



GOVERNMENT OF INDIA

Report

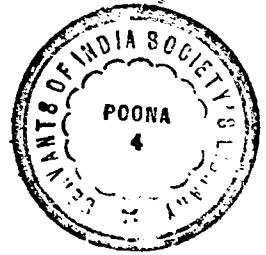
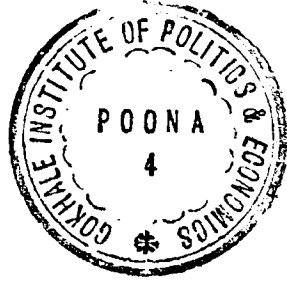
OF THE

TAXATION ENQUIRY COMMISSION

1953 - 54

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VOL I



REPORT

OF THE

TAXATION ENQUIRY COMMISSION

1953-54

VOLUME I

CONTENTS

<i>Chapter</i>	<i>Pages</i>
I. INTRODUCTORY	1—7
Appointment of Commission and terms of reference	1—2
Procedure of enquiry	2—3
Background of enquiry	3—5
Plan of the Report	5—6
Acknowledgments	6—7
II. THE TAX SYSTEM AND TRENDS IN PUBLIC REVENUES	8—33
TAX STRUCTURE UNDER THE CONSTITUTION	
Tax powers of the Union and the States	8—9
Distribution of certain revenues between the Union and the States	9—11
Grants-in-aid	11—14
Local Finance	14
TRENDS IN PUBLIC REVENUES	
Combined public revenues of India : shares of different levels of government	15
Composition of combined public revenues	15—18
Direct and indirect taxes	18
Non-tax revenues	19
Public revenues and national income	19—21
Revenues of the Central Government	21—24
Revenues of State Governments	24—29
Revenues of local bodies	29—31
Relative elasticity of Central and State revenues	31—33
III. TRENDS IN PUBLIC EXPENDITURE	34—44
Relative growth in expenditure of Central and State Governments	34—35
Changing composition of Central and State expenditure	35—37
Factors of growth in expenditure of Central and State Governments	37—39
Distribution of combined public expenditure of all Governments	39—40
Comparative picture of State expenditures	40—41
Expenditure of Central and State Governments on capital account	41—42
Economic effects of public expenditure	42—44

Chapter	Pages
IV. INCIDENCE OF TAXATION : APPROACH AND SCOPE OF STUDY	45—62
✓ Enquiry into formal incidence	45
Tax burden and public expenditure	45
Tax incidence in relation to income groups	46
State-wise differences in incidence	46—47
Problems in study of incidence, tax-wise	47—48
Data on family budgets	48—51
Assumptions and method	51—56
<i>Appendix I.</i> Sampling Design	57—59
<i>Appendix II.</i> Assumptions and method regarding sales tax and other indirect taxes.	60—62
V. INCIDENCE OF TAXATION : ANALYSIS	63—84
Pattern of rural and urban expenditure	63—65
Non-monetary sector of the economy	65—66
Tax element : per capita tax	66—67
✓ Incidence of indirect taxation ✓	68—69
✓ Central excise duties and sales tax ✓	69—73
✓ Incidence of land revenue and income-tax ✓	73—74
INTER-STATE COMPARISONS OF TAX INCIDENCE	
Per capita tax revenues of different States	74—76
Per capita and per acre land revenue	76—78
CONCLUSION	78—81
<i>Appendix.</i> Estimates of consumer expenditure in the rural sector by individual States	82—84
✓ VI. THE DEVELOPMENT PROGRAMME AND TRENDS IN INVESTMENT : PUBLIC SECTOR	85—97
Objectives, nature and scope of development programme	85—89
Progress of the Plan	89—95
The next Plan and tax policy : deficit financing	95—97
✓ VII. THE DEVELOPMENT PROGRAMME AND TRENDS IN INVESTMENT : PRIVATE INDUSTRIAL SECTOR	98—143
Industrial development programme and progress	98—100
Objectives and scope of our enquiry	100—101
Scope of data	101—103
Structure of corporate sector	103—105
CAPITAL FORMATION AND ITS FINANCING	
Measurement of capital formation	106

Composition of gross capital formation : fixed assets formation and inventory accumulation	106—108
Year to year movements in fixed assets formation and inventory accumulation	108
Liquid assets position	108—109
Growth of fixed assets and inventories : industry-wise	109—113
Gross capital formation in corporate industrial sector	113—114
Financing of capital formation : 448 companies	114—115
External and internal financing of net fixed assets formation	115—117
Industry-wise increase in paid-up capital	118—120
THE ALLOCATION OF PROFITS	
Gross profits in relation to gross sales and capital employed	120
Net profits in relation to net worth and paid-up capital	120—124
Tax distributed and retained profits	124—127
Remuneration of managing agents	127
THE PROBLEM OF REPLACEMENT	128—131
FINANCES OF PRIVATE LIMITED COMPANIES	
The Structure of private limited companies	132—133
Capital formation	133—134
Sources of finance for assets formation	134—135
Depreciation policy	135—136
INVESTMENT AND SAVING IN THE ECONOMY	
Urban residential construction	137
Rural investment	137
Savings estimate	137—139
<i>Appendix I.</i> Pattern of distribution of assets and liabilities	140
<i>Appendix II. A.</i> Increase in paid-up capital—by size of companies	141
B. Profits after tax—by size of companies	141
<i>Appendix III.</i> Classification of private limited companies	142—143
OUTLINES OF TAX POLICY	144—169
Terms of reference	144
Objective of dealing with inflationary and deflationary situations	145
Objective of lessening inequalities in income and wealth	145—147

Equity in taxation	147—148
✓ Tax system for development programme ✓	148—150
✓ Limits of taxation : taxable capacity ✓	150—152
Taxation and borrowing ✓	152—153
Deficit financing ✓	153
Other resources for development ✓	154
✓ Approach to incentives for savings and investment ✓	154—155
✓ Direct and indirect taxes ✓	155
Uniformity in taxation	156
Ear-marking of tax receipts	156—158
✓ Tax policy in relation to inflationary and deflationary situations	158—162
✓ Sources of additional tax revenue ✓	162—167
✓ Inter-governmental tax co-ordination and tax research	167—169
 IX. NON-TAX REVENUES—CENTRAL AND STATE GOVERNMENT UNDERTAKINGS	 170—193
Non-tax revenues and public enterprises in other countries	170—172
Objectives and scope of public enterprise in India	172—173
CENTRAL GOVERNMENT UNDERTAKINGS	
Railways	173—175
Posts and Telegraphs	175—176
Opium	176
Currency and Mint	176
Other Central Government commercial undertakings	176—177
STATE GOVERNMENT UNDERTAKINGS	
Electricity undertakings	179—180
Road transport	181—182
Industrial enterprises of States	182
Mysore	182
Travancore-Cochin	182
Madhya Pradesh	183
Bombay	184
Hyderabad	184—185
 X. NON-TAX REVENUES : PROBLEMS AND POLICY CONSIDERATIONS	 194—209
PRICING POLICIES	
✓ Present pricing policies of State undertakings	194—195

<i>Chapter</i>	<i>Pages</i>
Pricing policies of Railways	196—197
Freight rates	197—198
Railway fares	198
Taxes on Railway fares and freights	198—199
The postal system	199
Other State undertakings	199—203
ALLOCATION OF PROFITS AND TAXATION OF STATE UNDERTAKINGS	
Allocation of profits	203—204
Taxation of public undertakings	204—206
Organisation and management of public under- takings	206—207
State trading	207—208
Fiscal monopolies	208—209
 <i>Summary of Conclusions and Recommendations</i>	 210—216
<i>Statistical Appendix</i>	217—334
<i>Statements relating to Chapter II</i>	217—241
<i>Statements relating to Chapter III</i>	243—260
<i>Statements relating to Chapter VII</i>	261—334

CHAPTER I

INTRODUCTORY

(The Taxation Enquiry Commission was appointed by the Government of India) in pursuance of Resolution No. F.3(7)-B/53, dated 1st April 1953 of the Ministry of Finance, the main part of which is as follows:—

“The Government of India have had under consideration for some time the question of instituting a comprehensive enquiry into the system of taxation in this country. The last enquiry into taxation was conducted by the Indian Taxation Enquiry Committee nearly thirty years ago. Since then far-reaching changes have taken place in the country's political and economic spheres and the picture of India's public finances is very different from that in 1925. In recent years there has been a widespread demand for a fresh enquiry and although a decision in principle to have such an enquiry was taken as far back as 1946, the constitutional changes following the Partition and the other pressing problems resulting from it delayed the implementation of this decision. The Government of India have, as announced by the Finance Minister in his Budget speech, now decided to appoint a Commission to conduct a comprehensive enquiry into taxation. The Commission will consist of

Chairman:

Dr. John Matthai

Members:

Shri Vaikunth L. Mehta, former Finance Minister of Bombay,

Dr. V. K. R. V. Rao, Director, Delhi School of Economics, Delhi,

Shri K. R. K. Menon, Secretary to the Government of India, Ministry of Finance, New Delhi,

Shri B. Venkatappiah, I.C.S., Executive Director, Reserve Bank of India, Bombay, and

Dr. B. K. Madan, Economic Adviser, Reserve Bank of India, Bombay.

Sardar Indarjit Singh, lately Commissioner of Income-tax, Delhi, will be Secretary to the Commission.

The terms of reference to the Commission, which have been settled in consultation with the State Governments, are as follows:

- (1) To examine the incidence of Central, State and Local taxation on the various classes of people and in different States;

- (2) To examine the suitability of the present system of taxation—Central, State and Local—with reference to (a) the development programme of the country and the resources required for it, and (b) the objective of reducing inequalities of income and wealth;
- (3) To examine the effects of the structure and level of taxation of income on capital formation and maintenance and development of productive enterprise;
- (4) To examine the use of taxation as a fiscal instrument in dealing with inflationary or deflationary situations;
- (5) To consider other relevant matters; and
- (6) To make recommendations, in particular, with regard to (a) modifications required in the present system of taxation, and (b) fresh avenues of taxation.”

2. A Press Note was issued by the Commission on 8th April 1953, inviting from individuals and organisations a general statement of their views on the issues covered by the terms of reference of the Commission preparatory to framing a detailed questionnaire. The Secretariat of the Commission, consisting of a nucleus staff, was moved from New Delhi to Bombay in May 1953; the full complement of officers and other staff was, however, not appointed until much later. The Commission published its Questionnaire on 17th July 1953. The Questionnaire was divided into six parts, namely, the Tax System; Direct Taxes; Commodity Taxes (Central and State); Agricultural Income-tax; Land Revenue and Irrigation Rates; Other Taxes (Central and State), and Local Taxation. Copies of the Questionnaire were sent to the Central and State Governments, corporations, municipalities and village panchayats, business and commercial organisations and other associations, University Departments of Economics, and a number of individuals in India and abroad who were likely to be particularly interested in the work of the Commission. The Commission's Press Note of 8th April 1953 and the Questionnaire are reproduced in Volume IV.

3. In addition to the Questionnaire issued to the public, separate supplementary Questionnaires were sent to the State Governments, to Ministries of the Central Government, to the Central Board of Revenue, and to 165 selected municipalities and corporations, 83 district local boards and 453 village panchayats. The municipalities, corporations and local boards to which the supplementary Questionnaires were addressed, were selected on the basis of a random sample, while the village panchayats about which the Commission did not have adequate information were selected by the State Governments on the basis of the criteria indicated by the Commission as regards their population, income and date of establishment.

4. Most of the replies to the Questionnaire were received by the end of October 1953. Altogether, 226 individuals and organisations sent memoranda in response to the Press Note of 8th April 1953 and 457 individuals and organisations replied to the Questionnaire, besides Departments of the Central Government, State Governments, local bodies and village panchayats. The replies from the latter

numbered 419 in all. A list of the memoranda received by the Commission is given in Volume IV.

5. At an early stage in our work we felt the need for instituting certain enquiries with a view to gathering information and material bearing on the first and the third of the terms of reference, viz., relating to incidence of taxation and capital formation. An analysis of the incidence of taxation was made, based on the household consumer expenditure data of the fourth round of the National Sample Survey. In addition, a special enquiry into capital formation and the means of its financing in regard to the corporate industrial sector was instituted; a Questionnaire to selected public limited companies was issued on 17th November 1953. A complementary (but more limited) enquiry into the finances of private limited companies was also carried out on the basis of information made available by the Commissioners of Income-tax in response to a special Questionnaire.

6. The Commission started on tour for taking oral evidence from 16th November 1953. It visited the headquarters of all Part A and Part B States; the witnesses from Part C States were interviewed at places convenient to them. The tour programme lasted until 5th May 1954, after which the Commission held sittings for taking oral evidence at Bombay which ended on 13th May 1954. In every State, the Commission met the Chief Minister and his colleagues for informal discussions, besides meeting the Ministers concerned and their advisers separately. The Commission also met some representative members of the legislature in each State. At Delhi, the Commission examined officers of the following Ministries of the Government of India: Finance, including the Central Board of Revenue, Commerce and Industry, Production, Transport, States, Natural Resources and Scientific Research. A list of witnesses examined at each centre is given in Volume IV.

7. Before we proceed to indicate the line of treatment we have adopted in our Report, it may be useful to present briefly the background of economic change and policy against which it is necessary to view the problems of Indian taxation.

8. (When the last Taxation Enquiry Committee reported in 1925, the political and economic scene in India was different from that which we find to-day. Then, India was still a dependency of the United Kingdom) and it consisted of British India and Indian States. British India included Burma as well as the whole of Bengal and the Punjab, besides the North West Frontier Province, Baluchistan and Sind; in other words, India consisted of the entire area which now forms the three countries of India, Pakistan and Burma. At the same time, the Indian States did not form part of the structure of public finance existing in British India; they had separate budgets and separate sources of revenues; few of them imposed income-tax; nor were they subject to the income-tax of British India; the maritime States imposed their own customs duties, while many of the others levied import and export duties on their trade with British India. (There was no plan of economic development, nor was there any attempt at building up a Welfare State. Organised industry except in cotton and jute was in an initial stage of development and

the bulk of the country's requirements by way of manufactures was met by imports from abroad. In the field of public finance, customs dominated central revenues, while land revenue dominated the revenues of British Indian provinces. The salt tax was an important source of revenue for the Central Government, while excise duties on liquor constituted the second major source of revenue for the British Indian provinces. There was no prohibition and no sales tax. Income-tax was an important source of revenue for the Central Government, but the maximum rate of income-tax and super-tax was only 47 per cent. on incomes above Rs. 5½ lakhs. The situation remained substantially the same in the field of public finance till the beginning of the War. During the War and post-war years changes took place in quick succession.)

9.(The position is different to-day. First of all, India is now an independent country) and it includes the former Indian States, but excludes Burma. It also excludes the North West Frontier Province, Baluchistan, Sind, West Punjab and East Bengal, which constitute the new State of Pakistan. (A number of manufacturing industries have grown up within the country during the last thirty years, the effects of which are seen in a marked change in the composition of our import trade and in the increased importance of central excise duties. Partition with its loss of areas surplus in foodgrains, raw cotton, and raw jute has made a significant difference to our import trade, and this, taken together with the effects of increasing industrialisation, has considerably reduced the importance of customs as a major and expanding source of revenue. Income-tax has developed greatly and stands out to-day as the most important single source of revenue in the country.) The salt tax has been abolished. There is complete prohibition in four States and partial prohibition in many of the others with the result that excise duties on liquor have ceased in many States to be either a major or growing source of revenue. (The sales tax has become a principal source of revenue for most State Governments,) while the place of land revenue has declined in importance in the fiscal system. War finance and post-war policy have led to inflation and a steep rise in prices so that both national income and public revenues have increased from 4 to 4½ times in money terms and so has public expenditure. (Taxation has increased, but not uniformly over its various constituent items, so that the incidence and effects of taxation are also different today. At the same time, the needs of the public exchequer have been growing at a fast pace. The country has adopted a programme of increasing developmental expenditure. The Welfare State has become an accepted objective, involving increased expenditure on social services. The tax system is, however, responding but slowly to the increased effort required of it, and there is currently a large and growing gap between governmental revenues and governmental expenditure. At the same time, influential sections of public opinion complain of the heavy burden of taxation and its deterrent effect on capital formation and economic development in the private sector. There is also a feeling that the burden of taxation is uneven in its incidence on different classes of income and on different income groups and that unless this is rectified, the tax system will not play its proper role in the new

order envisaged by the Directive Principles of State Policy embodied in the Constitution. The onset of inflation and the threat of deflation have turned public minds to the problem of how far the tax system can be used to deal with such situations.)

10. The tax system has grown on an *ad hoc* basis, but its growth is big enough to warrant a thorough and comprehensive enquiry into its structure, composition and level with a view not only to its rationalisation but also its better use as an instrument for implementing the economic objectives of free India. There is the paramount need to increase public outlays on economic development and on social welfare concurrently with increased investment on economic development in the private sector. There is simultaneously an imperative need to diminish inequalities in income and wealth in the community. It is in the context of these apparently contradictory objectives that the tax system has to be examined. It is a complex and difficult task on which we embark not with any expectation of reaching clear-cut conclusions but rather in the hope that our Report will help a better understanding of the issues involved in Indian taxation.

11. In our treatment of the subject, we have found it difficult to make a proper historical analysis of financial trends, mainly because of Partition and the subsequent integration of Indian States which make for a lack of continuity and comparability in the statistical material available to us. Nevertheless, we have attempted, wherever possible, to review the historical background and thus set our analysis and recommendations in their proper perspective. We have refrained from any examination of the problems of federal finance and of the distribution of revenues and expenditure between the Central Government and the States, which have already received comprehensive treatment at the hands of the Finance Commission. We have also not given any detailed treatment of the problems and policies of public expenditure. They have a bearing on a study of taxation, but together they form an entirely distinct subject which needs careful separate inquiry and study. We have, however, included a brief review of the trends of public expenditure in our Report.

12. The Report is divided into three volumes. Volume I deals with the tax system as a whole—Central, State and Local. The second chapter of this Volume describes the tax structure under the Constitution before going on to review the trends in revenue of the Central Government, the States and local bodies. Chapter III gives a brief account of the pattern of public expenditure and of recent developments in the same, particularly in relation to any effects it has in the direction of lessening the economic inequalities as between regions or classes of the people. The fourth and fifth chapters give an analysis of the incidence of the main part of Central and State taxation on various income-groups and in different States. Chapter IV gives our approach to an analysis of the problems involved in a study of the incidence of taxation and Chapter V sets out the results of the analysis. Having regard to the importance in our terms of reference of the development programme in the public sector and development and capital formation in the private sector, the next two chapters attempt an account of the trends in investment in the

economy in the public and private sectors respectively. Chapter VI is concerned with a general assessment of the problems of financing of the development programme and concludes with a reference to deficit-financing. In Chapter VII we give the results of the surveys conducted by the Commission into capital formation and its financing in the corporate industrial sector, including public and private limited companies and attempt to estimate the order of the problem in relation to the company sector. An attempt is similarly made in the chapter to form some estimate of capital formation (investment and saving) in the economy as a whole, including the public and private sectors. In the eighth chapter, we outline the main elements of tax policy appropriate to the present stage of development in the country and indicate the directions along which, within the framework for tax policy that is set out there, we suggest modifications in the field of the important taxes; after a discussion of the use of taxation as an instrument in dealing with inflationary or deflationary situations, the chapter concludes with a section on tax co-ordination and tax research. The last two chapters of the Volume deal with non-tax revenues, Central and State, with particular reference to Central and State Government undertakings and the problems and policy considerations involved.

13. In subsequent volumes, we proceed to a detailed treatment of individual taxes, Central and State. (Volume II relates to Central taxes, direct and indirect, principally income-tax (including corporation tax), customs and excise duties, though it also deals briefly with the estate duty levied recently. In Volume III we deal with State taxes relating to land and agriculture, the sales tax and miscellaneous taxes. The problems of local finance are also dealt with in that Volume. The treatment in these two volumes covers the history and development of the individual taxes, their structure, rates and problems of scope, assessment and administration. A summary of the conclusions and recommendations in each volume is given at the end of the volume concerned.)

14. We wish to take this opportunity to express our gratitude to all individuals, associations, chambers and other organisations in India and abroad, who assisted us by tendering written and oral evidence before us. Our special thanks are due to the State Governments and Ministries of the Central Government and their officers, including the Central Board of Revenue, who supplied us with comprehensive memoranda and detailed information on the various matters relevant to our enquiry. The State Governments were good enough to make excellent arrangements for our tour everywhere. Our labours were considerably lightened by the co-operation we received throughout from all Governments on whom heavy burdens were placed by our requests for information which were met with uniform promptness.

15. To the Officers and Staff of the Commission, we are deeply indebted for the ability and zeal with which they performed their duties during a long and exceptionally strenuous enquiry. Our Secretary, Sardar Indarjit Singh, brought to the work of the Commission not merely his wide and up-to-date knowledge of taxation matters but a high degree of organizing and administrative ability. Shri P. S. Nadkarni, Joint Secretary, was of special assistance to us

in the field of State taxation in which his clear and accurate grasp of the subject made him a most useful guide and counsellor. The other Joint Secretary, Shri R. Kothandaraman, did valuable work in the elucidation of difficult issues involved in income-tax practice and administration. Dr. N. A. Sarma, Director of Research, brought a well-trained and discerning mind to bear on the investigation of the economic aspects of taxation. We wish to express our warm appreciation of the co-operation we received from these and other officers and from the staff generally.

CHAPTER II

THE TAX SYSTEM AND TRENDS IN PUBLIC REVENUES

Tax Structure under the Constitution

The Constitution of India closely follows the pattern of division of tax powers between the Centre and the States established by the Government of India Act, 1935. Under the quasi-federal character of our Constitution, fairly wide powers are vested in the States, but residual powers of taxation belong to the Union.

✓ 2. (Taxes within Union jurisdiction, enumerated in List I, Seventh Schedule of the Constitution, are as under:)

- / Taxes on income other than agricultural income;
- Corporation tax;
- / Customs duties;
- / Excise, except on alcoholic liquors and narcotics;
- Estate and succession duties other than on agricultural land;
- Taxes on the capital value of assets (exclusive of agricultural land) of individuals and companies;
- / Rates of stamp duty in respect of certain financial documents;
- Taxes other than stamp duties on transactions in stock exchanges and futures markets;
- Taxes on sale or purchase of newspapers and on advertisements therein;
- Taxes on railway freights and fares;
- Terminal taxes on goods and passengers carried by railway, sea or air; and

Taxes not specifically enumerated in the State or Concurrent Lists.

✓ 3. (Taxes within the jurisdiction of the States are enumerated in List II, Seventh Schedule, as under?)

- | Land revenue;
- Taxes on the sale and purchase of goods, except newspapers;
- | Taxes on agricultural income;
- | Taxes on lands and buildings;
- Succession and estate duties in respect of agricultural land;
- Excise on alcoholic liquors and narcotics;
- Taxes on the entry of goods into a local area;
- Taxes on mineral rights, subject to any limitations imposed by Parliament;

- Taxes on the consumption or sale of electricity;
- Taxes on vehicles, animals and boats;
- Stamp duties except those specified in the Union List;
- Taxes on goods and passengers carried by road or inland waterways;
- Taxes on luxuries including entertainments, betting and gambling;
- Tolls;
- Taxes on professions, trades and callings, and employment;
- Capitation taxes; and
- Taxes on advertisements other than advertisements in newspapers.

4. Article 286 forbids taxation by States of (a) imports into or exports from the territory of India, (b) inter-State trade and (c) sales of goods declared by Parliament by law to be essential for the life of the community. The property of the Union is exempt from State taxation. The property and income of the States are exempt from Union taxation, except that Parliament may by law provide for the taxation by the Union of any trading or business activities of a State which are not incidental to the ordinary functions of Government.

5. (Apart from the taxes levied and collected by the Union and by the States for their respective purposes, the Constitution contains a number of provisions for the distribution of certain revenues between the Union and the States. These provisions fall into various categories. There are, in the first place, duties which are levied by the Union but are collected and appropriated by the States. These include stamp duties and duties of excise on medicinal and toilet preparations) (containing alcohol), which are mentioned in the Union List. (There is a second group of taxes which are to be levied and collected by the Union but which are assigned to the States within which they are leviable in accordance with such principles of distribution as may be laid down by Parliament) (Article 269). These comprise succession and estate duties in respect of property other than agricultural land; terminal taxes on goods and passengers carried by railway, sea or air; taxes on railway fares and freights; taxes other than stamp duties on transactions in stock exchanges and futures markets; and taxes on the sale and purchase of newspapers and advertisements therein. Of these, only estate duties are at present being levied under an Act of 1953; the principles governing the distribution of proceeds have yet to be determined. (Thirdly, there is the important category of taxes on income (other than agricultural income) which, under Article 270, are levied and collected by the Union but are distributed between the Union and the States in a prescribed manner.) In pursuance of this Article, the Finance Commission has fixed the States' share of the divisible portion of income-tax at 55 per cent. for the period 1952-53 to

1956-57; it has also determined the percentage shares of individual States as follows:

	Per cent.
Assam	2·25
Bihar	9·75
Bombay	17·50
Hyderabad	4·50
Madhya Bharat	1·75
Madhya Pradesh	5·25
Madras	15·25
Mysore	2·25
Orissa	3·50
PEPSU	0·75
Punjab	3·25
Rajasthan	3·50
Saurashtra	1·00
Travancore-Cochin	2·50
Uttar Pradesh	15·75
West Bengal	11·25

6. These percentages have been fixed on the basis of population to the extent of 80 per cent. and the respective collections of income-tax in the States to the extent of 20 per cent. (Finally, there is the class of taxes, which are levied and collected by the Union but may be distributed between the Union and the States, viz., Union duties of excise; the excises on tobacco, matches and vegetable products are thus shared at present, as recommended by the Finance Commission, in the proportion of 40 per cent. for the States and 60 per cent. for the Union; the States' share is distributed among them on the basis of population.) The Union may levy wholly for its own purposes surcharges on taxes which are levied and collected by the Union but are assigned to or shared with the States under Articles 269 and 270. As a final balancing element, the Constitution provides (under Article 275) for grants-in-aid of the revenues of States by the Union.

7. A main departure in the financial provisions of the Constitution from the scheme of the Government of India Act, 1935, consists in the institution of a Finance Commission. Under Article 280 of the Constitution, the Commission is charged with the duty of making recommendations to the President as to:

- (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under the provisions of Chapter I of Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
- (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;
- (c) the continuance or modification of the terms of any agreement entered into by the Government of India with the

Government of any States specified in Part B of the First Schedule under clause (1) of Article 278 or under Article 306; and

- (d) any other matter referred to the Commission by the President in the interests of sound finance.

Article 263 under which the President may appoint an Inter-State Council is another constitutional provision which could be used for purposes of inter-governmental co-ordination of policies in financial as well as other fields.

8. One of the most difficult problems in India, as in other countries with federal and quasi-federal constitutions, has been the correlation of powers and functions at the various levels of government. Efficiency in raising revenues as well as the best allocation of resources requires that important and relatively elastic sources of revenue are assigned to the Central Government. As important welfare functions are entrusted to the units, there is a gap between their resources and responsibilities for expenditure, which is sought to be corrected partly through arrangements for tax sharing. In recent years, however, grants-in-aid have come to be used increasingly, particularly as a means of correcting inter-regional disparities in resources. Grants-in-aid also facilitate the exercise of certain measure of federal control and co-ordination over essential welfare services on a national scale. Both general (unconditional) and specific (conditional) grants are used as part of the scheme of Central assistance to States, in addition to shared taxes.

9. At present, the following main grants-in-aid are payable by the Union Government for the purposes mentioned against them:

TABLE 1.—Details of grants to States in 1953-54

Purpose of grant	States	Amount of grant 1953-54 (R. E.) (Lakhs of Rupees)
Grants-in-aid in lieu of export duty on jute and jute products under Article 273 of the Constitution.	Assam	75
	Bihar	75
	Orissa	15
	West Bengal	150
Grants-in-aid of revenues to States in need of assistance under Article 275(1) of the Constitution.	Assam	100
	Mysore	40
	Orissa	75
	Punjab	125
	Saurashtra	40
	Travancore-Cochin West Bengal	45 80
Grants-in-aid for a period of four years for expanding primary education under Article 275(1) of the Constitution.	Bihar	41
	rising to	83 in 1956-57
	Madhya Pradesh rising to	25 50

TABLE 1.—Details of grants to States in 1953-54—contd.

Purpose of grant	States	Amount of grant 1953-54 (R. E.) (Lakhs of Rupees)
	Hyderabad . . .	20
	rising to . . .	40 in 1956-57
	Rajasthan . . .	20
	rising to . . .	40 "
	Orissa . . .	16
	rising to . . .	32 "
	Punjab . . .	14
	rising to . . .	28 "
	Madhya Bharat . . .	9
	rising to . . .	18 "
	PEPSU . . .	5
	rising to . . .	9 "
Grants under the proviso to Article 275(1) of the Constitution.	Total for all States . . .	247
Revenue gap grants to Part B States under Article 278 of the Constitution.	Mysore . . .	350
	Saurashtra . . .	275
	Travancore-Cochin . . .	280
Additional grants-in-aid to certain Part B States.	Madhya Bharat, PEPSU, Rajasthan and Saurashtra. } . . .	85 (details of allocation not available)

10. The first three categories of grants-in-aid are being made at present under the recommendations of the Finance Commission. Grants to States under Articles 273 and 275 (substantive provision) of the Constitution amounted to Rs. 970 lakhs in 1953-54 as against only Rs. 330 lakhs in 1950-51. Under the recommendations of the Finance Commission, the States now receive additional assistance of Rs. 20 crores a year under shared taxes and statutory grants, exclusive of specific grants made at the discretion of the Central Government from year to year, as compared to the average transfer of Rs. 65 crores a year in these forms for the years 1949-50 to 1951-52. The 'revenue gap' grants are made in terms of the Federal Financial Integration Agreements entered into by the Union Government with the Part B States. Under these Agreements, the Government of India took over from the latter subjects on the Union List along with related assets and liabilities and agreed to reimburse them for the difference between the revenue lost to the States and the expenditure saved to them under those heads ('revenue gap' grants): the full amounts of these grants are payable for the first five years starting with 1950-51; the grants would be gradually reduced to 60 per cent. of the original amounts in the next five years. These States were entitled after integration to a share in the divisible taxes on the same footing as Part A States or to receive the 'revenue gap' grant, whichever was larger. Accordingly, Hyderabad, Madhya Bharat, PEPSU, and Rajasthan receive their shares of divisible taxes, these being larger than their respective 'revenue gap' grants. Saurashtra, Mysore and Travancore-Cochin continue to receive 'revenue gap' grants. in terms of the Federal Financial Integration Agreements, as their share of divisible taxes is lower than 'revenue gap' grants. Four States, Madhya Bharat, PEPSU, Rajasthan and Saurashtra had a special

provision in Federal Financial Integration Agreements entitling them to receive from the Union Government special financial and technical assistance after a systematic enquiry into the problem of the internal integration of their administration and services and their development in different directions. Additional grants-in-aid are, therefore, now given to them on the recommendations of the Part B States (Special Assistance) Enquiry Committee, 1953.

11. In addition to these grants which are being made in terms of the Constitutional provisions and the Federal Financial Integration Agreements, Central assistance totalling Rs. 122 crores has been received by the States for their Plans in the three years 1951—54. Total Central assistance for the five year period 1951—56 was originally estimated at Rs. 229 crores; it has since been raised to Rs. 316 crores. The assistance is mainly in the form of loans. Details are given below:—

TABLE 2.—Central assistance to States under the Plan

(Crores of Rupees)

	1951—54	1954-55	1951—56
	Total	(B. E.)	(Plan) (Revised)
Assam	3.5	5.8	16.8
Bihar	3.6	4.2	23.9
Bombay	9.7	5.7	21.9
Madhya Pradesh	4.5	2.8	13.0
Madras	23.0	3.7	30.3
Andhra	3.8	8.9	
Orissa	3.4	3.0	11.2
Punjab	2.8	4.5	16.3
Uttar Pradesh	10.8	8.9	32.8
West Bengal	14.1	6.4	29.5
Hyderabad	8.6	4.0	14.2
Madhya Bharat	2.1	1.5	7.4
Mysore	7.4	2.9	12.4
PEPSU	1.7	1.1	2.9
Rajasthan	3.1	5.4	16.0
Saurashtra	3.5	2.0	8.5
Travancore-Cochin	4.0	4.2	11.0
Jammu and Kashmir	2.7	2.0	11.8
PART C STATES	10.0	8.9	35.9
TOTAL	122.3	85.9	315.8

In fact, Central assistance to the States is considerably larger as there are other loans, mainly for river valley projects, which are not included in the above figures.

12. The foregoing account of financial assistance from the Centre to the States clearly illustrates the close identity of interests that exists between the Central Government and the States in the matter of Central revenues. The dimensions and scope of

financial assistance from the Government of India to the States have widened considerably in the post-independence period; and especially in the last few years. It is also worth noting that the preponderant weight given to population in the division of income-tax and the adoption of population as the criterion for allocation of excise duties, over and above the specific recognition of budgetary requirements as a factor in the determination of grants, reflect a shift in inter-governmental transfers from the basis of derivation or origin to that of needs. Another noteworthy feature in the evolution of financial relations between the Central Government and the States is the institution of a system of specific grants for broad purposes of national importance, such as the extension of primary education, apart from the general grants made on the principles enunciated by the Finance Commission. All this becomes relevant when considering the incidence of taxation in different areas in the country together with the distribution of public expenditure over these areas.)

13. (There are no taxes which are constitutionally reserved for local bodies. The States may assign any of the taxes on the State List, either in whole or in part, to local bodies; this enables State Governments to exercise a degree of supervision and control over the affairs of local bodies.)

Local finance The main taxes that are now usually assigned to local bodies are property taxes, octroi and terminal taxes, taxes on professions and taxes on vehicles and animals. Property taxes, and octroi and terminal taxes, are the main sources of revenue for corporations and municipalities, while the local fund cess (surcharge on land revenue) is the main source for district boards. In a few States a fixed share of land revenue is also assigned to local bodies (panchayats and district boards). More recently, in three or four States, the proceeds of entertainment duties have been almost wholly assigned to local bodies within whose jurisdiction they are collected.

Trends in Public Revenue

14. We may now attempt a brief survey of the Indian revenue structure, including the revenues of the Central Government, the States and local bodies, and the trends therein. Owing to the partition of the country in 1947, the merger of some former princely States with Provinces and the amalgamation of other Indian States into Part B and Part C States followed by financial integration of Part B States with the Indian Union from 1st April 1950, it is possible to present a comparative picture of public revenues for the whole country only since 1950-51. For the Central Government and Part A States, however, data have been given for earlier years also for broad comparison and for a review of such trends as may be disclosed. The comparability of the data, however, becomes smaller as we go farther back, owing to the disturbance of continuity in the basis for a study of trends as a result of changes like the separation of Burma in 1937, and the shift in the constitutional basis of financial relations between the Centre and the units in the same year with the coming into force of the Government of India Act, 1935. Earlier, Sind was part of Bombay. Owing to lack of adequate data, the picture of finances of local bodies is, again, not precise.

15. The ordinary revenues of the Central Government increased from 1938-39 (for undivided India) to over four and a half times by 1953-54, and those of the nine Part A States to a little over four times their pre-war level (which, however, included undivided Punjab and Bengal, as against the two residual States now). The share of the Central Government in the total public revenue at all levels of Government in India has risen from 43 per cent. in 1938-39 to 48 per cent. in 1953-54; that of Part A States has also increased somewhat, by 2 per cent. to 41 per cent., over the same period: it is the relative share of local bodies which has suffered a serious decline from 18 per cent. to 10 per cent. In 1953-54 total public revenue was about Rs. 870 crores, of which the Central and (all) State Governments accounted for Rs. 394 crores and Rs. 416 crores, respectively, or 45 per cent. and 48 per cent. of the total. In other federations such as the U.S.A., Canada and Australia, the proportion of the revenues of the federated units to the total public revenues has shrunk from fifty to sixty per cent. in the 'thirties to between one-quarter and one-third only today. Compared with other federations, therefore, the field within which public revenues are raised and spent regionally is wider in India, which testifies to the greater importance of State Governments in our federal system.

16. A break up of the total public revenues into important constituent items is attempted in Table 3 at pages 16-17.

17. The figures for the three years included in the table are not directly comparable; a considerable increase in revenue in money terms is, however, revealed. The factors underlying the increase in revenue since the pre-war period are mainly the general increase in money incomes in the community, the introduction of new forms of taxes and increases in the rates of old taxes. The fact that total revenues in relation to national income levels have not materially altered, to which reference will presently be made, would indicate that the rise in revenues was largely due to the all-round (inflationary) increase in money incomes. While certain new taxes like the sales tax have been developed, there has been a not inconsiderable loss in revenue from prohibition in certain States; another noteworthy feature has been the relative inelasticity of land revenue in a period of rising prices and incomes.

18. Analysing the tax system from the point of view of its composition, we find that commodity taxes and taxes that fall mainly on domestic consumption, viz., import duties, inter-State transit duties still levied by some Part B States, Central excises, State excises, sales tax, and octroi and terminal taxes continue to occupy a key position in the fiscal system, accounting for about 45 per cent. of the total revenues. For the Central Government and Part A States together, in 1938-39, the proportion of total revenue represented by these taxes was 42 per cent. Excluding export duties which formed 2 per cent. of total revenue in 1938-39 and 4.6 per cent. in 1953-54, the proportion of commodity taxes to total public revenues remains the same. The only noticeable features are the emergence of new forms of commodity taxation and the

TABLE 3.—Combined current revenues of Central, State and Local Governments (Selected years)

(Crores of Rupees)

	1938-39 (Accounts)		1944-45 (Accounts)		1953-54 (Revised Estimates)	
		Per cent.		Per cent.	Per cent.	
Taxes on income other than corporation tax	15.24	8.5	107.08	19.4	126.60	14.6
Corporation Tax	2.04	1.1	84.22	15.3	38.40	4.4
Other taxes on income (a)	0.35	0.2	1.43	0.3	4.40	0.5
	17.63	9.9	192.73	35.0	169.40	19.5
Customs—						
Central	43.02	24.0	41.26	7.5	160.00	18.4
State (Inter-State transit duties) . . . . .	..	..	..	..	6.46	0.7
Excise duties—						
Central (b)	16.78	9.4	47.43	8.6	93.55	10.8
State	12.88	7.2	43.69	7.9	44.40	5.1
General sales tax . . . . .	..	..	7.91	1.4	57.25	6.6
Sales tax on motor spirit and lubricants . . . . .	..	..	2.67	0.5	7.57	0.9
Other taxes chiefly on consumption (c)	2.32	1.3	7.26	1.3	21.66	2.5
	75.00	41.9	150.22	27.3	390.89	44.9
Land revenue	25.58	14.3	30.52	5.5	69.72	8.0

Property taxes—						
State	.	.	.	.	.	1.38
Local	.	.	.	.	.	0.2
Other taxes and duties (d)	.	.	.	.	.	1.83
						0.2
TOTAL TAX REVENUE						2.6
Public utilities and State undertakings (e)	.	.	.	.	.	6.5
Other revenues (f)	.	.	.	.	.	13.9
TOTAL CURRENT REVENUES						100.0

NOTES.—Data for 1938-39 and 1944-45 relate to Provinces of British India excluding Sind and N. W. F. P., and those for 1953-54 cover the Indian Union. Data for 1944-45 include revenues of local bodies for 1946-47. Due to lack of uniformity, the figures are rough estimates for local bodies.

Total revenues are exclusive of transfers from various funds, inter-governmental transfers and other items of a duplicating nature *viz.*, grants-in-aid, etc. from the Centre to the States and from States to local bodies, miscellaneous adjustments between the Centre and the States and sale of opium to State Governments, etc.

(a) Receipts from agricultural income-tax, taxes on professions, trades and callings and *haisyat* tax.

(b) This covers, besides other items, receipts from excise duty on salt in the years 1938-39 and 1944-45.

(c) Include tobacco duties, electricity duties, entertainment duties, tax on passengers and goods, octroi and terminal taxes.

(d) Covers stamps, registration, motor vehicles taxation, betting tax, cess on sugar cane, etc.

(e) Net contribution of the Railways, Posts and Telegraphs, opium and forests and net receipts (after deducting working expenses from gross receipts) under irrigation, electricity schemes, road transport, etc.

(f) Receipts under civil administration, debt services, civil works and other miscellaneous and extraordinary items. Civil administration receipts account for a major share.

greater importance of some old forms of commodity taxation as compared to others. Thus, the sales tax is now an important new item in commodity taxes; and customs and State excises on intoxicants have given place to Central excises on domestic production to some extent. (These new developments in commodity taxation, viz., the emergence of the sales tax in State finances and the growth in coverage and yield of Central excise duties, both relying largely on a common commodity base, have brought into relief the problem of co-ordination of tax policies between the Central Government and the States.) We revert to this subject in a later part of the Report.

19. Taxes on income are next in importance, forming about 20 per cent. of the total, as against 10 per cent. before the War. Land revenue does not now occupy a prominent place in the tax structure and accounts for only 8 per cent. of total revenue, as against 14 per cent. in 1938-39. While receipts from income taxes have risen from Rs. 18 crores in 1938-39 to Rs. 169 crores in 1953-54 and from commodity taxes from Rs. 75 crores to Rs. 391 crores, land revenue has increased from Rs. 26 crores to Rs. 70 crores in 1953-54. This increase in land revenue is explained by the fact that, apart from the inclusion of Part B States where land revenue is relatively more important, the current receipts of land revenue are larger mainly on account of the greater collections in Uttar Pradesh after zamindari abolition. Other taxes and duties (stamps, registration, motor vehicles taxation, cess on sugarcane etc.) form about 7 per cent. Public utilities and State undertakings contribute about 4 per cent. to the total revenue and the remaining 14 per cent. is drawn from miscellaneous and extraordinary receipts under civil administration, interest, civil works, etc.

20. As between direct and indirect taxation, the tax structure has undergone significant changes during the period under review. Direct taxes formed 12 per cent. of total tax receipts of the Central Government and Part A States in 1938-39 and increased to over 45 per cent. during the war period (1944-45), with the steep rise in income taxation and the decline in customs revenue. The proportion has now declined to 24 per cent. of total tax revenues collected by the Union, all States and local bodies. The decline from its war-time position of direct taxation is mainly due, on the one hand, to abolition of excess profits tax, some reduction of the rates of income-tax and the institution of some other reliefs since 1948-49, and on the other, to the considerable increase in revenues from sales tax, customs, and Central excise. It may be noted that while the receipts from income taxes declined from Rs. 193 crores in 1944-45 to Rs. 169 crores in 1953-54, all the main heads of commodity taxation except State excise have shown a notable rise, and the total of this group has risen from Rs. 150 crores to Rs. 391 crores during the period. It may be interesting here to refer briefly to the position obtaining in some other countries in this regard. The proportion of direct taxes to total taxes is 55 per cent. in the U.K., over 60 per cent. in Canada and South Africa, 65 per cent. in New Zealand, 70 per cent. in Australia and Japan and as large as 88 per cent. in the U.S.A., while it is 40 per cent. in Ceylon, 24 per cent. in Pakistan and less than 20 per cent. in most of the under-developed countries of South East Asia and many Latin American countries.

Direct and indirect taxes

21. Non-tax revenues play an important role in the fiscal system both at the Centre and in the States. Table 4 at page 20 gives the figures of tax and non-tax revenues of the Government of India and the States in 1938-39, 1944-45 (when the changes in the tax system resulting from the War could be seen at their maximum) and 1953-54.

22. The figures show that as compared to the pre-war period, there has been no significant change in the position occupied by non-tax revenues in the fiscal system. Non-tax revenues showed a sharp increase in the Central budget during the war period because of the larger contribution made by Railways, and Posts and Telegraphs, but now the pre-war position has more or less been restored. The place of non-tax revenues in the States has remained practically steady during the pre-war, War, and post-war periods, but it is relatively more important than in Central finance. Net profits from public enterprises account for slightly more than a quarter of the total non-tax revenues, and are mainly contributed by Railways and Posts and Telegraphs to the Central revenues. The bulk of non-tax revenues comes from receipts from Civil Administration and miscellaneous and extraordinary receipts. Relevant figures for 1953-54 are given below for the Centre and all States together:—

	1953-54 (R. E.) (Lakhs of Rupees)
Revenue from public enterprises (net)	36,06
Civil Administration	50,32
Civil Works	5,13
Debt Services—Interest	10,96
Miscellaneous and extraordinary items	35,49

23. Before proceeding to examine separately the finances at the three levels of government, viz., the Central Government, States, and local authorities, it is worthwhile reviewing the progress of public revenues as a measure of the national tax effort in relation to the changing level of national income of the country. The difficulty in attempting this is not only the absence of comparable statistics of public revenues over a continuous period pertaining to the area of the Indian Union, but even more, of comparable statistics of national income. Estimates of national income before the War relate only to what was then called British India. Moreover, these estimates are the work of individual scholars and could not, therefore, claim the authority of an official estimate. It is true that more recently, official estimates have been available of the national income of India, but they do not cover a sufficiently long period to justify a statement of trends. They are, however, useful in relating the total public

TABLE 4.—*Tax and non-tax revenues*

(Crores of Rupees)

	Centre			States*			Centre and States combined		
	1938-39	1944-45	1953-54 (R.E.)	1938-39	1944-45	1953-54 (R.E.)	1938-39	1944-45	1953-54 (R.E.)
Tax revenue (net) (a)	73·90	253·89	347·96	56·07	140·78	324·81	129·97	394·67	672·77
<i>Per cent. of total revenue</i>	89·1	75·9	88·2	76·0	76·6	78·0	82·8	76·1	82·9
Non-tax revenue	9·00	80·51	46·38	20·25	52·67	136·66			
Less—									
Grants-in-aid, etc., from the Centre to the States	..	..	..	2·47	9·66	45·08			
Non-tax revenue (net) (b)	9·00	80·51	46·38	17·76	42·98	91·55	26·76	123·49	137·93
<i>Per cent. of total revenue</i>	10·9	24·1	11·8	24·0	23·4	22·0	17·2	23·9	17·1
Total revenue (c)	82·90	334·40	394·34	73·83	183·76	416·36	156·73	518·16	810·70

(a) In the case of States the figures are net (exclusive) of price of opium paid by the State Excise Departments to the Centre.

(b) For States, the figures are net, after allowing for certain miscellaneous adjustments between the Central and State Governments.

(c) Total revenue excludes transfers from funds.

*Data for States in 1938-39 and 1944-45 refer to the nine Provinces ; figures for 1953-54 relate to Part A, Part B and Part C States.

revenues with the national income in a given year and thereby attempting an analysis of the magnitude of the national tax effort. That is done elsewhere in this volume. Here it is sufficient to state the broad conclusions that emerge from a study of the national income and public revenues, subject to the qualification that these are qualitative and not statistical. While there has been a four-fold rise in per capita national income in money terms over the War and post-war years as compared to the pre-war period, there has also been a corresponding increase in per capita tax contribution. When it is recalled that during the same period, prices have risen also about four-fold, the conclusion seems inevitable that, broadly speaking and in real terms, there has been very little addition to the national tax effort in average terms over the last two to three decades. Such a conclusion might be contested by many taxpayers in the country as being completely at variance with their experience. The divergence of individual experience from the general result can be explained by the fact that, while the national tax effort on an average or per capita basis has not increased, the distribution of the burden has altered in respect of different classes of people and of different sizes of income, with the result that some sections in the community feel the burden of taxation more than before the War. It follows that other sections of the community must be bearing a lower burden of taxation than in the pre-war period. This is a question that needs investigating; and the results of the analysis will have a large bearing on the approach to tax policy. We deal specifically with the problem of incidence in Chapters IV and V of this Volume. Here it may be stated that while national income and public revenues have kept pace with each other in money terms, neither of them has shown any significant increase in real terms. The proviso must be added that while there have been no changes in real terms in national income and public revenues, their distribution *vis-a-vis* different groups in the country has undergone alteration.

24. Table 5 at page 23 shows the principal changes in the current revenues of the Government of India in selected years since 1921-22. Details of revenue of the Government of India in selected years since 1938-39 are shown in Statement I in the Statistical Appendix.

25. The tax revenues of the Union Government are mainly derived from three tax heads: taxes on income (27 per cent.), customs (41 per cent.), and Central excise duties (20 per cent.) which together accounted for 88 per cent. of the revenues in 1953-54. Of the total tax collections* of the Central Government of Rs. 421 crores in 1953-54, not deducting the share payable to States, income-tax receipts, customs and excise duties account for Rs. 165 crores, Rs. 160 crores and Rs. 94 crores, or 40 per cent., 38 per cent. and 22 per cent. respectively. The total yield from income taxes is now nearly nine and half times the pre-war level. Taxes on income formed 22 per cent. of total Central tax revenue collections (including tax shares assigned to States) in 1938-39; this proportion

*Central tax collections are different from Central tax revenues because a part of the collections from income-tax other than corporation tax, and excise duties on tobacco, matches and vanaspathi are transferred to the States.

rose to as high as 68 per cent. in 1944-45, but was reduced in post-war years to 45 per cent. in 1949-50 and appears to have stabilised around 40 per cent. While total yield from income-tax has shown some reduction recently, there has been a further fall in income-tax receipts accruing to the Central Government because of the increase in the amount payable to the States since 1952-53 as a result of the recommendations of the Finance Commission. The new estate duty is estimated to yield Rs. 4 crores in 1954-55. The total of direct tax collections by the Central Government in the current year is, therefore, estimated at Rs. 169 crores.

26. Of customs, still the largest single source of Central revenues, import duties yielded Rs. 119 crores or about two-thirds of total customs revenue in 1953-54. The major portion of the yield from import duties is derived from revenue duties and only a small amount (Rs. 6 crores in 1953-54) from protective duties. Export duties which were unimportant before the War expanded considerably during the phase of sellers' market in the post-war period, particularly after devaluation of the rupee and the outbreak of the Korean war. They were mainly conceived both as revenue duties on monopoly exports and exports in short supply, and as flexible anti-inflationary tax measures during a period of large export profits. Their yield rose from Rs. 4 crores in 1938-39 to the high level of over Rs. 90 crores in 1951-52 (when total customs revenue reached the high figure of Rs. 233 crores) and is now around Rs. 40 crores. Duties on export are levied on about a dozen articles, but before the War the commodities subject to the levy were very few (jute, raw and manufactured, and rice). In broad terms, the proportion of customs revenue in the budget of the Central Government increased from about two-fifths at the beginning of the inter-war period (in 1921-22) to about one-half in 1938-39; it stands now at about two-fifths of Central revenues.

27. Central excise duties occupy an important place in the Union tax structure, being next only to customs and taxes on income. The yield from this source rose gradually from less than Rs. 3 crores in 1921-22 to over Rs. 13 crores in 1936-37. In the second half of the period of over three decades covered in the above table, the yield increased rapidly, from less than Rs. 9 crores in 1938-39 to Rs. 86 crores in 1951-52, and to about Rs. 94 crores in 1953-54. In the middle of the 'thirties excise duties covered only five commodities but since the War their scope has been greatly enlarged and they now extend to tobacco, cloth, vegetable ghee, artificial silk, cement, footwear and soap. The bulk of the revenue under this head is, however, derived from a few heads—tobacco, cotton cloth, sugar, matches and tea. Central excise duties provide a fairly stable and steadily expanding source of revenue. Owing to the distribution of a portion of the receipts from certain Union excise duties to the States, however, the receipts available to the Central Government from this source fell to Rs. 78 crores in 1953-54. Total receipts in 1954-55 are placed at Rs. 104 crores (as against about Rs. 83 crores in 1952-53), the improvement being due mainly to levy of a new cess on cotton cloth for the benefit of the handloom and khadi industries in February, 1953, an increase in duty on superfine cotton cloth, and the levy of new duties in the current year on artificial silk, cement, footwear and soap.

TABLE 5.—Central revenues (selected years)

(Crores of Rupees)

Total revenue*	1921-22		1936-37		1938-39		1944-45		1953-54 (R.E.)	
	80.00	100	81.45	100	82.90	100	334.40	100	394.34	100
Customs (net)	31.61	39.5	38.11	46.8	40.51	48.9	39.77	11.9	160.00	40.6
Taxes on income (net)	18.74	23.4	15.33	18.8	13.74	16.6	80.52	24.1	69.31	17.6
Corporation tax	..	..	..	..	2.04	2.5	84.22	25.2	38.40	9.7
Central excise duties (net)	2.80	3.5	13.35	16.4	8.66	10.5	38.14	11.4	78.00	19.8
Salt duty	6.34	7.9	8.81	10.8	8.12	9.8	9.29	2.8	..	..
Commercial Departments :										
Railways (net contribution)	(—) 9.09	..	..	..	1.37	1.7	32.00	9.6	7.50	1.9
Posts & Telegraphs (net)	..	..	0.14	0.2	0.19	0.2	10.25	3.1	2.02	0.5

*Total revenue includes net receipts under opium, irrigation, forests, electricity and road transport schemes.

Figures for 1921-22 and 1936-37 are inclusive of those for Burma. Figures for 1938-39 and 1944-45 relate to undivided India.

28. A notable change in the composition of Central revenues is the disappearance of the salt duty. Before the War it yielded about one-tenth of Central revenues. At the end of the war period, with the great increase in receipts from other sources, its relative contribution had declined to about 3 per cent. The duty was abolished in 1947-48.

29. As regards State Governments, it is difficult to institute a comparison over a long period mainly because of the difference in the units comprising State Governments in the Indian Union and those comprising Provinces in British India before the War. In fact, it is only from 1950-51 that any proper study of trends is possible in respect of State Governments as a whole, and three or four years is perhaps too short a period for drawing any valid conclusions regarding trends. The following table shows the revenue and expenditure on revenue account of Part A and Part B State Governments for the years 1950-51 to 1954-55:

TABLE 6.—*Budgetary position of the States on Revenue Account*
PART A STATES

	(Crores of Rupees)				
	1950-51	1951-52	1952-53	1953-54* (R. E.)	1954-55 (B. E.)
Revenue	294·37	315·60	329·22	357·49	367·17
Expenditure	293·08	309·10	329·37	371·64	400·89
Surplus (+) or deficit (—)	(+)1·29	(+)6·50	(—)0·15	(—)14·15	(—)33·72
Surplus (+) or deficit (—) (excluding transfers from and to Revenue Reserve Funds)	(—)3·15	(—)2·25	(—)12·01	(—)20·82	(—)39·86

PART B STATES

(Crores of Rupees)

	(Crores of Rupees)				
	1950-51	1951-52	1952-53	1953-54 (R. E.)	1954-55 (B. E.)
Revenue	93·38	106·70	108·12	112·21	121·76
Expenditure	91·93	100·53	104·88	115·85	127·65
Surplus (+) or deficit (—)	(+)1·45	(+)6·17	(+)3·24	(—)3·64	(—)5·89
Surplus (+) or deficit (—) (excluding transfers from and to Revenue Reserve Funds)	(+)1·45	(+)5·97	(+)3·24	(—)3·64	(—)5·89

30. Since 1950-51, the revenues of State Governments have shown a continuous increase but, as the rise in expenditure has been larger, the deficits on revenue account have been on the increase in recent years. Statement II shows details of revenues of Part A, Part B and Part C States in 1953-54. The revenues of Part A States in selected years since 1938-39 are shown in Statement III and of Part B States since 1950-51 in Statement IV. Revenues of individual Part A and Part B States in 1950-51 and 1953-54 are given in Statements V and VI. The main heads of State revenues and their relative importance since 1921-22 are shown in Table 7 at page 25.

*Figures for 1953-54 include budget estimates for the composite State of Madras a revised estimates are available for later six months only.

TABLE 7.—Provincial/State Revenues

	Yield (Crores of Rupees)					Share in total revenue (per cent.)				
	1921-22	1936-37	1938-39	1944-45	1953-54 (R.E.)	1921-22	1936-37	1938-39	1944-45	1953-54 (R.E.)
	1	2	3	4	5	6	7	8	9	10
TOTAL REVENUE	58.48	74.86	76.78	193.87	462.04	100.0	100.0	100.0	100.0	100.0
Land revenue	29.08	25.96	25.40	30.21	69.20	49.7	34.7	33.1	15.6	15.0
State excise	15.67	13.63	13.08	43.42	44.81	26.8	18.2	17.0	22.4	9.7
Stamps	10.14	10.80	9.53	15.20	23.50	17.3	14.4	12.4	7.8	5.1
Registration	1.07	1.11	1.09	2.39	3.91	1.8	1.5	1.4	1.2	0.9
General sales tax . . . . .	..	..	..	7.91	57.25	..	..	..	4.1	12.4
Forests (net)	0.66	0.71	0.63	4.58	10.82	1.1	0.9	0.8	2.4	2.3
Irrigation works for which capital accounts are kept (net)	5.55	7.53	7.57	10.14	8.09	9.5	10.0	9.9	5.2	1.8
Devolution of revenue and grants from the Centre	(—)9.02	2.67	6.45	36.89	117.92	..	3.6	8.4	19.1	25.6
Share of income-tax assigned to States	3.09	0.04	1.47	25.75	56.90	5.3	0.1	1.9	13.3	12.3
Share of jute duty assigned to States . . . . .	..	2.13	2.51	1.48	..	..	2.8	3.3	0.8	..
Share of Central excise duties as- signed to States . . . . .	..	..	..	..	15.94	..	..	..	..	3.5
Grants-in-aid, etc., from the Centre	(—)12.11	0.50	2.47	9.66	45.08	..	0.7	3.2	5.0	9.8

25

• Figures for 1921-22 exclude those for Burma but include Sind as part of Bombay. Figures for 1936-37 exclude those for Burma, Sind and N.W.F.P. Figures for 1938-39 and 1944-45 are for nine Provinces excluding Sind and N.W.F.P.

Figures for 1953-54 relate to all Part A, Part B and six Part C States.

Transfers from funds are excluded, receipts under forests are taken net after deducting entire expenditure from gross receipts; for other public utilities and State undertakings net receipts (after deducting working expenses) are included,

31. The principal sources of State revenue are commodity and consumption taxes (28 per cent.), share of income-tax and Central excise (16 per cent.), and land revenue (15 per cent.) in 1953-54. A feature of the revenue pattern of Part B States is the inter-State transit duties which are a temporary source of revenue for three Part B States, Hyderabad, Madhya Bharat and Rajasthan. Of the total revenue of all States, tax revenue is over 70 per cent.; but the position is not uniform among Part A, Part B and Part C States, tax revenue forming about three-fourths of the total revenue of Part A States, as compared to 62 per cent. and 40 per cent. respectively, for Part B and Part C States (1953-54). The relative importance of main revenue heads also varies among the three categories of State Governments; thus, in Part A States, sales taxes and share of income-tax are the most important items forming 22 and 20 per cent. of their tax revenues; while in Part B States, State excise and land revenue are the main items forming 28 and 26 per cent. respectively. The differences are greater as between individual States.

32. An outstanding development in the sphere of States' finances in recent years is the growth of the general sales tax which is now levied in all Part A States and Part B States (with the exception of Rajasthan where legislation for imposing a sales tax has been enacted only recently) and in some of the Part C States. Total yield from sales taxation for all States in 1953-54 (including tax on the sale of motor spirit) amounted to Rs. 65 crores and formed about one-fifth of their total tax revenue. This is the main elastic source of revenue possessed by State Governments and is expected to increase in yield as it comes to be developed in Part B States and greater experience is gained and efficiency in its administration is raised in all States. An indication of the increasing diversification of the tax structure, particularly of Part A States, is the increase in both absolute and relative terms of the receipts from miscellaneous taxes and duties. This omnibus category covers about a dozen items, the more important being motor vehicles taxation, entertainments duty, tobacco duties, betting tax, electricity duty, urban immovable property tax, tax on passengers and goods carried by buses and cess on sugarcane.

33. It is significant that land revenue has today become much less important in the total revenues of Part A States. Before the War, it was by far their largest single source of revenue, forming as much as 45 per cent. of the total tax revenue and 33 per cent. of the total revenue of the nine Provinces; earlier in 1921-22 it made up as much as 50 per cent. of provincial revenues*. The long interval after which assessments are revised and the restrictions on upward revisions of assessment render land revenue an inelastic source even in normal circumstances. Its comparative position in the revenue structure has been worsened because of the steep rise in agricultural prices and the almost indefinite postponement of the revision of the assessments which fell due. If, nevertheless, there has been some increase in land revenue receipts, it is mainly the result of zamindari abolition and the taking over by government of the rents previously due to the zamindars in certain States, e.g. Uttar Pradesh, and does not signify an increase in the burden of land revenue. Similarly, with the introduction of prohibition, complete or partial, in most of the States, State excise has lost its old

*In 1921-22 the Provinces for which data are given in the table included Sind as part of Bombay.

importance as a major source of revenue for their Governments. In the early 'twenties, over one-fourth (27 per cent.) of total revenue was derived from this source; by the later 'thirties this proportion was down to less than one-fifth, in the war years the proportion of State excise again recorded an increase; but now, with prohibition and the growth of other commodity taxes, the proportion is only about 10 per cent. In Part B and Part C States, however, State excise accounts for 28 per cent. of their tax revenue. In Part B States, where sales taxation has not yet been fully evolved, the old sources of revenue still remain significant. For instance, land revenue is the largest single source of revenue in Madhya Bharat, Rajasthan and Saurashtra, while excise occupies the first place in Hyderabad and PEPSU. Seven out of seventeen Part A and Part B States and three Part C States levy agricultural income-tax at rates showing varying degrees of progression.

34. In the domain of public utilities, revenue from irrigation works (for which capital accounts are kept) is fairly important in Part A States, net income from this source being estimated at Rs. 7.5 crores in 1953-54. In Part B States, however, only a small income (Rs. 61 lakhs) accrues from this source, while Part C States show a nominal net loss. Part B States together collected Rs. 1.4 crores as revenue from mines and quarries, mostly by way of royalties, fees, etc., the corresponding estimate for Part A States is about Rs. 1.3 crores. As regards other public enterprises, it is mainly in Mysore and Travancore-Cochin that the policy of State participation in industry has resulted in some measure of addition to public revenues.

35. An important feature of the revenue pattern of Part B States as a whole over and above the features which have been noticed, above is the relatively high proportion of total revenues provided by Central grants-in-aid, 14 per cent. as against 7 per cent. for all Part A States in 1953-54. This is partly explained by the system of 'revenue gap' grants (in terms of the federal financial integration agreements) to three Part B States, Saurashtra, Mysore and Travancore-Cochin, and additional grants-in-aid to Madhya Bharat, PEPSU, Rajasthan and Saurashtra on the recommendation of the Special Assistance Enquiry Committee (1953). Among Part A States, Assam and Orissa are dependent relatively to a greater extent on financial assistance from the Union Government.

36. Taking the individual sources of revenue of Part A and Part B State Governments, it is found that land revenue is the largest single source in Assam, Madhya Pradesh, Uttar Pradesh, Madhya Bharat and Saurashtra, while State excise occupies a similar position in Hyderabad, Punjab, PEPSU, Mysore and Travancore-Cochin. In Hyderabad, excise revenue is by far the most important item, and in Saurashtra land revenue occupies a pre-eminent position. Apparently, the yield from land revenue in all Part A and Part B States shows a substantial increase of Rs. 18 crores from Rs. 49.6 crores in 1950-51 to Rs. 67.6 crores in 1953-54. This is, however, largely due to the abolition of zamindari in some States, particularly in Uttar Pradesh, mergers of princely States and estates, and other factors, in respect of which there is largely a corresponding increase on the expenditure side on compensation payments and costs of administration. Land revenue has thus remained a relatively inelastic

source of revenue for many years. In view of the difficulties of large scale resettlement operations, surcharges have been proposed on an *ad hoc* basis in some States to obtain larger receipts from this source but such steps have not generally found favour; for instance, in Bombay, Orissa and Madhya Bharat the measures suggested towards this end were either dropped or deferred indefinitely. More recently, however, some State Governments, *viz.*, the Punjab, Madras and Hyderabad, have had some success in imposing a surcharge on land revenue.

37. With the abolition of zamindari, the revenue from agricultural income-tax has gone down from Rs. 359 lakhs in 1950-51 to Rs. 253 lakhs in 1953-54, the main losses being in Uttar Pradesh (Rs. 80 lakhs) and Bihar (Rs. 34 lakhs). It is possible that this item may dwindle further with the progress in land reforms, but it is also possible that its total proceeds in the country as a whole may increase with the extension of the agricultural income tax to the many States where it does not figure at present. Inter-State transit duties, with a yield of about Rs. 4 crores, rank with land revenue in Rajasthan as one of the two most important sources of revenue. However, the inter-State transit duties are to be abolished by the end of March 1955; and though by then the sales tax would have come into force, its yield is not likely to make up more than the loss caused by the abolition of import duties, so that the State would be left with the problem of finding other ways to make up the loss following the repeal of its export duties, which would amount to about Rs. 1.5 crores. In Madhya Bharat and Hyderabad, import duties have been abolished, but the export duties still remain, with collections amounting to Rs. 2.3 crores in 1953-54, with the result that both the States will also face the problem of finding alternative sources when they have to abolish these duties by the end of March, 1955. Sales taxes are relatively more important in Bombay and Madras, and accounted for nearly one-third of their total tax revenues in 1953-54 and more than two-fifths of the total yield from this source in all the States. While sales tax revenue in some States has increased, it shows a decline in other States including Bihar, Madhya Pradesh, Madras, West Bengal and Travancore-Cochin due in part to the constitutional restrictions imposed under Article 286(1) of the Constitution. In Bombay also there was considerable loss of revenue under sales tax on account of this factor (estimated at Rs. 4 crores), but the State Government has been able to make up the loss by appropriate alterations in its sales tax system. Stamps and Registration show relatively high collections in Madras, West Bengal, Bombay, Travancore-Cochin, Mysore and Bihar. Motor vehicles taxation is prominent in the States with a large number of motor vehicles or where the rates of taxation are relatively high, *viz.*, in Madras, Bombay, Travancore-Cochin and Mysore. The rates of motor vehicles tax, as well as the collections are particularly high in Madras. While the rates in Orissa are nearly as high as in Madras, collections are very low, indicating the narrow base of the tax in that State. Only three States *viz.*, Bombay, West Bengal, and Uttar Pradesh, obtain an appreciable revenue from electricity duties; similarly, these States together with Madras derive appreciable amounts from entertainment duties, though Bihar and Madhya Pradesh generally levy higher rates of the tax. Irrigation receipts are an important source of

revenue only in Uttar Pradesh and Punjab. Forests yield not inconsiderable revenue in some States, particularly in Madhya Pradesh which obtains about Rs. 2 crores from this source, nearly as much as it gets from the general sales tax. Saurashtra's lack of any revenue from public enterprises is noteworthy. However, West Bengal is the only State which showed a net loss in 1953-54 under all categories of State undertakings, including irrigation, electricity schemes, forests and road transport. Broadly speaking, the differences in the yields of various taxes reflect significant variations in the patterns of the economies of different States as well as differences in the rates at which these taxes are levied.

38. The tax effort of the States in recent years may now be briefly reviewed. There have been increases in several existing taxes such as the general sales tax, tax on the sale of motor spirit, motor vehicles taxation, entertainment duties and electricity duties. Certain new taxes have also been imposed, for instance, the tax on passengers and goods in Bihar, Madras and Punjab, and stamp duties on forward markets in Bombay and Punjab. Water rates have been raised in most of the States; in Uttar Pradesh, the increase has been 125-250 per cent. over pre-1948 rates. Betterment levies have been imposed in five States, Assam, Bombay, Punjab, Hyderabad and Mysore, while two others, PEPSU and Rajasthan, have passed the necessary legislation for the levy. After the Finance Commission's recommendations, the State Governments are now free to resort to taxation of tobacco. In Madras and Andhra, sales of tobacco are separately taxed, while in Bombay the general sales tax is now applied to tobacco also. With all this effort, the difference which has been made to State revenues has not been appreciable. Thus the total yield from increased taxation during the first three years of the Plan, viz., 1951-54, has been estimated at only Rs. 27 crores or less than 8 per cent. of their current revenues in 1950-51, excluding grants-in-aid from the Central Government. Even of this amount, nearly three-fifths was raised by the four States of Bombay, Uttar Pradesh, Madras and Travancore-Cochin with additional revenue of Rs. 7.5, 3.3, 2.5 and 3.7 crores respectively. The seriousness of the problem is underlined by the consensus of opinion expressed in the memoranda submitted by the State Governments to the Commission to the effect that there is no appreciable scope for raising more revenue through taxation in their sphere. And yet there is no denying their need for additional revenues. We revert to this problem in a subsequent chapter.

39. As regards local bodies, we have already drawn attention to the difficulties in obtaining the necessary data. Nevertheless, an attempt has been made to demarcate and cover the bulk of the local authorities in India and the data given in Table 8 at page 30 should be taken to indicate the broad pattern rather than a precise picture of the size of local revenues.

40. Perhaps the most striking fact that emerges from the above table is the slow growth of the revenues of local bodies as compared to those of either Central or State revenues. There has been an increase of a little over two and half times in local revenues in 1951-52, as compared to 1938-39, but this is more than offset by the wider

TABLE 8.—Revenues of local bodies (excluding panchayats)

(Lakhs of Rupees)

	1921-22	Per cent.	1936-37	Per cent.	1938-39	Per cent.	1946-47	Per cent.	1951-52	Per cent.
Property tax*	5,21	21.8	9,16	26.0	8,85	25.3	12,34	26.7	22,93	26.4
Octroi and terminal taxes	1,88	7.9	1,47	4.2	1,45	4.1	3,19	6.9	8,78	10.1
Local fund cess	3,95	16.5	5,25	14.9	5,02	14.3	5,30	11.4	8,04	9.3
Profession tax	29	1.2	32	2.0	34	1.0	49	1.1	70	0.8
Other taxes and duties	1,31	5.5	2,70	7.7	2,80	8.0	2,96	6.4	8,28	9.5
TOTAL TAX REVENUE	12,64	52.9	18,90	53.8	18,46	52.7	24,28	52.5	48,73	56.1
Receipts from local enterprises	70	2.9	93	2.6	66	1.9	1,00	2.2	1,50	1.7
Miscellaneous	5,15	21.6	7,82	22.2	8,16	23.3	11,56	24.9	18,80	21.7
Government grants	5,40	22.6	7,52	21.4	7,75	22.1	9,46	20.4	17,75	20.5
TOTAL ORDINARY REVENUE	23,89	100.0	35,17	100.0	35,03	100.0	46,30	100.0	86,78	100.0

The figures for different years are not exactly on a comparable basis. The figures for 1921-22, 1936-37, 1938-39 and 1946-47 relate to most local bodies in a majority of old Provinces; those for 1951-52 cover all Part A States and some of Part B and Part C States.

*Covers also receipts from service charges for water, lighting and conservancy.

coverage of the data and the general rise in prices. Tax receipts as a proportion of total revenues of local bodies show a small increase from 53 per cent. to 56 per cent. during this period; grants from State Governments account in 1951-52 for about one-fifth of the total or a little less than what they were in 1938-39—the proportion is much higher in respect of district boards than for municipalities and corporations; receipts from commercial activities are very small, contributing less than 2 per cent. of their total income.

41. Property taxes (including house tax and service charges for water, lighting and conservancy) continue to be the mainstay of city corporations and municipalities; octroi and terminal taxes are also an important source of municipal income in some States. The district boards depend mainly on the local fund cess, which is in the nature of a surcharge on land revenue and reflects the inelasticity associated with that major head of State revenues. Local property taxes account for about one-fourth of the total revenue of local bodies but form less than 3 per cent. of all public revenues, including Central and State revenues. The property tax is an optional levy except in some of the city corporations including Bombay, Calcutta, Poona and Ahmedabad and a few municipalities where it is compulsory. It is generally levied at a flat rate, except in Madras, Ahmedabad, Poona, Lucknow, Indore and a few other municipalities, where a mild degree of progression characterises the tax. Even in its limited form, the tax is not fully exploited in India. It is a source of comparatively small importance for municipal revenues in Uttar Pradesh, Punjab, Madhya Pradesh, Rajasthan and PEPSU and most of Part C States. In several of the Part B and Part C States, local government is still in an initial stage of development. Even in relatively advanced States like Mysore and Travancore-Cochin, the tax rates are low. To an even greater extent than State and Central Governments, local authorities in India are generally faced with the problem of inadequate resources to finance essential functions; at the same time, any proposals to augment local revenue merely by transferring a share of State taxes only accentuates the problem at the State level. We revert to this question in a subsequent chapter.

42. As for octroi and terminal taxes from which a revenue of about Rs. 10 crores is derived, octroi is much the more important source. Food articles are the main group subject to octroi. These taxes are relatively a more important source of municipal revenue in the north and the western parts of the country, in States like the Punjab, Uttar Pradesh, Madhya Pradesh, Madhya Bharat, PEPSU and Rajasthan, where property taxation is not so important. The proportion of yield from this source to total local revenues rose from 4 per cent. before the War to 10 per cent. in 1951-52.

43. We may now conclude this review of the trends in public revenues in India by a brief reference to the change which has taken place in the comparative elasticity of Central and State revenues. Before the War, the Government of India, with income-tax, customs and excise duties, had a comparatively elastic revenue system, while the then Provinces with land revenue and liquor excises had a relatively inelastic revenue system. The States still lean heavily on land revenue and liquor excises, but much less heavily than before.

They now have the sales tax, and have also found that their other taxes contain a considerable measure of elasticity. While the Central Government still have income-tax, customs and excise duties, it no longer has the exclusive use of two of these, viz., income-tax and excise duties. The sharing by the State Governments in the proceeds of Central taxes, and the institution of substantial grants by the Central Government for both general and specific purposes have, between them, imparted a measure of elasticity to the State revenues which was unknown to the Provinces in the pre-war period. Even in the taxes which are both collected and retained by the States, there is a greater degree of elasticity than was in evidence before the War. The table given below brings out these features of the revenue system for the years 1950-51 to 1953-54, for which the figures are comparable.

TABLE 9.—Revenue collected and accruing to the Centre and (Part A and Part B) States*

(Crores of Rupees)

Years	Collected by the Centre	Accruing to the Centre	Collected by the States	Accruing to the States
1950-51 . . .	455·91	408·38	297·90	368·78
1951-52 . . .	565·76†	511·99†	315·39	398·33
1952-53 . . .	489·55	415·74	307·79	411·43
1953-54 (R. E.) . . .	467·18	394·34	334·57	445·86
Indices (with 1950-51 as 100)				
1951-52 . . .	124·1	125·4	105·9	108·0
1952-53 . . .	107·4	101·8	103·3	111·6
1953-54 . . .	102·5	96·6	112·3	120·9

*Transfers from various funds are excluded from revenues collected and accruing to the States.

†Central revenue collections in 1951-52 were exceptionally high mainly due to much larger customs receipts, especially from export duties: customs receipts in that year rose by Rs. 75·5 crores as compared to 1950-51.

