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An Approach to the Central Budget 1988-89

Universities and the National Education Policy

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EDITORIAL - SOME HIGHLIGHTS

I. General Economic Scene

State

State Plan for 1988-89

The state's Plan as agreed with the Union Planning Commission for 1988-89 is Rs. 1,457 crores, which is Rs. 27 crores more than what the state requested. It is 16.56 per cent over the plan for 1987-88 at Rs. 1,250 crores. Power gets Rs. 500 crores, agriculture Rs. 118 crores, social welfare Rs. 110 crores, education Rs. 78 crores and rural development Rs. 52 crores. The problem that the state faces is the question of resources for this larger plan. It projects a resource mobilisation in 1988-89 of Rs. 1,300 crores; it expects Rs. 70 crores of additional allocation from the Union - leaving a gap of Rs. 87 crores. With partial prohibition, it will be foregoing Rs. 300 crores ; the commercial taxes collection in 1987-88 are not buoyant having netted Rs. 1,070 crores by January 1988 against the target of Rs. 1,325 crores. The budget deficit for the year is likely to be a large Rs. 200 crores. Even this year the government faced a ways and means advances problem which exceeded the limit of Rs. 75 crores to touch Rs. 95 crores. The commercial tax department drive and the flow from the Union pool helped tide over the crisis. The 1988-89 Plan raises a serious resource problem.

Climate and Prices

The climate in February was warming up and the weather dry, except for 2 days when there was light rain in the morning. There were no reports from the the districts about drought, as this year, particularly the North East monsoon was normal and in some excess on the coastal areas. On the prices front the CSO's monthly abstract for September (not August as wrongly reported in the last issue) is the latest information on prices. The latest information on consumer prices in the city is disturbing as it places it among the 3 highest inflation inflicted centres.

Power

The power situation in the state in February was a continuation of that of the last few months, with regular generation and supply along with the cut of 40 per cent on HT users. The first unit (235 MW) of Kalpakkam which had been taken out for annual maintenance was synchronised in early February into the State Electricity grid. NLC's third unit of its second thermal plant started its full generation of 210MW from early February. The Federal Republic of Germany has provided a loan of Rs. 170 crores for the expansion of the second open cast mine and the second thermal power station. On the basis of the micro wind farm in Tuticorin which has produced 27 lakh units of power, two more wind farms of 5 MW each are being established in Mandapam and Ramanathapuram. 250 wind operated water pumps, each costing Rs. 15,000 have been installed in the state and another 100 wind pumps are being installed this year for irrigation and drinking water purposes. This is part of state wide scheme to adopt one village in each parlimentary constituency in the state to convert them into energy villages. CEI reports that the southern region which now faces a deficit of 6939 million units will continue to face power shortage of 1080 million units in 1994, despite the completion of several ongoing projects. In the South, Tamil Nadu will be the worst sufferer with power availability being 22.2 per cent less than the requirement of 22, 284 million units. The Economic Survey 1987-88 reports that TNEB achieved 65.4 per cent PLF for the period April-December 1987.

For the country, the power situation in February continued as in January, with load sheddings and power cuts in Delhi, Haryana and Punjab, a regular and planned cut continuing in Kerala (with a possibility of a total cut in May) and Karnataka and a heavy additional power cut ranging from 35 to 50 per cent on all type of industry in AP due to failure of the monsoon and little or no hydel generation. In the 3 north coastal districts, the duration of power shutdown has been increased from two and a half hours to 4 hours a day. Under these conditions it is no consolation to receive the Union Energy Ministry report that total power generation upto January 31, 1988 was 7.1 per cent more than that of that period in 1987-89, and that the April 1987—January 1988 PLF had been 55.5 per cent against a target of 53.5 per cent. In this context it is important that all power plants increase their efficiency and use of installed capacity through a) reducing the incidence of peak demands, b) shifting certain categories of demand from day to night 'off peaks hours', to roster agricultural loads, to reduce distribution and transmission losses and to raise PLF. All these should be acted upon and not only the PLF factor. The government also reports on steps to increase hydel power output which is likely to be 9 billion units less than the years target. Hence a contingency Plan has been developed to increase thermal power generation to make up this loss. The State Electricity Boards will have to adopt a systematic approach to deal with inefficiencies arising from indiscipline, over staffing, low productivity, obsolete machinery, outdated technology and low quality and managerial inefficiency as a government committee recommends. The government also reports that its nation wide energy conservation campaign will save 5 per cent of energy valued at 1500 crores in 1988-89. The State Electricity Boards are very concerned over the pricing policy of power supplied by NTPC which they state is inequitable because it has forced the State Boards to accept a pricing formula based on norms of productivity far below actuals which has enabled it to earn high profits. BHEL reports that through the new system in power generation, transmission and utilisation that it has developed such as fluidised bed boilers for burning low grade coal, direct ignition of pulverised coal, cogeneration system, the country's power production can be increased by 5000MW and coal worth 30 million tonnes can be saved. REC reports that it has achieved the annual target of 2.99 lakh pumpset connections in drought hit states, which will have to be provided with pumpsets by year end. The Power Finance Commission (PFC) with its new chairman has a challenging task bofore it. 1) It will have to be involved from the project formulation stage of every important power project which it is going to fund from borrowed market resources. 2) It has to help SEBs to generate resources given the fact as the Mid term appraisal of the Planning Commission points out SEBs and State Road Transport Corporation generated Rs. 306 crores in the first 3 years of the VII Plan against the Plan target of Rs. 7423 crores at 1984-85 prices, which in its turn involve PTC to see that a) power in not given away free as in some states, b) the State government regularises illegal connections so that the consumer is charged, and c) only those SEBs which earn 6 per cent as recommended by the Venkatachary Committee in 1969 and the Rajadhyaksha Committee in 1980 are eligible for a second loan. 3) The immediate task of PFC is to see that there is proper planning of power project to avoid what the Comptroller and Auditor General in his recent report calls attention of the final project cost being 100-300 per cent over the estimate approved by the Planning Commission and CEA, which means that the feasibility reports of the latter 2 bodies are perfunctory. It points out that there is a 2-5 year delay in commissioning a project which is in part due to cost escalation but even more to changes in design and increase in quantities and addition of new items. 4) PFCs decision to use the Rs. 1400 crore during the VII Plan is right, to identify projects which are likely to get held up for want of a small amount of money and help out with the amount, to provide some assistance to existing units which perform below par because many SEBs do not have the funds to by spares or make the necessary repairs and to provide credit for buying equipment, particularly as BHEL has been refused the facility which foreign firms have in offering SEBs attractive credit package. Infact CAG points out that the addition to hydro power in the VI Plan fell short by 40 per cent (5130 MW) because of time and cost overruns which PFC should address itself to for the VIII Plan. The All India Power Minister's Conference in New Delhi in late February decided to set up a committee to examine reserving power from state grids to core sector and Union public sector undertakings, to identify the core sectors, and to examine if agriculture is in the core sector entitled to uninterupted supply at low rates, as it is the life line of the country's economy. The demand of the state ministers for the right to market borrowings by states for power development, which should not remain the exclusive privilege of the Union was not accepted and was referred to the Finance Ministry. An expert group is to be set up to examine the amendments needed to the Central Electricity Act. Renewable energy sources are of growing importance, about 50 per cent of India's energy coming from such sources, fire-wood, (though 1.2 million hectares of forests are lost every year and there is no equivalent replanting effort), dung, biogas and biomass and hydel power which is declining in importance from 60 hydel and 40 thermal in the V Plan falling to 31:69 in VII Plan and will further fall to 20:80 in VIII Plan inspite of barely 12 per cent of total hydel potential having been harnessed. There is one problem that of inundation of vast forests and agricultural land as in the case of gigantic Narmada valley scheme. There is a good case for foregoing this kind of hydro development, replacing it by small hydel schemes, which will not fully compensate for the loss of the large scheme. Meanwhile the Department of Non conventional energy sources has drawn up schemes for 5,000 MW wind turbine capacity by 2,000, an ambitious and massive biogas programme and solar energy and photo voltaic cells Plans which are awaiting cost effective technologies. In this connection the completion of investigation for the 900 MW tidal power station in the Gulf of Kutch might be the precursor of similar tidal power projects in the Gulf of Khamba, the Sundarbans etc which add upto 10,000 MW.

Water

In response to Tamil Nadu's pressing request to Karnataka to release 10tmc of Cauvery water to save the crops in the Thanjavur delta and given the fact that the Mettur level had declined to 37.10 feet on February 8, Karnataka has agreed to release 4 tmc ft of Cauvery water and in return Tamil Nadu will transfer to Karnataka 48 million units of power. The power transfer will be over a term that suits the 2 states and will be mostly at night. This agreement relieves a little the uncertainly faced by the Thanjavur district farmers in February/March. Mettur water supply of 8000 cusecs is being released from February 22 which will help the farmer. The government has issued rules and guidelines for the drawal of water in Madras city by private lorries, all of which will have to take out license and the drawal of water from the Thiruvanmiyur wells will also require government permission.

Transport

Madras airport reports a record growth in both passing and cargo traffic during April-November 1987 at 12,57,645 passengers and a profit of Rs. 57 crores on its revenue performance. The surface transport ministry reports that it will privatise the setting up of container berths, loading and handling container berths at Madras port. The Tuticorin Port trust reports that the additional broad gauge railway line from Meelavittan railway station to Tutricorin port will be ready by September 1988. On the railway projects in the state, the 1988-89 railway budget has not been able to provide the adequate resources necessary for the Karur-Dindigul or the Madras Rapid Transit system (MRTS). The Southern Railway held out hopes that the Karur-Dindigul broad gauge line would be commissioned in 6 months but the Karur-Dindigul project has been allocated Rs. 5 crores which is one third of its requirement and MRTS Rs. 9 crores instead of Rs. 25 crores that is needed. RITES has been commissioned by the MMDA to undertake an integrated study of mass transport projects for the Madras Metropolitan area.

Telecom and Housing

As part of its drive to improve the telex facility of Madras, Madras Telephones reports that it is installing 100 lines telex concentrates in 5 centres in the city. The Planning Commission states that it has accepted a proposal for developing low cost housing in rural areas through a net work of building centres in Tamil Nadu and 6 other states, along lines of the Quilon experience. Also RBI has agreed to give the initial equity contribution of Rs. 100 crores for the proposed National Housing Bank which will be the apex level of housing financial institutions which will meet the individual credit needs of potential owners.

National

Union Budget for 1988-89

The budget for 1988-89 presented to Parliament on February 29 starts with the revised estimates for 1987-88 which shows that revenue receipts increased to Rs. 38,122 crores (from Rs. 36688 crores budgeted), revenue expenditure increased to Rs. 46619 crores (from Rs. 43430 crores) which is attributed largely to the drought and flood relief expenditure, the revenue deficit increased to Rs. 8487 crores (from Rs 6742 crores), capital receipts increased to Rs. 21919 crores (from Rs.20566 crores), capital expenditure increased to Rs.19542 crores (from Rs. 19512 crores), so that total receipt were Rs. 600081 crores compared to the budgeted Rs. 57524 crores, total expenditure were Rs. 66161 crores compared to the budgeted Rs. 62942 crores. giving a rise in overall budget deficit to Rs. 6080 crores against the budgeted deficit of Rs. 5688 crores. (The document says without taking account of the variation of RBI credit to government (whatever that may mean) the increase in net RBI credit was Rs. 6230 crores against the budgeted Rs. 5685 crores, (against which there is a mysterious note on it saying "not independently estimated"). The budget estimates proposed for 1988-89 are Rs. 42798 crores as revenue receipts, Rs. 52640 crores as revenue expenditures, giving a revenue deficit of Rs.9842 crores (which is rising year after year and includes the galloping non plan expenditure of Rs. 47 896 crores), capital receipts are estimated at Rs. 2327 crores capital expenditure Rs. 20,920 crores, giving total receipts of Rs. 66,076 crores and total expenditure of Rs. 73,560 crores, resulting in an overall deficit estimated at Rs. 7,484 crores. (Again the increase in net RBI credit to government is shown as Rs. 7,484 crores with a note "not independently estimated".) To finance the 1988-89 budget, the following taxes and reliefs are announced : a) Direct taxes : 1) 5 per cent surcharge on taxable income above Rs. 50,000 (levied as a drought measure on 1987-88) is continued : 2) 10 per cent surcharge on wealth tax is also continued, initially for one year : 3) levy on transfer of all wealth which is the old estate duty at 5 times the applicable wealth tax rate is introduced. 4) Further amendments to the Direct Tax (Amendment) Act are to be made in light of representation made : 5) rate of standard deduction is raised from 30 to 33 1/3 per cent and ceiling from Rs. 10,000 to Rs. 12,000 — to benefit 1 million tax payers: 6) 5 year tax holiday now available for units in free trade zones is extended to 100 per cent export oriented units: 7) replantation and regeneration subsidies for rubber, coffee, cardamom plantation exempted from income tax: 8) cent percent exemption from income tax on export profits under section 80 HHC: 9) income tax on those engaged in liquor and forest contract to be collected at source to avoid evasion: 10) separate exemption upto Rs. 3,000 crores for income from dividends under section 80 C of the Income Tax Act: 11) subsidy on Janata cloth increased from Rs. 2 to Rs. 2.75 per sq metre. The Finance Minister estimates a loss of Rs. 201 crores on account of these reliefs in direct taxes. b) Indirect taxes: 1) special excise duty of one twentieth of basic duty levied: 2) exemption from excise for electric motors used in pumpsets; 3) a large number of pesticides intermediaries exempted fully from excise: 4) reduction in customs duty for pesticides and pesticides intermediaries for 105 and 147 per cent to 70 and 60 per cent: 5) total exemption from excise on machinery used in agriculture, horticulture, poultry and beekeeping: 6) excise on parts and accessories on equipment for cold storage plants reduced from 40 to 15 per cent: 7) customs on certain critical equipment, hormones and drugs required for genetic improvement of cattle buffaloes reduced to 25 per cent: 8) excise on aluminium foil reduced from 25 per cent to 15 per cent and on small electronic cash registers from 20 to 10 per cent: 9) laundry and carbolic soaps manufactured in rural cooperative and KVIC fully exempted from excise: 10) domestic electric appliances from saucepans to fryingpans exempted from excise: 11) excise on petroleum products restructured: 12) excise on furnace oil and low sulphur heavy stocks increased to yield Rs. 1 crore: 13) excise on diesel oil produced in Assam and Bihar increased to yield Rs. 9 crores: 14) large colour TV sets excise increased from Rs. 1750 to Rs. 2000: 15) excise duty on audio magnetic tapes increased by Rs. 4 per sq metre while blank audio cassettes totally exempted: 16) excise on polyester filament yarn for handloom fabrics reduced: 17) excise on cotton yarn of counts not exceeding 35 reduced by 10 per cent and above 35 counts by 3 paise a count: 18) toy scooters and pedal cars, dolls, tiny musical instruments and recreation models exempted from excise fully: 19) stainless steel utensils, sindoor, kajal, atta, tea exported from factory, formulation and bulk drugs used in TB, leprosy, malaria, filaria and blindness—all exempted from excise: 20) excise on wall clock and quartz clock reduced from 15 to 5 per cent, on cement from Rs. 225 to Rs. 205 a tonne, and on aluminium and steel door reduced: 21) value limit for duty free samples raised from Rs. 1000 to Rs. 5000, x-ray films, some medical equipment, and aluminium extrusion duty reduced from 15 to 5 per cent and square round tubes used in manufacture of artifical limits exempted from excise: 22) concessional customs of 55 per cent for components of fuel efficient cars upto 1000 cc extended upto March 1990: 23) concession rate of 90 per cent customs on certain additional equipment required by hotels to promote tourism: 23) sugar, matches, tea, coffee, vanaspati, refined vegetable oils and kerosene exempt from excise surcharge: 24) full exemption from excise on radio receivers, cassette players, tape recorders and voltage stabilisers produced by co-operatives in rural areas: 25) excise reduced from 20 to 10 per cent on small electronic calculators, handtools and complete excise exemption for KVIC jams, jelly and pickles: 25) excise on electric bulbs exceeding 60 watts reduced from Rs. 150 to Rs. 1: 27) concessional customs of 40 per cent for imported medical equipment and 20 per cent on NRI imports: 28) a concessional rate of 60 per cent for 280 items used by the electronic industry, excise on auto rickshaw body reduced from Rs. 1,000 to Rs. 500 : 29) total excise exemption for refined sunflower and cotton seed oils and increased rebate from Rs. 320 to Rs· 640 per tonne on *rice bran oil*: 30) duty on paper and paper boards manufactured from agricultural base reduced by Rs. 300 a tonne and 15 specified energy saving equipment exempted from customs in excess of 40 per cent. The government announced that it expects the duty concessions to be passed on to the consumers, without indicating how it will enforce this sound directive. The result of the tax measures is that they add upto gross Rs. 1,535 crores and give reliefs amounting to Rs. 920 crores, involving a net revenue of Rs. 615 crores (compared to a net Rs. 514 crores in the revised budget for 1987-88)

Tax Revenue

	1987-88 Budget Estimates	1987-88 Revised Estimates	1988-89 Budget Estimates**
		(in crores of rupees	
Gross tax revenue	36,917	37,935	42,552
Corporation Tax	3,537	3,650	4,099
Income Tax	2,845	3,350	3,660
Expenditure tax Act, 1987	—	20	50
Estate duty	10	9	3
Wealth tax	120	120	130
Gift tax	11	10	10
Customs	12,867	13,580	15,626
Union excise duties	16,826	16,500	18,172
Other taxes	92	58	100
Taxes of Union Territories*	609	638	702
Less States' Share	9,206	9,598	10,662
Income tax	2,225	2,589	2,773
Estate duty	7	6	—
Union excise duties	6,974	7,003	7,889
Net tax revenue	27,711	28,337	31,890

* Net of assignments to local bodies	13	53	48

** includes effect of Budget proposals as below

	Budget proposals	State's share	Net for the Centre
Corporation Tax	49	—	49
Income tax	10	—94	104
Customs	307	—	307
Union excise duties	239	122	117
Wealth tax	10	—	10
Total	615	28	587

The Union Plan outlay has been increased by 16.6 per cent (11.7 per cent on revised estimate) to Rs. 28,715 crores. This plan is being financed from budgetary resources (Rs. 16,000 crores) and from internal and extra budgetary resources of public enterprises (Rs. 12,715 crores). With this, the minister proudly points out that 86 per cent of the VII Plan outlay (in 1984-85 price) will have been achieved.

