

**SPEECH OF
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INTRODUCING THE BUDGET FOR THE YEAR 1954-55***

Highlights

- *Setting up of the Industrial Development Corporation*
- *IBRD Assistance for Development Projects*
- *Need for an Efficient Navy and Air Force Emphasised*
- *Need for a Savings Movement Emphasised*
- *Abolition of the Import Duty on Raw Cotton*

I present the statement of the estimated receipts and expenditure of the Government of India for the year 1954-55.

Review of Economic Conditions

The presentation of the annual budget provides an opportunity for a review of the economic conditions of the year which form the background against which the budget for the coming year has been prepared and I propose to give a brief account of the main features of this country's economy in the year now drawing to a close.

Budget, 1954-55		
Total Revenue	—	Rs. 441.03 crore
Total Expenditure	—	Rs. 467.09 crore
Deficit	—	Rs. 26.06 crore

Like other countries India has been going through a process of return to normal conditions after the war, a process which was disturbed and delayed by the outbreak of the Korean war and its aftermath. The return

* *Parliamentary Debate (House of the People)*, Vol. I, Part-II, 27.2.1954, cc. 928-962.

to "normality" commenced in 1952 and continued during 1953. Thus, while at the end of December 1951, the price index of all commodities had risen from 397.1 immediately before the commencement of the Korean war to 432.2, by the end of December 1952, it had fallen to 374.5, well within the level reached at the time of the outbreak in Korea. In 1953, the variations of prices were within a narrower range than in the previous year and at the end of December 1953, the index number had risen by a little under 5 per cent and stood at 392.6. Throughout the earlier months of the year and until about the middle of August there was a continuous but a moderate rise in prices, largely caused by temporary factors. The supply position was slightly difficult and the difficulty was aggravated by expectations of lower output in certain important commodities like black pepper, sugar, cotton and groundnuts. The demand for certain commodities like sugar and cotton also rose owing to increased internal consumption and the psychological effect of all these factors was to generate an upward movement of prices. Measures were taken from time to time to improve the supply position and bring down prices and among these I would mention the imposition of the ban on the export of sugar and *gur*, restriction on the export of groundnut oil, liberalization of imports of coconut oil and copra, reduction in import duties on palm oil, copra, sugar and cotton seed oil, the opening of fair price shops, the issue of a larger quantity of foodgrains and the reduction in the price of imported wheat supplied by the Centre. These measures played an important part in arresting the upward movement of prices and between August and December there was a continuous decline. The general index number at the end of December was 20 points less than the peak figure reached in the middle of August. Since then there has been a slight increase but there is yet no evidence that this is not due to purely temporary and seasonal causes.

Over a wide field there was also marked increase in production during 1953. The domestic production of cloth and cement reached new records. Most of the other industries also showed a significant increase in their production. The general index number of industrial production, which stood at 128.7 in 1952, the highest for any post-war year, was exceeded in 1953, the average for the first nine months being over 133. Though later figures are not yet available, there is good reason to believe that 1953 would be the best year yet for industrial production. This achievement is noteworthy because in some very important industries production was below normal owing to certain special factors. The strike in a steel plant resulted in a drop in the production of iron and steel, the total for which

is now estimated at a little below the 1.1 million tons* reached in 1952. Similarly the production of copper dropped by nearly a sixth on account of a strike. Jute manufactures were about 83,000 tons below the output of 1952, during part of which year the mills worked longer hours. Sugar production was also nearly 2 lakh tons less than in 1952 owing to a smaller acreage under sugarcane and the diversion of part of the cane supplies to the production of *gur*. The fact that, in spite of the drop in production in some individual industries, the general index number of Industrial production in 1953 will be higher than in 1952 gives an indication of the progress achieved.

Industry, however, cannot be said to have been entirely free from difficulties. The jute Industry was faced with the problem of maintaining its export market and had to be assisted by a readjustment of the export duties. The tea industry was also helped to meet a difficult situation created by the fall in the price of tea and is now in a healthier position than it was at the beginning of the year. Lack of demand is also affecting certain industries like paints, power-driven pumps and asbestos cement sheets. But the complaint was so common in 1952 that industry in general was facing a severe recession may now be said to have largely disappeared. Nevertheless, the need for increasing efficiency and economy, especially in markets characterized by keener competition, still remains paramount.

The improvement in the general food situation recorded in 1952 was maintained during 1953. With the sustained improvement in production there has been a drop in food prices and at one stage there was concern in certain quarters over the possibility of prices falling below the economic level in certain parts of the country. The improvement in the food position has made it possible to relax controls in several directions. Gram has been completely decontrolled as also coarse grains except in a few areas. Controls on wheat have also been relaxed with the exception of certain restrictions on inter-State movements. The year 1953 closed with a comfortable stock of about 15 lakh tons of foodgrains of which about 5 lakh tons were held in the Central reserve. The prospects for the coming harvest are generally good and, if the monsoons do not disappoint us next year, the food prospects may be said to be reassuring. In view of this improved position the target of food imports next year has been fixed at a much lower figure than in recent years; any improvement in this respect also improves materially the country's balance of payments position.

* One ton is equal to 1,000 kgs.

The production of cash crops during 1953 was also good except in the case of jute, which has shown a decline, partly due to adverse weather conditions and partly to fall in prices at the time of sowing.

While the general economic situation in the country continues to improve, there has, in recent months, been an aggravation of the problem of unemployment. The number of the unemployed registered with the Exchanges rose continuously from 4,25,000 in March 1953 to 5,22,000 in December 1953. The problem of unemployment has been discussed at great length on the floor of the House and I had occasion to explain both the dimensions of the problem and the measures that Government have in hand or dealing with it. I should only like to reiterate what I have said in the past, namely, that the problem should be viewed in its proper perspective. Unemployment is not a short-term phenomenon calling for short-term remedies. It is one which calls for long-term measures and ultimately it is only by a considerable increase in economic activity that it will be possible to absorb the increasing number of men and women who come out of our schools and universities year-by-year. This means an increase in the tempo of development in which both the public and the private sectors have to take their due share. So far as the public sector is concerned, the Planning Commission have recently expanded the Plan to the extent of Rs. 175 crore, mainly to assist in meeting the situation created by unemployment in rural and urban areas. Measures for increasing employment opportunities have become an integral part of the Plan and in the orderly implementation of the Plan lies, in my view, the most promising method of easing the position.