44. It must be added, however, that the extent of increase shown in the revenues both collected and retained by the States (in contrast with shared revenues and grants from the Centre is somewhat misleading as an indication of elasticity, as it includes an increase in land revenue of Rs. 18 crores of which approximately Rs. 10 crores is due to zamindari abolition in certain States and the

Bulk of the remainder is due to mergers, recovery of arrears and other factors. Nevertheless, it would still be correct to say that even the revenues collected and retained by the States show a somewhat greater capacity for growth than was the case in the pre-war period. (The really significant factors that make for the difference in elasticity in State revenues between the pre-war and post-war periods, are the increased share of the State Governments in the elastic sources of Central revenues and the larger grants they now receive from the Central Government. To this extent, Central and State revenues really coalesce for purposes of the public finance of State Governments and the old antagonism between Central revenues and State revenues, has therefore, largely disappeared. In fact, the State Governments have now, thanks to the Finance Commission, a much greater financial interest in Central revenues than they had before and, to this extent, an integrated treatment of Indian public finance becomes much more in order.)

CHAPTER III

TRENDS IN PUBLIC EXPENDITURE

A review of the broad trends in public expenditure in India, following the survey of the revenue structure in the last chapter, is of value for a general appraisal of the country's fiscal system. (The character and distribution of public expenditure modifies the economic effects arising from the levy of taxes. The extent to which taxation may be felt as a burden partly depends on the objects on which tax revenues are spent and the manner in which the benefits of expenditure are distributed. A precise view of the benefits accruing from public expenditure to different classes in the community is not, however, possible. The character of public expenditure has also some bearing on the appropriate methods of its financing; and these methods fall within the purview of the Commission's enquiry. Besides, it appears desirable at the outset of an enquiry encompassing, among other things, the investigation of possibilities of fresh additional sources of revenue, to underline the need of ensuring the most effective utilisation of existing tax resources for promoting the community's welfare and development, before new and higher burdens are imposed on the people. This last consideration emphasises the vital concern of a Commission, charged to enquire into the tax system, with the evolution of proper expenditure policies by Governments—Central and State.) A detailed enquiry into public expenditure from this point of view, however, falls beyond our terms of reference. It is a large enough subject for full-scale separate investigation. The need for utmost restraint on the growth of non-development expenditure can hardly be over-emphasised. Besides, during a phase of intensive development effort when targets in terms of expenditure also assume a certain degree of significance, there is likely to be, even within the development sector of expenditure, some loss in effectiveness and possible room for economy and avoidance of waste. We are ourselves impressed with the need for thorough and careful enquiry both in the Central Government and the States into the whole question of public expenditure and suggest that such enquiries should be undertaken and entrusted to sufficiently high-powered bodies.

2. An integrated picture of the country's finances, of public expenditures as well as public revenues, on a comparable basis is possible only since 1950-51, after the financial integration of Part B States was completed. This period practically coincides with the working of the Constitution, and also with the planning phase, as 1950-51 was the base year for the Five year Plan estimates. In fact, it is this period which is most relevant from the point of view of the work of the Commission. All the same, it would be useful to give a summary survey of the changes in the character of public expenditure in India during the last few decades.

3. The following table shows the expenditure on revenue account of the Central Government and nine (Part A) States/Provinces in selected years during the period of over three decades since 1921-22*.

*While the main grants-in-aid to States have been deducted from Central expenditure, certain departmental grants to States have not been so adjusted and a certain degree of duplication remains in the totals.

TABLE 1.—Expenditure on revenue account of Central and State Governments in selected years since 1921-22

(Crores of Rupees)

	1921-22	1936-37	1938-39	1950-51	1953-54 R. E.	1954-55 B. E.
Centre	109·93	80·92	82·03	335·87	388·78	418·35
Provinces/Part A States	70·12	76·69	80·53	293·08	380·54	400·89
Part B States				91·53	115·85	127·65

Centre :—Figures for 1921-22 and 1936-37 are inclusive of those for Burma : figures for 1938-39 relate to undivided India. Main grants to States are excluded.

Provinces :—Figures for 1921-22 exclude those for Burma, but include those of Sind (as part of Bombay) ; figures for 1936-37 and 1938-39 exclude those for Burma, N.W.F.P. and Sind.

4. During the first half of the period, *viz.*, 1921-22 to 1936-37, when the Government of India Act, 1919 was in force, the contraction in the order of the Central expenditure stands in contrast to the moderate expansion of provincial public expenditure. While Central expenditure was half as much again as provincial expenditure in 1921-22 when the Provinces made significant amounts of contributions to the Central Government, Provincial expenditure had attained a level of approximate parity with Central expenditure by 1936-37. During the War and early post-war period (1939-40 to 1950-51), both Central and provincial expenditures expanded rapidly, by about four times; the comparison is vitiated by changes in the territorial jurisdiction of Central as well as State Governments. During the last four or five years, for which comparable figures are available, there has been a larger expansion in the expenditure of the State Governments than of the Central Government. This, as observed in the last Chapter, results from a good part of the elasticity in the revenues of the Central Government being transmitted to the resources of State Governments, which now form the channels for the larger part of expenditure met out of current public revenues.

5. The following table gives the broad trends in the composition of public expenditure of the Central and State Governments during the same period, *viz.*, since 1921-22. Figures are generally comparable as between 1921-22 and 1936-37 and between 1950-51 and 1953-54.

TABLE 2.—Expenditure of Central Government on Revenue Account

(Crores of Rupees)

	1921-22	1936-37	1938-39	1950-51	1953-54 (R.E.)
Non-development*	104·03	74·94	76·02	295·02	331·78
Social services	2·31	1·74	1·62	14·62	21·21
Economic Development	3·59	4·23	4·39	26·23	35·79
TOTAL†	109·93	80·92	82·03	335·87	388·78
*Of which Debt services.	16·12	12·64	14·19	37·37	38·85
Defence	69·81	45·45	46·18	164·14	199·69

† Excludes the main grants to Provinces/States.

Expenditure of Provinces/State Governments on Revenue Account
(Crores of Rupees)

	1921-22	1936-37	1938-39	1950-51		1953-54 (R.E.)	
				Part A States	Part B States	Part A States	Part B States
Non-development*	42.09	47.43	49.25	144.59	48.39	188.68	52.43
Social services	12.00	16.40	17.27	73.85	23.99	92.70	28.12
Economic Development.	16.03	12.86	14.01	74.64	19.15	99.16	35.30
TOTAL	70.12	76.69	80.53	293.08	91.53	380.54	115.85
*Of which							
Debt services	3.65	7.55	6.56	9.34	4.83	15.42	6.90
Police	10.34	9.94	10.12	40.12	11.93	40.60	12.03

6. During 1921-22 to 1936-37, there was a marked fall in the Central budget, mostly on account of the decline in defence expenditure; there was some increase in provincial expenditure mainly on account of debt services.

7. During the second half of the period, the change-over in importance from what may broadly be described as unproductive to productive expenditure is significant both in the Central Government and in the States. Details are given in Statement II for the Central Government, and Statements III to VI for the States. We may draw attention here to some significant elements of this change. Thus, expenditure on defence has dropped from 54 per cent. of Central expenditure in 1938-39 to 48 per cent. in 1953-54 and expenditure on administrative services has declined from 13 per cent. to 9 per cent. between the two years. Expenditure on debt services has recorded a steep fall from 17 per cent. in 1938-39 to 9 per cent. in 1953-54, while expenditure on social services and on developmental services has risen from 2 per cent. and 5 per cent. in 1938-39 to 5 per cent. and 9 per cent. respectively, in 1953-54. A significant increase has taken place in the volume of grants-in-aid to States which are being increasingly made for developmental purposes, the figure having gone up from 4 per cent. in 1938-39 to 6 per cent. in 1953-54. Productive expenditure as a whole, including that on social services, on developmental services and by way of grants-in-aid to States has gone up from 11 per cent. in 1938-39 to 20 per cent. in 1953-54, thus underlining the change that has taken place in the character and composition of Central Government expenditure in India.

8. As regards the State Governments, figures in respect of 1938-39 relate to the nine Provinces (including undivided Punjab and Bengal) which are now called Part A States. Taking these nine States, non-development expenditure (excluding Debt Services)

fell from 53 per cent. in 1938-39 to 45.5 per cent. in 1953-54. Expenditure on administrative services declined from 42 per cent. in 1938-39 to 27 per cent. in 1953-54. Expenditure on social services increased from 21.5 per cent. in 1938-39 to 24 per cent. in 1953-54, while that on developmental services increased from 17 per cent. in 1938-39 to 26 per cent. in 1953-54. Development expenditure as a whole, including social services, developmental services and the major part of grants-in-aid to local bodies, has thus gone up from 39 per cent. in 1938-39 to 50 per cent. in 1953-54; this shows the importance of the change that has taken place in the nature and composition of public expenditure of Part A States.

9. It is interesting to observe in particular developments in the main categories of expenditure during the last three or four years. It may be seen from Table 2 that between 1950-51 and 1953-54 there was an aggregate increase in development expenditure (including social services) on revenue account of about Rs. 80 crores, for the Central Government, Part A States and Part B States combined. In the same period, the increase in non-development expenditure was higher, being nearly Rs. 85 crores. Part of the increase in non-development expenditure was due to occurrence of famine conditions in parts of the country and transfers to zamindari abolition funds in certain States. The main increases under non-development heads were under Defence (Rs. 36 crores), Administrative Services (Rs. 19 crores), Debt Services (Rs. 10 crores) and Direct Demands on Revenue (Rs. 14 crores). The increase under administrative services was mainly at the Centre and in Part A States, which accounted for as much as Rs. 18 crores, and was distributed mainly under General Administration, Privy Purses and Allowances of rulers of ex-princely States and Superannuation Allowances and Pensions. The larger appropriation for Debt Services reflects greater dependence on loans to finance development outlay. The increase under Direct Demands on Revenue is mainly at the State level due to expenditure connected with land reforms, consolidation of holdings and survey and settlement operations. These factors go to explain the increase that has taken place in expenditure under non-development heads.

10. We may now offer a few remarks on some of the details of the growth in the expenditure of the Central and State Governments. (Taking the Central Government first, there has been a considerable increase in the expenditure on General Administration) which has increased from Rs. 2 crores in 1938-39 to Rs. 9 crores in 1950-

**Factors of growth
in expenditure of
Central and State
Governments**

51 and to Rs. 12.4 crores in the current year (*vide* Statement II). (Apart from the general rise in the price level, the increase is mainly due to expansion of Government activities in several directions, including the setting up of several new Ministries. The working of democratic institutions itself raises the costs of administration; and this is equally true of the States. The increase in Defence expenditure is partly due to the rise in prices and partly to the increased responsibilities following on the advent of independence. Yet another factor contributing to the increase in expenditure is the administration of various regulatory measures, particularly in respect of labour and industry. Besides, the growth of population throws increased responsibilities on Government at

all levels leading to an increase in public expenditure. Another feature common to expenditure patterns of both Central and State Governments is the increase in governmental responsibilities, such as maintenance of law and order and provision of housing and health facilities consequent upon the growing concentration of people in urban areas, particularly in large cities.) A subsidised housing scheme, aimed at encouraging the building of new houses for industrial workers, was inaugurated in 1952-53; Central grants to the States for this purpose amounted to Rs. 1.2 crores in 1953-54 and the budget provision in the current year is Rs. 6 crores. The cost of relief and rehabilitation of displaced persons is borne mainly by the Union Government who spent up to 31st March 1954 nearly Rs. 161 crores under this head, exclusive of loans amounting to Rs. 40 crores. Grants to States for the purpose amounted to Rs. 85 crores during the period. The scheme of subsidy on imported cereals was introduced by the Central Government from 1st April 1946 to make available supplies of foodgrains to consumers at controlled prices. The subsidy was abolished with effect from 1st March 1952, but imported rice (coarse and broken) and milo continued to be supplied by the Central Government to States at reduced prices for another two years. No provision has been made on this account in 1954-55. The total cost of food subsidies was about Rs. 89 crores during the period the scheme was in force, viz., 1947-48 to 1953-54.

11. Legislation undertaken in pursuance of the provisions of the Constitution regarding particular sections of the community who are economically backward, has also contributed to the increase in expenditure, for instance, the cost of schemes for ameliorating the conditions of scheduled tribes, scheduled castes and backward classes.) Thus, in 1953-54, in addition to grants to States for promoting the welfare of scheduled tribes and raising the level of administration in scheduled areas amounting to nearly Rs. 2.5 crores [under Article 275(1) of the Constitution], a sum of Rs. 89 lakhs was included in the Central budget for grants-in-aid to State Governments to supplement their efforts for the removal of untouchability and for the welfare of backward classes. (There has also been some extension of activities on the part of the Central Government in fields which are primarily the concern of State Governments and of local bodies, such as education, public health, and social welfare, presumably in an effort to quicken the pace or improve the quality of development. This expenditure is in addition to that incurred by way of grants to States for certain beneficent and development activities. Thus, grants for community development and local works, national extension service, training of village level workers, welfare of backward classes, social welfare and basic and social education are of recent origin and expenditure under this head shows definite signs of expanding.)

12. We have already remarked on the change in the pattern of the expenditure of State Governments in the direction of greater attention to social and developmental services. A feature of the expenditure of the States today is the place assigned to education. We may point out, however, that while there has been an absolute increase in the expenditure on Education in Part A States from Rs. 12 crores in 1938-39 to Rs. 44 crores in 1950-51 and Rs. 56 crores in 1953-54, in percentage terms the increase has not been significant,

Being only 15.4 per cent. of the total in 1953-54 compared to 15 per cent. in 1950-51 and 14.5 per cent. in 1938-39. In Part B States also the order of increase in the expenditure on Education has not been very different, expenditure having risen from Rs. 14 crores in 1950-51 to Rs. 18 crores in 1953-54 or from 15.7 per cent. of total expenditure to 15.8 per cent. Proportionately, expenditure on Public Health and Medical relief has remained almost static. A feature of the increase in public expenditure to which we have already drawn attention is the increase in non-developmental expenditure which has taken place both at the Centre and in the States.

13. With this brief discussion of trends in Indian public expenditure, we may now give a broad picture of the current public expenditure of all Governments in India for 1953-54. Details are given in Statement I. We give below a table showing how a rupee of the total revenue expenditure of all Governments in India was spent in 1953-54.

TABLE 3.—Expenditure of all Governments on revenue account [1953-54 (R.E.)]

		(in terms of per rupee of total costs)	
		Rs. A. P.	
I. Non-Development			
Direct Demands on Revenue		0	0 9
Interest on Debt and Other Obligations		0	0 10
Debt Retirement		0	0 3
National Defence (Net)		0	3 5
General Government—			
External Affairs		0	0 1
General Administration		0	1 0
Administration of Justice		0	0 2
Jails and Convict Settlements		0	0 2
Police		0	1 0
Others		0	0 9
Miscellaneous		0	1 2
Sub-total Group I		0	9 6
II. Social Services			
Education		0	1 5
Public Health		0	0 3
Medical		0	0 6
Others		0	0 11
Sub-total Group II		0	3 2
III. Economic Development			
Agriculture		0	0 6
Veterinary		0	0 1
Co-operation		0	0 1
Community Development projects		0	0 2
Irrigation and Forests		0	0 5
Industries and Supplies		0	0 5
Civil Works		0	1 5
Others		0	0 2
Sub-total Group III		0	3 4

14. It will be seen that a substantial part of the expenditure, about 60 per cent., is incurred on Defence, Administrative items, Debt Services and collection charges or what may be termed non-developmental functions, less than 20 per cent. on social services and 21 per cent. on economic development and analogous functions. National Defence alone is responsible for a little over one-fifth of the total, and general administrative activities come a close second with 19.5 per cent. Education (8.8 per cent.) is the major item in social services, followed by Medical and Public Health. A substantial part of the outlay on development services is on Civil Works (roads, bridges and buildings). Next in importance in this group are Agriculture and Forests, and Industries and Supplies. Expenditure on Police exceeds that on any single item in the social services and economic development categories, except Education and Civil Works. Police expenditure is even more prominent in the States' expenditure pattern taken by itself; in fact, the combined provision under Police and Jails (at Rs. 62 crores) forms 12 per cent. of the total expenditure of all States, and constitutes the largest item of States' expenditure.* Education accounts for 11.5 per cent., Civil Works 9.9 per cent. and Agriculture and Veterinary for 5.7 per cent. in States' expenditure. Agriculture, Co-operation and Veterinary are insignificant in the overall picture, accounting for only Rs. 38 crores in the total revenue expenditure of Rs. 927 crores.

15. So far we have dealt with State Governments as a whole and have said little about individual States. State-
Comparative picture of State expenditures ments III to VI in the Statistical Appendix to this Volume give details of public expenditure under defined categories for Part A, Part B and Part C States, as well as for the individual Part A and Part B States. We give below a table showing the per capita expenditure in Part A, Part B and Part C States in 1953-54:

	Part A	Part B	Part C
	States	States	States
	Rs. A. P.	Rs. A. P.	Rs. A. P.
Non-development	6 12 4	7 11 2	8 9 5
Social Services	3 5 2	4 2 0	7 3 7
Economic Development	3 8 10	5 2 11	7 13 5
TOTAL	13 10 5	17 0 2	23 10 5

Total per capita expenditure is higher in Part B States than in Part A States and is the highest in Part C States. The disparities may be explained partly in terms of the density of population. The average density of population is higher in Part A States than in Part B States and is the lowest in Part C States. Generally speaking, with a scattered or low density population, it costs more per capita to run schools and maintain hospitals because more teachers and doctors are required; similarly costs of administration and other overhead expenditure are higher. The concentration of population also results in higher per capita costs of certain services.

*If State grants to local bodies for Education are not deducted from States' expenditure, Education would be the largest single item. This is referred to later in some detail.

like public health, but in most cases the greater the density of population, the larger is the number of services which can be performed more economically in a collective manner. The per capita cost of General Government in Part C States is estimated at Rs. 5-8-7 as compared to Rs. 4-3-7 in Part B States and Rs. 3-11-0 in Part A States.

16. Leaving aside Part C States, there are marked differences in per capita expenditure among individual Part A and Part B States. Mysore has the highest figure, with Rs. 24-3-6, followed by Saurashtra, PEPSU, West Bengal, and Bombay. The lowest in the scale are Bihar (Rs. 8-12-9), and Orissa (Rs. 10-0-9). The largest proportion of expenditure on non-development heads, *viz.*, between 55 to 60 per cent. was found in Uttar Pradesh, Punjab and Hyderabad, but in Uttar Pradesh this was due partly at any rate to transfers out of land revenue collections to the Zamindari Abolition Fund. The largest single item of expenditure in the two western border States of Rajasthan and Punjab was Police. In Hyderabad, Police expenditure which was as high as Rs. 6 crores in 1951-52 was reduced to Rs. 3-5 crores in 1953-54. At the other extreme in this respect were Mysore and Travancore-Cochin where the proportion spent on Police was as low as 5 per cent. Bombay and Mysore have the highest figures of expenditure, Rs. 5-12-8 and Rs. 5-8-5 on social services, while Bihar and Orissa lag a long way behind with only Rs. 1-15-8 and Rs. 2-1-8 respectively. Education took the first place in as many as ten Part A and Part B States except in Punjab, Rajasthan, West Bengal, Assam, PEPSU, Orissa and Saurashtra. In the last mentioned four States, Civil Works accounts for large expenditures; in Assam more than a quarter of the total expenditure and in PEPSU a little less than one-fifth was incurred under this head in 1953-54. Better and more communication facilities are given a high priority in these States. West Bengal spent relatively more on Medical and Health Services (10 per cent.) than any other State; this may be compared to 5-6 per cent. spent in Madras, Uttar Pradesh and Madhya Pradesh. It is evident that apart from variations in the relative place of non-developmental and developmental expenditure, the fiscal importance of individual functions also varies among the different State Governments.

17. (So far we have only dealt with public expenditure on revenue account. Expenditures on capital account have assumed importance with the inauguration of the development programme.) In Chapter VI of this Volume, we review the whole subject of investment in the public sector. We shall, therefore, make only a brief mention here of capital expenditure.

18. Details of capital expenditure of the Central Government and States are shown in Statement VII. Loans to local bodies, port trusts, agriculturists, and others are not included in the Statement. The total capital expenditure in 1938-39 was Rs. 13-4 crores, of which the share of the Central Government was Rs. 9 crores, mostly incurred on Railways and Posts and Telegraphs, and the remaining Rs. 4 crores represented the share of the Provinces, mainly under Irrigation, Electricity Schemes, and Civil Works. In 1945-46, Defence was the main item, with over Rs. 35 crores out

of a total of a little over Rs. 39 crores. The small size of capital outlays and their distribution in pre-war and War years are indicative of the restricted role of Government in the economic development of the country before Independence. In 1950-51, the Central Government and the States together spent over Rs. 166 crores on capital account schemes and by 1951-52 the figure reached Rs. 243 crores; expenditure was maintained at about that level in 1953-54. In 1954-55 total capital outlay is placed at about Rs. 320 crores. In the first three years of the Plan, total capital outlay was of the order of Rs. 657 crores, of which Rs. 503 crores or more than three-fourths (77 per cent) was spent on development schemes and the remainder on non-development items. Of the latter, a main part was in respect of State Trading Schemes and the transfer of the sale proceeds of American loan wheat. However, not all State trading schemes are of a non-developmental character and mention may be made of land reclamation schemes which are included in this category, on which Rs. 2.4 crores was spent in 1952-53 and a similar amount in 1953-54. Out of Rs. 503 crores representing the outlay on development schemes in 1953-54, the share of the States was Rs. 357 crores, and of the Central Government Rs. 146 crores; a large portion of the expenditure on State schemes is financed from loans by the Central Government. During the three years 1951-52 to 1953-54, Central loans and advances to States aggregated to Rs. 271 crores. The multi-purpose river valley schemes are being financed entirely by the Central Government although the shares of participating States are being debited against them as loans.

19. We may now conclude this brief review of Indian public expenditure with an attempt at assessing its bearing on fiscal policy. The combined expenditure (on Revenue and Capital Accounts) of the Central Government, States and local authorities amounted to Rs. 1170 crores in 1953-54 and formed 11 per cent. of the probable level of national income of the Indian Union. (The extent to which Indian public expenditure brings about a reduction in inequalities of economic circumstance and thus helps the tax system to achieve one of the objectives which have been suggested for it is modest partly because the total volume of public expenditure constitutes a small proportion of the total national income and also because the expenditure on social welfare or subsidies by way of transfers to the lower income groups is of little significance. Apart from food subsidies and expenditure connected with relief and rehabilitation of displaced persons (which are temporary). Industrial housing and amelioration of scheduled and backward classes, there are hardly any other directly re-distributive expenditures of importance in the Indian budget.)

20. [At the same time, a certain measure of territorial or regional redress of inequalities is a conspicuous feature of Indian public expenditure as also of the entire system of public finance. This redistributive process takes place both directly through the redistribution of Central expenditure regionally or indirectly through the division of shared taxes on the basis of population and by way of larger grants-in-aid to the more backward or financially weaker States. In a sense, the proportion of total public revenues raised and spent by the Central Government is a good measure of the extent

to which overall national considerations enter into public finance operations as a whole. For Central revenues are raised under uniform national tax laws without regard to their higher tax incidence on larger regional incomes, while the distribution of Central expenditure is again determined in terms of broad national requirements without being inhibited by the larger relief that may be brought to the more needy regions. This, by itself is an important redistributive process. A striking illustration of this process is furnished by the manner in which the river valley projects, which will raise the productive capacity and income levels of comparatively backward areas, are financed out of Central resources which are raised to a larger extent, by taxation and borrowing, from the more prosperous parts and affluent sections of the community. Important, again, are the grants-in-aid to 'backward' States and the high place accorded to population in the scheme of distribution of the divisible revenues collected by the Central Government. There are, of course, limits to this process of regional equalisation, but there is no doubt that it forms a significant feature of the system of public expenditure in this country.)

21. (The redistributive process operates not only on the national plane in lessening inter-State disparities of resources, but also within the States themselves, perhaps in an even more significant measure, by reducing the disparities between resources and needs among rural and urban areas.) This fact is brought out in a striking manner in the Report of the Finance Commission, which gives a Statement showing the collections and expenditure, respectively, under main heads of (State) revenue and expenditure in the three cities of Bombay, Calcutta and Madras.* The table shows the large contribution of the cities (particularly in the case of Calcutta, its preponderating importance), to the tax resources of their respective States, as against the comparatively small share of State expenditure incurred within their limits. It is true that the figures cannot be taken as precise, as collections within city limits are no index of the effective incidence of taxes, which in respect of several heads, e.g., sales tax, would be transmitted outside their areas. But they indicate the manner in which re-distribution occurs through the operation of public finance at State level. (In addition, the grants-in-aid made by State Governments to the Local Bodies are a counterpart to the Central grants-in-aid to States, and help to some extent to carry forward the process of equalisation within the State areas.)

22. Finally, the increasing role which is being assigned to expenditure on social services serves to diminish the unpopularity of the tax system, while, what is of even greater value, the increasing importance given to developmental expenditure tends, in the long run, actually to increase the taxable capacity of the people.)

23. The composition of Indian public expenditure as also the trends therein in recent years serve to bring about a moderate reduction in inequalities, both economic and social in the country; and, to this extent, should reconcile the people to an increase in the

*Report of the Finance Commission, Appendix, pp. 194-195.

total burden of taxation. It must be emphasised, however, that for an effective advance in these directions the objective of the widest possible distribution of benefits, both regionally and by income groups, needs to be pursued vigorously. Finally, we may add that the re-distributive effects of public finance operations in India cannot attain really significant dimensions as long as the ratios of public revenues and public expenditure to national income remain as small as they are at present. /

CHAPTER IV

INCIDENCE OF TAXATION:

APPROACH AND SCOPE OF STUDY

Under its terms of reference, the Commission is required to "examine the incidence of Central, State and Local taxation on the various classes of people and in different States." The Commission is required also to examine the suitability of the present system of taxation with reference to the objective of reducing inequalities of income and wealth. These terms of reference require a study of the tax system in its distributional aspects. These are by no means the only or necessarily the most important aspects but an investigation of the manner in which the burden of the tax system is distributed over the community, by economic classes and regions, may appropriately form the starting point of a comprehensive review of the tax system. We accordingly propose in this and the following chapter to attempt an analysis of such data as could be gathered on this difficult and somewhat intractable subject.

2. No comprehensive enquiry into tax incidence in India has hitherto been made. Some non-official attempts **Enquiry into formal incidence** have, indeed, been made from time to time to indicate the magnitude of tax incidence and the pattern of its distribution but such studies general in character, remained confined to small regions or broad classes of people.

3. In all such studies, the attempt has been to measure what has been called the 'formal' incidence of taxes only, i.e., the money burden of taxes as resting with the subject on whom the burden is intended by the taxing authority to fall; the amount paid in tax is thus measured as per cent of income of different income groups. The assumption is made that the incidence of direct taxes rests with those who initially pay the tax, while that of indirect taxes is borne by consumers of taxed commodities. In this study, too, the analysis of incidence is confined to 'formal incidence' only. Effective incidence, as connoting the real or final distribution of tax burden after its shifting in consequence of changing demand and supply conditions of the taxed commodity or service, is obviously much more complex and difficult to determine; and we make no attempt to do so.

4. Nor is an attempt made in this context to examine the benefits of public expenditure, although it is true that **Tax burden and public expenditure** without it any picture of the 'burden' of taxation alone would remain partial. Some broad indication of the distributional effects of public expenditure in India is given in Chapter III. It is difficult to correlate this with tax incidence in any precise manner unless a systematic study of the benefits accruing from particular expenditure programmes to the different classes in the community were also undertaken.

5. The Commission's terms of reference call for a study of incidence of taxation on the various classes of people. One of the first questions for decision, therefore, was as to the classes of the population which should form the basis of study. The Tax incidence in relation to income groups Taxation Enquiry Committee, 1924-25, approached the problem in terms of the weight of taxation on particular social classes. There is no doubt a certain popular interest attaches to investigation of the tax burden on such classes; the occupational group, however, does not form a homogeneous economic class by income, and, therefore, does not indicate ability to pay tax. There is little in common, for example, from the point of view of tax policy between an owner-cultivator with an annual family income, say, of less than Rs. 500 and another with such income above Rs. 3,000. The petty farmer has more of an affinity to the agricultural labourer—he is often himself partly one—than to the big farmer. It is, therefore, more significant to know, if possible, any difference that may exist in the burden of taxation between farmers so differently situated than to know the average incidence of taxation on farmers as a whole. In the urban areas, again, the distinction by income is of greater significance from the tax point of view than division by classes like employer, employee, self-employed, etc., which overlap such a wide income-range as to be hardly of value for tax policy. The fundamental basis of classification of the population relevant to a study of tax incidence, we believe, therefore, is income. Another classification based on the rural and urban parts of the community is commonly made. We considered it useful to have regard also to this distinction. The rural-urban classification mainly reflects the nature of economic activity in which the population of these two sectors is engaged, the former primarily in agriculture and small scale industry, trade and transport, and the latter in industry, commerce, transport and professions including government service. Income, and residence by urban and rural areas—both the most important determinants of patterns of consumption in the community—therefore, form the main bases of our analysis. To the extent that certain recognisable social groups like agricultural labourers, industrial workers, or the lower middle class can be identified mainly with certain income-categories, any conclusions regarding incidence by income-groups would broadly apply to the social sub-groups as well. Any special characteristics of expenditure-pattern and, therefore, of tax-incidence by social class would not, however, be brought out in this study.

6. The terms of reference also require an analysis of incidence of the tax system—Central, State and Local—in different States. We have attempted to give a broad picture of the divergences in the burden of taxation from State to State in Part A and Part B States, but the data at our disposal do not permit the same type of analysis State-wise of the incidence of indirect taxation by income groups and rural and urban residence that we have attempted to make for the country as a whole.

7. In presenting a picture of the incidence of taxation—Central, State and Local—we are aware that Central, State and Local taxation do not form part of a unified tax structure. The Constitution has demarcated the Central and State (including local) powers of

taxation and while Central taxation is levied at uniform rates throughout the country, State and local tax rates diverge widely from one part of the country to another. Thus, variations in the incidence of taxation over the country are made up broadly of two elements: (1) differences in respect of the same income group as between different parts of the country owing to differences in the consumption and expenditure pattern, with uniform tax rates—these would relate to Central taxation; and (2) differences in incidence due to differences in the rates of taxation—these would relate to State and local taxation.) It is clear that the incidence of Central, State or local taxation should be studied separately (as well as together), as differences in the incidence of total taxation might be made up of widely varying components in different cases; and for any worthwhile conclusions concerning tax policy it would be necessary to indicate *where* the disparities arise.

8. Also, State-wise differences in the incidence of taxation, due to different rates of taxation, *viz.*, in respect of State taxes, have a different significance from equivalent differences related to the consumption-pattern from one part of the country to another, *viz.*, in respect of Central taxes. In regard to State taxation, if the incidence of taxation in a certain region or area is high, so may be the scale of public expenditure that corresponds to the scheme of taxation. Therefore, while tax rates and yields diverge, the disparities may be matched by similar differences in the scale of social and other services provided by the States. The same reasoning would apply, to an even greater extent, to drawing any deductions from the varying incidence of local taxation. In fact, local taxes are, in a peculiar degree, of the nature of payments for the benefits derived from local services; they vary widely in their incidence from the sparsely populated country tracts to the areas of big metropolitan corporations; low taxation is normally accompanied by a low scale of services and high taxation by a well-developed local government system. Information regarding local taxes, too, is much less up to date than in respect of Central and State taxes. We have, therefore, refrained from including local taxation in our discussion of incidence. Recognition of the reasons of variations in State tax incidence, however, does not deprive this subject of its interest and value. For, the State as well as Central tax structures form a part of the country's tax system, and all parts of the system are geared to the development programme; which implies the need for a degree of co-ordination in tax effort as in planned development. The distinctions brought out above are, however, important for a proper perspective of the study of incidence of taxes levied by different governmental authorities.

9. At this stage, we may refer briefly to some of the problems involved in a study of incidence, tax-wise. In a way, the analysis of incidence of income-tax is comparatively simple, both because it is a direct tax the incidence of which by income groups is indicated by the schedule of rates and because income-tax covers such a small fraction of the community that in a classification of the population into a few broad income-categories, the class of income-tax payers conveniently falls into the highest category. In regard to land revenue, which is on the border-line between direct and indirect taxes, the complexity and diversity of the systems in operation in different States, require

Problems in study of incidence, tax-wise

scrutiny before a simplified statement of the differences in incidence could be made. In the case of indirect or commodity taxes—which form the bulk of Central and State taxation—the main problem is to trace the consumption of taxable commodities to the family budgets of different classes of people and income groups; this presupposes availability of data regarding family budgets. In view of the cost and time that would be involved, we could not contemplate undertaking afresh a comprehensive family budget enquiry covering the entire economy, designed specially for the purposes of a study of incidence; and our investigations into the subject were necessarily restricted to use of data already available.

10. Two of the family budget enquiries, undertaken in connection with the Deshpande Report for industrial workers and the survey by the Economic Adviser's Office for middle class employees of the Central Government, are comprehensive country-wide investigations. But they relate to the years 1944-46 which were abnormal inasmuch as they still reflected the restraints of war-time controls on consumption; besides, of course, they covered only two limited segments of the population. The consumer expenditure schedule of the National Sample Survey provides household expenditure data currently and on a more comprehensive basis than any of the previous family budget studies. The fourth round of the National Sample Survey, the latest available to us at the time of enquiry, covers over 12,000 households in both urban and rural sectors; it is related to a fairly recent period, viz., April 1952 to September 1952; the reference period (i.e., the period, within these six months, on the basis of which the information is actually compiled regarding every unit of investigation) is week/month (preceding an investigator's visit), and not only total expenditure but also value of cash purchases and, in relevant cases, data regarding quantity of purchases are available. It was, therefore, decided to utilise the results of the fourth round schedules of the National Sample Survey.

11. We recognise that there are many deficiencies in the usefulness of consumer expenditure data collected by a group of investigators by the direct interview method on such a scale as that of the National Sample Survey; the procedures of enquiry, too, are probably undergoing a phase of experimental evolution. Obviously a great deal of experience will have to be obtained and many improvements effected before it is possible to use the consumer expenditure data for purposes of economic policy. All the same, it is the only material available today which gives some indication of consumption patterns on a country-wide basis. We have had, therefore, no alternative but to use this material, subject to all its limitations, as otherwise it would have been difficult for us to deal, howsoever imperfectly, with one of our terms of reference. We must point out, however, that we have used these data only in a limited fashion and that too with a considerable degree of caution. Thus, we have not taken the actual expenditure figures either by income groups or by urban/rural areas for estimating the incidence of taxation. We have merely used the data to provide the proportions in which taxes are allocated among various categories or groups. The data do not provide a basis for inter-State comparisons in the incidence of urban taxation and we have not used the figures according-

ly. In regard to inter-State comparisons in rural taxation, the data available in the N.S.S. are not sufficiently reliable and may, in fact, present a misleading picture, in respect of some individual States. We have, therefore, not used these data in the text of our Report, but have included a brief note on inter-State comparisons of rural taxation in an Appendix to the next Chapter, as a rough indication of the relative inter-State levels of the incidence of taxation in rural areas.

12. We may now give a brief account of how we have used the N.S.S. data for assisting our study of the problem of tax incidence in India. It was necessary not only to get the expenditure items by defined categories, but also their break-up into cash purchases and non-monetary transactions, as the commodity tax burden is in monetary terms and falls primarily on monetary transactions. The non-monetary transactions include the value imputed to non-cash consumption out of (a) the home produce or own produce of the household unit, (b) the goods supplied in kind, e.g., to agricultural labour, and (c) articles acquired by barter. In the following paragraphs these transactions are alternatively referred to as the 'imputed value' of consumption or consumer expenditure. It was also necessary to get consumption pattern by expenditure levels and by rural/urban residence. These details are available in the N.S.S. data, but they had to be re-tabulated for the purpose of our inquiry.* Re-tabulation of data by expenditure levels presented difficulties, as the number of sample households diminished with increase in size of expenditure, and became very small for expenditures of households exceeding Rs. 300 a month. The data were classified by the following household expenditure groups, separately for rural and urban sectors, on an all-India basis:

Rs. 1— 50
Rs. 51—100
Rs. 101—150
Rs. 151—300
Above Rs. 300

The expenditure group above Rs. 300 a month is in a somewhat different category from the other expenditure groups, as it has a much larger range than the other groups. Figures of incidence for that group, therefore, have meaning as referring to the entire category of expenditure levels above Rs. 300 a month and not in terms of either an average per household or per capita incidence in that group.

13. Data are available and have been tabulated for the rural sector by individual States, but for the reasons already mentioned, we have relegated them to an appendix to the next Chapter. For the urban sector data on sample households are available on an all-India basis in respect of four categories of the urban sector, viz., the four major cities (Bombay, Calcutta, Delhi and Madras), towns with

*The re-tabulation of the data was entrusted to the Indian Statistical Institute, Calcutta.

population between 50,001 and 10 lakhs, towns with population between 15,001 and 50,000, and towns with population between 5,001 and 15,000. These have been tabulated and used in our study. Data on urban sample households are not of much use for inter-State comparisons, as State-wise stratification was not considered in the selection of the urban sample. It is, of course, possible to work out some sort of figures for this purpose by assuming that the all-India urban patterns also hold good for each individual State, but the figures will not have a significant measure of validity. Under the circumstances, we have refrained from using the N.S.S. data for inter-State comparisons of urban incidence. It also follows that we do not use these figures for making any inter-State comparisons in respect of total incidence, as that will involve pooling together the rural data for individual States and some estimated data for the urban sector for individual States, which, we have already indicated, would not be valid. Appendix I gives the sampling design of the Survey.

14. The consumer expenditure schedules which have been used in our study of incidence relate to the period April—September, 1952. Some of them had the previous week as the basis of reference and others had the previous month. The household schedules for which the reference period was a month (these numbered 12,000 in all) were taken up for tabulation; and it has been assumed for the purposes of this study that the pattern of consumer expenditure for the whole year is similar to that disclosed by the data available for six months. The tax analysis is for the year 1953-54.

15. To sum up, we have used the N.S.S. expenditure data as indicative of the patterns of consumption on an all-India basis both by certain expenditure levels and by the rural/urban sector. We have not used the data for inter-State comparisons in respect either of incidence in urban areas or of total incidence; but we have given in an appendix to this chapter calculations of incidence by States in the rural sector with, of course, the qualification that they are not sufficiently reliable in the case of some States*.

16. We must add that in calculating tax incidence, we have proceeded on the assumption that expenditure is approximately equal to income, as no data on income are available in the N.S.S. material. This assumption, of course, would not hold good in the case of the top group of expenditures of over Rs. 300 a month, as in their case—and especially as one moves higher up in the range—expenditure is likely to be less than income and the proportion of tax to expenditure would over-estimate tax incidence.

17. While estimates are available for both per household and per capita expenditure, expenditure group-wise analysis of tax incidence is based on per capita estimates. Households in the National Sample Survey do not refer to family units; a household is defined to comprise all members or persons who stay at least for sixteen days:

*We had a general discussion regarding the use of the N. S. S. data with Dr. V. G. Panse, Statistical Adviser, Indian Council of Agricultural Research, Dr. B. Ramamurti, Joint Director, Central Statistical Organisation and Dr. N. S. R. Sastry, Director of Statistics, Reserve Bank of India. They are, however, in no way responsible for the use made of the data and the conclusions based on them.

during the period of 30 days ending on the day preceding the date of listing the household and who partook of a common kitchen, irrespective of the number of earners. This explains the consistent pattern of increasing household size with rising expenditure level of the household, from 3.2 in the lowest group (Rs. 1—50) to 10.0 in the highest (above Rs. 300) in the rural sector (all-India), with an average household size of 5.0 for all expenditure levels combined; in the urban sector (all towns and cities together) the size rises from 2.5 to 8.2, with an average of 4.6. While there are variations among States, this pattern is observed all through, with but few exceptions. The data show that only 4.5 per cent. of rural households are in the expenditure groups above Rs. 300 per month, but these represent 9.0 per cent. of the rural population; of urban households 8.9 per cent. are in this category with 15.8 per cent. of urban population. Consistently for each expenditure level, again, the household size is smaller in the urban sector than in the rural. In view of the significant correlation between increasing expenditure group and household size in rural and urban areas, and practically in all States, the inference could be drawn that, as one moves up the expenditure scale, the number of earners (particularly of dependent earners) in a household increases and this accounts for the increasing size of household. This renders incidence per household in different expenditure groups non-comparable and, therefore, in the attempt to study the pattern of consumption as a function of income level, analysis is based on per capita data relating to different household expenditure groups.

18. The taxes covered in the study are Central excise, import duties, State excise, general sales tax, sales tax on motor spirit, entertainment duties, inter-State transit duties, motor vehicles taxation, sugarcane cess and tobacco vend fees. Export duties are omitted for obvious reasons. On the whole, much the larger part of the indirect taxes, Central and State, is brought into the review.

19. We have seen that per capita consumer expenditure data on various commodities by different household expenditure groups are available. The pattern of cash expenditure, suitably adjusted where necessary, to take account of the nature of the tax and the differences between rural and urban consumption, is used to distribute actual tax collections among the different expenditure groups. All important indirect taxes, both Central and State, are thus distributed on the assumption that all these taxes are passed on entirely to the consumer (though sometimes a part of the incidence may actually be on the dealer). The actual tax collections in 1953-54 (revised estimates) are allocated among different expenditure groups, between rural and urban sectors according to the *proportions* revealed by the National Sample Survey expenditures data. If per capita tax element were worked out by applying the respective tax rates to the per capita cash purchases of goods on the basis of the data in the National Sample Survey, the estimates would show discrepancies from actual tax realisations mainly due to (a) the deficiencies of the sample data themselves (i.e., of purchase figures), (b) differences between actual purchases of a commodity and quantity taxed during a period—as in the case of Central excise duties—owing to changes in stocks-in-trade, and (c) evasion of tax. Since it is the incidence of taxes

Assumptions and method

actually collected by Governments that is brought out in the estimates, it is likely that the estimates of tax incidence may not reflect all the inadequacies of the primary data themselves. The taxes where certain special assumptions had to be made and somewhat different methods had to be adopted are dealt with below.

20. *Central excise duties* are mostly specific and hence tax yields from different commodities like sugar, vanaspati, tea and coffee, are distributed according to quantities consumed of the respective items by different expenditure groups in rural and urban sectors. For tea, the rates differ for loose tea and package tea; it is assumed that loose tea is consumed entirely by expenditure groups up to Rs. 150. For cigarettes the pattern of consumer expenditure could not be directly taken for allocating the tax yield, since rates of duty vary according to the value category of the cigarettes and the varieties of cigarettes consumed by different expenditure groups also vary. Further, there is no excise duty (but an import duty) on imported tobacco used in cigarette manufacture. Therefore, certain assumptions regarding the value category of cigarettes consumed by different expenditure groups and the quantity of imported tobacco used in different categories of cigarettes have been made for distributing the actual duty. A similar procedure is adopted for the cloth excise duty, as its rates vary according to the quality of the cloth. Excise duty is also realised from certain items like steel ingots and tyres that do not enter directly into consumer expenditure. The yield from these items is distributed according to cash expenditures on manufactured commodities, a similar procedure being also followed in the case of import duties.

21. Dutiable imports are divided broadly into consumer goods and producers' and capital goods as shown below:

I. CONSUMER GOODS

A. *Luxury goods*

Liquors

Perfumery

Furniture and cabinetware

Ivory

Buttons

Earthenware and porcelain

Leather manufactures

Writing paper and envelopes

Domestic refrigerators

Motor spirit (a part of imports)

1 Soap

Cotton manufactures

Haberdashery and millinery

Silk manufactures
 Artificial silk manufactures
 Other textile manufactures
 Motor cars and taxicabs
 Motor cycles (including scooters)
 Postal articles, baggage and other unspecified articles
 Glass and glassware
 Cutlery (excluding safety razors and blades)
 Fruits and vegetables (import content of fresh fruits and vegetables is comparatively low, while among other fruits the major items are cashewnuts, almonds, dates, currants and raisins)
 Wireless apparatus and parts
 Cinematographic films (exposed)
 Musical instruments
 Typewriters and parts
 Sewing and knitting machines and parts thereof
 Provisions and oilman's stores (canned and bottled provisions, chocolate and confectionery, jams and jellies, biscuits and cakes, etc.)
 Woollen manufactures
 Toys and requisites
 Toilet requisites
 Tobacco (unmanufactured) and cigarettes
 Raw cotton
 Raw silk and yarn
 Clocks and watches

B. *Non-luxury goods*

Kerosene
 Betelnut
 Cycles and parts
 Hardware (only stoves and parts included)
 Drugs and medicines
 Fish
 Stationery (excluding paper) like pencils, fountain pens, ink, etc.
 Safety razors and blades
 Umbrellas and umbrella fittings (imports almost entirely consist of umbrella fittings)

II. PRODUCERS' GOODS

Bristles and fibres for brushes
 Brushes and brooms
 Chemicals and chemical preparations
 Cork manufactures
 Dyeing and tanning substances
 Sheet and plate glass
 Gums and resins
 Hardware (only agricultural implements)
 Cinematographic films—raw
 Instruments (other than musical and wireless)
 Leather
 Aluminium (mainly ingots and sheets)
 Anti-friction metal
 Brass and bronze
 Copper
 German silver
 Lead
 Zinc or spelter
 Metals unenumerated
 Animal oil (fish)
 Essential oils and seeds (synthetic and natural)
 Motor spirit (two-thirds of imports)
 Other mineral oils (fuel oils, lubricating oils, etc.)
 Mineral grease, including petroleum jelly
 Paints and painters' materials (paints and colours, turpentine, varnishes, etc.)
 Vegetable oil including seeds (major item being cocoanut oil used in soap and vanaspati manufacture)
 Paper and pasteboard (excluding writing paper and envelopes)
 Pulp of wood
 Pitch and tar
 Polishes and compositions
 Printers' ink
 Starch dextrine and farina
 Tallow and stearine
 Tea chests
 Wax
 Wood and timber
 Rubber manufactures
 Yarn and knitting wool
 Cotton twist and yarn
 Artificial silk yarn

III. CAPITAL GOODS

- Iron, steel and their manufactures
- Machinery and millwork (other than typewriters, sewing and knitting machines, domestic refrigerators)
- Building and engineering materials (like bricks, cement, tiles, etc.)
- Hardware (builders' hardware implements and tools, hand pumps, etc.)
- Asbestos manufactures
- Printing and lithographic machines
- Belting for machines
- Vehicles (other than motor cycles, motor cars and taxicabs, cycles and parts)

22. Consumption goods are further classified into luxury goods consumed (almost) exclusively by the higher income groups (households with monthly expenditure of over Rs. 300) and non-luxury goods. It is assumed that non-luxury consumption goods, producers' goods and capital goods enter directly or indirectly into the consumption of all expenditure groups. Consumption of imports is, however, likely to be larger in urban areas than in the rural sector and it would also rise with levels of expenditure. Further, owing to the relatively greater importance of non-cash expenditure in rural areas, it would be reasonable to relate the duty element only to total cash expenditure. It has, besides, been found that the consumption of manufactured goods—and imports of non-luxury consumers' goods or articles produced with the aid of capital and producers' goods would be mostly manufactured goods—increases somewhat more than in proportion to the increase of cash expenditure in higher household expenditure groups. Therefore, the import duty collections in respect of ordinary (non-luxury) consumption goods, producers' and capital goods, are allocated according to the proportions of cash expenditure on manufactured goods. However, import duties on raw cotton, silk, tobacco and tobacco products are attributed to the luxury category, i.e., to those in the group with expenditure levels exceeding Rs. 300 a month. Figures of import duties in 1952-53 (shown below) are taken for purposes of calculation of incidence as they are the latest available; it may be added that there are no noticeable differences between 1952-53 and 1953-54 yields.

Import duty collections in 1952-53

	(in lakhs of rupees)
Luxury goods	35,73
Non-luxury goods	15,39
Producers' goods	44,60
Capital goods	21,34
Unclassified	1,29
TOTAL	118,35

23. The assumptions regarding sales tax and the other indirect taxes covered in the analysis are given in Appendix II to this chapter.

24. The figures below regarding heads of taxation covered in the incidence analysis indicate the amount of taxes allocated on the basis of the consumption expenditure pattern. All tax totals relate to 1953-54 (revised estimates) except in the case of import duties for which the 1952-53 collections have been taken.

Indirect taxes covered in the study

(in crores of rupees)

Central excise	93·8
Import duties	118·1
<i>Total Central taxes</i>	211·9
Opium excise	4·9
Liquor excise	39·9
Sales tax: General	57·3
(of which, tax on raw materials)	(3·4)
Sales tax on motor spirit	7·6
Entertainment tax	5·8
Inter-State transit duties	2·9
Sugarcane cess	5·7
Motor vehicles tax	12·0
<i>Total State taxes</i>	136·6
<i>Total indirect taxes</i>	348·5

Of total indirect tax revenue of the Central and State Governments, of about Rs. 440 crores in 1953-54, the analysis includes Rs. 349 crores or about 80 per cent. Except for export duties, registration and stamps, and minor items like electricity duties, all important indirect taxes are covered in the analysis.

25. In the next chapter, we proceed to give the results of our calculations and put forward such estimates as we can of the incidence of taxation in India.

APPENDIX I

SAMPLING DESIGN

The rural estimates are based on stratified three-stage sampling (by tehsil, village and household). The sampling design for the rural sector was as follows. The country was first divided into 'natural divisions' as defined by the Registrar General, Ministry of Home Affairs, Government of India. Total consumer expenditure for each natural division was calculated on the basis of results of the first round of the National Sample Survey. Allocation of the number of first stage units (tehsils) to be sampled from the different natural divisions was made proportional to total expenditure. Within a natural division, tehsils were stratified according to population density. The limits of these strata within a natural division were so adjusted that for each stratum the value of total consumer expenditure was approximately equal. The number of strata in a natural division was equal to half the number of tehsils allotted; from each stratum two sample tehsils were selected. Within each tehsil two sample villages were similarly selected, and within each village, a pre-assigned fraction of households was selected at random. As each natural division formed a primary strata in the rural sector and as a group of natural divisions form a State, it was possible to build up unbiased estimates of total and per capita consumer expenditures for individual Part A and Part B States.

2. The details of the sample design for the urban sector are as follows. All towns were arranged in three population size-groups and 49 towns were selected. In addition, the four large cities of Bombay, Calcutta, Delhi and Madras were included. Each selected town and city was then divided into blocks corresponding to the 1951 Census enumeration blocks and a number of these were selected. A fixed fraction of households was then selected from each block at random. On this basis, urban estimates are available for all-India in respect of each of the three town types, for the cities and for the entire urban sector.

3. According to the Indian Statistical Institute, all the selected first stage units (*viz.*, tehsils) in the rural sector were surveyed in all States except in Travancore-Cochin and Madras where 17 out of 18 and 49 out of 50 sample tehsils, respectively, were surveyed. The response of the second stage unit (villages) was also very high, the failure being 17 per cent. in Travancore-Cochin, less than 6 per cent. in three States and nil in other States. The response of the third stage unit (the household) was similarly quite satisfactory, the failure being 18 per cent. in Travancore-Cochin and less than 8 per cent. in other States. In the urban sector, the selected first and second stage units (*viz.*, towns and blocks) have been completely surveyed and the response of the third stage units (household) was also very high the failure being less than 3 per cent., except in Madras where it was 32 per cent.

Per capita consumer expenditure in rupees for a period of 30 days and the estimated standard errors

A.—RURAL AREA, BY STATES

State	Number of Sample Units			Household size	Per capita consumer expenditure (in Rs.)	Standard error (\pm) (in Rs.)*	Standard error per cent.
	Tehsils	Villages	Households				
1	2	3	4	5	6	7	8
<i>Part A States</i>							
Assam . . .	12	24	218	5.44	24.12	± 2.39	9.92
Bihar . . .	60	120	1078	5.39	23.75	± 2.08	8.74
Bombay . . .	52	104	1039	5.23	18.85	± 0.41	2.18
Madhya Pradesh	30	60	562	4.44	16.23	± 0.80	4.94
Madras . . .	49	94	980	4.78	18.21	± 0.02	0.11
Orissa . . .	16	32	341	4.47	14.86	± 1.59	10.73
Punjab . . .	18	36	309	5.43	30.72	± 0.69	2.25
Uttar Pradesh	74	148	1407	5.17	23.04	± 0.43	1.87
West Bengal .	36	72	533	5.01	27.09	± 0.27	1.00
<i>Part B States</i>							
Hyderabad . .	28	56	470	4.49	15.10	± 0.38	2.50
Madhya Bharat	10	20	149	5.07	19.79	± 3.02	15.25
Mysore . . .	13	25	215	5.14	19.76	± 0.47	2.40
PEPSU . . .	6	12	82	4.76	35.14	± 7.26	20.67
Rajasthan . .	30	60	502	5.47	22.52	± 1.59	7.05
Saurashtra . .	10	20	136	5.92	19.95	± 1.62	8.11
Travancore-Cochin	17	30	262	5.40	18.48	± 0.83	4.50
<i>All India</i> . .	478	946	8545	5.01	21.13	± 0.29	1.38

B.—ALL INDIA RURAL, BY EXPENDITURE LEVEL

Expenditure levels in Rs.	No. of households	Household size	Per capita consumer expenditure (in Rs.)	Standard error (\pm) (in Rs.)*	Standard error per cent.
1—50	2357	3.18	10.28	± 0.40	3.88
51—100	2895	4.63	15.72	± 0.20	1.26
101—150	1570	5.66	21.44	± 0.13	0.60
151—300	1316	7.21	27.81	± 0.39	1.41
Over 300	407	9.99	46.23	± 1.37	2.97
All expenditure levels	8545	5.01	21.13	± 0.29	1.38

*Excludes unspecified rent and taxes.

C.—URBAN AREA, BY TOWN GROUPS

Towns and cities with range of population	Number of Sample Units			House- hold size	Per capita consumer expenditure (in Rs.)	Standard error (±) (in Rs.)*	Standard error per cent.
	Towns and cities	Blocks	House- holds				
1	2	3	4	5	6	7	8
Towns with population below 15,000	19	76	748	4.70	20.92	±2.84	13.57
Towns with population from 15,001 to 50,000	15	90	1003	4.35	28.16	±0.72	2.55
Towns and cities with population from 50,001 to 10,00,000	15	150	1441	4.89	30.39	±1.02	3.36
Cities with population above 10,00,000 :							
Bombay	1	26	157	4.62	57.12	±10.59	18.54
Calcutta	1	28	210	3.37	37.18	±0.68	1.82
Delhi	1	18	158	4.74	39.44	±3.14	7.97
Madras	1	19	170	5.42	30.62	±5.43	17.74
All India (urban)	53	406	3887	4.63	28.91	±0.62	2.13
All India (rural) . . . . .	..	..	8545	5.01	21.13	±0.29	1.38
All India (rural and urban) . . . . .	..	..	12432	4.95	22.40	±0.16	0.70

D.—ALL INDIA, URBAN, BY EXPENDITURE LEVEL

Expenditure level in Rs.	No. of house- holds	House- hold size	Per capita consumer expenditure (in Rs.)	Standard error (±) (in Rs.)*	Standard error per cent.
	1	2	3	4	5
1—50	763	2.48	14.31	±0.77	5.38
51—100	1241	3.95	18.08	±0.38	2.10
101—150	731	4.98	23.84	±1.00	4.20
151—300	770	6.26	31.93	±2.05	6.43
Over 300	382	8.20	59.01	±2.92	4.95
All expenditure levels	3887	4.63	28.91	±0.62	2.13

*Excludes unspecified rent and taxes. All-India figures include those for Part C States.

APPENDIX II

ASSUMPTIONS AND METHOD REGARDING SALES TAX AND OTHER INDIRECT TAXES

[The pattern of consumer expenditure could not be directly used to apportion sales tax collections among the different expenditure groups and between rural and urban sectors because schedules of commodities subject to tax and the rates of tax differ among the various States.] Even of items liable to tax in a State, it is necessary to make a distinction between those which come into the tax net uniformly and those which may only be partly taxable in the rural and urban areas. The basis of such distinction derives from the nature of sales tax legislation; for instance, every State exempts dealers below a minimum turnover from registration and payment of sales tax and if such a dealer in a small town or village makes his purchases in small quantities from scattered local sources of supply, there is no sales tax element, though such purchases appear in household expenditure data. Some low-priced articles may be exempt from tax, while the costlier varieties of the same may be taxable. Rural-urban differentiation and differentiation between various expenditure groups, therefore, becomes necessary. Where composite consumption data are available for certain groups of commodities, some constituent items may be exempt from taxation. To take account of such factors, certain assumptions are made regarding the taxability of different commodities, the more important of which are indicated below, illustratively.

2. In a State where foodgrains are subject to taxation (e.g., in Madras and Bihar) the entire rural sector is considered exempt, because cash purchases are likely to be mostly from local sources and not from dealers with the prescribed turnover; consumption in towns and cities is treated as fully taxable. Where separate data for individual items are not available, consumption of edible oils is equated with the oil predominantly consumed in a State. To account for the tax exemption usually granted to oil produced in *ghani* or by animal labour, only 25 per cent. of rural consumption and 60 per cent. of urban consumption are deemed liable to sales tax, but city consumption is considered fully taxable. Even where the vegetable group is liable to taxation, the rural sector is excluded and one-third of urban consumption and the entire city consumption are considered as taxed. Firewood and charcoal, where taxed, are considered totally exempt in rural areas while 50 per cent. of consumption in towns and the entire city consumption are deemed to be taxed. Khadi cloth is exempted everywhere. In some States ornaments are exempt from tax if the value of gold and making charges are shown separately. Further, purchases of gold by households for conversion into gold ornaments would appear in this sub-total and tax on specie is very low. Unlike in the case of silver ornaments which are generally purchased in manufactured form, the practice of buying gold and converting it

into ornaments is largely prevalent and gold is a relatively important item in the ornaments group. Therefore, it is assumed that only 25 per cent. of expenditure on ornaments in rural, town and city sectors is liable to taxation.

3. A few States levy sales tax on raw materials; certain States like West Bengal exempt raw materials from sales tax. Even where sales tax applies to raw materials, generally the tax on raw materials is but a small part of total sales tax collections. Since the incidence of this portion of sales tax cannot be attributed to consumers of goods in the levying State only, it is distributed according to the pattern of cash expenditure on manufactured commodities all over India. This procedure becomes necessary mainly in regard to Bombay and to some extent in respect of Hyderabad and Bihar. This distribution is analogous to the allocation of import duties. The amount so allocated is a very approximate estimate (Rs. 335 lakhs).

4. Motor vehicles tax and sales tax on motor spirit are derived from private cars, taxis, buses, lorries, etc. These different types of motor vehicles are not used to the same extent by all expenditure groups; private cars are almost exclusively used by high income groups while the services of lorries, since they are used to transport both consumption as well as producers' or capital goods, enter into the expenditure of all sections. Therefore, to allocate the tax among the expenditure groups, it is necessary to have the tax yield from different categories of vehicles. Many of the States were able to furnish us with the number of different categories of vehicles and collections of motor vehicles tax in respect of them. For the others, it is assumed that the distribution of the number of vehicles in different categories is the same as for all the other States together. From this, using the tax rates payable by an average vehicle in each category, (hypothetical) tax collections were worked out. The actual tax collections were then divided among the different vehicle categories in the proportions yielded by these (hypothetical) tax collections.

5. As regards sales tax on motor spirit, it was ascertained that about one-third of petrol consumption is by private vehicles (mainly private cars) and hence the same proportion of the duty is assumed to be paid by them. The remaining part of the petrol consumption has to be apportioned among taxis, buses, lorries, etc. Adopting the assumptions of the Motor Vehicles Taxation Enquiry Committee regarding the quantity of petrol consumed by different kinds of vehicles, the (hypothetical) total petrol consumed by each category of vehicles is worked out. The tax yield is distributed among the vehicle classes according to the proportions of petrol consumed. After thus deriving the tax yields from various types of vehicles, the method of allocation of the tax among the different expenditure groups is the same for both taxes. Tax yield from private cars is assumed to be derived entirely from the expenditure group above Rs. 300. The yield from taxis is assumed to be entirely in the urban sector and is distributed according to the proportion of expenditure on motor conveyance. The yield from buses and lorries is distributed according to expenditure on bus conveyance and total cash expenditure, respectively, in both rural and urban sectors.

6. Inter-State transit duties are levied in Madhya Bharat, Rajasthan and Hyderabad. Export duties are not considered, as their incidence is dispersed over other States but not in all States. In 1953-54 Hyderabad did not levy any import duty. In the other two States, the yield from import duties is distributed according to the total cash expenditure of different expenditure groups in each State.

7. On the assumption that sugarcane cess imposed in certain States (principally Uttar Pradesh and Bihar and, to a smaller extent, Bombay) is passed on by the growers to manufacturers, it becomes a cost element, the burden of which is borne by consumers of sugar all over the country.

8. Other taxes such as State excise are distributed according to the cash expenditure on the respective items.

CHAPTER V

INCIDENCE OF TAXATION: ANALYSIS

The pattern of consumer expenditure, rural and urban, as disclosed by the data, which forms a basic assumption of the analysis of tax incidence, is shown in tables 1 and 2.

TABLE 1.—*Pattern of consumer expenditure: all-India*

Items	Per cent. of total expenditure		
	Rural	Urban	Rural and urban combined
1	2	3	4
Foodgrains	41.2	21.3	36.8
Pulses	3.9	2.6	3.7
Edible oil	2.1	2.9	2.3
Vegetables	2.1	3.0	2.3
Milk and milk products	6.4	8.6	6.9
Meat, eggs, fish, etc.	2.0	3.3	2.3
Fruits and nuts	1.1	1.9	1.3
Refreshments	1.0	3.6	1.6
Salt	0.3	0.2	0.3
Spices	1.8	1.9	1.8
Sugar (including gur)	2.1	2.3	2.1
<i>Total, Food</i>	64.1	51.5	61.3
<i>Pan</i>	0.7	1.2	0.8
Tobacco	1.9	2.0	2.0
Intoxicants	0.6	0.4	0.6
Fuel and light	5.5	5.6	5.5
Clothing	7.5	8.3	7.7
Bedding	0.6	0.5	0.5
Footwear	0.6	0.8	0.7
Amusements and musical instruments	0.4	1.3	0.6
Education	0.8	3.0	1.3
Medicine	1.6	3.0	1.9
Toilet	0.7	1.3	0.8
Petty articles	0.8	1.0	0.8
Conveyance	1.3	2.6	1.6
Services	5.3	6.8	5.6
Furniture	0.2	0.3	0.2
Utensils	0.2	0.2	0.2
Sundry equipment	0.2	1.2	0.4
Ornaments	1.0	1.0	1.0
Ceremonial	5.8	4.8	5.6
Rent	0.1	3.2	0.8
<i>Total, Non-food</i>	35.9	48.5	38.7
<i>Total, All items</i>	100.0	100.0	100.0

TABLE 2.—Pattern of consumer expenditure: all-India—Urban

Items	Per cent. of total expenditure			
	Towns with population below 15,000	Towns with population between 15,001 and 50,000	Towns/cities with population between 50,001 and 10 lakhs	Cities with population above 10 lakhs
I	2	3	4	5
Foodgrains	31·7	23·2	18·8	13·4
Pulses	3·0	2·9	2·6	2·0
Edible oil	2·5	3·0	2·9	3·0
Vegetables	2·6	3·1	2·8	3·6
Milk and milk products	7·8	7·9	8·9	9·7
Meat, eggs, fish, etc.	2·8	3·6	3·0	4·2
Fruits and nuts	1·3	1·8	2·2	1·9
Refreshments	2·3	4·0	4·0	3·5
Salt	0·2	0·2	0·1	0·1
Spices	1·9	2·2	1·9	1·5
Sugar (including gur)	2·3	2·5	2·2	2·1
<i>Total, Food</i>	58·4	54·3	49·3	44·9
<i>Pan</i>	1·2	1·4	1·3	0·8
Tobacco	1·9	2·0	2·1	2·0
Intoxicants	0·4	0·4	0·5	0·5
Fuel and light	5·7	5·8	5·5	5·5
Clothing	7·8	8·1	8·0	9·7
Bedding	0·4	0·6	0·5	0·5
Footwear	0·7	0·6	0·8	1·0
Amusements and musical instruments	0·9	1·1	1·4	1·9
Education	2·2	2·7	3·3	3·7
Medicine	2·2	2·5	3·8	2·6
Toilet	1·1	1·3	1·3	1·4
Petty articles	0·8	1·0	1·1	1·2
Conveyance	2·5	2·2	2·7	3·1
Services	5·8	7·3	6·5	7·5
Furniture	0·2	0·4	0·3	0·3
Utensils	0·2	0·2	0·2	0·2
Sundry equipment	1·1	0·7	1·7	0·5
Ornaments	0·6	1·2	1·3	0·6
Ceremonial	5·1	4·2	5·4	4·6
Rent	0·9	1·8	3·2	8·0
<i>Total, Non-food</i>	41·6	45·7	50·7	55·2
<i>Total, All items</i>	100·0	100·0	100·0	100·0

2. For all households (rural and urban combined), 61 per cent. of total expenditure is represented by food items, foodgrains accounting for over one-third of total; milk and milk-products are the second, though a much less important item in the food group. Expenditure on non-food items forms 39 per cent. of total, the four items clothing, ceremonials, services and fuel and light accounting for 24 per cent. Of all items, expenditure on clothing, is, however, the next highest to that on foodgrains.

3. Per capita expenditure (total or cash) is higher in the urban than in rural areas for each expenditure group. Of rural expenditure, 64 per cent. is on food items; foodgrains, again, constitute two-thirds of the expenditure on food. This is correlated with the fact of higher imputed value of consumption in the rural sector at 45 per cent. (against 10 per cent. in the urban sector and 37 per cent. for rural and urban sectors combined); the proportion of home-produce in consumption is 63 per cent. in food articles, and as high as 73 per cent. in foodgrains. The urban sector shows a much lower proportion of expenditure on food items (52 per cent. of total); of food, again, foodgrains form a much smaller part than in rural areas (40 per cent.); of total expenditure, foodgrains account for 21 per cent. in urban areas as against 41 per cent. in rural. The influence of urbanisation on consumer food expenditure is reflected in a larger proportion being spent on subsidiary food articles like refreshments, fruits, meat, eggs, fish, milk and milk-products. In non-food items, only one item, viz., expenditure on ceremonials, is distinctly more important in the rural sector. In most other items, urban expenditure is more significant, the conspicuous ones being *pan*, clothing, medicine, conveyance, education, toilet, services, sundry equipment and rent, reflecting the urban habits and preferences in consumption. Within the urban sector itself, there are large differences in the pattern of consumption between the different town categories and cities, that of towns with below 15,000 population approximating more closely to the rural pattern and that of cities showing marked differences from rural. The relative importance of non-food items rises as one moves from the rural sector to towns and within the urban sector itself as the size of the towns becomes larger, particularly clothing, amusements, education, conveyance and rent; the obverse of this trend is a steady gradation in the declining ratio of food consumption in transition from the rural sector (64 per cent.) to urban areas of increasing size (58 to 49 per cent.) and cities (45 per cent.).

4. For the economy as a whole, 37 per cent. of total consumer expenditure is represented by imputed value.

Non-monetary sector of the economy

Even if this represents a broad approximation, it indicates that a considerable part of consumer expenditure is outside the monetised sector of the economy. The extent of the non-monetised sector, as indicated by the percentage of imputed value to total expenditure is considerably higher in the rural sector than in the urban; it also declines with increasing expenditure level, even in the rural sector. In the rural sector, the most important items in which imputed value element predominates, are foodgrains, pulses, milk and milk products, fuel and light, largely supplied from own-farms or free sources: while 45 per cent. of total consumption in the rural sector

is non-cash, only 10 per cent. of urban expenditure is of this category) even this much of imputed value in the urban sector is mainly attributable to towns with population below 15,000 which are semi-rural in living conditions and organisation of production. For rural and urban sectors together, of total foodgrains consumption, two-thirds is non-cash (i.e., roughly, so much of production is not marketed).

TABLE 3.—Consumer expenditure: imputed value as per cent. of total value—all-India

Items	Rural	Urban	Rural and urban combined
1	2	3	4
Foodgrains	72·6	20·7	66·1
Pulses	66·3	12·0	57·3
Edible oil	22·2	3·7	15·7
Milk and milk products	70·4	19·9	56·5
Vegetables	40·0	4·7	30·8
Meat, eggs, fish, etc..	28·6	6·4	21·6
Fruits and nuts	45·8	9·3	34·5
Refreshments	9·1	6·7	8·3
Spices, salt and sugar	22·5	8·1	18·9
<i>Total, Food</i>	63·1	14·9	54·2
Intoxicants	30·8	7·7	23·1
<i>Pan</i>	6·7	2·9	5·6
Tobacco	17·1	3·5	13·6
Fuel and light	69·8	23·6	59·7
<i>Total, all items</i>	44·6	9·8	36·9

5. A comparison of per capita tax element is by no means a proper index of tax incidence, but only the starting point of the inquiry. As may be expected, (per capita tax is uniformly and distinctly higher in urban than in rural areas. In respect of all indirect taxes, per capita tax for urban India works out to two and three-fourths times the rural estimate; per capita Central taxation in the urban sector is a little over two and a half times the rural estimate, while State taxes come to nearly three times the rural estimate).

TABLE 4.—Tax element in expenditure—all-India, all expenditure levels combined

	(Per capita tax in rupees per month)	
	Rural	Urban
Central excise	0·17	0·43
Import duty	0·21	0·58
<i>Central taxes</i>	0·38	1·01
Opium excise	0·01	0·01
Liquor excise	0·09	0·11
Sales tax	0·09	0·32
Sales tax on motor spirit	0·01	0·06
Entertainment duty . . . . .	..	0·05
Inter-State transit duty	0·01	0·01
Sugarcane cess	0·01	0·03
Motor vehicles taxation	0·02	0·08
<i>State taxes</i>	0·24	0·69
<i>Total, indirect taxes</i>	0·62	1·69

6. (Per capita tax is not only larger in the urban sector but increases with the degree of urbanisation, for every expenditure group.) The table below indicates that per capita tax amount is lowest for every group in the rural sector but it steadily rises with the population size of towns, and is uniformly the highest for cities. For obvious reasons, the figure for rural-urban combined (all-India) remains nearer to the rural figure.

TABLE 5.—*Tax element in expenditure: all-India*
(by expenditure levels)

(per capita, in rupees per month)

	Monthly household expenditure level (Rs.)					All expenditure levels combined	
	1—50	51—100	101—150	151—300	Above 300		
	1	2	3	4	5	6	7
Rural	0.22	0.37	0.57	0.77	2.02	0.62	
Towns with population below 15,000	0.31	0.57	0.90	1.04	3.58	0.99	
between 15,001—50,000	0.40	0.84	1.32	1.66	4.55	1.63	
50,001—10 lakhs	0.57	0.86	1.24	1.74	5.02	1.91	
Cities with population above 10 lakhs	0.90	1.19	1.54	1.98	5.88	2.58	
Urban	0.47	0.79	1.21	1.62	4.91	1.69	
Rural and urban combined	0.26	0.44	0.68	0.94	2.78	0.80	

7. Table 6 gives the average incidence of indirect taxes to total and cash expenditure in rural and urban units of increasing population size.

TABLE 6.—*Incidence of indirect taxes: all-India*

(Amounts in rupees per capita)

	Total indirect taxes	Total expenditure	Cash expenditure	Cash expenditure as per cent. of total expenditure	Tax as per cent. of	
					Total expenditure	Cash expenditure
Rural	0.62	21.1	11.6	55	2.9	5.3
Towns (small) with population below 15,000	0.99	20.9	16.8	80	4.8	5.9
Towns (medium) with population between 15,001—50,000	1.63	28.2	25.2	90	5.8	6.5
Towns (large) with population between 50,001—10 lakhs	1.91	30.4	28.4	93	6.3	6.7
Cities with population above 10 lakhs.	2.58	39.6	37.3	94	6.5	6.9
Urban	1.69	28.9	25.9	90	5.9	6.5
Rural and urban combined	0.80	22.4	14.1	63	3.6	5.7

8. Indirect taxes absorb 3.6 per cent. of per capita total expenditure (all-India, rural and urban combined); as per cent. of cash purchase, indirect taxes work out at 5.7 per cent. (The difference between the tax incidence on total expenditure including non-cash and on cash expenditure is more in rural than in urban India, for the non-monetised segment is larger in the former; it tends to contract with higher degree of urbanisation and consequent contraction of the non-monetary segment. Thus, starting from a disparity of 2.9 and 5.3, being the respective percentages of tax to total and cash expenditure in rural areas, these percentages get much nearer in the cities, being respectively 6.5 and 6.9 per cent. Urban India shows a higher ratio of per capita tax to both cash purchases and total expenditure; however, tax in relation to cash expenditures is only slightly higher than in the rural sector. Incidence of indirect taxes is definitely higher in urban than in the rural sector.) Per capita annual consumer expenditure is Rs. 257 in the rural sector and tax thereof Rs. 7.5; expenditure level in the urban sector is Rs. 352 and tax Rs. 20.6.

9. (As an area becomes more urbanised not only (1) expenditure level rises but (2) the proportion of cash to total expenditure increases, and (3) the proportion of tax to cash expenditure also goes up as a result of a change in the pattern of cash purchases in the direction of more highly taxed articles; the tax element in urban areas increases and the incidence of taxation is higher as a combined result of all these increases. The higher contribution to indirect taxes by urban areas is commonly ascribed mostly to the third factor.) It will be seen that, at any rate, in respect of the indirect taxation covered in this part of the analysis, this factor is not of such crucial importance: the percentage of tax to cash purchases, which should reflect this increase, only goes up from 5.3 in rural areas to 6.5 in urban areas (6.9 in cities). The other two factors are more important: consumption of home produced goods declines and of cash (taxed) expenditure increases as evidenced by the increase in the ratio of cash expenditure from 55 per cent. to 94 per cent. (Table 6); and per capita expenditure rises, the increase from rural areas to cities being from Rs. 21 to Rs. 40 (Table 6). This latter factor, however, goes rather to enlarge the absolute contribution of urban areas to the tax pool, owing to their high average consumption of taxed articles than the incidence of tax, or ratio of tax to total expenditure (income). But as the population of urban areas, again, is small relatively to rural population, the broad fact emerges that the contribution of rural areas in absolute terms to the pool of indirect taxes covered in this analysis is much greater than of urban areas.)

10. The following table shows the variation of incidence by expenditure levels in the rural sector and in the different categories of the urban sector by size of urban population.