The main feature of the Plan and the non plan development sectors are: 1) the plan outlay for agriculture, co-operative and water resources is increased by 40 per cent, the rate of interest on agricultural credit is being

The Plan outlay is thus :	1987-88 Budget Estimate	1987-88 Revised Estimate	1988-89 Budget Estimate	(Rs. crores)
1. Plan expenditure in Budget	23,677	24,925	25,714	
Revenue expenditure	9,621	10,013	10,714	
Capital expenditure	14,056	14,912	15,010	
2. Less assistance to state plan	8,754	9,881	9,714	
3. Budget support from Union plan (1-2)	14,923	15,044	6,000	
4. Add resource of Public Enterprises	9,699	10,657	.2,715	
5. Total Union Plan (3 + 4)	24,622	28,701	28,715	

reduced by one and half to two and half per cent, the target for direct finance to agriculture by public sector basis is raised to 17 per cent of their total outstanding by the end of 1988-89, which with the efforts by RRB and cooperative bank will increase agricultural credit by Rs 3000 crores in 1988-89, the creation of a National Agricultural Relief Fund, fertiliser prices are being reduced by 7.5 per cent and food and fertiliser subsidies are being increased by 25 per cent, pesticides prices will be lower due to excise and customs reduction referred to earlier, a programme of Jaldhara, under which marginal farmers in drought prone areas will be provided pumpsets at nominal rent/lease charges, a single point light connection to rural families living below the poverty line called kutirjyote is planned and LPG to hill areas will be supplied at the same cost as to those in the nearly plains — this packet of measures for agricultural and poor rural families is provided in the budget. 2) The budget and Plan also announces on housing that a) the New National Housing Bank will get Rs. 100 crores to promote rural housing, b) HUDCO will provide loans at 7 per cent for housing for small and marginal farmers, c) 100 Nirman or Nirmitre kendras will provide low cost housing knowhow, and d) a new scheme is proposed for free fire insurance for huts and belongings of the rural poor, 3) a Rs. 100 crore social security bond for extending life insurance cover for the poor 4) An apex Finance nd Development Corporation is to be set up for scheduled castes and scheduled tribes : 5) additional employment generation through IRDP, NREP and RLEGP providing 370 million mandays: 6) A Small Industries Development Bank, as a subsidiary of IDBI, with a equity base of Rs. 250 crores will be established and function with its board of directors on which representatives of the small sector will be included and will administer the Small Industry Development Fund established in May 1986 and the National Equity Fund for providing equity support to projects in the tiny and Small scale sector. Further working capital upto Rs. 2.5 lakhs will be provided to new tiny and small scale units whose project cost does not exceed Rs. 5 lakhs. 7) Stock Exchange are seen to have the operational Board announced in the last budget as also the setting up of material funds, grounds for the orderly operations of the exchanges, improvement of their infrastructure and enforcement of better discipline. The steps taken to strengthen the capital market will lead to accelerated mobilisation of savings for industry. 8) For energy, transport and communications which is the basic infrastructure of the economy, Rs. 16,588 crores are provided, representing an increase of 25 per cent and is 58 per cent of the total Plan outlay for 1988-89. This includes Rs. 3,963 crores for power (increase of 32 per cent), Rs. 1,737 crores for coal (increase of 30 per cent) and Rs. 3,396 for petroleum and gas, Rs. 1,873 crores for telecommunication (an increase of 44 per cent). Science has been allotted an increase of 20 per cent. 9) The excise and customs concessions earlier referred to as far as industry is concerned will help increase cement production, boost the entire electronic sector, machinery and instruments for the manufacture of rural automatic exchange, computers, plastic material (the customs on LDPE, HDPE, PVC and polypropylene being further lowered), auto ancillaries and components, three wheelers, paper and paper board, vegetable oils, 21 items of machinery of the rolling bearing industry, the watch industry and textiles. In regard to textiles the reduction in the duty on polyester filament yarn used by handlooms, together with the concessional duty on viscose filament yarn, the customs duty exemption of imported wool for handloom woolen fabrics, the reduced excise on cotton yarn, the various concessions to NTC and reduced duty on textile machinery will stimulate the textile industry facing sickness. The stimulus to the capital goods industry through reduced duty on insulation materials, copper conductors, special electrical steel sheets for power generation and electrical equipment and reduced custom on boiler and pressure vessel quality steel plates may be noted. To promote exports in thrust areas, concessional customs are being provided to 8 more machinery in the garment sector, 23 machines in the leather industry, 4 more machines in gems and jewellery, 3 more in textile machinery as well as the tea, bicycle, silk and woolen industry machines.10) The Plan outlay on education is the same as that for 1987-88 at Rs. 800 crores (of which only Rs. 700 crores were spent) and together with non Plan provision will be Rs. 1550 crores compared to 1185 crores in 1987-88 to be used for implementing the National Policy on Education approved by Parliament in 1986. 11) On medical public health Rs. 228 crores is provided for rural primary health facilities, control of communicable and noncommunicable disease, the national leprosy eradication programme covering 2.2 million persons out of 4 million, and the universal immunisation programme in an additional 120 districts—additional to the existing 182 districts. Rs. 600 crores is allocated for the family welfare programme. 12) There are also provision for tribal sub plan (Rs. 189 crores), and special empirical) plans for scheduled castes (Rs. 180 crores), working women, ICDS programme (Rs. 235 crores). The non plan expenditure for 1988-89 are increased to Rs. 47896 crores from Rs. 41236 crores in the revised estimate. The Defence allocation is Rs 13000 crores compared to Rs. 12000 crores in 1987-88. Food and fertiliser subsidy is Rs. 5300 crores against Rs. 4410 crores in 1987-88. Export subsidy is Rs. 1090 crores. Interest charges are estimated at Rs. 14,100 crores against Rs. 11,450 crores. Gross tax revenue at existing rates of taxation is Rs. 41985 crores (and with the additional tax revenue is Rs 42,552 crores as the table earlier shows). After payment of Rs. 10682 to the states of the share of taxes, the net tax revenue to the Union is Rs. 31,303 crores or Rs. 31890 crores with the additional tax revenues. Revenue from market borrowing is placed at Rs. 7000 crores which is the same level as that of 1987-88. External assistance, net of repayment, is placed at Rs. 3734 crores compared to Rs. 3184 crores in 1987-88. The budget deficit at existing rates of taxation is Rs. 8120 crores. Taking into account the additional yield from taxes of Rs. 545.69 crores, of which the Unions share is Rs. 423.54 crores and the revision announced in postal and telephone exchange, the deficit for 1988-89 is estimated at Rs. 7,484 crores, which it says will be contained through monitoring expenditure and maximising collections.

The budget despite some statistical jugglery involved in making three important political points, namely. a) that the 1987-88 deficit is near the deficit budget which the Prime Minister as the then Finance Minister said will not be surpassed. (if it had presented the same budgeted figure of Rs. 5,688, crores the jugglery would have become obvious so that it only exceeds that figure by Rs. 392 crores), b) that the 1988-89 budget involves no change in the rate structure for personal and corporate, tax which has been widely acclaimed (but which is not true because i) the surcharges on personal and corporate taxes are new and continued, ii) a surcharge on excise is introduced, and iii) the estate duty in a new form enters into force. I approve all these additional duties which I have been proposing, the only two others not accepted being the return to the pre 1985-86 income tax structure and the levy of an agricultural income tax, and c) that the defence budget is increased only by Rs. 1,000 which is an 8 per cent increase against an inflation rate of 9.8 per cent so that in real terms there is a decline in the proposed defence allocation. Despite all this the budget is a sound short term instrument which is addressed to the two major urgencies facing the economy — the drought and its effect in the form of recession. The packet of budget measures proposed on agriculture together with the detailed Action plan of the Planning Commissions task force should pull the economy out of both the sharp —7 to —11 per cent reduction in foodgrain output in 1987-88, as well as the stagnation and decline of foodgrain yield since 1984-85. By enabling farmers to earn more and pumping some resources into small industry and the rural country side, it can reduce the effect of the fall in demand for non agricultural goods and services. Second, the increase in the Union Plan outlay is sound because it allows along with non plan development allocations, for a sizable increase in industry, infrastructure, education, health, and welfare services. Third, if the provision made for the poor, the SC, ST and women and children really reach them — atleast a major part of it reaches them, there will be relief to the disadvantaged sections of society. Even the surcharge on excise and the various excise concessions have been drafted with a view to leaving aside essential commodities. Fourth, and in quantum terms rather small, as far as I can recall, this is the first time the budget makes some little provision for protection, of our fast deteriorating and damaged environment. The minister in the budget statement says "In order to protect the environment and help divert demand from wood to metals" excise duty in doors, windows and their frames and threshould for doors made of aluminium will have their excise reduced from 20 to 15 per cent, so also excise on corrugated sheets of aluminium is reduced from 20 to 15 per cent and the excise on steel doors, windows and their frames and thresholds is reduced from 15 to 5 per cent. Fifth, there is a similar small attempt made to promote savings and a little investment through : a) exemption under section 80L for dividends from Indian companies to the extent of Rs. 3000 in addition to the present Rs. 7000 and a further exemption upto Rs. 3000 crores available in respect of income from units of mutual funds and dividends and interest on deposits from companies engaged in long term housing finance : b) at present deduction is available under section 80CCA at 50 per cent of the amount deposited upto Rs. 2000 at 9 per cent interest. There is an all round increase in this concession. The limit is now enhanced to Rs. 30,000 deduction being available at 100 per cent of the deposit (even for the assessment year 1988-89) and interest increased to 11 per cent. This deduction is also available for LIC deferred annuity plans : c) investment in equity shares in terms of industrial undertakings now get a relief of 50 per cent deduction under section 80CC. *The shares which are* eligible will *now include* investments in specified mutual funds : d) the return from investments in Indira Vikas Patra will revert to the old rate, so that it will double itself in 5 years against the present 5½ years. Rahat Patra will continue and new *bonds and deposit* certificates which will *help* non resident's and repatriates are also proposed to be issued : e) salary earners get the increased standard deduction from 30 to 33⅓ per cent of their gross salary subject to a celing raised from Rs. 10,000 to Rs. 12,000 : f) export profits will be fully exempt as supporting *manufacturers exporting through export houses :* h) *some* other provisions like exemption of rubber, coffee, cardamom, plantation subsidies from income tax and tax clearance certificates only for property above Rs. 2 lakhs. These provisions do not add up to a savings and investment oriented budget. They can and *will* promote larger luxury consumption. *On* the other hand from a medium and long term point of view, the budget is disappointing because it has no development strategy that can be seen. The Plan and non plan development activities are being financed essentially by raising administered prices, market borrowing and deficit financing. In the short run this can be done, but in the long term the budget must mobilise resources — from the rich farmer, from large industrialists and from the growing number of well to do non poor. For instance while income tax payers are only 2 million (now with the higher exemption limit there will be some erosion in this number), there are 12 million car owners, 7 million TV set owners etc. *Second,* the budget by its *deficit* will increase the creation of reserve money and so add to the inflationary pressure which will further squeeze the poor majority. It is no use the minister taking satisfaction in the fact that the inflation rate in 1987-88 is only 9.8 per cent compared to the 21 per cent *in* 1979-80, *because the 9.8* per cent *inflation is on top of the* 72 per *cent inflation* which has taken place since 1979-80, whereas on this reckoning, the 1979-80 inflation was 21 per cent with no addition. Third, it is to be regretted that there is no attempt to reduce non plan expenditure. Defence can be brought down by Rs. 3,000 crores as shown elsewhere. To increase fertiliser and food subsidy and cut the *prices* of *fertiliser is to burn the candle at both ends. Market borrowing* continues *unhampered and* even so is less than 50 per cent of the interest to be paid in 1987-88, which points ominously to the debt trap. Above all, the 86 per cent of the Union Plan outlay in the four years of the Plan have produced an annual average growth rate of 3.3 to 3.6 per cent. Where have these resources gone? This represents a colossal wastage of scarce capital and a very low level of efficiency and productivity.

Railway Budget

The Railway Budget for 1988-89 begins as usual with the revised estimates for 1987-88 with net traffic receipts at Rs. 629 crores which was the same in the budget estimates, as gross traffic receipts were Rs. 8474 crores against Rs. 8179 crores in the original budget estimates, ordinary working expenses of Rs. 6045 crores against the original Rs. 5750 crores, appropriation to depreciation reserve fund Rs. 1350 crores which was the same in the original budget, appropriation to the reserve fund Rs. 450 crores also the same, so that total working expenses were Rs. 7845 crores against Rs. 7550 crores in the original estimate, net miscellaneous receipts Rs. 80 crores against the original Rs. 92 crores, dividend Rs. 640 crores against the original Rs. 662 crores, surplus +69 crores which was the same in the original budget, appropriation to Railway Development Fund Rs. 69 crores which was the same and the operating rate at 92.5 per cent against 92.3 per cent in the budget estimates. For 1988-89 the estimates is Rs. 9393 crores in Gross Traffic receipts, Rs. 6675 crores as ordinary working expenses, Rs. 1500 crores as appropriation to Reserve Fund, Rs. 550 crores as appropriation to Pension Fund, resulting in total working expenses at Rs. 8725 crores and net traffic receipt at Rs. 668 crores, along with a) net miscellaneous receipt to Rs. 96 crores, b) net railway revenue to Rs. 764 crores and c) dividend payment to General Revenue of Rs. 736 crores, resulting in a decline in the surplus at +28 crores and appropriation to the railway fund at Rs. 28 crores for a rise in the operating ratio + 92.8 per cent. In Presenting the budget for 1988-89, the 1986-87 performance is also reviewed as recording a loading of 307 million tonnes and a large surplus of Rs. 101.99 crores which is attributed to economies and larger revenues. It reports that at the current level of fares and freights, there will be a shortfall of Rs. 594 crores in 1988-89. For that coming year, the load is to be 332 million tonnes of which 302 million tonnes will be revenue earning and so the budget proposes a) to increase the rate of goods traffic by 6 per cent, exempting fertilisers, foodgrains, pulses, salt, edible oils, gur and jaggery as well as fodder and cattle (to meet the needs of the weaker sections among whom the Kisans are placed), as a result of which Rs. 241 crores will be raised : b) in passenger traffic i) second class ordinary fares are raised by 50 paise at the lowest slab to Rs. 3, ii) in second class mail express the rise will be Rs. 2 at the lowest slab upto Rs. 15, iii) the second class season ticket will be raised by Rs. 4 to Rs. 8, iv) air conditioned chair car will be raised by 5 at the lowest slab upto Rs. 25, v) in the first class the drought induced 10 per cent surcharge is incorporated in the fare, vi) on air conditioned sleeper class the increase will be Rs. 10 at the lowest slab to Rs. 95, and vii) air conditioned first class there will be a further 10 per cent rise (further to the drought 10 per cent which now becomes permanent), viii) the reservation fee is raised to Rs. 2 for second class upto Rs. 12 for air conditioned first class and ix) the platform ticket is raised by 50 per cent. These measures will yield Rs. 358 crores, and c) to raise parcel and luggage rates by 10 per cent to yield an additional Rs. 23 crores. This leaves a surplus of Rs. 28 crores against the increase in working expenses of Rs. 872 crores (an increase of near Rs. 900 crores over the 1987-88 revised budget). The Plan allocation for the railways is Rs. 3850 crores compared to Rs. 3300 crores in 1987-88 which is a 16.6 per cent increase and this makes the first 4 years of Plan allotment at Rs. 11786.64 crores out of the VII Plan provision of Rs.12,344 crores. The major programmes proposed are i) technology upgradation through running heavier freight trains, intercity multiple unit trains, longer passenger trains, improved wagon and coach design, high horsepower locomotives, strengthened track and a more realistic and efficient signalling system improving and modernising of track maintenance and relaying system, sophisticated safety devices: 2) selective increase of 8 new lines and 31 ongoing line projects and 10 gauge conversions and upgradation of metre gauge system through surveys for 14 new lines projects and 5 gauge conversions : 3) accelerated emphasis on electrification, and 4) urban transport improvements (including the Calcutta Metio and the MRTS project, Madras) and improvements in the public sector undertakings of the railways: 4) a new directorate of passenger amenities and railways claim tribunals to be set up in 17 cities The railway budget is a hard budget. To what extent the increased revenue of Rs. 622 crores is to be used for urgently needed renewal of outworn tracks and replacement of dated wagons and carriages is not clear. The biggest increase has been in rolling stock from Rs. 347.43 crores in 87-88 to Rs. 552.6 crores. How much of this will be spent on replacing tracks and wagons remains to be seen. The working expenses have increased sharply from Rs. 5750 crores in 1987-88 to Rs. 6,675 crores in 1988-89 while gross receipts rise from Rs. 6,421 crores in 1985-86 to Rs. 7,506 crores in 1986-87 and Rs. 8,474 crores in 1987-88. The fact that the operating ratio is continuosly increasing over the last 2 years from 92.2 per cent to 92.5 per cent and is to rise to 92.8 per cent is an indication that the major part of the increased resources are to go to salaries, DA and administrative expenses. Not only is there no attempt to cut costs, but no provision is made for capital consumption as the Raj group recommends. Infact CSO reports that there is a rise in capital consumption by the railways from Rs. 206 crores in the old 1970-71 series to Rs. 565 crores according to the new 1980-81 series. The exemption from freight hike of certain commoditiea in which edible oils and foodgrains, fertilisers are included will only help the rural well to do farmers and the urban middle class. Further the imbalance between the increased revenue from freight rates as Rs. 241 crores and from passenger fares at Rs. 358 crores seems obvious. More could have been raised from the former. Finally the Plan outlays should place greater emphasis on renewal of tracks and wagons. In the VII Plan track renewals was set at 19,000 km and in the first 3 years not even half of that (15,663 kms in first 2 years and 3,000 kms as target in the third year) will be reached: 96,000 wagons were to be acquired and in the first 3 years not even half at 47,697 will have been reached. There is need to economise on administration and for expansion of investment on these 2 items.