I just mentioned the role of the private sector in mitigating unemployment. Industry has to expand and new industries providing wider opportunities for employment have to spring up in the country. To assist in such a development Government have under consideration the question of setting up an Industrial Development Corporation to stimulate the flow of capital into new industries. As I have mentioned in the statement I made in the House last Wednesday, Government are also exploring possibilities of bringing into existence, with the cooperation of private interests both in this country and outside, of another Corporation to promote the expansion of industry. These discussions, in which the International Bank for Reconstruction and Development are also taking interest, are still in their preliminary stages and the House will appreciate that I am now in no position to say anything definite about the outcome.

Balance of Payments

The country's balance of payments position was generally satisfactory during the year that is now drawing to a close. The House will remember

that for the first time, after a series of deficits earlier that year, a heartening surplus in the external accounts emerged in the third quarter of 1952. This trend became more pronounced in the last quarter of that year, the surplus for which amounted to Rs. 38 crore, Rs. 13 crore more than in the preceding three months. From the beginning of 1953, however, the surplus began to decline and in the second quarter of 1953, a deficit of about Rs. 10 crore emerged for the first time in twelve months. In the third quarter of last year, we nearly balanced our account, and for the last quarter, for which final figures are not yet available, there may well be a small surplus. Taking the year as a whole, we are likely to have a moderate surplus, which is reflected in the Sterling balances held by the Reserve Bank, which have risen from Rs. 706 crore at the end of December 1952 to Rs. 723 crore by the end of December 1953. This overall improvement has, however, been achieved at a reduced level of trade. Export receipts for the first nine months of 1953 amounted to only Rs. 375 crore, registering a decline of Rs. 125 crore compared with the corresponding period of 1952. But this decline in export earnings has been more than balanced by the decline in imports which at Rs. 434 crore were less by Rs. 174 crore as compared with the previous year.

The fall in the country's export earnings is, in the main, due not to a contraction of exports but to a fall in export prices. Over the whole field of international trade we are now definitely in a buyer's and not a seller's market and the effect of this transition on process has to be constantly kept in mind in regulating the country's export trade. It is not enough to maintain the present quantities of export and the markets for them at that level. It is necessary to offset the fall in exports earnings due to a reduction in prices by expanding the country's exports. During the course of the year many export duties were readjusted with this end in view. The duties on hessian, linseed, and linseed oil were reduced while the duties on some cotton goods and on selected jute manufactures like twist, yarn, rope and twine, hessians other than cloth and bags and all other descriptions of jute manufactures were totally abolished. These measures appear to have had a healthy effect and trade in the three principal commodities figuring in our export trade, namely, jute, tea and cotton textiles appears, in recent months, to have recovered from the difficulties which it faced in selling these goods abroad. In order to allow new lines of export to develop, the Sea Customs Act has also been recently amended to permit the grant of a rebate of import duty on raw materials and components used in the manufacture of goods subsequently exported. A special organization to deal with export promotion has also been set up.

The reduced payments for imports in 1953, as compared with the previous year, have to be considered against the background of the special factors which accounted for the high level of Imports in the latter year, in which there were very substantial imports of wheat and raw cotton. The improvement in the food position and the increase in the production of cotton has led to a contraction of imports of both in the current year. Although industrial production has, on the whole, remained buoyant, the demand for supplies of raw materials from abroad has not been on a level commensurate with the higher output. Part of this may be explained by the switch-over to indigenous supplies and the running down of inventories. But the position is not one which need cause anxiety, especially when one remembers the somewhat exceptional level of imports in the previous year against which the fall is measured.

The improvement in the dollar position during last year was even more striking than the improvement in the balance of payments position as a whole. In the first nine months of 1952, we had a deficit of Rs. 127 crore on current account; in the corresponding period of 1953 we had a surplus of Rs. 18 crore. This improvement is largely due to smaller payments for food and cotton purchases from the United States. In the latter half of 1952, India's contribution to the gold and dollar reserves of the Sterling Area amounted to \$70 million against a net drawal of \$188 million in the first half of that year. In the first half of 1953, we had to draw a small sum of \$14 million from the Central pool. Figures for the latter half of 1953 are not yet available but the preliminary figures indicate that during the five months ended last November we made a net contribution of \$22 million to the Central reserves.

The improvement in the balance of payments position of this country has also materially assists in strengthening the Sterling Area's position as a whole. I do not propose to say anything in detail now about the conference of Commonwealth Finance Ministers held last month in Sydney, as I have already made a full statement on the subject on the floor of the House. The Conference provided an opportunity for a free and frank exchange of views among representatives of the participating Governments and the review of the progress of their development plans. While individual countries would pursue policies best suited for their own needs, there was general agreement that all of them should follow sound internal policies, increase production and facilitate the expansion of world-trade which would make it possible to achieve the multilateral convertibility of Sterling and other important currencies. So far as India is concerned, I would only repeat what I said last year, that the pursuit of these policies does not involve the adoption of any new policy by Government. By resolutely persevering in the implementation of the Five Year Plan we shall best serve the interests of both ourselves and the Sterling Area.

Before leaving the subject of external finance I should like to make a brief mention of a few other matters of interest in this connection. As the House is aware, we have taken a number of loans from the International Bank for Reconstruction and Development for some of our development projects and the question of increasing this arena of assistance is under constant consideration. A mission of senior officials of the Bank visited this country last September with the object of studying the trends in the country's economy and considering the possibilities of further participation by the Bank in new projects. The report of the mission is still awaited but, meanwhile, discussions are going forward for obtaining assistance from the Bank for the setting up of a thermal station in Trombay and financing a hydroelectric generator, which is part of the Koyna multipurpose project.

In view of the satisfactory balance of payments position we are also proposing to repurchase from the International Monetary Fund a portion of our currency which we sold to the Fund in 1948 in exchange for dollars when we needed the dollars to meet the heavy balance of payments deficits with the dollar area during that year. Out of the total outstanding of \$100 million, we propose to repurchase the equivalent of \$72 million, of which the equivalent of \$36 million will be purchased next month and the balance in the coming year. The repurchase of the rupees will result in a saving of the interest charges paid to the Fund.

