SPEECH OF SHRI MORARJI R. DESAI, MINISTER OF FINANCE INTRODUCING THE BUDGET FOR THE YEAR 1960-61

Sir,

I beg to present the statement of the estimated receipts and expenditure of the Government of India for the year 1960-61.

2. The usual Economic Survey reviewing the major developments in the economy during the current year and indicating broadly the outlook for the coming year has been circulated along with the budget papers. I propose here to dwell only on such aspects of the economic situation as have a direct bearing on the budget for the coming year.

3. Agricultural production recorded a large increase in 1958-59 and there has been a marked recovery in industrial production in recent months. Despite these encouraging trends in production, both wholesale prices and the cost of living have shown a significant rise. The foreign exchange reserves held by the Reserve Bank have maintained a measure of stability during the year. There has been some improvement in export earnings and some reduction in imports, but the major factor in the stability of our foreign exchange position has been the larger availability of external assistance. The trends in money supply and credit indicate that the expansionary impulse in the economy has been fairly strong. The stock markets have been buoyant particularly throughout the year. These pointers, taken together, indicate the need in the coming year for active vigilance in regard to domestic price trends and continued austerity in imports backed by accelerated effort to step up exports.

4. The investments undertaken in the last few years are beginning to yield results and we should expect substantial increases in output in the coming years. At the same time the demands for domestic consumption and investment are increasing while the urgent need to build up exports remains. It is essential in this situation to ensure to the maximum extent possible that aggregate demand does not outstrip the supplies available. 1960-61 is the last year of the Second Five-Years Plan, and care must be taken to see that the economy is in a state of healthy balance when the year ends and the Third Plan commences.

PRODUCTION

5. The prospects for agricultural production in the current year are good. Despite floods in some parts of the country and drought in some others, the Kharif crop is expected to be about as good as last year, and the Rabi sowings so far have been satisfactory. Food production in 1959-60 will, it is hoped, be around the same high level as last year, although some reduction in the output of raw cotton and jute is likely.

6. Industrial production has shown an increase of about 7.4 per cent over the first ten months of 1959. This is a substantial improvement over the rate of increase of 1.7 per cent in 1956 and 3.5 per cent in 1957. A notable feature of the year was the increase in the production of iron, steel and aluminium which together accounted for over a third of the rise in the index of industrial production. Among the other industries which recorded substantial increases in output were automobiles, diesel engines, machine tools, sugar machinery, superphosphates, soda ash, cement and paper and paper board. The output of mill cloth was about the same as in 1958, although the off-take was distinctly larger partly on account of the revival of export demand. The production of handloom and powerloom cloth went up by about 100 million yards. The production of jute manufactures over the year was slightly lower than that in 1958, but it has been looking up since September last. Although the foreign exchange position continues to be tight, It has been possible to ensure, by and large, that industrial production is not hampered on that account. Actually, the increase in industrial production has been larger than the index would suggest, as the industries which have come into existence after 1951 are not included in that index.

7. In part, the increase in industrial production mentioned earlier has been on account of fuller utilisation of capacity. But there has also been expansion in installed capacity in a number of industries such as iron and steel, aluminium, paper, basic chemicals, cement, power-driven pumps, sewing machines and bicycles. Progress is being made in the production of finished machinery and equipment as well. The construction of the first phase of the heavy electrical project at Bhopal is nearing completion and it has been decided to accelerate the remaining phases of the project and to provide for substantial expansion. The capacity of the heavy machinery project at Ranchi is also to be expanded so as to produce 80,000 tons of machinery a year. A number of plants for fertilisers, drugs and pharmaceuticals and intermediates are also being established and will go into production during the Third Plan period. The industrial potential of the country has grown considerably over the last few years, and is becoming rapidly more diversified. Government are anxious to see this process carried through further. Small-scale industries have also continued to receive encouragement and support from Government, and certain steps to assist banks to make larger loans to small industries are under consideration.

8. Indian shipping continued to expand steadily during the year. The total gross tonnage under the Indian flag at the end of 1959 was about 7,40,000 which is expected to reach the Plan target of 9 lakh tons by the end of 1960-61. With the establishment of the Shipping Development Fund in the current year, Indian shipping companies have now a permanent source from which to obtain rupee finance for their development. In the present context of a shortage of foreign exchange, it is important to develop the Merchant Fleet and save the large amount paid as freight in foreign exchange. I hope that in this effort we shall receive co-operation and assistance from foreign ship-owners, who have had an earlier start and that restrictive practices, which hamper the full utilisation of our shipping tonnage will be given up.

MONETARY TRENDS

9. The rate of increase in money supply which had slowed down in 1958 picked up again in 1959, the increase in the course of the year being Rs.170 crores, as compared to Rs.76 crores in the previous year. The increase in bank credit to Government was smaller in 1959 than in the previous year. On the other hand, the contractionist effect of the transactions of the private sector with the banking system was smaller and the foreign exchange reserves which had shown a decline in the previous year went up in 1959.

10. The deposit resources of scheduled banks increased by Rs.254 crores in 1959. The addition to the investment of these banks in government securities was Rs.151 crores as compared to Rs.204 crores in 1958. The net borrowings of the scheduled banks from the Reserve Bank were small and except during periods of pressure for funds, money rates generally tended to remain at lower levels. The maximum deposit rates fixed in October 1958 under a voluntary agreement among the larger banks' were lowered by $^1/_2$ per cent in September 1959.

11. The stock markets were buoyant for most of the year and the gilt-edged securities maintained a firm trend. Several of the new industrial issues during the year were over subscribed. The index of variable dividend industrial securities, which had risen by 14 per cent in 1958, rose further by about 17 per cent during 1959. While, in a growing economy the capital markets should reflect confidence and optimism, it is essential to keep a watch on any unhealthy speculative tendencies.

