

CHAPTER 5

FISCAL POLICY AND GOVERNMENT BUDGETS

5.1 The Central Government Budget for the year 1978-79 had as its principal objective translating into action through the budgetary process, the new orientation given to development planning by the reconstituted Planning Commission. Shifting the emphasis in planning to the promotion of rural development, according priority to the removal of unemployment through the development of agriculture and rural and small scale industries and enlarging the scope of the Minimum Needs Programme for alleviation of poverty formed the main planks of new approach to planning.

5.2. To accommodate all these programmes with increased allocations, plan outlay was substantially stepped up and in consequence, budgetary resources had to be augmented through efforts at additional resource mobilisation. Though the States were also required to share a part of this effort, there were some obvious limitations in their case. Some States had been saddled with large overdrafts with the Reserve Bank of India on account of the lack of financial discipline on the part of earlier regimes. Others were still settling down after the elections and thus could not address themselves to the task of putting their finances in order. As a result, the Centre's responsibility was quite heavy in this regard and a determined effort at resource mobilisation became inevitable not only to meet its own plan and non-plan expenditures but also to fill the large gap in States' resources.

Budgetary Development during 1977-78

5.3. The combined budgetary outlays of the Centre and States which had been originally estimated at Rs. 23346 crores for the fiscal year 1977-78 showed an increase of 2.9 per cent at Rs. 24013 crores in the revised estimates. This was the outcome of an increase of about Rs. 600 crores in developmental expenditure and only a small increase of around Rs. 70 crores in non-developmental expenditure. Tax revenues, were slightly less than budgeted because of lower collections under Union excise duties and marginal declines in income, wealth and corporation tax revenues. Even so, current revenues were slightly higher in the revised estimates because of the improvement in non-tax revenues. As a result the gap between total expenditure and current revenues further increased by 9.8 per cent from Rs. 6456 crores in the original budget to Rs. 7090 crores in the revised estimates.

5.4 A special borrowing of Rs. 800 crores from the Reserve Bank against a drawing down of foreign exchange reserves of an equal amount had been included in the Central Budget for 1977-78. In the revised estimates this item was dropped since this drawing down the foreign exchange reserves did not materialise. External borrowings were also lower by Rs. 274 crores. Since domestic borrowings could not be increased to compensate for these declines, the combined budgetary deficit† of the Centre and the States increased to Rs. 1134 crores in the revised estimates.

TABLE 5.1
Budgetary Transactions of the Central and State Governments

	1976-77	1977-78		(Rs. crores)
		(B.E.)	(R.E.)	(B.E.)
I. Total Outlay	21196	23346	24013	27516
(a) Developmental	13134	14407	15005	17652
(b) Non-Developmental	8062	8939	9008	9864
II. Current Revenue	15759	16890	16923	19182
Of which : Tax revenue	12332	13398	13242	14613
III. Gap (I-II)	5437	6456	7090	8334
Financed by :				
(i) Domestic capital receipts	3910	4986	4974	5664
(ii) Draft on foreign savings	1393	1256	982	1322
(iii) Budgetary deficit	134	214	1134	1348

†The budgetary deficit includes net sale of Treasury Bills by the Central Government (excluding the portion absorbed by the States), net ways and means advances to the State Governments by the Reserve Bank of India and variation in the cash balances of the Central and State Governments.

Central and State Government Budgets (Including Union Territories) for 1978-79

5.5. As stated earlier the Budget for the year 1978-79 had sought to implement the employment oriented growth strategy with rural bias adopted by the Planning Commission as the new approach to development planning. The outlay on the Annual Plan by the Centre and States for 1978-79 was stepped up by 17 per cent from Rs. 9960 crores to Rs. 11649 crores, and for the first time in many years, the total outlay on States and Union Territories' Plans at Rs. 5,985 crores was more than that of the Centre at Rs. 5,664 crores. In keeping with the new priorities a large percentage of the total outlay was allocated to agriculture and rural activities. Similarly, outlays on a number of other priority sectors were stepped up. The expenditure on agriculture and allied programmes went up by 39 per cent or Rs. 490 crores to Rs. 1,754 crores. The combined allocation for Command Area Development, Schemes for Small and Marginal Farmers and Agricultural Labourers, Drought Prone Area Programme and for Desert Area Programme amounted to Rs. 293 crores which was twice as much as in 1977-78. The outlay on major and medium irrigation (including flood control) was higher by 13 per cent at Rs. 1,166 crores. In the critical sector, power, the step-up in outlay was more than 15 per cent. Reflecting the importance attached to the Minimum Needs Programme, allocations for it were raised to Rs. 525 crores in 1978-79 from Rs. 339 crores in the revised plan outlay for 1977-78. The allocation for rural roads amounted to Rs. 120 crores while the provision for drinking water supply in the rural areas was Rs. 114 crores. The new adult education programme was allocated Rs. 7 crores. All the outlays which would help rural development taken together, constituted about 40 per cent of the Annual Plan outlay in 1978-79 compared to 37 per cent in 1977-78.

