SPEECH OF SHRI C.D. DESHMUKH, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1955-56*

Highlights

— *Lifting Restrictions over most of the Foodgrains*

— *Setting up of the National Industrial Development Corporation*

— *Promoting Small Scale Industries*

— *Setting up of Export Promotion Council*

— *Steps to Intensify Rural Agency System*

— *Implementation of the Recommendations of the Taxation Enquiry Commission*

— *Implementation of the First Five Year Plan*

Sir, I rise to present the statement of the estimated receipts and expenditure of the Government of India for the year 1955-56.

This year, for the first time, hon'ble members will find circulated with the Budget papers Hindi versions of the Budget Speech, the Annual Financial Statement and the Explanatory Memorandum. I am sure, the House will welcome this beginning. The Budget documents contain a large number of highly technical terms for which suitable equivalents have yet to be evolved and standardized. Imperfections are inevitable in this first attempt and I trust hon'ble members will bear with them.

Budget, 1955-56

Total Revenue	—	**Rs. 468.76 crore**
Total Expenditure	—	**Rs. 498.93 crore**
Deficit	—	**Rs. 30.17 crore**

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* *Lok Sabha Debate*, 28.2.1955, cc. 647–686.

Review of Economic Conditions

Economic conditions during 1954 were generally satisfactory. Rainfall was seasonal and adequate in the country as a whole, although in certain parts of the country floods caused extensive damage. There was no other major climatic upset. In aggregate, the crops were good and the overall stability attained by the economy in 1953 was maintained.

The trend of prices for the greater part of the year was one of downward adjustment. The general index of wholesale prices which had stood at 392.6 at the end of December 1953 rose moderately to 404.2 by the middle of April 1954. Thereafter prices fell rather sharply to 378.4 by the end of June and, except for a slight rise upto the end of September, there was a further fall with the harvesting of the *Kharif* crop and the index at the end of January 1955 stood at 360.

The recent fall in prices has been due largely to a fall in price of foodgrains, certain raw materials like oil seeds and certain miscellaneous articles like black pepper. The price of rice was about 12 per cent lower in December 1954 as compared with December 1953 and that of wheat about 16 per cent lower. Wheat prices had in fact declined by as much as 30 per cent during the first six months of 1954 and, to safeguard the interests of wheat growers, Government announced a policy of price support at Rs. 10 per maund*. Prices of coarse grains have also recorded a sharp decline in recent months and the Government of India have announced, as a measure of relief, the decision to purchase from cultivators jowar and maize at Rs. 5 and eight annas@ per maund and Bajra at Rs. 6 per maund at certain specified *mandis* in areas where prices had fallen below these levels. These measures have on the whole had reassuring effect.

The fall in wholesale prices has to some extent, been reflected in living costs in various industrial centres. The All India Working Class cost of living index declined by about 7 per cent between January and December 1954. Compared with the peak of 111 in July-August 1953, the index at 97 in December 1954 represents a decline of about 13 per cent. In several centres, specially in the eastern parts of the country, the fall has been larger. I may add that most of the existing cost of living

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* One maund = 40 seer = 37,320.182 grams.

@ One rupee = 16 annas.

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.

indices are based either on pre-war weights or 1944 weights and the question of bringing these indices on to a more recent base and of improving the available series is under examination.

Agricultural production in the country during the year drawing to close was generally satisfactory. Good and seasonal monsoons in 1953-54 except for the floods I have mentioned, had resulted in a marked improvement in the agricultural production which stood at about 18 per cent higher than in 1950-51. The production of foodgrains in 1953-54, which amounted to 66 million ton[$], exceeded the Five-Year Plan target by about 4.4 million ton; and that of oil seeds, at 5.6 million ton by about one lakh ton. The production of cotton amounted to 3.9 million bales and very nearly reached the Five Year Plan target. Production of jute, on the other hand, has shown some wide fluctuations in recent years corresponding to the violent fluctuations in the prices of jute, and now stands at about 4.5 per cent lower than the figure recorded for the year 1950-51. While a part of these recent gains in agricultural production is no doubt due to favourable weather conditions obtaining during two successive years, a significant part must be regarded as a permanent addition to our agricultural production obtained through a number of measures like extension of irrigation facilities, increased use of fertilizers and the introduction of improved seeds and techniques whose benefits are spreading to larger and larger areas.

The increased production of foodgrains made it possible for the Government to further relax controls over the movement and distribution of foodgrains. With the lifting of restrictions in respect of rice in July 1954, the controls on food distribution have been practically dispensed with altogether. Only in regard to wheat there remains some restrictions on inter-zonal movement, which have been retained to make the best use of the stocks available with the Government.

The year 1954 closed with a comfortable stock of more than 1.5 million ton of foodgrains with the Central and State Governments. Due to the increase in the internal production of foodgrains, it has been possible to reduce the import of foodgrains to only about 0.80 million ton in 1954 as against 4.70 million ton in 1951, 3.90 million ton in 1952 and 2 million ton in 1953. Further imports, which will not be large, will now be for purposes of strengthening our reserves. Indeed, we are now in a position to export a limited quantity of rice to recapture our traditional markets for the finer qualities.

[$] One ton is equal to 1,000 kgs.

Industrial production during the year also increased over a wide field. Cloth production rose from 4,900 million yards* in 1953 to 5,000 million yards in 1954. The production of yarn also increased during the year, the consumption of yarn by the handloom industry reaching a figure of 78,000 bales during the first 10 months of the year compared with 73,000 bales for the whole of 1953. With increased supply of yarn and other forms of assistance given to the handloom industry, the production of handloom cloth increased by 700 million yards over the figure of 1,300 million yards in the previous year. Cement production increased from 3.78 million tons in 1953 to 4.36 million tons in 1954. In Jute, the production during the year was nearly 50,000 tons more than in 1953. The members of the Indian Jute Mills' Association, which covers nearly 95 per cent of the industry who had had to reduce their working hours in the past, found it possible to increase their working hours from 42.50 hours to 45 hours a week from July 1954 and to 48 hours a week from October 1954. Production of finished steel reached an all time height of 1.23 million ton in 1954, which was nearly 2 lakh ton more than in 1953. Production of coal in 1954 was nearly one million ton more than in 1953. The only major industry to show a decline in production was the sugar industry in which, owing to adverse seasonal conditions and other special causes, there was a drop of about 2 lakh tons.

The tempo of industrial development has also been encouraging. During the year 110 licenses were granted for the establishment of new industrial undertakings and 226 licences for existing undertakings to expand their units. Several new lines of production were first established in the country such as all gear head lathes—12.5" motorized bench grinders, roller bearings, large size pumps, fuel injection equipment, staple fibre and chloromycetin. Two important steps were taken during the year with the object of assisting rapid industrialization. The first was the setting up of the Government owned National Industrial Development Corporation. The Corporation is conceived mainly as an instrument for securing a harmonious development of industries in both the public and private sectors. The Corporation will not undertake financing of industries except in so far as it is incidental to the development of industries. The second was the floatation, with the cooperation and assistance of Government and the good offices of the International Bank of Reconstruction and Development and the Industrial Credit and Investment Corporation of India, a private institution with a capital of Rs. 5 crore subscribed by the investors in India, the U.K and the U.S.A. This Corporation to which Government

* One yard is equal to 91.44 cms.

will give an interest-free loan of Rs. 7.50 crore and the International Bank for Reconstruction and Development a loan of $10 million will assist the development of industries in the private sector.

