

**SPEECH OF
SHRI T.T. KRISHNAMACHARI,
MINISTER OF FINANCE,
INTRODUCING THE BUDGET FOR THE YEAR 1957-58***

Highlights

- *Arrangements for Import of Foodgrains to ensure adequate Supplies*
- *Development of Ambar Charkha*
- *Proposal to Constitute a Refinance Corporation*
- *Setting up of the Export Risk Insurance Corporation*
- *Small Savings Movement Intensified*
- *Recommendations of Tobacco Expert Committee to be Implemented*
- *Introduction of Wealth Tax*
- *Introduction of a Tax on Expenditure*
- *Creation of a Food Subsidy Fund*

Mr. Speaker, Sir, in March last I presented to the predecessor of this House an interim Budget for the year 1957-58 in order to obtain a vote on account to meet Government's expenditure until this House assembled. The expenditure estimates I am presenting today are more or less the same as the ones I presented in March. They have, however, been reclassified in terms of the reorganized Ministries, and there are a few new items to which I shall refer in the course of my speech. A White Paper reviewing the major economic developments in the economy during 1956 and outlining the perspective against which policies for the current year have to be formulated was circulated along with the Budget papers in March last. Copies of that White Paper are being made available to hon. members. The broad analysis of economic trends given in the White Paper needs little modification in the light of subsequent data. I shall,

* *Lok Sabha Debate*, 15.5.1957, cc. 464-505.

however, review briefly that latest available economic indicators and prospective trends.

Price

Before I do so, I would like to say that the economic classification of the Budget as it is now being presented will be issued in 2 or 3 days time. We attempted this reclassification for the first time in March last, and we propose to continue the practice. But, the document will have to be released after a time interval, which would be short, needed for working into the tables the proposals I am now placing before the House today.

The White Paper of March last gave an analysis of the factors responsible for the upward pressure on prices during 1956. In recent months, the index of wholesale prices has remained stable more or less round about 420. For the week ending 27 April it was 423.50, which is a rise of 8.50 per cent over the level a year ago. Rice prices are now at 633 or thereabout and wheat prices round about 580 they are 14.10 per cent and 16.40 per cent respectively above the level that obtained a year ago. Prices of industrial raw materials have risen by 9 per cent during the year, of semi-manufactures by 5.30 per cent and of manufactures by 2.40 per cent. The rising price trend is due in part to the insufficiency of food production in relation to the demand, and in part it is attributable to certain external factors. There are, however, clear signs of demands in the economy tending to outstrip the supplies available. If unchecked, these trends cannot but get reflected in further increases in the cost of living and in the cost structure of industries.

Production

The latest available estimates of agricultural production about which an indication was given by my hon. colleague, the Food and Agriculture Minister, that the fall in production in 1955-56 was somewhat smaller than what was estimated earlier. The output of rice is now estimated at 26.80 million tons as compared to the earlier estimates of 25.50 million tons, and the estimate for the total foodgrains output for the year has now been revised upwards from 63.40 million tons to 64.80 million tons. Even so, the year shows a shortfall of some 4 million tons as compared to 1953-54 and some 2 million tons as compared to 1954-55. The decline in foodgrains output in 1955-56 as indicated by my hon. colleague yesterday, was mainly in respect of coarse grains, while the output of rice was higher and that of wheat only slightly lower than in the previous year.

The output of commercial crops shows no significant change relatively to the estimates given in the White Paper issued in March. The overall index of agricultural production, taking food crops and commercial crops together, would still show a fall of about 2 per cent in 1955-56 as compared to 1954-55.

The estimates of the likely level of agricultural production in 1956-57 indicate that the out turn should, on the whole, be somewhat better than the previous year's. The production of rice is expected to be around 28 million tons, that is, about 1.20 million tons better than in 1955-56, and of wheat about 8.60 million tons as compared to 8.30 million ton in 1955-56. The output of coarse grains and pulses is estimated at about the same level as in 1955-56. Among commercial crops, latest reports indicate that the production of cotton has increased by 20 per cent, groundnut by 6 per cent and sugarcane by about 17 per cent. Nevertheless, reports on the food situation again as was indicated by my colleague yesterday in recent weeks indicate very difficult conditions in certain States. I would not like to minimize the gravity of the situation as it obtains in these pockets. But statistically, it does seem that if at all there is an overall shortage, it is of a marginal character. With the arrangements that have been made for the import of foodgrains from abroad to meet our normal needs and with the availability of additional supplies under the P.L. 480 Agreement, it should be possible to ensure adequate supplies to enable us at least to hold the price line. I would, however, concede that the situation will need careful watching and the apparatus necessary to deal with the situation as it develops from time to time would have to be kept in readiness.

Industrial production has continued to rise at an annual rate of about 8 per cent, the newer industries, both in the capital goods and in the consumer goods sector advancing more rapidly than the older ones. The pace at which industrial development has been proceeding is, I believe, encouraging. In that process, it generates heavy demands on our foreign exchange resources for import of capital goods as well as raw material. The immediate difficulties in respect of foreign exchange notwithstanding, it would be reasonable to hope that the rate of progress in the industrial sector will be maintained.

The overall position that emerges from the review of production trends so far is that the supply of domestic goods and services has, on the whole, shown only a modest improvement over the previous year, and that the rise in prices during the year reflects the pressure of a shortage in supplies relatively to the strength of the expansionary factors in the

economy generated by the rising levels of both public and private investment.

Monetary Factors

Considered by itself, the increase in money supply over the last 12 months or so is not very large. Between 13 April 1956 and 12 April this year, it increased by about Rs. 132 crore. This increase, it must, however, be remembered, occurred in spite of the large balance of payments deficit which resulted in a precipitous fall in the Reserve Bank's foreign exchange holdings. The increase in rupee securities held by the Reserve Bank works out at Rs. 273 crore over the past twelve months. This is, clearly an expansionary factor which reflects, in the main, the growing borrowings of Government from the Reserve Bank; in part, it arises from the pressure on commercial banks to replenish their resources by selling securities. Scheduled bank lending to the private sector was up by Rs. 147 crore during the year. The liquidity of the banks has in the process been strained and money rates have hardened. Stringency in the money market has continued. This stringency is to my mind a usual accompaniment of a phase of economic boom when investment tends to outturn savings; it is not an indication of an insufficiency of the monetary media. An abatement of monetary stringency has at this stage to be sought not through a general increase in the supply of credit but through measures to prevent an excessive diversion of credit to less essential uses and through the creation of special institutions or facilities for supplying selectively the type of credit needed for priority developments.

Foreign Exchange

The major problem before the country undoubtedly is the large and continuing strain on foreign exchange resources. Since the beginning of the fiscal year, 1956-57 there has been a persistent pressure on the balance of payments resulting in a draft on the country's foreign exchange resources of nearly Rs. 300 crore. Since, during this period, a credit of Rs. 60.70 crore was obtained from the International Monetary Fund, the fall in the Reserve Bank's holdings amounted to about Rs. 240 crore.

The balance of payments for the first quarter of 1956-57 showed a current account deficit of Rs. 44.50 crore, the deficit widened to Rs. 81.40 crore in the second quarter. For the third quarter for which data are now available, there was a further increase in the deficit which worked out at Rs. 84.80 crore. Excluding 'official donations' which enter into the current account, the deficits for the three quarters were Rs. 54.10 crore, Rs. 89.90 crore and Rs. 92.40 crore. Since January

1957, further foreign exchange resources of the order of Rs. 86 crore have been used up. The foreign assets of the Reserve Bank now stand at a little below Rs. 500 crore. Despite the measures already taken to restrict imports, there is no indication yet of an abatement in the rate of drawals which now averages Rs. 5 to 6 crore a week. This embarrassing 'lag' notwithstanding, the steps we have already taken and necessary will, I believe begin to produce their effect before long.