Post and Telephone charges

From April 1 postal and telephones charges have been increased : a) upto 65 per cent increase in telephone rental, an increase ranging from 25 to 50 per cent for local calls, 20 to 50 per cent increase on trunk calls and 60 per cent increase in STD charges from public telephones and 100 per cent in ordinary calls from telephone booths ; b) money order commission increases by 10 paise for every Rs. 10, registration fee from Rs. 4.50 to Rs. 5.00 ; c) inland letter will have 15 paise stationery charge above the base 35 paise. The yield on telephone increase will be Rs. 500 crores and postal Rs. 49 crores. These increases are justified to meet the sharp rise in the demand for telephone services (the waiting list for telephone connection is over 12 lakh), while in postal services additional funds are needed to open 3000 new post offices in 2 years, and provide postal services to 74,000 villages. The government points out that even after these increase, the general budget, will have provided the department Rs. 150 crores. The increase are needed to provide a) administration is made more productive and, b) if it has been provided as part of the budget and not as yet another pre budget exercise.

Economic Survey

The Economic Survey presented to Parliament on the eve of the budget stresses the positive achievements of the economy in the year of drought. It presents selected economic indicators in the following table:

It refers to the country wide drought in 1987 as a temporary set back which resulted in 21 out of 35 sub divisions receiving deficit rainfall coming on top of four poor monsoon seasons resulting in an anticipated —7 to —10 per cent decline in agricultural production compared to 1986-87. With the 23 million tonnes ef the buffer stock the drought was combatted along with efforts to minimise kharif losses and increase the rabi yield. The survey takes repeated credit for "the highly satisfactory performance of industry" during April-November when its growth rate was 10.2 per cent with manufacturing showing an even higher 11 per cent growth during that period. It expects the year's rate to be 8 per cent. (There is no attempt to decompose this rate into the performance of industrial sub groups and products at the 2-3 digit level, when the performance is seen to be limited as noted in the last issue). The report also refers to "the robust performance of the infrastructure sector; power generation increased by 7.6 per cent (thermal by 15.7 per cent) in April-December 1987, when PLF increased to 55 per cent, coal production increasing by 10.2 per cent and railway freight increasing by 5.4 per cent during the 9 month period. It notes that prices come under pressure from the start of the year due to the drought and shortages of essential commodities. Upto the third week of January wholesale prices increased by 9.6 per cent and consumer prices upto December registered the same high 9.6 per cent increases, due mainly to shortfall in agricultural outputs of edible oils and oil seeds, condiments and spices, cotton, pulses, gur and khandasari and cereals, despite what it describes as "effective supply management" "buttressed by a policy of restrained monetary expansion and fiscal policies aimed at checking the budget deficit" in face of the demands made by drought and flood relief expenditure. The survey draws attention to the strong export performance, due to the measures taken in 1985-86 and 1986-87, as a result of which export growth was 15.3 per cent in 1986-87 and 24.6 per cent in the first 9 months of 1987-88, imports growing by 2.2 per cent in 1986-87 and 13.5 per cent in April-December 1987 reducing the trade deficit. But it admits a severe strain on the balance of payments due to deceleration of indigenous production, growing protectionist measures abroad, repayment obligation to IMF etc. It admits that due mainly to the decline in agricultural

(Percentage change over previous years)*

	1982-83	1983-84	1984-85	1985-86	1986-87 (P)	1987-88 (P)
Gross National Product at 1980-81 prices	2.6	7.7	3.1	4.9	4.1	1 to 2*
Agricultural Production	—3.3	13.7	1.2	4.6	—5.6	—7 to —10*
Foodgrain Production	2.8	17.6	—4.5	3.4	—4.2	
Industrial Production**	**3.2	6.7	8.6	8.7	9.1	10.2
Electricity generated (utilities only)	6.7	7.6	12.0	8.5	10 2	7.6
Wholesale prices (on point basis)	7.3	8.2	7.6	3.8	5.3	9.8
Monetary Resources (M_3)	16.1	18.1	18.9	15.9	18.6	14.5
Imports (at current prices)	5.0	10.8	8.2	14.7	2.2£	13.5
Exports at (current prices)	12.8	11.0	20.2	—7.2	15.3£	24.7
Foreign exchange reserves (including gold & SDRs — end of period) (Rs crores)	4782	5972	7820	8151	6813	

*Anticipated
(P) Provisional

**Growth rates are based on the old index of industrial production (Base 1970 = 1000 upto 1980-81 and on the new index (Base 1980-81 = 100) thereafter.

production, GNP growth in 1987-88 will be between 1 and 2 per cent. It sees, the need for a long term strategy to counter the vulnerability of agriculture to weather by rapid increase in irrigation, improvement in water management and cropping pattern, afforestation and ecological renewal and spreading the increasing yields to a wider group of states. In Industry it sees the need to consolidate the accelerated pace of growth of manufacture and infrastructure and measures to improve international competitiveness and productivity increases particularly in the capital intensive infrastructural sector. It also sees the need to curb government expenditures both to avoid inflation and attain the public innvestment goals. It sees export expansion and "efficient import subsitution" and increased industrial productivity as the primary means of relieving the pressure on balance of payments. It also raises the questions of the runaway urbanisation and population growth, the need to improve female literacy and health delivery systems and sees education as the key to escape from poverty.

Plan

The Planning Commission's (unreleased) mid term appraisal of the VII Plan states that there has been a marked deceleration in the growth rate of the economy which is in conflict with the economic survey (1986-87) that "the Indian economy is now on a new growth path". It finds that the performance on the population front was bad and that the population growth rate will be higher than the plan target, from which a sharp decline in the growth of per capita income can be inferred, accompanied by "significant structural displacements" and a rising capital output ratio with a decline in the efficiency of investment and productivity in the economy. In the first 2 years the growth performance at 5.1 per cent and 4.7 per cent was a little short of the target of 5 per cent but it is pointed that 5.1 per cent growth in 1985-86 and 4.7 per cent in 1986-87 are based on a base level of lowered income for 1984-85 (when foodgrains production turned out to be 4.4 million tonnes lower than earlier estimate) lower than what was formed the basis of VII Plan calculations. If the 1985-86 growth rate is worked out over and above the base originally assured in the Plan, it comes to about 4.6 per cent and not 5.1 per cent. Again the 4.6 per cent growth rate for 1986-87 is based on a wrong assessment of foodgrains production which turned out to be zero, and in fact fell by 4 per cent over the 1985-86 level, which makes the 1986-87 growth 4 per cent. As of now it looks as if the 1987-88 growth will be 1.5 per cent, so that the average growth rate in the first 3 years will be 3.37 per cent and even using the 5.1 per cent figure for 1985-86 will 3.53 per cent. The commission calls for resource mobilisation in non inflationary manner to maintain industrial growth and correct the shortfall in agricultural pottential. The stuctural displacement reffered to comes from a very low to negative growth rate in agriculture, less than the targeted growth in mining and relatively high growth in other sectors. The VII Plan target of 5 per cent growth depends on whether the required levels of physical production and invetment can be attained, the critical issue being whether the required 175 million tonnes of foodgrains and 16 million tonnes of oil seeds will be produced in the terminal year, which will be impossible with the shortfall in irrigation, resulting in a 2 to 2.5 per cent reduction in fooodgrain production. Hence a special effort to expedite irrigation projects and increase the productivity in rice production in the eastern region along with oil seeds production and fertilisers consumption. It expects electricity output to fall short of the target of 278 billion kwh and to close the current overall gap of 10 per cent between electricity supply and requirement. On the assumption that the level of public savings in relation to GNP will be raised through resource mobilisation and curbs on government consumption expenditure, the investment levels are likely to be realised with marginal shortfalls. Other wise, if investment in agriculture, in irrigation and infrastructure falls seriously short of requirements, the growth targets will not be realised. It is reported that the VII Plan capacity and production targets for several industries are being lowered. Tractors target have been lowered from 1.35 lakhs in 1989-90 to 1 lakh, nitrogenous fertilisers from 65.60 lakh tonnes to 64.61 lakh tonnes, electronic components from Rs. 2100 crores to Rs. 1,625 crores, TV receivers from Rs. 850 croresto Rs. 500 crores, mill sector textiles from 4,500 million metres to 3,500 million metres and so too in spongy iron, copper, thermo plastics, synthethic rubber and methanol. This is serious and only partly justified by the drought which effects the agro based enterprises. For the others if economic management is improved, through effective plan implimentation and improved productivity there need not be the drastic reduction of industrial targets which will affect the VIII Plan as an example. The 1988-89 Plan outlays finalised for all states show an average increase of 8.5 per cent compared to the 1987-88 plan size. Tamil Nadu is the only major state with an increase of 16.56 per cent. This means that unless there is a increase in the last year, the Plan's financial outlay will not be achieved, not because of the drought, not because of the resources crunch but because they are not mobilising the needed resources and because of ad hoc decisions seen in the vote on account in a normal year in states like AP & Karnataka. The problem of state's Plans is serious and needs greater attention by the states and Union.

Prices

The wholesale price index for January rose by 1.2 points to 414.2 for the week ending January 30. During the first 10 months April 1987 to January 1988 the average wholesale price index rose by 6.9 per cent, registering rises in prices of foodgrains (1.6 per cent), edible oils (28.1 per cent), milk and milk products (12.9 per cent), fibres (8.9 per cent), oil seeds (30.7 per cent), fruits and vegetables (2.6 per cent). Primary articles rose by 9.1 per cent during these 10 months compared to the 10 months in 1986-87, manufactured products 6.1 per cent and fuel, light, and lubricants 8.2 per cent. The consumer price index fell by 3 points to 752 in December 1987, with the annual inflation rate going up from 9.1 in November to 9.3 per cent in December. For the financial year 1987-88 the price rise for the 9 months April-December is 9.6 per cent. CSO reports that it has compiled a new consumer price index for urban non manual employees with base year 1984-85 from November 1987, replacing the earlier 1960 based index. The signals from the monetary growth are mixed. During April-December 1987 there has been a deceleration in the growth rate of M_3 at 14 per cent compared to 16.9 per cent in the previous year, due to slow down in deposit growth, while the currency component rose faster. Though the monetary expansion has been moderate, the net RBI credit to government has increased from 12.4 per cent in 1986-87 March to January to 14.1 per cent in March 1987 to January 1988 (from Rs. 4,825 crores to Rs. 6,400 crores) which is a disturbing increase in reserve money. But in the following weeks, January 8, 1988 the amount fell to Rs. 637 crores which is more reasonable. Government decided that Indian companies inviting NRI subscriptions will open foreign currency collection accounts. At the same time RBI has announced a lowering of interest rates on foreign currency (Non Resident) accounts.

Central loans and taxes

The tranche of Rs. 750 crores of 2 Union loans announced in February which with 10 per cent excess subscription amounts to Rs. 825 crores makes the Union loans for 1987-88 Rs. 5,825 crores against the budgeted Rs. 6,300 crores. The balance of Rs. 475 crores will be floated by end of March and will be subscribed as commercial banks SLR stands at 38 per cent. There is a good chance of the budget limit of borrowing being exceeded not necessarily openly but through the Finance Ministry circular asking PSU to invest their surpluses in PSU bonds, in treasury bills or in deposits with the government. Since PSUs including the railway will not be able to spend the funds by the close of the fiscal year, they will have to keep them, in accordance of the Finance Ministry directive in government deposit or treasury bills. This will be one means of hiding the surpassing of the budgeted deficit. The government reports that the contribution of the agricultural sector to the total tax revenue of the Union, state and the UTs has dropped from 8.8 per cent in 1950-51 to 1.1 per cent in 1987-88 as the total taxes revenue increased faster than agricultural taxes. CBDT reports that revenue collections from direct tax collections during 1987-88 are expected to touch Rs. 7,000 crores.

Stock Exchanges

In February the presidents of 15 stock exchanges at their 35th standing committee meeting decided to set up a national market system involving a thorough examination of multiple membership of the exchanges, common clearing, linking stock exchange markets through computers and a working group of presidents, executive director and Union Finance Ministry officials which will function. The Union government states that it has accepted the 8 recommendations of the working group headed by RN Bansal on share transfers. The IDBI has asked the stock exchanges to evolve self regulatory means and create adequate infrastructure to sustain the expected large growth of the capital market in the near future. In an important action the Calcutta stock exchange suspended in February all transactions of JK synthetics counter for a day for violating a clause of the listing agreement that the company has with the exchange.

Economy

CSO announces that it has brought out a new series on National Accounts with 1980-81 as the base year instead of the existing series in 1970-71 as the base year. One important danger is the new series it the procedure for estimating consumption of fixed capital. In existing estimates of consumption of fixed capital the provision for depreciation in the books of accounts or proportion to depreciation to value added are used. In the new procedure (which goes back to 1982 recommendation of the Raj group on savings and investments) the consumption of fixed capital is related to the value of stock, fixed capital formation during the year and the life of each type of asset. CSO reports in February) that the growth rate of GNP is only 4.1 per cent in 1986-87 and not 4.5 to 5 per cent as anticipated in the Economic Survey 1986-87 (see Vol XVII pp 198 & 199). In 1985-86 the rise in GNP was only 4.9 per cent and not 5 1 per cent as stated in the Economic Survey 1985-86. For 1987-88 because of the drought the Planning Commission anticipated a growth rate of 2 per cent. Thus the average annual growth rate of GNP for the first 3 years works out to 3.66 per cent which far from setting the economy on a high growth path has reverted it back to the 3.5 per cent rate of growth. GDP at factor cost at 1980-81 price in 1986-87 is estimated to have risen by 4 per cent to Rs. 1,62,362 crores from Rs. 1,56,083 crores in 1985-86, and at current prices to Rs. 2,60,584 crores from Rs. 2,33,305 crores which is 11.7 per cent rise which has to take account of the price rise of 7.4 per cent. At constant (1980-81) prices total national income (national product at factor cost) in 1986-87 was Rs.1,43,935 crores as against Rs.1,38,611 crores in 1985-86, a rise of 3.8 per cent, being slightly lower than the growth of GDP because of the higher consumption of fixed capital. Here the question can be raised whether this effort to take account of the consumption of capital to boost GDP figures for this year are a form of manipulating of national income statistics. The World Bank is of the view that GDP growth could be zero or negative in 1987-88 so that the CSO attempt to make a realistic estimate of consumption and destruction of capital will push up the GDP growth rate. The Raj group noted that underestimation of consumption and destruction of capital will result in underestimation of GDP. In the present situation of widespread adversity, depletion of fixed assets will be large and following the Raj group recommendation will boost the gross figures of National income. The Raj group estimated the annnal consumption and destruction of capital from floods, cyclones, fire, earth quakes etc at 10 per cent and which has come in handy for CSO. It reports a decline of 4.2 per cent in foodgrains production from 150.4 million tonnes in 1985-86 to 144.1 million tonnes in 1986-87, due to decline in production of rice (5.3 per cent), wheat (3.1 per cent) barley (10.6 per cent) and jowar (13.1 per cent). These declines could not be affected by increase in bajra production (22.6 per cent), maize (12.2 per cent), ragi (6 per cent), oil seeds (6.4 per cent) and sugar cane (6.9 per cent) and potatoes (22.1 per cent). There was a decline in kapas (19.6 per cent) and jute (32.4 per cent). Animal husbandry's value of output increased by 3.9 per cent and a decline in net value added in this sector of 3.4 per cent. The mining sector increased by 11.8 per cent due to petroleum and gas (13 per cent), coal (9.3 per cent) and iron ore (10.8 per cent). Manufacturing sector growth increased to 9.3 per cent from the previous years 9.2 per cent. Gas, water and electricity increased at 11.9 per cent against 8·9 per cent in 1985-86, Public administration and defence at 11.6 per cent in 1986-87 and 6.2 per cent in 1985-86. The per capita income in real terms increased by 1.8 per cent (Rs. 1869) in 1986-87 against Rs. 1836 in 1985-86. The per capita income at current prices was Rs. 2975 in 1986-87 and Rs. 2721 in 1985-86. In order to derive the GDP at market prices so that it equals the expenditure on GDP, GDP at factor cost is adjusted by adding indirect taxes net of subsidies. Private final consumption expenditure was Rs. 1,96,600 crores in 1986-87 at current prices, being 67.1 per cent of GDP. The per capita expenditure was Rs. 2553 crores. The share of food items declined in 1986-87, that on transport, communication, recreation, education, cultural services increased. Gross domestic savings in 1986-87 were Rs. 63,417 crores, being 21.7 per cent of GDP compared to Rs. 57,630 crores (22 per cent) in 1985-86. The savings of the household sector went up by 14.3 per cent from Rs· 4440 crores in 1985-86 to Rs. 50788 crores in 1986-87, the savings of the private corporate sector increased a little from Rs. 5065 crores to Rs. 5089 crores. The savings of the public sector declined by 7.2 per cent from Rs. 8125 crores in 1985-86 to Rs. 7536 crores in 1986-87. The net domestic savings increased in 1986-87 from Rs. 31190 crores to Rs. 33293 crores, being 12.7 per cent of NDP against 13.3 per cent in the previous year. While net savings of the household sector went up by 14.3 per cent in 1986-87, the net savings of the private corporate sector declined from 1303 crores in 1985-86 to Rs. 881 crores in 1986-87 as also the public sector which record a negative savings of Rs. 3211 crores in 1985-86 and Rs. 5434 crores in 1986 — both declines due to the increase in the consumption of fixed capital from Rs. 3762 crores in 1985-86 to Rs. 4208 crores in 1986-87 in the case of the private sector and from Rs. 11336 crores to Rs. 12970 crores, in the case of the public sector gross capital formation increased from Rs. 63,864 crores in 1985-86 to Rs. 68508 crores in 1986-87, declining from 24.4 per cent to 23.4 per cent, which was more than the decline in the rate of saving due to decline in net inflow of capital from abroad from Rs, 6,234 crores in 1985-86 to Rs. 5,095 crores in 1985-86 to Rs. 5,095 crores in 1986-87. Within gross capital formation, fixed capital formation increased by 16.2 per cent between 1985-86 and 1986-87, all 3 institutions contributing to this increase. The other review of the economy, apart from the Economic Survey summarised earlier was the Presidents' address to Parliament which was naturally optimistic and euologistic about the government's achievements in particular in reference to 1) the pace of progress which is to move faster in the VIII Plan 2) the drought which tested the resilience of the economy, 3) the progress of the new education policy, 4) the progress of the 5 technology missions on drinking water, oil seeds, literacy, immunisation and telecommunication, 5) the integrated rural energy programme, 6) the intensifield oil and gas exploration, 7) the progress in electronics, 8) in nuclear energy, 9) in sea bed mining, 10) space research, 11) the high growth performance of industry between 8.5—9 per cent, the April November, 1987 growth by 10 per cent, 12) the public sector infrastructure in power, railways performing well and 13) the good management of the balance of payments position. All this is the usual governmental positive statements of its hopes and there is reference to the mid term review of the VII Plan being completed. Its presentation to Parliament and the public is anxiously awaited. The government reported that crores of rupees of unaccounted wealth concealed by business men and lottery organisations have been detected. The totals given amount to some Rs. 52 crores which is a small part of what is involved in "black wealth and incomes".

