The House re-assembled at Five of the Clock.

[MR. DEPUTY-SPEAKER *in the Chair*]

GENERAL BUDGET FOR 1953-54

The Minister of Finance (Shri C. D. Deshmukh): I rise to present the statement of the estimated receipts and expenditure of the Government of India for the year 1953-54. [*Placed in Library. See* No. IV.O.1(72a)].

Judging from the available information and taking an overall view, the nine months which have elapsed since I presented the Budget for the current year to this House last May have witnessed a marked improvement in the economic conditions in the country. Prices have, on the whole, remained steady at lower levels, industrial as well as agricultural production has shown an increase, while the balance of payments position has also been slightly more favourable than in the preceding year.

The general index number or whole sale prices which stood at 432·2 points at the end of December 1951 fell to 374·5 points by the end of December 1952, a drop of 57·7 points or a little over 13 per cent. The downward movement of prices, however, was not uniform during the course of the year. In the first four months there was a somewhat precipitate drop resulting from a combination of international factors, purposeful fiscal and monetary policy and the inevitable collapse of speculative overtrading. These marked the transition from a sellers' to a buyers' market, as a consequence of which accumulated stocks, especially in the export trade, were unloaded and prices were depressed to a level which was neither sustainable nor healthy. There was a general revival of prices after the initial set back and by the end of September the index number rose by about 7 per cent. Since then prices have been more or less steady, the fluctuations being within narrow limits. The index number of raw material prices is also about 25 per cent. lower than at the end of December 1951. Food prices have, on the whole, also remained steady, although during the middle of the year there was a slight upward movement, the index number of cereals rising to 467 points and of all food articles to 377·6 points. There has been a significant drop since then and by the middle of January the index number had dropped to 355·6 points.

The food situation was also much easier than in the preceding year. From about the beginning of 1952 the stock position showed a marked improvement and prices were easier, in sympathy with the recession in the commodity markets, and offtake from Government shops showed a decline. In the light of these favourable circumstances certain relaxations in food controls were allowed from the middle of the year onwards in a number of States. These relaxations were intended to minimise the irksome features of food controls without running the risk of having to increase imports of food or encouraging any undue rise in prices. The relaxations, it may be emphasised, are only in the nature of adjustments within the framework of the basic policy and do not imply any departure from the policy of general control of foodgrains as long as pockets of scarcity persist and the need to import foodgrains continues. These relaxations were not followed by any panicky or precipitate rise in prices but certain deficit areas were provided with imported foodgrains by the Centre, issued at prices considerably lower than their real cost. Thanks to the American wheat loan, at the end of 1952 Government carried a comfortable stock of foodgrains, and the programme of imports for the current year provides for a smaller volume of imports than in the last two years. The possibility of progressively reducing imports appears to be distinctly within our reach.

Industrial production during 1952 was also satisfactory. In spite of the reduction of working hours last April and the comparative slackness in demand, the production of jute goods during the year rose to 978,000 tons, an increase of 69,000 tons over the previous year. While the demand for hessian remains reasonably stable there has been a decline in the world demand for sacking, which is causing some concern to the industry, but which may prove to be temporary. The cotton textile industry achieved a record production of 4,600 million yards. The industry is now able to meet the internal demands in full and the continuous maintenance of production at this level will, to some extent, depend on the quantity of cloth which can be exported. The improvement in production made it possible to achieve a considerable measure of decontrol of prices and the practically complete decontrol of distribution. The industry has been assisted in

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driving to maintain its position in the export markets against the increasing competition of other countries by the recent reduction in the export duty, which may be taken to be more or less a long term measure. The production of steel was also higher than in the previous year, although the production, at 1·15 million tons, is still far below the country's needs. Coal and sugar production also touched new records. Cement production rose to 3·5 million tons, an increase of 300,000 tons over the previous year and two million tons over the production in 1948. There was also an increase in the production of a number of other commodities such as paper, caustic soda, power alcohol, ply-wood, rayon yarn and sewing machines. A number of new industries came into production for the first time last year. Among these may be mentioned industrial boilers, power presses, fluorescent tubes and a number of drugs and chemicals.

Among essential raw materials the production of cotton and jute also showed an increase in 1951-52, the production of the former rising to 31·3 lakh bales and of the latter to 46·8 lakh bales.

While the all round increase in production has been an encouraging development it would be rash to assume that all these trends will continue in the future. In the case of sugar, a fall in production is already apprehended. The engineering industries need close attention, as they appear to be the first to be affected by any unfavourable trend. Certain industries in the country have also been facing special difficulties. The handloom industry, which provides livelihood for considerable sections of the population, particularly in the countryside, has been hit by a slump. As a temporary measure of assistance to the industry the production of *dhoties* by mills has been limited to 60 per cent. of the production in the year 1951-52. A Handloom Board has been established recently and legislation is being undertaken to raise funds for assisting the handloom and khadi industries by levying a small cess on mill-made cloth. The tea industry is another industry which has been adversely affected by recent developments in the world market. For many years this industry was insulated from the impact of competitive market conditions by the system of bulk purchases by Britain, under which a cross section of the crop of every garden was purchased at prices which allowed for all increases in the cost of production. Under this sheltered condition tea production increased from 450 million pounds in 1939 to a little over 600 million pounds in 1952. With the termination of the bulk purchase arrangements by Britain and the recent fall in tea prices considerable distress has been caused to the industry and some tea gardens have been closed down. A team of officials enquired into the conditions of the industry sometime ago and the recommendations made by them have been under discussion with the two State Governments primarily concerned and representatives of the industry. Government have been giving continuous consideration to the problems of the tea industry and certain ameliorative measures have already been taken. A system of guarantees to scheduled and apex co-operative banks with a view to inducing them to extend credit facilities to the tea gardens during the 1953-54 season was announced last December. Reasonable time has been allowed for the payment of the excise duty after the clearance of the tea from the gardens and the smaller growers have been exempted from liability for advance payment of income-tax. A Committee, which will include a member with intimate knowledge of labour problems, is being appointed, with very wide terms of reference, to go into the cost structure of the tea industry. We have also been in consultation with the State Governments in regard to the supply of food to the gardens and some assistance has already been given by the Governments of West Bengal and Assam. The problem of conversion of foodgrain concessions into cash concessions is largely a matter for direct negotiation between employers and labour and it may be hoped that a suitable arrangement will be reached at the next meeting of the tripartite Committee on Plantation Labour. There has also been an improvement in the prices of tea and Government are exploring the possibilities of stimulating the demand for Indian tea in outside countries by more effective propaganda. Recently an agreement on this subject has been reached between India, Indonesia, Ceylon and the United States tea trade.