On a rough estimate, imports for the year, 1956-57 will aggregate to over Rs. 1,000 crore, while exports will be around Rs. 650 crore. The bulk of the additional imports received during the year is for developmental purposes and should help strengthen the economy in due course. It is, however, obvious that foreign exchange expenditure has to be limited to the availability of resources, and the present imbalance in the country's external account rectified. The various corrective measures adopted during the year were reviewed in the March White Paper; further action in the same direction which is necessary will, as I have just said, be taken.

There is, it will be realized, hardly any cushion left in our foreign exchange resources to prevent a further significant draft on them. The level of imports hereafter has necessarily to be regulated in the light of our current earnings and the inflow of supplemental resources we can secure from abroad and should be closely related to essential requirements of the high priority projects in the Plan. The import policy for the second half of 1957-58 is now in the process of being formulated with the objective of securing a further sizable saving on imports. The large volume of imports of capital goods and of developmental commodities that has already come in, should, to my mind, make it possible for investment within the economy to go forward for a time at any rate at a satisfactory rate and care will be taken to allow such imports as are necessary for us to get the benefit of whatever equipment has been obtained and for maintaining production at a reasonable level. It would, however, be idle to pretend that all hardship can be avoided. The exigencies of the situation require that a balance on external account must be restored as early as possible, and the necessary price has, therefore, to be paid.

An improvement in the balance of payments situation is, I should add, largely conditional upon the adoption of domestic policies designed to hold inflationary pressures in check. An excess of purchasing power within the economy raises internal prices; it also reduces the availability of supplies for export and pushes up the demand for imports. It is, therefore, necessary to orient fiscal and monetary policies to the keeping down of domestic consumption and to the diversion of a part of the domestic output to export markets, I may mention here that the exports of cotton textiles in the first three months of 1957 have reached a total

of 260 million yard and if statistics can give us any satisfaction this gives us an annual rate of about 1,000 million yards. The increase in excise duty on cloth in September last has it seems in spite of our doubts to the contrary succeeded in one of its objectives without raising prices of cloth in the process. We should constantly be on the watch for similar opportunities to enlarge our foreign exchange earnings.

After this broad review of the latest economic trends, I should now like to give an account for the budget estimates for 1957-58.

In the estimates presented in March 1957, revenue was taken at Rs. 636.22 crore and expenditure at Rs. 663.09 crore, leaving a deficit, on revenue account of Rs. 26.87 crore. As a result of certain modifications which have since been found necessary, revenue deficit, on the basis of existing taxation, is now estimated to increase by Rs. 6.25 crore. This is as a result of a reduction of Rs. 1.25 crore in the net contribution of the Posts and Telegraphs Department to General Revenues and an increase in expenditure of Rs. 5 crore.

The reduction in the Posts and Telegraphs contribution is due to an additional provision of Rs. 1.25 crore for the Renewals Reserve Fund. A broad examination has revealed that the provision made in recent years for depreciation and replacement of assets in this sector has been very inadequate and that at least 2.75 per cent of the capital at charge should be provided as a depreciation reserve. Provision made this year amounts to Rs. 1.25 crore which represents only 1.25 per cent on the capital at charge of about Rs. 100 crore. Pending a detailed examination, the provision is now being doubled for the current year.

The increase in expenditure is accounted for by three items. The first is a provision of Rs. 3.12 crore for grants to the Khadi and Village Industries Commission for development of Ambar Charkha. A programme for the introduction of 75,000 Ambar Charkhas was started last year. The results of this programme have been reviewed recently and it has been decided to continue and expand it further during 1957-58. For the present, the expanded programme provides for the introduction of an additional 90,000 Ambar Charkhas, the total cost of this programme being during the current year, Rs. 10.09 crore of which Rs. 3.12 crore will be by way of grants and the balance by way of loans to the Khadi and Village Industries Commission.

The second item is a grant of Rs. 1.55 crore to the Government of Assam towards the extra expenditure which they have had to incur recently for the maintenance of law and order as a result of the disturbances in

certain border areas. The State Government have had to incur large expenditure on providing relief to the affected population, borrowing police forces from other States and constructing roads and bridges to facilitate communications. This abnormal expenditure has caused a great strain on the State's resources and the Government of India have agreed to meet 50 per cent of the cost of relief measures and of roads and bridges and the entire expenditure on the police forces borrowed from other States.

The last item is a provision of Rs. 33 lakh for incidental expenditure on transport, etc., in connection with the return of Land-Lease silver to the Government of U.S.A. During the last War, the U.S. Government leased 226 million fine ounces of silver to the then Government of India to be returned five year's after the termination of the emergency. The liability for the return of this silver was divided between India and Pakistan, India's share being approximately 172 million fine ounces. It has now been agreed that the Government of India would make immediate arrangement for the shipment of 50 million fine ounces of silver and that the balance of 122 million fine ounces should be made available in the form of quaternary alloy coins. The cost of shipment of fine silver would be borne by the Government of India while the alloy silver would be delivered in India and the U.S. Government would meet all cost of handling, transport and refining and also retain the metals recovered in the refining process. On balance, the transaction seems to accrue to the advantage of the Indian Government.

On the capital account, the estimates presented in March last provided for an outgo of Rs. 772.21 crore for capital expenditure and loans to State Government and others. As stated earlier an addition of Rs. 6.97 crore is now required for loans to Khadi and Village Industries Commission for the Ambar Charkha programme.

A provision of Rs. 15 crore is being made for loans to the Refinance Corporation which is proposed to be constituted shortly. The Agricultural Commodities Agreement between the Government of India and U.S.A. under American Public Law 480 provided, among other things, that a sum of about Rs. 26 crore would be reserved for re-lending to private enterprises in India through established banking facilities. As a result of subsequent discussions with the U.S.A. authorities, a scheme has been evolved for channelling these funds through a Refinance Corporation, which will provide re-lending facilities against loans given by Banks in India. The Corporation is proposed to be constituted as a joint stock company under the companies Act, 1956, initially with an ordinary share capital of Rs. 12.50 crore to be subscribed by the Reserve Bank of India,

the State Bank of India, the Life Insurance Corporation of India and about 14 from amongst the larger scheduled banks in India. It is anticipated that the Corporation will require loans from the Government of India out of the earmarked funds relating to the P.L. 480 Agreement; to the extent of about Rs. 15 crore during the current financial year.

Another provision of Rs. 50 lakh is being made for investment in the share capital of the Export Risk Insurance Corporation. The Corporation will be registered, under the Indian Companies Act as a Private Limited Company with an authorized capital of Rs. 2.50 crore and paid-up capital of Rs. 50 lakh. The maximum risks which the Corporation should carry will be 10 times the subscribed capital and the reserves built by it. In setting up the Corporation to introduce a scheme of export risk insurance in India, the Government of India have been actuated by the desire to place the Indian exporter on even terms with exporters of other countries, who are aided by similar schemes in their countries.

These three items on Capital account will aggregate to Rs. 22.47 crore. Against this, Capital receipts are now expected to improve by Rs. 25.83 crore. Of this increase, Rs. 9.56 crore represent the additional contribution to the Railway Development Fund which has been announced in the Railway Budget presented on 14 May 1957 by my hon. colleague and Rs. 1.27 crore the additional contribution (inclusive of interest) to the Posts and Telegraphs Renewals Reserve Fund mentioned earlier. The balance of Rs. 15 crore is on account of assistance under the Agriculture Commodities Agreement with the U.S.A. which is now estimated at Rs. 65 crore against the credit of Rs. 50 crore assumed earlier, the total foreign aid thus amounting to Rs. 150 crore. In the result, there will be a net receipt of Rs. 3.36 crore on Capital account.

