but it is to be hoped that after these projects are completed the Janata Government will cut down investments in sectors like steel in favour of its new industrial policy objectives.

The outlay on family planning which is now called the outlay on health and family welfare is proposed to be stepped up from Rs. 284 crores in 1977-78 to Rs. 393 crores in 1978-79. This indicates that the present Government is not slackening in the emphasis on family planning on a voluntary basis.

Defence expenditure next year is estimated at Rs. 2,945 crores against Rs. 2,752 crores in the last year, which represents a very modest step-up.

In the context of the larger plan in the coming year, the budget takes credit to market loans to yield Rs. 1,650 crores in the coming year as compared to Rs. 1,183 crores in the current year.

The larger plan outlay proposed by the Finance Minister should undoubtedly result in a step-up in public investment in the industrial sector as well as in the rural sector. But the dramatic shift in planning programmes and priorities which had been promised by the Janata Party has not materialised because the Finance Minister has had to budget for no less than

Rs. 10,465 crores on continuing projects out of the total plan outlay of Rs. 11,649 crores. This highlights the difficulty in shifting economic priorities in plans in a short time and the constraints which prohibit the Finance Minister from immediately implementing the Janata Party's manifesto in respect of new priorities in planning with the emphasis on heavy industries being cut down and shifting it to rural development and the development of tiny village, cottage and small scale industries.

BUDGET PROPOSALS

Although the Finance Minister has not taken credit for drawals against foreign exchange reserves in the budget estimates for 1978-79, his budget speech shows that he is acutely aware of the prime need to use the foreign exchange reserves. Thus he said in his budget speech that "a number of steps have been taken to utilise these reservesbut the continued accretion indicates that these are not enough. I, therefore, propose to create a new facility under which term lending financial institutionsand public sector banks will provide Rupee finance on appropriate terms to cover the import costs of approved projects. This will be in addition to the Rupee finance which is already being made available to cover domestic costs. A consortium of banks will be formed to provide such loans, supplementing the finance by the term lending institutions."

More dramatically, he announced in his budget speech that the Government has decided to sell gold from the stocks held by it. It is also proposed to encourage the making of gold jewellery for export by introducing an export promotion scheme in which gold could be made available at international prices to artisans and goldsmiths for making and exporting gold jewellery. Both these steps are in the right direction.

The Government should not only sell the gold from the stocks held by it but also not hesitate to import gold on a massive scale and sell it freely to mop up the money supply with the public if necessary. In this context, the continuation of the Gold Control Act will restrict the use of gold sale as an anti-inflationary weapon. The Government should abolish the Gold Control Act if it wants to use the sale of gold as a powerful instrument of economic policy to fight inflation if it rears its ugly head in the coming months.

The Finance Minister is also acutely aware of the fact that the budgetary deficit can be reduced from the sale of the gold. It is to be hoped that in the coming year, he will use the drawals of the foreign exchange reserves and a vigorous policy of the sale of gold as well as for the import of other needed items in order to develop the economy and if necessary to close the budgetary deficit and dampen inflationary pressures if they develop in the Indian economy.

The new taxation proposals of the budget involve additional resources mobilisation of Rs. 549.5 crores of which Rs. 499 crores is estimated to be the yield from the proposed changes in excise duties and customs duties, Rs. 25.5 crores from changes in direct taxes and Rs. 25 crores from changes in the Compulsory Deposit Scheme. Thus the bulk of the resource mobilisation is through indirect taxation and reflects the clear realisation that the potential for resource mobilisation in the area of direct taxation is nil or negligible.

EXCISE DUTIES

The Finance Minister has proposed changes in excise duties to yield Rs. 4,886 croresin the coming year. This representsa massive effort at resource mobilisation of a size not witnessed in recent years. He has proposed to levy a special excise duty

at the rate of 1/20th or the equivalent of 5 per cent of the basic rates of excise duties presently collected on all items in the Central excise tariff, except on coal, electricityand goods which are assessed under items not otherwise specified in the excise tariff. This measure is estimated to yield additional revenue of Rs. 214 crores in a full year. This is truly a gigantic impost but it is cleverly spread through out the range of almost all excisable items. Thus its inflationary impact will be minimised in respect of particular items in so far as the new impost applies uniformly at a small rate on every conceivable item.