Small scale cottage industries continued to receive special attention during the past year. On the recommendations of a team of Experts sponsored by the Ford Foundation, the Government of India have set up four regional institutes of technology for small industries, a Marketing Service Corporation and a Small Industries Corporation which would assist small-scale industries in various directions. A Small-Scale Industries Board has also been set up to co-ordinate the activities of these institutions and to carry out a programme of development. The development of khadi and village industries and of handicrafts has been given systematic assistance through the All-India Khadi and Village Industries Board and the All-India Handicrafts Board.

State Industrial enterprises also had a satisfactory year. The Sindri Fertilizer Factory has reached its rated output capacity. Other industrial undertakings like Chittaranjan and the Indian Telephones have also recorded marked improvement. The Hindustan Cable Factory has recently been inaugurated; the Machine Tool Factory has started token production and the Penicillin and D.D.T. factories are due to start production soon. Preliminary work on the new steel undertaking at Rourkela is well in hand and, as the House is aware, an agreement has recently been signed with the U.S.S.R. for the installation of an additional steel plant with a capacity of 7,50,000 tons of finished steel. Proposals for the setting up of additional units for steel and fertilizer production and schemes for producing heavy electrical plant and synthetic oil from coal are under consideration.

Although satisfactory progress has been recorded in the field of production, and expanding production has, to some extent, meant increased employment, the employment situation continues to be a matter of some anxiety. We are not in a position yet to state in precise terms what the magnitude of the problem is. The definition and measurement of unemployment and under-employment in under-developed countries present special problems. These are being considered by our technical experts, and we expect to get a steadily improving flow of information on the amount, incidence and causation of unemployment. The number of unemployed persons registered with the Employment Exchanges has risen continuously from about 5,22,000 in December 1953 to 5,81,000 in November 1954, reflecting partly the increase in population, but this again gives only a partial picture. It will be some time before we can put together the data now being collected from various surveys and enquiries. The problem of securing full employment in a vast country with a steadily growing population does not admit of a quick and easy solution. It is only by accelerating development on the widest possible front, covering both the urban and rural sectors and with a diversified and, wherever possible decentralized pattern of production that employment opportunity on a scale commensurate with the needs of the population can be procured. I have no doubt that the next Five Year Plan will pay due regard to this very important aspect of the country's economic development.

There was a substantial increase in money supply during the year to meet the needs of increasing production and growing economic activity. The note circulation increased by Rs. 75 crore and demand liabilities of Scheduled Banks by about Rs. 55 crore. The increased money supply has been due, almost entirely, to expansionary factors within the country, the external payments position being more or less in balance.

There have been distinct signs of a revival of investor confidence and the capital market has reacted well to the general improvement in the country's economy. The response to both Government and private borrowing in 1954 was heartening, especially in comparison with the previous two years. Monetary policy and the structure of interest rates, save for a slight rise in short term rates, remained unchanged during the year.

Balance of Payments

The country's balance of payments position showed a surplus of Rs. 11 crore during the first two quarters of 1954. The third quarter of the year showed a deficit of Rs. 15 crore. In the last quarter, figures for which are not yet available, it is expected that there will be a small surplus. There was an increase in imports during the year, particularly of industrial raw materials, and sugar imports have also been larger due to decline in indigenous production and increase in consumption. As a result, although our exports also increased mainly through increased external demand for our major exports, jute and tea, and for the first time since 1951-52, our export prices were better in relation to import prices, there was a sizeable deficit in trade account during the second half of 1954. Taking the year as a whole, however, I expect that we shall be, more or less, in balance in our external transactions as against a surplus of Rs. 55 crore in 1953. This is roughly indicated by the movement in the level of our sterling balances which rose by about Rs. 4 crore during the year from Rs. 727 crore on 1 January to Rs. 731 crore on 31 December 1954.

Although the balance of payments position has so far been satisfactory the increase in imports, which would become necessary with increased investment expenditure, would place considerable strain on the payments position in the future. It is, therefore, necessary to increase foreign exchange earnings through increased exports and considerable attention is being paid to export promotion. Export duties and quotas are adjusted from time to time to enable the country to maintain and develop its exports markets and strengthen its competitive position in the world markets. Thus, export duties on a number of items like manganese, black pepper, mustard oil, groundnut oil, linseed oil, castor oil and raw cotton have been either abolished or reduced. Export Promotion Councils have been set up during the year for cotton textiles, silk and rayon, and rules have been framed for giving drawback of import duty on raw materials and components utilized in the manufacture of several articles that are exported, as for example, linoleum, artificial fabrics, etc.

Dollar Position

The improvement in our Dollar position has continued, although the net surplus with the Dollar Area in 1954 is expected to be smaller than in 1953. In the first half of 1954, excluding the official assistance received from the Dollar Area, the net surplus on Current Account with the dollar area was Rs. 7 crore as against Rs. 13 crore in 1953. While Government imports during the first half of 1954 were lower by more than 66 per cent as compared to the previous half year owing to reduced purchases of foodgrains, commercial imports, especially of raw cotton, offset the decline in imports on Government Account. There was also some decline in exports of metallic and non-metallic ores.

During 1954 for which only preliminary figures are available, we drew $12 million from the Sterling Area's reserves for meeting our obligations in the Dollar Area. The corresponding figure for 1953 was a surplus of $15 million. This was due to the fact that we made during 1954 a special payment of $47 million to the International Monetary Fund (IMF) to repurchase a part of our currency from that Organization. Hon'ble members will remember that in my budget speech last February, I mentioned Government's intention to repurchase from the Fund the equivalent of $72 million, out of the total of $100 million we had purchased from it in 1948. We expect to make a further payment of $25 million next month, leaving an outstanding balance of about $28 million, which will not involve the payment of any interest charges.

India has continued to receive assistance from friendly countries towards her development schemes. For the current year a sum of $60.5 million was authorized by the United States Government as development assistance to India. About 50 per cent of this assistance is being utilized in obtaining agricultural commodities like wheat and cotton. Out of this sum of $60.5 million, the Government of India have agreed that a sum of $45 million or its rupee equivalent should be a loan. The Government of Canada have again offered to provide a further sum of the order of $13 million, the Government of Australia a sum of £2.5 million and the Government of New Zealand a further sum of £2,50,000. The Ford Foundation, which has been providing assistance for programmes of development, particularly in the field of training, made available an additional sum of $1.1 million. Under the Colombo Plan, we are also providing assistance to neighbouring countries. In the Budget for the next year, the total sum to be received by us by way of external assistance under the Colombo Plan and from friendly countries is expected to amount of Rs. 74 crore, while we shall be spending on the provision of such aid to other countries approximately Rs. 2 crore. I take this opportunity of expressing our appreciation of the active and helpful interest our friends continue to take in our economic development.

During the current year, India obtained two more loans from the International Bank for Reconstruction and Development; a loan of $16.2 million to Tatas for their Thermal Power Project at Trombay, and another of $10 million to the recently established Industrial Credit and Investment Corporation of India. This brings the total of loans from the Bank to India to $126.7 million. Both the loans being for private bodies, the Government of India has guaranteed them as usual.