Industry

CSO reports that while industrial growth rate declined from 8.7 per cent in August 1987 to 8.1 per cent in September and to 4.7 per cent in October, in November it spurted to 10.1per cent. For the April-November 1987 period it work out to 10.23 per cent (the Economic survey proudly refers to this achievement, while leaving out that the April-October growth was a higher 11.2 per cent). In place of the drought which is constantly referred to by the Economic Survey as being overcome in the industrial sector which can only be seen in 1988-89 and later, because of the weakened relations between agriculture and the rest of the economy and the time lag for the agriculture decline to have its effects on the economy, the need to attend to the over 50 per cent of manufacture which show little growth when the 2-3 digit classification is used, to correct faulty data and to allow for seasonality. There is no satisfaction in the record of industrial growth as reported by the Economic Survey because of the problems of imbalance and depression in some industries. A continuing problem is the spreading industrial sickness ; 10 per cent of small units are reported sick : sickness among paper mills is spreading so fast that 8 integrated and 80 small units accounting for 6 lakh tonnes capacity have closed : the government informed Parliament on February 23 that as of June 1986, 699 large units and 1,28,648 small units are sick, the amount of credit outstanding being Rs. 3238.64 crores in the case of large units and Rs. 18,418.06 crores in the case of small units. The request of the Board of Industrial and Financial Reconstruction to the government to strengthen its power and widen its jurisdiction needs to be seen in light of this serious fact, and the problem that it raises of units approaching it only when 75 per cent of their net worth being eroded (which are terminal cases) needs change so that they approach it much earlier. Another disturbing development is the report of the Programme Implementation Ministry reported to Parliament that only 37 per cent of Union projects costing over Rs. 100 crores each are on schedule. Cost escalation in 290 Union projects have been anticipated at 50 per cent but will exceed 63 per cent—from Rs. 46,443 crores to Rs. 57,206 crores and is likely to go upto Rs. 69,942 crores and by the time they are completed to Rs. 75,856 crores. This is alarming. The advisory council on project implementation has identified 4 phases of cost escalation namely a) the conception and planning, appraisal and approval, b) disbursement of funds, c) review of progress and d) project execution. The report points out that there is inadequate emphasis on long term planning and strategic objectives. As a result the ministries safeguard their positions by including all possible projects in their proposals to the Planning Commission without assessing their viability and one result is cost escalation.

Public Sector

The government's scheme to give more autonomy to public sector enterprises through the instrument of memorandum of understanding is expected to be extended to more enterprises this year in addition to the nine in 1987. A high power committee set up by the government recommends a moratorium on strikes, lock outs, fresh recruitment for a few years to bring about a perceptible improvement in the working of the sector. According to the 1986-87 public enterprises survey presented to Parliament by the Bureau of Public Enterprises, the profitability of public sector enterprises in 1986-87 declined in terms of percentage of gross margin to capital employed, even as the enterprises earned a record net profit of Rs. 1,769.08 crores compared to Rs. 1,172.44 crores in 1985-86 declining from 20.30 in 1984-85 and 19.21 per cent in 1985-86 to 19.05 in 1986-87. The percentage of gross profits which unlike gross margin allows for depreciation (but not interest), improved from 12 31 in 1985-86 to 12.54 in 1986-87. Capacity use improved with 51 per cent of the Units showing use above 75 per cent, 32 per cent between 50 to 75 per cent and only 17 per cent showing capacity use of less than 50 per cent. Investment in 225 enterprises amounted to Rs. 50.362 crores in March 31, 1986 and Rs. 61,603 crores on March 31, 1987 in 226 enterprises. The top ten are SAIL, CIL, NTPC, Rastriya Ispa, ONGC, NALCO, REC, FGI, Telephone Nigam and NTC accounting for 55.63 per cent of total investments. Gross profits of the public enterprises increased from Rs. 5287.28 crores in 1985-86 to Rs. 6511.65 crores in 1986-87 (23.6 per cent) the profits being tax free Rs. 2172.65 crores to Rs. 3095.34 crores (42.47 per cent). The sick taken over units from the private sector increased losses from Rs. 263.16 crores to Rs. 315.46 crores.

National Production Front

Steel

SAIL reports that its plants attained their January targets set forth in the memorandum of understanding with the government at 7.53 lakh tonnes of crude steel, 8.36 lakh tonnes of hot metal and 6.61 lakh tonnes of saleable steel, which reached 5.29 million tonnes in the 10 months April 1987 to January 1988. The Rourkela plant reports that in this period its cumulative production at every level including saleable steel was higher than that of the previous year accompanied by matching performance in product mix and technological parameters. SAIL also reports that it has drawn up a detailed programme to generate demand for iron and steel in the rural sector, to increase steel consumption in Indian threshold which is 16 kg per capita against 60 kg in USA and 691 kg in Japan. With the SAIL decision to increase the capacity use by its plants, steps are underway to cut steel imports which were 0.84 million tonnes in 1986-87 and 0.90 million tonnes in April-October 1987. In February, government allowed 150 per cent capacity expansion of the existing electric arc furnaces in addition to the existing capacity for mechanisation and upgradation of technology.

Crude

On the crude supply side, the discovery of basement oil in large amounts in Bombay High is expected to lengthen its life; the indications of oil in the Nannilam (Thanjavur district). Cauvery offshore basin well is encouraging: supply of gas from Narimanam in the Cauvery basin to a steel rolling mill.

and a silicate company in Nagapattinam commenced in mid February. OIL has received petroleum exploration license for commercial exploration of oil in two fields in Aurnachal Pradesh : the Krishna-Godavery basin is emerging as a highly promising area for oil and gas production with 63 wells drilled and 43 out of 71 prospects tested. A network of pipelines from India's offshore gas fields to the mainload is an ONGC plan (aided by the World Bank) under which ONGC will produce 850,000 of LPG per annum, and tap 1000 billion cubic metre of natural gas. But it is also noted that the progress of 6 of the 7 petro chemical complexes being set up in the public and joint sectors are so slow that they will not go onstream by the end of the VII Plan. This together with inadequate refining capacity is causing a heavy drain on the country's foreign exchange for larger imports of crude and petroleum products. The country's current refining capacity is 47.8 million tonnes which will increase to 51.5 million tonnes with the expansion of the Mathura and Gujarat refineries by 1989-90 on to 61 million tonnes by 1994-95. With this the overall petroleum product deficit will grow from the present 4 million tonnes to 8 million tonnes by 1989-90 and 21 million tonnes by 1994-95 increasing import costs from the present Rs. 3800 crores for 1988-89 to Rs. 20,000 crores by 1994-95. This gives urgency to complete rapidly the work on the first hydro cracker unit processing, 1.2 million tonnes of middle distillates at the Gujarat refinery complex and to reduce petroleum consumption which other wise will not only call for foreign exchange expenditure not available to the country but also exhaust speedily the country's crude reserves.

Coal

An important development in the coal area is the report of the Chari study group which recommends total decontrol of the coal sector, the companies being asked to stand on their own legs, without government subsidy. It recommends that government should levy a development cess to finance coal development and a land reclamation cess to help reclamation of land ravaged by post and present mining operation. The report stresses that government and CIL could operate on clearly defined guidelines for mutual accountability. The present closed door boards of directors could be modified by including outsiders as non executive directors and freeing the subsidiaries from interference by the holding company. If the industry is to run on commercial basis, continuity of service is essential at the top level applying the provision of the 1956 companies Act which allows service till 65 years. It expresses disappointment in the performance of CIL particularly because the massive investments in equipment and technology import have not yielded equivalent results. It is sharply critical of the failure of CIL on coking coal front and the misplaced emphasis on fulfilling production targets in tonnage instead of standard coal, leading to needless accretion to pithead stocks. It recommends selective and appropriate mechanisation, pointing out that imported expensive machinery yields better results in foreign countries and not in India. It is critical of CIL for laying emphasis on open cast mining disproportionate to results. During the last 12 years the cost of production of a tonne of coal went up by 272.34 per cent (from Rs. 58.82 to Rs. 219.00) while the selling price increase by 317 per cent (from Rs. 8.84 to Rs. 203.76) and yet CIL continues to increase its losses, amounting to Rs. 1,659 crores cumulatively. It points out that the major contraints facing CIL in achieving the 1989-90 target of 196.3 million tonnes and sustaining the growth rate by 2,000 are delay in getting land, non availability of power, delay in supply of major equipment and procurement delays. As the minimum gestation period for the mine is 12 years, 1987-88 is the time for ultimate construction work on the last series of projects to be completed in 2,000AD. In this context the letting out of 48 projects by the Energy Ministry to foreign companies on a turn key basis is not justified in terms of expertise which is available in the country and harm they will do the indigenous machinery industry. If this was forced on the country for financial reasons, this should be explored and some slowing of the opening of new mines could have been planned. The Chari report is important and government's decision on it should be taken in consultation with the Planning Commission and the Advisory Council on Energy. The Union government reports that during the first 10 months April 1987 to January 1988 coal production was 124,87 million.

Non ferrous

NALCO reports that its wire rod mill has commenced trial production in mid February producing 9.5 mm wire. The next stage is commercial production of wire rods of various diametres —7.6 mm, 9.53 mm, 12 mm and 15 mm. BALCO reports that its Korba aluminium plant maintained its near 100 per cent capacity use for the fourth month continuously in January 1988. It produced 15,320 tonnes of alumina hydrate and 8,353 tonnes of saleable aluminium during the months. The government announced that HCL is reducing its losses from Rs. 27.71 crores in 1985-86 to Rs. 8.87 crores in 1986-87. BICP at its request is working on a copper pricing policy.

Telecommunication, textiles, cotton and sugar

The government decision to make the Centre for Development of Telematics (C-DOT) permanent is sound as a recognition of its fulfilling the tasks given to it within the allotted resources and time frame. Its development of PABX and rural exchanges where it has modified the technology to suit India's conditions are noteworthy. It is now given a second mission costing Rs. 32 crores to be completed by 1990 and a third mission is also on the anvil. The main problem to be faced in the future by C-DOT is its financial viability as government has rightly decided that it must stand financing on its own. This means that it will be charging royalties and fees for its technologies and also will have to develop foreign markets which are more difficult in the rural exchange area. The textile industry is expecting help from the budget and the question under discussion is that if there is a duty reduction will it be passed on to the consumers. The industry says no, while textile commissioner says it must. Further, the high textile prices have generated consumer resistances and so all the different textile sectors will have to speed up the pace of modernisation in order to help bring down prices. In this connection, the announcement of the Minister of Textiles that the government has sanctioned Rs. 455.51 crores for modernisation of 94 textile mills under the textile modernisation fund scheme is important. ICMF has doubled its estimate of the cotton crop shortfall for the current year to 20 lakh bales and so is pressing for import of cotton. Both ICMF and the Textile Commissioner concede that international cotton prices are falling and the move by India to import 20 lakh bales will halt the trend. CAB has cleared the import and its estimate is that the crop this year will be 87 lakh bales. The import method is, there should be regulated limited imports to avoid affecting the cotton farmers. On the sugar front, production in the second fort-night of January rose to 8 74 lakh tonnes (in the previous year it was 8 52 lakh tonnes during this period) and the total production during January, the fourth month of the 1987-88 sugar season was 16.69 lakh tonnes which brings total output during the season to 37.34 lakh tonnes against 36.41 lakh tonnes for the four months of 1986-87. The sugar industry warns that it is facing a crisis as a result of declining price of free market sugar by Rs. 40-50 per quintal and the growing gap between the statutory minimum cane price and actual cane price paid which is higher by Rs. 2.50 to Rs. 3 per quintal. The result is that arrears are increasing and ISMA warns of a crisis. To some extent, this is a correction in light of which the situation needs to be watched both on the quantity of free sale release and the level of state advised prices which is a problem.

Agricultural Production

The decline in kharif yield has been reviewed in the earlier issue (see Vol XVII p 602) and the level of food grains production for 1987-88 will depend on the rabi yield in 1988 on which plans have been made, action taken and results awaited. The foodgrain buffer on January 1, 1988 was 14.1 million tonnes compared to 23.5 million tonnes on January 1, 1987. There was both a heavy offtake in 1987 at 21 08 million tonnes compared to 17.92 million tonnes in 1986 and a shortfall in procurement due to the loss of kharif crop. With rabi market arrivals, the buffer should reach the normal level of 22-23 million tonnes, which can meet another year of higher offtake, if necessary. The government is taking steps to raise foodgrains output and the Planning Commission has advised that Rs 500-600 crores be invested to a) create additional irrigation potential, b) provide subsidised fertilisers and pesticides and c) unclogging the rural credit system. There are certain critical comments to be made on this plan. Given the fact that we have had as the Economic Survey admits 4 years of poor monsoons, climaxed by a drought year, why this kind of programme was not put into motion 4 or 5 years ago is not clear. It is now a little late. Second, subsidising fertiliser will not help the small farmers who are in the majority and what is needed is to increase the use of the irrigation potential created and push minor irrigation. The Planning Commission's task force has made a preliminary assessment of the districts in each of the agricultural zones of the country, the crops to be focussed, on the constraints faced, the water potential available, the crop varieties recommended and other agricultural inputs on which action should be taken urgently. States are to be aided in carrying out this Plan. At the end of February, the government adopted the task force recommendation and announced an Action plan in 169 districts in 14 states aimed at producing 166 million tonnes by end of 1988-89 and 175 million tonnes by the end of 1989-90 with focus on rice in 108 districts, on wheat in 70 districts, on maize in 28 districts on arahar pulses in 20 districts and on gram in 28 districts. It involves increase in fertilisers (20 kg per hectare), improved seeds, control of pests and weeds harnessing water resources and bonus incentives for food grains procurement. The government has also started advocating diversification of area from wheat to alternate crops like oil seeds. It has drawn up a plan of digging 6 lakh additional tube wells a year, which should take account of the water table in different parts of the country. On the pulses front, despite its priority status, in 1985-86 production was 13.36 million tonnes which is nearer the target and it is hoped that 1986-87 will maintain this. The per capita pulses available is in the range of 38 to 42 gms a day and this needs to be increased.

