

**SPEECH OF SHRI MORARJI R. DESAI MINISTER OF FINANCE  
INTRODUCING THE BUDGET FOR THE YEAR 1959-60**

Sir,

I rise to present the statement of the estimated receipts and expenditure of the Government of India for the year 1959-60.

2. A detailed review of the major developments in the economy during the year now drawing to a close and an assessment of the emerging trends is given in the Economic Survey which is being circulated along with the budget papers. I shall confine myself to a brief review of the economic situation and draw the attention of the House to those of the important aspects of the situation that merit special attention.

3. The drop in agricultural production last year, which was the lowest in record since 1953-54, affected the availability of foodgrains and other agricultural products during the current year. The rate of growth of industrial production also slowed down while prices showed an upward trend through a major part of the year. There was continuing pressure on the balance of payments in the first half of the year. The situation has eased somewhat in recent months. The kharif crop has been good and the prospects of the rabi appear to be fair. There has been some fall in prices and the decline in foreign exchange reserves has been halted; indeed there have been small accretions to these reserves in recent weeks but the overall shortage still remains. The requirements of foreign exchange for the remaining period of the Plan are sizeable and the current account in the balance of payments is likely to show continuing deficits. On the whole the economic situation is somewhat better than it was a few months ago; we are sensing the effect of the various corrective measures we have taken.

**PRODUCTION**

4. Agricultural production this year is, as I have just said, expected to be distinctly better both in regard to foodcrops and commercial crops. Industrial production also increased during the year but at a somewhat lower rate than in 1957. In some industries such as cotton textiles, finished steel, automobiles, power transformers and vanaspati, there was, however a decline in output. The production of mill cloth, in particular, showed a sharp drop, the output declining from 5,317 million yards in 1957 to 4,900 million yards in 1958. Some industries have been handicapped by restrictions arising out of the current shortage of foreign exchange. On the other hand, there have been significant increases in production in a wide range of industries such as coal, pig iron, diesel engines, electricity, machine tools, newsprint and a number of chemical and engineering industries. These increases have been made possible partly by the better utilisation of existing capacity and partly by increases in capacity resulting

from the expansion programme undertaken earlier. Among the industries whose capacity increased in 1958 may be mentioned cement, caustic soda, sulphuric acid, super phosphates, oxygen gas and refractories. In the public sector the steel programme is proceeding more or less according to schedule. A significant step was taken during the year in the manufacture of heavy machinery in the country by the formation of the Heavy Engineering Corporation which will set up a heavy foundry, a forge, a heavy machine building shop and a factory for the manufacture of mining machinery. Construction of the plant at Bhopal for the manufacture of heavy electrical goods is also proceeding apace.

### **MONETARY TRENDS**

5. A significant feature in the monetary situation during the year was the decline in the rate of increase in the money supply. The expansionary impact of Government transactions on the economy was mitigated by the contractionist effect of a decline in the foreign exchange reserves and a fall in the indebtedness of the private sector to the banking system. While in 1956 the increase in the money supply was Rs.131.5 crores and in 1957 Rs.96.3 crores, it dropped to Rs.74.9 crores in 1958. Deposits with the banks continued to increase but the expansion of bank credit has been relatively smaller. Banks have, therefore, been able to reduce their credit deposit ratio, from 62.7 per cent at the end of 1957 to 55 per cent at the end of 1958. Borrowings of scheduled banks from the Reserve Bank have gone down while there has been substantial increase in the holding of Government securities by the Banking system. Easy conditions prevailed in the money market until almost the end of 1958 when the onset of the busy season led to a hardening of interest rates.

6. The stock markets have shown a marked improvement as compared with the previous year. The index of variable dividend industrial securities rose from 120 at the end of 1957 to 145 by the end of September 1958. There has been some decline since then but, over the year as a whole, it has registered an improvement of about 14 per cent. Prices of securities have remained fairly firm despite large borrowings both by the Centre and the States.

### **PRICES**

7. The index of wholesale prices has risen from about 106 a year ago to 112 or so, the peak level of 116.5 having been reached last September. This rise in the wholesale index largely reflects the increase in the prices of foodgrains consequent on the shortfall in production. The index of prices of cereals rose from 98 in December, 1957 to 105 in December 1958 and the food articles from 104 to 113 over the same period. The other components of the wholesale price index, such as industrial raw materials and manufactures have remained practically steady. The working class cost of living index (all India) rose from 113 in December 1957 to 122 in November 1958 but declined to 119 in the following month with food items coming down. The price indices in the current year are, to some extent, distorted by the rise in food prices due largely to the poor crop of the previous year.

## **BALANCE OF PAYMENTS**

8. I shall now give a brief account of the balance of payments position of the country and of the steps taken to ease the difficulties which we have been facing since the beginning of the Second Plan. It is not necessary for me to give more than a factual account of the recent developments because this problem which has been engaging the continuous attention of Government has been considered by Parliament more than once in some detail. From almost the commencement of the Second Plan, we have been drawing rather heavily on our reserves and between April 1956 and February 1959 they dropped by Rs.535 crores, from Rs.746 crores to Rs.211 crores, despite substantial foreign assistance and drawals from the International Monetary Fund. The reasons for this are well known. The decline was very largely due to larger imports, in the main, of plant, machinery and industrial raw materials for development, though imports of foodgrains and Defence equipment and the decline in export: earnings also contributed to it. A number of measures were taken to cut down foreign expenditure to the minimum necessary to maintain the economy and implement the projects in the 'core' of the Plan and to promote exports under difficult trading conditions in the world as a whole. As a result of these measures and the arrangements made to obtain credits and loans from friendly foreign countries and the World Bank, the rate of drawals from the reserves declined appreciably from the third quarter of 1957-58. The average monthly drawal was Rs.23.3 crores in 1956-57 and Rs.34.7 crores during the first half of 1957-58; in the following six months the rate of drawal dropped to Rs.14.2 crores a month. There has been a further improvement since then. During the first six months of the current financial year the reserves have fallen at a monthly rate of Rs.13.9 crores. In the third quarter there has been a slight increase in the balances. Ignoring fluctuations our reserves have more or less maintained their level in the last six months.

