
**Speech of Dr. JIVRAJ N. MEHTA, Finance Minister,
presenting the Budget Estimates for 1957-58 of the
Government of Bombay to the Legislative Assembly
on Saturday, the 23rd March 1957**

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I rise to present to the House the Budget Estimates for the year 1957-58. Events have moved fast since I presented the Budget Estimates for 1956-57. The map of India has been re-drawn and new States have been constituted from 1st November 1956. The final picture as it has emerged largely satisfies the urgent need for maintaining national unity without at the same time curbing regional growth. Bombay State as now constituted comprises almost all Marathi and Gujarati speaking areas extending over 1,90,000 square miles and with a population of over 482 lakhs. Before I come to the main task before me it would not be inappropriate, if I give in brief, the main economic features of the new State.

2. The new State is a substantial producer of commercial crops like cotton, oil seeds, sugarcane and tobacco.

In the field of Industry, Trade and Commerce the new State is the premier State in the country. The State produces over 2/3rds of the mill made cloth produced in the country as a whole. With the inclusion of Vidarbha and Saurashtra in the new State, the production of raw cotton will be about half the

country's production which will further help the growth of Textile Industry in the State. The production of cement in the new State is about 1/6th of the country's production. This will be considerably augmented under the Second Five-Year Plan. The State accounts for over 1/3rd of the electrical energy generated in the country which will record further substantial increase when schemes under execution under the Second Plan are completed. The State accounts for over 40 per cent. of the foreign trade of the country. With the development of Kandla, the State will have two major ports. With these vast resources, I have no doubt that the State will not only maintain its premier position in industry, trade and commerce but that there will be further rapid growth.

SECOND FIVE YEAR PLAN.

3. The Second Five-Year Plan for the new Bombay State provides for an outlay of Rs. 350·14 crores as shown in the following statement. The statement shows the amounts provided under various heads of development together with their percentages of the total outlay. The amounts provided in the next year's budget under various heads and their percentages to the total outlay for the next year are also given. It will be seen that the next year's budget provides for a plan expenditure of Rs. 67·91 crores excluding new expenditure. The largest single item is "Irrigation and Power" which accounts for an outlay of Rs. 27·12 crores, or about 40 per cent. of the total outlay for the next year :—

(In crores of Rupees)

	Total Second Five- Year Plan Allocation for the New Bombay State.	Per- centage to total.	Provision made during 1957-58.	Per- centage to total.
1. Agriculture and Community Deve- lopment.	86.23	24.6	18.21	26.8
2. Irrigation and Power.	137.84	39.4	27.12	39.9
3. Industry and Mining.	12.94	3.7	2.75	4.0
4. Transport and Communications.	29.20	8.3	5.00	7.4
5. Education ...	23.54	6.7	3.36	5.0
6. Health ...	27.46	7.9	4.77	7.0
7. Housing ...	18.15	5.2	3.95	5.8
8. Other Social Services.	7.64	2.2	1.54	2.3
9. Scientific and Indus- trial Research, Languages, Litera- ture, Arts and Culture; all other activities.	7.14	2.0	1.21	1.8
	350.14	100	67.91	100

The above outlay of Rs. 67·91 crores for the next year is in respect of schemes which are already under execution. It will be for the new Government to decide which new schemes should be taken up for implementation during the course of the next year after keeping in view the overall phasing of Rs. 72·8 crores for Plan expenditure for 1957-58 as decided in consultation with the Planning Commission.

The whole field of development under the Plan has been covered in the Governor's address. I will not, therefore, go over the same ground again.

FIVE MONTHS' BUDGET.

4. As the House is aware the Budget Estimates for the new Bombay State for the period of 1st November 1956 to 31st March 1957 were authorised by the Governor under section 70 of the States Re-organisation Act. Copies of these estimates have been distributed to the honourable members of the House. The estimates showed a revenue surplus of Rs. 1·53 crores, the estimates for receipts and expenditure being Rs. 47·25 crores and Rs. 45·72 crores, respectively. The total capital expenditure for schemes other than those of State trading, but inclusive of expenditure met from State Road Fund as authorised by the Governor amounted to Rs. 26·34 crores. In view, however, of the difficulty of framing accurate budget estimates for a part of the year for a new State which comprises of territories from five different States, the actuals for the period may show a considerable variation over the Budget Estimates.