11. It appears that tax incidence increases with expenditure level in both rural and urban sectors and cities. In the result, taking the whole span of increase in incidence from the lowest income group, in rural areas to the highest income group in cities, there is a rise from 2.2 per cent. to 8.4 per cent. On the whole, the incidence

of indirect taxes covered in this analysis may be said to be mildly progressive.

TABLE 7.—Incidence of taxation: all-India, by expenditure levels

(Tax as per cent. of total expenditure)

Monthly household expenditure level	Rs. 1—50	Rs. 51—100	Rs. 101—150	Rs. 151—300	Above Rs. 300	All expenditure levels
Rural	2.2	2.3	2.7	2.8	4.4	2.9
Towns with population :						
below 15,000	2.7	3.7	4.2	3.8	7.2	4.8
between 15,001—50,000	2.8	4.3	5.6	5.1	7.8	5.8
between 50,001—10 lakhs	3.8	4.6	5.1	5.5	8.8	6.3
Cities with population above 10 lakhs	4.0	5.5	5.2	5.0	8.4	6.5
Urban	3.3	4.4	5.1	5.1	8.3	5.9
Rural and Urban combined	2.4	2.7	3.1	3.3	5.6	3.6

12. Table 8 at page 70 shows the incidence of the principal Central and State taxes separately, for rural and urban sectors (all-India), at different expenditure levels.

13. (The incidence of both Central and State taxation is higher in the urban sector for each expenditure group, because of the higher incidence of sales tax, Central excise and import duties. It may be noted, however, that of these three major tax items, the rural-urban disparity in incidence is least under Central excise; it is larger for import duties and is highest in respect of sales tax. Urban incidence of sales tax is over two and a half times rural. The existence of a degree of progression, however small, in the incidence of indirect taxation that we have already noticed is found to be mainly under Central taxation; sales tax and State taxes show but little of progression.)

14. At this stage, we may proceed to examine separately some features of the incidence of Central excise duties and State sales tax. Table 9 at page 71 shows the incidence of Central excise duties by expenditure groups.

15. The average incidence of Central excise duties in relation to total cash expenditure works out at 1.5 per cent, the average for the rural sector being also 1.5 per cent. and for the urban sector, 1.7 per cent. For all-India (rural and urban combined), incidence in relation to cash expenditure works out at 1.3 per cent. for

TABLE 8.—Incidence of Central and State taxes—all-India by expenditure levels

(Tax as per cent. of total expenditure)

Monthly household expenditure level (Rs.)	Rural					Urban					Rural and urban combined				
	Central taxes			State taxes		Central taxes			State taxes		Central taxes			State taxes	
	Central excise	Import duty	Total	Sales tax	Total	Central excise	Import duty	Total	Sales tax	Total	Central excise	Import duty	Total	Sales tax	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1—50	0.6	0.5	1.2	0.3	1.0	1.0	0.7	1.8	0.9	1.5	0.7	0.6	1.3	0.4	1.1
51—100	0.7	0.6	1.3	0.4	1.1	1.3	1.0	2.3	1.0	2.0	0.8	0.7	1.5	0.5	1.3
101—150	0.7	0.7	1.4	0.4	1.2	1.3	1.2	2.5	1.1	2.6	0.8	0.8	1.6	0.5	1.5
151—300	0.8	0.8	1.7	0.5	1.1	1.5	1.3	2.8	1.1	2.2	1.0	0.9	1.9	0.6	1.4
Above 300	1.1	2.1	3.3	0.5	1.1	1.7	3.8	5.5	1.3	2.8	1.3	2.7	4.0	0.7	1.6
<i>All Expenditure levels combined.</i>	0.8	1.0	1.8	0.4	1.1	1.5	2.0	3.5	1.1	2.4	1.0	1.2	2.2	0.6	1.4

TABLE 9.—Incidence of Central excise duties: all-India

(by expenditure levels)

Monthly household expenditure level (Rs.)	Total cash expenditure (Rs.)	Total cash expenditure (Rs.)	Tax (Rs.)	Tax as per cent. of	
				Cash expenditure	Total expenditure
1	2	3	4	5	6
<i>Rural</i>					
1—50	5.0	10.3	0.07	1.3	0.6
51—100	8.0	15.7	0.10	1.3	0.7
101—150	11.7	21.4	0.15	1.3	0.7
151—300	15.5	27.8	0.23	1.5	0.8
Above 300	29.2	46.2	0.51	1.8	1.1
<i>All expenditure levels combined.</i>	11.6	21.1	0.17	1.5	0.8
<i>Urban</i>					
1—50	10.6	14.3	0.15	1.4	1.0
51—100	16.0	18.1	0.24	1.5	1.3
101—150	21.6	23.8	0.31	1.4	1.3
151—300	29.2	31.9	0.48	1.6	1.5
Above 300	54.5	59.0	1.03	1.9	1.7
<i>All expenditure levels combined</i>	25.9	28.9	0.43	1.7	1.5
<i>Rural and urban combined.</i>					
1—50	5.6	10.8	0.08	1.3	0.7
51—100	9.3	16.1	0.13	1.4	0.8
101—150	13.3	21.8	0.18	1.4	0.8
151—300	18.2	28.6	0.28	1.6	1.0
Above 300	36.0	49.6	0.65	1.8	1.3
<i>All expenditure levels combined</i>	14.1	22.4	0.22	1.5	1.0

Rs. 1—50 group, rising to 1·8 per cent. for above Rs. 300 group. A glance at the figures of incidence *in relation to cash expenditure* in respect of successive expenditure groups indicates that while in the rural as well as urban sectors there is a small degree of progression in the Central excise taxes, an element of regression also is seen in certain ranges) The somewhat larger burden on the higher expenditure groups is mainly due to the differential rates of duty on cloth and cigarettes. As between rural and urban sectors, while generally at all expenditure levels the incidence is somewhat higher in the urban sector, the disparity is small. The picture is somewhat altered when incidence is considered in relation to total expenditure, which is a more appropriate base for the purpose; urban incidence appears appreciably higher than rural (though both are naturally smaller than in relation to cash expenditure) 1·5 per cent. and 0·8 per cent, respectively. The duty element in cash purchases of excisable commodities is generally about 10 per cent. of the taxable (or pre-tax) value of the commodities concerned (cash expenditure less tax). Tobacco and cloth constitute the two most important commodities in the excise list and in expenditure groups where consumption of both or either of these commodities is relatively significant, Central excise element is enhanced.

16. As regards the sales tax,* eight important commodities or categories of goods commonly taxed in various States account for nearly 60 per cent. of the estimated yield; these are sugar, *biri*, leaf tobacco, cloth, petty articles, toilet goods and the two groups spices and beverages. Of these, cloth alone accounts for about a quarter of the total yield from sales tax. The incidence of sales tax on different expenditure groups does not show any marked differences, as indicated by tax as per cent. of cash purchase or total expenditure, in the rural or urban sector (*vide* table 10). It remains almost the same for every group and the tax is in the nature of a proportional rather than a progressive tax.

TABLE 10.—Incidence of sales tax: all-India

Monthly household expenditure level (Rs.)	Rural		Urban		Rural and urban combined	
	Tax as per cent. of		Tax as per cent. of		Tax as per cent. of	
	Cash expenditure	Total expenditure	Cash expenditure	Total expenditure *	Cash expenditure	Total expenditure
1	2	3	4	5	6	7
1—50 . . .	0·7	0·3	1·2	0·9	0·8	0·4
51—100 . . .	0·8	0·4	1·2	1·0	0·9	0·5
150 . . .	0·7	0·4	1·2	1·1	0·9	0·5
151—300 . . .	0·8	0·5	1·2	1·1	1·0	0·6
above 300	0·8	0·5	1·4	1·3	1·0	0·7
All expenditure levels combined . . .	0·8	0·4	1·3	1·1	0·9	0·6

17/ (The rural-urban differences are more pronounced in the case of sales taxation than in Central excise. Besides a lower value of cash purchases of goods subject to sales tax, a large part of cash purchases in the rural sector escapes taxation either because supplies are from scattered local sources or the goods are legally or virtually exempt from tax. This accounts for the somewhat lower incidence of sales tax in the rural sector even in terms of cash expenditure.)

18. The analysis so far has left out of account two principal taxes, land revenue and income-tax. It is proposed to bring these into the picture now. Land revenue presents some special problems. Its burden on a per capita/per acre basis, State-wise in 1953-54, is brought out in paragraphs 23—25. The incidence of land revenue for different income groups in the rural sector could only be estimated if a classification of rural incomes in different groups were available, together with the land revenue payable by these different classes. As these data are not available, it is not possible to indicate the relative incidence of land revenue in these terms. There are considerable variations in land revenue assessment between different types of agricultural land in a State, and, even more, from State to State. There is, however, a certain average burden of land revenue on agriculture in the country which is indicated by the ratio of the total land revenue collected to the total (gross or net) value of agricultural output. According to the National Income Committee Report, the gross value of total agricultural output in India for 1950-51 was Rs. 4866 crores and the net value Rs. 4112 crores. Land revenue collections amounted to Rs. 47 crores in that year for all States together.* Land revenue then works out at one per cent. of the gross value of agricultural output and 1.2 per cent. of net value.) Data relating to the value of agricultural output are not available on a comparable basis for earlier years; even land revenue collection figures for the earlier years would be imprecise because land revenue collections of the areas now forming Part B States are not available. It is estimated, however, that land revenue formed less than 4 per cent. of the gross value of agricultural output and about 4.5 per cent. of net value in 1938-39. (Since 1950-51 a considerable increase in land revenue collections has taken place owing to abolition of zamindari and other land reforms. But as explained earlier, in Chapter II, these do not result in any addition to the burden of land revenue, and only indicate a wider coverage for land revenue which replaces the rent formerly paid to zamindars in many areas.

19. Income-tax may be attributed wholly to the over Rs. 300 group in the urban sector. As a rough approximation land revenue may be ascribed wholly to the rural sector, and distributed on a proportional basis among all income groups. While the inclusion of land revenue would increase tax incidence in the rural sector in every expenditure group, the inclusion of income-tax in the tax on the groups with expenditure levels above Rs. 300 a month in the urban sector would alter together the incidence picture (as in

*Excluding miscellaneous items and receipts attributable irrigation charges.

table 7) for this group, as income-tax is much larger than all the indirect taxes so far as this group is concerned. If land revenue were added in the rural sector and income-tax in the urban sector, the discrepancy which has been noticed in table 7 between rural and urban tax incidence would be narrowed in the ranges up to Rs. 300 monthly household expenditure group and considerably enlarged for the group over Rs. 300. This would result from the land tax being applicable to all groups in the rural sector at a flat rate and the whole of income-tax being applicable to the last group in the urban sector. The relative undertaxation of the rural sector particularly in household income ranges above Rs. 300 per month emerges prominently, when income-tax is added to the incidence of taxation on these income groups in the urban sector. The tax system may be said to be distinctly progressive only for the urban groups with expenditure levels over Rs. 300 per month; it is not so in the case of similar groups in the rural sector, except in certain States where there is an agricultural income-tax at fairly steep rates. In the case of income groups below Rs. 300 a month, there is a mild degree of progression; this, however, gets considerably diminished in the case of the rural sector, when land revenue is taken into account and added to the tax burden on a proportional basis to the figure we have already calculated for these groups.

Inter-State Comparisons of Tax Incidence

20. Inter-regional aspects of distribution of tax burden are often analysed by comparing per capita tax revenue over regions. This comparison at best gives a partial view and an incomplete account of the pattern of incidence. Per capita tax is the total revenue collection divided by the size of population. Being not related to per capita income or expenditure, it does not take into account the pattern of income distribution or of consumption, which might show wide divergencies; these elements, however, enter into a determination of incidence. Per capita tax would differ even if the rates of tax and the level of administrative efficiency are the same, if income levels or tax base, and, of course, if population in two States vary. Figures of per capita tax without any reference to the level of income or expenditure, therefore, would not be a really correct or precise index of tax burden, and have but limited significance as a broad indicator of the level of taxation, as such, in different States. But as we do not have reliable data of income and expenditure on a Statewise basis, we have been compelled to use these figures, subject of course to the limitations indicated above. Table 11 at page 75 gives the total and per capita tax revenue in different States in 1953-54 (R.E.) as well as in respect of important State tax heads.

21. Per capita tax revenue is higher in Part B States in 1953-54 at Rs. 8.38 as compared to Rs. 6.46 in Part A States. This is explained by the comparatively high level of State excise and land revenue in Part B States. It is only in sales taxes that Part A States have a noticeably higher figure (Rs. 1.90) than Part B States (Rs. 1.20). Per capita total tax figures vary considerably among the different States from the low levels of Rs. 3.67 in Orissa and Rs. 4.21 in Bihar to Rs. 12.07 in PEPSU, and Rs. 10.21 in Bombay and Saurashtra.

TABLE II.—Total and per capita tax revenue of States : principal State taxes (1953-54)

State	State excise		Land revenue		Sales taxes*		Total †	
	Total	Per capita	Total	Per capita	Total	Per capita	Total tax revenue	Per capita
	(Rs. lakhs)	(Rs.)	(Rs. lakhs)	(Rs.)	(Rs. lakhs)	(Rs.)	(Rs. lakhs)	(Rs.)
1	2	3	4	5	6	7	8	9
Assam	1,33	1.40	2,10	2.20	1,19	1.25	6,38	6.69
Bihar	4,71	1.14	3,19	0.77	4,18	1.01	17,45	4.21
Bombay	97	0.25	7,12	1.86	16,86	4.41	39,07	10.21
Madhya Pradesh	2,43	1.12	5,27	2.42	2,37	1.09	12,37	5.69
Madras	42	0.07	7,36	1.24	15,85	2.67	37,34	6.29
Orissa	1,62	1.09	1,44	0.97	1,27	0.85	5,48	3.67
Punjab	2,29	1.81	2,11	1.67	2,11	1.67	8,42	6.66
Uttar Pradesh	5,44	0.83	18,92	2.89	5,31	0.81	39,09	5.98
West Bengal	5,12	1.98	2,13	0.83	5,85	2.27	20,99	8.14
<i>All Part A States</i>	24,33	0.84	49,64	1.72	54,99	1.90	1,86,59	6.46
Hyderabad	8,50	4.38	4,89	2.52	2,20	1.13	17,83	9.19
Madhya Bharat	1,55	1.89	3,33	4.06	1,29	1.57	7,71	9.40
Mysore	1,60	1.65	95	0.98	1,44	1.49	5,78	5.98
PEPSU	1,87	5.31	1,31	3.72	52	1.47	4,25	12.07
Rajasthan	2,40	1.51	3,89	2.44	..	..	11,15	6.99
Saurashtra	7	0.16	2,85	6.59	79	1.83	4,42	10.21
Travancore-Cochin	2,49	2.52	71	0.72	2,30	2.33	8,34	8.43
<i>All Part B States</i>	18,48	2.60	17,93	2.53	8,54	1.20	59,48	8.38
All-India ‡	44,81	1.21	69,20	1.87	64,82	1.74	2,52,49	6.81

*Including Sales tax on motor spirit.

†Including other taxes.

‡Including Part C States.

Taking the average per capita State tax collection for all States (Rs. 6·81), all Part B States except Mysore are above it; all Part A States except Bombay and West Bengal are below it.

22 (Among the different taxes, land revenue is still the highest at Rs. 1·87, followed by general sales tax at Rs. 1·54 and State excise at Rs. 1·21.) In State excise, the highest per capita figure (Rs. 4·38) is in Hyderabad. Per capita sales tax is relatively high in Bombay, West Bengal and Madras, where the three largest cities are situated; it is the highest in Bombay at Rs. 3·95, which is more than double the tax level in any other State except Madras. It may be noted that West Bengal collects less sales tax per capita than Madras. Among Part A States, sales tax collections per capita are the lowest in Orissa and Uttar Pradesh.

23. Land revenue may be examined in some detail. Productivity, irrigation and soil conditions, size of holdings, rates and bases of assessment vary in different States and even in different parts of a State. Figures of average tax burden per capita, therefore, should be interpreted with caution, as providing only a broad overall index. In table 12 taxes paid on land i.e., land revenue and cesses on land (excluding portion of land revenue due to irrigation and miscellaneous receipts under land revenue) are shown on per capita and per acre basis. For working out per capita figures, agricultural population excluding cultivating labourers and their dependents as shown in the 1951 census are taken into account. For deriving per acre figures, net area sown and current fallows in different States are used.

TABLE 12.—Land revenue, per capita, per acre—1953-54

State	Agricultural population* (in lakhs)	Land under cultivation† (in lakhs of acres)	Per capita cultivated land (acres)	Land revenue 1953-54 (R.E)‡ (Rs. lakhs)	Per capita land revenue (Rs.)	Per acre land revenue (Rs.)
1	2	3	4	5	6	7
Assam . . .	65	73	1·13	178	2·75	2·42
Bihar . . .	258	275	1·06	285	1·10	1·03
Bombay . . .	188	479	2·54	678	3·60	1·42
Madhya Pradesh .	118	334	2·82	442	3·74	1·33

1	2	3	4	5	6	7
Madras . . .	266	405	1·52	745	2·80	1·84
Orissa . . .	98	140	1·43	98	1·00	0·70
Punjab . . .	71	140	1·97	155	2·18	1·11
Uttar Pradesh . .	433	428	0·99	1891	4·37	4·42
West Bengal . .	112	129	1·15	135	1·21	1·05
<i>All Part A States</i>	<i>1609</i>	<i>2403</i>	<i>1·49</i>	<i>4607</i>	<i>2·86</i>	<i>1·92</i>
Hyderabad . . .	95	370	3·89	480	5·04	1·30
Madhya Bharat . .	49	126	2·58	322	6·58	2·55
Mysore . . .	57	104	1·81	118	2·06	1·14
PEPSU . . .	22	50	2·30	97	4·46	1·94
Saurashtra . . .	18	44	2·45	274	15·45	6·30
Rajasthan . . .	104	336	3·24	282	2·72	0·84
Travancore-Cochin	32	28	0·88	63	1·96	2·23
<i>All Part B States</i>	<i>377</i>	<i>1058</i>	<i>2·81</i>	<i>1636</i>	<i>4·34</i>	<i>1·55</i>

*Number of people in agricultural livelihood classes excluding cultivating labourers and their dependents, according to 1951 census.

†Provisional estimate of area under cultivation (including current fallows) for 1950-51 as available from "Agricultural Situation in India".

‡Excludes miscellaneous receipts and portion of land revenue due to irrigation and includes rates and cesses on land. For Madras, the budget estimate for the composite State of Madras is given. For Mysore, portion of land revenue payable to local bodies is also included.

24. Comparing Part A and Part B States, though per acre land revenue is higher in Part A States, at Rs. 1·92 as against Rs. 1·55 in Part B States, in per capita terms it is much higher in Part B States at Rs. 4·34 as compared to Rs. 2·86 in Part A States. This is explained to some extent by the larger per capita land holding in Part B States. Of all the States, the level of land revenue in Saurashtra is by far the highest, both per capita and per acre. Next to Saurashtra, the tax is high in Madhya Bharat due partly to elimination of intermediaries, and in Hyderabad partly due to the rise in land revenue recently as a result of the merger of *saraf-e-khas* and abolition of jagirdari system. Among Part A States, the level of land revenue is highest both on per capita and per acre basis in Uttar Pradesh. This is almost entirely due to the recent land reforms which have replaced the landlord by the Government but left unchanged, in the form of land revenue, the payments the peasant formerly used to make by way of rent. That is the reason why land revenue collections in Uttar Pradesh have risen from Rs. 7·72 crores in 1950-51 to Rs. 18·92 crores in 1953-54, with a corresponding rise in the per capita incidence from Rs. 1·22 to Rs. 2·89. This increase, however, like the increase in other States where land reforms have taken place, is of course, an entirely formal increase resulting

from a larger body of cultivators having come into direct relationship with the Government, and does not signify any addition to the burden of land revenue. Madhya Pradesh and Bombay also show comparatively high per capita figures mainly because per capita land holding is higher than in other Part A States.

25. Different basis of assessment are adopted in different States (and sometimes within a State) such as net produce or annual value, rental value or net assets, gross produce, etc. Apparently, on the basis of the statutory position, land revenue would seem to form a considerable proportion of gross produce or net produce or net assets or of whatever basis is adopted. But the actual burden at present on agriculture is light, mainly because of the large increases in the prices of agricultural produce that have taken place since settlements were made and the basis of assessment was fixed.

26. We would repeat that per capita comparisons made here are only rough and general indicators of inter-State differences in the tax burden but are not related either to the average income in the different States or the distribution thereof by income groups.

✓ Conclusion

27. A general review of the incidence of the tax system as a whole such as we have made above can, by its very nature, only form the basis of a very rough assessment of the tax system from the point of view of distribution of its burden. Necessarily, such an analysis of the tax burden for the entire country based on these data involves a number of abstractions by way of averaging incidence for people in diverse economic situations and regions of heterogeneous economic conditions. Our enquiry can, therefore, only yield a broad picture of the situation rather than precise conclusions.

28. Subject to the caution indicated above, we may now set out the broad conclusions emerging from this enquiry. (The enquiry indicates that, although the level of urban taxation on the whole is higher at all income stages as compared to the rural, the disparity is not quite as great in the middle and lower ranges of income as is often believed.) Considering the higher average income within any given income group in the urban area than in the rural area, the difference in tax incidence in groups up to Rs. 300 is not appreciable. Urban indirect taxation is a little more progressive than rural taxation, and, when land revenue and income-tax are added, would be decidedly more so, but only in the group with expenditures over Rs. 300 a month. Apart from any general scope for stepping up tax incidence in urban areas, there appears to be greater room for increased taxation of higher rural incomes, if the country is to have a more satisfactory picture of incidence.

29. The incidence of land revenue, considered in the large, has ceased to be appreciable. The problems in relation to this head, which was once the mainstay of the Indian revenue system, are now related to inter-State and inter-regional disparities of incidence and to its structure rather than to high incidence; the average incidence is definitely low in practically the whole country.

7 30. The large area of the non-monetised sector in the rural economy is at once an index to the limits of taxation and a pointer

to the possibilities of extending taxation to the field of comparative essentials, if that should be advisable otherwise, with the knowledge that the great mass of the rural population will remain outside its bounds; in general, the part of the population which is more within the frontiers of the money economy is also relatively more affluent and able to bear taxation than the part outside it.

31. Another broad conclusion is that indirect taxes can be used as a means of progressive taxation, albeit in a very limited way. Well suited as some forms of indirect taxation are from the point of view of the conditions of this country, administrative as well as economic, a finding that they can be used to advantage as copious bringers of revenue consistently with a not too inequitable distribution of burdens is useful. The study confirms the scope for widening the base for taxation.

32. The comparative incidence in Part A and Part B States and among individual States has also been indicated. Examination of the precise possibilities of adapting the structure and level of particular taxes, or of proposals to adjust the structure and level of taxation in individual States, naturally requires more elaborate consideration of varied aspects, even from the incidence angle, than this summary survey could give.

33. No general picture of incidence could be expected to provide precise guidance for tax policy conclusions; only certain broad pointers are suggested. This particular enquiry was based on primary data which were not specially collected for the Commission and had to be adapted for its purpose. The main limitations governing the data used have been underlined both in the previous chapter and in relevant places in this chapter. We have attempted to make the best use possible of the data available, in answer to the specific term of reference.

34. This survey of incidence is made as of a point of time. The time is very recent, and the conclusions may broadly be said to hold good today. But the picture of incidence as at present leaves out of account the important aspect of how it has altered, say, in the last decade and a half during which the relative economic position of different classes of the population has also undergone considerable changes. It seems necessary, therefore, to refer to some of the more important shifts in income distribution as well as to the changes which have taken place in the burden of the major taxes in the system.

35. A main conclusion of study of income distribution in India on the basis of such inadequate data as are available is that no major shift in income from the urban to the rural or from the rural to the urban sector as a whole can be established to have taken place during the period since the beginning of the War, though for some years after 1942 the terms of exchange would seem to have moved in favour of the agricultural sector. It appears, however, that certain shifts took place *inter se* among the different groups within the respective sectors. In the rural sector, the comparatively large landholders, particularly such as have regular irrigational facilities and have been growing cash crops, have improved their relative position, especially in those parts of the country where significant land reforms have not taken place. On the other hand,

the position of an important section of the agricultural population comprising landless agricultural labour which also includes some artisans and non-occupancy tenants has always been particularly vulnerable, and appears to have suffered some further deterioration. In the urban areas, the middle classes and those with fixed incomes have lost in real terms, while business classes, both in commerce and industry, especially in the higher income groups, have gained; labour in organised industry, too, appears to have improved its position, the improvement being marked particularly in relation to agricultural labour.

36. What is perhaps even more significant, the changes in the tax system that have taken place since the pre-war period would seem to have affected differently the rural and the urban sectors as also important income and occupational groups within these sectors. The total tax revenue of public authorities in India now forms a little less than 7 per cent. of national income. If anything, this proportion would seem to have declined somewhat as compared to the pre-war period, though no precise data in regard to national income or tax revenues could be given for pre-war years on a comparable basis. When tax revenue remains more or less a constant proportion of national income, any shifts in tax incidence between one sector and another acquire added significance.

37. Land revenue has been the main tax attributable wholly to the rural sector. Its burden in relation to the gross value of agricultural output has declined from 3.9 per cent. in 1938-39 to 1.0 per cent. in 1950-51. (The later increase to 1.4 per cent. in 1952-53 is not on a comparable basis with the earlier decline, being associated with the change in the land system incidental to land reform). On the other hand, while national income as well as total tax revenues have gone up to about five times the pre-war level, total collections from income taxation have increased to nearly ten-fold from about Rs. 17 crores in 1938-39 to a level of Rs. 165-170 crores currently. The burden of income taxation is practically wholly on the urban sector. If the share of the urban sector in total national income has not undergone any significant alteration, the incidence of income-tax in relation to urban income has definitely increased, while, as observed above, the incidence of land taxation in the rural sector has definitely fallen.

38. The sales tax which yields over Rs. 55 crores to State Governments is relatively a new source of revenue which has been developed during and after War years; in fact, the general sales tax was not levied in any State until 1938-39. Our study of the incidence of indirect taxation has shown that in 1953-54 incidence of sales tax (tax as per cent. of total expenditure) was 1.1 per cent. in the urban sector and 0.4 per cent. in the rural sector for all expenditure levels combined. Total yield from Central excise duties increased from Rs. 17 crores in 1938-39 to about Rs. 90 crores at present and the incidence of Central excise duties is 1.5 per cent. in the urban sector, but 0.8 per cent. in the rural sector. The same relative levels also hold good broadly for import duties (2.0 per cent. in the urban sector and 1.0 per cent. in the rural sector).

39. Thus, taking into account the increases in total tax revenue under important taxes like land revenue, income-tax, Central excise, sales tax and import duties, and the relative incidence of

these taxes on the rural and urban sectors, it would seem that the total burden of taxation has increased in the urban sector as compared to the rural sector since the pre-war period. The analysis of the position of different classes in the rural and urban population, however, shows that there are parts of the urban and rural population whose economic position has deteriorated, and other parts whose position has improved. Difficult as it may be to devise new forms of taxation or adaptations in existing taxes which may avoid any adverse impact on the position of the weaker sections of the community, it is obviously necessary, when making tax adjustments, to have regard for their incidence on these groups.

40. A study in the incidence of taxation of the kind attempted here deals only with *relative* money burden of taxation on various classes of the people and in different States. It does not touch the question of the general level of taxation that might be regarded as necessary or appropriate in the light of the programme of public expenditure, including the development programme. This question arises under other terms of reference of the Commission and some attention is given to it in the next Chapter as well as other chapters of the Report. The conclusions of a study on incidence can only give some general guidance, given the order of tax revenues that require to be raised, as to the directions along which changes in taxation may suitably be made; it cannot by itself determine the order of magnitude of the general or average burden which the tax system should be allowed to impose.

APPENDIX

ESTIMATES OF CONSUMER EXPENDITURE IN THE RURAL SECTOR BY INDIVIDUAL STATES

We have pointed out in Chapter IV the reasons why we have relegated to this appendix estimates, State-wise, of the incidence of indirect taxation. Given below are two tables showing the estimated levels of consumer expenditure and the incidence of indirect taxation in the rural sector by individual States. The estimates are based on the analysis of National Sample Survey data.

TABLE I.—*Consumer expenditure in the rural sector : State-wise*

(Amounts per capita, per month)

State	Total expenditure Rs.	Cash expenditure Rs.	Cash expenditure as per cent. of total expenditure
1	2	3	4
Assam	24·1	12·4	52
Bihar	23·8	11·6	49
Bombay	18·9	11·5	61
Madhya Pradesh	16·2	8·6	53
Madras	18·2	12·4	68
Orissa	14·9	7·1	48
Punjab	30·7	16·3	53
Uttar Pradesh	23·0	10·8	47
West Bengal	27·1	17·6	65
<i>All Part A States</i>	21·4	11·8	55
Hyderabad	15·1	8·2	54
Madhya Bharat	19·8	10·7	54
Mysore	19·8	11·6	59
PEPSU	35·1	20·8	59
Rajasthan	22·5	11·3	50
Saurashtra	20·0	10·5	53
Travancore-Cochin	18·5	13·4	73
<i>All Part B States</i>	19·7	11·1	56
<i>All India</i>	21·1	11·6	55

TABLE 2.—Incidence of indirect taxation: rural, State-wise

State	Tax as per cent. of cash expenditure	Tax as per cent. of total expenditure		
		Central taxes	State taxes	Total taxes
1	2	3	4	5
Assam	5.3	1.7	1.0	2.7
Bihar	4.2	1.4	0.7	2.0
Bombay	6.0	2.2	1.5	3.7
Madhya Pradesh	5.3	1.8	1.0	2.8
Madras	4.8	2.1	1.2	3.3
Orissa	5.8	1.6	1.2	2.8
Punjab	5.8	2.0	1.0	3.1
Uttar Pradesh	4.8	1.6	0.6	2.2
West Bengal	4.6	1.6	1.3	3.0
<i>All Part A States</i>	4.9	1.8	1.0	2.7
Hyderabad	10.0	2.2	3.2	5.4
Madhya Bharat	7.9	2.5	1.8	4.2
Mysore	5.3	1.9	1.2	3.1
PEPSU	6.8	2.2	1.8	4.1
Rajasthan	6.0	1.8	1.2	3.0
Saurashtra	5.9	2.1	0.9	3.1
Travancore-Cochin	6.2	1.9	2.5	4.5
<i>All Part B States</i>	7.0	2.0	1.9	4.0
<i>All-India</i>	5.3	1.8	1.1	2.9

2. The magnitude of incidence is generally higher in Part B States than in Part A States, the former having lower per capita cash and total expenditure and equal or higher tax amounts. Tax as per cent. of total expenditure for all expenditure levels combined in the rural sector, is less than the average for all-India, in five Part A States (Assam, Bihar, Madhya Pradesh, Orissa and Uttar Pradesh) but in all Part B States it tends above the all-India average. The highest rural incidence among Part A States is in Bombay at 3.7 per cent. and the lowest is in Bihar at 2.0 per cent., on the other hand, four Part B States (Hyderabad, Travancore-Cochin, Madhya Bharat, and PEPSU) have higher incidence in the rural sector than even in Bombay. In all the five Part A States mentioned above, it will be noted, cash expenditure as per

cent. of total expenditure is relatively low, which reduces incidence in relation to total expenditure. The fact which accounts, above all, for the higher general incidence of indirect taxes in Part B States than in Part A States is liquor excise, which more than offsets the lower incidence of sales taxation. Other newer forms of taxation like entertainment duties and motor vehicles taxation are also very much lower in Part B States.

3. The relative incidence of Central and State indirect taxes in the rural sector in various States reveals significant differences (columns 3 and 4 of the above table). Broadly, it appears that the incidence of Central taxes shows comparatively small variations between Part A and Part B States on the whole as well as among individual States. It is in respect of State taxes that the difference between the incidence in Part A and Part B States is particularly marked. This is due mainly, as stated earlier to the higher incidence of State excise, in Part B States. This accounts for the high position in regard to the incidence of State taxes of Hyderabad and PEPSU, which, as indicated elsewhere, head the list of States in the per capita receipts of State excise. In Travancore-Cochin, both the multi-point sales tax and State excise contribute to the high incidence of State taxes. From the point of view of patterns of consumption, it is the rural incidence of Central taxes that is of most significance; Bihar, Uttar Pradesh, Orissa and West Bengal reflect the lowest relative consumption of Centrally taxed articles; Assam and Madhya Pradesh are not placed significantly higher in this respect; the only States above the average for Part A States (and the average for all-India) are Bombay, Madras and Punjab among Part A States; Part B States generally have an incidence equal to or above the all-India average.

CHAPTER VI

THE DEVELOPMENT PROGRAMME AND TRENDS IN INVESTMENT: PUBLIC SECTOR

One of the terms of reference of the Commission is to examine the tax system with reference to its suitability for the development programme of the country and the resources required for it. It is, therefore, necessary for us to attempt a brief review of the development programme, as embodied in the Five year Plan, both in the public and in the private sectors of the economy, its objectives, general content, the resources required, its relation to the tax system, the progress made so far, and the needs indicated for the future. Over and above the development envisaged and achieved under the Five year Plan, there has been a certain degree of development in the States in respect of schemes and projects not included in the Plan but which are considered by State Governments and in several instances by the Planning Commission itself as important for development. From the point of view of the resources required for development, such extra Plan development, though it is likely to be of uncertain magnitude, cannot be altogether left out of the picture.

2. The objectives of the Plan derive from the Directive Principles of State policy in the Constitution to which the Resolution of the Government of India setting up the Planning Commission refers and which also place in perspective the terms of reference of this Commission. The Directive Principles of general import which pertain to the objectives of planning and are of more particular interest in our own field of work concern the duty of the State to raise the standard of living, nutrition and health of the people, to secure the best distribution of the ownership and control of the material resources of the community, and to avoid operation of the economic system resulting in the concentration of wealth and means of production. There is a specific reference in the Directive Principles to the desirability of expansion of services for social welfare, provision of primary education facilities on a free and compulsory basis, organisation of village panchayats, promotion of cottage industries and the State endeavouring to bring about prohibition of consumption of intoxicating drinks and drugs injurious to health. The Planning Commission has defined the objectives of planning in terms of these principles, and planning must mean co-ordinated development in all these fields. In short, (planning should aim at larger production as well as better distribution through reduction in inequalities of income, wealth and opportunity. The promotion of greater equality must have regard to the need for ensuring continuity of development and avoiding dislocation of production. The Plan accepts, again, the complementary character of the two sectors, public and private, and the need to devise policies which take account of their fruitful co-existence. Owing to the limited resources available, the accent of the Plan is

on increasing production, though expansion of social services is only next in importance. Schemes for promoting local development have, according to the Planning Commission, to receive high priority, as it is schemes of this kind, spread all over the country, more than major development projects, which are likely to activate the large unutilised resources in the economy. The Plan lays special emphasis on the employment aspects of development, and, therefore, on labour-intensive methods of production, and, generally speaking, on the importance of cottage and small-scale industries. In referring to the organisational aspects of economic change, the Plan lays stress on the need to encourage the development of the co-operative form of organisation, especially in the vast and varied fields of primary production, cottage and small-scale industries, marketing of agricultural produce, etc.)

3. Total planned outlay in the first Five year Plan in the public and private sectors together is of the order of about Rs. 3,700 crores; of which the share of the public sector amounts to about Rs. 2,249 crores. Originally, an outlay of Rs. 2,069 crores was planned for in the public sector; but in 1953 an addition of Rs. 180 crores was made. The share of the private sector in total planned outlay comes to about Rs. 1,450 crores. Altogether, it is estimated that domestic savings of the order of Rs. 2,800 crores would be available for financing total public and private outlay. In the public sector, the highest priority is assigned to agriculture, including investments in irrigation projects, and to transport. In the private sector, the highest priority is given to industry. Industrial development also figures in the public sector, both directly in the promotion of certain specified industries, and indirectly in the creation of the basic conditions for the stimulation of industrial development such as communications, irrigation, power, transport and industrial finance. It is expected that industry will figure both more directly and more prominently in the second Five year Plan.

4. Of total planned outlay of about Rs. 2,249 crores in the public sector, the real investment component would be roughly Rs. 1,700—1,750 crores, i.e., about 75-78 per cent, of the total. This, as it is, is over one-half of the estimated total net investment in the economy, the remainder being left to the private sector. The Plan seeks to step up the rate of total investment in the economy from an estimated level of about 5 per cent. of national income (of about Rs. 9,000 crores) in the base year (1950-51) to about 7 per cent. at the end of the five year period, national income during the period being estimated to rise to about Rs. 10,000 crores at constant prices. The Planning Commission expects that the resources required for this increase in investment will be found, to a significant extent, from the addition to the national income expected to emerge from the implementation of the Plan. During the second and subsequent Five year Plans, it is expected that increasing reliance will be placed for investment funds on tapping the marginal additions to national income resulting from the implementation of the Plans. Thus, a substantially large and increasing portion of the increase in per capita output has to be diverted to saving and investment. The Commission envisages this increase to be such that by 1960-61 eleven per cent. of national income will be saved and by 1967-68, 20 per cent. If this expectation is to be realised, it is

necessary that savings should reach 50 per cent. of the additional output after 1955-56 and reach even larger dimensions subsequently.

5. If the ratio of capital to output or the length of period over which the fruit of investment materialises should be greater than as assumed in the Plan, an even larger rate of capital formation has to be attained if the longer-term goals of increase in national income over the next decade or two are to be attained. These goals, on the other hand, form the imperatives of a minimal degree of economic progress, even of stability. Thus, the investment requirements of the Plan are the very minimum that can be envisaged, and the substantial stepping up in the second Plan period visualised in the tentative calculations of possible rates of development is also an ineluctable necessity. We have referred to these projections by the Planning Commission of investment, income and economic development in India, in broad outline, because we consider that the achievement of increased investment on public and private account, in many ways, represents the crux of the task with which this Commission is charged. (This task is so to adapt the tax system as to enable the maximum practicable rate of investment in the public sector to be attained, consistent with maintaining and strengthening the incentives to the private sector to step up its own rate of investment.)

6. In our chapter on Tax Policy in this volume as well as in the chapters dealing with individual taxes that are contained in the subsequent volumes, we discuss the question of how to adapt the tax system to the imperative need for stepping up the rate of capital formation in both the public and the private sectors. We have seen that the greater part of capital formation envisaged in the Plan is in the public sector; and the public sector has to rely both upon taxes and upon loans for its funds. The private sector has to rely upon a voluntary stream of private savings, though, even here, there is something analogous to the tax-financed portion of the public sector in the retained profits which are built up in the corporate sector for purposes of capital formation. (What is clear, however, is that the stepping up of the rate of capital formation, whether in the public or the private sector, is bound to impinge on consumption standards, at least in the short period.) Even if the impact of this reduction in consumption is largely on the additional incomes created by planned development, it cannot, therefore, be treated as much less of a burden, merely because it restrains a potential increase in consumption rather than bring about a decrease in actual consumption.) This is because a substantial portion of the additional incomes created by economic development will be accruing to the low income groups whose actual consumption levels are, by any absolute standard, unreasonably low and need, therefore, to be raised. And yet the financing of economic development requires that some draft be made on the additional incomes even of this class. We agree that the social and political problem that this contingency gives rise to is extremely difficult of solution, especially in a political democracy based on adult franchise such as we have in India. Nevertheless, the problem has to be solved, if the country is to get out of the vicious circle of low savings, low income, and low savings, that has led to its economic stagnation. Wise and courageous leadership is required on the

part of those in political power if the problem is to be solved; and there is no doubt that the solution becomes easier, the more acceptable to the public is the programme of development and the more confidence they have in the efficient and economic use of the funds raised for financing this development. (The acceleration of the tempo of economic development and the involuntary increase it requires in savings and investment in the circumstances of a country such as India, is, therefore, not merely an economic or a fiscal problem but a human problem, and calls for higher qualities of leadership than, perhaps, are necessary in the more advanced economies.) We emphasise this aspect mainly in order to provide the proper perspective in the light of which should be viewed our subsequent recommendations for adjusting the tax system to the needs of development finance in this country. J

7. The money burden of increasing the tempo of development could, however, be eased to some extent if an attempt is made to mobilise the saving potential that exists in real terms in the country in the form of disguised unemployment in the rural sector. The employment of surplus agricultural labour in the construction of works of common benefit or on capital projects like irrigation and communications would be a fruitful way of stepping up capital formation without increased financial resources, provided, however, those who are left on the farm and the new investment workers could be induced or compelled to refrain from raising their existing levels of consumption. In this connection, we welcome that feature of the Plan which makes for the encouragement of local projects, as also the Community Development and National Extension Service schemes which include in their content mobilisation of the voluntary labour resources in the rural areas; and we hope that greater importance would be given to this feature in the next Five year Plan. It would, however, be unrealistic to rely on this source for the main part of the needed increase in investment. All the same, it is an avenue that deserves further exploration.

8. There is yet another way in which the financial problems associated with accelerated development in a country like India could be eased. Thus, while capital formation leads to increase in productivity and provides larger employment opportunities, it is possible in a heavily populated country to place undue emphasis on a certain pattern of capital formation. The problem here is largely three-fold: a growing population has to be absorbed as an active working force; the existing slack in labour has to be corrected; and alternative employment needs to be found for such currently employed labour force as may be displaced by factors such as the introduction of rationalisation and improvements in techniques of production in the industrial or agricultural spheres. As unemployment in India is largely structural as well as seasonal, the former arising from lack of complementary resources (particularly of capital stock), stepping up of capital formation should, over a period, certainly promote employment. But because of its capital-intensive character, the scope for increasing employment in large-scale industry is limited and considerable reliance has to be placed on small-scale and cottage industries involving small capital investments. Industrialisation is normally presumed to require a high degree of capital intensity and to result inevitably in an increase in unemployment of a

technological kind. While this may be unavoidable to some extent, in a community where seasonal and disguised unemployment is of large dimensions as in this country, the basic problem of development consists precisely in how to utilise more adequately and fully the existing labour resources so as gradually to build up new forms of capital suited to the specific environment, resources and aptitudes of the people themselves.

9. The better way of forming capital under these conditions is often to make the best use of that factor which is most abundant, viz., labour, not to displace it by capital which is relatively scarce. With the population growth that is taking place, undue insistence on intensive capital investment would not be realistic. Extensive investment suited to abundance of labour would help to keep down total capital requirements. Particularly in agriculture, improvements in productivity are often possible with a little additional capital investment, with better organisational methods and more effective application of known techniques. It is not only an increase in capital but also an increased employment of capital-saving methods that is needed here. It is true that all technical advance does, in a way, induce a greater vogue of capital-saving methods, i.e., of methods which increase the productivity of capital (and hence of labour as well), without increased use of capital. Only in economies where capital is scarce, emphasis has to be placed, in a special measure, on *better* rather than *more* tools, on improved methods and techniques, and on stimulus to resourcefulness in invention or adaptation of devices which enhance the quality and effectiveness of capital in the economy.

10. The progress of the Plan in the public sector may now be reviewed. The revised Plan provides for a total outlay of Rs. 2,249 crores in the public sector. **Progress of the Plan** Plan expenditures were Rs. 260 crores in 1951-52, Rs. 270 crores in 1952-53 and Rs. 355 crores in 1953-54 (R.E.) or a total of Rs. 885 crores for the three year period 1951-54, as against a planned outlay of Rs. 997 crores for the three years. Of this, the real investment component may be placed at about Rs. 700 crores. This excludes, however, on the part of the States a certain amount of outlay which was not provided for in the Plan. Such outlay on development programmes outside the State Plans is estimated to be Rs. 37 crores for the three years 1951-54 in the Progress Report for 1953-54. Therefore, though the programme of planned development was running behind schedule, the extent of development, in the aggregate, was, perhaps, nearer the projected scale in the case of State Governments. There also occurred increases in administrative and other non-development expenditure, and on defence requirements, to which we have made a reference in an earlier chapter. The balance of total planned outlay that remains to be incurred in the remaining two years of the Plan works out to Rs. 1,364 crores. The Plan expenditure in 1954-55 is placed at Rs. 572 crores, leaving an outlay of Rs. 792 crores for 1955-56.

11. Of the estimated outlay by States of Rs. 440 crores in the three years 1951-52 to 1953-54, Rs. 212 crores or 48 per cent. was provided by the States' normal resources, and Rs. 122 crores (28 per cent.) was provided by Central assistance, leaving a gap of Rs. 106 crores, which represented about one-quarter of the total outlay. The

gap was met by drawing down cash balances, sale of securities and increase in short-term borrowing. The following table gives the percentages of Plan expenditure incurred in each State in the first three years to the five year total, and a State-wise break-up of the gap in budgetary resources in the first three years. The marked differences among States in both aspects are brought out by the figures:

TABLE 1.—Plan expenditure of States

State	Percentage of total Plan expenditure incurred in 1951-54	Gap in resources (Crores of Rupees)
Andhra . . . . .	..	—0·2
Assam	32	1·2
Bihar	50	11·8
Bombay	55	—1·1
Madhya Pradesh	44	—6·3
Madras	50*	51·5†
Orissa	44	—2·3
Punjab	36	15·6
Uttar Pradesh	51	5·5
West Bengal	51	9·5
Hyderabad	46	6·8
Madhya Bharat	35	0·4
Mysore	45	3·9
PEPSU	39	—0·4
Rajasthan	33	4·7
Saurashtra	46	3·7
Travancore-Cochin	43	2·8
Jammu and Kashmir	32	—0·8
TOTAL		106·3

*For composite State : 2½ years.

†For composite Madras for 2½ years and residuary Madras for second half of 1953-54.

12. The recommendations of the Finance Commission resulted in a transfer of an additional sum of about Rs. 20 crores a year to the States from the Centre from 1952-53. As no part of this was set off against Central assistance under the Plan, this relieved the States of the need for raising nearly Rs. 80 crores in the Plan period out of a total of Rs. 232 crores which the States were required to raise through additional taxation and savings in non-development expenditure. As described in Chapter III, there has actually been an increase in non-development expenditure; and as for additional tax effort, as mentioned in Chapter II, the total estimated collections from fresh tax measures in the State sphere in the three-year period were less than Rs. 30 crores.

13. Progress of outlays and resources are shown in Tables 2 to 4 for the Centre and States separately and together.

14. According to the original estimates, of the total planned outlay of Rs. 2,069 crores, Rs. 1,258 crores was to be found from the normal budgetary resources of the Central and State Governments*. External assistance was estimated at Rs. 156 crores. This would have left a gap in resources of the order of Rs. 655 crores which was to be covered by the use of sterling balances (of Rs. 290 crores), further external aid, additional taxation, borrowing, and deficit financing. With the projected increase of Rs. 180 crores in total outlay, the gap would now rise to Rs. 835 crores. There has been some increase in authorisations of foreign assistance which now stand at a total of Rs. 234 crores for the five year period. After accounting for deficit financing against releases of sterling balances and external assistance, the net gap amounts to Rs. 467 crores.

15. For the three years 1951—54, total budgetary (domestic) resources amounted to about Rs. 535 crores, comprising Rs. 396 crores of savings from current revenues of Central and State Governments and railways, and Rs. 139 crores of borrowings under all heads; the current account savings were considerably facilitated by the abnormally large revenues derived by the Central Government in 1951-52. Out of total sterling balances that could be used during the Plan period, about Rs. 150 crores have been utilised, while the external assistance used during this period has been Rs. 132 crores leaving an unexpended balance of Rs. 102 crores. The original estimates placed aggregate railway savings for the five year period at Rs. 170 crores. The railways are expected roughly to maintain the same rate of savings in the last two years of the Plan as in 1952-53 and 1953-54 (Rs. 20 crores) so that their total contribution for the entire Plan period may be Rs. 110-120 crores, leaving a shortfall from that source of Rs. 50-60 crores. Thus, the gap between total planned outlay and domestic resources for the three year period is about Rs. 350 crores; taking into account external aid and the use of sterling balances, the *net* deficit is about Rs. 70 crores.

16. For 1954-55, the combined deficit of the Central and State Governments may be placed at Rs. 285 crores taking into account Rs. 105 crores of net market borrowings. External assistance available for 1954-55 is placed at Rs. 48 crores; to the extent that the sterling balances are drawn upon, the net gap would be reduced still further. The Plan expenditures of the Centre and the States in 1955-56 work out to about Rs. 792 crores, on a residual basis. On the 1954-55 basis of receipts, the gap in internal resources for financing this outlay would be about Rs. 505 crores. This may be reduced by Rs. 20 crores if the normal annual increase in revenue of the Central and State Governments materialises next year as well.† Besides, somewhat larger borrowings may be possible in 1955-56. Taking into account the possible increases in revenues and borrowings over 1954-55, apart from any slight variations in the railways' surplus and under deposits and miscellaneous heads, the gap in

*Rs. 740 crores was to be obtained in current budgetary surpluses, and Rs. 518 crores through loans, small savings, deposits, etc.

†On this basis, and not taking into account the effect of any tax changes that may be made in 1955-56, total budgetary resources during the five year period would amount to Rs. 1,125 crores, as against the Plan estimate of Rs. 1,260 crores.

TABLE 2.—Financing of the Plan, 1951-52 to 1954-55

	CENTRE				(Crores of Rupees)		
	1951-52	1952-53	1953-54 (Revised)	1951-54 (Total for 3 years)	1954-55 (Estimated)	1951-56 (Plan) Original Revised	
<i>Outlay on the Plan</i>	130·5	126·1	188·3	444·9	356·2	1240·5	1330·7
(a) Revenue Account	5·3	7·4	19·9	32·6	53·2	..	..
(b) Capital Account	125·2	118·7	168·4	412·3	303·0	..	..
<i>Budgetary Resources</i>	120·9	54·2	26·7	201·8	124·7	497·2	410·2
<i>Savings of the Public Authorities—</i>							
(a) from current revenues	119·6	41·4	0·1	161·1	31·8	160·0	160·0
(b) from railways	37·7	25·5	14·0	75·2	17·0	170·0	170·0
<i>Private savings absorbed through—</i>							
(a) loans from the public	(—)34·2	(—)0·9	1·7	(—)33·4	80·0†	36·0	36·0
(b) small savings and unfunded debt (excluding floating debt)	48·6	48·7	53·6	150·9	60·6	270·0	270·0
(c) deposits, funds and other miscellaneous sources* (—)22·3	(—)22·3	(—)21·8	14·4	(—)29·7	21·2	90·0	90·0
(d) Transfer of funds from Centre to the States for development purposes (Central assistance) (—)28·5	(—)28·5	(—)36·7	(—)57·1	(—)122·3	(—)85·9	(—)228·8	(—)315·8
<i>Gap in Resources</i>	9·6	71·9	161·6	243·1	231·5	743·3	920·5
<i>External Assistance</i>	64·9	41·0	25·5	131·4	48·4	..	..
Grants	4·0	7·4	23·4	34·8	45·1	..	..
Loans	60·9	33·6	2·1	96·6	3·3	..	..

*The figures shown against this item cover State trading transactions also.

†Central share of National Plan Loan proceeds (provisional).

TABLE 3.—Financing of the Plan, 1951-52 to 1954-55
STATES (Including Jammu and Kashmir)

	(Crores of Rupees)						
	1951-52	1952-53	1953-54 (Revised)	1951-54 (Total for 3 years)	1954-55 (Estimated)	1951-56 (Plan)	
						Original	Revised
<i>Outlay on the Plan</i>	129.0	143.6	167.3	439.9	215.6	228.2	918.2
(a) Revenue Account	69.0	71.3	80.9	221.2	95.6	..	..
(b) Capital Account	60.0	72.3	86.4	218.7	120.0	..	..
<i>Budgetary Resources</i>	84.0	93.9	155.6	333.5	163.0	760.3	850.3
<i>Savings of Public Authorities—</i>							
(a) from current revenues	64.7	56.3	39.1	160.1	37.1	409.7	412.7
(b) from railways . . . . .	..	..	..	..	..	..	..
<i>Private savings absorbed through—</i>							
(a) Loans from the public	11.5	16.6	39.9	68.0	25.0*	79.0	79.0
(b) Small savings and unfunded debt (excluding floating debt) . . . . .	..	..	..	..	..	..	..
(c) Deposits, funds and other miscellaneous sources†	(—)20.7	(—)15.7	19.5	(—)16.9	15.0	42.8	42.8
Transfer of funds from Centre to the States for development purposes (Central assistance)	28.5	36.7	57.1	122.3	85.9	228.8	315.8
<i>Gap in Resources</i>	45.0	49.7	11.7	106.4	52.6	67.9	67.9

* (Provisional) share of National Plan Loan proceeds allocated to States.

† The figures shown against this item cover State trading transactions also.

TABLE 4.—Financing of the Plan, 1951-52 to 1954-55

CENTRE AND STATES

(Crores of Rupees)

	1951-52	1952-53	1953-54 (Revised)	1951—54 (Total for 3 years)	1954-55 (Estimated)	1951—56 (Plan)	
						Original	Revised
<i>Outlay on the Plan</i>	259·5	269·7	355·6	884·8	571·8	2068·7	2248·9
(a) Revenue Account	74·3	78·7	100·8	253·8	148·8	..	..
(b) Capital Account	185·2	191·0	254·8	631·3	423·0	..	..
<i>Budgetary Resources</i>	204·9	148·1	182·3	535·3	287·7	1257·5	1260·5
<i>Savings of Public Authorities—</i>							
(a) from current revenues	184·3	97·7	39·2	321·2	68·9	569·7	572·7
(b) from railways	37·7	23·5	14·0	75·2	17·0	170·0	170·0
<i>Private savings absorbed through—</i>							
(a) loans from the public	(—)22·7	15·7	41·6	34·6	105·0*	115·0	115·0
(b) small savings and unfunded debt (excluding floating debt)	48·6	48·7	53·6	150·9	60·6	270·0	270·0
(c) deposits, funds and other miscellaneous sources†	(—)43·0	(—)37·5	33·9	(—)46·6	36·2	132·8	132·8
<i>Gap in Resources</i>	54·6	121·6	173·3	349·5	284·1	811·2	988·4
<i>External Assistance</i>	64·9	41·0	25·5	131·4	48·4	..	..
Grants	4·0	7·4	23·4	34·8	45·1	..	..
Loans	60·9	33·6	2·1	96·6	3·3	..	..

94

*Net loan receipts budgeted for were only Rs. 43·2 crores. The figure shown is based on National Plan Loan proceeds.

†The figures shown against this item cover State trading transactions also.

domestic resources in 1955-56 for a development expenditure of Rs. 792 crores may be placed at about Rs. 470 crores. If total external resources (including sterling releases) available for use in 1955-56 are taken at about Rs. 150 crores, the net deficit would then be of the order of Rs. 320 crores at a Plan expenditure level of Rs. 792 crores. These estimates are but rough approximations based on total outlays as at present envisaged according to Plan targets and on certain assumptions relating to the use of sterling balances. To the extent that outlays fall short of estimates, as would seem likely, the deficit would be reduced; on the other hand, if the sterling balances are not used to the full extent, the deficit would be larger. If the Plan targets are realised only to the extent of about 85 per cent., the total outlay in 1954-56 would amount to about Rs. 1,030 crores. Then the gap in domestic resources for the two years would work out to about Rs. 420 crores.

17. Though the form and magnitude of the next Plan are indeterminate at present, these are, for obvious reasons, relevant to our examination of the tax system for the purposes of development. In the circumstances, we have to embark on a certain measure of forecasting. It may be expected that the basic objectives of the next Plan will remain much the same as those of the present one, though the relative emphasis on the development of different sectors of the economy as also on institutional forms and organisational patterns may alter.

18. The next Five year Plan has necessarily to start on an initial expenditure level which would correspond at least to the average for the last two years of the first Five year Plan. Broadly, the total Plan outlay in the public sector in the second Five-year Plan may be taken at around Rs. 3,500 crores, with an outlay of about Rs. 600 crores in the first year. It may well be that the critical stage in India's development effort would be reached in the second Five year Plan when—as the tentative projections regarding the possible rate of development described earlier indicate—much higher rates of increase in investment and national income than during the period of the first Five year Plan would have to be reached.

19. On the basis of the estimates for 1954-56, the gap in internal resources in 1956-57 may be placed at about Rs. 280 crores. It is to be noted that the scope for drawing upon sterling balances for the second Five year Plan will be extremely limited, if the scheduled draft has been made upon them during the first five year period, and, in any case, much more limited than during the current Plan, while external aid may, perhaps, be assumed, for the time being, to continue at the average level of the first five year period (Rs. 45-50 crores per year). Thus, more than in the first Plan, the rate of capital formation would depend essentially on domestic resources. The gap in resources, large as it is in relation to a possible total development expenditure of Rs. 600 crores in 1956-57, would be larger still when viewed against what may be called the investment part of it, which is smaller. This highlights the basic fact of the inadequacy of resources at existing tax levels for the designed rate of investment and brings to the fore the problem of additional taxation.

20. To the extent that additional taxation does not meet the gap between planned expenditure in the future and existing resources available for the public sector at present, it has been suggested that resort should be had to deficit financing. In fact, some would go farther and suggest recourse being taken to deficit financing even before any additional taxation is imposed. From the point of view of the very short period, and that too in the immediate future, there is perhaps a case for a certain measure of deficit financing, though certainly not of the magnitude indicated by the gap between existing resources and planned expenditure.

21. It may be noted, in this context, that the index of agricultural production (with 1949-50 agricultural year as base) rose from 96 in 1950-51 to 102 in 1952-53 and 114 in 1953-54, the improvement in food supplies being a significant factor. The industrial production index (with 1946 as base) rose steadily from 105 in 1950 to 129 in 1952 and 135 in 1953 and 141 in the first half of 1954. An increase in money supply would, therefore, be called for if prices are to be maintained stable, and further expansion in productive activity is not to be restrained. Actually, however, money supply declined from Rs. 1,966 crores at the end of March 1951 to Rs. 1,787 crores at the end of March 1952 and Rs. 1,751 crores at the end of March 1953, with a fall of 54 points (or 12.4 per cent.) in the price index between 1951-52 and 1952-53; there was some rise in prices in 1953-54, of 15 points or 4.3 per cent. over the 1952-53 levels, and money supply also increased to Rs. 1,845 crores at the end of March 1954.

22. On the whole, for the first three years of the Plan period, there was but little inflationary financing of Plan expenditure. The immediate scope for deficit financing should also be viewed against the background of a fairly comfortable foreign exchange position which would permit sizeable import surpluses and the improved outlook in regard to industrial and agricultural production, which would justify a certain increase in money supply. The more recent trend of a fall in agricultural prices is another factor to be noted in this context. The inflationary consequences of the measure of deficit financing contemplated in the last two years of the Plan would be mitigated to the extent the production trends in agriculture and industry are maintained and the major projects of the first Plan begin to yield results in terms of additions to consumer and capital goods. If the marketable surplus of agriculture should increase with fruition of development outlays, the non-monetised sector of the economy should be reduced and this, too, would call for increased money supply; it is, of course, unrealistic to depend on this factor in the short period. Nor would deficits occasion serious concern if they should be declining, in relation to the size of development outlay itself, over a period of years; for, then, the counter-inflationary forces of increased production may be more effective and price stability not seriously endangered. Thus, on the most favourable assumptions regarding production trends, it is conceivable that deficit financing of the order visualised for one or two years, may not upset the stability of the economy.

23. It must be pointed out, however, that from a longer term point of view, the place which deficit finance can occupy in a programme of planned development cannot be of a quantitatively

significant magnitude in a country like India. In an advanced industrial country, with a temporary recession in production or a backlog of reconstruction after the war, credit creation or deficit financing to promote productive activity results in an increase in output of consumer goods in a short period, as supplies of complementary productive factors are in good array. In a country like India, also, with its large idle labour reserves, credit creation to finance development should add to the supplies of goods and services, but here the time-lag is liable to be longer and the increase in output smaller, as other necessary resources are not available in a similar degree. Moreover, in a comparatively underdeveloped and primarily agricultural economy like ours, 'full' employment of other resources may be quite consistent with the existence side by side of large masses of unskilled labour, which cannot be employed for want of complementary factors of production, particularly of capital. The limits of deficit financing, which is not to result in serious inflationary consequences, are, hence, likely to be reached earlier here than in the advanced industrial economies. We cannot, therefore, but underline the need for the utmost endeavour to enlarge the role of taxation and borrowing in the financing of the development programme of the public sector, and to minimise the role of deficit financing especially in the longer period following the first Five year Plan.

24. We recognise that our view on the place of deficit financing in the long run may appear to overlook the requirements of the private sector. The concern of the private sector in the means adopted for financing development in the public sector derives from the possibility that attempts to hold down deficit financing through increased taxation and 'induced' borrowing may result in a shrinkage of capital funds available to that sector itself for its development and hence in some impairment of the incentives to sustain or improve the rate of such development. On the other hand, resort to deficit financing rather than taxation, particularly direct taxation of individual and corporate business, may maintain the buoyancy of conditions in the private sector as reflected in the rates of profitability and of capital formation. But such buoyancy will not necessarily lead to proportionate formation of real assets or greater productive capacity. Experience of conditions in this country, as in other underdeveloped countries, emphasises the importance of restraining inflationary tendencies not only in the interest of healthy development, but also that of achieving any substantial real development; or else, speculative elements are liable to gain ascendancy and distort the pattern of development and of capital formation itself. Considerations of both the quality and pace of healthy development thus underline the need to keep the rate of deficit financing within proportions which will not jeopardise economic stability. All this serves to emphasise the importance of deliberate measures to increase the budgetary resources of Governments—Central and State—through taxation and borrowing. How this is to be done so far as it concerns taxation is the subject of the second and third volumes of this Report.

CHAPTER VII

DEVELOPMENT PROGRAMME AND TRENDS IN INVESTMENT

Private Industrial Sector

The Industrial development programme embodied in the Five year Plan involves an estimated outlay of Rs. 707 crores over the five year period 1951—56 as follows:

Industrial development programme and progress

	(Crores of Rupees)
Investment in the public sector	94
Expansion of industrial capacity in the private sector	233
Modernisation and replacement	150
Working capital	150
Current depreciation not covered by income-tax allowances	80
TOTAL	707

The sources of finance for this outlay were thus indicated: resources of the public sector invested directly Rs. 74 crores, foreign investment Rs. 100 crores, savings of corporate enterprises in the industrial sector Rs. 200 crores, new issues Rs. 90 crores, assistance from the Central Government and from Industrial Finance Corporations Rs. 25 crores, refunds of E. P. T. deposits Rs. 60 crores, and short term finance from banks and other sources Rs. 158 crores. The programme avowedly covers only the organised sector of private industry. The undistributed profits of corporate enterprise in 1950-51 were placed at Rs. 34 crores; with increased production levels all round, larger corporate savings were expected and the total for the Plan period was placed at Rs. 200 crores but "agreed price increases in selected lines and restraint in dividend policies are essential elements" in this estimate.

2. The major part of industrial investment in the public sector is on Central Government account. An important project included in this sector is that of a new iron and steel plant. For the rest, industrial development in the public sector would mostly involve only the completion of projects that were already in hand when the Plan commenced. (The general order of priorities envisaged in industrial development as a whole was as follows: (a) fuller utilisation of existing capacity of producers' goods as well as consumer goods industries; (b) expansion of capacity in certain capital goods and producers' goods industries such as iron and steel, cement, heavy chemicals and fertilizers; (c) completion of projects on which a part of capital outlay had already been made, and (d) establishment of new industries that would strengthen the industrial structure of the

economy such as manufacture of sulphur from gypsum.) The Plan estimates for the private industrial sector were based on a review of various industries which covered between them about 80 per cent. of investment in the large and medium scale industries in the country. Capital investment envisaged in the Plan on industrial expansion in the private sector during the period 1951-56 was Rs. 233 crores, of which 80 per cent. was to be in respect of capital goods and producers' goods industries. Petroleum refineries, iron and steel, cement and aluminium are among the more important individual industries in this programme of development. Taking public and private sectors together, of total planned investment, 26 per cent. was envisaged to go into the metallurgical industry, 20 per cent. for petroleum refining, 16 per cent. into engineering and 8 per cent. for manufacture of heavy chemicals, fertilizers and pharmaceuticals. Substantial increases were also expected in the output of consumer goods industries like cotton textile and sugar, mainly through fuller utilisation of existing capacity.

3. Considerable progress has actually been registered in certain industries during the period of the Plan, mainly in consumer goods industries. The general index of industrial production (base: 1946) has steadily advanced, particularly since 1950, from 105 in 1950 to 117 in 1951, 129 in 1952 and 135 in 1953; the index for the first half of 1954 (January-June) was 141. Among the major industries only sugar and jute showed some decline in production. Judging from the production figures of 1953, some industries would seem to have progressed well towards the Plan targets for 1955-56. Similar progress, however, has not been achieved generally in the producers' and capital goods sector, partly due to the circumstance that certain projects (such as iron and steel, petroleum refining and machine tools) involved considerable preliminary work and are taking a longer time for completion than was estimated. An industry which is a significant exception in this category in which considerable progress has been registered is cement. Thus, gains in terms of additions to the country's industrial potential have fallen short of Plan estimates, and production in many industries is still below capacity.

4. According to the Planning Commission estimates, fixed capital investment on new units and expansion schemes in the private industrial sector in the first two Plan years (1951-53) was Rs. 52 crores, as compared to the estimate of Rs. 233 crores for the five year period or Rs. 47 crores a year. This lag in investment is stated to be largely in iron and steel, petroleum refining and aluminium industries in which investments amounted to only Rs. 8 crores in the two years, as against the five-year estimate of Rs. 116 crores. Investments in these industries in the remaining three years of the Plan period would be substantially larger. If these three major industries are excluded, new investment in the others was Rs. 44 crores for the first two years, as compared to the five year target of Rs. 117 crores for them. The investment in the year 1953-54 has been placed at Rs. 44 crores. Thus, in the first three years of the Plan period, total (net) fixed capital investment in the private sector of industry was of the order of Rs. 96 crores; the estimate for 1954-55 is Rs. 63 crores. As regards the means of financing investment in the first two years, it is estimated by the Planning Commission that new issues in the market provided Rs. 22 crores, loans from Government

and industrial finance corporations Rs. 12 crores, and the balance of Rs. 18 crores was met from reserves, advances by managing agents and short-term loans. This indicates that not less than one-third of the funds required for expansion were provided by internal resources of industry. Adverting to the 'considerable slack' that still remains in respect of modernisation and replacement of plant and machinery in industry, the Committee on Finance for the Private Sector observe ".....this will mean an additional draft on the financial resources of industries. Presumably, industries would prefer to draw on their own resources rather than to rely on borrowing for such investment. To the extent this happens, and unless the retained resources of industries increase as a result of adjustments in prices, costs and taxes, the capacity of industries to finance schemes of expansion out of their own resources will be reduced."

// 5. One of our terms of reference required us to examine the effects of the structure and level of taxation of income on capital formation and maintenance and development of productive enterprise. This called for a somewhat closer check-up than the

Objectives and scope of our enquiry

available facts made possible of the condition and general outlook of productive enterprise in the country with particular reference to the pace of capital formation in the economy. Another of our terms of reference invites us to examine the tax system in relation to the development programme of the country and the resources required for it. Inasmuch as the development programme includes the private sector, we have felt the need for forming a clearer view than the studies hitherto made enabled us, of the factors that regulate the working of private productive enterprise and their bearing on the suitability of the present system of taxation. The private sector (other than agricultural) is engaged in varied economic activities—trading, transport, industrial and financial—organised in diverse forms—individual ownership, partnership, private limited companies and public limited companies. In making some attempt on our own part to gather material relating to the functioning of the private sector, we have had to limit our survey to the corporate part of private industry where facts could be gathered with relatively more facility and which is also more important from the point of view of tax policy. It happens also that the estimates of the development programme in the Plan are related largely to this part. With a view to considering such implications for tax policy as the factual analysis might disclose, an inquiry was instituted:

- (i) in general, to study the sources and uses of funds in industry, and in particular
- (ii) to estimate the gross and net capital formation in the private sector of manufacturing industry and the sources of funds therefor, during the post-war period,
- (iii) to study the profit-earning capacity of various industries and policies with regard to allocation of profits, and
- ✓(iv) to study the practice of industry in providing for depreciation, and the character and magnitude of the problem of replacement of old assets in the industrial sector.

6. The factual basis of the study is provided mainly by (1) the results of analysis of balance sheets and profit and loss accounts of public limited joint stock companies, and (2) the data furnished directly by selected public limited companies in response to a questionnaire issued by the Commission. Owing to the time expected to be taken in scrutiny, tabulation and analysis of data, and the need of having the results in time before the Commission began to frame conclusions, the enquiry was made in the first stages of our work, the returns being called by 11th January, 1954; the latest year to which the (questionnaire) information, therefore, relates is the financial year of companies ended during the twelve months July 1952 to June 1953. This, according to the uniform basis for including information in a particular year, would be treated as for 1952*. The returns received for 1952 are for a smaller number of companies (less than 300) and, further, are incomplete in some respects, while the analysis of balance sheets for the year is also not available; the enquiry in its general scope, therefore, covers the six years, 1946—51; some data are analysed, however, for 1952 and compared with the two preceding years.

7. We also obtained data from the Income-tax Department in respect of private limited companies in response to a questionnaire we sent them. As explained later, the data for private limited companies are not as complete as data for public limited companies and also relate to a shorter period than the latter: while data up to 1952 (*viz.*, for the financial year ended during July 1952 to June 1953) are available for public limited companies, the latest year for which private limited companies' data are available is the year preceding the assessment year 1949-50. It has, therefore, not been possible to present both sets of data on a comparable basis; available data for private companies are presented separately.

8. A part of the analysis of balance sheets and profit and loss accounts of public limited joint stock companies for some years which has been used in this study had been done in the Division of Statistics of the Department of Research and Statistics, Reserve Bank of India, and the data were made available to us. The analysis by the Bank does not cover a uniform set of balance sheets for all the years, 1948—51, to which it relates. However, for the two sets of years (i) 1948 and 1949 and (ii) 1950 and 1951, the analysis is in respect of common companies: 710 for 1948 and 1949, and 681 for 1950 and 1951. Adequate coverage by paid-up capital was the criterion adopted by the Reserve Bank in the selection of companies for balance sheet analysis. A varying minimum capital limit was adopted for different industries for the purpose. Mostly, the balance sheets relate to

*The 492 companies which sent valid replies to the questionnaire may be classified as follows according to the date of closing of annual accounts :

<i>Quarter in which date of closing accounts falls</i>	<i>Number of companies</i>
January-March	119
April-June	73
July-September	53
October-December	247
	<hr/>
TOTAL	492
	<hr/>

companies whose paid-up capital exceeds Rs. 5 lakhs; in certain industries some companies with paid-up capital of between Rs. 1—5 lakhs are also included. All companies whose paid-up capital is less than Rs. 1 lakh are excluded. The analysis for 681 companies in 1951 accordingly covers a major part of the manufacturing sector in terms of paid-up capital (67 per cent.), fixed assets, value of output, etc., though in number the companies form only about 14 per cent. of the total number of public limited joint stock companies in India as in 1951-52, excluding companies with paid-up capital of less than Rs. 1,000 (*vide* Statement II).

9. As the Reserve Bank's analysis of balance sheets and profit and loss accounts did not extend back to 1946, we called for the 1946 balance sheets from the companies which were selected for the Commission's questionnaire (*see* para. 10 below) and had them analysed on the same basis as for 1948—51; the number of these companies is 407. Further, with a view to working out capital formation and profit trends over the post-war period, the data for 1951 which related to 681 manufacturing companies were retabulated in respect of 448 companies, most of which also replied to our special questionnaire and of which 407 were in existence in 1946, so as to secure uniform coverage with 1946 and enable comparisons between the results for the two years to be instituted. The 448 companies in 1951, it will be noted, include 41 new companies which had been started after 1946.

10. A related set of data has been obtained directly from the companies, to supplement the information available in balance sheets. The questionnaire was issued to 734 public limited companies, all being manufacturing companies included in the Reserve Bank's analysis of balance sheets for 1951; it was filled in and returned by 503 companies. Eleven of the forms had to be rejected; the special data obtained through the questionnaire, therefore, relate to 492 companies. Statement I shows the number and paid-up capital of companies addressed, by industrial groups, and of those which are included in the analysis relating to the questionnaire. Of the companies addressed, the response was 67 per cent. by number and 80 per cent. by paid-up capital. Moreover, in every industrial group the coverage by paid-up capital is such as to bear the weight of generalisation; this holds good for balance sheet data also. However, the results may not reflect the pattern of structure of smaller concerns. The data supplied in the questionnaire forms were checked by reference to balance sheets and profit and loss accounts of the companies where possible and by examining the internal consistency of the data given within each form itself under different heads.

11. In the result, the various final Statements do not always refer to the same number of companies or to identical companies; in most of the Statements, companies covered in each industry are shown in brackets to indicate whether comparison between any two Statements is valid or not. The analysis is based mainly on balance sheets and profit and loss accounts for common companies in 1946 (407) and 1951 (448) and on the questionnaire in respect of 492 companies. The following table shows the coverage by paid-up capital of the data analysed in this study in relation to the corporate manufacturing sector. It will be seen that the data analysed cover

56 per cent. of all public limited companies in manufacturing industry by paid-up capital.

TABLE 1.—Paid-up capital of manufacturing companies in 1951-52

(Amounts in crores of Rupees)

	Public Limited	Private Limited	Total
(a) All companies at work in India	447	99	546
(b) 681 companies whose balance sheets are analysed for 1951	300	..	300
(c) The 448 companies whose balance sheets are analysed for 1951	245	..	245
(d) The 492 companies whose questionnaire forms are analysed	252	..	252
(b) as per cent. of (a)	67	..	55
(c) as per cent. of (a)	55	..	45
(d) as per cent. of (a)	56	..	46

12. A list of all joint stock companies in India for 1951-52 was obtained from the Company Law (Statistics) Section, Ministry of Finance; the companies were classified into public limited and private limited companies and by size of paid-up capital separately for each industry. Information regarding the organisational structure of the corporate manufacturing sector and about the class of business and size-distribution of the whole company sector has been collated for the first time in the Commission's office and is presented in Statements II and III relating to public and private limited companies, respectively. It will be useful to summarise the salient elements of these Statements to obtain a picture of the role that private as well as public limited companies play in the economy of the country in various manufacturing and non-manufacturing activities; the Statements do not deal directly with the question of the relative importance of the non-corporate sector. The total paid-up capital of public and private companies, manufacturing and non-manufacturing, in 1951-52, is indicated below:

TABLE 2.—Paid-up capital of companies in 1951-52

(Amounts in crores of Rupees)

	Public	Per cent.	Private	Per cent.	Total	Per cent.
Manufacturing	447	82	99	18	546	100
Percentage	(75)	•	(45)		(67)	
Non-Manufacturing	151	55	122	45	273	100
Percentage	(25)		(55)		(33)	
Total	598	73	221	27	819	100
Percentage	(100)		(100)		(100)	

13. Private companies represent a little more than one-quarter of the paid-up capital in the entire corporate sector, about 18 per cent. of the paid-up capital in manufacturing industries and 45 per cent. in non-manufacturing industries. Manufacturing industries as a whole have 67 per cent. of the entire paid-up capital of all companies. Of private companies, 45 per cent., by proportion of paid-up capital, are engaged in manufacture, and of public companies 75 per cent*. The following table gives the total paid-up capital and the relative importance of each category of manufacturing industry, of public and private companies; it also brings out the respective shares of public and private companies in each line of business.

