SPEECH OF SHRI C.D. DESHMUKH, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1951-52*

Highlights

— *Setting up of Pricess Advisory Board*

— *Setting up of Central Jute Board, Cotton Advisory Board and Development Committee on Industries*

— *Reorienting the Grow More Food Plan*

— *Trade Agreement between India and Pakistan*

— *Introduction of Treasury Savings Deposits Scheme*

— *Introduction of Sales Tax in Delhi*

I rise to present a statement of estimated receipts and expenditure of the Government of India for the year 1951-52.

Review of Economic Conditions

It is customary, while presenting the annual budget, to give a review of the economic developments in the country in the year that has just ended and following this practice, I propose to take the House back briefly over the main changes in the last twelve months.

This period has been one of considerable anxiety. The strain on the country's economy reflected in the rising level of prices and the threat of

Budget, 1951-52

Total Revenue	—	**Rs. 369.89 crore**
Total Expenditure	—	**Rs. 375.43 crore**
Deficit	—	**Rs. 5.54 crore**

* *Parliamentary Debate*, Vol. VIII, Part-II, 28.2.1951, cc. 3733-3765.

inflation has been aggravated during the year by severe natural calamities like earthquake in Assam, the floods in certain parts of Bihar and Uttar Pradesh, the failure for the fifth year in succession, of the north-east monsoon over a large area of Madras and serious droughts in Bihar and certain other parts of the country. Meanwhile, the slow return to normal conditions in the postwar years all over the world, has been violently upset by the outbreak of hostilities in Korea and the threat, thus, holds of spreading into a wider conflict.

The problem of holding the prices in check has been one of the major pre-occupations of Government in the years following the end of the war. It is unnecessary to dilate on the steps taken to this end in the earlier year and it will be enough, for my present purpose, to mention the steps taken in recent months, particularly after the devaluation of the Rupee in September 1949. The House will recall that soon after this event price cuts in certain essential commodities were made in an effort to counter the possible effects of devaluation, and this assisted in holding the price level for some time. In fact, the general price index fell by 12 points from 393.3 at the end of October 1949 to 381.3 at the end of December 1949. It did not, however, prove possible to check for long the upward pressure on prices generated by devaluation, and by June 1950, the gain secured during the closing months of the previous year had been lost, the index number standing at 395.6. The outbreak of the Korean war gave a further impetus to the rise in prices and by September the index number had risen to 412.5. Since then it has been more or less steady, although January has registered a further slight increase of nearly 2 points. This increase in prices is, however, not peculiar to India and to a very great extent it reflects the upward movement in prices in other countries which supply important categories of our imports.

Hon. members are aware of the steps taken by Government to meet the situation created by the upward trend in prices. With the approval of Parliament powers were taken by the Centre to make laws for a period of one year from 15 August 1950 in respect of two subjects falling in the State List, namely, trade and commerce and production, supply and distribution of goods. The main object was to evolve a uniform policy for the whole country in regard to production and distribution and the regulation of prices. The Essential Supplies (Temporary Powers) Act was also amended to prescribe drastic penalties for the hoarding of foodgrains. An ordinance was promulgated in September to regulate the supply and prices of a number of essential consumer goods which were likely to disappear into hoards and to be black-marketed. Government also set up

a Prices Advisory Board, consisting of representatives of trade and industry, to advise them on the fixation of prices and other matters connected with the administration of the ordinance. One result of the developments in the international situation, following the outbreak of the Korean war, was to intensify the demand for some of the principal exports from this country like jute goods, raw cotton, cotton waste and raw wool. The external prices of these commodities rose very steeply and in view of both the interests of the Exchequer and the necessity for countering inflation it was decided that this difference should be intercepted by Government through the enhancement or levy of export duties. Export duties on jute goods and raw cotton were accordingly enhanced while new duties were imposed on exports of cotton waste and wool. In the rapidly changing conditions which now obtain, Government also considered it necessary to obtain from Parliament temporary power to enhance, if necessary, existing export duties and to levy new duties. All these measures have had a steadying effect on prices in recent months although, as I said earlier, it has not been possible wholly to arrest an upward trend.

The level of industrial production in 1950 in a number of industries has been encouraging though the jute, cotton textile and sugar industries have been affected by difficulties in regard to supplies of raw material. The production of cement, steel and coal has been well above the previous year's figures while there has been a substantial drop in the production of jute goods, cotton, textiles and sugar. Owing to the virtual cessation of imports of raw cotton from Pakistan after the devaluation of the rupee and a somewhat sub-normal crop in the country the supply of cotton to the Indian mills has not been adequate in spite of increased imports from other countries. The limited supplies of raw jute received from Pakistan under the trade agreement of last April have also not been sufficient to meet the demands of the jute mills. Sugar production has suffered from the diversion of cane to the manufacture of *gur* and *khandsari* sugar, which, not being subject to price control, offered more attractive profits. The strike of mill workers in Bombay also affected the production in textile industry.

The problem of securing an adequate supply of raw materials for the two major industries in the country, namely, cotton and jute has, as the House is aware, been receiving constant attention and efforts are being made by the State Governments and the Centre to increase the production of jute and cotton without affecting the production of food. Provided the season is normal, by March 1952, we shall have made significant strides in the direction of practical self-sufficiency in cotton and jute. Meanwhile,

in order to secure an equitable distribution of the still insufficient available supplies of raw jute a Central Jute Board has been set up and all purchases of raw jute by the mills are compulsorily canalized through it. Cotton mills have been prohibited from covering their requirements in the form of *kapas* and a Cotton Advisory Board, consisting of representatives of the mill owners and the trade, has been set up to maintain liaison between Government and the industry. In the case of sugar, maximum prices have been fixed for *gur* and *khandsari* so as to restrict the diversion of cane to their manufacture and sugar mills have been encouraged to expand production by being allowed to dispose of in the free market their surplus production over a ceiling. Government have also appointed a high-powered Development Committee on Industries to assist in devising ways and means for stepping up industrial production to the maximum of the installed capacity and to plan the future development of industries.

The House is well aware of the serious deterioration in the food situation caused by the widespread natural calamities that overtook the country last year. Their effect has been to increase the overall food deficit, with the result, that imports have had to be increased from the 1.5 million tons* estimated in the Budget to a little over 2 million tons. It has also not been possible to build up the small reserve of 2,00,000 tons contemplated in the Budget. For the coming year it is proposed to import 4 million tons of foodgrains and efforts are also being made to obtain an additional 2 million tons of wheat from the United States of America. Recently, the Grow More Food Plan has also been reoriented so as to concentrate efforts in selected areas with an assured water supply. Additional production will also be linked with procurement and greater emphasis laid on schemes of a permanent character like tube-wells and land reclamation. Although Government are doing everything possible to increase internal production and obtain the maximum quantity of foodgrains from abroad in the coming year the food position in the country is not likely to be easy.

For the first time since the recession in 1946, the capital market showed some signs of revival although the developments in the international situation during the later part of the year arrested this improvement. During the earlier months of the year, the gilt-edged market remained fairly steady and Government took the opportunity of floating a

* One ton is equal to 1,000 kg.