9. The year 1957-58 ended with a current account balance of payments deficit of RS.451 crores. The payments deficit during each of the 4 quarters of the year was Rs.150 crores, Rs.148 crores, Rs.72 crores and Rs.81 crores, respectively. Imports during the year reached a record level of Rs.1,175 crores, showing an increase of Rs.79 crores over the previous year. This increase in imports, despite the efforts to conserve foreign exchange, partly reflects the heavy backlog of past commitments which came in for payment during the year and partly the massive import required for implementing the core of the Plan. The year witnessed larger imports on Government account, which rose from Rs.201.5 crores in 1956-57 to Rs.492.8 crores in 1957-58. Private imports during the year declined by Rs.122.3 crores to Rs.682 crores as a result of the strict import control measures adopted since the beginning of 1957. Total exports during the year amounted to Rs.594.5 crores, about Rs.40 crores less than in 1956-57. A general weakening of foreign demand and a fall in the prices of primary commodities in foreign countries account for this decline.

10. The adverse trend in the country's balance of payments has continued in 1958-59. During the first two quarters of the year the payments deficit on current account was of the order of Rs.120 crores and Rs.91 crores respectively. As against a total deficit of Rs.210.8 crores on current account during the first half of 1958-59, the foreign exchange reserves fell by Rs.86.3 crores; the balance was made up by foreign loans and credits and other capital transactions.

11. In recent months the Sterling Area, of which India is a member has grown further in strength and its gold and dollar reserves rose to \$3215 million at the end of November, 1958 - the highest level attained since September, 1951. During December, 1958 the reserve declined by \$146 million to \$3069 million but this was due to the payment of \$196 million on account of end year service on the U.S. and Canadian loans, but for which there would have been a small rise in the reserve. As the House is aware, some of the West European countries, including the United Kingdom, announced further relaxation of restrictions on convertibility of their currencies with effect from December 29, 1958. From that date sterling held or acquired by non-residents of the Sterling Area has become freely transferable at the official rate of exchange. Honourable Members will recall that, at the Commonwealth Trade and Economic Conference held at Montreal in September, we, in common with other participating countries, had affirmed that it remained our objective to work for full sterling convertibility as soon as the necessary conditions can be achieved.

#### **FOREIGN ASSISTANCE**

12. In the statement I made in this House on November 19, 1958, I had referred to the conference convened by the World Bank in August, 1958 to discuss India's foreign exchange situation and the manner in which India could be helped. Following the conference, the participating countries and the World Bank announced their intention to provide further assistance to India totalling \$ 360 million (Rs.171.4 crores) during the current financial year. Canada would give a grant equivalent to seventeen million dollars, West Germany a loan equivalent to forty million dollars, Japan a loan equivalent to ten million dollars, the United Kingdom an advance payment under the pension settlement of ten million pounds and a loan of £ 28.5 millions, the United States a loan of \$100 million from the Development Loan Fund and the World Bank a loan of \$ 85 million for the Railways. The procedure for operating the above loans and grant have since been settled and agreements signed with the countries concerned where necessary.

13. During the current financial year, the World Bank sanctioned four loans aggregating \$ 153 million (Rs.72.9 crores) for the development of the Calcutta Port, the Madras Port, the third D.V.C Project and the third Railway Development Programme. The World Bank has played a most helpful role both by sanctioning loans for individual development projects and by mobilising a cooperative effort by some of its member countries to help us meet our essential foreign exchange requirements. The Bank proposes to convene another similar conference next month to explore how

India could be helped in meeting her foreign exchange requirements for the next two years of the Plan. It is expected that negotiations with the World Bank for further loans for the Royna Project and the Railway development programme will take place in the near future.

14. An important outcome of the last annual meeting of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development was the decision to increase the resources of these institutions. A general fifty per cent increase in the quotas of members of the Fund has been made with special ad hoc increases in the quotas of some of the members whose currencies it will be advantageous for the Fund to hold in larger amounts. Our quota in the Fund will be raised from \$ 400 million to \$ 600 million. We have to pay a fourth of this increase in the form of gold and the balance in rupee securities and necessary provision is being made in the budget for this purpose. So far as the World Bank is concerned, it is raising its capital stock by \$ 10 billion and its authorised capital by \$ 1 billion. Our subscription will be raised from \$ 400 million to \$ 800 million, but this will not involve any payment on our part as the general increase in members subscription is to remain 'uncalled', the object of the increase in capital stock being only to enhance the borrowing power of the Bank.

15. I referred earlier to the assistance provided by the countries which participated in the conference sponsored by the World Bank last August. In addition to this assistance we have also received in the current year financial and technical assistance from the United States, Colombo Plan countries and the Ford and Rockefeller Foundations. Two agreements were signed this year with the United States Government under the P.L. 480 programme for the import of foodgrains valued at about Rs.140 crores. This will raise the total amount of supplies under this programme to us to about Rs.313 crores, of which Rs.183 crores will be made available to us as loans and Rs.43 crores as grants, for expenditure on mutually agreed development projects. The United States Government have also agreed to defer the payments due to them on the 1951 wheat loan for the next nine years giving us a relief of \$7 million a year and to give a loan of \$20 million for the integrated project for export of iron ore to Japan, for which the Japanese Government will provide a yen loan of \$ 8 million for the development of iron ore mines. Assistance has also been provided for the purchase of fertilisers and tube well equipment abroad and for the eradication of malaria, aggregating in all to \$14.2 million. Canada has made a special grant of wheat worth \$ 8 million and sanctioned two loans amounting to \$33 million for the purchase of wheat. Australia and New Zealand have also continued their assistance.

16. Other friendly countries have also continued to help. Negotiations are in progress with the U.S.S.R. who are already assisting us for the Bhilai Steel Plant and for certain other industrial projects, for a credit for establishing a new project for drugs. An agreement has been entered into with the Government of Rumania who will

provide machinery and technical skill costing about Rs.5.2 crores on deferred payment for an oil refinery to be set up in Assam. The Government of Czechoslovakia have also signed an agreement for establishing a forge foundry costing about Rs.8.5 crores.

17. I should like to express the gratitude of the Government of India to all the countries and institutions which have given us economic assistance so valuable and timely for our development.

18. We on our part have also continued our contribution of technical aid under the Colombo Plan. Up to September 1958, we had arranged for the training of 1086 persons from the South and South East Asia Region. We made available seven experts this year to Burma, Ceylon and Vietnam. We have continued to assist Nepal and the expenditure incurred by us on development schemes to assist Nepal and the provision of technical personnel to that country is expected to be Rs.1.38 crores this year.