BUDGET ESTIMATES, 1957-58.

5. I will now turn to the main task before me. The Budget Estimates 1957-58 show a revenue deficit of Rs. 2.37 crores on the basis of existing taxation as follows :—

		(Rupees in crores.)
Revenue Receipts	...	106.32
Revenue Expenditure	...	108.69

Revenue Deficit	...	-2.37

Provision on expenditure side is made for standing charges and for schemes already under execution. The general elections in the State are over and very soon there will be a new Legislature and a new Government will assume office. It will be for that Government to decide which new schemes should be taken up for implementation during the next year. It will also be for the new Government to consider the ways and means of covering the deficit on revenue account. Pending the formulation of policy by the new Government, this budget is presented without inclusion of any new schemes and without any change in existing taxation as already mentioned above. The present Legislature will be requested to sanction a 'Vote on Account' for anticipated expenditure for the first four months of the next financial year under Article 206 of the Constitution. The entire budget for

the next year will have to be left for consideration by the new Legislature which will also have to consider new schemes to be taken up next year.

The estimated receipts of Rs. 106·32 crores include Rs. 35·06 crores under "Other Taxes and Duties", Rs. 14·57 crores on account of this State's share in Central Taxes (Income-tax Rs. 11·52 crores, Union Excise Duties Rs. 2·61 crores and Estate Duty Rs. 44 lakhs), and Rs. 13·19 crores under "Land Revenue". The provision of Rs. 35·06 crores under "Other Taxes and Duties" includes an amount of Rs. 24·50 crores for general sales-tax which takes into account a credit of Rs. 1 crore for sales-tax on inter-State trade. As the House is aware, recent Central Legislation levies sales-tax on inter-State trade. Though the realisation under the above levy will be more than Rs. 1 crore, it will be partially offset by the necessity for giving full set-off for the sales-tax paid on the purchase of raw materials used in the manufacture of goods despatched outside the State. The above estimate also takes into account the fact that the realisation next year under the above Legislation will be for less than three quarters of the year. The estimate of Rs. 1·77 crore under "State Excise" takes into account a reduction of Rs. 48 lakhs on account of extension of prohibition to wet areas of the new State. It has been decided that total prohibition should be introduced in all wet areas by April, 1959 in gradual stages. The estimate of Rs. 2·17 crores under "Miscellaneous Departments"

includes an amount of Rs. 1 crore on account of transfer of profits of the Civil Supplies Schemes to Revenue Section. The estimate of Rs. 2.89 crores under "Grants-in-aid from the Central Government" takes into account a credit of Rs. 1.30 crores as grant from the Government of India under the substantive proviso of article 275(1) of the Constitution in accordance with the interim recommendations of the Second Finance Commission. Grants under the above article are given to such States as are considered to be in need of Central assistance. It also takes into account a credit of Rs. 1.27 crores for grant payable to this State under section 74(2)(a) of the States Reorganisation Act, 1956. Under the above section, this State is entitled to receive a sum by which 8.58 per cent. of the total of the amounts payable to this State on account of its share in Income-tax and Union Excise Duties, falls short of Rs. 2.4804 crores. The grant under this section is payable for three years from 1957-58.