* 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.

cash-*cum*-conversion loan for Rs. 30 crore. The Governments of Bombay, Madras and Madhya Pradesh also took advantage of the improved position for floating small loans of their own. Since the middle of the year, however, prices in the securities market have receded and the market has remained stagnant. By contrast, the equities market during the larger part of the year under review has been steadier. In spite of the adverse effects of the shortage of raw materials like jute and cotton and the rise in the price of industrial raw materials after the outbreak of the Korean war, the expansion of exports and the increasing demand for our primary products resulting from the re-armament and stock piling programme of Western countries have, on the whole, had a steadying and encouraging effect on the market. But the fact remains that the flow of available capital in the market is still woefully short of the requirements of Government for implementing their large development programmes and for meeting the reasonable requirements of industry for expansion.

Balance of Payments

While the internal economic conditions have been a matter of continuous concern for Government, the position in regard to the balance of payments during the year under review has been more heartening. An improvement in the balance of payments began with the devaluation of the rupee in September 1949 and this improvement has been maintained; the process being assisted during recent months by the changes in the international situation following the outbreak of hostilities in Korea. Except for a short period during the second quarter of 1950, when a slight seasonal fall in exports and heavy payments for imports of raw cotton resulted in a small deficit, the overall position has been favourable since the last quarter of 1949.

It will be interesting to compare the balance of payments position during the twelve months following devaluation with the position in the corresponding period preceding it. Our exchange receipts during the year ending September 1950 amounted to Rs. 638 crore and our payments to Rs. 572 crore, showing a net surplus of Rs. 66 crore. For the year ending September 1949, our receipts were Rs. 517 crore and payments Rs. 766 crore resulting in a deficit of Rs. 249 crore. In the 12 months following devaluation, our exchange earnings have increased by 24 per cent while our payments have dropped by 25 per cent. The precise figures for the period after September 1950 are not yet available but it is clear from the rise in our Sterling balances, which at the end of January stood at Rs. 843 crore against Rs. 807 crore at the end of September that the balance is still moving in our favour.

This change in our balance of payments has been caused by several factors. Firstly, as the House will recall, even before devaluation Government had started taking special steps for stimulating exports, on the suggestion of the Export Promotion Committee. Secondly, the devaluation of the rupee in September 1949 raised the competitive capacity of our exports in terms of foreign currencies and the surplus balance of payment during the succeeding six months reflects this advantage. A further factor which has assisted in the expansion of our export trade in recent months is the improved prospect of international demand for commodities. Following the hostilities in Korea and the danger of their spreading into a world war, the United States of America, Canada and the countries of Western Europe are re-arming on a considerable scale and have begun the stock piling of essential raw materials. These have raised the demand for exports of our raw materials. Our export trade has also been assisted indirectly by these developments. The large purchases of primary commodities by the Western countries from the countries of the Middle-East and South and South-East Asia, have created in these regions a larger demand for consumer and manufactured goods, like cotton textiles, exported from this country. The effect of all these developments is reflected in the larger volume of our exports as well as the increased prices paid for them.

In view of the improvement in our export position, the restrictions on imports, which had been tightened in the middle of 1949, have been gradually relaxed to allow larger imports of essential commodities into the country. The monetary ceilings for the licensing of imports of raw materials as well as essential consumer goods like drugs and medicines were progressively increased during 1950 and a fresh Open General Licence was issued last August to widen the scope of imports. Changes have also been made in the licensing procedure to minimize delays in the issue of licences and to enable importers to make forward contracts under a system of advance licences. The improved foreign exchange position has also enabled us to make larger allocations for the purchase of foodgrains during the current half year.

While the position so far has been satisfactory, I must sound a note of warning in regard to certain trends which might make it difficult for us to maintain this favourable balance in payments over a long period. Firstly, even if the somewhat artificial demand for our primary products created by the fear of a possible war is maintained, as it may well be for some time, we may have difficulties in maintaining our present level of exports. Two of the major commodities exported from this country are jute goods and cotton textiles. Unless adequate supplies of raw jute are available to the jute mills the present level of exports may be difficult to maintain.

In the case of cotton textiles, the large increase in exports has already begun to affect supplies available for internal consumption. It has been found necessary to restrict the export of coarse and medium cloth; and even in respect of fine and super-fine cloth, the necessity for maintaining adequate supplies for internal consumption may in the future necessitate quantitative restrictions on exports. Secondly, there is bound to be a substantial increase in the volume and value of our imports due to the purchase of a larger quantity of foodgrains in the difficult food situation expected to persist during the next year and the rising prices abroad of industrial raw materials and manufactured goods. In the present rapidly changing world conditions it is difficult to make any reliable forecast but in taking a view of the future position these factors have to be borne in mind.

There is also one other fact to be remembered in this context. A continued favourable balance of payments brought about by a sudden and large demand for exports is not itself an unmixed blessing. The impact of the higher prices offered for the export commodities directly affects the internal prices both of these commodities as well as of others. From the point of view of avoiding inflation it is necessary to Intercept the large difference between the external and internal prices for the benefit of the exchequer. As the House is aware, increased export duties have been levied on raw cotton and jute and new duties imposed on cotton waste and wool in the course of the year to secure this end. The power to impose and raise export duties recently given by Parliament, together with the power to restrict imports will be used by Government to minimize the impact of high external prices on the internal economy of the country.

While I am on the subject of the country's foreign trade I should like to draw attention to the effect on the supply position of many imported raw materials and manufactured goods of the recent developments in the international situation. Many supplying countries have imposed restrictions on the export of these materials and the tight shipping position is also likely to aggravate the difficulties in getting supplies. It will be necessary to take steps to secure the maximum possible allocation of these materials and to ensure their economical and efficient use in this country. This, and the search for local substitutes to augment the smaller supplies that may be coming forward, are engaging the constant attention of Government.

One facet of our foreign exchange to which in recent years a considerable amount of attention has been paid is the dollar position. India, being a member of the sterling area, conforms to the general policy in respect of dollar imports and exports agreed upon for the sterling

area as a whole. At the Commonwealth Finance Ministers' Conference held in July 1949, it was decided, on the then position of the Central reserves, that members of the sterling area should take measures to reduce their dollar purchases to 75 per cent of their imports in 1948. These measures, as well as the devaluation of the sterling area currencies and the larger dollar area demand for sterling area products, reversed the earlier trends and led to a marked increase in the gold and dollar reserves, which were nearly doubled in 1950. India, with a dollar surplus of $79 million against a deficit of $69 million during 1949 made a substantial contribution to this increase. The position was reviewed at the meeting of the Commonwealth Finance Ministers last September. It was agreed that taking changes in the price levels into account the Central reserves were still very short of their pre-war level and that, in the rapidly changing pattern of trading conditions, it was still necessary to economise in the spending of dollars. It was, however, decided that there should be no quantitative limitations on dollar purchases but that each member country should endeavour to secure the maximum economy possible.

In our own case, economy in dollar expenditure has largely been made possible by the availability of goods outside the dollar area at competitive prices. This advantage seems to be gradually disappearing both for raw materials and for certain important manufactured goods. Moreover, our food requirements are now so large that a substantial portion has inevitably to be obtained from dollar countries. For these reasons, it is probable that our dollar position in 1951 will be less favourable than in the previous year.