5.6 The provision for village and small-scale industries was Rs. 219 crores, which indicated a step-up of 51 per cent. On the other hand, in conformity with the changed priorities the allocation for large industrial and mining sector was raised by only 2 per cent, from Rs. 2,365 crores in 1977-78 to Rs. 2,414 crores in 1978-79. At the same time basic industries, like coal, steel, oil, fertilisers and the iron ore project at Kudremukh were allotted sufficient amounts with a view to stepping up production levels in these vital areas as well as to completing the projects within

the stipulated time. Social consumption items like medical and public health (including family welfare) received an allocation 38 per cent higher than that in 1977-78. The allocation for water supply and sanitation was 25 per cent higher and that for housing and urban development 29 per cent. The outlay on transport and communication at Rs. 1782 crores was 11.5 per cent more than in the previous year.

5.7 Fiscal efficiency lies in allocating an increasing proportion of the revenues of the Government to productive purposes as well as for social consumption. The budgetary allocations of the Centre, States and Union Territories do conform to this criterion since 64.2 per cent of the estimated total outlay of Rs. 27516 crores has gone for development purposes. This proportion was 62 per cent in 1976-77. The trends in public expenditure also reveal that the growth rate in expenditures of a developmental nature has been higher at 17.6 per cent as against a rate of 14.6 per cent in total expenditures. Although non-developmental expenditure in 1978-79 was to be 9.5 per cent higher than in the preceding year, the step-up in expenditure on police and defence has been moderate at 4.4 per cent and 7.0 per cent respectively. The largest increase i.e., 16.9 per cent, in non-development expenditure occurred under interest payments followed by cost of tax collection at 8.1 per cent.

5.8 Although current revenues were estimated to grow by 13.3 per cent from Rs. 16923 crores in 1977-78 (Revised estimates) to Rs. 19182 crores in 1978-79 (Budget estimates) as against 10.6 per cent in 1977-78 (Budget estimates) over 1976-77 (revised estimates), tax revenues showed a slightly lower rate of growth at 10.4 per cent compared to 11 per cent for the corresponding estimates in the earlier year. Taking taxes individually, the largest increase i.e. 16.8 per cent was estimated under Union excise revenues reflecting the substantial additional tax effort under this source in the Central budget. This was followed by an increase of 12.0 per cent in income and corporation taxes and of 8.6 per cent in sales tax. The overall gap between outlays and current revenues in the 1978-79 Budget was estimated at Rs. 8334 crores as against Rs. 7090 crores in the revised budget for 1977-78. Domestic capital receipts and external borrowings were to cover this gap to the extent of 68 per cent and 16 per cent respectively, leaving the balance 16 per cent as the budgetary deficit.

Central Government Budget for 1978-79

5.9 On the eve of the presentation of the Central Government budget for 1978-79, the profile of the economy was such that the resurgent inflation had been controlled and the growth in real output particularly in agriculture was estimated to be a record one. Comfortable foreign exchange reserves and a sufficient stock of foodgrains were other favourable factors. In the circumstances, the imperatives for budgetary policy were quite obvious. Foremost among them was to provide adequate fiscal stimuli to the growth of investment and to give a concrete shape to the new design of development by revamping public expenditure policy in the direction of more employment oriented programmes and rural development. The second was to continue to maintain price stability.

5.10 In an effort to achieve these objectives, the Central Budget stepped up total expenditure to Rs. 19379 crores, of which 57.3 per cent (or Rs. 11104 crores) was developmental expenditure. Two years ago, this ratio was 54.2 per cent. In the process of increasing budgetary expenditures, however, the overall budgetary deficit increased from Rs. 975 crores in the revised estimates to Rs. 1071 crores in the finally approved Budget for 1978-79. It was, however, expected that a budgetary deficit of this magnitude would cause no disturbances on the price front in view of the favourable factors obtaining in the economy. On the other hand, this was expected to stimulate private investment.

5.11 In order to assess the impact of the budget on capital formation, Government savings, etc., attention needs to be focussed on a reclassification of

Government expenditures and receipts in terms of economic categories. Such a reclassification is available in respect of the Central Budgets. According to this classification the direct gross fixed capital formation (*i.e.* investment in building, public works, equipment and other fixed assets) was expected to increase by 15.1 per cent from Rs. 1,272 crores in the revised estimates for 1977-78 to Rs. 1,464 crores in the budget estimates for 1978-79; this growth is slightly lower than 16.7 per cent recorded in 1977-78 over 1976-77. Including the increase in inventories and the financial assistance for capital formation to the rest of the economy, the gross capital formation out of the Centre's budgetary resources at Rs. 7,048 crores in 1978-79 showed a higher growth rate of 19.5 per cent than the growth of 18.2 per cent recorded in 1977-78. However, with the decline in the Central Government's own savings (gross) from 17.7 per cent in 1976-77 to 13.8 per cent in 1977-78 and further to 12.9 per cent in 1978-79, the reliance on other sectors for financing the capital formation correspondingly increased, including short-term borrowings from the Reserve Bank.

5.12 Last year's Economic Survey made an observation regarding the growing burden of subsidies on the Central Government's resources. These had doubled in one single year to Rs. 947 crores in 1976-77. They increased further by 23.7 per cent to Rs. 1172 crores in the revised estimates for 1977-78. In the Budget estimates for 1978-79 however, they were expected to be lower by 13.0 per cent at Rs. 1,019 crores. On present indications this provision would appear to be inadequate. However, the economic rationale of giving subsidies is at present under examination by a Committee.