Taking the Revenue and Capital accounts together, the overall deficit of Rs. 365 crore estimated earlier will now increase by Rs. 2.89 crore aggregating to Rs. 367.89 crore.

Assessment in Brief

The review of economic conditions and of the financial position as it emerges for the budget year shows clearly that while more resources are required for meeting the increasing demands of the investment programme, both public and private, the economy is not generating the necessary savings. Budgetary deficits, rapid expansion of bank credit, continued pressure on prices and a large balance of payments deficit—all these taken together—connote a deficiency of voluntary savings relatively to the size of the investments now being undertaken further, the emerging

pressures have to be judged in relation to the requirements over the entire Plan period. Expenditure on the Plan has inevitably to be stepped up year by year, and the strain on the country's resources will grow in the period that must elapse before the investments being made come to fruition. These demands on the economy can be met successfully only by sustained effort at increasing productivity and mobilizing savings on a national scale. Simultaneously, it is essential that the pace of investment, both in the public and private sectors is kept in reasonable relationship to the progress made in enlarging domestic savings and securing an inflow of external finance adequate to meet the foreign exchange requirements of the programmes in hand. This is the setting against which the policies and proposals that I propose to place before the House have to be judged.

Credit Policy

The first item of policy I wish to consider is credit policy. I referred earlier to the expansion of bank credit that has taken place over the last twelve months and the consequent strain this has imposed on the liquidity of the banking system. In the last few years the tempo of investment activity in the private sector has been steadily rising, and more recently there is evidence of a marked quickening of this tempo. This has entailed larger demands on the banking system by trade and industry. The credit advanced by scheduled banks rose during the year 1956 by Rs. 153 crore to a record level of Rs. 788 crore, and in the first four months of this year it has risen by another Rs. 119 crore. The deposit resources of banks have not gone up to a corresponding extent. As a result, there has been an acute stringency of funds in the money market and an appreciable increase in the call money rate and the lending and deposit rates of banks. Considering the overall trends in the economy the remedy for a situation of this nature is not an outright increase in the supply of money and credit to the extent of the demand but a cautious and orderly expansion to meet genuine needs, accompanied by measures to prevent an excessive diversion of credit to less essential uses.

Against this background the Reserve Bank has been pursuing a policy designed to moderate the inflationary possibilities of a large credit increase through general and selective credit restraint—without at the same time denying credit to essential lines of activity. This policy of judicious restraint took the form of an increase in the bank's lending rates; the rate on advances under the bill market scheme was raised in two stages in March and November 1956 from 3 to 3.50 per cent and in February this year by an enhancement of the stamp duty on usance bills which increased the effective rate of borrowing by banks to 4 per cent.

Simultaneously, the bank increased its rate on advances against Government securities to 4 per cent. In addition, as it appeared that speculative trading, particularly in essential commodities in short supplies like foodgrains, absorbed some portion of bank credit, the Reserve Bank issued directives with a view to regulating advances against such commodities.

These measures have generally been effective. In the busy season now coming to a close, credit extended has been of a somewhat smaller order than in the last busy season. The technique of selective control has had some effect on the level of bank credit; it has restrained the rise in prices in the sectors to which it was directed and has helped in channelling resources to more desirable outlets. It must be emphasized, however, that the Reserve Bank's policy has not been one of mere restriction of overall credit; in fact, it has been one of ensuring controlled expansion—a process which has been helped in particular by the liberalisation of the bank's credit facilities under the bill market scheme and also through its open market policy. The expanded facilities under bill market scheme could be availed of by banks on a larger scale by a greater accretion to their deposit resources. Some progress has been achieved in this respect, but, I feel that a greater effort on the part of the banks to attract resources, especially by reaching classes which have not yet developed the banking habit, is called for.

In view of the increasing tempo of developmental activity programmes for the current year and in the succeeding years, I am convinced that credit policy should continue to be directed towards moderating the pressure of demand for funds without, at the same time, hampering essential lines of productive activity. It is in this context that the Reserve Bank has been continuously keeping its bank rate under review. Earlier today, the bank announced an increase in the bank rate from 3.50 to 4 per cent. As the effective lending rate of the Reserve Bank to scheduled banks has been 4 per cent for some months now and the markets have had sufficient time to adjust themselves to this rate, this seems an opportune moment for rationalizing the lending rate structure of the Reserve Bank by raising the bank rate itself. There are other considerations also which indicate the desirability of making this adjustment in the bank rate at this stage. I am not unaware of the limitations of the bank rate as an effective weapon in a developing economy. Nevertheless, an increase in the bank rate should assist the Reserve Bank in its task of moderating the pressure of demand for credit. While the Bank's latest decision might appear to be only a formal recognition of a *de facto* situation, it is an action in keeping with the analysis of the economic situation I have presented today, before the House to curb the inflationary potential in the economy. In view of the increase in the bank rate, there

is no longer the need to keep the stamp duty on usance bills at existing levels, and I am, therefore, reducing it with immediate effect to 50 Naya paisa* per Rs. 1,000 for three months.

I may mention once again, in this context, the steps we are taking to set up a Refinance Corporation to cater to medium-term needs of industry. This Corporation will in time, I hope, fill a lacuna in our existing system of Industrial financing. This is an instance of the positive aspects of the policy of controlled expansion which I have referred to a little while ago.

Incentives for Small Savings

This brings me to my next point, which relates to small savings. In the ultimate analysis, the limit to expansion in the economy is set by the availability of savings, and in a country like ours where the banking habit is under-developed, small savings have a special role to fill. Taking the first Plan period as a whole, the progress of the small savings movement has been encouraging. The target for the Second Plan requires a substantial stepping up of collections year by year and I am anxious to ensure a sufficient incentive for the investor in small savings in all forms. The small savings movement is, to my mind, more than a way of collecting money; it is a scheme for spreading the habit of thrift and of encouraging participation by the common man in the Plan effort. I wish to take this opportunity to appeal to every family whether in the urban or in the rural areas to save more and make the small savings movement a success.

While the campaign for small savings has to be intensified, I propose also to increase the rate of interest on small savings investments with effect from 1 June 1957. Briefly, I have decided to increase the rate of interest on Post Office Savings Bank accounts by 0.50 per cent, and to have a new series of 12-year certificates to be called National Plan Savings Certificates in replacement of the present National Savings Certificates and National Plan Certificates. The interest on Savings Bank accounts will now be 2.50 per cent on balances up to Rs. 10,000 and 2 per cent on balances in excess up to Rs. 15,000 in the case of individuals and 2 per cent on balances in the public accounts. There will be only two types of saving certificates hereafter: (i) the National Plan Savings Certificate with a maturity of 12 years and (ii) the Treasury

* With the introduction of decimal system *w.e.f.* 1 April 1957, a Rupee was divided into a denomination of 100 Naya Paisa. In the earlier system, a Rupee was divided into a denomination of 64 Paise.

Savings Deposit Certificate with a maturity of 10 years. The yield on both these will be increased; for the former to 4.25 per cent compound interest, at the end of 12 years and for the latter to 4 per cent at the end of 10 years. Both these certificates will be tax-exempt. For people who hold these certificates for period less than 12 years the yield will be suitably adjusted. For example, Rs. 100 invested in a National Plan Savings Certificate will become Rs. 127 at the end of 7 years, Rs. 148 at the end of 10 years and Rs. 165 at the end of 12 years. In case of the Treasury Savings Deposit Certificates interest at the rate mentioned is paid every year but an adjustment is made in the event of the holder deciding to encash it before maturity. In the case of National Plan Savings Certificates the period of non-cashability will be fixed at 12 months. The further issue of National Plan Certificates and 7-year National Savings Certificates will be discontinued.