Before I leave this subject of balance of payments I would like to refer briefly to our sterling balances. Hon. members will recall the statement I made in this House during the last session on this subject. A new agreement regarding future releases from the accumulated balances will be entered into with the United Kingdom Government, when the existing agreement terminates in June 1951. The broad outlines of this agreement have been agreed upon between the Governments of the two countries. The new agreement will provide for an annual release of £35 million during the six years 1951 to 1957, any additional releases which are likely to be emergent being a subject for special consultation with the United Kingdom Government. At the end of this period our sterling balances are likely to reach a figure which we may wish to maintain as normal foreign exchange and currency reserve. The conclusion of these arrangements may well be regarded as a mutually satisfactory solution of a problem on which so many controversies have raged in the past.

Hon. members will recall the loans which the Government of India have been negotiating with the International Bank for Reconstruction and Development for some of our development schemes. Since the presentation of the last Budget we have concluded another agreement for a loan of $18.5 million for the purchase of plant and machinery and the installation of a Thermal plant at Bokaro as part of the Damodar Valley scheme. This loan will carry interest at 4 per cent inclusive of the Bank's commission and will be repayable over a period of 20 years. So far we have obtained loans amounting to $62.5 million from the International Bank. Of these loans India has already drawn $34.8 million and the repayment in respect of the Railway loan has already commenced.

The picture of our external trade can hardly be complete without an account of our trade relations with Pakistan. The House is aware of the circumstances in which, following the non-devaluation of the Pakistan rupee when other members of the sterling area devalued their currencies in September 1949, trade between the two countries had come to a virtual standstill, and it is unnecessary for me to dilate on them. The effect of the non-devaluation of the Pakistan rupee was to cause an immediate increase in the price which importers in this country had to pay for Pakistani goods, of which the most important single item is raw jute. A rise in the price of raw jute, at a time when the jute mills were faced with difficulties in maintaining their markets against the competition of substitutes, was a matter of great concern to this country. If the prices in Pakistan had been allowed to fall to the appropriate levels under the normal action of the forces of supply and demand, it might have been possible for India to buy her raw jute and continuity of purchase by India need not have been broken.

India's willingness to buy Pakistani goods, if they were available at reasonable prices, was amply demonstrated by the Trade Agreement which was signed in April 1950. Under it Indian jute mills were to be supplied raw jute by Pakistan, to be paid for in Indian rupees at prices comparable to the prices of Indian raw jute. These rupees were available to Pakistan for the purchase in India of certain specified commodities like jute manufactures, cotton textiles, cement, timber, etc. According to the latest information available to us Pakistan supplied to India under this agreement raw jute worth Rs. 14.46 crore and has utilised the bulk of the sale proceeds in the purchase of jute and cotton manufactures and various other goods.

Besides the goods which were the subject of the self-balancing arrangement, there were certain other commodities mentioned in the

agreement, like cotton seeds, raw hides and skins, gram, betel-nuts, *biris*, fresh vegetables and fruits, etc. which could move freely between the two countries without any trade or exchange restrictions on either side. The total trade between April 1950 and September 1950, in this free sector amounted to Rs. 16.80 crore, imports being Rs. 10.70 crore and exports Rs. 6.10 crore.

The Trade Agreement negotiated last April expired in September and as, at that time, the fixation of the exchange rate of the Pakistan rupee was before the International Monetary Fund the question of entering into a fresh agreement was held over. Unfortunately, the International Monetary Fund postponed a decision on this issue with the result that trade between the two countries again came to a standstill, except for trade confined to a few perishable and essential commodities exported and imported freely by the two countries, finance for which is found in the free exchange market. As the question of the par value of the Pakistan rupee is still before the International Monetary Fund, I do not wish to say anything at this stage on this subject. But I am sure it will be agreed in both countries that the prevailing international situation re-emphasizes the inter-dependent nature of the economies of the two countries and that it is equally in the interest of both that the existing stalemate in trade is ended. As the Prime Minister mentioned in the House a few days ago we took the initiative in arranging for the resumption of trade talks between the two countries. These talks have resulted in a satisfactory agreement the terms of which I announced in the House last Monday.

FINANCIAL YEAR 1950-51

Revenue

I shall now pass on to a brief review of the revenue and expenditure in the current year and the estimated revenue and expenditure in the coming year.

The current year's Budget provided for a revenue of Rs. 338.59 crore and an expenditure of Rs. 337.88 crore leaving a surplus of Rs. 71 lakh. The revenue is now estimated at Rs. 387.21 crore and the expenditure at Rs. 379.28 crore, leaving a surplus of Rs. 7.93 crore. Allowing for the transactions of Vindhya Pradesh, amounting to Rs. 2.25 crore on each side, estimates of which, the House will remember, could not be included in the original Budget but were presented subsequently last April, the revised estimates show an increase of Rs. 48.62 crore in revenue and an increase of Rs. 41.40 crore in expenditure.

The increase in revenue is largely accounted for by the improvement in the receipts from Customs, which are now estimated at Rs. 145.31 crore against the budget estimate of Rs. 106.54 crore. This is partly due to an all-round increase in imports following the liberalization of import allocations in respect of certain articles and partly to the high yield from export duties consequent on the enhancement of the duty on jute manufactures and raw cotton and the levy of new duties on cotton waste and wool during the year. Income-tax receipts, at Rs. 166.75 crore, are at about the same level as in the original budget, the States' share also remain unchanged at Rs. 47.75 crore. The contribution from Railways this year will be Rs. 39 lakh more than the budget figure of Rs. 6.37 crore. There is, however, a drop of Rs. 2 crore in the receipts from Union Excises, mainly in the excise duty on cotton cloth due to a fall in production caused by the prolonged strike of textile workers in Bombay. Although the gross revenue from the Posts and Telegraphs Department is likely to show an improvement of Rs. 29 lakh over the Budget; this will be more than offset by increases in expenditure so that there will be a shortfall of Rs. 97 lakh in the contribution from the Posts and Telegraphs Department. Under other heads an increase of Rs. 12 crore is now expected, spread over a number of heads like currency, civil administration and opium, the bulk of which is of a non-recurring nature.

Expenditure

The reasons for the increases in expenditure have been explained in connection with the Supplementary Demands placed before the House earlier in the Session and it is necessary for me to draw attention only to the more important variations. Of the total increase of Rs. 41.40 crore, Defence Services account for Rs. 11.45 crore and Civil estimates for Rs. 29.95 crore. The bulk of the increase in Civil expenditure is due to additional requirements for the relief of displaced persons from East Pakistan and increased expenditure on food subsidies. The relief of displaced persons accounts for an increase of Rs. 7.67 crore, while subsidies on imported foodgrains, which were in much larger quantities than was estimated at the time the Budget was framed, account for a further Rs. 7.93 crore. The expenditure on the payment of bonus for procurement of foodgrains is also expected to show an increase of Rs. 3.84 crore while the supply of foodgrains in Delhi State is estimated to result in a loss of Rs. 2.30 crore. The rest of the increase of Rs. 8 crore is distributed over a number of items, among which I would mention Rs. 2.64 crore on pre-partition payments, which turned out to be higher than estimated mainly due to a larger carry over of Rs. 31 lakh on the preliminary expenses connected with the forthcoming elections,

Rs. 50 lakh on repairs to national highways damaged by floods and Rs. 60 lakh for grants to certain Part B States* consequent on the finalisation of their revenue-gap grants.