#### **CHANGES IN THE BUDGET**

19. Before I deal with the estimates of revenue and expenditure, I would like to mention certain changes which have been made in the budget documents presented to the House. For some years it has been the practice to present the Demands of Defence Services and the Posts and Telegraphs Department in separate self-contained publications. The question of extending this arrangement to other Ministries has been under consideration for some time and, more recently, the Estimates Committee also suggested that the estimates relating to individual Ministries should be presented in self-contained volumes. This suggestion has been accepted and the Demands for Grants for the budget year are being presented by individual Ministries to Parliament. Along with the Demands for Grants, the notes on the expenditure estimates and on the important schemes under the control of each Ministry will also appear together with the accounts and balance sheets of industrial undertakings. The Explanatory Memorandum on the Budget will now be confined to a general review of the revenue and expenditure estimates and the Capital Budget and will contain various annexures of general and financial interest dealing with the budget as a whole. Opportunity has also been taken to transfer to the Economic Survey, presented along with the Budget, data and statistics of economic interest which used to appear in the Explanatory Memorandum. I am sure the House will welcome the revised arrangement which, for the first time in the history of Government, will bring together for each Ministry the estimates relating to it and will facilitate the disposal of these estimates by the House. We are also giving, for the first time, the estimates relating to Plan expenditure separately from the estimates on non-Plan items in the Demands for Grants. This segregation of Plan expenditure in the Accounts and Estimates will, I feel, make for a more efficient control of expenditure on the Plan. While making these changes, care has been taken to see that, as far as possible, the material now available to Parliament in the Hindi version of the Budget, is not curtailed in any way.

## **FINANCIAL YEAR 1958-59**

20. Against the budgeted revenue of Rs.767.99 crores the actuals this year are likely to amount to Rs.728.20 crores while the expenditure met from revenue is placed at Rs.788.15 crores against the original estimate of Rs.796.01 crores. In the result the deficit of Rs.28.02 crores provided in the Budget is likely to rise to Rs.59.95 crores.

21. The increase of Rs.31.93 crores in the revenue deficit for the year is entirely due to a fall in the anticipated revenue, mostly in the revenue from Customs. The total revenue for the year is now expected to fall by Rs.39.22 crores. Customs duties are expected to show a drop of Rs.34 crores; the effect of restrictions on imports on revenue appears to have been far more rigorous and the backlog from past licensing not as much as was originally anticipated. Also during the year adjustments were made in export duties on a scale not visualised when the Budget was framed. The revenue from Union Excises is now placed at Rs.3.61 crores less while the yield from the Wealth Tax, the Expenditure Tax and the Gift Tax will together be Rs.5.3 crores less than anticipated. A drop of Rs.13 crores is anticipated in the grants from the U.S. Government under the P.L.480 programme and of Rs.1.86 crores in the receipts from Currency and Mint, but these will be more than off set by larger receipts of interest, sale proceeds of evacuee property and an increase of Rs.3.04 crores in the contribution from the Posts and Telegraphs Department.

22. Civil Expenditure this year is now estimated at Rs.521.28 crores against the original budget of Rs.517.87 crores and Defence Expenditure at Rs.266.87 crores against the original estimate of Rs.278.14 crores.

23. The increase of Rs.3.41 crores in Civil Expenditure is the net result of a number of increases and decreases. Debt Services are expected to show an increase of Rs.2.06 crores, reflecting the growing volume of the public debt, Currency and Mint Rs.64 lakhs owing to increased provision for the loss on the destruction of uncurrent coin, States, share of Union Excise duties Rs.4.2 crores, reflecting the increase in the revenue from the shared duties during the year and a small carry over from last year, and Miscellaneous Expenditure Rs.11.34 crores due mostly to an increase of Rs.6 crores in payments to State Governments to assist them to meet the additional expenditure on the raising of the emoluments of the low paid employees and Rs.4.27 crores in the provision for the transfer of the sale proceeds of evacuee property which is taken in reduction of the capital expenditure on the payment of compensation to displaced persons. A part of the additional expenditure will be counterbalanced by a saving of Rs.13 crores in the provision for the transfer to the Special Development Fund of the grant received under the P.L. 480 programme for subsequent use on development plans; and a shortfall of Rs.2.73 crores in expenditure under various heads grouped under Civil Administration.

24. The decrease of Rs.11.27 crores in Defence Expenditure occurs largely in the Army and Air Force estimates. The expenditure on the purchase of stores is likely

to be less than estimated; in the case of the Air Force, the decrease is also due to the fact that payments on account of purchase of aircraft and other equipment from abroad are expected to be less than was anticipated when the budget was framed.

#### **FINANCIAL YEAR 1959-60**

25. For the coming year, at the existing level of taxation, I am budgeting for a total revenue of Rs.757.51 crores and an expenditure of Rs.839.18 crores, leaving a deficit of Rs.81.67 crores.

26. With the continuing restriction on imports the downward trend in the revenue from customs is likely to continue and for next year I am taking credit for a sum of Rs.130 crores against the current year's revised estimate of Rs.136 crores. The revenue from Union Excise Duties next year is likely to show an improvement of Rs.5.85 crores and the receipts from Corporation tax, and income-tax an improvement of Rs.6.50 Crores. Under the other principal heads of revenue, the receipts next year will be more or less the same as in the current year. The principal heads as a whole will thus show an improvement of Rs.7.2 crores. Receipts under other heads next year will in all be Rs.25.26 crores more than in the current year. This is the result of three major changes. Firstly, the grants under the P.L.480 Programme are expected to amount to Rs.15 crores against Rs.1 crore this year. Secondly, the profits from the Reserve Bank next year have been placed at Rs.40 crores against Rs.30 crores this year. This is a purely temporary arrangement; the stabilised amount that should be paid by the Reserve Bank in subsequent years will be discussed during the course of next year. Thirdly, the profits from the circulation of coin for which credit has been taken next year amount to Rs.13.15 crores against Rs.2.75 crores this year. This increase is mainly due to the transfer of Rs.10 crores from out of the accumulated surpluses in the past on the circulation of rupee and small coins which had been kept under suspense. In 1956 the practice had been to keep all profits from the circulation of rupee coin, whether silver or nickel, in suspense and also to accumulate under a suspense head the net profits on the circulation of small coin, the transfer to revenue being limited to the net expenditure in a year on the running of the Mints plus a fixed sum of Rs.45 lakhs. This later arrangement was introduced during the last World War so as to even out the impact of the fluctuating profits on circulation on the revenue budget. These accounting arrangements were reviewed in 1956 in consultation with the Comptroller and Auditor General and it was decided that with effect from 1956-57 the actual profits on coinage and the loss on the destruction of uncurrent coin should be adjusted directly as revenue and expenditure. The accumulated sums held in suspense which amounted to a little over Rs.50 crores were to be treated as a deficit neutralisation reserve and, although the original intention was to draw upon this reserve in the course of the year, I have decided, in view of the size of the revenue deficit, to take credit for Rs.10 crores from this source in the budget itself. These increases will be partly balanced by a drop of Rs.4.41 crores in the receipts from the surplus cement account of the State Trading Corporation and Rs.3.31 crores in the receipts on account of Steel Equalisation Fund.