TABLE 5.2
Capital Formation by the Central Government and its financing

	1976-77	1977-78 (R.E.)	1978-79 (B.E.)
	(Rs. crores)		
I. Gross capital formation out of budgetary resources of the Central Government	4991	5898	7048
(i) Gross capital formation by the Central Government	1112	1241	1630
(a) Gross fixed capital formation	1090	1272	1464
(b) Increase in inventories	22	(-)-31	166
(ii) Financial assistance for capital formation to the rest of the economy	3879	4657	5418
II. Gross savings by the Central Government	885	811	908*
III. Deficit (I-II)	4106	5087	6140
Financed by :			
IV. Draft on other sectors of the domestic economy	2713	4105	4818
(i) Domestic capital receipts	2583	3130	3747
(ii) Budgetary deficit	130	975	1071*
V. Draft on foreign savings	1393	982	1322

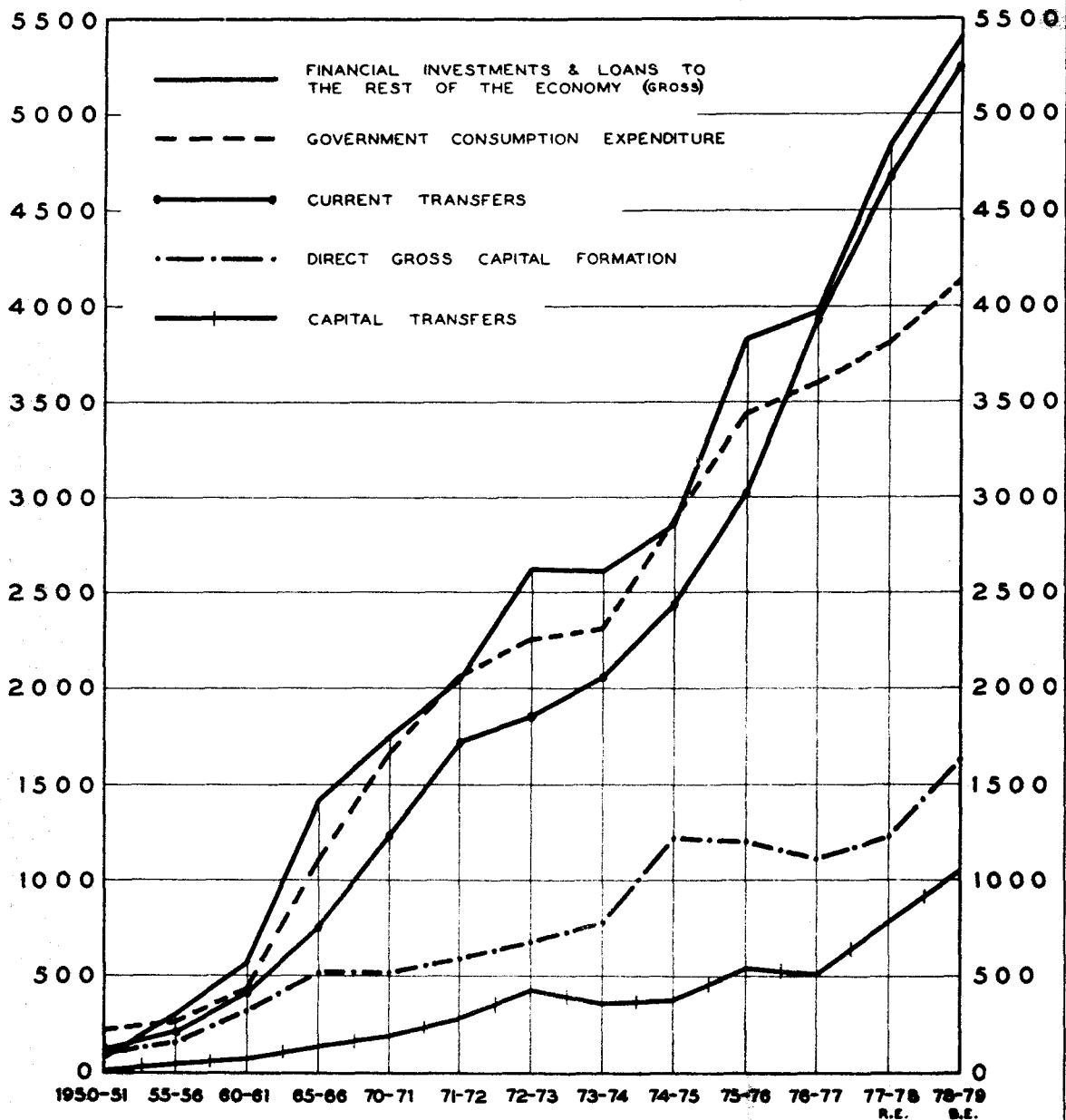
*After taking into account the post-budget concessions.

NOTE : Gross capital formation in this table includes loans given for capital formation on a gross basis. Consequently domestic capital receipts include loan repayments to the Central Government.

CENTRAL GOVERNMENT EXPENDITURE

(ECONOMIC CATEGORIES)

RS. CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

Measures towards Tax Reform

5.13 The steps initiated during the year 1977-78 towards reform of the tax structure were carried further during the year under review. In the area of both direct as well as indirect taxes measures were taken to improve the efficiency of the tax system as an instrument of promoting growth, employment, rural development and reducing disparities. Attempts were also made to use the tax instrument for achieving short run objectives like stabilisation.