Foreign Trade

The Planning Commision mid term appraisal sets forth the major issues in the foreign trade profile : a) against the VII Plan's provision of a current account deficit of Rs. 20,000 crores at 1984-85 prices, after taking into account a Rs. 700 crores loss in terms of trade has turned out to be again of Rs. 4400 crores in the terms of trade but a deficit of Rs. 23700 crores, which instead of 1.6 per cent of GDP was 2.4 per cent in 1985-86, 1.8 in 1986-87 and even higher in 1987-88 : b) the trade deficit which was to be Rs. 34,700 crores will be Rs. 43,400 crores, exports being Rs. 55,900 crores instead of the provision of Rs. 60,700 crores and imports being Rs. 99,300 crores instead of the projected Rs. 95,400 crores : c) the Planning Commission rightly points out that the gains from terms of trade can either bridge the shortfall in exports or meet the cost of excess imports but not both, which is what we are trying to do : d) against this backdrop, the commission concludes that "the eventual deficit on current account will need to be brought down close to the one foreseen in the VII Plan, so that it can be financed through recourse to a) available unconditional liquidity from IMF, b) better utilisation of aid in the pipeline, and c) marginal additional reliance on conventional borrowings or NRI deposits". This drastic short term remedy emphasises a curb on import growth rather than the promotion of export growth. The import of bulk items which determines the balance of trade position has changed what could have been a very favourable situation to that of an adverse one, thereby ending 1987-88 with a hefty deficit of Rs. 9000 crores due to the import of petroleum products, metal ferrous ores, metal scrap, edible oils, and sugar. Hence stricter fiscal, monetary and credit policies are recommended to curb the growth of domestic expenditure and aggregate demand. Tight credit will induce disinvestment in manufacturing inventories. The commission rightly feels that both import liberalisation and domestic credit policy have been indiscriminately lax and so proposes demand management to increase exportable surplus. It also wants a lowering of the draft on foreign exchange to meet rupee resource needs, as seen in long term credit from Ex-Imp Bank of Japan by IDBI, ONGC NTPC etc. The question arises whether it will also be necessary to alter the relative prices of tradeables and non tradeables in order to divert domestic demand among from the tradables, which will encourge export and discourage imports. This also is a corrective to the euphoric reference in the Economic Survey that exports have risen by 24.7 per cent in April — December 1987 while imports rose by 13.5 per cent. (In US $ the two figures are 22.4 per cent and 11.5 per cent): On individual items, Engineering exports which have been stagnating for several years now has begun increasing at 6 per cent during April—December 1987. Marine product exports have crossed the 1987-88 target of Rs. 470 crores as at December 1987. The export earnings of handicrafts and handlooms export corporation rose by 15 per cent in April — December 1987. The Commerce Ministry has identified a number of products in the electronics sector to boost their exports in the coming years, as consumer electronic components, communication, software and consultancy services as well as test and measuring instruments have considerable export possibilities. On the other hand, the scheme for allowing low duty imports of capital goods for export production still remains to be implemented, 17 months after its announcement.

Aid and Loans

India and Japan signed an agreement under which Japan will provide India with loans amounting to $ 560 million for NTPC and Railway Finance Corporation. The World Bank announced a $ 295 million loan to develop gas fields and improve gas production. It will also lend $ 250 million to the Housing Development Finance Corporation. ADB has offered a loan of Rs. 100 crores for the development of national and state highways. UK has offered India Rs. 71 crores for developing its coal sector. NTPC has been permitteed to raise a 30 billion yen loan for the Japanese market. Indian debt servicing is rising sharply. It will be of the order of $ 24 billion over the next seven years ending with the VIII Plan. The interest part amounts to $ 8 billion. According to the World Bank dept statistics, India is already in the peak period of debt servicing from 1987 with annual servicing rising from $ 3.1 billion in 1987 to $ 3.7 billion in 1990: India has over the next 5 years repurchase obligation with IMF from which it borrowed $3.9 billion Its repayment obligation to IMF is 27 per cent of the original loan in rupee terms. All this means that India will not only have to increase its export growth from the present 7 per cent per annum, but also rely on large external loans. India's total external debt at the end of 1986 was $41 billion of which public debt was $31.9 billion, private $2.6 billion, IMF credit $4.2 billion, and short term debts $2.3 billion. Of the total debt, India had contracted $49.5 billion till 1986, with debts outstanding and disbursement at $31.9 billion, with the World Bank group accounting for $13.1 billion, bilateral loans $12.8 billion and financial market (private) credit $5 billion. At the end of 1986 there was thus $18 billion of undisbursed loans and credit in the pipeline (Rs. 23.000 crores). In current dollar terms, India's debt servicing has risen in the VII Plan to $1.8 billion in 1985 and $2 7 billion in 1987, excluding IMF repurchases. The net transfer of resources to India turned negative for the first time in 1986 at $945 million.

International

World Economy

The IMF's government finance year book 1987 reports that the developing countries average deficit increased in 1985 to 5.7 per cent of the GDP from

4.6 per cent in 1984 while the deficits of the industrial countries declined to 4.7 per cent of their GDP in 1986 compared to 5.6 per cent in 1983. The US deficit was 5.4 per cent of its GDP in 1985, 5.1 per cent in 1986 and 3.6 per cent in 1987 due to a 0.9 of one per cent point drop in the expenditure GDP ratio and a 0.6 of one per centage point rise in the revenue to GDP ratio. Most of the decline of the industrial countries' deficits was due to reduction in expenditures that exceeded declines in revenues as a per cent of GDP. The large average central government deficit of developing countries in 1985 reflected a 1.6 per cent in outlay — expenditure and lending minus repayments — as a percent of GDP. Another IMF study on international capital markets underlines the importance of providing countries with sufficient stock of reserves through allocation of SDRs, which apart from meeting long term global needs for reserve supplementation would also reduce the vulnerability of the system to disturbance in the financial market. Despite the shift to more flexible exchange rates, countries have continued to hold reserves as a precaution against unexpected shocks, as a means of demonstrating credit worthiness and from exchange market intervention. The study comes at a time when developing countries have been so far unsuccessfully pleading for fresh SDR allocation to increase world liquidity. Instability of financial markets and the need for reform of the international monetary system with special reference to SDR allocation will be considered at the April meeting of the IMF World Bank interim and development committee meetings in Washington.

World Bank Capital

The World Bank announced in February that its capital has been increased by $74.8 billion. This increases its total capital to $171 billion and will enable it to lend $20 billion a year.

World Debt

IMF reports that third world debtors in 1987 paid back $5.9 billion more than they borrowed, new loans amounting to $4.3 billion and repayments of $16.2 billion. In fact the world's poorest and most indebted countries are begining to get less in combined aid each year from the World Bank and IMF than they are paying in principal and interest on outstanding debt to the 2 organisation. So both bodies are trying to increase their lending to the third world in the hope of reversing at least part of net flow of funds, but with the third world debt burden of more than $1 trillion, with lending growing at $40 billion a year. Net lending in all developing countries by the World Bank fell from $3 billion in 1985 to $532 million in 1986 and $398 million in 1987. IMF has been a substantial net importer of funds from the developing world since 1985. In 1986 the net inflow was $5.5 billion and in 1987 it received $8.6 billion more in loan repaying and interest charged than it lent out.

World Trade

GATT's report on global trade states that world trade grew by 4 per cent in 1987, unaffected by the October stock market crash (See Vol XVII p605). It expects a similar rate of growth in 1988. The major element in world trade growth was growth in world trade in manufactures which at 5 per cent was 2/3 of global merchandise trade. Agricultural trade also picked up by 4 per cent. The 1987 four per cent world trade growth after 3.5 per cent growth in 1986 was in value terms merchandise exports an increase of 15.8 per cent, a world total of $2450 billion of which developing countries accounted for $490 billion. For 1988 damage to the confidence of consumers and investors is not severe, trade depressing effects of exchange rate fluctuations and petroleum prices are giving way to trade stimulating effects. Contrary to general assumptions, import of countries with appreciating currencies like Germany, Italy etc are increasing less than in countries with depreciating currencies like UK, Canada. Trade growth in social countries was less than the world average of 4 per cent.

DAC

The 1987 report of the Development Assistance Committee states that 18 Industrial countries provided $37 billion net aid to developing countries, which was an increase of 15 per cent over 1985. OECD projects continuing ODA growth in real terms of 2 per cent. It expects Japan to replace US as the largest aid donor in the next 3 or 4 years. 1986 was the year of Italy because it increased ODA by 59 per cent over 1985, which with Japan, it achieved an ODA growth rate above the DAC average. DAC aid increased in sub Saharan Africa but has declined in South Asia, with India receiving a growingly small share from both multilateral and bilateral sources. It says "the relative share of India has been cut in half over the past 10 years and represented about 5 per cent of total ODA in 1985-86 and accounted for 1 per cent of its GNP, the lowest among the low income countries, with the exception of China, which is still a new aid recipient. The reduction of ODA flows to India however, must be seen against the background of the comparatively good performance of its economy, its capacity to attract private lending and the lasting impact of the green revolution that led to food self sufficiency". OPEC aid brought some relief to India. It is now necessary for India to graduate out of the aid receiving countries and enter the period of zero net aid.

World Drinking Water Decade

As the international drinking water supply and sanitation decade closes in 1990, WHO reports that there are still 2 billion people to be reached by clean water. The programme is suffering from lack of funds : 25 million people in developing countries die every year from water borne diseases : world wide of 75 per cent of urban areas and 40 per cent of rural areas have been provided with safe drinking water and 50 per cent of urban and 35 per cent of rural areas provided with sanitation. While global expenditure on water is $10 to $12 billion, global expenditure on armaments is $1000 billion per annum. $150 billion are needed to make clean drinking water available to all persons. About 80 per cent of third world diseases, leprosy, scabies, trachoma, malaria, filariasis, river blindness, typhoid, dysentry and cholera are transmitted by dirty water. WHO estimates that 1000 million cases of diarrohea are seen in children below age five in developing countries resulting in the death of 5 million every year.

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II. Agricultural Development in Tamil Nadu

Paddy and others crops

Mettur was closed for delta irrigation for most of February, with 2 lakh acres with standing samba and thaladi crops in tailend areas in East Thanjavur needing water. 3.6 lakh hectares of standing paddy crop which is ready for harvest is in danger of wilting due to inadequate water supply in the Cauvery delta region. At many places farmers could not take up cultivation due to the late release of Mettur water (on November 9 instead of June 12) (See Vol XVIII p3). Farmers also find that the yield in many parts of the delta is less than 1 tonne per acre. Of the 4 lakh hectares of paddy cultivation, farmers harvested 40,000 hectares, the rest of the crop requiring water supply till the start of March. This is the background to the request to Karnataka to release 10 tmc ft of water to save the standing samba crop. The scheme under DPAP for an alternative cropping pattern in the Pasumpon Muthuramalingam district has not taken off as it lacked farmer participation and was too target oriented. Farmers who were told that cholam was better suited to their farms than paddy because of water scarcity (requiring only 200mm of water, while paddy needs 410 mm) and being short duration crop, have not responded well. The local officials in their anxiety to preserve the district's ranking have given wrong statistics to the government about the district target being achieved. Farmers are keen on the change in the cropping pattern but say that they do not want it to be forced on them and for this suggest that the scheme should be progress oriented and not target oriented and should be introduced gradually.

Research results

In February, research results were announced by CRRI, Cuttack about a superfast drought resistant paddy which can be harvested in 60 days and which is now developed ; by TNAU on how to control the rice mealy bug, by TNAU on biological and chemical control of the tobacco caterpillar which devastates irrigated rabi crops of cotton, tobacco, tomato, potato, groundnut, cabbage etc ; by the Vriddachalam centre of TNAU on control measures against the cashew root borer ; on the Sri Venkateswara University, Tirupathi's trials in foliar application of calcium for groundnut as a means of countering drought and salinity; on ICRISATs technology developed to increase groundnut yield ; on AP agricultural university's programme to combat the red hairy caterpillar on groundnut ; on AP agricultural University's results to control the pest, rootgrub, which attacks groundnut ; on agricultural college, Vallanad's programme to correct nutritional deficiency in sugarcane and the SV agricultural college's development of cane varieties for off season ; on the Trichur station developing a standard tree to bear up the pepper plant ; on the Madras farm experiment in cultivating cost effective hybrid capsicum : on the Aruppukkottai station's development of drought resistent, nutritious lima bean : on the regional agricultural research station, Tirupathi's control measure against rhizome rot which attacks the turmeric crop : on AP agricultural university's programme of mango propagation through epicotyle grafting : on the agricultural station Dharward's control measures against the whitefly which attacks the cotton crop ; on TNAU Aruppukottai development of fodder legumes for rainfed farming ; on the regional research station, Anakapalli measures to combat the alternaria leaf spot disease in sesamum : on the Cochin engineering drip irrigation system for dryland crops ; on the agricultural college Madurai's work on bio fertilisers for sunflower : on the Padappai work on developing the tube rose : on the UAS Bangalore's investigation into the post harvest life for cut flower : on the Division of experimental medicine, Iratnagar on the impact of drought on livestock and means of countering them : and on the college of veterinary and Animal sciences, Kerala Agricultural University in developing a new vaccine strain for ranikhet disease.

Milk

TNAU reports that animal husbandry has now become a subsidiary industry. Milk yield in the state has increased three to four fold due to the good research work in animal welfare research centres. Now the results need to be passed on to farmers to further increase milk production.

Tea and Coffee

The tea industry's good performance in 1987 in producing a record of 672 million kg has given hopes that the 1988 crop could reach 800 million kg if the weather is normal and adequate levels of inputs and financial aid are available. But a careful assessment of world supply and demand tempers this optimism with the possibility of a glut in supply. In 1987-88 during April-November exports were only 147 million kg against the year's target of 215 million kg and some decline in export prices, raising a question on the Rs. 700 crores target for the year. To step up the R&D for increasing tea production, the Union government has set up a national corpus of Rs. 10 crores, with equal contribution from the tea industry and NABARD. On the coffee front, international coffee prices plunged to their lowest in the first half of 1987. The quotas had to be reduced to raise prices in the later part of the year.

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III. Industrial Development in Tamil Nadu

State's Industrialisation

NIDC in a techno economic survey requested by SIPCOT has recommended a) depoliticisation of industry, b) framing specific long term policies, c) modifying the sales tax structure, d) maintaining better liason with the Union government, and e) constant monitoring of industrial approvals as a means of promoting industrialisation in the state. It also points out that i) unlike Maharashtra where SICOM helps entrepreneurs to get licenses which are cleared by the Director of Industries, in Tamil Nadu the Minister of Industry and even the Chief Minister is involved in clearing the licenses, ii) the larger units are moving out of Tamil Nadu because of the more attractive incentives in other states and the attitude of the Tamil Nadu government towards industry, iii) Tamil Nadu is planning growth centres in all districts, but they are not suited to backward and far off areas due to high cost of infrastructural development, iv) no fertiliser plant has been established after the 70s after MRL & SPIC, v) sugar/alcohol based industries should be encouraged, vi) while spinning units may not become composite units, in view of export demand for yarn, the spinning units should be exploited. It observes 1) single window concept is not in effect because of shuttling of files, 2) there is no data centre to monitor industries and industrial licenses, 3) a nodal agency for industrial planning is needed, 4) entrepreneurship development process needs to be given priority and institutionalised, 5) mining leases should be for long period and not for one year as at present because the units must evolve long term plans. 6) as Tamil Nadu is a power deficit state, like UP it should subsidise captive power plants by industries, 7) there is an inordinate delay in industrial clearances and payment of subsidies and incentives, 8) the state government should be associated with the treatment of effluents from Tanneries, as many small units cannot afford the investment, 9) molasses and alcohol industries need long term stable policies and revision and withdrawal of power tariff concessions with retroactive effect should take into account the long term impact on industries, 10) because of the high sales tax, prices of manufactures are high, 11) the frequent transfer of officials (TIDCO's 11 chairman and 10 MDs since 1970 and TIIC 12 chairman and 10 MDs) does not make for continuity of decisions and 12) there is need for regular dialogue with the representatives of industries and with the Union government. Other states adopt aggressive marketing strategy, industrial extensions bureau act as single window agencies, grade incentives encourage investment in certain areas and not others, separate organisation have been created for infrastructure development in growth centres and the pollution problems is being tackled by a mix of industrialists, politicians and government agencies. These are some practices which are commended for this state.

South Arcot Survey

TNAU's techno economic survey of South Arcot states that unless concessions and incentives are given to industry as in adjoining Pondicherry, industries will not develop in the district. The need to lower sales tax to the level of Pondicherry is emphasised and the priorities for industrialisation are food, textiles, chemicals and metal based industries in that order. The district has copper and lead bearing minerals waiting to be exploited in Kallakurichi taluk and granite deposits in Mallarn, which could be exploited for refactory bricks, ceramics, glass products and polishing black granites for export. The district is predominantly agrarian, with 8.81 per cent of the state's net shown area and 8.68 per cent of the population with stable paddy and groundnut With 2.53 per cent of the. state's area under forest cover, the district needs an afforestation programme. Increase of gross irrigated area of grown sown area is only marginal from 54.71 per cent in 1970-71 to 57.07 per cent in 1981-82 with irrigation intensity of 131.47 per cent.

Coimbatore district survey and manufacture of solar generation

A CEI survey of Coimbatore district states 1) Coimbatore which was once the industrial leader in the state is now facing deceleration in growth due to fragmentation of capacity and lack of innovation among its entrepreneurs, 2) unlike in other parts of the state, small units in Coimbatore do not operate as ancillaries of major industries but manufacture and market products on their own in a highly competitive market, 3) employers jump into business simply to avail themselves of SSI concessions, copy simple technology, with no attempt at product development and innovation, 4) there is an absence of mother industries to promote ancillaries. The survey recommends to strengthen the districts industrialisation i) specialised industrial estates for electronics, ii) new incentives to attract investment in the central sector and from NRIs and iii) expanding SAIL's stock yards and setting up assembly plant by public sector units like Maruti. The survey point out that total output has grown only by 3.93 per cent between 1977-83 compared to 11.47 per cent for the rest of the state ; value added increased by 5.41 per cent compared to 7.61 per cent for the rest of the state ; value of industrial output has declined to 4.31 per cent a year of total output of the state and employment increase at 2.13 per cent a year which is half of the rest of the state. It refers to the district having backward pockets with heavy concentration in Coimbatore and the hosiery units in Tiruppur, with backward areas like Avinashi, Palladam and Valparai. There is excellent infrastructure in the industrial belt for job work and fabrication. There are 135 large and medium industries of which 85 are textile industries and others being castings, electric motors and paper and textile machinery. SSI is prominent with 18 per cent of the state registered units being located in the district, employing 80,000 persons and producing Rs. 50 crores a year. There are constraints like irregular supply of raw materials, especially coal, iron and steel, long waits for power connections and lack of focus on new technology. For the future, it sees consumer product groups like wet grinders and steel furniture and electronics as being in the forefront with exports needing a thrust. Udyakrishna semi conductors limited, Coimbatore is with the help of IDBI & SIPCOT to produce a solar generator with a motor that it has developed, using silicon wafers from Metkem, Mettur. (See Vol XVI p 304). This will boost the use of solar energy in the country, using first a solar power driven pesticide sprayer, small power kits for powering stereos, TVs, refrigerators etc.