The fall in prices has had the inevitable consequence of reducing income in certain sectors but more significant, perhaps, than this is the fact that the possibilities of large or quick profits by traders and middlemen have been reduced. While with production at its present level there is little possibility of any unemployment in industrial labour, the contraction of profits in trade and commerce is, perhaps, having the effect of creating some measure of unemployment in the urban areas. Agricultural labour has also not been materially affected by the fall in prices except in the tea gardens where some amount of unemployment seems inevitable if the marginally uneconomic gardens have to close down. The House may rest assured that Government will do whatever they can to minimise the extent of distress in this field. Taking a somewhat longer view it may be hoped that as the various development schemes get under way they will provide increasing scope for employment. The effect of the fall in prices on production and employment will also be constantly kept under observation. It should be remembered that while marginal changes in the employment situation come to notice and can, in some cases, be studied with a view to correction, the basic situation in regard to employment and under-employment in the country is one that calls for long term measures for its correction and that such correction could only be gradual, specially in view of the increasing population.

When I reviewed the balance of payments position at the time of presenting the Budget last May, I drew the attention of the House to the deterioration in our position during 1951 and the first four months of 1952. But the first half of 1952, taken as a whole, showed an improvement as compared with the previous year, the deficit in payments on current account having declined from Rs. 92 crores in the last six months of 1951 to Rs. 74 crores. Payments for imports during the first half of 1952 amounted to Rs. 442 crores. Export receipts were Rs. 315 crores and net invisible receipts Rs. 53 crores. A part of the deficit during this period was met from the proceeds of the American loan for the purchase of wheat and the balance from the Sterling Balances.

Against a deficit of Rs. 74 crores during the first half of 1952, there was a surplus of Rs. 28 crores during the succeeding three months, leaving for the first nine months of 1952 a net deficit of Rs. 46 crores. Figures for the subsequent months are not yet available but the trend noticed in the third quarter of 1952 appears to have been maintained. This is broadly reflected in the increase in the Sterling Balances held by the Reserve Bank which have risen from Rs. 690 crores at the end of last September to Rs. 720 crores in the middle of February.

India's dollar position during the first half of 1952 showed some deterioration over the previous half year, the amounts drawn by her from the Sterling Area's gold and dollar reserves rising to $188 million against $30 million in the previous half year. This was mainly due to larger payments for foodgrains and cotton from dollar sources. In the latter half of 1952 there was, as I anticipated in my Budget speech, some improvement. The preliminary figures for the five months ended November 1952 indicate that India contributed about $63 million to the Central Pool. This change in the dollar position was largely responsible for the improvement in the country's overall balance of payments during the third quarter of 1952 which I mentioned earlier.

I shall now mention briefly the various factors responsible for these changes in our balance of payments. At the end of 1951 there was a movement towards tighter credit and a reduction in expenditure generally. The increase in bank credit during the busy season of 1951-52 was much smaller than usual and amounted to only about Rs. 100 crores against nearly twice that amount in the busy season of the previous year. This, combined with the general decline in the international prices of a number of raw materials and other commodities, tended to reduce the level of prices in the country, particularly in the early months of 1952. Thus the general index number of wholesale prices which averaged 416 in February 1952 registered a sharp decline to 365 by the middle of March, the fall in prices being more pronounced in industrial raw materials. India's exports, therefore, showed a fall while at the same time large payments had to be made for imports of raw cotton and food, payments for the former amounting to Rs. 79 crores and for the latter to Rs. 121 crores.

The position in the latter half of 1952 showed an improvement for a variety of reasons. Firstly, the export regulations were liberalised about the middle of the year to arrest the fall in export earnings noticed in the earlier months. Secondly, the export duties were reduced and in several cases altogether removed. Thirdly, the export quotas for a number of commodities were increased and restrictions on the export of cotton

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textiles and some other commodities were relaxed. These measures assisted materially in the revival of the country's exports. Foreign buyers no longer sat on the fence in the expectation of a reduction in export duties, but re-entered the market, though rather late. The payments for food and cotton imports were also much smaller than in the previous half year.

International trade and payments are, as the House is aware, affected by a variety of complex factors and developments in the international field about which it is, as I have mentioned more than once in this House, most difficult to prognosticate. But I think it very likely that the coming months may not be as favourable as the last six months of 1952. The increase in the export earnings in recent months is partly due to a carry over of orders from the previous period. There has been a further decline in the prices of our principal exports, particularly jute manufactures and oil seeds. A number of countries have also placed restrictions on imports. Lastly, the import policy for the first half of the current year allows for some liberalisation in the imports of a number of items which were restricted hitherto. Food purchases are also likely to increase our external payments.

