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NATIONAL PLANNING, ITS PRINCIPLES & ADMINISTRATION — *K. T. Shah.*

NATIONAL PLANNING COMMITTEE SERIES

(Report of the Sub-Committee)

PUBLIC FINANCE

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Prof. K. T. SHAH

Secretary

Prof. GYAN CHAND

Edited by

Prof. K. T. SHAH

Hon. Gen. Secretary

NATIONAL PLANNING COMMITTEE

VORA & CO. PUBLISHERS LTD.

3, ROUND BUILDING, KALBADEVI ROAD, BOMBAY 2.

First Edition, January, 1949

Price Rs. 6/—only

To

All Those

MEMBERS OF THE NATIONAL PLANNING COMMITTEE

and of

Its Various Sub-Committees

A TRIBUTE OF APPRECIATION

प्रारब्धमुत्तमजना न परित्यजन्ति

PERSONNEL OF THE SUB-COMMITTEE ON PUBLIC FINANCE

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PREFACE

The National Planning Committee, appointed in 1938, began its work early in 1939. After defining the nature of a National Plan, and determining the nature and scope of the work entrusted to them, the Committee issued an elaborate and comprehensive Questionnaire which was subsequently supplemented by specific details. Twenty-nine Sub-Committees, formed into eight groups, were set up with special terms of reference to deal with all parts and aspects of the national life and work in accordance with a predetermined Plan.

After some unavoidable delay in getting replies to the Questionnaire, the Sub-Committees began their work, and submitted Reports,—some of them Final, some Interim,—which were considered at the Plenary Sessions of the Parent Committee in 1940. Towards the end of that year the Chairman, Pandit Jawaharlal Nehru, was arrested and sentenced to a long term of imprisonment, during which the work of the Committee had necessarily to be suspended.

On his release a year later, hope revived for an intensive resumption of the Committee's work. But the outbreak of war with Japan, the threat to India's own safety, and the hectic march of political events, rendered it impossible to devote any attention to such work at that time. It, therefore, inevitably went into cold storage once again; and remained for the duration of the war.

When at last the War seemed nearing its end, Pandit Jawaharlal Nehru with other leaders was released. The moment seemed again opportune to resume the work of the Planning Committee. Meetings of that Body were held in September and November 1945, when certain more urgent questions, already included in the programme of the National Planning Committee, were given a special precedence. A Priority Committee was appointed to report upon them. Changes and developments occurring during the War had also to be taken into account; and another Committee was appointed to review the general instructions, given six years earlier to the Sub-Committees. Revised instructions were issued to them following the Report of this Sub-Committee; and the Chairmen and Secretaries of the several Sub-Committees were once again requested to revise and bring up-to-date such of the Reports as had already been submitted—either as final or interim—while those that had not submitted any reports at all were asked to do so at an early date.

As a result, many of the Sub-Committees which had not reported, or had made only an Interim Report, put in their Reports, or finalised them. The Parent Committee has had no chance to review them, and pass resolutions on the same. But the documents are, by themselves, of sufficient value, prepared as they are by experts in each case, to be included in this Series.

The following Table shows the condition of the Sub-Committees' work, and the stage to which the Planning Committee had reached in connection with them.

Serial No.	Name of the Sub-Committee.	Final Report: N.P.C. Resolutions	Final Report: Not considered by N.P.C.	Interim Report: N. P. C. Resolution	Interim Report: Not considered by the N.P.C.	No Reports
		Handbook Pp.		Handbook Pp.		
Group I.	**Agriculture & other Sources of Primary Production**					
1.	Rural Marketing and Finance	97-99				
2.	River Training and Irrigation Part I	83-85				
	" " " Part II	118-115				
3.	Soil Conservation and Afforestation	115-119				
4.	Land Policy and Agriculture			139-141		
5.	Animal Husbandry and Dairying	87-89				
6.	Crop Planning and Production				do.	do.
7.	Horticulture	102-103				
8.	Fisheries		do.			
Group II	**Industries or Secondary Sources of Production**					
1.	Rural and Cottage Industries					
2.	Power and Fuel		do.			
3.	Chemicals					do.
4.	Mining and Metallurgy			77-79		
5.	Engineering Industries	75-77		130-133		
6.	Manufacturing Industries		do.			
7.	Industries connected with Scientific Instruments		do.			
Group III	**Human Factor**					
1.	Labour	89-92				
2.	Population	85-87				
Group IV	**Exchange and Finance**					
1.	Trade					
2.	Public Finance			130		do.
3.	Currency and Banking			122-126		
4.	Insurance			93-95		
Group V	**Public Utilities**					
1.	Transport			95-97		
2.	Communications	126-129		120-122		
Group VI	**Social Services—Health and Housing**					
1.	National Housing	99-100				do.
2.	National Health			152-154		
Group VII	**Education**					
1.	General Education			188-139		
2.	Technical Education				do.	
Group VIII	**Woman's Role in Planned Economy**	154-160				

To sum up, fourteen Sub-Committees had made final reports, of which ten have been considered, and Resolutions taken upon them, by the National Planning Committee. Twelve more have presented Interim Reports, of which nine have been considered by the Planning Committee, with Resolutions thereon, while three Sub-Committees have not yet presented any report on the reference made to them.

The idea that all this material, gathered together with the help of some of the best brains in India in the several departments of our national life, should be printed and published was before the Committee from the start. But the interruption caused by the war prevented its realisation. It was once again mooted in 1941; but the moment was not deemed ripe then for such action, partly because the leading spirits in almost every one of the Sub-Committees were unable to devote time and labour to bring their Reports up-to-date; and partly also because war-time restrictions or shortages had made scarcer than ever before the statistics and other facts, which particular sub-committees would need, to bring their work up-to-date. The war-time needs of Government had attracted several of them to work on Government Bodies, Panels, or Committees. For all these reasons it was deemed undesirable that material of this character—valuable as it must be—should be put out in an incomplete, inchoate, obsolete form, which may reflect unfavourably upon Indian capacity for such tasks.

The last four years of the War were thus a period of suspended animation for the National Planning Committee. Even after the end of the war, it has not been feasible, for obvious reasons, for the Planning Committee to resume its work and finalise decisions. Continuous sessions of that body are indispensable for considering and taking decisions on the Sub-Committee reports presented since 1940, and putting all the material into shape, ready for publication, not to mention making its own Report; but the political situation in the country made it impossible. Other conditions, however, are somewhat more favourable than in 1938-39, when the Central Government of the country were all but openly hostile to such attempts. Lest, however, the momentary difficulties make for needless further delay, it was thought advisable by the Chairman and the undersigned that no more time should be lost in putting this material before the Public. Following this advice, it is now proposed to bring out a complete Series of the National Planning Committee's Sub-Committee Reports, which will serve as appendices to the Parent Committee's own Report. The Plan of the proposed enterprise is briefly summarised below.

Every Sub-Committee's Report, which is in a final form and on which the National Planning Committee has itself taken resolutions, will be edited and published, with an Introduction assigning their due importance to the suggestions and recommendations contained in that particular report, its proper place in the over-all National Plan; and following it up, wherever necessary, by a kind of Epilogue, summarising the developments that have taken place during the seven years, during which the work of the Planning Committee had been in suspension.

Those Reports, again, which, though in a final form, have not yet been considered, and no resolutions taken thereon, by the Planning Committee, will also be included in the Series in the form in which they were submitted, with such Introduction and Epilogue to each as may be deemed appropriate. And the same treatment will be applied to Reports which are 'Ad Interim', whether or not the Parent Committee has expressed any opinion on the same. They will be finalised, wherever possible, in the office, with such aid as the Chairman or Secretary of the Sub-Committee may be good enough to render. Sub-Committees finally, which have not submitted any Report at all, —they are very few,—will also find their work similarly dealt with. The essence, in fine, of the scheme is that no avoidable delay will now be suffered to keep the National Planning Committee's work from the public.

Both the Introduction and the Epilogue will be supplied by the undersigned, who would naturally be grateful for such help as he may receive from the personnel of each Sub-Committee concerned. The purpose of these additions is, as already stated, to assign its true place to each such work in the over-all Plan; and to bring up the material in each Report to date, wherever possible.

Not every Sub-Committee's Report is sufficiently large to make, more or less, a volume by itself, of uniform size, for this Series. In such cases two or more Reports will be combined, so as to maintain uniformity of size, get-up, and presentation of the material. The various Reports, it may be added, would not be taken in the order of the classification or grouping originally given by the Planning Committee; nor even of what may be called the intrinsic importance of each subject.

In view of the varying stages at which the several Reports are, for reasons of convenience, it has been thought advisable to take up for printing first those which are final, and on which the Planning Committee has pronounced some resolutions. Printing arrangements have been made with more than one Press, so that two or three Reports may be taken simultaneously and published as soon as possible so that the entire Series may be completed in the course of the year.

Two other Sub-Committees, not included in the list of Sub-Committees given above, were assigned special tasks of (1) preparing the basic ideas of National Planning; and (2) outlining the administrative machinery deemed appropriate for carrying out the Plan. These were unable to function for reasons already explained. The present writer has, however, in his personal capacity, and entirely on his own responsibility, published the "Principles of Planning" which attempt to outline the fundamental aims and ideals of a National Plan. This remains to be considered by the Planning Committee. Similarly, he has also attempted to sketch an administrative machinery and arrangements necessary to give effect to the Plan, when at last it is formulated, and put into execution. Notwithstanding that these two are outside the Scheme outlined in this Preface, they are mentioned to round up the general picture of the arrangements made for publication of the entire work up-to-date of the National Planning Committee and its several Sub-Committees.

The several volumes of Sub-Committee Reports, when published, will be treated as so many appendices to the Report of the parent body, the National Planning Committee. It is impossible to say when that Committee, as a whole, will be able to hold continuous sessions, review and resolve upon Sub-Committee Reports which have not yet been considered, and lay down their basic ideas and governing principles for an all over Plan, applicable to the country, including all the facts of its life and all items making up the welfare of its people.

The disturbed conditions all over the country, and the Labour unrest that has followed the end of the War has caused unavoidable delays in printing and publishing the several volumes in the Series, which, it is hoped, will be excused.

In the end, a word of acknowledgment is necessary to put on record the aid received by the Editor in the preparation and publication of this Series. All those who are associated in the task,—members of the Parent Committee, or as Chairmen, Secretaries or Members of the various Sub-Committee,—have laboured wholly, honorarily, and consistently striven to give the best that lay in them for the service of the country. Almost all Provincial Governments and some States,—the latter twice in some cases,—have made contributions towards the expenses of this office, which have been acknowledged and accounted for in the Handbooks of the Planning Committee, published earlier. Suitable appreciation of these will be expressed when the Parent Committee makes its own Report. At almost the end of its task, the expenditure needed to edit, compile, and otherwise prepare for the Press, the several Reports, has been financed by a Loan by Messrs. Tata Sons Ltd., which, even when repaid, will not diminish the value of the timely aid, nor the sense of gratitude felt by the undersigned.

Bombay, 1st July 1947. K. T. Shah.

Note:—In the Scheme of this Series, originally given, more than one Report was intended to be included **in one** volume in some cases. The combinations indicated in the circular, of the 20th of June 1947, had had to be modified as the printing of several Reports proceeded.

When about half the volumes were printed, it was found that that scheme would not give a fairly uniform series. The new arrangement is given on the page facing the title page. Some changes have had to be made in that list e.g., the separation of the two Reports on Public Health and National Housing, intended to be in one volume, are now in separate volumes.

Conversely, only the two Reports on Animal Husbandry and Dairying and on Fisheries were intended to be combined. As now decided, the Report on Horticulture is also included in the same Volume.

Again, the original combination of the Report on Mining and Metallurgy with that on Engineering Industries has been modified. The latter now combined with the Report on Industries Connected with Scientific Instruments, which was originally meant to be a separate volume, while the former is to be by itself.

31st January, 1948. K. T. S.

CONTENTS

INTRODUCTION

I. Terms of Reference

This Sub-Committee was appointed to deal with:—

(a) The present and prospective scale of expenditure by National as well as Provincial and Local Governments, and of the several States.

(b) Their sources of income through taxation, and income from public domain, public enterprise, and other receipts.

(c) Incidence of these burdens.

(d) Development of new sources of public income with a view to aiding the process of planned development, and effecting redistribution of national wealth.

(e) The Sub-Committee will suggest the maintenance and development Budget for each State and Province to assist effective carrying out of the Plan, including the utilisation of Public Credit.

Since this Reference was made, the economic, financial and political conditions and circumstances of the country as a whole have been so radically altered that it is impossible to outline any dependable picture of the country's financial position and possibilities, with particular regard to the use of Public Finance in carrying out a nation-wide comprehensive plan of progressive development. Six years of a World War cannot but leave their mark on the public economy of any country, and much more so on the national economy of a country which had made War effort on the scale that India had done. But quite apart from this, the country has ceased to be a dependency of Britain, and attained, virtually speaking, her national independence, which cannot but affect vitally and at the very root her financial system, and its capacity to help in carrying out a comprehensive National Plan.

Then again, the country is no longer one, as it was under the British domination. Large areas and populations have been partitioned off, resulting in large scale loss of material wealth, and dislocation of millions, whose rehabilitation and resettlement create entirely new strains and stresses in our national financial structure.

The century old distinction, moreover, between Provinces and States, with their different revenue and expenditure systems, is fast disappearing, most of the so-called pre-Union Indian States are either merging into adjoining territories called Provinces, or forming unions and groups of themselves to rank as new units, or component parts of the Union, on a par with the existing Provinces. The problem of selecting and dividing tax-resources and reapportioning expenditure between the Union and its component parts, old as well as new, has become materially complicated and different since the Government of India Act of 1935 was passed, and the above Terms of Reference were devised on that background. As will be shown more fully hereafter, the nature, number and yield from the several sources of Revenue have altered beyond recognition during six years of war and two years of political turmoil.

At the same time the demands on the public purse, not only to take up energetically programmes of moral and material development which had been hitherto neglected, but also to uphold the country's independence, are growing so rapidly that the background of 1939 is no longer applicable. Indian planners can no longer think of National Defence, for instance, even on its financial side, in a light they considered it when India was part of the British Empire. This item is, consequently, growing as much because of the inherent reasons of scientific developments in armament as well as strategy of war, as of political entanglements. The obligation, again, to bring up to a common or comparable level the stage of administration efficiency; and social service in relatively backward areas which were formerly Indian States will bring its own additional burden. The task of material as well as cultural progress under a National Plan of all round growth and expansion must mean yet further strain on the country's finances, which in course of time will more than neutralise itself. Not only have the available human resources and material not been fully known, explored or exploited; much has been passively neglected or actively suppressed, lest the process of alien and imperialistic exploitation be impeded by the growing national consciousness of their own dues by the children of the soil, or the increasing understanding of the demands of social justice may precipitate industrial unrest or class-war. Under these conditions and circumstances the problem of Public Finance has to be viewed in a wholly different light than was placed before the Sub-Committee. That body, it may be added, had not completed its task in its entirety as much because of lack of time and data, as because of the silent revolution, just indicated, which had already set in.

II. Place and Function of Public Finance in Planned Economy

To allot to Public Finance its proper place and share in a programme of a country's planned development, and to make it discharge the functions that may legitimately be expected of this instrument of economic reconstruction and social jusice, we must begin by defining and understanding the nature, scope and function, of Public Finance in the national economy of a country. The expression,—Public Finance—is commonly used to include not only the recurring income, collected by the State from all sources by means of taxes and other forms of revenue to meet the accepted obligations of Government upon the public purse, but also the utilisation of the collective credit of the community to meet sudden emergencies and aid in the formation of new wealth; and thereby to ensure a better standard of living for the community as a whole, and for every individual comprised therein.

Thus conceived, Public Finance becomes a most powerful instrument, collectively used, not only to maintain the integrity and independence of the country, but also to secure its progressive development of its material resources and spiritual welfare of its people. A good deal, if not the entirety, of this view being justified depends upon the accepted notions of the nature of the State, and the duties of Government. These notions have varied immensely in the course of our social evolution.

Perhaps the earliest expression of the collective life and organised effort in a civilised community was to be found in the patriarchal State, wherein the Head of the organisation, for the time being was responsible for the welfare of the entire organisation. To him, therefore, were due the allegiance and obedience of every member of the community. The scale, however, on which Patriarchy obtained must have been very limited, in number as well as extent. In primitive times, therefore, with very few wants and resources, this form may have worked quite satisfactorily. Active promotion of the well-being of the individual and the energetic development of the material resources of the community as a whole, could not have occasioned so much stress or anxiety to the ruler, as fall to the lot of his present day more sophisticated successors.

A variant of this form of Government, familiar even in modern times, is Benevolent Despotism. Here also, the responsibility rests alone with the ruler, or the head of the State, to ensure the well-being of the masses under him. But the conception of what constituted their welfare, individually or collectively, was the despot's own; and he discharged it in accordance with his own light. There was none to counsel, none to guide, none to check him nor share his responsibility, even though there may be hundreds and thousands to do his will. Being practised on a much larger scale than Patriarchy, and affecting far larger numbers, such a despot's work may result in weal or woe to large numbers, without his ever realising what were the consequences of his effort.

In so far, moreover, as such a despot was himself a member of a class within the community, and had all the sympathies and antipathies of that class, e.g. the King and his noblesse, uniform attention to the welfare of all members of the community was apt to be neglected in preference to the welfare of a class or a section. Benevolent despotism to be really beneficial to all members of the community concerned alike must see to it that the Head of the State stands apart utterly unconnected with any section of the community, and having no ties, no interests or desires except the well-being of the people as a whole. Being restricted, moreover, to one man, the ability of this form of social organisation to develop unknown resources and progress in unexplored fields of social justice and individual liberty would be impossible. One individual, however gifted or inspired, must necessarily be limited in his effort in a dynamic State, which, to be successful, requires the whole-hearted co-operation of every part of the body politic.

While Patriarchy and Benevolent Despotism may be unable, by the nature of their constitution, to take active steps in developing the material resources and promoting the spiritual welfare of the individual in a country of the size of India, Democracy of the Parliamentary variety may have its own handicaps for functioning more actively in the promotion of the welfare of the individual. Executive responsible to a large number representing a variety of interests,—each member feeling himself part of the Sovereign authority in the State is apt to be slow in procedure, and weak in performance.

While the **Laissez faire** view of the State and its function held the field, and Government was restricted to the maintenance of law and order within the country, and its integrity and security against foreign aggression, Parliamentary Democracy may have proved successful. In a country like Britain, where this type of Government has had the most satisfactory record, the attitude of the State to its members was for a long time one of non-intervention. State activity being confined only to police purposes and defence, ideals of peace and economy by doing nothing would flourish and make democracy an impressive appearance, if not an objective reality. Tradition and convention had, since generations, determined, in that country, the limits of such interference as there was in the daily life of the citizen, which were observed by both the principal political parties. But these have begun, only in the last generation or so, to recede in the background yielding place to the modern conception of the State, in which collective effort, agreed upon by common consent, tends to attend to individual concerns as much as to the collective security of the country.

Parliamentary democracy, however, has evolved in Britain itself, since the days when the country was yet not unified, and the Empire unborn. The numbers were limited, enterprise restricted, individual consciousness of social justice dim and passive. Only two political Parties shared alternately the responsibility of governing the country and the Empire; and they both had essentially the same ideals of government, the same view of the functions of the State, the same touching faith in the efficacy of enlightened selfishness of the individual accomplishing as effectively the good of the individual as of the State. As applied to a country much larger in size or numbers, the counsels of hundreds failed to preponderate on a definite course of action; or even if agreed to for a while, could persevere in it for sufficient time to make long-range effort bear fruit. Groups were formed which frequently coalesced but always remained distinct, which always divided but never shared political power. Political action was still further weakened, because the outlook was so varied. There could be, and often was, difference even on the fundamental principles of government and the basic ideals of the community. And planning is essentially long range, wherein the interests of the country as a whole, as well as every individual therein, have to be promoted by disciplined effort of millions, carefully co-ordinated and scientifically applied, a systematic exploitation of the resources and development of its possibilities in all directions of moral and material welfare. In a

Parliamentary democracy, therefore, unless a strong Party with overwhelming majority takes charge of the country's destinies with a firm hand and keeps hold of power for a reasonable period, and, at the same time, steers rigorously clear of the danger of degenerating into Dictatorship of one individual or a small coterie, the ideal of planned economy, as defined at the very outset of the work of the National Planning Committee, would be impossible to realise.*

The National Planning Committee thus seems to have accepted the democratic system as the foundation stone for framing as well as giving effect to the Plan. The country's independence having been achieved, and popular sovereignty having been established, the preparation of the Plan,—and, a **fortiori**, its execution,—become a matter of urgent importance. In the definition of planning quoted above the co-ordination of endeavour in all sectors of the national economy, at every stage, and in every item, is made the essence of scientific planning. To achieve this in India on a country-wide scale,—with needs and resources, temperament and tradition varying from unit to unit and region to region,—will require a concentration of authority and initiative, of discipline and co-operation, of a sense of national solidarity and individual liberty, of social justice and political integrity, which are difficult to maintain in what is popularly known as Democracy, even in the form of parliamentary responsibility of the Executive. There will have, therefore, to be a clear demarcation of power, function, and obligation, as between the various units and the Central Government, without which a scientific Plan would be difficult to evolve and still more difficult to implement.

Public Finance, is the key to such evolution and achievement, and, as such it will be all the more difficult to organise, re-adjust, and utilise. Judging from the Resolutions passed by the National Congress, successor to the British Government in India; judging from their election manifestoes and official declarations of policy, the State in India, whatever its form as a polity, must function as the organised representative of the community, closely interested and concerned in all that relates to the safety, security, integrity of the nation as well as with the discovery and development of its resources, and

* "What is planning?" asks the Note for the Guidance of Sub-Committees. "Planning, under a **democratic system**, may be defined as the technical co-ordination by disinterested experts of consumption, production, investment, trade and income distribution in accordance with social objectives set by bodies representative of the Nation."

the promotion of the spiritual and material well-being of all that dwell within its limits. The effete and obsolete "police man" theory of the State will no longer serve to meet our needs. Accepting this basis of the State in India, Finance must be taken to be the keystone of the entire structure of our national economy. It must not only hold together the various parts of the system, strengthening and supporting the weak, encouraging and developing the strong; it must also aid in an active programme of national regeneration, which had been held up or impeded by alien interests or local ignorance, apathy, or lack of skill and enterprise. The State will have to embark, as early as possible, on a constructive programme of planned development in every sector of our national economy. Pending, however, the reorganisation of our Public Finance to a pitch where it would effectively function in that guise; pending, that is to say, the utilisation of the Public Purse as an instrument of national reconstruction and progressive advance to a point where poverty would be banished and unemployment impossible, where no available or potential resources would be left unknown, unexplored, or undeveloped, the machinery of Public Finance,—both Revenue and Expenditure as well as Public Credit, should be used to redress the uneven and uneconomic distribution of national wealth,—new as well as old.

Public Finance is thus of the utmost importance in a well concerted plan of national development, in all activities, in every facet of the life of the country. But it does not function as a mere mechanism, or an inexorable force of nature. It is not anything outside the ability of the people, once they have become an independent sovereign nation by themselves, so to design the financial structure and order its working as to aid actively in the main task of planned development. It is a creation of their will and functions in accordance with it.

As mentioned more than once before owing to alien interests holding sway and moulding the country's economy to suit their own requirements; and owing also to the peculiar turn given to National Economy by their conflicting requirements, the inherent resources of the country were either left undeveloped or if developed they were so developed that they hindered rather than helped as rapid a growth as could be desired. It was taken as a maxim of British policy in India to interfere the least with the country's customs and habits or institutions. Their financial system was so designed as to bring to the treasury the maximum of yield with the minimum of interference in the economic life of the people. Hence it was that Finance was administered by them merely as a handmaid of their Empire rather than as an active factor in developing the Dominion.

For instance: Industrialism was born in the West a century before its beginnings appeared in this country when the governance of the country had just passed to the British Crown. These early steps in modern Industrialism were taken in India under the mistaken and selfish policy of **laissez faire**. The British Government of India refused to consider that this industry was new and in unfamiliar hands. They declined to accord any protection or assistance to the infant industries of this country, which had got to compete with the far more developed corresponding industries of Britain. Even in the new developments, which Scientific discovery or mechanical invention had brought in the nineteenth and early twentieth centuries, while this country was ready to accept, e.g. Railways, Telephones, Printing Presses, Textile Mills or Armament Factories, the production of the basic requirements of these very industries was not introduced in India at the same time. India was, therefore, dependent all through the British Rule for all essential requirements of her new industries, services or utilities on foreign supply, and the progress of economic development which could be achieved with their aid was necessarily slow and secondary.

After the War of 1914-18, a beginning was made in the direction of a New Fiscal Policy of "discriminating protection." Suitable industries, which were pronounced appropriate for such protection by a special detailed investigation, were selected for such protection, import duties being imposed to neutralise the force of competition. Several industries have come to obtain fiscal protection under this policy in the last 25 years; but their growth has not been as rapid, as intensive, except in a very few cases, as to meet the entire local demand, or use up the entire local output of raw material for building up of such industries.

In no less important departments of national development, like Education, Health, or other Public Utilities and Social Services, such development as has occurred in the last days of the British Rule in India, was mostly unplanned and unco-ordinated, or so ordered as to leave out the essentials and provide the superficials for the country's new life. The strain on orthodox Public Finance, as handled by the British Finance Ministers of India was growing and unmistakable. But it was still conceived and used as a mere mechanical aid only, and not a consciously devised agency to achieve predetermined objectives. It is to correct this, to reorganise the entire machinery and objective of Public Finance, that New India, whether a Dominion or an Independent Republic by herself, will have to re-shape its financial policy and system, both on the revenue and expenditure side, so as to make up the lee-way that has occurred in the past, and speed the country forward on new incentives to new objectives, new technique and new ideals to realise predetermined ends which the National Planning Committee has, from its beginning, placed before the country. If the country is united, and its new Democracy able to recognise and shoulder the responsibility that lies before it, financial impediment cannot, and must not, stand in the way of any programme of all round national development—such as has been outlined in the various volumes in this Series,—being carried into effect. For, in the last analysis, Public Finance is a means subservient to a nation's will. Once that will is clearly and unambiguously expressed; once a Plan of the kind envisaged in this Series has been prepared and ready for execution, finding the required funds or the necessary finance, would be only a matter of proper organisation and careful co-ordination of resources and obligations. This would in fact apply to all the prerequisites, conditions and circumstances for preparing and carrying into effect a nation-wide, overall Plan. To Public Finance, however, as the most potent instrument of executing the people's will, this would apply with special force.

In the case of Finance, whether in the shape of productive capital needed for long-range investment, or for current needs in the shape of specific grants to particular objectives made from tax collections or industrial enterprises or other revenue resources, the reorganisation would very probably involve complete re-drafting of the Revenue System, and wholesale reconditioning of the Expenditure. The former was once attempted 25 years ago by the British Government, and was once again promised by the last of the British Finance Ministers of India. The latter was attempted by the Inchcape Committee even before the former. A fresh review of Public Expenditure, Central and Provincial, in all branches of such expenditure, not only with a view to cutting down useless outlay, but also with a view to proper economy in using the Public Purse so as to obtain the best value from every pie of public money spent. The replanning of the National Credit system, so as to anticipate future wealth of the community would likewise have to be redesigned, reconditioned, and re-employed on a wholly new basis.

With such a conception of the nature and function of Public Finance it is obvious that the first step in planning Public Finance would be to make it an integral item in the overall National Plan, and use it for giving effect more intensively to the Plan. The Report which follows indicates the new form and possibilities of Public Finance as part of a National Plan.

III. Distinction Between Public and Private Finance

At this point it is necessary to clear one misunderstanding that commonly obscures or distorts the place of Public Finance in the country's Economy. The distinction that is usually made between Public Finance and the rest of the financial aspect of the country's economic life is the heritage of days when the function of the State was not coterminous with the life of the people, but limited to what we have called above the duties of a policemen, namely the maintenance of order, enforcement of law, and provision of defence against aggression. This was the belief commonly held in Europe about the time the Government of India passed directly to the British Crown. This view, therefore of Public Finance and its uses was accepted by the Government of India, and worked upon in this country. Here it was further intensified by the fact that the Governors of the country were alien, and were believed to be antagonistic to the long-term interests of the country as a whole. Government, therefore, necessarily confined their demands for funds to what was absolutely necessary for their maintenance. All that was required of the people was considered by the people as so much exaction; and nobody considered it to be a serious offence to evade these burdens of Government by every means in the power of the tax-payer.

But even in those days the oustanding distinction between public and private finance was that in the former the decisive dominating factor was Expenditure to which revenues had to approximate, while in the latter it was the available resources or income which set the standard for expenditure. That all revenue collected by Government from any source whatever is, in the ultimate analysis, part of the aggregate wealth or the gross production within the country which is compulsorily deducted for the public use before the producer or owner can enjoy it. To pay one's taxes as part of one's social obligations was a conception impossible to act up to while foreign domination and alien exploitation distorted our view regarding the relation between the citizen and the State. Now, however, that that great handicap is removed, now that the people are, theoretically at least, masters of their own destiny, this obscuration of the real nature and proper use of the resources of the public purse, as well as of all forms of public outlay should not be continued any longer. The National Budget should be viewed as, not merely the receipts into and disbursements from governmental treasuries, but rather as the sum total of all kinds of production,—new wealth or otherwise,—whether actually formed or in anticipation, and its outlay for the benefit of its people, whether by promoting material production or developing Social Services, Public Utilities and Cultural Activities. The agency which levies, collects, controls, and utilises the largest portion of the national wealth must be treated as the common trustee and the national mandatory. The Central Government of the country, or the Governments of the various units or of the various Local Authorities, Statutory Corporations, and other public or semi-public bodies that make up the totality of the Government Machinery, together they get together funds sufficient to carry out their immediate obligations, and so use the resources placed at their disposal as progressively to develop all available resources, stimulate all helpful, beneficial activities and promote the spiritual as well as the material welfare of the people.