*The classification of joint stock companies by nature of business is based on the principal business of a concern ; in as much as among private companies other, *viz.*, trading and financial activities, are a more important part of the activities of the companies classed as manufacturing than in respect of public limited companies similarly classed, the ratio given here might over-state the interest of private limited companies in manufacture.

TABLE 3.—Paid-up capital of public limited and private limited companies, Industry-wise, in 1951-52

(Amounts in lakhs of Rupees)

Industry	Public limited companies		Private limited companies		Total		(3) as per cent. of (5)
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	
	1	2	3	4	5	6	7
<i>Manufacturing Industries</i>							
Cotton Textiles . . .	1,04,30	23.3	7,33	7.4	1,11,63	20.4	6.6
Jute Textiles . . .	27,56	6.2	7.3	0.7	28,29	5.2	2.6
Other Textiles (Silk and woollen) . . .	5,31	1.2	1,47	1.5	6,78	1.3	21.7
Iron and Steel . . .	19,01	4.3	..	..	19,01	3.5	..
Engineering (Including Electrical goods) . . .	49,54	11.1	22,72	23.0	72,26	13.2	31.4
Sugar . . .	22,61	5.1	2,96	3.0	25,57	4.7	11.6
Chemicals . . .	19,54	4.4	8,25	8.4	27,79	5.1	29.7
Paper . . .	10,49	2.3	2,13	2.2	12,62	2.3	16.9
Vegetable Oil . . .	9,64	2.2	4,64	4.7	14,28	2.6	32.4
Matches . . .	2,80	0.6	12	0.1	2,92	0.5	4.1
Cement . . .	19,28	4.3	62	0.6	19,90	3.7	3.1
Tea Plantations . . .	21,49	4.8	2,66	2.7	24,15	4.4	11.0
Other Plantations (Coffee and rubber) . . .	4,86	1.1	13	0.1	4,99	0.9	2.6
Coal . . .	16,36	3.7	4,76	4.8	21,12	3.9	22.5
Electricity . . .	27,20	6.1	1,89	1.9	29,09	5.3	6.5
Shipping . . .	15,70	3.4	46	0.5	16,16	3.0	2.8
Others . . .	71,39	15.9	38,01	38.4	1,09,40	20.0	34.8
TOTAL . . .	4,47,08	100.0	98,88	100.0	5,45,96	100.0	18.1
<i>Non-manufacturing Industries</i>							
Transport and Communications (Other than Shipping) . . .	2,59	1.7	9,76	8.0	12,35	4.5	79.0
Trading . . .	34,97	23.2	53,70	44.0	88,67	32.5	60.6
Managing Agency . . .	11,29	7.5	24,00	19.8	35,29	12.9	68.0
Banks . . .	35,82	23.7	1,09	0.9	36,91	13.5	3.0
Insurance . . .	12,48	8.3	2	..	12,50	4.6	0.2
Investments . . .	18,99	12.6	7,69	6.4	26,68	9.8	28.8
Other Financial Companies . . .	4,16	2.8	4,12	3.4	8,28	3.0	49.8
Hotels . . .	2,22	1.5	59	0.5	2,81	1.0	21.5
Theatres, Motion Pictures & Films . . .	5,62	3.7	4,22	3.5	9,84	3.6	43.0
Miscellaneous . . .	22,59	15.0	16,90	13.5	39,49	14.6	42.8
TOTAL . . .	1,50,73	100.0	1,22,09	100.0	2,72,82	100.0	44.8
GRAND TOTAL . . .	5,97,81		2,20,97		8,18,78		27.0

Capital Formation and its Financing

14. Estimates of capital formation can be made for the economy as a whole or for any sector thereof either by measuring changes in fixed capital and stocks, or by estimating the funds used for financing capital formation; or by what may be called investment and savings methods respectively. In this study, the problem of capital formation in the industrial sector is approached from both angles. Changes in assets are studied and so also the sources of finance, both external and internal, available for assets formation. In order to get an adequate picture of the investment and its financing, the entire increase in the assets of business, including lendings, investments and cash, besides fixed assets and stocks, as also the whole increase in liabilities, including short-term liabilities, necessarily come under review. "Net capital formation is distinguished from gross capital formation in that it is measured after allowances are made for depreciation, obsolescence, and accidental damage to fixed capital. Conceptually, net capital formation represents the addition to fixed and working capital available for future production, i.e., net capital formation is obtained by deducting from gross capital formation the value of all durable goods used up in the production process. Even when an asset is replaced either because it is physically worn out or has become technologically obsolete, usually there is a certain addition to capacity for, with the rate of technical advance that is taking place, there is no replacement of like for like; thus, there is an improvement (net capital) element in replacement of plant and machinery which cannot be precisely ascertained and included in estimates of net capital formation. The adequacy or otherwise of depreciation allowances complicates estimates of net capital formation. The only practicable way to estimate net capital formation is by allowing for depreciation as provided for by industry itself, and practice in this respect varies widely. Gross capital formation in industry, which is easier to measure, is treated as equivalent to all additions of fixed assets, net increase in inventory (stocks of raw materials and finished goods and work-in-progress) and increase in investments, lendings, and cash (liquid assets). However, it is changes in the two items, fixed assets and inventories or stocks, that measure the investment aspect of capital formation. While the liabilities side of the balance sheet indicates the sources of funds, the assets side throws light on their uses in gross and net fixed assets, volume of inventories, etc.

15. Statement VI shows the resting account relating to 407 companies for the period 1946—51 derived from the assets and liabilities of these companies for 1946 and 1951 as shown in Statements IV and V. Statement VIII shows the assets and liabilities of 41 companies which were started subsequent to 1946; Statement VII which shows the resting account for 448 companies, is worked out from Statements VI and VIII. The analysis of capital formation during the period comprises capital formation in the older 407 companies common to 1946 and 1951 and in the new companies dispersed over the same group of industries.

Measurement of capital formation

Composition of gross capital formation: fixed assets formation and inventory accumulation

16. The following table gives a summary of capital formation during 1946—51 on the basis of the detailed position as set out in Statements IV, V, VI, VII and VIII.

TABLE 4.—Capital formation during 1946—51

(Crores of Rupees)

	Assets in	Assets in		Gross assets		(3) as per cent.	
	1946	1951		formation during		of (1)	
	1	2		3		4	
		A	B	A	B	A	B
Number of companies	407	407	448	407	448	407	448
Gross fixed assets	282	439	461	156	179	55	63
(Of which, plant and machinery)	(163)	(266)	(279)	(103)	(116)	63	71
(Depreciation)	(153)	(223)	(227)	(70)	(74)	46	48
(Net fixed assets)	(129)	(215)	(234)	(36)	(105)	67	81
Inventory	125	232	242	107	117	86	94
Receivables	49	87	90	38	41	78	84
Tax advances	10	23	24	12	13	130	130
Investments	42	30	30	—12	—12	—29	—29
Cash	24	41	45	17	21	71	88
TOTAL	533*	852*	892*	320	359	60	67

*Excluding E.P.T. deposits and 'other assets'. In compiling the resting account, refunds of E.P.T. deposits are taken as a source of funds instead of as a decline in assets. 'Other assets' refer to miscellaneous items which are not clearly defined in balance sheets and in respect of which no uniform procedure is adopted. Taking them to the liabilities side, in the resting account, the net change in other assets and other liabilities is shown on resources (sources of funds) side.

B—including 41 new companies started since 1946.

17. It will be seen that gross capital formation, including that on account of new companies, during the period 1946—51 amounted to Rs. 359 crores, of which additions to (gross) fixed assets account for Rs. 179 crores, and inventory accumulation for Rs. 117 crores; increase in lendings (receivables and tax advances) amount to Rs. 54 crores, and increase in investments and cash together to Rs. 9 crores. Gross fixed assets thus account for 50 per cent. of gross capital formation in these companies during the period. Of this, plant and machinery account for Rs. 116 crores, i.e., roughly two-thirds of gross fixed assets formation and a little less than one-third of gross capital formation. As gross fixed assets in 1946 amounted to Rs. 282 crores, the replacement or expansion during the period 1946-51 works out at 63 per cent. The order of expansion in real terms would, however, be smaller on account of price changes; this aspect is dealt with more fully in a subsequent section of this chapter where we discuss the data on fixed assets and depreciation on the basis of the Commission's questionnaire.

18. Inventory accumulation comprised one-third of total assets formation in the period. Besides, as the above table also shows, the rate of inventory accumulation was greater than the rate of fixed assets formation, being 94 per cent. as compared with 63 per cent. A comparative glance at columns A and B under 'gross assets formation' shows that in respect of new companies a slightly larger proportion of assets formation than in old companies was represented by fixed assets formation and a somewhat lower proportion by inventories. In looking for an explanation of the relatively high degree of inventory accumulation, it becomes useful to observe the year to year movements.

19. The following table shows the relative changes in fixed assets formation and inventory accumulation in respect of the whole period (1946-51) and in 1948-49 on the one hand and 1950-51 on the other. Appendix I gives a description of the assets and liabilities of 681 common companies in 1950 and 1951.

Table 5.—Capital formation in certain years

	(Crores of Rupees)		
	1946-51	1948-49	1950-51
Number of companies	(448)	(710)	(681)
Gross fixed assets formation	179	25	23
(Of which, plant and machinery)	(116)	(17)	(19)
Inventory accumulation	117	—6	54
Increase in lendings	54	6	24
Increase in investment	—12	—1	—1
Increase in monetary resources	21	—5	1
TOTAL	359	19	106

20. The table shows in respect of 681 companies an inventory accumulation of Rs. 54 crores in the course of the single year 1950-51, following the speculative upsurge that developed with the Korean war boom. In contrast, during 1948-49, in respect of 710 companies, there was a reduction in inventories of Rs. 6 crores associated with the subsidence of the inflationary wave that followed decontrol during 1948 and the balance of payments crisis and monetary squeeze preceding devaluation. Against the highly fluctuating behaviour of inventory formation during these years, fixed assets formation seems to have followed a steady course, as evidenced by the fact that during these very periods of 1948-49 and 1950-51 it amounted to Rs. 25 crores and Rs. 23 crores, respectively. Underlying the variations, a degree of permanent rise in inventories was only to be expected with the steady increase in industrial production during the post-war period.

21. Outstanding reserves do not indicate the available liquid resources for industry that could be drawn upon for replacement and other purposes, because all reserves would have been put to some business purpose or other. Taking the assets side, cash and near cash (i.e. investments and E.P.T. deposits) may be deemed to be liquid; in addition, receivables (bookdebts, advances against goods etc.) and

miscellaneous current assets may also be deemed to be liquid in varying degree. A large part of receivables is in the form of book debt. The major part of current assets represented by stock in hand (finished goods, raw materials and work-in-progress) is customarily regarded as 'working assets' and not as liquid assets. For 407 companies common between 1946 and 1951 (*i.e.*, excluding 41 new companies) the liquid resources position is indicated below:

TABLE 6.—*Liquid resources of 407 companies*

(Crores of Rupees)

	1946	1951
Receivables	49	87
Investments	42	30
E. P. T. deposits	35	4
Miscellaneous current assets	12	5
Cash	24	41
TOTAL	162	167

22. While the position would not seem to have altered as compared to 1946, on the basis of aggregate figures as above, the apparent addition to liquid resources in the somewhat larger cash reserves is much more than offset by the decline in investments and E.P.T. deposits; receivables, which also increased, are not of an equal degree of liquidity. The considerable rise in prices between the two years with consequent increase in working capital requirements as well as costs of replacements also affected the liquid resources position adversely. For a proper assessment of this position, the liabilities side has to be brought into the picture; in this connection the increase in borrowings (referred to later) may be noted, from Rs. 77 crores in 1946 to Rs. 161 crores in 1951; bank borrowings in the respective years stood at Rs. 23 crores and Rs. 67 crores.

23. We may now observe the relative growth in total assets, fixed assets and inventories industry-wise, for the period 1946—51. Here we come up against a certain difficulty in establishing a precise measure of expansion of the main classes of assets. If we confine the analysis of rate of increase in fixed assets or inventories to 407 companies which are common between 1946 and 1951, we get the degree of expansion in respect of *these* companies. What we are interested in, however, is primarily to ascertain the order of growth or expansion in the industrial sector as a whole, including new as well as old units, and, secondly, to observe the relative growth in assets in different important industries, so as to know the economic climate and general outlook for various industries, rather than to know the expansion in *older* concerns as such. We, therefore, present in the tables which follow, the increase in the main items of gross assets separately in respect of 407 companies and 448 companies (*i.e.*, including 41 new companies), in absolute figures as well as rates of increase in percentage terms. The rates of increase in terms of 448 companies in 1951 as

Growth of fixed assets and inventories industry-wise

compared to 407 companies in 1946 should be interpreted with caution. The new companies include 41 out of 60 of all new companies addressed and represent 76 per cent. (Rs. 21.5 crores out of Rs. 28.5 crores) of paid-up capital in respect of all new companies addressed, distributed as follows in relation to the number and paid-up capital of the old (407) companies:

TABLE 7.—*New companies addressed and those included in the analysis'*

(Amounts in lakhs of Rupees)

Industry	Number			Paid-up capital in 1951		
	Old companies	New companies addressed	New companies included	Old companies	New companies addressed	New companies included
Cotton Textiles .	91	10	5	45.83	5.42	3.14
Jute Textiles . .	42	..	..	21.60	..	..
Other Textiles (silk and woollen)	10	5	2	2.11	4.90	3.42
Iron and Steel .	3	..	..	19.00	..	..
Engineering . .	37	12	12	23.64	5.64	5.64
Sugar . . .	25	1	1	7.43	20	20
Chemicals . .	24	5	3	9.56	1.49	39
Paper . . .	7	..	..	4.51	..	..
Vegetable Oil .	4	2	2	1.57	56	56
Matches . . .	4	..	..	2.54	..	..
Cement . . .	5	4	3	14.37	2.80	2.48
Tea . . .	46	3	3	4.54	80	80
Other Plantations (coffee and rubber)	11	1	..	93	28	..
Coal . . .	16	2	1	5.65	30	20
Electricity . .	21	1	1	20.53	12	12
Shipping . . .	8	2	2	12.35	3.30	3.30
Other Manufacturing	53	12	6	27.27	2.66	1.29
TOTAL .	4.07	60	41	2,23.44	28.46	21.53

TABLE 8.—Increase in assets (gross) during 1946—51

(Amounts in lakhs of Rupees)

Industry	Number of companies		Plant and machinery		Total fixed assets		Inventory		Total assets	
	A	B	A	B	A	B	A	B	A	B
Cotton Textiles	91	96	22,81	25,58	30,17	34,01	32,72	35,10	58,03	64,74
Jute Textiles	42	42	13,14	13,14	12,20	12,20	10,78	10,78	28,77	28,77
Other Textiles (silk and woollen)	10	12	31	3,32	61	4,87	1,10	2,09	1,98	7,50
Iron & Steel	3	3	10,48	10,48	16,66	16,66	10,28	10,28	30,21	30,21
Engineering	37	49	8,38	10,39	16,32	21,28	12,11	16,31	28,17	39,54
Sugar	25	26	3,14	3,34	5,17	5,44	8,43	8,54	14,55	14,98
Chemicals	24	27	4,96	5,14	7,32	7,62	2,78	2,93	11,07	11,76
Paper	7	7	3,15	3,15	4,31	4,31	2,07	2,07	7,64	7,64
Vegetable Oil	4	6	82	1,41	1,29	2,21	1,27	1,70	2,32	3,90
Matches	4	4	23	23	59	59	1,45	1,45	1,48	1,48
Cement	5	8	5,15	6,95	7,89	11,30	2,07	2,95	14,26	19,11
Tea	46	49	99	109	3,37	4,28	1,36	1,60	5,72	7,14
Other Plantations (rubber and coffee)	11	11	2	2	14	14	14	14	44	44
Coal	16	17	3,72	3,78	6,54	6,76	1,46	1,48	10,36	10,64
Electricity	21	22	3,32	3,38	14,03	14,15	2,02	2,05	17,63	17,81
Shipping	8	10	17,75	19,46	16,50	18,23	—69	—69	17,86	23,11
Others	53	59	5,03	5,63	13,14	14,72	17,51	17,80	39,20	41,32
TOTAL	4,07	4,48	103,40	116,49	156,25	178,76	106,86	116,58	289,70	330,59

111

Columns marked A relate to 407 companies common to 1946 and 1951 and those marked B include the 41 new companies.

TABLE 9.—Increase in assets during 1946—51 as per cent. of 1946 assets

Industry	Number of companies		Plant & machinery (gross)		Total fixed assets (gross)		Inventory		Total assets (gross)	
	A	B	A	B	A	B	A	B	A	B
Cotton Textiles	91	96	53	59	45	51	67	72	34	38
Jute Textiles	42	42	72	72	31	31	53	53	37	37
Other Textiles (silk & woollen)	10	12	36	381	39	307	100	189	50	187
Iron and Steel	3	3	30	30	35	35	114	114	40	40
Engineering	37	49	137	170	135	176	117	158	69	96
Sugar	25	26	57	61	56	59	154	156	73	76
Chemicals	24	27	148	153	121	126	123	129	96	102
Paper	7	7	78	78	74	74	140	140	61	61
Vegetable Oil	4	6	140	242	107	182	76	102	56	94
Matches	4	4	25	25	34	34	159	159	26	26
Cement	5	8	76	103	67	97	42	60	60	81
Tea	46	49	154	168	72	92	68	81	66	82
Other Plantations (Coffee and rubber)	11	11	53	53	15	15	51	51	30	30
Coal	16	17	71	72	50	51	77	77	48	50
Electricity	21	22	38	38	55	55	270	275	55	56
Shipping	8	10	179	197	141	156	-50	-50	57	73
Other manufacturing	53	59	38	43	59	66	136	138	76	80
All Industries	407	448	63	71	55	63	85	93	49	56

A—407 companies common to 1946 and 1951.

B—448 companies including the 41 new companies started subsequently to 1946.

24. In 1951, the (448) companies included in the analysis represented 78 per cent of paid-up capital of all companies addressed; the corresponding proportion for 1946 is not known. In any case, even if the (407) companies included in 1946 represented about the same proportion in paid-up capital of all companies of the class (*viz.*, mostly Rs. 5 lakhs and above) as new companies included do of all new companies in the same class, the industry-wise distribution of old companies and new companies might not be uniform, so that the order of growth of assets might be overstated or under-

stated according as there was better response from (and, therefore, over-representation of) new companies relatively to old companies, or the contrary. In so far, however, as there is broad equivalence between the extent of representation of an industry in old and in new companies included, the rates of percentage increase would be roughly comparable. It will appear from tables 8 and 9, however, that the difference made by the inclusion of the new companies to the relative order of expansion in different industries is not of such magnitude as to vitiate to any marked extent the interpretation of relative trends in different industries; other data bearing on the position of individual industries have also been taken into account, wherever necessary, in the comment below.

25. In most of the older established industries the growth in fixed assets is not much greater when new companies are included; this would indicate that fixed assets formation in these industries was mainly in respect of the older units. Only engineering and cement in this group of industries show a marked degree of fixed assets formation attributable to new units also. On the other hand, the newer (and relatively less important) industries show larger fixed assets formation in respect of new units than the old; this is seen mainly under 'other textiles' and vegetable oil. Total assets formation also generally shows similar trends. Including new companies, the percentage increases in fixed assets reflecting growth in industrial capacity are relatively high in 'other textiles', vegetable oil, engineering, shipping, chemicals, cement and tea plantations, which show increases in all fixed assets or plant and machinery ranging from 307 per cent. to 92 per cent. (in money terms); in these industries (except for chemicals) the percentage increase in inventory was smaller than in fixed assets. In other industries, the growth in inventories was larger than in total fixed assets. These included some of the old established industries like cotton and jute, iron and steel, sugar, matches and paper. Of the gross fixed assets formation of Rs. 179 crores cotton and jute textiles, iron and steel, engineering and shipping account for Rs. 102 crores, the share of cotton textiles being Rs. 34 crores. The major part of inventory addition was in jute and cotton textiles, iron and steel, and engineering.

26. We have analysed above the main constituents of gross capital formation, in respect of 448 companies, as a whole as well as in respect of individual industries. On the basis of the ratio of paid-up capital in the companies included in the analysis to the total paid-up capital in respect of all companies, gross capital formation, in respect of total assets and main forms of assets, have been estimated, industry-wise, in respect of all public limited companies in the manufacturing sector. Industry-wise estimates are given in Statement IX; the estimates for the whole industrial sector in respect of public limited companies are given below:

	(Crores of Rupees)
Gross fixed assets	317
Of which, plant and machinery	(195)
Inventory	231
TOTAL (including other items of assets)	<u>671</u>

The gross capital formation during the five year period 1946—51 in the manufacturing sector for all public limited companies is estimated at Rs. 671 crores; the addition of Rs. 317 crores of fixed assets (gross) during the period works out to an annual rate of Rs. 63 crores.

✓ 27. The following table shows the sources of funds for the financing of capital formation for 448 (407 old and 41 new) companies between 1946 and 1951.

TABLE 10.—Sources of financing capital formation

(Crores of Rupees)

	Liabilities	Liabilities		Increase		(3) as per cent.	
	in 1946	in 1951				of (1)	
	1	2		3		4	
		A	B	A	B	A	B
Number of companies	407	407	448	407	448	407	448
Paid-up capital	159	223	245	64	86	40	54
General reserve	41	62	63	21	22	51	54
Depreciation reserve	153	223	227	70	74	46	48
Taxation reserve	50	49	50	—1	..	.	.
Development and other reserves	45	72	73	27	28	60	62
Borrowings (Of which, from banks)	77 (23)	162 (67)	172 (71)	85 (44)	95 (48)	110 (191)	123 (209)
TOTAL	533*	852*	892*	320	359	60	67

*Including 'other liabilities' (net).

B—Including new companies.

28. During the period 1946—51, for the 448 companies, additions to paid-up capital (Rs. 86 crores) and to borrowings (Rs. 95 crores) were the principal sources of funds for the financing of capital formation (*vide* Statements VI and VII): total paid-up capital increased from Rs. 159 crores to Rs. 245 crores, and borrowings rose from Rs. 77 crores to Rs. 172 crores. Of outstanding borrowings in 1951, Rs. 71 crores was from banks and the increase in bank borrowings during 1946—51 was Rs. 48 crores, or one-half of the total increase in borrowings. Mortgages and debentures account only for an increase of Rs. 15 crores to Rs. 30 crores in 1951. Savings of industry (*i.e.*, accretions to general, development and other reserves, adjusted for change in balance of profit carried forward) excluding capitalised reserves, provided funds to the extent of Rs. 46 crores; this was in addition to Rs. 74 crores of increase in depreciation reserves. E.P.T. refunds and 'movements in other current and non-current assets and liabilities' account for Rs. 31 crores and Rs. 29 crores, respectively.

29. Of the increase in paid-up capital, cotton textiles, engineering, electricity and shipping account for about one-half; the increase in borrowings is disproportionately large in the case of jute textiles and engineering. Of Rs. 31 crores of E.P.T. refunds, cotton textiles alone accounts for two-thirds.

30. The principal sources for the financing of expansion of industry or net investment in fixed assets are fresh equity capital and retained profits of industry. It is interesting to observe, on the basis of data furnished in response to the questionnaire, the relative contribution of these two sources towards industrial growth in the post-war years 1946—51.

Totals for 1946-51 (both years inclusive)

	492	438 (excluding 54 new companies)
	(Crores of Rupees)	
A. Fresh capital (<i>i.e.</i> , excluding capitalised reserves)	53·0	35·4
B. Internal finance (total retained profits)	69·3	68·6

It appears that corporate savings provided a larger source than new subscriptions, on the whole, in the financing of industrial expansion during the post-war period, including new companies: in respect of the older companies corporate savings were even more important. It also appears that a significant part of fresh capital went into new companies.

31. Total retained profits enter into capitalised reserves and contribute toward the building up of other reserves as well. Statement XI shows balances in general reserves and specific reserves of all industries together, on an annual basis. Total reserves (excluding depreciation and taxation) continually rose from Rs. 96 crores in 1946 to Rs. 141 crores in 1951; the annual increase in balance was the largest for 1951 at Rs. 15 crores. As at the end of 1951, roughly one-half of the amount was in general reserves and one-fifth in machinery renovation and development fund.

32. The largest increase among the principal means of financing took place in borrowing. This fact is occasionally referred to in current discussions of the changing financial structure of industry: the phenomenon has been observed in other countries as well. The increased importance of borrowings in 1951 as compared with 1946, however, has to be considered in the light of the changed pattern of assets, which included a larger proportion of inventory in 1951. The increased borrowing was, in fact, more than accounted for by the increase in inventories: against Rs. 117 crores increase in the latter, borrowings went up by Rs. 95 crores (of which Rs. 48 crores was from banks). It is highly interesting, however, to observe the changing pattern of financing with the vicissitudes of industry, as the following comparative table of sources and uses of funds, which are reproduced together for convenience, indicates (*vide* Statements VII, XII and XIII).

TABLE 11.—Sources and uses of funds

(Crores of Rupees)

	1946—51	1948-49	1950-51
Number of companies	(448)	(710)	(681)
<i>A—Uses of funds</i>			
Gross fixed assets formation (Of which, plant and machinery)	179 (116)	25 (17)	28 (19)
Inventory accumulation	117	—6	54
Increase in lendings	54	6	24
Increase in investments	—12	—1	—1
Increase in monetary resources	21	—5	1
TOTAL	359	19	106
<i>B—Sources of funds</i>			
Paid-up capital	86	11	9
Borrowings (Of which, from banks)	95 (48)	9 (6)	32 (19)
Depreciation	74	10	22
Savings	46	—10	32
E.P.T. refunds	30	..	3
Movement in other current and non-current assets and liabilities	28	—1	8
TOTAL	359	19	106

33. The overall structure of financing over the period 1946—51 has been dealt with above. The transition from 1948 to 1949 was a period of stress for industry, of lean earnings (as the profits analysis indicates later) and negative savings and liquidation of inventories; yet borrowings increased and partly helped to bridge the gap between gross fixed assets formation on the one hand and internal resources (including depreciation) and new subscriptions of capital on the other. In contrast, during 1951 as against 1950, industry had a good run of luck, as evidenced by the large addition of internal resources (Rs. 54 crores out of Rs. 106 crores as in the above table, not taking into account capitalised reserves) which was more than adequate to finance the gross fixed assets formation (Rs. 28 crores) and even went toward financing part of inventory accumulation. That fixed assets formation was, on the whole *not* dependent on borrowing is apparent from the fact that for 448 companies what may be termed as owned assets of industry increased by Rs. 206 crores* during the period 1946—51; gross fixed assets (of all classes) went up by Rs. 179 crores.

* This is the total of increase in paid-up capital and reserves including depreciation during 1946—51.

34. The replies to the questionnaire in respect of the 492 companies for which data have been tabulated throw more light on the various aspects of internal and external sources of funds, which may now be studied. The following table shows the increase in paid-up capital of these companies during 1946—51†. (Vide Statement XIV for annual increases in paid-up capital).

TABLE 12.—Increase in paid-up capital of 492 selected companies (all industries combined)

(Lakhs of Rupees)

	1946—51				
	New subscrip- tions	Capitalisa- tion of reserves	Total*	(1) as per cent. of (3)	(2) as per cent. of (3)
	1	2	3	4	5
(a) Ordinary shares . . .	4,103	3,831	8,212	50	47
(b) Preference shares . . .	1,164	265	1,439	81	18
(c) Deferred shares . . .	36	3	43	84	7
(d) TOTAL	5,303	4,099	9,694	55	42
(a) as per cent. of (d) . . .	77	94	85	..	..

*Including increases due to 'other considerations' (amounting to Rs. 292 lakhs).

New subscriptions accounted for Rs. 53 crores out of a total increase in paid-up capital of Rs. 97 crores during the six years 1946—51; the annual addition to paid-up capital was Rs. 16 crores, of which new issues work out to Rs. 9 crores; capitalised reserves (bonus issues) account for Rs. 41 crores, forming 42 per cent. of the increase in paid-up capital. Most of the bonus issues (94 per cent.) are in ordinary shares.

†The data for 1952 are available in respect of a smaller number of companies (*viz.*, 286) and are as follows:—

(Lakhs of Rupees)

	New subscriptions	Capitalisation of reserves	Total
(a) Ordinary shares	158	55	213
(b) Preference shares	—4	18	14
(c) Deferred shares . . . . .	..	..	..
TOTAL	154	73	227

35. The following table shows new subscriptions and capitalised Industry-wise increase in paid-up capital reserves, industry-wise, during 1946-51:—

TABLE 13.—Increase in paid-up capital of 492 companies during 1946-51

(Lakhs of Rupees)

Industry	Number of companies	Capitalised reserves	New subscriptions	Total*	Capitalised reserves as per cent. of total
					(2 as per cent. of 4)
	1	2	3	4	5
Cotton Textiles	96	1,986	486 (277)	2,530	79
Engineering	52	153	1,140 (664)	1,421	11
Cement	8	..	764 (246)	764	..
Electricity	22	91	542 (22)	643	14
Shipping	11	44	455 (300)	498	9
Jute Textiles	47	357	86 (—)	458	78
Tea Plantations	77	154	145 (92)	322	48
Sugar	26	246	54 (—)	315	78
Chemicals	30	32	270 (18)	312	10
Paper	7	135	87 (—)	221	67
Coal	17	98	98 (—)	196	50
Iron and Steel	3	..	174 (—)	174	..
Other Textiles	13	43	110 (17)	161	27
Matches	4	156	..	156	100
Vegetable Oil	7	29	82 (31)	111	26
Other Plantations	11	7	2 (—)	9	78
Others	61	567	809 (94)	1,402	40
All Industries	492	4,098	5,304 (1761)	9,693	42

*Including increase due to 'other considerations'. Figures in brackets indicate new subscriptions in respect of the 54 new companies.

36. The wide divergence in the reliance of different industries on new subscriptions and capitalised reserves is clearly brought out in the above table, with industries arranged in the descending order of increase in paid-up capital during the period under review: the ratio of capitalised reserves to total increases in paid-up capital may be noted. Cotton textiles, which had 17 per cent. of the paid-up capital of industry in 1946 accounted for 26 per cent. of the increase

in paid-up capital of industry during the six-year period, and nearly one-half of the bonus issues. Other industries which had significantly larger capitalised reserves than new subscriptions during the period were jute, sugar, matches (with no new subscriptions), paper and other plantations; in tea plantations and coal, capitalised reserves slightly exceeded or equalled new subscriptions. On the other hand, in engineering, cement, electricity, shipping, chemicals, iron and steel, other textiles and vegetable oil, the largest part of the increase in capital was met by new subscriptions. In several of these, fresh capital going into new companies represented a high proportion of total new subscriptions, notably in engineering, cement and shipping. The large measure of coincidence (with the exception of iron and steel) between the list of industries with high capitalised reserves and high inventory accumulations is noteworthy; equally noticeable is the broad equivalence between industries with high fixed assets formation and large (absolutely as well as relatively to bonus shares) new subscriptions. A main conclusion from the above analysis relates to the different structure of financing of some of the older industries earning good profits and able to rely on internal savings for expansion and replacement, and other industries, with a larger addition to the number of new concerns, having recourse to new equity capital for the purpose.

37. The following table gives for all companies together the increase in paid-up capital year by year for 1946—51; it also indicates the increase in respect of 286 companies for 1950—52.

TABLE 14.—Increase in paid-up capital during 1946—52

(Lakhs of Rupees)

	Reserves capitalised		New subscriptions		Total*
	492 companies	286 companies	492 companies	286 companies	492 companies
1946	2,96		15,35		18,94
1947	8,09		8,29		16,65
1948	13,89		10,03		24,82
1949	7,72		5,83		14,19
1950	5,69	3,92	7,82	258	13,34
1951	2,63	1,63	6,26	170	8,99
1952		82		144	

*Including increases due to 'other considerations'.

There was a steady decline in the increase of capital every year after 1948; bonus issues tapered down even more quickly from the peak-level of the decontrol year (1948). On the basis of the increase in paid-up capital for 1946—51 in respect of the 492 companies, additions to capital in the entire public limited companies sector of manufacturing industry may be placed roughly at an annual rate of

Rs. 29 crores; this gives an average annual growth of paid-up capital in industry of about 8.4 per cent., though as stated above, the increase became progressively smaller every year. The returns for 1952 as compared to the two earlier years in respect of 286 common companies bring out the continued decline in new issues during 1952 as well as the further sharp contraction in bonus shares in that year. The rate of increase in paid-up capital during 1946—51 for groups of companies classified according to size of paid-up capital is shown in Appendix IIA.

The allocation of profits

Gross profits in relation to gross sales and capital employed

38. Statement XV shows the profit and loss accounts of manufacturing industries during 1946—51. The main purpose of the Statement is to indicate the proportions between various items of income and expenditure during each of the years; year to year comparisons of figures are not valid throughout, but only for certain years, 1949 with 1948 and 1951 with 1950.

39. Profits may be expressed in relation to gross sales proceeds and total capital employed (i.e., including borrowings). Tables 15 and 16 at pages 121-22 show gross profits in these terms. Gross profits is defined to include managing agency commission, interest charges and provision for taxation also but excludes depreciation; the data are from balance sheet analysis. The average rate of 'profits' in relation to sales was as high as 17.3 per cent. in 1946, and fell to a low point of 7.3 per cent. in 1949, for all industries together. During 1950 and 1951, for a wider coverage of industries, the proportions were 9.6 and 10.2 per cent., respectively. There are wide divergences in the ratio of profits from one industry to another, in the first table as compared to the second table: these would result primarily from the rate of turnover of capital. Thus 'matches' has uniformly a much higher gross profit as percentage of capital employed than of sales; cement, on the other hand, has a much lower profit in terms of capital employed than in terms of sales. The individual characteristics of particular industries which determine the 'profit' ratios in Table 15 are not of such direct interest as the results of the more significant ratios in Table 16. The highest rate of profit to total capital employed is shown by match industry at an average of 24.2 per cent. for the period 1946—51, as against an average of 11.0 per cent. for all industries together; tea plantations come next with 16.1 per cent. and cotton textiles shows a rate of 13.4 per cent. For vegetable oil, chemicals, and shipping, this return is rather low.

Net profits in relation to net worth and paid-up capital

40. Table 17 at page 123 shows net profits (after tax) in relation to net worth (paid-up capital plus reserves*). This, perhaps, is the most appropriate index of profitability of industry as it gives the net return on shareholders' equity in business

*Excluding depreciation and taxation reserves.

TABLE 15.—Gross profits* as percentage of gross sales

Industry	1946	1948	1949	1950	1951
Number of companies	(407)	(710)	(710)	(681)	(681)
Cotton Textiles	16.7	16.5	8.0	7.6	9.0
Jute Textiles	15.7	8.2	1.2	8.7	7.6
Other Textiles (Silk & woollen)	17.5	14.6	6.1	16.1	†
Iron and steel	27.4	13.5	13.2	13.8	17.5
Engineering (including Electrical goods)	1.1	9.4	4.9	8.8	8.2
Sugar	10.7	14.6	6.5	9.2	12.1
Chemicals	12.3	8.8	6.6	8.5	7.9
Paper	22.0	11.7	10.7	16.2	19.6
Vegetable Oil	9.6	3.0	1.4	1.2	0.6
Matches	16.9	13.8	10.0	7.5	7.0
Cement	23.0	23.3	19.5	19.8	22.0
Tea Plantations	46.1	‡	‡	29.1	17.0
Other Plantations (Coffee & rubber)	45.2	‡	‡	36.4	42.0
Coal	20.9	‡	‡	9.9	7.9
Electricity	51.4	45.0	38.1	38.6	35.5
Shipping	38.8	‡	‡	5.0	15.5
Others	13.9	7.1	3.1	8.2	8.2
All Industries	17.3	12.9	7.3	9.6	10.2

*Gross profits include managing agency commission, interest charges and provision for taxation but exclude depreciation.

†Nil.

‡Not available.

TABLE 16.—Gross profits* as percentage of all total capital employed

Industry	1946	1948	1949	1950	1951
Number of companies	(407)	(710)	(710)	(681)	(681)
Cotton Textiles	18·3	21·1	10·4	8·3	11·8
Jute Textiles	18·4	12·5	1·9	12·0	13·4
Other Textiles (Silk and woollen)	11·3	11·2	5·1	14·7	†
Iron and Steel	15·8	8·5	10·0	10·4	13·5
Engineering (including Electrical goods)	0·7	7·1	3·3	5·8	6·5
Sugar	9·8	14·4	9·8	7·9	10·8
Chemicals	8·1	5·0	3·6	5·1	5·4
Paper	19·7	8·4	7·1	11·3	13·8
Vegetable Oil	19·2	4·0	2·3	1·9	1·0
Matches	34·1	33·3	24·2	17·2	16·3
Cement	9·8	11·0	9·8	11·3	14·7
Tea Plantations	19·9	†	†	18·4	11·9
Other Plantations (Coffee and rubber)	10·0	†	†	14·0	16·4
Coal	12·4	†	†	8·8	8·0
Electricity	11·3	10·4	9·4	8·4	8·0
Shipping	11·3	†	†	2·5	8·2
Others	13·0	5·2	1·9	7·7	8·8
All Industries	14·4	14·5	8·1	8·8	10·6

*Gross profits include managing agency commission, interest charges, and provision for taxation but exclude depreciation.

†Not available.

‡Nil.

each year. Matches, tea plantations, paper, iron and steel and cotton textiles show relatively high rates of profit during the period 1946—51, the average return for all industries for the period being 8.7 per cent; shipping, chemicals and engineering show particularly low figures. A year to year comparison of trends in various industries shows large fluctuations in profit-earning capacity of industries during the period under review; the rates were generally high in 1946 and 1951 and low in 1949. The steep decline in 1949 was mainly due to jute and cotton textiles; the former showed a loss during the year. The net yield in relation to shareholders' equity in business would seem to have been satisfactory over the period as a whole; income-tax is deducted at source at 4 annas in the rupee (even at a higher rate in some years); grossing up for tax paid at company level on behalf of shareholders, the yield on net worth, including that for new industry, works out to 11.6 per cent. for the period 1946—51. Appendix II B shows profits after tax in relation to net worth in 1951 for companies in different paid-up capital size groups.

TABLE 17.—*Net profits as percentage of net worth*

Industry		1946	1947	1948	1949	1950	1951	1946— 51 Average
Cotton Textiles	(96)	13.1	10.7	17.7	5.6	7.1	10.5	10.6
Jute Textiles	(47)	11.3	9.9	8.3	*	10.4	10.9	8.0
Other Textiles (Silk & Woollen)	(13)	12.3	15.5	9.0	3.6	7.6	4.4	8.2
Iron and Steel	(3)	14.1	9.4	8.0	11.2	11.8	15.0	11.7
Engineering	(52)	3.3	4.4	3.3	3.5	3.2	3.9	3.6
Sugar	(26)	7.5	9.4	15.1	5.4	7.6	11.0	9.3
Chemicals	(30)	4.3	4.1	1.1	2.4	3.8	3.8	3.2
Paper	(7)	13.3	8.0	9.6	10.0	13.0	15.6	11.9
Vegetable Oil	(7)	11.6	9.5	7.4	6.5	3.6	*	6.0
Matches	(4)	26.1	17.2	15.5	17.2	13.5	12.4	16.5
Cement	(8)	7.0	4.3	6.1	7.8	11.0	14.8	8.8
Tea Plantations	(77)	17.4	20.5	11.4	12.0	17.9	10.4	14.5
Other Plantations (Coffee & rubber)	(11)	9.2	6.3	7.8	9.1	12.0	15.3	10.0
Coal	(17)	9.9	8.4	8.3	11.8	9.3	8.2	9.3
Electricity	(22)	7.8	8.5	9.0	8.9	8.1	8.1	8.4
Shipping	(11)	7.8	*	*	*	1.3	8.9	2.4
Others	(61)	9.1	8.0	8.2	8.5	10.6	10.6	9.3
All Industries	(492)	10.4	8.4	9.5	5.7	8.3	10.0	8.7

Based on questionnaire data ; figures in brackets indicate the number of companies in 1951.

*Loss.

41. Statement XVI shows net profits each year as per cent. of paid-up capital in that year, excluding reserves capitalised from 1946 onwards; the match industry is far and away at the top of the entire industrial group; the annual average return on paid-up capital during the six-year period 1946—51 was 49 per cent. Cotton textile shows the next highest rate of return during the period, the two outstanding industries after that being paper and tea plantations; chemical and engineering remain at the bottom of the list, while the position of shipping is not clear. The average return for all industries on paid-up capital was 16.6 per cent. in 1946, 18.8 per cent. in 1951 and 15.2 per cent. for the period 1946—51.

42. Statement XVII shows distributed profits each year as per cent. of paid-up capital, including bonus shares i.e., full paid-up capital.

43. Table 18 at page 125 gives the allocation of profits before tax (for the 492 companies) during each of the six years 1946—51; profits here exclude depreciation and managing agency commission. Provision for taxation accounted for 43 per cent. of profits before tax and the distributed portion of the profits accounted for 34 per cent. for the whole period. Retained profits (excluding depreciation) formed 22 per cent. of profits before tax, for all industries taken together. The ratio between taxes, dividends and retained profits over the period as a whole may roughly be given as 4:3:2. It will be seen that the proportion of tax to profits shows a significant drop during the period, owing to tax reductions made from time to time.

44. The relative movements of distributed and retained profits over these years are a highly interesting study in the response of managements to changes in the general economic condition of industry. Profits (before tax), a comprehensive indicator of economic condition, show a drop in 1947 from the fairly high levels of 1946, a dramatic rise in 1948 (the year after decontrol) followed by a severe setback in 1949 and a continued and substantial uptrend in 1950 and 1951 followed by a setback in 1952. A glance at the relative figures of distributed and retained profits indicate that there is a clear tendency to keep distributed profits steady or rising in absolute terms, so that the impact of any adverse turn in business conditions, as in 1949 and 1952 (and partly even in 1947) falls with disproportionate weight on retained profits. Thus, from 1948 to 1949 profits (before tax) declined from Rs. 58 crores to Rs. 34 crores; dividends were maintained at Rs. 15 crores, while retained profits were cut from Rs. 16.3 crores to Rs. 4.2 crores. The same story seems to have been repeated in 1952 also, though absolute figures are not comparable. In relative terms, distributed profits increased in 1949 to 44 per cent. from 26 per cent. in 1948 and again to 44 per cent. in 1952 from 32 per cent. in 1951; retained profits correspondingly dropped from approximate parity with the percentage of distributed profits in 1948 and 1951 to much lower levels in 1949 and 1952.

45. The returns for 1952 are available only for a smaller number of companies; the trend of profits in 1952 may be indicated if the figures for the same companies are observed for earlier years. A

TABLE 13.—Profits before tax for 492 selected companies and their disposal

(Amounts in lakhs of Rupees)

Year	Profits before tax	Provision for taxation	(2) as per cent. of (1)	Profits after tax	Profits distributed	(5) as per cent. of (1)	Net transfers to reserves	Bonus payments	Net increase in balances carried forward	Retained profits (7+9)	(10) as per cent. of (1)
	1	2	3	4	5	6	7	8	9	10	11
1946 . .	55,68	27,88	50	27,80	15,51	28	9,67	1,51	1,11	10,78	19
1947 . .	45,43	21,03	46	24,40	15,11	33	8,29	74	26	8,55	19
1948 . .	58,10	26,80	46	31,30	15,28	26	16,33	31	—62	1571	27
1949 . .	34,32	14,73	43	19,59	15,08	44	6,59	31	—2,39	4,20	12
1950 . .	48,92	18,55	38	30,37	17,89	37	11,95	36	17	12,12	25
1951 . .	64,28	25,26	39	39,02	20,62	32	16,71	48	1,22	17,93	28
TOTAL 1946—51	306,73	134,25	44	172,48	99,49	32	69,54	371	—25	69,29	23
(1952) (256 companies only)	(28,74)	(10,11)	(35)	(18,63)	(12,74)	(44)	(803)	(38)	—(2,52)	(5,51)	(19)

comparison on this basis shows that profits after tax of 256 selected companies increased from Rs. 20 crores in 1950 to Rs. 27 crores in 1951 but declined to Rs. 19 crores in 1952. While profits after tax were somewhat less in 1952 than in 1950, dividends were slightly higher at Rs. 12·7 crores in 1952, as compared to Rs. 12·2 crores in 1950.

46. Statements XVIII to XXIII show profits after tax for each of the selected industries for the period 1946—51, and the manner in which they were used. The consolidated position for the period 1946—51 is shown in Statement XXIV; figures for 1952 which relate to 256 companies only are shown separately in Statement XXV. The annual average of net profits available for distribution after tax amounted to Rs. 29 crores, of which the amount distributed was Rs. 16·5 crores or 58 per cent. for the period 1946—51. Retained profits amounted to Rs. 11·5 crores on an average, or 40 per cent. During the period as a whole the industries which distributed a significantly larger than average proportion of profits and accordingly retained appreciably less than the average percentage of profits included jute textiles, electricity, shipping, and tea and other plantations. On the other hand, matches, paper and cotton textiles had noticeably higher than average ratios of retained profits; all these industries, it will be recalled are included among those which had a high degree of capitalisation of reserves. Of the distributed profits, a quarter was in the cotton textile industry, and another quarter in jute and iron and steel industries. Thus, these three industries, having a net worth of 40 per cent. of the total for all industries (as in 1951), accounted for one-half of distributed profits.

47. Taking all industries together, profits after tax declined from Rs. 27·8 crores in 1946 to Rs. 24·4 crores in 1947 but distributed portion remained almost the same, showing an increase in the proportion distributed from 56 per cent. to 62 per cent. Profits improved substantially in 1948 to 31·3 crores but distributed profits remained almost unchanged and there was a substantial addition to reserves, so that the proportion of profits distributed declined from 62 per cent. in 1947 to 49 per cent. in 1948 and the share of retained profits increased markedly from 35 per cent. to 50 per cent. As stated earlier, 1949 was a bad year when profits after tax amounted to only Rs. 19·6 crores; as distributed profits remained at Rs. 15 crores, the share of retained profits (Rs. 4·2 crores) was only 22 per cent. With a substantial rise in profits to Rs. 30·4 crores in 1950, the retained profits increased to Rs. 12·1 crores or 40 per cent. The rising trend of profits was maintained in 1951; in that year, of net profits after tax of Rs. 39·0 crores, Rs. 20·6 crores was distributed and 17·9 crores was retained (53 per cent. and 46 per cent. respectively). Profits touched a low point in 1952; mainly on account of the recession in textiles and a temporary crisis in tea. The position in regard to retained profits would seem to have deteriorated in 1952. Retained profits formed less than 30 per cent. in 1952 and dividends were 68 per cent. of total profits after tax, mainly because cotton, jute and other textile industries distributed even more than their entire profits after tax by drawing upon reserves, so that retained profits were negative. This factor more than offset the high rate of profits retained in iron and steel, paper, matches, etc.

48. The figures in the foregoing paragraphs indicate that the amount of retained profits and its proportion to profits are influenced more by the volume and rate of profit than by the volume and rate of taxation; profit is, of course, also the more variable factor.

49. It may be of interest to refer briefly at this point to industrial profits before the War. For 372 common companies in 1938 and 1939, in 17 groups of industries, profits after tax amounted to Rs. 8.7 crores in 1938 and Rs. 11.1 crores in 1939. For all industries together, profits after tax amounted to 8.9 per cent. of paid-up capital in 1938 and 11.4 per cent. in 1939. As against this, it may be recalled that during the period 1946—51 to which our survey related, the average profits amounted to 15.2 per cent. of paid-up capital for all industries together. As regards retained profits, its proportion to profits after tax came to 37 and 21 per cent., respectively, in 1938 and 1939 as against 40 per cent. for the years 1946—51. The rise in the percentage of retained profits is related to the rise in the rate of profit and goes to confirm the conclusion just noted above that retention of profit is determined more by the volume and rate of profit than by the volume and rate of taxation.

50. Statement XXVI shows the remuneration paid to managing agents expressed as per cent. of profits before tax plus this remuneration*; all forms of remuneration to managing agents and remuneration to managing directors also are included. The average remuneration works out to nearly 14 per cent. of profits for the entire period 1946—51. In certain industries this proportion is much higher especially in jute; the high ratio in shipping is associated with very low profits of this industry. During the period 1946—51, this ratio rose from 12 per cent. to 14 per cent. for all industries together. The following table gives the amounts received by managing agents, dividends distributed and profits retained in business in 1946 and 1951 and their respective shares in profits before tax plus managing agents' remuneration. Managing agents received about one-half of what accrued to shareholders in dividends. While such levels of remuneration to managing agents affect both distributed and undistributed profits, the impact on the latter is likely to be more important.

TABLE 19.—Profits and managing agents' remuneration

	(Lakhs of Rupees)	
	1946	1951
Managing agents' remuneration	7,31	10,14
Tax	27,88	25,26
Distributed profits	15,51	20,62
Retained profits	10,78	17,93
TOTAL	61,48	73,94

*Remuneration to managing agents is available only for the questionnaire sample of 492 companies, but, as changes in respect of borrowings of these companies are not available, gross profit as defined in para. 39, could not be taken in account. It will be inappropriate to express managing agents' remuneration in relation to profits before tax as it is not part of the latter; hence the expedient of profits before tax plus managing agents remuneration.

The problem of replacement

51. Statements XXVII and XXVIII show the depreciation provision made by manufacturing companies as compared to depreciation allowed by the Income-tax Department, industry-wise and for each year. These data were available only in respect of 332 companies, as income-tax assessment had not been completed for the others. It will be seen that in many industries the depreciation allowed for income-tax purposes is substantially higher than what is actually provided for by the companies. In the aggregate the income-tax allowance is about $1\frac{1}{2}$ times the actual provision. The shortfall in actual provision is mainly in respect of depreciation provided for assets acquired in or after 1946, for which the allowance made by the Income-tax Department is $1\frac{3}{4}$ times the actual provision made by the companies. In almost all important industries in respect of assets acquired prior to 1946, the difference, if any, between actual provision and allowance made for tax purposes is small; in respect of assets acquired after 1946, the deficiency is spread over all industries, though there are important variations as the percentage figures indicate. Initial depreciation allowances in respect of the new assets amount to Rs. 20 crores; this amount does not include initial depreciation allowed for some of the 332 companies for a few years for which tax assessment was not yet completed. The total deficiency in actual provision by way of depreciation in respect of assets acquired in or after 1946 is Rs. 27.5 crores.

52. Among the 332 companies referred to above, there are 39 companies which were started in or after 1946. Of the total of Rs. 84 crores allowed for tax purposes, new companies included here account only for Rs. 7 crores against which the depreciation provision made by them is Rs. 3 crores. Thus, the shortfall in depreciation provision made by older companies below what is allowed by the Income-tax Department is Rs. 23.5 crores.

53. The following table shows the original cost of assets (a) acquired prior to 1946 and (b) acquired subsequently and in use in 1951 (for 492 companies).

54. The original cost of plant and machinery purchased prior to 1946 and in use in 1951 is Rs. 146 crores for all industries together. Adding the corresponding figure for 'other fixed assets' (excluding land and buildings), the original cost of assets acquired before 1946 and in use in 1951 comes to Rs. 171 crores. On the assumption of an average life of 20 years, all pre-1946 assets, including those acquired during the war, may be considered to be due for replacement in 15 years from 1951, and such of them as have not been replaced in the three years that have elapsed since, in 12 years from now. Figures of imports of machinery since 1935-36 (Statement XXIX) indicate that, in terms of value, imports during the War did not shrink appreciably, though in real terms there would have been a marked contraction: inasmuch as the preponderant part of pre-1946 assets would be pre-war assets, there would be a concentration of replacement requirements during the earlier part of the period indicated above. Some of the new assets acquired during 1946-51 may be substitutes for the old assets which were worn-out but were still retained in 1951 under conditions of sellers' market. This aspect of the problem is, however, ignored in the estimates and it is assumed

TABLE 20.—Original cost of assets of 492 companies, in use in 1951

(Lakhs of Rupees)

Industry	Assets acquired prior to 1946				Assets acquired in or after 1946				8 as per cent. of 4
	Factory and non-factory buildings	Plant and machinery	Others	Total	Factory and non-factory buildings	Plant and machinery	Others	Total	
	1	2	3	4	5	6	7	8	
Cotton Textiles (96)	15,57	36,47	93	52,95	6,96	23,41	1,17	31,55	59.6
Jute Textiles (47)	16,05	24,56	2,24	42,84	1,59	5,80	1,21	8,60	20.1
Other Textiles (13)	46	94	8	1,48	1,27	3,74	47	5,48	370.3
Iron and Steel (3)	9,45	30,92	2,21	42,58	3,67	12,91	1,41	17,99	42.2
Engineering (52)	3,09	4,43	50	8,03	7,89	10,75	3,36	22,00	274.0
Sugar (26)	2,01	5,61	87	8,50	1,99	4,65	1,00	7,64	89.9
Chemicals (30)	1,87	3,69	40	5,97	1,84	5,04	68	7,56	126.6
Paper (7)	1,05	3,30	47	4,81	1,18	3,69	31	5,18	107.7
Vegetable Oil (7)	37	53	10	1,00	64	1,40	19	2,22	222.0
Matches (4)	52	79	18	1,48	21	35	20	76	51.4
Cement (8)	2,21	5,96	1,04	9,21	3,53	8,53	2,07	14,13	153.4
Tea (77)	1,64	1,23	17	3,03	2,47	1,75	37	4,60	151.8
Other Plantations (11)	8	3	1	12	6	2	2	10	83.3
Coal (17)	1,77	4,24	2,20	8,21	2,53	4,95	1,31	8,79	107.1
Electricity (22)	1,78	10,29	11,07	23,15	1,62	8,00	6,16	15,79	68.2
Shipping (11)	1,07	2,93	68	4,68	1,36	14,73	7,13	23,22	496.2
Others (61)	4,92	10,33	1,31	16,56	7,67	13,90	1,80	23,37	141.1
TOTAL (492)	63,91	146,25	24,46	234,60	46,48	123,62	28,86	198,98	84.8

Figures in brackets indicate number of companies in 1951.

that all plant and machinery and 'other fixed assets' acquired before 1946 and in use in 1951 are to be replaced: *these in any case represent the maximum due for replacement.* Export prices of engineering goods from U.K. show an increase of about 150 per cent. for the period 1947—53 over 1938*. Of Indian imports of machinery, about 60 per cent. are from U.K. and the remaining imports are distributed among various countries, U. S. accounting for less than 20 per cent. We may, therefore, take the U.K. export index to indicate roughly the increase in prices of plant and machinery imports into India. Since the old assets are to be replaced over a period of years, and the total of such assets includes those installed during the War, which would have been purchased at prices higher than pre-war, the replacement costs of plant and machinery may be assumed to show an average increase of 140 per cent. over the original value of assets to be replaced. The replacement costs of depreciable fixed assets acquired before 1946 and in use in 1951 would then be Rs. 410 crores.

55. As and when these assets come to be replaced, total depreciation and obsolescence and other allowances accumulated in respect thereof would aggregate to Rs. 170 crores (original cost). The balance of cost involved in replacement of these assets would be of the order of Rs. 240 crores (Rs. 410 crores minus Rs. 170 crores). It may be urged against this assumption that the problem should be looked at from the ways and means angle as depreciation provision accumulated so far would have been already utilised for business purposes and would not be available specifically for replacing these assets. That, however, only serves to bring out the fact that industry has also another problem *viz.*, of increased working capital requirements. This is a separate question, though the fact that it exists has a bearing on the availability of industry's other owned resources (reserves etc.) for meeting replacements. It might also have a bearing on the better use of the banking system for the purpose of obtaining working capital. On the basis of a figure of Rs. 240 crores (as of 1951) for the companies included in the enquiry, for all public limited companies in the manufacturing sector the estimate would be Rs. 420 crores, or Rs. 28 crores annually for 15 years as from 1951. No accurate information is available regarding the order of replacement that would have taken place in 1952, 1953 and 1954. As noted above, the gross fixed assets formation (including expansion as well as replacement) during 1946—51 was of the order of Rs. 63 crores; fixed assets formation also appears to have maintained a steady trend generally. If, as is likely, replacement during the three years since 1951 has been of the order of Rs. 28 crores over the whole sector of public limited companies, the magnitude of the problem in terms of the annual amount of replacement required for the next 12 years would approximately be the same, as mentioned earlier, it is probable that the replacement requirements during the earlier part of this period are heavier.

*The base for the Board of Trade index has been changed from time to time. Converted to 1938 as base, roughly the indices are 222 for 1947—50, 248 for 1947—53 and 270 for 1950—53. In the publication 'International Trade: 1952' much lower increases in prices of exports of capital goods are shown. The index numbers for 1951 with 1938 as base are 180 for U.S.A., 151 for U.K., 184 for Continental Europe and 338 for Japan, with an average for all countries of 180. It is stated, however, that these estimates are 'extremely tentative'.

56. The problem has been viewed so far in over-all, average terms, but as would be readily apparent and as the preceding analysis will have served to make clear, the nature and magnitude of the problem would differ from one industry to another. A glance at the last column in Table 20 giving the percentages of new (post-1946) assets to old (pre-1946) assets will show that in respect of the following industries, in money terms, replacement and expansion was larger than the original value of old assets, and in some instances much larger, so that, at any rate, in some industries which have made considerable progress in post-war years, replacement would hardly be a significant problem; these industries are 'other textiles', engineering, chemicals, paper, vegetable oils, cement, tea, coal and shipping. In one or two others like matches, too, it is known that the picture in terms of figures for the whole industry is not a true index of the state of affairs there. This limits the problem of replacement to a very few of the older industries like cotton and jute textiles and iron and steel, of which the last is subject to a special dispensation. Here again, apart from the general phase of prosperity through which the industries have been passing and the fairly high *overall* rates of profits reflected in large capitalised reserves as well as distributed profits, the problem would vary in intensity from unit to unit and is likely, in fact, to be limited to some units rather than be common to all or most units. The conditions of a strong sellers' market for a number of years, particularly in respect of the cotton textile industry, were not favourable to replacements, even where financing was not a serious problem.

57. That the problem varies greatly in terms of units and cannot be said to be a problem which is general to whole industries is clearly indicated by such analysis of the frequency distribution of companies according to increase in gross fixed assets, reserves capitalised and increase in paid-up capital through new subscriptions during the period 1946—51, as we have been able to make.

Finances of Private Limited Companies

58. In order to examine the financial position of private limited companies with special regard to profits allocation and capital formation, the Income-tax Department was requested to furnish information regarding *all* the companies assessed to tax in a questionnaire form. The information supplied is for 4,589 companies. It relates to the four years preceding the assessment year 1949-50 and may be taken to pertain, to the four financial years 1945-46 to 1948-49. Appendix III gives the classification and distribution of the 4,589 companies according to nature of business and paid-up capital and shows the pattern of ownership of these companies.

59. For detailed analysis of the data relating to capital formation and allocation of profits, a sample of 500 companies was selected, which included both manufacturing and non-manufacturing industries. All companies (manufacturing and non-manufacturing) with paid-up capital above Rs. 5 lakhs were included in the sample. Of manufacturing companies, those with paid-up capital of less than Rs. 1 lakh were excluded. Of those with paid-up capital of Rs. 1

lakh to Rs. 5 lakhs, one-third were selected on a random sampling basis*. Thus, data for 362 manufacturing companies accounting for 71 per cent. of paid-up capital in the manufacturing sector among private limited companies are tabulated. Including the 138 larger non-manufacturing companies also, the selected sample of 500 companies accounts for 63 per cent. of private limited companies by paid-up capital (*vide* Statement XXX).

60. The paid-up capital of the 500 selected private limited companies amounted to Rs. 72 crores, comprising Rs. 38 crores in companies classed as manufacturing and Rs. 34 crores in non-manufacturing companies. These figures relate to the year preceding the assessment year 1949-50 and would more or less represent the position as at the end of 1948. In the manufacturing sector, the paid-up capital of iron and steel and engineering works account for about 10 crores, or more than a quarter of the total for all manufacturing private limited companies. Managing agencies and investment companies accounted for more than half the paid-up capital in the non-manufacturing sector. This supports other evidence of a large measure of inter-locking of private limited companies (*vide* Statement XXX).

61. Statement XXXI shows gross fixed assets of the 500 companies during the four years preceding the assessment year 1949-50. In 1948-49, gross fixed assets of manufacturing companies stood at Rs. 32 crores and of non-manufacturing companies at Rs. 10 crores. Thus gross fixed assets are less than paid-up capital, even in manufacturing companies, contrary to the experience in respect of public limited companies, where gross fixed assets are invariably larger; this is true of important individual industries also, as shown below. This indicates that manufacturing is often not the major business of concerns classed as manufacturing.

TABLE 21.—Gross fixed assets as per cent. of paid-up capital

Industry	Public limited	Private limited
Number of companies and year	(681 for 1951)	(362 for 1948-49)
Cotton Textiles	204	77
Jute Textiles	242	101
Iron and Steel and Engineering	203	85
Tea Plantations	163	148
Coal	341	110
Electricity	192	82
<i>All industries</i>	<i>188</i>	<i>82</i>

*The companies were divided into industrial groups and a certain number in proportion to the paid-up capital of the companies falling in each group was selected.

Investments of the 500 companies in Government securities are small, at Rs. 6 crores, as against Rs. 36 crores in other companies and Rs. 21 crores in loans, deposits and advances (Statement XXXII). Investments in shares alone form 82 per cent. of total investments in shares and debentures of and loans to other companies. On the other hand, in public limited companies half the investments are in Government and semi-government securities, and investments in industrial concerns constitute a negligible proportion of total assets. The investments of manufacturing companies in the year preceding the assessment year 1949-50 aggregated to Rs. 17 crores, as compared to their gross fixed assets of Rs. 32 crores; many of the private limited 'manufacturing' companies would thus also seem to be engaging themselves in financing activity.

62. The data available in respect of private limited companies do not enable us to make estimates of gross capital formation and net capital formation on the lines on which figures were worked out for public limited companies. Only data on gross fixed assets and investments are available. Gross fixed assets formation in manufacturing industries during the three years preceding the assessment year 1949-50 amounted to Rs. 12.1 crores, of which 'plant and machinery' constituted Rs. 6.4 crores.

TABLE 22.—*Gross fixed assets formation of 362 manufacturing private limited companies during the three years preceding the assessment year 1949-50*

(Lakhs of Rupees)

Industry	Plant and machinery (Gross)	Total fixed assets (Gross)
Cotton Textiles	87	1.30
Jute Textiles	32	60
Other Textiles	48	77
Iron and Steel and Engineering	1.05	1.67
Sugar	28	53
Chemicals	18	39
Paper	1	1
Tea Plantations	9	13
Coal	16	31
Electricity	11	14
Shipping	6	25
Others	2.76	5.95
TOTAL	6.37	12.05

Thus, (gross) assets formation in the (362) private limited companies forms only a small fraction of capital formation in the entire private sector of manufacturing industry; fixed assets formation in the 448 public limited companies during the five post-war years (1946-51) had been estimated at Rs. 179 crores, of which 'plant and machinery' constituted Rs. 116 crores.

63. In the manufacturing sector of the private limited companies, the accretion to investments during the three years amounted to Rs. 6.1 crores and in the non-manufacturing sector Rs. 7.8 crores (1946-51) had been estimated at Rs. 179 crores, of which 'plant and laneous industries account for about three-fourths of the increase in investments in the manufacturing sector, and investment companies account for nearly two-thirds of the increase in the non-manufacturing sector.

64. The following table shows the principle sources of finance during the three years in the manufacturing sector (*vide* Statement XXXIII).

TABLE 23.—Sources of capital formation

(Crores of Rupee)

		(Crores of Rupee)
<i>External</i>		
New subscriptions of paid-up capital	. . . . .	11.6
Increase in debentures	. . . . .	0.1
Increase in borrowings from banks	. . . . .	9.9
Increase in borrowings from shareholders	. . . . .	3.8
Increase in other borrowings	. . . . .	5.0
		30.3
<i>Internal</i>		
Depreciation	. . . . .	5.0
Retained profits	. . . . .	5.9
		10.9
TOTAL (internal and external)		41.2

New subscriptions of paid-up capital amounted to Rs. 11.6 crores out of the total resources of Rs. 41.2 crores for all companies together. Borrowings account for Rs. 18.6 crores, half of which are from banks. Borrowing from shareholders is also appreciable, at Rs. 3.8 crores. Retained profits are substantially smaller as compared to other sources of finance. The increases in paid-up capital (including bonus issues) in a few important industries are given below, together with figures relating to reserves capitalised during the three years preceding the assessment year 1949-50.

TABLE 24.—Increase in paid-up capital

(Lakhs of Rupees)

	Increase in paid-up capital during the three years preceding the assessment year 1949-50	Of which, bonus shares
Cotton Textiles	1,85	20
Jute Textiles	44	..
Chemicals	41	23
Iron and Steel and Engineering	3,42	2,02
Sugar	48	20
All Manufacturing	15,34	3,81
All Non-manufacturing	4,39	70
TOTAL	19,73	4,51

65. While about 40 per cent. of the total increase in paid-up capital of public limited companies in the three years 1946—48 was accounted for by capitalisation of reserves, in the case of private limited companies bonus issues comprised less than one-fourth of the total increase. As mentioned earlier, unlike in public limited companies, internal sources play a less significant role in the finances of private limited companies.

66. Statement XXXIV gives details of the allocation of net profits after tax for each year, group-wise, under manufacturing and non-manufacturing separately. Taking the four years together, profits after tax of manufacturing concerns amounted to Rs. 17.9 crores, of which Rs. 10.2 crores (or 57 per cent.) was distributed in dividends and Rs. 7.7 crores (or 43 per cent.) was retained in business. Profits after tax of manufacturing concerns increased after 1946-47; the proportion of distributed profits also increased from 51 per cent. to 62 per cent. The allocation of profits after tax in the non-manufacturing sector has varied widely from year to year.

67. During the four years preceding the assessment year 1949-50, total depreciation provision made by the companies amounts to Rs. 576 lakhs, as against Rs. 568 lakhs allowed by the income-tax Department.

TABLE 25.—Depreciation provision

(Crores of Rupees)

For the year preceding the assessment year	Provided by companies	Allowed by the Income-tax Department
1946-47	0.81	0.88
1947-48	1.38	1.32
1948-49	1.48	1.54
1949-50	2.09	1.94
TOTAL	5.76	5.68

Total provision for the four years is almost equal to the amount allowed for tax purposes. Total gross fixed assets of these companies were only Rs. 20 crores, (for the year preceding the assessment year 1946-47) of which plant and machinery accounted for only Rs. 10 crores, land and buildings for Rs. 8 crores and other fixed assets for Rs. 2 crores. During the three years preceding the assessment year 1949-50, there has been a substantial rate of increase in gross assets of 17 per cent. per annum and, in particular, in plant and machinery of 18 per cent. per annum. The pre-war machinery and other fixed assets due for replacement in the next few years would, therefore, be comparatively less significant than in respect of public limited companies.

Investment and saving in the economy

68. It has been stated above that for a study of the trends in capital formation our survey has been restricted to the corporate industrial sector, partly for reasons related to fundamental difficulties in extending detailed investigation to other fields in the present stage of availability of statistical data and the obvious limitations which attach to our taking an initiative in that wide field. It is useful, however, for our purposes, to form some assessment on the basis of such data and estimates as are available of the extent of capital formation (investment and savings) in the economy as a whole, over and above the field covered by the survey. It is to be understood that these estimates are highly tentative and, owing to lack of necessary primary data are, in parts, in the realm of informed conjecture rather than scientific estimation.

69. In regard to the investment side, an estimate for investment in the public sector can be made with a high degree of reliability. In 1950-51, on the basis of an analysis of government expenditures, the net investment on public account was estimated by the Planning Commission at Rs. 185 crores, broadly by excluding an amount of Rs. 47 crores from the 'development programme in the public sector' to allow for recurring expenditures in the development programmes, which are equivalent to current maintenance and depreciation and to arrive at the equivalent of net addition to fixed investment (i.e. machinery and capital equipment, tools and implements, communications, buildings, etc.) which, as stated earlier, is the significant quantity for the growth of the economy. If similar adjustment were made in the Plan outlay of Rs. 355 crores in 1953-54, the net investment in the public sector would be about Rs. 285 crores; taking into account investment expenditure outside the Plan, investment on public account may be placed at Rs. 305 crores in 1953-54.

70. In regard to investment in the private sector, again, there are certain limited fields which present relatively less difficulty than others. We may take the average net addition to fixed assets during the period 1946-51 as roughly equivalent to the net investment figure for manufacturing companies in the public limited companies sector. This may be preferred to the estimate for the single year 1950-51, as conditions were abnormal in that year from the point of view of fixed assets formation, inventories claiming the most substantial part of investment. Including net investment in private limited companies and considering the rise in prices during the period, net investment in the corporate sector of industry may be placed at about Rs. 55 crores.

71. The increase in gross rental from urban house property in 1950-51 over 1949-50 according to the National Income Committee was Rs. 4.6 crores. We may estimate net investment in urban housing from the gross rental by assuming a certain net return. Taking into account the current general levels of return on Government securities, industrial shares and investment in trade and the fact that investment in real estate is prompted as much by considerations of capital gains in this field relative to other investments as by the prospect of a regular income therefrom, an average rate of 5 per cent. may be assumed. Thus, net investment in urban housing in 1950-51 works out to about Rs. 90 crores. We may use investment figures derived from cement allocations to adjust the 1950-51 estimate for 1953-54. The total investment in 1953 in urban new construction in which cement is used may be estimated at Rs. 94 crores, taking into account the proportion of cement used for house construction and the cost of cement in total costs of house construction. The proportion of cost of cement in total cost of house construction is taken on an average basis taking into account different types of construction. On the same basis, the 1950 estimate of urban house construction in which cement is used works out to Rs. 64 crores. The increase in net investment in urban housing in 1953-54 over 1950-51 would thus be Rs. 30 crores in respect only of house construction in which cement is used. On the basis of the net investment in urban housing in 1950-51 of Rs. 90 crores as explained earlier in the paragraph the 1953-54 estimate for this sector may be placed at Rs. 120 crores not taking into account any increase that may have taken place in urban housing in which cement is not used at all.

72. The second report of the National Sample Survey (1950-51) places the value of improvement and construction of houses, wells, tanks, bunds, etc. per household at Rs. 14.78 per annum; the estimate of per household investment in agricultural implements is Rs. 1.5, in other implements Rs. 2.57 and land improvement Rs. 8.89. Taking all rural households, total investment on these items (i.e. in housing and other rural investments) works out to Rs. 163 crores. It is stated in the Report that while these figures are not strictly on a net basis, they broadly correspond to net investment. There may be a certain element of over-estimation in these figures and we may place total rural (net) investment in 1950-51. at about Rs. 140 crores. Since 1950-51, assistance to the agricultural sector for wells, land improvement, etc., directly by government agencies and through co-operatives has substantially increased; there is likely to be some complementary increase in private investment also in this sector. With extension of irrigation facilities under the Plan, as additional land is brought under irrigation, some investment would take place in the private sector also. While it is difficult to estimate precisely additions to investment over 1950-51, broadly total rural investment may be of the order of Rs. 160 crores in 1953-54.

73. On the savings side, estimates should appropriately be based on national income breakdowns. But as it is not feasible to adopt this method with the available national income data, funds seeking investment through different channels are estimated. The estimates for 1953-54 are

Savings estimates

Urban residential construction

Rural investment

presented in Table 27. Central loan receipts allow for cash balance investment account transactions. When savings in the economy are estimated, the outgo from insurance companies on account of maturing policies etc. would need to be excluded. Therefore, the *net* increase in total assets (*net* premium receipts) less increase in their holdings of Government securities, is shown against insurance companies.

TABLE 26.—*Estimate of Investment in 1950-51 and 1953-54*

	(Crores of Rupees)	
	1950-51	1953-54
Public investment	185	305
Private investment		
(a) Organised enterprises (public limited and private limited companies)	55	55
(b) Urban housing /	90	120
(c) Rural investment	140	160
(d) Transport other than Railways	25	20
Investment abroad (net)	60	70
Aggregate net investment	555	730
National income	9,530	10,500*
Rate of investment	5.8	7.0

*This estimate is made in the Office of the Commission and is an approximate one which should be taken only to indicate the order of magnitude.

TABLE 27.—*Estimate of savings in 1953-54*

	(Crores of Rupees)
<i>Savings of the public sector :</i>	
(a) From current revenues (Central and State)	55
(b)† Centre : Net loan receipts	10
Treasury bills	20
Small savings	40
Other unfunded debt, deposits, etc.	28
(c)† States : Net loan receipts	36
Unfunded debt and deposits	19
	208
<i>Other savings of the private sector</i>	
(a) New subscriptions to capital of companies	15
(b) Savings of corporate enterprises	60
(c) Deposits of scheduled banks	9
(d) Insurance companies (1952 figure)	14
(e) Estimated increase in share capital and deposits of Co-operatives	11
(f) Savings in rural sector invested in housing and other rural investment	160
(g) Other private savings	253
	522

† Represent private savings channelled into the public sector.

74. Aggregate *net* investment comes to Rs. 555 crores or 5.8 per cent. of national income for 1950-51. It is higher than the Planning Commission estimate of Rs. 470 crores, mainly under rural investment. We have excluded net investment in small enterprise and in trading, for which hardly any basis of estimation is available. Inventory accumulation has also not been taken into account, and this fluctuates from time to time. Total net investment, when these are also covered would be somewhat higher. The estimate of investment for 1953-54 is of the order of Rs. 730 crores or 7.0 per cent. of the (probable) national income. If small enterprises and commerce were included, net investment would be somewhat higher. It may be noted that the increase in investment is mainly in the public sector.