Hon. Members will recall the statement I made in Parliament during the last session about the conference of Commonwealth Prime Ministers held in London last November. The problem of arresting the drain on the dollar and gold reserves of the Sterling Area has been in the forefront during recent months. As a result of the measures taken by the Commonwealth Governments, following their meeting in London in January 1952, the drain on the Central Reserves was halted and to some extent reversed. These reserves, which had dropped from $2.335 million at the end of 1951 to $1,700 million at the end of March 1952, fell only by a small sum of $15 million during the subsequent quarter. Since then there has been a slight increase in the reserves which stood at $1.846 million at the end of December 1952. The contribution made by us to this improvement has been mentioned earlier, but the periodical crises faced by the Sterling Area in recent years point to the necessity for long-term measures, rather than temporary palliatives. As the Conference held in January 1952 recognised, the real key to the problem lies in the expansion of world production and trade and in making an advance towards sterling convertibility as early as possible. The conference of Commonwealth Prime Ministers agreed that the Sterling Area countries should follow sound internal economic policies, and that individual countries should aim at economic development with the object of increasing their productive and competitive strength and co-operate with the other trading countries. As I have already stated in this House, agreement on these points does not involve the adoption of any new policy by the Government of India. India's internal policies are already geared to the tasks laid down by the conference. The implementation of the Five Year Plan is expected to enable India to play her part in the expansion of world trade and increasing her production. By helping herself India will be helping not only the countries of the Sterling Area but also the rest of the world in the expansion of production and trade.

Before I pass on to other matters I should like briefly to mention the progress made in our negotiations with the International Bank for Reconstruction and Development for loans for some of our development projects. Following the visit to this country early last year of the President of the International Bank several officials of the Bank have visited this country to consider the various schemes for which we had asked for assistance. Two missions from the Bank came to assess the requirements of the Industrial Finance Corporation. Missions also investigated the possibilities of assisting the development of steel production and certain irrigation projects under the Damodar Valley Corporation. A number of officials from India also visited the United States for discussion with the authorities of the Bank. As a result of these discussions, the Bank have agreed to the grant of a loan of $31·5 million to the Indian Iron and Steel Company and $19·5 million for the Damodar Valley Corporation. The loan to the Steel Company, which has been guaranteed by the Government of India, will carry interest at 4¾ per cent. and will be repayable in 15 years. The loan for the Damodar Valley Corporation will carry interest at 4¾ per cent. and will be repayable in 25 years. The negotiations for a loan to the Industrial Finance Corporation are nearing completion and an agreement is expected to be concluded shortly.

Discussions were also held last year with the authorities of the International Monetary Fund about the continued retention of the existing restrictions in payments and transfers for current international transactions with a view to enabling the Fund to decide whether the existing exchange restrictions were justified. I am glad to say that the Fund has agreed that, in the exceptional circumstances governing India's external payments position, these restrictions may be continued.

In accordance with the usual procedure of the International Monetary Fund a Mission consisting of technical experts from the Fund is at present on a visit to this country. The Mission is making a close study of the Five Year Plan and the fiscal, monetary and economic policies of the country. I have no doubt that their objective view of the efforts which we are making to sustain the economy of the country and for its orderly development would help us to ensure that resources for implementing our Five Year Plan are raised in an optimum manner and may perhaps encourage external assistance on lines entirely acceptable to us.

While on the subject of external assistance for development, I would like to mention the assistance received by us from the United States Technical Co-operation Administration. A sum of $38·35 million was provided this year for the extension of projects already undertaken and for such additional projects as may be agreed upon. In furtherance of the objectives of the Colombo Plan, the Governments of Australia, Canada and New Zealand agreed to provide a further sum of about $20 million. We have also received a contribution of about Rs. 67 lakhs from the Government of Norway for some of our development schemes. I take this opportunity of expressing our appreciation to these friendly nations.

Before I deal with the revised estimates for the current year and the Budget estimates for the coming year, I should like to refer to the report of the Finance Commission, which has already been placed before both Houses of Parliament. The House will remember that in accordance with the recommendations made by the Commission in their First Report submitted to the President in December 1951, the Budget for the current year was framed on the basis that the arrangements which were in force at the time in regard to the allocation of revenue between the Centre and the States and the payments of grants-in-aid to them will be maintained during the current year, subject to the condition that the decision taken on the final recommendations of the Commission would be given effect to from the 1st April 1952. As hon. Members are aware, the recommendations of the Commission in their final report have been accepted in their entirety by Government. These recommendations involve the assignment of a larger share of income-tax to the States, the allocation of 40 per cent. of the net proceeds of the Union duties of excise on tobacco, matches and vegetable products to the States and the payment of increased and additional grants-in-aid to a number of States. The net effect of these recommendations is to transfer, on an average, a sum of the order of Rs. 21 crores a year more than at present to the States by way of devolution of revenue and grants-in-aid. Except in regard to two matters in which the Commission themselves have suggested that their recommendations should take effect from the next financial year, the recommendations of the Commission are being given effect to from the current year and the revised estimates for this year and the Budget estimates for next year take this into account.

I do not propose to dilate at length on the recommendations of the Commission as their report has already been circulated to the Members of both Houses and details, as they affect the various heads of revenue and expenditure, will be found in the Explanatory Memorandum circulated with the Budget Papers. I would however, like to take this opportunity of placing on record Government's appreciation of the valuable work done by the Commission. As the first Commission set up under the Constitution, entrusted with the delicate task of adjudicating between the claims of so many Governments, they had a difficult and onerous responsibility and I am sure all sections of the House and the public outside would join me in paying a tribute to the impartial and objective manner in which the Commission have dealt with the problems placed before them.