Financial Year 1951-52

For the coming year, at the existing level of taxation, I estimate the total revenue at Rs. 369.89 crore and the total expenditure at Rs. 375.43 crore leaving a deficit of Rs. 5.54 crore.

Revenue

On the revenue side, the receipts from Customs are placed at Rs. 141.29 crore, about Rs. 4 crore less than the revised estimate for the current year. The revenue under this head depends so much on the availability of foreign exchange and the developments in the international situation, which affect both supplies and shipping, that it is difficult, particularly in the present unsettled conditions, to make a precise estimate of the revenue in the coming year. The estimate is based on the assumption that there will be no serious shortage either in the availability of the goods which we import or in shipping and that, on the export side, we shall be able to maintain the present level of exports and the present level of our export duties. Union Excises are estimated at Rs. 71.63 crore and receipts of Income-tax have been placed at Rs. 157.05 crore against the current year's revised estimate of Rs. 166.80 crore. The fall in revenue under this head is largely due to the gradual disappearance of collections from the excess profits tax, business profits tax and the Central surcharge which are no longer in force, and also to a reduction in profits due to the strike in the textile industry this year. The divisible pool of income tax will amount to Rs. 88.96 crore of which the States' share will be Rs. 44.48 crore. In addition, a sum of Rs. 55 lakh is expected to be paid as their share of income tax to such of the Part B States as do not receive a grant-in-aid to cover the revenue-gap caused by federal financial integration. It is also proposed to add a sum of Rs. 2.50 crore to the share of the Part A–States for any possible arrears that may be due to them in respect of previous years, the accounts of

* Before the Constitution (7th Amendment) Act, 1956 was enacted, the Union of India consisted of States which were classified into four main categories: Parts A, B, C and D of the First Schedule. Thus, at the time of the commencement of the Constitution, the Union of India consisted of 10 Part A States, 8 Part B States, 9 Part C States and 1 Part D State.

The Constitution (7th Amendment) Act, 1956, abolished the three categories and placed all the States of the Union on the same footing as a result of reorganisation made by States Reorganization Act, 1956.

which remain to be finally closed. The contribution from Railways, as the House is already aware, will be Rs. 7.26 crore. The contribution from the Posts and Telegraphs Department is estimated at Rs. 2 crore. The revenue under other heads is estimated at Rs. 38.19 crore, the drop of Rs. 5 crore compared with the current year's revised estimates being largely due to the elimination of certain special non-recurring items included in the current year.

Expenditure

The total expenditure for next year is estimated at Rs. 375.43 crore of which Defence Services will account for Rs. 180.02 crore and civil expenditure for Rs. 195.41 crore.

Before I deal with the expenditure estimates I shall digress to explain briefly certain changes which are being made in the presentation of the demands to this House. In the first place, to enable hon. members to have more time for the consideration of the Budget, it has been decided to introduce the procedure for a vote on account so that it is not necessary to complete the voting of the Demands and the passing of the Budget by the end of the financial year. The House will be asked to vote a month's supply pending the detailed consideration of the Demands for Grants and the Finance Bill for both of which more time will be made available than in the past. Secondly, in accordance with certain suggestions made by the Estimates Committee, the grants have been arranged by Ministries, the details of the Demands have been added to each Demand instead of being relegated to a separate supplement and the descriptive material in the explanatory memorandum has been further amplified so as to make it more informative. Thirdly, grants to States for financing their development and grow more food schemes which are now charged to capital have been transferred to revenue. Similarly, certain items of Defence expenditure which are now debited to capital have also been transferred to revenue. I shall explain the reasons for these changes when dealing with the estimates concerned.

Defence Service

The expenditure on Defence Services next year is estimated at Rs. 180.02 crore against the revised estimate of Rs. 179.47 crore. In comparing the estimate for next year with the revised estimate for the current year the change in classification already mentioned must be taken into account. The House will remember that a capital head outside the revenue account was opened during the last war to accommodate certain

transactions, although in the special circumstances governing Defence expenditure, particularly in war time, no effort was made to allocate precisely the items which should be charged to capital as distinct from revenue. The House will appreciate that the rules of allocation, such as those based on productivity, which may regulate the matter on the civil side cannot apply to Defence and that the question of what should be treated as capital expenditure and what should be met out of revenue must be a matter kept open for review from time to time. In the Budget for 1948-49, it was decided that expenditure on the acquisition of land, the provision of accommodation and the acquisition of naval vessels and aircraft should be charged to capital. I have carefully reviewed the position and I feel that in present conditions it will be more appropriate to meet the expenditure on the acquisition of aircraft from revenue. Aircraft, with the relatively small working life they have, cannot possibly be put in the same category as lands, buildings or plant and machinery and I have decided that the cost of all aircraft purchased for Defence services should be debited to revenue instead of to capital.

Of the total expenditure of Rs. 180.02 crore next year, Rs. 130.69 crore will be spent on the Army, Rs. 9.31 crore on the Navy, Rs. 24.49 crore on the Air Force and Rs. 15.53 crore on non-effective services. Compared with the revised estimates for the current year it will be seen that the expenditure on the Army shows a decrease of Rs. 12.88 crore, which has been counter-balanced by increased expenditure on the Navy and the Air Force. The decrease in the Army expenditure is mainly due to the fact that the full effect of the reduction in the strength of the Army carried out this year will be reflected in the estimates for next year. It is also hoped to effect certain further reductions during that year. As regards the Navy and the Air Force, it must be remembered that these two services are in the process of being built up, and as has already been made clear in this House, the reduction in the Armed Forces relates solely to the Army and the expansion and development of the two other nascent services have to go forward. The increase in the estimates for the Air Force is also partly due to the change in classification mentioned earlier.

Before I pass on to deal with the civil estimates I should like to refer to the Reorganisation of the former Indian States' forces and the problem of economy in Defence expenditure. Good progress has been made in the reorganisation of the States' forces and simultaneously with the reorganisation the strength of these forces has been reduced to fit in with the defence requirements of the country as a whole. It has also been decided that the terms and conditions of service of the personnel of these forces should be the same as in the rest of the Indian Army with effect from 1 April 1951.

The problem of securing economies in Defence expenditure has to be considered in the context of the requirements for the security of the country and the maintenance of the efficiency of the services. While these considerations should be given due weight, I am sure, the House will agree that considering the size of defence expenditure, which accounts for about half the revenues of the Central Government, it is of the utmost importance that all avenues for effective economy should be explored without affecting the efficiency of the services. This problem has been kept under constant review and with the cooperation of my colleague, the Minister for Defence, various economy measures, such as the reduction in the scales of issue, better conservation of stores and equipment have already been or are being given effect to.

In addition to the provision of Rs. 180.02 crore in the revenue budget a provision of Rs. 14.97 crore has been included for Defence in the capital budget. This expenditure will be mostly incurred on work projects for the three services and for the purchase of plant and machinery for the manufacturing establishments.