Salem steel & NLC

Salem's steel has been used to produce the first stainless steel bus for the Maharastra State Road Transport Corporation, which provides fuel economy and resists corossion. Neyveli reports that it plans to set up a third mine with a capacity of 11 million tonnes per annum and a 1500 MW power station with 3 units with a capacity of 500 MW each. BHEL reports that it has received orders for the design, manufacture, supply, erection and commissioning of 4 units of 210 MW each lignite fired tower type boilers.

TN Plan for sick units

The government is drawing a fresh rehabilitation package to revive 1000 sick but viable SSI units in the next 2-3 months. Major banks are to identify the units by March end and from April

1 the units will get a margin money of Rs. 50,000 each from the state to raise bank loan. RBI placed the number of sick units in Tamil Nadu at 17,000 the government places it 4000 to 500 and the banks states that they could identify 600-700 units in Ambattur Guindy, Chingleput, Coimbatore, Madras and Trichy.

MRL, MEPZ and TNPL

MRL's partner, among whom SPIC, Reliance, JK and IPCL are mentioned, and as promoter for the Rs. 1000 crores Aromatic complex will be decided by the Union government soon. The choice is between the public sector IPCL and one of the 3 private sector units. The Development Commissioner of the Madras Export Processing zone (MEPZ) reports that 86 projects have been cleared for setting up units in the zone, 26 have started production and 14 have commenced exports. The public sector, Tamil Nadu Newsprint and Paper Ltd (TNPL) which is the first bagasse based news print unit is setting up a 25,000 tonne capacity sugar mill at a cost of Rs. 10 crores as part of its diversification programme. It has fixed a target of 102 per cent capacity for 1987-88 which would enable it to meet 25 per of the demands for newsprint. In 1986-87 its first year, it incurred a loss of Rs. 20 crores and because of the preferential price fixed by the Union government for bagasse based newsprint will break even by 1989.

Handloom & MRF

The Tamil Nadu Cooperative Spinning mills, operating the blended yarn 'Susman' scheme is being asked to cater to the blended yarn needs of the southern states. The susman fabric launched on January 14 has become a favourite with consumers and is in great demand so that other southern states are also launching the scheme. The Union government reports taking several steps to keep the price of cotton and yarn under control and supports the Tamil Nadu government's yarn price fixation market. RBI & NABARD are being asked to provide additional financial assistance to the State Handloom Corporations to counter the sluggishness of the market for handlooms on account of drought. Because of the steep rise in yarn prices and the hardship faced by the handloom weavers, the State government has got the electricity Board to make available additional power to the spinning mills and on this basis the South Indian Mills Association has agreed to supply 5000 bales of yarn a month at a reduced price of Rs. 520 a bale to the weavers. The State government has sanctioned for 6 sick cooperative textile mills a rehabilitation programme comprising exemption from power cut for 3 years, sanction of interest free sales tax loan for 3 years, and government guarantee for the working capital of each mill from Rs. 1.20 crores to Rs. 1.50 crores. The government has also guaranteed Rs. 9 crores to cooperative banks to cover the deficit of the mills and convert them into loans. This rehabilitation programme is to be followed by a modernisation programme which the mills are working out. The government has also asked the Union to authorise it to take action on yarn and cotton under the Essential Commodities Act so that their price and movement could be controlled and hoarding prevented. As a result the price of yarn has fallen by Rs. 7 to 10 a bundle during February. MRF report a large turnover for the year ending

September 1987 at Rs. 307 crores and sales of Rs 267 crores. Its exports for the year were Rs. 19.7 crores which is a 41.2 per cent increase over the previous year. Its modernisation programme in all its manufacturing units is going well.

Sakthi & WIMCO

Sakthi sugars reports a poor year for the period ending September 1987. Its turnover dropped from the previous year's Rs. 37.17 crores to Rs. 35.26 crores. It states that its operations were affected by the drought, so that the cane crushed was 4.97 lakh tonnes (against the previous year's 7.05 lakh tonnes) ; sugar produced 48,391 tonnes (against the previous 72.42 tonnes) and recovery rate 9.82 per cent (against the previous 10.24 per cent). WIMCO, the only large company manufacturing matches has applied to the state government for permission to close its city unit employing 700 workers because of the heavy tax burden it faces vis-a-vis the hand made matches sector, the higher cost of materials, energy, the diwindling market, the low labour productivity and stagnant production. The government turned down the request, stating that the company with its monopolistic status should maintain status quo including its financial status, and that it should go in for corrective methods to its declining production problem, and should pursue its diversification programme.

Binny & Kothari

Binny Engineering, a unit of the Binny group reopened in February after nearly 2 years of lock out (See Vol XVI pp304 & 305) following a direct settlement between management and workers. The labour commissioner was mainly instrumental in the reopening of the recommissioned plant and pointed out that the agreement on reopening did not involve reduction in the workforce or wages. There are unanswered questions in regard to the continuing or reopening of the 2 units, WIMCO and Binny's engineering, in regard to propping up sick units for the sake of safeguarding employment. Kothari's report on diversification of their operations, involving Kothari Orient Leasing and Finance Company taking up fish rearing in a 5 hectare plot to produce 5000 kg of fish per hectare, and a new company Kothari Orient Industries Exports unit which takes up the marketing of fish, the manufacture of multilayer bottles used for edible oils and the export of yarn.

Leather

Leather exports are doing well at a target of Rs. 1000 crores for 1987-88, which may be exceeded to Rs. 1200 crores. The satisfying part is the value added items form 64 per cent of the exports. The main markets are Europe — West and East — as UK, France, FRG, etc are opting out of the leather production area because of the pollution it causes. India which is thus enlarging its leather production and its share of world leather exports faces a number of problems. First and most urgent is the pollution problem and on this government and industry must join in setting up anti pollution plants, which will treat the effluents, and not allow the surrounding environment to be polluted as is being done in North Arcot (See Vol XVI p169, 436, 520, XVII pp 326 & 446). Second, to meet the increased demand, the various inputs must be available. One is the supply of hides and skins and here the liberal import policy will meet the problem. The other is the chemicals needed where the row over its supply by indigenous manufacturers who want quotas and other forms of protection instead of improving the quality of their product, has reduced the revised target from Rs. 1300 crores to Rs. 1200 crores. This should be dealt with. Third is the scale of production. The council of leather exports expects world trade in leather to reach $60 billion in 2000. In that case India should increase its share from the present $1 billion to $5 billion which will involve a massive increase in shoes production which is now in the hands small sector to the extent of 300 million pairs *per annum* against 39 million pairs in the large sector. Complete shoes are only 50 million pairs and it is these which are in demand and which must be expanded to 200 million. For that, the large sector needs to be reorganised and achieve high productivity alongside of the small sector. This is the task facing government policy and the industry.

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IV. Education, Science and Health

Educational reforms

In a small but significant move which builds morale, 2 lakh students from 116 schools in Madras, Tiruchi Madurai, Devakottai, Oriyur, Tuticorin, Palayamkottai observed February 1 as school Examinations reforms day and the first week as Examination Reforms week and took a pledge against copying. This should spread. CBSE has suggested that the 3 language formula should be extended upto class IX in all schools, instead of class VIII in most in order to make the implementation of the formula effective. After class IX the existing practice of taking 2 languages should be followed. CBSE also issued guidelines to its 2400 schools on revisions of the scheme of studies from the next academic year covering besides languages, art education and grading on a 9 point scale. One problem that the school will face in this state is that the school text books will not be ready at the start of the next academic year which will hamper the functioning of the schools. At the University level, UGC offers a non plan fund of Rs. 7 lakh to each college to develop graduate and post graduate courses, over and above the financial commitment made to them for the VII Plan.

Adult education

The National Literacy mission points out that while the percentage of literacy has improved, the number of illiterates has progressively increased. In the age group 15-35 it increased from 91 million in 1951 to 110 million in 1981 and would go up to 116 million in 1991, but decline to 110 million by 2000. Regional disparity in literacy is vast with Kerala leading with 70 per cent literate and UP & MP at 28 per cent, J&K at 27 per cent and Rajasthan 25 per cent. Female literacy is highest in Kerala at 65 per cent and lowest in Rajasthan at 5.5 per cent. In SC literacy

Kerala with 56 per cent leads and AP at the bottom 8 per cent. This is the daunting challenge facing the National Literacy Mission, which has adequate funds at Rs. 550 crores and is to impart literacy to 80 million illiterates in the 15-35 age group by 1995 through the people's self reliance in literacy and numeracy, acquiring skills, women's equality, small family norm and and above all reducing poverty. This decline in poverty will also increase the holding power of the school and so undergird the Mission. As part of this drive, one state, West Bengal, has a full time minister for non formal and adult education.

Technical education

By the end of VII Plan there will be 708 community polytechnics to train the local community in addition to diploma engineers and technicians — which means that it will be stretching out to 75 per cent of unorganised sector. These polytechnics will use non formal education methods, make socio economic surveys of the concerned community on skills needed, education and employment status. A high priority is being given to modernisation and removal of obsolescence of engineering and technological institutions for which all State government, and Union institutions are preparing plans for the establishment of new laboratories, additional equipment, creation of infrastructure in new technology, women's technical education and boosting R & D in higher institutes of technology. Meanwhile the government must make a decision on the salaries of IIT and other engineering college teachers comparable to those of other university teachers, if it is serious about the importance of technical education. The Bureau of Information Technology studies, Bombay, recognised by the nstitute of Certification of Computer Professionals, USA, runs ACP courses and issues ACP certification.

Science

A major event at the end of February was the test firing of the first surface to surface missile, Prithvi, which is part of the high technology development area. On CSIR, the February meeting of the CSIR society presided over by the Prime Minister rejected the Abid Hussain committee recommendation to transfer some laboratories to user ministeries (see Vol XVII p 16), approved a 4 tier structure with the research council at the top, the 5 technology advisory councils coming next followed by the governing body and CSIR, with representatives of user departments and industry being included in all these councils. It agreed that CSIR laboratories should meet 33 per cent of their research costs through internal resources instead of the current 22 per cent. Whether these decisions will meet the Abid Hussain committee's basic objective to provide an institutional mechanism for concentrating basic research into technology for commercial application is doubtful and whether in the absence of incentives, research will be both high level (and not mediocre as at present) and purposeful is even more doubtful. The science adviser to the Prime Minister announced in February that the programme of action on the five technology missions (see Vol XVII p219) has been finalised and will be pushed through in the next 2 years. The government announced that it has sanctioned a grant of Rs. 1 crore to Metkem Ltd at Mettur for carrying out its R&D programme in silicon technology (see Vol XVIII pp356 & 386). It also announced accepting the recommendation of the coordinating committee for research in super conductivity under the chairmanship of SAC and allocated Rs. 15 crores for super conductivity research. A comprehensive study of biological and environmental aspects of the Nilgiri Biosphere Reserve, the first biosphere in the country is being undertaken by 4 institutes — the Kerala Forest Research Institute on the behaviour of the lion tailed macaque, soil, plant. community relationship, air fauna and the biological changes in the silent valley, along with afforestation trials and socio economic conditions relating to forest management, the Centre for Water Resources Development and Management, Calicut on water shed management studies in the catchment area, the Centre for Ecological Sciences, Bangalore on biological changes in dry decidious forest of Masanagudi, and the Indian Institute of Tropical Meteorology, Pune will collect data through a network of meteorological stations which will be established. A committee under the chairmanship of the Director, Chitra Trinal Institute of Medical Sciences has declared that Alwaye plant of the public sector Indian Rare Earth (IRE) is safe from radiation hazards. This finding rests on some very slender and doubtful grounds: it states that the level of discharges from the plant has not significantly contributed to radium 228 which is already at permissable limit of 10 per cent, without being able to state how much of this is contributed by IRE: while saying that there is no enhancement of RA 228 level in the ground water around the trenches where the "mixed cake" is stored, it recommends finding alternative sites outside the plant site for prolonged storage of the "mixed cake"; on the incidence of cancer and cardio vascular diseases related deaths among IRE workers, the absence of age specific data for Kerala, it admits to drawing any conclusions other than the incidence which is the same as all India difficult: and on infertility and genetic disorders it states as against the all India estimate of 10 per cent of married couples being sterile, only 3 per cent of couples in IRE are sterile and that genetic disorders are due to inbreeding and not radiation. These may convince the committee but not the people concerned who are the sufferers from radiation exposure. CECRI reports that in the field of radiation resistant protective coating system, it has developed a build coating system for nuclear power stations and marine structures ONGC reports that it is setting up 2 new R&D institutes — the Institute of Biotechnology and Geotectonic studies in Jorhat Assam to undertake research in these areas with special emphasis on petroleum exploration and exploitation. The other Institute is the Institute of Petroleum study and Energy management at Goa, to cater to the needs of offshore survival like swimming, firefighting etc. A National Institute of Rock mechanics and ground control is being set up in Kolar Gold fields, using the expertise and infrastructure established there for the mining industry. Madurai Kamaraj University reports that it has developed monosex, sterile and transgenic form of fish. The Indian Satellite, IRES-S, will be launched from the Soviet Baikanur Cosmodrome on March 22, it is reported.

Health

In order to improve the health care delivery system in rural areas during the VIII and IX Plans, a thorough evaluation of the different components of the primary health care services is being undertaken. There has been a wide expansion of the physical infrastructure of health and delivery in rural areas during the VII Plan with 1,30,000 sub centres, 21,666 primary health centres and 2708 community health centres. To meet manpower requirement for rural health infrastructure, 3.9 lakh village health guides and 5.58 lakh dais, will have been trained by 1990. Tamil Nadu was awarded the first prize of Rs. 2.5 crores performance in the Family Welfare programme. It achieved a birth rate of 24.8 (next to Kerala's 22.9).

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V. Employment and Labour Relations

The Union government states that it is taking a fresh look at NREP and RLEGP to prevent the wastage taking place. The reason for keeping the 2 programmes separate makes no sense at the village level; in regard to RLEGP, it has not been possible to guarantee employment to atleast one member of every landless family for 100 days, in a year, the planning and preparation of a shelf of projects on an area basis was not done, master rolls are manipulated by contractors, wages paid are different from those reported and there is no systematic selection of landless labourers. In the case of NREP, the period of employment provided is too short to make an impact on the levels of the living of the rural people, wages paid are lower than market rates, the poorest of the poor are not selected, selection of projects is not on the basis of what people need and desire, there is no maintenance of assets, the survival rate of saplings in the social forestry programme is low as the community is not involved, the number of incomplete roads are increasing. In IRDP according to the concurrent evaluation, only 12 per cent of beneficiaries crossed the poverty line of Rs. 6400, there was ineligible coverage of 9 per cent cases, repayment schedules of 3 years or less was 62 per cent and lack of after care in 42 per cent of cases, the provision of asset does not guarantee income unless the asset matches traditional skills and in most programmes there are bribes paid. During the VII. Plan in RLEGP against an outlay of Rs. 1743.28 crores in the central sector in 3 years expenditures are Rs. 2064.59 crores in NREP, Rs. 1427.95 crores against the outlay of Rs. 2487.47 crores in 3 years, and IRDP Rs. 1564 crores out of the outlay of Rs. 2642 crores. Thus Rs. 5000 crores have been spent on these programmes without their aims or target being realised. Similarly the self employment scheme for educated youth evaluated in Tirunelveli and Tiruchi districts has thrown up a number of defects in its 4 years of functioning since 1983-84. There are misuse of the loan, delay in sanction and disbursement, poor role of DICs, lack of training and marketing support, wilful default, and shortages of power and raw materials. Suggestions for correcting these defects include raising the minimum age from 18 to 20, restructuring the task force, provision of proper training, guidance to beneficiaries more assistance from DIC, coordinated approach among agencies, nursing genuine units and adopting a suitable repayment schedule. The Ministry of Human Resources Development reports to Parliament that the net loss of IIT graduates who settle abroad is 9 per cent and overall the number of graduates and post graduates lost every year through brain drain is estimated at around 2 per cent of the annual output from the country's educational institutions. In the absence of maintaining records of those who go abroad and do not return, this can only be a guestimate. Kerala on the basis of a survey by its Department of economics and statistics reports i) 50 per cent of keralites who have returned from West Asian countries are unemployed, ii) over 60 per cent of the returning emigrates were employees or self employed before their emigration but on return only 19.4 per cent retained their jobs, iii) the percentage of self employed and employees went up marginally from 0.5 to 1.6 per cent and iv) rather than work as agricultural labourers or rural labour, they prefer to be unemployed. The number of people who migrated from Kerala was 6.82 lakhs, of whom 3.01 lakhs were gulf emigrants. Of the 86,475 who returned last year, 70 per cent are below 40 years and their rehabilitation has become a problem. The remittance to home of an average gulf emigrant was Rs. 10,450 a year, which made the 1986 remittance Rs. 315 crores (which is an underestimate). The returners' household assets increased from 46 per cent in the case of land, and 2000 per cent in electric and electronic goods. The average value of buildings per household increased from Rs. 50,600 to Rs. 82,000, with a large increase in motor vehicles owned. The government reports 3 estimate of bonded labourers : the 32nd round of NSS estimates 3,45,000 bonded labourers : the Gandhi Peace Foundation estimates 2.61 million bonded labour in 1978, of whom 2.4 millions are waiting to be freed : the Union government basing itself on states' report states that there were 1,24,000 bonded labourers of whom 95,000 have been rehabilitated: it believes in its estimates. The December 1987 issue of the Indian Labour Journal points out that as figures of earnings do not provide a sound and scientific basis for analysis of trends in the price of labour, there is need to build an index number of wager sates as stressed by the Central Technical Advisory commitee on Statistics. Defining wage rate as the price of working energy spent by a worker during a specified period of time for a specified measure of performance and as the sum of basic wage plus DA, the index numbers of wage rates for 1984 are given in Table I as well as those for 1969, 1976, 1982-84, showing the percentage rise in index number of wage rates in manufacture ranged from 3.2 to 20.8. The latter shows that wage rate index did not keep pace with cosumer price index for industrial workers.

