SPEECH OF SHRI R.K. SHANMUKHAM CHETTY, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1948-49*

Highlights

— *Gradual Decontrol of Food Supply*

— *Setting up of Military Evacuation Organisation*

— *Constitution of the Economy Committee*

— *Developmental Schemes on:*

  — *Expansion of Forests*

  — *River Development*

— *Donations to Charities to be Exempted from Taxation*

Mr. Speaker, when I presented my Interim Budget to Free India's first Parliament a few months back, our nation had been shaken to its very foundations by the great Punjab tragedy. Thousands of our people had been brutally butchered, and millions of innocent men, women and children driven out of their ancestral homes and forced to make a dusty, deadly trek in search of a new home. Our crying concern then was to dress the wounds of uprooted humanity, and to mobilise all our financial resources to set a right an unhinged economy. Our new found freedom, however, weathered the storm, and as the eve of my first annual Budget approached, I could see a silver lining around the cloud. Then, suddenly, like a thunderbolt that rends the sky and spins the globe, calamity struck us

Budget, 1948-49

Total Revenue	—	**Rs. 256.28 crore**
Total Expenditure	—	**Rs. 257.37 crore**
Deficit	—	**Rs. 1.09 crore**

* *Constituent Assembly of India (Legislative) Debate*, 28.2.1948, cc. 1327-1349.

once more and orphaned our infant State and enveloped the country with a darkness even more complete. The hand that nailed Jesus to the Cross reached out of the evil recesses of history once again and slew the latest in the line of Prophets. Along with Bernard Shaw one wonders: "Must then a Christ perish in torment in every age to save those that have no imagination"? In Mahatma Gandhi the world has lost an uplifting standard, our nation its Founding Father, and each one of us his friend, philosopher and guide. Many ran up to him in times of stress, national or personal and came back with renewed confidence. Our fledgling freedom felt warm and secure under the protective wing of Gandhiji. The way ill fortune has dogged our heels makes one doubt whether our people had made a tryst with disaster rather than with destiny. But that is a most un-Gandhian mood, for he remained cheerful and buoyant and hopeful even in the darkest hour. Indeed I rise today under a shadow, but I know it is the shadow of his Cross, and so I feel confident that our nation will be prepared to meet the great challenge of the situation. In the faith that looks through death we shall shape the destiny of our nation on the pattern which he cherished and lead it from the dark abyss of hatred and despair to the sunlit pastures of eternal life.

Review of Economic Conditions

The third year after war finds the world still in the meshes of those economic maladjustments which are the inevitable aftermath of total war—the nemesis that inexorably pursues the victor and the vanquished alike. Western Europe is still in a sad plight and intolerable economic conditions prevail in many of the devastated areas. The efforts at rehabilitation by the United Nations Organisation and the United States Government have so far borne little fruit. All hope is now centered round the Marshall Plan. But its gestation is unduly delayed, and it has worsened the already strained relations between the Big Three. The United Kingdom is making a heroic effort to rehabilitate her war torn economy and shattered trade. There has been serious economic dislocation in many Asian countries owing to violent internal struggles or fight for freedom from foreign domination. Thus, over a large part of the world economic conditions are still worse than in war time; production has fallen, even below the pre-war levels in some cases, and prices have been soaring to new heights. The world food situation is still a cause for serious anxiety, while the world's population has increased by about 200 million since 1939, the total food production has fallen by 7 per cent. At the same time, there has been a tremendous increase in the money in circulation. The many high powered international bodies lately set up for rectifying the world's currency and food troubles have so far made little, headway. In the result, inflation is still holding the world in its firm grip and the standards of living of the great majority of the world's population remain at depressingly low levels. Especially in Asian countries, the economic situation has greatly deteriorated owing to violent internal struggles and the consequent dislocation of normal economic activity.

There has been no material change in the general economic conditions in our own country since I reviewed them last when presenting the Budget for the current year last November. The dislocation caused by the mass migration of people between Western Pakistan and India still remains to be surmounted and only the fringe of the problem of rehabilitating the millions of people who have crossed over to India has so far been touched. While active steps are being taken to provide the necessary financial assistance to the refugees to enable them to start on useful careers in their new surroundings, the process of rehabilitation is necessarily bound to take some time. The Budget for next year provides a substantial amount for relief and rehabilitation and the House may rest assured that everything possible will be done to place these refugees in useful occupations as early as possible. It is not merely a matter of humanitarian relief but one of economic investment, for the sooner these people, many of whom are skilled workers and agriculturists with experience, are placed in occupations in which their productive capacity would add to the wealth of the community, the better for the country. In this task of rehabilitation the Government of India are working in close cooperation with the neighbouring States and Provinces and the plans for their relief and rehabilitation are being drawn up in co-ordination with them.

The food position still continues to cause anxiety and conditions have definitely become worse in large parts of the Madras Presidency following the failure of the monsoon. Steps are being taken to make additional supplies available but the position is bound to be difficult until the new harvest comes on the market. It is not necessary for me to explain in detail the reasons which led to the policy of gradual decontrol of food which was approved by this House. The effects of this policy on the internal sources of supply still remain to be seen but if the expectation behind this policy that it would bring more supplies to the market and, to that extent, reduce our dependence on foreign imports is realised, it would be completely justified.

In my speech last November, I mentioned the rising trend of prices as the most unwholesome feature in our economic situation. This, as I explained then, was the result of a number of factors some of which like the accumulation of surplus purchasing power in the hands of the community, have been in operation for some time while the all round fall in production, both industrial and agricultural, was of more recent origin.

I stressed then the need for increasing production in every possible way and I gave details of the steps taken to promote the increase of textile production as an example of what the Government are striving to do. But the House must realise that any substantial increase in production is impossible until the shortage of materials, the bottleneck in transport and other impediments are removed. If the increase in production required the import of equipment from overseas, this again takes time to obtain and is also limited by considerations of foreign exchange on which the more urgent requirements of food have necessarily the first claim. These difficulties are inherent in the situation but it does not necessarily follow that Government are doing nothing in the matter. One serious hindrance in the way of production, even with the available resources, has been the frequent disputes between capital and labour, resulting in strikes and other interruptions of work. If the recent truce agreed upon between capital and labour for a period of three years in the recent Industries Conference can be implemented in letter and spirit, the way would be clear for a considerable increase in production.

A view that has in recent years become almost unanimous among economists and financiers is that each year a Government's financial policy should be so planned as to rectify the economic maladjustments of the time, and to serve as a compensatory device to offset fluctuations in the private sector of economy. In a time of inflation, budgets should not only be balanced but there should be comfortable surplus for mopping up the excess purchasing power and to encourage economy in private spending. On the other hand, when a depression is on, Government should launch bold schemes of public expenditure and should boldly budget for a deficit if necessary.

An inflationary pressure resulting from too much money chasing too few goods has been the key-note of our present economy, and there is no indication that a reversal of this trend is in sight. At such a juncture, we should exert every nerve to budget for a surplus, if possible, by increasing revenue and curtailing expenditure. The methods by which these aims are achieved are important, because as the present phase of inflation is due to an abundance of spending power without the goods to spend on, we must see that a surplus is achieved in such a way as to curtail spending and create suitable incentives for increasing production. In other words, the tax-burdens laid must be met by cutting down expenditure on consumption and not by saving less. Similarly, the borrowing made must be from genuine savings and not from inflated bank credit. The practical application of these principles is indeed difficult, but we must bear them in mind in shaping our financial policy.

Balance of Payments

I should like to draw the attention of the House to a matter which has been causing some concern to Government, namely, the emergence, in recent times, of a substantial adverse balance in India's external payments. India’s balance of trade has in the past always been substantially in her favour, the surplus of exports over imports being used by her to meet the interest and amortisation charges on her sterling debt, to pay the pensions and leave salaries of British officers and to make other invisible payments such as the remittance of the profits of foreign investments in India and banking, insurance and shipping charges. During the war years, India’s balance of trade became even more favourable than before due not only to restrictions on her imports on account of war time conditions but to the large payments which accrued to her on account of supplies and services to the allied nations and the Defence Expenditure Plan. The result of India’s earnings, both visible and invisible, being vastly in excess of her expenditure, was the rapid accumulation of our sterling balances. Part of these balances was used to purchase the Indian Railways and to repatriate compulsorily almost the whole of the Indian sterling debt; part was used through Indian nationals acquiring British investments in India. All these measures served greatly to lessen the annual drain on India while the interest earned on the sterling balances added in some measure to our income. If, therefore, all the other factors in the situation had remained the same, India, should have had now a substantially more favourable balance of payments than she had before the war.