In a planned economy, particularly, this view of the National Budget and Public Finance as part of the country's total resources and utilisation is indispensable, if the Plan itself is to be held in proper perspective, and its execution adequately and effectively assured, governmental agency would then be regarded as the best and the most economical channel for collecting a part of the wealth of the community which is surplus after all legitimate needs of the individual are met or whatever is necessary for the obligations assumed by Government, to promote the welfare of the people under its charge, and stimulate the economic machinery of production and distribution to the best of its ability. Taxation, instead of appearing as a compulsory and inexplicable deduction from the wealth of the individual, to be used for purposes he neither knows nor approves, would be replaced by a share to the State out of the new, additional wealth produced by the help of its planning, organisation, and initiative; while expenditure would be regarded, as a return to the individual, in the form of obvious services and measurable benefits of Government, of what was levied from him or his fellows in the shape of taxes. No part of the country's resources would be spent,—except on the defence of its people and the promotion of their welfare, within the country itself.

IV. Public Finance—A Means of Redistribution of National Wealth

Pending, however, this revolution in the popular attitude towards public burdens and benefits received from the activities of Government; and pending the full fruition of the Plan this Series envisages, Public Finance will have to be designed and operated, so as to promote the main objectives of the Plan, and remedy the inequalities that now disfigure the social system. Taxation and Public Expenditure, as a means of redistributing the national wealth, have been increasingly utilised in recent times by all states, even when those who use it do not admit any such purpose to guide their measures or dictate their policies. But as soon as the "Policeman" conception of the State, its functions and responsibilities, are widened to include an active share and direct initiative in the promotion of the material and cultural well-being of the citizen, the demands of the taxing authority would necessarily be recognised as a means to re-adjust the inequalities of wealth distribution in possession or prospect, in the imposition of the burdens of government.

This would inexorably lead to the burdens of the public demand of taxes or other revenues being placed more and more on the shoulders that are calculated the most easily to bear them. Conversely the benefit of all public activities, paid for from the Public Purse, must be apportioned or made available to those who need them most. Even if, as a logical conclusion of this theory, taxation goes to the limit of taking up the entire surplus wealth, whether income or capital,—of an individual or a corporation, after providing for the needs of such individuals and corporations on a predetermined basis, there could be no ground for just complaint, provided the expenditure incurred and defrayed out of such collections is exclusively for the immediate or ultimate benefit of the people. No part should be spent outside the country; no benefit should result, except to the children of the soil.

The use of the national Budget to rectify the inequalities of distribution of the wealth of a community, founded on private property and functioning under the impulse of the profit motive, applies not only to the wealth **in esse**, but also to wealth **in posse**. That is to say, the Credit machinery, or the borrowing powers and capacity of Government, could likewise be utilised, and must be so utilised, to effect a gradual redistribution of the community's wealth on a more just, more rational basis. The production of new material wealth, or the promotion of the indispensable social services, cultural amenities and public utilities, which make all the difference between those who have and those who have not, between the favoured and the privileged, and the disinherited, oppressed or exploited, may require anticipation of future wealth, just to supply those tools and implements, materials and labour, skilled and with efficient management, and scientific guidance, without which no production can take place, and the wealth of the community cannot be increased. The burden of such anticipation should, likewise, fall only on such shoulders as can most effectively bear them, though a scientific organisation of the machinery of Credit, its institutions and instruments, would make the "burden" least felt. The fruits of such enterprise, on the other hand, must be distributed according to a plan, which would go still more to undo the prevailing inequalities.

As pointed out already, it is possible to achieve several objectives by a proper use of Public Finance in regulating the normal economic life of a community, and effecting re-distribution on a more equitable, if not equal, basis the available wealth of the country amongst its people. It can aid actively in developing the potential resources of the country, and thereby improve the standard of living and conditions of work all round.

Much of this can be accomplished by a proper husbanding of the resources which Government can dispose of. They consist, in a society based on private property and actuated by the profit motive, mainly of taxation. These receipts may be supplemented by Fees for services rendered, or Prices for commodities supplied. Profits of such enterprises as the State carries on directly by its own agency, on a commercial footing, Rent, Royalties, or other analogous income from Public Domain make, in modern times, an increasing item also on the revenue side of the national or local Budget. The last category may be relatively unimportant in a society of the kind now under consideration; for in such a society as most of the enterprises that the State handles directly are not handled with an eye to surplus or profit, but rather with a view to benefit and render service to the community as a whole. If there is at any time any monetary surplus, it is used in reducing charges, or improving the quality of the commodity supplied or service rendered or the salaries and wages of the staff employed or the conditions of their work. The value and utility of such enterprise is measured by the volume of benefit received or service rendered, and not by deriving a monetary surplus by the State or its Agent like a Statutory Corporation, or a representative like a local body.

Even as regards Fees for services rendered, or rates for Public Utilities or other such public enterprises, they are made as near as possible, to correspond to the cost of providing, maintaining Departments which offer such services, and not with a view to make any net profit for the Exchequer out of these. Examples may be found in cases of fees for Passports, or rates for Postal, Telegraph and Railway Services. In India, however, the last mentioned items cannot be said to be entirely free from any element of profit-seeking. Being public monopolies of most widely used services, they have been utilised in every moment of crisis, and particularly in the last decade, as fruitful means of making up the Budgetary deficits. But the policy of increasing postal charges and railway rates or fares, by a direct increase or levying surcharges is open to a serious objection that they needlessly burden communications and hinder trade. Those who follow such a policy also overlook the elementary canon of such taxation, viz. that the higher the rate the lower very likely would be the yield. The law of Diminishing Returns may not have set in already as there is still immense room for expansion in these services and utilities in India. But the policy is apt to defeat the principal aim of such increases, and the Budgetary gap unlikely to be filled.

It is only, therefore, by Taxation, direct as well as indirect, that the bulk of the resources of the State are or can be obtained under the present social order for rendering such service and discharging such other functions as the State may impose upon itself from time to time.

V. General View of India's Financial System

On this background, let us now examine the place and function of Public Finance in India under the British Rule as observed elsewhere, the State in India functioned largely on the orthodox theory which least interferred with the daily life of the people. On that basis the following Table gives a general view of the Financial System from 1937-38 to the latest Budget proposals, including both Central and Provincial Budgets:—

TABLE I

(In Crores of Rupees)

Year	Revenue of the Central and Provincial Governments in India — Revenue Central.	Provincial.	Total	Expenditure of the Central and Provincial Governments in India — Expenditure. ***Central	***Provincial	Total.
1937-38	86.61	89.44	176.05	86.61	86.95	173.56
1938-39	84.52	84.74	169.26	85.15	85.76	170.91
1939-40	94.57	90.83	185.40	94.57	89.22	183.79
1940-41	107.65	97.48	205.48	114.18	95.18	209.36
1941-42	137.57	107.41	241.98	147.26	103.48	250.74
1942-43	176.88	124.31	301.19	289.05	118.18	407.23
1943-44	252.06	163.31	415.37	441.84	153.85	595.69
1944-45	335.57	208.18	543.75	496.71	204.28	710.99
1945-46	360.67	229.33	590.00	484.57	218.14	702.71
1946-47	336.19	243.07	579.26	381.48	254.65	636.13
1947-48	178.77	207.04*	385.81	185.29	211.08*	396.37
1948-49	255.24	**242.77	498.01	257.37	258.27	515.64

** Including new Taxation.

*Includes figures of West Bengal's Budget estimate for 1947-48.

Source:—Figures for 1937-38 to 1946-47 from Table 15, p. 65 Report on Currency & Finance 1946-47 issued by the Reserve Bank.

Figures for 1947-48 and 1948-49 from Table 16 p. 74 Report on Currency and Finance 1947-48 issued by the Reserve Bank.

***According to the Report of Expert Committee on **Financial Provision of Union Constitution** pp. 26-27, the aggregate deficit in the Central Budget was Rs. 650.78 crores between 1937-38 and 1946-47-(Budget). This was increased by Rs. 8.65 crores according to the estimates of 1947-48 and 1948-49. The Provincial Governments had in the 11 years between 1937-38 and 1946-47 an aggregate net surplus of Rs. 51.95 crores and built up their total Reserves to Rs. 95.91 crores.

Taking all the Revenues collectively, the following Table shows the growth in recent years of the aggregate revenues of the Central and Provincial Governments in India during the last 15 years.

TABLE II

Distribution of Revenue
(In Crores of Rupees)

Year	Tax Revenue (a)	Cost of Collection	Net Tax Revenue	Net Revenue from Commercial Departments	Opium Receipts less expenditure	Currency & Mint. Receipts less expenditure	Interest Receipts	Other Revenue	Extraordinary Receipts	Total Net Receipts
1933-34	72,97	3,31	69.66	56	88	74	1,63	2,72	36	75,43
1934-35	78,08	3,51	74,57	33	37	75	2,01	2,72		80,75
1935-36	77,35	3,64	73,71	4	27	75	87	2,73		78,29
1936-37	74.96	3,77	71,19	1	19	81	40	3,12	1	75,71
1937-38	73,14	3,29	69.85	3,25	26	38	59	2,93	3,93	81,19
1938-39	72,34	3.75	68,59	1,47	25	22	74	3,16	4,06	78,49
1939-40	79,06	3,40	75,63	5,14	23	88	76	3,00	3,16	88,83
1940-41	75,50	3,34	72.16	13,34	24	96	79	3,38	10,58	1,01,37
1941-42	95,87	3.98	91.89	23.50	41	2,17	67	3,44	4,90	1,26,98
1942-43	1,23,61	4,47	1,19,14	24,58	26	3,50	86	4,26	16,44	1,69,04
1943-44	1,70,23	5.15	1.65.08	46.61	—2	7.70	1,62	4.29	15,43	2,40,71
1944-45	2,52,81	7,11	2,45,76	42,18	—5	10 33	1,78	5.41	18,78	3,23,24
1945-46 (revised)	2,82,67	8,04	2,74,63	42,52	—51	15,22	1,61	6,09	9,14	3,48,70
1946-47 (budget)	2,39,13	8,11	2,31,02	17,12	83	15,18	1,30	34,50	7	2,99,27

(a) Excludes share of additional revenue from import and excise duties on motor spirit payable to Road Development Fund from 1928-29.

Source:—Annexure I. Explanatory Memorandum on the Budget of the Governor-General in Council for 1946-47.

These are revenues of undivided India upto the Budget for 1946-47. The following Table shows the principal components of the total Central Revenues for the Union of India according to the latest Budget i.e. for 1948-49:—

TABLE III

Revenue Estimates

(In crores of Rupees)	Budget 1948-49
Customs	81.75
	— 58*
Central Excise Duties	34,00
	13.10*
Corporation Tax	39,50
	10,30*
Taxes on Income other than Corporation Tax	90,50
	— 3,92*
Salt	(a)
Opium	1,40
Interest	1,17
Civil Administration	5,12
Currency and Mint	9,40
Civil Works	81
Receipts from Indian States	—
Other sources of revenue	4,36
Posts and Telegraphs:—Net contribution to general revenues	38
	40*
Railways:— do.	4,50
Deduct—Share of income tax revenue payable to Provinces	— 37,87
	— 1,96*
Total	2,35,02
	21,26*
	2,56,28

(a) Included under "Civil Administration."

*Effect of Budget proposals.

Source:—Explanatory Memorandum on the Budget of the Central Government for 1948-49.

Characteristics of the Revenue System

Examining the salient characteristics of the Revenue system in India, the first feature that strikes us is the growing shift in emphasis on the different forms of Public Revenue. In the past, from the beginning of the direct British rule in India, when Public Finance came to be regularised and modelled on the British System, the sources of Revenue were limited, the chief of them being that from land. The Government of India was then a wholly unitary body, and all revenues were that of the Central Government. The Provincial Governments which existed then were wholly subordinate and mere agents of the Central Government. They were advanced such sums as were necessary for expenditure incurred in the various divisions of the country, but defrayed by the officers or from the treasuries of the Central Government of India. All revenues on the other hand, wherever collected, belonged to the same Central Authority.

Decentralisation began in 1870, and was carried out by regular stages of Quinquennial Settlements with the Provinces. By the time World War I had broken out, these Settlements had become semi-permanent and stereotyped. There were considerable variations, no doubt, as between the several Provinces, in the matter of resources placed at their disposal or obligations imposed upon them. But they all followed the same pattern; and the constitutional position remained unchanged till 1920. With the advent of Dyarchy, there were some modifications; but it was left to the days when 17 years later, Provincial Autonomy came into the country, that the Provincial Purse was wholly separated from the Central. Though there are even after 1937 certain common sources of revenue, or sources which are shared by all,—the Centre and the Provinces as well as the States, e.g. Income-tax, or Central Excises, on the whole the more important items are separate and distinct. There is similarly a division in the heads of expenditure, with the practice of Central Subventions, or Grants to the Provinces which remind us of the original position and guiding principles of Indian Finance.

In the latest phase of Constitutional Reform, however, there seems to be a tendency to assign to the Centre more resources, and those more capable of expansion or addition than to the Units. A fuller explanation of this departure from tradition is given in the Summary of Developments. It is unnecessary, for the purpose of this Introduction to go into the latest proposals for the division of functions and resources as between the Centre and Units under the new Constitution for the Union of India. The fact, however, remains that, in so far as the actual administration and governance of matters that closely relate to the daily life of the people is necessarily in the hands of Unit Governments or Local Bodies functioning under them, the resources placed at their disposal are inadequate to the responsibilities similarly imposed upon them. If the Lincoln ideal of government of the people by the people for the people is to be realised in practice, it cannot be denied that the greater the resources available to the Units, the greater would also be the opportunity for them to do their work well.

As for individual items, since the beginning of Decentralisation in finance, Land Revenue was made over to the Unit Governments. Other sources of revenue have been either divided completely or been shared between the Centre and the Provinces. Various rights have, at the same time, been reserved to the Centre for dividing any revenue item or share so divided or laying down the general fiscal and financial policy, or making specific grants and subventions from the Central Purse to the Units.

Land Revenue, however, was a form of Direct Taxation which, all through the latter half of the nineteenth century, held, pride of place in the Indian Fiscal System contributing more than half of the then total revenues of the State in India. Another form of Direct Taxation, namely that on Income, was introduced in the last quarter of the last century. It began at very low rates, and in a very restricted manner; and was, even at times, reduced or remitted altogether, to mark the prosperity of the Public Purse, or perhaps to indicate the bias of the governing class against taxing the wealthier classes. When first introduced, the Tax on Incomes did not take the place of that other great Direct Tax, viz. land revenue. On the contrary against the land revenue assessed on the landed class that class was exempted from the tax on agricultural income, and the exemption has continued right up to the present times. Proposals for an Agricultural Income Tax, to be levied and collected by Provinces has come under consideration by the Units, ever since Provincial Autonomy was introduced, and may, under the changed conditions to-day, very soon be implemented. Between these two forms of income tax a very considerable amount may be derived from that source. At the present time, however, according to the latest available statistics, there are less than half a million

Income tax-payers including companies, in this country, who have incomes of Rs. 3,000 or more per annum individually, as shown by the Table below.

TABLE IV

Number of Assessees to Income-tax.
Total Assessment and Total Tax.
(1946-47)

(Figures in lakhs of Rs.)

	Category	No. of Assessees	Total Income assessed	Income-tax including deduction at source
I.	Hindu undivided families	70,377	5750.88	598.4
II.	Unregistered Firms & other Associations	14,074	1378.20	150.60
III.	Companies & Others Assessable at company rates	6,561	14838.12	3869.00
	Total ..	4,47,405	484,48.76	6810.94

N.B. These figures are taken from a Table prepared by the representatives of the Reserve Bank of India for the Committee of Economists appointed in August 1948 to consider the Inflation crisis.

Figures in respect of salaried assessees do not cover all cases resulting in no demand on account of adequate reduction of tax at source.

The rate of Income-Tax rises fairly sharply at the higher levels as shown by the Table below. The rate was even higher in the Budget of 1947-48 for the whole of India, but has been modified in the last Budget for the Union of India for 1948-49.

Income.		**Tax at 1947-48 rates on *Total Income				Tax at 1948-49 rates on *Total Income			
		Wholly earned		Wholly Unearned		Wholly earned		Wholly Unearned	
		Rs.	%	Rs.	%	Rs.	%	Rs.	%
3,000	..	56	1.9	94	3.1	56	1.9	94	3.1
5,000	..	156	3.1	219	4.4	156	3.1	219	4.4
7,500	..	344	4.6	531	7.1	344	4.6	531	7.1
12,000	..	794	6.6	1,281	10.5	794	6.6	1,281	10.7
21,000	..	2,563	12.2	3,813	18.1	2,563	12.2	3,813	18.1
36,000	..	8,844	24.6	10,781	29.9	8,625	24.0	10,563	29.3
80,000	..	35,844	44.8	40,531	50.7	34,125	42.6	39,281	49.1
3,00,000	..	2,42,094	80.7	2,50,219	83.4	2,23,344	74.4	2,36,469	78.8
10,00,000	..	9,20,219	92.0	9,28,344	92.8	8,99,906	90.0	9,13,031	91.3
30,00,000	..	28,57,719	95.2	28,65,844	95.5	28,37,406	94.6	28,50,531	95.0

* Total *income* here excludes any income from Capital Gains, and is as reduced by the Business Profits Tax payable, if any.

Source: Explanatory Memorandum on the Budget of the Central Government for 1948-49.

**According to the Explanatory Memorandum (p. 6) accompanying the Budget for 1948-49:—

"Under Section 138 of the Government of India Act, 1935, as amended by the India Provincial Constitution Order, 1947, it has been prescribed that 50 per cent. of the net proceeds of taxes on Income, other than Corporation Tax and Central Surcharges, and the portion of the Tax attributable to the Chief Commissioners' Provinces and federal emoluments, shall be distributed among the Provinces as follows:—

Madras	18%	Bihar	13%
Bombay	21%	Assam	3%
Bengal	12%	Orissa	3%
C. P.	6%		
U. P.	19%	Total	100%
Punjab	5%		

The share of the income-tax revenues payable to Provinces is calculated as follows:—

	Budget of 1948-49		
Total Taxes on Income, other than Corporation tax, and excluding Central Surcharges ..	Rs.	87.25	Crores
Deduct—portion attributable to Federal emoluments, Chief Commissioners' Provinces and miscellaneous	„ —	5.89	„
Share of Cost of collection	„ —	1.12	„
Balance	Rs.	80.24	„
Deduct amount to be retained by Centre	„	42.37	„
Amount payable to Provinces	„	37.87	„

Tax Evasion.

The rates of taxation have been, in recent times, considerably and progressively raised. The Tax is a progressive charge rising in rate as the amount of income increases. There is a minimum of subsistence exempted from taxation and certain deductions are allowed in respect of expenses incurred for earning an income, depreciation of plant buildings and machinery etc. But no deductions are allowed from the income taxed on account of the number of dependants etc. It is unnecessary to go into the details of the variations in rates, as well as the methods of assessing and collecting this tax. It is claimed in some quarters that the Income Tax Collection Machinery is about as efficient in this country as anywhere else; and yet the belief prevails that at least as much taxable income escapes taxation as is charged to tax.

It is not denied that there is considerable evasion of tax payment in this country as elsewhere. But that evasion is due rather to the lack of a correct public sense or appreciation of the ethics involved than to any defect in the system of assessment and collection. No one can say what is the total amount of tax payment thus evaded. Various estimates have been made by official and non-official publicists, which vary from Rs. 200 to Rs. 800 crores of tax money due but not being paid into the Exchequer in the last 3 or 5 years. If that amount were to be rigorously collected, the difficulties of to-day arising out of unchecked Inflation would be easily solved. If the public conscience is aroused and educated to the pitch which may well be expected now that this country has a Government elected by the representatives of its people, there can be no doubt that this source will furnish the largest single item of revenue for the Centre and Provinces, while the basis of the Social Order remains rooted in Private property. The tax, moreover, has shown a degree of elasticity and productiveness which makes it ideal from the point of economics; while being adjusted as nearly as may be to the ability to bear the burden, it is unobjectionable from the ethical standpoint also.

Shift in Emphasis.

Growth of Indirect Taxation.

It is clear, however, from an analysis of the Tax Receipts of to-day,—that emphasis has definitely shifted from Indirect to Direct Taxation in the Indian system of Public Finance, both at the Centre and in the Units. At the beginning of the century, for instance, Customs Revenue (wholly Central) and Excise (which is largely Provincial) were illustrations of

Indirect Taxation. Between them, they used to yield comparatively little, though in those years Income-tax Receipts were also not very considerable. Land Revenue was the principal form of Direct Taxation, which made the income from that category of taxation preponderant.

If we add, however, on the side of Indirect Taxation the income from Salt, Opium and other similar sources, the total from that category would appear to be greater at the turn of the century. Opium revenue was, perhaps, the most important single item of revenue, after land revenue; and was the more unobjectionable as it was derived largely from Non-Indian consumers in China and Malaya. Opium revenue came from a Government Monopoly, where the price was charged so to say up to the maximum the consumer could pay; and, as such, was not felt as a burden in this country at all. For these reasons it was in marked contrast with Salt Revenue which fell exclusively upon the people irrespective of their ability to bear the burden or was rather in inverse proportion to their taxable capacity. That source has disappeared from the Indian Budget since 1910, leaving a big hiatus that has not yet been filled up. No comparable economies are possible; no sufficient alternative or substitute available; Opium Revenue was dispensed with at the instance of the British Government, where the Non-Conformist conscience was roused and found in the export of Opium from India such an instance of nefarious traffic that they could not regard the Indian Government to be guided by Christian principles of international justice. By a Treaty with China, which undertook to abolish Poppy Cultivation at home within a stipulated period, India was made to reduce progressively her exports of Opium, by an increase in prices as well as by reducing her Poppy Cultivation. By the beginning of World War I. Opium had ceased to play an important part in the Indian Budget. The amount now shown under that head is from the consumption of Opium and other such drugs in the country itself. It is more an Excise Duty than a monopoly profit.

In the early years of the direct British rule in India, Customs Revenue could not grow at all in proportion to the Trade of the country, as the basic policy of Government in those days was not to place any barriers in the way of free flow of trade between countries. The Free Trade policy of the British Govt. was copied by their agents, the then Government of India, where it was wholly misunderstood, because the chances of local industry rising to its just stature were believed to be needlessly prejudiced so long as Government offered no fiscal protection to their establishment and expansion. Under the stress of World War I, however, when reve-

TABLE V

Analysis for Tax Revenue

(In crores of Rupees)

Year.	Revenue from Customs.	Revenue from Central Excise Duties.	Revenue from Taxes on Income including Corporation Tax.	Revenue from Salt.	Other Tax Revenue	Total gross tax revenue.	Tax revenue retained by Central Govt.	Total Cost of Collection.	Total net Tax Revenue.
1933-34	47,16		17,13	8.86	90	744,05	72.97	3,31	69,66
1934-35	52,67		17.55	8,00	1,05	79,27	78,08	3,51	74.57
1935-36	52,25		17.07	8.43	89	78,64	77,35	3,64	73.71
1936-37	51,45		15,34	8,81	82	76,42	74,96	3,77	71,19
1937-38	43,11	7.66	14,58	8,39	81	74,55	73,14	3,29	69,85
1938-39	40,51	8,66	15,78	8,12	83	73,90	72,34	3,75	68.59
1939-40	45.88	6,52	16,58	10,86	83	80.67	79,06	3.40	75.66
1940-41	37.30	9,49	21,77	7.67	91	77.14	75.50	3.34	72.16
1941-42	37.89	13.15	36,67	9.20	1.01	97,92	95.87	3,98	91,89
1942-43	25.12	12,79	74,86	10,91	1,21	1,24,89	1.23.61	4,47	1,19.14
1943-44	26.57	24,94	1,09,64	8,34	1,66	1,71,15	1,70,23	5,15	1,65,08
1944-45	39.76	38.14	1,64,68	9.29	1,95	2,53,83	2,52,81	7,05	2,45,76
1945-46 (revised)	65,00	46,65	1,50,25	9,25	2,12	2,83,27	2,82,67	8,04	2,74,63
1946-47 (budget)	65,55	46,70	1,16,86	9,30	2,14	2,40,55	2,39,13	8,11	2,31,02

Source:—Explanatory Memorandum on the Budget of the Governor-General in Council for 1946-47.

nue considerations became all the more insistent; and when it was felt Customs could be made to contribute much more than it did at the time, new revenue duties were imposed. At the same time a pledge was given for a revision of the governing policy as soon as the War ended. This new orientation in policy was embodied in the appointment of the Indian Fiscal Commission in 1921, whose majority recommendations were accepted by Government, and the policy of "discriminating protection" adopted for selected Industries after satisfying themselves through proper investigation by a Tariff Board that the industry asking for protection had a fair case for protection.

The immediate effect of a change in Fiscal Policy was to increase Customs Revenue through high duties on competing materials imported from abroad. And even where there was no room for competition, Customs Duties were raised several times in the twenties and thirties, so as to make an effective counterpoise to the income from Direct Taxation on income. These Indirect Taxes are favoured by all Governments, and particularly in Federations, as the tax-payer of these revenues is not conscious of the charge made upon him. If Democracy would like to be real and effective, it must prefer Direct Taxation, as then only will the citizen become fully conscious of the burdens of modern government, and exercise his vote, the symbol of his sovereign authority more intelligently than is commonly the case.

At the present time purely revenue or protective duties are levied and the aggregate net amount is over Rs. 84 crores as shown in the table appended.

TABLE VI

Budget of 1948-49: Customs Duties and Central Excises
(Figures are in lakhs of rupees)

I. CUSTOMS DUTIES	
(A) Import Duties (Sea Customs)	
(a) For Revenue	5412.00
(b) For Protection	688.40
(B) Export Duties	2252.55
(C) Land Customs	40.00
(D) Miscellaneous	75.00
Total	8468.00
II. CENTRAL EXCISES	3400.00
Grand Total	11868.00

While the most considerable instance of Indirect Taxation was revenue from Customs Duties, expanding local Industry developed by means of fiscal protection or because, of some inherent advantage of its own within the country, were also brought within the purview of Taxation. In proportion as they succeeded they paid more by way of Income Tax, Railway freight and fares, and excise duties on consumables obtained in the country itself. In addition, what are called some Excise Duties were also levied on the raw material or finished product of these industries, the yield at the present time from all of which is given in the Table VI given above.

Between them these two principal items of Indirect taxation were estimated to yield Rs. 115 crores, in 1948-49, as against Rs. 130 crores in round terms estimated to be derived from all kinds of direct taxes including, Income Tax, Corporation Tax, Excess Profits Tax etc. Indirect Taxation of this kind also displays an elasticity and productivity which are fairly comparable to the Direct Taxes noticed above.

Excise Revenue also forms a considerable part of the Provincial Purse. But there Excise Duties are levied on articles of consumption which the public opinion regards as injurious to the health or morals of the community. Attempts are accordingly being made to abolish such nefarious traffic, and sacrifice the revenue derived therefrom. Plans for Prohibition calculated to abolish the drink evil altogether within a given period, have been accepted in principle by the Provincial Governments, wherever they were under Congress influence, ever since 1937. With the return to office of the same Party in 1946, these projects have been revived in several Provinces. The experience of the earlier experiment had, however, made many Authorities realise the unwisdom of impulsive adoption and immediate execution of a Total Prohibition Policy. The present schemes, therefore, are aimed at progressive reduction of the evil and the income derived from it, by choosing particular districts in which the policy is being put into force, so that the desired goal may be reached in five years or so.

In proportion as this policy is realised, a considerable sacrifice of revenue would have to be incurred. The deficit, therefore, even now noticeable in the Provincial Budgets will tend to increase, and will have to be made good by devising alternative measures, or increasing the rates of taxation in the existing revenue, or enhancing subsidies or grants from the Centre which may be undesirable for constitutional or political reasons. In any case the Indirect Taxation described is impossible to be dispensed with, and be replaced by Direct

Taxation unless the present day heavy evasion is checked, and the tax-payer educated to the proper pitch of his duty to the State.

It may be added that, according to the Budget of 1946-47, the total gross Tax Revenues of the Government of India amounted to Rs. 240.55 crores, the cost of collection of the taxes amounted to Rs. 8.11 crores, or some 3% of the total tax receipts. The collection charges for Indirect Taxes of Customs and Excise aggregate nearly 10% of the gross receipts, i.e. Rs. 4.46 crores for a total gross income of Rs. 46.70 crores. The corresponding cost of Direct Taxes is a little over 1%, i.e. Rs. 1.31 crores on a total income of Rs. 1,11,16.86. The cost of collecting salt revenue was nearly 16% of minor taxes, the cost was proportionately very much higher, but in the aggregate it made little difference.

Between 1937-38 and 1946-47, the Customs rose from 43.11 crores to 65.55 crores, or a little over 50%; Central Excises rose from 7.66 crores to 46.70 crores or 600%; Taxes on Income, including Corporation Tax, rose from Rs. 14.58 crores to Rs. 116.86 crores, or 800%. This shows the shift during the War years, and the change is even greater if we take our starting point for comparison at 1930-31. The figures given above all relate to the Budget of 1946-47, as shown in Annexures I and II of the Explanatory Memorandum, pp. 22-23.

Other Sources of Revenue

According to the last Budget for united India, i.e. for 1946-47, the Net Revenue from the Commercial Departments, principally Railways and the Postal Services,—was Rs. 17.12 crores, or about 5½% of the total net revenue for that year of Rs. 299.27 crores. There have been considerable vicissitudes in this item, which yielded only Rs. 1.47 crores in 1938-39, net revenue and formed less than 2% of the total net revenue, of that year, i.e. Rs. 78.49 crores. During the War, this item rose sharply, from the lowest yield shown above to Rs. 46.61 crores in 1943-44, or nearly one-fifth of the total net revenues for that year. Since the end of the War, the yield has fallen rapidly, till it has fallen in the latest Budget for undivided India at 5½% of the total.

As has been pointed out in another volume in this Series, that on Communications and Transport, these Departments are capable of considerable expansion, and even of a substantial net increase in revenue, if only the Services are properly co-ordinated, and the country's goods and passenger traffic, as well as the various types of communications through the postal

Services are reorganised. The present policy aims at killing the goose that lays the golden egg by adding to the rates and charges of these popular services which are the monopoly of Government, but which have infinite possibility for development, if only the Services are made an integral part of the Overall Plan, and operated as an inseparable adjunct of the National Economy.