Foreign Exchange Policy

Fiscal and monetary policy at this juncture has to be designed in a way that will make it clear beyond doubt that we, on our part, are determined to do our best to implement the plan as fully as possible. We have to make the fullest effort to raise the domestic resources required and I shall come presently to my tax proposals—which reflect this determination. It is clear, however, that the problem is not merely one of raising more domestic resources but also of finding ways and means firstly to conserve and secondly to augment our foreign exchange resources in keeping with the large requirements of the Plan. I am probably stressing this point a little hard, harder than is necessary, but I think, circumstances warrant it. The steps we are taking in the field of domestic economic policy will, it is hoped, react beneficially on our foreign exchange position as well, but this latter is, admittedly, a more difficult problem. What we can earn by way of foreign exchange on our exports is not a matter entirely in our hands; it depends on the trend of world prices and demands. Similarly, the prices we have to pay for our imports are beyond our control and all that we can do is to limit the volume of our imports. Here again, there are problems. The cuts we impose on imports become effective only after a time lag. Moreover, a developing economy needs increasing imports and there is danger, in a restrictive import policy, of impeding the flow of imports needed for the very purpose of development. Foreign exchange policy is thus a matter of delicate balancing and it is a balancing, if I may say so, in which a favourable turn of the wind could make a material difference.

In the March White Paper the various measures taken to save and conserve foreign exchange have been listed. The import programme for the first half of this year involved considerable cuts in imports, and the process will, I am afraid, have to be carried considerably farther in the import programme for the second half of the year. Government have already announced their policy in regard to licensing of capital goods imports. Private investors are being encouraged to seek medium-term credits from abroad and to invite the foreign enterprise to associate itself increasingly with the Indian enterprise. We have, in front of us, a rather difficult period and we will have to exercise the utmost caution and vigilance in the matter of imports while taking every possible step to increase our export earnings. The fact that in the last twelve months the level of imports has been exceptionally high warrants the presumption that the economy can put up with sizable import cuts for some time to come without serious dislocation. At any rate, I wish to reiterate the Government's determination to restore a position of better balance in external accounts as early as possible.

An under-developed economy which launches a programme of industrialization suffers from the inevitable handicap of having to import from abroad, all or practically all, of the equipment and capital goods that it needs to make the right start. Nevertheless, a start has to be made and in the process risks have to be undertaken. In the nature of things it is not possible to chalk out the course of policy and action in the field of foreign exchange with the same precision or detail as in the case of domestic policy. The Second Five-Year Plan involves heavy foreign exchange expenditure and the estimated gap in the balance of payments has widened partly because in some respects the initial estimates were on the low side and partly because of the rise in prices abroad. This gap is by no means easy to fill. We shall have to make our best effort along the lines I have mentioned. At the same time, we must recognize that external resources on a considerable scale will be necessary in order to enable us to see through the developmental tasks we have taken in hand. Given reasonable effort all along the line on our part, we shall, I am confident, get over the transitional difficulties that are confronting us at present.

The Plan

The estimates of required outlay have gone up since the Plan was formulated. The fulfilment of the Plan to schedule postulates, *inter alia*, the availability of external resources on a considerable scale, and the need for these resources is the greatest in the earlier part of the Plan. Evidently, shortfalls in this respect cannot be made good by a draft on

domestic resources. We have this aspect of the problem under continuous review. It is not possible to say at this stage to what extent the progress of the plan will be affected because of foreign exchange shortage. The core of the plan is steel, coal, transport and ancillary power. With the external assistance that has been already promised and with further support from the International Bank and other sources, we shall, I think, be able to carry through the projects in this "core". This group of programmes has the highest priority in view of its bearing on further development. But, in regard to other projects, especially those for which no external resources are specifically forthcoming, and which are not otherwise of high priority, it would be prudent for us not to make fresh commitments for some time until the outlook becomes clearer and we have more assurance of our being able to find the foreign exchange resources needed for them. Some rephrasing of the Plan is thus inevitable, but, if as I hope, the balance of payments situation takes a turn for the better before long and if we succeed in securing adequate external resources, the achievement on the Plan should not fall much behind schedule.

Even if the Plan did not encounter difficulties in certain sectors—which it does—a rephrasing of it might be necessary in certain parts. The rapid development of the country in the last few years has made it incumbent on our part to give closer attention to the socio-economic objectives of the Plan. The Plan has set to itself the objective of increasing national income progressively over a period of 15 to 20 years. The urgency of development is related to the need for raising living standards all round and for creating an environment in which democratic values and ways of life take root and gather strength. To those who regard the Plan as too ambitious, I would respectfully submit that they should take a good look at the living conditions of the bulk of our people. If they would only do this, I am sure they will, along with me, be able to see the several directions in which the Plan is inadequate. In the last few years there has been some visible improvement in the standards of nutrition and probably, of clothing. The housing conditions and environmental hygiene in urban and rural areas of the low income groups are deplorable; the slums in our cities are a disgrace to any society which claims to be considered civilized. I am deeply anxious to see that the Plan is strengthened in this respect.

Let us not forget that the very fact that a measure of success has been achieved already in raising living standards makes it all the more urgent that the process be carried forward with vigour and determination.

The millions in India have woken up to new desires and new wants for the first time in many generations. With knowledge that a better future for all is possible, has come the aspiration that the desired improvements should take place without delay. Whether it is the demand of industrial labour for higher wages and better housing conditions, or of low-paid teachers and government employees for a fair deal and greater security—all these are but manifestations of the new awakening and of the new striving for an economic future which is consistent with the dignity of the citizens of a free society. One cannot merely shrug one's shoulders in the midst of a situation like this and say that all these things must wait till somehow or other the financial situation in the country improves. Whatever the difficulties of the moment, the demands of the people—especially of the low-income groups—must be assessed carefully and met to the maximum possible extent. Admittedly, there has to be some order of priorities in dealing with the legitimate but innumerable claims of the people. Even among the less fortunate sections of the society, there are at present wide disparities in income and it is essential that the needs of some should take precedence over those of others. The employees of State Governments and local bodies, for example, who are also doing great national service enjoy conditions of service which are less favourable than those for Central Government employees. I would humbly venture the claim that the Central Government have taken a lead recently in bettering the conditions of these people; but in view of the somewhat strained finances of many States, we have not been able to make much headway. The point remains that in attempting to improve the living conditions of the people, every care has to be taken to make a beginning where it is most needed. I am also aware that the claims of investment should not go overboard in attempting a speedy improvement in the living conditions. But when all the concessions to reality are made, the fact remains that to pronounce that our present plan is too ambitious would be a declaration of defeat in advance. The tasks we have in hand are worthwhile. Their successful completion will make a significant contribution to further development. There should be no stinting of effort or sacrifice in the furtherance of these tasks.

The Plan is the main theme and the dominant concern of all our thinking and policy-formulation. It could not be otherwise in a country which accepts development as its topmost priority. The Plan has run into difficulties, admittedly but I see no warrant for alarm or panic. What is required is preparedness to make the necessary sacrifices, and courage and resourcefulness in handling the problems that arise in the course of its implementation.

Taxation Policy

This brings me to the most crucial aspect of economic policy, viz., taxation. I suppose I shall read something to fortify me to obtain courage to put these proposals before the House. I should like first to enumerate briefly the objectives of our taxation policy before I come to taxation proposals for the year. Taxation policy and proposals at this juncture have to be shaped in the light of the following criteria:—

- (a) they must produce a sizable addition to public revenues;
- (b) they must provide incentives for larger earnings and more savings;
- (c) they must restrain consumption over a fairly wide field so as to keep in check domestic inflationary pressures and to release the resources required for investment; and
- (d) they must initiate such changes in the tax structure as would make tax yields progressively more responsive to increased incomes and facilitate an orderly development of the economy with due regard to the social objectives we have adopted.