APPENDIX I

PATTERN OF DISTRIBUTION OF ASSETS AND LIABILITIES

Statement X shows assets and liabilities of all manufacturing companies whose balance sheets have been analysed for the respective years. Comparisons between year to year data are not valid, mainly because they do not relate to the same set of companies. This Statement is presented mainly to show the pattern of distribution of the various types of assets and liabilities each year for a large part of the industrial sector. The picture of assets of 681 common companies during 1950 and 1951 is brought out in the following table:—

Gross assets of 681 companies

Item	1950		1951	
	Rs. Crores	Per cent.	Rs. Crores	Per cent.
Gross fixed assets	529	51	557	49
<i>Less depreciation</i>	(249)		(271)	
Net fixed assets	(280)		(286)	
Inventory	260	25	314	28
Receivables	89	9	107	9
Investments	38	4	37	3
Cash	53	5	54	5
Others	60	6	66	6
TOTAL	1,029	100	1,135	100

2. The 681 companies covered in the 1951 analysis had gross fixed assets of Rs. 557 crores, the depreciation reserve accounted for Rs. 271 crores and *net* fixed assets were Rs. 286 crores. Plant and machinery, at Rs. 336 crores, therefore, formed 51 per cent. of total gross fixed assets. The value of stocks and stores on hand was as high as Rs. 314 crores. As a reference to Statement X will show, these companies had a paid-up capital of Rs. 300 crores, an increase of Rs. 9 crores over 1950. Outstanding bank borrowings were Rs. 92 crores and the balance in general and development reserve aggregated to Rs. 116 crores; their specific reserves amounted to Rs. 57 crores. Outstanding mortgages and debentures amounted to only Rs. 35 crores.

APPENDIX II

A.—INCREASE IN PAID-UP CAPITAL—BY SIZE OF COMPANIES

The following figures indicate that the rate of growth in paid-up capital has been sizeable in each group of companies classified according to size of paid-up capital and is the largest in the range over Rs. 25 lakhs to Rs. 100 lakhs of paid-up capital among the companies analysed:—

(Lakhs of Rupees)

Paid-up capital ranges	Increase during 1946—51				
	Up to Rs. 25 lakhs	Over Rs. 25 lakhs upto Rs. 50 lakhs	Over Rs. 50 lakhs upto Rs. 100 lakhs	Over Rs. 100 lakhs	Total (all companies)
Number of companies	(262)	(114)	(74)	(42)	(492)
Total increase in paid-up capital during 1946—51	12,45	18,44	22,82	43,22	96,93
Paid-up capital in 1951	34,63	41,47	51,56	1,23,82	2,51,48
Rate of increase*	9.3	10.3	10.2	7.4	8.4

*Per cent. per annum.

B.—PROFITS AFTER TAX—BY SIZE OF COMPANIES

2. The following table gives profits after tax in relation to net worth for all industries together for 1951 for companies in different paid-up capital size groups:—

(Lakhs of Rupees)

Paid-up capital ranges	Upto Rs. 25 lakhs	Over Rs. 25 lakhs up to Rs. 50 lakhs	Over Rs. 50 lakhs up to Rs. 100 lakhs	Over Rs. 100 lakhs	Total (all companies)
	Number of companies	(262)	(114)	(74)	(42)	(492)
(1) Profits after tax	5,81	7,15	6,60	19,45	39,01
(2) Net worth	58,76	76,07	75,65	1,81,93	3,92,41
(1) as per cent. of (2)	9.9	9.4	8.7	10.7	10.0

While the ratio for each size group is around the average for all (10 per cent.), the biggest companies (with paid-up capital exceeding Rs. 100 lakhs each) show the highest ratio industry-wise, this is mainly true of textiles, cement, paper, sugar and iron and steel, the last industry pertaining only to this group, which partly explains the high average ratio for this group. Among other major industries, jute textiles, engineering and plantations have higher ratios for smaller sized companies.

APPENDIX III

CLASSIFICATION OF PRIVATE LIMITED COMPANIES

Of the 4,589 private limited companies* referred to in para. 58 for which information was furnished by the Income-tax Department, information regarding the nature of business of 316 companies is not available. The following table shows the remaining 4,273 companies classified according to main categories of business and size of paid-up capital:—

Number of private limited companies

	Manufac- turing	Trading	Managing agency	Financing and investment	Total †
Rs. 1 lakh and below . . .	993	538	200	307	2,774
Rs. 1 lakh to 5 lakhs . . .	579	198	47	96	1,171
Rs. 5 to 10 lakhs . . .	94	17	6	19	163
Rs. 10 to 50 lakhs . . .	76	9	10	24	142
Rs. 50 to 100 lakhs . . .	7	..	7	1	13
Above Rs. 100 lakhs . . .	3	1	1	4	10
TOTAL . . .	1,752	763	271	451	4,273

†Including miscellaneous group.

2. The paid-up capital figures for the 4,273 companies according to main categories of business are as follows:

Paid-up capital of private limited companies

	(Lakhs of Rupees)
Manufacturing	54,26
Trading	12,24
Managing agency	10,30
Financing and investment	19,98
Miscellaneous groups	18,79
Non-manufacturing *	61,31
TOTAL	115,57

*There is considerable divergence between the number of companies assessed to tax and in respect of which data are tabulated and the number registered as private limited companies. This may be attributed among other factors, to some companies assessed to tax not being included in the returns sent to us, possible inclusion in the list of companies of some which are defunct as well as the inclusion of companies in the process of liquidation and a fairly large number of private limited companies have been set up subsequent to 1948-49. In respect of the jute textile group, however, the number for which data are available exceeds the total shown in the list of joint stock companies; this is mainly because the jute group in income-tax data includes baling concerns also.

The group 'manufacturing' includes some companies which are not mainly engaged in manufacturing but in processing and distributing. Mines, quarries, jute baling companies, rice mills, other grain-milling companies, building and works contracting companies etc. are included in the group 'manufacturing'. With this qualification, manufacturing forms the most important group among private limited companies also (as it is among public limited companies). Of the 1,752 companies in the manufacturing sector, about 1,000 are small companies with paid-up capital of Rs. 1 lakh or less, while there are 10 companies with paid-up capital exceeding Rs. 50 lakhs. Taking all companies in the above table, 65 per cent. have a capital of Rs. 1 lakh and below, 92 per cent. fall in that category with capital below Rs. 5 lakhs.

3. Analysis of the ownership of private limited companies based on the returns is given in Volume II of the Report in Chapter XI on Taxation of Corporate Income. A general conclusion which has a bearing on other aspects of the structure of private limited companies may, however, be mentioned here: private limited companies bear close resemblance to the partnerships and proprietary concerns in respect of their ownership and control.

CHAPTER VIII

OUTLINES OF TAX POLICY

We have attempted in the preceding chapters a general description of the tax system and of the pattern of public expenditure, in relation to some outstanding features of the economy. A brief account of the development programme as well as a review of trends in capital formation in the private sector has also been given. We propose, in this chapter, to take a co-ordinated view of the more important issues and indicate our general approach to the problem of reorganising the tax system before proceeding to a detailed treatment of individual taxes.

✓ 2. The terms of reference require us to examine the tax system in relation to four main aspects: (a) the incidence of the tax system and its suitability for reducing inequalities of income and wealth, viz., the distribution of the burden of taxation and its redistributive effects and possibilities; (b) the suitability of the tax system with reference to the development programme of the country and the resources required for it, including fresh avenues of taxation; (c) the effects of taxation of income—of its structure and level—on capital formation and maintenance and development of productive enterprise, and (d) the use of taxation in dealing with inflationary and deflationary situations. We are called upon to make recommendations with regard to modifications in the tax system in relation to all these aspects of the problem of tax policy.

✓ 3. The terms of reference set the perspective for the enquiry. The four aspects mentioned above, to which they refer, may briefly be described as the objectives of (a) improvement in distribution, (b) furthering of development in the public sector, (c) improvement in production in the private sector, and (d) promotion of the stability of the economy. [Better distribution, greater production in the public and private sectors and a higher degree of stability in the economic system are, in fact, important ingredients of national economic policy itself. These objectives are not only unexceptionable in themselves but are, in many ways, crucial to the process of ordered economic growth and progress. 'From our point of view, however, the important question is, how far can tax policy assist in the realisation of these objectives?' Secondly, in-so far as there may be elements of conflict between some of the objectives, e.g., between pursuit of greater economic equality and maintenance and development of incentives to productive enterprise, what relative emphasis should be placed on the various objectives in the formulation of tax policy? We propose to consider these questions in some detail in the next few paragraphs. It is clear that the fundamental requirements of the economy, its stage of development, and, to some extent, the prevalent economic situation must all enter into determination of priorities as between the various objectives.

4. In many ways, the objective which raises the least controversy relates to the avoidance of inflation and deflation. The desirability of avoiding inflationary and deflationary situations is beyond question. What is open to discussion is the efficacy of the tax system for dealing with these situations.

Objective of dealing with inflationary and deflationary situations

We take up this question for separate consideration towards the end of this chapter.

5. An important question for tax policy is posed by the need to strike a balance between the objectives of achieving economic equality through the tax mechanism, and of maintaining unimpaired the flow of investment and savings which make for the continued progress of productive enterprise.

Objective of lessening inequalities in income and wealth

Greater production and better distribution are both objectives of high importance in relation to general economic and social policy. It has been said that in the conditions of this country increase in production is a more important objective than improvement in distribution. This is based on the analogy of other countries which have already reached a high degree of development in which, during the earlier stages of development, increase in production was often accompanied, in the first instance, by greater economic inequality and it was only when some appreciable economic development had occurred that the aspect of distribution of income and wealth came to the fore. This is historically true of economic development in the nineteenth century, when political democracy was still in its infancy and the concept of the Welfare State had yet to take shape. Economic and political conditions and public reactions to them are quite different today from what they were in the days of the political liberalism and economic *laissez faire* of the nineteenth century. We can no longer afford to leave the problem of equality to the automatic functioning of economic and social forces. This is particularly true of conditions in this country. Reference has been made in an earlier chapter to the importance assigned to this objective in the Directive Principles of the Constitution. The attainment of a wider measure of equality in incomes, wealth and opportunities must form an integral part of economic development and social advance currently. The demand that the instrument of taxation should be used as a means of bringing about a redistribution of incomes, more in consonance with social justice, cannot be kept in abeyance. Ways and means must, therefore, be devised to ensure simultaneous progress in both directions of greater production and of better distribution.

6. A distinction may be made, in this connection, between the type of inequality which may be regarded as economically necessary to evoke additional effort or enterprise and inequality which is not for the purpose. It seems clear that there is in the economy an appreciable degree of avoidable inequality in incomes, earned as well as unearned, and in wealth. A main constituent of the incentive that attaches to inequality derives from the way of life and social pattern to which particular classes of society are traditionally accustomed. It is, however, unquestionable that these are subject to change in course of time and that the process of change is a salutary one, which ought not to be resisted and must

on the other hand be assisted; with it, conventional ideas regarding the standard of life that befits higher occupations, and expectations of reward or profit necessary to maintain effort and thrift must also undergo an appropriate change. An illustration of this process of changes in rewards which are accepted as reasonable is to be found even during the transition from the quick riches and easy gains during a period of inflation to the moderate returns appropriate to a normal phase of economic activity.

7. It is true, however, that inequalities of income and wealth are marked characteristics of under-developed economies traceable to their economic condition and institutional set-up, and substantial progress towards equality can only be achieved by the gradual elimination by set purpose of certain fundamental sources of inequality. The tax system can certainly assist in this process by recognition of the fact that the distribution of income is not immutable but is capable of adjustment if definite emphasis is directed towards it in the fiscal system. But such emphasis should be based on a realistic appraisal of what the tax system can, at any time, achieve in the direction of lessening inequalities and, secondly, how far the process can be carried without undue adverse repercussions on private productive effort and enterprise.

8. A tax policy aimed at lessening inequalities through reducing incomes at the higher levels is only one form which fiscal operations may assume in this sphere. An important complementary aspect lies in the part that public expenditure for economic development (e.g., agriculture and irrigation) and expansion of social services like education and health, may play in strengthening the position of the weaker sections of the community.

9. No reliable measure of the degree of inequality of incomes or wealth in the country is available at present. It is known, however, that there is a wide range of inequality in India. It is also known that this has increased as a result of war-time inflation and its effect on the pattern of distribution of income and wealth among different classes. It is broadly clear that owner-cultivators in general, except the large class of subsistence farmers, and the larger agricultural producers in particular among the rural population, and trading and business classes and industrial workers among the urban population, have benefited in varying degrees. On the other hand, the economic position of fixed-income earners who generally constitute the middle classes in urban areas, and of agricultural labourers in rural areas has deteriorated. There has apparently been an accentuation of inequality owing to the familiar effects of inflation in raising business incomes and the of ger agricultural incomes where zamindari has not been abolished. At the same time there has been a fall in real incomes of considerable sections of the population comprising agricultural labour remunerated in cash, and the lower salaried groups in both the public and private sectors.

10. Increase in inequality in parts of the economy and fundamental ranges of incomes has occurred despite a considerable step to some the progression in income-tax. The income-tax does not, by dete- extend to agricultural incomes, except in some States, and, of tax is also considerable among important segments of tax payers. (If the problem of inequality is to be effectively an increase in progression in direct taxation must e supply

by measures of more effective tax enforcement with a view to extending the coverage of the tax net. A further diversification of the structure of taxation through additional taxes on certain forms of luxury consumption may also help to increase the tax contribution of classes which have benefited more from inflation. Incidentally, such heavier taxation of the consumption of luxuries may not only be a suitable instrument for directly lessening inequalities in consumption, but may also release resources within limits for more essential production. A widening of the taxation of wealth and property is also a possible means of reducing inequalities. A serious limitation governing the full exploitation of the tax instrument for this purpose must, however, be mentioned. This arises from the fact that if any considerable addition is to be made to public revenues—and we have already stressed the need for such addition—some contribution must come from the masses of the population through taxes which have a wide base. The need to extend taxation to the masses would, in turn, limit the increase in progression in the tax system which may otherwise be brought about by suitable changes in direct and indirect taxation.

11. At this stage, we may consider the related question of distribution of the burden of the tax system on a criterion which is perhaps the most widely discussed of all, viz., equity. In popular discussions of the problem, equity or fairness in the distribution of the burden is usually regarded as an important, if not the outstanding, test of a tax system, and its ability to inspire that confidence in the fiscal basis of Government which sustains public morale and promotes productive effort and economic progress. Yet, there is hardly any other attribute of the tax system which is more difficult to define or measure. An elementary application of the concept of equity requires the equal treatment of persons in similar economic circumstances. But the economic position and circumstances of individuals vary widely, and the range of equity secured by the application of the concept is, therefore, not very wide in its operation. Where economic circumstances differ, the question arises as to what difference in tax treatment would fulfil the requirements of equity. Now the most commonly accepted application of the criterion of equity is found in the principle of levying taxes according to relative ability-to-pay. Ability-to-pay in turn points to some degree of progression, if fairness in relative treatment of persons of unequal resources is to be achieved. No principle or formula, however, yields even approximately the pattern of progression which would be appropriate in the conditions of any country. In addition, there is the need to take into account any disincentive effect which progression may have on savings and investment and, therefore, of production. The degree of progression considered desirable over various income-ranges will depend, therefore, on the need to strike a balance between the aim of lessening economic inequalities through use of the tax instrument and that of strengthening the incentives to invest and to increase production.

12. Equity is an elusive concept; it is also a highly relative one. Particularly in the assessment of a tax system as a whole. It is necessary for one thing, to consider equity in relation to public finance operations as a whole, i.e., including the distribution of the

benefits of public expenditure along with the incidence of the taxes. For another thing, the tax system should be judged in relation to the magnitude of the task which it is to perform, in relation to the character of the economy, the distribution of incomes, and the general organisation of the community. All these will make it impossible to introduce over the tax system as a whole the minimum degree of progression compatible with the requirements of justice. Given the scale of developmental expenditure to be met, the utmost adjustment in the tax system on the principle of ability to pay will not enable the tax system as a whole to achieve any notable degree of progression. It is inevitable in under-developed countries seeking to accelerate the tempo of their economic development that their tax systems must suffer some departure from the strict basis of ability to pay, if the targets of economic development which form the imperatives of their national policies are to be attained within a reasonable period. Though the criterion of equity cannot suitably be applied to the tax system as a whole, this does not imply that it is not possible to correct specific elements of inequity or of injustice in parts of the tax system. In fact, a promising line of approach to furthering equity or fairness in a tax system is usually by way of eliminating or reducing the elements of unfairness or inequity as regards the tax treatment of persons in similar situations. Instances of these will be referred to in the relevant chapters on the individual taxes.

13. The question of the kind of tax system that will be suitable for the development programme of the country, with particular reference to the resources that it requires, needs some further consideration. Taxation by itself, can only reduce incomes and, therefore, must reduce private consumption and investment. The proceeds of taxation are, however, available to the public sector; and it is public expenditure that determines whether, taking the public and private sectors together, the net effect of fiscal operations is to reduce or increase the use of the current income of the community for the two purposes of consumption and investment. Normally, the propensity to consume is strong in poor and populous communities and investment is correspondingly low. A tax system which, on the whole, promotes capital formation in its two aspects of investment and saving fulfils an essential desideratum, for the need to increase the rate of capital accumulation is constantly present in such communities. The relative priority of the need to encourage consumption or investment may change with the economic situation, but except for an unusual turn in the economic situation, the general emphasis of the system should be directed towards counteracting the natural propensities of the economy by restraining consumption and stimulating investment and savings.

14. The question has various aspects. In the first place, by and large, taxation draws upon the common pool of resources formed by the surplus over consumption in the economy, which is available for use by the public as well as private sectors. It is comparatively easy for the tax system to secure a diversion of savings from private to public use, but it is very much more difficult to bring about an enlargement in the total volume of savings available for investment. Taxation reduces both (private) consumption and invest-

ment. The fact that taxation increases the resources available to the public sector by a significant draft on those available to the private sector does not, however, imply that taxation, even at high rates, reduces investment in the aggregate. If taxation goes to increase the volume of public investment, and not to swell administrative and non-development expenditure, total investment will be larger to the extent that additional public investment made possible by taxation takes place at the expense not of private investment but of consumption. [In fact, taxation may be a most effective means of increasing the total volume of savings and investment in any economy where the propensity to consume is normally high.] And probably the only really effective way to step up capital formation in such an economy is for the State to assume a major responsibility for securing a diversion of resources from private consumption to public investment. It follows that the structure of taxation, which will be most suitable and efficacious for the purpose, is a properly diversified scheme of taxation—direct and indirect—which seeks to secure the diversion of physical as well as financial resources from consumption to public investment, in forms and on a scale appropriate to the development programme. [In other words, the tax system must have an adequacy of both depth and range, if it is to promote an accelerated pace of development.] Additional taxation of a wide range of luxury or semi-luxury products, at fairly substantial rates, accompanied by broad-based taxation of articles of mass consumption at comparatively low rates, is, therefore, indicated. In the field of direct taxation, higher rates in respect of personal income-tax should be accompanied by some relief for income which is saved or invested. (On the whole, the kind of tax system which would be best adapted to meet the requirements of the Indian economy, having regard to the development programme and the resources required for it, appears to be one which would increase the resources for investment available to the public sector with as small a diminution as practicable of investment in the private sector, and which, therefore, is accompanied by the largest practicable restraint on consumption by all classes.) Restraint on the consumption of higher income groups must, of course, be greater than in respect of low income groups.

15. It is necessary to emphasise that higher taxation of luxury articles will, by itself, not produce sufficient revenue. For any substantial receipts from commodity taxation and appreciable restraint on consumption in the economy as a whole, it will be necessary to extend excise and sales taxation to the consumption of lower-income groups and on goods which are commonly classed as necessities, including several articles which are included in the Essential Goods Act under Article 206 of the Constitution. Some of those goods are in fact already subject to Central taxation at fairly high rates; a few of them are not essentials in the strict sense of being necessities for the lowest income groups. There are, however, articles like kerosene which are necessities in that sense and are nevertheless taxed at present. An extension of the tax on necessities appears unavoidable, if significant results by way of diversion of resources for financing public investment, are to be secured. It appears important, in this connection, to put in fundamental terms the problem posed by Article 286(3) of the Constitution in respect of articles essential to the life of the community.

The issue posed by the financing of economic development and expansion of social services through some contribution—direct or indirect—by the mass of the population is this: is a little more of activity for improving public health or education, or for strengthening the base of agriculture through minor irrigation works or better techniques, more of an essential to the life of the community or the whole of the present consumption of each of a number of commodities? Is every bit of that consumption necessarily equally essential? In any case, if it becomes a choice of alternatives, the question would be whether a little less consumption in one form or the other is not a worthwhile sacrifice for the fruits of economic and social development. If the answer is that it is, the exemption of essentials from taxation is illogical. Given the order of the development plans, if tax resources should fall seriously short and inflation should result, it may involve an even larger cut in current consumption standards of the weakest sections of the community than a systematic scheme of taxation of essentials, to the extent necessary. Limitation of taxation affords no guarantee against a rise in prices occasioned by failure to finance development plans through normal means. In any case, some of the commodities classed as essentials are taxed by the Central Government, and their taxation by the States is also allowed under the Central Act, and the question really concerns the scope, extent and manner of taxation of the essentials so-called.

16. To which limits can the process of increasing resources for development through taxation be carried without danger to the stability of the economy?

Limits of taxation : taxable capacity (The question of the resources that can be raised for the development programme and, therefore, of the limits of taxation is commonly put in terms of the *taxable capacity* (a) of the economy as a whole, (b) of particular sections of the population, and (c) sometimes, in the sense of scope for optimum utilisation with reference to particular tax heads. The last aspect will have to be considered in relation to individual taxes and is, therefore, treated in the relevant chapters. The other two aspects may be briefly referred to here. Taxable capacity like equity is a relative concept. In the most significant economic sense, taxable capacity of different sections of the community may be said to refer to the degree of taxation, broadly speaking, beyond which productive effort and efficiency as a whole begin to suffer. The economic limits are qualified by political limits and these are usually reached earlier, especially in communities which function on a democratic basis with the widest franchise. In certain circumstances both these limits get qualified by administrative considerations relating to the problem of enforcement.

17. In considering the question in relation to the tax system as a whole, the proportion of the total tax revenue to national income becomes important. Indian tax revenues only amount to about seven and eight per cent. of the national income, and this is lower than in many other countries, including some in South Asia. It has been suggested that this indicates the great possibilities that exist for additional taxation before the limits of taxable capacity are reached, while some others draw the opposite inference that taxable capacity has been exhausted and there is little scope

for additional taxation. The issues raised are not merely academic but have practical implications and it is necessary, therefore, to seek an explanation of this low proportion of tax revenues to national income in this country.

18. A basic explanation for the very low ratio of total taxation to national income is, of course, to be found in the meagre living standards of the people reflected in low per capita income levels. This sets rigorous limits to taxation for most people in the community, if the existing frugal consumption levels are not to be lowered. The existence, on a large scale, of a non-monetised sector in the economy also makes it difficult to increase tax receipts through the usual forms of taxation. Over and above this, the low ratio of international trade to national income, which is another aspect of the same characteristic of the economy, restricts the area of the large-scale commercial sector, from which it is easier to raise taxation. It follows, any direct conclusions regarding the scope for further taxation in the country based on comparisons with similar proportions in more advanced countries are inappropriate. 11

19. The question remains, however, whether this proportion is indicative of the limit of taxable capacity having been reached or whether it is possible to raise it. This leads to a consideration of taxable capacity with reference to the whole system. If taxes were levied to enable the community to do things collectively that the tax-payers did individually before, and if there were a large degree of correspondence between taxes and the beneficent expenditure which they make possible, the limit of taxable capacity would be higher. Very often, indeed more often than not, correspondence between taxes and benefits is neither direct nor obvious nor are the benefits clearly appreciated. If such benefits actually flowed from taxes, i.e., if the proceeds were in fact used for expansion of social services and economic development and if there were a clearer appreciation of this, taxable capacity would be greater. It follows that the limit of taxable capacity is relative to the purposes for which the proceeds of additional taxes are expended. Since psychological and political considerations mingle with the economic in the determination of such a limit, it depends to that extent on popular understanding and appreciation of the plans of development formulated by Government. Efficiency in administration and economy in public expenditure—which make for more effective use of public funds and secure a better return on investment of tax proceeds—should at least diminish people's unwillingness to suffer an increase in tax burdens.

20. Another aspect of administrative efficiency which bears on the limits of taxation is uniform enforcement of tax obligations. The knowledge of widespread tax evasion undermines morale, puts a heavy strain on tax compliance by the honest tax-payer, and undoubtedly impairs taxable capacity. Altogether, it would not be surprising to state that taxable capacity shrinks with impecunious and unpopular policies and ineffective governance, and expands with beneficent and competent administration. Public expenditure in India has been moving increasingly towards beneficent expenditure, but it cannot be said with equal certainty that it is moving also towards economy and efficiency. Nevertheless, (the increasing bias

towards social and developmental services in Indian public expenditure is helping to raise the limit of taxable capacity. The feeling of identity with and responsibility for Government, which independence has brought in its wake, is another factor working in the same direction. (While, therefore, there is reason to believe that there has been an increase in taxable capacity, the fact remains that the proportion of tax revenues to national income has not undergone any change as compared to the pre-war period.) There are, of course, various reasons for this. We deal with them in detail when we discuss individual taxes in subsequent chapters but it should be pointed out here that there is a presumptive case for holding that Indian taxation on the basis of its existing structure and rates has not fully tapped the taxable resources of the country. When this is taken in conjunction with the vast need for additional resources, it is clear that there is justification for some increase in Indian taxation.)

21. (Objection may be taken to this view on the ground that taxation should be used strictly for the purpose of balancing the budget on current account, and the capital part of the budget should be met entirely by borrowing and not through a budgetary surplus.)

Taxation and borrowing It is difficult to support such an unqualified statement. Current and capital expenditures do not fall into categories which can be sufficiently clearly distinguished for this purpose. Surpluses through which capital expenditure may be met by taxation and deficits through which current expenditure may be met by borrowing, have each in its own sphere a definite role to play in ensuring economic stability. There is nothing unsound in theory in using a budget surplus to finance investment on public account. On the other hand, the experience of other countries definitely points to its use as a convenient source of finance in certain circumstances. But for the use of surpluses in current budgets for financing the post-war reconstruction and development effort of many countries, their economies would have suffered grave distortions in the post-war period, resulting from competing consumption and investment demands, private and public. Their experience is of value in the financing of a big development programme, and it has shown that the inflationary potential of such a programme can be held within bounds by an appropriate degree of surplus budgeting on revenue account.

22. This brings us to a consideration of the basis of distinction between the revenue and capital accounts. As it is, this basis is not clear-cut; in any case, the capital account is not confined to financially productive projects, for which the ordinary amortisation procedure and loan finance are no doubt appropriate. The programmes of development expenditure, which figure in the capital budgets, contain a certain proportion of expenditure on development of social services like public health, education, etc. Even the economic development programmes included therein, though intended to raise productive efficiency and, therefore, highly worthwhile, are not all productive in the strict financial sense. We have no doubt that it is desirable to cover at least a part of such programmes and their financing by taxation.

23. An argument which has been often advanced in the representations made before us against the use of taxation for financing capital expenditures is that there is no justification for budgeting

through taxation, the present generation with the whole cost of development programmes intended to benefit future generations. The argument contains the hoary fallacy of assuming that a part of the current cost of development can be shifted to posterity. There is no way of securing this postponement of the cost, in terms of real resources, of a large investment programme: the programme involves a deduction, here and now, from the resources available to the community for current consumption. The question of the relative use of taxation and borrowing relates, therefore, not to the question of distributing the burden between the present and the future, but to the appropriate method of meeting, in the present, the cost of the investment programme. A decision on the question only determines the distribution *within the community* of the burden imposed by the investment programme; for the *community as a whole*, this burden *has to be borne in real terms in the present*.

24. (In any case, we are not suggesting that the whole of the development programme should be financed by taxes.) Apart from other considerations, it would be supremely unrealistic to do so under the conditions of a mixed economy. We recognise that loans have an important place in development finance, and this is also recognised in the programme that the Planning Commission has drawn up for financing the Five year Plan. All that we are concerned to point out is that financing a part of development by budgetary surpluses is a legitimate form of development finance and does not cause any greater *real* burden on the current consumption of the community than would be done by an equivalent amount of public borrowing.

25. The other method of financing the development programme is by incurring deficits. In considering deficit financing, the question here is how far it can go without causing inflation and, therefore, to what extent it may be employed to avoid the undoubtedly disagreeable alternative of increasing taxes—direct or indirect. A consideration highly relevant to the amount of deficit-financing which may properly be undertaken would be how far there are already indications in the general economic situation of the presence or otherwise of inflationary pressures. If no general inflationary pressures exist, and, further, if some deflationary signs are in evidence, the amount of deficit-financing, which may safely be undertaken, is larger than if the factors tending in either direction are more evenly balanced. In any case, it is not correct to assume that all deficit financing would result in inflation, irrespective of either its volume or the circumstances under which it is resorted to. There is, however, no formula by which the amount of deficit-financing that may properly be undertaken can be determined. This, ultimately, is a matter of judgment. To the extent that deficit-financing leads to inflation, there is some danger in adopting it, and we have dealt with this question at greater length in Chapter V. Here we would emphasise the fact that the tax system should be adapted so as to meet the dangers of deficit-financing when they arise. The precise manner in which the tax system should be adapted for this purpose will be dealt with by a later part of this chapter. We may, however, reiterate our view that, in the light of the present conditions and the immediate requirements of the economy, a moderate measure of deficit financing would do no injury on the economy.)

26. The above discussion has been concerned with some of the alternative means of financing the development programme. We have not dealt so far with the possibilities of expansion in the non-tax revenues; we discuss this elsewhere. Nor has our discussion included any reference to the possibilities of increased foreign financing; this is a question on which we do not have relevant data nor does it fall within our terms of reference. The discussion has also omitted any reference to the importance of two other avenues, viz., prevention of tax evasion and tax avoidance, and economy and rationalisation in expenditure. We have referred to these subjects in some detail elsewhere in the Report.

27. So far we have dealt with the problems of tax policy with reference to the reduction of inequalities of income and wealth, conformity to the concepts of equity and taxable capacity, and financing development by increasing the public revenues, including tax receipts. We shall now turn to the effects of the tax system on incentives in the private sector with special reference to savings and investment.

28. Our analysis so far definitely points to the need for deepening and widening the coverage of the Indian tax system. This means an increase in both direct and indirect taxation. Increase in commodity taxation undoubtedly affects consumption; increase in the progression of the direct taxes may affect savings and investment. We are definitely in favour of taxation that would reduce the consumption levels especially of the upper income groups in India. The disparity in consumption levels prevalent at present in this country is a matter of common observation and there can be no doubt about its demoralising effect on the large masses of workers in the country as regards their willingness to accept higher tax burdens and yet work harder. The disincentive effect of higher taxation on the will to work on the part of the higher income groups is generally exaggerated. There is need for the upper income groups to adjust themselves to the reductions in money rewards that the changing social and economic conditions of the country necessitate. It is unrealistic to stress the disincentive effect of income-tax progression on the upper income groups, while the tax system calls upon the lower income groups who constitute the masses of the country to contribute an increasing portion of their meagre incomes. It must be remembered that even with the present comparatively high rates of tax, the range of inequality between the disposable incomes of the few and the many is wider than in many countries where the rates of taxation on higher incomes are, in fact, lower. The fixing of a ceiling on personal incomes on the basis of a reasonable multiple of the per capita or per family national income is a matter to which we have given much thought and it is our view that there should be a ceiling on net personal incomes after tax which generally speaking should not exceed ^{approximately 20} times the prevailing average per family income in the country. We do not suggest that this is capable of immediate implementation; if we think that it is important to strive by stages for its attainment over a period of time. The accomplishment of this ^{representing} cannot merely be the result of tax changes, but must ^{be}

an integrated approach along several directions. The most important phase of this approach would be an acceleration of the tempo of economic development and a widening of employment and production opportunities. Fiscal policy has an important place in it; but this is necessarily subject to economic circumstances and practical possibilities of achievement at any given time.

29. The approach must be realistic in the sense that (the tax system should not be strained to a limit which will endanger the productive system of the country or impair the possibilities of its expansion by affecting savings and investment in the private sector.) We have, therefore, paid special attention to the importance of promoting savings and investment by suggesting appropriate incentives for the purpose in the income-tax system. In particular, we have suggested tax concessions for encouraging industrial expansion. With a view to making maximum use of the limited funds that can be released for the purpose and in the belief that the maximum effect is attained most speedily by concentrating the concessions on specified lines of production, we have recommended the adoption of the selective principle in the application of several of the tax incentives we have recommended in the industrial field. We have also suggested measures for ensuring as far as possible that the funds released for investment are utilised for the purpose. Such investment should be encouraged by our proposals irrespective of whether it is undertaken by corporate or non-corporate, including individual and proprietary concerns. Our detailed recommendations on these matters will be found in the relevant chapters in Volume II of our Report.

30. Having dealt with the major considerations affecting tax policy in the light of our terms of reference, we now turn to one or two other features of tax policy to which reference has been made in several representations before us.

31. In considering the structure of the tax system, a question which is often put concerns the relative part that direct and indirect taxes should play in the tax system, having regard particularly to the objectives which have been discussed in the first part of this chapter. It is hardly necessary to state that there is no special merit about any particular ratio of direct to indirect taxes as a whole. If the tax system is to yield larger revenue, it seems fairly clear that both higher tax rates and wider tax coverage are necessary, and the increase in receipts should be spread over both direct and indirect taxes. In the result, the relative position of direct and indirect taxes may be altered. Broadly, it appears that over and above an increase in direct taxation under income-tax (and later in estate duties) which should receive priority in the investigation of additional resources, reliance will have to be placed on indirect taxation—mainly through the further extension of Central excises and State sales taxes. The greater the increase in tax revenues desired, the larger is the part that indirect taxes may have to play in bringing about such increase. Non-tax revenues, including receipts from State companies and undertakings, are in some ways akin to indirect taxes and may be similarly enlarged, though increases in this sphere are more difficult to effect than in indirect taxation in general.

32. A question which has been repeatedly put to us relates to the desirability of introducing uniformity of system and rates in regard to the numerous taxes that lie within the State (and sometimes even local) field. We would like to indicate at this stage our general approach to this question, to which, however, we refer in greater detail in our treatment of individual taxes. We consider that efforts to attain uniformity should be limited to achieving such minimum degree of uniformity as is necessary for safeguarding the best allocation of resources and obviating uneconomic diversion of trade and business activity, without, however, abridging the essential autonomy of the States in financial matters. This autonomy corresponds to their responsibilities under the Constitution for social, cultural and, to a certain extent, economic matters; and it would not be right to employ the adventitious aid of the tax system to bring about a fundamental change in the position.

33. We may refer to another general question which has been raised in numerous representations before us. **Earmarking of tax receipts** (This concerns the advisability of earmarking the receipts from particular taxes as well as the levy of cesses for specific purposes.) The cess on mill-made cloth for the benefit of khadi and handloom industries has been the subject of criticism, more particularly by representatives of the mill industry. There are other instances of the earmarking of receipts of taxes, some of them much older, e.g., the carrying of receipts equivalent to a portion of the import and excise duty on petrol to the Central Road Fund, and similar allocation of receipts from an additional duty on petrol levied by the State of Bombay for road construction and development, besides various cesses for different purposes. The possibility of a cess on mill oil for the benefit of the village oil industry has also been mentioned.

34. In the first place, the use of the term 'cess' in regard to this subject is not very precise. Thus, what is popularly called the cess on mill-made cloth, and has been referred to as such by us, is termed an additional duty of excise in the law imposing the levy. This description is more appropriate, as it forms a substantial addition to the pre-existing duty in respect of coarse and medium categories of cloth. On the other hand, a cess is levied on the entry of sugarcane into local areas in some States, at fairly high rates: this is described as a cess in accordance with the terms of the Government of India Act, 1935, where duties of this kind are referred to as 'cesses' as against 'taxes' in the Constitution of India.

35. We understand the term cess, for purposes of the present discussion, to refer to a duty, which forms a very small fraction of the value of the article on which it is levied, and the proceeds of which are used for purposes related broadly to the interests of the same body of taxpayers or industry, or for production or marketing of the article concerned. (The use of such small levies on particular products or industries for the specific purpose of encouraging research and investigation directed to improvement of markets or raw materials or productive techniques or exchange of information, etc. represent a form of co-operative action in the common interests of development of the industries or products concerned.) Though reference has

made to some defects in the organising and expending of the proceeds of such cesses, the usefulness of the practice has not been called into question by any witness before us. The use of such cesses is in a different category from the general question of earmarking the proceeds of taxes, and it goes without saying that there is no objection to cesses of this kind being continued to be employed accordingly.

36. As regards the different and also the larger question of earmarking, there is practical unanimity in the views expressed to us that, *as a rule*, the proceeds of taxes should *not* be earmarked for specific purposes. We ourselves consider that it is conducive to sound financial management to pool all receipts from taxes into a general fund, and to allocate the funds for all expenditure by specific authorisation from the common pool. It is not usual to find taxes and related uses of equivalent magnitude continuing to retain the correspondence indefinitely. If the proceeds of the tax are in excess of funds required for the specific purpose, encouragement is likely to be afforded to extravagance and misuse of funds; on the other hand, if tax receipts fall short of such need, the funds may have to be supplemented by authorisations from the general revenues. This objection applies to any large departures from the rule of seeking specific authority for important expenditures. In regard to the additional excise duty on cloth levied by the Central Government for financing development of khadi and handloom industries, we do not question the need or scope for levy of the duty, nor do we take exception to the allocation of funds for encouraging khadi and handloom industries. It is the practice of linking the two, however, which seems open to exception.

37. Perhaps the advantages and disadvantages of the procedure will be better appreciated if we state the circumstances in which we consider that beneficial scope exists for use of special cesses or earmarked taxes. In a way, all or most taxation by local bodies approximates to specific purpose taxation; as one goes up the tiers of government, the relation between taxes and benefits becomes less clear. This indicates the obvious rationale of such taxation, *viz.*, that the association of benefits with taxes makes the taxes or levies more acceptable; the more direct this association, the greater is the scope for using such 'benefit' taxation. This principle could be used for local public works to advantage. An application of this is the use of tolls on bridges which though small in amount on the individual trip have been successfully used in many countries to amortise the cost of expensive projects over a short period. (The main scope of linking taxes and the use of proceeds appears to lie in directions where this procedure makes the taxes appear psychologically less burdensome to the taxpayers concerned because of the associated benefit.) On the other hand, in the illustration given above of using the proceeds of an additional duty on mill-cloth to encourage khadi and handloom industries, the relationship of the benefit of proceeds to the burden of tax payment is not direct or obvious. Differentiation between organised and unorganised industry is being introduced in the levy of an increasing number of excise duties. This, we think, is justified in the later sections which are stated in the chapter on excise duties in Part II of the Report. Over and above such differentiation (or differentiation), to link a specific burden on a segment of industry with

benefit to another segment does not seem a wholesome practice, as it detracts from the unified administration of public finances.)

38. The field in which the practice of earmarking has perhaps been most widely employed in other countries is that of the use of taxes on motor vehicles for road construction and development. With a programme of development extending to all spheres of the national economy including roads, we do not believe that the device of earmarking receipts from taxes on motor vehicles or motor spirit can assist materially in accelerating road development. There is a wide divergence from State to State in the relationship of receipts from motor vehicles users, and, expenditure on roads. We do not subscribe to the view that the motor vehicle user does not have an obligation to contribute to the general expenses of the State, over and above the expenditure on roads. On the other hand, however, with a large programme of road development, the expenditure on roads may well be in excess of receipts from all taxes on the motor vehicle user. It may be pointed out, however, that the Central Road Fund is more than a device for earmarking. It is essentially a device for distributing a part of the proceeds of a Central duty to the States on the basis of consumption of the taxed article; in the process, the proceeds are also earmarked for a particular use in the States receiving them. This device may in fact be found to be of use in the sphere of State-local relations, and we see no objection to its extension to the local sphere. But we must emphasise that its essential feature would be not earmarking; it is really a means of assuring local bodies of a larger allocation of resources and giving them a greater measure of confidence in undertaking programmes of road development.

39. One of our terms of reference requires us to examine the use of taxation as a fiscal instrument for dealing with inflationary or deflationary situations. This term of reference poses, in a way, a hypothetical question, and requires us to indicate the kind of modifications in the tax system which would be appropriate if the economic situation took a distinctly inflationary or deflationary turn.

40. In the beginning of this chapter, we have mentioned the crucial importance for tax policy of the objective of maintaining economic stability. (There are, broadly, two ways in which the achievement of this objective may be assisted. One way is to devise a tax structure which will automatically counteract economic disturbances as they arise; secondly, changes in the tax system may be made in order to deal with inflationary and deflationary situations.) To take the first method, the automatic capacity of the tax system to cope with economic fluctuations may be increased through greater reliance on progressive direct taxes the yield of which changes more than in proportion to changes in the tax base as a result of monetary and price variations.) Increased use of *ad valorem* commodity taxes also helps in a similar way, owing to responsive movements in receipts with changes in prices. The tax system has to be devised, at any time, however, with due regard to all the objectives of a sound tax policy including the requirements of administrative efficiency and convenience. Administrative considerations may indicate a preference for specific duties the receipts from which do not, since

respond to changes in economic conditions. Therefore, the extent to which the automatic capacity of the tax system to deal with inflation and deflation can be improved is limited by other considerations. The problem, then, is: (given the general framework of the tax system, how should it be modified when a marked inflationary or deflationary trend appears?)

41. In answering this question, it may be useful to start with a brief analysis of the actual history of inflationary and deflationary movements in India. A review of the main inflationary and deflationary movements in the Indian economy during the last thirty years or so indicates that the originating source of the turns in the general economic situation has invariably been external. Thus, the decline in agricultural prices in the middle and later 'twenties, from the peak touched in 1924-25; the break in prices that occurred at the end of 1929 and the severe depression during the early 'thirties, followed by the slow recovery of prices from 1933 to 1937; the short and sharp recession in 1938; the wartime upsurge and further post-war rise; the crisis in balance of payments in 1949; the Korean boom, and gradual return to normalcy—all had a source in some international development. The external influences were, however, superimposed on internal economic trends, which accounted for the disparities in prices as well as the peculiarities of the Indian economic situation from time to time.

42. The Great Depression during which prices in India fell more, though somewhat later, than in most other countries, brought out a striking characteristic of primary production, *viz.*, its inverse elasticity of supply in response to changes in prices: agricultural production not only did not fall, but somewhat increased as prices touched the lowest levels. With falling prices and a narrowing margin between the proceeds of his surplus over subsistence and costs, the farmer tried to make up in volume what he lost in value. The phenomenon was almost world-wide. The obverse of this phenomenon—some flagging of effort and enterprise when prices cross a high water mark—has also been observed on a wide scale in underdeveloped countries in the early post-war phase. Over and above technical factors related to production, there is also a certain inelasticity of effort determined by the peasant's standard of life, which accounts for the marginal acre remaining uncultivated because of the fact that, with inordinately high prices of produce, a little less production will do to maintain that standard. This seems to suggest that, contrary to popular belief, it is not high but stable prices which provide the best environment for improvement of the yield and efficiency of agricultural production. Common belief which associates high production with high prices derives, apart from experience in the non-agricultural sphere, from the undoubted correlation of movements in production and prices in respect of *individual* crops. The fallacy in it lies in translating the experience regarding individual products to the relationship of agricultural production and prices *as a whole.* This does not mean, however, that a fall in agricultural prices is a disadvantage for the agriculturist. On the contrary, when prices usually fall to a greater degree in the case of agricultural products; and this sets up serious distortions in debtor-creditor relations, and results in attendant problems of readjustment. It also

leads to a worsening in the internal terms of trade for the agriculturist *vis-a-vis* the non-agriculturist or, what may be stated in simpler terms, a fall in the purchasing power of the agriculturist's rupee. The experience of depression and inflation alike in India underlines the conclusion that what the agriculturist requires is not high but stable prices, and especially broad parity of relationship with non-agricultural prices.

43. We may refer at this stage to the likely nature and dimensions of the problem in relation to which modifications in the tax system should be considered. As regards the immediate future, it is difficult to make any forecast with confidence. This is especially true of external factors. It may be hoped, however, that in the absence of major or minor flare-ups on the international political front, the experience of governments and administrations in dealing with economic fluctuations in the past will help to lessen the severity of such departures from stability as might occur in the future. In regard to the factors of instability at home, the stronger possibilities are for the continuance of inflationary forces generated by, and related to, the pace of development planning, and depending also on the means of its financing. The extent of deficit-financing actually incurred during the period of the Plan has, however, fallen short of original estimates. Given large increases in investment, however, even if the increases in public investment should continue to fall short of targets for some time—the internal problem is likely to be inflation rather than deflation. The actual economic situation from time to time will be determined, of course, by the interaction of internal and external influences. To the extent that the economy has a large non-monetary sector, price changes do not have the same effect as in the advanced and completely monetised economies. But the non-monetary sector in India is in the process of contraction. In any case, the monetary sector is large enough to lend importance and urgency to the need for an anti-inflationary policy during periods of rising prices; and the tax system has to play its part for this purpose. We may now consider the question of how far the Indian tax system can deal with inflationary and deflationary situations.

44. The more general way in which a tax system can operate to mitigate the effects of an inflationary or deflationary spell is to reduce or increase the quantum of national income available for private expenditure by a policy of surplus budgeting or deficit budgeting respectively.

45. In so far as an inflationary disturbance originates from external influences, export duties constitute one recognised way of preventing a strong foreign demand for our products from exerting an inflationary influence on the domestic economy. When prices fall within the country on account of external influences, it is difficult to counteract the decline through a change in the tax system. The elimination of export duties and a substantial reduction in international commodity taxation may, however, help to stem the decline in foreign demand and to sustain domestic demand and thereby mitigate the fall in producers' incomes. As for commodity taxation in the State sphere, the position is complicated by the inability of States to incur deficits, unless the Central Government devise

programme of loans and grants specifically to enable tax reduction by the States.

46. Even in the fiscally advanced countries, where tax receipts constitute a significantly larger proportion of their national incomes, reliance is placed more upon an expansion of public expenditure rather than on the lowering of taxes as an anti-depression device. In a country like India, where the proportion of national income taken by way of taxation is of the order of 7 to 8 per cent. (as against 25 to 40 per cent. in many other countries), there is very little that the tax system can do by way of an income effect for mitigating the effects of deflation; even what can be done by way of deficit-financed public expenditure is of limited value in the light of the structural rigidities and other peculiarities of the Indian economy. (All the same, in India, it is in the direction of public expenditure rather than of taxation that more effective action can be taken to mitigate the effects of a deflationary spell.)

47. (It is during periods of inflation that taxation can play an important role in mitigating its adverse consequences; and this is true not only because of the greater effectiveness of the tax system in this respect but also because of the greater difficulty of reducing expenditure during such periods, whether they are periods of war when military expenditure dominates the scene or of rapid economic development the tempo of which has to be maintained. Even in the underdeveloped economies, it has been found by experience that the tax system, if suitably adjusted, can have a significant effect in slowing down the pace of inflation. Thus, for instance, in our own country, the tax system was successful in siphoning off from private expenditure a considerable proportion of the increase in incomes resulting from war-time inflation and its post-war aftermath. This was due partly to the elasticity of the Central tax system because of the inclusion in it of income-tax and partly to the imposition of a new direct tax, the excess profits tax, and of new excise duties such as those on tobacco. During war-time, direct taxes reached as high as 63 per cent. of Central tax revenues.

48. It is clear, therefore, that taxes that fall directly on the large additional incomes, and commodity taxes that fall on the increase in general purchasing power resulting from inflation have a significant part to play in anti-inflationary policy.) There is also a place for special anti-inflationary taxes such as excess profits tax and commodity taxes on articles of both general and luxury consumption during periods when the natural elasticity of the tax system and higher rates of taxes are together insufficient to check the pace of inflation. When, however, inflation gets beyond a certain level, taxation no longer provides even a partial remedy.) Costs chase incomes in a rising spiral, and public expenditure keeps increasingly ahead of public revenues. (In such cases, the only effective remedies are either to stop the increase in public expenditure and bring about a gradual reduction in the same, or to institute a drastic monetary policy consisting what in effect is a capital levy on the holdings of property or liquid assets: often, the two may be required in

49. The Indian tax system already contains in its income-tax and commodity taxes important means of countering inflationary situations. The income-tax is a highly progressive levy. Under conditions of boom or inflation, as explained above, it automatically yields larger revenues, and restricts the growth of disposable incomes left after tax. Over and above this inherent anti-inflationary feature of the tax, the feasibility of using it to curtail incomes still further through enhancement in rates of tax when inflation develops will be limited if rates are pitched normally high. With any pronounced inflationary trend, however, there would remain possibilities of screwing up direct taxation. An increased use of commodity taxes by a wider coverage and higher rates can, similarly, help to restrain consumption demand. It may become necessary, in particular, to levy special taxes on those sectors of the economy that benefit the most from the inflationary bias of development expenditure. These measures, together with the possible imposition of special taxes like the excess profits tax should normally be sufficient, in the tax sphere, to deal with ordinary inflationary situations that may be expected to develop.

50. In the unlikely event of a depression emerging, reduction in taxation is unlikely to make much difference as the income it will release for private expenditure will be a very small proportion of the national income; the fiscal remedy in such a case would be to increase public expenditure and finance it by deficit till the economy recovers, and prices and sales resume their pre-depression trends.)

51. Viewed in the long term, the objective of maintaining stability in the economy merges into the larger objective of economic development. The problem, then, is of adapting fiscal and other policies to the end of maintaining an even course of development, of adjusting the pace and content of public expenditures, the level and forms of taxation, and the overall budgetary position—surpluses or deficits—with reference to the variations of the economic weather; all the elements of fiscal policy must, however, remain basically attuned to the climate of economic development.

52. Earlier in the chapter we have attempted to outline the broad framework of a tax policy which we consider might fulfil, as far as practicable, the difficult role of stimulating capital formation and higher production in the private sector consistent with meeting the needs of the public sector. That discussion suggests the main directions along which additional resources for development in the public sector might be secured. These are, in the Central sphere, an increase in income-tax partially offset by some reduction in the corporation tax together with some additional relief for savings and investment, and a substantial increase in excise taxes in respect of luxuries, semi-luxuries and even essentials, apart from some increase in non-tax revenues through the adoption of pricing policies which show greater regard for the interests of revenue; in the State sphere—so far as possible—some increase in receipts through moderate land revenue surcharges, and in the local sphere, by bringing according to the time when the last settlements took place, as to bring about a measure of uniformity within a State, and to a common time-standard, through increase in rates and

of territorial coverage of the agricultural income-tax, through more extensive adoption of property taxation and taxes on transfers of property by local bodies, and through a widening of the coverage and, in due course, increase in rates of sales tax. In respect of other minor taxes in the State sphere also we have recommended the more extensive adoption of some of the comparatively new taxes in States which have continued to rely predominantly on the old forms of taxation. As the discussion in the next two chapters will indicate, there is also some scope for improving the receipts from the principal State undertakings like irrigation and electricity schemes.

53. The terms of reference invite us to make recommendations, in particular, with regard to fresh avenues of taxation. All the possibilities of increases in receipts mentioned above, however, pertain to existing tax sources. It seems difficult to visualise a significant fresh avenue of taxation in the sense of an altogether new tax which is not included in any of the Lists under the Seventh Schedule of the Constitution. We have, in fact, dealt with all the items in the Central or State lists which have been relatively little utilised at present but may be used more in the future, and suggestions in regard to such greater use have been made at different places in the Report. We may now refer to certain proposals for new forms of taxation which we considered but which we do not recommend for adoption. Some of them may be capable of fruitful use in the future.

54. Theoretically, there is something to be said for an annual tax on total wealth at a low rate as a complement to the income-tax (and estate duties). Such a scheme would have much to commend itself, as a better balance in the incidence of taxation among individuals would be secured by it than through taxation of income alone, particularly in view of the evasion in income-tax. The distribution of wealth furnishes a base for taxation which is only less suitable than the distribution of income, but is more suitable than several other bases which are currently used. The information collected regarding assets and liabilities of individuals would also be of material use as a check on the accuracy of income, inheritance and gifts reported by taxpayers. However, the assessment and valuation of capital assets bristles with administrative difficulties which would, for the time being, appear to be decisive against the adoption of such a levy.

55. Social security contributions, related to benefits, could in part be a variant of the direct taxation of small incomes. As collections would be larger than benefit expenditures in the initial years while the schemes continue to expand, the net receipts could form a useful addition to the resources available for development purposes. A beginning has already been made in India in this direction in the Employees' State Insurance Scheme and the Employees' Provident Fund Scheme.

56. The taxation of capital gains is usually recommended for greater equity in the taxation of income. There is no doubt that they do represent an addition to income and, therefore, to the taxpayer's ability to pay. Moreover, they constitute one of the

factors making for inequalities of wealth, especially, in a developing economy with its increasing measure of industrialisation and urbanisation. The reasons given above favour the imposition of the capital gains tax in India. In fact, we did have a capital gains tax for a brief period of two years, but it was abolished in April 1949 mainly on the ground that it was not yielding any sizeable revenue because of falling values. Reference was also made to the fact that it had an adverse psychological effect on investment and hampered the free movement of stocks and shares. The reasons then given for the abolition of the capital gains tax still hold good today. In particular, the need for promoting a better climate for investment is stronger today than before, with the importance that industrial development is expected to assume in the next Five year Plan. Moreover, we are recommending an increase in the rates of income-tax. If a capital gains tax were to be introduced now—and it is bound to be levied at rates lower than the ordinary income and super-tax on account of its casual or irregular character—there is a danger of tax avoidance being stimulated by attempts to pass off as capital gains what may otherwise have been treated as a part of taxable income. Then, again, with the imposition of the estate duty, the tax system now contains a direct means for diminishing inequality of wealth and, therefore, subsequently of incomes. Under the circumstances, we do not recommend for the time being the imposition of a special tax on capital gains. We may add, however, that the situation will undergo a change, if, owing to the accelerated tempo of development or otherwise, we enter an era of continuously rising prices and profits and of capital values; in that event, capital gains may become an eminently suitable subject for taxation and should be brought within the tax net.

57. The taxation of unearned increments in the value of land and other property whether as a result of specific public projects of improvement or otherwise as part of the general economic progress in the community has long been regarded as theoretically an ideal levy which would obtain revenue without affecting enterprise or production. It has not met with success, however, owing primarily to serious practical difficulties in administering it. Capital gains from real estate are indirectly taxed to some extent by the States in the form of proportional property tax in the case of urban land and buildings, betterment levies on unrealised gains spread over a term of years in the case of land where new irrigation facilities are provided, and enhanced assessment of agricultural land converted to non-agricultural use. In the case of urban real estate, heavier annual taxation of property and taxes on transfer of property may obviate large unearned increments. Betterment levies or special assessments do not cover all capital gains but only those which arise from specific public improvements. They are, nevertheless, highly valuable additions to the tax structure, particularly as they spread taxation of the capital gains over a suitable period of years.

58. Another tax that needs to be considered is the excess profits tax. The excess profits tax is a tax on the gains of industry and trade that are in excess of a 'normal' or 'reasonable' level. In a period of monetary and price inflation it becomes a g

source of revenue. It has, therefore, been used mostly during War and post-war periods as a convenient means of taxing the abnormal gains from business. The excess may be determined with reference to a certain percentage return on capital (reasonable profits) or in comparison with profits earned in a datum period (normal profits); in many E.P.T. laws both methods have been adopted. The percentage standard gives rise to certain anomalies because it is not possible to lay down any particular profits ratio as applicable equitably to all forms of enterprise and is more difficult to apply than the standard of base-period or normal profits. Therefore, in excess profits tax legislation, the latter has been most commonly used, the percentage return being used as an alternative only when strictly necessary (as in the case of new concerns) or where, otherwise, gross inequity would result.

59. The excess profits tax legislation in India (Act XV of 1940, as subsequently amended) was largely modelled on the British law. The tax was not chargeable on profits below Rs. 36,000. The tax rates were lower than in U.K. On excess profits made after 1st September 1939 the tax rate was 50 per cent. up to 31st March 1941; thereafter, the tax rate was 66 $\frac{2}{3}$ per cent. of the excess. A post-war credit provision was widely adopted as a feature in E.P.T. legislation; the main idea was that a portion of the excess 'taxed' away would be returned to the taxpayer after the War. In India also a provision to this effect was made in 1942. The Indian tax was repealed in respect of profits arising after 31st March 1946. In U.S.A. the tax had already been repealed by the Revenue Act of 1945 and in U.K. at the end of 1946. In U.S.A. an excess profits tax was again introduced for taxable years ending after 30th June 1950.

60. It may be argued that excessive business profits may arise not only in war years but in any other period of inflation; when large development expenditures are being incurred, large profits may develop. However, experience of the working of E.P.T. in wartime has shown that in many respects there is an element of arbitrariness, particularly in fixing the standard of normal profits. If it is to be used as a normal component of the tax system, only the percentage return basis can be used in determining excessive profits; even this would not be satisfactory in actual working, as capital valuation would be involved and the varied circumstances of different businesses have to be recognised. Experience of U.S.A. and other countries in regard to excess profits tax in normal times has shown no particular advantages for it over the customary forms of income taxation. In India, a business profits tax was imposed in March 1947 on profits earned in 1946-47 at 16 $\frac{2}{3}$ per cent. on profits exceeding 6 per cent. of capital or Rs. 1 lakh, whichever was larger. The tax rate was later reduced to 10 per cent. in 1948-49 and the limit of return on capital to which no tax was applicable was raised; the tax was finally repealed in the budget for 1950-51.

61. While the E.P.T., like taxation of capital gains, may be kept in reserve for possible use in a highly inflationary period when excessive profits are made, we do not recommend the levy of the excess profits tax or the business profits tax as a normal component

of the tax system. Ordinarily, the personal income-tax and company super-tax should suffice for revenue and other purposes. ||

62. Another tax which needs to be considered is the excise duty on salt. The salt tax had formed a part of the fiscal system of the country from ancient times and it had undergone considerable enhancement at the hands of the British Government in India. It had always been objected to by public workers in India beginning with Gopal Krishna Gokhale and ending with Mahatma Gandhi. During the later stages of this opposition, the salt duty acquired political significance as a symbol of foreign rule and its abolition became one of the main planks of the movement for independence. And with the advent of independence in 1947, the salt duty was abolished and has, since then, not been reimposed.

• 63. An important factor to be considered in arriving at any decision about the desirability of reimposition of the salt tax is the present background of the extended field of commodity taxation. The Central excise duties cover commodities such as tobacco, cotton textiles, sugar, matches, tea, etc., which are consumed by the mass of the population. The sales taxes have been developed to include a wide coverage and their incidence is not very different from that of the salt tax.

64. The proposals we have made elsewhere in the Report regarding extension of consumption taxes in the Central and States fields will still further increase the burden of consumption taxes. It will be seen, therefore, that if the increase which has occurred, and may occur hereafter, in the range and yield of consumption taxes is taken into account, a tax on salt superimposed on the consumption taxes cannot be justified merely on the ground that the incidence by itself is relatively light.

65. There is an important factor which distinguishes the salt tax from similar taxes on comparable articles of general consumption such as food crops. Our examination of the general incidence of the tax system has shown that a large proportion of food crops is raised for domestic consumption and not for sale and, therefore, lies outside the reach of commodity taxes. Salt, on the other hand, even when manufactured in small concessional plots, is only to a limited extent used for personal consumption and is almost entirely sold for cash. Since salt is seldom produced on a subsistence basis unlike agricultural crops, it cannot escape payment of tax which makes the salt tax comparatively regressive in operation. A tax on salt is regressive also for the reason that its consumption, considered as an article of human food, is for the most part inelastic and hence its incidence falls heavily on the lower income groups. Moreover, since persons engaged in manual labour physiologically stand in need of a larger quantity of salt in their diet than others, the burden of the tax would be greater for such persons not merely in relation to income but absolutely.

66. The political aspect of the question is not irrelevant to a discussion of the salt tax as a fiscal measure. Taxes are levied in order that revenue may be raised and the collection of revenue as an administrative problem presupposes a reasonable degree of responsiveness on the part of those who are required to pay it. A tax which

may provoke widespread resentment and evoke popular resistance, whatever its merits, must to that extent be regarded as an undesirable tax. From all that we have heard in the course of our enquiry, this is a consideration which applies particularly to the salt tax and we think it would be a serious mistake of judgment to ignore it.

67. Our discussion of tax policy will not be complete without some reference to the important subject of co-ordination in tax matters between the Central Government and the States as well as among the States themselves.

**Inter-Governmental
tax co-ordination
and tax research**

68. There is hardly any problem of co-ordination in the field of direct taxation because in India, unlike in some other federal systems, the State Governments do not have the power to levy an income tax on non-agricultural incomes. They do, however, have the power to levy an income tax on agricultural incomes; some of them are already exercising this power, while we have recommended that the others should do so. To the extent that agricultural income is aggregated with non-agricultural income for the determination of the personal rate of the Central income-tax and non-agricultural income is aggregated with agricultural income for the determination of the personal rate of the State taxes on agricultural income, close understanding between the taxing machinery of the Central and State Governments would be required for their successful operation.

69. It is in the field of commodity taxation, however, that the need for understanding and co-ordination is greatest between the Central Government and the States. The sales taxes, as they have evolved in India, do not consist merely of a tax on the generality of sales, but also include special rates on specific commodities, many of which are subject to taxation by the Central Government in the form of excise duties. There are, besides, questions regarding the use of State sales tax system for purposes of economic policy that may have repercussions on areas and interests outside State jurisdiction. We have in subsequent pages of the Report drawn attention at different places to various aspects of individual taxes that call for some co-ordinated consideration and action. Besides, the importance of exchange of tax experience and information between the different States of the Union cannot be over-emphasised.

70. Above all, with the growing importance of public finance in our national economy, and the extent to which the Central, State and local constituents of the fiscal system are getting inter-linked, it is important to develop an integrated and national approach to problems of taxation and of expenditure, whether in the Central or in the State-cum-local fields. There is also much greater need than before for the collection of data regarding the working of individual taxes with a view not only to assessing their financial results, but, even more, of evaluating their effectiveness in securing the objectives of fiscal policy other than those relating to purely revenue considerations. An illustration of this would be a periodic appraisal of the extent to which tax incentives to production and investment such as we have recommended in this Report result in the fulfilment of the objects for which they are instituted. There is also the large field of State undertakings in the industrial and commercial

field, where it would be most useful to pool together the individual experience of the different States and of the Central Government. In general, with the first Five year Plan nearing completion and the second Five year Plan on the anvil, it appears to us to be a matter of some urgency that a large measure of co-ordination is assured in the tax efforts of States as in planned development.

71. Considering the range of matters in which co-ordination of tax effort and tax policies is required, and the need for an organisation under whose auspices inquiries into special aspects of the tax problem with a view to co-ordination at various plans may be pursued, we recommend the setting up, under Article 263 of the Constitution, of an All-India Taxation Council representing the Central Government and all States. The main object of the Council will be to secure co-ordination, to the extent necessary, of the tax policies, tax legislation and tax administration of the States, as between the States themselves and as between the Union and the States; tax matters pertaining to the States will include those with which their local bodies are concerned. Any disputes between States as also matters under discussion between one or more States and the Union which it is considered advisable to refer to a larger forum may be brought before the Council. The provision of an organised forum for the periodical discussion of common problems will be an important step in the direction of tax co-ordination and understanding between the Union and the States, and the States themselves.

72. It is desirable that in this forum the Governments concerned should be represented at the political level, i.e., by the Ministers. We accordingly suggest that the members of the Council should be the Union and States' Ministers in charge of Finance and Local Self-Government. There should, however, be provision at the same time for (a) expert assistance through committees, official and non-official and (b) continuous expert study of the problems involved. The Council may appoint standing, *ad hoc* or advisory committees consisting, whenever necessary, of non-officials as well as officials. Periodical or other conferences (e.g., an annual conference of sales tax authorities of different States and of the Union) may be held under the auspices of the Council. It is not possible to convert this body into one which can take formal decisions or make formal recommendations for binding action of a type which has not the acquiescence of all the members. The procedure of the Council should, therefore, as far as possible, be informal.

73. The existence of the Council should not preclude the usual procedure of discussion, negotiation, etc., bilateral or otherwise, between the Union and one or more States or between different States.

74. The Council will have a permanent secretariat in the form of a *Tax Research Bureau* attached to the Finance Ministry. Besides investigation of specific issues arising in the course of business of the Council, this organisation will be engaged on the continuous collection of material and study of problems pertaining to Union, State and local taxes and their co-ordination. We recommend the setting up of this organisation to study the tax system as a whole and in its main constituents, Central, State and local taxes; to keep

under review the main developments in foreign tax systems; to serve as a co-ordinating agency for tax statistics and take steps to improve the statistics for purposes of fiscal analysis and research; to undertake from time to time special enquiries relating to the working of particular taxes or groups of taxes, the effects of direct taxation on savings and capital formation, the impact of certain taxes on particular industries, the overlap that may arise between Central and State commodity taxation, etc., and generally to aid Governments in the formulation of tax policies by providing factual material and technical advice. This organisation could also take up the continuous study of the finances of individual State Governments that was suggested by the Finance Commission. It would also be a part of its duties to publish an annual review of public finance in India, covering not only the Central and State Governments but also local authorities.

75. It is, however, not sufficient to have work of this kind done under government auspices. We are of the view that some active steps should be taken to promote analytical work in these fields in Universities and in non-official research institutions. We therefore recommend the financing, in selected research institutions, of small research sections in public finance and public utilities. Provision should also be made for close liaison between such sections and the Tax Research Bureau proposed by us. If the University research sections develop on the right lines, it may be possible, in due course, to use them in collaboration with the Tax Research Bureau and selected officials to assist in providing refresher and training courses for tax officials.

CHAPTER IX
NON-TAX REVENUES

Central and State Government undertakings

So far we have dealt with the fiscal system mainly from the point of view of the problems and policies concerning tax revenues. Non-tax revenues, however, form an important element in the public finance of the country, both at the Central and the State levels. The line of distinction between tax and non-tax revenues is often a thin one. In fact, they shade into one another, as for instance, the receipts from tax on electricity consumption and the surplus of electricity undertakings, or, again, the proceeds of excise duties on liquor and the profits of a Government-owned distillery. Problems of tax policy thus steadily merge into questions of pricing policy for the products and services of State enterprise. This makes it necessary to observe the scope and purposes of various governmental enterprises in order to assess the part that revenue considerations, in practice, play in their operation and the extent to which their contribution to the public fisc may be enlarged consistently with other objectives. In any case, the fiscal objective cannot be overlooked in a review of non-tax revenues, owing to the importance, under the Commission's terms of reference, of finding additional resources for financing the development programme.

2. Apart from administrative and other miscellaneous receipts, non-tax revenues consist mainly of the surpluses of State undertakings which taken together are a growing and potentially important source of public revenues. In this chapter we review the operations and financial results of the principal public undertakings—Central and State. We proceed in the next chapter to deal with policy considerations bearing *inter alia* on problems of pricing the products and services of Government undertakings, allocation of their profits, and their tax treatment in comparison with private enterprise.

3. A brief reference to the role of non-tax revenues or surpluses from State undertakings in the revenue system of other countries may be useful before proceeding to examine in detail the position in India. Historically speaking, the development of tax systems of most countries has been characterised by a decline in non-tax sources of revenue like public domain, etc. (which were an important feature of medieval revenue systems) and an increase in the scope, rates and yields of tax revenues. In recent years, particularly since the War, the trend towards increasing socialisation or State participation in economic enterprise has again led to some shift in emphasis in favour of non-tax revenues in several countries, though the general trend toward an increase in the relative importance of tax revenues still continues. In countries with collectivist economies, of course, a predominant or larger part of public revenues is derived from non-tax sources; thus,

normally only about 10 per cent. of the public revenue in U.S.S.R. is derived from general taxation and loans, and the remainder, from the profits of national enterprises and the turnover tax on the products of public enterprises (which is also a commodity price-determining factor). In other centrally planned economies, the position is not dissimilar, though reliance on public enterprise may not be as large. Even of countries with private enterprise economies, in several under-developed countries, where one or two basic raw materials occupy an important place in their export trade, State trading has often provided significant amounts of revenue. In most non-collectivist countries, however, non-tax revenues still remain relatively unimportant, though such State activities in the economic sphere as give rise to non-tax incomes have, speaking generally, increased in recent years. In the budgets of most of these countries, however, receipts from fees, royalties and other miscellaneous non-tax sources far exceed the net receipts from public enterprises.

4. In the United Kingdom, in 1952, nationalised industries, with an aggregate capital of £200 million and a labour force of some two million workers, represented almost one-tenth of British industry. There, the nationalisation after the War of certain basic industries such as coal, gas, electricity, transport and iron and steel (which has since been denationalised) has brought into existence some of the largest public undertakings of their kind anywhere, administered by a new type of public corporation. Most of the corporations are required by statute to conduct their affairs in such manner that over a period of years their revenue are sufficient to meet current expenditure; the period for balancing accounts is not defined, being usually described as 'one year taken with another' or 'an average of good and bad years'. The corporations pay all taxes, duties, rates and other charges, whether national or local.

5. France has a certain tradition of its own of public enterprise. After the War, that country has made rapid strides towards nationalising key industries and credit institutions as part of its programme of national economic reconstruction. In 1945, France nationalised her air services and a large part of insurance and banking, including the Bank of France and the more important commercial banks. In 1946, the entire coal mining industry except for a few small concerns was nationalised and so were all undertakings engaged in the production and distribution of gas and electricity. The French Government also participate in a variety of mixed enterprises engaged in such diverse activities as mining for ore, motion picture production, broadcasting, news agency, production and distribution of petroleum, manufacture of chemicals, merchant marine and river navigation. The operations of public enterprises have, however, uniformly resulted in moderate deficits during the post-war years.

6. Non-tax revenues are of some importance in the revenue systems of several Latin-American countries, which occasionally derive substantial profits from foreign exchange transactions (arising from multiple currency practices) apart from the revenues they derive from liquor and tobacco monopolies, and State lotteries.

7. Some of the Middle Eastern countries obtain substantial revenue from non-tax sources. In Iran, these formed about 30 per

cent. of the total estimated current revenue in 1949-50; by far the most important source was 'oil payments', at about 11 per cent. of total revenue. Iran has State-owned industries in cement, sugar, chemicals, soap and glycerine, salt works and fisheries but most of them do not yield any net revenue. Fiscal monopolies in opium and tobacco were estimated to yield 1,033 million rials (net) in 1949-50, or 13 per cent. of total revenue. State trading in staple articles of consumption like wheat, cotton, tea, matches and cotton piece-goods has yielded but little profit. Iraq gets about one-fifth of its current revenues from oil royalties, tobacco monopoly and other non-tax sources.

8. In some countries of South Asia and the Far East, the role of the State covers not only ownership of certain basic industries but also State trading in one or two principal articles of export where substantial profits could be obtained. In Burma, exports of rice and timber are a virtual State monopoly and yield substantial profits, particularly rice. In 1952-53 and 1953-54 the contribution made by the State Agricultural Marketing Board accounted for about one-half of total government revenues. In Thailand, the government had established a number of factories in the cement, cotton textile, paper, sugar, and rubber goods industries. The revenue from fiscal monopolies in opium, alcohol, tobacco, playing cards and lotteries in 1951-52 was estimated at 12 per cent. of total revenue. The export trade in rice is monopolised by the Government Rice Bureau which made a net contribution in 1951-52 of about 10 per cent. of government revenue receipts. In Ceylon, besides railways and posts and telegraph services and electricity (which is largely State-owned and operated), some other public enterprises such as salt, cement, plywood and leather tanning have been extended recently and a number of new factories for the production of paper, vegetable oil, D.D.T., caustic soda and chlorine are being set up. In Indonesia, under the Emergency Industrialisation Programme, several State-owned factories are being established. The Government of Japan make sizeable net profits from State monopolies in tobacco, salt, camphor and alcohol.

9. The entry of government into commercial and industrial fields in India has, in most cases, not been determined by the expectation of making profits and adding to revenues. (On the other hand, the primary objectives and scope of public enterprise in India urges have generally been non-fiscal: such as (a) the undertaking of basic public utilities, e.g., railways, as well as projects of outstanding public benefit which are not expected to be remunerative in the short period, e.g., irrigation and power projects, air services, etc., (b) the setting up of basic industries of national importance such as steel and fertilisers generally to assist in broadening the base for industrial and agricultural development or of essential consumer goods industries, which may also involve large investment of resources normally beyond the unaided capacity of private enterprise; (c) the establishment of certain capital goods industries, e.g., heavy machine tools, the returns from which are not immediate or certain and which, therefore, are less attractive to private enterprise; (d) the initiation of pioneering enterprise with the object of inducing private entrepreneurs into new fields of industry as in

Mysore. There are a few instances, however, where revenue considerations have played a principal part in the extension of State enterprise. But in most cases, the promotion of some broad public purpose seems to have been the main factor behind the extension of the area of State enterprise, though its operations may have incidentally resulted in some profit. In some cases, irrespective of the original or primary reason for the establishment of particular enterprises, revenue considerations have supervened later as a factor in pricing policies.

10. Non-tax revenues at the Central, State and local levels taken together are fairly important in the scheme of the country's revenue system; they formed, at Rs. 158 crores, between one-sixth and one-fifth (18.2 per cent.) of total public revenues in 1953-54. This, however, includes various fees and administrative and other miscellaneous receipts, as already indicated in an earlier chapter. Net receipts from public enterprises totalled only Rs. 37.5 crores in 1953-54.*

Central Government Undertakings

11. The principal public enterprises of the Central Government are railways, posts and telegraphs, broadcasting, opium, currency and mint, and the various industrial undertakings in the public sector which have been started in recent years in pursuance of the policy outlined in the Industrial Policy Resolution, 1948.

12. Railways constitute the largest single source of non-tax revenues of the Central Government and contributed Rs. 7.5 crores to Central revenues in 1953-54 over and above interest charges amounting to Rs. 27 crores; the net surplus of railways was Rs. 20.3 crores in 1952-53 and Rs. 10.7 crores in 1953-54, including the part retained for the railways' own use. In view of the relative importance of railways as a public undertaking, a brief account of their changing significance to public revenues will not be out of place. The total capital-at-charge of the Indian railways is estimated at Rs. 875 crores as at the end of March 1954. Since the completion of the process of integration of all the company-managed railways into a single unified public undertaking, they have become by far the largest national undertaking. Under the Railway Convention of 1949 for a five year term, which governs the basis of the contribution at present, the relationship between railway finances and the general budget has been so fixed as to accord to the general tax-payer the status of sole share-holder in the railway undertaking, entitled to a guaranteed dividend of 4 per cent. on the loan capital invested therein. This arrangement replaced the earlier basis of an *ad hoc* contribution to general revenues after paying interest charges. Excluding interest charges which have been of the

*In several cases the net receipts are taken without allowing for interest charges while in others they exclude small amounts of capital expenditure charged against revenue.

order of a little over Rs. 26 crores, the net contribution to general revenues has been as follows:—

(Crores of rupees)

	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54 (R.E.)	1954-55 (B.E.)
Net contribution to general revenues	7.3	7.0	6.5	6.9	7.1	7.5	7.4

13. The following table gives a summary, since the pre-war year 1938-39, of the relationship of railway finances to general finances, viewed in relation to the total investment by the general taxpayer:—

TABLE 1.—*Net return from investment in railways*

(Crores of Rupees)

	1938-39	1945-46	1948-49	1951-52	1952-53	1953-54 (R.E.)
Capital-at-charge	755.3	796.9	701.9	850.1	857.4	875.2
1. Contribution to general revenues (net of interest charges)	1.4	32.0	.3	6.9	7.1	7.5
2. Appropriation to Revenue Reserve Fund . . . . .	..	6.2	..	18.3	1.2	..
3. Appropriation to Development Fund . . . . .	..	..	0.8	10.0	12.0	3.2
4. Net Return (1+2+3)	1.4	38.2	19.9*	35.2	20.3	10.7
5. Appropriation to Depreciation Reserve Fund	12.6	17.1	11.3	30.0	30.0	30.0
6. Interest on capital-at-charge	29.3	27.2	22.4	26.5	26.9	27.0
7. Gross return (4+5+6)	43.3	82.5	53.6	91.7	77.2	67.7
8. Gross traffic receipts	99.6	225.7	213.1	290.8	270.6	272.0
9. Net return as per cent. of gross traffic receipts	1.4	16.9	9.3	12.1	7.5	3.9
Net return as per cent. of capital-at-charge	0.2	4.8	2.8	4.1	2.4	1.2

14. On the whole, it might be said, the Railways have been a productive enterprise of the first order; apart from their contribution to the strength of the national economy, they have given a steady, though modest, support to national finances.

