IV. THE BUDGET AND THE PLAN

106. The past two decades have brought about remarkable shifts in the country's fiscal structure. The Government's tax revenues have been greatly augmented over this period: from 6.6 per cent in 1950-51, the proportion of tax revenues to national income has risen to 14.0 per cent in 1970-71. For an economy where national income has increased, on an average, by only about 3.5 per cent annually during this period, this is a considerable achievement. One could take a similar view of the spectacular expansion of the public sector: the Government's share in national expenditure has more than doubled over these two decades. The growth of developmental expenditure of the Central and State Governments has been even more phenomenal; it has risen from 4 per cent of national income in 1950-51 to nearly 14 per cent in 1970-71. As a consequence, the public sector as a whole has gradually come to occupy the dominant position in the industrial economy of the country. The thrust of the Union Government's fiscal efforts in 1971-72 in particular has been of an unprecedented nature, and has contributed in no small measure to the economy being maintained on an even keel during this most critical year.

107. An important area where difficulties are being experienced is in maintaining the rate of growth of Plan expenditure. While fairly large amounts are budgeted on this account every year, the actual outlay turns to be considerably less than the provisions. Various reasons are adduced for the inability to spend the budgeted amounts, for example, delay in signing agreements, if foreign collaboration or assistance is involved, non-availability or delay in the procurement of machinery and equipment, shortages of raw materials such as steel, delay in the acquisition of land, etc. Whatever the underlying factors slowing down the implementation of projects, more often than not, it adds to the cumulative fiscal burden. With each delay, the cost of the individual projects tends to rise; the picture of internal surplus anticipated from the projects also gets distorted.

108. The first two years of the Fourth Plan have coincided with substantial shortfalls in the realisation particularly of the outlays planned at the Centre. The shortfall in the Centre's Plan was of the order of Rs. 236 crores in 1969-70 and Rs. 160 crores in 1970-71, although to some extent this was offset by the excess of Plan outlays incurred in the States' sector. What was specially disquieting was that projected outlays could not be attained in the critical sectors of organised industries, including the Bokaro steel plant, fertilisers plants and the petro-chemical units. There was a similar lag in the investment outlays on transport particularly Railways, as compared to the projected levels. In 1969-70, the Plan outlay on organised industries in the Central sector fell short of the budgeted level by as much as 25 per cent; in 1970-71, the situation hardly improved, and the shortfall was again of the order of 23 per cent. The corresponding shortfall in the case of outlays on transport and communications in the Central sector was 19 per cent and 12 per cent respectively for these two years.

TABLE XI

Proposed Plan outlays and actual expenditure

(Public Sector)

(Rs. crores)

Items	1969-70 Proposed outlay	1969-70 Actual expenditure	1970-71 Proposed outlay	1970-71 Actual expenditure	1971-72 Proposed outlay
1 *Iron and Steel* . . .	207·5	178·0	209·9	177·8	210·9
Percentage short fall in expenditure in relation to outlay	14·2		15·3		
2 *Heavy Engineering* .	16·7	10·0	14·4	9·9	9·1
Percentage shortfall in expenditure in relation to outlay . . .	40·1		31·3		
3 *Mines and Metals*	67·2	39·1	74·8	55·5	79·9
Percentage shortfall in expenditure in relation to outlay . . .	41·8		25·8		
4 *Chemicals and Fertilisers* .	88·8	77·0	100·3	68·2	75·3
Percentage shortfall in expenditure in relation to outlay . . .	13·3		32·0		
5 *Other Industries** .	168·1	103·8	187·3	140·7	199·1
Percentage shortfall in expenditure in relation to outlay . . .	38·3		24·9		
6 *Total* . . .	548·3	407·9	586·7	452·1	574·3
Percentage shortfall in expenditure in relation to outlay . . .	25·6		23·0		

*Include electricals, paper, cement, petroleum, plantations, textiles, shipping, atomic energy and loans to financial institutions.