As I stated in my Budget speech In March last, the overall budgetary deficit of Rs. 365 crore which I left uncovered then is too large in the context of the present economic situation. The changes which I am now incorporating in this Budget leave this initial deficit practically unchanged, and I think it is vital for us to find ways and means of bringing down this deficit significantly. The other criteria of policy which I have just mentioned need hardly be elaborated but their application, I hope, will be clear as I proceed with the enunciation of my tax proposals for the year.

Indirect Taxation

Mr. Speaker, Sir, I might begin first with my proposals in the field of indirect taxation. Taking Customs first, it will be appreciated that the scope for raising additional revenues from them is limited. Hon. members are aware of the severe restrictions we have imposed on imports in order to curtail our foreign exchange expenditure. Moreover, import duties on most of the so-called luxury articles are already fairly high and the duties on capital goods and industrial raw materials have necessarily to be kept as low as possible. The proposals I have made envisage the raising of the rates of duty by small amounts on about 90 items. I have also taken this opportunity to rationalize the rates structure in the Customs Tariff which run into several hundred items. There is considerable diversity in these rates which is of no real significance and is in fact administratively cumbersome. I have tried to give the tariff rates a simpler form and in this process the surcharges have been merged into the basic rates. I have

also availed myself of this opportunity to convert the rates of duty both in the import and the export tariff in terms of decimal coinage. No other change is being made in the export duties. Altogether, my proposals in respect of import duties will yield a revenue of about Rs. 6 crore spread over a large number of items, too numerous to mention here.

Excise Duties: I now come to Union Excise Duties. I may say at once that I have fairly substantial proposals under this head, and in doing so, I have in mind the double objective of restraining consumption and of giving a fillip to exports. I propose the following increases:—

- (i) *Motor spirit* : The existing excise duty on motor spirit which works out at 98 N.P. per Imperial Gallon (IG) inclusive of surcharge be raised to 125 N.P. per Imperial Gallon. This will yield an additional revenue of Rs. 6.65 crore in a full year.
- (ii) *Refined Diesel Oil* : The existing duty of 25 N.P. per IG be raised to 40 N.P. per IG. This is estimated to yield Rs. 1.90 crore in a full year.
- (iii) *Diesel oil, not otherwise specified* : The duty be raised from Rs. 30 per ton to Rs. 40 per ton, the additional yield from which over a year is estimated at Rs. 35 lakh.
- (iv) *Kerosene* : The existing duty is 18.75 N.P. per IG. It is proposed to do away with the fraction and raise it to 20 N.P. per IG. This will yield Rs. 20 lakh in a full year.
- (v) *Cement* : The existing duty of Rs. 5 per ton be raised to Rs. 20 per ton, the estimated annual yield being Rs. 6.7 crore.
- (vi) *Steel Ingots* : The existing duty of Rs. 4 per ton be raised to Rs. 40 per ton, yielding on an annual basis Rs. 5.7 crore.
- (vii) *Sugar* : The biggest increase comes in sugar. The existing duty of Rs. 5.62 per cwt. be raised to Rs. 11.25 per cwt. This will yield Rs. 18.55 crore in a full year.
- (viii) *Vegetable non-essential oils* : The duty of Rs. 70 per ton be raised to Rs. 112 per ton. This will mean an increase from about 3 N.P. to 5 N.P. per lb. The estimated yield on this account is Rs. 3.15 crore in a year.
- (ix) *Tea* : The duty be raised as follows:—
 - (a) loose tea—from 6.25 N.P. to 10 N.P. per lb.
 - (b) package tea converted from duty-paid loose tea—from 18.75 N.P. per lb. to 35 N.P. per lb.
 - (c) package tea—from 25 N.P. per lb. to 45 N.P. per lb. This will yield an additional revenue of Rs. 2.45 crore in a year.

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- (x) *Coffee*: As a complementary duty, the existing duty on coffee be raised from 18.75 N.P. per lb. to 35 N.P. per lb, the estimated additional yield being Rs. 80 lakh.
- (xi) *Unmanufactured tobacco*: The duty be raised as under:—
- (a) if other than flue-cured and used for the manufacture of cigarettes or smoking mixtures for pipes and cigarettes— from 56 N.P. per lb. to 75 N.P. per lb.
 - (b) if not flue-cured and not actually used for the manufacture of cigarettes or smoking mixtures for pipes and cigarettes, and such tobacco cured in whole leaf form and packed or tied in bundles, hanks or bunches or in the form of twists or coils— from 37 N.P. per lb. to 50 N.P. per lb.
 - (c) if other than flue-cured and not otherwise specified from 87 N.P. per lb. to 100 N.P. per lb.
- The additional yield from these increases aggregates Rs. 6.15 crore in a full year.
- (xii) *Matches*: The existing duties be raised so as to permit sale of match boxes at 6 N.P. and 4 N.P. per match box of 60's and 40's respectively. The gain to revenues in a full year by these increases is estimated at Rs. 6.2 crore.
- (xiii) *Paper*: My proposals involve an increase in the existing duty on various types of paper, the aggregate additional yield being estimated at Rs. 2 crore on an annual basis.

These proposals in respect of Central Excise Duties are estimated to yield Rs. 60.80 crore in a full year. For the remaining part of the current year, their yield is estimated at Rs. 53.20 crore out of which the share of the States will be about Rs. 4.20 crore in respect of tobacco and matches.

In recommending these increases to the House I have kept in mind the need for a balanced increase among the various items I have listed. The increases proposed in respect of cement and steel are large, but they are warranted by the rapid increase in the demand for them within the economy and the situation of growing shortage and the consequent increase in retail prices which we are now facing. The increase in the duty on sugar has the same objective as the increase we made last year in the excise duty on cloth, namely, to restrain domestic consumption in the interest of larger exports. In the case of matches, the existing duties were fixed with a view to ensuring sale at 3 piece per match box of 60's and 2 piece per match box of 40's. Under the decimal coinage system the equivalent of these prices comes to 4.70 N.P. and 3.10 N.P.

respectively and this would have meant in effect a retail price of 5 N.P. and possible 3 N.P. respectively. With the increase in the excise duty now proposed, the retail price will be 6 N.P. and 4 N.P. respectively.

As regards tobacco, it is known that a Tobacco Expert Committee was appointed in January 1956 under the chairmanship of my friend Shri Raghuramiah, M.P., to review the procedure adopted in applying the criterion for assessment of unmanufactured tobacco. The Committee after careful consideration of the problem has recommended that the criterion of 'capability' of use for manufacture of *bidis* should be revised by the criterion of 'physical form' of tobacco other than flue-cured for purposes of assessment. Accordingly, such tobacco is proposed to be reclassified on the basis suggested by the Committee. For revenue purposes, the rates of duties on such tobacco are also being somewhat enhanced. With the proposed increase in the rate of duty on these two types of tobacco the rate of excise duty on unmanufactured tobacco for use in the manufacture of cigarettes is also being proportionately raised.

The tariff relating to paper has been re-arranged with a view to greater rationalisation and to absorb the higher profit margins now developing in the retail trade and the rates of excise duty which has been kept deliberately low in the initial stages are being enhanced.

Finally, the increases in the rates of excise duty on vegetable non-essential oils and straw-boards and millboards, require that the existing slab exemption in favour of small producers of these commodities are being suitably revised by executive notifications.