The Finance Minister has proposed to levy an excise duty of 2 Paise per 'Kilowatt-hour on electricity generated. He has proposed to exempt from this levy electricity generated for captive consumption and to give a rebate of the duty to the producer in respect of electricityused for agricultural purposes. This levy is estimated to yield a revenue of Rs. 145 crores in a full year. The levy will undoubtedly be passed on to the consumer and will slightly raise the cost of power throughout the country.

A new central excise duty on coal varying from Rs. 5 to Rs. 10 per tonne is proposed which is estimated to yield Rs.58 crores in a full year. This duty is also expected to be passed on to the consumer and will lift the price of coal. The new excise duty on electricity and the excise duty on coal represents a package of excise duties on energy items estimated to yield no less than Rs. 203 crores and to that extent will push up energy costs within the country.

Some years ago, an excise duty at the rate of 1 **per cent** was introduced onallarticles "not otherwisespecified." It was thereafter raised to 2 **per cent.** The Finance Minister has proposed that the excise duty on all articles not otherwise specified be raised to 5 per cent ad valorem. He has exempted some categories of goods like pesticides, weedicides, insecticides and fungicides, non-proprietary drugs, medicines and drug intermediates. Newspapers and periodicals are also exempted. This levy is expected to yield additional revenue of Rs. 100 crores in a full year.

It will be seen that from above-mentioned five major changes in excise duties spread over almost every conceivable type of item, the Finance Minister proposes to collect no less than Rs. 517 crores in revenue in a full year. But since this burden is literally spread out throughout the economy in a clever and a very thin way, the excise burden in'the case of some items may be absorbed by the manufacturers. It is estimated that the maximum impact of the excise duties proposed by the Finance Minister on the price level may amount to less than 1 per cent.

The Finance Minister has announced a number of concessions in the sxcise duties of which the important ones may be outlined.

First, it has been provided that small-scale industries whose clearances in the preceding year were less than Rs. 15 lakhs would be exempted from excise duty payable on the first clearance of Rs. 5 lakhs in respect of sixty-nine items. This will give much needed excise duty relief to about 24,000 units and will result in a revenue sacrifice of Rs. 28 crores in a full year. It implemsnts partially the Janata Party's industrial policy to encourage small-scale units by giving them a differential advantage in excise duty over their large-scale rivals. Second, power driven pumps mainly used in agriculture are to be totally exempted from excise duty. This will involve a loss of revenue of Rs. 1.5 crores in a year and should bring down the prices of agricultural pumps and thus help rural development. Third,

small cuts have been announced in the excise duties levied on 3-wheeler auto rickshaws, whole milk powder, small refrigerators, films, etc. These cuts will result in a relief of about Rs. 3 crores.

The excise net has been widened to the largest possible extent and the additional excise burden has been placed on every conceivable item. In some cases, industry will be able to pass on the burden of new excise duties to the consumer, but because of the relatively small increase in the rates of excise, the impact on each item would be minimum. It is conceivable that if the monsoon is good and if the industrial and agricultural outputs improve, the excise duties may even be absorbed resulting in price stability.

CUSTOMS DUTIES

The Finance Minister has announced changes in customs duties which will result in an increase in revenue of Rs. 23.70 crores and cuts in customs duties resulting in a loss in revenue of Rs. 13.36 crores, giving a nett yield from the budget changes in respect of customs duties of Rs. 10.34 crores in a full year.

As a result of the change in the excise duties on the items not otherwise specified, the countervailing customs duty on such items is expected to yield Rs. 15 crores.

The Finance Minister has proposed to increase customs duty on polyester filament yarn from 120 per cent to 200 per cent, **ad** valorem, to yield a revenue of Rs. 6.40 crores in a year. He has justified this measure as necessary to protect Indian industry.