I should like to mention at this stage the steps taken by the Government of the United Kingdom towards convertibility of Sterling. The Pound has been disencumbered of a mass of short-term financial obligations by reducing the U.K. debts to other members of the European Payments Union and by the repayment of the outstanding borrowings to the International Monetary Fund. A number of steps have also been taken to simplify the Exchange Control operations through the widening of the automatic transferability and usability of Sterling held by non-residents, and a significant step towards limited convertibility was taken by the reopening of a number of commodity markets. These steps are of advantage to the entire Sterling Area and reflect the growing strength of Sterling to which all Sterling Area countries have contributed. India has also liberalized its exchange restrictions and some steps have been taken towards relaxation of exchange facilities. We must not, however, forget that our foreign exchange expenditures are bound to grow rapidly as development programmes are accelerated and we must spare no efforts to conserve our foreign exchange reserves and to secure an improvement in our export earnings. I should like to take this occasion to remind the House that since the end of March 1951, until the close of 1954, that is, roughly in four years of the Plan, our sterling balances declined by Rs. 153 crore. By the end of March 1955, we would have received external assistance in the form of outright grants of about Rs. 56 crore and in the form of loans of nearly Rs. 100 crore. As I mentioned earlier, though our present balance of payments position is satisfactory, it would, in my judgment, be wrong to infer that the long-term outlook is any other than one of continued relative shortage of foreign exchange.

All in all, 1954 may, in a sense, be regarded as the end of the post-war period of transition. The substantial increase in food production, the improvement in the supply position in other directions and the disappearance of inflationary conditions represent the end of war times stresses and strains. The process of decontrol which commenced in 1952 was more or less completed in 1954 and free interplay of market demand and supply forces was resumed over a wide field. From now on, unless a very marked deterioration takes place in the international situation or a natural calamity like the failure or maldistribution of the monsoon occurs in a big way, the determining factor in the economic situation, we may hope, will be the rate of planned economic development in the country.

Financial Year 1954-55

I shall now deal with the Revised Estimates for the current year and the Budget Estimates for the coming year.

The Budget for the current year provided for a revenue of Rs. 451.73 crore and expenditure of Rs. 467.09 crore, leaving a deficit on Revenue Account of Rs. 15.36 crore. I now expect that the revenue deficit will amount to Rs. 5 crore only. The improvement is the result of a saving in expenditure of Rs. 11.01 offset by a small fall in revenue of Rs. 65 lakh.

The Revenue from Customs is now put at Rs. 180 crore against Rs. 175 crore taken in the original Budget. During the year, a number of export Duties were, as I stated earlier, abolished or reduced in the interests of our export trade but the resultant fall in revenue was more than offset by the increase from the enhancement of the Export Duty on tea which is expected to bring in an additional revenue of Rs. 6.60 crore this year. Larger imports of sugar, necessitated by the decline in indigenous production, also resulted in increased revenue to the extent of about

Rs. 10 crore. Against these increases the Revenue under Customs will lose about Rs. 6 crore this year owing to the gradual replacement of imports of motor spirit, kerosene and lubricants by indigenous production of oil refineries in India, one of which went into production this year. The revenue from Union Excise Duties is now estimated at Rs. 103.65 crore about the same figure as in the original Budget, the additional revenue from increased production of petroleum and kerosene being neutralized by a fall of Rs. 3.50 crore in revenue from sugar and an almost equal fall in revenue from tobacco. The fall under sugar is due to the decline in production during 1954; that under tobacco to the concessions in duty given during the year as a measure of relief in view of the large accumulations of stocks with growers and traders and the resultant fall in prices. The revenue from new excises introduced during the last Budget has been, more or less, according to expectation. The total collections from these new excises are now estimated at Rs. 4.75 crore against Rs. 4.20 crore assumed in the Budget. Revenue from income-tax has been taken at Rs. 165 crore which is the same as the Budget figure. The credit of Rs. 9 crore which I had taken in the Budget from repayment of partition debt by Pakistan has, however, not materialized so far as, contrary to the hope which I had expressed in my Budget Speech last year, it has not yet been possible for a variety of reasons, to reach a settlement with Pakistan over the outstanding financial issues between the two countries. Further negotiations are as the House is aware, to take place in the near future and I hope that these will result in a satisfactory settlement on these vexed issues. The estimate of Rs. 4 crore from Estate Duty taken in the original Budget has proved optimistic and I now expect only Rs. 1.26 crore from this source during the current year. The Estate Duty proceeds, however, go almost entirely to the States and the reduction does not affect the Central Budget. I may mention that the distribution of the Estate Duty proceeds among the States has under article 269 of the Constitution to be made in accordance with such principles of distribution as may be formulated by Parliament by law. We have been considering the question of formulating the principles of distribution, but with the very limited experience of the working of the Estate Duty Act and the lack of basic data, such as sources and area of collection, essential to the framing of a scheme of distribution, it has not been possible to do so. We have, therefore, come to the conclusion that the next Finance Commission should be asked to advise on this issue and that in the meanwhile a provisional distribution should be made on the same basis as the States' share of income-tax. This provisional distribution will be subject to revision by the next Finance Commission; and as the collections of duty are not likely to be large for some time this will not make for any significant difference to the finances of individual

States. Other miscellaneous heads of revenue show an improvement of about Rs. 3 crore.

Expenditure this year is now estimated at Rs. 456.08 crore of which Civil Expenditure will amount to Rs. 258.06 crore, a saving of Rs. 3.41 crore in the original Budget and Defence Services to Rs. 198.02 crore, a saving of Rs. 7.60 crore in the original Budget.

The saving in Civil Expenditure is the net result of a number of variations of which I need mention only the more significant ones. Consequent on the fall in revenue from the Excise Duty on tobacco mentioned earlier, the share of Union Excise Duties payable to States, payment of which is treated as expenditure, will decrease by Rs. 1.18 crore. Payments to States against the provision of Rs. 8.13 crore for educational schemes are now expected to amount to Rs. 6 crore only owing to the slower progress of expenditure in some States. Similar savings amounting to Rs. 4.49 crore are expected in grants to States towards Community Development Projects and National Extension Service. On the other hand, grants to States for food and famine relief have increased from Rs. 2 crore in the original Budget to Rs. 6 crore, expenditure on displaced persons by Rs. 89 lakh while expenditure of the Pondicherry State accounts for an addition of Rs. 76 lakh to the Central Budget.

The saving in expenditure on Defence Services is mainly due to the fact that procurement of stores was less than anticipated at the time the Budget was framed. There has also been a reduction in demands as a result of economies.

Financial Year 1955-56

For the next year, Revenue, on the basis of existing taxation, is estimated at Rs. 468.76 crore and Expenditure at Rs. 498.93 crore, leaving a deficit of Rs. 30.17 crore.