Currency and Mint

The Currency and Mint receipts record another heavy rise, from Rs. 22 lakhs in 1938-39 to Rs. 15.18 crores in the Budget for 1946-47. This reflects a heavy increase in the currency Note Issue, and consequent increase in the interest bearing securities in the Reserve, which, however creates its own difficulties through Inflation in Prices. That subject is examined in another volume in this Series.

VI. Provincial Revenues.

The most important items in the Provincial Budget are: Land Revenue, Excise, Forests, Stamps, Entertainments Duty, Sales Tax, Administrative Departments or Service Fees, Irrigation, Interest Receipts, Grants or Subventions, and Miscellaneous adjustments.

Land Revenue and Excise have already been discussed, and so need not take up any further space once again. The Excise Revenue is threatened with extinction, but no effective or adequate substitute seems to have been found so far. It may be that the share of the Provincial revenues in the now projected Estate or Death Duties which will very likely have to be shared between the Union and the units, may compensate the Provincial Purse for the loss of the Excise Revenue. The question is not judged as a financial problem only. Large issues of national policy or social Reform are involved, which cannot be decided in this Series, but which the National Planning Authority will have to settle before the Plan can be put into execution.

On the other hand, the abolition of the Zamindari or Landlord rights in land in Provinces where the Permanent Land Revenue Settlement was in vogue or where proprietory rights to large land-owners have developed even without Land Revenue being fixed there in perpetuity, is expected to bring in a considerable increase in the revenue from that source, from the State putting itself in the shoes of the Zamindar. A close study, however, of the Land Revenue System in those as well as Ryotwari Provinces makes it unlikely that any considerable increase in revenue from this source should take place by the mere fact of the Zamindar being excluded from the ownership of land. In most Provinces where the Zamindari System prevailed recent Legislation for its abolition has accepted the principle of compensation to the Zamindar on a fair scale. This involves very heavy borrowing by the Provincial Governments abolishing the Zamindar. They must consequently shoulder a substantial burden of Interest on the borrowed capital as well as the Sinking fund charges for repaying the loan within the stipulated period.

In addition the rights of the tenants would also have to be reconsidered and given effect to in a liberal spirit. This means that the State becoming a Land-owner would not be able to demand and obtain Rent from land at the same rate or in the same manner as a land-owner used to do notwithstanding a long series of landlord and tenant legislation. Take an instance. In the United Provinces the final Revenue Settlement was made somewhere about the middle of the last century. Under it the total Land Revenue in the Budget for 1946-47 was Rs. 6.68 crores. The Zamindars' or Talukdars' income from their land was estimated at three times as much; so that the gross income from land would be about Rs. 20 crores. Recent estimates show that to expropriate Talukdars or Zamindars the United Provinces subject to a fair compensation would necessitate borrowing to the tune of Rs. 137 crores, which, at 3½% interest, and sinking fund charges combined, would mean a net charge at least of Rs. 4 crores on the United Provinces Public Purse. If the entire Zamindar income is taken over by the State in this instance, Government would be gaining, at existing rates, Rs. 20 crores minus Rs. 4 crores on account of interest and sinking fund charges in connection with the loan raised to pay off the land-owners. Out of the Rs. 16 crores that may remain, the State would have to remit a considerable portion of the Rent charge made by the expropriated Zamindar, to make the land held by the actual tenant yield sufficient and a fair return or a living wage to the actual cultivator. No charge could be made until a minimum necessary for the cultivator's maintenance has been deducted, and the Land Revenue placed on a par with the direct tax on income. Exactly what sacrifice of revenue would be involved by this approximation of the tax on Land to the other great direct tax on income is impossible to say. Given the phenomenon of intense subdivision of cultivated land prevailing in all parts of the country, it is more than likely that the exemption of a minimum necessary for subsistence from land, would absorb a very large slice of the net revenue from land after the abolition of the Zamindari or the Talukdari System. The present figure of about Rs. 6 2/3 crores of Land Revenue will not be very much increased by this reform of the financial system, so long as private property in land is allowed to the cultivator. The reform would also have to be accompanied by a complicated series of social legislation ensuring no further subdivision of land and enforcing economic cultivation, without which the initial step will prove barren and meaningless. The Co-operative Reorganisation of the entire Agrarian System, recommended in another volume of this Series, may, if adopted, involve further deduction from the Provincial Purse. But that would be no loss to the country as a whole, if we look at the benefit derived by the members of the Agricultural Co-operatives.

After the abolition of the Zamindar or large landowner any hope of a substantial addition to the Provincial Purse by means of an Agricultural Income Tax must also shrink in proportion as the taxable surplus of income from land would be very much reduced, and the amount possible to derive from that source may be much smaller.

If the entire programme, including all items of rehabilitating the agriculturist in India by removing the burden of unproductive Debt, parasitical Rent charge, excessive land revenue demand by increasing the size and improving the method of cultivation, and by co-operative reorganisation of the entire system of land tenure and cultivation, it may be very likely that this source would yield much more in the aggregate over a series of years than has been the case under the system of fixed cash land revenue paid to the State or rent dues of the Zamindar. But until the entire Plan in all its items is carried out, reforms effected bit by bit may prove more onerous than advantageous.

In recent times, that is to say, since the Government of India Act 1935 and the arrangement for redistributing financial resources following the Otto Niemeyer Award, the Provincial Purse has been progressively benefiting by a share in the ordinary income tax levied and collected by the Central Government. The principle has been accepted that the Provincial Governments are entitled to share in this tax upon the wealth of the citizens within their jurisdiction, if not wholly, at least in part. By this arrangement 50% of such revenue is made available to the Provinces, and the Provincial Purse has been proportionately benefiting from this source.

In recent times this source has been considerably expanded by the Central Government for its own reasons, and it is likely to be still further expanded in the years to come. With the progress of Industry and Development of all other resources of the country, which a Plan like the one outlined in this Series is likely to bring about, it may very likely be that the Provincial share of the revenue derived from this source would more than suffice to make up any loss that may occur in the abandoning of the Excise duties on intoxicants, and the reconditioning of the Land Revenue as part of the reorganisation of the entire Agrarian Economy, on a par with the Tax on Incomes. But here, too, emphasis must be laid on the fact that these are mutually interdependent devices for attaining the common objective of all-round national development and that can best be attained by an integrated National Plan taking account of all items, aspects of our National Economy including the Financial side.

After Land Revenue, Excise and a share of the Income Tax, the other items of Provincial Revenue are relatively less important. Forests yield a varying income in the different Provinces. But they are capable of much greater expansion than was realised by the preceding Government. As pointed out in another volume in this Series, that on Soil Conservation and Afforestation, the potentiality of Forests as a source of provincial revenue, as well as of adding to the national wealth is unlimited. Forests, it need hardly be added, are a part of the Public Domain, the present income from which bears no proportion to its possibility. The development of sylviculture and of the industries based on Forest produce, owned and managed directly by the State, are calculated to yield far more net income than the present 5% to 10% of the total Provincial Purse from this source, even though at the outset this part of the Plan may require considerable capital investment.

Stamps are a more important source of Provincial Revenue from the point of view of the total yield. They are a form of Indirect Taxation, falling upon the commercial class mainly—or litigants,—which may be deemed as apportioned to the capacity of the tax-payer to bear the burden, and as such innocuous and unobjectionable.

Large-scale Irrigation Works in many Provinces yield considerable net revenue and still show still further scope for expansion. Great projects of Multi-Purpose River-Training and Irrigation Schemes, including generation of Electrical Energy, resettlement of land reorganisation of cultivation, establishment of new industries, have been taken in hand by the Central Government in the last year, as mentioned in the volume in the series dealing with River Training and Irrigation. This is a very promising source for adding to the Provincial Purse, and has a great future if properly linked with the other items and aspects of reorganising Agrarian Economy mentioned above.

As against this scope for developing Productive Works, there is, however, in many Provinces an equal if not greater need for Protective Works to guard against the particular regions against failure of rains, and consequent famines rather than for additing to the revenue of the State. There are many Provinces in which this danger is a common risk, so that in such parts of the country the net revenue from this source, taking both Productive and Protective Works together, may not be very considerable. Amounts spent, moreover, whether by loan to cultivators or directly by the Provincial Exchequer on smaller works like wells or local ponds, may add to the wealth and taxable capacity of the cultivator, but not much directly to the net revenue of Government. For the country as a whole, however, it is possible to make this source yield, in the aggregate, within not more than ten years, a much larger amount than is derived today. All these measures one cannot repeat too often are so closely inter-connected and inter-dependent that they will have to be adopted as part of a National Plan, and given effect to simultaneously if the fullest benefit is to be obtained.

Fees from Service or Administrative Departments, like Education, Police, Medical and Health, Agriculture, Industries, etc. do not form a very considerable proportion of the Provincial income today. But they are objectionable on principle, in so far as those are essential Social Services without which no State can be regarded as civilised. No Fees should be charged at least in the elementary stage of what is called Primary Education, and a pre-determined minimum of attention to the health of the community, as well as to its livestock wealth. This country has so long lagged behind in such matters,—its literacy proportion is the lowest in the world, its expectation of life the shortest, its agricultural productivity the poorest—it must now make up the lee-way at as early a date as possible. Progress, however, in all these elementary services would be very much impeded so long as the burden in the shape of Fees for such enterprises and elementary services are retained. The new Governments will have, therefore, at once to shoulder, not only the burden of substantial and immediate expansion in these services, but also to remit the Fees now derived from some of these sources, some observations will be offered on the Expenditure side in this regard. Here it is enough to add that revenue or financial considerations should not be allowed to affect progress in these Departments which is very much overdue.

Interest and Miscellaneous Receipts are more than counter-balanced by corresponding charges on the other side. The interest Receipts of the Government of India are derived mostly from Loans to Provinces and States; while those of the Provinces are obtained from Loans to Municipalities, District Boards and the like. These, however, are more or less counter-balanced by the Expenditure under the same head on the other side, and so need not occupy us more in this place.

Miscellaneous adjustments between the Units and the Centre, in the shape of specific grants or subventions from the latter to the former are growing ever since the National Government has come to power. They will continue to grow in all likelihood, if the new Constitution concentrates power and authority and resources mostly at the Centre. The questions involved in this subject, are therefore, more constitutional and political than purely economic or financial. It stands to reason, however, that the resources of every Unit may not be adequate to the planned and progressive development of a given unit, and making it comparable, in point of administrative efficiency, social service and public utility with any other member of the Union, or with other countries in the world. The Central Exchequer must, therefore, come to the support of not only backward Units like the States, which have only recently been merged in the Union, to bring their administrative efficiency and social services to a comparable standard all over the country but also to the larger and better endowed Provinces who have lagged behind, notwithstanding their inherent resources for want of planned enterprise to march forward in social reform and industrial development.

The introduction of special subventions or specific grants from the Centre may lead to a degree of restriction or limitation of Provincial Autonomy, in the shape of conditions imposed for utilising the grants or subventions made. These also involve constitutional and political questions, with which this volume need not be burdened. It is part of the main Committee's task, or the function of the Supreme Government in the Country to resolve such questions and devise a general policy for all.

Recent additions or innovations in the Provincial revenue system include Entertainment Tax on all kinds of amusements, like cinemas, concerts, theatres, and other forms of public entertainment, or other less desirable activities like Racing and Gambling; and Sales Tax. Considerations of social and economic importance are involved in these forms of local taxation, which, however necessary for financial reasons, should not be the prejudice of basic social ideals or ethical principles. In a Province like Bombay, taxation of this kind is likely to be very productive if rigorously enforced. If all forms of gambling, for instance, speculation as well as racing or gambling proper, are duly brought to the Tax Collector's attention, the revenue from such items would be considerable. They may be supplemented by organised State lotteries, or special License Fees on stock brokers or on organised exchanges where forward dealings are common. But they may all be open to objection from the moralist who objects to any kind or degree of State association or countenance with these anti-social activities.

Taxation, moreover, on healthy recreation or entertainments may affect the public welfare by making the educational or cultural benefit from such activities, e.g., the Theatre or Cinema beyond the people's means, so that those who need such recreation or entertainment the most may be unable to afford it. These entertainments are, no doubt, liable to abuse. But to guard against that institutions like the Film Censor Board may be established. A balance between advantage and evil, which is inextricably involved in all such matters, will have to be struck, so that a just mean may be attained in the interests as much of the Public Purse as of the social well-being of the people.

A Tax on Sales on the other hand, stands on a different footing. It is an indirect burden borne by the consumer which is scarcely noticed, since the tax is included in the price. There is no doubt of considerable yield being available, if this Tax is imposed on sales of selected commodities all over the country subject to an exemption of very small amounts, at uniform rates and by the same machinery. The danger, however, in the Sales Tax being levied at different rates on different commodities in different Provinces is so considerable, that its centralisation for purposes of administrative uniformity and efficiency becomes unavoidable. The proceeds of the centrally levied tax may then be shared, as the Income Tax proceeds are shared today, by the Centre as well as the Provinces on some agreed lines. With a tax of a uniform basis on identical commodities with identical exemptions, no room would be left between rivalries as between Units for attracting trade or industry to their own borders, the same remark may also apply to devices such as Licensing Duties for shops or particular scale industries, and other activities resulting in an increase in production or improvement in consumption. In so far, however, as those burdens fall unevenly on people's different ablilities, it would be undesirable to impose them.

VII. Public Expenditure

A (Central)

Given the orthodox view of the functions of the State in India as accepted during the British regime, and taking the role of Public Finance to be what has been outlined in the preceding pages, Public Expenditure also follows the same ideal of the **faineant** Government. There is no trace of a planned utilisation of Public Expenditure for either effecting an overdue re-distribution of the National Wealth, or so ordering the outlay of the State as would directly promote the well being of the citizen. Public Expenditure of both the Central and Provincial Governments is thus content to keep order, enforce peace within the country, and ensure its security against outside aggression.

Table I in this Introduction gives the total of such Expenditure, both Provincial and Central. A sharp and heavy increase has occurred in the last 10 years in either case. Notwithstanding this remarkable increase in the total expenditure, the ideal of the State sketched elsewhere remains the same, as is evident from the Table below which gives the broad details of Central Expenditure.

Before considering the several items in this Table in detail, we may notice some of the more salient characteristics of Public Expenditure in India. The total Expenditure is made up of the Central Government Expenditure, and that of the Provincial Governments, of the States and of Local Self-governing bodies, Statutory Authorities or Corporations; and of the Indian States. Reliable figures are available only for the first two categories. A few of the Indian States also publish their Budgets; while the Local bodies and Statutory Corporations are too heterogeneous to permit a consolidated view. Until August 1947, moreover, the Indian States were not integral parts of the same polity; but they followed, essentially speaking, the same pattern.

If we view the aggregate Expenditure historically, the most outstanding peculiarity would appear to be an incessant and uncontrollable tendency to increase. This is not peculiar to India; but in recent years the increase has been very steep and rapid. Much of this increase in the last decade was due

TABLE VII

Distribution of Expenditure (In crores of Rupees)

Year.	Interest on Debt.	Reduction or Avoidance of Debt.	Extra-ordinary Payments.	Defence Expenditure (net)	Other Expenditure.	Net capital outlay of commcl. depts. (Posts & Telegraphs and Irrigation) met from revenue.	Total net Expenditure.
1933-34	9,29	3,00 (b)	2,19	44.42	15,85	6	74,80
1934-35	10,25	3,00 (c)	2,85	44.34	19,92	3	80,39
1935-36	10,50	3,00 (d)	2,72	44,98	17,08	1	78,39
1936-37	9,56	3,00	19	45,45	19,26	4	77,50
1937-38	12,48	2,52	3	47,35	28,77	4	81,19
1938-39	11.12	3,00	1	46.18	18,78	4	79,13
1939-40	9,00	3,00 (e)	7,95	49,54	19,34	—	88.83
1940-41	9,78	3,00	1,22	73,61	20,28	1	1,07.90
1941-42	6,40	3,00	4.65	1,03.93	21,68	1	1,39,67
1942-43	6,97	3,00	30,26	2,14,62	25,94	3	2,80.82
1943-44	9,09	3,00	30.66	3,58,40	29,47	— 1	4,30,61
1944-45	19,21	3,00	31,03	3,95,49	36,61	4	4,85,33
1945-46 (revised)	30,85	3,00	22,26	3,76,42	61,10	2	4,93,65
1946-47 (budget)	36,97	5,00	7,20	2,43,77	50,38	1	3,43,33

(b) Includes 2,09 transferred to the Bihar Earthquake Fund.
(c) Includes 2,82 transferred to the Rural Development Fund.
(d) Comprises 1,84 transferred to the Revenue Reserve Fund, 45 for buildings in Orissa and Sind, and 43 for expenditure in connection with the Quetta earthquake.
(e) Includes 7,77 transferred to the Revenue Reserve Fund.
Source:—Explanatory Memorandum on the Budget of the Governor-General in Council for 1946-47.

to the steadily rising War demands during 1939-1945. To meet this insatiate demand revenues had to be steeped up from every source that could possibly be made to yield more by raising the rates of existing sources, or by devising new forms of Taxation or other forms of Revenue. The growth, it may also be noted, is to be found both in the Provincial and Central Budgets; but the latter far out-weighs the improvement in the former. It is unnecessary to go into the details of the finances of the several Provinces.

It may be mentioned, however, that not all Provinces fared equally during the War for a variety of reasons, like the Bengal Famine 1942-43, or the War scare about the same time there, or the political agitation in the country, and the like. It is enough, for our purposes, to record that Revenues have grown notwithstanding new taxes and higher rates disproportionately with expenditure all over the country; and that the resources of the Central Government have shown a much larger tendency to grow than in the case of the Units, very likely because the latter have very few elastic sources of income at their disposal, while the demands of daily governance and social reform facing them are steadily and sharply expanding.

(a) Characteristics of Central Expenditure.

Taking Central Expenditure by itself, a large proportion of it is non-productive. Nearly half, if not more of the Budget is devoted to Defence and preparation for Defence, even in normal peace-time, while during the War it was still further inflated. Indian public opinion had, in the British regime, been always sharply critical of the Defence or Military Expenditure as being part of the Imperialist exploitation. Undoubtedly this burden was mainly imposed because of our connection with Britain. In peace we had to be prepared for Wars, British Imperialism brought upon us; in wars we had to join whether or not we desired them or benefited from them. The size of the Defence Budget, continues even after the British connection has ceased. World War II, which brought about a sharp increase in this Expenditure has ended these three years and more; and though the item has in its aggregate been brought down from the peak of war-time Defence expenditure, its general character, proportion and policy remain unchanged. Apart from the Defence Budget proper, if we take into account the item of Interest on the Expenditure side, the proportion of the Public Purse claimed by the Defence Budget would be even greater. The Public Debt of India has in its inception and subsequently been caused, very largely, by the wasteful expenditure by the East India Company from which the British Government took over governance of the country; and by the Wars, Expeditions and insatiate Imperialism of the British Government of India during the 90 years that it held sway in this country.

Accordingly it would be right and proper to include some proportion at least if not the whole, of the Interest Expenditure as part of the Defence Budget.

(b) Unproductive Items of Expenditure—Defence.

The Defence Budget is unproductive in the sense of giving no return in the shape of material goods. The sense of security, however, that is born of adequate provision for Defence against aggression cannot be valued in terms of money. It is a condition precedent to any normal functioning of the economic machine; and as such it cannot be termed wholly as unproductive in every sense of the term. In the existing circumstances, however, of international relations with the impending threat of War all over the world, it would be suicidal for any country to neglect or reduce its provision for maintaining its own security, integrity and independence. This provision, therefore, has to be on a scale proportionate to the area and population, the coast line, and trade that this country has with other countries of the world.

It is this consideration of National safety which even suggests a possibility of early and substantial expansion even in the present high figure for Defence, large as it is. For her extent and population, India has a relatively small standing Army, with little or no reserves. As for a comparable Navy and Air Force, the first beginnings have yet to be made. These are, however, necessarily expensive to provide all the more as there is an inexorable and incessant tendency in modern weapons and equipment to become obsolete very soon after their production. The constant rivalry, moreover, that goes on among the leading nations of the world makes it impossible for any country, anxious to preserve its independence and maintain its own way of life, to be content with outworn, inefficient, obsolete armament. New weapons, new modes of fighting, new strategy have a tendency to make the arms and equipment of today, however efficient and up-to-date it may be, useless tomorrow in the face of new discoveries and developments. This Expenditure must, therefore, be porportionately much larger not only from the point of view of any return but also from the point of view of its continuous increase for the reason just mentioned. India would nevertheless have to maintain the present level, and even increase it, if she desires to maintain her Independence and individuality in the world to-day. Notwithstanding the philosophy of Non-Violence preached all his life by Mahatma Gandhi, the country he brought independence to cannot survive as a nation if it discarded its defence provision and eschewed altogether the use of force. Within less than a year of his death, his leading Lieutenants and chief Disciples are obliged, publicly, to profess, if not a new faith, at least a new policy to ensure the Defence of the country more in conformity with the conditions of the world than the teachings of the Founder of India's National Independence.

It may be noted also that however large Expenditure on Defence may seem to be in proportion to the total Income of the State in India, many of the peculiarities of the pre-independence Budget that made it open to criticism have ceased to operate since the establishment of Independence. A good deal of the Defence Expenditure during the British Regime was in the shape of the so-called War Office Charges, which constituted a net **drain** from the country. The overwhelming majority, again, of the Officers in the Defence Services were Non-Indian, whose salaries and pensions may likewise be said to have been a net **drain** out of the country. The monies spent on these accounts were a net loss to India. The weapons and armaments and equipment, which had to conform to British needs and Standards, had also to be obtained from British sources. In a manner of speaking they, too, constituted a drain of wealth from this country. Only a fraction of the total expenditure on Defence remained in the country in the shape of the soldier's wages; the bulk unavoidably appeared to be an unrelieved burden.

Under the new dispensation, however, much of this has been changed. The War Office Charges have ceased to be as the Indian Army is almost entirely Indianised. The salaries, pensions and leave allowances of British Officers in the Indian Army have also disappeared from the Budget; so that two of the biggest items of the Drain may well be said to have come to an end. All arms, weapons and equipment have yet, no doubt, to be procured from abroad, whether from Britain or any other country more advanced in such production. In proportion as the size and equipment of the Armed Forces on Land or Sea or Air increase, the need to procure all such material will also increase, and so also their cost. The bulk of the Indian Armed Forces being nationalised, the item of their pay and the allowance and expenditure on their clothing, food, or housing, remains in the country. It is no more than so much re-distribution of the country's wealth.

Until, however, the country develops her own Armament Industries, and produces all the manifold and complex requirements of modern armed defence within her own borders, the most serious item of the old time Drain will remain. We need, not only the Industries directly concerned with production of arms and warlike equipment of all kinds, that would stop this drain, but we must have all the ancillary and connected industries without which the coping stone, so to say, of the industrial structure will not be laid. Wholesale industrialisation of the country on a modern level is indispensable, as without it the War Industries proper cannot function. The volume and variety of such industries will have to be in proportion to the size of our army, navy, air force and their respective reserves. The Armed Forces of the country will need to be very much expanded, and reserves as well as auxiliary Services of all kinds raised in proportion if the defence of the country is to be amply assured. If the real burden, therefore, of the Defence expenditure is to be reduced, it can only be when the entire volume of such outlay, however large the figure, is merely a redistribution of the total wealth of the country whether in the shape of salaries or wages of the personnel, their pensions and other allowance, or in the shape of stores and **materials**, armament and equipment, needed for maintaining the Armed Forces of the country at the highest level of efficiency.

(c) Home Charges.

Another similar characteristic of the Public Expenditure under the British Regime was the so-called "Home Charges". In their aggregate, they constituted a serious drain. Part of this was due to the War Office Charges already mentioned, and part to the civilian items of pensions, leave and other allowances, Government Stores, Interest on Sterling Debt, and cost of the India Office. Most of these have now come to an end, or will soon do so. While they lasted, the "Home Charges" aggregated Rs. 40 crores per annum or more in the period between the two World Wars; and before World War I they totalled Rs. 20 to Rs. 25 crores. The disappearance of these charges does not mean a substantial relief to the Indian Exchequer. As many of the items coming in this category will remain a charge, though the money spent will remain in the country.

The disappearance of the Home Charges, or weakening of this Drain will also affect India's Balance of Trade and of Accounts. The surplus of exports over imports which India had to maintain to pay these charges need no longer be provided. This aspect of the question has been more specifically considered in the Volume in this Series dealing with Trade, and another with Currency and Banking, so that no more space need be wasted on it in this Volume. Note must be taken, however, of the continued need of India to-day to continue heavy Imports from abroad on account of Food and Capital Goods for building up new Industries, which for the time being make the usually favourable Balance of Trade adverse to India. Even the final Balance of Accounts of the last few years, after making full allowance for all debits and credits is adverse, because of the impossibility to realise our accumulated Sterling Balances, or any substantial portion thereof, so as to meet the adverse balance against India for the time being.

Of the other items that made up the Home Charges, Interest on Sterling Debt was the most considerable. Much of the Sterling Debt has, no doubt, been repatriated and converted into Rupee Debt during the War, as a result of the accumulation of large credits due to India for goods and services supplied to Britain in her hour of need. The Debt has only been converted into a corresponding Rupee Debt, and, therefore, the burden on the public purse has not lessened. The repatriation of the Sterling Debt was acclaimed by the supporters of the then Government as an act of great economy and farsighted Statesmanship. They overlooked or ignored the fact that this amount, which carried interest at 3½% or 4% would, if made available for investment in productive industry in India, have earned 10%, or much more. From that point of view the transaction meant a loss rather than a gain to India. And as for the Statesmanship implied in this deal, we can only remember that by converting the Sterling Debt into Rupee Debt, India lost proportionately the bargaining power she might have had if the conversion had not taken place. For the rest, what is of material importance in this connection to note is the transformation of the nature of this burden from a net drain from the country into a redistribution of that part of the wealth which is accounted for by the so called Interest Charges.

Stores Purchases from abroad will, no doubt, continue until the growth of the necessary Industry in the country is sufficient to provide all the required stores and equipment from our own production. Even though this item was reckoned as part of the Drain it was not a net loss. Some value was received against this outlay. The Pensions charge of British Civilian and Military Officers retired from Indian Service has been capitalised under the Agreement to settle the Sterling Balances. That item will remain in the Indian Budget, but its burden will no longer be the net drain it used to be; and its incidence would be progressively reduced.

The unproductive characteristic of India's Expenditure is also explained by the Interest charge which accounts for Rs. 61.82 crores out of a total Budget of Rs. 257.38 crores in 1948-49. It is customary to represent a part of this Interest Charge as being set off against income from productive assets built up out of borrowed capital; and in this way Rs. 25.66 crores is deducted on account of Railways, Post Office, Irrigation etc. The only productive assets that may correctly be said to bear their own burden of interest are the large-scale Irrigation Works, whose financial aspect has been noticed more than once in several other Volumes in this Series. The capital outlay on Railways, Posts and Telegraphs and other means of Transport or Communications are also taken to be selfsupporting. But neither of these two great Departments of State has always shown a surplus of revenue over expenditure or earning capacity equal to the outlay thereon. In fact, if a proper account were taken of all the capital outlay and income from the Railways, or the Postal Services, it is doubtful if from 1857 to date there would really be left a net surplus on their account.

Even if it be granted for the sake of argument or convention, that these are earning assets, and as such the Debt incurred on their account may be regarded as productive, there is a large slice of that Debt which is frankly due to War Charges foisted on this country by its connection with Britain. The unsupported Debt of the Government of India costs, in the Budget for 1948-49 is Rs. 36.16 crores; and almost all of that is a legacy of British Imperialism which has no countervailing element. It must, therefore, be pronounced to be wholly unproductive*

* Interest on debt and other obligations—Under the Indian Independence (Rights, Property and Liabilities) Order 1947, all liabilities in respect of such loans, guarantees and other financial obligations of the Governor General in Council outstanding immediately before the date of partition have been placed on the Dominion of India, subject to the recovery of an appropriate contribution from Pakistan. Provision has accordingly been made for the interest on all outstanding loans. In regard to the outstandings in respect of Post Office Savings Bank and Post Office Cash, Defence and National Savings Certificates it was agreed that each Dominion should take over liability for the deposits and certificates outstanding in its respective area subject to adjustments for transfers from one Dominion to another till the 31st March 1948. The provision made for interest on Savings Bank Deposits and for bonus on the certificates takes into account this decision of the Partition Council. Similarly it has been assumed that the balances in the Provident Funds of Government servants who opted for either dominion will be taken over by that dominion from the date of the partition. Similarly the provision for interest on Depreciation and other Reserve Funds and the recovery of interest on the capital

The item of Interest figures very substantially in both the Provincial and Central Budgets. It occurs also on the Income as well Expenditure side of the National as well as local Budget. Explanation has been given, while discussing Revenue in the earlier pages of this Introduction regarding the place of this item on the Revenue side. The Provincial Expenditure on the Receipt account may more justly be said to be self-supporting, as the bulk of Provincial Debt is in connection with building up productive assets, the income from which is much greater than the outlay on that account.

The component parts of the Public Debt and the analysis of the interest charge given below will give an idea of the proper place and importance of this item in the Public Purse of this country.

TABLE VIII

Interest on Rupee and Sterling Debt.
Budget 1948-49
(in lakhs of Rupees)

Gross Payments			
A. — Interest on Ordinary Debt		B. — Interest on unfunded Debt & Other Obligations —	
(i) Rupee Debt —			
a) Management of debt	27.50	Bonus on Post Office Certificates	3,14.05
b) Expenditure connected with the issue of new loans	5.70	Post Office Savings Bank Deposits	2,40.30
c) Discount written off to revenue	60.15	State Provident Funds	3,05.77
d) Interest on temporary loans	44.50	Service Funds	17.26
e) Payment of prizes in respect of 5 year Interest-free Prize Bonds	10.00	Railway Depreciation Fund	2,74.15
f) Interest on all other loans	43,97,77	Railway Reserve Fund	21.93
g) Other items	.30	Railway Betterment Fund	41.12
		Posts & Telegraphs Renewals Reserve Fund	16.67
		Other items	2,56.69
		Total	14,87.94
	45,45.92	Gross Payments	61,81,93

outlay of Commercial Departments allows for the reduction in the outstandings as a result of the partition. As mentioned earlier, a moratorium of 4 years has been given to Pakistan for the repayment of the partition debt and consequently no credit has been taken in these estimates for any recovery from Pakistan.