PRICES

12. The general index of wholesale prices has shown a rise of about 41 per cent over the twelve months ending January 1960. The index for rice came down from 108 in November 1958 to 92 in March 1959, but it rose again to 112 by October. There was a seasonal decline to around 101 by December 1959. The index was 104.3 at the end of January 1960. Wheat prices at the end of last month were about 25 per cent lower than about a year ago. While on the whole, the indices for cereals and pulses have shown a fall, 'food articles' as a group have gone up, mainly because of the rise in the prices of edible oil, gur and tea. Industrial raw materials went up more sharply and the index for manufactures has also shown an upward trend in recent months. The All-India cost-of-living index for December 1959 was 124 as compared to 122 a year earlier.

BALANCE OF PAYMENTS

13. As I mentioned earlier, the Reserve Bank's sterling assets have been relatively stable, their level on 19th February 1960 being Rs.203 crores, as compared to Rs.211 crores a year earlier. During this period we made the gold payment towards the enlargement of our quota in the International Monetary Fund and repurchased from it rupees equivalent to $20 million. Welcome as this improvement is, it must be borne in mind that basically our current earnings are far short of, our payments, and the gap is being met by foreign loans and credits.

14. For the year 1958-59 the current account deficit in the balance of payments was Rs.339 crores as compared to Rs.476 crores in 1957-58. Imports were lower by Rs.157 crores; imports on private account showing a fall of Rs.176 crores while Government imports rose by Rs.19 crores. Export earnings in 1958-59 were about Rs.19 crores less than in 1957-58 due mainly to recessionary conditions abroad. Receipts on account of official donations and other invisible items were less in 1958-59 by a crore as compared to 1957-58. The current account deficit of Rs.339 crores was met by capital inflow of Rs.320 crores and by a drawing down of foreign exchange reserves by Rs.19 crores. Allowing for a net outflow of Rs.23 crores on account of miscellaneous transactions the total fall in reserves, however, came to Rs.42 crores.

15. For the first half of 1959-60 the current account deficit was Rs.142 crores as compared to a deficit of Rs.211 crores in the first half of 1958-59. The improvement was accounted for by an increase in export earnings of the order of Rs.19 crores and a reduction in imports amounting to Rs.53 crores. The receipts on account of official donations were, however, Rs.3 crores less. As against a deficit of Rs.142 crores, foreign exchange reserves were drawn down by Rs.27 crores, the balance being met mainly by external assistance.

16. While on the subject of the balance of payments and foreign exchange reserves, I would like to mention that we had drawn in 1957 from the International Monetary Fund, a credit of $ 200 million, including a stand-by-credit of $ 72.5 million. Under the Fund rules, a stand-by-credit is repayable within three years. We have, therefore, repaid $ 50 million during this month and propose to pay the balance of $ 22.5 million in June 1960.

FOREIGN ASSISTANCE

17. As the House is aware, a Conference of friendly countries was convened by the World Bank in March 1959 to discuss how India could be assisted to meet the foreign exchange requirements of the current Plan. Following this Conference, the United Kingdom Government granted a loan of £ 19 million, about Rs.25 crores. The United States Government sanctioned a further loan of $ 20 million, about Rs.$9^1/_2$ crores, from the Development Loan Fund in July 1959 for the import of steel for projects in the private sector. An agreement under P.L.480 was signed with the United States Administration in November 1959 for import of foodgrains, and other agricultural commodities valued at $ 257 million, about Rs.122 crores. Canada has authorised grants totalling $25 million, about Rs.11 crores for import of wheat, raw materials, fertilisers and scientific equipment. During the current financial year the World Bank sanctioned further loans totalling $ 85 million, about Rs.401 crores. Three agreements were signed during the year with the U.S.S.R., for loans and credits totalling 1680 million roubles, about Rs.201 crores. The bulk of this assistance is towards the Third Plan. The Government of Czechoslovakia and Yugoslavia have also agreed to extend credits upto Rs.23 crores and Rs.19 crores respectively during the Third Plan period.

18. As in previous years, we have continued to receive assistance under the Colombo Plan from countries like Australia, Canada and New Zealand. We have received technical assistance from the United Nations Expanded Programme of Technical Assistance, other specialised agencies of the United Nations and the Indo-French technical co-operation programme. We have on our side, also given assistance to friendly countries. Our economic and technical assistance to Nepal under the Colombo Plan is expected to amount to R9.1.33 crores during the current year. We have provided scholarships and training facilities for overseas students and sent a large number of experts to help the Governments of these countries.

19. I attended the annual meetings of the Boards of Governors of the Bank and the Fund in Washington in September-October 1959. At their meeting, the Board of Governors of the Bank adopted the U.S. proposal asking the Bank's Executive Directors to consider the broad principles on which an International Development Association as an affiliate of the World Bank should be established and to formulate the Articles of Agreement of this Association for submission to the member-governments. The purpose of the Association would be to promote economic development in less developed areas by providing additional finance on terms which will bear less heavily on the balance of payments position of the borrowing countries. The Articles of Association for the International Development Association have now been drafted and will be considered by member-governments.

FINANCIAL YEAR 1959-60

20. I shall now deal with the revised estimates of the current year and the budget estimates of the coming year.

21. The budget for the current year estimated the revenue at Rs.780.10 crores and expenditure met from revenue at Rs.839.18 crores leaving a revenue deficit of Rs.59.08 crores. On the trend of actuals the revenue is now estimated at Rs.838.66 crores and expenditure at Rs.854.05 crores, leaving a deficit of only Rs.15.39 crores.