The contribution from the P & T Department will be Rs.1.18 crores less. The contribution from the Railways creditable to revenues will also be Rs.42 lakhs less. As Hon'ble Members are aware, the Railways pay General Revenues dividend at a fixed rate of 4 per cent on the Capital at charge, which is partly adjusted as revenue but mostly taken in reduction of expenditure under interest. Next year's dividend from Railways will amount to Rs.54.41 crores against Rs.50.03 crores this year. Of this, Rs.48.43 crores will be taken in reduction of the expenditure under interest and the balance of Rs.5.98 cores taken as revenue.

27. Payments to State Governments on account of their share of income-tax, estate duty and tax on railway passenger fares next year, on the estimates of revenue taken for these taxes, will amount to Rs.92.22, crores against Rs.89.07 crores in the current year. Provision for the States' share of divisible excises is made in the expenditure estimates.

28. Civil expenditure next year will amount to Rs.596.5 crores and expenditure on Defence Services to Rs.242.68 crores.

29. The main reasons for the increase of Rs.75.22 crores in civil expenditure may be briefly mentioned. The grants received under the P.L.480 programme and initially credited to revenue have to be transferred to the Special Development Fund and used through it for subsequent expenditure. The provision for this transfer next year, following the estimates adopted on the revenue side, is Rs.15 crores against Rs.1 crore in the revised estimates this year. Expenditure on debt services which rise with the growing public debt, will absorb Rs.15.82 crores more than in the current year. Expenditure on administrative services, such as on General Administration, Audit, Administration of Justice, Jails, Police, External Affairs and so on, is likely to amount to about Rs.2½ crores more in all. Under heads covering Development and Social Services, which include substantial provision on Plan outlay, the total expenditure next year is estimated at Rs.168 crores roundly against Rs.145¾ crores this year. The provision for Community Development will also be Rs.6.17 crores more than in this year. Increased provision has also been included in the budget for grants to States for the welfare of Scheduled Tribes and areas and Backward classes amounting in all to about Rs.51 crores. These increased provisions mainly account for the rise in Civil Expenditure. Detailed explanations for other minor variations are given in the notes on the expenditure estimates circulated with the Demands for Grants.

30. The not expenditure m Defence Services in the coming year will be Rs.24.19 crores less than in the current year. This improvement is the result of a reduction in the gross expenditure by Rs.19.55 crores and an increase in receipts and recoveries of Rs.4.64 crores.

31. The expenditure on the Army will be roughly on the same scale as in the current year, but credit has been taken for a special item of Rs.5 crores on the receipt

side. A sum of Rs.14.56 crores representing the custodial charges recovered on Defence surplus Stores borne on capital has been lying in suspense. This sum which is actually of the nature of reimbursement of expenditure incurred from revenue is properly creditable to revenue and not to capital. It has been decided to write it back to revenue in three instalments, commencing with the budget for next year and a round sum of Rs.9.5 crores has been taken in this account.

32. Navy estimates show a small increase of Rs.1.34 crores for normal development. The real saving occurs in Air Force estimates which show a drop of Rs.23.84 crores due to reduced provision for payment on account of the purchase of aircraft spares and other equipment, as a substantial portion of the payments for this purpose would have been made in the current year. Expenditure on service pensions will be Rs.2 crores higher as it is proposed to sanction to military personnel drawing small pensions an increase on the analogy of that sanctioned to civil pensioners this year.

#### **CAPITAL EXPENDITURE**

33. I shall now give a brief account of provision included in the budget for capital outlay.

34. Excluding the adjustment for the transfer of capital assistance from the United States to the Special Development Fund which is technically treated as capital expenditure, the current year's budget provided Rs.412 crores for capital outlay. The corresponding figure is now expected to amount to Rs.395 crores. The Railways are expected to draw Rs.18 crores less for their capital requirements which are not met from their Development and Depreciation Reserves. Investment in the three Steel projects will be Rs.14 crores less as the total equity investment of Rs.300 crores in Hindustan Steel Limited would have been complete with this reduced investment; the balance of the finance required by the Company will be, provided in the form of loans. Food purchases are likely to involve a net additional outlay of Rs.24.26 crores. The total capital outlay would have been higher than the figure mentioned by me but for the receipt of an additional sum of Rs.13.33 crores (E 10 million) from the U.K. Government as advance payments under the Sterling Pensions Arrangement.

35. The corresponding provision for capital outlay next year is Rs.420 crores. It includes a sum of Rs.95.24 crores for the payment of the additional subscription to the International Monetary Fund which I explained in some detail earlier in my speech. The Railways will be drawing Rs.122 crores next year against Rs.121 crores this year while Defence capital outlay is estimated at Rs.32.74 crores, an increase of about Rs.5 crores over the current year. Capital outlay on Posts and Telegraphs is expected to be Rs.4 $\frac{1}{4}$  crores more and the net capital outlay on food purchases may be Rs.2 crores higher. Increased provision has been made for investment in the various industrial concerns and for Civil Aviation, Civil Works, the Dandakaranya Project and development grants. The total provision which is mostly for development schemes or

for inescapable expenditure would have been much higher but for the fact that, as explained earlier, the entire requirements for the steel plants will be met by loans.