The Finance Minister announced that the customs duties would be reduced from 40% to 25% on capital equipment not made in India. Unfortunately, this concession is only restricted to machinery for leather and garment industry, cértain equipment for oil exploration and certain machine tools, testing machines and instruments. As a result of this change, the revenue loss is estimated at Rs. 9 crores in a full yeas. This measure should reduce the capital costs of industries import. ing such machines, but it is recommended that customs duties on all types of imported equipment be reduced to 25% so as to bring down capital costs of imported plant and machinery throughout the industrial structure.

The customs duties on condenser tissue paper and polypropylene film used to make capacitors which reduce transmission losses of power are proposed to be cut. Customs duty on electrical insulation paper is also to be reduced. These proposals will involve a loss of revenue of Rs. 4 crores and should bring down prices of these essential items. Various minor changes in respect of customs duties on items line cinematograph machinery, electronic components and imported feature films are proposed to involve a revenue sacrifice of Rs. 58 lakhs.

The overall change in customs duties is relatively small and modest and the total additional burden is minor.

DIRECT TAXATION

The Finance Minister announced that the rates of direct taxes would remain unchanged in the coming year. He, however, announced certain major changes.

PERSONAL TAXATION—COMPULSORY DEPOSIT RATES HIKED

The Finance Minister stated in his budget speech that "in order to mobilise additional resources in the form of savings,

I propose to raise the rates of compulsory deposit in the case of income-tax payers. While taxpayers having current income up to Rs. 15,000 will continue to enjoy immunity from the requirement of making compulsory deposit, in the case of incomes exceeding Rs. 15,000 and up to Rs. 25,000 the rate will be raised from 4 per cent to $4\frac{1}{2}$ per cent. On the slab of Rs. 25,001 to Rs. 70,000, compulsory deposit is currently made at the rate of 10 per cent. I propose to split this slab into two. While the rate on the slab of Rs. 25,001 to Rs. 35,000 will be 11 per cent, the rate on the slab of Rs. 35,001 to Rs. 70,000 will be $12\frac{1}{2}$ per cent. On the slab over Rs. 70,000 the rate will be raised from 12 per cent to 15 per cent. Approximately Rs. 25 crores will accrue in 1978-79 as a result of this measure."

The sharp increase in the rates of compulsory deposit to be made by those with incomes in excess of Rs. 15,000 will result in forced savings to the tune of Rs. 25 crores which in the short run will be diverted from private sector investment into the Government coffers. As a result of the change in the rates of the compulsory deposit scheme, the maximum marginal rate of personal income tax plus compulsory deposits will rise from 81 per cent to 84 pet- cent.

DEDUCTION OF SPECIFIED LONG-TERM SAVINGS RAISED

The Finance Minister has proposed to liberalise the concession in respect of long-term saving through life insurance, provident fund contributions and other approved forms of savings. At present 100 **per cent** of the first Rs. 4,000 of the qualifying savings, 50 **per cent** of the next Rs. 6,000 and 40 **per cent** of the balance are allowed as deduction in computing the taxable income of the taxpayers. It is now proposed that with effect from the assessment year 1979-80, a deduction equal to 100 per cent of the first Rs. 5,000 of the qualifying savings will be given, the next Rs. 5,000 will continue to enjoy deduction at the rate of 50 per cent and the balance will qualify for deduction at the existing rate of 40 per cent. But the total limit for savings qualifying for deduction is being raised from Rs. 20,000 to Rs. 30,000. It is estimated that these changes will result in a revenue loss of Rs. 10 crores in a full year and Rs. 7.5 crores in 1978-79. This concession is to be welcomed. But it will result in a further diversion of savings into public sector channels and to that extent reduce the savings available for private sector investment.

INVESTMENTS IN NEW SHARES

The Finance Minister recognised that the investors were not interested in putting their savings in shares into new industrial companies and that such new companies were "not attracting adequate support." He, therefore, stated in his budget speech that "in order to stimulate such investment, I propose to to give a deduction in the computation of taxable income of 50 per cent of the amount invested in equity shares of new industrial companies. The maximum investment in a year qualifying for this deduction will be limited to Rs. 10,000. This will entail a loss of Rs. 5 crores in a full year and Rs. 3.5 crores in 1978-79. I would cheerfully accept a much larger loss if it results in stimulating larger investment."