In the current year's Budget I had provided for a surplus on revenue account of Rs. 3·73 crores. I now expect that this surplus will be converted into a deficit of Rs. 3·79 crores. This is the result of an increase of Rs. 13·66 crores in revenue and a worsening of

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Rs. 21·18 crores in expenditure met from revenue.

The total revenue for the year is now estimated at Rs. 418·64 crores against the Budget estimate of Rs. 404·98 crores. The improvement in revenue is largely due to better receipts from customs and income-tax. The revenue from import duties is now placed at Rs. 120 crores, a drop of rupees five crores in the sum expected to be collected when the Budget was framed. Export duties, however, have been somewhat better than expected and against the estimate of Rs. 40 crores I now expect that the collections will amount to Rs. 55½ crores. The House will remember that in view of the uncertainty regarding the income that could be expected from this source, which depends so largely upon developments in the world markets, and the need, from time to time, of having to adjust these duties to enable us to maintain our position in the overseas markets, we had assumed that there will be a substantial drop in the revenue from export duties this year as compared with the previous year. Actually, while there has been a drop it has been much smaller than we had reason to expect at the time the Budget was framed. Collections of income-tax are also likely to show an improvement of Rs. 15 crores of which corporation tax will account for Rs. 9·3 crores and income-tax for Rs. 5·7 crores. This improvement is largely due to larger collections as a result of the drive for the speeding up of assessments and the clearance of arrears which has been in operation for some time. The revenue from Union excises is now placed at Rs. 80 crores against the Budget estimate of Rs. 86 crores, the drop being largely due to less collections of the duty on cotton cloth and to a small decrease in the revenue from tobacco. In the Budget credit had been taken for a recovery of rupees nine crores from Pakistan as the first instalment of its debt repayment to India but as it has not yet been possible to reach an agreement on the provisional amount of the partition debt, this payment is likely to be carried forward to the Budget year. Under other heads it is not expected that there will be any substantial change compared with the Budget. The payment to the States of their share of income-tax is now likely to be about rupees six crores more than was provided in the Budget, partly owing to the increase in collections mentioned earlier and partly to the acceptance of the recommendations of the Finance Commission.

Expenditure met from revenue in the current year is now placed at Rs. 422·43 crores against the Budget estimate of Rs. 401·25 crores. Defence Services account for Rs. 192·73 crores and Civil expenditure for Rs. 229·70 crores.

Under Defence Services the drop of Rs. 5·22 crores is due mainly to the non-receipt of supplies from abroad to the extent anticipated in the Budget. Under Civil heads, the expenditure is now expected to exceed the Budget by Rs. 26:4 crores. This increase is largely accounted for by the additional payments to the States under the Finance Commission's recommendations and increased expenditure on food subsidies. The revised estimates include a provision of Rs. 16·42 crores for paymens to the States as their share of the Union duties of excise on tobacco, matches and vegetable products. Grants-in-aid to the States under articles 273, 275 and 278 of the Constitution are expected to amount to Rs. 2·98 crores more than was provided in the Budget; these will cover increased payments to the States recommended by the Finance Commission. Expenditure on food subsidies for which the Budget had provided Rs. 15 crores, is now placed at Rs. 21 crores. Other variations as compared with the Budget are not likely to be substantial and have been explained in the Memorandum circulated with the Budget Papers.

At the existing level of taxation the revenue for the coming year is estimated at Rs. 437·76 crores and the expenditure met from revenue at Rs. 438·81 crores, leaving a deficit of Rs. 1·05 crores.

I have mentioned earlier the difficulty in making an estimate of the revenue from customs duties. Against the sum of Rs. 177 crores which we expect to collect in the current year, I have assumed Rs. 170 crores for the Budget year. The revenue from import duties may be expected to be about the same as in the current year and to bring in Rs. 118 crores. The revenue from export duties this year was somewhat higher than expected and I do not think that in present circumstances it would be realistic to provide for the maintenance of the revenue at the level reached in the current year. I have assumed a drop of Rs. 4½ crores in the revenue from this source and have placed the total revenue from customs duties at Rs. 170 crores. Under Union excises, I have taken Rs. 94 crores against the revised estimate of Rs. 80 crores. The increase of Rs. 14 crores provides for rupees six crores from the cess on mill-made cloth levied for the benefit of the *khadi* and handloom industry and rupees three crores from the proceeds of the special excise on sugar which was recently imposed. An improvement of rupees three crores in the revenue from the excise duty on cloth had also been assumed; small improvements under other heads account for the balance of rupees two crores. The total revenue from income-tax has been placed at Rs. 160 crores, a drop of rupees ten crores on the revised, which is mainly accounted for by the drop in the revenue from voluntary disclosures and the contraction in the post-war refunds of excess profits tax and the income-tax collected on them. Under Currency and Mint the profits from the Reserve Bank are expected to amount to Rs. 12·5 crores against Rs. 7·5 crores this year. Credit has been taken for the recovery from Pakistan of two instalments of its partition debt to India, one instalment representing a carry over from the current year. The net surplus of the Posts and Telegraphs Department will also be rupees one crore less. The estimates under the other heads largely follow the revised estimates.

Expenditure met from revenue next year is estimated at Rs. 438·81 crores, an increase of Rs. 16·38 crores over the revised estimate for the current year. Expenditure on Defence Services has been placed at Rs. 199·84 crores and Civil expenditure at Rs. 238·97 crores.