36. To complete the picture of the capital requirements of Government, mention should be made of the provision for loans and advances. In the coming year, loans to State Governments, mostly for enabling them to finance their development schemes, will amount to Rs.313 crores against Rs.327 crores this year. In addition, loans to Port Trusts, Statutory Corporations, Government companies, etc., will absorb Rs.123 crores this year and Rs.212 crores next year. Provision has been made for the grant of a loan of Rs.52 crores to Hindustan Steel this year and Rs.122 crores next year. The Railways will also take a loan of Rs.10.98 crores this year and Rs.10.88 crores next year for their Development Fund to be repaid later. Details of the various loans proposed to be given are shown in the Explanatory Memorandum.

37. The House may like to have some idea of the total provision included in the budget for the implementation of the Plan and the magnitude of the total Plan outlay next year. The budget includes a total provision of Rs.843 crores for implementing the Plan, Rs.150 crores in the revenue budget and Rs.693 crores in the capital budget. Out of this, Rs.63 crores from the revenue budget and Rs.195 crores from the capital budget will be given as assistance to the States. In addition, the Railways will be spending Rs.39 crores from their own resources and the States Rs.239 crores. Thus, the total Plan outlay, 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.1,121 crores.

38. As Hon'ble Members are aware, in view of the strain on resources, internal and external, it has been decided to limit the five year outlay on the Plan to Rs.4,500 crores. The estimated expenditure in the first three years of the Plan is about Rs.2,450 crores, leaving a balance of Rs.2,050 crores to be incurred in the next two years. The budget provision at the Centre and in the States is, as I explained just now, of the order of Rs.1,120 crores. The resources position for the next two years will continue to remain difficult and a considerable further effort to augment the resources available for development will be necessary. With all the effort we have made, the proportion of the national income accruing to the public exchequer still remains small. While with the substantial external assistance we have been receiving the bulk of the Second Plan will go through, we have to remember that we shall have sizeable repayments to make in the period of the Third Plan. This underlines the necessity for a determined effort to increase production and savings.

39. Thinking has already started on the Third Plan. It is obvious that the objective should be to accelerate as much as possible the tempo of development the country would have reached by the end of the Second Plan. It is, in my view, premature to speculate on the size of the Plan; questions regarding the overall size, the allocations, methods of raising resources, the quantum of external assistance required and likely

to become available are interlinked and are all under study. But it is clear that we should explore every avenue to ensure that the Third Plan does take us decisively forward and not keep the country at the level of development it has reached. We have to aim at creating within the economy conditions which will make the process of growth continuous and self-supporting.

#### **WAYS AND MEANS**

40. The overall deficit for the current year is now estimated at Rs.255 crores against Rs.200 crores assumed in the budget. The increase of Rs.55 crores is the result of a number of factors. The Revenue deficit is now expected to be Rs.32 crores more than was estimated at the time of the budget, reasons for which I have given in the earlier part of my speech. Foreign loan assistance for a variety of reasons is actually likely to be Rs.46 crores less than the amount for which credit had been taken. We had to give to the States additional loans amounting in all to Rs.42 crores, mainly arrears of loans promised to them, and Rs.52 crores to Hindustan Steel. Food debits are also expected to be higher by Rs.24 crores than the sum provided in the budget. The total increase of Rs.126 crores on these accounts will, however, be partly counter-balanced by some savings in the loan provision for miscellaneous loans, increased receipts from internal borrowing and by probable shortfalls in expenditure spread over a large number of heads. In the result, the net deficit to be covered by the expansion of Treasury Bills is likely to amount to Rs.255 crores.

41. Public borrowing in the current year has been far more satisfactory than in the last two or three years. The budget had assumed a market loan of Rs.145 crores but the actual loan receipts amounted to Rs.202 crores. During the year three new loans were floated, the 3½ per cent Bonds 1963, the 3-¾ per cent National Plan Bonds (Fifth Series) 1968 and the 4 per cent Loan 1973, the maturities offered having a sufficient spread for meeting the varying requirements of the market. The total amount offered for all the three loans was Rs.135 crores but the subscriptions accepted amounted to Rs.142 crores. The market demand for investment, however, continued and in August, 1958 we issued a new 3½ per cent Loan 1968 for Rs.30 crores and created a further issue of the 31 per cent National Plan Bonds 1967 for another Rs.30 crores. These securities were, in accordance with the usual practice, issued to the Reserve Bank to be sold by them to the market. The net receipts from regular loans this year will be Rs.181 crores against the original estimate of Rs.125 crores.

42. There was a welcome revival in the market demand for short-term investment through treasury bills. In July last, the Reserve Bank of India renewed the weekly auctions of treasury bills after a lapse of over two years. They also revived the practice of selling intermediate treasury bills to the market, an operation which had been in abeyance for over fifteen years. It is expected that the total outstanding treasury bills with the public at the end of the current year would amount to Rs.25 crores.

43. Under Small Savings, the Budget had taken credit for a net receipt of Rs.100 crores. This has turned out to be over-optimistic and, although there has been an improvement in the collections this year as compared with the previous year, the net collections are not likely to be anywhere near the figure taken in the Budget. The net collections from Small Savings have been steadily rising from a figure of Rs.37.57 crores in 1951-52 to a figure of Rs.69.6 crores in 1957-58. In the first ten months of the current year, the net collections have amounted to Rs.47 crores against a little under Rs.38 crores in the corresponding period of the previous year. In the last two months of that year, the collections were somewhat exceptional owing to the special drives undertaken by some of the State Governments. After allowing for this and on the trend of actuals this year, I do not think it wise to take credit for more than Rs.75 crores for this year. Postal Savings Banks are still not doing as well as in the past, but there has been an improvement in the sales of National Plan Savings Certificates and Treasury Savings Deposit Certificates.