5.14 The broad objectives underlying the direct tax proposals were promoting larger savings, curbing extravagant and wasteful expenditure in business and professions and channelising funds for growth and production and encouraging investment. Among the tax measures to strengthen the impulses for growth mention may be made of the enlargement of the concessions granted in income tax for saving through specified media like life insurance and provident fund. The Budget for 1978-79 raised the monetary limit on the amount qualifying for deduction in the computation of taxable income on account of savings in specified forms from Rs. 20,000 to Rs. 30,000. The scale of deduction was also raised to provide that the first Rs. 5000 of the qualifying amount would be deductible in full as against Rs. 4000 earlier. Further, deduction was also provided from taxable income for investment in equity shares of new industrial companies subject to certain limits. The tax on interest income of banks was abolished with the directive to pass on the benefit to the borrowers. At the same time, the rates for compulsory deposit for income tax payers were enhanced, thereby reducing their disposable income significantly. Also, a provision was introduced in the Income-tax Act thereby a part of the expenditure on advertisement, publicity and sales promotion would be brought under taxation.

5.15 Certain measures were taken on the recommendations made in the interim report of the committee on Direct Tax Laws (Chokshi Committee) to simplify and streamline the laws and facilitate administration. The final report of the Chokshi Committee has since been submitted. The recommendations of the Committee are receiving due attention.

5.16 Among the measures taken regarding indirect taxes during the year 1978-79 notable ones are :

- (i) a levy of an excise duty on electricity and coal which taken together was estimated to yield a revenue of a little over Rs. 200 crores per annum ;

- (ii) an increase in the duty on goods covered under Tariff Item 68, i.e. commodities not elsewhere specified, from 2 per cent to 5 per cent ad valorem ; and,

- (iii) a levy of a surcharge at the rate of 1/20th of the existing rates of excise duty on all excisable commodities except coal and electricity and goods covered under Tariff Item 68.

In order to minimise the cascading effect of a general increase in the rate of duty on goods "not elsewhere specified" a set-off was provided for duty paid on such articles where they are used for the manufacture of goods liable to excise duty. While the measures mentioned above were designed primarily to raise resources, concessions in excise duty were substantially enlarged in conformity with the Government's policy to promote the growth of agriculture and the small scale sector in view of their employment potential. Electricity intended for agricultural purposes was exempted from the newly levied excise duty. Exemption from excise duty was also granted for power driven pumps, pesticides, insecticides and weedicides.

5.17 Regarding customs duties the import duty on capital goods was brought down from 40 per cent to 25 per cent on certain selected items in order to reduce capital costs. To meet the shortage of raw materials like raw rubber and soda ash, exemption was granted from import duty subject to certain limits. Customs duty payable on 1500 bus chassis to be used by State road transport undertakings was waived. Levy of import duty on medical instruments and appliances was greatly liberalised. Import duty exemption granted to most of the edible oils imported from abroad was continued in order to stabilise oil prices internally. Examination of the proposals of the Indirect Taxation Enquiry Committee (Jha Committee) are continuing and exercises are being carried out to see how best the structure of indirect taxation in the country could be reformed to improve the elasticity of its yield and equity, and alleviate, if not completely avoid, the effects of input taxation, to which pointed attention was drawn by the Jha Committee.

5.18 It may thus be seen that the search for a more equitable and efficient tax structure responsive to the needs of the economy is continuing. Taxation in India—taking the taxes levied by the Centre and

States together—amounts to 18 per cent of national income as of 1977-78. The Draft Five Year Plan for 1978—83 envisages a further rise in the level during the next five years. If the public sector outlay contemplated in the Draft Plan is to be financed, there has to be a massive transfer of resources to the public sector. Taxation is acknowledged to be the least inflationary way of financing public expenditures. The question which will call for urgent attention in the coming years is how to bring about this transfer without adverse effects on the incentives to work, save and invest. Further it has to be ensured that the burden is distributed equitably among all sections of the economy. In judging the taxable capacity of different sections or regions, account has also to be taken of the benefits derived by each from Government's expenditure programmes. All this will call for considerable amount of study and research. The data base for studies required in this direction needs strengthening.

5.19 A number of developments in the post-budget period indicate that the budget deficit of the Centre may turn out to be larger than that envisaged at the time of budget presentation. The two supplementary Demands for Grants presented to Parliament in July and December, 1978 involve an additional expenditure of Rs. 1,412 crores on a gross basis, and Rs. 1,148 crores after taking into account receipts and recoveries. Nearly three-fourths of this net additional expenditure (Rs. 852 crores) is to go to the States and Union Territories mainly for clearing their overdrafts amounting to Rs. 555 crores as at the close of the year 1977-78. Fortunately, the latter expenditure has no economic impact as it is only a transfer of the liabilities from the States to the Centre in the books of the Reserve Bank. Rs. 25 crores are to be provided for purchase and distribution of fertilisers and Rs. 15 crores for setting up of District Industries Centres. A significant additional outgo (Rs. 127 crores) involved is the cash compensatory support for export promotion, followed by assistance of over Rs. 50 crores to public sector undertakings. A sum of Rs. 57 crores has been provided to Iran for cement imports from third countries; Rs. 26 crores for subsidy on account of production of controlled cloth; Rs. 20 crores as subsidy to Shipping Corporation of India on purchase of ships; and Rs. 7 crores of subsidy to SAIL for import of steel. As of now, it is difficult to forecast the net impact of these additional expenditures on the budgetary deficit although, *prima facie*, they are expected to increase the deficit.