109. The inadequate level of Plan activity in recent years is also evident from the fact that the total Plan outlay in the public sector declined from 11.3 per cent of national income in 1965-66 to barely 7 per cent in 1969-70; it worked out to about 8 per cent of national income in 1970-71. In the current year, a concerted effort was made by the Central and State Governments to make up for the lag in the first two years of the Plan and accelerate the tempo of activities. As a result, the total Plan outlay proposed for the public sector in 1971-72 might turn out to be as high as 8.5

per cent of national income, although, in relation to the peak of more than 11 per cent reached by the end of the third Plan, this level of outlay—even if it were to be attained—would continue to look modest.

110. It bears repetition that the level of the investment in the public sector plays a catalytic role in sustaining and accelerating the overall level of capital formation in the economy. The declining trend of investment in the public sector in recent years has had its repercussions on the level of capital formation in the private sector. As alluded to elsewhere in this Survey, excluding that part of the activity which has been financed by the term-lending institutions, investment activity in the private sector has been in recent years generally subdued.

111. The proposed enlargement of the volume of Plan outlay through the Union Budget for 1971-72 in the Centre's sector alone was substantial; a rise of nearly Rs. 300 crores over the Plan outlay actually incurred in 1970-71—or an increase of about 20 per cent—was contemplated. Information regarding the actual progress of Plan expenditure in the current year is not yet available. The task of effectively implementing the Plan projects was rendered difficult this year by the several constraints including the influx of refugees from Bangladesh. The Plan of the size as originally envisaged in the Budget for 1971-72 is thus unlikely to be fully implemented.

112. The existence of unutilised capacity in a number of capital goods industries, in particular transport and railway equipment, is symptomatic of the fact that public sector is not yet generating a multiplier effect elsewhere in the economy. Nonetheless, such information as is available suggests that investment in the private corporate sector in 1971-72 may be higher—in absolote terms—than what it was in the preceding year; whether it will also be higher as a percentage of national income is more open to question.

113. Were the proposed target of Plan outlay in the public sector reached in 1971-72, the over-all rate of capital formation, it was assumed, would move back to around 12 per cent of national income. The developments during the year must have disturbed the broad contours of this calculation. Fiscal discipline of the severest kind will therefore continue to be called for in the coming years if the rate of investment is to be accelerated.

114. An analysis of recent trends in the various components of savings will be enlightening. The high level of investment attained in 1965-66—when it was nearly 14 per cent of national income—was largely attributable to a rising level of public savings and also to a substantially large inflow of foreign savings: in that year, public savings amounted to 2.4 per cent of national income and the inflow of foreign saving to nearly 3 per cent. The decline in the rate of domestic savings in the subsequent two years was on account of a fall in the rates of both private and public savings, particularly the latter; the rate of public savings declined from 2.4 per cent of national income in 1965-66 to about 1 per cent in 1967-68. Currently, the rate of private savings is in the vicinity of 9.0 per cent of national income, that is, somewhat higher than the level obtaining in 1965-66. But the rate of public savings is barely 1.5 per cent and is lower than the level of 3 per cent reached toward the middle of the third Plan period. The

inflow of foreign savings too has declined progressively from 3.8 per cent of national income in 1966-67 to 1.6 per cent in 1971-72. The role of foreign savings should diminish further in view of both recent developments in the international field and the objective set in the Fourth Plan for dispensing with external aid in the shortest available time. A sharp increase in the rate of public savings is therefore of the utmost significance for lifting the rate of investment activity in the economy.

115. As stressed at several other places in the present Survey, a rise in the level of capital formation in the public sector is also crucial for sustaining and enlarging the scale of activities in the private sector. The revival of investment demand by the public sector is necessary both for the full utilisation of the existing installed capacity and for the creation of fresh capacity, which only can ensure steady growth of national income in the coming years. The recent emergency has added further urgency to the task of maximising production through greater utilisation of the capacity in industries as steel, fertilisers, machine tools, railway wagons, coal and elsewhere.