44. While on this subject, I should like briefly to mention the various steps taken during the course of this year for intensification of the savings movement. To revive the popularity of the postal savings banks facilities for withdrawal by cheques which, were tried out as an experiment in Bombay are being extended to a large number of post offices at a number of big towns, the intention being to provide the facility in all post offices as early as possible. It has been decided to allow sales of Treasury Savings Deposit Certificates through agents on a commission basis. The National Savings Certificates Rules have been rationalised and re-issued and a concentrated drive for the recruitment of more authorised agents and the formation of more savings groups undertaken. Publicity has been largely decentralised in consultation with the State Governments who will now be in charge of this work in the States except, to a limited extent, where it has been found desirable to retain the work with the Centre. Publicity will now be largely in the regional languages at the State level and this should assist in the further development of the movement. The question of replacing the multiple agency system which has grown up with years by a uniform system is also under consideration. Government have accepted the principle of allowing investors in small savings to nominate the persons to whom the investment should be repaid on the lines of the assignments made of insurance policies and the necessary legislation to permit this will be undertaken shortly. The progressive diversification of investment has been taken a step further by the introduction, with effect from the 2nd January this year, of the Cumulative Time Deposit Scheme under which small monthly payments can be accumulated at post offices for periods of five or ten years at attractive rates of interest.

45. The National Savings Organisation has been keeping in close touch with the State Governments in developing the savings movement. The State Governments' interest in the movement has been further emphasised by a modification in the arrangement for the sharing of the net receipts with them. When the States' share was

raised to two-thirds, a condition was laid down that, in any year in which a State Government floated a market loan, it should surrender to the Centre one-third of the loan proceeds. This condition has now been withdrawn so that the States now receive two-thirds of the net receipts from small savings while retaining the whole of their market borrowing.

46. For next year's Budget, I have taken credit for a market borrowing of Rs.225 crores, I taking into account the fact that the market will receive a repayment of Rs.110 crores from the maturing 3 per cent Second Victory Loan-1959-61. I have also taken credit for a further small expansion of Rs.15 crores in the treasury bills with the public. For Small Savings I have taken a net credit of Rs.85 crores, a modest increase of Rs.10 crores over the likely receipts this year. On the best estimate that can be made at present, I expect that foreign assistance next year would amount to Rs.337 crores.

47. I may now summarise the overall budgetary position next year. At the existing level of taxation and expenditure, there will be a revenue deficit of Rs.82 crores. Capital outlay will amount to Rs.420 crores, loans to State Governments and others to Rs.525 crores and debt repayments to Rs.130 crores. This total outgo of Rs.1,157 crores will be met to the extent of Rs.111 crores by repayments of loans to Government, Rs.240 crores from public borrowing in India, Rs.85 crores from small savings, Rs.337 crores from foreign assistance, Rs.95 crores from the issue of special securities to meet the payment of the additional subscription to the International Monetary Fund and Rs.44 crores from miscellaneous receipts under Debt and Deposit heads, leaving a deficit of Rs.245 crores which will be met by the issue of treasury bills.

48. I now come to my proposals for dealing with the revenue deficit for the coming year.

## **PART B**

49. The deficits in the current and the ensuing years are somewhat exceptional, the significant contraction of revenue coinciding with an increase in the quantum of development expenditure met from revenue. Although in the past we have been realising surpluses on revenue account every year, I feel that it would be unwise to leave the deficit in the coming year wholly uncovered. In past the comfortable revenue position was partly due to the resilience of revenue and partly to shortfalls in expenditure inevitable while the country is in the process of gearing its administrative machinery to implement an expanding development plan. Both these factors are ceasing to operate. The buoyance of revenue in the past was mainly under Customs but because of the drastic cuts in imports and the progressive freeing of our exports from export duty,, Customs revenue has suddenly contracted and is likely to remain static for some

years. The administrative machinery is now better equipped for implementing the Plan and budgetary provisions are likely to be spent more fully than in the past. For all these reasons I think that a part of the deficit next year would have to be covered. This would also be consistent with our policy of continuously mobilizing additional resources for the Plan.

50. In determining the extent to which the prospective deficit should be covered, I have taken into account the amount by which taxation has been increased in the last two years. Our record in the matter of raising additional resources by way of taxation for the Plan has, I venture to think, been quite impressive since the Second Plan came into operation. In 1966-57, taking the proposals in the original and the supplementary budgets together, the total taxation raised was of the order of Rs.80 crores. In the following year, we did even better and touched nearly a hundred crores. In the current year, the net additional taxation was not significant but, taking the three years of the Plan together, the additional taxation has been quite substantial. Having this in mind, I propose to cover only about a fourth of the anticipated deficit of Rs.82 crores in the coming year.

51. The next problem is how to distribute this additional taxation between direct and indirect taxes. We have only just achieved an integrated scheme of direct taxation and I think that for the present we should concentrate on improving the administrative machinery, simplifying the existing procedures and plugging loop-holes. By these methods we should be able to improve our revenue from these sources without many major changes. They cannot, however, produce immediate results and, although my proposals include certain changes in the rates in this field also, the bulk of the additional revenue next year will, I fear, have to come from indirect taxes. I shall first deal with indirect taxation and then proceed to direct taxation.

#### **INDIRECT TAXATION**

52. In the field of indirect taxation my proposals are mostly by way of readjustments of rates and concessions in the existing duties of excise. These are described in some detail in the memorandum circulated with the budget papers and I shall only mention them briefly here.

53. The duty on refined diesel oils and vapourising oil is being raised from 40 naye paise per imperial gallon to 80 naye paies. There is at present a price advantage in favour of diesel oil of which we have to import substantial quantities. Both as a measure of increasing revenue and conserving foreign exchange the proposed increase is justified. As a consequential adjustment, the rate of duty on low-speed diesel oil is also being increased from Rs.40 per ton to Rs.50 per ton. The total yield from these two measures will be Rs.7.85 crores a year.

54. The duty on art silk fabrics is being raised from 6 pies per square yard to 8 naye paise per square yard. Simultaneously the, exemption in the present form in

respect of products of the first nine looms will be reduced to four looms. The increased levy is amply justified by the large profits which are made by the industry. The estimated yield will be Rs.1 crore a year. The lowering of the exemption will also bring in Rs.2p lakhs by way of additional duties which accrue to the States.

55. The effective rates of duty on rayon yarn and staple fibre are also being raised by 60 per cent to yield an additional Rs.50 lakhs.

56. The duty on motor vehicles tyres is being raised from 30 per cent ad valorem to 40 per cent ad valorem. There will be no change in the rate of duty on cycle tyres. The additional revenue is estimated at Rs.1.75 crores.