Finances of the State Governments for 1978-79

5.20 An analysis of State budgets for 1978-79 shows that the overall budgetary deficit would be somewhat larger in 1978-79 than in the revised estimates for 1977-78 because of a sharp deceleration in their capital receipts. The total expenditure (both revenue and capital) for 1978-79, estimated at Rs. 13,735 crores, was higher by 17.0 per cent than the revised estimates of Rs. 11,742 crores in 1977-78. A noteworthy feature of this growth in expenditure was that the developmental outlay was to go up by as much as 21.0 per cent whereas non-developmental expenditure would show a small increase of 5.7 per cent only. This was in sharp contrast to the higher growth (15.7 per cent) in non-developmental expenditure registered in 1977-78 as compared to the growth of 13.5 per cent in developmental expenditure in that year. As a result, the proportion of developmental expenditure to total expenditure has shown further improvement in the past two years from 74.0 per cent in 1976-77 to 76.2 per cent in the current fiscal year 1978-79. In keeping with the Plan priorities, the largest increase in expenditure was to occur in agriculture and allied services (26.5 per cent) and irrigation and multipurpose river projects, and departmentally run power development schemes (17.8 per cent). Medical and family welfare programmes were to account for a growth of 12.3 per cent, public works of 11.8 per cent, transport and communication of 9.1 per cent and education of 7.5 per cent during the current year. Among the non-developmental categories of expenditure, interest payments were to go up by 10.6 per cent, tax collection charges by 7.2 per cent, and expenditure on police and other administrative services by 4.6 per cent. The budgetary provision for relief on account of natural calamities at Rs. 46 crores for the current year proved to be woefully inadequate, following the unprecedented floods in many parts of the country. In consequence, the Centre had to provide additional assistance of Rs. 255 crores to the States for the relief work on this account, and when the final figures become available, the increase in non-developmental expenditure in the current year would be substantially higher than that indicated in the budget estimates.

5.21 The States' total receipts from taxes are expected to show a marginally better result during the current year. This is because the anticipated rate of growth at 7.5 per cent would be slightly higher than the 7.2 per cent recorded in the revised estimates of 1977-78. The growth of the States' own tax revenue would be even higher at 8.0 per cent in 1978-79

(BE) than the growth of 6.8 per cent recorded in 1977-78 (RE). This was possible because the growth rates expected were better in respect of collections under goods and passenger tax (14.2 per cent), electricity duty (12.1 per cent), entertainment tax (11.2 per cent), taxes on vehicles (10.3 per cent), and sales tax (8.5 per cent). A notable feature in the States' revenues was that the receipts from sales tax have shown a steady increase and now stand at 55.6 per cent of their own tax revenue in the current year. On the contrary, following the decision to introduce prohibition in stages, the receipts from State excise duties which had been growing, on an average, by about 12 per cent per annum in the past few years, would in fact be marginally lower in the current year. It appears that in the very first year of the introduction of prohibition, the loss to State exchequers would be around Rs. 50 crores, and with the gradual enlargement of the area of prohibition, the losses would increase. Since the Central Government compensate the revenue loss by the introduction of prohibition only up to 50 per cent, it should be the States' endeavour from now on to look for alternative sources of revenue. This is an important task to which the States should address themselves without delay. Unless the States make an all out effort to improve their revenues, they will not be able to finance their plan targets of expenditure without heavy overdrafts.

5.22 According to the Draft Five-year plan 1978—83 the States would have to mobilise additional resources of Rs. 4,000 crores during the five year period. Against this target, the performance of the States has been disappointing in that they were able to raise only Rs. 137 crores in the first year of the Plan. The reluctance on the part of the States to raise adequate resources for their plans has cast a heavy burden on the Centre which has to raise more than its proportionate share of additional resources to fill the States resource gap. There are also limits to raising additional resources by the Central Government. In fact as already pointed out the Centre had to provide to the States an additional sum of Rs. 852 crores during the current year for various purposes, such as clearing their overdrafts with the Reserve Bank, and for meeting relief expenditure on account of floods. While the latter assistance was necessary and justified, the former one was the direct consequence of the States not doing enough to raise resources in the past. To avoid a recurrence of such overdrafts, the Centre, the Planning Commission and the Reserve Bank have worked out a regulated system of overdrafts which came into effect from

October 1, 1978. Under this scheme, if a State Government is indebted to the Reserve Bank of India for more than 45 days even within the limits of the ways and means advances, the position will be discussed with the concerned State Government to devise such corrective measures as may be called for. Secondly, as soon as any State Government has availed itself of 75 per cent of the authorised ways and means limit, the Reserve Bank will caution the State Government; and if, despite such action, the State Government's account is overdrawn for more than seven working days, the Reserve Bank will automatically suspend payments of the State Government, which will not be resumed until after the overdraft has been cleared. In addition, in consultation with the Central Government, the Reserve Bank of India has doubled the existing limits of normal (unsecured) ways and means advances in order to facilitate the implementation of the new scheme. With this discipline and the generous devolution of resources recommended by the Seventh Finance Commission State finances should hopefully be more orderly from now onwards.