Far from having a favourable balance, however, India had in the first post-war year, 1946-47, a substantial deficit in her balance of payments on current account. The tendency which then manifested itself for the first time still continues and had it not been for the restrictive import policy which was introduced in June 1947, the deficits we have had would have been substantially greater. The reasons for this are two-fold. Firstly, it is the inevitable result of the absence of imports during the many years of war that the long pent up demand should seek to satisfy itself as soon as goods become available. This is true not only of consumer goods but also of producer goods and plant and equipment, the arrears and maintenance of which have to be made good as soon as possible if production is not to be interfered with. The second, and by far the more important reason for this deficit is, as is well known, our imports of foodgrains. India has, of course, been a regular importer of food for many years but quantities and prices have both been recently going up. In 1944-45 and 1945-46, the value of foodgrains imported into India was Rs. 14 crore and Rs. 24 crore respectively. In 1946-47, the figure was Rs. 89 crore. These figures are in addition to the import of supplementary food articles which cost a further Rs. 15 crore in 1946-47. In 1947-48, the amount expected to be spent on the import of foodgrains is Rs. 110 crore.

The money required for the purchase of food is of course a first charge on our available foreign exchange resources. These consist of our export earnings and of our sterling balances but on the latter, we have necessarily to draw in moderation. These resources are not sufficient to finance both the heavy drain caused by food imports as well as to pay for all the other imports we should like to purchase. As food must have the highest priority, we have necessarily to restrict the import of other commodities. It is undesirable that this should be so, particularly at a time, when inflationary tendencies persist in the country. It is, therefore, imperative for us to take all the steps in our power, not only to increase the production of food in this country so as to reduce imports, but to increase production in every other field of economic activity so that it may be possible to increase our export income without reducing home consumption. I fear, however, that in spite of all the action that may be taken in this direction it will take a few years before it will be possible for India to bring her foreign payments into equilibrium and that, therefore, it will be necessary to continue with our present restrictions on imports.

It will be appreciated that, with India's limited resources of hard currencies, it would have been impossible to continue the policy of non-discrimination regarding the source from which Indian imports came, which was a feature of Indian import policy during the last half year. Honourable members will remember that I indicated to them in my last Budget Speech that the dollar shortage would cause us to reimpose discrimination and I fear we have had, in framing the import policy for the present half year, to make the most drastic cuts in imports from the hard currency areas. It is unfortunate that this has to be so, for we are being compelled either to do without a large number of useful articles which are obtainable only in the hard currency areas or to pay for them a higher price in the soft currencies. As long, however, as the world dollar shortage caused by the disequilibrium in world trade continues, I fear we have no alternative but to proceed on the basis which has been in force ever since the war broke out and to which we have now had to revert. I am, however, glad to be able to report to the House that we have been able slightly to decrease the rigour of the import control from the sterling and other soft currency areas which we had imposed during the last half year. It was neither desirable nor indeed possible to continue import control from all over the world with that degree of restriction which we had introduced, for not only would it have led, if it continued for any length of time, to an increase in the inflationary potential but would also have interfered with production.

One other recent trend in our external financial position is deserving of special mention. Till 1945-46, not only did we have an overall favourable balance of payments but we were in substantial surplus with the U.S.A. Since 1946-47, that situation has also changed, both because goods have become much more freely available in that country and because we have to purchase there a substantial portion of our food requirements. In 1946-47, our deficit with the U.S.A. was Rs. 15 crore. In the subsequent months it increased substantially, being Rs. 13.50 crore and Rs. 22 crore respectively for the second and third quarters of 1947. Preliminary figures for the two months October and November disclose a deficit of Rs. 14 crore. With the other hard currency countries, the position is no better and during the period April to November 1947, our deficit with them has been Rs. 5.50 crore. Our total net earnings of hard currencies during the period September 1939 to November 1947, were about Rs. 37 crore.

The most important lesson to be drawn from a study of our external financial position is that so long as food imports continue on the present scale we would be confronted with the problem of an adverse balance of payments and the disequilibrium in our economy will persist. Such a state of affairs will be a source of anxiety and even danger. The only way to redress the balance is to increase the internal production of food. While an expansion of our export trade will go a long way mitigate the seriousness of the problem, it will be impossible to bridge the gap by exports alone. It will be observed that, though I have indicated the trends in our external financial position, I have not given any figures for our overall deficits in the balance of payments. This is for the simple reason that such figures have so far not existed, though steps have not been taken to see that they are collected in future. I would, nevertheless, like to give the House some idea of our position as it is likely to be during the first half of 1948 and propose to mention certain figures on the clear understanding that these are to be taken more as an indication of the magnitude of the figures involved than of the actual figures as they are likely to be. Forecasts of balance of payments are notoriously liable to be inaccurate because of the uncertainties of the factors involved; but in preparing the forecast for the first six months of 1948 we have suffered from the additional handicap that it is impossible to say what effect the partition of the country will have on its external trade and that there are no past actuals to guide us. The figures I shall mention relate to the balance of payments on current account of the Dominion of India with the rest of the world excluding Pakistan. For our balance of payments with Pakistan, I fear it is not possible to make even the roughest of estimates. In the half year, January to June 1948, we hope to earn through our exports and other sources Rs. 208 crore. We expect to spend during the same period Rs. 260 crore. We, therefore, anticipate an overall deficit of Rs. 52 crore. Out of our total expenditure during the half year, no less than Rs. 61 crore will be spent on the purchase of food.

Honourable members will appreciate more fully in the light of what I have stated above the significance of the second interim agreement on the sterling balances which has been concluded between the Government of India and the Government of the United Kingdom by an exchange of letters. In brief, the effect of the exchange of letters is that the financial agreement dated 14 August 1947, which expired on 31 December 1947, has been extended upto 30 June 1948 with some modifications. The first agreement was on behalf of both India and Pakistan but the present extension is on behalf of the Dominion of India alone. Honourable members will remember that in December last, when an agreement was reached between Pakistan and ourselves on all outstanding financial issues including the division of the sterling balances; it was agreed that from 1 January 1948 the exchange accounts of the two countries should be kept separately. As a consequence of this separation, it was also agreed that negotiations for a further interim settlement between the United Kingdom and the two Dominions should be carried on separately by each. Hence, Pakistan was not a party to our recent negotiations.

The object that we kept in view in our recent discussions with the representatives of the United Kingdom Government was to make available to us sufficient foreign exchange resources to meet our estimated overall deficit in the balance of payments during the first half of 1948. As I have indicated earlier, we estimate our overall deficit for this period at £39 million (or Rs. 52 crore). It was now been agreed that a further £18 million (or Rs. 24 crore) will be transferred from Account No. 2 to Account No. 1, the existing balance in which will, of course, be carried forward at our disposal except for a certain amount to be transferred to Pakistan under the Indo-Pakistan Agreement of December last. This fresh transfer, together with the balances that we have at our disposal under various accounts and some borrowing from the International Monetary Fund, will enable us to meet our anticipated deficit. As our Account No. 1 would now stand, I have no anxiety on account of the external financial position of the country so far as currencies other than the hard currencies are concerned.

One important feature of the new agreement is the limit on convertibility. Under the original agreement the whole of our sterling in Account No. 1, whether it arose by transfer from Account No. 2 or through the proceeds of current earnings, was fully convertible for current transactions into any currency including that of the U.S.A. In other words, the whole of the sterling that we held in Account No. 1 was multilaterally convertible. Under the present agreement, however, we have been put to the necessary of limiting our right to multilateral convertibility to the extent of only £10 million (or Rs. 13.33 crore). This restriction will necessitate our borrowing to some extent from the International Monetary Fund. I am, however, satisfied that the extent of our borrowing from the Fund during the current half-year will be well within the limits of our rights of borrowing from that Fund. Honourable members are entitled to know why we agreed to limit the right to full multilateral convertibility which is possessed by every member of the sterling area. The answer is that, like all international agreements, this agreement was a compromise, and in the light of the circumstances that faced us I consider it in the best interests of the country to accept this condition. I am not unmindful of the great difficulties under which the United Kingdom is labouring today, nor am I unappreciative of the valiant efforts being made by that great country to restore equilibrium in her economy and to discharge her international obligations. I am fully aware that the gold and dollar resources of the sterling area are small, are rapidly being exhausted and require to be husbanded with the greatest care. It is for this reason that we agreed last September, soon after our first interim agreement was concluded and when the United Kingdom was forced to suspend the convertibility clause in the Anglo-American Loan Agreement, to cooperate by restricting dollar expenditure as far as possible. For the half year in question, our expenditure in hard currency has been severely limited to essentials. Nevertheless, I cannot help feeling that it should have been possible to avoid introducing this very undesirable and harmful principle of a limit on the convertibility of sterling for members of the sterling area who are pledged to hold sterling without limit of amount. We have honoured that pledge perhaps even beyond the bounds of prudence. Even from the point of view of the necessity for safeguarding the central reserves of the sterling area, I cannot feel happy about the low limit of convertibility forced upon us. After all, our proposed drawings on the central reserves were the merest fraction of what the United Kingdom herself proposed to draw therefrom. Undesirable as this feature of the agreement is, we accept it in the hope that it would be possible to remove this condition at the earliest possible moment. We have decided in fact to make a long-term settlement with the United Kingdom on this vexed question as soon as possible. I feel that it is unsatisfactory that there should be negotiations every six months on this subject for the element of uncertainty as to the results of these periodical negotiations makes it impossible for any long-term co-ordinated trade policies to be formulated. I have, therefore, conveyed to the Leader of the British Delegation my desire that steps should be taken for initiating talks for a long-term settlement.