The estimate on expenditure side includes Rs. 19.57 crores for "Education", Rs. 11.43 crores for "Police", Rs. 8.66 crores for "Medical" and "Public Health", Rs. 6.90 crores for "General Administration" and Rs. 5.78 crores for "Community Development Projects, National Extension Service and Local Development Work". The estimate of Rs. 8.03 crores under "Miscellaneous" includes an amount of Rs. 2.67 crores for the integration of pay scales and dearness allowance rates of the employees of the new

State and for granting increased rates of dearness allowance to low-paid employees in accordance with recent Government of India scheme. Under the above scheme, a part of the expenditure is subsidised by the Government of India for which a credit of Rs. 67 lakhs is taken on receipt side. As the House is aware, the rates of pay and dearness allowance of the employees of the former States of Madhya Pradesh, Hyderabad, Saurashtra and Kutch were generally lower than those prevailing in old Bombay State. The emoluments of these employees who have been allotted to this State will have to be generally levelled up on the lines of those prevailing in old Bombay State. A provision of Rs. 2.84 crores is also included under this head for grants and other expenditure in connection with Village Panchayats. As these provisions are explained in detail in the Explanatory Memorandum on the Budget Estimates for 1957-58, I will not go over the same ground here.

CAPITAL EXPENDITURE.

6. The next year's budget provides for a Capital Expenditure of Rs. 40.68 crores for schemes other than those of State Trading. The figure is inclusive of an amount of Rs. 2.96 crores for roads which is debited to State Road Fund and is shown under Debt-Deposit Section. The Capital Section includes an amount of Rs. 16.98 crores for Irrigation, Rs. 6.86 crores for Koyna, Rs. 9.21 crores for Roads and Buildings and Rs. 86 lakhs for development of Ports.

It is proposed to meet these items of Capital Expenditure from loans and grants of Rs. 14.40 crores (Rs. 13.07 crores loans and Rs. 1.33 crores for grants) from the Government of India, from our share of Rs. 6.68 crores in Small Savings, by a withdrawal of Rs. 2 crores from the Fund for Development Schemes, Rs. 4.21 crores from balances in State Road Fund, Milk Fund, Sugarcane Cess Fund and Port Development Funds, etc. The rest will be met from open market borrowing and other sources.

Items under "Loans and Advances" include an amount of Rs. 5.30 crores for Loans to the new Bombay Electricity Board, Rs. 1.95 crores for Loans under Industrial Housing Scheme and Rs. 1.05 crores for loans under Low Income Group Housing Scheme.

WAYS AND MEANS.

7. The opening balance on 1st November 1956 was Rs. 36.53 crores inclusive of the amount invested in Treasury Bills. This is a tentative figure and is likely to undergo change on the basis of the final accounts for the period from 1st April 1956 to 31st October 1956 of the old States, whole or part of whose territories are now comprised in the new Bombay State. The accounts for the period ending 31st October 1956 are open for adjustments up to 30th April 1957 and the final opening balance for the new Bombay State on 1st November 1956 will be known only in June 1957. On the basis of Budget Estimates for the period of five months from 1st November 1956

to 31st March 1957 as authorised by the Governor, there will be an overall deficit of Rs. 4.22 crores as shown below :—

		(In crores of Rs.)
Revenue Surplus	+1.53
Net Capital expenditure (i.e., Expenditure exclusive of amounts met from earmarked Funds)	-21.82
Betterment under Debt Heads inclusive of Loans received from the Central Government	+16.07
		<hr/> -4.22 <hr/>

The year 1956-57 will thus close with a balance of Rs. 32.31 crores. As already explained by me earlier the actuals for the period from 1st November 1956 to 31st March 1957 may show considerable variation over the budget estimates. To that extent the closing balance will differ from what is given above.

The next year's estimates show an overall deficit of Rs. 25.13 crores as shown below :—

		(In crores of Rs.)
Revenue Deficit	-2.37
Net Capital expenditure (i.e., expenditure exclusive of amounts met from Funds)	-35.10
Betterment under Debt Heads inclusive of Loans from the Central Government but without taking into account open market borrowing	+12.34
		<hr/> -25.13 <hr/>

The year 1957-58 is thus expected to close with a balance of Rs. 7.18 crores inclusive of amounts invested in Treasury Bills. This balance will go up to the extent of our open market borrowing during the next year which will be partly counterbalanced on account of new schemes that will be taken up by means of supplementary demands.

MEMORANDUM TO THE FINANCE COMMISSION.