(ii) Sterling Debt—

a) Interest on loans contracted in England	19.44
b) Interest on Railway annuities	69.15
c) Interest on outstanding liabilities of Railway companies taken over on purchase	.32
d) Management of debt	.40
e) Other items	58.76
Grand Total	46,93.99

C. — Transfers —

Deduct — Amount transferred to —

Railways	22,52,81
Irrigation	.95
Posts & Telegraphs	96.84
Commutation of Pensions	10.00
Other heads	9.03
Provincial Governments	1,96.02
Total Deductions	25,65.65
Net Interest Payments	36,16.28

In the Budget of 1948-49, the total interest bearing obligations were (India and England) Rs. 2,23,071.

(d) Grants and Subventions.

A large space is beginning to be occupied in the Central Budget on the Expenditure side by what are known as Grants to special Institutions or Funds and subventions to Provinces. These items of Expenditure are primarily charged on the Provincial Purse. In order however, to enable the latter to develop more rapidly and intensively their Social Services and nation-building departments like Education, Health, Agriculture or Industries; and, further, to bring all units into line in regard to the general policy as well as to co-ordinate similar effort simultaneously made in several parts of the country, the policy has in recent years been evolved and applied more and more intensively to provide substantial grants from the Central Exchequer to specified institutions like the Research Councils, Road Fund, and so on; or to Provincial Departments in the shape of subventions to promote or maintain given objectives.

According to the Explanatory Memorandum on the Budget of the Central Government for 1948-49 the total of Developmental Grants from the Revenue Budget is 10.77 crores. While that from the Capital Budget is 89.50 crores. The more important items in the former are:—

TABLE IX

Provision for Development Expenditure

(Important items)

A. Revenue Budget (in lakhs of rupees)

Meteorology — Development Schemes —	40.00
Grants-in-aid to the Engineering & Technological Institutions	25.00
Grants-in-aid to the Indian Institute of Science, Bangalore	59.70
Education — Non-recurring grant to the Delhi University	22.19
Aviation — Development Schemes	1,69.25
Broadcasting — Development Schemes	30.42
Civil Works — Maintenance of National Highways	2,50.00
Resettlement and Development. Resettlement Expenditure in connection with Medical College and Hospital for licentiates in Calcutta	23.89
Resettlement & Development	
Assistance to Aligarh and Benares Universities for establishment of Medical College	20.00
Grants to the Delhi Rural Health Organisation, construction of wings in the Irwin Hospital, etc.	36.80
Advanced studies abroad	29.21

and the important items in the Capital Budget are:—

B. Capital Budget

(in lakhs of rupees)

Capital Outlay on Development	
Irrigation. Assam Valley Project	20.41
Civil Works — Buildings and Roads	2,08.12
Communications (National Highways)	6,23.29
Grants to Provinces	30,00.00
Capital Outlay on Industrial Development	
Fertiliser Factory	6,59.80
Industrial Finance Corporation	1,00.00
Capital Outlay on Civil Aviation	
Civil Aviation	4,08.84
Capital Outlay on Broadcasting	
Broadcasting	69.71
Interest-free and Interest-bearing Advances	
Loans to Provinces	32,00.00
Loans for Grow More Food Schemes	2,00.00
Loan to the Damodar Valley Corporation	2,00.00
Loans to major Port Trusts	1,40.00

The comparatively large grants or subventions on account of agriculture, education, health, scientific and minor departments in the Central Purse should normally come under Provincial Budgets only. They are at present very much increased, and will continue to be so for a considerable number of years to come, if the new spirit of active and intensive development of all available resources in all parts of the country continues to grow. This, it may be remarked in passing, is an important feature which must figure very prominently and extensively in an overall National Plan if and when one is prepared and put into force.

B. (Provincial)

The general characteristics of Provincial Finance follow the main lines sketched above with reference to the Central Finances. There has been a rapid and substantial growth in the aggregate Expenditure of all the Provinces in the last decade, as shown by Table VII given earlier. But the financial position of every Province during the last 10 or 11 years has not been one of equal progress and prosperity. Provinces like Bengal have had reverses from the effects of which they have yet not escaped. And the recent rise in prices and the consequent increase in the cost of administration has very materially reduced the favourable margin which Provinces like Bombay have shown during the War years.

Details of some Provincial Budgets for 1946-47 are given in the Table annexed. They will serve to show that the most important items of provincial expenditure are of course the Social Services and Public Utilities. In almost every one of these the previous regime had shown culpable indifference. A heavy lee-way has consequently come as a legacy to make up which very heavy expenditure must be undertaken in the coming years if the country is to be brought to a level worthy of a civilised community. It has been computed, for example, that in the Department of Public Education the aggregate of the present national outlay is some Rs. 35 crores, which provides a very limited instruction in the rudiments of education to some 15 million pupils. On a modest basis of a 15 years Plan, within which to bring basic education to every child in the Community of from 6 to 14 years of age, will cost in the 15th year some Rs. 350 crores; while even in the initial years of such a Plan the cost would be very much higher than to-day. The same applies to health and other social services.

Adequate and progressively expanding resources must, therefore be found to meet these unavoidable demands upon the Public Purse. Grants or Subventions from the Centre would not only be inevitable; they would have to be much more considerable than to-day, besides substantial increases in the Provincial Resources. No curtailment or reduction of the programme now being prepared and given effect to in these Departments can be permitted, no matter how rigorous the urge for Retrenchment, and how insistent the need for economy.

These Departments, moreover, must be made integral part of the National Plan and their development and expansion must be made a **sine qua non** for the realisation of the entire Plan. Whatever restrictions and limitations have to be imposed on other items of consumption, these must be liberally treated, as their development would indirectly raise the standard of living of the people, which is a primary objective of the Plan.

This does not mean, indeed, that in reordering the Public Finances of the country, we must ignore all demands of economy. But there is a distinction between true economy, in the fullest and the best sense of the term, and mere Retrenchment, which is apt to confuse cause with effect, and apply the axe at the wrong root. The overall Plan, giving the fullest importance to these Social Services and Public Utilities, would, at the same time, recognise all the legitimate claims of real and lasting economy. It would sacrifice neither efficiency nor objective, and yet achieve the highest return for every rupee spent. Those in charge of the Financial Sector of the National Plan will, accordingly, have their task cut out for them, in trying to reconcile these seemingly incompatible demands of the programme for intensive development and the limit imposed by available resources.

VIII. Economy and Retrenchment.

A clear distinction must also be drawn between Expenditure on the Social Services proper, as well as the material, apparatus or equipment needed to make the Service the most efficient possible; and the purely administrative machinery required to provide, maintain and control these services. The cost of administration, including Police and Jails, Law and Justice, as well as the higher paraphernalia of Government, is proportionately very high in this country, thanks chiefly to the precedents and traditions of British Government in India. Compared to the wealth of the people, the public service in India particularly in the higher grades was the costliest in the world. The alien rulers of India conceived the opportunities for employment available to them in India in the various departments of the public service as so many means or avenues of exploitation rather than as occasions for rendering a fair return for the employment and emoluments provided. They therefore, not only laid down extravagant scales of remuneration for a very mediocre type of work; but also invented or designed a number of occasions or excuses for additional allowances far beyond the ability of the country to support them, and out of all proportion to the service given. The new rulers of India, being native to the soil themselves, and fully realising the extravagant scales of remuneration for public service, will have to review fundamentally the scales of pay and emoluments allowed to administrative officials. Mahatma Gandhi's ideal of no post carrying more than Rs. 500 per month has been abandoned long since even by his foremost disciples. But even if that is impracticable or undesirable a limit, the top layers of income being a hundred or thousand times higher than the average per capita income, must be open to serious criticism. The Report of the Pay Commission (May 1947) was framed too near the Transfer of Power from the British to Indian hands; and under conditions of a steadily rising price-curve, to be a fair presentment of the wages of public service in correlation to the wealth of the country, or the average income of its citizen. A correct, scientific adjustment is necessary, a scientific approximation needed between the service rendered and the remuneration earned, and that in its turn must be in proportion to the standard of living of other classes of citizens not directly in the public service. If, as envisaged in this Series, the National Plan results in a progressive socialisation of all Services, Utilities and major Industries, the extent of Public Service would be far larger than is possible to conceive in a social system founded on private property, and the profit motive. The model of public employment would be universalised, and so the proportion between public salaries and private gains would be comparable. Other items of Public Expenditure would have similarly to be reviewed and reordered, so as to eliminate every opportunity for extravagance or waste, every excuse for inefficiency, and indifference. The evil of corruption in public service is also on the increase. Government is alive to its mischief; but so long as there are profiteers and black marketeers who can afford to give bribes, so long as there is chance of a better paid employment to public servants outside Government service, this evil of increasing dimensions and widening repercussions would be difficult to check and still more difficult to eradicate.

Another new development in the Public Expenditure of India may also be taken note of, though, in its origin, it is more a constitutional and political question than an economic problem.

The integration of several Indian States into existing Provinces, or the combination of other States to form unions amongst themselves, which, when formed, become new provinces, raises serious questions of fiscal policy and financial reorganisation which have yet to be considered and settled. This would perhaps be more fit to discuss in the Summary of Developments at the end of this volume; it is mentioned here, as, up to the moment of writing, no decision has been taken. The matter is under consideration, and accordingly only those aspects of it can be laid out here, which are germane to the main objective of this Series.

Before August 1947, administration in the States was, in most cases, far behind the corresponding level of progress or efficiency attained in British India. As noted above, in many Departments of social service, public utility, or economic development, the Provinces themselves differed widely **inter se**, and the best of them showed a very poor level compared to other progressive countries of the world. The States were, speaking generally, far behind even the most backward of the Provinces. The result is that even in the most advanced of them, considerable lee-way needs to be made up; and that would involve additional expenditure without any adequate or corresponding resources.

Wherever the States have become integrated with existing Provinces, as in Bombay, the Provincial Purse would have to meet the strain far more than the National Purse. On the other hand, States which have formed new Unions of their own, and which are now regarded as on a par with other Provinces, will, after pooling their resources, find their standard of efficiency in administration, of social service, public utility, or economic development so far behind their neighbours, that either their present resources would have to be very much extended, or far more substantial grants would have to be given them from the Centre. In a Federal Union of equal members, it would be intolerable that some are more developed than others, more progressive, more resourceful, so that they would for ever continue to keep ahead of others; and the latter would go on lagging behind. On a historic occasion Lincoln said that a nation cannot progress which is half slave and half free. We may adopt the profound truth of that observation by remarking that, after accession, assimilation or integration of the States with the rest of India, they cannot be suffered to remain backward and undeveloped.

The Central Revenues would certainly benefit to the extent that some of the Central Taxation, which has so far not been applied to the States territories, like Income Tax, will now apply there also directly. On the other hand, whether or not any State Budget shows a surplus, considerable charges would have to be added on account of the Civil List of the Rulers. They have been promised to all the pre-Union and now mediatised Ruling Princes whose States have now become part of the Union of India or any Provinces thereof; and they are exempt from Income Tax. Whether the probable increase in revenue from these territories would be equal to increased obligations particularly in regard to making up the deficiency in the Social Services, Public Utilities and all round development of these areas, may be open to consideration. The chances however, are that for years to come, until the inherent resources and potentialities of these new additions to the Indian Union are fully explored and properly developed, the increase in Expenditure on their account would have to be much greater than any resources obtainable from that source.

There is a distinction, from the point of view of juridical position which reacts on Public Finance, between the territory and population of the States and those of the Provinces. There are still States which have not become integrated with the rest of India, or formed Unions to become new Provinces, and as such equal if not integral parts of the Union. Large States like Mysore, Travancore, Cochin, Kashmir, Baroda, Bhopal, Bikaner, Jodhpur, Jaipur, still remain distinct units by themselves. They have acceded to the Union of India only for the purposes of Defence, External Affairs, and Communications; and the finances necessary for those. The place of Hyderabad has yet to be determined, while a State like that of Cutch has been formed into a special Territory, directly administered by the Centre. For its financial resources, economic development and administrative efficiency the Centre would have to be responsible. For these States the problems of conflicting interest or jurisdiction and over-lapping sources of Revenue and Expenditure may still be important, especially in regard to Income Tax, Railway Receipts, Excise Revenue, and the like. Their existing Treaties, Agreements, or engagements regulating these matters would have to be revised consequentially upon the new set-up coming into force. Their relations with the neighbouring Provinces or States will also have to be similarly revised and reconditioned; and the financial consequences arising therefrom would have to be considerably adjusted.

These areas, though backward today in regard to all the matters mentioned above, have resources and potentialities of their own which make the future far more promising than in the case of some of the more advanced areas. With the integration, assimilation or co-ordination of these States with the neighbouring units, the problem of planned development and responsibility for the entire Union, including the Financial Sector, would be much easier to discharge. In the past the States existing as distinct units, each by itself, independent in its local governance, made their own plans or programmes that might by special agreement be linked up with neighbouring areas, they might quite conceivably become proportionately difficult in so far as their interests did not coincide. That danger will now be obviated by the latest developments and the finances of the Union more simple to administer. To that extent also it would be easier not only to prepare an overall comprehensive National Plan; it would be simpler and more effective to carry it out.

IX. Use of Credit—National and Local—Its use and abuse.

The use of National Credit as an active instrument of achieving within predetermined stages social progress and economic development has hitherto been very much limited. The figure given elsewhere in this Introduction of the volume of Public Indebtedness is no indication of the potentiality of a proper development and economic use of this weapon. Taking the total indebtedness of the Central and Units' Governments at Rs. 3000 crores and without making any deduction for such assets as the accumulated volume of Sterling Balances, the ratio of the Debt is half the total National income of the Union at the present price level. The Interest charge on account of this Debt is about a tenth of the total Central and Provincial Revenues under existing conditions; so that the burden of Debt, and the incidence of Interest on that account cannot be said to be excessive. It is rather the wasteful or unproductive occasion for that Debt which is open to criticism; and if that is changed, and public credit used to develop potential resources actively the existing volume of Debt and the burden it imposes would be of no great significance.

Much of the borrowing, as has been pointed out, which was done during the British Regime, was for unproductive purposes of War, or meeting sudden emergencies like nation-wide famines, or grave calamities, like wide-spread earthquakes. Some productive assets are said to have been built up out of borrowed funds. Those assets are claimed to be self-sufficient in the matter at least of Interest Charges, like the Railways, the Postal Services and the Irrigation Works.

But the net surplus derived from these sources from their commencement to August 1947, the entire period of British Rule in India, was very slight, if any at all. These assets, moreover, were more services and facilities than productive enterprise proper, making direct addition to the sum total of the National Wealth. A programme of active development of Mines and Minerals, of Forests and Fuel, Electric Energy or large Industries of nation-wide importance, not to mention complete reorganisation of our agrarian economy, which would add substantially to the available volume of employment and also to the total wealth of the country, was scarcely ever considered as suitable for the State to attempt. That policy remains substantially unchanged still, though radical modification is inevitable. Even today such excursions as the State makes in the domain of economic development are confined largely to granting fiscal protection, service concession, facility or aid, trade agreements and expert advice and sometimes provision of capital or guaranteeing return. Enterprise remains largely in private hands, under private initiative and governed by the profit motive. Such enterprises as are taken up directly by the State, under the Central or Provincial Government, or a specifically established Statutory Corporation, are conditioned and limited in every respect, so as the least to interfere with or encroach upon private enterprise. The prospect, therefore, of deriving any net surplus from the State enterprise of to-day confined to public utilities and services, is limited. Even such new features as the production of telephone apparatus, air craft manufacture, or ship-building or operating shipping services are either jointly with private enterprise or left to private Corporations to manage, so that the fullest development possible to be realised from these sources remains untried. In a full-fledged National Plan of all round development, the role and use of public credit would have to be very much more direct and active.

On the Provincial plane also the use of Credit as a means of local development, is likewise restricted. Several Provinces have in recent years raised Loans of their own, and considerable volume of Indebtedness has been incurred largely in developing particular Services, providing facilities, or enabling ex-service men to be re-absorbed in the normal life of the country. Most of the Provincial Plans have definitely been made with a view to facilitate re-settlement of ex-service men. New wealth production or economic development that is expected under these Plans is incidental rather than intentional. Any programme of new wealth production by direct Provincial or Municipal enterprises is practically unknown.

Without complicating this Introduction any further by consideration of Constitutional or Political issues involved in the use of the National Credit as an engine of economic development, it may yet be stated that unless and until the entire Credit Machinery, including the Banking Service of the country, its instruments and technique are socialised, and used with a view to develop actively the potential resources of the Centre or the Units in farms and forests, factories and fisheries, mines and minerals, that instrument would remain, comparatively speaking, useless and barren. In every region, there is infinite scope for the active use of Public Crdit, and equal occasion to employ that instrument. Any comprehensive and consistent National Planning will have seriously to consider this problem of using National Credit as a means of active, direct economic development of the known, as well as of yet untried resources of the country, without which the fullest benefit of successful National Planning would not be available equally to all regions and classes of the country.

After this review of the Public Revenue and Expenditure as well as the potentialities of Public Credit, it is unnecessary, even if it were feasible, to present **pro forma** Central and Provincial Budgets in conformity with the main principles developed in this Introduction. As the Interim Report of the Sub-Committee points out, greater and greater attention would have to be paid to the development of new sources of revenue mainly from a proper development of Public Enterprise in productive sectors of our national economy, if a comprehensive National Plan for all round and simultaneous development of material as well as cultural resources of the State is to be prepared and executed. The Budgets of the local units and, still more, of the Union, would have to find more and more resources. It must provide, at the same time, for more and more expenditure on liabilities that a modern, progressive civilised community must shoulder. Properly handled, this would add to the sum total of the National Wealth, and at the same time improve the individual's standard of living, which must always be regarded as the primary aim of a scientific National plan.

X. Finance and Planning.

Immediately after World War II had ended, and a beginning was made in the transfer of power by setting up an Interim popular Government, the task of preparing a National Plan was taken in hand. A Planning Advisory Board was appointed to scrutinise the Plans already put forward by the

Central and Provincial and State Governments as well as non-official bodies and individuals; to recommend a scheme of priorities in the various items of those Plans; and to suggest a suitable machinery to administer the National Plan when finally prepared and put into operation. On the financial side that Board had estimated a surplus of Rs. 500 crores available in the Central Purse for aiding the Provinces in carrying out such Plans as they had prepared and were approved by the Central Government. Some of the Provinces had also built up their own resources from the spurious prosperity of war-time finances. The Indian States were then not integral parts of India. No account was accordingly taken of planned development in their territories or the financial assistance the Central Government would have to afford or liability undertake on account of those units.

Since August 15th, 1947, however, the States have either acceded to or been amalgamated with existing Provinces; or formed Unions of their own to rank as Provinces, and become equal units of the Union. The responsibility, therefore, of the Union Government for providing financial assistance is much greater, notwithstanding the Partition of the country into Pakistan and Union of India.

Within three years, however, of the end of the War any prospect of a substantial surplus in the Central Government has disappeared; and heavy and recurring deficit has become the order of the day. The Centre has had to face extraordinary emergencies, and meet proportionate demands on its purse; while the units have begun their onward march to make up the lee-way in those essential services and utilities without which no community can be called civilised. Existing sources are, consequently strained and new ones are hard to devise. Recourse to borrowing or creating currency becomes inevitable simply to meet current deficit. The additional responsibility on account of the integrated, assimilated or acceded States, makes the task still more difficult.

Unproductive borrowing which has added substantially to the Note Circulation, has introduced another complication in the shape of inflated price-level for such Plant, Machinery or Equipment as may be needed to give effect to the Plan. The increase similarly in the wages, salaries and allowance of Public Servants, or wage-earners in general engaged in carrying out the programme of industrialisation and planned development of every part of the country, makes the capacity of the Central or Provincial Governments to provide from current resources the aid or subsidy or the necessary finance for direct State Enterprise, wherever undertaken by the Centre or any Unit, more than ever difficult.

Under these circumstances, the discovery, nursing and improvement of additional sources of revenue is much more important than would suffice just to cover current budget deficit. This will not be satisfied by merely increasing the rates of existing Taxation, as such an increase will not bring corresponding returns, and yet mean a disproportionately heavy burden on the taxable capacity of the people concerned.

The development of productive State enterprise which will bring real additional revenue will also take time. These enterprises, during their initial stages, would be rather a liability than an asset to the State. Expansion, improvement and extension of the Services, or Commercial Departments already conducted by the State in India, will thus become the first field for State initiative and plan. The foundation must be laid for such development as soon as possible. This can, however, not be done until the new Constitution is finally passed and put into operation. The linking of Provincial or Unit finances with those of the Centre, and co-ordinating the entire machinery and its activity for a planned development, would have to follow necessarily the distribution of financial resources and obligations as between the Units and the Centre.

K. T. SHAH.

INTERIM REPORT OF THE PUBLIC FINANCE SUB-COMMITTEE.

The Sub-Committee of the National Planning Committee appointed to consider the subject of Public Finance, had discussed certain specific issues and propositions embodying the sum total of the subject referred to above, and decisions were taken on these by the Sub-Committee, in a series of meetings held at Allahabad early in January 1940. These decisions have formed the basis of the Sub-Committee Report, the individual decisions being briefly expanded so as to bring out the idea more clearly wherever necessary.

The lack of time at the disposal of the Committee due to the demand of the National Planning Committee that all Reports of Sub-Committees be submitted, at the latest, by the 15th of March, 1940, is mainly responsible for the Sub-Committee's inability to present a more elaborate Report. But the Sub-Committee trusts that the interim report as this document may well be described will serve its turn for the purpose of preparing the outline of a comprehensive plan, such as is contemplated by the National Planning Committee.

It may be added that the Report deals with the several divisions under which the subject of Public Finance is usually treated, that is to say, Public Expenditure collectively for the whole of India, including the Central and Provinces' expenditure revenues to meet this expenditure; distribution of resources and obligations as between the National Authority and that of the constituent parts, and the use and mechanism of public credit.

I. Expenditure.

1. In the present system of Public Expenditure there is considerable room for retrenchment by means of

   (a) Reconsideration of the governing policy regarding nature and object, strength and equipment of certain services like Defence or charges in connection with public debt. For instance by converting a more costly loan or form of debt into a less costly one. But this means the aggregate amount payable in a given number of years, as well as on the whole, may be reduced and the process results in substantial savings.

(b) Reduction in the scales of rates of pay, pensions, and allowances to Public Servants, in all departments, in the higher ranks. A considerable saving can be effected in this behalf by scaling down all salaries of public servants over Rs. 500 per month, if a maximum limit is fixed in respect of such salaries for all departments and ranks of public services. The sub-Committee would also like to add that, in conformity with the basic principles of the Plan, and in mere fairness to the large army of the lower paid public servants, a minimum living wage will also have to be fixed in all departments and ranks of the public service, if the plan is carried out in conformity with the principles indicated in the Hand Book of Information. This army of public servants will have to be very much increased in number and variety. The aggregate amount of expenditure, therefore, on this account will, on the balance, not show any deduction, but quite the reverse.

(c) Revision of the basis for fixing the strength and requirements of Public Service in each department, and for leave rules, particularly in the higher services.

2. All savings effected by revision, reduction of retrenchment are likely to be more than absorbed by

(a) Extending and widening the scope, direction, and volume of existing Public Service, including national defence.

(b) Increase in the number, variety and intensity of public activities. The Sub-Committee would mention in this connection the obvious necessity of increasing the volume as well as variety of **education** now provided. If every child of school-going age in the country is to be brought to school, and is to be kept there, for a prescribed period of six or seven years at least, as a fundamental right of citizenship, the strength and calibre of the Educational service would have to be increased out of all proportion as compared to the existing conditions. If a further increase is effected in numbers, and subject to the provision of a minimum living wage for all members of this Service, the aggregate expenditure on this account would be very considerably increased. All this expenditure would have to be borne by Government, as, under the system of planned economy, little room will be available for private enterprise to assist in this field. The same may also be said of other Social Services, such as, Health, Recreation, etc.

(c) Improvement of the basic minimum pay and conditions of service of the lower subordinate staffs.

3. For extending, widening, or increasing the scope, volume, or number of public services or activities, definite norms will have to be laid down by the Planning Authorities, and finance would have to be provided in accordance with the same, with due regard to economy and efficiency.

4. In Public Utility Services, though commercial principles may not be applicable in all cases, a thorough-going check and control by way of efficient audit is indisputable in regard to all items of expenditure. By this the Sub-Committee would convey that the Audit Department should not only see that due authority is available in regard to every item of expenditure incurred, while checking the accounts of all departments, but also that full value is received for every pice spent from the public funds. The Audit rules and the Audit Service will accordingly have to be completely and radically reorganised.

5. All items of expenditure, whether old or new, must be carefully correlated in advance with the purpose and programme of the Plan, and be made an integral part of the plan.

6. Items of expenditure of a reproductive character, or capital investment in utilities, services, or agricultural, industrial or commercial enterprises, must be kept apart from those of recurrent expenditure or revenue outlay.

7. In all cases of capital investment made out of borrowed funds, adequate provision must be made from the start for a complete liquidation of the obligation incurred, including interest and the replacement or renewal without incurring fresh obligations on that account, of the plant, machinery, stock or buildings requiring such investment, within a definite period. This implies that the loan out of the proceeds of which such an investment is made is to be liquidated during the prescribed period from the revenue of this undertaking. Adequate provision should also be made, by way of depreciation, for replacement or renewal of the plant, machinery or buildings, required for such undertakings. Needless to add that, while liquidating the loan, the interest due from time to time on that amount would also have to be paid out of the revenues of the undertakings.

8. No interference should be allowed with the provision made under the preceding head, and no transfer or borrowing

permitted from this account to meet current losses or deficit in the ordinary Budget.

9. Exception may, however, be made under specific rules, to allow borrowings from these Reserve, Replacement Sinking Funds, for capital investment in the extension or expansion of the same utility, service or enterprise, or for a similar purpose in cognate utility, enterprise or service, provided that full provision is made for the repayment and liquidation in full of such loans within a definite predetermined period.

10. In allocating items of Public Expenditure, every care must be taken that as far as possible all items of nation-building, service-rendering and wealth-producing character are entrusted to the Provincial Governments and sources of revenue including the right to borrow, adequate for these purposes assigned to them.

11. When Provincial Governments delegate to the Local Authorities under them, functions and assign sources of revenue, they shall do so under proper financial and administrative control.

II. Revenue.

12. The aggregate volume of Public Expenditure—national, provincial, and local—collectively as well as severally, would have to be very considerably increased in order to meet all the requirements of the Plan. Revenues would have, therefore, to be increased proportionately.

13. For the effective execution of a comprehensive plan, it would be necessary to increase the contribution from the several forms of Public Enterprise, including a thorough exploitation of the Public domain in lands, mines, forests, and the like, so as increasingly to supplement the revenues derived from taxation, direct or indirect.

14. The production and supply of all Utilities and services, which are of a national character, and possible to make into public monopolies, should be carried on by the Public authorities; and the net surplus, if any, derived therefrom be appropriated as current revenue. In this connection the Sub-Committee would point out that the interest of consumers of each service or utility should be duly taken into account, particularly by the monopolist undertakings. The monopoly, it need not be added, is likely to increase the net surplus, as well as the gross receipts, by reducing charges so as to provide for wider and wider demand.

15. Industries concerned with the provision of the main plant, machinery fittings and basic raw material, for the pro-

duction and supply of these utilities, and services, should also be conducted as collective national enterprises.

16. All key-industries ("mother" industries, or those vital to the existence of the country and its defence) should be progressively nationalised, in so far as they exist to-day under private enterprise. In future they should be undertaken directly by the State, and administered by a statutory corporation created for the purpose. Industries which are already established under private enterprise, must be acquired by the State, and turned into a nationalised enterprise, subject to such compensation to be paid to the present owners of that enterprise as may be deemed just and proper.

17. Nationalisation of any industry, utility, or service, at present in private hands, should be accomplished allowing a reasonable compensation to the existing private owners.

18. There is room for considerable extension, expansion, and improvement in the production and supply of utilities and services now conducted as national monopolies, e.g., communication or transport services.

19. Without sacrificing entirely the ideal of service to the largest number at the lowest cost, these can nevertheless be made to yield a net surplus, or profit, because of the economies possible under large scale production and efficient management in all round co-ordination. The rates, fares or charges should accordingly be so framed as to permit of a profit or surplus consistent with the rendering of as large a service at as low a cost as possible.

20. For the full consummation of the complete plan, direct taxes on Incomes or Excess Profits, or on property like Estate Duties, Death Duties, Land Increment values, should be developed by increase in rates on a steeply graduated scale. The principle of Differentiation in the rates charged as between earned and unearned income will have to be accepted.

21. Income from direct taxation on income, Excess Profits, and inheritance taxes should be assigned to the provincial governments as far as possible, but should always be levied and administered by the Central Government on the advice of an inter-provincial committee, subject to a right of surcharge by the Central Government to meet specific emergencies.

22. In a comprehensive plan, Land Revenue should everywhere be replaced by an agricultural Income-Tax, with proper safeguards for exempting a basic minimum and providing a graduated scale of taxation. It must be a wholly provincial source of revenue.

23. Taxes on House property, or Urban land, on Trades and Professions, and License Duty should, ordinarily, be assigned to local authorities.

24. All customs and Excise Duties should be assigned to the Central National Government exclusively.

25. Adequate Provision should be made for relief of Double Taxation within the country itself, as between units and units, and a unit and the Centre.

III. Credit.

26. Adequate credit facilities must be placed at the disposal of every governing authority—local, provincial,—to facilitate their undertaking productive enterprise left in their charge, with proper regulations for the safeguards of public credit. The Sub-Committee would add that for this purpose, a National Investment Board, must be established, through which alone, public borrowing for such purposes as may be indicated in the plan may be undertaken.

IV. Accounts.

27. Independent Audit for the Accounts of all governmental bodies and statutory corporations should be provided. in addition to local and internal audit.