22. The improvement of Rs.58.56 crores in revenue is due mainly to better collections under Customs and Union Excises. Customs receipts are now estimated to go up from Rs.132.77 crores to Rs.160 crores; our original estimate, based largely on the trend of actuals for 1957-58, has proved to be too conservative. Union Excises would yield Rs.350.82 crores against the budget estimate of Rs.324.32 crores. With the progressive increase in production the revenue has shown an all round improvement,' notably under steel ingots, cement and tyres and tubes. The enhancement in the duty on mineral oils during the year has also contributed to this improvement. The revenue from income Tax including Corporation Tax is likely to go up by Rs.5 crores but the yield from Wealth Tax, Expenditure Tax and Gift Tax taken together, will be less by Rs.1.6 crores. The surcharge on iron and steel which is transferred to the Iron and Steel Equalisation Fund, is likely to yield Rs.9 crores more while grants from the U. S. Government under the PL 480 programme will be Rs.13 crores less.

23. Civil Expenditure this year is now estimated at Rs.610.35 crores against the original budget of Rs.596.50 crores and Defence Expenditure at Rs.243.70 crores against the original estimate of Rs.242.68 crores.

24. The increase of Rs.13.85 crores in Civil Expenditure is the net effect of variations over a number of heads. Debt services are now estimated to cost Rs.7.26 crores more due chiefly to larger payments for interest on external loans. Transfer to the Steel Equalisation Fund of the surcharge on Iron and steel accounts for an increase of Rs.9 crores. Expenditure on displaced persons is more by Rs.5.48 crores due to the conversion of certain outstanding loans into grants and to larger provision for transfer of sale proceeds of evacuee property, which are taken in reduction of the Capital expenditure on the payment of compensation to displaced persons. Payment of States' share of Union Excise Duties is now expected to exceed the budget provision by Rs.2.30 crores following the expansion of revenue. Provision has also been made for payment to the States of a grant of Rs.3.46 crores to compensate them for the loss in their share of income-tax following the changes in the company taxation this year. These increases would be partly counterbalanced by a drop of Rs.13 crores in the grants from U.S.A. under P.L.480 programme to be transferred to the Special Development Fund

25. The revised estimate of the net Defence expenditure on revenue account during the current year shows an increase of Rs.1.02 crores over the budget. This is made up of an increase of Rs.6 crores under the Air Force, offset by reductions in the Navy and in Non-effective charges and by a slight increase under "Receipts and Recoveries". The increase in the Air Force budget is mainly due to liabilities carried over from 1958-59 m stores purchased from abroad and new proposals sanctioned during the course of the year. The reduction in expenditure on the Navy is mainly due to less expenditure m stores. The provision made for temporary increases in pensions of Service personnel under "Non-effective Charges" is unlikely to be required this year and has been included in the budget for the next year.

FINANCIAL YEAR 1960-61

26. Before dealing with the estimates for the coming year, I would like to mention one or two matters which affect the estimates of that year. The first relates to a major change in the financial arrangements between General Revenues and Posts & Telegraphs. The surplus of Posts and Telegraphs Department, after payment of interest on the capital at charge, has so far merged in the General Revenues. Part of the surplus is treated as an outright contribution to General Revenues and the balance is retained pro forma by the Department on which an abatement of interest is allowed. These arrangements were recently reviewed particularly against the background of the need to encourage the Department to build up adequate reserves against its growing capital investment. With rapid expansion and technological advantage, the pace of capital investment of the Department has increased considerably in recent years, the

total capital at charge having risen from Rs.38 crores in 1948-49 to Rs.121 crores at the end of last year. But the accretions to the Renewals Reserve Fund have not been adequate with the result that replacements have to be partly financed from interest-bearing capital. It has, therefore, been decided to place the P&T Department with effect from next year in the same position as the other great commercial department of Government, viz. Railways vis-a-vis General Revenues. The Department would in future pay a dividend to the General Revenues at the rate in force from time to time for the Indian Railways on the mean capital at charge during the year. The balance of the surplus after payment of the dividend, will be retained by the Department for strengthening its Reserves, particularly the Renewals Reserve Fund.

27. The second matter concerns the Central Pay Commission. The Commission which was appointed in August, 1957, to enquire into the structure of emoluments and conditions of service of Central Government employees submitted its Report in August, 1959. The decisions of Government on some of the major recommendations of the Commission were announced in Parliament on the 30th November, 1959. The other recommendations of the Commission are being examined and Government's decisions thereon will be announced as early as possible. The annual expenditure for Government as a whole on the Implementation of the recommendations of the Commission, including the interim relief already granted, is of the order of Rs.44 crores, which is likely to rise ultimately to Rs.55 crores roundly per annum. The recommendations of the Commission accepted by Government take effect from the 1st July, 1959, but no provision is being made in the revised estimates for the current year on this account as the payments will all be made in 1960-61. The budget for that year thus includes more than a year's provision for this expenditure.

28. Honourable Members had expressed some concern last year about the growth of Civil expenditure. The question of securing maximum possible economy consistent with efficiency and avoiding wastage in public expenditure has continued to receive close attention. The reports of the various teams of the Committee on Plan Projects and the Special Re-organisation Unit of the Ministry of Finance have been made available to Parliament from time to time. A continuous watch over the growth of expenditure, particularly non-developmental expenditure, is kept by the Central Economy Board and the Internal Economy Committees set up in the various Ministries. Studies of particular sections of activity in each Ministry have been initiated with a view to improve the methods of work and secure economy with efficiency. Government have imposed a ban for one year m the creation of fresh posts and the filling up of vacant posts unless they are related to the Plan or are required for security purposes. Ad hoc cuts have also been made in the provision for travelling allowances.

29. For the next year, on the basis of existing taxation, the revenue is estimated at Rs.896.45 crores and expenditure at Rs.980.35 crores, leaving a deficit of Rs.83.90 crores on revenue account.