The Revenue from Customs in the coming year has been placed at Rs. 165 crore against the current year's Revised Estimate of Rs. 180 crore. The recent enhancement of the Export Duty on tea will bring an additional revenue of Rs. 11 crore over the current year's yield. Imports of motor spirit, kerosene and lubricants will, however, decrease to almost a quarter of the present level as a result of the second oil refinery at Bombay also coming into full production. In consequence, there will be drop of about Rs. 20 crore under this Head as compared with the collections of the current year but a substantial part of this revenue will be realized through excises. Imports of sugar are also expected to be less than in the current year. In the result, the Customs Revenue will show a net drop of Rs. 15 crore next year. The revenue from Excise Duty is put at Rs. 123.45 crore next year as compared with the current year's Revised Estimate of Rs. 103.65 crore. The increase is largely accounted for by revenue from the excises on kerosene and petrol following larger internal production; the collections of Tobacco Excise are also expected to improve by Rs. 3.30 crore and following better production, the collections from sugar by Rs. 1.50 crore. Under income-tax the current year's figure of Rs. 165 crore is being repeated for next year. Collections recently have been somewhat lower than expected due to the progressive clearance of arrears but I hope that improvement in normal collections will make up for this deficiency. Revenue from Estate Duty is estimated at Rs. 3 crore next year but, as I have already pointed out, this goes almost wholly to the States. Under Currency and Mint, profits of the Reserve Bank payable to Government are expected to be Rs. 20 crore next year against Rs. 17.50 crore this year, owing to the increased yield on Treasury Bills held by the Issue Department. I am also taking a credit of Rs. 8 crore from profits from the sale of sugar imported on Government account. On the other hand, I am not taking any credit for repayment of partition debt by Pakistan in view of what has happened in the last two years. If, as I hope, a settlement is reached in the coming year, I shall take the credit into account in my revised estimates.

The Expenditure next year is being placed at Rs. 498.93 crore, Rs. 202.68 crore under Defence Services and Rs. 296.25 crore under Civil Heads.

The Estimates for Defence Services show an increase of Rs. 4.66 crore over the Revised Estimates for the current year. This increase is mainly due to the normal expansion programme of the Navy and Air Force but party to the promulgation of the New Pension Code and the grant of certain pensionary benefits to personnel recruited initially on a short-term engagement but kept on for longer periods. The Army budget actually shows a decrease of about Rs. 1 crore inspite of the inclusion of substantial amounts for certain modernization measures. This has been rendered possible by economies in other directions. While in present conditions it is not realistic to expect any reduction in the strengths of the Defence Forces, we are trying to effect as many economies as possible by better conservation and utilization of staff, reduction in scale of consumption and avoidance of wastes. The drive for economy has been and is being pursued with vigour and I know it receives constant attention from my colleagues in the Defence Ministry.

Considerable progress has also been made in the production, in India, of stores required by the Defence Services. As the House is aware, a Committee was appointed last year under the Chairmanship of Sardar Baldev Singh to examine the present organization, procedure and methods of production in our Ordnance Factories with a view to expanding their activities and ensuring their economical administration. The Committee recently submitted their report, which is under the examination of Government. A factory for the manufacture of electronic equipment is being set up. Plans are under consideration for undertaking the manufacture of certain other types of stores in India, the aim being to achieve self-sufficiency in as wide a field as possible.

Before I deal with the Estimates of the Civil Expenditure, I may mention that we are making a beginning on the 1 April 1955 with the separation of Audit from Accounts, on which the Public Accounts Committee have rightly been laying stress. As I stated during the Budget discussions last year, there is no difference of opinion about the need for separation, but such a fundamental change in a long and well established system which affects both the Centre and the States can be brought about only by stages to avoid dislocation of administration. The Finance Ministry have been in close consultation with the Comptroller and Auditor General and it has now been decided, as a first step, to introduce the reform in respect of the transactions relating to Supply, Food and Rehabilitation with effect from 1 April 1955. Accordingly, Departmental Accounts Offices are being constituted in the respective Ministries. To begin with, the extra staff will be provided for these offices from the Indian Audit Department and the scheme will be implemented in close and continuous consultation with the Comptroller and Auditor General. The Comptroller and Auditor General has been in correspondence with the States also for a similar change to be made in the maintenance of the Accounts relating to the States and it is hoped that it will be possible to make a beginning during the next financial year in some of the States as well.

Civil Expenditure next year show an increase of Rs. 38.19 crore. The bulk of the increase represents larger allotments for development expenditure, which is inevitable in the final year of the Plan. As usual full particulars of the individual variations are given in the Explanatory Memorandum. I will mention here only the more important ones.

The total expenditure on Nation Building and Development Services amounts to Rs. 75.30 crore against Rs. 50.69 crore in the current year. Allowing for a transfer of about Rs. 4.60 crore from other heads; the net increase here comes to Rs. 20.01 crore. Thus, the Budget for Education increases by Rs. 7.30 crore to Rs. 18.31 crore which includes provision of Rs. 10 crore for grants to States for Basic, Social and Secondary Education, Rs. 3.50 crore for the University Grants Commission and Rs. 1.29 crore for scholarship to students of Scheduled Castes, Scheduled Tribes and other Backward Classes. Expenditure on Scientific Departments and research schemes increases by Rs. 2.01 crore; Medical and Public Health Services account for an increase of Rs. 1.96 crore; and development of village and small scale industries will cost an additional Rs. 2.23 crore. For development of Khadi and Handloom industries, a total provision of Rs. 4.25 crore has been made which will be met from the fund created out of the special cess on mill-made cloth. In addition to the increase of Rs. 20.01 crore under Nation Building and Development Services, mentioned above there is an increase of Rs. 4.44 crore in expenditure on Community Development Projects and National Extension Services; an increase of Rs. 2.42 crore in grants to Part C States* with their own legislatures for financing their development schemes; an increase of Rs. 81 lakh in grants for the development of Scheduled Tribes and Scheduled Areas; an increase of Rs. 50 lakh in grants to States for the development of primary education under the Finance Commission's award and an increase of Rs. 1.10 crore in grants for social welfare and welfare of backward classes. The total additional provision for Development Services next year thus aggregates about Rs. 29.27 crore.

Of the rest of the increase in Civil Expenditure, a sum of Rs. 3 crore represents the first instalment of the write-off of the trading losses expected on the disposal of the existing rice stocks. As I stated earlier, Government will be having a stock of about 1.5 million tons of foodgrains, mostly rice, representing partly stocks taken over from the States following decontrol last July and partly imports from Burma under the agreement with the Burma Government. In view of the recent fall in prices, the disposal of this stock, which will take two or three years to effect, is likely to result in substantial losses, which at present prices may be of the order of Rs. 45 crore, although it is not possible to estimate their extent accurately. These losses differ from the food subsidies given in the post-war year which were a part of price control and rationing. They are straight trading losses rising from the peculiar conditions of the current year when, with a good crop and because of decontrol, we are having to carry large

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

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

stocks liable to early deterioration in storage. With an improvement in food position, large losses of this nature are not likely in future. It will completely distort the Revenue Budget if all the losses are taken to Revenue as they arise. I consider it both desirable and necessary to spread them over Revenue over a reasonable period. Pending the emergence of the final figure of the loss, I have made an *ad hoc* provision of Rs. 3 crore in the Revenue Budget for meeting the losses. A provision of Rs. 1.34 crore has also been made, in accordance with the arrangement I explained last year, for the first instalment of the write back to Revenue of certain expenditure initially taken to Capital. The total expenditure this year on the four items covered by that arrangement, namely, Grants for Industrial Housing, Grants for Local Works, Grants under the Gadgil Committee Report, and compensation to displaced persons met by Government, is expected to amount to Rs. 19.36 crore. which will have to be written back to revenue over 15 years commencing with next year. In addition, we have, in consultation with the Comptroller and Auditor General, decided to treat in the same manner grants to States for the Rural Water Supply and Sanitation Schemes which are of the same nature. These schemes have been started this year and the expenditure in the first year is estimated at Rs. 81 lakh. All this expenditure is to be written back to Revenue over a period of 15 years and the debit to Revenue next year will, as stated earlier amount to Rs. 1.34 crore. Among the other increases are Rs. 1.55 crore for payments to States of their share of Union Excise Duties consequential to the increase in Revenue from Tobacco Excise adopted for next year, Rs. 1.46 crore for Expansion of Administrative and Development Services in the North-East Frontier and Rs. 1.27 crore for Civil Works.