57. An increase is also being made in the duty on vegetable product which will increase from Rs.7 per cwt. to Rs.8.75 cwt. with a corresponding adjustment in the exemptions in favour of the small producers. The additional revenue will be Rs.95 lakhs.

58. Vegetable non-essential oils were first subjected to excise in 1956, but some preference to medium and small scale producers was given by exempting production up to 125 tons per annum on a slab basis. In 1957 the free slab was brought down to 75 tons and a lower rate of duty levied on production between 75 tons and 125 tons. These concessions have been reviewed and it is now proposed to withdraw the exemption from all power driven units and limit the concessional levy to only the first 75 tons of production. These changes, which will be made by notification and will not affect village ghanis in any way, are expected to yield Rs.4.4 crores.

59. Khandsari sugar is now exempt from excise duty but pays the usual sales taxes. There has always been a fiscal preference in favour of this sugar but, with the recent substantial increases in the duty on crystal sugar, this preference has further widened resulting in the shift of production to this form of sugar. There are cogent reasons for reducing the margin and this is being done by the levy of the basic duty of Rs.5.60 per cwt. with an additional duty of 70 naye paise in replacement of the sales taxes. The basic duty will yield Rs.1.82 crores and the additional duty which will accrue in its entirety to the States, Rs.25 lakhs.

60. Certain adjustments are also being made in the duty on various kinds of cigarettes involving an increase of 16 per cent in the level of duties for cigarettes taken as a whole. These adjustments are expected to yield a revenue of Rs.1.5 crores.

61. Incidentally, the present tariff on unmanufactured tobacco has led to some diversion to biri-making of tobacco which was previously used for hookah. I am taking powers to assess at the higher rate such varieties of tobacco as may be specially notified and as are actually used for the making of biris.

62. The incidence of excise and export duties on tea has been under continuous review. It has been decided to readjust the rate of excise duties on the teas grown in

certain areas of the country and to reduce, at the same time, the effective rate of export duties from 26 naye paise per lb. to 24 naye paise per lb. These changes will result in an additional revenue of Rs.58 lakhs under Union excise and a reduction of Rs.93 lakhs in the yield from the export duty. In the net, the industry will benefit to the extent of Rs.35 lakhs.

63. The total additional revenue from the various measures I have just mentioned will amount to Rs.20.35 crores from the basic duties and Rs.45 lakhs from the additional duties in replacement of sales taxes which accrue to the States. As Hon'ble Members are aware, the basic duties on tobacco, vegetable product, tea, sugar and vegetable non-essential oils are shared with the States in accordance with the award of the last Finance Commission. Twentyfive per cent of the net additional revenue from these commodities will have to be distributed to the States, after deducting the cost of collection. This payment will be of the order of Rs.2.27 crores. Allowing for this and for the additional duties to be paid to them, I am taking the net additional revenue from changes in Union excise duties at Rs.18.08 crores.

64. I propose to make no major change in regard to customs duties. But there will be a countervailing increase in the import duties on the commodities on which excise duties are being increased and this by itself will bring in an additional revenue of Rs.3.65 crores. The reduction in the export duty on tea will, however, involve a drop of Rs.93 lakhs in revenue as I have mentioned earlier. I propose to make a small increase in the duty on unexposed cinema films to yield Rs.5 lakhs a year for the benefit of the Film Finance Corporation which is being set up. With this small addition the net additional yield from customs duties next year will amount to Rs.2.77 crores.

#### **DIRECT TAXATION**

65. I propose to increase, with effect from 1959-60 the Wealth tax payable by individuals and Hindu undivided families by half a per cent at each slab. The new rates of Wealth tax on individuals will be 1 per cent on wealth in excess of Rs.2 lakhs but upto Rs.12 lakhs,  $1\frac{1}{2}$  per cent on the excess between Rs.12 lakhs and Rs.22 lakhs and 2 per cent on any excess above that. For Hindu undivided families, corresponding changes will be made. The extra revenue on this account will be Rs.2.5 crores.

66. The revenue from Expenditure tax has been quite disappointing this year. It is a new tax, not tried anywhere else in the world, and in the first year of its imposition in our country, it is only right that we should have proceeded cautiously. I think, however, that the time has come to tighten the existing law to some extent. I propose, therefore, to withdraw some of the exemptions now available and, in particular, to provide that the husband, wife and minor children should be regarded as one unit for the exemption limit of Rs.30,000 in the matter of non-taxable expenditure and not as separate assesseees if they have incomes in their individual rights.

67. Coming to income tax, I propose to make no change in the present rates and structure of personal income tax. I have, however, some proposals for changing

the present system of taxation of company profits and dividends. At present, an Indian company is generally required to pay income tax at 30 per cent plus a surcharge of 1.5 per cent and super tax at 20 per cent on its total income. When dividends are declared out of the balance after payment of these taxes, a portion of the income-tax paid by the company is deemed to have been paid by the shareholders themselves. In the assessments of the latter, the dividends received by them are included in their income after being "grossed" and they are credited with the amounts deemed to have been paid by the company on their behalf. This process of grossing is somewhat complicated. For one thing, the rate of grossing depends on the effective rate at which the company's profits are initially subjected to tax. The effective rate in its turn depends upon the composition of the income of the company. The dividends themselves may be paid out of reserves accumulated over some years, which again complicates the determination of the effective rate at which the profits have been taxed. Further, the assessments of shareholders have to await the completion of the assessments of the companies. All these lead to considerable inconvenience to all concerned, and the scheme I propose seeks to avoid this.

68. The main points of this scheme are briefly these. The legal fiction of deeming the income-tax paid by the company as having been paid by the shareholder and the complicated process of grossing the dividends received by the latter will be abolished. The overall tax rate hitherto applicable to Indian companies will be so fixed that the yield will be equal to the present annual gross yield less the annual credit now given to the shareholders. The tax liability of the shareholders will no longer be related to the tax borne by the companies. So far as the shareholders are concerned, companies will deduct tax at a prescribed flat rate and credit it to Government. This tax will be re-imbursed to the shareholders at the time of their assessment as is done today in the case of interest on Government securities. I hope to devise a scheme for issuing exemption certificates for small shareholders so that the question of re-imburement does not arise in their cases.

