

CHAPTER 3RE - ASSESSMENT OF THE RESOURCE FORECAST
OF THE CENTRAL GOVERNMENT

As mentioned earlier, we obtained from the Central Government their forecast of receipts and expenditure on revenue account as well as of capital receipts and disbursements, together with notes explaining the manner in which they had projected various items. We examined the forecast on the same lines as those of the States. In that examination we were greatly aided by the discussions which we had with the Secretaries in the Union Ministry of Finance and their senior colleagues including the Chairmen of the Central Board of Direct Taxes and the Central Board of Customs & Excise. At these discussions, the Financial Commissioner, Railways, the Secretary, Planning Commission and the Union Home Secretary participated. We also had a detailed discussion with the Union Defence Secretary. These discussions helped us in getting a fuller understanding of the policies and thinking having a bearing on the resource forecast.

2. We examined the projections of the tax revenues of the Central Government in the light of considerations similar to those which we kept in mind while we were considering the forecast of tax revenue receipts of the State Governments, that is, the long term and recent revenue growth trends, elasticities of the revenues of different taxes with respect to Net National Product as well as with respect to Net National Product originating in the non-agricultural sector and the manufacturing sector as appropriate, the changes in the tax structure in recent years, concessions which have been given, and so on. We have, accordingly, taken somewhat higher rates of growth of revenues than assumed by the Central Government, in respect of Union excise duties (7%), customs duties (7%) as well as the corporation tax (9%). We also assumed a rate of growth of revenues from sales tax in the Union territories in line with what we have adopted for the neighbouring States, i. e. higher than that taken by the Central Government for the purpose of their forecast. As reassessed by us, the total revenue receipts of the Central Government in the quinquennium 1979-84 would be Rs. 80,126 crores, of which income-tax would account for Rs. 7,192 crores and Union excise duties Rs. 32,607 crores.

3. In regard to the forecast of expenditure, as in the case of the forecast of the States, we eliminated unusual items of current expenditure which were unlikely to recur in the future. We moderated the rates of growth assumed in the forecast of expenditure on the Police and on Audit. In the case of the Police the present policy of the Central Government appears not to favour expansion in the strength of the Central police organisations, and efforts have been initiated to reduce the strength wherever possible. We have therefore allowed a rate of growth of expenditure at 6 per cent on the Police in the forecast period. The expenditure on subsidies on food, fertilizers and exports is very substantial, adding up to Rs. 1,026 crores in the Central budget estimates for the current year. We proceeded on the basis that while export subsidies may not be susceptible to reduction in view of the role they play in sustaining the national export effort, there was scope for reducing the burden of subsidy on fertilizers. We have, therefore, projected the expenditure on subsidy of fertilizers in such a manner that it should be progressively reduced to nil by 1983-84. In regard to food subsidies, the expenditure as appearing in the Central budget is for the purpose of meeting the deficit incurred by the Food Corporation of India in its operations covering procurement of foodgrains, their handling and storage, and issues at prices fixed by Government. We recognise that there are a number of special considerations which apply in regard to

procurement prices and issue prices of foodgrains. We are also aware of the importance to the country of having an adequate buffer stock of foodgrains involving substantial costs. At the same time, we believe it is necessary to restrain and reduce gradually the expenditure on food subsidies. Accordingly we have projected this item of expenditure in such a manner that by 1983-84 the amount of subsidy would be reduced by 25 per cent from the level of 1979-80.

4. We also looked into the returns to the Central budget from the investments of the Government in its industrial and commercial undertakings drawing upon material from the Bureau of Public Enterprises. As on the 1st April 1977 the total investment (equity and loans) in 145 enterprises was Rs. 11,097 crores. Of this total, the paid-up capital was Rs. 5,413 crores and the loans and deferred credit Rs. 5,684 crores. This excluded investments of Rs. 78.18 crores in insurance corporations, Rs. 241.29 crores in the National Textile Corporation and Rs. 10.79 crores in 3 enterprises registered under Section 25 of the Companies Act, 1956. Undertakings under construction accounted for Rs. 532 crores i.e. 4.79 per cent of the total investment. Enterprises producing and selling goods accounted for an investment of Rs. 8,624 crores, and service enterprises for Rs. 1,940 crores.

5. The gross profit earned by running concerns in 1976-77 was Rs. 1,054 crores, which was 9.7 per cent on the capital employed. Gross profit is the excess of income over expenditure after providing for depreciation and charges pertaining to previous years but before providing for interest on loans, taxes and appropriations to reserves. Capital employed is the gross block less accumulated depreciation thereon plus working capital. Enterprises producing goods earned gross profits at 9 per cent on the capital employed. The service enterprises gave a return of 10.8 per cent on the capital employed.

6. Of the total investment of Rs. 11,097 crores mentioned above, that of the Central Government was Rs. 9,569 crores, including Rs. 5,368 crores paid-up capital, and Rs. 4,201 crores by way of loans. The total return to Government on equity and by way of interest on the loans amounted to 4.43 per cent in 1976-77. On equity alone the return as calculated comes to 4.4 per cent. There appears to be an improving trend in the past few years in the performance of the Central public enterprises. It has however to be noted that, as compared to the enterprises of the State Governments, the Centre has few promotional undertakings. The bulk of the investments are in production and service enterprises, which have a large command of the markets, advantages of scale, the scope for attracting management talent, and so on, unlike the enterprises of the States. The Central enterprises also have readier access to finance compared to most of the enterprises of the States.

7. Taking these factors into account we have assumed that in the forecast period the return on equity investment by the Central Government in its enterprises should increase from 4.4 per cent in 1976-77 to 7.5 per cent by 1983-84. The receipts on account of interest on loans advanced to the enterprises have been taken as calculated according to the terms applicable to such loans and included in the forecast of revenue receipts. The return on equity has been calculated on the investments likely to be made by the end of 1978-79, as estimated from the Central budget. We have not taken into account, as in the case of States also, investments likely to be made from 1979-80 onwards.

8. The re-assessment of the forecast of the Central Government which we have made as above has resulted in an overall improvement of Rs. 4,626 crores in the five-year period 1979-84 compared to the resource position indicated in the forecast.