Capital Expenditure

For Capital Outlay the current year's Budget provided for an expenditure of Rs. 145.75 crore. The expenditure is now estimated at Rs. 178.54 crore. The increase is accounted for by a worsening of Rs. 61.59 crore under Government Trading Schemes largely due to purchase of rice stocks from the State Governments, offset by saving of Rs. 28.80 crore in other items. A provision of Rs. 10 crore was made in the Budget for possible purchase of shares in the Hindustan Steel Ltd., but this provision will now remain unutilized during this year. There is a saving of about Rs. 7 crore under Civil Works mainly due to slower progress in the construction of buildings and roads. For similar reasons, there is a saving of Rs. 4 crore in the Grants for Industrial Housing and of about Rs. 4.7 crore in Defence Capital Outlay.

For next year, Capital Expenditure is estimated at Rs. 233.30 crore including Rs. 29 crore for Government Trading Schemes mostly for our normal imports of wheat for the Central Reserve. As I remarked earlier, outlay in the final year of the Plan will inevitably increase.

For Railways a provision of Rs. 66 crore has been made against the current year's expenditure of Rs. 32.50 crore. The Five-Year Plan for Railways provided for an expenditure of Rs. 400 crore during the Plan period, of which Railways were to find Rs. 320 crore from their own resources. While the total outlay during the quinquennium will be only slightly over the original Plan, there has been a shortfall during the period in the resources raised by the Railways themselves. This explains the larger allotment for Railways next year. Compensation to displaced persons in the form of cash and transfer of Government property and write off of loans is estimated at Rs. 31 crore of which about Rs. 9.50 crore will be made from sale proceeds of evacuee property, that is, a net figure of about Rs. 21 crore against the current year's net outlay of Rs. 7.50 crore. A provision of Rs. 5 crore has been made for investment in the Hindustan Steel Ltd., in addition to a loan of an equivalent amount. A sum of Rs. 7.70 crore will be payable to the Reserve Bank of India next year *in lieu* of Hyderabad securities forming part of the assets against Hyderabad note issue which has been taken over by the Bank. As part of the settlement for the allocation of assets and liabilities of the Hyderabad State, following its financial integration, it has been decided that this liability for Hyderabad securities which were created *ad hoc* by the State Government before integration for expansion of its currency will be taken over by the Government of India. Provision for Civil Works amounts to Rs. 32 crore against Rs. 24 crore this year, after excluding the adjustment in respect of Government property transferred to displaced persons as part of the compensation scheme. Capital Outlay on Defence, next year is estimated at Rs. 22.38 crore against Rs. 13.09 crore, the increase being due partly to the carry-forward from the current year and partly to the normal expansion programme.

In addition to the provision for Capital Outlay just mentioned, the estimates include, against the original provision of Rs. 249 crore, Rs. 306 crore this year and Rs. 355 crore next year for loan to State Governments and others mostly for their development projects. Details of these loans are given in the Explanatory Memorandum.

Ways and Means

The current year's Budget provided for an overall deficit of Rs. 239 crore to be met by expansion of Treasury Bills. On the basis of the Revised Estimates, the overall deficit will amount to Rs. 208 crore. As the opening balance was about Rs. 12 crore less than the minimum of Rs. 50 crore which it is necessary to maintain, the expansion of Treasury Bills will, therefore, amount to Rs. 220 crore.

During the year, Government floated the 3.50 per cent National Plan Loan, 1964. The response to this loan, which was a combined loan to cover the needs of both the Central Government and the States, was satisfactory and subscriptions amounted to Rs. 158 crore out of which Rs. 25.50 crore were lent to the States which would otherwise have approached the market independently for their loans. The Small Savings Scheme has also been making notable progress. Appointment of Agents under the General Authorized Agency System has been proceeding steadily. With the cooperation of the State Governments, steps are being taken to intensify the movement in rural areas. Panchayats and other Agencies, such as Union Board Presidents in West Bengal, have already been appointed for the sale of certificates in a number of States, and extension of such Rural Agency System to other States also is in hand. The Women's Savings Campaign under the Central Advisory Committee, which has recently been expanded, has also been making valuable contribution to the movement not only in actual collections but in spreading its message. Over 100 voluntary social and women's organizations have already been appointed agents for the sale of certificates and over Rs. one crore have been collected under the Campaign. During the year, Government made two additions to the investment available under the scheme. The first was the 10-Year National Plan Certificates. These certificates are intended for the small saver, particularly in rural areas, and give higher yield than the National Saving Certificates. Although issued originally as a supplement to the National Plan Loan, their sale has been continued. The second addition was the 15 Year Annuity Certificates which are intended to meet the need of those who wish to provide for themselves and their dependents a regular monthly payment from a lump-sum investment. As a result of all these efforts, we are likely, for the first time, to exceed the annual target of Rs. 45 crore which was set some years ago for collections from Small Savings. While this is heartening, I must appeal for still greater effort and for wholehearted cooperation on the part of everyone in spreading the movement and making through it, a massive contribution towards the country's development and prosperity. Mobilization of small savings, necessary at all times to the country's economy has now assumed added importance for the fulfilment of the development plans which will need increasingly larger resources.

The improvement in loan receipts and small savings was, however, partly offset by increases in capital expenditure and in loans by the Central Government and also by a drop of Rs. 23 crore in foreign aid expected during the year, the last representing a carry-over to the next year.

The overall deficit next year is estimated at about Rs. 340 crore. This follows the larger provision for development expenditure in the Revenue and Capital Budgets. During the coming year one loan, the 2.50 per cent Loan 1955, with an outstanding balance of Rs. 60 crore, falls due for repayment, while Government have the option to repay another, the 4.5 per cent Loan 1955-60, with an outstanding balance of Rs. 9 crore. It has been assumed that both these loans will be discharged next year. Credit has also been taken for a new market loan of Rs. 125 crore. Small Savings next year may amount to Rs. 52 crore and foreign aid to Rs. 74 crore. Allowing for other miscellaneous transactions under Debt and Remittances Head, it will be necessary to expand Treasury Bills by Rs. 340 crore to cover the overall deficit.