Of the total expenditure of Rs. 199·84 crores next year on Defence Services, Rs. 148·18 crores will be on the Army, Rs. 11·07 crores on the Navy, Rs. 25·2 crores on the Air Force and Rs. 15·39 crores on non-effective charges. The increases over the revised estimates are mainly in respect of the Navy and the Air Force which, as the House is aware, are expanding Services.

In considering the estimates of expenditure on Defence I must repeat, what I have said on more than one occasion in the past, that there can be no question of any large-scale reduction in the size of the Armed Forces so long as there is any danger to the country's security. While this overriding consideration exists, I can hold out no hope of any substantial reduction in Defence expenditure in the immediate future. Nevertheless, our aim has been, and continues to be, to maintain the minimum forces essential for the country's security. The House will recall that, while presenting the Budget for the current year, I mentioned that a critical examination of the organisation and equipment of the Armed Forces had been undertaken in order to see what economies could be effected in Defence expenditure. This critical examination will, more or less, be a continuous process. The conclusions so far reached in regard to the scales of equipment of certain establishments and the reorganisation of some services are of considerable importance from the point of view of ultimate economy and, although I cannot say that the estimates for the coming year reflect very much of this, I am confident that in course of time they will yield appreciable savings. While, as I have mentioned earlier, the requirements of national security set the limit to expenditure on defence, the search for economy within this limitation will continue to be assiduously pursued.

Civil expenditure next year is estimated at Rs. 238·97 crores against Rs. 229·70 crores in the current year. The current year's estimate includes a provision of Rs. 21 crores for food subsidies and rupees four crores for the payment of compensation to sugar factories to cover the reduction in price of stocks of the 1951-52 production. It has been decided not to subsidise food any longer from revenue and no provision is being made in the Budget for next year on this account. Excluding these two special items civil expenditure next year will be Rs. 34½ crores more than the corresponding figure in the current year. This increase is mainly due to larger provision for a number of development items. Among these I would mention the provision of rupees two crores for basic and social education, rupees six crores for transfer to the fund for the development of the handloom industry, rupees one crore for the development of small scale industry, rupees four crores for industrial housing, Rs. 6·33 crores for community projects, rupees one crore for the uplift of the backward classes, rupees three crores for local works, Rs. 50 lakhs for the national extension organisation and Rs. 1·5 crores for grants to certain States for the expansion of primary education recommended by the Finance Commission. Expenditure on the relief of displaced persons is also expected to be about rupees one crore more than in the current year. Increased provision has also been made for research expenditure, grants to the Council of

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Scientific and Industrial Research and grants for the development of Scheduled Areas and Tribes.

The current year's Budget made a provision of Rs. 79 crores for capital expenditure, including a transfer of rupees ten crores to the Special Development Fund from the sale proceeds of American wheat. The transfer to the latter Fund is now expected to amount to Rs. 26·57 crores and, excluding this, the capital expenditure will amount to Rs. 49 crores. Loans to State Governments for development, rehabilitation of displaced persons and relief of famine this year, will amount to Rs. 117 crores against Rs. 104 crores provided in the Budget. The provision for capital outlay in the revised estimates has largely been regulated with reference to the progress of expenditure on the various schemes. The reduction of Rs. 20 crores in the expenditure is mainly due to a saving of Rs. 8·29 crores in the provision for defence capital outlay and Rs 8·15 crores in the provision for capital outlay on industrial development, mainly in the provision for development of the shipping industry and the setting up of a steel plant. In addition to loans for various capital projects and Grow More Food schemes, provision of rupees six crores has been made for ways and means assistance to State Governments in connection with works undertaken for the relief of famine and scarcity.

For next year, a total provision of Rs. 77 crores has been made for capital outlay and Rs. 131 crores for loans to State Governments, including loans from the Special Development Fund. The provision for capital outlay includes Rs. 19 crores for Railways, Rs. 7·6 crores for Posts and Telegraphs, Rs. 6·75 crores for Industrial Development, Rs. 2¼ crores for the development of Civil Aviation, Rs 3¼ crores for the development of Major Ports, Rs. 3·73 crores for the Central share of expenditure on River Valley Schemes. Rs. 17·81 crores for Civil Works, including communications, Rs. 1·59 crores for capital outlay on New Delhi and Rs. 15 crores for capital outlay on Defence. Included in the provision for loans to States are Rs. 10·3 crores for the rehabilitation of displaced persons, rupees eleven crores for Community Development Schemes, Rs. 46·27 crores for River Valley Schemes and Rs. 27·86 crores for Grow More Food Schemes.

As in the past, the provision for development and capital expenditure in the Budget broadly follows the plan suggested by the Planning Commission. The final report of the Commission, which was issued after the last Budget and was presented to Parliament, now places the total expenditure in the public sector at Rs. 2,069 crores, an increase of Rs. 276 crores over the figure envisaged in the first Draft of the Plan issued by the Commission. Of this total expenditure, Rs. 361 crores will be on agriculture and community development, Rs. 168 crores on irrigation, Rs. 266 crores on multipurpose irrigation and power projects. Rs. 127 crores on power, Rs 497 crores on transport and communications, Rs. 173 crores on industry, Rs. 340 crores on social services, Rs. 85 crores for rehabilitation and Rs. 52 crores on other miscellaneous items. Against this plan, which covers a period of five years ending March 1956, the total expenditure in the first two years, taking the States and Centre together, is expected to be of the order of Rs. 600 crores. So far as the Central Budget is concerned, the provision in the Budget for next year has been made having in mind, among other considerations, the need for raising the tempo of expenditure, so as to secure that in the third year of the Plan the phase of development envisaged by the Commission is, as far as possible, attained.