Financial Settlement with Pakistan

When I gave a brief account to the House in my last Budget Speech, of the details of the partition and its financial and economic results, I mentioned that a number of important points connected with the partition still remained unsettled and were likely to be referred to arbitration. As the House is aware, these outstanding questions have been the subject of further consultations between the two Governments and all of them have been settled so that so far as the two Dominions are concerned, it became unnecessary to resort to arbitration on any issue. Now that a final settlement has been arrived at, although the details would necessarily take some time to work out, I propose to give the House a short account of these decisions.

The position of the undivided Government as on the date of partition was that its outstanding liabilities exceeded its assets so that ultimately it is the debt that is being divided between the two governments. On a rough estimate the outstanding debt of the Central Government as on 14 August 1947, including in this not merely the outstanding public debt but all its obligations to outside parties such as deposits in Postal Savings Banks, outstanding balances of Post Office Cash and National Savings Certificates, Provident Fund Deposits of Government servants, the amount likely to be paid to the British Government for surplus stores and other property acquired by the Defence Services and the capitalised value of the liability for pensions in payment on the date of partition and pensions earned by serving officers upto that date, is likely to be of the order of Rs. 3,300 crore. The Government of India's assets on that date are represented by the capital spent on the great Commercial Departments like the Railways and the Posts and Telegraphs, the Security Printing Press, the Irrigation works in the Centrally Administered areas, the Port of Vizagapatnam* and New Delhi; the buildings, stores and equipment of the Defence Services and the various branches of the Civil Administration; the cash balance with the Reserve Bank and investments such as the Silver Redemption Reserve and the subscriptions to the International Monetary Fund and the International Bank; and the miscellaneous debts due to it such as the outstanding loans made to Provincial Governments and local bodies and institutions. The total value of these assets is of the order of Rs. 2,800 crore leaving a net excess of liabilities over assets of about Rs. 500 crore. As I said earlier, it will be sometime before the final figures are available and the machinery for obtaining them as early as possible is being set in motion. The arrangement with Pakistan is that for all assets located in her territory such as the Railways and the Posts and

* Now it is known as Visakhapatnam.

Telegraphs system operating in Pakistan, the stores and other movable equipment allocated to her, the administrative buildings and installations taken over, by her in her territory she takes a debt equal to the book value of all these assets. An exception has been made in the case of strategic Railways, the book value of which for purposes of the settlement will be written down from a little over Rs. 32 crore to Rs. 14.45 crore. In addition, Pakistan will take over a debt equal to the amount of the cash balance of Rs. 75 crore allocated to her out of the cash balances of the undivided Government and also 17.5 per cent of the net excess of the Central Government's liabilities over assets which, as I mentioned earlier, is likely to be of the order of Rs. 500 crore. The total of Pakistan's debt as calculated above will be reduced by the liability she takes over direct in regard to Postal Savings Banks, Postal Cash and National Savings Certificates outstanding in her area, the pensions of the undivided Government paid in Pakistan and the liability for pensions earned by officers who have opted for service in that Dominion. For purposes of the financial settlement the outstanding debt of the Central Government will be valued after taking into account the interest payments, discounts, the date of redemption and so on. Similarly, the actual value of the pensionary liability will have to be calculated. The closing of the accounts for the pre-partition period, without which the outstanding assets and liabilities cannot be determined, will also take some time to complete. It is not, therefore, possible to give anything more than a very rough indication of the amounts involved in the settlement or the share of Pakistan in the outstanding debt. Pakistan's share will take the form of an inter-state debt to India. On a very rough estimate this debt is likely to be of the order of Rs. 300 crore and the rate of interest may be near about 3 per cent. Pakistan's total debt is to be repaid in Indian rupees in fifty annual equated instalments for principal and interest. As a measure of assistance to the new Dominion in its earlier years it has been agreed that the first payment should commence only in 1952. In addition to the Rs. 75 crore given to her out of the cash balance of the undivided Government, it has also been agreed that India would make available to Pakistan a further sum of Rs. 6 crore for meeting the expenditure on the setting up of Ordnance factories and similar special institutions required by her. This amount will also be added to Pakistan's debt. With this settlement, the terms of which, as the Deputy Prime Minister has already told the House, are generous and conceived in a real spirit of assistance to Pakistan, the purely financial problems arising out of the partition may be said to have been satisfactorily solved.

The allocation of the sterling reserves that the Reserve Bank will hold when it ceases to be the currency authority and banker to the Pakistan Government on 30 September next also raised difficult issues and I am glad to say that a satisfactory solution has been reached here also. It has been agreed that out of the sterling assets in the Issue Department, Pakistan would receive a share in the proportion of the notes in circulation in Pakistan. In addition she would also be entitled to 17.5 per cent of the excess of the sterling held by the Reserve Bank on 30 September 1948 in both, the Banking and Issue Departments, after allowing for the payments to be made to the British Government for surplus military stores and fixed assets and the capitalised value of pensions paid in sterling and for the retention of a reserve in the Issue Department which, together with the gold, would be equal to 70 per cent of the liabilities. This additional sterling will be released to Pakistan by India, as and when required, till 31 December 1967, against payment in Indian rupees.

FINANCIAL YEAR, 1947-48

Revenue

I shall now proceed to give a brief review of the financial position in the current and the ensuing years.

In my Interim Budget I estimated the deficit for the current year covering seven and a half months at Rs. 24.59 crore. The House will be glad to know that I now estimate the deficit at only Rs. 6.52 crore. The improvement is due to some increase in the anticipated revenue and a decrease in expenditure.

The revenue receipts during the period 15 August 1947 to 31 March 1948 are now estimated at Rs. 178.77 crore against Rs. 172.80 crore in the Budget passed by this House last November. The improvement of nearly Rs. 6 crore is· mainly due to an increase of Rs. 2.35 crore under Customs and a windfall of Rs. 3 crore from the levy on old stocks of cloth released for sale at increased prices following the recent decontrol of textiles. The estimates also include Rs. 2.25 crore on account of Government's share in the increased price of sugar, stocks of which were frozen by Government when sugar was decontrolled last December, and Rs. 2 crore on account of the receipts of the Cotton Textiles Equalization Fund. The revenue under Central Excise Duties is now estimated to show a reduction of Rs. 1.36 crore compared with the budget, mainly under Sugar and Tobacco. The total revenue from taxes on income including Corporation Tax is now estimated at Rs. 115 crore, a reduction of Rs. 3 crore in the original estimate. The divisible pool of income-tax is now estimated at Rs. 65.49 crore of which the Provincial share would amount to Rs. 29.74 crore. The credit to Rs. 2.25 crore on account of the increase in sugar prices mentioned above will however be set off by a corresponding provision in the expenditure estimates as the intention is to fund these receipts for the benefit of the industry and the sugar producing Provinces. Similarly, the receipts of the Cotton Textiles Equalisation Fund will be transferred to it by provision in the expenditure estimates.

Expenditure

The total expenditure this year is now estimated at Rs. 185.29 crore showing a reduction of Rs. 12.10 crore in the original estimate. The expenditure on Defence Services is expected to show a saving of Rs. 6.11 crore, Civil estimates accounting for the balance of Rs. 5.99 crore.

The current year's budget for Defence Services included a substantial provision for new schemes and for the acquisition of land but owing to changes in the plans on strategic and other considerations and the pre-occupation of the Defence authorities with matters such as the operations in Kashmir to repel the invaders from that State, it is expected that a saving of Rs. 5.75 crore is likely to be effected this year. The Budget also included a provision of Rs. 1.68 crore for payment to an Equalisation Fund for the replacement of certain vessels of the Royal Indian Navy and aircraft of the Royal Indian Air Force. On further consideration it has been decided that this contribution should wait until conditions become more stable and the provision on this account will accordingly lapse.