30. The revenue from Customs has been assumed at the same level as the current year's revised estimate of Rs.160 crores. Union Excise Duties are estimated at Rs.358.91 crores, an increase of Rs.8.09 crores over the revised estimate, which allows for the progressive increase in production and a full year's revenue from the increases levied during the current year. The receipts from income Tax and Corporation Tax are likely to improve by Rs.10 crores. Revenue from Wealth Tax will decline by Rs.5 crores due to the merger of the tax on companies in their income tax. Apart from the increase of Rs.1.43 crores in the sale proceeds of opium, the revenue from the other principal heads is not expected to differ materially from the current year's revised estimates. Interest receipts would go up by Rs.7.44 crores mainly due to the anticipated receipt from two steel companies and the Khadi and Village industries Commission. Of the other major variations, mention may be made of an increase of Rs.7 crores. In the receipt from the surcharge on iron and steel and Rs.8 crores in grant from the U. S. Government under the P. L.480 programme. But these increases will be partly set off by a drop of Rs.4 crores in the contribution from the Posts & Telegraphs following the revised arrangements mentioned earlier. The share of income-tax payable to the States next year shows a decrease of Rs.27.26 crores as a result of the merger of company income tax in Corporation Tax, but as I mentioned in my speech last year, it is the intention to make good the loss to the States by a specific grant till the next Finance Commission reports on the allocation of income-tax and necessary provision is being made in the expenditure estimates for this purpose. The profits of the Reserve Bank have been taken at Rs.40 crores, the same as in the current year.

31. Expenditure nextyear is estimated at Rs.980.35 crores of which Rs.272.26 crores will be on Defence Services and Rs.708.09 crores under the Civil heads.

32. Civil Expenditure next year shows an increase of R9.97.74 crores over the revised estimates. Expenditure on Debt Services is likely to be Rs.9.45 crores more on account of the progressive increase in the internal and external debt. Development and Social Services, including Community Development, are expected to cost Rs.27 crores more in the terminal year of the current Five Year Plan. The two self-balancing items of surcharge m iron and steel and grants from the U. S.A. under P.L.480, for which corresponding credits are assumed in the revenue estimates, account for an increase of Rs.15 crores. Ad hoc grants to the States to compensate them for the' loss in their share of income tax next year would be Rs.28 crores more. The rest of the increase is spread over a number of heads. Detailed explanations for these variations have, as usual, been given in the Explanatory Memorandum.

33. Defence expenditure next year is estimated at Rs.272.26 crores against the revised estimate of Rs.243.70 crores, an increase of Rs.28.56 crores. Army estimates show an increase of Rs.26.75 crores and Navy estimates Rs.3.46 crores, while the expenditure on Air Force will be Rs.2.94 crores less. Non-effective charges show an increase of Rs.1.29 crores. The overall increase in the Defence expenditure is mainly due to the additional commitments of the Armed Forces, the further expansion of the

Territorial Army and the National Cadet Corps and the provision for increased payments to Defence personnel on the basis of the recommendations of the last Pay Commission. As I have mentioned elsewhere, the provision included in the current year under non-effective charges for an increase in the rates of small pensions to Service personnel has been carried over to the coming year. The reduction in the Air Force estimates is mainly due to the inclusion in the current year's revised of substantial amounts m account of liabilities carried over from the previous year.

34. The estimates of the Defence Services have been prepared against the background of the present threat to our borders and I am sure the House will not expect me to dilate at any length on the measures which have been taken and are under consideration for safeguarding the territorial integrity of the country. It may be that later in the year, if circumstances necessitate It, I may have to come before this House for additional funds; but I have no doubt that Government will have the support of all sections of this House in taking all the measures necessary for ensuring the security of the country.

CAPITAL EXPENDITURE

35. I shall now give a brief account of the provision made in the estimates for capital outlay. The current year's budget provided for a total capital outlay of Rs.420.14 crores, excluding the adjustment for the transfer of capital assistance from the United States to the Special Development Fund which is notionally treated as capital expenditure. The revised capital requirements are now estimated at Rs.362.85 crores, a decrease of Rs.57.29 crores. The savings occur mainly under two heads. The Railways now expect to spend only Rs.85.03 crores against the original estimate of Rs.121.81 crores. Net expenditure on purchase of foodgrains shows a fall of Rs.21.01 crores due mostly to larger sale proceeds and recoveries.

36. Against the revised estimate of Rs.362.85 crores for capital outlay this year, the next year's provision stands at Rs.370.84 crores. If the special item of Rs.95.24 crores in the current year for payment of additional subscription to the International Monetary Fund is excluded, the capital requirements next year exceed the current year's revised estimate by Rs.103.23 crores. This increase is spread over a number of heads and reflects the additional allotments to fulfil the Plan targets during the last year of the Plan. Outlay on industrial development, mainly on coal and oil development, would cost Rs.30.56 crores more. The Railways and Posts and Telegraphs would also be spending Rs.35.78 crores and Rs.3.60 crores more respectively than in the current year. Foodgrains transactions would also involve an increase in the net outlay of Rs.19.41 crores.

37. In addition to the direct capital outlay just mentioned the estimates provide Rs.283.18 crores this year and Rs.331.51 crores next year for loans to States and Rs.221.74 crores this year and Rs.176.74 crores next year for loans to other parties including Port Trusts, Government owned Corporations and foreign Governments.

38. Next year's estimates include a total provision of Rs.889 crores for implementing the Plant Rs.173 crores in the revenue budget and Rs.716 crores in the Capital budget. Out of this provision, Rs.64 crores in the revenue budget and Rs.175 crores in the capital budget are for assistance to the States. In addition, the Railways will be spending Rs.34 crores from their own resources and the States Rs.251 crores. Thus the total Plan outlay in 1960-61, including interest on loans on river valley projects which are added to capital during the period of construction and short-term loans, will amount to Rs.1,174 crores.