A careful study of the proposed section in the Finance Bill, 1978, shows that most onerous conditions have been applied for shares to qualify for these deductions, which may make the concession almost valueless. Thus it is provided that an eligible issue of capital will have to satisfy many conditions : First, it must be an issue of equity shares made by a public company

formed and registered in India with the main object of carrying on the business of construction, manufacture or production of any item not being an article specified in the Eleventh Schedule of the Income Tax Act. Since the list of items in the Eleventh Schedule of the Income Tax Act are items where profitability is likely to be higher than in the remaining industries, this tax concession will apply only to those industries which have long gestation period and low profitability. Second, the issue has to be an issue of capital made for the first time. Third, shares forming part of the issue have to be offered for public subscription. Fourth, the issue will have to conform with such further conditions and rules as may be framed by the Central Board of Taxes. The decision of the Central Government on the eligibility of a share issue for this tax concession will be final—yet no procedure nor provision is made for getting in advance a decision of the Government on the eligibility of a share issue for this provision.

It has been provided that where a company which was originally a private company becomes a public company and makes an issue of equity shares which may conform to the above mentioned conditions, the shares will be eligible for tax concession only if the company has not declared any dividend when it was a private company and the shares are offered for subscription at par, that is, not at a premium. This may exclude shares of some companies which may have made small profits as private companies and may have paid nominal dividends in the past.

To further restrict theavailability of this tax concession, it has been provided that to get this tax benefit the shares must be subscribed either through the public issue or out of the reservation made in favour of a person by reason of his being a promoter of the company or be purchased from the underwriters in case the public issue fails and the shares are acquired by the underwriters against their obligation in respect of the underwriting. These three restrictions on the mode of acquiring such shares may make it very difficult for an investor who is not a promoter of a company to get any such shares. It is doubtful if for the sake of this tax benefit, small investors will be willing to buy shares from the underwriters which have failed to be subscribed in the market in the public issue. Moreover, even if an individual buys such shares from the underwriters, there is a risk that tax concession may not be available to him. This is because it has been provided that a person shall be treated as having purchased any shares on the date on which his name is entered in relation to those shares in the register of members of the company. Thus, if after purchasing the shares from an underwriter the investor lodges them with the company concerned and the company delays the registration of tranfer beyond the assessment year of the purchaser, the investor will fail to get the tax benefit of such a purchase in that particular assessment year.

It has been provided that when an assessee sells such investments which got the benefit of this concession within five years of the date of purchase, the tax concession would be lost and an amount equal to the tax concession will be added to the income of the assessee in the year in which the shares are sold.

The ultimate blow is contained in a provision where it is provided that this tax concession availed of, such investments will not be taken into account for the purposes of reinvestment for securing exemption from the taxation of capital gains.

The Finance Minister should reconsider these onerous conditions if the tax concession is to have any value or to be effective in the coming years. It is meaningless to hedge the tax

concession with a series of conditions which will put off investors from even considering it or prevent them from availing of it. The eligible shares as defined now will be the shares of the industries where the gestation period may be as long as 8 to 10 years. The tax concession cannot possibly offset the loss of interest or dividends during such a long gestation period. The other provisions regarding the method by which the shares should be purchased would make it very difficult for an investor who is not a promoter to acquire any worthwhile shares under this section. The section needs to be greatly modified and simplified if it is to have any applicability whatsoever in the coming year.

LONG-TERM CAPITAL GAINS TAX EXEMPTION CURTAILED

The Finance Act (No. 2) of 1977 introduced a new Section 54E in the Income Tax Act to provide exemption from income tax in respect of capital gains arising from the transfer of any capital asset (other than short-term capital assets) in cases where the full value of the consideration received or accruing as a result of the transfer is invested or deposited by the taxpayer in specified assets within a period of six months after the date of the transfer. Where only a part of the consideration is so invested or deposited, a proportionate part of the capital gains is exempted from tax.

The assets specified for eligibility for reinvestment were: (1) securities of the Central Government or of State Government; (2) certain savings certificates issued by the Government; (3) Units in Unit Trust of India; (4) debentures specifed by the Central Government; (5) shares in any Indian company quoted on the stock exchanges or issued to the public, and (6) deposits in nationalised banks for a period of more than three years. As a result of the introduction of this section, the capital market became more liquid. which was the original announced aim of the section.