15. Over and above the net contribution that Railways make to public revenues, they are also providing for a certain portion of the finance required for their expansion and development. For this purpose, they have been expected to contribute from their own funds a

*This figure covers a sum of Rs. 11.8 crores on account of repayment (as distinguished from appropriation) to the Depreciation Reserve Fund from the surplus accrued in that year.

sum of Rs. 320 crores during the period of the first Five year Plan. During the first three years of the Plan, they have provided only Rs. 165 crores and it is likely, therefore, that there will be a shortfall in their estimated contribution of Rs. 320 crores over the whole period.) Even after the successful completion of the current programme of rehabilitation, large scope for development would still remain; there is, besides the big problem of expansion of transport capacity to meet growing transport needs as well as extension of railways to new areas. These aspects will, presumably, become more important during the period of the next Plan.

16. Unlike the Railways, the finances of Posts and Telegraphs are merged in the Central budget. Gross earnings are utilised to meet working expenses (inclusive of appropriations to Renewals Reserve Fund and Telephone Development Fund) and interest charges: out of the remainder an *ad hoc* contribution is made to general revenues and the balance is maintained as a *pro forma* credit to the Department. In 1938-39 the net contribution of the Department to general revenues was Rs. 19 lakhs. In the war years the Department made substantial net profits as a result of increased volume of business and the enhancement of postal and telegraphic rates, with the result that the contribution rose to Rs. 11.3 crores in 1945-46; thereafter, it rapidly declined, as is brought out in the table below:

TABLE 2.—Financial results of Posts and Telegraphs Department
(Crores of Rupees)

	1938-39	1944-45	1950-51	1951-52	1952-53	1953-54 (R. E.)	1954-55 (B. E.)
Gross revenue	11.68	29.38	36.35	39.12	41.06	44.12	45.66
<i>Deduct</i>							
(a) Working expenses	10.75	18.15	31.21	34.39	37.68	40.37	42.19
(b) Interest charges	0.74	0.98	1.16	1.30	1.50	1.73	1.97
Net contribution to general revenues	0.19	10.25	3.98	3.43	1.88	2.02	1.50
Capital expenditure outside revenue account	2.6	3.1	7.0	4.9	6.5	7.7	11.5

17. In 1949-50 the charges for ordinary letters and post-cards were raised to increase revenue by an estimated Rs. 2.8 crores. In 1950-51 concessional rates were introduced in respect of local deliveries and the basic minimum rates for ordinary telegrams and telephone rates generally were also reduced. The net contribution of the Department in 1953-54 is placed at Rs. 2 crores and is estimated to be lower at Rs. 1.5 crores in 1954-55. The decline in the net contribution to general revenues is mainly explained by the rise in working expenses, largely attributable to extension of postal facilities. The contribution to the Renewals Reserve Fund has also been increased from

Rs. 71 lakhs in 1950-51 to Rs. 100 lakhs in 1953-54 and Rs. 125 lakhs in 1954-55.

18. The Central Government have a monopoly of production and distribution of opium. As a result of an International Convention, the export of opium for civilian consumption in foreign countries practically ceased in 1936; since then the only revenue under this head is derived from the sale of opium for internal consumption and sale abroad mainly for medical purposes. The accounts showing financial results of manufacture and sale of opium as they appear in the budget memorandum are not on a really net basis: net revenue from sale of opium is shown at Rs. 207 lakhs in 1953-54 but, after deducting expenditure of Rs. 269 lakhs under this head, there is really a net excess of expenditure of Rs. 62 lakhs. In fact, there has been some net loss under this head for the Central Government over a period of years, mainly due to the fact that State Governments pay to the Central Government at cost for the opium sold to their Excise Departments. Secondly, Government have to incur some expenditure on supervision of the cultivation of the poppy from which opium is prepared. Owing to the progressive cut in the supply of opium from the two Government factories with a view to introducing complete prohibition of its use within a period of 10 years commencing 1949; receipts from this source show a gradual decline and will soon become negligible.

19. The revenue under Currency and Mint is derived mainly in the form of surplus profits of the Reserve Bank arising principally on account of interest receipts from the large amount of government debt held by the Bank including *ad hoc* treasury bills, and from the profits on the minting of bronze and nickel coins. Net receipts under this head were estimated at Rs. 12.8 crores in 1953-54 and are placed higher at 17.8 crores in 1954-55, mainly owing to an estimated rise in the gross income of the Reserve Bank from a larger volume of Government securities holdings.

20. The Industrial Finance Corporation of India (set up in 1948) made a profit of Rs. 23 lakhs in 1952-53 which was more than sufficient to pay the guaranteed dividend of 2½ per cent. on its paid-up capital, after providing for payment of taxes and transfer to the Statutory Reserve Fund (Rs. 2.5 lakhs). During the previous four years it had shown a deficit, the total amount drawn by way of subvention to meet the guaranteed dividend during that period amounting to Rs. 27 lakhs. In 1953-54, a subvention of Rs. 4 lakhs was again required to make up the guaranteed dividend. The Indian Airlines Corporation incurred an estimated loss of Rs. 128 lakhs in the year ending 31st July 1954 which is to be met from loans by the Government of India. Air India International Corporation, on the other hand, disclosed a profit of Rs. 27 lakhs. It is, however, too early to judge the financial results of working of the Air Corporations.

21. Table 3 gives details of capital outlay on the other commercial undertakings of the Union Government.

TABLE 3.—Investments in industrial and commercial undertakings
by the Union Government

(Lakhs of Rupees)

Name of the Undertaking	Investment upto April 1951	Total investment at the end of 1953-54	Provision in the Five-year Plan (1951-56) (R. E.)
1	2	3	4
1. Chittaranjan Locomotive Works	10,20	13,59	3,55
2. Integral Coach Factory . . . . .	..	1,44	7,47
3. Hindusthan Steel, Limited . . . . .	..	23	33,73
4. Hindusthan Machine Tools, Ltd.	14	1,89	4,25
5. Hindusthan Shipyard, Ltd.	1,50	7,51	12,33
6. Sindri Fertilizers and Chemicals, Ltd.	18,41	23,98	9,03
7. Hindustan Antibiotics, Ltd.	4	67	2,07
8. National Instruments Factory	4	16	84
9. Indian Telephone Industries	1,20	3,00	3,49
10. Hindustan Cables, Ltd. . . . .	..	84	1,30
11. Hindustan Insecticides, Ltd. . . . .	..	15	44
12. Hindustan Housing Factory	94	1,07	13
13. Heavy Electrical Equipment Project . . . . .	..	..	2,00
14. Air Corporations . . . . .	..	2,03	..
15. Eastern Shipping Corporation . . . . .	..	..	..
16. Synthetic Oil Plant . . . . .	..	..	..
17. Salt Works	4	15	30
18. Indian Rare Earths, Ltd.	26	84	58
19. Bombay State Transport Corporation	1,33	1,33	0.
20. Delhi Road Transport Authority	42	42	..
21. Housing Company, Delhi . . . . .	..	15	..
22. Sindhu Resettlement Corporation . . . . .	..	13	..
TOTAL	34,52	59,58	81,51

22. The capital outlay on the Damodar Valley Corporation as at the end of 1953-54 amounted to Rs. 57.5 crores. The capital accounts of the project are not yet closed, but the first operational phase of the corporation has already begun. The gross receipts from supply of 316 MofFin.—12

power from the main grid (Bokaro and Sindri) and of water for irrigation purposes amounted to Rs. 54 lakhs in 1953-54; in 1954-55 they are expected to go up to Rs. 1.3 crores. .

23. Sindri Fertilisers and Hindustan Shipyard are at present the two major undertakings of the Central Government under the control of the Ministry of Production. The Sindri Fertilizer Factory, built at a cost of about Rs. 23 crores, is managed as a private limited company. It started production towards the end of 1951 and showed a net profit of Rs. 95,000 (after making allowance for depreciation, interest charges, etc.) over a period of about 14 months ending 31st March 1953. The Hindustan Shipyard originally started by the Scindias was taken over in 1952 by a limited company specially constituted for the purpose at a valuation of Rs. 2.7 crores. The paid-up capital of the company as on 31st March 1953 was Rs. 309 lakhs of which two-thirds is owned by the Government of India and the remaining one-third by the Scindia Steam Navigation Company Ltd. The company suffered net losses of Rs. 15.5 lakhs in 1952-53 and Rs. 7.7 lakhs in 1953-54 which were met by a special subsidy from Government. It is not possible to forecast when it will begin yielding net receipts. The Hindustan Aircraft Factory, jointly owned by the Government of India and the Mysore Government, is engaged on overhaul of air frames and engines and construction of rail coaches and road buses. The Central Government are a major shareholder (along with the Mysore Government and a private joint stock company) in Indian Telephone Industries Ltd., Bangalore, with a total subscribed and paid-up capital of Rs. 2.5 crores. The concern has a monopoly of the manufacture of automatic telephones and carrier equipment, its turnover during 1952-53 was about Rs. 2 crores, resulting in a net profit of Rs. 14.3 lakhs. The National Instruments Factory, one of the oldest government-owned concerns, is engaged in the manufacture and repair of scientific and mathematical instruments; production and repair work carried on during the year 1952-53 amounted to Rs. 18 lakhs, which indicates its small size. The Hindustan Housing Factory was set up in 1948 for turning out prefabricated houses at low cost. For various reasons it could not go into production and in 1951 it was decided to abandon the original scheme and to explore new avenues for its profitable working: a limited company has now been formed with the Government of India and a private firm as equal partners for taking up new lines of manufacture. A few other public enterprises, viz., for the manufacture of D.D.T., penicillin, machine tools and insulated cables, are expected to go into production in 1954-55. Mention may also be made of the projected steel plant, synthetic oil plant, and a factory for the manufacture of heavy electrical equipment. The total investment made by the Government of India in commercial and industrial projects in the public sector up to the end of 1953-54, as indicated in Table 3, is of the order of Rs. 60 crores; the list is, however, not complete. Most of the undertakings are of too recent origin to enable a proper assessment being made of the financial and other results of their working. It is not possible, therefore, to express an opinion on the contribution to public revenues that they are likely to make in the future.

State Government Undertakings

24. In the States, where non-tax revenues figure more prominently than at the Union level, the largest part of the receipts, apart from

administrative receipts and fees, is derived from old heads like forests and irrigation. Of commercial enterprises, the most important are electricity undertakings and road transport schemes, besides a few industrial undertakings in certain States. These are briefly reviewed below.

25. There is a noticeable trend in the States towards public ownership of systems of generation and distribution of electricity; besides the desirability of regulation of supply of a basic resource such as electricity, the promise of potential profit has increasingly led State policy in this direction. Hitherto, however, as may be seen from Table 4 at page 180, the results of working of electricity schemes do not indicate net surpluses in many States. This however, is the result mainly of increase in working expenses and interest charges. The new projects under construction naturally would take some time before they are completed and begin to yield returns. The main increases in working expenses are in respect of larger depreciation provision on account of additional capital employed, cost of maintenance, and provision for tools and plant.

26. Only two States (Punjab and Uttar Pradesh) derived sizeable net profits in 1953-54 from departmentally operated electricity undertakings, after meeting working expenses, depreciation and interest charges. Punjab has budgeted for a net loss of Rs. 12 lakhs in 1954-55 as compared to net receipts of Rs. 27 lakhs in 1953-54 and Rs. 55 lakhs in 1952-53. This deterioration is only apparent and is explained by the fact that the Punjab Government have decided to make an annual contribution of Rs. 50 lakhs in the form of an interest-free loan from the profit on the working of the Uhl River (Mandi) Electric Scheme, to enable the electricity side of Bhakra Nangal to become productive as early as possible. Pending a decision by the Auditor-General regarding the procedure to be adopted for classification of this annual contribution, the amount is being shown as part of working expenses, which gives a somewhat incorrect picture of the financial results of the older electricity undertakings in the Punjab. Mysore's net profit of Rs. 21 lakhs in 1952-53 is expected to be reduced to Rs. 2 lakhs in 1953-54 and to be replaced by a net loss of Rs. 14 lakhs in 1954-55 (Budget Estimate). This is explained by an all-round increase under working expenses, interest charges and provision for depreciation, besides additional provision for tools and plant. Partly, the apparent deterioration in the working results of the electricity undertakings is due, as in some other States, to the increase in interest charges on account of new projects which have not yet attained full productivity. The net return (after deducting working expenses and depreciation charges from gross receipts) on capital outlay on electricity schemes in Mysore has steadily declined and in 1954-55 is expected to be only 3 per cent. whereas the State Government have to pay a somewhat higher rate of interest on public borrowings. It may be pointed out in this connection that the tariffs for the supply of power in Mysore are comparatively low, particularly in the case of supply to large industrial concerns and to irrigation pumps.* The net receipts of Rs. 23 lakhs in 1953-54 in Bombay do not take into account depreciation and interest charges.

*It is proposed to enhance the rates of power supply to irrigation pumping*sets as also the rate of surcharge.

TABLE 4.—Net receipts under electricity schemes in the States

(Lakhs of Rupees)

	1952-53				1953-54(R.E.)				1954-55(B.E.)						
	Gross receipts	Working expenses	Depreciation	Interest charges	Net receipts	Gross receipts	Working expenses	Depreciation	Interest charges	Net receipts	Gross receipts	Working expenses	Depreciation	Interest charges	Net receipts
Andhra (a)	..	..	..	..	..	98	72	12	83	(-)69	104	69	12	106	(-)83
Assam	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bihar	20	29	..	5	(-)14	33	47	..	9	(-)23	61	62	..	13	(-)14
Bombay	57	51	..	N.A.	6	113	90	..	N.A.	23	151	128	..	N.A.	23
Madhya Pradesh (b)	69	41	21(c)	26	(-)19	..	Not available				Not available				
Madras (a)	517	358	54	189	(-)84	502	300(c)	55(c)	168	(-)21	526	319	62	184	(-)39
Orissa	6	9	1	8	(-)12	11	12	1	12	(-)14	17	17	1	16	(-)17
Punjab	149	47	15	32	55	143	66	14	36	27	155	108	19	40	(-)12
Uttar Pradesh	144	75	37	16	16	149	79	44	17	9	291	171	45	37	38 (d)
West Bengal	11	6	2	4	(-)1	18	13	2	5	(-)2	24	15	3	6	..
Hyderabad	..	..	..	..	..	..	..	..	..	..	91	52	31	8	..
Madhya Bharat	38	31	2	N.A.	5	47	40	2	N.A.	5	57	45	3	N.A.	9
Mysore	217	75	52	69	21	226	86	57	81	2	235	95	65	89	(-)14
PEPSU	22	28	1	..	(-)7	25	32	1	..	(-)8	31	32	2	..	(-)3
Rajasthan	87	102	..	6	(-)21	100	109	..	7	(-)16	105	111	..	12	(-)18
Saurashtra	29	26	..	4	(-)1	32	23	5	5	(-)1	34	26	5	7	(-)4
Travancore-Cochin	81	27	14	50	(-)10	100	30	15	59	(-)4	120	37	18	68	(-)3

(a) The figures for Madras & Andhra for 1953-54 (R. E.) are available for second six months only and have been doubled. The data for 1952-53 shown against Madras are for the composite State of Madras.

(b) For Madhya Pradesh the data given for 1952-53 relate to the Madhya Pradesh electricity project which is managed through a Board. No information is available for later years.

(c) Provisional figures.

(d) In Uttar Pradesh a substantial increase in net receipts is expected in 1954-55 due to a change in classification; hydel receipts which were formerly shown under the head "Irrigation" have been transferred to "receipts from Electricity Schemes".

The total under various columns are not shown as data for certain States are incomplete and are not strictly on a comparable basis.
N.A.—Not available.

27. Road transport schemes are in operation in all the States except PEPSU* and some Part C States. Table 5 at pages 186—188 gives the results of working of the schemes in the various States.

28. Capital outlay on road transport schemes in ten States for which information is available was estimated at about Rs. 17 crores as at the end of 1952-53. The accounts are not maintained on a uniform basis, which makes comparison of financial results in various States difficult. Provision to a varying extent is now made for depreciation charges in all States; Bihar, Assam, Saurashtra and Rajasthan having started making such provision only from 1953-54. The practice in regard to provision for interest on capital investment varies, partly in consequence presumably of the fact that receipts from public revenues and not from loans are used to finance some of these schemes; thus, in about half a dozen States including Assam, Bombay, Uttar Pradesh, Madhya Bharat and Rajasthan, no provision is shown for interest on capital investment. It would appear that about a dozen States derived net profits from this source in 1953-54, though some of them got only nominal amounts. West Bengal is conspicuous among the States for having shown an appreciable net loss amounting to Rs. 28 lakhs in 1952-53; this however, is likely to be reduced to Rs. 17 lakhs in 1953-54. In Bombay, State road transport services were managed departmentally till 1950, when the Bombay State Road Transport Corporation was set up. The share capital of the Corporation (Rs. 5.3 crores) is held jointly by the State Government and the Railways in the proportion 3:1. In 1950-51, the latest year for which information is available, the Corporation showed a profit of Rs. 22.4 lakhs (not allowing for interest charges). The Bombay Government earned Rs. 11 lakhs as dividends on their share capital of Rs. 4 crores, showing a net return of 2.7 per cent. The Uttar Pradesh Government which had invested as at the end of 1953-54 about Rs. 4 crores in road transport services obtained a return of 5.5 per cent. on their capital investment in 1953-54 (R.E.), without providing for interest payments. Road transport, it is generally considered, could be a remunerative State enterprise, besides helping in development of transport facilities in backward areas and improving the standard of service. State enterprise has, in the main, confined itself to the field of passenger transport and only two or three States have so far taken up goods transport which is a very specialised line of business and is more difficult to handle. It may be pointed out in this connection that recently the Planning Commission has asked State Governments not to embark on goods transport during the period of the second Five year Plan.

29. In order to facilitate rail-road co-ordination, the Road Transport Corporation Act, 1948 was passed by Parliament which has since been replaced by the Road Transport Corporation Act, 1950. The Government of India have decided that, in future, railway association with State road undertakings should preferably take the form of special corporations for this purpose. Rail-associated road transport undertakings are at present in operation in Bombay,

*The PEPSU Government has also made a modest start in nationalisation of road transport in the current year.

Orissa, Madhya Pradesh, and in the Kulu Valley of the Punjab. Total investment made by the Railways in road services is estimated at over Rs. 2 crores as at the end of 1953-54.

Industrial enterprises of States 30. Some of the State Governments, notably Mysore, Travancore-Cochin, Hyderabad, Madras and Madhya Pradesh, have been active in establishing industrial enterprises either directly or in partnership with private enterprise. Over the last thirty years, the Mysore Government have followed a bold policy of encouraging industrial development in the State by setting up basic industries like iron and steel and pioneering enterprises in various other fields. It will be seen from Table 6 on pages 189—193 that it is mainly in Mysore and Travancore-Cochin that government participation in the industrial field has brought significant addition to revenues; the net receipts of the two States on this account amounted to Rs. 43 lakhs and Rs. 15 lakhs, respectively, in 1952-53. In other States for which information is available, on the whole, receipts have not been sufficient to cover the total working expenses, interest charges and depreciation. It is necessary to bear in mind a feature of some importance in the financial structure of many public enterprises, for a proper assessment of the relative results of the working of public and private enterprise. A substantial part of the capital of public enterprises is derived from loans on which interest charges are payable, whereas in private enterprise equity capital and self-financing are usually more important than loan capital. As a result, liability to pay interest is generally much larger in respect of public undertakings and this leads to an apparent reduction in their net returns as compared to private enterprise.

Mysore 31. The total amount invested by the Mysore Government in State-owned and operated industrial undertakings was approximately Rs. 6 crores as at the end of 1952-53. The average net return was estimated at 7 per cent. which included the high profit of 65 per cent. from the Government Soap Factory and the Sandalwood Oil Factory; these high profits are partly due to the fact that the cost of sandalwood issued to the factory is not charged for in the accounts which, therefore, give an incorrect picture of its financial results. Excluding these two concerns, the net return on investment in State-owned enterprises is estimated at 5.8 per cent. on paid-up capital. The State-owned Mysore Iron and Steel Works (established in 1918) has taken some time to start yielding net profits, the figures being Rs. 13.1 lakhs, Rs. 5 lakhs, Rs. 12.3 lakhs, Rs. 32.2 lakhs and Rs. 33.4 lakhs, respectively, during the years 1948-49 to 1952-53. In 1952-53, the capital-at-charge of the concern was Rs. 531 lakhs and the net return was 6.2 per cent. The Mysore Government have also invested Rs. 144 lakhs in shares of over two dozen industrial concerns, which they have helped to usher into existence in the State.

Travancore-Cochin 32. In Travancore-Cochin one industrial undertaking (Travancore Minerals) out of about a dozen concerns accounted for almost the entire net receipts of Rs. 15 lakhs in 1953-54. The profits of this concern are explained mainly by its monopolistic position in regard to the processing of such minerals as monazite and illmenite which are sold at high prices abroad.

33. The Madhya Pradesh Government have made substantial investments in five State-sponsored industrial undertakings to the extent of over Rs. 5 crores, of which the particulars are given below:

(Lakhs of Rupees)

	Authorised capital	Paid up capital	Shares purchased by Government	Loans advanced by Government
National Newsprint and Paper Mills, Ltd. .	500	140	65*	301.3
Ballarpur Paper and Straw Board Mills Ltd.	200	74	40*	90.0
Gondwana Paints and Minerals Ltd. .	20	6	1.6	2.7
Central Hindustan Orange and Cold Storage Co., Ltd.	20	18	..	9.5
Sadarangani Oil Products Co. Ltd.	25	4	0.5	..
TOTAL	765	242	107.1	403.5

The National Newsprint and Paper Mills in which the Madhya Pradesh Government hold a major part of the share capital and to which they have also advanced over Rs. 3 crores is expected to go into production by the end of 1954. In 1949 it became apparent that the issued capital of the company (Rs. 1.5 crores) was not sufficient to complete the project. The old managing agents were not able to procure additional finances and they relinquished their charge in October 1949. In view of the importance of the industry, the State Government took over the responsibility of providing the additional funds required for the successful completion of the project. The capital cost of the project is now estimated at Rs. 6 crores.

34. Much the same experience was repeated in regard to Ballarpur Paper and Straw Board Mills Ltd. The old managing agents were not in a position to raise the necessary funds to complete the project and the State Government were compelled to take over the concern in November 1949. In view of the recommendation made by the Shroff Committee (1950) that the State Government should endeavour to induce some industrial firm of repute to take over the business, the managing agency of Ballarpur Paper and Straw Board Mills Ltd. was in April 1951 entrusted to private interests. The new managing agents have undertaken to invest a substantial amount in the share capital by purchasing at par all the shares held by the Madhya Pradesh Government and have also agreed to secure the necessary finance to complete the project. It will be seen, therefore, that either special factors are responsible for the failure of the Madhya Pradesh Government to get returns on their investment in industrial enterprise or that the concerns are still in the process of completion and would naturally take some time before they can yield any profits.

*Inclusive of shares of the face value of Rs. 5 lakhs each issued by the two companies in favour of Government for considerations other than cash.

35. The milk scheme of the Bombay Government deserves special mention; it combines State trading in imported skimmed milk powder, and production and processing of pure milk supplies locally. A guaranteed market for milk powder was ensured by prohibiting the use of fresh milk for tea, coffee and other preparations in restaurants. A beginning was made in 1947 by setting up a dairy colony at Aarey. The sale price of imported milk powder has been kept high and the surplus realisations have been utilised to finance the major part of the capital investment in the Aarey Milk Colony which stood at Rs. 3.4 crores as at the end of March 1953, as well as to meet the loss, if any, on the milk distribution scheme: during the four-year period 1949-50 to 1952-53 the net profit from the sale of skimmed milk powder amounted to Rs. 262 lakhs or an average of Rs. 65.5 lakhs per year. In 1951-52 the Bombay State Milk Fund was constituted to which all surplus profits from the purchase and sale of skimmed milk powder are credited; withdrawals are made for meeting capital expenditure on the development of the Aarey Milk Colony and its subsidiary concerns and to meet the loss, if any, on milk distribution. Up to the end of 1953-54, total accretions to the Fund amounted to Rs. 125 lakhs and withdrawals to Rs. 116 lakhs, leaving a small balance of Rs. 9 lakhs. Apart from any direct money returns the scheme may yield, the Aarey Milk Colony has brought about a significant improvement in the supply of pure milk and at reasonable prices to a big consuming centre like Bombay city.

36. Hyderabad's experience in regard to State participation in the industrial field has, apparently, not been very happy, particularly in recent years. The Industrial Trust Fund was constituted by the State Government as far back as 1929 with an initial contribution of Rs. 47 lakhs from budget surpluses to assist the industrial development of the State. At various subsequent stages, Government made additional contributions to the Fund. Further accretions occurred as a result of interest on loans advanced by the Fund to large-scale industries. The balance at the credit of the Fund is expected to reach an estimated figure of Rs. 4.7 crores by the end of 1954-55. The Industrial Trust Fund is, in fact, a government agency with a Minister acting as Chairman and two other Ministers as Members. The organisation holds managing agencies of certain industrial undertakings in which Government have a majority of shares and also had advanced loans. In 1950 the trustees of the Fund were the managing agents of eight industrial undertakings in which the State Government had total share holdings of over Rs. 1 crore. Recently, as a result of a special enquiry into the working of industrial undertakings in which the State held an interest, the Government of Hyderabad have changed their policy in regard to State participation and management of industrial undertakings. Thus, it has been decided to transfer the managing agency of three important undertakings, viz., the Sirpur Paper Mills Ltd., the Sirsilk Ltd., and the Taj Glass Works Ltd. in which the Industrial Trust Fund had invested about Rs. 68 lakhs in shares and to which it had advanced Rs. 4.5 crores as loans, to private enterprise. The new managing agents of the first two concerns have agreed to reimburse the State Government to the extent of Rs. 113 lakhs and have also undertaken to repay the loans advanced to the concerns in eleven and fourteen years, respectively, with interest at 4½ per cent.

37. Our review of non-tax revenues in the field of State enterprise, both at the Centre and in the States, has shown that it is beginning to play an increasing role in the Indian economy, especially in the post-war and post-independence period. Many of the concerns, however, with the exception of established fields of State enterprise such as railways, communications, irrigation and power, are new and, in many cases, still awaiting completion. It is therefore too early to pass any judgement on the part they can be expected to play in adding to public revenues. We deal in the next chapter with the policy considerations bearing on this and other important aspects of public enterprise.

TABLE 5.—Net receipts from State Road Transport Schemes

(Lakhs of Rupees)

	Assam			Bihar			Bombay (a)			Madhya Pradesh (b)			
	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1950-51	1951-52	1952-53	1952-53	1954-54 (R.E.)	54-55 (B.E.)	
	<i>Gross receipts</i>	.	.	.	74	68	83	12	41	90	399		
<i>Deduct</i>													
1. Working expenses	.	.	.	47	47	57	8	26	56	314			
2. Transfer to depreciation reserve	..	7	9	..	9	15	63						
3. Interest on capital invested	..	..	..	..	3	6	..						
<i>Net receipts</i>	.	.	.	27	14	17	4	3	13	22			
Capital outlay as at the end of the year	N.A.	48	..	..	..	..	533				23	..	..
Percentage net return on capital outlay	..	29	..	..	..	..	4.1				4.3	..	..

Not available

186

	Madras (c)		Orissa (d)		Punjab		Uttar Pradesh		West Bengal (e)					
	1953-54 R.E.	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)			
<i>Gross receipts</i>	144	143	26	28	43	68	85	174	291	335	383	63	89	109

Deduct

1. Working expenses .	114	112	19	20	30	60	70	79	238	273	304	73	89	98
2. Transfer to depreciation reserve .	10	12	3	3	4	10	11	11	43	40	44	15	13	13
3. Interest on capital invested .	2	2	1	1	1	2	2	2	..	..	..	3	4	5
Net receipts . . .	18	17	3	4	8	(—)4	2	82	10	22	35	(—)28	(—)17	(—)7
Capital outlay as at the end of the year .	..	..	17	..	..	61(f)	..	..	379	397	448	174	211	240
Percentage net return on capital outlay .	..	..	17.6	..	..	(—)6.5	..	..	2.6	5.5	7.8	(—)16.0	(—)8.0	(—)2.9

(a) In Bombay State, road transport services were run departmentally till 1949-50; from 1st April 1950, Bombay State Road Corporation was set up on a bipartite basis, the share capital being held jointly by the State Government and Railways in the proportion of 3 : 1. In 1950-51 the latest year for which information is available, the dividend earned by the Bombay Government on its share capital of Rs. 4 crores amounted to about Rs. 11 lakhs.

(b) In Madhya Pradesh there are two road transport companies organized on a tripartite basis, the share capital being owned by the State Government, Union Government and private operators. The State Government held shares of the face value of Rs. 23 lakhs out of total paid-up capital of Rs. 54 lakhs in the two companies as at the end of 1952-53. The net receipts shown here are the dividends earned on the State Government's share of capital invested; the rates of dividend declared by the companies were 4 per cent. and 6 per cent. respectively in 1952-53.

(c) The figures for 1953-54 are available for the second half of the year and have been doubled.

(d) In Orissa besides the nationalized road transport services the results of which are shown above, the Government have invested Rs. 25 lakhs in the share capital of Orissa Road Transport Company Ltd. The State Government received a sum of Rs. 50,000 towards dividend in two years 1950-52 and the amount was utilized for further investments in the concern. There were no net receipts in 1952-53.

(e) Covers data for State Transport services in Calcutta and Cooch-Bihar.

(f) Provisional.

TABLE 5.—Net receipts from State Road Transport Schemes—contd.

(Lakhs of Rupees)

	Hyderabad			Madhya Bharat			Mysore			Rajasthan		
	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)
Gross receipts	263	258	278	56	107	70	37	42	50	1	1	2
<i>Deduct</i>												
1. Working expenses	202	204	215	54	65	55	28	34	38	1	1	2
2. Transfer to depreciation reserve	25	22	22	5	7	7	10	5	8	†	†	†
3. Interest on capital invested	9	11	11	..	..	..	1*	1	1	..	..	..
Net receipts	27	21	30	(—)3	35	8	(—)2	2	3	..	..	..
Capital outlay as at the end of the year	278	..	..	..	..	..	..	..	..	..	..	..
Percentage net return on capital outlay	9.7	..	..	..	..	..	..	..	..	..	..	..

	Saurashtra			Travancore-Cochin			Himachal Pradesh			Delhi		
	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1951-52	1952-53	1953-54 (R.E.)
Gross receipts	16	18	19	152	157	166	22	28	33	67	78	83
<i>Deduct</i>												
1. Working expenses	15	16	14	142	135	128	23	17	21	59	63	67
2. Transfer to depreciation reserve . . . . .	..	3	3	15	19	22	2	3	2	11	8	7
3. Interest on capital invested . . . . .	..	1	1	4	5	7	1	1	1	2	3	5
Net receipts	1	(—)2	1	(—)9	(—)2	9	(—)4	7	9	(—)5	4	4
Capital outlay as at the end of the year . . . . .	..	..	..	..	..	..	22	..	..	82	105	150
Percentage net return on capital outlay . . . . .	..	..	..	..	..	..	..	..	..	(—)6.0	3.8	2.7

NOTES.—In PEPSU there are no State transport schemes in operation. The data for Travancore-Cochin cover road and water transport schemes.

*Worked out on a notional basis @3½ per cent on capital outlay.

†Negligible amount.

TABLE 6.—Financial results of working of commercial and industrial undertakings of State Governments
(Lakhs of Rupees)

	Year	Gross receipts	Working expenses	Depreciation charges	Interest charges	Net receipts	Capital outlay	Net return on capital outlay (per cent.)
<i>Andhra :</i>								
1. Andhra Paper Mills . . .	1952-53 . . .	3.7	2.1	0.1	1.5	..	40.9	..
2. Government Ceramic Factory.	Do.	0.5	0.3	..	0.3	(—)0.1	8.2	..
						(—)0.1	49.1	..
<i>Bombay (a) :</i>								
1. Aarey Milk Colony (b) . . .	1952-53 . . .	490.1	484.0 (d)	..	18.1	(—)12.0	344.5	..
<i>Madhya Pradesh (c) :</i>								
1. Central Workshops and Stores.	1952-53 . . .	5.0	4.7	0.3	0.4	(—)0.4	12.7	..

NOTES.—State commercial and industrial undertakings are defined as concerns which are either fully owned by Government or in which Government hold a major share of capital investment. Details are not available about State industrial undertakings in certain States. The Rajasthan Government have invested approximately Rs. 1.5 crores in shares of private commercial and industrial undertakings. The Assam Government own a resin factory for manufacture of turpentine with a capital investment of Rs. 2.5 lakhs; they have also invested Rs. 13 lakhs in cinchona plantations. Mention may be made of other important State undertakings for which provision is made in the Plan; Uttar Pradesh Government Cement factory, Bihar Government superphosphate factory etc.

(a) Besides, the Bombay Government have invested as at the end of 31st March 1953 a sum of Rs. 11 lakhs in various commercial and semi-commercial undertakings including co-operative institutions.

(b) Covers financial results of the working of Milk Distribution Scheme and subsidiary schemes but excludes skimmed milk powder scheme which showed a net profit of Rs. 62.4 lakhs in 1952-53.

(c) In addition, Madhya Pradesh Government have invested over Rs. 5 crores in State-sponsored industrial projects (shares Rs. 1.1 crore and loans Rs. 4 crores.)

(d) Includes Rs. 3.6 lakhs grant to Kaira District Union for dairy development works.

TABLE 6.—Financial results of working of commercial and industrial undertakings of State Governments.—contd.

(Lakhs of Rupees)

	Year	Gross receipts	Working expenses	Depreciation charges	Interest charges	Net receipts	Capital outlay	Net return on capital outlay (per cent.)
<i>Madras</i>								
1. Kerala Soap Institute	1952-53	1.0	0.5	..	..	0.5	5.9	8.4
2. Government Shark Liver Oil Factory.	Do.	3.8	3.3	..	..	0.5	3.1	16.1
3. Industrial Engineering Workshop.	Do.	2.7	2.1	0.1	0.05	0.5	4.9	10.2
4. Government Milk Factory.	Do.	1.4	1.0	0.1	..	0.3	(—)1.4	..
5. Government Cinchona Department.	Do.	2.4	3.7	..	1.9	(—)3.2	207.0	..
6. Government Silk Filatures	Do.	1.7	0.5	0.2	0.9	0.1	19.1	0.5
						(—)1.3	238.6	..
<i>Orissa (e)</i>								
1. Government Cold Storage Plant.	1951-52	2.4	1.8	0.08	..	0.5	5.9	8.4
2. Handloom Textile Organisation.	Do.	7.8	7.4	..	..	0.4	2.5	16.0
						0.9	8.4	10.7

Punjab :

1. Central Industrial Workshop	1951-52	21.1	15.4	2.7	6.0	(—)3.0	183.7	.
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Uttar Pradesh :

1. State Central Dairy Farm	1952-53	18.8	19.6	0.5	0.5	(—)1.8	11.4	..
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West Bengal :

1. Central Workshop	1954-55 (B.E.)	20.1	21.0	2.4	0.6	(—)3.9	32.9	..	
2. Brooklyn Ice Plant and Cold Storage	1952-53	3.4	3.0	0.8	0.3	(—)0.7	7.6	..	
3. Deep-sea Fishing by Trawlers	Do.	2.0	3.2	1.3	0.5	(—)3.0	14.5	..	
4. Central Livestock Research cum-breeding Station	Do.	5.5	5.8	2.3	2.1	(—)4.7	90.6	..	
5. Scheme for aiding silk rears co-operative and allied organization	Do.	0.3	0.5	..	0.4	(—)0.6	9.0	..	
6. Government Housing Scheme	Do.	0.7	0.3	0.1	0.5	(—)0.2	13.6	..	
							(—)13.1	168.2	..

Hyderabad (f)

1. Government Distilleries	1952-53	14.4	8.6	0.4	0.6	4.8	18.1	26.4
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(e) In addition, the Orissa Government earned a sum of about Rs. 90,000 in 1953-54 as dividends on their investments in shares of industrial concerns.

(f) Besides, the Hyderabad Government have invested Rs. 111 lakhs in shares of private industrial concerns and advanced about Rs. 2 crores as loans to industrial undertakings from the Industrial Trust Fund. The newly started Power Alcohol Factory is entirely financed by the State Government (Rs. 7 lakhs).

TABLE 6.—Financial results of working of commercial and industrial undertakings of State Governments—concl'd.

									(Lakhs of Rupees)
	Year	Gross receipts	Working expenses	Depreciation charges	Interest charges	Net receipts	Capital outlay	Net return on capital [outlay (per cent.)]	
<i>Madhya Bharat</i>									
1. Gwalior Engineering Works	1952-53	4.0		Not available	..	(—)0.09	14.1	..	
2. Gwalior Potteries . . .	Do. . .	6.3		Do.	..	(—)0.08	11.5	..	
3. Gwalior Leather Factory .	Do. . .	4.3		Do.	..	0.2	2.6	..	
4. Gwalior Tannery . . .	Do. . .	..		Do.	..	(—)0.04	N.A.	..
						..	28.2	..	
<i>Mysore (h)</i>									
1. Mysore Iron and Steel Works	1952-53	323.1	265.6(g)	20.3	3.8	33.4	531.0	6.2	
2. Electric Factory . . .	Do. . .	..	..	..	..	1.6	22.2	7.2
3. Porcelain Factory . . .	Do. . .	..	..	..	..	0.6	14.4	4.1
4. Soap Factory . . .	Do. . .	..	..	..	..	2.5	3.8	65.7
5. Sandal Oil Factory . . .	Do. . .	..	..	..	..	6.4	9.1	67.0
6. Silk Weaving Factory . .	Do. . .	..	..	..	..	0.2	4.3	4.5
7. Dichromate Factory . . .	Do. . .	..	..	..	..	(—)0.4	8.2	..
8. Mysore Implements Factory	Do. . .	..	..	..	..	0.1	4.4	2.2
9. Silk Filatures . . .	Do. . .	..	..	..	..	(—)1.3	4.1	..
10. Central Industrial Workshop	Do. . .	..	..	..	..	0.3	1.6	..
						43.4	603.1	7.1	

Travancore-Cochin

1. Travancore Minerals Con- cern.	1952-53 . . .	46.6	28.9	1.6	1.1	15.0(i)	16.6	90.3
2. Travancore Plywood In- dustries.	Do.	7.7	5.5	0.8	0.4	1.0	9.3	10.0
3. Ceramic Factory	1951-52 . . .	1.3	0.5	0.3	0.5	..	12.7	..
4. Travancore Rubber Works	1952-53 . . .	9.6	10.8	0.1	0.2	(—)1.1	6.7(j)	..
5. Shark Liver Oil Factory	Do.	0.3	0.3	0.02	0.02	..	0.7	..
6. Ayurvedic Pharmacy, Tri- vandrum.	Do.	0.4	0.4	..	..	..	N.A.	..
7. S.K.V.A. Pharmacy, Trichur	Do.	0.3	0.3	0.01	0.03	..	0.7	..
						<hr/>	<hr/>	<hr/>
						14.9	46.7	31.9

Himachal Pradesh

Resin and Turpentine Factory	1952-53 . . .	15.8	26.8	N.A.	N.A.	(—)11.0	N.A.	..
						<hr/>	<hr/>	<hr/>
TOTAL						21.3	1713.5	1.2

(g) Includes Rs. 2 lakhs contribution towards Amenities Fund.

(h) In addition, investment in concerns in which Mysore Government have a controlling interest is of the order of Rs. 30 lakhs.

(i) Exclusive of royalty on mineral sands, Rs. 20.5 lakhs.

(j) Provisional.

CHAPTER X

NON-TAX REVENUES

Problems and policy considerations

Having reviewed the operating and financial results of Government undertakings in the previous chapter, we now pass on to an examination of the policy considerations that arise in respect of the role they are expected to play in the fiscal system of the country. The following are among the more important questions that arise in this connection: what part should considerations of maximising revenue play in the policies of these undertakings relating to the pricing of their products and services? In what manner and to what extent should the general revenues share in such profits as these undertakings may make? Should the profits be subjected to ordinary taxes, or is some special tax treatment more desirable or appropriate in respect of them? We consider these and other questions in this chapter.

Pricing Policies

2. A brief statement may first be attempted of the pricing policies actually adopted by important categories of State undertakings. As regards railways, the Ministry has formulated the general basis of regulation of railway fares and rates as follows:

Present pricing policies of State undertakings

“Railways are no doubt a commercial concern but they are hardly a commercial concern in the conventional sense. As a State undertaking they owe it to the public, to provide transport at the cheapest rates, consistent with the maintenance of their financial solvency and providing means for their development. Unlike ordinary commercial concerns, they must not aim at maximising their profits, all the more so because they are a semi-monopolistic concern. Consequently, they must aim at charging not necessarily what the traffic can bear but what is justified in relation to their costs of operation and essential development.”

3. The following concise account gives some indication of the pricing policies followed by other public enterprises in the Central sphere that are already in operation and likely to be adopted by others which are shortly expected to commence production. The price of ammonium sulphate (Sindri Fertilisers) is determined after taking into consideration the costs of production, price trends in foreign markets and the purchasing power of consumers. The prices of coal obtained from State-owned collieries are fixed under the Colliery Control Order, 1945, on the basis of cost of production plus a reasonable margin of profit. The price of salt produced by three commercial concerns (Sambhar, Kharaghoda and Mandi) is fixed on a “no profit no loss” basis; a proposal to cover interest on capital in fixing the price of salt is under consideration of Government. Ocean-going ships are sold at prices based on the U.K. parity, i.e., the price which would be payable if the ships had been constructed in shipyards in the United Kingdom. However, in order to enable

Indian shipping companies to purchase ships built in the Visakhapatnam Shipyard at prices payable for similar ships constructed in the United Kingdom, Government have decided, as a temporary measure, through a subsidy, to meet, within certain limits, the difference between the actual cost of construction and the prescribed sale price. During 1952-53, a sum of over Rs. 95 lakhs was adjusted in this manner; the revised estimate for 1953-54 is Rs. 60 lakhs. The price of penicillin is to be fixed after taking into consideration the cost of production (including provision for interest and depreciation charges) and market prices of similar products manufactured by foreign concerns. Generally, Government have accepted the principle of State undertakings fixing prices, so far as possible, on commercial principles.

4. The rate-making policies in respect of electricity in different States are not uniform, but the general policy has been that the tariffs should be fixed so as to provide for all reimburseable costs to cover generation, transmission and distribution, including expenses of operation and maintenance and interest and depreciation charges. As a rule, tariffs for industrial consumption of electricity are lower than for domestic consumption. In Punjab, where in 1953-54 net receipts from electricity schemes were the highest among the States, the general policy followed in formulating tariffs for the Mandi Hydro-Electric Scheme has been to obtain an 'adequate' return on capital invested with due regard to the cost of alternative sources of generation. In the case of the thermo-electric supply undertakings taken over by the Punjab Government from private enterprise, the old rates charged by ex-licensees still prevail; their revision is under consideration. As regards the sale of power from Bhakra Nangal, a Special Tariff Advisory Committee was constituted to evolve principles on which tariffs should be based. The Committee took cognisance of three main factors—a reasonable return on capital invested, the level of rates prevailing in neighbouring States and the capacity of the consumers to pay. It stressed, in particular, the last mentioned factor. Consequently, it is proposed at least in the early stages of the operation of the Bhakra Nangal Scheme to establish a promotional tariff structure, progressively rising with time as consumption increases, to induce more consumption of electricity. As for road transport services, the accepted policy in most States is to fix fares and freight charges so as to cover the costs of operation, depreciation and interest charges, leaving a small margin of profit to the government.

5. The pricing policies of commercial and industrial undertakings of State Governments vary, and are not always based on strict commercial principles. In the case of steel produced by the Bhadravati Works of the Mysore Government, in accordance with the general policy of the Government of India, a selling price is fixed by the Government to protect consumer interests and at the same time there is a retention price to ensure a reasonable return to the units engaged in the industry. The industrial concerns owned by the Travancore-Cochin and Mysore Governments generally fix prices on commercial lines; the prices of goods are fixed on the basis of the cost of production (including depreciation and interest charges) plus a fair margin of profit after taking into consideration the current market prices of similar products.

6. In proceeding to an examination of the pricing policies appropriate to different undertakings, it is useful to begin with the following detailed statement of the considerations governing the fixation of railway freights and fares prepared by the Railway Ministry in response to a special questionnaire addressed to it by the Commission:

“Railways are an industry and a national industry at that in India. Naturally, therefore, this industry as any other is to be run on commercial principles. Railway freights are accordingly fixed on such principles, with due regard to the interests of agriculture, industry, commerce and the general public. These commercial principles on which freight rates are fixed may be stated *inter alia* to be as follows:

(a) Reasonableness of rates *per se*—this principle is commonly referred to as ‘charging what the traffic will bear’ i.e., fixing the charge for each variety of goods according to its ability to pay for transportation. This takes into account the value of commodity, the use to which it is put and the stage of its manufacture. In the case of industries, it is also usual to take into account the development aspect;

(b) considerations regarding potentialities of traffic, both long term and short term;

(c) avoidance of undue preference to persons, or localities or any particular description of traffic (section 28 of the Indian Railways Act, 1890);

(d) operating costs of Railways which also take into account factors such as the bulk of the commodity in relation to its weight, the risk of damage, wastage in transit and the volume of traffic; and

(e) competition from other modes of transport.

These general principles of rate making, while ensuring the solvency of railways are intended to enlarge trade and commerce and help the development of industries generally. In this connection, it may be mentioned that railway expenditure being subject to the economic law of diminishing costs, *viz.*, the larger the quantum of traffic carried, within certain wide limits, the less is the cost of carriage per unit, it is in the interest of Railways to develop the traffic to the maximum extent possible.”

“The bases of passenger fares are also fixed on commercial principles, having regard to the ability of each class of passenger traffic to pay for transportation charges and also the amenities and comforts provided. Too much stress cannot, however, be laid on the ‘ability of traffic to bear’ as there is always the danger of passengers filtering down to lower classes. Just like goods traffic, competition from other modes of transport, e.g., air services and road buses, etc., also has to be taken into

account as, in case the railway fares are not competitive, there is the danger of traffic being diverted to other modes of transport”.

The rationale of these general principles is brought out more clearly as follows:—

“It is axiomatic that the freight structure should be an instrument of economic development of the country and must be consistent with the larger objectives of the economic policy of the Government. The Indian Railways freight structure has been so framed as to assist the industrial development of the country”.

After referring to the exceptionally low rates for coal, iron and steel, ores, manures and fodder, it is pointed out:—

“this liberal treatment is granted because either the materials are vital for industry and any increase in rates to the level justified by their capacity to bear would raise prices generally or the commodities are intended to assist agricultural production or house building activity. Thus there may be scope for increase in freight rates by way of taxes or otherwise, yet it would not be in the larger interests to do so.”

Finally, in regard to the subject of taxes on railway fares and rates, the Railway Ministry's note makes the following observations:

“A tax on freight being a multi-point tax, is bound to add, in general, to the costs of production substantially (including, by way of interest on increased capital outlay) and increase the inflationary pressure. Such a course of action would not be desirable in the present circumstances. Besides, taxes on freights are a form of indirect tax on commodities and therefore, not the best method of taxation.”

It may be pointed out that these observations apply equally to any increase in freight rates not justified by cost considerations, as it would be equivalent to including a tax element in them.

7. In treating this question from the point of view of principles governing the fixation of rates and fares, we would like to make a distinction between those which should govern the determination of the general level of fares and those which relate to freights, the latter being more directly related to economic development. We agree that freight rates should, on the whole, be so regulated as not to leave a profit over and above meeting the costs of operation and essential development. The above account of the basis on which ordinary and special or concessional freight rates are determined brings out the important considerations of economic policy which govern it. In view of the importance of industries in the second phase of the Five year Plan, and the need from this point of view for a proper articulation of the policy considerations governing railway rates, we suggest that a Committee including officials of the Railways and other Ministries concerned and

the Planning Commission should be set up to consider the formulation of an adequate freight rates policy, having regard to the interests of industrial and economic development, on the one hand, and the resources required for railway development, on the other. We consider that this question should be examined and the necessary decision taken before the second Five year Plan for railways is finalised.

8. While the level of freight rates should be kept as low as possible consistent with meeting the costs of operation and of essential development, a different approach seems necessary regarding passenger fares. We do not suggest the use of the monopolistic power of the State to determine fares with a view to maximising profits. But we think that there should be no objection in principle to using travel as a basis of taxation like other services or commodities of general consumption. We recognise that such a tax would be an indirect tax, and that indirect taxes are not in all cases a good form of taxation, but they are nonetheless the mainstay of revenue not only in India but in many other countries, in particular, under-developed countries. Travel by road has been subjected to heavy taxation and this lessens the risk of diversion to important alternative modes of travel. The increase in the volume of passenger traffic, over a long period, like increased consumption of other goods or services (e.g., entertainment), reflects a change in the general pattern of consumption in the direction of increased use of a modern facility or service like travel. A tax on various forms of travel is levied in some countries, e.g., Japan, Turkey, Spain and a few States in the U.S.A. A tax on travel is not more regressive than several other taxes that are levied at present, and it deserves consideration as a source of revenue at the present stage of our development effort. We think that this is a factor which should be taken into account when the question of a revision of railway fares and rates comes up for its next examination. "

9. A question of policy which arises in this connection is whether it is appropriate at this stage to use Article 269 (d) of the Constitution to levy taxes on railway fares and freights. Under this Article, such taxes may be levied by the Union, but the net proceeds thereof shall be distributed among the States within which such taxes are leviable, in accordance with such principles of distribution as may be laid down by Parliament by law. The Railway Ministry is opposed to the levy of such taxes. Its view is set out below:

"The taxes when levied have the same ultimate effect as an enhancement of the fares and freights. The question therefore arises: should the Railways not maximise their income by increasing the fares and freights to the extent traffic can bear the taxes? In other words, if there is scope for taxation, there is scope for increase in fares and freights."

"Provision for the levy of taxes on fares and freights appears to be a relic from the days of private ownership and management of rail transport so that the State could share

in the potential earnings of the Companies. But in the present set-up, . . . there is little justification for the States' sharing in any possible profits which the Railways can make by way of an increase in fares and freights."

"It is not desirable that the scope for augmentation of freight rates, if any, should be utilised by imposition of taxes, the benefit of which will not go to the Railways."

The Ministry's note states in conclusion that it would not like to surrender any such potential source of revenue to the States.

10. We do not agree with the view that the retention of this item in the Constitution is a relic of obsolete circumstances and has no possible use in the future. But, for the time being, we do not recommend the imposition of any tax on railway fares and freights, the benefit of which would go to the States rather than to railways. Our recommendation is mainly influenced by the shortfall in the railways' contribution to their programme of essential development for the current Five year Plan; and the need of raising resources for their development during the next Plan period, which would make such a proposal inappropriate at present.

11. The postal system has widely come to be recognised as a public enterprise in which service rather than revenue is the test of success. Some countries like France and England have derived substantial revenue from their postal systems, assisted by high density of population, while others like the United States with their great expanse of territory have often shown deficits. Many countries only charge rates designed broadly to cover the costs of operation, or to bring in moderate net receipts: such a policy also generally governs the operation of our own system, and appears to us as appropriate in respect of this elementary public service.

12. In considering the pricing policies appropriate for other public undertakings, a distinction may be drawn between undertakings which work in a competitive field and those which operate under monopolistic or semi-monopolistic conditions. It happens that the products of the former category of undertakings generally fall within the broad range of consumer goods (e.g., those of some of the industries in Mysore State). There are, normally, no considerations of public purpose which should deflect these undertakings from following a pricing policy directed towards maximising profits from their operations. The main limitation to the pursuit of such a policy derives from the existence of competition from private enterprise. Pricing policy thus operates in these cases within a rather narrow framework: the nature and degree of competition together with the character of demand determine in respect of such undertakings the application of a pricing policy based on maximising profits.

13. Where, on the other hand, public enterprise works under conditions of monopoly or quasi-monopoly of supply (and sometimes also of demand, e.g., in regard to milk powder for tea and coffee in restaurants in Bombay city where the use of fresh milk is prohibited), the ability of the State to make profits by setting prices at a

high level is greater. Pricing policy in such a case acquires a significance different from that under conditions of competition and the considerations that should guide the fixation of prices assume a relevant and more positive role. It happens, however, that the goods or services produced by public undertakings of this category are often of the basic or essential type, the prices of which it is usually considered desirable to maintain as low as possible. 'Basic' and 'essential' are relative terms and policy must vary according to the degree of essentiality of the product, the nature of service provided by the enterprise, the size of the market, the class of consumers and their paying capacity in respect of consumers' goods, and the type of industry and its condition, in respect of producers' or capital goods. We consider that normally such undertakings should operate on the basis of meeting their full costs of production including adequate depreciation provision (taking account of higher replacement costs) and a reasonable return on capital and, as a rule, subsidisation of prices should be avoided. Where revenue requirements necessitate the levy of taxes on commodities or services which are as 'basic' or 'essential' as those which are the products of State enterprise, we consider that the State should not regard itself as being precluded from using its monopolistic or semi-monopolistic power to secure larger revenues by an appropriate price policy.

14. (It may be thought desirable, however, during an early developmental phase to keep prices low, even if this involves incurring losses, with a view to encouraging demand and widening the market to ensure the profitable working of an enterprise over a long period.) The problem is particularly important in the case of public utilities like electricity where the practice of 'promotional' pricing in the initial phases of a project is calculated to obtain ultimately the best results. In respect of other semi-monopolistic undertakings producing a basic article like fertilisers, a measure of subsidy for an initial period may be given as a matter of policy.

15. On the other hand, in certain cases where the State has made substantial investment, a policy of regulating prices so as to secure an adequate return on the capital invested is not only unobjectionable but may, indeed, be desirable.) This is particularly so in the conditions of economically under-developed countries, where public enterprise itself, fostered at State expense, may in turn play a role in financing the country's development. In the States' sphere, for instance, the most important public enterprises from the point of view of the capital invested, are irrigation and electricity schemes. On the basis of such estimates as are available, the new projects are expected to become barely productive, i.e., to meet the costs of maintenance and overhead and interest charges besides depreciation (in the case of power projects) only after the lapse of some years from the starting of the operational phase. At the same time, there are older projects in operation side by side in some States which yield substantial net receipts, like the irrigation system of Uttar Pradesh, or the (Mandi Hydro) electricity undertaking of the Punjab. These receipts arise in consequence of a policy of pricing directed specifically to securing a significant amount of net revenue; and they are useful in meeting the loss that is incurred on the working of the new projects during the initial period of their operations.

16. Water rates have long been fixed in the canal systems in Punjab and Uttar Pradesh on the basis of securing for the exchequer a share in the additional yield derived by the cultivator from land, over and above that of meeting the current costs of irrigation and interest on capital. The reinforcement of public revenues thereby has assisted in the past in the accelerated development of additional projects in those areas. Latterly such assistance to the development of new undertakings from the surpluses provided by old undertakings has assumed more specific forms, e.g., by way of contributing to (a) the current or capital costs of new projects (as in Punjab) or (b) a fund for extension of development activities in general as in Uttar Pradesh, to mention two outstanding illustrations.

17. This is equivalent to the process, as applied in the field of public enterprise, of re-investment or ploughing back of profits, which in private enterprise (in the corporate sector) has been a principal means of financing development in recent years. In effect, the process has involved the levying of an element of taxation either on the products of older undertakings to facilitate the growth of new undertakings or on areas favourably placed for profitable working to subsidise development in other areas. We see no objection to pricing policies which aim, over a long period, at realising a surplus from the operation of State undertakings. We would, indeed, go further and emphasise that though the main result of investment in basic projects is, perhaps, not to be looked for in its direct financial return, there is need for greater recognition on the part of public opinion of the principle of obtaining for the State a share of the higher output made possible by State investment in order that it may assist further investment and thereby accelerate economic development.

18. Though economic development should automatically increase Government tax revenues in a variety of ways, the task of re-capturing additional incomes generated by public investment—and this, as has been explained in an earlier chapter, is a *sine qua non* of rapid capital formation—is by no means easy. It follows that additional incomes arising directly in consequence of large scale public investment have a greater obligation to contribute to re-investment, to enable the cumulative process of larger investment, higher production and wider prosperity to go on. This suggests an approach to pricing policy for public undertakings somewhat different from what obtains generally in advanced countries. In some of these countries where there is less emphasis on the revenue aspect of State undertakings, public enterprise mainly engages itself in operating nationalised public utilities while economic progress remains primarily the direct responsibility of private enterprise. In India, on the other hand, State initiative and enterprise have a more dynamic role to play in the process of economic development and public undertakings, in the main, do not conduct activities which were 'taken over' from private enterprise but break new ground. Not only do they seek to supply the basic framework of economic development in the form of transportation, power, irrigation, etc., but they provide in some ways the core as well as a not insignificant part of the content of economic development, in capital and producers' goods industries. During the second phase of the Plan on which we are about to enter, public enterprise may be expected to play even a larger part in this direction.

• 19. Many public enterprises are normally of a low-yielding and slow-yielding character. There is, besides, the tendency to high costs in State enterprise on account of its obligation to assure a given standard of wages and amenities to labour and a higher standard of service (quality of product) to consumers. If, in the face of these liabilities and initial difficulties, some State enterprises are able, after a formative phase, to earn more than modest profits, which assist in maintaining the tempo of public investment, no doctrinaire concern with a policy of 'breaking even' should deter them from making their contribution to the financing of further development. A policy of 'no profit no loss' may be appropriate for public utilities in an advanced country, and is, perhaps, the best to be hoped for in the earlier stages of working of some public enterprises here. But we do not recommend it as the long term goal for public enterprise or as a permanent policy for most State undertakings in India.

20. Public purpose rather than profit should be the guiding factor in the operation of a public undertaking but the antithesis is more apparent than real. In the public sector, profit is not necessarily inconsistent with public purpose; on the other hand, it may itself constitute a public purpose, even if it remains secondary. In certain circumstances, as in the case of fiscal monopolies avowedly established for the purpose of maximising revenue, it forms the primary objective, though it is sometimes combined with a social objective in the form of a regulatory or restrictive function. In other public enterprises, the first objective, of course, is maximum service combined with maximum efficiency with a view to the widest extension of social welfare and economic development. Consistent with these, a certain measure of profit, and in some circumstances, even a significant amount of profit, should not be precluded under the broad principles which regulate pricing policy.

21. Apart from the Railways and Posts and Telegraphs, the total capital outlay of Central and State Governments on electricity, irrigation, road transport and industrial undertakings which are in full working is substantial, but the net income from them is insignificant. Many of these undertakings have been in existence for some time and should soon be in a position to yield net returns. It is desirable that every effort should be made to put these undertakings on a sound financial basis, so that losses are avoided and a reasonable net return is secured as far and as soon as possible. With the likely expansion of the public sector, this becomes a particularly important consideration.

22. The argument that it is wrong to tax the consumer of a particular product or service in order to help the general tax-payer, often underlies the objection to running public enterprises at a profit. This may, perhaps, be relevant where substantial profits are made out of a limited and specialised clientele for the benefit of the wider community of tax-payers; even here, there would be a case for making profit, provided its incidence falls on the well-to-do classes and the benefits it finances accrue to the larger community of the not-so-well-to-do. In any case, the argument has much less relevance to public enterprises which involve huge investment and cater to a vast circle of beneficiaries, and the returns from which contribute to the widening of the range of their operations so as progressively to extend

their benefits to more and more people. We agree that as a form of taxation, profit from public enterprise has less to commend it than direct taxation, but we must also affirm that it is not less suitable as a means of raising revenue than many of the indirect taxes to which resort is necessary in the alternative. We would, therefore, emphasise that in considering pricing policies of State undertakings in a comparatively under-developed country like ours, regard must be had to the need for relating them to the economic and institutional context in which they operate rather than to the standards that are more appropriate to the conditions obtaining in the advanced economies such as those of some of the Western countries.

Allocation of profits and taxation of State undertakings

23. As the government system of accounting on a purely cash basis is unsuited to commercial undertakings, **Allocation of profits** their accounts, even where the undertakings are departmentally run, are usually kept on a *pro forma* basis outside the revenue account. The provision made for depreciation and for general and other reserves is credited to specific funds and the balances held in them are generally invested in interest-earning securities. Except to this extent, no part of the receipts from State undertakings is funded; they form part of the general revenues. The working expenses are met out of general revenues and capital expenditure is mostly charged to capital account. The State Governments have expressed the view that this arrangement has worked satisfactorily from the point of view of State revenues as well as of the consumers or users of the goods and services provided. While State revenues stand to gain by the contributions made by such undertakings when they are run at a profit, the financial outlay required for the expansion and improvement of services is, under the existing arrangements, not necessarily limited to their earnings.

24. The question of the manner in which and the extent to which general revenues should share in the profits of State undertakings really arises only in respect of enterprises directly operated by Government. Corporations and companies have freedom, subject to payment of income-tax, to regulate allocation to reserves within the framework of their respective statutes. The practice in regard to allocation of net profits to general revenues by government enterprises is not uniform. In some States, no provision is made even for depreciation for certain undertakings; in others, regular contributions are made to general reserves as well as to special funds for capital replacement, obsolescence, workmen's compensation, employees' amenities, etc.

25. In Hyderabad, 50 per cent. of net profits from electricity schemes and distilleries and 75 per cent. from road transport services are credited to general revenues and the balance is transferred to various reserves. In the case of the Bombay State Road Transport Corporation, in 1950-51 a sum of Rs. 8.2 lakhs out of net profits of Rs. 22.4 lakhs or more than one-third was carried to the General Purpose Fund and Road Development Fund, and the balance of Rs. 14.2 lakhs representing dividends was shared between the Bombay Government and the Union Government. In Orissa, where there are two sectors of road transport, the nationalised bus services and

the 'rationalised sector' in which the State Government have a share, the net revenues from the former are taken to general revenues and those of the rationalised sector are ploughed back for further expansion. In Travancore-Cochin, for road transport services, the practice up to 1951-52 was to allocate 7½ per cent. of net surplus toward bonus to non-pensionable employees, 25 per cent. to General Reserve Fund and the balance was to be transferred to general revenues: as the staff employed in the department has since been made permanent, allocation towards bonus has now ceased. The Uttar Pradesh Government have decided to transfer the additional income from the recent enhancement of water rates and measures aimed at bringing about uniformity all over the State in the matter of such rates (Rs. 3.3 crores) to a Special Development Fund to be utilised to finance development activities. For the most part the net surplus of State undertakings after providing for working expenses, interest and depreciation charges, accrues to general revenues. Apart from railways, posts and telegraphs and irrigation systems in one or two States, it is only in a few cases that the surplus, made of comparatively small amounts, is transferred to development or general reserves.

✓ (26. Under the Constitution, the property of the Union Government is exempt from State taxation, except in so far as Parliament may by law provide, unless such a tax was levied immediately before the commencement of the Constitution (Article 285). The property and income of State Governments are also exempt from Union taxation; this exemption does not, however, prevent the Union Government from imposing a tax (such as Parliament may by law provide) in respect of a trade or business of any kind carried on by, or on behalf of, a State Government except in so far as any class of trade or business is declared by Parliament to be incidental to the ordinary functions of government (Article 289). In accordance with these provisions, the income from most public enterprises in the States' sphere which are run departmentally (as also the Central Government's enterprises similarly managed) are free of income-tax. Where public enterprises are organised as corporations or private limited companies, they are subject to taxation like ordinary companies.

27. Objection has been taken to the exemption from income taxation of departmentally managed industrial and commercial enterprises of the Union and State Governments. It is held that the competitive capacity of State enterprises *vis-a-vis* private enterprise in a mixed economy is thereby artificially enhanced, and, even where competition with the private sector is not involved, exemption from taxation shows the results of their operation in a better light than if they were subject to taxation. Uniform taxation of public and private enterprise is, therefore, suggested with a view to ensuring conditions of equality in operation and fair competition. Equal conditions of operation for public and private enterprise, it is expected, should increase efficiency by providing an incentive to public enterprise to render a good account of its working in terms of net financial results.

28. There is some force in the above argument, since tax exemption in effect amounts to an indirect subsidy. On a closer consideration, however, of the position relating to the whole field of public enterprise in the light of the Constitutional provisions for taxation, we recommend no change in the present exemption from income-tax of State business undertakings. The grounds for this conclusion are set forth in the following paragraphs.

29. In respect of the Central Government, the question of taxation arises, if at all, only in respect of departmentally managed enterprises, e.g., the railways, as the corporations and private limited companies are already subject to taxation. The operations and finances of departmental undertakings are subject to comprehensive control by government and their contribution to general revenues is determined in the light of careful and detailed consideration of the facts and requirements of individual enterprises. It appears, therefore, unnecessary, and, on the whole, less satisfactory, to subject their profits to income-tax.

30. Over a large field, public enterprise operates under conditions of monopoly and the question of ensuring conditions of equality in relation to private enterprise does not arise. This also happens to be the field which includes undertakings of the public utility type. Such undertakings may be held, in a developing economy to be incidental to the ordinary functions of government, and, therefore, exempt from income-tax, e.g., electricity undertakings, power-cum-irrigation schemes, etc. In fact, the area of activities which may be regarded as incidental to the ordinary functions of government is likely to expand if a dynamic view of the functions of government is taken.

31. There remains then a limited field of business activities in the States' sphere involving the production of goods or services largely in competition with private enterprise where this question arises in a practical form. Soap or cement factories and road transport services are instances in point. Here, so far as revenue considerations go, the imposition of income-tax will not make any real difference to the total budgetary receipts of the Central and State Governments. Public enterprises which are not subjected to (Central) income-tax either contribute their entire surplus to the State revenues or, to the extent that they build up reserves, tend to reduce the demand on State resources for capital expenditure. The levy of income-tax will, however, alter somewhat the *relative* revenue position of the States and the Central Government, Central receipts from income-tax increasing at the expense of States' revenue receipts. The effect in this direction would be small as taxable profits of State enterprises are likely to be inconsiderable. In so far as commercial enterprises in States come to be organised in the form of corporations, they automatically become liable to income-tax.

32. On the whole, therefore, for the present, we do not consider it worthwhile for legislation to be enacted for taxing the trading and other business activities of State Governments. Should the field of departmentally-run State commercial enterprises in activities liable to be taxed expand considerably, the question may be reconsidered, since exemption from taxation may conceivably lend

a specious appearance of high profitability to what, in comparative terms, may be a low-yielding public enterprise.*

33. In all cases, it is necessary to stress the need for adequate and proper accounting, auditing and financial reporting by all public undertakings. It is desirable that there should be a statutory provision applicable to all public undertakings (including those departmentally managed) to maintain accounts in conformity with proper commercial standards. The accounts should show assets and liabilities, income and expenditure, provision for depreciation and interest charges, etc., so that the net surplus (or deficit) is clearly indicated (and the notional tax liability could also easily be computed). In order to give an accurate picture of the financial results of State undertakings any advantage or concessions derived from other government departments in marketing, transport, and services should, wherever possible, be clearly indicated. While accounts of all public undertakings cannot be on a set pattern, a greater measure of uniformity in accounting procedures would assist in making comparisons of financial results of different undertakings of a broadly similar nature. We suggest that the Comptroller and Auditor-General may have the subject examined from the point of view of evolving suitable standard forms of accounting for different categories of public enterprises. The annual reports on the working of public enterprises together with the budgets and audited accounts (even of those departmentally managed) should be laid before the legislature and published with reasonable despatch. It is important from many points of view, not excluding the fiscal, that the searchlight of enlightened public opinion should be thrown on the operations of government undertakings, especially in a country where it is a part of public policy to extend and develop the public sector in the economy.

34. The steady enlargement of the public sector of the Indian economy in recent years has brought to the fore the problem of evolving suitable forms of management, direction and control of State undertakings. Our concern with this aspect of the subject is related to the bearing it has on the proper and efficient utilisation of public resources and indirectly on the volume of contribution made to public revenues by State undertakings. The problem essentially is to find in respect of different types of enterprises forms of organisation and management which will secure the requisite degree of autonomy in operation that is necessary for efficiency, with public accountability which is particularly required in the case of large scale public enterprises.

35. In India, there are, at present, broadly, three different systems of management in operation at the Centre and in the States. There is, in the first place, the traditional form of management through a department of Government, which is employed for a majority of the largest and old established public undertakings and services as well as for some of the newest extensions of public enterprise in the States. These include the railways, posts and telegraphs and broadcasting, ordnance factories and most of the irrigation and electricity

*The practice in foreign countries in regard to taxability of public enterprise varies. In U. K., the public corporations are not immune from taxation of any kind ; in U.S.A., on the other hand, public enterprises are generally exempt from taxation.

and road transport schemes, as well as several of the older industrial and commercial concerns, particularly in Part B States. Recently, the sphere of public enterprise has been undergoing significant expansion in the field of operation of public services as also of production and finance, either entirely State-owned or in association with private enterprise. The form of organisation adopted for the purposes has often been a public corporation but, latterly, the private limited company has been employed in respect of the new industrial undertakings.

36. The first major corporation, Damodar Valley Corporation, was set up under an Act of the Central Legislature in 1948 in respect of a project of irrigation, generation of power and flood control extending over the territories of several States and involving problems of inter-State co-ordination of policies. Other instances of Central corporations are in the field of a public service like the airlines which had previously been conducted as private enterprises, or in finance such as the Central or State industrial finance corporations, and in social insurance. A public service like transport is, again, another field in which corporations have been started in some States. The joint-stock (private limited liability) company form has been usually preferred in the field of production, for instance, in Sindri Fertilisers and Chemicals, Hindustan Shipyard, Hindustan Aircraft, Hindustan Machine Tools, Hindustan Cables and Hindustan Steel. There has thus begun to emerge a certain pattern regarding the fields in which new forms of organisation are being developed; departmental management, however, operates in all fields. It cannot be said that the pattern, such as it is, indicates that the search for suitable forms of organisation and management has yet passed beyond the initial phase.

37. Our examination of the question has not been close enough to enable us to assess the value of the different forms of organisation that have been adopted for conducting public enterprise. Experience over a fairly long period alone will show whether direct departmental operation or operation through a separately constituted corporate body is more suitable for the various types of business undertakings. Much will depend on the nature and degree of autonomy found to be necessary and practicable for corporations in the light of experience, including the availability of personnel of the right calibre and business capacity, on the one hand, and, on the other, on the ingenuity and ability of government in evolving adequate procedures of delegation of authority within the departmental framework itself, which might secure the same results.

38. On the experience of some foreign countries, State trading in selected commodities has been suggested as a source of additional revenue which might be developed. This question evoked considerable interest during the years of a strong sellers' market following the War. A Committee was appointed by the Central Government in 1949 to examine *inter alia* whether it would be of advantage to set up a State-owned or State-sponsored corporation for handling any sector of India's foreign trade. The Committee favoured the setting up of a State trading corporation to take over all the import and export operations of a commercial nature which were then handled by the

different departments of the Central Government, relating to foodgrains, fertilisers, steel, coal, raw cotton and the purchase and sale of commodities for the purpose of implementing barter agreements with other countries. It was further suggested that the corporation should be given the monopoly of export trade in short-staple cotton and should also undertake export of cottage industry products on a non-monopolistic basis. The Committee was of the opinion that India's competitive position in respect of its main export commodities was not so strong as to enable it to extract a monopolistic price through State trading: nor would it be in the long term interests of its foreign trade if India were even suspected of exploiting its semi-monopolistic position in respect of certain commodities. The possibilities of using State trading as a means of increasing government revenues so far as imports were concerned was restricted to sectors of trade in which the disparity between domestic and world prices was marked and the financial gains were not likely to be counterbalanced by the financial risks involved. In the Committee's view, only when the commodity in question was suitable for State trading, should the possibility of raising revenue for the State be considered an additional ground for resorting to State trading: in the case of certain luxury articles, the prices of which generally remained high, State trading could be resorted to for the purpose of raising revenue.

39. We think that no spectacular results, purely from the point of view of revenue, may be expected from State trading over a short-period. State trading requires personnel with specialised experience of business and raises the question of the adequacy of the governmental machinery at present for the task. Also, the best time to extend State trading would be when prices are generally on the upgrade; the present, therefore, does not seem to be an opportune time for a wider incursion into this field. Altogether, the immediate scope for increasing non-tax revenue by enlarging State activity in the sphere of foreign trade seems to be limited, at any rate, for the time being.

40. Another aspect of State trading relates to the domestic economy; in India, the most notable instances of this has been State trading in foodgrains during and after the War years. This as well as other civil supplies schemes have been concerned with regulated provision of certain essential articles in a period of relative scarcity and were generally conducted on a 'no profit no loss' basis over a period, apart from the (substantial) subsidies directly provided in the budgets of Central and State Governments. Such schemes, in their nature, were temporary. State trading, internally, could also be considered as an aspect of what have been termed fiscal monopolies.

41. Fiscal monopolies have been utilised in many countries as a source of revenue. Instances of commodities selected for fiscal monopolisation are tobacco, matches and salt. Fiscal monopolies have certain advantages over excise duties as a means of raising revenue from widely consumed commodities. It is possible to concentrate production and to reduce costs through standardisation of output, better research facilities and planned production. Distribution costs may also be reduced.

There are, no doubt, factors which might operate against the success of fiscal monopolies, such as the lack of expert personnel, the possibility of deterioration in the quality of products and uneconomical management. It has, however, been found in many countries that it is advantageous to establish fiscal monopolies for the production and/or distribution of commodities which would, in any case, have to bear heavy rates of taxation.