MINUTE OF DISSENT BY MR. A. D. SHROFF TO THE INTERIM REPORT

Bombay House,
Fort, Bombay.
13th March 1940.

K. T. Shah Esq.,
Chairman, Public Finance Sub-Committee,
The National Planning Committee,
Bombay.

Dear Sir,

I have to acknowledge receipt of your letter of the 11th instant with a copy of the Interim Report prepared by you in consultation with the Honorary Secretary of the Sub-Committee.

2. I regret my inability to subscribe in substance to this Interim Report. As I could not be present at the Meetings of the Sub-Committee held at Allahabad on the 2nd, 3rd and 4th January, 1940 at which the main propositions embodied in the Interim Report were discussed and agreed to, it is not possible for me to share the responsibility for these decisions.

3. I may, however, outline in brief my considered view on some of the propositions in the Interim Report.

4. It appears that the underlying basis is the adoption by the State of a policy of nationalisation of industries in the country. I have consistently felt that the adoption of such a policy, except in the limited sphere of what may be described as Defence Industries, would be most detrimental to the main objective of the National Planning Committee, namely, to work out a well-thought-of plan for a rapid industrialisation of India with a view to raise the standard of living of the crores of men and women living in the country. I am afraid the recommendation of a policy of nationalisation will only result in severely discountenancing men of enterprise and means to undertake any further industrial ventures. This, in my opinion, would be particularly deplorable as, whilst in actual practice the ultimate effective implementation of this policy might not fructify for many long years to come, even the hope of a gradual promotion of new industries and expansion of the existing units is more likely than not to be seriously checkmated by a very natural fear that the State might in time intervene and deprive those who show initial enterprise and risk

their capital of the benefits which should rightly accrue to them.

5. Under the heading "Expenditure" 1 (a), it is estimated that "substantial savings" could be achieved by conversion of costly loans into less costly ones. A close examination of the outstanding loans which form the public debt of India does not justify this estimate. On the other hand, I should expect a very substantial increase in the borrowing rates, both for Central and Provincial Governments, if the policy of nationalisation is to be adopted and if both these Governments are in future to extend those social services like free and compulsory education, larger and wider medical and hospital facilities, health insurance etc. which are so badly needed for the general uplift of the vast masses of this country.

6. Under the heading "Revenue", item 21, the Interim Report suggests that income from direct taxation on income, excess profits and inheritance taxes should be assigned to the Provincial Governments as far as possible. I am unable to see how the Central Government would ever be able to balance its Budget in India if this suggestion is accepted.

7. I submit that in the enunciation of the various propositions embodied in the Interim Report very little regard appears to have been paid to the practical implications of these propositions, and I feel that a more detailed examination of these propositions in the light of practical test that may be applied to them will reveal the necessity of modifying them to a very considerable extent.

Yours sincerely,
Sd. A. D. Shroff.

MEMORANDUM FOR CONSIDERATION FOR THE PUBLIC FINANCE SUB-COMMITTEE

By

PROF. K. T. SHAH

It is impossible to give any similar account for the principal States in India, though it may be said that their revenue and expenditure contain most of the items on both sides mentioned above. The aggregate revenues of all the States of India have been estimated at about Rs. 60 crores and the expenditure is more or less equal.

Of the items of expenditure contained in the revenue and expenditure account as given above:—

(a) Those, which may be described at all of a nation-building character relate to Education and Health, Agriculture and Industries, Public Works, including Roads and Railways, Irrigation Works and the Post Office with all its services of telephones, telegraphs, parcels, etc.

(b) Of these, Railways, Post Office and Irrigation Works may be regarded as of a self-balancing character, and may be regarded as capable of considerable expansion by improvement in the services provided for them, and consequently, without any increase in the rates. If the rates are increased, though the expansion may be greater, there is always the danger of the demand falling off in a monopoly service when the monopoly adjusts the prices to suit its needs of a surplus, rather than to suit the principle of rendering the maximum of service without loss.

(c) Of the items which may be regarded as of a wasteful, unproductive nature, the most considerable is that of the Army or Defence Services. Certain branches of general administration,—particularly in the higher services, with their excessive scale of salaries and allowances including pensions payable to the personnel, often Foreign, engaged in such Services, may also be considered as being, essentially, of the same kind.

This does not mean that in a self-governing independent India, there would be no such items at all. All that it means is that the charges on such heads should be so revised as to bear a reasonable proportion to the ability of the Indian people, and the value of the service rendered.

(d) Items of a reproductive character included in the foregoing list are very few in number. They may be said to consist in the development of Railways, of Irrigation Works, and such expenditure as that on the Reserve Bank, Forests and the like. All these may involve considerable present investment, if an intensive policy of developing the national resources is undertaken; but they may well be calculated to yield, in course of time, a handsome surplus after meeting all current charges and so make a return more than equal to the investment made to it.

With the object of helping in the task of nation-building, and developing the resources of the country all-round, it may be desirable to develop particularly certain items of public expenditure like those on Industries, Health or Education, Irrigation or Roads, Forests or Railways, Post Office and Reserve Bank.

At the same time it would be desirable to discourage or reduce expenditure under the head on Defence Services, as well as in regard to the scales, grades, or rates of salaries and allowances in all public services in all departments, which may be considered to be of an excessive character.

We repeat that it is not intended that these items of expenditure will not exist in the planned economy of India, or will not be increased. All that is intended to be conveyed is that these are items which would need to be revised so that each individual item of cost is in conformity with the ability of the people, as well as in proportion to the value derived therefrom.

As regards the expansion of some other items, which need to be considerably developed with a view to bring up to a minimum standard the scale of living within the country, we consider it absolutely necessary that the following items, at any rate, should be expanded progressively, so as to reach within a prescribed period (say of ten years) a standard mentioned. These items are, Education and Irrigation, Industries, Transport and Communication Services, Insurance and Banking, and, of course, Agriculture in all its branches.

So far as Education is concerned, the governing principle must be that the basic minimum of education must be provided free of cost to every child born in the community, and of the age period 7 to 14 or 15. On this basis alone, the present volume of expenditure on Public Education would have to be increased, at the least to about 3 or 4 times the present volume.

The increase would not merely be in the numbers at school, but also in the length of the compulsory school period, as well as in regard to the number of teachers, and their standard of remuneration needed for an efficient discharge of this duty. With all possible economies, this would necessitate a very considerable increase of the present total expenditure on education from all sources, to perhaps three times the amount now being devoted to that purpose, if not more.

Incidentally, the scale of teachers' salaries, the number of teachers employed, the number and distribution of the school buildings, their equipment, etc., would also require considerable expansion, not only of the expenditure incurred by the State directly, or through its representatives—the local bodies,—but also of the industries connected with the supply of such requirements.

The total increase will take place only after 10 or even 15 years; but a rapidly progressing increase will have to be provided every year.

The same may be said with regard to health services, including hospitals, sanatoria, nursing homes; and the personnel needed for the same, including doctors, nurses, and the like; as also the apparatus, instruments, drugs and medicines required for the service. The present outlay, both in the Provincial and the Central Governments on the health services of the country, will thus have to be expanded so as to provide at public cost all necessary care of health in every unit of 1,000 people.

It is difficult to say how this increase would show itself in figures; but we may take it that, as in education, so in this case, the present outlay would have to be doubled or trebled at least, not withstanding all economies that may be carried out with a rigid hand, in regard to the scale of pay, the grades of services, the number and nature of allowances, etc.

The same may apply, in greater force most likely, to the other developmental expenditure listed above.

The definite extent to which such services and expenditure thereon would have to be increased must be laid down in advance by some determinate objective, e.g. the provision of a Basic Minimum Education for 7 years, compulsorily and free of cost, to every child born within the community, and within a period of ten years from the date that the Plan comes into effect. If such objectives are definitely laid down, in regard to health, transport, communications and other amenities or comforts of civilised life, it would be relatively easy to indicate the volume of increased expenditure in the aggregate necessitated in the enforcement of the Plan.

Expansion in the Defence and other associated services may also be needed by a self-governing and independent India, but the extent and nature of such expansion, it may be difficult to forecast at the present time, when the existing scales of grades, and rates of pay provide no model whatsoever on which calculations may be based by a free India.

The extent of development in the particular branches mentioned above, which we regard as of a nation-building character, or in which substantial improvement of the material resources of public utilities is involved, would be so considerable that it is impossible to accomplish this by mere readjustment, reduction, and retrenchment in the present expenditure.

As far as we can foresee, at present, if all the developments were carried out as per Plan, upto the extent we have indicated in each case above, the present aggregate Budget of the country including the National and Provincial Governments, the States and Municipalities or local bodies, running into something like Rs. 400 crores, will have, at least, doubled though not necessarily by and for the same authority; but will be distributed all over the country.

Four hundred crores may represent something like 20% on the total present annual wealth or production in the country of about Rs. 2,000 crores; and Rs. 800 crores, with the national wealth increased by at least twice its present volume,—and still more, perhaps in its present ability to satisfy the primary needs of the people,—would mean a much less burden in effect, than the same proportion today. For, while Rs. 400 crores taken from Rs. 2,000 crores leave to the people Rs. 1,600 crores, while Rs. 800 crores taken from an aggregate production of Rs. 4,000 crores will leave Rs. 3,200 crores to the same number of people, i.e. from a per capita wealth of Rs. 62½—1¼ to Rs. 125—2½ per head.

It must also be added that the Rs. 800 crores in the aggregate, which we may anticipate as the likely extent to which the volume of public expenditure would have to be increased including expansion in nation-building services, in the next ten years, would, of course, include all retrenchment and re-adjustments, and reductions in the scales and grades of salaries and allowances, curtailment of expenditure on non-productive, wasteful objects and the like. Hence the then Rs. 800

crores will represent a very much larger volume of public service than only twice the present value.

The heads of Expenditure which in our opinion admit of retrenchment or economy, either collectively or in the scale of unit charges which at present obtain, are mainly comprised of the so-called Defence Services, and in regard to the pay and allowances of the personnel, particularly in the higher services. The detailed savings possible to effect by readjustment of excessive scales of pay and allowances, and curtailment in wasteful or non-productive expenditure may be difficult exactly to estimate. But a saving of at least one-third in the Defence Expenditure, and another third at least in the other services by mere readjustment of the scales of pay, etc., may result in a saving of at least about 50 crores, distributed as between the Provincial and Central Governments. This does not include the Railways and the Post Office, which, again, may contribute another 20 crores of savings or render a much greater volume of service for the amount now spent. But it must be added that all these savings and any more that may be possible to effect will be more than absorbed by the expansion which we have suggested above.

Regarding items in the Central, Provincial or State expenditure, which need to be fundamentally reviewed from the standpoint of their basic justification, the most considerable amount is by-way of the so-called Home Charges. These aggregate over 40 crores in the accounts of the Government of India. If we add other invisible payments from India of this kind, the amount would be much greater.

Not the whole of these amounts can, of course, be dispensed with altogether. But, items like the War Office Charges, or those in connection with the Pensions and Leave, etc., allowances to public officers residing outside India, or the scale of interest charges and repayment dues on the foreign debt of India, may all admit of very considerable scaling down, if not wholly dispensed with.

In opposition to the items mentioned above, there are other items in the Central, Provincial or State expenditure, which may have to be very considerably increased, even though some of them are neither productive, nor of a nation-building character. These, as already hinted above, may be comprised in the so-called Defence Services or Public Utility services like Education and Health. The former is under the charge of the Central Government, and the latter in charge of the Provincial Governments. The extent to which these may have to be increased is not easy to indicate, in-as-much as such increase will depend upon the fundamental policy adopted by the self-governing India of the future, which cannot be foreseen in all its political implications and complications today.

Expenditure incurred by local self-governing bodies on items of a utilitarian character, and for services needed for nation-building, can, indeed, be woven into a single pattern with the amounts spent by the Provincial or Central Governments. It is, however, necessary, in order to make local self-government a real fact of daily life by every citizen, that this expenditure should remain apart, and should attract the attention of the citizens at every stage. Rendering Public Utility Service and conducting industries in connection with those Services would, it may be added, add to the resources of these local self-governing bodies, and so improve the financial position and make them offer a corresponding relief to the Provincial finance.

At the present time, the finances of the Local Self-Governing Bodies are dependent upon grants or subventions from Provincial Governments. These grants or subsidies are given on specific conditions and for particular objects, that materially reduce the field for real effective self-government. If the local self-governing bodies are, accordingly, encouraged to develop their resources of the type mentioned,—viz. conducting Public Utility Industries and Services which may be made to pay for themselves and yet bring a surplus,—their resources would be amply replenished, and the Provincial Governments relieved in proportion.

Subsidies from the Provincial purse would then either be unnecessary, or would be restricted to such local bodies, as, from their own resources, are unable to develop any considerable productive enterprise. Such subsidies would be earmarked for specific purposes.

The principal sources of revenue of the Central, Provincial or State are given in the table at the top of this memorandum. These sources may be classified as:—

(a) income from public domain;

(b) profits of services rendered, or enterprise conducted by the State;

(c) taxation; and

(d) departmental receipts.

While (a), the income from public domain is in the nature of the improvement of available exploitation of the national wealth, directly owned and conducted by the State, (b) profits from Public Enterprise,—such as Railways or Post Office, —are in the nature of monopoly dues, or concealed taxation. This, however, may not be felt in proportion as the service is at least equivalent, if not more in value than the amounts paid.

(c) Taxation on the other hand is a compulsory contribution from the private wealth of the citizen, which stands out in sharp relief against the surplus gained in public enterprise. While the latter is so much addition to the total wealth of the community, and, therefore, of each individual also, the former is a compulsory deduction from the private wealth of the individual.

(d) The departmental receipts, finally, are incomes derived from the rendering of services incidental to the conduct of certain public departments, to the citizens, for which certain fees are charged. These fees may not amount to equal the cost of the whole departmental cost of rendering the service, but which nevertheless, is sufficient for purposes of permitting regulation and control at the hands of Government all those who avail themselves of such service.

Several sources of public revenue overlap as between the Central and Provincial Governments in a number of cases. Excise duty or Sales Tax and Tax on Employment and Professions, may certainly be cited as examples of such possible overlapping between the Central and Provincial Governments.

As between the several Provincial Governments, the burden of the Income Tax may also be said to be overlapping, as residents of one Province may have properties or earning assets in another, and, as such, there would be double taxation. All common national services, like Posts, Telegraphs, and Transport, may also indicate some room for such double taxation, if any of these is made the occasion for revenue being raised.

It is not possible, always, to avoid such 'Double Taxation' especially in such a large country treated as a single unit, even though made up of different component governments.

'Double Taxation' may also be possible, as between the Local Self-Governing Bodies within a Province, and the Provincial Authority or State Authority; e.g. Taxes on property, professions, trades, license duties for all kinds of activities, etc. The only remedy seems to be to define as accurately and as closely as possible, the specific room for such taxation assigned to each body and authority, so that little or no room is left for such overlapping.

The income at the disposal of the Provincial Governments is already claimed to be utterly inadequate for the tasks entrusted to those authorities; and the same may be said with regard to the Local Self-Governing Bodies like the Municipalities. If a policy of intensive Education or Industrial Development, as well as provision for adequate Health Insurance facilities and sanitary measures is undertaken, the resources of the Provincial Governments, as well as of the Local Bodies, would be far below the requirements. On the other hand, the Central Government, too would be placed in the same quandary, if the Defence Services, and other non-productive expenditure in their charge, is similarly expanded.

The only manner then in which amounts and revenues derived by the Central or Provincial Governments can be really increased is by cultivating and expanding the productive utility services or enterprises of the various governing authorities. We would suggest that all kinds of Industrial and Commercial enterprise, as well as Public Utility Services, which admit of a monopolistic basis, should be entrusted to the appropriate governing authority, so as to add by means of surpluses from such undertakings, considerable fresh resources to the revenues of the authorities concerned.

In the existing sources, also, there may be room for expansion by increasing the rate, or widening the scope of the service rendered, such as, Income Tax and Stamp duties, or Postal and Transport rates, and the like.

The addition of an agricultural income tax, so long as private property in agricultural land remains, and also the imposition of Death Duties and Estates Duties, with a view progressively to reduce the room for private property in land or moving wealth, would also add to the resources up-to a limit.

There is, like wise, room for an 'Excise' on industrial production, which may similarly be treated as capable of further expansion. Revenue duties on the articles of foreign trade, both by way of export or import, may, likewise, be expected to yield considerable amounts. The Export articles taxed must be in the nature of practical or effective monopoly of this country; and, on the side of imports, they are articles of such nature, that their consumption would not be reduced appreciably because of these duties.

On the whole, however, totalling possibilities of all these sources of expanding public revenue, at the disposal of the various governing bodies to-day, we don't think the aggregate of such expansion would suffice to improve all the increased needs and requirements, both of the Central and Provincial Governments, not to mention the Local Bodies which would be expected for carrying out the Plan in all its departments.

We have already indicated our opinion that Public Finance be progressively based on a policy of substituting revenues from taxation,—particularly the indirect taxation falling unequally upon the poor and rich shoulders,—by profits of public enterprise and utility services, conducted as monopoly by the State or its various organs of Governments, so that, while adding to the total wealth of the community, the State takes its share directly from such increased wealth.

There is a vast field of public domain in agricultural land, in forests, in yet unexplored mines, and all kinds of public utility services,—to mention only a few of the obvious lines in which such a policy may be immediately given effect to,—which, properly cultivated, would yield a greater portion, if not all the increased resources, necessitated by the Plan advocated above.

Revenue resources particularly taxation can be utilised effectively for bringing about a silent and steady redistribution of the national wealth of the community. All taxes on income on progressive scale, reaching up to an effective confiscation of incomes over certain grades, death duties, of a progressively high rate, excess profits, duties, estate duties, confiscation of increment in land values, or heavy taxation of such increment are all means by which a progressive, though silent, redistribution of the national wealth may be effected,

In so far as the resources thus obtained are utilised for promoting public utility services rendered free or at very low cost to the Public necessitated,—e.g. education to be compulsory up to a minimum standard to every child, sanitation of a required predetermined standard, housing and other services,—this redistribution would be in an indirect or concealed form, which, however, would serve its purpose.

Introduction of a National Insurance provision for the working population, limitation of hours of work, and prescribing conditions of work and work rooms, together with the provision of old age pensions, and all other social security services for the individual, would likewise, raise the standard of living of the lowest paid strata in society at the expense of those who have a disproportionate command of the resources of the country.

In this manner, if private property is maintained even in the Planned Society, it may be possible to bring about a certain degree of silent redistribution of the national wealth, so that the taxation would be more equitably apportioned, and more in accordance with the ability to bear the burden, while the services or benefits would be provided in a measure corresponding to the needs of the people, who have to benefit from such service.

The forms of public enterprise, Industrial, Commercial, and others, which are possible to develop progressively to replace sources of present public revenues may be described as consisting of Public Utility Services, such industries as admit of large scale monopolistic treatment, particularly in the industries like ship building, railway wagon making, cinema films production, etc., and cultivation of waste land, development of forests and unexplored mines. These may need considerable capital investment and also require co-ordination, so as to avoid unnecessary competition or wastage of national energy. Public services such as that of transport by Road, Rail or River, as well as Air; that of communications including Posts, Telegraphs, Telephones, Wireless and the industries ministering to the same; housing and building industries, banking and insurance, also admit of a co-ordinated large scale nation wide operation which would result in considerable surplus of profit to the State, or its representatives conducting such services.

It is impossible to give an exact idea of the amount that may be derived by the State, or its representatives, from such enterprise, but if properly cultivated, there seems every hope that these may result in substantial addition to the wealth of the community, and therefore, to the amounts at the disposal of the Government.

At the present time, the Land Revenue, Excise, and Customs Duties and Income Tax,—to mention the most salient items,—press with uneven burdens upon the people actually producing wealth. At least, in the higher brackets of income, and in many forms of income, not only there is evasion or avoidance of the tax; but the rate, even when the tax is paid, is as one, so disproportionately different in its incidents as between the different strata of income, that the equity of taxation can scarcely be said to be maintained.

In regard to Agricultural Land also, the same difficulty arises, so far as Land Revenue is concerned, whether it is direct demand of the State, or is paid in the form of rent through Zamindars, Taluqdars, Malguzdars, or other forms of intermediaries. The system of demanding land revenue in cash in a fixed sum over a long term of years, (20-30) irrespective of seasons, irrespective of the size of the holding and the number to be supported thereon, has naturally intended to make the burden of land revenue far greater than even that of the income tax, particularly that of the small producer.

Customs and Excise Duties being indirect taxes, also fall with unequal emphasis upon the small consumer, who has to pay the increased prices because of these duties, as most of these are necessities of life. And so the burden is much greater than can be appreciated from the mere amounts of the revenue.

Salt duty, which is practically a public monopoly of the Government of India and from which considerable amounts of revenues are derived is another which fall upon the small consumer.

The Sources of Revenue placed at the disposal of the Local Self-Government Bodies, like the Municipalities or Local Boards, which are capable of being expanded so as to provide adequate funds for carrying on such services and functions the Local Self-Governing Bodies have been charged with, consists of rendering such Public Utility Services, as for instance, Transport in all its forms, communications like Telephones, supplying of Light and Power by Gas or Electricity, provision of markets, slaughter houses, and the like. These are all in the ordinary scope of their duties, and can be made to yield additional revenues, if only the local self-governing bodies realise the possibilities inherent in such enterprises. A Local Municipal Bank in the larger towns, with a full compliment of incidental services; and local enterprise in the supply of Sports Grounds, Amusements including picture houses or Cinema enterprises, Eating Houses, Laundries, Public Baths, Boating clubs wherever the natural facilities permit such enterprise, and a host of other directions of expanding public enterprise are available to many such local bodies in India, which can be made, not only to render the widest public service to the local public, but also to yield, incidentally, by the rendering of such services, considerable resources of revenue, which is to-day taken away by private profit-taking enterprise operating in these fields.

The services, also, of a non-productive character, which will devolve upon the local bodies to carry on,—such as, Education, Sanitation, or Housing,—may require very much increased expenditure than at present. These cannot be self-sufficient and must, accordingly be provided out of these expanded resources. For the subsidies, at present paid by the Provincial Governments in aid of such services will never be adequate, even if they are continued, to meet these manifold requirements of an expanded local enterprise.

We consider it, therefore, necessary to develop these services and enterprises, by properly co-ordinated local self-governing units, mutually co-operating and co-ordinated, so as to render the widest possible service, and yet obtain the largest possible revenue for these bodies.

The exact extent to which these revenues may be increased is difficult to forecast, but, we have no hesitation in holding that the present local revenues would be more than doubled, in ten years, if only these enterprises are properly developed.

In order, however, to carry on these enterprises, profitably and successfully, from the point of view of the fullness of service rendered, local self-governing bodies would have to be regrouped, so as to make the area of operation, as convenient and as economic a unit as possible. In delimiting the unit area, we have to consider not only the geographical extent of the area to be served, but also the number and character of the population living in that area, and ministered to that local self-governing body.

While it is impossible to lay down in advance any standard unit to be observed all over the country, it is possible that in each part of the country, in each province, such units may be conveniently determined approximating to one another, in size as well as in strength of population, so as to permit the operation of this service on the most convenient and economic basis possible.

So far as the revenues and obligations between the Provincial Governments and the local self-governing bodies are common, they necessitate a division of resources and obligations between the two authorities. We consider it advisable to place at the disposal of the Local Self-Governing bodies all those resources, which are of a productive character, or consist in rendering services and providing utilities which must be paid for and so may yield a progressively increasing surplus. By these means probably all the needs of the locality can be met out of such additional resources. For the Provincial Governments, as far as possible, revenue resources reserved should be of the nature either of direct taxation, e.g. Land revenue, Agricultural Income Tax, Death Duties, or in the nature of public enterprise of a province-wide character. Such enterprise may consist of co-ordinated transport service throughout the province; supply of roads and road materials, production and supply of electrical energy on a province-wide basis; carrying on of monopolistic industries; or cultivation of such waste-lands as are not in cultivation to-day, but are capable of being brought under the plough, so as to increase considerably the net revenue of the Province.

So long as the regime of private property is maintained, the Provincial Governments will have to obtain a large slice of their requirements from taxation of property, income, and such acts of trade or commerce, profession or occupation, which admit of easy taxation without violating the well-known canons of sound finance in individualistic society.

By this method all the requirements of sound and efficient administration, democratic self-government, and economic management of public resources, would be fulfilled, as between the Provincial Governments and the Local Self-Governing units, so that the sum-total of the public welfare will be enhanced much more than the actual volume of the monies thus spent by these several authorities would indicate.

In this manner,—that is to say, by undertaking as a collective responsibility, a wide range of productive enterprise and utility services,—the State or its representatives, the Provincial and local self-governing bodies, will be in a position to create an ever widening range of employment, absorbing an ever increasing proportion of population that at present impinges upon the soil as practically a deadweight, impossible to be maintained except on a rapidly declining level.

The undertaking of all such enterprises and services would have to be financed, in the first instance, by some adequate and efficient means, a serious question for every public authority to face. We consider it, however, not impossible to obtain capital resources, both at home and from abroad, which would be more than equal to meet all the reasonable capital needs of such enterprises and services. The various deposits and reserves of the Banks and Insurance Companies, and the power of the Central credit organisation of the country,—the Reserve Bank of India,—joined to the volume of deposits in the commercial banks, post office savings banks and other forms of reserves of small or large industrial and commercial corporations, may well be said to provide a nucleus for obtaining the necessary finance for the successful undertaking and prosecution of these enterprises and services.

The aggregate volume of known reserves of this character can be put at something like 300 crores at the present time;

of which over 80 crores are in the post office savings Banks and an equal or larger amount in the Exchange Banks, while another amount of the like kind is in the Reserve Bank and Imperial Bank. The balance can be said to be made up by the Insurance Funds, reserves of other companies, and those maintained for keeping up the currency system of the country.

All this amount is already available on a ready mobilised basis of capital reserves. They can be considerably expanded, if the National Currency and Credit system are centralised, co-ordinated, nationalised and reorganised, so as to provide the current capital in close correlation with the realised productivity of these services and enterprises.

It is impossible, indeed, to estimate the total amount of capital needed for undertaking and carrying on all the enterprises and services mentioned above. But, in the planned programme of the first ten years, we may well estimate the requirements of capital for providing such services and industries or enterprises at about 500 crores, which is not too large a capital amount spread over ten years. The main justification for undertaking these services and enterprises, moreover, lies not only in providing the amenities or goods at a much lower cost to the individual than is the case to-day, but also in such volume and so economically as to yield an ever increasing surplus, sufficient to cover the entire capital investment in about 5 years' time.

It follows, then, that over a period of ten years, the whole of this capital investment will be available for repayment from the surplus profits of all these services and enterprises, so that the burden and responsibility will not be too great to undertake.

We realise, indeed, that this is a very considerable utilisation of public credit. Its use in this direction will not be considered orthodox, nor have the weight of usage behind it amongst the individualist economists. In a Planned Economy, with proper co-ordination, regulation and control from some central authority, much of the dangers that may be anticipated from such a use of public credit would of course, be automatically eliminated by the mere fact of such co-ordination, regulation, and control.

Such dangers as may, nevertheless, be anticipated, because of this use of the public credit in such volume may be guarded against by laying down conditions of providing adequate reserves, both by way of depreciation and sinking funds, so as to pay for the capital charges within a prescribed period.

A 10 per cent reserve for capital repayment, in addition to a 10 per cent provision for depreciation or repairs and renewals of plant, machinery, etc., would only mean a total volume of net surplus from such enterprise of 20 per cent. This is by no means an excessive expectation from these services, or enterprises of a productive character.

On this basis, it is possible, not only to pay off the capital charge in a period of ten years, but also to provide a Reserve Fund for the wholesale renewal, if necessary, of all the plant and machinery employed in such enterprises or services, that may need to be replaced by the progress of Science and Invention.

Careful supervision and control by the Central authority would not only be necessary to see that these provisions or safeguards are complied with, but, at the same time, to see that the prices of the commodities or services supplied are kept within reasonable limits, so as to be well within the means of the average citizen intended to be provided with such amenities.

Reorganisation of Public Credit on this basis, and its linking up with the national system of Currency, including the reserves supporting these currencies, in the last instance, would afford an evergreen source of replenishing the liquid capital strength of the country, so as to meet all fresh requirements, as and when they arise; and at the same time to promote productive enterprises of all kinds as the Planned Programme requires.

N.B. The Tables attached to this Memorandum giving the Revenue and Expenditure of the Central and Provincial Governments relating to the earlier years when the Planning Committee started work, are now out of date, but have been replaced by more uptodate figures given in the Introduction. These Tables, therefore which were attached to the Memorandum are omitted.

RESOLUTIONS OF THE NATIONAL PLANNING COMMITTEE ON THE REPORT OF THE SUB-COMMITTEE FOR PUBLIC FINANCE

The Interim Report of the Public Finance Sub-Committee was presented by the Chairman of the Sub-Committee, Shri K. T. Shah on the 24th June. There was a minute of dissent by Mr. A. D. Shroff, which was read out by the Chairman, National Planning Committee. Discussion continued on the 25th June.

The Chairman of the Public Finance Sub-Committee informed the N.C.P. that the Report was agreed to by five members of the Sub-Committee, namely, Dr. D. R. Gadgil, Prof. C. N. Vakil, Prof. Gyan Chand, Dr. J. P. Niyogi and himself, who were all present at the meetings of the Sub-Committee at Allahabad. Messrs. Qureshi, Thomas and Venkatarangaiya had not been present, and they had not, so far, expressed their approval or disapproval.

He then explained the main features of the Report. In answer to questions, he stated that it was not possible for his Sub-Committee to give estimates of income and expenditure under this plan, as this would depend on the norms by the N. C. P. and the general policy of the State. If these norms were laid down, then an attempt could be made to give these estimates. Shri K. T. Shah was requested to prepare a note, on his own behalf, giving these estimates on the basis of the decisions of the National Planning Committee so far taken.

The following resolutions were then adopted:

I. Expenditure:

1. In the present system of Public Expenditure there is considerable room for retrenchment by means of:

   a. Reconsideration of the governing policy regarding nature and object, strength and equipment of certain services like Defence or charge in connection with public debt;

   b. Reduction in the scales of rates of pay, pensions and allowances to Public Servants, in all departments, in the higher ranks. In conformity with the basic principle of the Plan, and in fairness to the large army of the lower paid public servants, a minimum living wage will also have to be fixed in all departments and ranks of the Public Service;

c. Revision of the basis for fixing the strength and requirements of Public Service and in improving its efficiency in each department, and for leave rules, particularly in the higher services.