Direct Taxation

I now turn to direct taxation. Firstly, I propose to make certain adjustments in personal income-tax and super-tax rates. Till now, these changes have followed a standard pattern which I think, needs a fundamental change. It is necessary to recognize that the basic rates should apply to a person who earns his income, that is, sweats and toils for it, and that others who derive their income from property and investments, that is, without making any direct effort should be made to pay more by way of a surcharge. Under the present system there is no provision for earned income allowance for super-tax. For income-tax there is an allowance of 20 per cent subject to a maximum of Rs. 4,000 for earned incomes not exceeding Rs. 25,000. For incomes in excess of this amount, the allowance of Rs. 4,000 is reduced at the rate of 20 per cent of the excess over Rs. 25,000 so that for an earned income of Rs. 45,000 the allowance is reduced to nil. I now propose to change this system altogether, applying a standard schedule of rates to all earned

incomes and imposing a higher surcharge on unearned incomes. I have come to this conclusion after considerable investigation and thought because I feel that our existing rates of direct tax at top levels deprive the tax structure of all flexibility. It is said that they tend to diminish the incentive for work but I am aware that they encourage large-scale evasion. It is now recognised that the very high rates of direct taxation in the top income brackets in many countries of the world are in practice tolerated or are tolerable only because of considerable evasion that takes place. In other words, the high rates tend to be applied to a corroded tax base. I now propose a revised schedule of these rates and introduce a new scheme of surcharge levy which will mean that the total of the income-tax, super-tax and surcharge for the highest slab will be brought down from the existing level of 91.80 per cent to 84 per cent for unearned and 77 per cent for earned incomes. The surcharge will be 5 per cent on the tax computed at the standard schedule rates for earned incomes up to Rs. 1 lakh and 10 per cent on incomes in excess of that sum. Hon. members are aware that surcharge goes to Central Revenues. For unearned incomes, there will be a uniform surcharge of 20 per cent over the standard schedule rates. When a person's income is partly earned and partly unearned, the unearned income will be considered to belong to the slab in which the earned income ends and to higher slabs where necessary. The rates for the lower slabs have been adjusted in keeping with this change in respect of top slabs. To provide relief to the middle classes, I propose that no surcharge on unearned income be levied where the total income does not exceed Rs. 7,500. The reduction in the rates of direct taxation will cost the Exchequer Rs. 7.50 crore. This reduction should be judged in the light of the other changes in direct taxation which I propose to mention later.

I propose also to widen the present income-tax base by reducing the taxable minimum from Rs. 4,200 to Rs. 3,000. The minimum limit had been raised over the past few years mainly for administrative reasons. An income of Rs. 4,200, modest though it is in absolute terms, is quite a large multiple of the average level of incomes in the country. It is reasonable to expect that those with an income of Rs. 3,000 should also make their contribution, however small, to the public Exchequer, and should come within the range of direct taxation. As development proceeds, there will, I expect, be a large and progressive increase in the number of incomes within this range and I think it is essential if the Exchequer is to benefit proportionately from the expansion of incomes consequent on development, that these incomes are brought within the income-tax range. I, therefore, propose to place the exemption limit now at Rs. 3,000 for individuals and Rs. 6,000 for Hindu Undivided Families. I propose, however, to couple this with an increased allowance for married

people. The extra tax-free slab of Rs. 1,000 which at present applies to married people will now be raised to Rs. 2,000. The wider coverage of income-tax consequent on this set of proposals will bring in about Rs. 5 crore this year.

My next proposal relates to the taxation of Companies. I propose to raise the income-tax payable by Companies from the present level of 4 annas* in the rupee to 30 per cent, and the Corporation Tax from the present level of 2 annas 9 pies in the rupee to 20 per cent. As hon. members are aware, shareholders of Companies being entitled to credit of income-tax paid on their behalf by the Company are not affected by the increase. The net effect of the proposal to increase income-tax on Companies will, therefore, not be very significant. It will to some extent help us to check evasion.

The need for corporate savings is as great as ever. In view, however, of the increase proposed by me in the rate of Corporation Tax, I propose to reduce the Excess Dividends Tax—

to 10 per cent on distribution of dividends between 6 per cent and 10 per cent of the paid-up capital;

to 20 per cent on distribution between 10 per cent and 18 per cent of the paid-up capital; and

to 30 per cent on the balance.

During the debate on the Finance (No. 3) Bill introduced by me last December, reference was made by certain Members to the stimulus that my proposals were likely to give to bonus share issues. I was aware then that with the increase in the rates of Excess Dividends Tax and the introduction of the Capital Gains Tax, there should be some change in the rates of tax on bonus issues. I have considered this matter and propose to raise the tax thereon from the present level of 12.50 per cent to 30 per cent.

At present, rates of super-tax for inter-corporate dividends are about 17 per cent for Indian companies and 20 per cent for foreign companies. With the increase in the basic rates of Corporation Tax, these rates require adjustment. I propose accordingly, to reduce the rate of inter-corporate super-tax to 10 per cent for both Indian and foreign companies on dividends received from Indian subsidiaries. The effect of this will be that, so far as foreign companies working through subsidiaries are concerned, the total tax payable by them will more or less remain

* In the earlier system, a Rupee was divided into a denomination of 64 Paise or 16 Annas.

practically unaltered. Similarly, for foreign companies operating through branches and earning other incomes, the rate of Corporation Tax will be reduced from 36 per cent to 30 per cent. I expect that, with these changes, there will be some encouragement for the investment of foreign capital in India.

My next proposal with regard to Companies relates to the tax on undistributed profits of companies in which the public are not substantially interested. This tax has frequently been the subject matter of considerable argument. The principle on which the tax is based is unexceptionable, namely, that individuals having income in the higher brackets should not be allowed to avoid payment of super-tax by forming close corporations and not distributing their profits in such corporations. However, in the context of our development plans, we have to balance against the need to prevent super-tax avoidance the needs of companies for funds required for expanding industrial activities. I propose to reduce to 45 per cent from 60, the minimum percentage of available profits which an industrial company of the above type should distribute in order to avoid the penal consequences of inadequate distribution; for non-industrial companies the percentage will continue to be retained at 60 per cent. For a company which derives profits partly from industrial activities and partly from other activities, the minimum distribution required will be 45 per cent of available industrial profits and 60 per cent of other available profits. Investment companies will be required to distribute 100 per cent as usual. In cases where the accumulated profits and reserves are not less than the paid-up capital or the value of the fixed assets, the minimum percentage required to be distributed is at present 100 per cent for all companies. I propose to reduce the percentage to 45 per cent for the industrial companies and 90 per cent for others. With these reductions in the minimum amount required to be distributed, it will be unnecessary for me to continue the present scheme of adjudication by the Commissioner of Income Tax and the Board of Referees on the business needs of companies seeking total or partial exemption from the operation of the provisions relating to minimum distributions.

There are certain other minor changes proposed upon which I do not wish to dilate here. These relate to exemption from income-tax of employer's contribution to a recognized provident fund, increase in the percentage of the income that will qualify for rebate of income-tax if saved in the provident fund or insurance, limitation on the carry-forward of losses, etc. I have also taken the opportunity of redrafting the provision relating to deposits to be made by companies of a portion of their undistributed profits and development rebate and depreciation allowances so as to bring the Government's intention more clearly.

Altogether, the changes I propose in the taxation of Companies will bring in additional receipts to the Exchequer to Rs. 7.50 crore.

I come now to two new tax measures designed to alter the tax structure in a way that will ensure a more effective and at the same time a more equitable basis for taxation. My first proposal is to levy a Tax on Wealth. It is recognized that income as defined by existing Income Tax laws and practice is not a sufficient measure of tax paying capacity and that the system of taxation on incomes has to be supplemented by taxation based on wealth. This is more equitable and it also promises, over a period, to reduce the possibilities of tax evasion. I mentioned earlier the reliefs in income-tax at top levels of income which I am introducing this year. These reliefs are meant as an encouragement to larger effort and greater initiative on the basis of which alone a healthy and progressive economy can be built up. It is necessary at the same time to adopt other measures which are egalitarian in intent but which do not have a disincentive effect. The Tax on Wealth that I am now proposing is one such measure. This tax will be payable by Individuals, Hindu Undivided Families and by Companies. In the case of Individuals, values up to Rs. 2 lakh and in the case of Hindu Undivided Families values up to Rs. 3 lakh will be exempted. In respect of wealth exceeding that amount the rate will be 0.50 per cent for the first Rs. 10 lakh, 1 per cent for the next 10 lakh and 1.50 per cent on the balance. This will, thus, be a progressive tax which, together with the surcharges I have recommended in respect of income-tax on unearned incomes, will contribute towards a more effective taxation of the richer classes without diminishing incentives to earn in the process.