39. During the three years ending 1958-51 the total Plan outlay by ' the Central and State Governments together was of the order of Rs.2,450 crores. The budget provision on this account for the current year is Rs.1,121 crores and the next year's outlay as mentioned already is estimated at Rs.1,174 crores. After allowing for the usual shortfall in expenditure, the actual outlay in the public sector over the five-year period will be near about Rs.4,600 crores. Investment in the organised private sector is expected to reach the total envisaged in the Plan; it may even slightly exceed this. In irrigation, power, industry, mining and transport as also in the field of social services, the achievements will, I feel sure, be impressive.

WAYS AND MEANS

40. The current year's budget provided for a net expansion of treasury bills of Rs.237 crores of which Rs.15 crores were expected to be issued to the public. On the latest trends, the net expansion is now estimated at Rs.190 crores. The improvement of Rs.47 crores is due to several factors.The revenue deficit is now expected to be Rs.44 crores less than estimated. Capital expenditure, as explained earlier, will show a saving of Rs.57 crores and other debt heads an improvement of Rs.32 crores. This improvement of Rs.133 crores will be partly counter balanced by a decrease of Rs.71 crores in external loans and additional provision of Rs.15 crores required to raise the closing cash balance to the normal level of Rs.50 crores.

41. The borrowing envisaged by the budget was carried through successfully. In the budget I had taken credit for a market loan of Rs.225 crores; the actual receipts amounted to Rs.229 crores. Two loans were floated in July 1959; the $3^1/_2$ per cent Bonds 1969 at an issue price of Rs.98.85 and the 4 per cent Loan 1979 at par. Conversion facilities were offered to the holders of the 3 per cent Second Victory Loan 1959-61 and the 21 per cent Hyderabad Loan 1954-59 which were due for repayment during the year. The total subscriptions to these loans amounted to Rs.184 crores, of which Rs.89 crores came by way of conversion. Later, to meet the demand for investment from the market, it was decided to create further issues of 3J per cent Bonds 1969 for Rs.25 crores at Rs.99.4 and of $3^3/_4$ per cent Loan 1974 for Rs.20 crores at Rs.99.65. In accordance with the usual practice, these issues were taken over by the Reserve Bank on its investment portfolio for being sold in the market later.

42. Hon’ble members will recall that in the Budget Speech for 1958-59 mention was made of the proposal for the gradual funding of a part of the Treasury Bills held in the issue Department of the Reserve Bank. A beginning was made in July 1958 when, in consultation with the Reserve Bank, Treasury Bills of the value of Rs.300 crores were funded. This process was continued during the current year when a further Rs.150 crores worth of Treasury Bills were funded into dated securities.

43. Small Savings have shown a steady Improvement in recent years. The net collections of Rs.78 crores during 1958-59 were the highest reached so far. This year they are expected to go up to Rs.82 crores against the budget estimate of Rs.85 crores. While the response has been encouraging, the collections are still far short of the average of Rs.100 crores a year envisaged in the Plan. The Small Savings movement is more than a routine device for mobilising savings. It has a great psychological appeal in providing an opportunity for the ordinary man and woman to participate in the national effort for development. I would, therefore, appeal to every family in this country to save more and contribute its share in making the movement a greater success.

44. I may mention, at this stage, certain steps taken by Government during the year to popularise the savings movement. The House will remember that in the last session, legislation was promoted to provide the facility of nomination to depositors in the Post Office Savings Bank and holders of Savings Certificates. A new Pay Roll Scheme has been introduced for the benefit of the employees in large establishments and factories which permits deduction to be made from the wages, with the consent of the employees, for investment in Small Savings. The National Savings Advisory Committees at the Centre and in the States have been merged with the Savings Boards of the Women’s Savings Campaign and constituted into composite Boards, one at the Centre and one in each State, with adequate representation of women workers. The various agency systems for the sale of Savings Certificates have been reviewed and rationalised and a standardised agency system, both for the urban and rural areas is expected to be introduced shortly. The Commission due to the agents is at present claimed and disbursed through the treasuries which are always not easily accessible, particularly in the rural areas. To meet this difficulty, the responsibility for the payment of the commission is proposed to be transferred to the post offices in the coming year.

45. In response to suggestions made from various quarters from time to time, Government have decided to issue Prize Bonds. The notification setting out the terms will issue tomorrow and the Bonds will be placed on sale from the 1st April next. The issue will be in the form of bearer bonds in two denominations of Rs.100 and Rs.5. The bonds will not carry interest and will be repaid after five years but the holders will participate in quarterly drawal of prizes, which will be free of income tax. The total number of prizes to be awarded every quarter will be 40 in respect of each series of one lakh units of Rs.100 bonds, the prizes ranging between Rs.25,000 and Rs.500.

In the case of each series of ten lakh units of Rs.5 bonds, the number of prizes offered every quarter would be 278, the prizes ranging between Rs.7,500 and Rs.50.

46. For the next year's budget, credit has been taken for a market borrowing of Rs.250 crores including the receipts from the prize bonds which I just mentioned. The net credit from Small Savings has been taken at Rs.90 crores allowing for a small increase of Rs.8 crores over the likely receipts this year. According to the latest information available, foreign assistance next year is expected to amount to Rs.362 crores.

47. The overall budgetary position next year may now be summarized. At the existing level of taxation, there will be a revenue deficit of Rs.84 crores. Capital outlay will amount to Rs.371 crores, loans to State Governments and others to Rs.531 crores and debt repayments to Rs.140 crores. This total disbursement of Rs.1.126 crores will be met to the extent of Rs.250 crores from market borrowing, Rs.90 crores from Small Savings, Rs.362 crores from foreign assistance, Rs.128 crores from loan recoveries and Rs.119 crores from miscellaneous receipts, leaving a deficit of Rs.177 crores, which will be met by the expansion of treasury bills.