2. All savings effected by revision, reduction or retrenchment are likely to be only a fraction of the expenditure needed for:

a. Extending and widening the scope, direction, and volume of existing Public Services, including National Defence;

b. Increase in the number, variety, and intensity of public activities, e.g. Education;

c. Improvement of the basic minimum pay and conditions of service of the lower subordinate staffs.

3. For extending, widening, or increasing the scope, volume, or number of public services or activities, definite norms will have to be laid down by the Planning Authorities, and finance would have to be provided in accordance with the same, with due regard to economy and efficiency.

4. In public utility services, though commercial principles may not be applicable in all cases, thorough-going check and control by way of efficient audit is indispensable in regard to all items of expenditure and out put of work and value received.

5. Capital investment in utilities, services, or agricultural, industrial or commercial enterprise, must be kept apart from those of recurrent expenditure.

6. Against capital investment made out of borrowed funds, adequate provision must be made from the start for a complete liquidation of the obligation incurred, including interest, and the replacement or renewal, without incurring fresh obligations on that account, of the plant, machinery, stock or buildings requiring such investment, within a definite period. Adequate provision should also be made, by way of depreciation, for replacement or renewal of the plant, machinery or buildings, required for such undertakings.

7. No interference should be allowed with the provision made under the preceding head, and no transfer or borrowing permitted from this account to meet current losses or deficit in the ordinary budget.

8. Exception may, however, be made under specific rules to allow borrowings from these Reserve, Replacement, Sinking Funds, for capital investment in the extension or expansion of the same utility, service or enterprise, or for similar purposes in cognate utility, enterprise, or service, provided that full

provision is made for the repayment and liquidation in full of such loans within a definite predetermined period.

9. When Provincial Governments delegate to the Local Authorities under them functions and assign sources of revenue, they shall do so under proper financial and administrative control.

II. Revenue:

10. The aggregate volume of Public Expenditure— national, provincial, and local—collectively as well as severally, would have to be very considerably increased in order to meet all the requirements of the Plan. Revenues, would have, therefore, to be increased proportionately.

11. For the effective execution of a comprehensive Plan, it would be necessary to increase the contribution from the several forms of Public Enterprise, including a thorough exploitation of the Public domain in lands, mines, forests, and the like, so as increasingly to supplement the revenues derived from taxation, direct or indirect.

12. The production and supply of all utilities and services, which are of a national as well as a monopolistic character, should be carried on by the public authorities: and the net surplus, if any, derived therefrom be appropriated as current revenue. The interest of consumers of each service or utility should be duly taken into account, particularly by the monopolistic undertakings.

Note: Mr. Ambalal Sarabhai desired it to be noted that while he agreed with the first part of this resolution, he was not agreeable to the surplus being appropriated as current revenue. This should not be the objective in view.

13. In regard to public utilities and services, the ideal of service to the largest number at the lowest cost, should be kept in view. Nevertheless, because of the economies possible under large-scale production and efficient management in all round-co-ordination, a net surplus or profit will probably accrue, and this should go to the public revenues.

Note: Mr. Ambalal Sarabhai, though he was in favour of nationalisation, doubts if it would be more economical or more efficient.

The sub-committee had recommended that industries concerned with the provision of the main plant, machinery fittings and basic raw materials for the production and supply of nationalised utilities and services should be conducted as collective national enterprises. Further that all key industries ('mother' as well as 'vital' industries) should be progressively nationalised and administered by a statutory corporation created for the purpose. Private enterprises, so acquired, should be paid just and proper compensation.

The N.P.C. had so far decided that key industries should be owned or controlled by the State, the control being strict in the case of key industries. The possibility of such industries not being owned by the State but controlled by it has thus not been ruled out. This question had been left for future consideration when more data were placed before the Committee for any further decision that it might take.

It was pointed out on behalf of the Public Finance Sub-Committee, that apart from other considerations, questions of finance and the necessity for increasing revenue for the nation-building activities of the State made it essential for their being merely controlled should be ruled out.

The N. P. C. was of opinion that as this raised a question of fundamental principle, and the argument of revenue had not been previously placed before it, the whole question should be considered by it at a later stage when basic questions of policy were considered.

The Public Finance Sub-Committee had further recommended that in allocating items of public expenditure, as far as possible all items of nation-building, service-rendering, and wealth-producing character should be entrusted to the Provincial Governments and sources of revenue, adequate for these purposes, assigned to them. Incomes from direct taxation on income, excess profits, and inheritance taxes, it was recommended, should also be assigned to the Provincial Governments.

The National Planning Commitee referred back this last recommendation to the Sub-Committee for reconsideration and fuller examination.

14. For the full consummation of the complete Plan, direct taxes on Incomes, or Excess Profits, or on property like Estate Duties, Death Duties, Land Increment Values, should be developed by increase in rates on a steeply graduated scale. In levying taxation, the principle of redistribution of the burden of taxation in accordance with the taxable capacity should be given effect to.

Note: It was proposed to add the principle of differentiation between earned and unearned incomes also. Pending a clearer definition of unearned incomes, this addition was postponed.

15. In a comprehensive Plan, Land Revenue should be charged according to the principle governing Income Tax, with proper safeguards for exempting a basic minimum, and providing a graduated scale of taxation. It must be a wholly provincial source of revenue.

16. Taxes on house property, or urban land, on trades and professions, and the revenue from municipal and local licence duty, should ordinarily be assigned to local authorities.

17. All customs duties should be assigned to the Central Government exclusively. The question of excise duties requires further consideration, and was referred back to the Sub-Committee. If excise duties are to be levied, this should be done only by the Central Government.

Note: Mr. Ambalal Sarabhai wanted it to be noted that, in his opinion, Excise Duties on essentials of life are undesirable.

Salt Duty: As the Sub-Committee had made no recommendation about, or reference to, the Salt Duty, the National Planning Committee decided to ask them to consider this question from the economic as well as other aspects, and to report.

18. Adequate provision should be made for relief from double taxation within the country itself, as between units and units, and a unit and the Centre.

III. Credit:

19. Adequate credit facilities must be placed at the disposal of every governing authority—local or provincial—to facilitate their undertaking productive enterprise left in their charge with proper regulations for the safeguard of public credit. In the case of local bodies an adequate control must be exercised by the Provincial Government. A National Investment Board must be established, through which alone, public borrowing for such purposes as may be indicted in the Plan may be undertaken. This Board must work in close co-operation with the Central Banking Authority.

Note: Mr. Ambalal Sarabhai, Mr. Advani, and Prof. R. K. Mukerjee were of opinion that the Central Banking Authority should itself do this work directly.

IV. Accounts:

20. Independent Audit for the accounts of all governmental bodies and statutory corporations should be provided, in addition to local and internal aurit.

DRAFT QUESTIONNAIRE FOR THE SUB-COMMITTEE ON PUBLIC FINANCE

Q. 1. What are the principal items of Public Expenditure in the Budget of (a) the Central Government of India; (b) of the several Provincial Governments and (c) of the leading Indian States who have introduced some sort of a definite budgetary system in their administration?

Q. 2. What are the items, in the foregoing lists, of the Central or Provincial or State expenditure heads, which you would class as:—

(i) of a nation-building character;

(ii) of a wasteful, unproductive nature without any reaction on "nation-building";

(iii) of a self-supporting nature, where income and outlay balance one another generally speaking:

(iv) of a reproductive character, wherein present investment might repay itself even in material or monetary terms within a definite period.

What steps would you suggest for the particular cultivation, development, or discouragement of any of the foregoing items, and with what objective in view?

Q. 3. Are there any heads of Expenditure, in the present-day Budgets of the Central, Provincial, or State Budgets, which, in your opinion, would need to be considerably expanded in the near future? What are those heads of expenditure needing expansion in the near future? To what extent do you think such expansion must go, as estimated in figures, to fulfill the main outlines of the Plan?

Q. 4. What are the services, or occasions, of a developmental nature, wherein present standards of public expenditure in India are very inadequate; and which would accordingly have to be expanded? What is the limit of such expansion which you consider to be indispensable to reach in the near future at any cost?

Q. 5. What are items of a non-material character which also need to be expanded for reasons of progressive development of the country, and an all-round betterment of the standard of living of the people? To what extent is it possible to attend to such items by readjustments in the existing outlay on other heads of public expenditure?

Q. 6. What are the heads of Public Expenditure, which you consider would admit of retrenchment or economy, in the aggregate, or in the scale of unit outlay at present in vogue? To what extent can savings be effected in these items in the Provincial, Central of State Expenditure? How would you suggest should such savings be diverted to items of a more directly developmental character without undue dislocation, or creating unnecessary discontent?

Q. 7. Are there any items in the Central, Provincial, or State Public Expenditure, which, in your opinion need to be fundamentally reviewed from the stand-point as to whether they are justified at all, and which may be dispensed with altogether?

Q. 8. Contra-distinguished from items in the preceding Question (No. 7) are there any items of Expenditure, in the Central, Provincial, or State Expenditure, which, in your opinion, though unproductive, may have to be increased if India is to be adequately prepared to maintain her national independence and integrity? What are those items? How far would they have to be expanded? Are there no other ways of effecting or achieving the same purpose without disproportionate increase in expenditure?

Q. 9. How far is expenditure incurred by Local Governing Bodies possible to be woven into a common pattern when a comprehensive Plan of National Development is undertaken? To what extent would such Local Expenditure by Self-Governing Local Bodies likely to cause a relief to the Provincial, State, or Central Expenditure?

Q. 10. To what extent is the Finance of Local Governing bodies dependent upon Provincial Subventions or Grants for specified objects? What treatment would you advocate for these Subsidies?

Q. 11. What are the principal sources of revenue for the Central, Provincial, and State Governments? How would you classify these sources? How would you differentiate between these several sources?

Q. 12. How far is the field of sources of Public Revenues overlapping as between the several authorities mentioned in the preceding Question? What steps would you suggest for avoiding or minimising the overlapping leading to what might be called "Double Taxation" of the same individual, for the same service, or on the same occasion, or in respect of the same index of his taxable capacity?

Q. 13. To what extent is the income at the disposal of the several authorities mentioned in question 11 adequate for the functions of government and administration, as well as those in respect of Public Utility Services and Developmental obligations of Government imposed upon or entrusted to or assumed by the several authorities, any or of them?

Q. 14. In what directions, or by what methods, in your judgment, can the amounts of revenue derived from the several sources possible to be increased? How would you suggest should the sources themselves be expanded?

Q. 15. How far, in your opinion, is it possible and desirable to substitute public revenues from taxation by that derived from an extension, expansion, or improvement in the sources of income connected with Public Domain, Industrial Enterprise conducted by Public Authorities (Provincial, Central, or State) or Public Utility Services (or any of them) rendered on a commercial basis?

Q. 16. To what extent is it feasible to utilise sources of Public Revenues as a weapon for effecting a redistribution of the aggregate National Dividend on the basis of Equality so as to secure to every citizen or member of the community sufficient to meet all his needs even as taxation, or demand for Public Revenue is so adjusted as to take from each according to his ability in cash or kind?

Q. 17. What are the principal forms of Public Enterprise, Industrial, Commercial, or others of a like nature which, in your judgment, it is possible to develop so as progressively to replace the existing forms of tax-burdens by these sources of new wealth created by Public activity of which a share is taken by the Public Authority responsible for the creation of such new wealth to meet its non-productive needs?

Q. 18. To what extent, and in what manner, do the existing burdens of Public Revenues press upon the individuals, —or objects of wealth,—bearing those burdens, and with what consequences, especially in reference to the further development of the national wealth?

Q. 19. To what extent the sources of revenue at the disposal of the Local Self-Governing bodies,—apart from specific grants or subventions from the Provincial Governments, —capable of being expanded so as to provide adequate funds for carrying on such services and other functions of Local Government as may be devolved upon them or may be assumed by them?

Q. 20. What regrouping of the various Local governing bodies would you suggest in order to make the resources at their disposal adequate for the functions that they may be saddled with or which they may assume in discharge of their duties? What division of resources and obligations would you advocate as between Provincial (or State) and Local Governing Bodies, so as to provide for an efficient discharge of Local Government duties and administration and at the same time ensure adequate resources being at their disposal?

Q. 21. How far is it possible for the State to create **employment** for the people? From what sources would the finance required for such activities, be provided for?

Q. 22. How far is the use of credit possible for the Central, Provincial, (State), or Local governing bodies to attend to the various duties that may be charged upon these several authorities or which may be assumed by them? What safeguards would you suggest for the economical and efficient use of public credit by any of these authorities?

Q. 23. To what extent is the control of public credit and national currency indispensable for the proper husbanding of the resources and obligations of the several public authorities mentioned above?

Q. 24. How would you recast the unit of account for keeping proper record of public receipts and disbursements, so as to apply not merely to the budget of individual authorities but also to the aggregate of national economy?

SUMMARY OF DEVELOPMENTS

The Chairman of this Sub-Committee being the writer himself, the Introduction to this Volume has followed a slightly different pattern from that to the other Volumes in this Series. Statistics as well as other developments have been included in the Introduction for as late a date as was obtainable. In the present Section, therefore, dealing with the "Summary of Developments", note will be taken only of outstanding facts or events of a more general character, which have their repercussions on Finance.

The principal events which have reacted on the Financial System of the country are:—

(1) World War II 1939-1945.

(2) Change in India's Debt position.

(3) Reactions of the War demand upon the country's Revenue and Expenditure.

(4) Growth of Sterling Balances.

(5) Partition of the country into Pakistan and the Union of India; and its reactions,—constitutional, political, as well as financial.

(6) Redistribution of financial resources—sources of revenue and obligations or items of expenditure as between the Union Centre and the Provincial or States Units.

(7) Accession, assimilation or absorption of Indian States in the Union and their financial consequences.

(8) Recognition of the need to plan the entire economy of the country to attain given objectives by predetermined stages, within a fixed period.

(9) Formation of Statutory Corporations.

(10) Developmental Finance.

I. War Finance in India—1939-45

During the six years of the War there was a heavy and steadily rising strain of war expenditure, and in consequence also increase in the civil outlay. Figures have been given in the Introduction to show the increase that had taken place. Considerable additions were made to the rates of taxation and charges for Public Services in every direction, both at the Centre and in the Provinces to meet the increased demand; and new taxes were also imposed. The effect of these has been recorded, so far as statistics permit, in the Introduction.

War Finance in India was not determined all through the British regime in accordance with any scientifice principles of financing for such emergencies. Every time that such expenditure had to be incurred by the Indian Government in the last 90 years, they had to follow the pattern set up by Britain, without any consideration of the fitness of the ways and means for carrying on the War. This was even apart from the intrinsic justice of India engaging in such quarrels and bearing any share of the burden on her own shoulders. Little account was also taken of the nature and probable duration of the operations. It would be useless, therefore, to discuss the Ethics and Economics of war financing in India. Still less can one usefully consider the Politics of such ventures, since India had no foreign policy except what Britain forced upon her.

Under these circumstances, War Financing had invitably to follow the British model. In the latest case it was settled by an Agreement, made at the outbreak of the War, to regulate the share of the burden to be borne by India. Indian revenues had been expressly prohibited to be used, under the Act of 1858 for any extra-territorial wars that her connection with Britain involved. The Government of India Act, 1935, had, however, radically changed this position, and authorised India joining Britain's quarrels with other countries, even though they were no concern of hers, neither brought about by her Diplomacy nor likely to give her a share in any benefit resulting from such Wars.

Problem solved by Agreement

Several ways of meeting war expenditure have been tried by modern nations. Increasing the rates on existing taxation; adding new taxes, cutting down other expenditure, borrowing at home and abroad, have all been tried in the last World War by every nation engaged in it simultaneously. Lease-Lend, invented by the United States was a variat of the last form without its legacy of perpetual burden of unproductive debt.

In the case of India, however, the ground for her entering the struggle was so thin; the chances of her getting any benefit for herself by joining the War so slight, that the very share she should bear of this gratuitous burden had to be settled by agreement. It was realised, even from the start, that not only would India have to bear a considerable expenditure for expanding her own military, naval and aerial armaments, together with their incidental, accessory or consequential services and supplies; but that it would have to make considerable loans of such forces, services, facilities and commodities to the Imperial British Government, to fight in the latter's battles far beyond the shores of India.

In addition, since this is a war of machines and materials rather than even of brawn and muscle, the War Effort would mean a considerable expansion in the industrial output and productive organisation of the country, to produce, procure or provide the necessary supplies of material and equipment, needed both by the Indian and British forces. The accessory services of transport by sea or land, or air, together with the adjuncts harbours, aerodromes, railway terminals; banking and credit, would have also to be re-oriented to meet wartime needs, and suit wartime conditions. The element common in all these to the British and the Indian share of the War Effort would be, naturally, very considerable. Precise accounting and allocating of each would be proportionately difficult. And hence the necessity and utility of a working arrangement, to share the costs, even if no word be said to divide the benefits.

The agreement accordingly, began (a) by assuming a certain figure to be the normal Defence provision for India's own needs. This was fixed at the figure of the defence budget, effective,—in 1938-39, the last pre-war year, at Rs. 37.77 crores.

(b) To this basic figure certain additions were to be made on account of the rise in prices. This was also to be a charge upon the Indian Exchequer. In the first year, 1940-41, it was taken 'ad hoc' at .25 lakhs; but has since grown till, in the Accounts of 1942-43. it was Rs. 7.97 crores; and in the revised estimates for 1943-44, it is taken at Rs. 13.01 crores; and in the Budget of 1944-45, it was 15.04 crores, which was revised to 16.92 crores, and budgetted at 19.76 in 1945-46.

(c) Apart from this, it was felt, a very much larger figure would be necessary on account of India's own special measures, including additions to the armed forces of all kinds and their auxiliary services of all description. Supplies of food, clothing, munitions, and weapons as well and facilities needed for them on a very large scale would add another substantial figure. In the first War-Budget this item was taken at Rs. 3 crores, again an 'ad hoc' figure, but it has been rapidly growing as shown by the following figures:—

India's Own Defence Expenditure for Food etc.

(Figures in crores of Rs.)

1940-41	26.63
1941-42	53.88
1942-43	165.17
1943-44	307.99
1944-45	347.12
1945-46	321.86
1946-47	179.31
1947-48 Revised (net)	86.64
1948-49 Budget (net)	120.98

The last two items are Revised Estimates and Budget Estimates, respectively, as also those for 1945-46 and 1946-47, while the earlier figures represent the final accounts. This, it may be added, is, of course, exclusive of the Capital cost of such measures, which amounted, according to revised estimates of 1942-43, to over a hundred crores charged all on the Indian Exchequer. The total extra burden borne by India in the six years of the War was over Rs. 1,500 crores, over and above what India provided in the shape of goods and services to Britain for which she was paid (?) by I.O.U.s that have aggregated into the Sterling Balances once totalling nearly Rs. 1,700 crores.

(d) The last item was the maintenance cost,—or rather a share of it, of the Indian troops sent overseas to fight in the Empire's battles,—a fixed figure of Rs. 1 crore. The equity of this charge is not easy to understand.

So far as the land forces are concerned it was agreed that:—

(i) India would pay for the raising, training and equipping from Indian resources of all land forces raised in India, and for their maintenance as long as they stayed in the country and were available for the local defence of India. When they left for overseas, the cost to India of raising and training them, and also of equipping them, would be recovered from the British Government, who would assume all further liability for them.

(ii) All imported equipment and stores for such expansion measures of the land forces from whatever source (except vehicles, armoured or otherwise, from elsewhere than the United Kingdom) would be provided free by His Majesty's Government.

Apart from its general equity, this method of dividing the cost of this war had the advantage also of simplicity and administrative convenience. It involved the minimum of accounting, and ensured effective financial and administrative initiative. Authority for these measures was located in India.

(iii) War time outlay on the Royal Indian Navy consisted mainly of **war measures relating wholly to India's local naval defence.** No difficulty was, therefore, experienced in dealing with such naval joint measures as have been put into force in accordance with the principles of the Settlement.

(iv) Major **expansion of the Air Forces in India** raised a serious financial problem. This, like the expansion of land forces, was a **Joint war measure.** Although the role of the Air Force while located in India was to defend India, it was also allotted other duties when the removal of the immediate threat to India's security permitted. No definite decision was taken regarding an equitable and simple method, acceptable to both Governments, of allocating the very heavy expenditure in connection with the joint effort of the Air Force. Pending a definite solution an arbitrary amount, equivalent to half of the total estimated capital and recurring costs, was provisionally included in the Budget for 1942-43, and the balance was taken for the time being to a Suspense account.

This agreement made no provision on account of:—

(a) the non-effective charges, i.e. pensions and other allowances for the very much larger forces engaged on India's account. The Defence Estimates in the successive War Budgets have provisionally taken this item at Rs. 8.41 crores; but the extra was included in the still more complex problem of the Sterling Balances, settled in 1948.

(b) Similarly, no arrangement was made for the disposal and accounting of the surplus war stores. When the Sterling Balances problem, in which this was included, was eventually solved in 1948, the figure had risen according to British estimates to over Rs. 500 crores. It was finally settled by India taking them all over at Rs. 135 crores.

(c) The arrangement, likewise, takes no account of any alterations in the pay and other emoluments of British troops coming to India; nor of the corresponding or consequential increases in the pay and allowances of forces actually on the Indian establishment.

(d) The arrangement tends in practice to throw a disproportionately heavy burden upon India. And this, quite apart from her ethical or legal liability to be at all involved in the War.

Nature of the Problem of War Finance

The problem of War Finance it may be remarked, is not the same in India as in other countries. Those who have reached the peak of industrialisation have only to reorient their productive organisation to meet the needs of war. At the end of the war their task would be one of restoration and rehabilitation to regain their pre-war position. They have also some hopes of substantial benefit as the result of the war so as to compensate themselves in a measure for the losses suffered in the war.

India cannot expect to share in any such benefits—territorial gains or economic advantages. Her gain, if at all, would be in the improved sense of security, which all people may be expected to share because of the fall of the aggressor. That will not butter our bread; but it may help to reduce the burdens of unproductive military expenditure, which now takes a fat slice of our national income. The institution, however,, of the United Nations Organisation, with its Security Council, has not yet, three years after the War, put an end to the piling up of Defence Budgets all over the World; and in the case of India, even the Budget of 1948-49 provided three times the figure of Defence Expenditure of 1938-39.

As a consequence of the successful termination of the War on the side of the allies, India had hoped to achieve her national independence—Political independence has been achieved at the cost of national integrity in 1947, while emancipation from economic exploitation is only a change in complexion. Brown capitalists have taken the place of the white.

The problem of War Finance for India was not merely mobilising the totality of available resources to win the war; of co-ordinating the entire effort with that of the allies or associated on an equal footing. But while making the effort, India had to keep in view the programme of post-war intensification of her interrupted industrialisation. Her resources mobilised for the war must be so applied as not to impede, but rather to accelerate planned growth.

Besides restoring the pre-war norms, and making good the loss or damage occurring because of the War, we must so tune the forces of material progress we command as to add to and intensify our programme of industrial advance. With the achievement or acquisition of political independence, India would be free to shape her own immediate as well as long-term interests; and use her weapon of Public Finance actively and effectively to accomplish an all-round co-ordinated development of all her resources, so as to meet all her actual and potential obligations in the fullest measure to her own people, to her neighbours and friends, as well as to those who would venture to try conclusions with her.

2. Change in India's Debt Position

The direct consequence of the heavy War Expenditure was the growth of India's Public Debt. Figures, as well as the component parts of this Debt, are given in an earlier part of this Volume dealing with Currency and Banking. There is, however, a noteworthy change brought about mainly by the War, viz. that almost all the Sterling Debt of the Government of India has been repatriated from the accumulating Credits due to India on account of goods and services supplied during the War to the British Government. This has been replaced by the corresponding Rupee Debt held in India. One large item of the 'drain' from India has ceased.

The policy of repatriating the Sterling Debt, and of ceasing to borrow abroad began much earlier than the War. During the Depression of the thirties when London had ceased to be the Central Money Market of the World; and particularly after a Congress Select Committee on the **Foreign Obligations of India** had shown the iniquity of many of the items entering into the Sterling Debt of the Government of India, the more far-sighted of the British Rulers in India decided to discontinue the programme of borrowing abroad, lest too close a scrutiny of the terms and conditions of the entire Sterling Debt may lead a strong nationalist Government in India questioning at the bar of an international tribunal the justice or legality of any item in the entire total. The wherewithal to pay all the then existing Sterling Debt, incurred mainly for Railways, Irrigation Works, as well as Wars, Famine relief and the like was not forthcoming until the War accumulated credits for India in London. Britain had to pay for the goods and services she needed from India. She had no means to pay—except these holdings of her nationals; and she used them to pay at least a part of the charges against her.

The economy, however, of such repatriation was open to question; for a Debt, carrying interest at 3% or 3½% at most, was paid off by means of funds which, had they been employed in Industry in India, would have fetched far, far larger profits. Political considerations may also be added to this reasoning, viz., that by liquidating this part of the Indian Government debt, we lost a bargaining counter which would have materially smoothed the final settlement of the complex problem of Sterling Balances.

3. General View of the War Budgets 1939-45

A general view of the War Budgets of the Government of India displays a very slow realisation of the nature and extent of the commitments they had entered into on account of the War. The last Budget before the War, viz. for 1939-40 had maintained a **status quo.** No additional taxes were imposed, while on the Defence Services Rs. 80 lakhs more were to be spent for mechanisation of certain units, erection of a modern munitions factory, postal defences and maintenance of six modern escort vessels. Heavy strain had just been borne by the Central Budget owing to the loss caused by the Separation of Burma, while the implementation of Provincial Autonomy, and the desire to start them on their new career with as fair a prospect as possible, led to additional burdens, which were all borne without the aid of additional taxation.

The original Budget for 1939-40 had anticipated a deficit because of the decline in the Customs revenue; but it was proposed to make good that fall by doubling the import duty on foreign cotton, estimated to yield, Rs. 55 lakhs, and so converting the deficit into a small surplus. The "Slab" system of Income Tax was also introduced in this Budget, and the Sugar Excise was modified; certain economies on the Defence side helped to keep down the expenditure to below the previous year's level.

With the outbreak of the War, and India's joining in the struggle, the ordinary Budget was thrown out of joint. Nevertheless the accounts of 1939-40 showed a surplus of Rs. 91 lakhs, which however, was more than absorbed by the anticipated deficit of Rs. 7.16 crores on account of the War. This deficit was to be met by:—

(a) an Excess Profits Tax, estimated to yield Rs. 3 crores;
(b) increase on the petrol duty by 2 as. per gallon, estimated to bring 1.40 crores; and
(c) increase in the Sugar Excise Duty from Rs. 2 to Rs. 3 accompanied by an equal duty on imported sugar, estimated to add another Rs. 1.90 crores.

A Supplementary Budget was necessitated in 1940-41 by rapidly mounting Defence Expenditure, and fall in customs due to shrinkage in trade. Defence charges had increased by at least Rs. 14¼ crores and Civil expenditure by another Rs. 7 crores, while Revenue dropped by Rs. 3 crores. A 25 percent surcharge on all taxes on income, including Supertax and Corporation Tax; and an increase in postal rates, telegram and telephone charges were estimated to make good this deficit.

The next **Budget 1941-42** showed Expenditure rising by Rs. 15 crores, and revenue by Rs. 3 crores leaving a prospective deficit of Rs. 20 crores one-third of this was proposed to be met by fresh taxation and the remainder from Defence Loans. The previous year 1940-41 had shown a deficit of Rs. 8 crores due to an increased contribution from the railways and a surplus over from the year before. The Excess Profit Tax was raised from 50 per cent to 66.2|3 per cent, and the central surcharge on income-tax and super-tax from 25 per cent to 33.1|3 per cent. The match duty was doubled, import duty on artificial silk yarn and thread raised from 3 annas to 5 annas per pound, and an excise duty on pneumatic tyres and tubes levied.

Budget 1942-43.—But the following year showed a revenue deficit of Rs. 17 crores and a prospective deficit, on the prevailing basis of taxation, of Rs. 47 crores for the next year. The recoverable defence and supplies expenditure was estimated to exceed Rs. 400 crores in 1942-43. Once again the policy of covering the estimated deficit as to 2|3 by borrowing (Rs. 35 crores) and the balance by additional taxation (Rs. 12 crores) was followed. The new taxation included: (1) increase of surcharge on income-tax and Super-tax from 33⅓% to roughly 50%, (2) an all-round customs surcharge of 20% to be levied on existing import tariff except on raw cotton, petrol and salt; (3) increase in petrol tax by 25%, and (4) also in post and telegraph rates.

Budget 1943-44.—The total revenue for 1943-44 was estimated at Rs. 199.3 crores and the total expenditure at Rs. 259.59 crores, with a deficit of Rs. 60.29 crores. The deficit was to be made good by Rs. 20.1 crores of new taxation, and Rs. 40.19 crores by borrowing. Increases in income-tax, super-tax and corporation tax were estimated to yield Rs. 7 crores of new revenue, the budget proposals making a 66 per cent income-tax surcharge applicable uniformly over all levels of income.

Budget 1944-45.—The deficit rose still higher to 78.21 crores in 1944-45 which was met by ordinary taxation and compulsory deposit. Advance payment was demanded of tax on income from which tax was not deducted at source. The compulsory deposit of one-fifth of the excess profits tax was increased to 19|64 of the tax in order to immobilise the whole of the excess profits. This was expected to be in the neighbourhood of Rs. 75 crores. The scale of income-tax was raised to bring in an additional revenue of Rs. 8½ crores, and increased surcharge on tobacco and spirits under customs duties was expected to yield another crore. Excise Duty on tobacco was increased to yield Rs. 10 crores and Rs. 4 crores by bringing betelnuts, coffee and tea under the Central Excise Tariff. The defence expenditure for 1944-45 was estimated to amount to Rs. 276.61 crores under Revenue Budget and Rs. 24.60 crores under Capital Budget.