The Seventh Finance Commission

5.23 One of the main features of the Seventh Finance Commission's recommendations is that the transfers recommended by it and accepted by the Central Government leave substantial surpluses on revenue account for development purposes in the States. Only eight States *i.e.*, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Nagaland, Orissa, Sikkim and Tripura are expected to have non-plan revenue gaps which will be filled by grants-in-aid amounting to Rs. 1173 crores for the five year period 1979-84. The scheme of fiscal transfers to States recommended by the Commission envisages an increase in the share of States in net proceeds of divisible income tax from 80 per cent to 85 per cent and a doubling of the share payable to the States from the collection of basic excise duties (excluding the excise duty on electricity generation which will be fully distributed among the States) from 20 per cent to 40 per cent. In recommending the *inter se* shares among the States of the divisible revenue from the Basic Excise Duties, the Commission, in addition to the population factor and the inverse of the per capita State Domestic Product, has also used innovative criteria of the percentage of the poor in each State measured by a method evolved by it and a formula of revenue equalisation worked out by the Commission. The Commission has also recommended liberalisation of assistance towards the financing of relief expenditure on account of natural

calamities. While assessing the non-plan revenue expenditure of States the commission has allowed a higher provision at Rs. 100.55 crores for all the States for meeting their revenue expenditure on natural calamities. This is almost double the provision for this purpose allowed by the previous Commission. The Commission has also recommended Rs. 436.80 crores as grants for upgradation of standards of administration in seventeen States. After an assessment of the non-plan capital gap of the States on a uniform basis for the five years ending with 1983-84, the Commission has recommended a debt relief in relation to repayment of Central loans by the States amounting to Rs. 2156 crores. All these recommendations have been accepted by the Central Government except the one relating to the loss in revenue incurred by the States for introducing total prohibition. While the Commission's recommendation was that the entire loss should be borne by the Centre, the decision of the Central Government is to compensate such a loss upto 50 per cent only. The government did not also accept the Commission's recommendation regarding the conversion of Small Savings loans to the States into 'Loans into perpetuity'. However, for the five year period 1979—84 the States will not be required to make repayments of such loans.

5.24 As of now, it is difficult to foresee the impact of these recommendations on finances of the Central Government although their effect on the State finances is one of substantial improvement. By and large, the States have also reacted favourably to the scheme of devolution recommended by the Commission. This should augur well for building up the Centre-State financial relationship on an enduring basis. More importantly, this should help the States to avoid the chronic problem of running overdrafts with the Reserve Bank and help them achieve a better balance in their finances.

Performance of Public Sector Undertakings

5.25 After a lapse of three years the Railways earned a net surplus of Rs. 87.24 crores in 1976-77. A smaller surplus of Rs. 32.50 crores was indicated in the budget for 1977-78. However, in the revised estimates for that year, the surplus was expected to increase significantly to Rs. 89.32 crores resulting from a rise in traffic earnings and a reduction in working expenses. Latest estimates of the surplus for 1977-78 place it even higher. According to the 1978-79 budget the Railways were expected to end the year with a surplus of Rs. 65.43 crores. The budget did not propose any increase in the fare and

freight structure. On the contrary, it gave several concessions to the passengers travelling in the second class, such as a reduction in the sleeper charge to Rs. 5 for the entire journey irrespective of the number of nights involved, a reduction in the surcharge on super-fast trains from Rs. 1.50 to Re. 1, and of reservation charges from 50 paise to 25 paise, a restoration of the hill concession for specified stations which would be available throughout the year, and certain concessions to various sections of people like students, teachers, youth, tourists, and journalists. Available data for the current year so far indicates that due to disruption in traffic as a result of unprecedented floods in various parts of the country, both the freight and passenger traffic carried by the Railways suffered a severe setback. Moreover, the coal shortage led to cancellation of several trains. As a result of these unforeseen developments, the performance of Railways in the current year might fall short of the budget expectations.

5.26 The budget for 1977-78 had estimated that Posts and Telegraphs Department would have a surplus of Rs. 133.54 crores in that year, which comprised of a surplus of Rs. 182.38 crores from telecommunications operations and a loss of Rs. 48.84 crores on the postal side. According to the revised estimates for that year, however, the losses of the postal branch were less by half at Rs. 23 crores and profits from the telecommunications operations were also lower by Rs. 40 crores at Rs. 143 crores. In consequence, the surplus in the revised budget was only Rs. 120 crores, Rs. 14 crores lower than the budget estimates. While the improvement in the postal side was attributed to a reduction in their working expenses, the deceleration in the surplus of the telecommunications branch was mainly due to their lower earnings. The budget for 1978-79 made a modest revision in some of the postal tariffs which would yield a revenue of Rs. 13.73 crores in a full year (Rs. 11.44 crores being the estimated yield for 1978-79). Together with this revenue, the surplus of the Posts and Telegraphs Department was expected to go up to Rs. 154.65 crores in 1978-79. A notable feature of the Department's working is that the losses on the postal side of their operations which were as high as Rs. 32 crores in 1976-77 have been brought down to Rs. 18 crores during the current year.