Civil Expenditure

Civil expenditure next year is estimated at Rs. 195.41 crore compared with the current year's revised estimate of Rs. 199.81 crore. The actual reduction is somewhat larger as expenditure on the payment of grants to States for the Grow More Food and development schemes which used to be charged to capital has been provided in the revenue budget next year. The decision to charge the grants for development to capital was taken in the immediate post-war period largely as a matter of budgetary convenience in the context of the heavy deficits on revenue account in the post-war years. Grants for Grow More Food are for short-term schemes which do not result in the creation of any permanent assets while grants for other schemes of development do not create for the Centre any durable assets. There is, therefore, very little justification for charging any portion of these grants to capital and on a careful review of the whole position I have decided that they should more appropriately be met from revenue. Excluding the amount of Rs. 8.31 crore, thus, transferred to the revenue budget, the reduction in the expenditure next year as compared with the current year amounts to Rs. 12.71 crore. This decrease is almost wholly accounted for by a reduction in the expenditure on food subsidies and bonus on procurement. The expenditure on these next year, in accordance with the food and procurement policy recently announced, is estimated at Rs. 25.32 crore against Rs. 35.07 crore this year, which includes Rs. 2.30 crore on account of the supply of foodgrains at concessional rates in the Delhi State. The variations under other heads,

which are explained in detail in the Explanatory Memorandum more or less cancel out and I do not propose to weary the House by repeating them here. Expenditure on the relief of displaced persons next year is expected to be Rs. 3.81 crore less than this year while there will be a drop of Rs. 1.89 crore in the provision for pre-partition payments. These savings will, however, be more than counterbalanced by normal increases under other heads. The Budget also includes a provision of Rs. 1 crore for additional grants to States for the welfare of the scheduled tribes and the development of scheduled areas and Rs. 1 crore for possible grants to such of them as have suffered from natural calamities like floods and earthquake this year.

The civil expenditure, which I have just mentioned, takes credit for economies amounting to Rs. 5.53 crore. It has not been possible to take the entire amount of this reduction under the respective heads as final decisions in respect of many of the proposed economy measures had not been arrived at when the Budget was being prepared. For purposes of completing the estimates, therefore, I have taken a lump reduction of Rs. 5 crore under miscellaneous expenditure. It is my intention, before the demands for grants are finally presented to the House in April, to distribute this provision over the respective heads.

In this connection, the House will be interested to know that the total reduction which could have been possible if the recommendations of the Economy Committee had been implemented *in toto* is of the order of Rs. 4.50 crore. The reduction of even Rs. 5.50 crore in civil expenditure envisaged in the Budget may not at first sight appear substantial, but I must remind the House of the somewhat limited scope available for the contraction of expenditure. Of the gross expenditure of Rs. 200.41 crore provided in the Budget, nearly a third, or Rs. 63 crore, is in respect of obligatory expenditure like Interest and debt redemption, pensions, fixed grants to States and pre-partition payments. Expenditure on Grow More Food, good subsidies and bonus and relief of displaced persons account for another Rs. 40 crore, which is not capable of further reductions. There are certain self-balancing items such as payments of certain cesses to specific funds and transfer to the road fund which account for another Rs. 5 crore. This leaves about Rs. 92 crore to which the axe could be applied. Even here, there is a substantial amount of expenditure on nation-building activities, tax collection and so on which cannot be materially reduced without affecting the revenue or the development of the country. In taking a view of possible economies the House must also remember that as a result of the integration of the former Princely States considerable, but more or less, backward areas have been brought under direct Central administration and the provision in the Budget for these

areas, where so much still remains to be done for raising the standards of administration, cannot be reduced. In judging the results of the campaign for economy, I am sure, the House will bear these facts in mind. But I can give the assurance that the quest for economy will be continued throughout the year.

Income-Tax Investigation Commission

I should like at this stage to digress and give an account of the work of the Income-tax Investigation Commission. As hon. members are aware, the report of the Commission on the adequacy of the existing income-tax law to prevent tax evasion and the steps necessary to remove existing defects has been under consideration for some time. A bill embodying the accepted recommendations was to have been submitted to Parliament in the last budget session but such a comprehensive measure required some time to prepare and could be introduced only in the current session.

During the year under review, the Commission have made further progress in the investigation of individual cases referred to them. Out of a total number of 1,390 cases referred to them they have disposed of 337 cases, including those settled by agreement. On the cases so far disposed by them a sum of nearly Rs. 6.50 crore is likely to be recoverable while the actual recoveries amount to Rs. 90 lakh. Recoveries have lagged behind assessment because in many cases extensions of time have had to be given by the Commission, taking into account the assessee's present capacity to pay what in effect is the tax demand of several years. The cases still pending with the Commission are at various stages of investigation. It is, therefore, impossible to give an idea of the time it would take for the completion of the work. The term of office of the Commission is due to expire at the end of March 1951 but in view of the large volume of work still remaining to be done steps are being taken to get their term extended.

Capital Expenditure

The current year's Budget provided for a capital expenditure of Rs. 62 crore and Rs. 34.80 crore for loans to the State Governments to meet their capital requirements and for rehabilitation of displaced persons. Capital expenditure this year is now estimated at Rs. 83 crore while loans to State Governments will amount to Rs. 67 crore. Details of the capital expenditure are given in the Explanatory Memorandum and I shall content myself with mentioning only the more important reasons for the increase. As part of the policy of curtailing expenditure to the maximum extent possible the provision in the current year's Budget was severely

pruned and the actual requirements for Railways and irrigation schemes proved heavier. An unforeseen payment of Rs. 2.62 crore had also to be made to Pakistan, in accordance with the partition arrangements, in connection with the payment for her subscriptions to the International Monetary Fund and World Bank, as India retained the entire subscription paid by undivided India before the partition. Defence capital outlay is also expected to cost about Rs. 3.50 crore more than was originally estimated. The large increase in advances to State Governments is mainly due to an increase in the loans for the rehabilitation of displaced persons which are now estimated at Rs. 15.85 crore against the original estimate of Rs. 8.35 crore and loans for Grow More Food schemes which, at Rs. 12.86 crore involve an excess of over Rs. 10.75 crore over the original Budget. Additional loans had also to be given to the States for the river valley projects and for certain important irrigation and hydro-electric schemes in some of the Part B States.

For next year, a total provision of Rs. 77 crore has been made for capital outlay and Rs. 62.62 crore for loans to States. Among the important items included in the former, I would mention Rs. 19.62 crore for Railways, Rs. 5.45 crore for Posts and Telegraphs, Rs. 10.56 crore for industrial development on such items as the Fertilizer Factory at Sindri, the Machine Tool Factory at Bangalore and investment in Ship building and the manufacture of dry core cables. Defence capital outlay, as mentioned elsewhere, is estimated to cost Rs. 14.97 crore, while schemes of State trading will involve a net outlay of Rs. 13.68 crore, which will be recovered in subsequent years. The provision in the loans budget includes Rs. 27 crore for loans to States for the river valley schemes, Rs. 7.50 crore for loan for other productive purposes, Rs. 1.68 crore for industrial housing, Rs. 16 crore for rehabilitation and Rs. 8 crore for Grow More Food schemes. A lump sum provision of Rs. 1.50 crore has also been included for possible loans to those States which have recently suffered from natural calamities like floods and earthquakes.