The House is aware of the assistance which India has been receiving from friendly countries outside for the country's development schemes. This has come from Commonwealth countries under the Colombo Plan, from the United States Government and certain private agencies in that country and from other friendly countries like Norway. In the current year, a sum of \$77.1 million was provided by the Indo-US Technical Cooperation Agreement for utilization on agreed development projects. The Government of Canada have agreed to provide a further sum of \$13.6 million. The Ford Foundation, which has been providing assistance for a programme of rural development, made available an additional sum of \$1 million for undertaking a training programme for social education and health. Under the Colombo Plan we are also providing assistance to neighbouring countries. In the Budget for the next year the total sum received by us by way of external assistance under the Colombo Plan and from friendly foreign countries is expected to amount to Rs. 45 crore while we shall be spending on the provision of such aid to other countries about Rs. 2 crore.

Financial Year 1953-54

I shall now give a brief account of the financial position in the current year and the prospects for the coming year.

The House will remember that the Budget for the current year placed the revenue at Rs. 439.26 crore and the expenditure at Rs. 438.81 crore leaving a nominal surplus of Rs. 45 lakh. In balancing this Budget, I had taken credit for a recovery of Rs. 18 crore from Pakistan on account of two instalments due from that country in repayment of the partition debt. Hon. members are aware of the large number of complicated problems which are outstanding between us and Pakistan of which the settlement of the partition debt is only one issue. Over the whole front we have been trying to achieve a settlement of these issues but it has not been possible to arrive at a settlement so far. I may, however, mention that I have been having discussions on this subject with the Finance Minister of Pakistan and we both hope that it will be possible to commence the repayment of the debt in the coming year. This single factor has made for a deterioration of Rs. 18 crore in the revenue budget for the current year, and converted the surplus of Rs. 45 lakh into a deficit of Rs. 16.96 crore.

The total revenue this year is now placed at Rs. 413.69 crore and the expenditure of Rs. 430.65 crore leaving, as I just said, a deficit of Rs. 16.96 crore. Of the drop of Rs. 25.57 crore in revenue, Rs. 18 crore are, as I have already explained, accounted for by the non-receipt of the instalments expected from Pakistan. Customs revenue is expected to be Rs. 10 crore less than the sum provided in the Budget, largely due to the readjustment of export duties during the course of the year, particularly the export duties on jute, to enable us to maintain our position in world markets where there has been a gradual shift from a seller's to a buyer's market. Union Excise Duties are expected to show a drop of nearly half a crore. The revenue from taxes on income and corporation tax is, on the progress of actuals, expected to show an improvement of Rs. 6 crore, of which nearly Rs. 3 crore will be absorbed by larger payments to the State Governments on account of their share of income-tax. The receipts under other heads are unlikely to differ materially from the figures I had taken in the budget estimates.

On the expenditure side the revised estimates show an improvement of Rs. 8.16 crore. This is made up of a drop of Rs. 1.57 crore in the expenditure on the cost of revenue collections. Rs. 2.70 crore in the provision for Civil Administration and Rs. 8.73 crore in the provision for Extraordinary Charges, partly offset by increased expenditure of Rs. 1.68 crore under Debt Services and Rs. 3.64 crore under the head

'Miscellaneous'. The decrease in the cost of revenue collection is mainly due to a saving of Rs. 94 lakh in the provision for the payment to the States of their share of the Union Excise Duties due to the readjustment of certain excess payments in the previous year made on a provisional basis, and a reduction in the collections of the shared taxes. The decrease under Civil Administration is distributed over a number of heads, details of which are given in the Explanatory Memorandum. A substantial portion of the saving is due to lapses in the provision for basic and social education and economic development in the Tribal Areas, where the progress on the implementation of developmental schemes has been slower than anticipated. There is also a saving of Rs. 93 lakh in the provision for transfers to certain funds, the actual transfers being less than was expected at the time the Budget was framed owing to the delay in passing the necessary legislation. Under extraordinary charges the Budget included a total provision of Rs. 17.37 crore for community development schemes, local works, industrial housing and Grow More Food. The total expenditure on these items is now estimated at Rs. 8.72 crore. Community development schemes are now getting under way and the expenditure on them, in what is practically their first year of operation, has been less than estimated. Similarly, it has not been possible, owing to the inevitable delay in the drawing up of schemes spread over a large number of States and, within each State, over a large number of districts and involving a measure of local or State contribution to spend fully the provision made for local works. Assistance to States for Grow More Food schemes is partly given by way of grants and partly by way of loans, the actual distribution depending upon the nature of the schemes accepted for Central assistance. On the progress of actuals, it is expected that the expenditure by way of grants would be about a crore less than was assumed in the Budget. Subsidies on industrial housing are also expected to be less than the Budget by about Rs. 2.75 crore mainly due to the slower progress in the expansion of industrial housing which, among other things, requires the cooperation of industrial employers and their willingness to undertake such schemes. In spite of the efforts made for accelerating schemes for the promotion of the welfare of the backward classes, it has not been possible to spend the entire provision made for this purpose in the Budget. If I may put it somewhat shortly, the entire saving in the provision for extraordinary charges is largely due to a short-fall in the development expenditure, the result largely of the inherent difficulties in the way of getting these schemes going. Under Debt Services, the increase of Rs. 1.68 crore is mainly accounted for by the hardening of discount rates on treasury bills, while under Miscellaneous the increase is largely due to an unforeseen expenditure of Rs. 1.77 crore on payment of subsidies on foodgrains, mostly to Travancore-Cochin, which has a special problem, as a large importer of costly rice from outside, and a carry over of Rs. 2.06 crore

from the last year in the payment to sugar factories out of the special excise levied in November 1952, as part of the measures to secure a reduction in the price of sugar.

Before I pass on to the estimates for the coming year, I should like to mention the expenditure on Defence Services during the current year. The total net expenditure is expected to be just within the figure taken in the Budget. While the total estimate remains about the same, there is an increase of Rs. 2.46 crore in the Air Force estimates offset by decreases in the expenditure on the other Services. These variations are mostly due to variations in the forecast for the receipt of stores.

Financial Year 1954-55

For the coming year, I estimate the revenue at Rs. 441.03 crore and the expenditure at Rs. 467.09 crore leaving a deficit of Rs. 26.06 crore on revenue account.