5.27 The improvement in the Central Government's commercial undertakings noticed in 1976-77 has not continued. In the following year 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. This decline in profit was mainly on account of nine undertakings, four of them showing increased losses, and the other five profit making undertakings incurring losses in 1977-78. Hindustan Copper Ltd. (Rs. 31.11 crores), Heavy Engineering Corporation Ltd. (Rs. 30.26 crores), Mining and Allied Machinery Corporation Ltd. (Rs. 24.91 crores), Shipping Corporation of India Ltd (Rs. 14.74 crores), and Bokaro Steel Ltd. (Rs. 10.10 crores) were in the latter category. The combined losses of these five undertakings in 1977-78 worked out to Rs. 111.12 crores in sharp contrast to a profit of Rs. 11.69 crores in the preceding year. In Coal India Ltd. and its subsidiaries, Fertiliser Corporation of India Ltd., Indian Iron and Steel Co. Ltd., and National Mineral Development Corporation Ltd., losses more than doubled from Rs. 96.46 crores in 1976-77 to Rs. 200.51 crores in 1977-78.

5.28 The National Textile Corporation and its subsidiaries showed further improvement by reducing their losses to Rs. 28 crores in 1977-78 from Rs. 36 crores a year earlier and Rs. 60 crores in 1975-76. Available indications point towards a continuation of this improvement by the Corporation during the current year also. In contrast, the financial position of Delhi Transport Corporation further deteriorated from a loss of Rs. 10.40 crores in 1976-77 to Rs. 16.18 crores in 1977-78.

5.29 The oil producing group of undertakings and the trading corporations continued to contribute significantly to the profits of public enterprises. The breakdown of profits of these enterprises during 1977-78 was : Indian Oil Corporation Ltd. (Rs. 100.24 crores), Oil and Natural Gas Commission (Rs. 58.72 crores), Bharat Petroleum Corporation Ltd. (Rs. 20.51 crores), Mineral and Metal Trading Corporation Ltd. (Rs. 45.21 crores), and State Trading Corporation Ltd. (Rs. 39.12 crores). Other enterprises yielding significant profits were : Bharat Heavy Electricals Ltd. (Rs. 54.52 crores), Hindustan Steel Ltd. (Rs. 46.78 crores), Indian Telephone Industries Ltd. (Rs. 9.60 crores), Hindustan Aeronautics Ltd. (Rs. 9.43 crores) and Hindustan Machine Tools Ltd. (Rs. 4.86 crores).

5.30 The fall in the absolute levels of profits of public enterprises had its impact on the rate of return on capital employed by them (i.e. ratio of gross profit after providing for working expenses and depreciation but before deducting interest and tax liability). This declined from 9.7 per cent in 1976-77 to 8.3 per cent

in 1977-78. Even so, this rate of return for 1977-78 was still higher than the rate of 7.6 per cent recorded in 1975-76. The dividends declared were, however, a shade better at Rs. 58 crores for 1977-78 than Rs. 50 crores declared in 1976-77. Gross internal resources (comprising retained profits, depreciation and deferred revenue expenditure written off) generated by public enterprises were also marginally higher at Rs. 731 crores in 1977-78 compared with Rs. 719 crores generated in 1976-77.

5.31 The setback suffered by the public sector undertakings in 1977-78 once again brings into focus the problems of the efficiency in the management of these undertakings, capacity utilisation and the pricing policies they are required to adopt. The Draft Five Year Plan 1978—83, has projected the savings of the public sector enterprises to increase from 1.7 per cent of the GNP in 1977-78 to 3 per cent in 1982-83 to finance public sector plan outlays. This step up in public sector enterprises savings requires a vast improvement in their working results which cannot be achieved unless greater attention is paid to the areas mentioned above.

The Draft Five-Year Plan 1978—83

5.32 The Fifth Five-Year Plan (1974—79) was terminated a year ahead of schedule, and a new Draft Five-Year Plan 1978—83 was presented to the nation in April 1978. The main objectives of the Plan are that : within a time span of ten years, unemployment and chronic under-unemployment should be removed, an appreciable rise should take place in the standard of living of the poorest sections of the population, and the State should provide some of the basic needs of the poor, such as clean drinking water, adult literacy, elementary education, health care, rural roads, rural housing for the landless and minimum services for the urban slums. The Plan also aims at moving towards a significant reduction in the present disparities of incomes and wealth, and ensuring the country's continued progress towards self-reliance.