The saving of Rs. 5.99 crore in Civil expenditure is mainly due to a reduction in the provision for expenditure on the relief and rehabilitation of refugees. The House will remember that a lump sum of Rs. 22 crore was provided for this purpose in my Budget. At that time when the large scale movements of population were still taking place it was impossible to frame a close estimate of the expenditure likely to be involved. On the indications then available, I considered it advisable to provide a substantial figure. The position has since been reviewed and although it is difficult, in view of the constant changes in the position and the fluid nature of the relief plans, to make a close estimate it is now expected that the expenditure this year may not amount to more than Rs. 14.89 crore. A saving of Rs. 2.36 crore is also expected in the provision of Rs. 22.52 crore for subsidies on imported foodgrains. Interest charges are also expected to show a saving of Rs. 1.29 crore. These savings are partly set off by the provision of Rs. 2.25 crore for funding the special receipts following the decontrol of sugar and the provision of Rs. 2 crore for the transfer to the Cotton Textiles Equalisation Fund of the receipts realised for it, both of which I have mentioned earlier.

Financial Year, 1948-49

I now turn to the estimates for the year 1948-49. At the existing level of taxation, I place the total revenue for the year at Rs. 230.52 crore and the expenditure charged to revenue at Rs. 257.37 crore leaving a deficit of Rs. 26.85 crore. Before I deal with the detailed estimates, I must warn the House that the revised estimate for the current year does not provide a basis for comparison when considering the estimates for next year, because the estimates for the current year cover only seven and a half months while the provision in the Budget for next year covers a full year.

Revenue

The total receipts from customs have been placed at Rs. 81.75 crore. This provides for a full year's revenue from the enhanced duty on exports of cotton cloth and yarn imposed in the current year's Budget. The effect on our revenue of the restriction on imports so as to conserve foreign exchange has been taken into account as also the restrictions on the exports of raw cotton. Central excises are expected to bring in Rs. 34 crore and receipts from income tax, which include Rs. 12 crore of Excess Profits Tax and Rs. 17 crore on account of the Business Profits Tax, have been placed at Rs.130 crore. The divisible pool of income tax is estimated at Rs. 80.24 crore of which the Centre will retain Rs. 42.37 crore leaving Rs. 37.87 crore as the Provincial share. The profits from Currency and Mint, after allowing for the share of Pakistan under the arrangements for the management of the currency of both the Dominions by the Reserve Bank upto 30 September 1948, are estimated at Rs. 9.40 crore.

The revenue of the Posts and Telegraphs Department is expected to amount to Rs. 26.20 crore and working expenses and interest to Rs. 25.82 crore leaving a small surplus of Rs. 38 lakh. In the current year, the surplus will be shared between general revenues and the Department in the ratio of three to one while next year only half the surplus will accrue outright to general revenues. The Department will get a rebate of interest on its share of the accumulated profits in the past which at the end of the budget year are expected to amount to about Rs. 8 crore.

Expenditure

The total expenditure for next year is estimated at Rs. 257.37 crore of which Defence Services will account for Rs. 121.08 crore and Civil expenditure for Rs. 136.29 crore. Following the customary procedure, I shall first deal with the Defence estimates.

Defence Services—The reconstitution of the Armed Forces of the undivided Government of India into separate forces for the two Dominions is now virtually complete. It was envisaged at an earlier stage that the reorganisation of the Armed Forces would be largely completed in the financial year 1948-49. With the alteration in the role of the Armed Forces as a result of the partition a redistribution of the available financial resources between the three services to allow for a more balanced development was contemplated. Unfortunately, however, the recrudescence of communal disturbances and the necessity in present circumstances of having to retain substantial forces till normal conditions return have made it impossible to undertake the long-term planning of the Armed Forces so as to keep the expenditure on them at a level appropriate to the financial resources of the country.

As the House is already aware, the process of demobilisation of the Armed Forces was arrested by the partition of the country in order to facilitate the division of the forces between the two dominions and to enable them independently to determine the size and composition of their respective Armed Forces. In the altered strategic situation following the partition and also in view of the recent disturbances in the country, it has not been possible to resume demobilisation in the Armed Forces of the Indian Dominion. The future strength and composition of these forces still remain to be decided and it may be, sometime before a decision is taken. Meanwhile, the Army is expected to be maintained at its present level.

Certain decisions for the expansion of the Naval and Air Forces have been taken and a delegation was sent to the United Kingdom last November to discuss with the British Government the question of acquiring certain naval vessels and aircraft and the provision of training and other facilities for officers and men of the Indian Forces. These discussions were successfully completed and arrangements have been made for the acquisition of certain assets and for the training of Indian personnel. Honourable members are aware of the decision by Government to strengthen the Navy with new types of ships, notably a cruiser and three destroyers. A party of officers and men of the Royal Indian Navy has already been dispatched to the United Kingdom to undergo the necessary specialised training in order to ensure that these ships are manned as far as possible by Indian nationals. The Royal Indian Air Force is also being expanded.

The Budget Estimate for Defence Services for 1948-49, as I have mentioned, is Rs. 121.08 crore. This is exclusive of expenditure of a capital nature amounting to Rs. 14.99 crore to be incurred on the acquisition of land, the construction of training institutions, the provision of accommodation for personnel, the acquisition of new naval vessels, aircraft and connected equipment for the expansion of the Navy and the Air Forces which I have mentioned earlier. Provision for this expenditure has been included in the Capital Budget. As the House is aware, this practice of providing for capital expenditure outside the revenue account was introduced during the last War and was discontinued only in 1947-48. I trust the House will agree with me that in the present abnormal conditions the decision to charge to capital the expenditure on the acquisition of permanent assets is unobjectionable.

The partition of the country placed heavy responsibilities on the Armed Forces of this Dominion when they were in the process of reconstitution both in the matter of maintenance of law and order and in assisting the Civil authorities in the evacuation and relief of the minorities in the Punjab. A Military Evacuation Organisation was set up during September 1947 with its headquarters at Amritsar and an advance headquarters at Lahore and this organisation succeeded in evacuating over 4 million non-Muslims from Western Pakistan and about 5 million Muslims from India within a period of 3 months. This stupendous task had to be performed under the most trying conditions and the troops which took part in it have responded most magnificently to our call. While the energy and resources of the army were mobilised for this humanitarian work further calls were made on them for the defence of Kashmir. The fighting in Kashmir is being carried on in difficult terrain and severe climatic conditions. I am sure the House will join me in paying a tribute to the Army and the Royal Indian Air Force to the magnificent way in which they have responded to the call made on them.

Civil Estimates—Details of the estimates under individual heads are as usual, given in the Explanatory Memorandum circulated with the Budget papers and I do not propose to weary the House by repeating them here. I should like however to refer briefly to the provision included in these estimates for certain special items like the expenditure on refugees and the subsidy for food. The expenditure on the relief and rehabilitation of refugees next year is estimated at Rs. 10.04 crore. The expenditure next year will be largely on relief and rehabilitation as the evacuation of refugees has now been nearly completed, except from Sindh and to some extent from the North West Frontier Province (N.W.F.P.). This estimate is necessarily tentative because in the rapidly changing conditions, it has not been possible to frame a close estimate. In addition to direct relief and grants for rehabilitation a comprehensive scheme for granting advances to the refugees to enable them to settle down in various walks of life has also been drawn up. A Rehabilitation Finance Administration to which Government will advance Rs. 10 crore is also being set up. I hope that the facilities provided by the Industrial Finance Corporation will also be available for the assistance of industries which have had to be transferred to India on account of the communal disturbances. In addition to the provision of Rs. 10.04 crore in the Revenue Budget a sum of Rs. 10 crore has been included in the Capital Budget for the Rehabilitation Finance Administration and Rs. 5 crore for loans and advances for rehabilitation, including loans to Provinces for this purpose. The expenditure on food subsidies, including the bonus to Provinces on the internal procurement of grain under the new food policy announced recently, is estimated at Rs. 19.91 crore. The estimates also include a total provision of Rs. 10.75 crore under various heads for expenditure upon development schemes and resettlement.