8. As the House is aware, Article 280 of our Constitution provides for appointment by the President of a Finance Commission once in every five years to consider matters pertaining to Central-State financial relations in the light of dynamic and ever-changing trends of public finance in the country. Accordingly, the President of India, on the 1st June 1956, has appointed India's Second Finance Commission to consider the following matters :—

(1) (a) The distribution between the Union and the States of the net proceeds of Taxes on Income other than the Corporation Tax as provided in Article 270 ;

(b) The distribution among the States *inter-se* of the net proceeds of Estate Duty on non-agricultural property which is being levied since October 1953, subject to the consent of the Parliament.

(2) The distribution between the Union and the States of the whole or a part of Union Excise Duties subject to the consent of the Parliament.

(3) The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India, particularly grants-in-aid under the substantive proviso of article 275 (1) and

(4) The modifications, if any, in the rates of interest and the terms of repayment of loans made to the various States by the Government of India between the 15th day of August 1947 and the 31st day of March 1956.

9. The views of the Government of Bombay on the above matters are being conveyed in the form of four memoranda, one each on the above subjects. Copies of the memoranda are being circulated to the members of the House for their information. The case of the Bombay State has been stated in detail in these memoranda; here I shall only allude to the main points of our case. In the distribution of taxes on incomes other than the Corporation Tax, throughout the post-Independence decade, the Government and the people of Bombay State are being done continuous injustice in spite of our increasing contribution to the tax and overgrowing financial responsibilities by extension of the area of administration from time to time. Under the Otto Niemeyer formula of 1937 that remained operative upto the time of partition in 1947, the pre-merger Bombay Province with a population about 200 lakhs used to get 20 per cent. of the State share of income taxes. Since then, the population of the State after the merger of Baroda, Kolhapur and

other princely states increased to 359 lakhs and yet the First Finance Commission reduced the State Income Tax share to 17.5 per cent. even though the overall share of State Governments in the country was raised to 55 per cent. of the national revenue. As a result of the Reorganisation, the population of the State has increased to 482 lakhs and our contribution to income tax as measured by collection has grown to over 50 per cent. And yet, the Reorganisation Act as well as the interim recommendation of the Second Finance Commission for 1957-58 has given us a State share of only 18.91 per cent. In matters relating to the distribution of Income Tax as well as Estate Duty, it is my humble belief that the role of the Finance Commission as provided in articles 269 and 270 is that of a Constitutional Arbiter between the Centre and the State. The First Finance Commission evidently overlooked this and distributed income tax 80 per cent. according to needs (population) and 20 per cent. according to collection. One of the effects of the First Finance Commission Award has been that the States that benefitted most have not fulfilled their assigned targets of additional taxation provided in the First Five-Year Plan drawn up by the Planning Commission in consultation with the State Governments concerned. The House will, however, be pleased to know that we have fulfilled the target of additional taxation set for us. Unfortunately, the resilience and self-help of this State was considered a disqualification for economic and financial justice in the past. I have every hope

that the Second Finance Commission will undo the wrong that has been done to it.

Article 269 provides that Estate Duty along with five other taxes like the Terminal Tax, Sales Tax on Newspaper Advertisements, Stamp Duties, etc. does not form part of the Consolidated Fund of India ; and yet the Government of India, at present, distributes the net proceeds of the Estate Duty among the States as if it were an item of central revenue which can be distributed as grants-in-aid on the basis of population and needs. The centralisation of Estate Duty along with five other taxes mentioned in Article 269 is provided only for the sake of administrative convenience and uniformity. Any deviation from collections as a basis of distribution in favour of population or needs amounts to giving of grants-in-aid from out of the revenues of one State to the others and is thus not in accordance with the spirit of our Constitution.