The current year's Budget provided for an overall deficit of Rs. 76 crores to be met from the opening cash balance of Rs. 159 crores, leaving at the end of the year a balance of Rs. 83 crores. The revised estimates indicate that the overall deficit would be slightly higher at Rs. 83 crores, leaving a closing balance of Rs. 80 crores at the end of the year. No loans fell due for repayment in the current year and although in the Budget credit had been taken for a market loan of Rs. 25 crores no loan was actually floated, so as to leave the market free for the States to borrow for their development schemes. This short fall in the estimate will, however, be more than offset by increased receipts from the proceeds of the American Wheat Loan and under the Colombo Plan and Technical Co-operation Administration Assistance. Receipts from small savings will, in the aggregate, be up to the original estimate. The ways and means position was also eased by the resumption of treasury bill sales to the market which are expected to yield a net sum of rupees five crores or so this year.

For next year, the Budget provides for an overall deficit of Rs. 140 crores. During the year Government have the option of repaying the three per cent. loan 1953-55 with an outstanding balance of Rs. 115 crores. It is proposed to exercise this option and I have assumed, taking into account this discharge, that it would be possible to raise a market loan of the order of Rs. 100 crores. Credit has been taken for receipt through small savings of Rs. 45 crores, more or less on the same scale as at present, although steps are being taken to intensify the savings movement and achieve a bigger target. The benefit of any such increase will however accrue to the States and not to the Centre; at the recent Conference of Finance Ministers it was agreed that the States should be assisted by the diversion to them of the equivalent of any part of the net receipts from small savings in excess of Rs. 45 crores.

The overall deficit of Rs. 140 crores which I just mentioned would more than completely wipe out the closing balance for the current year. It is necessary, taking into account the volume of transactions involved, to have a minimum cash balance of at least Rs. 50 crores. It would, therefore, be necessary to reduce this deficit of Rs. 140 crores to Rs. 30 crores by means of additional borrowing. The method and manner in which this additional borrowing should be secured can be decided only during the course of the year and with reference to conditions as they develop. For purposes of the Budget, I have taken a credit of Rs. 110 crores under treasury bills, so as to leave an adequate closing balance at the end of the year.

The question may be asked whether in present conditions it is wise to resort to deficit financing on the scale envisaged in the Budget for the coming year. I have given the matter the most careful consideration and I am satisfied that taking all circumstances into account we are not taking any undue risk. The development Plan for the country sets a limit of Rs. 300 crores or so over the five years covered by it to be met by deficit financing, an average of roughly Rs. 60 crores a year. In the first two years of the Plan taken together the overall deficit will be of the order of Rs 82 crores. If the programme of development laid down in the Plan has to be carried out, within the broad limits set for the raising of resources, it is necessary to increase the tempo of expenditure in the remaining three years of the Plan. Recent trends in the economic conditions of the country also indicate that the inflationary pressures, which had been the besetting difficulty, have been brought under control, and the climate seems suitable for raising the scale of developmental expenditure. The effect of this on the economy of the country will be kept under constant watch and I need hardly assure the House that appropriate measures will be taken to counteract any unhealthy development.

Before I pass on to the Budget proposals I would like to refer to the progress of the small savings movement. As I have more than once emphasised, we shall have to turn increasingly to the small saver for providing the finance required for development. We have endeavoured to get the States more actively interested in spreading the movement by giving them a financial interest in the proceeds from small savings. We are considering the extension of the system of authorised agents, which has been under experiment in three States, to all the States, and the matter is under discussion with the State Governments concerned. Steps are also being taken to interest voluntary social and women's organisations in the furtherance of the movement. I have every hope that these steps and the widening interest among the masses in the development plans of the country will bear fruitful results.

I now turn to my Budget proposals for the coming year.

Before passing on to the Budget proposals I have an important announcement to make. For some years there has been a persistent demand both in the Legislature and outside, for a systematic enquiry into taxation and as far back as 1946, the then Government of India decided that such an enquiry should be conducted. But this decision could not be implemented owing to the impending constitutional changes, and since independence this had been further held up by more urgent pre-occupations. But as has been indicated more than once on the floor of this House the idea had not been dropped. Government have now decided to set up a small compact Commission, with specialised knowledge, to conduct a comprehensive enquiry into taxation and I am glad to announce that Dr John Matthai has accepted our invitation to be the Chairman of the Commission The other members will be Shri V. L. Mehta, till recently a member of the Finance Commission, Dr V. K. R. V. Rao of the Delhi School of Economics, Shri K. R. K. Menon,

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Secretary, Finance Ministry, Shri B. Venkatappiah, a former Finance Secretary of the Bombay Government and finally Dr. B. K. Madan, Economic Adviser of the Reserve Bank. A senior officer from the Finance Ministry will be the Secretary of the Commission. The terms of reference of the Commission will be very comprehensive and will cover taxation in all its aspects, Central, State and local. It is Government's intention to associate with the Commission two foreign experts on taxation and public finance so as to make available to the Commission such expert advice as they may require from foreign experience. The Commission will also be free to co-opt additional members for short periods when considering specific problems. I expect the Commission will start functioning from next April and complete their work in about two years. I am sure that the labours of the Commission would assist in laying the foundations of a taxation system best fitted for the development of the economy of the country on a firm and sound basis.

The relatively small amount of the revenue deficit in the coming year has made my task, so far as it concerns the raising of additional revenue, somewhat easier than usual and I propose to confine myself largely to, what I may call, readjustments in taxation rather than to exploring avenues for additional taxation.

