(Founded by KHASA SUBBA RAU)

Vol. XX. No. 39 MADRAS, MARCH 27, 1976 Price 40 p.

A BENEVOLENT BUDGET

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FOR THE FIRST TIME in living memory, the Central Budget for 1976-77 not only did not contain the sledge-hammer blows of heavy taxation, but literally showered a large number of small reliefs on almost every section of society and engendered a deep sense of joy and satisfaction. Though the sanguine economic survey for 1975-76 raised great expectations of relief to tax-payers and growth-oriented policies, Mr. Subramaniam's performance has been greater. For a long time, he will be remembered as the benevolent Finance Minister of India which expression since Independence had become a contradiction in terms.

Before proceeding to comment on the Budget, it is necessary to revert to a lacuna in the budget presentation which SWARAJYA pointed out last year also. It is unfortunate that the budget speeches have given up the healthy practice of dealing with the accounts for the year ended in relation to the revised estimates for that year and giving explanations for the variations, if any. For instance, the Finance Minister, in his budget speech last year, anticipated a deficit of Rs. 625 crores in 1974-75. We have not been educated on the actual deficit in that year, as the accounts for the year ended 1974-75 have not been furnished. In the SWARAJYA dated March 15, 1975, this aspect was brought out in the following passage: "Unless actuals are furnished next year in the budget statement, it will be difficult to scrutinise whether the estimated deficit of Rs. 625 crores is an exaggeration and over-estimate or not. A comparison of the actuals with the estimates is absolutely necessary to establish the accountability on the part of the Government. Thus, the present practice tends to obscure non-performance and poor and bad budgeting and lapses on the part of the administration from Parliamentary scrutiny".

In this year's revised estimates, the Finance Minister has projected a deficit of Rs. 490 crores and has also explained the reasons why the deficit of Rs. 247 crores envisaged in the budget estimates has swollen to Rs. 490 crores in the revised estimates, in spite of the windfall in the gross income of Rs. 660 crores from the Voluntary Disclosure Scheme. However, Parliament will not be told next year what the actual deficit was in 1975-76, as no accounts for the year-ended will be furnished. Thus, of the two functions of Parliament, it will perform only one, namely, sanctioning estimates but not the other, namely, watching over expenditure. One of the budget papers which furnishes the statement of the Consolidated Fund of India, however, contains the accounts for the year ended, but that does not compare the actuals with the revised estimates, nor does it explain the variations. We would reiterate the need to revert to the earlier practice of rendering accounts for the year ended and explaining major variations from the revised budget in the annual budget statements.

The Central Budget for 1976-77 envisages receipts net of the States' share of taxes and duties

BUDGET AT A GLANCE

		Rupees in crores		
		1975-76 Budget	1975-76 Revised	1976-77 Budget
REVENUE:				
Receipts	—	7,092	8,023	8,179
Expenditure	—	6,491	7,117	7,690
		+ 601	+ 906	+ 489
CAPITAL:				
Receipts	—	3,429	4,130	4,423
Expenditure	—	4,277	5,526	5,280
		— 848	— 1,396	— 857
Overall deficit	—	247	490	368
			Uncovered deficit	320

of Rs. 12,650 crores and expenditure of Rs. 12,970 crores, leaving a deficit of Rs. 320 crores. The Gross Tax receipts, after taking into account the tax concessions and new levies, amount to Rs. 7,892 crores, of which the States' share of taxes and duties is Rs. 1,627 crores, bringing a net tax revenue of Rs. 6,265 crores to the Centre. The non-tax revenue has been placed at Rs. 1,962 crores. The major components of the tax revenue are Union Excise Duty Rs. 3,130 crores; Customs Rs. 1,590 crores; Corporation Tax Rs. 1,025 crores and Income-tax Rs. 308 crores. The capital receipts are estimated at Rs. 4,423 crores, bringing the total Central receipts to Rs. 12,650 crores. The major heads of expenditure are: General services Rs. 2,224 crores; Defence Rs. 2,286 crores; Economic Services Rs. 1,169 crores; Grants-in-aid to the States, etc., Rs. 1,433 crores; Loans and Advances Rs. 3,391 crores and Capital disbursements for economic services Rs. 1,156 crores, etc., making a total of Rs. 12,970 crores. A further break-up of the expenditure discloses that Rs. 7,313 crores, or 56 per cent, goes for development; Rs. 2,546 crores or 19 per cent, for defence and Rs. 1,352, or 11 per cent, towards interest payments. Thus, in the context of Rs. 13,000 crores expenditure, a deficit of Rs. 320 crores is not significant and the Finance Minister's optimism that it will not exert inflationary pressure appears well-founded. Perhaps, the Finance Minister could have added a feather to his cap if he had curtailed expenditure by Rs. 300 crores, presented a balanced budget and thus equalled the record of Giscord De Estaing (President of France) who earned the unique reputation of having presented a balanced budget in France after several years. It may even have boosted the economic morale of the country and infused greater confidence both at home and abroad in our economic stability.