DEVELOPMENTAL PLANNING

48. Before I deal with the problem of covering the large revenue deficit in sight, I should like to say a few words on the implications of planning for development; for, It is in relation to these that all our budgets have to be framed. The essential objective of our plans is to lift the economy from stagnation and to get it moving forward to higher levels of production and better standards of living. We embarked on this task some ten years ago, and we shall be completing the Second Plan by the end of the next fiscal year. In this period, our economy has made notable advances in several directions. One has only to look at the major industrial projects which are coming up and see something of the varied programmes of rural development that have been and are being implemented to realise the growing dynamism of the economy. Economic development is not, for us, a vague or remote ideal; it has to be part of our daily thought and work. Undoubtedly, we have had our share of difficulties, and, I have no doubt, we shall continue to have some hereafter. These difficulties and stresses and strains are a part of the process of economic and social growth.

49. At the end of the Second Plan the country would have reached a level of development at which it can hardly afford to halt. It is vital that the pace of development is not merely maintained but accelerated. This is the essential task of the Third Five Year Plan. The first pre-requisite of success for this is increased agricultural production. This is axiomatic and we cannot afford, even for a moment, to lose sight of it. But, other sectors of the economy, like industry, mining, power, transport and communications have also to be developed rapidly if the economy is to grow at a rapid enough pace over the next 10 or 15 years. The Third Five Year Plan has to keep this perspective in view.

50. It is perhaps a platitude to say that in this country we face all the time a crisis of resources in developing our economy. But I would be failing in my duty if I do not stress the point that mobilising the resources required for this is not going to be easy and will entail progressively harder work and larger sacrifices by all sections of the community. There will be need also for substantial external assistance. We are anxious to make the period of dependence on special external assistance as short as possible. I am not referring here to the normal flow of external capital, this, I hope, will continue. Private capital is apt to flow in more readily when the foundations of development have been well laid out. The scope for foreign investment in India will thus grow. But, our aim is to get as early as possible to a stage where the bulk of our investment programmes is based on the domestic output of capital goods and equipment. How far we can advance in this direction depends upon a number of factors, of which the availability of sufficient foreign exchange in the next few years is the most crucial. I feel I am right in saying that the needs of developing economies are now increasingly appreciated in the more advanced countries, and I am confident that, provided we as a nation put in the best effort we can, the necessary support from abroad will be forthcoming. What is vital, at this stage, is a clear recognition of the urgency of economic development, for preserving and strengthening the democratic values we cherish and the realisation that such development is not possible unless some restraint is kept on consumption and we submit ourselves to a high degree of fiscal and monetary discipline.

51. I now turn to the proposals for dealing with the revenue deficit for the coming year.

PART B

52. Honourable Members may recall that while presenting the budget proposals for the current year, I placed before the House certain broad considerations which Government took into account in deciding the extent to which the revenue deficit of a year should be covered by additional taxation. I suggested that the long era of revenue surpluses was perhaps coming to a close; for the first time the actuals for 1958-59 have disclosed a small revenue deficit of Rs.5 crores. I also suggested that exceptional circumstances affecting the deficit of a year should be taken into account in deciding upon the extent to which the deficit should be covered and that due regard should be given to the amount of additional taxation raised in recent years. I also ventured to underline the need for the continuous mobilisation of resources for financing the increasing needs of planned development. The considerations I placed before the House last year apply with equal force to the budget of the coming year and although the large revenue deficit next year is due, in the main, to larger outlay on development in the last year of the present Plan and the increased requirements of Defence in the interests of national security, I am convinced that a part of the deficit should be

covered by additional taxation. As in the current year, I propose that about a fourth of the deficit in sight, may be covered by new taxation.

53. In framing the taxation proposals for the coming year, I have had in mind something more than the immediate needs of that year. I mentioned earlier the continuous need to raise additional resources for development. In the context of planned development, it is essential, in dealing with the budgetary needs of each year, to think in terms of broadening and adjusting the bases of taxation so that the revenue raised continues to expand with the years. The proposals for the coming year, particularly those widening the base of taxation, have been formulated with the needs of the Third Plan in view. While direct taxation will be kept under constant and continuous review so as to make it yield the maximum resources, the bulk of the expansion in taxation will have to come from indirect taxation.

INDIRECT TAXATION

54. In the field of indirect taxation, my proposals cover both the adjustment of rates of existing taxes and the levy of taxes on certain new commodities. The proposals are explained in detail in the memorandum circulated with the budget papers and I propose to mention them only briefly.

55. My first proposal is to levy a duty of Rs.200 per metric tonne on tin plates and tinned sheets. Suitable adjustments would be made where duty paid steel is used in their manufacture. The yield in a full year is estimated at Rs.208 lakhs.

56. My second proposal is to impose a small duty of Rs.10 per metric tonne on pig iron. Pig iron used in the manufacture of steel will be exempted from the duty, which is expected to yield Rs.60 lakhs a year.

57. My third proposal is to levy a duty of Rs.500 per metric tonne on aluminium steets and circles and Rs.300 per metric tonne on aluminium ingots. Necessary adjustments will be made in the duty on circles, sheets, etc., when duty paid ingots are used in their manufacture. The estimated yield is Rs.86 lakhs.

58. My next proposal is to levy a duty of 10 per cent ad valorem on all types of internal combustion engines used as prime movers for transport vehicles. A lower rate of 5 per cent ad valorem will be charged on stationary types of these engines which are generally used in industry and for agricultural purposes. The yield is estimated at Rs.107 lakhs a year.