The revenue from customs in the coming year has been placed at Rs. 175 crore against the current year's revised estimate of Rs. 160 crore. The improvement of Rs. 15 crore is due, firstly, to the additional duty expected to be collected next year on the increased imports of sugar on Government account now estimated at between 4 and 5 lakh tons, against 2.5 lakh tons this year; secondly, to increased yield from the import of commodities which carry high revenue duties, which may be expected with the easing of our foreign exchange position; and thirdly, to the normal expansion of revenue. The revenue from Union Excise Duties is placed at a crore less than in the current year. The yield from sugar will be Rs. 2.50 crore less than in the current year, receipts in which were somewhat inflated by the proceeds of the special excise which was withdrawn last November; but this will be partly set off by an improvement of Rs. 1 crore in the receipts from tobacco and about half a crore from the other excises. Under Income Tax, I am repeating the revised estimate for the current year. I expect that the progressive drop in the arrears of excess profit and other taxes will be made good by the improvement in normal collections. Revenue from the Estate Duty, recently levied, is likely to come in for the first time in the coming year. It is a new tax, the yield from which is most difficult to estimate. The administrative machinery for the assessment and collection is being specially assembled and trained and I hope it will be possible to get it in full working in the coming year. I have taken credit for a gross revenue of Rs. 4 crore from this duty, nearly the whole of which will be transferred to the States in accordance with the provisions of the Constitution. Under Currency and Mint, following the increase in the gross income of the

Reserve Bank from the increased yield on treasury bills held in the Issue Department, the surplus profits paid to Government next year are expected to be Rs. 5 crore more than the current year's payment of Rs. 12.50 crore. I have also taken credit for the receipt of one instalment of Rs. 9 crore from Pakistan. As I explained earlier, I hope to reach a settlement of this issue in the near future and I am confident that it will be possible to commence these repayments with effect from the coming year.

For next year, I am budgeting for a total expenditure of Rs. 467.09 crore, of which Rs. 205.62 crore will be on Defence Services and Rs. 261.47 crore under Civil heads.

In present circumstances, I do not think I need to make any apology for the size of the expenditure on Defence Services. As I mentioned last year, there is no question of any sizable reduction in the size of the Armed Forces so long as there exists any danger to the country's security. In spite of recent developments likely to affect the balance of power in the area in which we and our vital interests are located, we are not embarking on any scheme of expansion of our Armed Forces. We are only going ahead with our normal programme of bringing the Navy and the Air Forces up to reasonable efficiency in men and material and the increase of Rs. 6 crore in the expenditure next year over the current year is due to this normal programme. While the recent developments have underlined the need for continuous vigilance on our part that the country's security is not in any way jeopardized, and the House may rest assured that this vigilance is being kept, it is not our intention to halt or slow down the economic development of the country on which, in the long-term the country's inherent strength depends, by entering into any race for armaments.

Civil expenditure next year is expected to be Rs. 30.50 crore more than in the current year. I do not propose to weary the House by giving a detailed account of individual increases, particulars of which are given in the Explanatory Memorandum. I shall content myself with drawing attention to the more important factors which account for this increase.

I must remind the House that the coming year will be the fourth year of the Five Year Plan and it is reasonable to expect a rise in the tempo of developmental expenditure during that year. The bulk of the increase of Rs. 30.50 crore in civil expenditure is due to this factor. For example, the total expenditure on what may compendiously be called the nation building and developmental services in the coming year is likely to amount to Rs. 53.67 crore against Rs. 39.52 crore in the current year. Expenditure on scientific departments, mainly on grants to scientific institutions and

outlay on scientific services, is likely to be about a crore more than in the current year. The budget for education, providing for substantial grants for the expansion of basic and social education throughout the country, will be about Rs. 8 crore more than in the current year. Nearly a crore and three-quarters more will be spent on medical and health services and about Rs. 2 crore more on agriculture and allied services. Increased provision has also been made for the development of village and small-scale industries, so vital to the balanced development of the country. Community projects and national extension services between them will cost Rs. 8.50 crore more than in the current year; about a crore more will be spent on grants for grow more food schemes and a crore and a quarter on schemes of social welfare. These increases in developmental expenditure together account for Rs. 25 crore roundly of the total increase of Rs. 30.50 crore.

The increase of Rs. 5.50 crore in the rest of the expenditure is mainly due to two factors. A lump sum provision of Rs. 3.60 crore has been made under grants-in-aid to States for meeting any assistance that may have to be given to the State of Jammu and Kashmir if the scheme for financial integration of that State with the Indian Union, somewhat on the pattern of the former Princely States, which is under discussion with it, materializes. The payment of the States' share of Union excise duties next year will, on the basis of the estimated revenue from the shared excises, be about three-quarters of a crore more than in the current year. Increased provision has also been made under grants-in-aid to States for the welfare of Scheduled Tribes, Scheduled Castes and other backward classes. While, obviously, there are bound to be small increases here and there on account of the normal growth of expenditure, I think I could truthfully claim that the increase in expenditure in the coming year is mostly on development in accordance with the approved plan.

Changes in Classification

In the estimates of the coming year I have, in consultation with the Comptroller and Auditor-General, made a change in the classification, to which I must draw the attention of hon. members. The proper allocation of expenditure between revenue and capital is always a matter of some difficulty, particularly against the background of the large development programme, which is in process of implementation and which takes into account the resources of the country as a whole. While it is true that normally every effort should be made to meet current expenditure, in the sense of administrative expenditure and expenditure that does not result in the creation of tangible assets, from current revenue, an exception

may have to be made in the case of expenditure which in the broader national interest, is incurred at a faster pace than would be justified by the amount of revenue can be raised or is expenditure which, while it technically does not create any tangible assets to the Government which spends the money, nevertheless results in the creation of such assets for the community or for other Governments. The House will remember that in the Budget for 1951-52, I transferred to revenue from capital certain types of grants on the ground that the expenditure on the payment of these grant does not create any durable asset for the Central Government. I believe that the principle behind that change is still valid but, if it is carried to its logical conclusion, it may create a difficult position for revenue when, as under the Plan, we are providing Central assistance on a substantial scale to State Governments and others by way of outright grants for purposes which, if they had been the direct concern of the Centre, the Centre would have met from borrowing. I have in mind three types of grants, namely, grants for industrial housing, grants for local works and grants to State Governments under the report of the Gadgil Committee which recently looked into the question of the implementation of a special undertaking given to the States of Saurashtra, Madhya Bharat, Rajasthan and Patiala and East Punjab States Union in their integration agreements that the remedying of their backward condition would form the subject of a special inquiry. The first represents the capital contribution which does create an asset and which, if the Central Government were building the houses for its own purposes, would have been met from borrowings. The second is mostly for the construction of roads, buildings, etc. in local areas which also creates durable assets for the community. The third is merely the conversion of a part of the Central assistance under the Plan to these States from loans to grants and additional grants for the construction of certain administrative buildings. In all these three cases I am convinced that it would be proper to meet the expenditure from capital. But as the expenditure does not create any durable assets for the Centre, I propose that it should be written back to revenue over a period of fifteen years so that ultimately all this expenditure is met from revenue. This proposal has the advantage of securing a measure of stability for the revenue budget, while at the same time outlay on developmental schemes is not held up by the mere size of the revenue resources currently available. In accordance with the change mentioned above, a sum of Rs. 16 crore will be debited to the capital budget next year. There may be other similar expenditure in the coming years and it will be decided from time to time, in consultation with the Comptroller and Auditor-General, whether it should be initially debited to revenue or capital.