Many people sold their assets before February 28, 1978, and were planning to reinvest the same within six months in quoted shares or bank deposits. Suddenly like a bolt from the blue, the Finance Minister has now proposed that with effect from 1st March 1978, investments in shares of quotedcompanies will not be eligible for reinvestment, except where the investment is made in equity shares of new industrial companies as defined earlier and purchased in the mode provided for getting the concession in respect of income tax for investment in new industrial companies outlined above. Furthermore it isproposed that three year bank deposits made after 1st March 1978 will not qualify for reinvestment for exemption from the capital gains tax. The nature of this provision is totally unjustified and puts a harsh and inequitable burden on those investors who sold their assets in bona **fide** expectation of reinvesting them in shares quoted in share market or in bank deposits of more than 3 years. The provision as proposed in the Finance Bill 1978 is inequitable, unjustified, unfair and totally wrong.

The Finance Minister should have provided for the withdrawal of quoted shares and bank deposits as specified assets for reinvestment in respect of the reinvestment of proceeds of assets sold **after 1st March 1978.** If the present provisions of the Finance Bill are not amended, they will result in inequity and great hardship on those who have sold their assets before 28th February 1978 and will now be forced to reinvest them in relatively unattractive modes of investment.

Further, it is doubtful whether the continuation of exemption of capital gains in the new truncated form will attract

investors to sell their good quoted shares since they will then have to reinvest the profits only in Government securities or Savings Certificates or Units of the Unit Trust or debentures specified by the Central Government or shares of new industrial companies with a very long gestation period. The liquidity of the stock market will be destroyed and the supply of shares or scrips will dwindle dramatically. On the other hand, the demand for shares, especially from the financial institutions, will continue at the normal level. This will lead to an artificial scarcity of scrips or shares in relation to the demand for them and may result in a spurt in the prices of shares in the stock market as well as make it very difficult for institutional investors to get adequate quantities of shares for the investment of their funds.

MINOR CONCESSIONS

The Finance Minister in his budget speech announced that "the foreign remuneration of Indian citizens employed outside India is liable to Indian income-tax if their stay in India exceeds a specified period. As this results in avoidable hardship and discourages such persons from spending even a reasonable period on vacation in their home country, I propose to provide that Indian citizensemployed outside India may stay on vacation in the country for 89 days in a year without attracting such tax liability." This would be a good change except for the fact that here again it is proposed to restrict the benefit of this concession only to those persons where the services of the Indian citizens working outside India have been sponsored or have been approved by the Central Government or the prescribed authority. Thus the concession will be of benefit mainly to Government and civil servants and thousands of Indians working abroad, especially in the Gulf area, will not be eligible to benefit from the proposed concession. It is difficult to understand why when giving such a concession, which is worthwhile, the Finance Minister has allowed those who draft the Finance Bill to always put in clauses of this type which restricts the tax concession and makes it not available to all Indian citizens working outside India.

It is proposed in the budget that the winnings from horse races will be subject to deduction at source of income-tax at the rate 34.5 **per cent** for winning in excess of Rs. 2,500, made after 1st June 1978. The Finance Minister announced that this was one of the recommendations of the Chokshi Committee. This proposal is likely to deal a death blow to racing in India and will reduce the income of State Governments from local taxes on betting which takes place on race courses in India.

The Finance Minister has proposed that advance tax will be payable by all assessees having income above various specified limits. Thus, all assessees having incomes over specified low limits will have to file estimates of their income for the coming financial year and will have to pay advance tax on them voluntarily. Whereas this may be a convenient way of reducing the work of the income-tax department, it will only cause unnecessary work and hardship for thousands of small income-tax assessees after 1st June 1978, when the provision will take effect. The Finance Minister has said that he has made these changes regarding voluntary payment of advance income-tax based on the recommendations of the Chokshi Committee. This measure will shift work which should be done by the income-tax officers to the shoulders of hapless assessees.