I shall first deal with reliefs in taxation. My first proposal is to reduce the export duty on jute sacking. While the prices of hessian have recently been looking up the position in regard to sacking has been causing Government some concern. I propose a reduction in the export duty on sacking from Rs. 175 per ton to Rs. 80 per ton. Immediate effect is being given to this by a notification under the Sea Customs Act. I hope that this reduction will assist the industry in retaining its exports in the world markets. The loss in revenue is estimated at Rs. 3·5 crores.

My second proposal is to raise the exemption limit for personal income-tax. The existing limit of Rs. 3,600 for individuals and Rs. 7,200 for Hindu undivided families will be raised to Rs. 4,200 for individuals and Rs. 8,400 for Hindu undivided families. This increase is made not merely as a measure of relief in taxation but also for securing some relief to the income-tax administration. I have felt for some time that far too much of the time of the Income-tax Department is being taken up by the relatively smaller assessments and, if the number of such assessments could be reduced, the Department would be able to give greater attention to the cases of the bigger assessees and improve the revenue from income-tax. The change proposed will have the effect of taking away a little over 70,000 assessments out of a total of nearly eight lakhs. The loss in revenue is estimated at Rs. 82 lakhs, of which the Central share will be Rs. 40 lakhs. I feel that in the long run this loss to the exchequer would be more than offset by the improvement of income-tax collections.

The two changes mentioned above will raise the deficit of Rs. 1·05 crores to Rs. 4·95 crores and I propose to cover this by certain readjustments in import duties and postal rates.

The changes in import duties, which cover a number of items, mainly relate to semi-luxury items. The duty on toilet requisites, certain categories of textiles, crockery and glass and earthenware tiles will be raised and a limited quota allowed for import. While this will bring in some additional revenue the prices, including the duty, will be high enough to act as a deterrent to any undue expansion of consumption. The duty on certain other items like motor cars imported in an assembled condition is being raised while duties are being imposed on the costlier type of horses and precious stones and pearls. These duties will bring in some revenue without any material increase in expenditure of foreign exchange.

The duty on betel nut is also proposed to be increased by about two annas a pound on imports. This will assist the indigenous grower in securing a more remunerative market for his crop.

As part of the changes in the import tariff I also propose to reduce the duties on penicillin, anti-biotics and sulpha drugs, milk foods for infants and invalids, certain types of patent foods, scientific instruments and appliances, prints, engravings and pictures and works of art. These changes, which I am sure the House will welcome, are unlikely materially to affect the revenue.

The net result of the changes in the import duties mentioned above will be an additional revenue of Rs. 3·5 crores which will just offset the loss in export duties from the reduction in the duty on sacking.

Certain readjustments are also being made in the excise duty on cloth. Before May 1952 the rates of duty on fine and super-fine cloth were five per cent. and 20 per cent. *ad valorem* respectively. The heavy fall in the price of cloth of these categories last year made the assessment of the duty on the Textile Commissioner's ceiling prices onerous and it was decided to prescribe certain specific duties per yard as maximum duties, the duty being levied at these rates or at the *ad valorem* rates, whichever was less. The rates of specific duties were fixed at a level which, it was believed at the time, would eliminate *ad valorem* assessments in most cases. The subsequent further fall in prices belied this expectation and led to the preponderance of *ad valorem* assessments, giving rise to administrative difficulties and continual friction between the mills and the assessing staff on the question of the adequacy of the declared prices. In order to overcome these difficulties it has been decided to do away with *ad valorem* assessments altogether and to prescribe absolute specific duties. Super-fine cloth will be charged a duty of three annas three pies a yard and fine cloth a duty of one anna three pies a yard, and the necessary provision is being included in the Finance Bill. This will not mean any increase or reduction in revenue but will make the task of assessment and collection easier.

In recent years the Posts and Telegraphs Department has been implementing a programme of expansion of postal facilities in the rural areas and during the last five years more than 16,000 Post Offices have been opened in villages with a population of 2,000 and over. Many of these Post Offices are not expected to be remunerative for some time. This, together with the adoption of the Pay Commission's recommendations and the other measures taken for the improvement of the service conditions, especially of the lower categories of staff, has resulted in a loss in the working of the Postal services since 1948-49. In the four years ended March 1952 the net loss of the Postal branch amounted to Rs. 3·61 crores. The loss in the current year is estimated at Rs. 2·23 crores while for next year it will be a little over Rs. 2·68 crores. A review has, therefore, been carried out of the existing scale of postal rates with reference to the cost of the service under each head and the charges levied in other countries. As a result of this review, it has been decided to increase the scale of fees for parcels, packets, registration and insurance. The existing rate of six annas for every 40 tolas for parcels will be raised to eight annas. The postage on book pattern and sample packets will be raised from nine pies for the first five tolas and three pies for every additional 2½ tolas to one anna and six pies respectively. The registration fee will be raised from 4½ annas per article to six annas per article while the fee for insurance will be raised from four annas to six annas for the first Rs. 100 and from two annas to three annas for every additional Rs. 100. These increases in rates are estimated to yield an additional revenue of Rs. 1·90 crores.

I shall now summarise the effect of the various changes mentioned above. The reduction in the export duty on sacking and the raising of the exemption limit for personal income-tax will involve a loss in revenue of Rs. 3·90 crores, which will raise the deficit from Rs. 1·05 crores to Rs. 4·95 crores. The changes in import duties will bring in Rs. 3·50 crores and the increases in Postal rates Rs. 1·90 crores. This will leave a nominal surplus of Rs. 45 lakhs on revenue account.