Compensation for Displaced Persons

Hon. members are aware of the interim scheme of compensation for the loss of immovable properties in West Pakistan which was sanctioned last November for certain categories of displaced persons. The scheme involves, in addition to the transfer of property in kind like houses and the adjustment of outstanding of rehabilitation loans, the payment of some amount in cash. These payments are likely to amount to a substantial sum and it has been decided, in consultation with the Comptroller and Auditor-General, to debit these payments initially to capital and then write them back to revenue over the next fifteen years. I need hardly mention that the debit of these payments directly to revenue would involve a very heavy strain on the revenue budget and there is good justification for spreading the burden over a reasonable period.

Capital Expenditure

The current year's Budget provided for an expenditure of Rs. 76.64 crore on capital outlay. I now expect that the expenditure will amount to not more than Rs. 63.90 crore. The large saving of Rs. 13 crore occurs mainly under three heads. On Defence a saving of a little over Rs. 4.50 crore is likely to be realized mainly due to slower progress on certain works and the non-receipt of some plant and machinery. Civil works will also show a saving of Rs. 4 crore roundly, again due to slower progress on works taken up during the year. Schemes of Government trading, which were expected to involve a net outlay of Rs. 3.50 crore in the Budget, are now likely to balance their accounts. These three heads together account for a saving of Rs. 11.90 crore. The savings under other heads are relatively of smaller amounts and part of the savings will be absorbed by increased expenditure on the Damodar Valley Scheme where it has been possible to accelerate progress.

For next year a total provision of Rs. 145.75 crore has been made for capital expenditure. The large increase over the current year's revised estimates reflects a rising tempo of developmental expenditure to which I referred briefly earlier in my speech. In the first three years, the Plan developmental expenditure was necessarily somewhat smaller than the proportionate outlay for the period. This was partly due to the essential time taken in the preparatory work on new schemes. It is also partly due to the fact that in the earlier period of the Plan, Government had to be cautious in going forward with expenditure, so as to keep inflationary trends under control. Now that the economic climate is better suited for stepping up investment and the schemes themselves are gathering momentum, and in some cases nearing completion, the expenditure in the last two years is bound to be much more than in the current year.

I shall briefly mention the more important factors accounting for the increase in the provision for the budget year. The estimates include a provision of Rs. 16 crore for grants to States for development which will be written back to revenue over a period of fifteen years. A sum of Rs. 4 crore has also been provided for payment of compensation to displaced persons which will be similarly spread over revenue. For Railways an increased provision of Rs. 16 crore has been made partly to meet essential commitments and partly to make good the fall in resources which the Railways themselves were expected to provide under the Five-Year Plan for development. Expenditure on Posts and Telegraphs will be nearly Rs. 4 crore more than in the current year. On Major Ports about Rs. 2.50 crore more will be spent on the development of the Kandla Port and the nearby township of Gandhi Dham. The provision of residential and office buildings in New Delhi, where the accommodation problem is still acute, is being increased by nearly Rs. 4.75 crore. The development of roads and national highways next year will cost a little over Rs. 13.25 crore against Rs. 8.50 crore this year. The general building programme for Government departments located outside Delhi, covering both residential and office accommodation, will cost Rs. 8 crore next year against Rs. 2.50 crore this year. Rehabilitation works will also require an additional outlay of Rs. 75 lakh. Provision has been made for a possible outlay of Rs. 10 crore on the new steel plant which Government are putting up in collaboration with a German Combine. Capital outlay on Defence will, next year, cost Rs. 17.75 crore, an increase of nearly Rs. 7.50 crore over the current year which provides for the normal programme of reorganisation and the carry-over from the current year.

In addition to the provision for capital outlay mentioned above the estimates include Rs. 160 crore this year and Rs. 214 crore next year for loans to State Governments, mostly for their development projects.

Hon. members may wonder whether the increased sums provided for development, both in the revenue and in the capital budget, are likely to be spent in full, when one remembers the large savings in the provision for developmental expenditure in the last two years and anticipated savings in the current year. The reasons for the slower progress of development schemes, which these lapses reflect, have, I freely confess, been a matter of some concern to Government. We have asked a senior officer to conduct quick examination of the existing procedure in the drawing up sanction and execution of development schemes and to report on the causes leading to the present unsatisfactory position. Government attach the greatest importance to the implementation of the Five-Year Plan within the period contemplated in the Plan and it is their intention to take all measures possible to remove the procedural and other impediments to

the progress of the developmental schemes. I hope it will be possible to take early decisions on the findings of this inquiry and I am confident that it will be possible to spend the increased sums provided in the next year's Budget. Such an increase is absolutely necessary if the targets visualized in the Plan have to be achieved and Government are determined that all possible steps, should be taken to achieve these targets.

The House is aware of the recent decision of the Planning Commission to make certain re-adjustments in the Five Year Plan. This Plan, as formulated last year, provided for a total outlay of Rs. 2,069 crore. This figure is likely to be increased by about Rs. 175 crore as a result of the re-adjustments, I have already referred to. In the first three years the expenditure, taking both the States and the Centre together, will be of the order of Rs. 1,000 crore, a few crore less and not more. This would leave something like Rs. 1,200 crore, to be spent in the next two years, of which a substantial portion will fall on the Central budget either by way of direct expenditure or in the form of assistance to the State Governments. In the context of this, the substantial increase in the budget provision for the coming year is inescapable and Government will strain their utmost to see that the development envisaged in the Plan and provided for in the Budget goes forward.