The House would doubtless wish to know if in framing the Budget for next year any allowance has been made for the implementation of the recommendations of the Economy Committee, the appointment of which under the Chairmanship of Shri Kasturbhai Lalbhai was announced by me. The House will realise that it is obviously impossible to forecast the directions in which the Committee may suggest economies and the total amount that could be expected to be saved. I have, however, made a lump cut of Rs. 2.5 crore under the various heads of civil expenditure in order to ensure that some economy is effected pending the report of the Committee. If the Committee's report suggests economies on a larger scale, I propose to take steps during the course of the year to see that they are realised. I wish to make it clear however that this lump sum cut is mainly in the nature of a token and should not be taken as giving any indication of the size of the economy which I consider could be effected. This must necessarily depend on the considered judgment of the Committee after they have examined the various departmental authorities and I do not wish in any way to anticipate their findings.

Of the total expenditure of Rs. 136.29 crore provided in the Budget for next year, Rs. 29.95 crore are accounted for by the expenditure on refugees and the payment of subsidies and bonus for foodgrains, leaving Rs. 106.34 crore for normal expenditure. This includes Rs. 8.98 crore for tax collection, Rs. 2.95 crore for Grants-in-Aid to Provincial Governments and Rs. 20.93 crore for debt redemption, Rs. 3.15 crore for Planning and Resettlement, Rs. 2.20 crore for expenditure on the Mints and the Nasik Press, and Rs. 20.93 crore for expenditure in the nation-building sphere such as Education, Medical, Public Health, Broadcasting, Aviation and the conduct of scientific surveys and institutions in which the Central Government supplement the work of the Provincial Governments and provide valuable technical assistance and research. The balance of Rs. 24.27 crore represents the provision for ordinary administration, Civil Works, etc. and this constitutes only 18 per cent of the total civil expenditure. In addition to Rs. 20.93 crore in the nation-building sphere mentioned above, provision has been made in the capital budget for a grant of Rs. 30 crore to Provincial Governments for development and Rs. 34 crore for loans.

On the basis of the estimates of revenue and expenditure that I have so far explained, the anticipated deficit in the Budget for 1948-49 is Rs. 26.85 crore. In a later part of my speech I shall revert to the question of how I propose to deal with this deficit.

Post-war Planning and Development

When I addressed this House last November, I mentioned that the question of re-examining the development schemes of the Provincial Governments with reference to the reduced resources likely to be available to the Centre for financing development and the changes resulting from the partition will be taken up. I have since had this further examined and it has been decided that so far as the Centre is concerned there should be no reduction in the extent of assistance promised by it to the Provinces when the Provinces were asked to draw up their plans for development. The House will remember that the Provinces were informed in 1945 that they could draw up their plans of Post-war development on the assumption that in the five years beginning with 1947-48 they could expect assistance by way of grants of the order of Rs. 250 crore. This amount was provisionally distributed among the Provinces in the ratio of their population. But some special weightage was given to the backward provinces of Assam, the N.W.F.P. and Orissa and to Bengal, which with Assam, had been affected by the impact of war in the north-east frontier. With this weightage the Centre's promised contribution in five years rose to Rs. 273.88 crore. The Provinces were given advance grants to cover the expenditure incurred by them on development schemes in 1945-46 and 1946-47 to be taken against their share of the grant for the five year period. The progress of expenditure on the development schemes has been somewhat slower than anticipated mainly due to the shortage of material and man-power and the time taken to formulate detailed schemes. In the current year a provision of Rs. 20.39 crore was included in the Budget for the period 15 August 1947 to 31 March 1948 but it is unlikely that the whole of it will be spent. After allowing for the expenditure incurred upto the partition and for the areas now in Pakistan and reallocating the balance to the Provinces in the Indian Dominion the outstanding balance of the assistance from the Centre to the Provinces at the end of the current year, on approximately the same scale as was promised by the then Government of India in 1945, is estimated roughly at between Rs. 170 and Rs. 180 crore. I have carefully considered whether in the altered circumstances the Centre should reduce its assistance to the

Provinces but I have come to the conclusion that in the larger interests of the development of the country as a whole it would be unwise to do so, particularly as the Provinces have framed their plans on the assumption that the promised assistance would be forthcoming. In reaching this decision I have been influenced by the fact that in actual practice the grants are likely to be spread over a somewhat longer period than the four years that remain out of the original five year period fixed for this assistance. This, to some extent, will relieve the strain on the resources of the Centre. But it is being made clear to the Provinces that in future the grants from the Centre upto the maximum agreed to will be contingent on the Provinces spending from their own resources, at least an equal amount and that the whole scheme of assistance should be subject to readjustment if in the new Constitution there is any substantial transfer of resources from the Centre to the units. I trust that with this assurance the Provinces will now be in a position to go ahead with their schemes of development and that they will conserve and exploit all the available resources for this purpose. The Budget for the next year includes a provision of Rs. 30 crore for grants to Provinces for development and Rs. 34 crore for loans to them.

For Central schemes of development including resettlement a provision of Rs. 10.75 crore has been made in the revenue budget and Rs. 25.50 crore in the capital budget. Details of the provision are given in the Explanatory Memorandum circulated with the Budget papers and I do not propose to dilate at length on the individual schemes for which provision had been included in the Budget. But they cover a very wide field and among the important schemes I would mention the expansion of the Forest Research Institute, Dehradun, the development of the valuable forests in the Andamans, the preliminary work on the Kosi, Sone Valley, Gandak and Assam Valley projects, all of which form part of the large scale schemes of river development, the re-organisation of the Central Waterways Navigation and Irrigation Research Stations, the setting up of a Tractor Testing Station, the establishment of a Central Agricultural College, the expansion of the Indian Agricultural Research Institute, the loan of Rs. 2 crore to the Damodar Valley Corporation and the investment of Rs. 1 crore in the Industrial Finance Corporation. In addition to provision for expenditure on the Individual schemes just mentioned, the Budget also provides for an expenditure of over Rs. 2 crore for buildings for development schemes, Rs. 6.25 crore for the construction and improvement of our National Highways, Rs. 6.50 crore for the Fertiliser Factory under construction at Sindri, Rs. 4 crore for the expansion of Civil Aviation and Rs. 70 lakh for the expansion of broadcasting facilities.

Capital Expenditure

Before I pass on to deal with the ways and means position, I shall give the House a brief account of the provision included in the Budget for normal capital expenditure. The revised estimate for this year includes a provision of Rs. 26.50 crore of which the Railways account for Rs. 16.75 crore, Posts and Telegraphs for Rs. 2.50 crore and schemes of State Trading for Rs 4.75 crore. For next year, the provision amounts to Rs. 76 crore of which Rs. 24.50 crore are for Railways, Rs. 3.25 crore for Posts and Telegraphs, Rs. 15 crore for Defence, to cover expenditure on the purchase of naval vessels, aircraft and spares for the expansion of the Naval and Air Forces, the acquisition of land and the construction of accommodation for Defence Services personnel, Rs. 3.25 crore on the provision of additional accommodation in New Delhi, Rs. 2.75 crore for administrative buildings and communications costing over a lakh of rupees, the cost of which is now met from capital, and Rs. 27 crore for the building-up of the Central reserve of 6 lakh ton* of foodgrains in accordance with the recently announced food policy of Government. The total provision in the Capital Budget for normal requirements and for financing the development schemes both of the Centre and the Provinces comes to the impression figure of Rs. 70 crore this year and Rs. 165.50 crore next year.

Ways and Means

I now turn to a brief consideration of the ways and means position. During this year owing to the uncertain political conditions in the earlier months, the partition of the country and the widespread communal disturbances in certain parts of the country it was not possible to borrow from the market the substantial amount which it was originally planned. Next year in addition to the interest-free prize bonds, with an outstanding of a little over Rs. 5 crore, which mature in January 1949, Government have the option of repaying the outstanding balance of the 2.75 per cent loan, 1948-52 and the 4 per cent loan, 1948-53. A decision on the exercise of this option will be taken in the course of the year with reference to the conditions then prevailing. The market borrowings next year have been taken at Rs. 150 crore but if circumstances are propitious the scale of borrowing will be stepped up. I would in this connection reiterate the appeal I made on the floor of this House last November for the utmost cooperation from the public in the borrowing operations of the Government. Apart from the need which still remains for withdrawing surplus purchasing power from the hands of the community as a measure of anti-inflation,

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* One ton is equal to 1,000 kg.

the requirement of funds for financing the large scale plans of development which the Government have in view and for assistance to the Provinces for implementing their schemes is as great as ever and unless the public cooperate whole-heartedly with the Government by lending their savings it will be impossible to undertake all the schemes of development necessary for raising the standard of life of our people.

I shall now pass on to the consideration of the all-important problem of how to deal with the deficit of Rs. 26.85 crore.