Budget 1945-46.—The accounts for 1943-44 showed the deficit to be Rs. 189.79 crores as against the revised estimate of deficit of Rs. 92.43 crores. This was due to an excess of Rs. 96 crores on Defence account. It was hoped to get an additional revenue of Rs. 8.60 crores by raising the tobacco duty, by increasing the rate for postal parcels from annas 6 for the first 40 tolas and annas 4 for every 40 tolas thereafter to a uniform annas 6 for every 40 tolas, by raising the surcharge on telephone rentals from one-third to one-half and that on trunk call rentals from one-third to one-half, and that on trunk call fees from 20 to 40, per cent, and by increasing the surcharge on ordinary and express telegrams by one anna and two annas respectively. Thus the prospective deficit would be reduced to Rs. 155.29 crores to be met by borrowing. For the first time this Budget differentiated, as regards Income-tax rates between earned and unearned incomes, charging higher rates on the latter.

Budget 1946-47

The first peace-time budget was faced with the possibility of a steep fall in wartime expenditure, income levels, and the continued rise in inflation. The Budget estimated revenue at Rs. 311.65 crores and expenditure at Rs. 355.71 crores with a deficit of Rs. 44.06 crores, after allowing for new taxation and the transfer to revenue of Rs. 26.10 crores the balance in the two War Risks Insurance Funds.

The new taxation proposals included:—

(1) abolition of the Excess Profits Tax after the 31st March 1946;

(2) grant of special initial depreciation allowance of 10 per cent. on new buildings, and 20 per cent. on new plant and machinery and for expenditure on scientific research, for purposes of Income Tax;

(3) relief from Customs duty on raw materials plant and machinery imported for industry;

(4) reduction of 1¾ annas in the total rate of Super Tax and Income Tax;

Financial Position of the Provinces and the Centre from 1937-38 to 1946-47

(a) Provinces

(In lakhs of Rupees)

Provinces	Provincial Revenue	Devolution Grants from the Centre including Dev. Grants	Total Revenue	Total Revenue Expenditure	Cumulative Deficit (—) Surplus (+)	Balances in Reserve Funds on 31st March 1947
Madras	2,63,27	24,12	2,87,39	2,84,22	+3,17	29,18
Bombay	1,92,52	26,51	2,19,03	2,06,69	+12,34	17,07
Bengal	1,65,35*	69,92	2,35,27	2,51,13*	—15,86	25
United Provs.	1.79.33	26,77	2,06,10	2,04,99	+1.11	17,31
Punjab	1,84,12	11,51	1,95,63	1,60,46	+35,17	6,79
Bihar	75,06	15,10	90,16	81,81	+8.35	7,78
C. P. & Berar	63,61	7,69	71,30	70,66	+64	8,14
Assam	35,54	7.86	43,43	42,89	+54	1,02
N. W. F. P.	11,94	11.55	23,49	22,95	+54	15
Orissa	17,71	7.93	25,64	25,11	+53	10
Sind	55,19	10,27†	65,46	60,94	+5,42	8.14
	12,43,64	2,19,26	14,62,90	14,10,95	+51,95	95,93

*Subsidy of 3,00 in 1943-44 taken by Bengal as reduction of Expenditure on Famine. Hence Revenue and Expenditure both have been increased by 3,00.

†The subvention was capitalised on 1st April, 1944 and the value set off against the Lloyd Barrage Debt.

Source:—Report of the Expert Committee (Constituent Assembly) on the Financial Provisions of Union Constitution, 1948. Page 26.

(b) Central Government (1937-38 to 1946-47)

(In lakhs of Rupees)

Year		Revenue	Expenditure			Deficit (—) Surplus (+)
			Civil	Defence	Total	
1937-38	..	86,61	39,39	47,22	86,61	..
1938-39	..	84,52	38,97	46,18	85,15	—63
1939-40	..	94,57	45,03	49,54	94,57	..
1940-41	..	1,07,65	40,57	73,61	1,14,18	—6,53
1941-42	..	1,34,57	43,33	1,03,93	1,47,26	—12,69
1942-43	..	1,77,12	74,28	2,14,62	2,88,90	—1,11,78
1943-44	..	2,49,95	81,44	3,58,40	4,39,84	—1,89,89
1944-45	..	3,35,71	1,00,77	3,95,49	4,96,26	—1,60,55
1945-46	..	3,61,18	1,24,38	3,60,23	4,84,61	—1,23,43
1946-47	(Revised Estimate)	3,36,19	1,43,36	2,38,11	3,81,47	—45,28
Total	..	19,68,07	7,31,52	18,87,33	26,18,85	—6,50,78

Revised Estimates have generally been taken for 1946-47.

Source:—Report of the Expert Committee (Constituent Assembly) on the Financial Provisions of Union Constitution. 1948. p. 26.

(5) exemption from Income Tax for two years of residential buildings and initial depreciation of 15% for business premises;

(6) reduction of tax rate income of Rs. 3,500—Rs. 5,000 by 3 pies and on those between Rs. 5,000—Rs.7,500;

(7) the raising of the earned income allowance from one-tenth of the earned income (subject to a maximum of Rs. 2,000) to one-fifth (subject to a maximum of Rs. 4,000);

(8) similar differentiation in Super-Tax rates for earned incomes;

(9) reduction by 18 pies per gallon of the duty on kerosene oil; and on motor spirit by 3 annas per gallon;

(10) reduction in the excise duty on betelnuts by one anna per lb. and 6 pies in customs duty on betelnuts;

(11) reduction in the duty on cinematographs film (not exposed) by 3 pies per linear foot;

(12) reduction in the price of a match-box by 3 pies and a similar reduction in the price of a post-card.

Reductions in expenditure arising from the cuts by the Legislative Assembly amounted to Rs. 93.34 lakhs on revenue account, and Rs. 3.46 crores on capital account. The deficit, originally estimated, was increased to Rs. 48.25 crores, with revenue at Rs. 341.87 crores and expenditure at Rs. 390.12 crores.

The Budget was further remarkable by the proposal of an Industrial Finance Corporation to provide medium and long term finance to industrial enterprise in India, and planned investment both public and private, to secure the fullest and most advantageous utilisation of the country's economic resources.

An Interim Tariff Board was appointed, and a plan was under preparation to establish an Industrial Finance Corporation, which was finally adopted by a special Act passed in 1948.

The Industrial Research Planning Committee has recommended the creation of a Central Research Organisation to be called the National Research Council. Recommendations have also been made for the immediate adoption by the Council of a five-year plan which included the establishment of a National Chemical laboratory, a National Physical Laboratory, and a network of laboratories in all Provinces and major States. These have also begun to be implemented in 1947-48.

A housing scheme for industrial workers was put forward with a construction of two million houses in 10 years, estimated to cost Rs. 40 crores within the first 2 years. The scheme provided for Central subsidies upto 12½% to local bodies and industrial and other employers, if the provincial government concerned made an equivalent grant. A unified scheme of social security, covering health insurance, maternity benefits, and compensation for accidents was forwarded to Provincial Governments covering all perennial factories, designed to remove some of the defects in the present working of the Workmen's Compensation Act, and the Maternity Benefits Act. This, too, has been enacted in 1948.

Regarding the financial implications of the post-war planning the provincial five-year plans are estimated to involve an expenditure of Rs. 900 crores, a part of which might extend into the second five-year period. The Central plans in respect of railways, roads, civil aviation development were estimated to cost still more. To expedite carrying out of these Plans, the Budget promised the Central Government would assist the Provincial Governments with funds for approved schemes, particularly those which may provide a high proportion of employment and calculated to increase the national income. A lump sum provision of Rs. 35 crores was made in the budget for advance payments, and of Rs. 15 crores for loans to provinces for productive development works.

The Central Government's own expenditure of this kind was estimated at Rs. 49 crores of which Rs. 22 crores were in respect of railways.

Estate Duty

With a view to assisting Provincial Governments in implementing their post-war plans, a bill to levy an estate duty on non-agricultural property was introduced in the Central Assembly on March 21, 1946. A duty was to be charged at graduated rates according to the principal value of all property passing on the death of an owner whether by will or any settlement made by others. Immovable and movable property not exceeding Rs. 1 lakh in value and property, situated outside British India, were exempted. This duty being on non-agricultural property, the Provinces were free to levy a similar duty in respect of agricultural property.

4. Sterling Balances

The accumulation of enormous sums in the so-called Sterling Balances was directly the outcome of the War Expenditure by the Government of India on behalf of the British Government, which was said to be recoverable from the latter, when the War had ended. Though some kind of a settlement has been arrived at, by setting of considerable amounts against surplus stores, installations and equipment, as well as Pensions to British personnel retired from the Indian Service, the bulk of these balances still remains to be recovered from that Government. The problem, however, has been considered in greater detail in another Volume in this Series, and so need not be rediscussed at this stage.

5. Effects of Partition

The Budget of 1947-48 presented in March, 1947, was conspicuous for its sharp increases in tax-rates, its evident anxiety to rope in as much as possible of the War Wealth which had escaped taxation, and its attempt at introducing such new varieties of direct taxation as the Capital Gains Tax or the Estate Duty. As the then Finance Minister was a Muslim, and communal tension was running very high, the dominating features of the Budget were suspected of being inspired by Partisan considerations rather than by intrinsic merit of each proposal. Considerable agitation followed, on account of which the Finance Minister was compelled to make substantial concessions to the affected vociferous classes; but the advance made was not altogether sacrificed. Partition of the country following soon after, however, many of the constructive lines of development, chalked out in the Budget 1946-47, were either impossible to follow up, or were taken up in a half-hearted manner for fear that the reaction of the Partition could not be fully judged.

When the principle of Partition had become accepted, but before actual division came to be an accomplished fact, a series of Conferences was held between the two Dominions to make a fair division of Assets and Liabilities. This was effected eventually by an agreement between the two Dominions, arrived at on general principles as well as in many cases in detail; and where agreement could not be reached, recourse was had, as agreed upon in advance, to arbitration. The implementation of these agreements in the several departments took time. The basic idea was that the Indian Government should take responsibility for the total Public Debt, and the Pakistan Government agreed to make a contribution *pro-rata* for the Debt which fell to its share. The same principle applied to the Pensions.

On the question of the Sterling Balances also a similar procedure was adopted. On all the leading issues involved, the two Dominions first made an agreement among themselves, and presented a more or less united front on those principles to the British Government. Considering the magnitude and complexity of the issues involved, considering the value and volume of item affected, and looking at the height of communal passions as well as the shortness of the time given, the arrangement must be pronounced to have displayed a degree of statesmanship and a desire for mutual accommodation, which might have been perhaps more advantageously employed in removing communal tension till it culminated in a complete Partition of the country, an act of vivisection as Mahatma Gandhi had described it.

A Supplementary Budget was presented in August 1947 for the remaining 7½ months of the fiscal year which recognised this sad fact of Partition, but made no very radical departure in the basic framework of the Indian Financial System. The new and complex problems created by the wholesale dislocation of millions of people from their ancestral homes, and their re-settlement in new lands, new trades, or occupations; another series of equally difficult problems created by the accession, admission or assimilation of hundreds of Indian States into the Indian Union, and by such developments as the Kashmir venture, shortage of food supply, decline in production, the rise in prices, the removal of controls on essential commodities and services, kept the financial position of the country in unrelieved gloom.

The latest Budget of 1948-49 had the same outstanding features to deal with. A beginning for restoring normal conditions of peaceful progress was made in an *ad hoc* Economy Committee to consider the Expenditure side of the national Budget. It was, however, apprehended in many quarters that this problem would not be considered by such a body so much from the standpoint of scientific economy in Public Finance, but rather from the standpoint of arbitrary retrenchment, unco-ordinated and unrelated to the long-range demands of National Economy. The Taxation Committee, promised in the Raisman Budget of 1946-47 has yet to come. Meanwhile considerable new enterprise is being undertaken, either directly by the State, as in the case of the several multi-purpose River Training projects, or by the State in partnership with private enterprise, as in the case of the Overseas

Shipping and Air Transport Services; or some combination of both, which is expected to develop rapidly public utilities and social services of a momentous character in the economic life of the country.

Rise in prices was, if anything, steeper after that Budget than ever before. Neither the settlement of the Sterling Balances issue, nor the establishment of specific Committees for securing to the Exchequer the tax payments which had been evaded in the previous years, nor the progress made in the resettlement of Refugees sufficed to moderate the sharp spiral of prices.

At the present time, therefore, India's Budget continues to be in the grooves made for it during the British regime. Practically all the outstanding features evolved then have been continued. Public Finance as an active agent in Planning national development has yet to be reorganised: and the reconditioning of the resources and their co-ordination with the new duties or functions the State may assume under its new inspiration awaits the introduction of planned economy that has been promised but has not yet been made.

6. Redistribution of Financial Resources and Obligations Between the Centre and the Units*

Present Constitutional Position.

Under the Government of India Act, 1935, the taxing powers of the Central and Provincial Legislature are entirely separate. Provinces retain all the net proceeds of all taxes levied by them, while the Central Government shares or distributes among the units the net proceeds of some of the taxes levied by it.

(1) Federal Estate and Succession duties, (2) Federal Stamp duties, (3) Terminal Taxes on goods and passengers carried by Railway or Air, (4) Taxes on Railway fares and freights, are taxes which, if levied, would have to be given away to the Units.

The Centre can levy a surcharge on those taxes entirely for its own purpose. None of these taxes has, in fact, been levied, except that the Federal Stamp duties, which are levied under the old laws, and the duties collected and retained by the Provinces.

*Constituent Assembly Report of the Expert Committee on the Financial Provisions of Union Constitution.

Federal taxes, the net proceeds of which are shared with the Provinces, fall into two groups:—

(1) Taxes, the net proceeds of which must be shared are: Income-Tax and Jute Export Duty;

(2) Taxes, the net proceeds of which may be shared if the Union Legislation so requires are: Central Excise, including duty on salt, and export duties except on jute and jute products. The Central Legislature has levied certain taxes under these heads, but has not provided for giving any share to the Provinces.

Besides these the Act provides, for fixed grants-in-aid to some Provinces to make their autonomy real. There is also a general provision for giving grants to Provinces at the discretion of the Central Government either for general or specific purposes.

Review of Finances of Provinces and the Centre.

During the war, all Provinces, except Bengal, had surplus budgets. Revenue increased several times due to the war and the levying of a number of new taxes and increasing the rates of existing ones by the Provinces. At the same time all development work was stopped, which limited expenditure. The result is given in the Introduction.

The Provinces are now faced with a heavy programme of expenditure without any corresponding increase in revenue. Apart from voluntary sacrifice of Excise Revenue, as explained in the Introduction, Land Revenue, both in the permanently and temporarily settled Provinces, is likely to decline, Stamps and Registration Fees are unlikely to increase much: Forest Revenue will dwindle because of large falling during the War. Sales Tax, Electricity Tax and Entertainment tax may not fall much below the war-time peak; but by themselves they cannot make up the gap likely to be caused by the above factors.

Provincial Governments have thus practically exhausted their exclusive field of taxation. At the same time, they have to share it with Local Bodies, which are also expanding their activities. A substantial development of new revenue resources is thus inevitable, if essential and overdue programmes of Social Service and Public Utilities are undertaken.

No great assistance can be expected from the Centre, which has been having deficit budgets for a number of years. Due to the serious food shortage, the refugee problem, Kashmir expedition, and the complex consequences of the Partition of th country, deficit continues.

Essentially, however, and taking a long-term view the financial position of the Union is not desperate, as almost all these problems are temporary. When they are solved, the budgetary position of the Centre would improve. Administration and collection of Central Taxes, like those on income, leave much room for improvement. Not only should it be possible to collect larger sums on account of those taxes in future, but also to secure the large sums that are believed to have been withheld from the tax collector. If necessary appropriate legislation may be passed for this purpose. Under Customs and Excise there may not be much increase, nor in Railway contributions.

On the other hand, expenditure on Defence and Foreign Affairs will very likely grow further still; while there is little prospect of any reduction in the Debt Service. There may be some scope for reduction in the existing Civil Expenditure. But here, too, the expansion in Developmental activities under a National Plan promises very substantial increase, even though many of those departments are directly the responsibility of units. The problem, therefore, is how to improve existing sources and devise new ones, which would provide adequate resources for carrying out all items in an over-all National Plan of economic and cultural development for the country as a whole and for every part of it.

An aspect of the problem, which is more of a constitutional than of a financial character, needs to be emphasised at this point. This is not a question of merely transferring revenues from the Centre to the Units, or increasing Grants and Subventions from the Centre to enable the Provinces to carry out their part or items of the National Plan. Such Grants and Subventions are at the best mere doles, which may help to keep in line all the Units and allow the Plan to be given effect to on a co-ordinated and simultaneous level. But at the same time they would irresistibly tend to undermine the Unit's Autonomy by introducing or imposing stipulations on conditions on which only the Grants are made or Subventions given. It is, therefore, for those who are charged with the responsibility of making the country's Constitution to determine how far it is desirable to increase the Unit's own resources and make them correspond as closely as possible to the obligations imposed upon it in the new set-up in the country's planned economy, or whether they are to be for ever dependent on the Union Government for carrying out such items or sectors of the National Plan as come directly under their jurisdiction.

Claims of Provinces.

Every Province is eager to carry out its programmes of social service and economic development at the earliest opportunity. But for this purpose, its own resources existing as well as potential, are limited.

The Units are divided amongst themselves as regards the apportionment of taxes which are to be shared, e.g. Income Tax. Bombay and West Bengal support collection or residence as the basis for distribution; U.P. that of population; Bihar, the combined basis of population and place of accrual; Orissa and Assam want weightage for their backwardness. East Punjab wants her deficit of Rs. 3 crores somehow to be met. In the case of excise taxes, the bases suggested for apportionment are production, collection, consumption, and population. Assam again demands weightage for her low level of revenue, and special treatment of Excise collected on wasting assets, like patroleum produced there. She also wants a share of the export duty on tea.

General Observations.

The Experts Committee appointed by the Constituent Assembly to advise on this problem take their task to consist in a proper distribution of the total available resources among the Union and Unit Governments adequate to the functions imposed on each; so, however, that the arrangements are not only equitable in themselves, and in the interests of the country as a whole, but are also administratively feasible. At the same time, there must not be too violent a departure from the status quo. The weaker or more backward Units must be brought up into line, and the progress of all assured on as even a course as possible.

The basic functions of a Federal Government are Defence, Foreign Affairs, and National Debt, Service,—all unproductive expenditure. "Communications" would ordinarily pay for itself; and may, if properly developed, along with the Transport Service, yield a substantial and progressive surplus. Co-ordination of planned development in research and higher technical education may require increasing aid from the Centre if not its own direct expenditure steadily expanding in volume and variety. The task of active development of the country's aggregate resources cannot be engineered on a planned basis except with Central Aid. The needs of the Provinces are, almost unlimited, particularly in relation to Welfare work and Development programme. If these services and increase of the country's new wealth are to be properly planned and executed, it is imperative that Units should have adequate resources of their own, without depending on the variable munificence or affluence of the Centre. The Provinces must, therefore, have as many independent sources of revenue as possible. It is not practicable at the same time to augment materially their revenues by adding more subjects to the Provincial List, without upsetting the equilibrium of the Centre. Divided resources are thus unavoidable. A few of the most productive and elastic sources of income may be divided, the shares of the Centre and the Provinces in them being adjusted automatically without friction or mutual interference.

Lists of taxes for the Centre and the Units

No great change is recommended in the List of taxes in the Federal Legislative List except that a higher limit Rs. 250 is recommended for taxes on professions, trades, callings and employments. Stamp duty on the transfer of shares and debentures are proposed to be transferred to the Federal list but the duties will accrue to the Provinces, though in view of the far-reaching effects on public credit and finance of Stock Exchange transactions, the Expert Committee thought the Centre should legislate for the regulation of such transactions; and the taxes arising out of such regulation should be retained by the Centre unless they are merely duties on transfers of shares and debentures, when the units should have the proceeds. A few minor changes were also suggested in the Provincial List; but they do not affect the main design. The Expert Committee recommended no new sources of Revenue, and were unwilling to recommend public Lotteries on moral rather than material grounds.

For the Central Government, the Experts Committee recommended the levying, collection and retention of the proceeds of all Federal Taxes, Customs Duties, including export duties; Taxes on capital value of assets and on the capital of Companies, Taxes on Railway fares and freights. If that involved any loss to the Provinces, they recommended Specific grants for a period of 10 years or till the export duties on jute and jute products were abolished, whichever was earlier.

The Expert Committee desired the tax on agricultural incomes to be also Centralised after a number of years if the Provincial Governments concerned agreed to that course. For the rest they suggested that the net proceeds attributable to Chief Commissioner's Provinces should be retained wholly by the Centre; but the proceeds of the income tax on incomes derived from Federal revenues should be shared. The Provinces, they urged, should get not less than 60 per cent. of the net proceeds of all income-tax, including the net proceeds of Corporation Tax, and taxes on federal emoluments. The Centre should have, however, the right to levy a surcharge for its own use, but only in an emergency.*

They also suggested that 50% of the net proceeds of the Central Excise on Tobacco, which does not receive any fiscal protection should be allowed to the Provinces. They, however, did not accept the suggestion that the Union should be confined only to specific excises and all the rest be left to the Units. They do not disturb Sales or Purchases Tax which is now enjoyed by Provinces. It has great potentiality if it is levied at a uniform rate all over the Country and collected Centrally; but the proceeds assigned to the units.

Estate and Succession Duties cannot be administered satisfactorily except by the income-tax staff. If the Centre is to part with a substantial share of income taxes, and also a part of certain Central excises, it should get a share of the Estate and Succession duties. The Experts accordingly recommended that not more than 40% of the net proceeds of such duties should be retained by the Centre.

Terminal Taxes on goods or passengers carried by railway or air are suitable only for purely local purposes, i.e for the benefit of municipalities, pilgrim funds, etc. but they can be conveniently levied and collected only by the Centre. No change was consequently recommended.

Grants-in-Aid and Subventions.

Assam and Orissa now get fixed Subventions of Rs. 30 and 40 lakhs per annum, respectively. The increase in the Provincial share of income-tax and the transfer of a share in the excise on tobacco recommended by the Experts would increase the Provincial revenues substantially. If in spite of that, any Province needs a Subvention, the Expert Commitee have suggested specific amounts for particular Provinces and also a fuller investigation by a special Commission of the entire Problem.

The Experts recognised that during the developmental stages of the country it would be necessary for the Centre to make specific grants to the Provinces from time to time. In India, on the other hand, as for example in the U.S.A., the

*At the last conference of the Finance Ministers, from the various Provinces, strong difference of opinion manifested itself as regards the division of the income-tax and the ways and means to be adopted for liquidating Zamindars.

difference in the levels is very wide, and the number of units larger when acceding States come into the picture. In such a background 'averages' would be mere mathematical concepts totally unrelated to actual facts. On the other hand, even in a Federation of autonomous units, there is a great deal to be said for helping the less prosperous units to come up to the level of the more prosperous ones. As in all such matters, we must take a realistic decision with reference to the conditions in our country. While we do not recommend the adoption in this country of the Australian system, we have no doubt that the Centre, while distributing such specific-purpose grants should bear in mind the varying circumstances in the different Provinces, and try and make the conditions in the several units as nearly approximate as possible.

Special assistance is recommended to Assam in respect of expenditure for promoting the welfare of scheduled tribes in the Province. Similar aid is also demanded on behalf of Orissa to develop her backward areas. The Experts having no data, could not assess the measure of assistance, if any, required by this Province. They consequently expressed the view that if the Central Government, after a due examination of the question in all its aspects, decide that special assistance is necessary, it should be provided on an adequate scale.

Taxes on Agricultural Income and Property.

Taxation of agricultural income, now allowed to the Provinces, while all other income is taxed by the Centre, stands in the way of a theoretically sound income-tax system. In view of the ease with which the origin of agricultural income can be traced, it could be arranged that this tax, even though levied and collected by the Centre, as part of an integrated system of income-taxes, should be handed back to the Provinces. It could be further arranged that till the Centre levies such a tax, the Provinces already levying it might continue to do so. The existing arrangement, on the other hand has the political merit of keeping together in one place both benefit and responsibility. Under the arrangements recommended the Provinces will have full control over but few important heads of revenue. A few provinces have, in fact, levied a tax on agricultural incomes since some years; and they can administer this particular tax with greater facility than the Centre. For the moment, therefore, the Experts recommended status quo. In view, considering, however, the importance of the matter, they suggested that the Provinces should be consulted at once; and if a majority, including those now levying the tax, agree, this tax and a cognate one on Agricultural Property may be omitted from the Provincial List of subjects.

Division of proceeds of Revenue between Provinces.

The Experts discussed at some length the various bases of distributing between Provinces as regards the share of proceeds from taxes on income, and came to the conclusion that no single basis would lead to equitable results. Place of Origin, the residence of Owner, the place of Collection etc., were suggested. But in complex industrial and commercial structure of modern times, where a single point of control regulates a vast net-work of transactions and more than one of these stages relate to the same tax-payer, the assignment of a share of profits to each stage can only be empirical or arbitrary.

Pending enquiry by the Finance Commission which the Experts recommended should be set up at once, the Experts accepted the basis of collection as well as population, making at the same time the necessary provision for adjustment on the basis of need, and recommended the Provincial share of 60% of the net proceeds should be distributed among the Units as follows:—

20% on the basis of population at the last Census.
35% on the basis of collection.
5% to bring about as much equilibrium as possible.

60

As for the Excise Duty on tobacco the most equitable method of distribution is on estimated consumption.

Estate and Succession Taxes have not so far been levied; but a Bill on the subject is now before the Central Legislature. The manner of distribution of the net proceeds of these taxes among Provinces will have to be first determined before such taxes can be imposed. No data about their incidence are available today; and so if and when the taxes are levied, they will have to start with some *a priori* basis for estimate as well as apportionment among Provinces. The Experts therefore recommended for the time being the basis of the location of the real property taxed to apportion and distribute the proceeds. Of the balance—

75% should be on the basis of the residence of the deceased; and 25% on the basis of the population of the Province.

The administration and distribution of these taxes would ordinarily fall on the Central Board of Revenue, it would be necessary to empower an appropriate authority to adjudicate in the case of disputes between Provinces as to the residence of individuals.

Effect of the Proposals.

The net effect of these recommendations is, on the present basis of revenue that the Centre would have to transfer to the Provinces something like Rs. 30 crores annually. A part of this loss will be made good to the Centre by the Estate and Succession Duties, of which it will retain 40%.

The Experts also advised a periodical review so that the method of apportionment can be adapted to changing conditions from time to time on the basis of experience.

Needless to add that to the extent that the Centre transfers its resources to the Provinces, whether new taxes or increased rates on existing sources, its ability to make specific grants to the Provinces must be correspondingly reduced.

Finance Commission.

The initial basis of apportionment among Provinces, suggested by the Experts is, of course, not permanent. They accordingly recommended the immediate appointment of a Finance Commission, a Tribunal of five members including a Chairman of long judicial experience, which need not be a permanent body working whole time, but an ad hoc creation appointed by the President of the Union in his discretion, so as to exclude any chance of a bias in the members.

Pending the setting up of the Finance Commission, the Central Government should take steps in consultation with the Provinces, to collect, compile and maintain statistical information on certain basic matters e.g. the value, volume, and distribution of production, the distribution of income, the incidence of taxes, both Central and Provincial, the consumption of important taxed or taxable commodities, etc.

When set up, this Commission should be entrusted with the following functions:—

(a) To allocate between the Provinces, the respective shares of the proceeds of taxes that have to be divided between them;

(b) To consider applications for grants-in-aid from Provinces and report thereon;

(c) To consider and report on any other matter referred to it by the President;

(d) Make recommendations on any connected subject. In making such recommendations, the Commission must consider all relevant matters, including the state of finances of the Centre. If these recommendations do not involve any change in the Constitution, they would, when accepted by the President, be given effect to by his Order, while those involving a change in the Constitution, if accepted by the President, would be dealt with like any other proposed amendment to the Constitution.

Residuary Powers of Taxation

Under the Draft Constitution, residuary powers of taxation are to be vested in the Centre, so far as the Provinces are concerned, while in respect of the States that will be in the States themselves. To avoid any abuse of this power, all possible taxes that could be listed may be given to the Provinces. But that is obviously impracticable.

Exemption of Provincial Governments From Taxation.

Under the existing constitution profits of state trading by a Province are taxable only if the trade was carried on outside the Province. Trade here includes industrial enterprise also. With the present tendency towards nationalisation of profitable public utilities, like road transport, the exemption of such Provincial enterprise from taxation would cost the Centre sufficiently to necessitate removal of such exemption, or devise some way for the Centre to share in the profits.

The Experts felt that if nationalisation of industries takes place rapidly, the whole question would have to be reviewed de novo, as by that the entire structure of the tax system of the country would be completely changed. It must be remembered, however, that in proportion as the Provincial Revenues expand because of these profits, the need for Grants or Subventions from the Centre would diminish. In fact it is the view of the Interim Report that the course of financial progress would be most satisfactory which substitutes more and more the profits of enterprise for the burdens of taxation.

On trading operations of the Central Government, the Experts recommended exemption from income-tax. This sound principle has been recently abrogated in the case of the

Industrial Finance Corporation. The experts themselves also thought that if the trading is carried on by a separate juristic person, the profits of such enterprise must be taxable.

Trading operations of Units, the Experts further suggested, whether carried on within or without their borders, should be taxable, the tax or contribution in lieu thereof being treated as ordinary income-tax revenue going into the divisible pool.

Quasi-trading operations of Provincial Governments incidental to the ordinary functions of Government, e.g sale of timber by the forest department, or of jail products should not be taxable.

Emergency Provisions.

As for times of emergency, such as war or large scale internal disorder, the Experts suggested, the Constitution should specially authorise the President to suspend or vary the financial provisions in such manner as he thinks would meet the circumstances.

In regard to Borrowing Powers, at present the Provinces can borrow in the open market in India, except when they are indebted to the Centre. This right gives then a sense of financial responsibility. But it is necessary to ensure that borrowing Governments do not, by their competition, upset the capital market. Under existing arrangements the Reserve Bank provides this check, as it advises all the Governments. With a growing programme of economic development all over the country, Borrowing will have to be resorted to on our increasing scale, when expert machinery may be necessary to fix the order of priority in borrowing for the different Governments. A Minister's Conference would help, without prejudicing the responsibility for borrowing policy, to avoid unnecessary competition.