Before I go on to consider the ways and means position, I should like to mention briefly the work of the Planning Commission. The Commission have been engaged for some time in a close study of the problems of planning and development in the country and their report is likely to be received by Government by about the end of May 1951, after they have completed their consultations with the State Governments and others. An underdeveloped economy like ours is inevitably one with a low volume of savings which can be devoted to productive investment. Even this small margin has been affected as a result of the strains and stresses of the war and post-war years and the shifts in the distribution of income within the community. The resulting dearth of resources calls

for a degree of national effort which makes planning and the fixation of priorities a vital necessity if even the meagre resources available are not to be frittered away. In recent years, there has perhaps been a tendency to identify planning with large scale expenditure out of past savings. But the real problem is to increase the current flow of saving through a concerted effort by the present generation so as to make available, without a violent disturbance of the country's economy which the unregulated release of accumulated savings will involve, resources for productive investment and for financing social services. Without in any way anticipating the findings of the Commission it may be hoped that as a result of their examination of the problem, they would advise Government of the lines on which national effort should be mobilized, the levels to which the Centre and the States should endeavour during the next few years to raise their financial resources and the targets which the country should try to achieve through intensive development.

This leads me to a mention of the discussions which Government have been having with the United States Government for participation in President Truman's Point Four Programme and with Commonwealth countries in connection with what is generally known as the Colombo Plan. Hon. members are aware of the agreement which has been signed between this country and the United States under President Truman's Point Four Programme, the significance of which to the technological progress of the country is likely to be far greater than what its monetary dimensions indicate. In connection with the Colombo Plan, we have drawn up a statement of our essential requirements in the next six years involving a total outlay of Rs. 1,800 crore. The problem of raising the living standards of the vast underdeveloped and, till recently, exploited regions of South-East Asia is one which is unlikely to be solved by the resources available to the countries of that area. Finance from abroad, and that on a substantial scale, has to be forthcoming if this problem is to be tackled adequately. There is an increasing recognition by the more fortunately placed countries of the West and the Western hemisphere that their help in this urgent task is necessary and that the raising of the living standards of these backward areas is vital for the peace and stability of the world. While it is obviously in our own interest to help ourselves to the maximum extent possible by mobilizing our own resources, I trust that outside assistance, on terms acceptable to us, will be available in the near future in undertaking this great task.

I shall now turn to a consideration of the ways and means position. The current year's Budget included Rs. 75 crore from market borrowings and Rs. 28 crore from small savings. In addition, credit was also taken for a possible sale of Rs. 10 crore from securities held in the cash

balance investment account. In June 1950, a cash-cum-conversion loan was floated, cash subscriptions to which amounted to Rs. 7.50 crore and conversions to Rs. 22.75 crore. In addition to the public loan, sales of securities from the cash balance investment account have amounted to Rs. 23 crore while the net receipts from small savings are now placed at Rs. 31 crore showing an improvement of Rs. 3 crore over the budget. The total borrowings have, however, still fallen below the estimate by Rs. 29 crore. This has been mainly due to the fact that the recovery in the capital market has not been as good as was once expected and that the promise of increased demand for investment of the earlier period has not been maintained. For next year, I have taken credit of Rs. 100 crore for new loans and a net credit of Rs. 43 crore from small savings. Government have the option of repaying the 3 per cent loan 1951–54, with an outstanding balance of Rs. 87 crore next year and provision has been made for this repayment.

There has been a welcome, though slight improvement in the position regarding small savings this year. With the shift in the distribution of the national income in recent years that most competent observers have noticed, the mobilization of small savings, particularly in the rural areas, has assumed special importance and has been engaging the constant attention of Government. Among measures taken for stimulating additional savings may be mentioned the revival of the system of authorized agents in three States as an experimental measure. In rural areas it is also proposed to avail of the assistance of Branch Sub-Postmasters in this task. Recently, a Treasury Savings Deposits Scheme, which combines the attractive yield on National Savings Certificates with the advantage of an annual income, has been introduced and the results, in the short time it has been in operation, are encouraging. The question of widening the pattern of investment for the small saver is constantly under examination. Social and political changes have occurred in the country which involve more restricted opportunities for certain classes who in the past have been large supporters of the investment market. Their contribution has to be replaced from the savings of those who benefit from these changes. The importance of mobilizing the small savings cannot, therefore, be over emphasized. This is a task which requires the cooperation of all sections of the community both rural and urban, agricultural and industrial. We cannot depend purely on casual sales of savings or deposit certificates. We must develop a wide network of savings groups in the towns and in the countryside for a continuous mobilization of small amounts. In this connection, may I mention that the successful working of savings groups in industrial undertakings should not be regarded as a relevant consideration in dealing with disputes regarding the level of wages.

Before I pass on to the Budget proposals I may summarize the position. The revised estimates for the current year show a surplus of Rs. 7.93 crore while the deficit on capital account will amount to Rs. 67 crore. For next year, on the existing basis of taxation, the revenue account is expected to show a deficit of Rs. 5.54 crore while the deficit on capital account will amount to Rs. 78 crore. The total deficit in the current year will be met from the opening balance of Rs. 149 crore which will be reduced to Rs. 95 crore at the end of the year. On the estimates that I have explained so far, I am left with the problem of not merely covering the estimated revenue deficit of Rs. 5.54 crore but also of covering, as far as possible, the more substantial deficit on capital account, while closing the Budget year with an adequate closing balance.

It may assist the House if I explain briefly the various considerations which I have taken into account in formulating the proposals which I shall place before it. In dealing with the substantial deficit on both capital and revenue account in the coming year I have had to keep in mind two requirements. Firstly, additional resources have to be raised for leaving Government with a sufficient closing balance at the end of the Budget year. Secondly, the deficit has to be covered to the largest possible extent so as to avoid the generation of further inflation.

At a time when inflationary conditions exist it must be the aim of Government to adjust the money supply to the available supply of goods and services by drawing off as much as possible of the purchasing power in the hands of the community, either by taxation or by borrowing, the exact proportion between the two being determined with reference to the prevailing circumstances. In other words, Government ought to aim at a surplus budget, taking the revenue and capital budget together. Conversely, at a time of deflation the effect on the community of the fall in the purchasing power should be mitigated by Government increasing the money supply by increasing public expenditure. The effect of a budgetary deficit on the economic life of the country is precisely the same whether it is a deficit on revenue account or a deficit on capital account. Such a deficit, other things remaining equal, increases the available money supply in the hands of the community and at a time of inflation adds to the inflationary spiral. The effect is in no way altered even if the deficit in a particular year is met from the accumulated balances of the past.

In the light of what I have said just now, I am sure the House will agree with me that the substantial deficit of Rs. 83 crore in the Budget next year cannot be left wholly uncovered. This will reduce the cash balance of Government at the end of the budget year to Rs. 12 crore

which will be wholly inadequate, considering the present magnitude of Government transactions. A safe closing balance for Government should, in my view, be something of the order of Rs. 50 crore. This, in a sense, sets the minimum limit to the amount of fresh resources that will have to be raised next year to achieve a satisfactory cash position. Any further addition to our resources will be welcome, if it could be obtained.

After a careful consideration of the problem in all its aspects I have come to the conclusion that something like half this deficit should be met by raising additional resources and the balance met from the accumulated cash balances of Government.