I might summarize the ways and means position for the coming year. Government need Rs. 30 crore for meeting the Revenue deficit. Rs. 578 crore for financing Capital Outlay and loan requirements for State Governments and others, and Rs. 69 crore for the repayment of the maturing debt. Against this, they hope to raise Rs. 125 crore from the market loan, and Rs. 52 crore from Small Savings. Foreign aid expected next year amounts to Rs. 74 crore, and other miscellaneous debt and remittance transactions may bring in Rs. 86 crore. This will leave a gap of about Rs. 340 crore in the available resources to balance the Budget. As the cash balance will have no margin left to be drawn upon, the whole of this gap will have to be met by issue of Treasury Bills.

The sizable budgetary deficit in the current year and in the next must be viewed in the context of our developmental needs and the various economic indicators like production, prices, employment and foreign exchange. All these, I think, suggest that we can and should go ahead more boldly. The production potential of the economy is steadily increasing as a result of the Plan, and considering the present price and employment situation, I am confident that while no effort should be spread in maximizing our resources, budgetary deficits of this order carry no threat of serious inflationary pressures. Nevertheless, the House may rest assured that the situation will be watched constantly and carefully, and while Government will take the risk necessarily attaching to any significant development effort, it will be a calculated risk combined with caution.

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

I mentioned earlier that the deficit on revenue account in the coming year was estimated at Rs. 30.17 crore and the overall deficit at Rs. 340 crore. The problem before me is how much of this deficit should be covered by additional taxation.

The deficit on revenue account is largely due to increased expenditure on what I would broadly describe as on current account. It is, I think, a prudent principle to meet as much of the current expenditure as possible from current taxation. Other considerations, to which I shall refer later, also indicate the need for increased taxation. Out of the deficit on revenue account, I propose to meet the major portion by fresh and additional taxation. Even with this the uncovered overall deficit would remain substantial but, as I stated earlier in my speech, in the present economic climate, a deficit of that order is, in my opinion, both safe and justified.

Hon. members may ask why, if a sizable overall deficit was justified by the needs of the Plan and by the present economic conditions, the whole of the deficit should not be left uncovered. The fact that the various economic indicators suggest that deficit financing could be resorted to without undue risk does not mean that the attempt to mobilize domestic resources to the maximum extent should be given up and prudent finance replaced by the printing press. While deficit financing would be used as an instrument for securing the maximum development without injury to the stability of the economy, the public must be prepared to make the maximum contribution to current revenues. In fixing the level of taxation, all relevant considerations such as the effect of the various increases on the economy, saving investment and production will, obviously, be taken into account.

Taxation Enquiry Commission

Before I go on to deal with the detailed proposals, I should like to make a brief reference to the report of the Taxation Enquiry Commission. As hon'ble members are aware, the Commission were appointed early in 1953. They completed their work towards the end of last year, that is, within the time allotted and their report reached Government early last December. It is a massive and historic document covering the entire field of taxation—Central, State and Local—and the recommendations cover a very extensive field. The report has just been printed and copies, together with a summary, are being made available to hon. members along with the Budget papers. Simultaneously, it is also being released to the public. I am sure the House will join me in paying a tribute to the Chairman and Members of the Commission for the magnificent work done by them. The report of the Commission bears the impress of a thorough and careful study of the problems in all their aspects and labour involved must have been stupendous. I am grateful to the Commission for having submitted the report in time to enable me to take into account the broad framework of their proposals for my present purposes.

I said just now that the report was massive and historic. A report like this requires very careful study and examination for which, as the House will appreciate, there has not been much time. Indeed, as the printing has only been just completed, there has not been time even to make it available to the State Governments. All that we have been able to do is to make a preliminary study of it in the Finance Ministry for our own guidance in the context of the Budget that was immediately ahead and to circulate confidentially to the State Governments a summary of the recommendations in the fields of State and Local taxation to enable them to take these into account in framing their own Budgets. Now that the report has been printed and published, it will be possible to take in hand the detailed consideration of all the recommendations, both at the Centre and in the States.

The House will appreciate that in the limited time available to me it will not be possible to summarize the Commission's recommendations in the field of Central taxation. Indeed, any such attempt, even if it were possible, would not be fair to the report as the background against which these recommendations have been made will not be clear. Broadly speaking, however, the recommendations are in the direction of widening the base and range of taxation, both direct and indirect, and involve readjustment of the rate structure.

The recommendations of the Commission cover the basis and procedure and the rates and rate structure of Central taxation. Insofar as the basis and procedure of taxation are concerned, effect can be given only by changing the law. As my detailed proposals will indicate, I am implementing a number of the recommendations immediately. The House will appreciate, however, there are several limitations to my giving effect to all the recommendations of the Commission in the present Budget. Firstly, in the case of many of these recommendations detailed study and further thought are necessary before we can take decisions. It has not been possible within the short time at my disposal to complete this process. Secondly, there is the very important problem of gearing the administration to take on the new and additional responsibilities. And finally, procedural changes which do not impinge directly on the tax liability are appropriately left out of the Finance Bill to be implemented through amending bills to the various Acts. I hope the House will agree that, in spite of these limitations, the number of recommendations being given effect to is not inconsiderable and it may have my assurance that the remaining proposals will be examined by Government and amending bills placed before the House as early as possible.

Coming now to the rates of taxation, one has to bear in mind that the rates suggested or implied by the Commission are more an indication of the possibilities in these directions than in the nature of actual budget proposals. The House will remember that the first Taxation Enquiry Committee was appointed some thirty years ago and, in a sense, that Committee's recommendations affected the taxation policy of a generation, although the events of that generation were crowded by many constitutional and other changes. Similarly, the present Commission's report will deeply colour and affect taxation policy for some time to come. The lines of future policy have been indicated by the Commission but the steps that we take each year or from time to time must necessary be considered in the light of economic and budgetary considerations of the time.

Changes in Custom Duties

I shall first deal with my proposals about Customs duties.

In accordance with Government's general policy of gradually replacing. wherever possible at least partly quantitative restrictions by higher import duties, a number of import duties on goods such as articles made of paper, papier mache, etc., advertising circulars and cutlery not plated with gold or silver, are being raised. Simultaneously, the import quotas will be liberalized. While the effect on revenue will not be considerable the prices, including the duty, will be high enough to act as a deterrent to any undue expansion of consumption. On some items like zip fasteners and tiles of earthenware and porcelain, alternate specific duties are also being prescribed so that low priced imports may not adversely affect indigenous manufactures.

As part of the changes in the import tariff, I also propose to abolish completely, subject to the margin of preference being maintained wherever this is bound by agreement, duties on dyeing and tanning substances, gums, resins, plumbago and graphite. This is in accordance with Government's general policy of a gradual remission or reduction of duties on essential raw materials.

The export duty on cotton cloth is also being reduced to 6.25 per cent, as a measure of assistance towards the maintenance of our competitive position in world markets.

These changes, which I am sure the House will welcome, will result in a loss of approximately half a crore of rupees and will be given effect to by a notification under Section 23 of the Sea Customs Act which is being issued today.