59. I also propose to levy a small tax m certain essential cycle parts. A duty of Rs.2 on each free wheel and Rs.4 on each rim will be levied. This will ensure the realisation of Rs.10 of each completed cycle without bringing into the excise net a large number of small assemblers of cycles and manufacturers of cycle parts. The annual yield is estimated at Rs.100 lakhs.

60. Electric motors and parts thereof are not now subject to tax. It is proposed to levy a duty ranging from 5 per cent to 15 per cent ad valorem on various types of motors used for different purposes., The revenue from this is estimated at Rs.46 lakhs a year.

61. A duty on exposed cinematograph films is also being levied. It will vary from 10 naye paise per metre to 50 naye paise per metre depending on the type of the films. News reels and shorts would be subject to the lower rate of duty. The yield from this is estimated at Rs.75 lakhs.

62. My last proposal for new excises relates to silk fabrics m which a duty of 30 naye paise per square yard will be levied. The handloom sector will not be affected by this measure which is expected to yield Rs.30 lakhs.

63. I shall now turn to the readjustments in the existing rates of duty on certain commodities.

64. The House will remember that in 1956 an excise duty was levied on the larger passenger motor cars while all commercial vehicles and small and medium cars, motor cycles and scooters were not taxed. I now propose to levy a duty ranging up to 15 per cent ad valorem on all types of motor vehicles. The total revenue is estimated at Rs.625 lakhs.

65. Refined diesel oil was made subject to duty in 1956 when a tax at 25 naye paise per imperial gallon was levied. Although the tax has since been raised to 80 naye paise per imperial gallon, the consumption of this commodity has been increasing rather rapidly. The growing imbalance between the internal production and consumption of this commodity is causing a considerable drain on the foreign exchange resources of the country. I, therefore, propose to raise the basic rate of duty by a further 25 naye paise per imperial gallon. This will bring in a revenue of Rs.504 lakhs a year.

66. Complete footwear manufactured in power operated factories was subjected to an excise duty in 1955 but a large number of small scale units were kept out of the scope of the taxation. Some of the larger units are reportedly adopting a deliberate policy of decentralisation to evade taxation. Mainly to protect the revenue, I propose to levy an excise duty on machine made soles and heels made of materials other than leather or wood. The rate of duty win be 15 per cent ad valorem and will yield a revenue of Rs.20 lakhs a year.

67. In the field of textiles, I propose to make two changes with some revenue significance. I propose to remove the existing total exemption on fabrics produced from staple fibre yarn and cut pieces of cotton textiles, the so-called fents. The former win now be treated on par with artificial silk fabrics. In the case of cut pieces, the present definition is being revised and small specific duties, at levels substantially below the fabric rates, will be levied. These changes are estimated to yield Rs.195 lakhs a year of which Rs.65 lakhs will accrue to the States.

68. Electric fans, bulbs and batteries were first made subject to excise in 1955 and no change has since been made in the rates of duty on these commodities. The production trends indicate that these lines are expanding and they can bear an increase in taxation. I propose to raise the existing duties by 50 per cent with a suitable increase in the duty on components. These changes will yield a revenue of Rs.90 lakhs a year.

69. The tea industry has been complaining of the difficulties caused to it by the imposition of a number of taxes at various stages by different agencies. We propose to explore the possibility of removing this hardship by a suitable readjustment of the excise duty, bearing in mind the financial interests of the State Governments concerned, and the need to secure that their resources are not adversely affected. To enable this to be done, we are raising the permissible maximum limit of the excise duty from 19 naye paise to 30 naye paise per lb. This is merely an enabling measure and does not involve any change in the effective rates of the duty now imposed ranging, as the House is aware, from 2 naye paise to 12 naye paise per lb.

70. A few other minor readjustments are also being made about which 1 need not weary the House. The total financial effect of these changes is to bring in an additional revenue of Rs.27 lakhs a year of which Rs.5 lakhs will accrue to the States.

71. The net affect of the various measures which I have mentioned is to increase the revenue by Rs.21.73 crores, of which Rs.70 lakhs will accrue to the States.

72. With regard to customs duties, I propose to make no change except for an increase in the duty on wines and spirits and other alcoholic liquors. Following the changes in excise duties, provision is being made, wherever necessary, for the levy of a countervailing import duty, so that the indigenous producer is not placed at a disadvantage. The changes in the customs levy are estimated to yield a revenue of Rs.2.5 crores in the coming year.

DIRECT TAXATION

73. I now turn to direct taxation. I do not propose to make any change in the rate structure of personal income tax. With regard to company taxation, steps are being taken to implement in its entirety the new scheme of company taxation introduced in the current year's budget. Formal action is being taken to abolish the Wealth Tax on companies and the tax relating to excess dividends with effect from the financial year commencing on the lst April, 1960.

74. The House will remember that last year, for purposes of advance payment for the assessment year ending the 31st March, 1961,1 had provisionally adopted a rate of 45 per cent for company taxation. We have not had sufficient experience of the effect of this rate. I do not, therefore propose to make any change in this rate but to adopt it as the final figure. Smaller companies with a total income not exceeding Rs.25,000 will continue to be assessed at a figure 5 per cent less. Last year I had

promised to consider certain matters connected with the new system of company taxation, and I am making two provisions in the Finance Bill, one relating to the assessment of dividends paid out of profits taxed in the past and the other relating to taxes on companies holding less than 50 per cent share in the capital of another company, and have taken them into account in my estimates of revenue.