In the case of Companies, there will be no tax on assets up to a value of Rs. 5 lakh; on values beyond that the rate will be 0.50 per cent. The Wealth Tax is intended primarily as a measure of personal taxation but in the peculiar economic structure of India I consider it advisable not to exclude Companies from the purview of this tax. However, the rate of tax has to be low. This is why I have proposed a flat rate of only 0.50 per cent on assets above the exemption limit which I have just mentioned.

Certain properties will be exempted from this tax. Some of these are:—

- Agricultural properties;
- Properties belonging to charitable or religious trusts;
- Works of art;

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- Archaeological collections not intended for sale;
 - Balances in recognized provident funds and insurance policies;
 - Personal effects including furniture, cars, jewellery, etc., up to a maximum of Rs. 25,000; and Books and publication not intended for sale.

With a view to achieving simplicity in the procedure for evaluating the various kinds of assets which form part of a business undertaking, it is proposed as far as possible to treat the business undertaking as a whole as a single unit for valuation. Other assets will be taken at their market value. The yield from this tax is estimated at about Rs. 15 crore.

The imposition of this tax as also the other measures now proposed should help in checking evasion. I am taking credit of Rs. 5 crore on this account.

Broadly speaking, the administrative set-up and the procedure for assessment and appeal will be the same as for Income-tax. With regard to valuation of immovable non-agricultural property, the assessee will be given a right of reference to an arbitration committee against the decision of the first appellate authority. This committee will consist of a Valuer appointed under the Estate Duty Act and another non-official member drawn from a panel of persons familiar with local property values.

The other proposal I make is the introduction of a Tax on Expenditure. This is a form of taxation which has no backing as yet of historical experience. It is, however, a tax which, given effective administrative arrangements, can be a potent instrument for restraining ostentatious expenditure and promote savings. In the present circumstances, I think all we can do is to make a small beginning. I propose to levy this tax only on Individuals and Hindu Undivided Families whose income for income tax purposes is not less than Rs. 60,000 a year. The tax will be imposed on all expenditure incurred, from whatever source it may be, in excess of certain sums which will vary with the size of the family. The amounts excluded are:—

- A basic amount of Rs. 24,000 for an assessee and his wife; and
- Rs. 5,000 for each dependent child.

The rate of tax will be based on a slab system, the rate for each slab increasing progressively with the increase in the level of expenditure. Thus, for excess expenditure up to Rs. 10,000 the rate will be 10 per cent and for higher slabs the rate will increase progressively. As in the case of Wealth Tax, the administrative set-up and the assessment and appellate procedure will be the same as for Income Tax.

I propose to make this tax applicable from the financial year 1958-59 and therefore take no credit for any receipts in 1957-58. I propose to levy a tax on railway passenger fares. The rate of tax will be 5 per cent for distances up to 30 miles, season tickets exempted, 15 per cent for distances between 31 miles and 500 miles and 10 per cent for longer distances. No tax will be levied on season tickets. The yield of this tax is expected to be Rs. 14 crore in a whole year. In the current year, the yield will be about Rs. 8 crore. The proceeds of it less the amount attributable to Union Territories will have to be distributed entirely to the States. The States need more resources and railway travellers, like consumers of other commodities, should, under present conditions, make a contribution. I propose to seek the advice of the Finance Commission before I bring forward proposals before Parliament in regard to the actual distribution of the proceeds of this tax.

Changes in Postal Rates

The Postal and Telegraph Branches of the Posts and Telegraphs Department are working at a loss. Except for unregistered letters and inland letter cards, practically all items of postal tariff are carried at a loss. On a number of items like post cards, money orders, registered newspapers, etc., the rates charged have, for many years, been substantially less than the cost of providing the service. For example, it has been estimated that the average cost of carrying a post card is 7.24 naye paise as against the present postage of 5 naye paise. This results in an annual loss of over Rs. 155 lakh. Every increase in traffic in these items—and traffic has been increasing—results in an increase in the losses. With the progressively increasing expenditure on construction of staff quarters and the provision of other amenities for the staff, the existing postal rates are bound to prove even more uneconomic. The opening of unremunerative Post Offices and Telegraph Offices as part of the Department's expansion schemes under the First and Second Five Year Plans has contributed to the loss in the Postal and Telegraph Branches. The Department has also been building up its capital assets at a fairly rapid rate, the total capital outlay at present being about three times what it was before Independence. The annual provision, from revenue, for depreciation and replacement of these assets, as I have said before, is at present only Rs. 1.25 crore, and it has been decided to increase this provision to Rs. 2.50 crore during the current year in anticipation of a detailed examination of the whole question. In response to a demand which had been widely and persistently voiced by the book trade, both in and out of Parliament, Government had appointed a Committee to examine the question of charging a concessional rate of

postage on bonafide books as compared with other items chargeable as packets so that the cost of sending books to rural areas which could be reached only through Post Offices might not be unduly increased. After considering the Book Committee's Report, it has been decided to allow a concessional rate of postage on books. All these measures, however, inevitably result in reducing the surplus earnings of the Department and of increasing the losses of the Postal and Telegraph Branches. To ensure the financial stability of the Department, it has become necessary to raise some rates. On post cards, the existing rates of 5 naye paise for single and 10 naye paise for the reply post cards will be raised to 6 naye paise and 12 naye paise respectively. Postage on local post cards will be raised similarly from 3 naye paise for single and 6 naye paise for reply post cards to 4 naye paise and 8 naye paise respectively. For packets containing bonafide books only, the postage on the initial weight slab of 5 *tolas** will be reduced from the existing rate of 6 naye paise to 5 naye paise but on other packets the existing rate of 6 naye paise will be raised to 8 naye paise. The postage on additional weight slabs, in both these cases, will remain unchanged. In spite of these adjustments in the book, sample and pattern packet rates, the traffic in this category of articles will continue to result in a loss of over Rs. 8 lakh per annum. The rates on parcels will be increased from the existing level of 50 naye paise for every 40 *tolas* or fraction thereof, to 60 naye paise for the first 40 *tolas* or fraction thereof and 50 naye paise for every additional 40 *tolas* or fraction thereof. On inland telegrams, the charge for every additional word over the minimum of 8 words will be raised from 7 naye paise to 8 naye paise for ordinary and 14 naye paise to 16 naye paise for express telegrams. The additional revenue expected in the current year from these increases is Rs. 85 lakh.

Recapitulation

I must now recapitulate briefly the proposals I have made so far:—

- (i) Firstly, my proposals involve small increases of import duties on a number of articles, the additional yield from which during the year is estimated at about Rs. 6 crore.
- (ii) Secondly, the proposals I have made in respect of excise duties involve an enhancement of the rates of duty on various items such as motor-spirit, refined diesel oils and vaporizing oil, diesel oil not otherwise specified, steel ingots, cement, sugar, matches, unmanufactured tobacco other than flue-cured, vegetable non-essential oils and paper. The additional revenues on this

* One *tola* is equal to 11.662 grams.

account are estimated at Rs. 53.20 crore for the remaining portion of the current financial year but Rs. 4.20 crore will be payable to the States as their share of the additional duties on tobacco and matches.