A slab system is also being prescribed for export duties on tea in lieu of the existing flat rates. A specific rate tends to become onerous in a period of falling prices; on the other hand when, as now, prices are rising the incidence of the tax in terms of value becomes progressively lighter with a flat rate. On account of the numerous qualities of tea and because such teas are often sent for sale in auction in the United Kingdom and the price at the time of the export is not ascertainable beyond reasonable doubt, it has not been possible to devise a system of *ad valorem* assessment. As a compromise, certain slab rates varying with the value have been prescribed in the present Bill. This will not result in any change in the revenue yield at present prices.

The effect of these changes will be a loss of, as I said, Rs. 50 lakh in revenue.

Union Excise Duties

Turning to excises I shall first deal with the changes in the existing duties. My first proposal is to raise the existing excise duty of Rs. 3-and-12-annas[$] per cwt. on sugar to Rs. 5-and-10-annas per cwt. The Taxation Enquiry Commission consider that there is a case for a substantial enhancement of duty. Consumption of crystal sugar has expanded considerably in the last year or two and large quantities have had to be imported at considerable expenditure of foreign exchange; the increase in duty may also have the effect of discouraging consumption to some extent. The additional revenue is estimated at Rs. 5 crore.

My second proposal is with regard to the duties on cotton cloth. I propose to rationalize the existing classification and make a readjustment of the duties. At present, cotton cloth has been graded for purposes of the duty into four categories—superfine, fine, medium and coarse. This classification, as a basis for tax differentiation and as indicating the broad sections of the community using the cloth, has become somewhat unrealistic. I propose to reclassify cloth into two categories—superfine and others. The rate of duty on superfine cloth will be at two-annas-six-pies* per square yard and that on other cloth one anna per square yard. The special cess of three pies per yard for the development of the handloom industry will be levied in addition.

* One rupee = 192 pies.
$ One rupee = 16 annas.

These proposals involve an increase equivalent to about three pies a linear yard on superfine cloth and six-pies a linear yard on medium and coarse cloth. The total production of superfine cloth is not substantial in relation to the production of other categories. The Taxation Enquiry Commission have expressed the view that there was a case for enhancement of the rate of duties on all varieties of cloth. In making these adjustments, account also has to be taken of the need for additional revenue. Taking all factors into consideration, I do not think the increase involved can be considered as unreasonable.

The change in the unit for duty from linear yard to square yard is designed to secure a more equitable basis. In determining the category for purposes of assessment, the average count of yarn will, in future, be the basis and not the count of the warp yarn only as heretofore. I trust the House will agree that this rationalisation is in the right direction.

The additional revenue from these adjustments will amount to Rs. 9 crore.

My third proposal relates to matches. In pursuance of Government's policy of fostering the development of small-scale industries, I propose to increase the existing preference margin for the medium-sized and cottage groups of match factories. The present margin in respect of match boxes of 40s for medium-sized factories in one anna per gross of boxes. This is being raised to two annas per gross of boxes. Suitable increases are being made in the margins in respect of other categories. These concessions will result in a loss of revenue of Rs. 50 lakh of which the States' share will be Rs. 20 lakh.

My fourth proposal is in respect of cigarettes. In 1951, a temporary surcharge of 3 pies and 6 pies per ten cigarettes according to their retail price was imposed. The Taxation Enquiry Commission have recommended that these surcharges should be removed from the category of cigarettes of the value of Rs. 10 to Rs. 15 per thousand which appeared to them to be relatively over-taxed and that the revenue loss this would involve should be recouped by a suitable increase in the duty on the category of cigarettes of the value of Rs. 40 to Rs. 50 per thousand. They have also recommended that along with this readjustment, the surcharge on categories other than the Rs. 10 to Rs. 15 per thousand category should be merged with the basic excise duty. These recommendations are being accepted with certain consequential modifications and necessary changes made. These taken together have no revenue significance.

I now turn to the new excises. The Taxation Enquiry Commission have recommended the imposition of a large number of new excise duties. I feel myself that an expansion of revenue from excises is, in the context of our requirements and also in the pattern of industrial development in the country, inescapable and that we shall increasingly have to look to the products of organized industries in the country which have grown up under the shadow of protection, both for bringing in additional revenues and replacing the loss of customs resulting from the replacement of imported manufactured goods by indigenous production. I propose to make a beginning with a number of these new excises in the coming year, the collection of which is unlikely to involve any major administrative problem. These excises would be on the production of factories and the rate of duty will be 10 per cent *ad valorem.*

The commodities proposed are Woollen Fabrics, Sewing Machines, Electric Fans, Electric lighting bulbs, Electric dry and storage batteries, Paper (excluding Newsprint) and Paperboard, and Paint and Varnishes. The total estimated revenue from all these excises will be Rs. 4 crore.

In order to maintain the existing margin between import and excise duties, a countervailing import duty at the same rate as excise duty will be levied on the imports of these commodities, where necessary.

The net additional revenue from the changes in excise duties will amount to Rs. 17.70 crore.

Changes in Income-Tax

I now come to changes in direct taxation.

Among the large number of the Taxation Enquiry Commission's recommendations, some deal with the broad structure of taxation and others with matters of detail, such as the inclusion or exclusion of certain categories of income from taxation, grant of incentives and other concessions and so on. So far as the basic structure of personal taxation is concerned, they have suggested a graded diversification of the existing slabs, particularly in the slabs of super-tax and the readjustment of rates within these slabs. They have also recommended the withdrawal of the concession relating to earned income beyond a certain reach which, they have suggested, should be Rs. 24,000. In the case of super-tax they have also suggested a lowering of the limit at which super-tax is attracted from Rs. 25,000 to Rs. 20,000. The broad pattern of adjustments suggested by the Commission has been accepted by Government and the proposals which I shall just explain seek to implement the scheme with such modifications as have been found necessary and desirable. As I mentioned earlier, the current year's proposals do not by any means cover all the recommendations of the Commission, but only such of them as have been found immediately practicable and feasible.

I shall first deal with changes in the tax structure.

In accordance with the recommendations of the Commission, the present tax exempt slab of Rs. 1,500 is being raised to Rs. 2,000 for married persons and reduced at Rs. 1,000 for unmarried persons. This is the first move in the direction of evolving a suitable scheme of family allowances which the Commission have suggested for implementation. The net loss of revenue is estimated at Rs. 90 lakh.

The existing slab of Rs. 5,000 to Rs. 10,000 is being broken into two slabs: on the slab of Rs. 7,500 to Rs. 10,000 the tax is being raised by six pies from one-anna-nine-pies to two-annas-three-pies. This is expected to yield a revenue of Rs. 1.35 crore.

In the next slab of income from Rs. 10,000 to Rs. 15,000, the rate is being raised from three-annas to three-annas-three-pies. This is expected to bring an additional revenue of Rs. 85 lakh.

I accept in principle the recommendation of the Commission that earned income relief should not be allowed on higher brackets of income. As a first step I propose to reduce the allowance by stages on incomes in excess of Rs. 25,000, the concession ceasing when the level of Rs. 45,000 is reached. Between Rs. 25,000 and Rs. 45,000 the relief of Rs. 4,000 now allowed will be reduced by Rs. 200 for each Rs. 1,000 of income. The additional revenue is estimated at Rs. 1.90 crore.