VI. Other Items

Philatelic Exhibition

The Department of Post and Telegraphs organised a very illuminating and educative philatelic exposition in February in Madras. It was an essay in History and Geography and was by itself a library of very vivid thought and information. Stamps should be used by the teacher in schools in history, geography and international learning. For this the teacher training institutes should be equipped to include Philately in training teachers.

Tamil Nadu Science Forum

As a follow up of the people's science festival, Bharat Jan Vigyan, Jatha, organised in the state in October 1987 (see Vol XVII p611), there was a function to inaugurate the issue of the popular Tamil Science Journal, Thulir, in Tamil Nadu. This fills a grave lacunae in the life in the state, The Journal needs to use Tamil construction as understood by the 8-12 years old in school and out of school. It certainly promotes science understanding, and leaves aside the superstitions with which we are surrounded.

IIC

In the India International Centre in February there were 3 events. There was a meeting of the Board of Trustees presided by the new chairman, which apart from arranging for the transition to the new financial year April-March instead of the current calender year, discussed the programmes of the centre and decided to return to the subject at its next meeting. Second, there was a very good panel discussion on ASEAN which has now completed 20 years and has held together despite initial doubts. The Malaysian High Commissioner gave a good technical expose of ASEAN and the Philippines Ambassador being a university professor provided a good academic backdrop. The third was the seminar on the problem of rural energy where it was agreed that a) rural people use only traditional (non commercial) energy, b) their energy needs are neglected and c) they can improve their position by greater use of renewables, biomass, biogas and solar and wind energy.

Symposium on Indian Administration Development in the 80s

The symposium organised by the Indian Association of Political Science and Public administration concentrated on the implications of the administrative services being based on the basic reality of the Indian Nation, the support to this given by Sarkaria Commission, (though unlike the distorted and misleading summary put out by the Union government it nowhere advocated a strong or stronger centre) the challenge to this concept by administrators and scholars over the last 60 years, the problems faced by the Indian administration today in over centralization, bureaucratisation, incompetence etc and the way forward in a system of selection, promotion and training as recommended by the Sarkaria Commission.

March Development Seminar

The paper for March Seminar 'Central Budget by C S Chandran together with a summary of the discussion of the paper at the seminar chaired by R. N. Poduval appears as the first article.

Second Article

A note on the Universities and National Educational Policy appears as the second article.

M I D S News

Prof. Hartmut Elsenhans, Professor of International Relations, University of Constance gave a lecture on "Political Economy of Developed Capitalist Economies" on 6th April.

The Finance Committee and the Executive Council of the Institute met on 24th March and reviewed the financial position of the Institute for the financial year 1987-88.

The Executive Council appointed Dr. Nirmal Sengupta, Fellow in the Institute as Professor in the Institute.

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The Eighteenth Interdisciplinary Research Methodology Workshop will be held at the Bharathiar University, Coimbatore from June 8 to 11. The theme of the Workshop this year will also be "Science, Technology and Society" with special emphasis on the positive contributions of science and technology to different aspects of life in society. The following papers are being specially prepared for the Workshop :

	Author	*Area*
1.	P. Chandra Stanley Madical College, Madras	Health Care
2.	K. S. Jagadish Indian Institute of Science, Bangalore	Housing
3.	R. Jayagopal, University of Madras, Madras	Education
4.	T. S. Kannan Formerly Ashok Leyland, Madras	Industry

	Author	*Area*
5.	Nira Ramachandran, Bangalore University, Bangalore	Urban Renewal
6.	Sima Sharma, Editor, India International Centre Quarterly, New Delhi	Communication
7.	V. K. S. Varadan Formerly Director General, Geological Survey of India	Environment
8.	A. Vaidyanathan Madras Institute of Development Studies.	Agriculture

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Monthly Seminars for June and July of 1988 have been scheduled as follows :

Month	*Author*	*Title*
June	Dr. Sarada Raju	Agricultural Development
July	Dr. M. D. Srinivas	On Science Policy

Monthly seminars for the subsequent months will be announced later.

An Approach to the Central Budget 1988-89

by

C. Sarat Chandran
Enfield India, Ltd.

1. The Indian Budgets have generally not triggered off any major economic debate in the country except perhaps the one presented by Mr. V. P. Singh in 1985 which came in the wake of a new Prime Minister announcing to the country and indeed to the whole world "I am a young man and I have a dream". The approach to liberalise the economy which was a major theme at that time of both the economic discussions and the Budget, was seen as more pragmatic than doctrinaire. That dream however has somewhat faded away in the subsequent years and the Central Budgets in these years have fallen into a familiar pattern—Some quick responses and reactions and then the nation takes everything in its stride as if nothing very much has changed.

2. The approach to the Central Budgeting exercise has reflected three major strands of thinking :

First, there has been considerably greater interest on the taxation proposals than on the pattern of expenditure projected. Traditionally, the Budget proposals have been keenly looked forward to by three groups of people :

a) The Corporate lobby;
b) Individual tax payers;
c) Investors, particularly the speculators on the stock exchange.

All the three groups focus their interest largely on the taxation proposals.

Secondly, every Indian Budget has implicitly displayed a conflict between the social priorities of the nation as reflected in the Plans and the compulsions to use the Budget as an instrument for growth through a package of concessions and incentives.

Thirdly, Budgets are seen increasingly as mechanisms for short term supply/demand management rather than as policy statements linked with fundamental considerations of the country's growth/development objectives. India of course, has continuously been hamstrung by two opposite and equally intimidating constraints — a supply constraint which is a nexus among coal, power and transport and a demand constraint arising out of an inadequate rise in purchasing power to sustain an acceptable rate of growth. This leads to a situation where several industries are not able to operate to their full capacity and when they do, they are not able to market their products.

3. It seems to me that to understand the nature of these conflicting positions and to put the budgeting exercise in a perspective, we must look at the pattern of expenditure first and see whether these reflect the nation's Socio-economic priorities even if these are seen in the context of a particular year. We can then go over to the taxation proposals to see whether these make up an optimum exercise to meet the expenditure visualized. In a way the resource mobilisation is a means to an end and the end should be reflected more on the expenditure pattern. This is the approach this paper will follow :

4. On the expenditure part, we may look at the Plan expenditure first. The plan outlay for 1988-89 has been set at Rs. 28,715 crores against Rs. 24,622 for the previous year representing an increase of 16.6%. The major thrust of this increase is said to be the agricultural sector. Apart from a projected increase of 20% on agriculture, irrigation and flood control from Rs. 1079 crores to Rs. 1295 crores, there are a whole lot of schemes designed to help the rural community. These include fertiliser subsides, interest rate cuts on credits, supply of pumpsets to marginal farmers at nominal rental charges, setting up of a National Housing Bank and even a scheme to provide light connections to poor households. Well, how do we assess the total impact of these various measures ? One way must be to look at the impact of these measures on poverty ratios. The number of people below poverty line today should be around 300 million which is perhaps almost the entire population of India at the time of independence and may be growing at 6 million a year. I think the economists of this country have done a great harm to the understanding of the nation's poverty by talking of it in percentage terms than in actual numbers. After all our policies and plans have to relate to actual numbers. From this angle the Finance Minister's proposals on the rural community may have less than marginal impact, because in sheer quantitative terms they do not add up to anything significant. Let us take just two examples. The Finance Minister admits in his speech that the Jaladhara programme of providing pumpsets to marginal farmers at nominal charges is targeted to benefit only 50,000 families. The scheme to provide electricity connections to households below povertyline will benefit only 5 lakh families viz. less than one family per village in the country. Can projects of this nature make any dent on the poverty, let alone improve the quality of life of 600 million rural population ?

5. A close analysis of the Finance Minister's proposals on agricultural sector might suggest that they do not come as poverty reduction programmes, but as some kind of demand management in a year when there has been substantial erosion of purchasing power among the farming community which has in turn led to considerable industrial stagnation. This impression gets strengthened when we look at the kind of industries that have been facing surplus stocks — Fertilizers, cement, textiles, tractors and two wheelers.

6. In fact most of the concessions like fertilizer subsidy, cheaper credit and excise concessions on pumpsets can only benefit affluent farmers and this should leave more disposable income in their hands which in turn should help revive some of the depressed industrial production: That this is the strategy becomes more clear when we look at the proposals relating to industry. Almost all the concessions are directed towards reviving stagnant industries like textiles particularly synthetic textiles and cement. In fact while the Economic Survey makes much of the industry growth in the past year at 10.2%, the fact is that unsold stocks are piling up in several segments and there is no reason why one should feel jubilant at a mere increase in the rate of growth if this is stonewalled against demand constraints.

7. It is however worth analysing where the government,s priorities lie in relation to industry and agriculture. The entire projected plan outlay for agriculture, irrigation and rural development in the Budget works out Rs. 3057 crores. On the otherhand, according to a reply given by the Minister of State for Industrial Development to the Loka Sabha on 23, February '85 that sick industrial units in the country owe the banking system, an amount of Rs. 4422 crores as outstanding against advances made. The actual amount locked up in these sick companies must be several times this figure. While this is the kind of expenditure incurred on unproductive enterprises on the industrial sector, the Government makes much of a Rs. 3000/- crores spent on agriculture sector.

8. On the non-plan side we have to look at the three main components :

a) Defence b) Subsidies c) Interest payments

On the defence there has been an unexpected scaling down of Rs. 500 crores for the past yeer for Rs' 12500 to Rs. 12,000 and this comes in a year when there has been a general feeling that defence expenditure would exceed targeted figures because of IPKF operations in Srilanka and other factors. The reduction on this expenses means that even defence outlay offers scope for economy and rationalisation. The nation knows very little on the pattern of defence expenditure and we should have the benefit of an open dedate on the pattern of expenditure even if not on individual items concerned. After all 15 paise on every rupee in the budget goes here and this is an area that is thick with middle men and agents and influence peddling and talk of bribery, corruption and Swiss Bank accounts.

9. The other major components on non-plan expenditure relate so subsidies and interest payment. In regard to subsidies it is very difficult to make any sweeping generalisation of their utility or otherwise, unless you make a case by case study. For instance, there is a strong case for continuing the food subsidy and there is need for extending

the public distribution system to rural areas to cover poor households. It is true that PDS should be rationalized and wastage avoided but this in an administrative question. But the same cannot to said for fertilizers and export subsidies. Studies on fertilizer use show that the benefits of fertilizer subsidy accrue substantially to larger holding and therefore to rich farmers. There is no reason why we should continue this especially when there is no direct taxation on agricultural sector. The case for the export subsidy is even less at a time when the rupee has considerably depreciated against hard currencies and therefore the Indian product have already achieved the price advantage in most of the international markets. We must also recognize the fact that depreciation of Indian rupee has a negative impact on imports and this, to some extent neutralises the gains on exports. There is thus a strong case for reviewing export subsidies on a case by case basis.

10. The interest burden forms the largest item of non-plan expenditure and the provision of Rs. 14100 crores for 1988-89 is even higher than defence outlay of Rs. 13000/- crores. The most unfortunate part of the present situation is that loans are used for financing revenue expenditure. This is a question of governments own housekeeping. The entire spectrum of public expenditure and investments need a thorough review. Such an exercise should cover following areas :

a) Low productivity of public sector corporations. SAIL alone incures a loss of 350 crores a year, almost Rs. one crore per day. There are other 80 and odd corporations that are on the sick list.

b) Wastage involving huge investments in private corporate sector, creating huge capacities which remain unutilized. Automobile, synthetic textiles and consumer electronics have claimed large investments, a sizeable chunk in foreign exchange : There is a further drain of foreign exchange towards import of components and spares.

c) The public sector corporations are in the market to borrow huge funds. This is a liability on the nation and the efficient operations of these companies are the nations concern.

11. Let us now take a look at the pattern of resource mobilisation efforts to meet the targeted expenditure. These stand on a tripod — indirect taxation, deficit financing and borrowings. Direct taxes are substantially spared because "a reasonable degree of stability in the Direct Tax regime is desirable for inspiring confidence and encouraging saving and investments". Thus there is no change in personal and Corporate taxes.

12. The indirect taxes — excise and customs — are a mixed bag — Some additions here, some concessions there. Some winners and some losers. They do not add up to anything very significant in terms of a well-defined approach. There is hardly any innovativeness in these proposals. There is the additional surcharge on excise which is expected to yield Rs. 650 crores, another surcharge on auxilliary customs duty on imports which will bring Rs. 500 crores. There are concessions to synthetic textile industry, cement, food processing and packaging industry, certain categories of drugs, electronic equipments etc., 100% of exports profits are exempt from income tax. Coming in the wake of the depreciation of Indian rupee

against foreign currencies this brings in an unexpected windfall. To what extent, this will counteract under invoicing of exports cannot be predicted. There are several other proposals. Excise exemption on toys and sindoor have a 'Mary Antoniette' touch about them.

13. Well, the comment one can make on these proposals is that the nature and pattern of Indian industry does not change significantly from year to year so that these suggestions have to be seen in the context of pressure groups working for concessions and incentives. This is inevitably mixed with a little bit of playing to the gallery by increasing duties on airconditioners and television sets.

14. The Budget for 1988-89 provides for an overall deficit of Rs. 7484/- crores. In fact the figure hides the fact that the real deficit on revenue account is Rs. 9842 crores. This is partly financied by borrowing on Rs. 2400 crores. The implication of this is clear. The government's day to day expenses are rising faster than its capacity to generate revenue from taxes, investment and services. The governments resort to borrowing and its consequences have been widely discussed. The total borrowing of the Central Government has already exceeded Rs. 173000 crores by March 1988. The cost of these borrowings have to be seen against their returns and productivity and it is this aspect that can cause concern.

15. Looking at the entire exercise of revenue mobilisation, the question that should be asked is : Is this the best possible manner in which the Finance Minister could have organised the resources to meet the pattern of expenditure visualised for 1988-89? The Budget has very little to say on the income that could be tapped in :

a) Parallel economy ;

b) Informal Sector ;

c) Extending the direct tax base

It is unfortunate that Mr Tiwari's long speech which stretched to over 125 minutes does not contain any proposals to deal with the parallel economy. Even the term 'black money' does not appear anywhere in his speech except once when he talks of sum of Rs. 250 crores worth of goods being collected through the anti-smuggling operations. Thus he sweeps aside the one single factor that has so gravely undermined our economic system in casual sentence. In fact the parallel economy is less parallel and more subterranean in character. Conceptually, it may be useful to devide the black income into two types :

One, the income that is generated in perfectly legal operations and then evaded from the tax net.

Second, the income that is generated in illegal operations and continues to multiply there. These include activities like smuggling, under-invoicing of exports and overinvoicing of imports. All evidences suggest that it is this second kind of black income that has progressively corroded the nations economic health. The World Bank's Development Report had assessed in 1980 India's black money at 48% of its GDP. Even if we take the volume of these transactions at 20% of GDP, this amount should be about Rs. 60000 crores. Has the Budget nothing to say on an income-structure that is 80% to 90% of the total budget receipts?

The distortions that this massive inflow of money has caused in our economic system have almost entirely been against the interests of the poor. A great deal of the urban crisis in India can be traced to the operations of the black money. The widely held notion that the decline of our cities emanates from a shortage of urban land set against an exponential growth in population is essentially a "supply-side" view and has proved to be increasingly untenable. If we shift the focus from 'supply' to demand' we will find that the major variable in our urban equation is *income and the manner in which* urban resources are generated and deployed. The role that black money play in consolidating the monopoly power of a small minority of 10% of a city's population-over 50% of urban land is the single most important factor that pushes 35% of population to slums in a city like Bombay where over 20000 hectares of land is still vacant.

16. The Finance Minister has also not considered bringing the income that is generated in the proliferating informal sector into the tax net. It is a fast growing segment of economic activity. Much of the services in our metropolitan cities fall within this area and indeed almost all of the growth in employment. There is an urgent need for formalising the informal sector. Apart from tax evasion much of this sector thrives on rank exploitation of labour-low wages, long hours of work, total insecurity and poor and unsafe working conditions.

17. It also strikes me that there should be some scope for extending the tax base on direct income. The number of income tax assesses is today 2 million, where as the number of telephone owners is 3 million and the *number of investors in* stocks and share is 7 million. Shouldn't there be some attempt to bring some of these people within the tax forum ? The regressive nature of commodity taxes and administrative prices must be apparent to all.