I just mentioned a deficit of Rs 26.85 crore. This is exclusive of any contribution from the Railways surplus. As Hon'ble members are aware, it has now been decided that out of the Railways surplus a contribution of Rs. 4.50 crore should be made to general revenues during the next year. The estimated deficit is, therefore, reduced to Rs. 22.35 crore.

Reliefs in Taxation

The House will remember that in my Budget Speech last November, I referred to the widespread criticism that the level of taxation in the 1947-48 Budget, had seriously affected the incentive for saving and investment and I undertook to make a careful examination of the consequences of our taxation policy before I presented my annual Budget. Since then, I have given very anxious thought to the question and I have reached the conclusion that there is a considerable measure of justification in that criticism. As I have emphasised elsewhere, the paramount need in present conditions is to stimulate production and any fiscal or administrative measure which restricts or curtails the expansion of industry will stunt our development and add to our future difficulties. While industry should be called upon to pay its just contribution to the common exchequer, the burden placed upon it must be such as to allow business to expand. At the same time, the aim of our policy should be to secure that, while the level of taxation is reasonably high so that the wealthier sections of the community are placed under an equitable contribution for the common needs of the State, a genuine margin is left for savings which would flow back into investment and thereby add to the productive wealth of the community, which the State itself could subsequently tap. It is also necessary so to adjust our taxation as to provide a real incentive to the ploughing back of profits into fresh business. In making my proposals in the field of direct taxation, I have kept these considerations prominently in mind.

I shall pass on to deal first with the various measures of relief which I propose to give.

My first proposal is with reference to the Business Profits Tax. This measure gave room for a good deal of controversy when it was introduced for the first time in the Budget for 1947-48. The sudden withdrawal of the Excess Profits Tax gave this tax a considerable measure of justification. During the discussions on the floor of the House, the then Finance Minister stated that this tax would be in operation for one year, leaving it to his successor to decide whether it should be continued or not. In view of the criticisms levelled against this measure, both inside this House and outside, I gave a good deal of thought to this matter. I have come to the conclusion that, in the present circumstances, there is no justification for the complete withdrawal of this tax. Hon'ble Members might know that in the United Kingdom, a tax of this kind was introduced some time back as a National Defence Contribution. This tax is retained though its nomenclature has been subsequently changed to Profits Tax. The need for additional funds for reconstruction and especially for the rehabilitation of refugees would justify the continuance of this measure in India for some time. I have, therefore, decided to retain this source of revenue but to reduce the burden of this tax considerably. The abatement allowed at present is Rs. 1 lakh or 6 per cent of the Capital employed, whichever is larger. The rate of the tax is 16.67 per cent, I propose that the abatement should be Rs. 2 lakh or 6 per cent, of the capital employed, whichever is larger, and that the rate of the tax should be reduced to 10 per cent. I hope this reduction will be welcomed by the business community. The result of this proposal will be a gross loss of Rs. 2 crore. Rs. 1 crore of this loss will however, be recovered by the increase in income-tax receipts and the net result will, therefore, be a loss of Rs. 1 crore.

My second proposal is to reduce the existing rate of super-tax. The House will remember that last year the limit of income at which the maximum rate of 10.5 annas* is attracted was reduced in the case of earned income from Rs. 5 lakh to Rs. 1.5 lakh and in the case of unearned income from Rs. 3.5 lakh to Rs. 1,20,000. The effect of this was to take away from any person with an income of over Rs. 1,20,000 nearly the whole of the income beyond this amount. This hardly left any incentive to save and I have no doubt myself that such severe taxation at this level would seriously hamper the growth of savings and retard our industrial development. I have accordingly raised the limit at which the

* Under the prevalent Coinage System, one rupee comprised 16 annas and there were 4 paise in each anna. The conversion to the metric system in India occurred in stages between 1955 and 1962. The metric system in weights and measures was adopted by the Indian Parliament in December 1956 with the *Standards of Weights and Measures Act,* which took effect on 1 October 1958. The *Indian Coinage Act* was passed in 1955 by the Government of India to introduce decimal coinage in the country. The new system of coins became legal tender on 1 April 1957, with the Rupee consisting of 100 paise.

maximum rate of tax will be attracted to Rs. 3.5 lakh for both earned and unearned income. I trust the House will agree with me that this measure of relief is justified. I have also rearranged the rate of the tax within the slabs and the rates as they now stand seem to me to fulfil the double-purpose of keeping the level of taxation sufficiently high while leaving at the same time a margin for saving. The changes in supertax are estimated to cost Rs. 1 crore.

In the budget for 1946-47, a complicated system of levying supertax at steeply graded rates of dividends above a datum line was introduced and last year these rates were further stiffened. The object of this was to deter the distribution of large dividends and to secure the ploughing back of profits into business. In actual practice very little revenue was collected from this source and the purpose with which it was introduced does not appear to have been realised. I feel that something more positive is required to induce industrialists to return more of their profits into investment than taxing those who distribute large dividends. My proposal to secure this end is to reduce the tax on the undistributed profits of a company by one anna. The effect of my proposal will be that on distributed profits the present rate of 5 annas will remain, while the tax on undistributed profits will be at the rate of 4 annas. I trust that the concession will produce better results than this present complicated system. The cost of this concession is estimated at Rs. 2 crore.

My next proposal is to reduce the income-tax on companies with an income of Rs. 25,000 and below to half the usual rates. Among the dangers to be avoided in the rapid industrialisation of this country is the one of concentrating too many businesses in the hands of large companies, and I feel that every encouragement should be given to the growth of smaller companies. This will broadbase our economy and will also be in line with our general pattern of industrial development with its constant emphasis on the development of cottage industries and fair distribution of industry over the various Provinces. My contribution towards such a development is to allow this concession in favour of small companies with moderate incomes. The loss of revenue from this is estimated at Rs. 12 lakh.

There is a widespread feeling that with the heavy taxation to which incomes are now subject there is very little scope left for assistance by the public to deserving institutions and charities. I have received a number of representations on this subject and after careful consideration of the matter I feel that a measure of relief on contributions made to recognised institutions and charities would be justified. In this country there is a far too general a tendency for charitable and other institutions to look to the

State for assistance and not to the public. To the extent to which there is a larger flow of private benefaction to such institutions, the burden on the State for supporting them will be reduced. I accordingly propose that donations to approved institutions and charities should be exempted from taxation so long as they do not exceed 5 per cent of the net taxable income in the case of companies and 10 per cent in the case of individuals, subject to a maximum of Rs. 2.50 lakh in both cases. I trust the House will welcome this concession and I hope it will encourage our industrialists and the public to subscribe more generously to deserving institutions and purposes. It is my intention to have a list of approved institutions and bodies drawn up in consultation with the Provincial Governments. It is difficult to estimate the loss of revenue involved in this concession and I have taken a rough figure of Rs. 75 lakh.

I also propose to give a further measure of relief, in regard to the payment of municipal taxes on house property. I have felt that the absence of such an exemption is an anomaly in our tax system and that there is a justifiable claim for relief here. I accordingly propose to exempt these payments from taxation. The cost of this concession is estimated at Rs. 75 lakh.

Before I pass on to deal with reliefs in indirect taxation, I should like to mention briefly a point in which it seems necessary to readjust our Corporation Tax. Hon'ble members are aware that under the law as it stands we are entitled to recover supertax on dividends paid by companies incorporated outside this country to their shareholders abroad in respect of their Indian business. For this purpose it is necessary to ascertain from the companies particulars about their shareholders abroad and the dividends distributed to them. This information is rarely available in full with the result that very little of the tax is collected. It is necessary that some effective arrangement should be made to protect our revenue against this leakage and I think that this can best be done by· raising the general rate of Corporation Tax and giving an appropriate rebate on their income to those companies which declare and pay their dividends in India. I accordingly propose that the rate of Corporation Tax be raised from 2 annas to 3 annas and a rebate of one annas allowed to the companies which declare and distribute their dividends in India. The effect of this proposal will be that companies in India will pay the present rate of Corporation Tax of 2 annas while foreign companies having business in India will have to pay a Corporation Tax of 3 annas on their profits earned in this country. This change is expected to bring an additional revenue of Rs. 2 crore.

I may now summarise the net effect of the reliefs in income-tax and the proposed change in the Corporation Tax. The various concessions I have just detailed will result in a loss in revenue of Rs. 6.62 crore, of which the Provincial share will amount to Rs. 2.41 crore. This will, however, be partly set off by the additional revenue of Rs. 2 crore from the change in the Corporation Tax and Rs. 1 crore from the ordinary collection of tax resulting from the reduction in the Business Profits Tax, of which the Provincial share will amount to Rs. 45 lakh. The net effect of my proposals on the Centre is a reduction in revenue of Rs. 1.66 crore.