116. The rate of public savings, in terms of the assumptions in the Fourth Plan document, was to have been raised from 1.4 per cent of national income in 1968-69 to 4.5 per cent in 1973-74. According to the Mid-term Appraisal of the Plan, public savings over the Plan period are now expected to be Rs. 1,315 crores lower than the original estimate of Rs. 5,861 crores; in terms of 1968-69 prices, the shortfall will be of the order of Rs. 1,775 crores. As a proportion of the anticipated national income in 1973-74 the revised target of public savings is only 3.9 percent. On the other hand, the revised target of private savings is higher than the original estimate of Rs. 14,160 crores—by Rs. 2,075 crores at current prices and by Rs. 533 crores at 1968-69 prices—with the result that the draft of the public sector on private savings is expected to be larger than what was visualised earlier. In the aggregate, net availability of resources for financing the outlay proposed for the public sector of the plan is about the same as estimated originally, even though, in real terms, there is a shortfall of 10 per cent. This re-assessment will however now need further modifications, since it does not take into account the full expenditure on the refugees and for the reconstruction of Bangladesh; nor does it provide for the latest instalment of the increase in dearness allowance to Government employees and the effect of the final recommendations of the Third Pay Commission which may have to be implemented during the Plan period. It also does not take into account the additional requirements for defence resulting from the hostilities last December and for food subsidy.

117. In other words, the task of raising the rate of public savings from the present level of 1.5 per cent of national income to 3.9 per cent in 1973-74 on the basis of the latest reassessment, will not be easy given the numerous claims on Government resources for non-plan expenditure; in view of the developments during the year, many of these claims are threatening to assume runaway proportions. The search for finding additional resources will have to be greatly intensified both for enlarging the scale of capital

formation as well as for tackling the wide array of problems currently affecting the economy. Consistent with the objective of growth with social justice, the burden of the resource effort will have, naturally, to be spread equitably over the various sections of the community.

118. During the last few years, attempts have been made to rationalise and modernise the tax structure with a view to improving its responsiveness to the growth of national income as well as attuning it more effectively to the requirements of social justice. Particularly in the field of direct taxation, efforts have been made to smoothen and sharpen the scale of progression in the structure of personal income tax and to deepen and widen the coverage of wealth tax, particularly by extending it to rural properties. In the overall, there is no question that taxation as an instrument of mobilisation of resources has acquitted itself creditably in recent years.

119. But certain problems still persist. The rapid increase in commodity taxation *vis-a-vis* taxation of incomes and wealth has been a major feature of the fiscal developments during the past two decades. Whereas the revenue from the taxation of incomes and wealth has risen fractionally from 2.4 per cent of national income in 1950-51 to 3.0 per cent in 1970-71, the revenue from indirect taxes has increased as a proportion of national income from 4.2 per cent to 11.0 per cent, or nearly three-fold. This was perhaps inevitable, since widening the base of direct taxes in a country consisting overwhelmingly of poor people has inherent limitations. But the comparative lack of progresssiveness in indirect taxes has to be constantly guarded against.

120. One major area for direct taxation is the income originating in agriculture, which however comes under the orbit of the States. The difficulties faced by the State Governments to tap adequately the rural sector, besides widening economic disparities, have resulted in an increasing reliance on their part on the Union Government's assistance. At the same time, the proportion of land revenue and agricultural income tax collected by the States to national income from agriculture has steadily declined from 1.63 per cent in 1960-61 to 0.85 per cent in 1970-71.

121. The problems here are social, political as well as constitutional. The decision at the conference of the State Chief Ministers in October, 1971 to constitute a Committee to examine the issues related to the integration of agricultural and non-agricultural incomes for the purpose of the levy of a single income tax can, from this context, be considered as a milestone. In such matters, a federal structure can make progress only through a process of consent and consultations. The need for making genuine progress along the desired directions cannot however be overemphasised; since the limit of taxable capacity for an individual sector is partly determined by the burden imposed upon similarly situated groups in other sectors, a failure to tax rural incomes adequately cannot but inhibit efforts at raising fresh resources from the non-agricultural sectors as well.