In his budget speech, the Finance Minister announced that "the exemption limit for estate duty, which is Rs. 50,000 was fixed as long as 1958. As this exemption limit is unduly low, I propose to raise it to Rs. 1 lakh. Since, in this matter,

we can move only with the concurrence of the State Legislatures, a Bill for implementing this proposal and certain other proposals in relation to estate duty, will be introduced later this year." The proposed increase in the exemption limit is welcome. But it is totally inadequate because inflation has reduced the value of the Indian Rupee between 1958 and 1978 by around 400 per cent. If the limit for exemption from estate duty is to be kept in real terms at same level as in 1958 it should have been raised to Rs. 2 lakhs. Nevertheless, it is to be hoped that the various states will agree to the proposed change.

BUSINESS TAXATION

PUBLICITY EXPENDITURE DISALLOWED

The Finance Minister has proposed a draconian and completely arbitrary disallowance on advertisement, publicity and sales promotion expenditures with effect from the assessment year 1979-80. In his budget speech, he claimed that "extravagant and socially wasteful expenditure is often incurred on advertisement, publicity and sales promotion. In order to put a curb on such expenditure at the cost of the exchequer, I propose to provide for the disallowance of a part of such expenditure in the computation of taxable profits. Where the aggregate expenditure on advertisement, publicity and sales promotion in India does not exceed $\frac{1}{4}$ per cent of the turnover or gross receipts of the business or profession, 10 per cent of such expenditure will be disallowed in computing the taxable profits. Where such aggregate expenditure exceeds $\frac{1}{4}$ per cent but does not exceed $\frac{1}{2}$ per cent of the turnover or gross receipts, the disallowance will be made at the rate of $12\frac{1}{2}$ per cent; and where such expenditure exceeds $\frac{1}{2}$ per cent of the turnover or gross receipts the disallowance will be made at the rate of 15 per cent. These provisions will not apply in cases where the aggregate expenditure on advertisement, publicity and sales promotion does not exceed Rs. 20,000 in a year. Newly established industrial concerns will also be exempted from this provision for an initial period of three years. This measure will yield Rs. 31 crores in a full year and about Rs. 25 crores in 1978-79."

This measure is likely to increase the burden of income-tax on businesses and corporations by a staggering Rs. 31 crores in a full year, which means that over Rs. 50 crores worth of such expenditure will be arbitrarily disallowed for income-tax purposes. It is likely that in order to reduce the burden of this onerous provision, business and industry will cut back on their advertising, publicity and sales promotion expenditures which will deal a severe blow to the future and even survival of advertising agencies, newspapers, especially small newspapers, journals, all types of advertising media, etc.

Whereas wasteful expenditure on advetisement, publicity and sales promotion should be curbed, the present provisions of the Finance Bill are totally arbitrary and irrational. The exemption limit of Rs. 20,000 for such expenditure is ridiculously low considering that it takes many times that sum even to launch an ordinary consumer product. Secondly, the proposal does not differentiate between the need for such expenditures for selling capital goods, raw materials and intermediates, which require very little advertisement, publicity and sales promotion expenditures and the need for such expenditures which is very high for selling consumer goods, especially new types of consumer goods or special varieties and items which are produced for the first time. There should be much higher limits of exemption for such expenditure in relation to consumer goods and especially new items. A fairer proposal would have been to provide that such expenditure

above the average of that incurred during the past three years as a percentage of the turnover of these years of an assessee may be exempted and the excess could be carefully scrutinised in order to determine its wastefulness and can be disallowed on merit. The drafting of the present provision is so vague in so far as sales promotion and publicity are difficult to define that it will lead to endless litigation between the assessees and the income-tax department. It will also result in unemployment of thousands of persons engaged in the advertising profession or working in newspapers and journals and other publicity media. The Finance Minister must reconsider this proposal in the interest of overall employment as well as fairness and equity to business and industry.