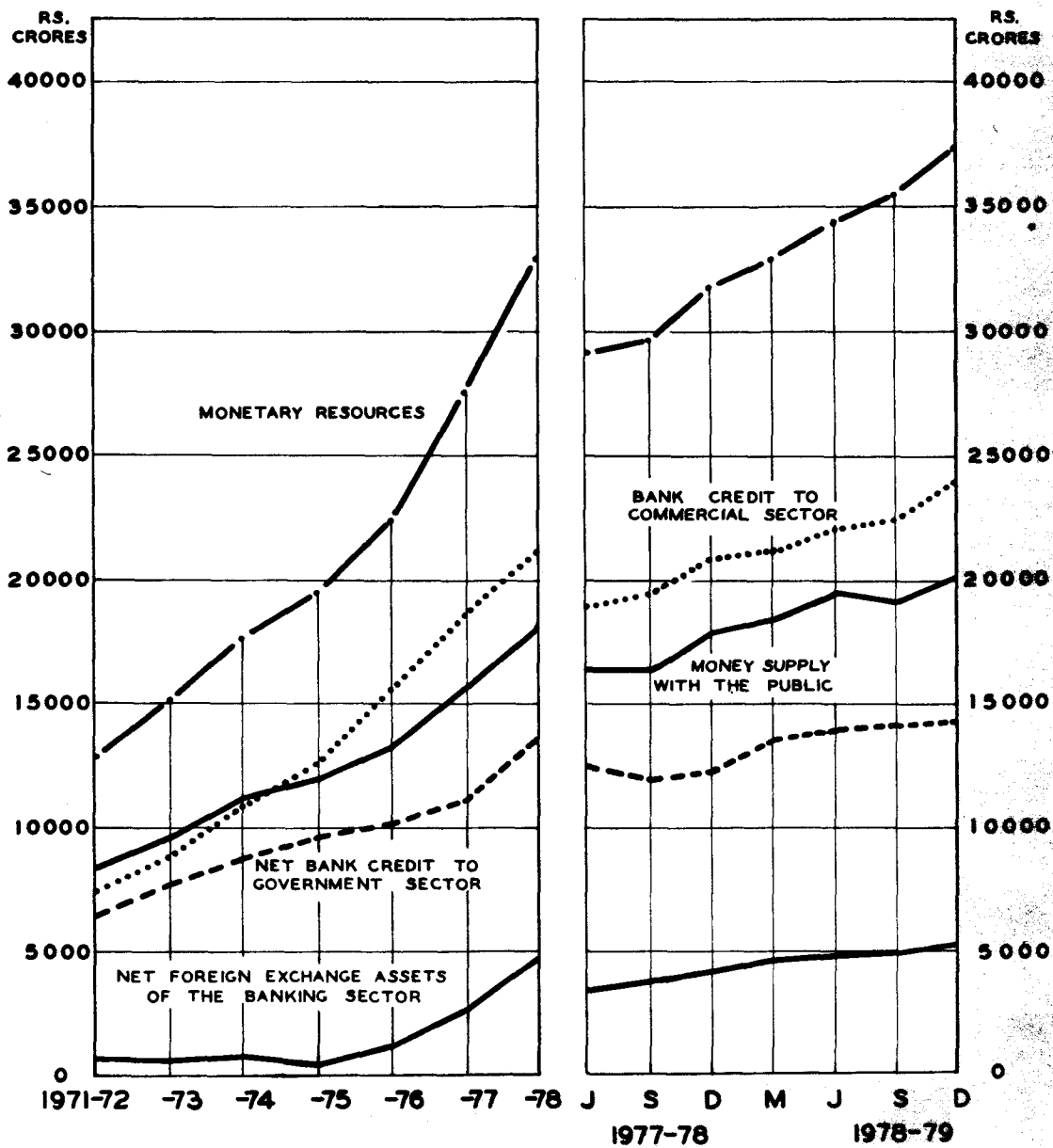
5.33 As against a target of 5—5½ per cent of annual growth rate assumed by the earlier plans, the Draft Plan has set a target of 4.7 per cent for annual growth rate. For achieving this growth rate, the size of the investment outlay has been placed at Rs. 105,990 crores, of which nearly 56 per cent (or Rs. 59,130 crores) will be in the public sector. Including the current developmental outlay, the size of the Plan outlay has been estimated at Rs. 116,240 crores, in which the share of public sector outlay will be Rs. 69,380 crores, or 59.7 per cent of the total.

5.34 For financing the Plan, greater reliance has been placed on domestic resources, the contribution from net inflow of external resources (including drawing of foreign exchange reserves) being 5 per cent of the total investment outlay as against 9 per cent in the Fifth Plan document. The rate of gross domestic savings as a proportion of gross national product, on the other hand, will have to be stepped up from 19.8 per cent in 1977-78 to 23.4 per cent in 1982-83. This indicates an overall marginal rate of savings of about 35 per cent. The public sector's own rate of savings is estimated to move up from 4.1 per cent in 1977-78 to 7.4 per cent in 1982-83. It is worth noting here that of the 3.6 percentage points increase in the domestic savings' rate, as much as 3.3 percentage points are from the step-up in the

public sector's own savings. In absolute terms, this means that from Rs. 3,362 crores estimated for 1977-78, public savings will go up to Rs. 7,888 crores in 1982-83. This indicates the enormous task before the Government in mobilising additional resources for the Plan. The target for the five-year period in this respect is Rs. 13,000 crores—Rs. 9,000 crores for the Centre and Rs. 4,000 crores for the States. The Plan envisages that in order to raise resources, there will have to be selective reduction in subsidies, and that the public sector enterprises will have to aim at a 10 per cent rate of return (post-tax) from the present 4.8 per cent. The tax-income ratio will also have to be stepped up from 18.4 per cent in 1977-78 to about 23 per cent by 1982-83.

MONEY SUPPLY WITH THE PUBLIC AND MONETARY RESOURCES

(AS ON LAST FRIDAY)



MINISTRY OF FINANCE, ECONOMIC DIVISION.