42. In India, it has been suggested that certain commodities now subject to Central excise duties (*e.g.*, tobacco products, matches and sugar) could appropriately be taken up as fiscal monopolies; it is argued that this step would make for better distribution of supplies to consumers, besides securing for the exchequer not only what is now collected as revenue by way of excise duties but also the profits of trade. We are of the opinion that fiscal monopolies, as an alternative to excise duties, present possibilities for an increase in revenue. We have not, however, been able to investigate in any detail concrete schemes for specific fiscal monopolies; and, in particular, we have not had the opportunity to examine the administrative implications involved. We recommend that an 'appropriate expert enquiry should be held at an early date into the possibilities of setting up fiscal monopolies with a view to augmenting public revenues, with due regard to the employment and other general aspects of these schemes in relation to planned development.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Volume I—The Tax System

CHAPTER II.—THE TAX SYSTEM AND TRENDS IN PUBLIC REVENUES

1. Compared with other federations, the field within which public revenues are raised and spent regionally is much wider in India, which testifies to the greater importance of State Governments in our federal system. (Paragraph 15)

2. Broadly speaking, there has been very little addition to the national tax effort over the last two or three decades, in average terms. While national income and public revenues have kept pace with each other in money terms, neither of them has shown any significant increase in real terms. The distribution of national income and public revenues, *vis-a-vis* different groups in the country has, however, undergone alteration. (Paragraph 23)

3. A striking fact that emerges from a comparison of the trends in revenues of the Central, State and local Governments is the slow growth of the revenues of local bodies. (Paragraph 40)

4. The sharing by the State Governments in the proceeds of Central taxes, and the institution of substantial grants by the Central Government for both general and specific purposes have, between them, imparted a measure of elasticity to the State revenues which was unknown to the Provinces in the pre-war period. Even in the taxes which are both collected and retained by the States, there is a greater degree of elasticity than was in evidence before the War. (Paragraph 43)

5. Central and State revenues really coalesce for purposes of the public finance of State Governments and the old antagonism between Central revenues and State revenues has largely disappeared. To this extent, an integrated treatment of Indian public finance becomes much more in order. (Paragraph 44)

CHAPTER III.—TRENDS IN PUBLIC EXPENDITURE

6. The need for utmost restraint on the growth of non-development expenditure, whether at the Centre or in the States, can hardly be over-emphasised. Moreover, during a phase of intensive development effort when targets in terms of expenditure also assume a certain degree of significance, there is likely to be, even within the development sector of expenditure, some room for economy and avoidance of waste. We are ourselves impressed by the need for a thorough and careful enquiry both in the Central Government and the States into the whole question of public expenditure, and suggest that such enquiries should be undertaken by sufficiently high-powered bodies and at a fairly early date. (Paragraph 1)

7. Since the War, the changeover in importance from what may broadly be described as unproductive to productive expenditure is

significant both in the Central Government and in the States. (Paragraph 7)

8. The extent to which Indian public expenditure brings about a reduction in inequalities of economic circumstance and thus helps the tax system to achieve one of the objectives which have been suggested for it is modest, partly because the total volume of public expenditure constitutes a small proportion of the total national income and also because the expenditure on social welfare and subsidies by way of transfers to the lower income groups is of little significance. (Paragraph 19)

9. At the same time, a certain measure of territorial or regional redress of inequalities is a conspicuous feature of Indian public expenditure as also of the entire system of public finance. (Paragraph 20)

10. The redistributive process operates not only on the national plane in lessening inter-State disparities of resources, but also within the State themselves, perhaps in an even more significant measure, by reducing the disparities between resources and needs among rural and urban areas. (Paragraph 21)

11. The increasing role which is being assigned to expenditure on social services serves to diminish the unpopularity of the tax system, while, what is of even greater value, the increasing importance given to developmental expenditure tends, in the long run, actually to increase the taxable capacity of the people. (Paragraph 22)

12. The composition of Indian public expenditure as also the trends therein in recent years serve to bring about a moderate reduction in inequalities, both economic and social in the country: and, to this extent, should reconcile the people to an increase in the total burden of taxation. The redistributive effects of public finance operations in India cannot attain really significant dimensions as long as the ratios of public revenues and public expenditure to national income remain as small as they are at present. (Paragraph 23)

CHAPTER V.—INCIDENCE OF TAXATION.: ANALYSIS

13. As one moves from the rural to the urban sector and as an area becomes more urbanised, not only (1) per capita expenditure level rises but (2) the proportion of cash expenditure to total expenditure, per capita, increases, and (3) the proportion of tax to cash expenditure, per capita, also goes up as a result of a change in the pattern of cash purchases in the direction of more highly taxed articles; the tax element in urban areas increases and the incidence of taxation is higher as a combined result of all these increases. But as the population of urban areas is small relatively to the rural population the contribution of rural areas in absolute terms to the pool of indirect taxes is much greater than of urban areas. (Paragraph 9).

14. The incidence of indirect taxes seems to be mildly progressive: however, this is so mainly under Central taxation. Sales tax and State taxation show but little of progression. The incidence of both Central and State taxation is higher in the urban sector for each expenditure group, because of the higher incidence of sales tax, Central excise and import duties. Of these three major tax items,

the rural-urban disparity in incidence is least under Central excise: it is larger for import duties and is highest in respect of sales tax. (Paragraphs 11—13)

15. The sales tax is in the nature of a proportional rather than a progressive tax. (Paragraph 16)

16. The rural-urban differences in tax incidence are more pronounced in sales taxation than in Central excise. (Paragraph 17)

17. The relative undertaxation of the rural sector particularly in the higher income ranges is brought out prominently when income-tax is added to tax incidence in the urban sector and land revenue in the rural sector. (Paragraph 19).

18. The incidence of land revenue has ceased to be appreciable, practically over the whole country. (Paragraphs 18, 25 and 29)

19. Apart from any general scope for stepping up tax incidence in urban areas, there appears to be greater room for increased taxation of higher rural incomes. (Paragraph 28)

20. The large area of the non-monetised sector in the rural economy is at once an index to the limits of taxation and a pointer to the possibilities of extending taxation to the field of comparative essentials, if that should be advisable otherwise, with the knowledge that the great mass of the rural population will remain outside its bounds: in general, the part of the population which is more within the frontiers of the money economy is also relatively more affluent and able to bear taxation than the part outside it. (Paragraph 30)

21. Indirect taxes can be used as a means of progressive taxation, in a limited way. There is scope for widening the base for taxation. (Paragraph 31)

22. No major shift in income from the urban to the rural or from the rural to the urban sector *as a whole* can be established to have occurred in the period since the beginning of the War, though certain shifts appear to have taken place *inter se* among the different groups within the respective sectors. (Paragraph 35)

23. It would seem that the total burden of taxation has increased in the urban sector as compared to the rural sector since the pre-war period. (Paragraph 39)

CHAPTER VI.—THE DEVELOPMENT PROGRAMME AND TRENDS IN INVESTMENT: PUBLIC SECTOR

24. There is need for the utmost endeavour to enlarge the role of taxation and borrowing in the financing of the development programme of the public sector, and to minimise the role of deficit financing. (Paragraph 23)

CHAPTER VII.—THE DEVELOPMENT PROGRAMME AND TRENDS IN INVESTMENT: PRIVATE INDUSTRIAL SECTOR

25. Gross capital formation during the five year period 1946—51 in the manufacturing sector for all public limited companies is estimated at Rs. 134 crores a year, of which addition to fixed assets was at an annual rate of Rs. 63 crores. (Paragraph 25)

26. In the financing of industrial expansion during post-war years, retained profits formed a larger source than fresh capital. (Paragraph 30)

27. While the largest increase among the principal means of financing took place in borrowing, the increase in borrowings was more than accounted for by the rise in inventories, and fixed assets formation was on the whole not dependent on borrowing. (Paragraphs 32-33)

28. Additions to paid-up capital in the entire public limited companies sector of manufacturing industry were at an annual rate of Rs. 29 crores or 8.4 per cent. during the period, of which two-fifths was represented by bonus issues. (Paragraphs 35 and 37)

29. The return in relation to net worth (shareholders' equity) would seem to have been satisfactory over the period 1946-51 in the industrial sector as a whole. (Paragraph 40)

30. The relative figures of distributed and retained profits indicate that there is a clear tendency to keep distributed profits steady or rising in absolute terms, so that the impact of any adverse turn in business conditions falls with disproportionate weight on retained profits. (Paragraph 44)

31. It would appear that the amount of retained profits and its proportion to profits are influenced more by the volume and rate of profit than by the volume and rate of taxation; profit is, of course, also the more variable factor. (Paragraph 48)

32. In 1951, as in 1946, managing agents received in all forms of remuneration about one-half of what accrued to shareholders in dividends. (Paragraph 50)

33. For all public limited companies in the manufacturing sector, the replacement costs of depreciable fixed assets (excluding buildings) acquired before 1946 work out to Rs. 420 crores, or Rs. 28 crores annually, for 15 years as from 1951. The magnitude of the replacement problem differs from industry to industry and, within an industry, also in terms of units. (Paragraphs 55-57)

CHAPTER VIII.—OUTLINES OF TAX POLICY

34. An increase in progression in direct taxation, supplemented by measures of more effective tax enforcement, is necessary for reducing inequalities. At the same time, the need to extend taxation to the masses would limit the increase in progression in the tax system. (Paragraph 10)

35. On the whole, the kind of tax system which would be best adapted to meet the requirements of the Indian economy, having regard to the development programme and the resources required for it, appears to be one which would increase the resources for investment available to the public sector with as small a diminution as practicable of investment in the private sector, and which, therefore, is accompanied by the largest practicable restraint on consumption by all classes. Restraint on the consumption of higher income groups must, of course, be greater than in respect of low income groups. (Paragraph 14)

36. The State has to assume a major responsibility for securing a diversion of resources from private consumption to public investment; the structure of taxation must be properly diversified for the purpose, with both depth and range. An extension of the taxation of necessities would seem to be unavoidable. (Paragraphs 14-15)

37. The limit of taxable capacity is relative to the purposes for which the proceeds of additional taxes are expended. (Paragraph 19)

38. Efficiency in administration and economy in public expenditure should at least diminish people's unwillingness to suffer an increase in tax burdens. (Paragraph 19)

39. The knowledge of widespread tax evasion undermines morale, puts a heavy strain on tax compliance by the honest tax-payer, and undoubtedly impairs taxable capacity. (Paragraph 20)

40. Public expenditure in India has been moving increasingly towards beneficent expenditure, but it cannot be said with equal certainty that it is moving also towards economy and efficiency. (Paragraph 20)

41. There is a presumptive case for holding that Indian taxation on the basis of its existing structure and rates has not fully tapped the taxable resources of the country. (Paragraph 20)

42. Increases in both direct and indirect taxation are indicated. The disincentive effect of higher taxation on the will to work on the part of the higher income groups is generally exaggerated. There should be a ceiling on net personal incomes after tax which, generally speaking, should not exceed approximately 30 times the prevailing average per family income in the country; this may be attempted to be secured by stages over a period of time. The accomplishment of this objective cannot merely be the result of tax changes, but must be related to an integrated approach along several directions. At the same time, it is necessary to promote savings and investment through incentives in the income-tax system, designed primarily for encouraging industrial expansion. The selective principle is appropriate in this context. (Paragraphs 28-29)

43. The greater the increase in tax revenues desired, the larger is the part that indirect taxes may have to play in bringing about such an increase. (Paragraph 31)

44. Efforts to secure uniformity throughout the country of system and rates in respect of the State taxes should be limited to achieving a necessary minimum degree of uniformity without abridging the essential autonomy of the States in financial matters. (Paragraph 32)

45. While there can be no objection to (small) cesses continuing to be employed, the proceeds of taxes should not, as a rule, be earmarked for specific purposes. While differentiation between organised and unorganised industry in the levy of certain excise duties is justified, it does not seem a wholesome practice to link a specific burden on a segment of industry with benefit to another segment. (Paragraphs 36-37)

46. In the immediate future, apart from the impact of external factors, internally, the stronger possibilities are for the continuance of inflationary forces generated by, and related to, the pace of development planning and its financing. (Paragraph 43)

47. Our tax system has in its income-tax and commodity taxes important means of counteracting inflationary situations. But it may become necessary to levy special taxes on those sectors that benefit the most in an inflationary situation, including the possible imposition of special taxes like excess profits tax. (Paragraph 49)

48. Viewed in the long term, the objective of maintaining stability in the economy merges into the larger objective of economic development. The problem, then, is of adapting fiscal and other policies to the end of maintaining an even course of development, of adjusting the pace and content of public expenditure, the level and forms of taxation, and the overall budgetary position—surpluses or deficits—with reference to the variations of the economic weather; all the elements of fiscal policy must, however, remain basically attuned to the climate of economic development. (Paragraph 51)

49. While the excess profits tax may be kept in reserve for use in a highly inflationary period, it should not form a normal component of the tax system. (Paragraph 61)

50. Considering the increase that has occurred, and may occur hereafter, in commodity taxation, a tax on salt cannot be justified merely on the ground that its incidence by itself is relatively light. (Paragraph 64)

51. The setting up, under Article 263 of the Constitution, of an All-India Taxation Council is recommended, to secure the co-ordination of tax policies and tax administration of the States, as between the States themselves and between the Union and the States. (Paragraph 71)

52. The Council will have a permanent secretariat in the form of a Tax Research Bureau, for continuous study of the problems involved. (Paragraph 74)

CHAPTER X.—NON-TAX REVENUES: PROBLEMS AND POLICY CONSIDERATIONS

53. A Committee including officials of the Railways and other Ministries concerned and of the Planning Commission should be set up to consider the formulation of an adequate Railway freight rates policy, having regard to the interests of industrial and economic development, on the one hand, and the resources required for railway development, on the other. (Paragraph 7)

54. There should be no objection in principle to using travel as a basis of taxation like other services or commodities of general consumption. A tax on travel is not more regressive than several other taxes that are levied at present and needs to be considered as a source of revenue. (Paragraph 8)

55. There is no objection to pricing policies which aim, over a long period, at realising a surplus from the operation of State undertakings. (Paragraph 17)

56. Public purpose rather than profit should be the guiding factor in the operation of a public undertaking but the antithesis is more apparent than real.) Every effort should be made to place Government industrial undertakings on a sound financial basis, so that losses are avoided and a reasonable net return is secured as far and as soon as possible. (Paragraphs 20-21)

57. No change in the present exemption from income-tax of Government business undertakings is recommended. (Paragraph 28)

58. In all cases, there should be adequate and proper accounting and financial reporting by all public undertakings. The Comptroller and Auditor-General may have the subject examined to evolve suitable standard forms of accounting for different categories of public enterprises. (Paragraph 33)

59. Fiscal monopolies, as an alternative to excise duties, present possibilities for an increase in revenue. An appropriate expert enquiry should be instituted at an early date into the possibilities of setting up fiscal monopolies with a view to augmenting public revenues, with due regard to the employment and other aspects of these schemes. (Paragraph 42)

STATISTICAL APPENDIX
(STATEMENTS RELATING TO CHAPTER II)

STATEMENT I.—*Current Revenues of the*

	1938-39		1944-45	
	(Accounts)		(Accounts)	
		Per cent.		Per cent.
<i>Group I—Taxes on Income and Property</i>				
1. Tax on income other than corporation tax	15,24		1,07,08	
<i>Deduct—Share payable to States</i>	1,50		26,56	
Net receipts from income-tax	13,74	16·57	80,52	24·08
2. Corporation tax	2,04	2·46	84,22	25·19
3. Estate duty (a)	..	..	..	..
<i>Deduct—Share payable to States</i>	..	..	..	..
Net receipts from estate duty	..	..	..	..
Sub-total I	15,78	19·03	1,64,74	49·26
<i>Group II—Chiefly Consumption Taxes</i>				
1. Customs—				
(a) Imports	39,80		91,95	
(b) Exports	4,10		2,84	
(c) Land customs	49		68	
(d) Miscellaneous	13		71	
Gross receipts (less refunds)	43,02		41,26	
<i>Deduct—Share assigned to States</i>	2,51		1,49	
Net receipts from customs	40,51	48·86	39,77	11·89
2. Union excise duties	8,66		38,14	
<i>Deduct—Share assigned to States</i>	..		..
Net receipts from Union excise duties	8,66	10·45	38,14	11·41
3. Salt duty	8,12	9·79	9,29	2·78
4. State excise	26	0·31	69	0·21
Sub-total II	57,55	69·42	87,89	26·28
<i>Group III—Revenue from Public Enterprises</i>				
1. Railways (net contribution)	1,37	1·65	32,00	9·57
2. Posts and telegraphs (net) (b)	19	0·23	10,25	3·07
3. Opium (net) (c)	25	0·30	(-) 4	(-) 0·01
4. Forests (net) (c)	(-) 3	(-) 0·04	(-) 9	(-) 0·03
5. Irrigation works for which capital accounts are kept (net)	(-) 6	(-) 0·07	(-) 4	(-) 0·01

Government of India

(Amounts in lakhs of Rupees)

1950-51		1951-52		1952-53		1953-54		1954-55	
(Accounts)		(Accounts)		(Accounts)		(R.E.)		(B.E.)	
Per cent.		Per cent.		Per cent.		Per cent.		Per cent.	
1,32,73		1,46,19		1,41,43		1,26,60		1,26,65	
47,52		52,86		56,98		57,29		55,98	
85,21	20.86	93,33	18.23	84,45	20.31	69,31	17.58	70,67	16.31
40,49	9.91	41,41	8.09	43,80	10.54	38,40	9.74	38,35	8.85
..	..	..	..	..	..	..	..	4,00	..
..	..	..	..	..	..	..	..	3,75	..
..	..	..	..	..	..	..	..	25	0.06
1,25,70	30.78	1,34,74	26.32	1,28,25	30.85	1,07,71	27.31	1,09,27	25.22
1,07,70		1,41,59		1,18,07		1,19,25		1,34,20	
47,56		90,74		55,97		40,30		40,50	
4,59		3,59		2,72		2,00		2,00	
1,78		1,17		1,87		70		80	
1,57,15		2,32,60		1,73,75		1,60,00		1,75,00	
..		91		..		..		..
1,57,15	38.48	2,31,69	45.25	1,73,75	41.79	1,60,00	40.57	1,75,00	40.38
67,54		85,78		83,03		93,55		1,04,45	
..		..		16,83		15,55		16,29	
67,54	16.54	85,78	16.75	66,20	15.92	78,00	19.78	88,16	20.34
..
2,06	0.50	1,95	0.38	16	0.04	16	0.04	15	0.03
2,26,75	55.52	3,19,42	62.39	2,40,11	57.75	2,38,16	60.39	2,63,31	60.76
6,50	1.59	6,93	1.35	7,11	1.71	7,50	1.90	7,37	1.70
3,98	0.97	3,43	0.67	1,87	0.45	2,02	0.51	1,50	0.35
1,96	0.48	69	0.13	55	0.13	(-) 62	(-) 0.16	(-) 10	(-) 0.02
97	0.24	1,10	0.21	(-) 13	(-) 0.03	(-) 15	(-) 0.04	(-) 18	(-) 0.04
(-) 2	..	(-) 1	..	1	..	..	..	..	..

STATEMENT I.—*Current Revenues of the*

	1938-39 (Accounts)		1944-45 (Accounts)	
		Per cent.		Per cent.
<i>Group III—Revenue from Public Enterprises—contd.</i>				
6. Irrigation works for which no capital accounts are kept (gross) . . . . .	..	..	..	..
7. Electricity schemes (net) . . . . .	..	..	..	..
8. Road transport (net) . . . . .	..	..	..	..
• Sub-total III	1,72	2.07	42,08	12.58
<i>Group IV—Other Taxes and Duties</i>				
1. Land revenue	18	0.22	31	0.09
2. Stamps	35	0.42	79	0.24
3. Registration	1	0.01	2	0.01
4. Motor vehicles taxation	3	0.04	7	0.02
5. Other taxes and duties (d) . . . . .	..	..	7	0.02
Sub-total IV	57	0.69	1,26	0.38
<i>Group V—Miscellaneous</i>				
1. Civil administration (e)	105	1.27	2,47	0.74
2. Civil works	32	0.39	77	0.23
3. Debt services—interest	74	0.89	1,79	0.54
4. Miscellaneous and extraordinary items (f)	5,17	6.24	33,40	9.99
Sub-total V	7,28	8.78	38,43	11.49
TOTAL	82,90	100.00	3,34,40	100.00

NOTE.—Figures for the years 1938-39 and 1944-45 relate to the pre-partition Centre administered areas for 1938-39 and 1944-45 are included. In 1950-51 and 1951-52 all *i.e.*, Bilaspur, Kutch, Manipur and Tripura are covered in the budget of the Government Coorg, Himachal Pradesh, Vindhya Pradesh, Delhi, Bhopal and Ajmer now have their own

(a) The Estate Duty Act came into force from 15th October 1953. The entire shares of Part C States which are to be retained by the Central Government.

(b) Net receipts after deducting working expenses and interest charges.

(c) The entire expenditure shown under Opium and Forests has been deducted from

(d) Details of 'other taxes and duties' for four Part C States included here are not

(e) Receipts under General Administration, Administration of Justice, Jails, Police,

(f) Receipts in aid of Superannuation, Stationery and Printing, Currency and Mint and

Government of India—contd.

(Amounts in lakhs of Rupees)

1950-51 (Accounts)		1951-52 (Accounts)		1952-53 (Accounts)		1953-54 (R.E.)		1954-55 (B.E.)	
Per cent.		Per cent.		Per cent.		Per cent.		Per cent.	
3	0·01	2	..	..	..	..	..	..	..
1	..	..	..	1	..	(—)1	..	..	..
1	..	2	..	(—)1	..	..	..	1	..
13,44	3·29	12,18	2·38	9,41	2·26	8,74	2·22	8,60	1·98
2,00	0·49	2,88	0·56	43	0·10	52	0·13	53	0·12
1,77	0·43	1,88	0·37	1,31	0·32	1,44	0·37	1,45	0·33
4	0·01	5	0·01	2	..	2	..	2	..
24	0·06	27	0·05	5	0·01	5	0·01	5	0·01
50	0·12	75	0·15	6	0·01	6	0·02	7	0·02
4,55	1·11	5,83	1·14	1,87	0·45	2,09	0·53	2,12	0·49
10,86	2·66	12,61	2·46	11,39	2·74	10,34	2·62	10,48	2·42
1,67	0·41	1,74	0·34	1,71	0·41	1,62	0·41	1,62	0·37
2,13	0·52	1,78	0·35	2,91	0·70	2,78	0·70	2,78	0·64
23,28	5·70	23,69	4·63	20,09	4·83	22,90	5·81	35,16	8·11
37,94	9·29	39,82	7·77	36,10	8·68	37,64	9·55	50,04	11·55
4,08,38	100·00	5,11,99	100·00	4,15,74	100·00	3,94,34	100·00	4,33,34	100·00

and those for later years are for the Union Government. The revenue receipts of Centrally the Part C States (except Coorg) are included but since 1952-53 only four Part C States of India. As a result of the passage of Government of Part C States Act, 1951 six States, legislatures and separate budgets.

receipts from this source are to be assigned to the States except the cost of collection and

revenue receipts under these heads.
available.

Education, Medical, and Public Health, Agriculture, Ports and Pilotage, Broadcasting etc.
Extraordinary items.

		Part A States	
		Per cent.	
<i>Group I—Revenue shared between the Union and State Governments.</i>			
1.	Share of income-tax (other than corporation tax)	51·01	15·13
2.	Share of Union excise duties	13·57	4·02
	Sub-total I	64·58	19·15
<i>Group II—Taxes on Income</i>			
1.	Agricultural income-tax	2·53	0·75
2.	Tax on professions, trades and callings	0·07	0·02
	Sub-total II	2·60	0·77
<i>Group III—Land and Property Taxes</i>			
1.	Land revenue	49·64	14·72
2.	Tax on urban immovable property	1·83	0·54
	Sub-total III	51·47	15·26
<i>Group IV—Chiefly Consumption Taxes and Duties</i>			
1.	Inter-State transit duties . . . . .	..	..
2.	State excise	24·33	7·21
3.	General sales tax	48·56	14·40
4.	Tax on sale of motor spirit and lubricants	6·43	1·91
5.	Electricity duties	4·51	1·34
6.	Entertainment duties	5·38	1·60
7.	Tobacco duties	0·76	0·23
8.	Tax on passengers and goods	1·43	0·42
	Sub-total IV	91·40	27·10
<i>Group V—Other Taxes</i>			
1.	Stamps—		
	(a) Judicial	8·69	2·58
	(b) Non-judicial	10·96	3·25
2.	Registration	3·20	0·95
3.	Tax on forward contracts*	0·02	0·01
4.	Tax on raw jute	0·33	0·10
5.	Cess on sugarcane	5·62	1·67
6.	Motor vehicles taxation	9·96	2·95

*The yield from the tax on forward contracts (Rs. 2 Lakhs) pertains to Punjab only ;

States, 1953-54 (R.E.)

(Amounts in crores of Rupees)

Part B States		Part C States		Total	
	Per cent.		Per cent.		Per cent.
5.89	5.42	..	..	56.90	12.31
2.37	2.18	..	..	15.94	3.45
8.26	7.60	..	..	72.84	15.76
0.95	0.87	0.15	0.93	3.63	0.79
..	..	..	..	0.07	0.02
0.95	0.87	0.15	0.93	3.70	0.80
17.93	16.51	1.63	10.07	69.20	14.98
..	..	..	..	1.83	0.40
17.93	16.51	1.63	10.07	71.03	15.37
6.46	5.95	..	..	6.46	1.40
18.48	17.01	2.00	12.36	44.81	9.70
7.41	6.82	1.28	7.91	57.25	12.39
1.13	1.04	0.01	0.06	7.57	1.64
0.02	0.02	..	..	4.53	0.98
0.18	0.17	0.27	1.67	5.83	1.26
0.33	0.30	..	..	1.09	0.24
..	..	..	..	1.43	0.31
34.01	31.31	3.56	22.00	128.97	27.91
1.32	1.22	0.33	2.04	10.34	2.24
1.90	1.75	0.30	1.85	13.16	2.85
0.65	0.60	0.60	0.37	3.91	0.85
..	..	..	..	0.02	..
..	..	..	..	0.33	0.07
0.07	0.06	..	..	5.69	1.23
2.34	2.15	0.33	2.04	12.63	2.73

In Bombay the yield from this tax is not shown separately, being grouped under Stamps.

STATEMENT II.—Revenues of

	Part A States	
	Per cent.	
<i>Group V—Other Taxes—contd.</i>		
7. Tax on cinematograph shows . . . . .	..	..
8. Tax on racing	0·22	0·07
9. Betting tax	2·03	0·60
10. Tax on prize competitions	0·08	0·02
11. Tax on newspaper advertisements	0·01	..
12. Miscellaneous taxes and duties . . . . .	..	..
Sub-total V	41·12	12·19
<i>Group VI—Revenue from Public Utilities and State Undertakings</i>		
1. Irrigation works for which capital accounts are kept (net)	7·48	2·22
2. Irrigation works for which no capital accounts are kept (gross)	2·30	0·68
3. Electricity schemes (net)	2·79	0·83
4. Forests (net)	7·15	2·12
5. Road and water transport (net)	0·52	0·15
Sub-total VI	20·24	6·00
<i>Group VII—Miscellaneous</i>		
1. Civil administration	26·87	7·97
2. Civil works	2·62	0·78
3. Debt services—interest	4·83	1·43
4. Miscellaneous and extraordinary items	8·10	2·40
Sub-total VII	42·42	12·58
<i>Grants-in-aid etc. from the Union Government</i>	23·40	6·94
TOTAL	337·23	100·00

NOTE.—(1) Total revenues are exclusive of transfers from funds. The figures for and residuary Madras for 1953-54 are available for later six months only.

(2) The revenue receipts of Part C States relate to six States only—Delhi, Coorg, States are shown in the Central budget.

(3) The net receipts shown under various sub-heads of Group VI—Public Utilities—Forests where the entire expenditure on revenue account has been deducted from gross electricity schemes and road transport which appear in the Central budget.

(4) Receipts under Civil Administration cover General Administration, Administration—Delhi for which receipts under Police, Public order, etc., are shown in the Central budget.

States, 1953-54 (R.E.)—contd.

(Amounts in crores of Rupees)

Part B States		Part C States		Total Revenue	
	Per cent.		Per cent.		Per cent.
0·08	0·07	..	..	0·08	0·02
..	..	..	..	0·22	0·05
0·17	0·16	0·05	0·31	2·25	0·49
0·06	0·06	..	..	0·14	0·03
..	..	..	..	0·01	..
0·05	0·05	0·01	0·06	0·06	0·01
6·64	6·11	1·08	6·67	48·84	10·58
0·61	0·56	..	..	8·09	1·7
0·74	0·68	0·03	0·19	3·07	0·65
1·31	1·21	0·16	0·99	4·26	0·92
2·50	2·30	1·17	7·23	10·82	2·34
0·51	0·47	0·07	0·43	1·10	0·24
5·67	5·22	1·43	8·84	27·34	5·91
11·78	10·84	1·33	8·22	39·98	8·65
0·81	0·75	0·08	0·49	3·51	0·76
3·35	3·08	..	..	8·18	1·77
4·18	3·85	0·29	1·79	12·57	2·72
20·12	18·52	1·70	10·50	64·24	13·91
15·05	13·85	6·63	40·98	45·08	9·76
108·63	100·00	16·18	100·00	462·04	100·00

Part A States include budget estimates for the composite State of Madras as data for Andhra Himachal Pradesh, Bhopal, Vindhya Pradesh and Ajmer ; figures for the remaining four and State Undertakings—are generally net of working expenses except in the case of receipts. The data for Part C States do not cover in the case of Delhi, receipts from of Justice, Police, Jails,¹ Education, Agriculture, Industries, etc., excepting in the case of

STATEMENT III.—Revenues

	1938-39 (Accounts)	Per cent.	1944-45 (Accounts)	Per cent.
<i>Group I—Revenue shared between the Union and State Governments</i>				
1. Share of income tax (other than corporation tax)	1,47	1·91	25,75	13·28
2. Share of Union excise duties . . . . .	..	..	..	..
3. Share of customs	2,51	3·27	1,48	0·76
4. Share of estate duty (b) . . . . .	..	..	..	..
Sub-total I	3,98	5·18	27,23	14·05
<i>Group II—Taxes on Income</i>				
1. Agricultural income-tax . . . . .	..	..	91	0·47
2. Tax on professions, trades and callings	1	0·01	3	0·01
Sub-total II	1	0·01	94	0·48
<i>Group III—Land and Property Taxes</i>				
1. Land revenue	25,40	33·08	30,21	15·58
2. Tax on urban immovable property . . . . .	..	..	1,38	0·71
Sub-total III	25,40	33·08	31,59	16·29
<i>Group IV—Chiefly Consumption Taxes and Duties</i>				
1. State excise	13,08	17·04	43,42	22·40
2. General sales tax . . . . .	..	..	7,91	4·07
3. Tax on the sale of motor spirit and lubricants . . . . .	..	..	2,67	1·38
4. Electricity duties	38	0·49	96	0·50
5. Entertainment duties	25	0·33	2,11	1·08
6. Tobacco duties	24	0·31	1,00	0·52
7. Tax on passengers and goods . . . . .	..	..	..	..
Sub-total IV	13,95	18·17	58,07	29·95
<i>Group V—Other Taxes</i>				
1. Stamps :				
(a) Judicial	6,35	8·27	7,06	3·64
(b) Non-Judicial	3,18	4·14	8,14	4·20
2. Registration	109	1·42	2,39	1·23
3. Tax on forward contracts* . . . . .	..	..	..	..
4. Tax on raw jute . . . . .	..	..	36	0·19

of Part A States

(Amounts in lakhs of Rupees)

1950-51 (Accounts)	Per cent.	1951-52 (Accounts)	Per cent.	1952-53 (Accounts)	Per cent.	1953-54 (a) (R.E.)	Per cent.	1954-55 (B.E.)	Per cent.
47,38	16.97	52,32	17.71	51,21	16.77	51,01	15.13	49,32	14.22
..	..	..	..	14,13	4.63	13,57	4.02	13,97	4.03
..
..	..	..	..	..	..	..	..	25	0.07
47,38	16.97	52,32	17.71	65,34	21.40	64,58	19.15	63,54	18.32
3,59	1.29	3,24	1.10	2,93	0.96	2,53	0.75	1,99	0.57
7	0.03	7	0.02	7	0.02	7	0.02	7	0.02
3,66	1.31	3,31	1.12	3,00	0.98	2,60	0.77	2,06	0.59
33,21	11.89	33,05	11.19	38,29	12.54	49,64	14.72	52,12	15.02
1,59	0.57	185	0.63	200	0.66	183	0.54	199	0.57
34,80	12.46	34,90	11.81	40,29	13.20	51,47	15.26	54,11	15.60
27,04	9.68	28,11	9.52	25,70	8.42	24,33	7.21	23,58	6.80
50,44	18.07	47,99	16.25	43,09	14.11	48,56	14.40	46,93	13.53
3,39	1.21	4,25	1.44	5,65	1.85	6,43	1.91	6,50	1.87
3,12	1.12	3,38	1.14	3,40	1.11	4,51	1.34	4,38	1.26
5,71	2.05	6,09	2.06	5,61	1.84	5,38	1.60	5,28	1.52
1,41	0.51	1,17	0.40	1,14	0.37	76	0.23	67	0.19
11	0.04	12	0.04	50	0.16	1,43	0.42	1,30	0.37
91,22	32.67	91,11	30.84	85,09	27.87	91,40	27.10	88,64	25.55
7.88	2.82	7.68	2.60	8.37	2.74	8.69	2.58	8.57	2.47
11,07	3.97	10,85	3.67	10,19	3.34	10,96	3.25	10,54	3.04
3,20	1.15	3,26	1.10	3,11	1.02	3,20	0.95	3,26	0.94
..	..	2	0.01	2	0.01	2	0.01	2	0.01
33	0.12	33	0.11	33	0.11	33	0.10	33	0.10

STATEMENT III.—Revenues

	1938-39 (Accounts)	Per cent.	1944-45 (Accounts)	Per cent.
<i>Group V—Other Taxes—contd.</i>				
5. Cess on sugar-cane	42	0·55	1·22	0·63
6. Motor vehicles taxation	1,88	2·45	2·07	1·07
7. Tax on racing	3	0·04	3	0·02
8. Betting tax	24	0·31	1·96	1·01
9. Tax on prize competitions . . . . .	..	..	3	0·02
10. Tax on newspaper advertisements . . . . .	..	..	..	..
11. Miscellaneous taxes and duties (c) . . . . .	..	..	11	0·06
Sub-total V	13,19	17·18	23,37	12·06
<i>Group VI—Revenue from Public Utilities and State Undertakings (d)</i>				
1. Irrigation works for which capital accounts are kept (net)	7,57	9·86	10,14	5·23
2. Irrigation works for which no capital accounts are kept (gross)	76	0·99	1,54	0·79
3. Electricity schemes (net)	34	0·44	84	0·43
4. Forests (net)	63	0·82	4,58	2·36
5. Road transport (net) . . . . .	..	..	..	..
Sub-total VI	9,30	12·11	17,10	8·82
<i>Group VII—Miscellaneous</i>				
1. Civil administration (e)	4,50	50·86	11,08	5·72
2. Civil works	71	0·92	1,41	0·73
3. Debt services—interest	1,71	2·23	2,35	1·21
4. Miscellaneous and extraordinary items	1,56	2·03	11,07	5·71
Sub-total VII	8,48	11·04	25,91	13·36
<i>Grants-in-aid etc. from the Union Government</i>	2,47	3·22	9,66	4·98
TOTAL	76,78	100·00	1,93,87	100·00

NOTES.—Figures for the years 1938-39 and 1944-45 relate to the pre-partition nine Part A States. Transfers from various funds of the States which are shown as part

(a) The figures for 1953-54 are revised estimates for all States except Andhra and estimates for the composite State of Madras have been substituted.

(b) Only one State, Bombay, has taken credit for its share of estate duty.

(c) Covers receipts under the Bengal Finance Act, 1939 and arrears of match excise

(d) The net receipts shown under various sub-heads of Group VI—Public Utilities and depreciation charges.

(e) Covers receipts under General Administration, Administration of Justice, Police,

*In Bombay the yield from tax on forward contracts is shown under Stamps; the

of Part A States—contd.

(Amounts in lakhs of Rupees)

1950-51 Acco- unts)	Per cent.	1951-52 (Acco- unts)	Per cent.	1952-53 (Acco- unts)	Per cent.	1953-54 (a) (R.E.)	Per cent.	1954-55 (B.E.)	Per cent.
3,59	1.39	4,63	1.57	4,90	1.60	5,62	1.67	5,18	1.49
7,19	2.58	8,11	2.75	9,22	3.02	9,96	2.95	10,09	2.91
7	0.03	19	0.06	N.A.	..	22	0.07	10	0.03
1,97	0.71	2,30	0.78	1,66	0.54	2,03	0.60	2,04	0.59
19	0.07	24	0.08	16	0.05	8	0.02	10	0.03
10	0.04	5	0.02	3	0.01	1	..	1	..
..	..	..	..	2	0.01	..	..	..	..
35,89	12.85	37,66	12.75	38,01	12.45	41,12	12.19	40,24	11.60
5,29	1.89	5,69	1.93	6,04	1.98	7,48	2.22	8,61	2.48
1,27	0.45	1,57	0.53	1,44	0.47	2,30	0.68	2,07	0.60
2,26	0.81	2,43	0.82	2,21	0.72	2,79	0.83	3,59	1.03
9,03	3.23	9,41	3.19	7,53	2.47	7,15	2.12	7,10	2.05
42	0.15	22	0.07	26	0.09	52	0.15	175	0.50
18,27	6.54	19,32	6.54	17,48	5.72	20,24	6.00	23,12	6.66
20,87	7.48	23,31	7.89	23,25	7.61	26,87	7.97	25,34	7.30
2,86	1.02	2,83	0.96	3,15	1.03	2,62	0.78	2,49	0.72
3,80	1.36	3,29	1.11	3,61	1.18	4,83	1.43	4,88	1.41
8,21	2.94	12,18	4.12	8,43	2.76	8,10	2.40	9,64	2.78
35,74	12.80	41,61	14.09	38,44	12.59	42,42	12.58	42,35	12.21
12,23	4.33	15,16	5.13	17,69	5.79	23,40	6.94	32,86	9.47
2,79,19	100.00	2,95,39	100.00	3,05,34	100.00	3,37,23	100.00	3,46,92	100.00

Provinces (excluding Sind and N.W.F.P.); those for the remaining years are for the of revenue receipts in the State budgets are excluded.

Madras for which data are available for later six months only and therefore budget

duty.

and State Undertakings are generally net of working expenses only and not of interest

Jails, Education, Medical, Public Health, Agriculture, Industries, etc.

figure shown here pertains to Punjab only.

STATEMENT IV.—Revenues of Part B States since 1950-51

(Amounts in lakhs of Rupees)

	1950-51 (Accounts)		1951-52 (Accounts)		1952-53 (Accounts)		1953-54 (R.E.)		1954-55 (B.E.)	
	Per cent.		Per cent.		Per cent.		Per cent.		Per cent.	
<i>Group I—Revenue shared between the Union and State Governments</i>										
1. Share of income-tax (other than corporation tax) . . .	30	0·33	34	0·33	5,76	5·43	5,89	5·42	635	5·40
2. Share of Union excise duties . . .	..	..	..	..	2,12	2·00	2,37	2·18	2,32	1·97
3. Share of estate duty (a) . . .	..	..	..	..	..	..	..	..	3	0·03
Sub-total I	30	0·33	34	0·33	7,88	7·43	8,26	7·60	8,70	7·39
<i>Group II—Taxes on Income</i>										
1. Agricultural income-tax	50	0·56	1,09	1·06	99	0·93	95	0·87	1,10	0·93
Sub-total II	50	0·56	1,09	1·06	99	0·93	95	0·87	1,10	0·93
<i>Group III—Land and Property Taxes</i>										
1. Land revenue	16,37	18·27	14,94	14·51	17,59	16·58	17,93	16·51	19,66	16·70
Sub-total III	16,37	18·27	14,94	14·51	17,59	16·58	17,93	16·51	19,66	16·70
<i>Group IV—Chiefly Consumption Taxes and Duties</i>										
1. Inter-State transit duties	9,19	10·26	9,87	9·59	8,11	7·64	6,46	5·95	5,83	4·95

2. State excise	20,28	22·63	21,29	20·68	18,67	17·60	18,48	17·01	18,25	15·51
3. General sales tax	5,55	6·19	6,45	6·27	6,34	5·98	7,41	6·82	7,90	6·71
4. Tax on the sale of motor spirit and lubricants	20	0·22	29	0·28	88	0·83	1,13	1·04	1,26	1·07
5. Electricity duties	1	0·01	2	0·02	2	0·02	2	0·02	2	0·02
6. Entertainment duties	17	0·19	19	0·18	14	0·13	18	0·17	20	0·17
7. Tobacco duties	9	0·10	45	0·44	33	0·31	33	0·30	32	0·27
8. Duties on cloth (arrears) . . . . .	..	..	23	0·22	..	..	..	..	..	..
9. Match excise duty . . . . .	..	..	1,50	1·46	30	0·28	..	..	..	..
Sub-total IV	35,49	39·61	40,29	39·14	34,79	32·79	34,01	31·31	33,78	28·70
<i>Group V.—Other Taxes</i>										
1. Stamps										
(a) Judicial	1,35	1·51	1,46	1·42	1,36	1·28	1,32	1·22	1,36	1·16
(b) Non-judicial	1,56	1·74	1,65	1·60	1,71	1·61	1,90	1·75	1,95	1·66
2. Registration	63	0·70	67	0·65	60	0·57	65	0·60	65	0·55
3. Cess on sugarcane . . . . .	..	..	..	..	..	..	7	0·06	15	0·13
4. Tax on cinematograph shows . . . . .	..	..	..	0·04	7	0·07	8	0·07	8	0·07
5. Motor vehicles taxation	1,56	1·74	1,98 18	1·92	2,12	2·00	2,34	2·15	2,42	2·06
6. Betting tax	19	0·21	..	0·17	19	0·18	17	0·16	18	0·15
7. Tax on prize competitions . . . . .	..	..	..	..	4	0·04	6	0·06	6	0·05
8. Miscellaneous taxes and duties (b)	12	0·13	9	0·09	5	0·05	5	0·05	1	0·01
Sub-total V	5,41	6·04	6,07	5·90	6,14	5·79	6,64	6·11	6,86	5·83

STATEMENT IV.—Revenues of Part B States since 1950-51—contd.

(Amounts in lakhs of Rupees)

	1950-51 (Accounts)		1951-52 (Accounts)		1952-53 (Accounts)		1953-54 (R.E.)		1954-55 (B.E.)	
	Per cent.		Per cent.		Per cent.		Per cent.		Per cent.	
<i>Group VI—Revenue from Public Utilities and State Undertakings (c)</i>										
1. Irrigation works for which capital accounts are kept (net)	56	0·63	42	0·41	47	0·44	61	0·56	64	0·54
2. Irrigation works for which no capital accounts are kept (gross)	25	0·28	32	0·31	54	0·51	74	0·68	1,02	0·87
3. Electricity schemes (net)	70	0·78	98	0·95	1,17	1·10	1,31	1·21	1,43	1·21
4. Forests (net)	2,32	2·59	2,55	2·48	2,39	2·25	2,50	2·30	2,26	1·92
5. Road and water transport (net)	53	0·59	64	0·62	3	0·03	51	0·47	46	0·39
6. Railways (net) (d)	47	0·52	..	..	..	..	..	..	..	..
Sub-total VI	4,83	5·39	4,91	4·77	4,60	4·34	5,67	5·22	5,81	4·94
<i>Group VII—Miscellaneous</i>										
1. Civil administration (e)	6,27	7·00	10,87	10·56	11,29	10·64	11,78	10·84	13,88	11·79
2. Civil works	46	0·51	67	0·65	86	0·81	81	0·75	73	0·62
3. Debt services—interest	2,83	3·16	3,22	3·13	3,24	3·05	3,35	3·08	2,98	2·53

4. Miscellaneous and extra-ordinary items	6,16	6.88	6,92	6.72	6,30	5.94	4,18	3.85	4,11	3.49
Sub-total VII	15,72	17.55	21,68	21.06	21,69	20.44	20,12	18.52	21,70	18.44
<i>Grants-in-aid etc. from the Union Government</i>	10,97	12.24	13,62	13.23	12,41	11.70	15,05	13.85	20,09	17.17
TOTAL (f)	89,59	100.00	1,02,94	100.00	1,06,09	100.00	1,08,63	100.00	1,17,70	100.00

(a) Only one State (PEPSU) has taken credit for its share of estate duty in 1954-55.

(b) Covers industrial tax, war profits tax and excess profit tax, since abolished.

(c) The net receipts under this group generally represent gross receipts *minus* working expenses except in the case of "forests" where the entire expenditure on revenue account has been deducted from revenue receipts.

(d) The figure shown against this head represents arrear receipts prior to federal financial integration.

(e) Covers receipts under General Administration, Administration of Justice, Police, Jails, Education, Agriculture, Industries etc.

(f) Excludes transfers from various funds.

STATEMENT V.—Revenues of Individual

	Assam		Bihar		Bombay		Madhya
	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51
<i>Group I—Revenue shared between the Union and State Governments</i>							
1. Share of income-tax (other than corporation tax)	1,42	1,36	5,92	6,03	9,95	10,76	2,84
2. Share of Union excise duties . . . . .	..	43	..	1,93	..	1,72	..
Sub-total I	1,42	1,79	5,92	7,96	9,95	12,48	2,84
<i>Group II—Taxes on Income</i>							
1. Agricultural income-tax	79	89	69	35	..	..	..
2. Tax on professions, trades and callings	3	3	..	..	..	..	4
Sub-total II	82	92	69	35	..	..	4
<i>Groups III—Land and Property Taxes</i>							
1. Land revenue	1,90	2,10	1,59	3,19		7,12	3,75
2. Tax on urban immovable property . . . . .	..	..	..	..	1,30	1,48	..
Sub-total III	1,90	2,10	1,59	3,19	7,61	8,60	3,75
<i>Group IV—Chiefly Consumption Taxes and Duties—</i>							
1. State excise	93	1,33	5,26	4,71	1,07	97	2,31
2. General sales tax	55	96	4,40	3,73	14,58	15,11	2,35
3. Tax on sale of motor spirit and lubricants	19	23	..	45	60	1,75	26
4. Electricity duties . . . . .	..	..	12	22	1,87	2,26	7
5. Entertainment duties	2	2	36	32	1,73	1,63	29
6. Tobacco duties . . . . .	..	..	..	..	79	..	4
7. Tax on passengers and goods . . . . .	..	..	11	24	..	..	..
Sub-total IV	1,69	2,54	10,25	9,67	20,64	21,72	5,32
<i>Group V—Other Taxes—</i>							
1. Stamps							
(a) Judicial	13	17	1,08	1,02	1,23	1,23	46
(b) Non-judicial	11	14	1,26	1,07	2,87	2,83	54
2. Registration	3	5	67	61	32	32	23
3. Tax on forward contracts (a) . . . . .	..	..	..	..	..	..	..
4. Tax on raw jute . . . . .	..	..	..	..	..	..	..
5. Cess on sugar-cane . . . . .	..	..	1,26	1,47	46	65	..

Part A States, 1950-51 and 1953-54

(Amounts in lakhs of Rupees)

Pradesh	Madras		Punjab		Orissa		Uttar Pradesh		West Bengal		Total	
1953-54 (R.E.)	1950-51	1953-54 (B.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)
3,18	8,29	8,95	2,61	2,08	1,42	2,09	8,53	9,64	6,40	6,92	47,38	51,01
1,02	..	2,90	..	61	..	74	..	3,03	..	1,19	..	13,57
4,20	8,29	11,85	2,61	2,69	1,42	2,83	8,53	12,67	6,40	8,11	47,38	64,58
..	..	..	..	..	10	8	1,38	58	63	63	3,59	2,53
4	..	..	..	..	..	..	..	..	..	..	7	7
4	..	..	..	..	10	8	1,38	58	63	63	3,66	2,60
5,27	6,94	7,36	1,84	2,11	1,03	1,44	7,72	18,92	2,13	2,13	33,21	49,64
..	..	..	29	35	..	..	..	..	..	..	1,59	1,83
5,27	6,94	7,36	2,13	2,46	1,03	1,44	7,72	18,92	2,13	2,13	34,80	51,47
2,43	55	42	2,08	2,29	2,13	1,62	6,51	5,44	6,20	5,12	27,04	24,33
1,95	15,86	14,00	1,78	1,89	80	1,10	4,93	5,05	5,19	4,77	50,44	48,56
42	88	1,85	15	22	13	17	22	26	96	1,08	3,39	6,43
10	18	12	1	..	..	..	1	75	86	1,06	3,12	4,51
30	1,24	1,20	17	19	6	6	79	71	1,05	95	5,71	5,38
4	56	72	2	..	..	..	..	..	..	..	1,41	76
..	..	75	..	44	..	..	..	..	..	..	11	1,43
5,24	19,27	19,06	4,21	5,03	3,12	2,95	12,46	12,21	14,26	12,98	91,22	91,40
52	1,68	2,26	31	29	27	31	1,74	1,76	98	1,13	7,88	8,69
62	3,20	3,22	34	32	25	27	70	89	1,80	1,60	11,07	10,96
25	1,08	1,04	10	9	8	12	24	27	45	45	3,20	3,20
..	..	..	..	2	..	..	..	..	..	..	..	2
..	..	..	..	..	..	..	..	..	33	33	33	33
..	..	..	..	..	..	..	2,17	3,50	..	..	3,89	5,62

STATEMENT V.—Revenues of Individual

	Assam		Bihar		Bombay		Madhya	
	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)
<i>Group V—Other Taxes—contd.</i>								
6. Motor vehicles taxation	30	33	18	7	1,45	2,41	38	
7. Tax on racing . . . . .	..	..	..	..	7	22	..	
8. Betting tax	9	13	..	..	94	1,00	..	
9. Tax on prize competitions . . . . .	..	..	..	..	19	8	..	
10. Tax on newspaper advertisements . . . . .	..	..	..	..	10	1	..	
11. Miscellaneous taxes and duties(b) . . . . .	..	..	..	..	..	..	..
Sub-total V	66	82	4,45	4,24	7,63	8,75	1,61	
<i>Group VI—Revenue from Public Utilities and State Undertakings</i>								
1. Irrigation works for which capital accounts are kept (net) . . . . .	..	..	1	18	29	72	..	
2. Irrigation works for which no capital accounts are kept (gross) . . . . .	..	..	4	76	11	17	23	
3. Electricity schemes (net) . . . . .	..	..	(—) 4	(—) 14	2	23	(—) 3	
4. Forests (net)	19	(—) 4	21	21	2,52	1,58	1,92	
5. Road and water transport (net)	17	18	..	3	..	..	..
Sub-total VI	36	14	22	1,04	2,94	2,70	2,12	
<i>Group VII—Miscellaneous</i>								
1. Civil administration	37	39	1,43	2,20	5,10	7,37	1,12	
2. Civil works	10	10	17	16	52	65	14	
3. Debt services—interest	4	8	62	73	1,25	1,71	36	
4. Miscellaneous and extraordinary items	55	46	64	61	1,05	1,16	44	
Sub-total VII	1,06	1,03	2,86	3,70	7,92	10,89	2,06	
<i>Grants-in-aid, etc., from the Union Government</i>								
	1,29	4,40	2,36	2,63	1,93	3,01	40	
TOTAL (c)	9,20	13,74	28,34	32,78	58,62	68,15	18,14	

NOTES.—The figures for 1953-54 are revised estimates for all States except and, therefore, budget estimates for the composite State of Madras have been taken.

(a) In Bombay the yield from tax on forward contracts is shown under Stamps.

(b) Covers receipts under the Bengal Finance Act, 1939 and arrears of match

(c) Excluding transfers from funds.

Part A States, 1950-51 and 1953-54—contd.

(Amounts in lakhs of Rupees)

Pradesh	Madras		Punjab		Orissa		Uttar Pradesh		West Bengal		Total	
1953-54 (R.E.)	1950-51	1953-54 (B.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)
43	3,49	4,16	16	21	24	31	52	92	47	1,12	7,19	9,96
..	..	..	..	..	..	..	..	..	..	..	7	522
..	23	24	..	..	..	..	10	4	61	62	1,97	2,03
..	..	..	..	..	..	..	..	..	..	..	19	8
..	..	..	..	..	..	..	..	..	..	..	10	1
..
1,82	9,68	10,92	91	93	84	1,01	5,47	7,38	4,64	5,25	35,89	41,12
..	79	85	1,66	1,70	(—)6	(—)6	2,66	4,16	(—)6	(—)7	5,29	7,48
27	81	86	1	16	2	2	2	1	3	5	1,27	2,30
..	1,44	1,84	71	63	(—)2	(—)2	16	26	2	(—)1	2,26	2,79
2,06	1,14	82	4	10	68	61	2,31	1,95	2	(—)14	9,03	7,15
1	16	20	4	7	3	4	8	22	(—)6	(—)23	42	52
2,34	4,34	4,57	2,46	2,66	65	59	5,23	6,60	(—)5	(—)40	18,27	20,24
1,34	4,53	6,25	1,14	1,21	54	69	3,82	3,80	2,82	3,62	20,87	26,87
17	78	82	23	12	9	7	50	35	33	18	2,86	2,62
65	77	49	8	26	21	23	25	36	22	32	3,80	4,83
44	99	1,77	99	72	44	26	2,25	1,58	86	1,10	8,21	8,10
2,60	7,07	9,33	2,44	2,31	1,28	1,25	6,82	6,09	4,23	5,22	35,74	42,42
1,60	1,80	1,81	1,17	2,43	1,36	1,90	38	1,82	1,54	3,80	12,23	23,40
23,11	57,39	64,90	15,93	18,51	9,80	12,05	47,99	66,27	33,78	37,72	2,79,19	3,37,23

Andhra and residuary Madras for which data are available for later six months only

excise duty.

STATEMENT VI.—Revenues of Individual

	Hyderabad		Madhya Bharat		Mysore	
	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)
<i>Group I—Revenue shared between the Union and State Governments</i>						
1. Share of income-tax (other than corporation tax) . . . . .	..	2,50	6	97	..	6
2. Share of Union excise duties . . . . .	..	90	..	38	..	2
Sub-total I . . . . .	..	3,40	6	1,35	..	8
<i>Group II—Taxes on Income</i>						
1. Agricultural income-tax . . . . .	..	5	..	..	..	..
Sub-total II . . . . .	..	5	..	..	..	..
<i>Group III—Land and Property Taxes</i>						
1. Land revenue	4,47	4,89	2,47	3,33	1,29	95
Sub-total III	4,47	4,89	2,47	3,33	1,29	95
<i>Group IV—Chiefly Consumption Taxes and Duties</i>						
1. Inter-State transit duties	3,55	1,30	1,41	1,00	..	..
2. State excise	9,68	8,50	1,89	1,55	2,00	1,60
3. General sales tax	73	2,00	42	1,29	1,29	1,19
4. Tax on sale of motor spirit and lubricants	1	20	..	..	12	25
5. Electricity duties . . . . .	..	..	..	..	..	..
6. Entertainment duties . . . . .	..	..	..	..	6	8
7. Tobacco duties . . . . .	..	..	..	..	..	..
Sub-total IV	13,97	12,00	3,72	3,84	3,47	3,12
<i>Group V—Other Taxes</i>						
1. Stamps						
(a) Judicial	30	18	24	24	19	20
(b) Non-judicial	20	37	12	16	25	31
2. Registration	8	8	3	2	9	11
3. Cess on sugarcane . . . . .	..	7	..	..	..	..
4. Motor vehicles taxation	14	14	14	12	42	83
5. Tax on cinematograph shows . . . . .	..	3	..	..	..	5

STATEMENT VI.—Revenues of Individual

	Hyderabad		Madhya Bharat		Mysore	
	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)
<i>Group V.—Other Taxes—contd.</i>						
6. Betting tax	..	2	..	..	19	15
7. Tax on prize competitions	..	..	..	..	..	6
8. Miscellaneous taxes and duties (a)	..	2	5	3	..	..
Sub-total V	72	91	58	57	1,14	1,71
<i>Group VI—Revenue from Public Utilities and State Undertakings</i>						
1. Irrigation works for which capital accounts are kept (net)	..	2	..	..	2	2
2. Irrigation works for which no capital accounts are kept (gross)	1	37	13	17	..	..
3. Electricity schemes (net)	..	..	9	5	74	83
4. Forests (net)	61	62	37	40	22	42
5. Road and water transport (net)	22	17	7	35	..	2
6. Railways (net) (b)	..	..	16	..	..	..
Sub-total VI	84	1,18	82	97	98	1,29
<i>Group VII—Miscellaneous</i>						
1. Civil administration	63	51	56	77	2,40	6,57(d)
2. Civil works	7	8	5	4	8	12
3. Debt services—Interest	78	64	17	47	33	85
4. Miscellaneous and extraordinary items	1,76	1,35	75	49	89	26
Sub-total VII	3,24	2,58	1,53	1,77	3,70	7,80
<i>Grants-in-aid etc. from the Union Government</i>	1,93	48	16	1,11	3,45	4,31
TOTAL (c)	25,17	25,49	9,34	12,94	14,03	19,26

(a) Covers industrial tax, war profits tax and excess profits tax, since abolished.

(b) Arrear receipts prior to federal financial integration.

(c) Excludes transfers from funds.

(d) The large increase under civil administration in Mysore is accounted for mainly

Part B States, 1950-51 and 1953-54—contd.

(Amounts in lakhs of Rupees)

PRPSU		Rajasthan		Saurashtra		Trav-Cochin		Total				
1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)	1950-51	1953-54 (R.E.)			
..	..	..	..	..	..	..	..	19	17		
..	..	..	..	..	..	..	..	..	6		
..	..	..	..	7	..	..	..	12	5		
22]	29	65	91	49	44	1,61	1,81	5,41	6,64			
37	40	17	18	..	..	..	(-)	56	61		
..	3	5	12	3	2	3	3	25	74			
[-)	3	(-)	12	(-)	9	6	4	(-)	4	56	70	1,31
3	(-)	5	17	10	2	(-)	4	90	1,05	2,32	2,50	
..	..	..	1	4	(-)	2	20	(-)	2	53	51
31	..	..	..	..	..	..	..	47	..	..	..
68	30	27	32	15	..	1,09	1,61	4,83	5,67	..	..
33	39	94	1,50	70	80	71	1,24	6,27	11,78	..	..
3	21	7	17	6	6	10	13	46	81	..	..
9	22	68	43	35	34	43	40	2,83	3,35	..	..
58	46	1,13	69	41	47	64	46	6,16	4,18	..	..
1,03	1,28	2,82	2,79	1,52	1,67	1,88	2,23	15,72	20,12	..	..
..	24	12	1,63	2,51	3,53	2,80	3,75	10,97	15,05	..	..
5,60	6,83	14,38	18,56	7,72	9,62	13,35	15,93	89,59	1,08,63	..	..

under industries.

STATISTICAL APPENDIX

(STATEMENTS RELATING TO CHAPTER III)

STATEMENT I.—Total Current Expenditure of all Governments, 1953-54 (R.E.)

(Amounts in crores of Rupees)

	Total		Union Government*		All States†		Local‡		
	Per cent.		Per cent.		Per cent.		Per cent.		
I. Non-Development.									
Direct Demands on Revenue (a)	43.27	4.67	14.25	3.43	29.02	5.65	(g)	..	..
Interest on Debt and other obligations	48.54	5.24	33.85	8.15	12.69	2.47	2.00	2.30	..
Debt Retirement	14.64	1.50	5.00	1.20	9.64	1.88	..	..	..
National Defence (net)	199.69	21.54	199.69	48.11	..	..	..	..	..
General Government—									
External Affairs	4.51	0.49	4.51	1.09	..	..	..	..	..
General Administration	57.87	6.24	11.58	2.79	38.32	7.46	7.97	9.18	..
Administration of Justice	11.34	1.22	0.19	0.05	11.15	2.17	..	..	..
Jails and Convict Settlements	7.77	0.84	0.05	0.01	7.72	1.50	..	..	..
Police	57.23	6.17	3.38	0.81	53.85	10.48	..	..	..
Others (b)	42.02	4.53	18.59	4.48	23.43	4.56	..	..	..
Miscellaneous (c)	64.93	7.01	16.09	3.88	45.66	8.89	3.18	3.66	..
Sub-total Group I	551.81	59.53	307.18	74.00	231.48	45.06	13.15	15.14	..
II. Social Services.									
Education	81.33	8.77	5.06	1.22	59.27	11.54	17.00	19.57	..
Public Health	16.65	1.79	1.02	0.25	10.76	2.09	4.87	5.61	..
Medical	29.29	3.16	0.97	0.23	23.32	4.54	5.00	5.76	..
Others (d)	54.55	5.88	14.16	3.41	13.07	2.54	27.32	31.46	..
Sub-total Group II	181.82	19.61	21.21	5.11	106.42	20.72	54.19	62.39	..
III. Economic Development.									
Agriculture	27.67	2.99	2.61	0.63	25.06	4.88	..	..	..
Veterinary	4.86	0.52	0.33	0.08	4.53	0.88	..	..	..
Co-operation	5.90	0.64	0.01	..	5.89	1.15	..	..	..
Community Development Projects.	10.37	1.12	0.32	0.08	10.05	1.96	..	..	..

Irrigation and Forests	25·67	2·77	1·56	0·38	24·11	4·69	..	..
Electricity Schemes	1·49	0·16	...	..	1·49	0·29	..	..
Industries and Supplies	26·33	2·84	12·25	2·95	14·08	2·74	..	..
Civil Works	79·91	8·60	14·48	3·49	50·92	9·91	14·51	16·71
Others (c)	11·09	1·20	3·98	0·96	2·11	0·41	5·00	5·76
Sub-total Group III	193·29	20·85	35·54	8·56	138·24	26·91	19·51	22·47
IV. Grants and Contributions, etc. (f)			51·17	12·33	37·55	7·31	..	..
TOTAL			415·10	100·00	513·69	100·00	86·85	100·00
Less duplicate items			51·17		37·55			
NET TOTAL	926·92		363·93		476·14		86·85	

*Data relating to the Union Government cover those for four Part C States (Bilaspur, Kutch, Manipur and Tripura) which are shown in the Central budget.

†Data for the States cover all Part A and Part B States and six Part C States which have their own separate budgets.

‡Data for local bodies cover most of the States ; due to lack of uniformity and partly because they relate to different years (latest available) the figures are rough estimates.

(a) Exclusive of expenditure under Forests and various inter-governmental transfers between the Centre and States and States and local bodies.

(b) Covers expenditure on Tribal Areas, Audit, Superannuation Allowances and Pensions, Territorial and Political Pensions, Privy Purses and allowances of Indian Rulers, Stationery and Printing etc.

(c) Covers expenditure under Famine, Currency and Mint, Extraordinary charges, transfers to various funds and miscellaneous charges.

(d) Covers mainly expenditure under Broadcasting, Miscellaneous Departments and Scientific Departments.

(e) Includes expenditure under Civil Aviation, Ports and Pilotage, lighthouses and lightships etc.

(f) Centre : Includes grants and contributions, Rs. 51·12 crores, assignments and compensations (under Customs) Rs. 2 lakhs, and miscellaneous adjustments between the Centre and States Rs. 3 lakhs.

States : Includes grants to local bodies under Education, Public Health and other departments ; therefore, the total shown under Education for instance, is less than the combined total of Part A, B and C States as shown in Statements III, IV and V.

Details of State grants and contribution to local bodies are as follows :

(Crores of Rupees)

Grants	30·07
Compensation }	7·48

37·55 of which grants for Education
Rs. 18·86 crores.

(g) In the case of local bodies, collection charges are included under General Administration.

STATEMENT II.—*Current Expenditure of the Government of India in Selected Years**

(Amounts in crores of Rupees)

	1938-39	1945-46	1950-51	1951-52	1952-53	1953-54	1954-55	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	(R.E.)	(B.E.)							
<i>Non-Development</i>														
I. Debt Services														
Interest on Debt and Other Obligations (net)	11·19	13·14	30·72	6·34	32·37	9·21	34·01	8·78	31·50	8·30	33·85	8·15	35·00	7·76
Appropriations for reduction or avoidance of Debt	3·00	3·52	3·00	0·62	5·00	1·42	5·00	1·29	5·00	1·32	5·00	1·20	5·00	1·11
Sub-total Group I	14·19	16·67	33·72	6·96	37·37	10·63	39·01	10·07	36·50	9·62	38·85	9·36	40·00	8·87
II. National Defence														
Defence Services (net)	46·18	54·24	360·23	74·34	164·13	46·70	170·96	44·14	179·52	47·32	199·68	48·10	205·62	45·61
Civil Defence	..	..	1·52	0·31	0·01	..	0·01	..	0·01	..	0·01	..	0·01	..
Expenditure connected with the War	..	..	19·35	3·99	..	..	..	..	..	..	..	..	..	..
Sub-total Group II	46·18	54·24	381·10	78·64	164·14	46·71	170·97	44·15	179·53	47·33	199·69	48·11	205·63	45·61
III. General Government														
General Administration	1·87	2·20	5·37	1·11	8·89	2·53	9·94	2·57	9·45	2·49	11·58	2·79	12·40	2·75
Administration of Justice	0·10	0·12	0·21	0·04	0·45	0·13	0·42	0·10	0·17	0·04	0·19	0·05	0·21	0·05
Jails and Convict Settlements	0·24	0·28	0·18	0·04	0·19	0·05	0·20	0·05	0·04	0·01	0·05	0·01	0·05	0·01
Police	0·29	0·34	3·16	0·65	3·04	0·87	3·80	0·98	2·91	0·77	3·38	0·81	3·85	0·85

External Affairs .	0·64	0·75	1·41	0·29	3·65	1·04	3·98	1·03	4·19	1·10	4·51	1·09	4·78	1·06
Audit . . .	0·99	1·16	1·49	0·31	3·52	1·00	4·01	1·04	4·37	1·15	4·94	1·19	5·44	1·21
Superannuation Allowances and Pensions	2·81	3·30	2·96(d)	0·61	2·92	0·83	3·22	0·83	3·27	0·86	3·37	0·81	3·42	0·76
Territorial and Political Pensions	..	..	..	..	4·06	1·16	0·20	0·05	0·21	0·06	0·23	0·06	0·21	0·05
Privy Purses and Allowances of Indian Rulers	..	..	..	..	..	..	5·13	1·32	4·36	1·15	5·00	1·20	4·82	1·07
Stationery and Printing .	0·53	0·62	2·71	0·56	1·54	0·44	1·41	0·36	2·64	0·70	1·76	0·42	2·06	0·46
Others (a) .	3·25	3·82	5·52	1·14	1·56	0·44	1·74	0·45	2·16	0·57	3·29	0·79	4·37	0·97
Sub-total Group III . . .	10·72	12·59	23·01	4·75	29·82	8·49	34·05	8·79	33·77	8·90	38·30	9·23	41·61	9·23
IV. Direct Demands on Revenue (b)	4·01	4·71	9·35	1·93	11·15	3·17	14·86	3·84	12·64	3·33	14·27	3·44	14·61	3·24
V. Miscellaneous (c)	0·96	1·13	13·44	2·77	52·54	14·95	67·23	17·36	51·48	13·57	40·67	9·80	44·15	9·79
TOTAL—Non-Developmental expenditure (Groups I to V) . . .	76·06	89·34	460·62	95·05	295·02	83·95	326·12	84·21	313·92	82·75	331·78	79·93	346·00	76·75
VI. Social Services														
Education .	0·24	0·28	0·51	0·11	3·23	0·91	4·08	1·05	3·32	0·88	5·06	1·22	12·81	2·84
Broadcasting .	0·21	0·25	0·78	0·16	1·72	0·49	1·95	0·50	1·92	0·51	2·19	0·53	2·24	0·50
Health and Medical Services	0·36	0·42	0·75	0·16	2·00	0·57	2·31	0·60	1·42	0·37	1·99	0·48	3·86	0·86
Others (e) .	0·83	0·97	5·07	1·05	7·67	2·18	9·02	2·33	10·00	2·64	11·97	2·88	13·02	2·89
Sub-total Group VI	1·64	1·93	7·11	1·46	14·62	4·16	17·36	4·48	16·66	4·39	21·21	5·11	31·93	7·08

STATEMENT II.—*Current Expenditure of the Government of India in Selected Years**—contd.

(Amounts in crores of Rupees)

1938-39 Per cent. 1945-46 Per cent. 1950-51 Per cent. 1951-52 Per cent. 1952-53 Per cent. 1953-54 Per cent. 1954-55 Per cent.
(R.E.) (B.E.)

VII. *Economic development*

Agriculture (including Rural Development)	0.52	0.61	2.42	0.50	2.35	0.67	2.23	0.58	2.22	0.59	2.86	0.69	4.99	1.11
Veterinary	0.08	0.09	0.20	0.04	0.32	0.09	0.32	0.08	0.30	0.08	0.33	0.08	0.37	0.08
Cooperation	0.01	0.01	..	..	0.03	0.01	0.04	0.01	0.01	..	0.01	..	0.01	..
Industries and Supplies	0.31	0.36	1.27	0.26	6.55	1.86	6.09	1.57	5.48	1.44	12.25	2.95	13.87	3.08
Forests	0.23	0.27	0.29	0.06	1.36	0.39	1.37	0.35	0.92	0.24	1.10	0.26	1.29	0.29
Irrigation (f)	0.02	0.02	0.10	0.02	0.20	0.06	0.16	0.04	0.41	0.11	0.46	0.11	0.56	0.12
Electricity Schemes	..	..	..	..	0.01	..	0.01	..	..	..	..	..	..	..
Civil Works	2.52	2.96	1.38	0.28	10.38	2.95	11.36	2.93	12.87	3.39	14.48	3.49	15.13	3.36
Aviation	0.30	0.35	0.40	0.08	2.89	0.82	2.67	0.69	2.72	0.72	2.87	0.69	2.51	0.56
Ports and Pilotage	0.27	0.32	0.46	0.09	0.63	0.18	0.72	0.19	0.83	0.22	0.86	0.21	1.02	0.23
Lighthouses and lightships	0.09	0.11	0.13	0.03	0.12	0.03	0.16	0.04	0.20	0.05	0.25	0.06	0.30	0.07

Community Development Projects	..	..	..	..	..	..	..	..	0.03	0.01	0.23	0.08	0.37	0.08
Others (g)	0.04	0.05	0.51	0.11	1.39	0.40	1.37	0.35	..	..	..	..	..	..
Sub-total Group VII	4.39	5.16	7.16	1.48	26.23	7.46	26.50	6.84	25.99	6.85	35.79	8.62	40.42	8.97
VIII, Grants-in-aid to States (h)	3.05	3.58	9.70	2.00	15.57	4.43	17.29	4.46	22.78	6.01	26.32	6.34	32.45	7.20
TOTAL—Development Expenditure (VI+, VII+VIII)	9.08	10.66	23.97	4.95	56.42	16.05	61.15	15.79	65.43	17.25	83.32	20.07	104.80	23.25
TOTAL	85.14	484.59	351.44	387.27	379.35	415.10	450.80							

*Figures for 1938-39 and 1945-46 relate to the pre-partition Centre including the Centrally administered areas ; those for later years are for the Union Government. For the years 1950-51 and 1951-52 all Part C States (except Coorg) are included but since 1952-53 the expenditures of only four Part C States *i.e.*, Bilaspur, Kutch, Manipur and Tripura appear in the Central Budget. The remaining six States have separate budgets and their expenditures are shown in Statement V.

(a) Covers expenditure under Tribal areas and Payments to Crown representatives.

(b) Excludes expenditure under Forests and payments to the States of their share of Union Excise duties under the Union Duties of Excise (Distribution) Act, 1953.

(c) Includes expenditure under Famine, Currency and Mint, Ecclesiastical, Extraordinary charges, Pre-partition Payments and Miscellaneous items etc.

(d) Covers Rs. 11 lakhs on account of Commutation of Pensions charged to Revenue Account.

(e) Covers Miscellaneous Departments and Scientific Departments.

(f) Covers expenditure under Construction of Irrigation Works Financed from Ordinary Revenues and 'Other expenditure connected with Multi-purpose Schemes'.

(g) Covers expenditure connected with Postwar Planning and Development, Capital Outlay on Posts and Telegraphs and on Salt Works (charged to Revenue Account).

(h) The amounts shown against this head do not indicate total financial assistance by the Centre to the States ; it is partly included under various other major heads.

STATEMENT III.—*Current Expenditure of Part A States in Selected Years**

(Amounts in crores of Rupees)

	1938-39	1945-46	1950-51	1951-52	1952-53	1953-54	1954-55							
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.							
						(R. E.)	(B.E.)							
<i>Non-Development</i>														
<i>I. Debt Services</i>														
Interest on Debt and other Obligations . . .	5·69	7·07	5·47	2·65	5·89	2·01	6·14	1·99	7·15	2·17	9·34	2·45	14·28	3·56
Appropriation for reduction or avoidance of Debt . . .	0·87	1·08	4·96	2·40	3·45	1·18	5·55	1·80	5·73	1·74	6·08	1·60	10·95	2·73
Sub-total Group I	6·56	8·15	10·43	5·04	9·34	3·19	11·69	3·78	12·88	3·91	15·42	4·05	25·23	6·29
<i>II. General Government</i>														
General Administration . . .	9·80	12·17	15·95	7·71	24·43†	8·34	26·94†	8·72	27·69†	8·41	30·45†	8·00	30·55†	7·62
Administration of Justice . . .	4·60	5·71	6·30	3·05	8·05	2·75	8·34	2·70	8·63	2·63	8·55	2·25	8·91	2·22
Jails and Convict Settlements . . .	1·64	2·04	4·36	2·11	6·22	2·12	6·58	2·13	6·57	1·99	6·49	1·71	6·31	1·57
Police . . .	10·12	12·57	20·76	10·04	40·12	13·69	41·44	13·41	40·76	12·38	40·60	10·67	41·65	10·39
Superannuation Allowances and Pensions . . .	6·15	7·64	8·11	3·92	9·18	3·13	10·04	3·25	10·83	3·29	11·13	2·92	11·20	2·79

Territorial and Political Pensions . . . . .	..	..	..	..	0·27	0·09	0·23	0·07	0·17	0·05	0·06	0·02	0·05	0·01
Privy Purses and Allowances to Indian Rulers . . . . .	..	..	..	..	0·04	0·01	0·26	0·08	0·35	0·11	0·31	0·08	0·31	0·08
Commutation of Pensions	0·15	0·19	0·26	0·13	0·32	0·11	0·39	0·13	0·36	0·11	0·40	0·11	0·38	0·09
Stationery and Printing	1·05	1·30	1·93	0·93	4·03	1·38	4·28	1·38	4·43	1·34	4·14	1·09	4·25	1·06
Others (a) . . . . .	..	..	2·71	1·31	0·34	0·12	0·28	0·09	0·40	0·12	0·31	0·08	0·51	0·13
Sub-total Group II	33·51	41·61	60·38	29·20	93·00	31·73	98·78	31·96	100·19	30·42	102·44	26·92	104·12	25·97
III. Direct Demands on Revenues (b)	6·80	8·44	10·56	5·11	18·17	6·20	19·00	6·15	21·44	6·51	26·33	6·92	33·67	8·40
IV. Miscellaneous (c)	2·38	2·96	51·72(d)	25·01	24·08	8·22	24·51	7·93	29·71	9·02	44·49	11·69	33·12	8·26
TOTAL—Non-Development	49·25	61·16	133·09	64·36	144·59	49·33	153·98	49·81	164·22	49·86	188·68	49·58	196·14	48·92
V. Social Services														
Education	11·66	14·48	18·05	8·73	43·55	14·86	45·26	14·64	49·67	15·08	56·16	14·76	61·54	15·35
Public Health	1·69	2·10	4·51	2·10	6·23	2·13	7·14	2·31	7·70	2·34	8·82	2·32	9·18	2·29
Medical	3·50	4·35	7·09	3·43	13·59	4·64	14·90	4·82	15·62	4·74	16·45	4·32	18·13	4·52
Scientific Departments	0·02	0·02	0·05	0·02	0·32	0·11	0·16	0·05	0·17	0·05	0·19	0·05	0·22	0·05
Miscellaneous Departments	0·40	0·50	3·77	1·82	10·16	3·47	9·64	3·12	9·97	3·03	11·08	2·91	9·81	2·45
Sub-total Group V	17·27	21·45	33·47	16·19	73·85	25·20	77·10	24·94	83·13	25·24	92·70	24·36	98·88	24·67

STATEMENT III.—*Current Expenditure of Part A States in Selected Years**—contd.