10. The First Finance Commission had recognised that 40 per cent. of the Union duty of Excise on Tobacco, Vegetable products and Matches can well be distributed to the States according to their relative consumption of commodities and yet the Commission recommended the distribution to be based on population in the absence of reliable data of State-wise consumption of the commodities. Recently the National Development Council has decided that the existing States Sales Taxes on cotton cloth, sugar and tobacco should be replaced by a corresponding surcharge on Union Excise Duty and that the proceeds should be

distributed on the basis of consumption. To work out the pros and cons of this proposal, the Government of India have already taken measures to collect data of consumption and there should now be no difficulty in distribution of Union Excise Duties on selected commodities like cotton cloth, sugar, matches and tobacco according to State-wise consumption. We have also suggested that the total States' quota of 40 per cent. should be raised to 50 per cent. of the Union Excise Duties.

11. The former Bombay State by its policy of self-help and prudent financial management always sought for and succeeded in keeping a balanced revenue account budget. The new State, however, faces transitional responsibilities of (a) administrative necessity of reorganisation of pay scales and grant of dearness allowance at a uniform level prevailing in the major portion of the State, i.e. at the higher level of the former Bombay State; (b) inevitable necessity of extending the accepted State policy of prohibition prevailing in Saurashtra, part of Vidarbha and the former Bombay State areas to the rest of Vidarbha and Marathawada areas; (c) the mounting indispensable requirements of increased Five Year Plan provisions on revenue account according to the target phasing decided upon in consultation with the Planning Commission and (d) the financial responsibility of meeting recurrent budget deficit estimated at an annual amount of Rs. 1.25 crores in the case of Kutch and about Rs. 1 crore each in the case of Saurashtra and Marathawada. Additional taxation according to the targets set by the Planning Commis-

sion and the financial advantage by the separation of Karnatak will enable us to meet responsibilities at (a), (b) and (c), but not (d), in the next few years. The Government of Bombay has, therefore, requested the Finance Commission to recommend an annual grant of Rs. 3.25 crores to the Bombay State under the substantive proviso of Article 275(1).

We have also suggested to the Commission that the existing subvention from the Petrol Duties for road expenditure at the rate of 2 annas 6 pies per gallon, which was almost 50 per cent. of the previous rate of duty of 6 annas per gallon and which has remained unaltered since 1930, should likewise be increased to 50 per cent. of the Central Petrol duty levied since 1951 at 15 annas 9 pies per gallon.

12. During the First Five-Year Plan an aggregate capital expenditure of over Rs. 1300 crores has been incurred by the Centre and the State Governments in India and the public debt of both has increased considerably. One of the anomalous results of the financing of capital expenditure during the First Plan has been that though the public debt of the Government of India has increased from Rs. 2561 crores in 1950-51 to Rs. 3312 crores by the end of 1955-56, i.e., by Rs. 751 crores, the interest charges borne on the Central revenues, because of the Central debts has declined from Rs. 34 crores in 1951 to Rs. 32 crores in 1955! Contrasted with this, while the overall debt of the State Governments has increased by Rs. 721 crores, the annual debt service charges have increased by Rs. 43 crores. This has happened because large scale

loans are being given by the Government of India to the States, not out of funds, obtained by borrowing, but from deficit finance of Rs. 350 crores and foreign aid of Rs. 230 crores, half of which latter are grants and the rest loans. The Government of India actually disburses loans to the States on terms and conditions on which open market borrowing is available. Deficit finance is, however, a much cheaper mode of obtaining funds and though the whole country shares the sacrifices of deficit finance, the Government of India derives financial advantage out of the process by burdening the States with heavy loan charges and transferring thereby a portion of their own legitimate share of the burden of the public debt to the States. The loan transactions between the Centre and the States, since the public sector is one and indivisible, should be conducted on a "no profit, no loss" basis and I would humbly suggest that it would be the responsibility of the Second Finance Commission to bring about equality of sacrifices of the growing burden of the public debt of the Five-Year Plans between the Central and the State Governments.

13. This is the last budget that I have the honour to present to the present Legislature. Before I conclude I would, therefore, like to thank all the honourable members for the co-operation they have always extended to me. I would specially like to thank the members of the Estimates Committee and the Public Accounts Committee for their valuable assistance during my tenure as Finance Minister.

With these words, Sir, I present the Budget Estimates for the year 1957-58.

BOMBAY

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