Ways and Means

The current year's Budget provided for an overall deficit of Rs. 138 crore of which Rs. 28 crore was proposed to be met from the cash balances and the balance of Rs. 110 crore by the expansion of floating debt. On the basis of the revised estimates, the overall deficit will amount to Rs. 128 crore. The opening balance for the year was Rs. 19 crore more than I expected, the improvement reflecting the lapses in the provision made under various heads of expenditure. The market loan during the year amounted to only Rs. 75 crore against the budget anticipation of Rs. 100 crore but this shortfall was more than offset by an improvement of Rs. 40 crore in the cash outgo on the repayment of debt where, because of the large holdings of the maturing loan in the Cash Balance Investment Account, only Rs. 76 crore had to be paid in cash against the estimate of Rs. 116 crore. The net income from small savings during the year has been rather disappointing and may not amount to more than Rs. 40 crore against the budget estimate of Rs. 45 crore. The intensive drive on the part of certain State Governments to mobilize savings for their own public loans has to some extent affected the flow

of money into Small Savings. This in itself is not a matter of any concern since, to the extent additional resources are mobilized by the States, their dependence on the Centre is reduced. But in the long-term it is essential to develop the savings movement so that, irrespective of temporary factors like the one I just mentioned, a continuous and rising flow of small savings is maintained. The question of securing this is, as the House is aware, receiving the constant attention of Government. Recently steps have been taken to extend the system of authorized agents which had been revived as an experiment in three selected States to all the States. We are also experimenting with the use of Village Panchayats as authorized agents and if this succeeds it will be extended to all the States. I mentioned last year that Government were taking steps to interest voluntary social and women's organizations in the movement. A Women's savings week organized last March produced very encouraging results and a regular Women's Savings Campaign has been inaugurated. A representative Central Advisory Committee has been set up to guide and organize the campaign and a large number of selected voluntary organizations are being appointed as authorized agents to mobilize savings. It will be some time before the results of these measures become apparent but I believe that they would go a great way in developing the movement. Taking the budget as a whole. I expect that the expansion of treasury bills to leave a closing balance of the order of Rs. 50 crore at the end of the year, need now amount to no more than Rs. 80 crore against Rs. 110 crore taken in the original budget.

The overall deficit next year is estimated at Rs. 250 crore. This is largely due to the substantial provision made for increased expenditure on development in both the revenue and capital budgets. During the coming year one loan namely, the 2.25 per cent loan, 1954, with an outstanding balance of Rs. 35 crore falls due for payment, while Government have the option of redeeming another loan, the 3.50 per cent loan, 1954-59, with an outstanding balance of Rs. 13 crore. It has been assumed that both these loans will be discharged and credit has been taken for a market loan of Rs. 75 crore. Small Savings next year may amount to Rs. 45 crore. Allowing for all these and for the net receipts from the various miscellaneous transactions under debt and remittance heads, the receipt of foreign assistance, etc., it will be necessary to expand treasury bills by Rs. 250 crore to balance the Budget overall.

There is another way of looking at the ways and means problem. Government have to find Rs. 26 crore for meeting the revenue deficit, Rs. 395 crore for financing essential capital outlay and assisting the

State Governments, local bodies, etc., for financing their development schemes and Rs. 53 crore for the repayment of the maturing debt. Against this they hope to raise Rs. 75 crore from the market. Foreign assistance and dollar loans may bring in Rs. 48 crore and Small Savings Rs. 45 crore. Other miscellaneous debt and remittance transactions may bring in Rs. 56 crore. This will leave a gap of Rs. 250 crore in the available resources to balance the Budget. As the cash balance will just provide the necessary till money and cannot be drawn down any further, the whole of this gap will have to be met by the issue of treasury bills. The amount for which it will be necessary to float treasury bills will depend upon the actual circumstances of the year as they develop. But for purposes of the Budget I have assumed that it will be of the order of Rs. 250 crore.

There will be some—not many, I expect—in this House and outside who will have doubts as to the wisdom of launching upon deficit financing on this scale. I have given the most careful thought to this question, and, on a balance of considerations, I am convinced that in the conditions as they now are and are likely to be in the near future, we are not taking any undue risks in going forward in the manner I have indicated. In fact, deficit financing to a moderate extent is necessary under present conditions. The period of inflationary stresses is now well behind us and there are signs that the high levels of production we have attained in various lines,—and which we would like to improve upon—cannot be sustained without some increase in money supply in the hands of the public.

In judging the economic effects of the budgetary deficit, it has to be borne in mind that part of it might well be neutralized by a balance of payments deficit. For some time past, as I have indicated earlier, we have not, on balance, been drawing upon our sterling balances. This is an indication that the level of economic activity in the country so far, is not high enough to create any large demand for external resources; in other words, the optimum level or tempo of development has yet to be reached. A country's balance of payments is subject to many uncertain and unpredictable factors, and there is always need for caution. Nevertheless, so long as the domestic price situation is well in hand, and there are internal reserves which can be drawn upon in case of need, deficit financing for development involves little risk. Indeed, it can be said that deficit financing, subject to safeguards, has a definite part to play in bringing into use the unutilized resources in the system. It was in view of these considerations and in the context of the recent increase in unemployment in certain sectors that the expansion of the Plan was decided on, and the budget proposals for the next year have been framed

in pursuance of this decision. With domestic food production at a satisfactory level, and with the outlook for large imports from abroad better, should need arise, the budgetary deficit envisaged will, I expect prove reflationary rather than inflationary. If, however, major changes in the economic situation or climate take place obviously, Government policies will have to be reconsidered. For the time being, I should say that in the context of our developmental needs, it is important for us not only to live within our means but also to live up to our means.

This leads me to another point. The bulk of the deficit finance this year and the coming year will be more than accounted for by the Central assistance given to the States for their development schemes. The experience of the last three years has been that, while development schemes are more or less going forward according to the Plan, the States have not shown the same readiness to augment their resources to the extent envisaged in the Plan. In the same period, Central assistance to the States has been growing—the Finance Commission's award transferred over Rs. 80 crore from the Centre to the States, which have not been counted against the assistance promised to the States. I am not suggesting for a moment that the development of the States is not the concern of the Centre but I do feel that the States should make a more determined contribution towards shouldering the burdens of the Plan than they have done so far. By raising more resources they would help in reducing the amount which the Centre will have to find by recourse to deficit financing and thereby contribute to strengthening the country's economy.