In regard to super-tax, the existing slabs have been readjusted and the level at which super-tax is attracted reduced from Rs. 25,000 to Rs. 20,000. The readjustment generally follows the pattern suggested by the Commission, but some adjustments have been made in the rates and slabs. The changes in the super-tax are estimated to yield an additional revenue of Rs. 5.75 crore.

I should like to mention two other changes which are being made in the structure of taxation. The first is an increase in the limit of the rebate allowed for payment of premia on life insurance policies and subscriptions to recognized provident funds. In accordance with the Commission's recommendations, the existing limit of one-sixth of income subject to a ceiling of Rs. 6,000 is being raised to one-fifth of income with a ceiling of Rs. 8,000. Corresponding increases are being made for Hindu Undivided Families. This concession is designed to provide an incentive to savings and will cost the Exchequer Rs. 25 lakh. The second is a concession in favour of Hindu Undivided Families consisting of four members or more entitled to claim partition. Such families will be exempted from tax so long as their income does not exceed three times the exemption limit of

Rs. 4,200 allowed to individuals. For such families the exemption limit for the payment of surcharge on income-tax is being raised from Rs. 14,400 to Rs. 21,600. It has not been possible to calculate the financial effect of these concessions but the amount involved is not likely to be substantial.

The Commission have made an interesting suggestion for imposing a surcharge-cum-deposit on incomes of over Rs. 25,000. As the Commission themselves recognize, this scheme requires further examination in the Finance Ministry. Meanwhile, I propose to continue the existing surcharge of 5 per cent on income-tax and super-tax.

In the last few years, there has been a demand for an increase in the amount of depreciation allowances so as to take into account increased costs of replacement. The Commission have examined this matter in considerable detail and have come to the conclusion that the principle of revalorisation or continuous revaluation of an asset for purposes of depreciation is not merely defective in theory but certainly unworkable in practice. Instead they have suggested that while the existing system of initial and double depreciation allowances may be retained with certain modifications for all industries certain other new industries might be given a 'development rebate' equivalent to 25 per cent of the cost of new fixed assets in the year of installation. For certain special industries of national importance, they have suggested a tax holiday for six years. These proposals require further detailed consideration. Meanwhile, I propose to allow a Development Rebate of 25 per cent of the cost of all new plant and machinery installed for business purposes instead of the present initial depreciation allowance of 20 per cent. For purposes of calculating ordinary and double depreciation allowances, this rebate will not be taken into account.

Another important change proposed is that losses of business should be allowed to be carried forward indefinitely instead of only for six years as at present.

A number of other changes affecting the tax liability are being included in the amendments to the Income Tax Act embodied in the Finance Bill for the coming year in accordance with the recommendations of the Taxation Enquiry Commission. I do not propose to weary the House by explaining all of them in detail. Some of these involve bringing into the net certain incomes which were not being taxed. Others give concessions recommended by the Commission. I would like to mention the more important among the former. The value of any requisite or benefit, whether convertible into money or not received by salary earners drawing over

Rs. 18,000 per annum and by directors of companies, and entertainment allowances of all kinds are being made subject to tax. Unclaimed balances out of expenses allowed as deduction, compensation received for loss of managing agency or other agencies and compensation received for termination of employment are similarly being made subject to tax. The provisions of Section 23-A are being tightened and a flat rate of super-tax of four annas in the rupee is being imposed on the undistributed profits of the company if 60 per cent of its profits have not been distributed. Certain further concessions are being given to co-operative societies, but co-operative insurance societies are being made subject to tax. These and other changes are more in the direction of rationalizing the income-tax structure and the cumulative financial effect is not expected to be appreciable.

The net effect of all these changes in income-tax is an increase in revenue of Rs. 8.70 crore, of which the States' share will amount to Rs. 4.20 crore.

The net effect of the proposals may now be summarized. The changes in customs duties will involve a loss of revenue of Rs. 50 lakh and the changes in match excise a loss of the same amount, of which Rs. 20 lakh will be passed on to the States. The new and increased excise duties will bring in a sum of Rs. 18 crore. Changes in income-tax will yield Rs. 8.70 crore, of which the States' share will amount to Rs. 4.20 crore. In the result, Central revenues will increase by Rs. 21.70 crore leaving an uncovered deficit on revenue account of Rs. 8.47 crore. Including the additional taxation, the overall deficit for the year will stand at Rs. 318 crore.

This is the last budget of the First Five-Year Plan, and like the budgets of the previous years, it has been framed with the main purpose of securing the orderly implementation of the Plan. I do not propose, in this context, to review the progress of the Plan. The House had an opportunity during the last session of a detailed discussion of the progress and I have no doubt there will be further occasions for a similar discussion. But I think that the end of this period which is in sight is an opportunity for a measure of stock-taking. The first plan was formulated under different circumstances with inflation, shortages and the like clouding the economy. The formulation of a plan was in itself a breaking of new ground, covering as it did a large part of the national life. The aim was to make a good enough beginning, and, looking back over the four years, I venture to suggest that this has been done with some success. The First Plan itself only touched the fringe of the problem of national development. Many more such plans will have to follow. The Central and the State Governments are now fully seized of the importance of fulfilling the First Plan to the fullest extent possible. The machinery of administration is being increasingly geared to the more effective implementation of the plan, although here is still considerable room for improvement. While there have been shortfalls in achieving the targets, considering the size of the plan and the inevitable margin which has to be allowed for in any human planning, these have not been such as to discourage us. The country as a whole is becoming more and more plan-minded, and in the rural areas there is an awakening of interest in economic development which is noticeable even to a casual observer. The achievements of the First Plan in terms of irrigation and power, industrial development and the community and the national extension programmes have been by no means inconsiderable. The Second Plan must provide for more accelerated development consistent with the stability of our economy and our declared policy of adherence to democratic methods. A great deal of new statistical information, has now become available as a result of the publication of the Census Reports, the National Income Committee's Reports, the Reports of the National Sample Surveys and the Report of the Rural Credit Survey. In the last few months, considerable preparatory work has been done on statistical and technical aspects of the problem of formulating a comprehensive plan. I hope it will be possible to issue in the near future a plan-frame which will set forth tentative inter-related targets, with due regard to the central objectives of the plan and the availability of resources.

The success of the Second Five Year Plan will, in my view, depend upon two main factors, organization and finance. In an economy in which monetary rewards are the principal device for directing real resources along desired lines, the availability of finance is a crucial consideration. But finance is, in a sense, a token. It can, if one likes, be created upto a point and within limits laid down by the need for combining stability with quick but orderly progress. It is not and can never be a question of formulating physical targets and leaving financial considerations aside. Both have to be correlated and the maximum amount of resources currently raised for investment and production. It is because the raising of the maximum resources is necessary for planned development that I make the large draft which I have made today on the tax-payers' purse. There is the further justification for it, namely, that unless this is done, the objective of a welfare State enshrined in the Constitution will never be attained.

I mentioned earlier that the country as a whole was getting increasingly plan-minded. All over the country people of small means are making a contribution towards the plan by the offer of their resources and sometimes their labour. I myself have been receiving from small people, sometimes students who wish to remain anonymous, small contributions towards the Plan. It is to me personally a sustaining and heartening experience and if the spirit behind this continues to animate the people as a whole, we can look forward with confidence to the successful implementation of this and of future plans.