The favourable economic conditions with a bumper harvest, increased raw materials and power supply, improved industrial production and industrial relations, better transport facilities and, above all, a consistent fall in prices during the year, clearly called for a bold strategy of growth and development. Besides, the revenues have also been buoyant. Against the budgeted tax revenue of Rs. 7,092 crores, the revised estimates disclose a tax revenue of Rs. 8,023 crores, which is nearly Rs. 1,000 crores over the budget estimates. Taking the revenue and the capital receipts together, the revised estimates for 1975-76 place the receipts at Rs. 12,153 crores, as against the budgeted total receipts of Rs. 10,521 crores, i.e., an excess of about Rs. 1,500 crores over the budget estimates.

12,970-cr. BUDGET

The following are the highlights of budget estimates for 1976-77 presented to Parliament by the Finance Minister Mr. C. Subramaniam on March 15:

Receipts next year net of States' share of taxes and duties are estimated at Rs. 12,650 crores and expenditure at Rs. 12,970 crores leaving a deficit of Rs. 320 crores.

The new tax proposals are expected to yield Rs. 55 crores.

This is made up of Rs. 15 crores under Union excise duties, Rs. 39 crores under customs, and Rs. one crore under stamps and State excise duties.

Non-tax revenue including interest and dividend receipts will be Rs. 1,962 crores.

Market loans are estimated at Rs. 535 crores, external loans Rs. 815 crores and loan repayments Rs. 1,497 crores. Small savings and provident fund collections together are placed at Rs. 581 crores. Other receipts are estimated at Rs. 995 crores.

With such favourable trends, the Finance Minister has naturally embarked on a massive programme to combat the recessionary trends in the economy and stimulate growth. With the enlargement of the Plan by 31.6 per cent over the previous year's figure, and reaching the total allocation of Rs. 7,852 cores, the Finance Minister has taken the bull of stagnation in demand by both the horns and tried to tame it. The tardiness in the offtake of steel, cement, structurals, engineering goods, etc., cannot be eased without larger investment both in the public and in the private sectors and a step-up in the Plan outlay is the appropriate course to follow. The earlier guesses regarding the size of the Plan, which varied from Rs. 7,200 to Rs. 8,000 crores were based on the estimate of resources made by each person without a full knowledge of the buoyancy of the revenues mentioned earlier. However, in view of larger receipts, both on revenue and capital account envisaged by the Finance Minister, a Plan of Rs. 7,800 crores cannot be said to be exaggerated. The Plan priorities have also been chosen with great care. Agriculture, including irrigation, power development, etc., have received appropriate attention in the Plan budget for 1976-77. In fact, this large allocation in the context of falling prices presages a bigger Plan in real terms. It is well-known that higher financial allocations do not always result in larger physical achievements. Unless a strict watch is kept on expenditure and a timely review of the progress of the schemes is undertaken, the money may be ill-spent. It is not uncommon for the Ministries to make hasty disbursements in the last quarter of the year in order to fulfil the financial targets, regardless of the physical performance. Such practices have led to waste, loss and even malpractices in the past. The dichotomy between the Planning Commission, as an advisory body and the Ministry, as the implementing authority, may be ended and the Planning Commission may be entrusted with the responsibility of reviewing implementation.