The Central Budget for 1988-89 thus leaves three main impressions :

1) It is an exercise that is more cosmetic than concrete, more symbolic than substantial. The main criticism against the Budget is not so much its lack of direction as its lack of depth. The rural thrust is illusory. The impact of poverty alleviation programmes will be at best marginal

2) The budget does not address itself to the basic problems that confront the economy-black money, unemployment and the crises in our urban economies. It makes some half hearted approaches to a kind of demand/supply management which may not make an impact in the absence of structural changes.

3) The budget skirts the question of productivity and wastage in the Indian economy. Most of the wastages relate to government expenditure and corporate sector-public and private. The Budget has no proposals to contain either.

TABLE I

Budget at a Glance

(In crores of Rupees)

	1986-87 Actuals	1987-88 Budget Estimates	1987-88 Revised Estimates	1988-89 Budget Estimates
Revenue Receipts	32898	36688	38122	42798
Revenue Expenditure	40674	43430	46619	52640
Revenue Deficit	7776	6742	8497	9842
Capital Receipts	18529	20566	21959	23278
Capital Expenditure	19014	19512	19542	20920
Total Receipts	51427	57254	60081	66076
Total Expenditure	59688	62942	66161	73560
Overall Deficit	8261	5688	6080	7484

TABLE II

Revenue Budget

(In crores of Rupees)

Receipts	1987-88 Budget Estimates	1987-88 Revised Estimates	1988-99 Budget Estimates	Expenditure	1987-88 Budget Estimates	1987-88 Revised Estimates	1988-89 Budget Estimates
Tax Revenue (Centre's Share)	27711	28337	31890	Interest Payments	10650	11450	14100
Interest Receipts	6262	6084	7187	Defence (Revenue)	8534	8893	9128
Dividends and Profits	520	554	572	Major Subsidies	4780	5370	6391
Other Non-Tax Revenue	2195	3147	3149	Other Non-Plan	9845	10893	12317
Revenue Deficit	6742	8497	9842	Plan Expenditure :			
				State and U. T. Plans	3544	3847	3817
				Central Plan	6077	6166	6887
	43430	46619	52640		43430	46619	52640

TABLE III

Capital Budget

(In crores of Rupees)

Receipts	1987-88 Budget Estimates	1987-88 Revised Estimates	1988-89 Budget Estimates	Expenditure	1987-88 Budget Estimates	1987-88 Revised Estimates	1988-89 Budget Estimates
Recovery of Loans	4053	4384	4281	Revenue Deficit	6742	8497	9842
Market Borrowings	6300	7000	7000	Defence (Capital)	3978	3107	3872
External Assistance (Loans and Credits)	2688	2630	3142	Other Non-Plan	1478	1523	2038
Small Savings (Centre's share)	1000	1000	1150	Plan Expenditure :			
				State and U. T. Plans	5210	6034	5897
Other Capital Receipts	6525	6945	7705	Central Plan	8846	8878	9113
Overall Deficit	5688	6080	7484				
	26254	28039	30762		26254	28039	30762

TABLE IV

Central Plan Outlay by Sectors

(In crores of Rupees)

	1987-88 Budget Estimates	1987-88 Revised Estimates	1988-89 Budget Estimates
Agriculture	912	1157	1078
Rural Development	1651	1744	1762
Irrigation and flood control	167	174	217
Energy	7690	7937	9196
Industry and Minerals	4716	4912	4789
Transport	4376	4639	5572
Communications	1229	1503	1820
Science, Technology and Environment	630	579	751
Social Services	3011	2842	3268
Others	240	214	262
Total	24622	25701	28715

Summary of Discussion

Mr. C. Sarat Chandran spoke on the Central Budget 1988-89 the highlights of his lecture are as follows :

The approach to the Central Budgeting has three major strands of thinking:

1. There has been considerably greater interest on the taxation proposals than on the pattern of expenditure projected.

2. Indian Budget has displayed a conflict between the social priorities and budget as an instrument for achieving the growth.

3. Budgets are seen increasingly as mechanisms for short term supply/demand management rather than as policy statements to the development objectives.

Later he stressed the need for looking at the pattern of expenditure in conjunction with nation's socio-economic priorities. He also referred to the resource mobilisation as a means to an end and it should be reflected more on the expenditure pattern. On the non-plan side he discussed the aspects of defence, subsidies and interest payments.

As far as resource mobilisation is concerned the author opined that the Finance Minister could have provided for more resources by extending the direct tax base, bringing the income that is generated in the informal sector into the tax net and by removing the parallel economy.

In the discussions that followed one participant raised the issue as whether it is constitutional to raise the administered prices for which the reply from the Speaker is, there is nothing unconstitutional in raising it, in fact, it was raised in the Rajya Sabha some time last year. The issue raised was mainly that when the revenue of public sector units are accounted in the receipts of the budget raising administered prices should also be related to the budget in some way or the other. Replying to another question the Speaker explained the inflationary impact of the revenue account which will affect the poor people.

One of the participants wanted to know as to why the poverty alleviation programs are getting diluted? To this the author said that unless we make certain structural changes one cannot expect major change in the programs, as there has been no change in these programs implemented by Government of India from 1971 and at present.

Another question raised by one participant is, do you think even export subsidies are meaningful? Replying to it Speaker made it clear that the exercise of export subsidies is efficient still, indeed, it has been discussed at length in the MODVAT.

On the question of promoting new capacity utilisation, Speaker answered that there is no need for creating additional capacity utlilisation. Later the discussion turned to the aspect of fertiliser subsidy, whether to continue it or not. Regarding this issue, Speaker, obviously spent out that the fertiliser subsidy is benefitting substantially to larger holding and to rich farmers. He feels that there is no need to continue it when there is no direct taxation on agricultural sector. Moreover, in the case of small and marginal farmers it's not effective. It is viewed, merely, as an iastrument to support the industrialist production costs. To this one participant responded that one cannot argue for complete abolition of fertiliser subsidy at a stretch, but at the same time we can go for the discriminatory price policy which is aimed at helping the small and marginal farmers, however, the problems involved in the system.

With regard to the conflict between the social priorities and budget as an exercise, speaker admitted with the participant's opinion saying that the P D S helps the poor people provided it should be nationalised and wastage avoided and extended to rural areas also.

The Seminar was chaired by Prof. R. N. Poduval.

T. PRABHAKAR REDDY

Universities and the National Education Policy*

University to be a University

The first task of our universities to promote and complement the National Educational Policy is for them to be universities — that is to be centres where their only functions of teaching and research are based on and lead to the unity of knowledge. At this time when knowledge is increasing at a rapid and accelerating rate, both horizontally and vertically, there is the danger that the universities (a) may find themselves bypassed by the fast moving knowledge stream, and get stuck in outdated and outworn curricula and syllabus (which is fast becoming a reality in our universities, or b) may dabble rather lightly and superficially in a number of frontier areas of knowledge which would make the university a multivarsity (which is happening to a few of our universities only because most have not entered the frontier areas), or c) may occupy themselves with irrelevancies — irrelevant in relation to their only purpose which is to pursue the unity of knowledge — such as conducting examinations on a state wide or zone wide basis, operating the various procedures for the affiliation of colleges and spending time and effort running Boards of Studies for establishing their curricula and text books, and getting involved in the political manoeuvres of the state and university, alongwith trade union type activities (which have become the order of the day in our universities).

For our universities to turn around and regain their vacation as purveyors and seekers of the unity of knowledge, which they must be to help implement the National Education Policy, a number of negative steps have to be taken, to "debarrasse", them from their current irrelevant preoccupations.

Sans Examinations

A first such step is for the university to shed its preoccupying and useless burden of running a burdensome, unscientific and antiquated examination system for its departments and its

* Paper by Dr. Malcolm S. Adiseshiah for the National Conference of the Association of Indian Universities, Hyderabad, December 1987.

affiliated colleges, and in place pioneer and take responsibility for reform of the examination system, whose administration, however, should not be centralised. The National Education Policy sets forth quite clearly the major lines along which the examination system should be reformed to become an effective evaluation process which is part of any learning system. The main lines of the suggested reform are i) to shed the present external, memory testing, end of the year or end of the course examination system, ii) to replace it by the semester system and its accompanying continuous internal assessment, involving appropriate changes in instructional materials and teaching methodology, iii) to replace the essay type questions by objective, short answer ones set by those who teach the course, and iv) to move to a credit system instead of a fixed core and optionals curriculum for every learner (described by the National Education Policy as "increasing flexibility in the combination of courses") and the replacing of marks by grades in assessing the learning attainments, etc. What the National Educational Policy does not say is, who is to administer this reformed evaluation/examination system. My answer is : i) it should not be a centralised system administered by the university or UGC or PSC or any other central body, for the further assessment from the assessee, the less of an assessment of the individual's learning does it become : ii) it should be devised and operated by each learning unit — the university department, the college and the research institution, with the university coordinating and laying down guidelines for the system. (This would mean dismantling a great part of the unwieldy registrar's office, particularly the vast controller of examination office but that is what will make the university a teaching and research agency). Such a system would also facilitate the delinking of degrees from jobs in selected areas, which should be allowed to evolve gradually and naturally.

Sans affiliated colleges

A second imperative for the university to regain its vocation as a university is to shed the system of 'affiliated' colleges that we have invented in India. Lord Curzon, when he laid down office, muttered into his beard about the baneful future effects of the system of affiliated colleges that the British Raj was leaving behind. The National Education Policy, following the Kothari Commission report and the isolated exception of the University of Madras, speaks of making one tenth of the affiliated colleges 'autonomous' (and also some of the university departments). There is no such thing as an 'autonomous' college, because that is what all colleges are everywhere, except in this sub continent. Here I am not concerned with the importance of freeing the colleges to develop according to their creative agencies. I am concerned with relieving the university from the non university, non academic burden of looking after, spoon feeding and administering the system of affiliated colleges, which takes away the time and expertise it needs to develop as a teaching and research body pursuing the unity of knowledge. This principle also applies to the departments of the university, which are bound down academically by the Boards of Studies which cover both the colleges and the departments (and in which the former predominate) and administratively and fiscally by the office of the registrar. So a start may be made by freeing as many colleges and university departments from this spider's web controls and giving them each their head to develop their innovativeness and creativity. This may be objected to ontwo grounds. First that such freedom to colleges and departments will lead to their running amuck. (This was what was said about us by our past rulers, whenever the question of our independence came up and I would recall Gandhiji's startling reply to this : 'leave us to God and chaos'.) There is no doubt that some colleges and some departments will fall by the way side and wither away. They should be allowed to do so, but the rest will be free, creatively free. A second objection is that this may mean further dismantling the registrar's office and the addition to the educated unemployment of the country. The reemployment of the excess staff from the registrar's office by the free colleges and departments for their own use would be one wayout. But the university to be a university — an intellectual centre — needs a lean administration to replace the current bloated one.

Sans politics

A third step to help universities turn around is to reduce, if not eliminate, their politicisation. For this there should be no means of outside interference with the academic life of the university, and no means of university personnel seeking and obtaining outside patronage. One way to ensure the depoliticisation of the university is to make the accession of its main officers — vice chancellors, deans, heads of departments, registrars— automatic by a system of rotation. The Vice Chancellors should go by rotation every three years to the senior most head of department by rotation. The Deanship and Departmental Head should by rotation go to the senior most department head and Professor. The Registrar should be the senior most of the administrative staff of the University. The same principle of rotation should apply to membership of the staff in the senate/court, and syndicate/executive council. The government or legislature should not have power to appoint Vice Chancellors or influence teachers appointments. The President or Vice President of the Republic should be the visitor of the university, with no offices of chancellors or prochancellors. There are two objection advanced to this proposal. First that not every senior head of department is qualified to the Vice Chancellor, that not every professor may be willing to be head of department, that not every head of department may be agreeable to be a Dean. It should be clear that an academic's freedom not to accept any of these positions should be fully protected and maintained. As for the ability to be a vice chancellor (or dean or head of department), it is time that the present false aura surround these offices, particularly the vice chancellorship be ended. When I became the vice chancellor in the University of Madras, I found to my horror that people entering my room took off their shoes, as they do in the presence of God. The vice chancellor (like the dean and department head) is only the primus interpares. In any case even if the vice chancellor (or dean or department head) is unsuitable that will be only for that period of 3 years, and in any case whether he/she would be more unsuitable than the present incumbents should be frankly faced. The first tentative steps taken by the Jawaharlal Nehru University in this direction need to be studied and followed by other older universities, to start with.

Curricula reform

The new education policy rightly calls attention to the need for curricular reform in the universities and in this matter lays down the following guiding principles which each university should apply and follow, namely ;

A core sector which will provide an opportunity to students and teachers "to reflect on the critical, social, economic, cultural, moral and spiritual issues facing India and humanity", including the National Policy affirmation that "Education can and must bring about a fine synthesis between change oriented technologies and the country's continuity of cultural tradition",

Basic knowledge of each discipline including the 'unchartered areas',

A density of specialisms and skills,

Interdisciplinary systems which will be problem oriented.

UGC has set forth and is working on guidelines and modules in the above areas which could be of use to each university in its curricular restructuration.

In this curricular reform area, university teaching needs to be integrally linked to its relevance to the community. This can be done very simply by testing classroom, library or laboratory learning to the conditions existing in our poverty stricken villages or urban slums. Thus the physics students and teacher can test their learning by helping the farmers and artisans to repair their instruments : the chemistry students and teachers by testing the chemistry of the soil and advising the farmers on the appropriate crop and seed and fertiliser to be used : the biology student and teachers on solving the problems faced by the dairy or poultry farmers : the commerce students and teachers in helping the village cooperative to keep their account books : the political science student and teachers in helping the village panchayat to run its affairs and relate their activities to those of the block etc. This would require that each board of studies should prescribe in its curricula and text and reference books, the application of the learning to rural and urban condition facing society. This will give university learning a new dimension, will provide a feedback to the boards on the changes needed, influence university research and act as a bridge between the urban based university which the majority of our universities are and the proposed expansion of rural universities.

The National Policy also calls attention to the special responsibility of the universities for "teacher orientation and preparation of teachers at the beginning of the service as well as the continuing education thereafter". One effect of the knowledge explosion which was referred to at the beginning is that no longer are "teachers born" as they were assumed to be in my days, so that to be a school teacher all you needed was a graduate degree, and to be a university lecturer, post graduation and some introduction to research as in M.Phil which were regarded adequate. Today, the teachers at all levels, particularly at the university level, have to be trained to be teachers, and for this every university needs to make provision for such training of its teachers, including the transformation of teaching methods and the use of audio visual aids and electronic equipment. In such training, each university can obtain help from the Academy of teacher training that is to be set up to cover groups of universities in each state, as well as from the open university systems which are fast developing.

Research

Research is today in a parlous position in our universities. It is fragmented in so far as research in the sciences and humanities is taking place mainly outside the university in CSIR, ICAR, ICMR, DAE, DSC, ICSSR, ICPR, ICHR etc. Its quality is not high in that, except in agriculture, it has made no contribution to fundamental research nor is it mission oriented. In the words of the Abid Hussain CSIR Committee 'our research is characterised by mediocrity'.

Under these conditions, it is important that there should be greater intellectual ferment and curiosity among our Professors and closer interaction between the research agencies. The National Education Policy refers to "a national body covering higher education in general, agricultural, medical, technical, legal and other professional fields" to be set up. The Prime Minister's Science Advisory Council has recommended a National Science Foundation to both coordinate and in a sense control and monitor all research. These are moves in the right direction, and should result in the university playing its role — not necessarily the major role — in research, except in fundamental research, where the university should be the agency concerned, and any others engaged in fundamental research should be required to work with or under the university. This is parallel to working for a Ph.D. degree which is the responsibility of the university. Any one wanting to do this doctorate has to do it under the aegis of the university. So too in fundamental research, which is the base for all research and all development, the university should be the base agent. For this, the universities should be adequately equipped, which they are not today; the National Policy's pledge of "enchanced support to university research" should mean this — the provision of necessary equipment, laboratories and facilities for basic research. All this provides the setting, the infrastructure for research : its quality and standard depends on the research worthiness, committment and dedication of our university professors.

The other aspect of research—oriented, or applied or mission or problem centred research — is essentially outside the university's purview. Here a distinction should be made between the Arts and Science universities and the Professional universities—the engineering, agricultural and medical universities. In the case of Arts and Science universities, the major stress is on fundamental research, which as earlier suggested should be adequately funded and promoted. In the case of Professional universities, in addition to basic research, they also have to undertake applied research — in cooperation with the user — the industries, the public works and irrigation departments, the farmers, the hospitals etc. There is one area of fruitful cooperation between the university and the user — which we have not adequately developed in India. There is need for the university, the industry, and the government to join in certain research areas which have been described as the thrust areas — drinking water, oil seeds, literacy etc. Here the Arts and Science university can contribute the necessary social science or basic science input, the Professional university or the research agency, the applied research input, the industry the framework of needs and monitoring its conformity to the needs, and the government the resources, in order to push forward relevant applied research.

In the research area — whether it be basic research or applied research, — it is important that what is attempted is within the technical, personnel and financial means of the university. And universities in their turn should not take on more responsibility for research, sponsored by the government, its funding agencies or from non Indian sources — which are beyond its technical means. The absence of such restraint leads to the dilution of standards, irrelevance and mediocity, as rearly referred to.

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I, Dr. C. T. Kurien, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Dated : February 10, 1988

Sd/- C. T. KURIEN
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Publications of the Institute consist of the following categories

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The aim of the Institute is to contribute to the economic and social development in Tamilnadu and India.

The activities of the Institute are :

—Research leading to Ph.D. and M. Phil Degree

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