The House may well ask if this deficit could not have been avoided either by economies or by the postponement of capital expenditure. I have explained at some length, while dealing with the expenditure estimates, the steps taken to secure economies in public expenditure. While this quest for economy will be rigorously pursued, it will be unrealistic to expect that this will release any appreciable amount for financing the capital budget. The capital budget itself has been so carefully pruned that it now provides only for essential schemes of capital outlay and development, which cannot be further curtailed without affecting the country's development, and for the requirements connected with the rehabilitation of displaced persons. Even within the accepted provision for capital expenditure, which in the case of most spending Ministries and State Governments represents a very substantial reduction on their demands, it is my intention to suggest the enforcement of economies in spending by the adoption of austerity standards in regard to construction, scale of accommodation and so on. While all these efforts may yield some results, it is unlikely that they will bridge to a substantial extent the deficit on capital account next year.

This brings me to the important problem of distributing the additional burden in the coming year between taxation and borrowing. So far as borrowing is concerned, the House is well aware of the difficult conditions prevailing in the capital market. In my estimates for the coming year I have taken credit for a total borrowing of a little over Rs. 140 crore taking small savings and market borrowings together. While I am satisfied that this is not in any way over optimistic, there is little scope, unless there is a very marked improvement in the position, for bettering on these estimates. I am, therefore, left with no alternative but to turn to the taxpayer for helping me out. In doing so I am not unaware of the present level of the tax burden but in an emergency like this I am sure that some additional burden will be borne cheerfully in the wider interest of the country. In laying the taxpayer under further contribution, the House

may rest assured that I have made every effort to see that the additional burdens are spread as widely and as equitably as possible.

New and Additional Taxation

In the field of direct taxation, my first proposal is to raise the rate of Corporation tax by a quarter of an anna*, from two-and-a-half annas to two-and-three-quarter annas. Since 1922, it has always been the practice to fix the rate of Company super-tax at the lowest rate of super-tax applicable to an individual. This was departed from twice in recent years, once in the Finance Act of 1946 and again in the Finance Act of last year. I consider that it is not inappropriate at the present juncture to do something towards re-establishing the conventional parity between the two rates. This proposal is estimated to yield an additional revenue of Rs. 2.25 crore.

My second proposal is to levy, exclusively for the purposes of the Centre, a small surcharge of 5 per cent on all income-tax and super-tax rates, excluding Corporation tax with which I have already dealt. The present situation calls for a measure of sacrifice from everyone according to his means and this surcharge will not be an onerous burden on anyone. On a person with an income of Rs. 5,000 a year, this will mean no more than 8 annas a month. It will amount to Rs. 3 a month on a person with an income of Rs. 12,000 a year and Rs. 12 a month on a person with an income of Rs. 24,000. I am sure the House will agree that this burden cannot be considered excessive. The additional revenue from this surcharge which, as I mentioned, will accrue in its entirety to the Centre, is estimated at Rs. 6 crore.

Before I leave the subject of income-tax, I should like to mention a minor adjustment that is being made in respect of the rebate of super-tax given to Life Insurance Companies. The Income-tax Investigation Commission have suggested that the rebate of super-tax hitherto given to Life Insurance Companies was not justified in respect of that portion of the profits of the business which went into the pockets of the shareholders and did not accrue to the benefit of the policy-holders. Government have accepted the Commission's recommendation and the rebate is proposed to be reduced from 2 annas to 1.50 annas. The effect of this on the revenue will be negligible and I have taken no credit in the Budget for this.

* 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 *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.

Turning to indirect taxes I shall first deal with changes in the Customs duties. My first proposal is to levy an enhanced surcharge of 5 per cent on all items in the import schedule except such of them as are governed by specific agreements under the General Agreement Relating to Trade and Tariffs. In other words, the proposal is that for any item for which the existing surcharge is, say, twenty per cent the new rate should be 25 per cent. Articles at present exempt from surcharge will pay a surcharge of 5 per cent. The yield from this is estimated to be Rs. 2 crore.

My next proposal is to increase the present surcharge of 100 per cent on ale, beer, spirits, and other fermented liquor by 50 per cent. The yield from this is estimated at Rs. 40 lakh.

My third proposal is to rationalize the incidence of import duties on mineral oils other than motor spirit and kerosene. The existing duties on these oils will be raised alternatively to a maximum of 20 per cent of their value, wherever it is higher. The additional yield from this is estimated at Rs. 60 lakh.

In the field of export duties I propose to make two changes. I propose to levy a duty of Rs. 80 per ton on groundnut kernel. The price of groundnut kernel has gone up considerably in recent months on account of the increase in demand and this duty will be in consonance with the policy of appropriating to the Exchequer the large difference between the external and internal prices. I also propose to revive the export duty on cotton cloth, which was withdrawn in 1949, but confine it to coarse and medium cloth only, excluding furnishing fabrics and manufactures like hosiery, apparel, towels, etc. The cloth covered by this duty is made mostly from Indian cotton and enjoys a price advantage which would justify the imposition of a moderate export duty, which I suggest should be 10 per cent *ad valorem.* The yield from export duty on groundnut is estimated at Rs. 1.50 crore and that from the export duty on cotton cloth at Rs. 2.50 crore. Certain readjustments in the application of concessional assessments to existing export duties on cotton waste and black pepper will also be made by executive orders, yielding Rs. 1 crore and Rs. 75 lakh respectively.

I now turn to Union Excises. Here my first proposal is to increase the present excise duties on motor spirit and kerosene by 5 per cent so as to equalize the duties of Customs and Excise. This change is consequential to the general surcharge of 5 per cent on import duties which I have mentioned earlier. The additional revenue from this is estimated at Rs. 15 lakh.

My next proposal is to make certain changes in the excise duties on tobacco. The rationalization of tobacco excises has, as the House is aware, been under the consideration of Government for some time. The

existing system of taxing tobacco on the basis of its intended use has not only been criticized as being contrary to the normal principle that an article should be taxed according to its specific character but has also proved cumbersome and difficult, both to the administration and to the trade. A widespread scheme of departmental restrictions designed to guard against the evasion of taxation by the diversion, after clearance, of tobacco, capable of multi-purpose use, from a low-rated use to a high-rated use has had to be imposed. These have been difficult to administer and have also created some amount of justifiable discontent in the trade.

The scheme of rationalization now proposed has two main features. It makes the minimum changes necessary in the taxation of tobacco which goes into the manufacture of cigarettes. In respect of other categories of tobacco, the present basis of taxation with reference to intended use will be abandoned and the duty will be levied as a leaf duty at flat rates, separately for flue-cured and for other tobacco. The rationalisation also provides for the levy of a further duty on certain tobacco manufactures like *biris* and snuff. The leaf duty on flue-cured tobacco, except tobacco used in the manufacture of cigarettes, will in future be Re. 1 per lb. while other tobacco will pay a duty at 8 annas per lb. Flue-cured tobacco used in the manufacture of cigarettes will continue to pay duty at the existing rate while other tobacco used for the manufacture of cigarettes will pay the flat rate of leaf duty of 8 annas. The existing concessions for stalk and tobacco used for agricultural purposes will continue. The manufacture duty on cigarettes, whether made out of flue-cured tobacco or other tobacco, will, subject to certain minor tariff alterations due to the imposition of the flat rate of leaf duty, continue as at present. Pipe-tobacco will pay a rate of Rs. 6-8-0 per lb. *Biris* and snuff will pay in addition to the leaf duty of 8 annas, as against 12 annas at present, an additional manufacture duty averaging 8 annas per lb. on their tobacco content.