75. I propose to make two changes in regard to the deduction of tax at source. The House will remember that it was decided last year that tax should be deducted at source at a rate of 30 per cent on dividends paid to resident individuals and at 45 per cent on dividends paid to Indian companies. It has been represented that this difference in the rate of deduction at source has given rise to some difficulties. I therefore, propose to apply a uniform rate of 30 per cent for deduction of tax from both the individuals and companies. In order that this change may not affect the revenue receipts, I propose to amend Section IBA so as to enable Government to collect from Indian companies the remaining 15 per cent as advance tax on the dividends received by them.

76. The existing provision with regard to the deduction at source from dividends paid to preference shareholders also appears to be causing some difficulty. The amount of the dividends which companies are required to pay to the shareholders is governed by the terms of their contract with them and Government would not like, as the current Finance Act implies, to make any assumptions regarding such amounts. I accordingly propose in the Finance Bill to provide for the deduction at source from the payments to these shareholders as in the case of any other dividends, leaving the actual amounts of these dividends for the companies themselves to decide.

77. I would now briefly refer to a few other proposals to amend the income-tax Act. The period for which exemption is available under section 15C to new industrial undertakings is proposed to be extended by a further five years. The limit up to which donations for charitable purposes qualify for exemption from tax is proposed to be increased from 5 per cent of total income or Rs.1,00,000 whichever is less, to 71 per cent of total income or Rs.1,50,000 whichever is less. At present, the amounts paid to scientific research associations and educational institutions to be used for scientific research are allowed as deductions in computing the business income of the donor if the scientific research is related to the class of business carried on by him. It is proposed to allow this deduction even if the scientific research is not related to such business. In respect of properties constructed before 1st April, 1950, the full amount of taxes levied by a local authority and borne by the owner, is proposed to be allowed to be deducted in computing the taxable income from the property, as against half the amount of such taxes allowed at present. My next proposal is with regard to the taxation of co-operative societies. At present, the business income of such societies is exempt from tax. This exemption is justified having in view the objective of the Co-operative Societies Act of 1912, namely, to facilitate the formation of co-operative societies for

the promotion of thrift and self-help among agriculturists, artisans and persons of limited means. However, as the House is aware, of late, co-operative societies have widened their fields of activity and are carrying on substantial business involving transactions of a large scale with non-members. There is no justification for a complete tax exemption of business profits in their case. It is, therefore, proposed that while the business incomes of co-operative societies connected with agriculture, rural credit and cottage industries should continue to be wholly exempt from tax, the business incomes of other societies should be exempt only up to a sum of Rs.10,000. These proposals will not materially affect the revenue.

78. A few amendments of a comparatively minor character are proposed to Expenditure Tax and Gift Tax Acts. The amendments to the Expenditure Tax Act provide for allowances for expenditure incurred on leave travel in India as well as education of children in India. It is also proposed to allow in full the taxes paid by an assessee to a foreign government instead of only a portion as at present. The amendment to the Gift Tax Act provides that the advance tax payable will be at the same rate as the tax payable on regular assessment. These changes are not expected to have any significant effect on revenue.

NET EFFECT OF PROPOSALS

79. I may now summarise the net effect of the budget proposals. The changes in the Union Excise duties, exclusive of the revenue accruing to the States, are expected to bring in an additional revenue of Rs.21.03 crores. Changes in the customs duties, largely consequential on the changes in Union Excises, are expected to bring in Rs.2.5 crores. The total additional revenue would thus stand at Rs.23.53 crores, reducing the revenue deficit from Rs.83.9 crores to Rs.60.37 crores and the overall deficit from Rs.177 crores to Rs.153 crores. I propose to leave the revenue deficit uncovered; the overall deficit will be met by the expansion of treasury bills.

CONCLUSION

80. Next year’s budget would cover the last year of the current Plan and 1 would like to mention briefly what the position at the end of that year would be so far as the implementation of the present Plan is concerned. In an earlier part of my speech, I mentioned that at the end of the budget year, the total Plan outlay would have reached a figure of about Rs.4,600 crores. During the current Plan period, we have, at the Centre, raised substantial sums of revenue for meeting our Plan commitments including the assistance provided to the States from the revenue budget. Over the period of five years covered by the Plan, I expect that we would have an accumulated revenue surplus of over Rs.50 crores, after meeting all our commitments for the Plan and providing very substantial assistance to the States for implementing their Plans. I know that there has been some criticism about the extent to which we have had to resort to deficit financing for meeting the capital expenditure of the Plan. Even here, I venture to suggest that our record has not been as bad as some of our critics make

out. In the first three years of the Plan, the total amount of deficit financing amounted to Rs.885 crores or so. In the current year, assuming that the State Governments do not contribute to this in any significant measure and they are unlikely to do so, the amount of deficit financing is likely to be Rs.190 crores. Taking a figure of Rs.153 crores for the coming year, the total amount of deficit financing during the Plan period would have amounted to only a little over the sum of Rs.1,200 crores envisaged in the Plan. Although our performance in the matter of savings has not been as, good as we could wish, our record in the matter of raising resources and limiting deficit financing to the minimum amount possible and practicable, has, I think, been quite good.

81. There is, however, no reason to take a complacent view of the situation. The end of the Second Plan merely marks the beginning of the Third Plan which will require greater efforts and larger sacrifices on the part of the community if the country has to sustain, as it inevitably must, a larger Plan. The path of our progress is bound to be difficult until our economy gets over the hump and becomes self-generating. Until this position is reached, which one might hope may be at the end of the next Plan, we shall have to strain every nerve to mobilise the maximum resources, from both taxation and savings, to enable the country to make the progress that is imperative to our survival. It is perhaps a truism to say that no one, much less an under-developed country like ours, can stand still or stay stagnant. We have to move forward and make whatever sacrifices are necessary for this. I have no doubt that this will be done and I would ask the House to consider the budget, which I am placing before it, against this background.

(FEBRUARY 29, 1960)