I shall now turn to the reliefs in the field of indirect taxation.

During the debate on the Interim Budget there was some criticism about the increase in the export duty on cloth and I promised to consider the suggestion that the duty should be converted into an *ad valorem* duty. I have received a number of representations that the present specific duty is pressing too heavily on handloom cloth and on certain categories of mill-made cloth. The duty of 6 annas a pound* on cotton yarn has also proved burdensome and on a careful review of the matter in all its aspects I have decided to convert the export duty into an *ad valorem* duty of 25 per cent, to exempt handloom cloth from the duty and to withdraw the duty on exports of cotton yarn. These concessions will involve a loss of revenue of Rs. 4.50 crore.

I also propose to withdraw the present excise duty on betelnuts. The administration of this excise has always been difficult and it has been a prolific source of complaint from the areca-growing Provinces. I trust the House would welcome this concession which I hope will mean a cheapening of this article to the poor man. The loss of revenue involved is Rs. 30 lakh.

The net effect of all the reliefs mentioned so far and the changes in income-tax is a reduction in revenue of Rs. 6.46 crore, raising the prospective deficit to Rs. 28.81 crore.

New and Additional Taxes

In an earlier part of this speech I expressed the view that in the present inflationary conditions it is necessary to reduce, as far as possible, the gap between revenue and expenditure and if it is at all possible to have a surplus budget. I am sure, the House will agree with me that the prospective deficit is too large to be left uncovered and that in a transitional time like this we should take every step possible to strengthen our revenue position. In raising additional taxation it is, in my view, necessary to secure that as little of the burden as possible falls on the poor man.

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* One pound is equal to 453.6 grams.

Before I deal with my proposals for raising additional revenue, I shall briefly digress to mention a change in the accounting which will reduce the prospective deficit by Rs. 10 crore. Advance payments of income-tax under Section 18-A of the Income Tax Act are not credited as revenue but held in deposit till the complicated process of assessing the tax is completed. These advance payments of tax are not really refundable deposits and there is no reason why they should not be credited to revenue straightway. I propose to introduce this change with effect from next year. But the change will be made in stages so that the budgetary position is not violently disturbed. The advance payments will be credited to a separate minor head within the major head and transferred to the final heads on completion of the assessments. The change in procedure will be given effect to next year in respect of advance payments of Corporation Tax and will be extended to advance payments of income-tax in the subsequent years. I need hardly mention that this change in procedure will not in any way affect the provincial share of income-tax. The result of this change will be to divert to revenue next year Rs. 10 crore which would have otherwise been credited as the deposit. This will reduce the deficit to Rs. 18.81 crore.

I shall now address myself to the problem of covering this deficit by new taxes. The House will appreciate that with the existing shortage in the foreign exchange resources of the country and the need to conserve them as far as possible to meet our heavy commitments in respect of our food purchases, it is not possible to expect any substantial relief from the expansion of customs revenue from import duties, although the country could absorb all the imports likely to flow in if the restrictions on imports are relaxed. For a considerable time we shall have to rely on Central Excises and, to some extent, on the yield of export duties. In framing my taxation proposals I have turned as much as possible to the field of export duties, which do not involve any additional burden on our people, and to such of the excises as do not affect the poorer classes.

My first proposal is to levy an export duty of Rs. 80 per ton on oilseeds and Rs. 200 per ton on vegetable oils. There is a wide disparity between the internal prices of these commodities and their export prices and I am satisfied that the imposition of this duty will not affect our export market. The yield from this duty is estimated at Rs. 2.50 crore.

My next proposal is to levy an export duty of Rs. 20 per ton on Manganese to yield Rs. 80 lakh.

I propose to make only two minor changes in the import duties. The duty on motor cars will be raised from 45 per cent to 50 per cent, with a preference of 7.5 per cent in favour of the United Kingdom. The yield from this increase is estimated at Rs. 50 lakh. The import duty on cigars, cigarettes and manufactured tobacco will also be slightly raised following the changes in the excise duty, to which I shall presently refer. The increase in revenue from this change is estimated at Rs. 12 lakh.

In the field of Central Excises my main proposals concern Tobacco. It is only in recent years that the Tobacco excise has been developed and the system of taxation could, in my opinion, be rationalised so as to increase the revenue from this source. But this will take some time. Meanwhile, I propose to levy an excise duty on cigarettes amounting to roughly 25 per cent on the ex-factory prices. I estimate the yield from this change at Rs. 7 crore. Simultaneously the duty on certain categories of unmanufactured tobacco will be raised from 9 annas per lb. to 12 annas per lb. in some cases and from 3 annas per lb. to 4 annas per lb. in others in order to secure that there is no diversion from the consumption of Cigarettes to the cheaper varieties. This increase is estimated to yield Rs. 2 crore.

The excise duty on Tea will be raised from 2 annas per lb. to 4 annas per lb. to bring it to the same level as the export duty. The additional revenue from this increase is estimated at Rs. 1.80 crore.

The duty on Coffee will be similarly raised to 4 annas per lb. to yield Rs. 30 lakh.

The duty on Vegetable Products will be raised by 50 per cent to Rs. 7 and 8 annas per cwt. to yield Rs. 40 lakh.

The duty on Tyres will also be raised by 50 per cent. The additional revenue is estimated at Rs. 40 lakh.

The House will remember that in the Budget for 1946-47 the excise duty on Matches was reduced from Rs. 2 and 8 annas per gross to Rs. 1 and 12 annas per gross for boxes containing between 40 and 50 matches. In actual practice this reduction has not been passed on to the consumer and I propose that this should be withdrawn and the minimum duty fixed at Rs. 2 and 8 annas per gross on all boxes containing up to 50 matches. The additional revenue from this will amount to Rs. 150 lakh.

I also propose to make two minor changes in the Postal and Telephone rates. The registration fee will be raised from 3 to 4 annas while the surcharge on trunk telephone calls will be raised from 40 to 60 per cent and amalgamated with the basic rate. These changes, which will be introduced by executive orders, will bring in an additional revenue of Rs. 40 lakh.

Net Result of Proposals

I may now summarise the net effect of all the proposals that I have made. The reliefs and the changes that I have proposed in Income-tax, Super-tax and Corporation Tax will result in a loss of Rs. 1.66 crore. The abolition of the export duty on handloom cloth and yarn and the reduction of the export duty on mill-made cloth will mean a loss of Rs. 4.5 crore. The abolition of the duty on betelnuts will cost Rs. 30 lakh. The total loss of revenue on account of relief and readjustments of these taxes will be Rs. 6.46 crore. On the basis of this loss the original deficit of Rs. 22.35 crore will be increased to Rs. 28.81 crore. This deficit will again be reduced to Rs. 18.81 crore by taking the advance payments of Corporation Tax next year direct to revenue. With regard to the additional taxes, the proposed export duties will bring in Rs. 3.3 crore. The increase in the import duties will bring in Rs. 62 lakh. The increase in excises will bring in Rs. 13.4 crore. The changes made in the Postal and Telephone charges will bring in Rs. 40 lakh. The total net revenue resulting from these new taxes and the enhancement of certain existing taxes will thus bring in an additional revenue of Rs. 17.72 crore. The final deficit for this year will therefore stand at Rs. 1.09 crore. In the present circumstances, I feel fully justified in leaving this small deficit uncovered. In considering this deficit the House must remember that the estimates do not include any credit on account of the interest due from Pakistan on its partition debt which, but for the moratorium, would be available to the credit of our revenues. Though it is not possible to know accurately at present the amount of the interest due from Pakistan, it may be assumed on a very rough calculation that it would be of the order of Rs. 9 crore. If this amount, which is legitimately due to us and the payment of which is only postponed, was available to me in the next year, this small deficit would really be converted into a substantial surplus.