I have carefully considered the effect of the proposed changes on the consuming public. Flue-cured tobacco is not generally used for chewing or *hookka* purposes and over most of this field the additional burden would amount to only 4 annas a pound* over the present rate of 4 annas a lb. This duty has, no doubt, been doubled but considering the low per capita consumption of tobacco in this form, the additional burden is likely to be insignificant. In the case of snuff and *biris* also, flue-cured tobacco is hardly ever used and the consumer will get the benefit of a reduction of 4 annas per lb. in the present tax of 12 annas a lb. which he is now paying. This loss of revenue has to be made up and it is in

* One pound is equal to 453.6 grams.

the context of the need for additional revenue and the desirability of making every section of consumers contribute their share of additional revenue, that the small manufacture duty on snuff and *biris* is justified. The manufacture duty on snuff will be at 8 annas per lb. For *biris* a graded manufacture duty will be levied at 9 annas a thousand, for *biris* containing more than three-quarters of a lb. of tobacco per 1,000 and 6 annas a 1,000 for *biris* containing three-quarters of a lb. of tobacco or less. At the existing rate of taxation an average *biri* smoker is probably paying a duty of Rs. 6 a year. Under the new proposals he would pay about Rs. 8 a year. Compared to what the smoker of even the cheapest variety of cigarettes has to pay, I do not think that this places an undue burden on him.

I mentioned earlier that the rates duty on tobacco used for cigarettes will mostly remain unchanged. But, while we are raising the rates of tax-paid by the other sections of tobacco consumers, it is hardly fair to leave the cigarette consumer untouched. I, therefore, propose to levy a small surcharge of a quarter of an anna per 10 cigarettes the retail price of which is more than 2 annas per ten and half-an-anna per 10 cigarettes the retail price of which is more than 5.50 annas per ten.

The total additional revenue from the changes in the tobacco tariff which I have just mentioned is estimated at Rs. 13 crore.

Before I conclude the taxation proposals I may mention a proposal which has only a limited interest, as it affects only the Delhi State. Hon. members are aware that the question of levying a sales tax in Delhi has been under consideration for some time. The neighbouring States of Punjab and Uttar Pradesh have sales taxes and there have been complaints that the existence of a tax-free zone in Delhi results in a diversion of trade from these States to Delhi to the detriment of their revenues, without any corresponding benefit to the Centre. The Centre has been advising the various State Governments to exploit sales taxes for augmenting their resources and there is no reason why the Centre should not introduce it in Delhi in the present financial stringency which has underlined the need for exploring all available means of raising additional money. Government have accordingly decided to introduce a sales tax in Delhi. This will be done by applying with suitable modifications, the law of one of the Part A States. The tax will be a moderate single point tax. The details are being worked out but in the meanwhile I have taken a credit of Rs. 1 crore on this account for the coming year.

Net Results of Proposals

I may now summarize the net effect of the proposals which have been placed before the House. The additional revenue from the changes in Income-tax is estimated at Rs. 8.25 crore and that from changes in Customs and Central Excise duties to Rs. 8.75 crore and Rs. 13.15 crore respectively. The sales tax in Delhi is estimated to yield Rs. 1 crore. The total additional revenue is thus estimated at Rs. 31.15 crore. This will convert the revenue deficit of Rs. 5.54 crore into a surplus of Rs. 25.61 crore and reduce the overall budget deficit to Rs. 52.37 crore. This remaining deficit will be met from the opening balance of Rs. 95.42 crore leaving a closing balance of Rs. 43.05 crore at the end of the year.

Conclusion

I have now come to the end of my story. I wish it had been possible for me to present a Budget without imposing the additional burdens I have been compelled to suggest. But the financial difficulties through which the country is passing make it imperative that sacrifices should be made to enable Government to meet the heavy demands on them without impairing the economic health of the country. I know that there will be some criticism that the entire burden next year has been thrown on the tax-payer and that in distributing this burden the direct tax-payer has been let off more lightly than the indirect tax-payer. So far as laying the entire burden on the tax-payer is concerned, I have already explained how it is not possible to raise additional money by borrowing over of the amount for which I have taken credit in the Budget. Apart from the effects of recent political and economic changes on the capital market, we still seem to be in a state of transition so far as the effect of the shifts in income, to which I have already referred, on the capital market is concerned. As regards the second criticism, I would point out that, in a relatively poor country like ours, the scope for raising money by direct taxation is somewhat limited and a fair amount of the tax burden has necessarily to be laid on the community by means of indirect taxes. For a population of over 35 crore the number of people who pay Income-tax in this country is probably something like 6 to 7 lakh. It will not, therefore, be correct to say that the raising of additional taxation by the enhancement of indirect taxes is inequitable. But in suggesting increases in indirect taxation I have confined them as far as possible to either luxury or near luxury items. It is, nevertheless, true that the net of taxation has been cast fairly wide but I am sure the House will agree with me that in the burden of building up the new India every section of the community should take its legitimate share.

Before I conclude, I should like to say a few words about a charge that has frequently been made that by drawing upon the accumulated balances in recent years Government have added to the inflationary pressure. If it is suggested that Government have been drawing on these balances and putting the money in circulation inside the country, I think this is wholly wrong. We started with an opening balance of about Rs. 270 crore after the partition and at the end of the current year the balance would have dropped to Rs. 95 crore. Thus, in a period of three-and-a-half years, our balances would have been materially assisted. But during this period, Government's net overseas expenditure, mainly on the purchase of foodgrains, stores, equipment, etc., will amount to a little over Rs. 400 crore. Thus, taking Government expenditure by itself, this running down of the balances cannot be said to have generated fresh inflation. But if the suggestion is that the disinflationary trends would have been run down by Rs. 175 crore Government had raised all the finance they required currently, without drawing on the balances, my answer to it is that it ignores the realities of the situation. While a Government is, in a sense, the creator of economic conditions by its policies, it is, very often, also the creature of circumstances beyond its control. No government, much less a popular government, faced with the multitudinous problems with which this Government has been faced by the partition of the country and its aftermath, could have sat back and refused to incur expenditure necessary for the security of the country, the relief of displaced persons, the grant of food subsidies to keep prices from rising or the progress of essential schemes vital to the country's welfare and development. While there may be legitimate criticism of some item of expenditure or the other I think it will, on the whole, be correct to say that the bulk of this money has been spent on useful or unavoidable items.

Sir, it is, I believe, the usual custom to end the budget speech with a review of the general financial position of the country but I do not propose to do so. In the rapidly changing conditions all over the world he will indeed be rash man who can hazard a guess as to the future. But I have little doubt myself about the inherent strength of our financial position and I have every confidence in the ability of our people to sustain and support the Government in whatever measures may be necessary to maintain the finances of the country in a sound position. It is in this hope and in this faith that I have made the substantial demands which this Budget makes on the tax-payer. I have been greatly heartened in this task by a recent communication which I have received from an ordinary villager who is neither in business nor in service, which I would venture to mention to the House. It is from one who at present pays no tax to any authority, Central, State or local. He says that he has a

burning desire to help the Government of India in some way or the other. He has remitted a sum of five rupees to me and has promised to remit a similar sum every year. It is not the small amount that he has offered but the spirit behind the offer that matters and, so long as the common run of our people can produce men and women with this spirit, this country can face the future, however difficult it may be, with confidence.

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