National development is not merely the concern of Governments. In a democracy like ours, it is also the concern of the people and now that we are having substantial recourse to deficit financing, I would like to make a strong appeal to the public to save more and to lend more to Government. I referred a short while ago to the somewhat disappointing results of the small savings movement this year. It is not merely for support to this movement that I appeal. It is the duty of the people to support it on the widest possible front if the process of national development has to be carried on, as it must be, over a long period. Development involves sacrifice, and the essence of democratic planning is that the sacrifice should, as far as possible, be evenly spread and should readily and voluntarily be forthcoming. To increase capital formation, which is the agreed objective, firstly, current consumption must be kept within limits; and, secondly, the production potential must be built up through utilization of ideal manpower. This means stinting as well as harder work. So far, in the first three years of the Plan, we have done

reasonably well, but the stage has now been set for a much larger effort. In this, I trust, all sections of the community will cooperate and give of their best.

I now turn to the budget proposals for the coming year.

In the context of the substantial overall deficit in the coming year's Budget, I have approached the problem of dealing with the revenue deficit, not so much from the orthodox angle of balancing the revenue budget, as from the larger angle of raising as much as is practicable by way of additional revenue for meeting the increased expenditure on development, which is wholly responsible for the revenue deficit. While as I have said earlier, the economic climate is now suitable for a moderate amount of deficit financing, it is obvious that every effort should be made to keep the amount raised by recourse to it as low as possible, so that it fills only the unavoidable gap between the available resources and the inescapable requirements for development and is not used to cover any shortfall in resources which could otherwise be currently raised.

The House will appreciate that, with the Taxation Inquiry Commission at work, it is neither proper nor desirable to initiate any large-scale change in the present structure of taxation until the whole problem has been considered in the light of the Commission's recommendations which are expected towards the end of the current year. I have, therefore, confined the changes which I propose to a somewhat restricted field.

Changes in Custom Duties

I shall first deal with the Customs Duties.

My first proposal is to increase the preferential import duty on betelnuts by 6.50 annas* a pound. Profit margins on betelnuts have for some time been very high, often leading to the payment of premium on import licences. There is little justification for the importer and the middlemen retaining such profit and I am sure the House would welcome this attempt to divert a part of it for the benefit of the Exchequer. I do not think that this would in any way affect the available supplies or cause any significant increase in prices. The additional revenue from this is estimated at Rs. 3 crore.

* 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.

In the Budget for the current year, the House will remember that certain changes were made on import duties as part of the normal readjustments of these duties. Customs duties cover a very wide variety of goods and the level and incidence of these duties are under constant review so that readjustments could be made from time to time. The annual budget provides the most suitable occasion for making these changes except when, during the course of the year, it is found desirable in the public interest to make such changes without waiting for the annual Finance Bill. In pursuit of this policy I propose to make certain changes in the import tariff. Duties on some articles like plastic and rubber insulated cables, electric fans and electric conduits are being raised. On the expiry of the period agreed under General Agreement on Trade and Tariffs the preference given to the United Kingdom on the imports of motor cars, motor-car parts and batteries is being abolished. The net effect of these, and other minor changes, with which I do not propose to weary the House, will be a net increase of Rs. 1.25 crore in revenue.

The third change I propose to make is to abolish the present import duty on raw cotton. Imported raw cotton enters not merely in the production of cloth consumed internally but to some extent in the exports of Indian cloth. I mentioned earlier the arrangements which have been made for the grant of a rebate of duty paid on imports of raw materials which enter into the manufacture of our exports. The whole problem of regulating the import duty on essential raw materials came under review in that context and, while obviously no final view has yet been taken, it is felt that a move towards the gradual replacement of import duties on raw materials by Excise Duties on the goods manufactured from them could be made. This replacement seems more or less inevitable as the country is progressively industrialized; it will also make the export trade simpler by removing the complication involved in the grant of rebates of import duty. I feel that a useful beginning should be made with the import duties on raw cotton. The loss in revenue is estimated at Rs. 4 crore.

In pursuance of the same policy, the import duty on some varieties of steel—a basic material—is being abolished with immediate effect. They are steel sheets (both black and galvanized) plates and rails. The loss of revenue is likely to be Rs. 25 lakh.

The last two proposals will be given effect to by notification under Section 23 of the Sea Customs Act, which is being issued today.

Changes in Union Excise Duties

With the abolition of the import duty on raw cotton, I propose to raise the Excise Duty on super-fine cotton cloth by 6 pies* per yard and on the other varieties of cotton cloth by 3 pies* a yard@. This is designed partly to replace the revenue lost by the abolition of the import duty on raw cotton and partly to rationalize the existing structure of the excise. The abolition of the import duty will avoid the complications involved in the somewhat cumbrous procedure of giving drawbacks on exports. It will also facilitate the free imports of foreign cotton required by the industry by reducing the amount required to finance it. The increase in excise duties will, to some extent, also reduce the possibility of diversion of manufactures from one tariff category to another by making it less profitable than at present, and will also, I hope, ease the current pressure on Indian cotton. I consider that the changes, taking Customs and Union Excises together, will make the structure of taxation of Indian cloth more rational than at present. The net effect of these changes will be an increase in revenue of Rs. 6.50 crore.

My next proposal is to levy an excise duty of 1 anna and 6 pies per yard on artificial silk fabrics. The use of artificial silk fabrics is now very widespread and they compete to some extent with cotton cloth which has to bear an excise duty. There is no reason why, when the bulk of the cotton cloth is subject to taxation, artificial silk fabrics should be exempt. The new duty will not be levied on the manufactures of handlooms and small units which have less than 10 power looms. Art silk fabrics will also be placed in the same position as mill-made cotton textiles by the levy of an additional 3 pies per yard, corresponding to a similar levy which is now being made on cotton cloth under the Khadi and Other Handloom Industries Development (Additional Excise Duty on Cloth) Act, 1953. The proceeds will be appropriated to the Special Funds for the development of the handloom industry. The revenue from this is estimated at Rs. 1.60 crore.