Direct and Indirect Taxes

Much has been said in the past on the floor of this House and elsewhere regarding the maintenance of a proper balance between direct and indirect taxes in our tax structure. The House will appreciate that this is not a matter which could be regulated by any set principles and that, in the ultimate analysis, it is merely a question of arranging the taxation to the best advantage of the community and with reference to the economic conditions of each country. Thus, while in an industrially advanced country it may be possible to raise a Substantial revenue by direct taxation it will obviously be unwise to pitch the direct taxes too high in a country in the process of development as the inevitable effect of high direct taxation is to retard the formation of capital without which industrial development is not possible. Similarly, when the main consideration is to curtail consumption, as during a period of shortage of goods and inflation, it may be necessary to raise the level of indirect taxation to secure a reduction in consumption. There is also a common fallacy that the larger the amount of indirect taxation the heavier the burden on the ordinary man. While it is, of course, true that over a considerable field consumption taxes reach a wider section of the population than direct taxation, consumption taxes on such luxuries as motor cars, the costlier varieties of tobacco cigarettes, duties on wines and spirits and export duties which do not affect the internal consumer, all of which go to swell the total of indirect taxation do not touch the life of the ordinary man. In this connection I am sure the House will be interested to know the pattern of our tax structure. In 1937-38 out of a total revenue of Rs. 75.8 crore direct taxation accounted for only 21 per cent while the bulk of the revenue came from indirect taxation. This proportion has naturally varied during the war when there was a steep rise in direct taxation due to the large increase in income-tax and the levy of the Excess Profits Tax. In the Budget for next year which I am now presenting to this House the proportion of direct to indirect taxation will be about equal. It would be interesting to compare our position in this respect with the United Kingdom. In a highly industrialised country like the United Kingdom the scope for raising large revenues from direct taxation is greater. The United Kingdom Budget for 1947-48 discloses that in that country the percentage of direct taxes to the total revenue is only 52. This compares very favourably with our tax structure in which, with a comparatively poor industrial economy, we collect about 51 per cent of our taxes from direct taxes. Another interesting feature of our economy is that, as compared with 1937-38, the direct taxes would have increased eight and half times in 1948-49 while the indirect taxes would have increased only by a little over twice. Considering the relatively undeveloped state of our country, I do not think that anyone could say that the burden of direct taxation in this country is unduly light or that there has been any shifting of the burden on the shoulders of the ordinary man.

Future Prospects

On the estimates as they finally emerge, the total revenue next year will stand at Rs. 256.28 crore and the expenditure at Rs. 257.37 crore leaving an uncovered deficit of Rs. 1.09 crore. I must, however, warn the House that this cannot by any means be regarded as the normal figure of revenue and expenditure for the subsequent years. The estimated income-tax receipts for 1948-49 include collections relating to the Excess Profits Tax which will practically disappear in the subsequent years. The Business Profits Tax in subsequent years will also be less and other factors being equal, the net proceeds of income-tax accruing to the Central Government for 1949-50 will be approximately Rs. 20 crore less than the corresponding receipts for 1948-49. The total revenue for 1949-50 will therefore be at least Rs. 20 crore less than for 1948-49. As against this it should be borne in mind that certain items of expenditure appearing in the Budget for 1948-49 may reasonably be expected to show a considerable decrease. The expenditure provided for next year under relief and rehabilitation and food subsidies amounts to Rs. 29.95 crore. It may reasonably be anticipated that the expenditure under these two items will go down considerably during the subsequent years. If normal conditions are restored, a reduction in the defence expenditure may also be anticipated. Taking all the factors into consideration, it is not unreasonable to hope for a balanced budget in the future. The House will realise that in the transitional phase through which we are passing, it is difficult to make any precise estimate of our financial position for the next two or three years. On any reasonable view of the situation, I feel it is the path of prudence to strengthen our revenue position and keep down our expenditure as much as possible. As a precautionary measure, in tapping new sources of revenue I have decided to re-introduce in the current session the Estate Duty Bill. Even though the proceeds of this duty will go to the benefit of the Provinces any augmentation of the revenues of the Provinces would, to some extent, reduce the strain on Central finances. Apart from this, it is possible under the proposed measure to levy surcharges for purely Central purposes.

Although I have not been able to present a balanced or a surplus budget much as I wish to, the size of the deficit next year which I propose to leave uncovered is very small in relation to the total expenditure. This may be considered an index of the efforts that we are making to close the era of war-time deficits and bridge the gap between revenue and expenditure. In my Interim Budget I ventured to express the view that the financial position of the country was intrinsically sound and that we were not living beyond our means or heading towards bankruptcy. The Budget that I am now presenting fully supports this view. While it will be folly to ignore the difficulties ahead, I feel that we can face the future in a spirit of sober confidence.

Public Debt

The debt position of a country is a sure index of its financial strength and here again I think our position is inherently sound. At the end of the current year the total outstanding public debt is expected to stand at Rs. 1,795 crore and to rise by a further Rs. 56 crore during next year to Rs. 1,851 crore. The total of the interest bearing obligations is estimated at Rs. 2,182 crore at the end of this year and Rs. 2,231 crore at the end of the budget year. Against these obligations, we expect to have at the end of this year roughly Rs. 1,161 crore and at the end of next year Rs. 1,237 crore by way of interest yielding assets representing the investments in the two great commercial departments of Government, namely the Railways and Posts and Telegraphs outstanding amounts due to us from the Provincial Governments, Indian States, Burma and others, and the probable debt due from Pakistan to us. In addition, we shall be holding cash and other investments on treasury account amounting to Rs. 246 crore at the end of this year and Rs. 130 crore at the end of next year. The total interest bearing obligations not covered by interest bearing assets and our cash and interest yielding investments would thus amount to not more than Rs. 775 crore at the end of the current year and Rs. 864 crore at the end of the next year. The House will realise that these figures are to some extent approximate and it is not possible to give precise figures until Pakistan's share of the obligations which she would assume direct and her debt to India have been fully worked out. Allowances has however been made for this on the best guess that could be made and I think the House may accept these figures as giving a broad indication of the position.

The debt burden is to be judged primarily by the size of the deadweight debt. The amount of deadweight debt which I estimate at Rs. 864 crore is indeed very small when compared with the resources of the country and our national income. The debt position may be compared with the national income for assessing whether the debt is one which the country can afford to carry. For this purpose, we may take the whole of the interest bearing obligations of the Government of India which are expected to stand at Rs. 2,231 crore at the end of next year. Unfortunately, we have no accurate data regarding the national income of our country. Various estimates have been made from time to time, but none of them has been made on a really accurate and scientific basis and I do not think we shall be far wrong if we assume that our national income is of the order of 4,500 crore of rupees. Our public debt is less than half of our national income. It is interesting to compare our position with that of more advanced countries like the United Kingdom and the United States. The national debt in the United States is more than one and a half times its national income and the national debt of the United Kingdom is nearly three times its national income. The burden of the debt may also be assessed in another manner by studying the interest charges in relation to the annual revenue. For the year 1948-49, our gross payment of interest charges will amount to Rs. 61.82 crore. From our Commercial Departments like Railways, Posts and Telegraphs, etc., and by way of interest receipts from Provincial Governments and other sources we get Rs. 25.66 crore. The net interest payment therefore is only Rs. 36.16 crore. From this must again be deducted the interest due to us from Pakistan which I have estimated at approximately 9 crore of rupees. Our net interest burden is therefore about Rs. 27 crore. The anticipated revenue is Rs. 256.28 crore. Our net interest payment therefore represents only about 10.5 per cent of our revenue, The inference that may legitimately be drawn from these figures is that we could carry even a larger volume of debt and that there is still a large source available here for financing the development of our country. The savings of the community could be mobilised on a very much larger scale for financing productive schemes of development. I appealed earlier in my speech for public cooperation in the borrowing programme of Government. The picture of our financial position which I have unfolded before this House will I hope have a reassuring effect on the public and instil a spirit of confidence all round.

Conclusion

Mr. Speaker, I have completed my survey of the economic condition of our country, my estimate of our income and expenditure and my proposals for the coming year. I must apologise to the House for the length of my statement. In the first annual Budget, I thought it my duty to give the House a fairly full picture of our financial position. In my Interim Budget I struck a note of subdued optimism and ventured to express my opinion that our financial position was intrinsically sound. A more detailed examination over a longer period has confirmed that opinion. In spite of all the trials to which our infant State has been subjected, we have the solid foundations on which we can confidently build the superstructure of our economic and social edifice. The pattern of that structure is entirely in our hands to draw. While fighting the uphill battle of freedom we dreamt the dream of an India free from want and insecurity, a land in which our people would have in abundance the material and moral contents of a good life. But then our hands were tied and so we merely made plans which would improve our agriculture and industrialise our country, and thus provide a higher standard of living to our masses. From 15 August 1947 the chains of our bondage have been broken and we are free to translate our dreams into reality. The plans are there, but we find that our freedom was born in an era so fluid and fast changing that any pre-determined step other than the next became obsolete before it could be taken. We feel like the pilgrim who drags his weary limbs finally to the mountain top, only to find higher peaks stretching before his eyes. It is by no means the journey's end and the night falls and engulfs him in darkness. And like him we are inspired to pray in the spirit of the favourite hymn of Mahatma Gandhi—Lead Kindly Light. The next step is enough for us if it is illuminated by the star of our ambition and fortified by the faith in our destiny.