EXPORT DEVELOPMENT ALLOWANCE

"The Economic Survey" and the Finance Minister's speech stressed the importance of export promotion. Nevertheless, Finance Minister has proposed to withdraw the export market development allowance which was given for income-tax purposes. Thus in his budget speech, he said "a weighted deduction is currently allowed in the computation of taxable profits with reference to expenditure incurred by Indian companies and resident tax payers, other than companies, on development of export markets. The weighted deduction is allowed at the rate of 150 cent of the actual expenditure in the case of widely held companies and at the rate of 133.3 per cent in the case of other taxpayers. While the full deduction of expenditure incurred for development of export markets is entirely justifiable, and no part of such expenditure will be disallowed under the proposed provision for disallowance of expenditure on advertisement, publicity and sales promotion, I do not see adequate justification now for continuing to subsidise such expenditure by the grant of weighted deduction. I, therefore, propose to discontinue the grant of weighted deduction in relation to such expenditure incurred after 31st March 1978. This measure is likely to yield Rs. 10 crores in a full year and Rs. 8 crores in 1978-79."

This measure is perhaps a reflection of the crisis faced by the Finance Minister in respect of drawing down the rapidly swelling foreign exchange reserves. Thus while paying lip service to exports, this measure will discourage exports but it may lead to lower accumulation of foreign exchange reserves. But such a policy is extremely dangerous in the long run and the proposed measure could have serious adverse effects on India's export trade in the long run. Surely, the correct course would be to spend the foreign exchange reserves to spur growth rather than take steps to discourage exports.

INTEREST TAX ABOLISHED

The Finance Minister has taken a dramatic and correct step in abolishing the interest tax levied on banks. This tax, which was introduced in 1974, provided for a levy of tax at the rate of 7 per cent on the gross amount of interest received by Scheduled banks on loans and advances made in India. The banks had passed the entire burden of this tax to the borrowers. The Finance Minister has abolished the tax with immediate effect, that is, from 1st March 1978. This change will involve a loss in revenue of Rs. 108 crores during 1978-79.

Immediately after the budget was presented, the Reserve Bank of India instructed the scheduled banks to cut their rate of interest to borrowers to reflect the abolishing of the interest tax and in some cases also give a further reduction in the interest rates charged to borrowers. The abolition of the interest tax and the reduction in the rates of interest announced

by the Reserve Bank of India immediately after the budget, are steps to be heartily welcomed in so far as they will make the burden of interest charges on industry lower and should also stimulate the capital market in so far as it is influenced by the structure and level of interest rates.

CONCLUSION

The budget represents an innovative approach to fiscal policy by the Finance Minister. The budgetary gap of Rs. 1,050 crores need not necessarily lead to inflation and given a good monsoon could reflate the Indian economy in a dramatic fashion. On the other hand, if the monsoon fails, the Finance Minister can always reduce the budgetary gap and tame the forces of inflation by importing and selling commodities, foodstuffs, consumer goods and gold. Thus in his budget speech, he has clearly mentioned that he would leave "an uncovered budgetary gap of Rs. 1,050 crores. This figure will be reduced by the receipts from sales of Government gold."

The Finance Minister should play an active role in following a flexible and pragmatic economic policy and to use the twin advantages of large buffer stock of foodgrains and gigantic foreign exchange reserves to accelerate the growth of the Indian economy. He enjoys today a flexibility in the options available in respect of economic policy almost of a unique nature, which did not exist during the last three decades.

The key to the growth of the Indian economy lies in the utilisation of foreign exchange reserves. The Finance Minister must tackle the problems of utilisation of such reserves as one of the highest priority. He should not be bound and hampered by the past attitudes and administrative structure in relation to the drawing down of the foreign exchange reserves. These administrative attitudes and bottlenecks are inherited as a result of 30 years of foreign exchange shortages. If necessary, he should make the Rupee progressively and parttially convertible and in the ultimate situation if need be even fully convertible. If the monsoon fails, the buffer stocks of foodgrains should be vigorously sold to control food prices and sales of imported items like oil seeds, imported foodstuffs, imported consumer goods, etc. and gold should be pressed in order to control the price line.

The Indian economy is now structurally strong enough to weather one or two failures of monsoon and continue growth. If the monsoon is good, the Indian economy will present a scenario of unprecedented favourable conditions, which if properly utilised could push the economy into a new era of growth from the past morass of stagnation. The Finance Minister was quite right in concluding his budget speech thus: "The economic situation of the country is exceptionally favourable at present for a bold step forward. This budget is such a step."

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