- (iii) Thirdly, the proposals I have made in regard to personal income-tax and super-tax are estimated to bring in Rs. 25 crore in the current year of which the share of the States on account of income-tax will come to Rs. 3 crore. The reduction in income-tax and super-tax rates involve a loss of Rs. 7.50 crore. The lowering of the exemption limit is estimated to yield Rs. 5 crore. The adjustments in Company taxation will yield about Rs. 7.50 crore. The Tax on Wealth is estimated to yield Rs. 15 crore, and to this I add Rs. 5 crore by way of better collections of income-tax reflecting a reduction of tax evasion. The changes I have suggested in direct taxation do not make a big addition to public revenues this year but I expect that they will make an increasing contribution to the Exchequer as we get more experience with the new forms of taxation I have proposed and as the machinery for assessment and collection gets geared to its new tasks.
- (iv) Fourthly, I have proposed a tax on fares payable by passengers travelling by Railway. This will yield Rs. 8 crore which will be distributed entirely to the States.
- (v) Fifthly, I have proposed certain changes in postal and telegram rates which are expected to yield a revenue of Rs. 85 lakh.
- (vi) Sixthly, I have proposed an Expenditure Tax which will be effective from 1958-59 but will apply to expenditures incurred in 1957-58.

The net accretion to the Central revenues as a result of these proposals will amount to Rs. 77.85 crore and the revenue budget will now show a surplus of Rs. 44.73 crore. Ordinarily, the overall deficit would, as a consequence, amount to Rs. 290 crore, if the additional revenue of Rs. 15 crore which would be passed on to the States as a result of these proposals is not taken into account. As hon. members will observe from the White Paper, Central assistance to the States for financing the Plan during 1957-58 has been placed at Rs. 278 crore. As a result of the additional revenue accruing to the States, there will, therefore, be a corresponding reduction in this figure, the reduction being taken in the provision for loans to State Governments. The overall deficit will thus amount to Rs. 275 crore and will be met by expansion of Treasury Bills.

Taxation and Development

I would like to say a few words about the import of these proposals. We are pledged to move in the direction of a socialist society. This means that we wish to develop an efficient system of production and an equitable pattern of income and wealth which will ensure well-balanced progress. Such a system requires a strengthening of incentives to work and to save. This is the rationale of my tax concessions on earned incomes. A standard rate of tax on earned incomes, and a differential rate for taxation of unearned incomes, coupled with a tax on wealth and a tax on expenditure, will give us a better basis for assessment of tax liability, especially in respect of higher income ranges and will help us to close progressively the loop-holes of tax evasion and corrosion of the tax base. If I have brought down the exemption limit for tax liability, it is, firstly, because the present limit is too high in relation to the average level of incomes in the country, and secondly, because I am of the view that the ground must be prepared, from now on for bringing into the tax net the increases in incomes which will take place in these ranges in the coming years. All my proposals in the field of direct taxation form an inter-related whole, and should, I suggest be judged as such.

My proposals in respect of company taxation are designed not merely to increase revenues but also on balance, to encourage the ploughing back of profits through a check on dividend distribution. These measures are not intended to curtail genuine investment in the private sector, though it would not be unreasonable to assume that a slight slowing down for a short period will not, in present circumstances, be undesirable. There are, however, other devices to regulate private investment. I wish, therefore, to retain the bias in the tax structure in favour of corporate investment. It is for this reason that I have left untouched the existing liberal depreciation allowances and the system of development rebates, which it is recognized on all hands, are a powerful incentive for investment. I have also, as I mentioned earlier, re-adjusted the tax rates to encourage foreign investment. I recognize that the shareholder or the investor expects to get a reasonable return on his capital, but I also think that under modern conditions there is even greater need for providing incentives for those who work and manage concerns and thus, fall within the category of earned income earners.

My proposals involve a raising of burdens on the near necessities of the common man. This is inevitable in the present circumstances. These burdens, large as they may look in the aggregate, have a low average incidence. A process of development in a country where most incomes are low cannot be financed without calling for sacrifices from all sections

of the community, and there are special reasons at this juncture for applying some restraint on consumption in order to check inflationary pressures and to stimulate exports. I recognize, at the same time, the need in particular sectors may well be from time to time assist in maintaining consumption at a reasonable level in terms of the minimum nutritional standards, and to this end, it may be necessary to subsidize food. My intention, therefore, is to build up from out of the additional receipts of taxation a food subsidy fund of the order of Rs. 25 crore. This fund will be used to keep down food prices, particularly for the more vulnerable areas and would, I think, prove a valuable instrument in the hands of my hon. colleague, the Food and Agriculture Minister.

The proposals that I have made will still leave the overall deficit for the year at a level somewhat higher than I would consider safe; but it is not unwise in my judgment to run a measure of risk especially if by doing so the expansionary impulse in the economy can be maintained at a reasonably high level. A budgetary deficit involves creation of fresh purchasing power. It implies that, on balance, Government puts more purchasing power into the hands of the public than it withdraws from it. The stresses and strains that have developed in the economy are a warning against unrestricted deficit financing. I am not against deficit financing as such I recognize it can play a role in promoting development. But, it is a medicine to be taken in small doses and it is not food that would sustain the system. On the whole, I doubt if we shall be able over the Plan period to undertake deficit financing of the order indicated in the Plan, and this means we have to raise more resources by taxation, loans and small savings. Considering the needs not only of the current year but also of the next few years in terms of the Second Five Year Plan, I am convinced that the measures I have placed before the House today are essential and salutary.

Indeed, I feel confident that over a period, they will help us in getting out of the stagnancy of public revenue relatively to national income, which is a bottleneck from the point of view of further developmental planning. The ratio of public revenues to taxation in India is low, even by the standards of relatively underdeveloped countries. The way to raise it is to initiate structural changes in the tax system so as to make it more progressive in terms of returns, Therefore, Sir, the emphasis of my proposals is on this aspect of the tax problem. The propriety of the changes I have suggested should be judged in this light rather than in terms of their immediate yield. I have in effect, outlined the tax structure for the Plan period. There will, undoubtedly, have to be some adjustments in this structure from year to year, but I expect that these adjustments

will be relatively small and of a marginal character. For the rest of the Plan period, our aim will be to watch how the changes I have initiated this year work in practice and how the system can be improved upon—to the benefit of the taxpayer and no less than in the interest of the tax-receiver. Within this broad framework, I believe, all concerned can proceed with their plans with confidence and assurance of sympathetic consideration by Government of any genuine difficulties.

Conclusion

This brings me to the end of my story; I am aware that the policies and proposals I have placed before you and this hon. House add up to a varied and somewhat formidable bill of fare. But the exigencies of the situation demand nothing less. There are moments in the history of every nation when it must advance on a great many fronts at the same time. The task before us is not merely one of raising resources for the immediate needs of the Plan. We have also to attempt at the same time a rationalisation of the tax structure so that it can sustain a mounting crescendo of developmental effort in the years to come. I am one of those who also believe that the greatest advances towards economic equality and positive social improvement are made in difficult times when the conscience and the solidarity of the people are raised to the highest pitch. This I believe is one of the chief lessons of the second world war. Sacrifice on a nation-wide scale and injustice or excessive inequality go ill together. And that is why I have endeavoured in the present budget to snatch from the needs of the moment an opportunity for imparting a new turn to our tax structure towards greater efficiency and I hope greater equity. A heavy responsibility rests on us all at this juncture, and I have presented to the House an approach in terms of policies and of proposals which is to the best of my judgment appropriate to this responsibility. I hope when the time comes for someone to judge whether we rose to the occasion or not, we shall have to our credit a record worthy of this House and of the nation.

Sir, I beg to lay on the Table of the House the Budget proposals.