With the progress of industrialization, revenue from Customs Duties is bound to be a progressively less stable source of revenue. Even otherwise, the revenue from Customs is inevitably subject to the vicissitudes of trade policies and the availability of foreign exchange. It is, therefore, necessary to turn increasingly to indigenous industries producing consumer goods for the replacement of a part of the revenue which in the past, we used to derive from Customs Duties on such

* One rupee = 192 pies.

@One yard is equal to 0.9144 metre.

goods. It is also only appropriate that those industries which have in the past developed with the assistance of protectionist policies for which the consumer paid by way of increased duties, should, when they have reached the stage of full development, make a fair contribution to the country's exchequer. The country's tax structure can be made stable only by broad-basing its excises without affecting the economy of the industries taxed or placing an undue burden on the consumers. We are already levying excises on most of the important commodities produced in the country and the scope for further additions is somewhat restricted, but even so I feel that there is room for some expansion in this source of revenue. I, therefore, propose to levy a moderate duty on three commodities, namely, cement, soap and footwear. The duty on cement will be Rs. 5 per ton, that on soap Rs. 5 and 4 annas per cwt. on washing soap in bars of one pound and more in weight and Rs. 6 and 2 annas per cwt. on other washing soap and Rs. 14 per cwt. on toilet and other soaps and that on footwear at 10 per cent *ad valorem*. The incidence of taxation on all these commodities will not generally exceed 10 per cent of the value. In the case of soap and footwear the products of cottage industry will be exempted either by executive orders or directly by definition in the tariff. From such figures as are available, I expect that the revenue from the excise on cement would amount to Rs. 1.75 crore, that from footwear to Rs. 80 lakh and that from soap to Rs. 1.20 crore.

Income Tax

No changes are proposed in the income tax rates which, for next year, will continue to be the same as at present. Certain formal amendments to the Indian Income Tax Act, intended to continue till 1956 some of the existing concessions like special depreciation allowance, exemption of profits up to 6 per cent, etc., have been included in the Finance Bill. This will maintain the *status quo* until Government have had an opportunity or re-examining the need for these concessions in the light of the Taxation Enquiry Commission's Report. Opportunity is also being taken of making two small amendments, both of the nature of drafting changes, in the Estate Duty Act.

Net Effect of Proposals

The effect of the above changes may now be summarized. The increased duty on betelnuts will yield Rs. 3 crore and minor readjustments in import duties another Rs. 1.25 crore. This will be offset by a drop of Rs. 4.25 crore from the abolition of import duties on raw cotton and some varieties of steel leaving the total revenue from customs duties unchanged at Rs. 175 crore.

The increase in the excise duty on cotton cloth yield Rs. 6.50 crore and the new excise duty on artificial silk fabrics Rs. 1.60 crore. The new excises on cement, soap and footwear will together yield Rs. 3.75 crore. The total additional revenue from excise duties will thus amount to Rs. 11.85 crore. This will reduce the prospective revenue deficit for the coming year from Rs. 26.06 crore to Rs. 14.21 crore which I propose to leave uncovered.

I mentioned that the overall deficit for the next year would amount to Rs. 250 crore, which will be met by the expansion of treasury bills. The taxation proposals will reduce the deficit to about Rs. 238 crore. For the present, I do not propose to change the figure taken in the Budget for expansion of treasury bills. The actual amount of this expansion will depend on developments during the course of the year. I am, therefore, carrying the effect of these proposals into the cash balances and leaving them about Rs. 12 crore more than would otherwise be the case.

Conclusion

This is the fourth Budget which I have had the privilege of placing before this House and, by a coincidence, it happens to be the fourth year of the Plan. The main purpose of all these budgets has been to secure the orderly implementation of the Plan. Progress reports on the Plan have recently been made available to Parliament and I have no doubt that this arrangement will be continued. I do not, therefore, propose to say anything on the progress achieved in the implementation of the Plan as such, but I cannot resist the temptation of looking back and making an assessment of what has been achieved in the seven years since independence. Seven years are not a long period in the history of a nation but in the lifetime of a generation they certainly count for something. One can, therefore, understand the continuous urge for improvement and the frequent criticism that the progress achieved has not been sufficient. Such criticism is always welcome, both as a corrective and as a spur to further effort, but it is apt to obscure the sum of our achievement and place the problem of development out of its proper perspective. In 1947, we inherited a weakened administration, a war ravaged economy and a country in which only the rudiments of a welfare state had been developed. Immediately after independence we were faced with the gigantic problem of rehabilitating millions of people uprooted from their homes and cast adrift as refugees. Our food position was precarious owing to the loss to us of large areas surplus in foodgrains. We had the colossal administrative problem of bringing over 500 Princely States, of varying sizes and in widely disparate stages of development,

into the stream of the country's national life. Looking back over the seven years I have no doubt that we can feel some satisfaction at the measure of our achievement. In this period, the country's economy has been strengthened, inflationary stresses have subsided or been eliminated and production expanded in many directions. In particular, notable improvement has been made in the country's food production. The transport system has been largely rehabilitated. Progress, sometimes well ahead of schedule, has been made in the construction of large irrigation and power schemes which were in hand and more of such schemes are being taken up. Vital industries, designed to reduce our dependence on external sources for our essential needs, have been started with Government support. In the field of basic industries effective steps have been taken to improve steel production and a new steel plant is being set up which, in the near future, will make a substantial addition to the country's steel production. The Shipping Industry is also being assisted to expand and the important shipyard at Vishakhapatnam has been developed. The rehabilitation of displaced persons is now nearing completion. The integration of the Princely States has been completed and a well-knit national Plan, covering in greater or less degree all important sections of the national life and economy, has been drawn up and is in process of implementation. The States have been assisted with increasing sums of money to enable their development to go forward. What is more vitally important, the people have been encouraged successfully to cooperate in the fulfilment of this high endeavour.

No idea of the vast upsurge in the national life can be conveyed by translating all this in terms of money or compressing it into a classified table of estimates and expenditures. The face of the country is changing and changing for the better. We know—and know more than those on the Government Benches—that much still remains to be done. But we can bend our energies to the tasks ahead fortified by the knowledge that, in spite of mistakes and difficulties, we have made progress and, conscious that we are on the right road, however long and arduous it may be, we shall persevere, with a stout heart, with the task of building up a more prosperous India. In this task we have received a significant and important measure of assistance from friendly countries for which we are grateful and which only spurs us on to more sustained efforts without impairing our will to be self-reliant as much as possible.