Before I conclude I should like to mention a few changes relating to income-tax which are being included in the Finance Bill for the coming year. The House will remember that in the Budget for 1948-49 provision was made for exempting from income-tax payments made to approved charities upto a maximum of Rs. 2½ lakhs or ten per cent. of the income, whichever is less, to stimulate private assistance to charitable purposes. Experience has shown that this arrangement is not sufficiently flexible, particularly in regard to the charities to be benefited. We have now decided that the requirement in regard to the approval of the charity or the charitable institutions by the Central Government should be waived and the benefit given to any fund or charitable institution registered or under a trust or run by the Central or State Governments or a local authority. I trust that this modification will lead to a freer flow of assistance to deserving institutions. Simultaneously, we propose to reduce the limits from Rs. 2½ lakhs to rupees one lakh and from ten per cent. of the income to five per cent. Necessary amendments are being made to section 15 B of the Income-tax Act.

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Some difficulty has been experienced by companies which invest their surplus funds in another company as the investing company has to pay corporation tax on its dividends from the investment. In order to encourage such investment it is proposed to exempt such dividends from corporation tax. This concession will be given to dividends of new undertakings engaged in certain selected industries.

At present a foreign company operating through a wholly Indian subsidiary has often to pay a slightly larger tax than a foreign company working through its branches in India. This operates to the disadvantage of the Indian subsidiaries and provision is being made so that this disparity could be gradually reduced.

Certain other changes are also proposed in the Income-tax law. I need draw the attention of the House only to two somewhat important changes. The first is the provision designed to check the practice of buying up speculation losses. The Income-tax Investigation Commission recommended that the law should be amended so as to allow speculation losses to be set off only against speculation gains. This amendment was included in the Income-tax (Amendment) Bill, 1951, which lapsed. It is now proposed to make this amendment. The second is the provision empowering Government to negotiate agreements with foreign Governments, if necessary, for relief from or avoidance of double taxation. This removes a lacuna in the law as at present Government have power to negotiate such arrangements only with certain countries.

The Budget for the coming year has been framed against the background of the Five-Year Plan and I am sure the House would like to know to what extent progress would have been made by the end of the Budget year in reaching the measure of development envisaged by the Plan. The expenditure proposed in the Plan covers the Budgets of not only the Centre but also of the States, and, although we are in the second year of the Plan, it is difficult to make a precise estimate of the progress achieved. As I mentioned earlier, on a rough estimate, the total expenditure by the Centre and the States together in the first two years of the Plan is expected to be of the order of Rs. 600 crores. This would be roughly equally divided between the Centre and the States. In the coming year the provision in the Central Budget for developmental expenditure is of the order of Rs. 225 crores, exclusive of Central assistance for financing the State Plans. If th level of developmental expenditu reached by the States in 1952-53 maintained in the coming year, total expenditure, taking the C and the States together, for the th years ending March 1954 would hav reached about Rs. 1,000 crores. Sinc the total expenditure envisaged by the Plan is Rs. 2,069 crores this would leave a balance of Rs. 1,000 crores or so for the last two years of the Plan. When it is remembered that the level of expenditure in the earlier years of the Plan is bound to be somewhat lower, as expenditure on individual schemes takes some time to gather momentum, I think that it could be fairly said that the progress in implementing the Plan has not fallen short of the target to be reached in the first two years. I hope it will be possible, in the very near future, to make a complete survey of the progress made in the first two years of the Plan, in consultation with State Governments, so that the public may know the precise extent to which the Plan has been implemented. I know that there is a keen demand for this information, but it has to be remembered that the final outturn for the current year wi take some time to become availa and that it may be somewhat mislea ing at this stage to attempt an appreciation based on the revised estimates for this year.

The fulfilment of a programme of planned economic development depends not merely on the laying down of policies and making the finance available but on efficient administration and public co-operation. The Five-Year Plan which, in the nature of things, is bound to be the first of many more Plans, lays down the policy for the next three years in each major field of development. To carry through this policy and programme with the maximum amount of public co-operation is the main task before both the Centre and the State Governments. At the Centre, I believe I can justly claim that we have done our part in implementing the Plan. I am sure the State Governments are also animated by the same purpose although I fear that some of them have not shown the necessary determination, matching their keenness, in raising the resources expected from them after full consultation. But it is also true that some of them have had to carry the strain of meeting substantial additional expenditure on account of scarcity. I hope that in the remaining years of the Plan the State Governments will find it possible to concentrate all their attention and energy on augmenting their resources, so that the completion of the development proposed by the Plan is not delayed. The transition from a regulatory to a welfare state is never easy. It requires as much of inspired, informed and understanding leadership as a sense of discipline, a co-operative attitude and a spirit of sacrifice in the interest of the common good on the part of the community. The fostering of such leadership will be the supreme test of political wisdom and statesmanship. It will be for the Governments in the country, assisted by the Planning Commission, to furnish precise and definite guidance in regard to the direction and content of the public co-operation expected, and once such guidance is forthcoming, it will be for the people of the country to give of their best without stint, so that the Plan goes forward to the prosperity and greater glory of our motherland.

Mr. Deputy-Speaker: Hon. Members will take the Budget Papers when they go out of the Lobby.

FINANCE BILL

The Minister of Finance (Shri C. D. Deshmukh): I beg to move for leave to introduce a Bill to give effect to the financial proposals of the Central Government for the financial year 1953-54.

Mr. Deputy-Speaker: The question is:

"That leave be granted to introduce a Bill to give effect to the financial proposals of the Central Government for the financial year 1953-54."

The motion was adopted.

Shri C. D. Deshmukh: I introduce* the Bill.

The House then adjourned till Two of the Clock on Monday, the 2nd March, 1953.

*Introduced with the recommendation of the President.