The Experts advised against a Provincial or Government borrowing in a foreign market except with the consent of the Federal Government, and under such conditions as the Federal Government may think fit to impose.

7. Reaction on Indian Finance by the Accession, Admission, or Assimilation of States.

This is the most difficult, perhaps, of the problems facing not only the Finance Minister, but also the Constitution makers. The difficulty arises as much from the lack of statistical data as from the complications of the problem itself, as conditions differ widely between the Provinces and the States and also from State to State, which makes it difficult to apply a uniform formula.

A Committee of the Constituent Assembly, concerned with defining Powers of the Union Government, recommended that uniformity of taxation throughout the Units may, for an agreed period of not more than 15 years after the establishment of the Union be kept in abeyance and the incidences, levy, realisation and apportionment of the above taxes in the State Units should be subjected to agreements between them and the Union Government.

If the Union of India is really to secure for the States a similar standards of economic development to that in the Provinces, fiscal arrangements and administrative efficiency, the readjustment and redistribution of resources would have to be very thorough going.

As a first step to achieve this, the Committee of Experts appointed by the Constituent Assembly recommended, each State should have a proper Budget prepared as soon as possible, and maintain proper accounts regularly audited.

They were quite clear that the States should gradually develop all the taxes which the Provinces are allowed and give up reliance on taxes reserved for the Federation. This process, however, would necessarily take some time; and in the meanwhile it will be necessary to have transitional arrangements. The most important of the Union revenues the States enjoy are Land Customs. Immediate abolition of that source would be inadvisable as it would lead to a serious dislocation in the States' finance. On a long view, however, in the interest of the States themselves, these duties should be replaced by other taxes, e.g. sales and turn over taxes. The time within which this should be accomplished is fixed at 10 years. In the meantime, no State should:—

(1) hereafter levy land customs on a commodity on which there is no such duty now, nor

(2) increase the rate on any commodity, after a fixed date; and

(3) a State levying land customs should grant refunds on re-exports.

Maritime customs should be uniform all through the Union. The Union Government should alone administer them. If this arrangement results in the loss to any State of the revenue now enjoyed by it, it is only fair that the State should be compensated for the loss pending determination of the appropriate compensation in each case by a States Commission.

The Experts recommended that the Union Government may levy Central Excises in all the States. But those States now enjoy the benefit of a part or the whole of these revenues raised in their areas, should receive grants in lieu of these benefits equal to the average revenue during the last three years.

The Indian Income Tax Act, with necessary modification should be applied to all the Federating States. The net proceeds of the tax proceeds attributed to the States may be credited to a States Income Tax Pool, and such portion, not less than 75 per cent. of the net proceeds attributable to each State, may be paid back to the States.

The need for a uniform system of income-tax in the Provinces and States has now become urgent, not only because of the facilities afforded for evasion and avoidance of this Tax by lower rates or no tax at all in the States but also because of the diversion of industries artificially by the incentive of lower taxation.

The experts did not attach much weight to the argument that the States are, as a whole, industrially backward, and so they cannot stand the same high rates of Income-tax as the Provinces.

They recommended, however, the establishment of a States Commission to advise on the financial systems and suggested methods by means of which the States could develop their resources, and fall into line with the Provinces as quickly as possible; to examine in detail the privileges, immunities and liabilities of each State, and recommended a suitable basis of compensation for the extinction of such rights and liabilities.

The States which come into the above arrangements would pay their contribution for Defence and other Central services through their share of the net proceeds of Central taxes retained by the Centre, and nothing more should be expected from them. On the other hand, the States which accede but do not come into the above arrangements should pay a contribution to the Centre, as determined by the States Commission. Though the arrangements recommended by the Experts was of a general nature, they also suggested grouping together a number of smaller States in units of their own as condition precedent to their being brought into any reasonable financial pattern.

8. Post-War Planning.

The Budget of 1946-47 was also remarkable in that that Government announced their policies and plans of post-war development. In a statement issued on April 21, 1945, they declared the fundamental objectives in regards to the country's industrial development which were:—

(1) to increase the national wealth by the maximum exploitation of the country's resources, the new wealth being distributed in a socially equitable manner;
(2) to make the country better prepared for defence, and
(3) to promote a high and stable level of employment.

To attain these objectives, it was proposed:—

(1) to transfer from provincial jurisdiction to the Centre 20 industries,
(2) to nationalise basic industries of national importance,
(3) to assist industries by means of making loans, or subscribing a part of the capital, or guaranteeing a minimum dividend; and buying as far as possible, Indian products in preference to others.

Reference has been made, earlier in the Introduction to this Volume as well as in this Summary, of the gradual realisation by the Indian Authorities of the need for planned development of all resources and potentialities of the country. The Budget of 1946-47, the first peace Budget after six years of war dislocation, had devoted considerable space to outline the policy of the then Government in that regard. A definite policy was formulated in 1944, as explained above, with a separate Department of Government for Planning and Development. As this matter has already been considered while outlining the Budget proposals of 1946-47, and as the entire Series deals with planned development of the country, in every item and aspect of its material and cultural life, no further observations are necessary now on the subject.

9. Growth of Statutory Corporations.

With the coming into power of the National Government a new departure in policy has been made by setting up more than one specific Statutory Corporations to carry out particular objectives. These Corporations affect Public Finance at more than one angle, and are a recent growth rapidly becoming popular. They are not all State-owned in their entirety. But even where they are associated with private enterprise, or have been formed by private capital, under the authority of the Statute, they constitute a new departure a step forward in gradual elimination of private enterprise dominated by the profit motive. However owned, these corporations are not worked, primarily, for profit or a commercial surplus but for service and help to the community. If there is a profit, it comes wholly or in stipulated proportions to the State. The attempt, therefore, made in one of the latest enactments to charge Income Tax to these profits arises out of a complete misapprehension of the nature, function and purpose of these Corporations in developing new facets of our national economy, or exploring new resources.

Mention has already been made of the Industrial Finance Corporation established by specific Act in 1948. So far as the initial finance is concerned, it is privately owned; but it may be acquired by the State within a stated period and the compensation to be paid to the then shareholders is to be calculated on lines laid down in the Act. While it is privately owned, its capital and interest thereon is guaranteed by the State upto a minimum return; and also as regards the shares, bonds or debentures issued by it. A variation of this form is to be found in the creation of three Overseas Shipping Companies which are to be owned jointly by the State (51%) and each of the 3 existing shipping companies, which are to act as Managing Agents for the enterprise for 15 years. The total overseas shipping business is to be divided between them. A similar venture is made with the Airways Corporations, where the State has entered into partnership with a private enterprise holding 49% of the capital, and agreed to assist the new venture in every way so as to develop these services to their maximum potentiality. Wherever necessary, Agreements or Treaties will be made by the State to safeguard this business with Foreign enterprise wherever it exists in these fields, or with Foreign Governments if necessary.

The Hindustan Aircraft Factory is another case of a State Enterprise in a wholly new field. Originally started as a joint venture of the Government of India, the Government of Mysore and a private Corporation, it was meant to make planes and repair them in this country. With the advent of the Lease-Lend system, the American Government the only source for providing parts and accessories in an ever increasing volume, urged the elimination of the element of private profit from the working of this factory. Accordingly, the private partner and Managing Agent, was bought out, within one year.

of the start of the enterprise, at the cost of a very considerable premium on the capital subscribed by him; and the venture is now run exclusively as a State concern. Yet another type of such Corporation is found in the Damodar Valley Corporation or the Electricity Board. These are, from the very start, entirely State-owned, and are to be conducted as so many Public Utility ventures, wherein the element of profit, or the desire to derive a commercial surplus of receipts over expenditure will not predominate. The results of these will be varied and spread over a number of directions, so that it would be impossible to assess their benefits on a strictly commercial basis. Great gains however, are expected from them when the projects, just begun, are completed.

The Reserve Bank of India has recently been nationalised, and is continued as one more wholly State-owned Corporation, governed by a specific Statute. This device of associating private enterprise with the State in the initial period when the public official set to manage such enterprise may be lacking in technical knowledge or experience has possibilities which, however, are not yet fully appreciated, and need to be properly integrated in an all-round National Plan. The corporations set up so far are **ad hoc** creations, not necessarily linked up with one another by any common, consistent bond. Their place also in the planned development of the country has yet to be determined. The older model of the Guaranteed Railways Companies of the XIX Century is considerably modified in these new forms. But their contribution to the development of the country and distribution of the wealth will only be possible to assess properly when such creations are scientifically interlinked and all of them integrated in the National Plan.

10. Development Plans.

Finally a few remarks may be added in regard to the Plans of the Provincial, State and Departments of the Central Government for Development. Reference has already been made to the Provincial Plans made since 1945, and proposals of the Central Government in regard to some of their own Departments, which have been outlined at some length in the 1946-47 Budget. We need not repeat that discussion here beyond observing that Scientific Planning on a national scale continues to attract attention from the leading Statesmen, and has the general sympathy from the public at large. But its definite formulation in a clear-cut Plan, in forms more specific and abiding than mere blue-prints, remains yet to be achieved.

K. T. Shah.

APPENDIX

War-time Budgets

The aggregate war expenditure in India including recoverable war expenditure during the period 1939-40 to 1945-46 came to Rs. 3,484 crores. India's share of this was Rs. 1,744 crores or about 50%, assuming that the recoverable Expenditure, now frozen as Sterling Balances is recovered. And this is without counting the additions India has had to make to her permanent Defence Budget, mainly because of her dependance on an Imperialist Western Power. The overall Governmental outlay during the War years—including civil expenditure, was Rs. 3,996 crores of which Rs. 1,462 crores or 37% was met from current revenue including increased taxation. The balance is partly found in the accumulated Sterling Balances, and partly in addition to India's public debt. That Debt has increased by Rs. 1,077 crores. The revenue increase does not show the increase in the Provincial Revenue.

The following table gives an idea of the change brought about by the War in India's public revenue, expenditure and debt between 1938-39 and 1945-46.*

(In crores of rupees)

	1938-39	1944-45	1945-46
I. Central Government Budget:			
Revenue	84.52	335.57	360.67
Expenditure	85.15	496.71	484.57
Deficit	—0.63	—161.14	—123.90
II. Total Governmental Outlay:	85.15	970.38	894.20
A. On India's Account:			
i) Civil Expenditure	38.97	101.22	124.34
ii) Defence Expenditure	46.18	458.32	395.32
B. Recoverable War Expenditure	—	410.84	374.54

*Cp. Indian Year Book, 1948, p. 718.

			(In crores of rupees)
	1938-39	1944-45	1945-46
III. Central Government Debt at the end of the year:			
i) Sterling Loans:	464.94	34.19	33.84
ii) Rupee Loans	437.87	1,212.14	1,492.20
iii) Small Savings	141.45	159.18	221.52
iv) Treasury Bills and Ways and Means Advances	46.30	86.70	83.33
v) Total Interest Bearing Charges	1,205.76	1,860.44	2,282.38

Though Receipts increased in the aggregate, individual items of revenue showed strange vicissitudes. Customs began to shrink partly due to transport difficulties from Rs. 40,51 crores to Rs. 25,12 crores in 1942-43. Thereafter it recovered, being Rs. 39,76 crores by 1944-45 and very much more sharply in post-war years, being budgeted at Rs. 54.50 crores (revised estimates) 1947-48 and Rs. 81.22 crores for 1948-49. Central Excise Duties also expanded during war years partly on account of enhanced rate on existing items like tobacco, vegetable products, betelnuts, coffee and tea, and partly also by increased consumption. From Rs. 8.66 crores yield in 1938-39 it rose to

Rs. 38.14 crores in 1944-45 Revised

Rs. 46.65 crores in 1945-46

Rs. 34.00 crores in 1948-49 Budget.

Direct Taxation under corporation, income and excess profits taxes expanded much more heavily from Rs. 15.78 crores in 1938-39 (20% of the total revenue) to Rs. 136.18 crores in 1948-49 (Budget) representing about 54% of the total Central revenues. And that without counting the still more considerable evasion of these taxes which has admittedly taken place. Total tax revenue increased from Rs. 72.34 crores in 1938-39 to the peak figure of Rs. 282.67 crores in the revised estimates for 1945-46. The Budget of 1945-46 showed a decline to Rs. 239.15 crores while the latest Budget of 1948-49 puts the aggregate Tax Revenue at Rs. 269.70 crores. Non-tax revenue also spurted up, specially after 1940-41, owing mainly to increased contributions from Railways and Posts and Telegraphs, and the larger profits of the Reserve Bank of India. But the Commercial Departments particularly Railways, have shown a heavy shrinkage being actually a deficit in the Budget of 1948-49.

The expenditure under Defence mounted up steadily, especially after the entry of Japan into the war. From Rs. 49.54 crores in 1939-40 it rose to the peak figure of Rs. 458.32 crores in 1944-45, without counting the so-called capital cost. In the 1948-49 Budget Defence items aggregate Rs. 136.07 crores including Rs. 14.99 crores on capital account. This does not include the Interest and Service Charges on account of Debt incurred for warlike operations. The charges for the servicing of debt more than doubled from Rs. 14.12 crores in 1938-39 to Rs. 22.21 crores in 1944-45, and Rs. 61.82 crores in 1948-49 (Budget) less the Interest debited to commercial departments i.e. Rs. 25.65 or a net payment of Rs. 36.16 crores. This might have been larger still but for decreases in the effective rates of interest.

Deficits on revenue account grew steadily from Rs. 6.53 crores in 1940-41 to Rs. 189.78 crores in 1943-44. With the deficit of Rs. 161.14 crores during 1944-45 and Rs. 144.95 crores in the following year, the total volume of deficits during the period 1940-41 to 1945-46 came to Rs. 627.26 crores. The 1946-47 Budget added another Rs. 44 crores. The Revised estimates of 1947-48 put it at Rs. 6.58 crores, while the Budget estimate for 1948-49 gives it at Rs. 9 crores.

With the possibility of economy and retrenchment being effected on the termination of the War, the taxation proposals for 1946-47 offered a number of substantial concessions to industry and to persons of moderate means e.g. abolition of the Excess Profits Tax after the 31st March 1946; grant of special initial depreciation allowances of 10% on new buildings and 20% on new plant and machinery, as well as allowances for expenditure on scientific research for purposes of income tax; the scope of obsolescence allowance being liable to be widened so as to include the loss of an asset by destruction or demolition, and also extended to buildings; relief from Customs duty on raw materials imported for industry and reduction of rates on such imported plant and machinery as are now dutiable; a net reduction of 1¾ annas in the present total rate of Super Tax and Income Tax (payable by a company) by lowering the Super Tax by 2 annas and the raising of the Income Tax by ¼ anna; exemption from Income Tax for two years in the case of buildings for residential purposes, and an initial depreciation allowance of 15% for buildings used as business premises; reduction of the total rate on life insurance companies by 3 pies.

Other concessions included: reduction of the rate on the second slab of income of Rs. 3,500 from 15 pies, to 12 pies, and the rate on third slab of Rs. 5,000 from 2 annas 1 pie to 2 annas, the raising of the earned income allowance from one-tenth of the earned income, (subject to a maximum of Rs. 2,000) to one-fifth (subject to a maximum of Rs. 4,000). In the Super Tax also there would be differential treatment in favour of earned income at the rate of 1 anna in the rupee between Rs. 25,000 and Rs. 2 lakhs and of ½ anna between Rs. 2 lakhs and Rs. 5 lakhs.

Under indirect taxation, the duty on kerosene oil was reduced by 1½ anna per gallon; reduction in the excise duty on betel nuts by one anna per lb; and 6 pies of the increase in the customs duty on betel nuts; reduction in the duty on unexposed cinematographs film from 6 pies per linear foot as originally proposed to 3 pies; reduction in the price of a matchbox from 9 pies to 6 pies; of a postcard from 9 pies to 6 pies, to come into force respectively from August 1 and July 1, 1946.

Reductions in expenditure arising from the cuts by the Legislative Assembly amounted to Rs. 93.34 lakhs on revenue account and Rs. 3.46 crores under capital disbursements. In consequence of the changes in taxation and expenditure, the deficit of Rs. 44.06 crores for 1946-47 was expected to move up by Rs. 4.19 crores to Rs. 48.25 crores, with revenue at Rs. 341.87 crores and expenditure at Rs. 390.12 crores.

The Capital Budget was presented separately from the Revenue Budget.

The 1947-48 Budget.

The budget for 1947-48 estimated expenditure at Rs. 327.88 crores about Rs. 54 crores less than the revised estimate and Rs. 154 crores less than the accounts for 1945-46. The revenue, on the other hand, was budgeted at Rs. 279.42 crores on the basis of existing taxation, as against Rs. 336.19 crores in the revised estimates for 1946-47 and Rs. 360.67 crores in the actual for 1945-46.

In his budget the Finance Member was mindful that his proposals should be justified not merely on financial considerations but also by achieving certain social objectives like the reduction as far as possible of the glaring disparities of income between the classes and the masses. Proposals to afford relief to the lower income groups included abolition of the salt duty, at a net loss of Rs. 8.25 crores, and raising of the minimum exemption limit in respect of Tax on income from Rs. 2,000 to Rs. 2,500, involving a loss of Rs. 25 lakhs were intended to realise these ends. Because of the consequential loss to revenue, the estimated deficit of Rs. 48.46 crores on the basis of existing taxation would be increased to Rs. 56.96 crores, without counting increase in expenditure resulting from the recommendations of the Central Pay Commission. This gap was proposed to be met by additional taxation:—

Estimated Yield in crores of rupees.	
	Rs.
1. A Special Income Tax on 25% on business profits exceeding Rs. 1 lakh	30.00
2. A graduated Tax on Capital Gains exceeding Rs. 5,000 made in recent years from the disposal of capital assets	3.50
3. A change in the scale of Super Tax so as to reach the maximum of 10½ annas in the rupee at Rs. 1.2 lakhs for unearned income and at Rs. 1.5 lakhs for earned income	2.50
4. Doubling of the rate of Corporation Tax to annas 2	4.00
5. An increase in the Export Duty on Tea from annas 2 per lb. to annas 4	4.00
	44.00

The reports of the Select Committee on the bills relating to business profits tax suggested *inter alia* an abatement of five per cent of the capital at charge in the case of non-director controlled companies or Rs. 1 lakh, or whichever is greater; and a similar abatement of six per cent in the case of director—controlled companies. The exemption limit in the case of Hindu undivided families as well as partnership firms should be raised. On the capital gains tax, the Committee recommended raising the exemption limit from Rs. 5,000 to Rs. 15,000 and fixing the tax at one anna in the rupee on the whole of Capital gains up to Rs. 50,000, raising by stages up to a rate of as. 5 in the rupee on the whole amount of capital gains exceeding Rs. 10 lakhs. The final acts reduced the rate of business profits tax from 25% originally proposed to 16-2/3 per cent, fixing a uniform abatement at six per cent, of the capital at charge or Rs. 1 lakh or whichever is greater, and exemption from the capital gains tax of gains from personal effects.

The Budget also proposed to raise by market borrowing Rs. 150 crores, as against Rs. 112 crores in the revised estimates, and Rs. 250 crores in the budget estimates for 1946-47. The small savings movement was also to be pursued more vigorously.

Referring to the financial aspect of post-war planning the Finance Member stated that the latest estimate showed that the total resources of the Centre, including borrowing, in the first quinquennium for purposes of reconstruction would fall substantially below Rs. 1,000 crores estimated by Government in 1944-45.

Public Debt.

With a further reduction in war-time expenditure and increased efforts towards minimising the deficit, there was a comparatively smaller addition to the Central rupee debt in 1946-47 than in the preceding year. The increase amounted to Rs. 203 crores against Rs. 366 crores in 1945-46. The market borrowings during the year was Rs. 112 crores, falling short of the long-term borrowing of Rs. 250 envisaged in the budget for 1946-47. This was due to preoccupation with conversion operations of the 3½% non-terminable loans, the prevalence of Communal Disturbances and stringent conditions in the money market. Special oating loans were issued in the shape of non-negotiable, non-interest bearing securities for Rs. 139.25 crores for paying subscription to the International Monetary Fund, and for a part payment for buying India's quota of shares in the International Bank.

The public debt of India (including the unfunded debt and other obligations) registered a further increase of Rs. 198.17 crores at the end of March, 1947, with the total outstanding rising to Rs. 2,198.82 crores from Rs. 2,000.65 crores at the end of 1945-46. The Sterling Debt showed a slight decline from Rs. 63.70 crores at the end of 1945-46 to Rs. 59.06 crores made up of loans amounting to Rs. 55.44 crores and service funds of Rs. 3.62 crores.

The total interest-bearing obligations of the Government of India increased by Rs. 1,176 crores from Rs. 1,206 crores at the end of 1938-39 to Rs. 2,382 crores at the end of 1946-47 (revised). The figures include *inter alia* liabilities in respect of the British War Loan suspended since 1931-32, and the balances of Depreciation and Reserve funds of Railways, Posts & Telegraphs, and Income-Tax. Excluding these liabilities, the total regular interest-bearing debt would amount to Rs. 2,032 crores at the end of 1946-47 (revised) as compared with Rs. 1,158 crores at the end of 1938-39. The Budget placed the figure at Rs. 2,189 crores at the end of March 1948.

Assets.

Against this liability the assets of the Government of India were estimated at Rs. 1,515 crores comprising:

1. The Capital outlay on Railways, Rs. 808 crores;
2. The Capital advanced to other Central Commercial Departments of provinces and States, Rs. 122 crores;
3. The Burma Debt Rs. 48 crores;
4. The deposits with British Government to redeem Railway Annuities, Rs. 22 crores; and
5. The cash and securities held on treasury account, Rs. 514 crores.

Of the sterling Debt £324 millions was repatriated since 1937-38 at Rs. 430 crores. Stocks of the value of Rs. 156.76 crores were cancelled while rupee counterparts were issued in respect of the balance of Rs. 273.58 crores.

August 15, 1947.

After the Partition on August 15, 1947, a Supplementary Budget for the period August 15, 1947 to March 31, 1948 was presented for the Union of India. Existing taxes and duties were to be continued and a common currency system, managed by the Reserve Bank would remain upto the end of September, 1948. The initial liability for the outstanding loans, guarantees, Pensions and other obligations of the undivided Government at the time of the partition would be assumed by the Indian Dominion subject to an equitable contribution from Pakistan. The net deficit on revenue account was Rs. 26.24 crores with revenue of Rs. 171.15 crores and expenditure of Rs. 197.39 crores from August 15, 1947 to March 31, 1948. The expenditure estimates include Rs. 22 crores for the evacuation and relief of refugees and inflated defence expenditure. The existing export duty of three per cent on cotton cloth and yarn will be replacd by a duty of as. 4 pr square yard on cotton cloth and as. 6 a lb. on cotton yarn.

Budget for 1948-49

The main features of the 1948-49 budget for the Union of India are summarised below:—

(In crores of rupees)

	15-8-47 to Budget	31-3-48 Revised	1948-49 Budget
Revenue	172.80	178.77	230.52
Expenditure	197.39	185.29	257.37
Defence	92.74	86.63	121.08
Civil	104.65	98.66	136.29
Revenue Deficit	24.59	6.52	26.85

The proposals for now taxation, adjustments or reliefs included:

(1) Reduction in business profits tax from 16 2/3 per cent. to 10 per cent. and the increase in the abatement from Rs. 1 lakh or six per cent. on the capital employed to Rs. 2 lakhs or six per cent, whichever is larger.

(2) Increase in the application of the maximum rate of super-tax from 1½ lakhs for earned and Rs. 1.2 lakhs for unearned income, to Rs. 3½ lakhs for both earned and unearned income, together with a re-arrangement of the slab.

(3) Abolition of the penal super-tax on companies distributing dividends above certain percentages, and a rebate of one anna in income-tax on undistributed profits, i.e., as 5 on distributed profits and as. 4 on undistributed profits of companies.

(4) Reduction of income-tax on companies with an income of Rs. 25,000 and below to half the usual rates.

(5) Exemption of donations to approved institutions and charities from taxation, subject to a maximum of five per cent. of the companies' taxable income, and 10% of individuals', with an overall ceiling of Rs. 2½ lakhs.

(6) Deduction of municipal taxes on property from the assessable income.

(7) Conversion of the export duty of as. 4 per sq. yd. on cotton cloth into 25 per cent. *ad valorem*, and exemption of handloom cloth from export duty, and withdrawal of the export duty on cotton yarn.

(8) The withdrawal of the Excise Duty on betelnuts.

The net effect of the changes will be a drop of Rs. 6.46 crores in the revenue.

New Taxes.

The new taxation proposals were:—

(1) Levy of an export duty of Rs. 80 per ton on oilseeds, Rs. 200 per ton on vegetable oils, and of Rs. 20 per ton on manganese.

(2) Increase in import duty on motor cars from 45 per cent. to 50 per cent. with preference of 7½ per cent, for the United Kingdom.

(3) Excise duty of 25% on the ex-factory prices of cigarettes and increase in the excise duty on certain categories of un-manufactured tobacco from as. 9 to as. 12 per lb. in some cases and from as. 3 to as. 4 per lb. in others.

(4) Increase in excise duty on tea from as. 2 to as. 4 per lb; on coffee to as. 4 per lb; on vegetable products by 50% to Rs. 7-8 per cwt.; on tyres by 50 per cent. and on matches by Rs. 2-8 per gross on all boxes containing upto 50 matches.

(5) Increase in postal registration fee from as. 3 to as. 4, and increase in surcharges on trunk calls from 40 per cent. to 60 per cent. and their amalgamation with the basic rate.

(6) Increase in the corporation tax from as. 2 to as. 3, with a rebate of one anna to companies declaring and distributing dividends in India. In the aggregate, these proposals are designed to yield Rs. 17.72 crores.

This readjustment of taxes was estimated to yield Rs. 11.26 crores, of these Rs. 10 crores were proposed to be transferred to revenue by crediting advance payments against taxes, instead of treating them as deposits. There would still be a deficit of Rs. 5.59 crores; but since the railways were expected to contribute Rs. 4½ crores to the general revenue, the net uncovered deficit was expected to be Rs. 1.09 crores.

The Budget included a provision of Rs. 10 crores for Refugee Relief and Rehabilitation, besides Rs. 10 crores for setting up a Rehabilitation Finance Corporation for the same purpose. Expenditure on this account in 1947-48 will amount to Rs. 14.89 crores against Rs 22 crores included in the Interim Budget.

Food subsidies in 1948-49 were estimated to cost Rs. 19.91 crores, the total Food Imports in the first half of 1948 being expected to cost Rs. 61 crores.

The Capital Budget for normal requirements and to finance the Central and Provincial schemes was estimated at Rs. 165.5 crores in 1948-49. For this market borrowing would be about Rs. 150 crores, and more if conditions are favourable.

Settlement with Pakistan

On a rough estimate, the outstanding debt of the undivided Government of India on August 14, 1947, was about Rs. 33.00 crores, against which assets available were valued at Rs. 28,00 crores thus leaving a net excess of liabilities of about Rs. 500 crores. The arrangement with Pakistan lays down that for all assets located in her territory, she would take a debt equal to their book value, except strategic railways, valued at Rs. 32 crores, written down to 145 crores. Pakistan would also take over a debt equal to the amount of the cash balance of Rs. 75 crores, being her share of the cash balance of the undivided Government, and 17½ per cent. of the net excess of the Central Government's liabilities over its assets.

Pakistan's debt will, however, be reduced by the liability she takes over in regard to Postal Savings Bank, Postal Cash and National Savings Certificates, outstanding in her area, pensions of the undivided Government paid in Pakistan, and the liability for pensions earned by officers who have opted for service there. Pakistan's share will be in the form of a interstate debt to India. On a very rough estimate this debt will amount to Rs. 3,00 crores at 3% interest.

The total debt of Pakistan will be repaid in Indian rupees in 50 annual equated instalments for principal and interest, the repayment commencing in 1952.

New Financial Year.

At the existing level of taxation the total Revenue for the year would be Rs. 230.52 crores and the expenditure charged to revenue Rs. 257.37 crores, with a deficit of Rs. 26.86 crores.

Post-War Planning.

The 1948-49 Budget made substantial provision for Post-War Planning and Development. No reduction was made in the assistance promised by the Centre to the provinces, when the latter were asked to draw up their plans for development. After allowing for the expenditure incurred up to Partition and for the areas now in Pakistan, the outstanding balance of assistance to the provinces at the end of 1947-48 was estimated at Rs. 170 to 180 crores. For Central schemes of development, including resettlement, a provision of Rs. 10.77 crores was made in the revenue budget, and Rs. 25.5 crores in the capital budget for 1948-49.

In addition Rs. 26.5 crores was provided in 1947-48 and Rs. 76 crores in 1948-49 for ordinary capital expenditure. The total provision in the Capital Budget for normal requirements as well as to finance development schemes, both for the Centre and the Provinces, totalled the impressive figure of Rs. 76 crores in 1947-48 and Rs. 165.5 crores for 1948-49.

In the large receipts of E.P.T. and B.P.T. continued in 1948-49 the revenue in 1949-50 may be Rs. 20 crores less than in the previous year. Refugee expenditure may, however, be reduced as also foodgrains subsidies and defence. A balanced budget may therefore be expected in the near future.

Debt Position.

The total interest bearing obligations at the end of 1948-49 were estimated at Rs. 2,231 crores against interest yielding assets valued at Rs. 1,237 crores, while cash and other investments amounted to Rs. 1300 crores leaving a final uncovered debt of Rs. 864 crores. The proportion of the country's debt to its national income also compares favourably with more advanced countries like the U.S.A. and the U.K. This country's debt is only half its probable national income, while in the U.S.A. it is more than 1½ times, and in the U.K. nearly 3 times the national income. The net burden of interest on the dead-weight debt in India amounts to only 10½ per cent. of the revenue next year.

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Printed by G. G. Pathare, at the Popular Press (Bombay) Ltd., 35, Tardeo Road, Bombay 7 and published by M. K. Vora for Vora & Co., Publishers Ltd., 3, Round Building, Bombay 2.