69. The scheme will be implemented in two stages. In the first stage, that is, during 1959-60 income-tax will be deducted by the companies at the same rate as for Government securities from dividends distributed by them but only from dividends declared for the year the profits of which will be assessed to tax in 1960-61; for example, dividends declared for the year ending 30th June, 1959. Dividends declared for any earlier year, the profits of which are assessable in 1959-60 (for example, dividends for the calendar year 1958) will not be subject to this deduction and will continue to be assessed under the existing provisions. During the second stage, that is during 1960-61, the overall tax rate applicable to the companies under the scheme will come into operation. The present scheme of grossing of dividends will cease to operate from 1<sup>st</sup> April, 1960 in respect of dividends declared for the accounting year relevant to the assessment year 1960-81 and subsequent years.

70. As part of the scheme of simplification of company taxation, I propose to combine in the income tax and super tax rates of companies, the net incidence of the present taxes on income, excess dividends and wealth. For purposes of advance payment of tax by companies under Section 18-A of the income Tax Act, I propose a rate of 20 per cent, for income tax and 25 per cent for super tax, that is to say, a total of 45 per cent. This rate will secure the same revenue as is at present derived from the taxes on the wealth and profits of companies and I propose, therefore, to abolish the Wealth Tax on companies and the Excess Dividends Tax.

71. The changes in company taxation will not effect the divisible pool of income tax in the coming year. In 1960-61 a part of the tax now accruing to the pool may not, for technical reasons, be treated as divisible. It is Government's intention to secure that, until the matter has been examined by the next Finance Commission, the State Governments continue to receive as their share of income tax about the same amount which they would have received had this change not been made.

72. Foreign companies which declare dividends outside India will, of course, not be subject to the scheme I have described. However, some adjustment is necessary in the rates applicable to them on account of the withdrawal of the Wealth Tax on companies. The present rate applicable to such companies is 61.5 per cent and I propose to raise it to 63 per cent with effect from 1960-61.

73. Before leaving the subject of company taxation, I should like to mention one further change. While ordinary bonus issues are subject to tax, bonus issues which are made out of share premium accounts are not now taxed. With effect from 1960-61, I propose to subject these issues also to taxation like other bonus issues.

74. A few more changes in the income Tax Act will be necessary as a corollary to the new scheme. I will not, however, tire the House with a detailed description of these changes. They are incorporated in the Finance Bill and are explained in the Memorandum on the Bill circulated with the Budget papers.

75. The Finance Bill also contains some other minor changes. These have no significant effect on revenue and I would like to mention to the House only two of them; one of them withdraws the concessions now available to incomes earned abroad but not remitted to India upto a limit of Rs.4,500 and the other provides for certain allowances to be given in pursuance of the agreement entered into with an oil company for the exploration of oil in the West Bengal area.

#### **NET EFFECT OF PROPOSALS**

76. I would now summarise the net effect of the taxation proposals. The changes in the Union excise duties, excluding the shares that accrue to the States, will yield Rs.18.08 crores. The changes in Customs duties will bring in Rs.2.77 crores and the increase in the Wealth Tax Rs.2.5 crores, a total of Rs.23.35 crores. This will reduce the deficit an revenue account from Rs.81.67 crores to Rs.58.32

crores, about the same amount as in the current year which I propose to leave uncovered. The overall budgetary deficit will also be reduced from Rs.245 crores to Rs.222 crores.

## **CONCLUSION**

77. The annual budget is now something more than a simple account of Government's housekeeping. Each budget marks a stage in the country's continuous development and has to be judged by the contribution it makes to this development. In a sense therefore, the stage that has been reached in the implementation of the Plan conditions this budget. So far as the Plan is concerned, I think it is accepted by every one that subject to such minor adjustments as may be necessary and were made at the time of the recent reappraisal by the National Development Council, we have to go forward with the Plan. For me, as for my predecessors in this place this has been the major factor round which the budget has to be built. In doing so, I have kept continuously in mind the main considerations necessary for the successful implementation of the Plan. If I may repeat them, these are the maximum mobilisation of resources by taxation and borrowing, firm control over the growth of non-development expenditure and minimum recourse to borrowing from the central bank for the finance required for development. In regard to the raising of resources, although the quantum of additional taxation next year is moderate compared to what was raised in the first two years of the Plan, it is still substantial. As regards the growth of expenditure, Hon'ble Members will notice that the next year's budget provides for a substantial drop in Defence expenditure and that the bulk of the increase in Civil expenditure is on account of larger provision for development. We are doing our best to see that there is no avoidable increase in non-development expenditure and in the Finance Ministry and in the Planning Commission, we have machinery for securing economies in non-Plan and Plan expenditure. An account of the work of the economy units is given to Parliament from time to time and I need not dilate on it here. I would, however, assure the House that I am fully conscious of the imperative need for tightening control over such expenditure and it is our constant endeavour to achieve the utmost economy without sacrifice of efficiency or output. As regards borrowing from the central bank, although the overall budgetary deficit for the coming year is smaller than in the current year and very much smaller than the deficit in 1957-58, it is still somewhat higher than I myself would have wished and Government had in mind some months ago. The House will appreciate that to a large extent this deficit reflects the outlay on the Plan-which cannot be cut down without accentuating unemployment and leading to stagnation. Nevertheless, I may assure the House that Government do not take a complacent view of the situation and it is my intention to see how far the deficit could be reduced by appropriate measures during the course of the year.

78. In recent months, we have been passing through a difficult period and as the Prime Minister summed it up so aptly when he presented the budget last year, our

crisis is a crisis of development, a crisis of resources. I feel we have passed through the most difficult phase and that there is no reason for taking a pessimistic view of the situation. Many of the major development schemes will be completed in the course of the remaining period of the Plan and will start yielding results. The country's foreign exchange difficulties are being steadily surmounted and the overall budgetary deficits have started moving down significantly. Although the price situation is still a matter of some concern, there is no reason to doubt the inherent soundness of the country's economy and its ability to weather the current difficulties. These difficulties are purely transitional and should act as a spur to greater effort on the part of the community. There can, in any case, be no question of looking back or of slowing down the country's economic development. This would require greater production, greater saving and more restraint in consumption - in other words, greater efforts and more sacrifices by the community for ensuring a better future for the country. I am certain that these efforts and sacrifices would be forthcoming and that we could go forward with a stout heart and with confidence in our high destiny.

(February 28, 1959)