Another effective step towards stimulation of demand is the reduction in excise duties on a wide variety of consumer goods like soaps, detergents, dry cells, etc., and on a large number of consumer durables like table fans, refrigerators, air-conditioners, television sets, automobiles and accessories. The abolition of excise duty on ready-made garments will help exports and also the domestic demand. Though the sum-total of relief given in excise duties amounts only to Rs. 50 crores in an excise revenue of over Rs. 3,000 crores, the gesture has been warmly welcomed by all concerned. It is true that the relief on items like automobiles, television sets and the like is not adequate and the reduction in excise may not have an appreciable impact on prices and demand, but the Government which has accepted the principle of stimulating demand through reduction of excise, may be expected to rise equal to the occasion when necessary.

The concession in customs duties amounting to Rs. 15 crores will also have a beneficial effect on prices. The increased pension benefits and the introduction of an insurance scheme to the industrial workers, who may unfortunately die while in service, are welfare measures of significance to the less privileged sections of society.

Having launched a large plan, the Finance Minister could not afford the erosion of revenues and has, therefore, taken care to compensate for the loss through certain other levies. The conversion of a specific duty on paper and paper boards, paints, etc., into an *ad valorem* duty, the increase in the rate of excise on patent medicines to 12.5 per cent, the increase in import duty on stainless steel, caprolactam DMT, etc., are expected to yield Rs. 54 crores from customs, Rs. 65 crores from excise and Rs. 1 crore from stamp duty, making a total of Rs. 120 crores, against the relief of Rs. 15 crores in customs duties and Rs. 50 crores in excise, i.e., Rs. 65 crores. The *ad valorem* duty of 25% on uncoated and coated printing and writing paper and 30% on paper board and all other kinds of paper is likely to cause a steep rise in the tax by over Rs. 700 per tonne, which is obviously unconscionable. Some relief from such a high levy may be expected when the Finance Bill is passed.

With a view to encouraging savings and investment, a number of concessions have been given in direct taxes. Wealth tax has been reduced from 8% to 2% per cent on the highest slab and correspondingly in other slabs. Rates of income-tax have been reduced from 77 to 66 per cent in the highest slab and accordingly in other slabs. Authors, artists and playwrights are allowed to contribute up to Rs. 50,000 in approved savings. The corporate sector has received stimuli in the shape of an investment allowance at the rate of 25 per cent of the cost of new plant in approved industries, option to deposit in the Industrial Development Bank of India the equivalent of the surcharge of 5% in lieu of tax payment and a small reduction in surtax by raising the threshold for the determination of chargeable profits from 10 to 15 per cent. Funds repatriated to India by non-residents will be exempt from wealth tax for a period of 7 years. Tax on royalties paid to foreign companies has been streamlined. At the same time, the Finance Minister has taken care to see that there is no loss of resources from the wide range of concessions, through impounding larger amounts from assessees by way of enhanced compulsory deposit. The increase of compulsory deposit from 6 to 10 per cent in the case of incomes between Rs. 25,001 and Rs. 70,000 and 8 to 12 per cent in the case of incomes over Rs. 70,000 will adequately absorb the relief in income-tax granted to these classes. In fact, the Finance Minister is confident that "the various direct tax concessions will be offset by better tax compliance and improved administration".

There is, however, genuine disappointment that, while the budget has been generous to the richer classes and has given marked reduction in wealth tax on net wealth over Rs. 15 lakhs, the weaker sections of assessees in the income bracket of Rs. 8,000 to Rs. 10,000 have been completely ignored, even though these people have not recovered from the shock of inflation suffered during the last two years and are in genuine need of sympathy and relief. But, the Finance Minister, who is more interested in savings for investment, may have felt that, while relief for the upper bracket would release resources for investment, relief at the lowest slab would only go towards consumption. Even so, it is no ground for denying succour where it is due.

The flat rate of 10 per cent compulsory deposit on incomes between Rs. 25,0001 and Rs. 70,000 ignores the principle of progression in taxation. It may be advisable to reduce the rate of compulsory deposit to 8 per cent on incomes between Rs. 25,001 and Rs. 50,000 and to retain 10 per cent on the slab between Rs. 50,001 and Rs. 70,000, thereby recognising the differential taxable capacity of those falling in these two slabs.

Though the tax reliefs may not be significant in the total picture of a Rs. 13,000 crores budget, the Finance Minister has succeeded in creating an atmosphere for a thrust forward in the economy of the country. This Budget may well inaugurate a new era of prosperity, if the Plan targets could be fulfilled and prices held during the year.