122. In recent years, attempts have been made to improve the resilience of the structure of commodity taxation by shifting, in several cases, the basis of incidence from specific to *ad valorem;* also, to the extent possible, emphasis has been laid on taxing finished goods rather than goods of the

intermediate category. Commodity taxation has also been used for the purpose of effecting an improvement in the balance of payments by exercising restraint on domestic consumption where either the export potential or the import content is high. The experience, in this country as well as elsewhere, is that a certain degree of progression can be introduced to commodity taxes by relying more heavily on luxury and semi-luxury items; but the significance of such items can be limited. Alongwith strengthening and improving the machinery for direct taxation with a view to cutting down arrears, reducing evasion and eliminating such malpractices as under-valuation of properties, etc., one should therefore continuously seek to explore new sources of revenue.

123. As stated earlier, current savings of the Government have gone down markedly in recent years in spite of the large increases in taxation. Apart from other factors, the expected surpluses from the public enterprises have failed to materialise. According to the Mid-term Appraisal of the Fourth Plan, contributions from Government enterprises are now expected to yield only Rs. 1,171 crores as against Rs. 2,029 crores stipulated in the Plan. The public enterprises, besides being victims of the phenomenon of rising costs, have also been afflicted by industrial unrest, break-downs and problems of management, both administrative and technical. A substantial part of the Plan outlay is locked up in these undertakings; the returns in some cases have not been sufficient even to cover adequately the requirements of depreciation.

124. The above narrative does not of course break new ground. Most of the problems referred to above have been intensely discussed in recent years. The prospects in regard to prices are likely to continue to be uncertain, and, therefore, it would be hazardous to resort to inordinate magnitudes of deficit financing, particularly since there is also the problem of restraining the overdrafts which the State Governments are currently running with the Reserve Bank of India. The profits from public enterprises continue to be sluggish, while indirect taxes too in their turn have sometimes a disequilibrating effect on prices. Along with the need for raising the level of public savings so as to augment the expenditure on the Plan in a non-inflationary way, there is therefore a corresponding need to redress the imbalances in the fiscal system. The report of the Direct Taxes Enquiry Committee, submitted recently, has a number of valuable suggestions both for fiscal reform and for tackling problems of tax evasion. These recommendations will deserve serious consideration and speedy implementation.

125. At the other end, there is equal need for exercising greater vigilance in disciplining non-developmental expenditures. No doubt a significant part of the rise in non-development outlays in recent years is attributable to increases in contractual obligations, such as interest payments and increased provision for national security. In part, the growth of non-developmental expenditures also reflects the fact of rising provisions for natural calamities, subsidies on items such as food, as well as increases in the emoluments of Government employees.

126. With the scope of garnering additional resources from outside the rural sector getting increasingly narrowed, the inability to keep a close rein over non-developmental non-contractual expenditure can only further affect adversely the prospects for the fulfilment of the Plan targets. During the current year, the difficulties on this score were compounded by the massive outlays incurred on the refugees from Bangladesh. By the time of the outbreak of hostilities with Pakistan, the number of refugees had reached nearly 10 million, of whom close to 7 million were being housed in government camps. By the end of January, 1972, the Government had incurred an expenditure of Rs. 260 crores by way of refugee relief; and this is expected to go up by another Rs. 80 crores before the repatriation of the refugees to Bangladesh is completed. Against this huge outlay, while aid pledged by outside sources was Rs. 167 crores, of which roughly Rs. 137 crores was through the United Nations and the balance negotiated bilaterally, total aid actually received on this account till the end of January, 1972 was nearly Rs. 117 crores.

127. Apart from the direct expenditure for the relief and repatriation of the refugees and the assistance committed to the Government of Bangladesh for economic re-construction, the cost of the war and its burden on the fisc, have also to be reckoned separately. The rehabilitation of the families of those who have laid down their lives in the war and of those who have been incapacitated as well as the loss of military hardware have to be provided for. The expenditure on these heads will add upto a substantial magnitude. Outlays of this nature constitute the imponderables in a nation's life, and the corresponding burden has to be borne. The Union Government tried to meet the additional draft on resources arising during the year by effecting a reduction of the order of 5 per cent in non-Plan non-contractual expenditures and by inviting the States to do the same, by imposing fresh levies in cooperation with the States, and, finally, by allowing the fiscal deficit to widen beyond what was earlier contemplated.