(Amounts in crores of Rupees)

	1938-39	Per cent.	1945-46	Per cent.	1950-51	Per cent.	1951-52	Per cent.	1952-53	Per cent.	1953-54	Per cent.	1954-55	Per cent.
											(R.E.)		(B.E.)	
VI. Economic Development														
Agriculture (including Rural Development)	1·68	26·09	7·45	3·60	15·67	5·35	15·79	5·11	14·72	4·47	20·07	5·27	14·90	3·72
Veterinary	0·57	0·71	1·17	0·57	3·22	1·10	3·35	1·08	3·20	0·97	3·57	0·94	3·85	0·96
Co-operation	0·66	0·82	1·50	0·73	3·45	1·18	3·33	1·08	3·40	1·03	5·19	1·36	4·64	1·16
Industries and Supplies	1·12	1·39	3·57	1·73	5·02	1·71	5·47	1·77	6·46	1·66	6·75	1·77	8·58	2·14
Forests	2·00	2·48	6·19	2·99	6·11	2·08	7·22	2·34	7·02	2·13	7·46	1·96	7·76	1·94
Irrigation	0·85	1·06	3·95	1·91	7·70	2·63	7·82	2·53	6·85	2·08	9·50	2·50	7·79	1·94
Electricity Schemes	..	..	0·10	0·05	2·17	0·74	2·55	0·82	3·14	0·95	1·22	0·32	3·28	0·82
Civil Works	7·08	8·79	16·03	7·75	30·91	10·55	32·08	10·38	36·66	11·13	36·71	9·65	43·41	10·83
Aviation	..	..	0·02	0·01	0·10	0·03	0·08	0·03	0·09	0·03	0·10	0·03	0·13	0·03
Ports and Pilotage	0·05	0·06	0·10	0·05	0·07	0·02	0·09	0·03	0·07	0·02	0·15	0·04	0·23	0·06
Community Development Projects	..	..	..	..	..	..	..	..	0·81	0·25	7·24	1·90	10·12	2·52
Road Transport Schemes	..	..	..	..	0·08	0·03	0·06	0·02	0·23	0·07	0·25	0·07	0·11	0·03

Others (e)	0.14	0.07	0.14	0.05	0.19	0.06	0.37	0.11	0.95	0.25	1.07	0.27		
Sub-total Group VI	14.01	17.40	40.22	19.45	74.64	25.47	78.03	25.24	82.02	24.90	99.16	26.06	105.87	26.41
TOTAL—Development (V+VI)	31.28	38.85	73.69	35.64	148.49	50.67	155.13	50.18	165.15	50.14	191.86	50.42	204.75	51.08
TOTAL	80.53	206.78	293.08	309.11	329.37	380.54	400.89							

*Figures for 1938-39 and 1945-46 relate to the nine pre-partition Provinces (excluding Sind and N.W.F.P. and including undivided Bengal and Punjab) ; those for later years are for all Part A States. In case of Andhra and Madras the revised estimates for 1953-54 are available for second six months only and have been doubled.

†Excluding grants for sinking of wells for growing more food, debited to General Administration in Madras and Andhra. The amounts have been credited to the head "Agriculture".

(a) Includes expenditure under Dangs District (Bombay State) and Civil Defence etc.

(b)* Excludes Forests.

(c) Includes expenditure under Famine, Extraordinary Charges, Transfers to various Funds, Pre-partition Payments and Miscellaneous items.

(d) This figure covers Rs. 28.8 crores transferred to Revenue Reserve Funds (Post-war Reconstruction and Development).

(e) Covers miscellaneous expenditure connected with 'Post-war Planning and Development'.

STATEMENT IV.—*Current Expenditures of Part B States*

(Amounts in crores of Rupees)

		1950-51	Per cent.	1951-52	Per cent.	1952-53	Per cent.	1953-54	Per cent.	1954-55	Per cent.
								(R.E.)		(B.E.)	
<i>Non-Development</i>											
I.	<i>Debt Services</i>										
	Interest on Debt and Other Obligations	2.45	2.68	2.19	2.18	3.19	3.04	3.34	2.88	3.87	3.03
	Appropriation for reduction or avoidance of Debt	2.38	2.60	2.46	2.45	2.61	2.49	3.56	3.07	3.79	2.97
	Sub-total Group I	4.83	5.28	4.65	4.63	5.80	5.53	6.90	5.96	7.66	6.00
II.	<i>General Government</i>										
	General Administration	6.22	6.80	6.43	6.40	6.13	5.84	6.61	5.71	6.94	5.44
	Administration of Justice	2.03	2.22	2.14	2.13	2.18	2.08	2.24	1.93	2.35	1.84
	Jails and Convict Settlements	0.94	1.03	1.02	1.01	1.03	0.98	1.05	0.91	1.11	0.87
	Police	11.93	13.04	13.44	13.37	12.25	11.68	12.03	10.38	11.70	9.17
	Superannuation Allowances and Pensions	2.93	3.20	3.39	3.37	3.55	3.38	3.79	3.27	3.89	3.05
	Territorial and Political Pensions	1.93	2.11	1.29	1.28	0.31	0.30	0.36	0.31	0.45	0.35
	Privy Purses and Allowances of Indian Rulers	0.89	0.97	0.66	0.66	1.49	1.42	1.30	1.12	0.82	0.64
	Stationery and Printing	0.82	0.90	1.26	1.25	1.29	1.23	1.35	1.17	1.42	1.11
	Sub-total Group II	27.69	30.25	29.63	29.47	28.23	26.92	28.73	24.80	28.68	22.47
III.	<i>Direct Demand on Revenues (a)</i>	6.50	7.10	7.32	7.28	8.67	8.27	8.96	7.73	10.81	8.47
IV.	<i>Miscellaneous (b)</i>	9.37	10.24	8.83	8.78	11.13	10.61	7.84	6.77	7.98	6.25
	TOTAL—Non-Development	48.39	52.87	50.43	50.16	53.83	51.33	52.43	45.26	55.13	43.19
V.	<i>Social Services</i>										
	Education	14.37	15.70	15.04	14.96	16.61	15.84	18.30	15.80	20.59	16.13
	Public Health	1.62	1.77	2.03	2.02	1.95	1.86	2.42	2.09	3.11	2.44
	Medical	4.67	5.10	5.14	5.11	5.15	4.91	5.74	4.95	6.49	5.08

Scientific Departments	0·27	0·29	0·25	0·25	0·25	0·24	0·29	0·25	0·35	0·27
Miscellaneous Departments	3·06	3·34	2·94	2·92	1·47	1·40	1·37	1·18	1·65	1·29
Sub-total Group V	23·99	26·21	25·40	25·27	25·43	24·25	28·12	24·27	32·19	25·22

VI. *Economic Development*

Agriculture (including Rural Development)	4·35	4·75	3·43	3·41	3·43	3·27	4·36	3·76	5·03	3·94
Veterinary	0·62	0·68	0·72	0·72	0·74	0·71	0·85	0·73	1·22	0·96
Co-operation	0·40	0·44	0·41	0·41	0·49	0·47	0·56	0·48	0·66	0·52
Industries and Supplies	0·97	1·06	5·17	5·14	4·89	4·66	6·87	5·93	8·16	6·39
Forests	1·75	1·91	1·99	1·98	2·02	1·93	2·20	1·90	2·45	1·92
Irrigation	1·77	1·93	3·56	3·54	3·46	3·30	4·00	3·45	4·27	3·35
Electricity Schemes	0·25	0·27	0·03	0·03	0·04	0·04	0·02	0·02	0·02	0·02
Civil Works	8·58	9·37	8·96	8·91	10·02	9·55	13·55	11·70	13·98	10·95
Aviation	0·03	0·03	..	..	..	..	..	..	..	..
Ports and Pilotage	0·43	0·47	0·43	0·43	0·43	0·41	0·41	0·35	0·43	0·34
Community Development Projects . . . . .	..	..	..	..	0·10	0·10	2·23	1·92	4·11	3·22
Road Transport Schemes . . . . .	..	..	..	..	..	..	0·25	0·22	..	..
Sub-total Group VI	19·15	20·92	24·70	24·57	25·62	24·43	35·30	30·47	40·33	31·59
TOTAL—Development (V+VI)	43·14	47·13	50·10	49·84	51·05	48·68	63·42	54·74	72·52	56·81
TOTAL	91·53	100·53	104·88	115·85	127·65					

251

(a) Excluding Forests.

(b) Covers expenditure under Famine, Extraordinary Charges, Miscellaneous and Transfers to Funds.

STATEMENT V.—Current Expenditures of Part C States
(Amounts in lakhs of Rupees)

	1952-53 (Accounts)	Per cent.	1953-54 (R.E.)	Per cent.	1954-55 (B.E.)	Per cent.
<i>Non-Development</i>						
I. Debt Services						
Interest on Debt and other Obligations . . . . .	..	..	1	0.06	1	0.05
Appropriation for reduction or avoidance of Debt. . . . .	..	..	..	..	..	..
Sub-total Group I . . . . .	..	..	1	0.06	1	0.05
II. General Government						
General Administration	1,00	7.59	1,26	7.28	1,28	6.46
Administration of Justice	30	2.28	36	2.08	33	1.67
Jails and Convict Settlements	18	1.37	18	1.04	18	0.91
Police	1,03	7.82	1,22	7.05	1,18	5.96
Superannuation Allowances and Pensions	3	0.23	5	0.29	8	0.40
Territorial and Political Pensions . . . . .	..	..	..	..	..	..
Privy Purses and Allowances to Indian Rulers	6	0.46	7	0.40	6	0.30
Stationery and Printing	8	0.61	17	0.98	18	0.91
Sub-total Group II	2,68	20.35	3,31	19.13	3,29	16.61
III. Direct Demands on Revenue (a)	75	5.69	95	5.49	164	8.28
IV. Miscellaneous (b)	1,91	14.50	1,48	8.55	1,51	7.62
TOTAL—Non-Development	5,34	40.55	5,75	33.24	6,45	32.56
V. Social Services						
Education	2,69	20.43	3,67	21.21	4,40	22.21
Public Health	37	2.81	56	3.24	61	3.08
Medical	1,01	7.67	1,41	8.15	1,47	7.42
Scientific Departments	1	0.08	1	0.06	1	0.05
Miscellaneous Departments	10	0.76	13	0.75	16	0.81
Sub-total Group V	4,18	31.74	5,78	33.41	6,65	33.57
VI. Economic Development						
Agriculture (including Rural Development)	63	4.78	74	4.28	1,11	5.60
Veterinary	10	0.76	16	0.92	24	1.21
Co-operation	7	0.53	14	0.81	19	0.96

STATEMENT V.—*Current Expenditure of Part C States—contd.*

(Amounts in lakhs of Rupees)

	1952-53 (Accounts)	Per cent.	1953-54 (R.E.)	Per cent.	1954-55 (B.E.)	Per cent.
Industries and Supplies	33	2.51	47	2.72	43	2.17
Forests	63	4.78	78	4.51	85	4.29
Irrigation	4	0.30	17	0.98	24	1.21
Electricity Schemes	18	1.37	25	1.45	22	1.11
Civil Works	1,64	12.45	2,48	14.34	2,43	12.27
Community Development Schemes	3	0.23	58	3.35	1,00	5.05
Sub-total Group VI	3,65	27.71	5,77	33.35	6,71	33.87
TOTAL—Development (V+VI)	7,83	59.45	11,55	66.76	13,36	67.44
TOTAL	13,17		17,30		19,81	

NOTE.—The data given in this Statement relate to six Part C States (Ajmer, Bhopal, Coorg, Delhi, Himachal Pradesh, Vindhya Pradesh); the expenditures of four Part C States (Bilaspur, Kutch, Tripura and Manipur), and in case of Delhi, expenditure on Police & Civil Works etc. (reserved Subjects) which are shown in the Central Budget are excluded.

(a) excluding Forests.

(b) Covers Famine, Extraordinary charges and Miscellaneous.

STATEMENT VI.—Distribution of Expenditure on Revenue Account of

	Non-Development				
	1950-51	1951-52	1952-53	1953-54 (R.E.)	1954-55 (B.E.)
1. Andhra . . . . .	..	..	..	12.00	11.48
2. Assam	4.59	4.80	4.97	5.30	5.39
3. Bihar	11.94	14.99	13.04	16.67	16.35
4. Bombay	29.20	30.90	33.66	35.67	36.94
5. Madhya Pradesh	8.47	8.33	9.32	10.76	14.55
6. Madras	26.49	29.71	30.22	20.95	19.76
7. Punjab	9.78	10.06	10.22	11.04	12.42
8. Orissa	4.21	4.63	4.86	6.39	6.55
9. Uttar Pradesh (a)	27.22	30.00	37.29	43.94	46.72
10. West Bengal	22.69	20.56	20.64	25.96	25.98
All Part A States	144.59	153.98	164.22	188.68	196.14
1. Hyderabad	17.15	17.36	15.56	16.00	15.89
2. Madhya Bharat	6.39	5.37	5.97	5.69	5.46
3. Mysore (b)	4.81	5.29	5.23	5.49	6.19
4. PEPSU	2.86	2.65	3.07	3.64	3.63
5. Rajasthan	7.59	9.10	9.17	9.83	11.05
6. Saurashtra	3.54	4.40	7.44	4.52	4.99
7. Travancore-Cochin	6.05	6.26	7.39	7.26	7.92
All Part B States	48.39	50.43	53.83	52.43	55.13
TOTAL	192.98	204.41	218.05	241.11	251.27

(a) The increase in non-development expenditure of Uttar Pradesh during the period is partly under the Major head Miscellaneous.

(b) The increase in economic development expenditure of Mysore between 1950-51

Part A and Part B States under Certain Heads

(Amounts in crores of Rupees)

Social Services					Economic Development				
1950-51	1951-52	1952-53	1953-54 (R.E.)	1954-55 (B.E.)	1950-51	1951-52	1952-53	1953-54 (R.E.)	1954-55 (B.E.)
..	..	..	7.16	6.64	..	..	..	6.68	5.90
2.20	2.50	2.70	2.97	3.99	2.49	3.63	4.91	6.66	7.32
5.12	5.89	6.73	7.95	9.80	8.99	11.94	8.48	10.74	13.58
21.46	19.87	20.61	20.85	20.88	13.71	11.81	14.17	15.54	14.40
3.26	3.83	4.17	5.29	6.03	5.01	6.06	6.01	9.16	10.10
16.13	17.89	19.57	15.21	14.07	16.83	16.84	18.62	12.65	11.35
2.69	2.81	3.01	3.66	3.90	3.53	3.58	3.67	4.85	6.80
2.51	2.19	2.63	3.06	3.41	5.29	4.04	4.03	5.22	4.90
13.44	14.22	15.09	15.79	17.13	11.18	11.28	12.45	13.81	17.22
7.04	7.90	8.62	10.76	13.03	7.61	8.85	9.68	13.85	14.30
73.85	77.10	83.13	92.70	98.88	74.64	78.03	82.02	99.16	105.87
6.57	6.87	6.38	6.97	7.76	3.83	3.96	3.38	4.47	5.37
3.06	3.27	2.95	3.33	3.75	2.32	2.67	3.34	5.18	5.75
3.88	4.09	4.48	5.02	5.49	4.83	8.97	8.33	11.53	12.63
1.16	1.04	1.22	1.45	1.86	0.60	0.97	1.12	2.17	1.91
3.85	4.33	4.45	5.00	5.83	2.47	2.33	2.32	4.07	4.67
1.83	1.99	1.85	2.08	2.61	2.05	2.24	2.46	3.26	4.21
3.64	3.81	4.10	4.27	4.89	3.05	3.56	4.67	4.62	5.79
23.99	25.40	25.43	28.12	32.19	19.15	24.70	25.62	35.30	40.33
97.84	102.50	108.56	120.82	131.06	93.79	102.73	107.64	134.46	146.20

due to transfers to Zamindari Abolition Fund (out of the increase in land revenue) shown

and 1951-52 is mainly due to change-over to gross basis in respect of Industries.

STATEMENT VII.—Capital Expenditure of the Centre and the States in Selected Years.

(Amounts in crores of Rupees)

	1938-39*		1945-46*			1950-51			1951-52			1952-53			1953-54 (R.E.)			1954-55 (D.F.)			Total 1951-54					
	Centre	States	Centre	States	Total	Centre	States	Total	Centre	States	Total	Centre	States	Total	Centre	States	Total	Centre	States	Total	Centre	States	Total			
<i>Non-Development</i>																										
1. Defence	..	..	35.09	..	35.09	4.19	..	4.19	10.17	..	10.17	5.96	..	5.96	10.36	..	10.36	17.75	..	17.75	20.49	..	20.49	..	20.49
2. Payment of Commuted value of Pensions	(-)	0.27	(-)0.37	(-)0.14	(-)0.51	(-)6.57	0.17	(-)6.40	(-)6.61	0.16	(-)6.45	(-)6.91	0.11	(-)6.80	(-)6.86	0.04	(-)6.82	(-)6.79	0.09	(-)6.70	(-)20.18	0.11	(-)20.07	..	..
3. Payment to Retrenched Personnel	..	..	0.03	..	0.03	0.01	..	0.01	0.02	0.01	0.03	..	..	..	..	(-)0.01	(-)0.01	(-)0.01	0.09	0.08	0.04	..	0.02	..	0.02
4. State Trading Schemes	..	..	9.03	(-)14.77	(-)5.74	(-)2.26	8.00	5.74	12.63	25.35	37.98	(-)18.43	18.83	0.40	0.13	24.43	24.56	(-)3.11	5.57	2.46	(-)3.67	68.61	62.94	..	..
5. Payment of Compensation to landholders on the abolition of Zamindari System	..	..	..	..	..	..	1.18	1.18	..	2.03	2.03	..	2.79	2.79	..	1.27	1.27	..	2.75	2.75	..	6.09	6.09	..	..
6. Currency and Mint	..	..	0.03	..	0.03	3.12	..	3.12	0.18	..	0.18	0.06	..	0.06	0.35	..	0.35	0.74	..	0.74	0.59	..	0.59	..	0.59
7. Security Printing Press	..	..	..	..	..	0.13	..	0.13	0.07	..	0.07	0.05	..	0.05	0.08	..	0.08	0.05	..	0.05	0.20	..	0.20	..	0.20
8. Appropriation to the Contingency Fund.	..	..	..	..	..	15.00	8.85	23.85	..	1.50	1.50	..	0.50	0.50	..	1.85	1.85	..	..	..	73.56	..	73.56	..	..
9. Transfer of Sale proceeds of American loan-wheat	..	..	..	..	..	..	..	..	46.97	..	46.97	26.59	..	26.59	..	..	..	..	..	..	..	..	..	..	..
10. Payment to displaced persons	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
11. Miscellaneous	..	..	..	(-)5.70	(-)5.70	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
TOTAL—Non-Development	(-)0.09	0.27	43.81	(-)20.61	23.20	13.62	18.20	31.82	63.43	29.05	92.48	7.32	22.23	29.55	4.06	27.58	31.64	12.63	8.50	21.13	74.81	78.86	153.67	..	..
<i>Development</i>																										
1. Railways	6.44	..	6.44	9.85	..	9.85	25.41	..	25.41	23.21	..	23.21	7.05	..	7.05	17.78	..	17.78	33.92	..	33.92	48.04	..	48.04
2. Posts and Telegraphs	2.62	..	2.62	2.17	..	2.17	7.07	..	7.07	4.96	..	4.96	6.53	..	6.53	7.72	..	7.72	11.49	..	11.49	19.21	..	19.21
3. Broadcasting	..	..	..	..	..	0.16	..	0.16	0.23	..	0.23	0.15	..	0.15	0.32	..	0.32	1.25	..	1.25	0.70	..	0.70	..	..
4. Civil Aviation	..	..	..	..	..	1.82	..	1.82	1.51	..	1.51	0.88	..	0.88	2.17	..	2.17	3.34	..	3.34	4.56	..	4.56	..	..
5. Ports	..	..	..	..	..	0.70	0.06	0.76	0.90	0.08	0.98	0.59	0.10	0.69	2.64	0.10	2.74	5.31	0.17	5.48	4.13	0.28	4.41	..	..
6. Irrigation	..	2.36	2.36	..	1.19	1.19	0.06	22.63	22.69	0.20	30.00	30.20	0.13	29.84	29.97	0.40	33.73	34.13	0.25	51.22	51.47	0.73	93.57	94.30
7. Multi-purpose River Schemes	..	..	..	..	..	2.50	14.50	17.00	3.77	24.06	27.83	3.97	45.84	49.81	4.38	66.44	70.82	3.94	62.89	66.83	12.12	136.34	148.46	..	..
8. Agricultural Improvement and Research	..	..	..	0.05	0.05	0.05	1.41	1.46	0.07	(-)0.07	..	0.33	1.56	1.89	1.11	1.06	2.17	1.25	1.44	2.69	1.51	2.55	4.06	..	..
9. Forests	..	..	..	..	..	0.15	..	0.15	0.15	..	0.15	0.21	..	0.21	0.23	0.03	0.26	0.29	0.05	0.34	0.59	0.03	0.62	..	..
10. Electricity Schemes	..	1.26	1.26	..	0.70	0.70	0.02	23.22	23.24	0.02	17.18	17.20	0.20	18.45	18.65	0.23	26.84	27.07	0.76	34.91	35.70	0.45	62.47	62.92
11. Civil Works†	0.10	0.49	0.59	1.43	0.32	1.75	9.11	9.41	18.52	11.37	16.49	27.86	11.27	9.24	20.51	15.27	13.69	28.96	31.13	20.47	51.60	37.91	39.42	77.33
12. Industrial Development	..	(-)0.02	(-)0.02	0.19	0.08	0.27	8.90	5.43	14.33	8.34	5.81	14.15	0.40	3.32	3.72	7.43	5.45	12.88	24.10	6.64	30.74	16.17	14.58	30.75
13. Road and Water Transport Schemes	..	..	..	0.08	0.08	0.03	1.21	1.24	0.02	1.34	1.36	0.09	1.32	1.41	0.16	1.45	1.61	0.09	2.39	2.48	0.27	4.11	4.38	..	..
14. Improvement of Public Health	..	0.01	0.01	..	0.01	0.01	..	0.01	0.01	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
15. Miscellaneous	..	..	..	..	..	..	0.01	0.01	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
TOTAL—Development	9.16	4.10	13.26	13.64	2.43	16.07	55.98	78.64	134.62	54.75	95.64	150.39	31.80	110.71	142.51	59.84	150.28	210.12	117.12	181.67	298.79	146.39	356.63	593.02
TOTAL‡	9.07	4.37	13.44	57.45	(-)18.18	39.27	69.60	96.84	166.44	118.18	124.69	242.87	39.12	132.94	172.06	63.90	177.86	241.76	129.75	190.17	319.92	221.20	435.49	656.69

*Data for the years 1938-39 and 1945-46 relate to the pre-partition Centre and nine Part A States including undivided Punjab and Bengal and those for later years to the Union Government and all Part A and Part B States.

†Covers capital outlay on Civil Works, New Capital at Delhi and Bombay Development Scheme.

‡Figures for the Centre exclude grants to States (on capital account) Rs. 1.4 crores in 1950-51 and Rs. 16 crores in 1954-55.

STATISTICAL APPENDIX

(STATEMENTS RELATING TO CHAPTER VII)

STATEMENT I.—Number and paid-up capital of manufacturing Companies; Response to Questionnaire

(Amounts in crores of Rupees)

	All public limited companies at work		Companies addressed		(4) as per cent. of (2)	Companies which sent valid returns		(7) as per cent. of (2)
	Number	Paid-up Capital	Number	Paid-up Capital		Number	Paid-up Capital	
	1	2	3	4		6	7	
1. Cotton Textiles	470	104	150	78	75.0	96	50	48.1
2. Jute Textiles	85	28	48	23	82.1	47	22	78.6
3. Other Textiles (Silk & Woollen)	64	5	19	3	60.0	13	3	60.0
4. Iron and Steel	3	19	3	19	100.0	3	19	100.0
5. Engineering (including Electrical goods)	582	50	80	35	70.0	52	33	66.0
6. Sugar	144	23	52	17	73.9	26	8	34.8
7. Chemicals	488	20	53	12	60.0	30	10	50.0
8. Paper	55	10	11	6	60.0	7	5	50.0
9. Vegetable Oils	209	10	13	5	50.0	7	3	30.0
10. Matches	36	3	4	3	100.0	4	3	100.0
11. Cement	22	19	11	17	89.5	8	7	89.5
12. Tea Plantations	409	21	109	12	57.1	77	8	38.1
13. Other Plantations (Rubber & Coffee)	85	5	29	4	80.0	11	1	20.0
14. Coal	204	16	27	9	56.3	17	6	37.5
15. Electricity	275	27	23	22	81.5	22	20	74.1
16. Shipping	45	16	11	16	100.0	11	16	100.0
17. Others	1,765	71	91	35	49.3	61	28	39.4
TOTAL	4,941	447	734	316	70.7	492	252	56.4

STATEMENT II.—Number and Paid-up Capital of
Public Limited

Number of Companies

Industry	Rs. 1 lakh & below	Above Rs. 1 lakh & upto Rs. 5 lakhs	Above Rs. 5 lakhs & upto Rs. 10 lakhs	Above Rs. 10 lakhs & upto Rs. 50 lakhs	Above Rs. 50 lakhs & upto Rs. 100 lakhs	Above Rs. 100 lakhs	Total
	1	2	3	4	5	6		7
<i>A. Manufacturing</i>							
1. Cotton Textiles . . .	70	70	67	2,19	34	10	4,70
2. Jute Textiles . . .	5	8	4	51	16	1	85
3. Other Textiles . . .	18	24	10	10	2	..	64
4. Iron & Steel . . .	..	1	..	..	..	3	4
5. Engineering . . .	2,65	1,65	59	74	13	5	5,81
6. Sugar . . .	26	20	16	77	4	1	1,44
7. Chemicals . . .	3,28	87	42	26	3	2	4,88
8. Paper . . .	14	15	9	9	4	4	55
9. Vegetable Oil . . .	87	80	24	16	2	..	2,09
10. Matches . . .	24	9	1	1	..	1	36
11. Cement . . .	6	1	..	7	5	3	22
12. Tea Plantations . . .	65	2,25	89	27	2	1	4,09
13. Other Plantations . . .	15	43	18	8	1	..	85
14. Coal . . .	37	88	44	30	3	2	2,04
15. Electricity . . .	66	1,44	38	19	3	5	2,75
16. Shipping . . .	18	7	5	9	2	4	45
17. Others . . .	10,68	4,90	1,03	85	11	8	17,65
TOTAL	21,12	14,77	5,29	6,68	1,05	50	49,41
<i>B. Non-manufacturing</i>							
18. Transport & Commu- nications (other than shipping) . . .	98	42	4	4	..	..	1,48
19. Trading . . .	10,45	2,67	53	43	6	3	14,17
20. Managing Agency . . .	1,02	33	2	10	3	2	1,52
21. Banks . . .	4,37	1,58	43	48	5	5	6,96
22. Insurance . . .	1,52	1,00	36	29	1	..	3,18
23. Investment . . .	68	63	25	26	5	3	1,90
24. Other Financial . . .	2,25	21	2	4	..	1	2,53
25. Hotels . . .	23	5	1	3	1	..	33
26. Theatres, Motion Pictures, Films } . . .	1,69	95	8	5	1	..	2,78
27. Others . . .	4,34	1,52	29	40	5	3	6,63
TOTAL	27,53	9,36	2,03	2,12	27	17	41,48
TOTAL	48,65	24,13	7,32	8,80	1,32	67	90,89

*Excluding foreign companies, companies and associations functioning not for profit, Rs. 1,000 each.

Joint Stock Companies at work during 1951-52*

Companies

Paid-up Capital (lakhs of Rupees)

Rs. 1 lakhs & below	Above Rs. 1 lakh & upto Rs. 5 lakhs	Above Rs. 5 lakhs & upto Rs. 10 lakhs	Above Rs. 10 lakhs & upto Rs. 50 lakhs	Above Rs. 50 lakhs & upto Rs. 100 lakhs	Above Rs. 100 lakhs	Total
8	9	10	11	12	13	14
21	1,91	5,26	51,09	23,44	22,39	1,04,30
3	22	37	14,88	10,95	1,11	27,56
8	74	72	2,23	1,54	..	5,31
..	1	..	..	..	19,00	19,01
85	3,91	4,52	17,36	8,67	14,23	49,54
9	56	1,36	16,54	3,01	1,05	22,61
1.48	2,15	3,33	5,02	2,58	4,98	19,54
6	35	76	1,75	2,81	4,76	10,49
37	2,07	1,83	3,42	1,95	..	9,64
11	20	9	20	..	2,20	2,80
3	2	..	2,17	3,97	13,09	19,28
32	6,58	6,41	5,26	1,24	1,68	21,49
9	1,23	1,16	1,85	53	..	4,86
18	2,57	3,14	5,89	2,20	2,38	16,36
29	3,48	2,64	4,27	1,79	14,73	27,20
10	21	35	1,33	1,60	12,11	15,70
3.49	12,41	7,72	20,51	8,23	19,03	71,39
7,78	38,62	39,66	1,53,77	74,51	1,32,74	4,47,08
37	1,06	33	83	..	..	2,59
3,01	7,25	4,91	7,67	5,03	7,10	34,97
20	1,02	13	3,49	2,45	4,00	11,29
1,90	3,81	3,19	12,36	4,15	10,41	35,82
40	2,55	2,90	5,92	71	..	12,48
23	1,86	2,83	5,96	3,60	4,51	18,99
46	56	14	99	..	2,01	4,16
5	13	8	1,02	94	..	2,22
1,08	1,93	60	1,13	88	..	5,62
1.24	3,91	2,25	9,07	3,01	3,11	22,59
8,94	24,08	17,36	48,44	20,77	31,14	1,50,73
16,72	62,70	57,07	2,02,21	95,28	1,63,88	5,97,81

companies limited by guarantee, and all companies with paid-up capital less than

STATEMENT III.—*Number and Paid-up Capital of*
Private Limited

Number of Companies

Industry	Rs. 1 lakh and below	Above Rs. 1 lakh & upto Rs. 5 lakhs	Above Rs. 5 lakhs & upto Rs. 10 lakhs	Above Rs. 10 lakhs & upto Rs. 50 lakhs	Above Rs. 50 lakhs & upto Rs. 100 lakhs	Above Rs. 100 lakhs	Total
	1	2	3	4	5	6		7
A. Manufacturing							
1. Cotton Textiles	33	42	10	16	1	..	1,02
2. Jute Textiles	3	3	1	4	..	..	11
3. Other Textiles	24	23	3	3	..	..	53
4. Iron and Steel . . . . .	..	..	..	..	..	..	..
5. Engineering	5,98	2,28	24	29	2	2	8,83
6. Sugar	5	5	9	12	..	..	31
7. Chemicals	3,45	96	6	6	..	2	4,55
8. Paper	4	6	..	..	..	1	11
9. Vegetable Oil	65	55	8	5	..	1	1,34
10. Matches	5	2	1	..	..	..	8
11. Cement	3	1	..	..	1	..	5
12. Tea Plantations	36	40	8	4	..	..	88
13. Other Plantations	13	2	..	..	..	..	15
14. Coal	77	53	9	4	..	1	1,44
15. Electricity	22	20	4	3	1	..	50
16. Shipping	20	9	..	1	..	..	30
17. Others	13,30	4,32	58	50	4	3	18,77
TOTAL	25,83	10,17	1,41	1,37	9	10	38,97
B. Non-Manufacturing							
18. Transport & Com- munications	4,01	1,44	4	2	..	1	5,52
19. Trading	34,15	8,03	1,10	57	2	..	43,87
20. Managing agency	6,39	87	12	21	5	6	7,70
21. Banks	47	14	2	2	..	..	65
22. Insurance	12	..	..	..	..	..	12
23. Investments	91	46	14	12	1	1	1,65
24. Other Financial	2,28	14	2	1	..	2	2,47
25. Hotels	27	18	1	..	..	..	46
26. Theatres, Motion Pictures & Films }	3,22	87	8	2	..	..	4,19
27. Others	5,18	1,60	32	13	4	1	7,28
TOTAL	57,00	13,73	1,85	1,10	12	11	73,91
GRAND TOTAL	82,83	23,90	3,26	2,47	21	21	1,12,88

*Excluding foreign companies, companies and associations functioning not for profit, each.

Joint Stock Companies at work during 1951-52*

Companies

Paid-up Capital (lakhs of Rupees)

Rs. 1 lakh & below	Above Rs. 1 lakh & upto Rs. 5 lakhs	Above Rs. 5 lakhs & upto Rs. 10 lakhs	Above Rs. 10 lakhs & upto Rs. 50 lakhs	Above Rs. 50 lakhs & upto Rs. 100 lakhs	Above Rs. 100 lakhs	Total
8	9	10	11	12	13	14
13	1,16	82	4,58	64	..	7,33
2	14	6	51	..	..	73
10	73	23	41	..	..	147
..
2,23	5,68	1,84	7,31	1,45	4,21	22,72
2	18	75	201	..	..	296
1,05	2,69	54	90	..	3,07	8,25
1	12	..	..	..	2,00	2,13
30	1,51	58	1,20	..	1,05	4,64
1	5	6	..	..	..	12
1	1	..	..	60	..	62
14	98	65	89	..	..	2,66
7	6	..	..	..	..	13
35	1,40	73	78	..	1,50	4,76
12	50	33	37	57	..	1,89
7	24	..	15	..	..	46
4,50	11,31	4,72	9,42	3,35	4,71	38,01
9,13	26,76	11,31	28,53	6,61	16,54	98,88
1,53	2,81	32	35	..	4,75	9,76
9,26	20,56	8,84	13,64	1,40	..	53,70
1,29	2,45	1,04	5,44	3,76	10,02	24,00
19	44	12	34	..	..	1,09
2	..	..	..	..	..	2
30	1,42	1,27	2,75	70	1,25	7,69
22	34	20	26	..	3,10	4,12
8	43	8	..	..	..	59
1,08	2,03	71	40	..	..	4,22
1,32	4,26	2,29	3,20	3,32	2,51	16,90
15,29	34,74	14,87	26,38	9,18	21,63	1,22,09
24,42	61,50	26,18	54,91	15,79	38,17	2,20,97

companies limited by guarantee, and all companies with paid-up capital less than Rs. 1,000

STATEMENT IV.—Assets and Liabilities of
407 Selected

	Cotton	Jute	Other textiles	Iron & Steel	Engineering	Sugar	Chemicals	Paper
No. of Companies	(90)	(42)	(9)	(3)	(41)	(25)	(23)	(7)
A. Fixed Assets								
1. Land	277·9	} 1909·9	3·3	436·9	86·7	34·9	} 204·4	5·9
2. Buildings	1809·6		56·1	508·1	385·0	221·1		147·5
3. Plant and machinery.	4343·2	1823·4	87·2	3541·5	611·2	548·6	335·2	404·7
4. Others	209·7	262·5	12·1	320·7	125·8	119·9	66·9	26·6
5. Total	6640·4	3995·8	158·7	4807·2	1208·7	924·5	606·5	584·7
6. Depreciation.	4213·8	2771·6	52·9	2478·4	609·4	465·9	140·0	425·8
7. Net fixed assets.	2426·6	1224·2	105·8	2328·8	599·3	458·6	466·5	158·9
B. Stock and Stores								
8. Raw materials	} 4847·1	} 1739·1	60·5	} 441·1	} 1033·4	73·7	} 145·6	103·8
9. Finished goods.			25·4			308·4		25·6
10. Stores		288·9	24·2	462·9		155·8	79·7	18·7
11. Others	10·1	2·5	0·1	0·9	1·3	8·8	1·4	..
12. TOTAL	4857·2	2030·5	110·2	904·9	1034·7	546·7	226·7	148·1
C. Receivables								
13. Book debts	431·7	414·4	33·9	446·5	646·7	151·6	81·3	96·3
14. Advances against goods.	192·8	32·0	7·2	51·2	140·4	47·5	25·7	13·5
15. Others	51·6	99·4	9·1	69·7	47·1	62·9	6·3	40·0
16. TOTAL	676·1	545·8	50·2	567·4	834·2	262·0	113·3	149·8
D. Investments								
17. Government securities.	661·6	353·7	30·0	142·2	442·1	61·1	26·5	120·7
18. Semi-Govt. securities.	7·0	7·4	..	..	0·1	..	0·5	..
19. Industrial securities.	163·8	109·8	6·0	164·2	34·8	47·9	26·9	32·1
20. TOTAL	832·4	470·9	36·0	306·4	477·0	109·0	53·9	152·8
E. 21. Advance of Income-tax.								
22. E.P.T. deposits.	498·5	36·6	3·5	251·0	14·5	28·3	14·2	15·5
	2317·7	314·4	4·0	179·3	40·3	13·6	33·0	117·9
F. Other Assets								
23. Current	240·0	168·4	2·0	44·1	168·7	46·0	17·0	2·0
24. Non-current	108·2	61·5	5·2	410·5	70·4	6·4	29·2	38·4
25. Intangible	0·3	..	0·3	5·3	17·0	1·9	2·5	0·1
G. Cash								
	662·6	187·6	29·9	83·6	242·5	45·3	53·4	37·7
TOTAL	12619·6	5039·9	347·1	5081·3	3498·6	1517·8	1009·8	821·2

* 'Others' include Aluminium, Breweries and Distilleries, Tobacco, Rice and Flour and Miscellaneous Manufacturing.

Manufacturing Companies in 1946
Companies

(Amounts in lakhs of Rupees)

Vegetable Oil	Matches	Cement	Tea	Other Plantations	Coal	Electricity	Shipping	Other Manufacturing*	Total
(4)	(4)	(5)	(45)	(10)	(16)	(21)	(8)	(54)	(407)
50.9	7.1	14.0	289.9	74.0	304.2	100.6	..	669.2	8623.3
58.1	55.2	280.3	84.9	10.1	255.6	175.4	164.6	1310.7	16295.1
12.5	90.3	676.5	64.7	4.0	526.5	879.4	989.9	1310.7	16295.1
121.5	23.4	207.8	27.2	5.0	230.4	1396.9	13.3	245.2	3305.9
59.9	176.0	1178.6	466.7	93.1	1316.7	2552.3	1167.8	2225.1	28224.3
61.6	115.2	586.0	76.4	5.9	725.5	938.5	483.9	1180.9	15330.0
60.8	592.6	390.3	87.2	591.2	1613.8	683.9	1044.2	12894.3	
106.2	69.3	220.0	1.0	..	..	..	49.7	1285.8	12527.8
60.3	9.4	270.6	160.0	23.2	15.3	74.8	25.3	1285.8	12527.8
0.1	12.6	270.6	37.8	3.9	170.7	74.8	65.2	0.7	12527.8
166.6	91.3	490.6	200.7	27.1	190.9	74.8	140.3	1286.5	12527.8
0.1	..	..	1.9	..	4.9	..	0.1	0.7	12527.8
45.4	12.0	157.7	14.8	1.8	358.7	63.1	96.1	466.5	3518.5
9.5	0.3	64.6	2.0	0.1	0.7	1.7	4.3	85.9	679.4
7.2	14.7	1.2	24.8	1.1	60.5	3.4	79.2	123.4	701.6
62.1	27.0	223.5	41.6	3.0	419.9	68.2	179.6	675.8	4899.5
5.1	0.3	186.2	59.4	4.5	80.2	105.4	735.3	181.6	3195.9
..	..	..	1.7	..	0.1	..	0.4	0.1	17.3
0.4	..	93.1	3.0	2.3	29.3	28.7	162.3	66.3	970.9
5.5	0.3	279.3	64.1	6.8	109.6	134.1	898.0	248.0	4184.1
6.7	44.2	5.8	2.6	0.7	..	73.7	22.8	30.1	1048.7
24.9	74.8	4.2	8.4	0.8	44.4	10.3	90.9	187.5	3466.4
7.4	10.1	6.7	22.5	4.8	7.8	169.7	193.6	118.4	1229.3
0.5	18.2	22.1	5.3	1.3	8.1	11.6	58.6	56.8	912.3
..	0.4	85.5	0.9	1.1	1.1	37.8	11.2	47.4	212.6
19.3	121.8	70.7	60.7	7.8	39.3	74.2	287.5	261.3	2385.2
354.6	448.9	1781.0	797.1	140.6	1412.3	2268.2	2666.2	3956.0	43760.2

mills, Tanning, Timber and Saw mills, Ceramics, Rubber manufacturing, 'Other Mining'

STATEMENT IV.—*Assets and Liabilities of*
407 Selected

	Cotton	Jute	Other textiles	Iron & Steel	Engineer- ing	Sugar	Chemicals	Paper
No. of Companies (90)	(42)	(9)	(3)	(41)	(25)	(23)	(7)	
A. Paid-up Capital								
1. Ordinary	2179·4	1193·2	133·5	839·6	1691·6	449·7	382·3	199·4
2. Preference	537·1	513·5	1·2	888·8	205·9	74·3	146·0	121·5
3. Deferred	55·0	0·3	..	14·6	3·5	4·0	0·6	..
4. TOTAL	2771·5	1707·0	134·7	1743·0	1901·0	528·0	528·9	320·9
B. Reserves								
5. General	1994·2	620·2	9·9	25·5	145·3	218·4	86·0	101·0
6. Taxation	2107·5	563·0	24·9	441·1	211·0	64·4	52·6	80·4
7. Development	770·6	111·4	2·6	150·5	35·2	15·6	2·6	19·8
8. Other specific	711·4	488·3	16·3	759·6	74·6	57·0	39·6	70·3
C. Borrowings								
9. Banks	905·0	346·2	35·1	334·4	135·0	151·0	83·5	30·9
10. Mortgages & debentures.	103·8	117·9	..	248·7	59·4	80·2	41·8	15·6
11. Due to trade	203·0	385·3	51·1	259·6	382·0	41·3	56·7	38·3
12. Others	1044·0	159·2	20·3	127·7	108·7	151·1	27·2	30·7
13. TOTAL	2255·8	1002·6	106·5	970·4	685·1	423·6	209·2	115·5
D. Other Liabilities								
14. Current	1573·3	468·4	35·3	822·8	373·5	144·4	64·4	101·4
15. Non-current	180·3	32·6	25·3	144·1	38·5	38·9	23·1	3·5
E. Balance								
	255·0	40·4	—8·4	24·3	34·4	27·5	3·4	8·4
TOTAL	12619·6	5039·9	347·1	5081·3	3498·6	1517·8	1009·8	821·2

Manufacturing Companies in 1946—contd.

Companies

(Amounts in lakhs of Rupees)

Vegetable Oil	Matches	Cement	Tea	Other Plantations	Coal	Electricity	Shipping	Other Manufacturing*	Total
(4)	(4)	(5)	(45)	(10)	(16)	(21)	(8)	(54)	(407)
98.4	93.5	1029.5	271.3	73.8	349.1	1161.3	900.0	1170.9	12215.8
29.8	4.5	61.2	29.9	7.6	50.0	280.1	43.0	583.3	3577.7
..	..	5.0	3.0	..	..	..	..	25.6	111.6
128.2	98.0	1095.7	304.2	81.4	399.1	1441.4	943.0	1779.8	15905.8
37.7	106.8	92.5	125.5	10.2	108.4	110.8	174.4	181.8	4148.6
33.0	133.2	120.5	54.1	3.6	166.4	167.6	304.2	480.8	5008.3
10.5	..	4.9	42.4	..	30.0	19.6	220.3	45.8	1481.8
6.3	5.8	18.2	40.5	10.2	263.9	30.2	164.9	221.5	2978.6
25.0	2.8	7.3	13.4	4.7	18.7	17.6	41.9	171.1	2323.6
..	..	105.2	12.6	5.5	32.5	236.3	225.0	200.5	1485.0
24.5	19.2	63.6	0.6	1.7	159.5	28.1	10.3	153.6	1878.4
1.0	4.5	3.2	51.1	2.4	84.4	18.8	42.3	113.2	1989.8
50.5	26.5	179.3	77.7	14.3	295.1	300.8	319.5	638.4	7676.8
46.7	62.3	159.4	126.2	15.5	135.1	159.7	309.0	463.0	5060.4
38.8	14.6	104.6	2.5	..	9.1	30.4	227.1	80.4	993.8
2.9	1.7	5.9	24.0	5.4	5.2	7.7	3.8	64.5	506.1
354.6	448.9	1781.0	797.1	140.6	1412.3	2268.2	2666.2	3956.0	43760.2

STATEMENT V.—Assets and Liabilities of
407 Selected

	Cotton	Jute
Number of Companies	(90)	(42)
A. Fixed Assets		
1. Land	338·2	183·0
2. Buildings	2460·9	1722·4
3. Plant and machinery	6625·2	3136·9
4. Others	232·6	173·3
5. Total	9656·9	5215·6
6. Depreciation	6412·5	3026·8
7. Net fixed assets	3244·4	2188·8
B. Stock and Stores		
8. Raw materials	} 6683·5	1553·5
9. Finished goods and work in progress		1004·1
10. Stores	1417·6	490·9
11. Others	27·7	60·0
12. TOTAL	8128·8	3108·5
C. Receivables		
13. Book debts	711·5	968·6
14. Advances against goods	463·2	125·5
15. Others	281·5	163·8
16. TOTAL	1456·2	1257·9
D. Investments		
17. Government securities	524·0	61·0
18. Semi-Government securities	9·6	0·4
19. Industrial securities	315·5	143·9
20. TOTAL	849·1	205·3
E. 21. Advance of Income-tax		
22. E.P.T. deposits	162·3	117·7
F. Other Assets		
23. Current	94·5	6·1
24. Non-current	125·9	199·4
25. Intangible	9·3	2·5
G. Cash		
	1442·0	226·0
TOTAL	16223·3	7661·9

Manufacturing Companies in 1951
Companies

(Amounts in lakhs of Rupees)

Other Textiles	Iron and Steel	Engineering	Sugar	Chemicals	Paper	Vegetable Oil
(9)	(3)	(41)	(25)	(23)	(7)	(4)
5.9	621.3	91.1	43.9	32.1	31.1	5.3
78.5	748.4	906.5	353.6	357.3	220.4	74.0
118.3	4589.6	1448.9	863.4	830.0	720.3	139.5
17.2	513.3	394.0	181.5	118.3	43.7	32.2
219.9	6472.6	2841.5	142.4	1338.6	1015.5	251.0
107.6	3901.4	1112.3	773.7	405.1	415.5	147.7
112.3	2571.2	1728.2	668.7	933.5	600.0	103.3
} 193.8	1093.6	1936.1	149.4 926.6	} 382.0	328.3	211.3
26.3	838.0	284.0	305.5	114.2	..	82.5
0.2	..	26.1	8.1	8.3	26.7	0.1
220.3	1932.5	2246.2	1380.6	504.5	355.0	293.9
29.1	805.4	855.9	136.3	165.5	140.3	54.9
6.1	44.0	99.8	89.4	36.5	41.5	9.0
3.9	8.8	131.9	147.4	14.1	55.4	5.4
39.1	858.2	1087.6	373.1	216.1	237.2	69.3
28.2	160.6	47.9	11.7	16.0	35.9	0.3
..	..	..	..	0.5	..	..
31.7	162.7	106.4	64.9	36.7	19.6	0.4
59.9	323.3	154.3	76.6	53.2	55.5	0.7
7.9	222.8	112.7	35.3	11.9	135.9	14.6
..	..	11.9	6.5	1.8	5.7	1.4
0.9	120.8	9.2	8.0	10.0	0.4	0.7
1.1	288.4	219.0	48.6	46.6	55.8	3.1
0.2	27.9	30.9	1.3	6.4	0.1	..
49.0	334.3	212.6	57.5	67.4	149.8	12.2
490.7	6679.4	5812.6	2665.2	1851.4	1595.4	499.2

✓ STATEMENT V.—Assets and Liabilities of
407 Selected

Number of Companies	Matches (4)	Cement (5)
A. Fixed Assets		
1. Land	11·5	22·3
2. Buildings	72·5	429·1
3. Plant and machinery	112·9	1191·5
4. Others	38·2	324·9
5. TOTAL [†]	235·1	1967·8
6. Depreciation	141·9	901·3
7. Net fixed assets	93·2	1066·5
B. Stock and Stores		
8. Raw materials	132·8	} 292·7
9. Finished goods and work in progress	26·5	
10. Stores	36·8	405·2
11. Others	40·1	..
12. TOTAL	236·2	697·9
C. Receivables		
13. Book debts	16·1	132·8
14. Advances against goods	0·2	9·6
15. Others	25·7	253·5
16. TOTAL	42·0	395·9
D.		
17. Government securities	0·2	163·9
18. Semi-Government securities . . . . .	..	..
19. Industrial securities . . . . .	..	28·4
20. TOTAL	0·2	192·3
E.		
21. Advance of Income-tax	31·8	140·7
22. E.P.T. deposits	34·3	..
F. Other Assets		
23. Current	25·7	2·0
24. Non-current	14·4	152·5
25. Intangible	0·1	76·0
G. Cash		
	92·0	167·8
TOTAL	569·9	2891·6

Manufacturing Companies in 1951—contd.
Companies

(Amounts in lakhs of Rupees)

Tea	Other Plantations	Coal	Electricity	Shipping	Others	Total
(45)	(10)	(16)	(21)	(8)	(54)	(407)
340·6	81·7	325·3	115·0	..	164·9	2413·2
259·2	15·2	340·2	306·7	30·6	988·6	9364·1
164·4	6·1	899·4	1210·7	2764·5	1813·7	26636·2
40·5	3·7	406·3	2322·7	22·4	571·3	5436·1
804·7	106·7	1971·2	3955·1	2817·5	3538·5	43849·6
241·7	9·3	1145·4	1164·7	927·8	1485·3	22320·0
563·0	97·4	825·8	2790·4	1889·7	2053·2	21529·6
..	..	..	..	..	2338·2	22959·7
234·8	34·4	52·0	..	..	687·2	
96·6	6·4	284·9	239·0	70·1		
5·8	0·1	0·2	37·5	0·7	12·9	254·5
337·	40·9	337·1	276·5	70·8	3038·3	23214·2
21·8	4·3	568·7	142·7	455·0	920·8	6129·7
10·9	0·2	62·7	2·5	1·5	85·9	1088·5
55·0	2·5	45·7	29·1	74·5	231·2	1529·4
87·7	7·0	677·1	174·3	531·0	1237·9	8747·6
35·7	4·1	6·8	73·5	268·3	98·0	1536·1
1·1	..	..	0·5	15·3	0·4	27·8
14·3	5·0	51·6	55·5	81·4	279·6	1397·6
51·1	9·1	58·4	129·5	365·0	378·0	2961·5
32·6	0·1	98·1	107·5	20·6	313·4	2346·4
3·9	..	6·4	7·9	24·6	20·3	404·7
7·8	0·3	0·3	17·9	143·7	24·2	472·5
13·6	2·3	3·9	43·8	368·3	63·9	1650·6
0·4	..	1·2	51·6	34·4	36·5	281·8
106·8	24·7	20·4	203·3	560·4	405·5	4131·7
1204·1	181·8	2028·7	3805·7	4008·5	7571·2	65740·6

STATEMENT V.—Assets and Liabilities of
407 Selected

	Cotton	Jute	Other Textiles	Iron & Steel	Engineer- ing	Sugar	Chem- icals	Paper
No. of Companies	(90)	(42)	(9)	(3)	(41)	(25)	(23)	(7)
A. Paid-up Capital								
1. Ordinary	3800.7	1596.8	182.1	846.7	1925.2	633.8	776.3	310.5
2. Preference	729.5	562.9	27.4	1038.7	433.6	98.0	179.3	140.0
3. Deferred	53.1	0.3	1.2	14.6	5.9	11.0	0.6	..
4. TOTAL	4583.3	2160.0	210.7	1900.0	2364.7	742.8	956.2	450.5
B. Reserves								
5. General	2165.3	788.3	40.6	1050.5	338.5	263.6	113.9	134.2
6. Taxation	1474.1	553.7	9.0	515.1	276.3	137.0	51.6	211.2
7. Develop- ment.	1217.6	111.0	4.0	421.3	93.4	36.5	32.3	117.2
8. Other specific	11111.8	974.4	11.9	244.7	260.7	169.6	79.9	248.4
C. Borrowings								
9. Banks	1941.5	1505.5	104.6	240.8	666.7	507.9	257.4	49.5
10. Mortgages & debentures	111.7	172.7	..	158.5	322.9	102.8	59.5	114.9
11. Due to trade	460.5	500.7	9.7	475.9	842.0	123.1	68.7	84.8
12. Others	1195.3	217.0	59.1	285.8	169.8	233.5	113.3	19.8
13. TOTAL	3709.0	2395.9	173.4	1161.0	2001.4	967.3	498.9	269.0
D. Other Liabilities								
14. Current	2023.5	528.6	49.2	1225.1	480.3	301.8	118.2	151.3
15. Non-current	99.7	25.5	6.3	149.3	26.3	7.6	9.6	1.4
E. Balance of profits								
	—161.0	124.5	—14.4	12.4	—29.0	39.0	—9.2	12.2
TOTAL	16223.3	7661.9	490.7	6679.4	5812.6	2665.2	1851.4	1595.4

Manufacturing Companies in 1951—concl'd.
Companies

(Amounts in lakhs of Rupees)

Vegetable Oil	Matches	Cement	Tea	Other plantations	Coal	Electricity	Shipping	Other Manufacturing	Total
(4)	(4)	(5)	(45)	(10)	(16)	(21)	(8)	(54)	(407)
127.6	249.5	1371.0	426.6	82.8	484.3	1762.9	1192.4	1994.9	17764.1
29.9	4.5	61.2	27.5	10.6	80.4	290.1	43.0	717.6	4474.2
..	..	5.0	..	..	..	..	..	14.0	105.7
157.5	254.0	1437.2	454.1	93.4	564.7	2053.0	1235.4	2726.5	22344.0
31.7	76.0	106.0	187.3	26.4	151.1	208.1	220.3	345.9	6247.7
6.0	77.4	420.2	97.9	4.0	183.9	150.3	85.8	673.4	4926.9
12.8	..	175.0	87.9	1.3	81.5	62.2	274.3	65.5	2793.8
11.4	18.5	56.6	54.2	16.0	191.0	163.3	379.9	441.3	4433.6
156.8	..	2.9	53.5	8.4	170.4	14.0	8.3	1053.4	6742.6
..	..	100.1	14.5	1.9	103.0	664.0	725.0	315.1	2966.6
20.6	31.0	109.0	20.0	2.9	183.2	119.0	54.3	541.7	3647.1
2.9	2.3	5.4	38.2	0.9	44.3	80.8	69.8	246.4	2784.6
180.3	33.3	217.4	126.2	14.1	500.9	877.8	858.4	2156.6	16140.9
60.6	110.5	294.4	175.5	22.4	334.2	204.7	624.1	921.5	7625.9
38.8	..	179.7	3.6	..	10.0	75.2	322.2	113.7	1068.9
0.1	0.2	5.1	17.4	4.2	11.4	11.1	8.1	126.8	158.9
499.2	569.9	2891.6	1204.1	181.8	2028.7	3805.7	4008.5	7571.2	65740.6

STATEMENT VI.—Resting Account of 407 Manufacturing Companies, 1946—51

(Amounts in lakhs of Rupees)

	Cotton Textiles	Jute Textiles	Other Textiles	Iron and Steel	Engineer- ing	Sugar	Chemicals	Paper	Vegetable Oil		
Number of Companies	90	42	9	3	41	25	23	7	4		
U S E S											
I. Gross Fixed Assets Formation	3016·5	1219·8	61·2	1665·4	1631·8	517·7	732·1	430·8	129·5		
(a) Land	[60·3]	} -4·5	2·6	184·4	4·4	9·0	} 185·0	25·2	} 28·4		
(b) Buildings	651·3		22·4	240·3	521·5	132·3		72·9			
(c) Plant and machinery	2282·0	1313·5	31·1	1048·1	837·7	314·9	495·7	315·6	81·4		
(d) Others	22·9	-89·2	5·1	192·6	268·2	61·5	51·4	17·1	19·7		
II. Inventory Accumulation	3271·6	1078·0	110·1	1027·6	1211·5	842·9	277·8	206·9	127·3		
(a) Raw materials	} 3254·0	} 818·5	} 107·9	} 652·5	} 1186·7	75·7	} 336·4	} 180·2	} 105·1		
(b) Finished goods and work in progress						618·2					
(c) Stores						149·7				34·5	22·2
(d) Others						17·6				57·5	0·1	-0·9	24·8	-0·7	6·9	26·7	..
III. Lendings	992·4	1025·2	-6·7	262·6	351·6	118·1	100·5	207·8	15·1		
(a) Tax advances	212·3	313·1	4·4	-28·2	98·2	7·0	-2·3	120·4	7·9		
(b) Receivables	780·1	712·1	-11·1	290·8	253·4	111·1	102·8	87·4	7·2		

278

IV. <i>Net Change in Purchase of Securities</i>	16.7	-265.6	23.9	16.9	-322.7	-32.4	-0.7	-97.3	-4.8
(a) Government securities	-137.6	-292.7	-1.8	18.4	-394.2	-49.4	-10.4	-84.8	-4.8
(b) Semi-government securities	2.6	-7.0	..	..	-0.1	..	..	..	..
(c) Industrial securities	151.7	34.1	25.7	-1.5	71.6	17.0	9.7	-12.5	..
V. <i>Increase in Monetary Resources</i>	779.4	38.4	19.1	250.7	-29.9	12.2	14.0	112.1	-7.1
TOTAL	8076.6	3095.8	207.6	3223.2	2842.3	1458.5	1123.7	860.3	260.0

SOURCES

VI. <i>Paid up Capital</i>	1811.8	453.0	76.0	157.0	463.7	214.8	427.3	129.6	29.3
VII. <i>Borrowings</i>	1453.2	1387.3	66.9	190.6	1316.4	543.5	289.7	153.5	129.8
(a) Mortgages and debentures	7.9	54.8	..	-90.2	263.5	22.6	17.7	99.3	..
(b) Others	1445.3	1332.5	66.9	280.8	1052.9	520.9	272.0	54.2	129.8
(Banks)	(1036.5)	(1159.3)	(69.5)	(-93.6)	(531.7)	(356.9)	(173.9)	(18.6)	(131.8)
VIII. <i>Depreciation</i>	2198.7	255.2	54.7	1423.0	502.9	307.8	265.1	-10.3	87.8
IX. <i>Savings</i>	-30.9	728.6	5.8	843.0	439.4	262.8	84.3	443.3	-28.4
X. <i>Other Capital Receipts — E.P.T. refunds</i>	2155.4	196.7	4.0	179.4	28.3	7.1	31.2	112.2	23.5
XI. <i>Movements in other current and non-current assets and liabilities</i>	488.4	75.0	0.2	430.2	91.6	122.5	26.1	32.0	18.0
TOTAL	8076.6	3095.8	207.6	3223.2	2842.3	1458.5	1123.7	860.3	260.0

✓ STATEMENT VI.—Resting Account of 407 Manufacturing Companies, 1946—51—contd.

(Amounts in lakhs of Rupees)

	Matches	Cement	Tea	Other Plantations	Coal	Electricity	Shipping	Other manufacturing	Total
Number of Companies	4	5	45	10	16	21	8	54	407
U S E S									
I. Gross Fixed Assets Formation.	59.1	789.2	338.0	13.6	654.5	1402.8	1649.7	1313.4	5625.1
(a) Land	4.4	8.3	50.7	7.7	21.4	14.4	..	484.3	3153.8
(b) Buildings	17.3	148.8	174.3	5.1	84.6	131.3	-134.0		
(c) Plant and Machinery	22.6	515.0	99.7	2.1	372.9	331.3	1774.6	503.0	10341.2
(d) Others	14.8	117.1	13.3	-1.3	175.9	925.8	-9.1	326.1	2130.1
II. Inventory Accumulation	144.9	207.3	136.5	13.8	146.2	201.7	-69.5	1751.8	10686.4
(a) Raw materials	63.5	72.7	73.8	1.2	36.7	201.7	-69.5	1739.6	10686.4
(b) Finished goods and work in progress	17.1								
(c) Stores	24.1	134.6	58.8	2.5	114.2				
(d) Others	40.2	..	3.9	0.1	-4.7					12.2
III. Lendings	2.6	307.3	76.1	3.4	355.3	139.9	349.2	845.4	5145.8
(a) Tax advances	-12.4	134.9	30.0	-0.6	98.1	33.8	-2.2	283.3	1297.4
(b) Receivables	15.0	172.4	46.1	4.0	257.2	106.1	351.4	562.1	3848.4

IV. <i>Net Change in Purchase of Securities</i>	-0.1	-87.0	-13.0	2.3	-51.2	-4.6	-533.0	130.0	-1222.6
(a) <i>Government securities</i>	-0.1	-22.3	-23.7	-0.4	-73.4	-31.9	-467.0	-83.6	-1659.7
(b) <i>Semi-government securities</i>	..	..	-0.6	..	-0.1	0.5	14.9	0.3	10.1
(c) <i>Industrial securities</i>	..	-64.7	11.3	2.7	22.3	26.8	-80.9	213.3	426.6
V. <i>Increase in Monetary Resources</i>	-29.8	97.1	46.1	16.9	-18.9	129.1	172.9	144.2	1746.5
TOTAL	176.7	1313.9	583.7	50.0	1085.9	1868.9	1569.3	4184.8	31981.2

SOURCES

VI. <i>Paid up Capital</i>	156.0	341.5	149.9	12.0	165.6	611.6	292.4	946.7	6438.3
VII. <i>Borrowings</i>	6.8	38.1	48.5	-0.2	205.8	577.0	538.9	1518.2	8464.0
(a) <i>Mortgages & debentures</i>	..	-5.1	1.9	-3.6	70.5	427.7	500.0	114.6	1481.0
(b) <i>Others</i>	6.8	43.2	46.6	3.4	135.3	149.3	38.9	1403.6	6982.4
(Banks)	(-2.8)	(-4.4)	(40.1)	(3.7)	(151.7)	(-3.6)	(-32.6)	(882.3)	(4419.0)
VIII. <i>Depreciation</i>	26.7	315.3	165.3	3.4	419.9	226.2	443.9	304.4	6990.0
IX. <i>Savings</i>	-75.4	520.9	158.2	22.5	45.0	259.1	100.8	658.5	4437.0
X. <i>Other Capital Receipts—E.P.T. refunds</i>	40.5	4.2	4.5	0.8	38.0	2.4	66.3	167.2	3061.0
XI. <i>Movements in other current and non-current assets and liabilities</i>	22.1	93.9	57.3	11.5	211.6	192.6	127.0	589.8	2589.8
TOTAL	176.7	1313.9	583.7	50.0	1085.9	1868.9	1569.3	4184.8	31981.2

STATEMENT VII.—Resting Account of 448 Manufacturing Companies, 1946—51*

(Amounts in lakhs of Rupees)

	Cotton Textiles	Jute Textiles	Other Textiles	Iron and Steel	Engineer- ing	Sugar	Chemicals	Paper	Vege- table Oil							
Number of Companies	95	42	11	3	53	26	26	7	6							
U S E S																
I. <i>Gross Fixed Assets Formation</i>	3400·8	1219·8	487·3	1665·4	2128·0	544·2	762·0	430·8	220·6							
(a) Land	71·3	—4·5	5·7	184·4	35·2	9·5	..	25·2	54·2							
(b) Buildings	741·7		113·1	240·3	711·1	138·0	194·2	72·9								
(c) Plant and Machinery	2557·6	1313·5	332·0	1048·1	1039·0	334·4	513·6	315·6	140·6							
(d) Others	30·2	—89·2	36·5	192·6	342·7	62·3	54·2	17·1	25·8							
II. <i>Inventory Accumulation</i>	3509·9	1078·0	208·7	1027·0	1631·5	854·1	392·8	206·9	170·2							
(a) Raw materials	} 3489·7 }	} 818·5 }	} 184·0 }	} 652·5 }	} 1603·7 }	} 75·7 }	} 247·3 }	} 180·2 }	} 137·5 }							
(b) Finished goods & work in progress.																
(c) Stores										202·0	24·6	376·0	151·5	38·6		32·7
(d) Others										20·2	57·5	0·1	—0·9	27·8	—0·7	6·9	26·7	..
III. <i>Lendings</i>	1022·9	1025·2	9·9	262·6	499·8	122·8	108·9	207·8	36·3							
(a) Tax advances	212·8	313·1	4·8	—28·2	110·4	7·0	—0·2	120·4	7·9							
(b) Receivables	810·1	712·1	5·1	290·8	389·4	115·8	109·1	87·4	28·4							

IV. <i>Net change in Purchase of Securities</i>	22·9	-265·6	23·9	16·9	-339·2	-32·4	3·3	-97·3	-4·8
(a) Government Securities	-137·5	-292·7	-1·8	18·4	-392·9	-49·4	-8·4	-84·8	-4·8
(b) Semi-government Securities	2·6	-7·0	..	..	0·1	..	..	..	..
(c) Industrial Securities	157·8	34·1	25·7	-1·5	73·6	17·0	11·7	-12·5	..
V. <i>Increase in Monetary Resources</i>	789·3	38·4	21·3	250·7	-11·4	12·3	16·8	112·1	-6·1
TOTAL	8745·8	3095·8	751·1	3223·2	3928·7	1501·0	1183·8	860·3	416·2

S O U R C E S

VI. <i>Paid-up Capital</i>	2125·7	453·0	418·0	157·0	1027·2	234·8	466·1	129·6	84·9
VII. <i>Borrowings</i>	1607·7	1387·3	178·7	190·6	1726·3	562·2	295·0	153·5	230·2
(a) Mortgages & Debentures	7·9	54·8	..	-90·2	263·5	27·6	17·7	99·3	15·0
(b) Others	1599·8	1332·5	178·7	280·8	1462·8	534·6	277·3	54·2	215·2
(of which, from banks)	(1114·9)	(1159·3)	(118·2)	(-93·6)	(703·9)	(357·4)	(174·0)	(18·6)	(170·8)
VIII. <i>Depreciation</i>	2314·7	255·2	91·5	1423·0	559·1	314·1	276·9	-10·3	90·2
IX. <i>Savings</i>	1·9	728·6	12·4	843·0	450·1	257·6	93·1	443·3	-41·0
X. <i>Other Capital Receipts—E.P.T. refunds</i>	2155·4	196·7	4·0	179·4	28·1	7·1	30·8	112·2	23·5
XI. <i>Movements in other current and non-current assets and liabilities</i>	540·4	75·0	46·5	430·2	137·9	125·2	21·9	32·0	28·4
TOTAL	8745·8	3095·8	751·1	3223·2	3928·7	1501·0	1183·8	860·3	416·2

*Worked out from Statements VI and VIII.

STATEMENT VII.—Resting Account of 448 Manufacturing Companies, 1946—51*—contd.

(Amounts in lakhs of Rupees)

	Matches	Cement	Tea	Other Planta- tions	Coal	Electri- city	Shipping	Other Manufac- turing	Total
Number of Companies	4	8	48	10	17	22	10	60	448
U S E S									
I. Gross Fixed Assets Formation.	59·1	1129·8	429·0	13·6	676·0	1414·7	1822·7	1472·0	17875·8
(a) Land	4·4	9·8	103·6	7·7	30·8	14·5	..	} 538·8	} 3874·1
(b) Buildings	17·3	262·8	199·5	5·1	88·6	132·9	—134·0		
(c) Plant and Machinery	22·6	695·7	108·8	2·1	377·8	337·9	1946·1	563·3	11648·7
(d) Others	14·8	161·5	17·1	—1·3	178·8	929·4	10·6	369·9	2353·0
II. Inventory Accumulation	144·9	295·2	161·7	13·8	147·7	205·5	—69·5	1774·9	11658·4
(a) Raw materials	63·5	} 93·2	} 85·4	} 11·2	} 37·8	} 205·5	} —69·5	} 1766·7	} 11468·2
(b) Finished goods & work in progress	17·1								
(c) Stores	24·2	201·9	72·0	2·5	114·6				
(d) Others	40·1	0·1	4·3	0·1	—4·7			12·7	190·2
III. Lendings	2·6	341·8	85·5	3·4	359·0	141·1	370·3	859·2	5459·1
(a) Tax advances	—12·4	135·6	30·8	—0·6	98·9	33·8	3·7	283·3	1321·1
(b) Receivables	15·0	206·2	54·7	4·0	260·1	107·3	366·6	575·9	4138·0

V. <i>Net change in Purchase of Securities</i>	—0·1	—79·7	—12·6	2·3	—51·2	—3·9	—501·9	130·3	—1169·1
(a) Government Securities	—0·1	—22·0	—23·7	—0·4	—73·4	—31·9	—438·9	—83·6	—1627·9
(b) Semi-government Securities . . . . .	..	..	—0·6	..	—0·1	0·5	17·9	0·3	13·7
(c) Industrial Securities . . . . .	..	—57·7	11·7	2·7	22·3	27·5	—80·9	213·6	445·1
V. <i>Increase in Monetary Resources</i>	—29·8	107·5	61·3	16·9	—17·8	129·2	459·5	150·1	2100·3
TOTAL	176·7	1794·6	724·9	50·0	1113·7	1886·6	2081·1	4391·0	35924·5

S O U R C E S

VI. <i>Paid-up Capital</i>	156·0	589·1	229·9	12·0	185·6	623·6	622·4	1075·8	8590·7
VII. <i>Borrowings</i>	6·8	163·3	54·2	—0·2	206·0	578·9	568·7	1582·1	9491·3
(a) Mortgages & Debentures . . . . .	..	38·9	1·9	—3·6	70·5	427·7	500·0	116·6	1547·6
(b) Others	6·8	124·4	52·3	3·4	135·5	151·2	68·7	1465·5	7943·7
(of which from banks)	(—2·8)	(14·5)	(40·1)	(3·7)	(151·7)	—(1·9)	(—32·6)	(886·4)	(4782·6)
VIII. <i>Depreciation</i>	26·7	382·2	181·5	3·4	423·3	229·4	479·0	320·4	7360·3
IX. <i>Savings</i>	—75·4	532·6	186·1	22·5	48·0	259·0	160·1	651·1	4573·0
X. <i>Other Capital Receipts—E.P.T. refunds</i>	40·5	4·2	4·5	0·8	38·0	2·4	64·2	166·9	3058·7
XI. <i>Movements in other current and non-current assets and liabilities</i>	22·1	123·2	68·7	11·5	212·8	193·3	186·7	594·7	2850·5
TOTAL	176·7	1794·6	724·9	50·0	1113·7	1886·6	2081·1	4391·0	35924·5

STATEMENT VIII.—Assets and Liabilities in 1951 of 41 Selected Manufacturing Companies started after 1946

(Amounts in lakhs of Rupees)

	Cotton	Other textiles	Engineering	Sugar	Chemicals	Veg. Oil	Cement	Tea	Coal	Electricity	Shipping	Other manufacturing	Total
Number of Companies	5	2	12	1	3	2	3	3	1	1	2	6	41
(A) Fixed Assets													
1. Land	11·0	3·1	30·8	0·5	0·7	0·4	1·5	52·9	9·7	0·1	..	2·4	113·1
2. Buildings	90·4	790·7	189·6	5·7	8·5	25·4	114·0	25·2	4·0	1·6	..	52·1	607·2
3. Plant and machinery	275·6	300·9	201·3	19·5	17·9	59·2	180·7	9·1	4·9	6·6	171·5	60·3	1307·5
4. Others	7·3	31·4	74·5	0·8	2·8	6·1	44·4	3·8	2·9	3·6	1·5	43·8	222·9
TOTAL	384·3	426·1	496·2	26·5	29·9	91·1	340·6	91·0	21·5	11·9	173·0	158·6	2250·7
Less depreciation	116·0	36·8	56·2	6·3	11·8	2·4	66·9	16·2	3·4	3·2	35·1	16·0	370·3
5. Net fixed assets	268·3	389·3	440·0	20·2	18·1	88·7	273·7	74·8	18·1	8·7	137·9	142·6	1880·4
(B) Stock and Stores													
6. Raw materials	198·6	27·5	370·6	..	10·9	4·8	20·5	..	..	..	..	9·5	747·7
7. Finished goods . . . . .	..	48·6	..	9·4	..	27·6	..	11·6	1·1	..	..	7·0	..
8. Stores	37·1	22·5	46·4	1·8	4·1	10·5	67·3	13·2	0·4	3·8	..	10·6	217·7

9. Others	2.6	..	3.0	..	..	..	0.1	0.4	..	..	..	0.5	6.6
TOTAL	238.3	98.6	420.0	11.2	15.0	42.9	87.9	25.2	1.5	3.8	..	27.6	972.0
<i>(C) Receivables</i>													
10. Book debts	19.2	3.6	73.0	4.6	5.3	16.6	16.2	3.9	2.7	0.7	10.7	7.6	164.1
11. Advances against goods	3.4	8.2	12.3	..	0.9	4.3	14.6	0.8	0.1	0.3	..	3.0	47.9
12. Others	7.4	4.4	50.7	0.1	0.1	0.3	3.0	3.9	0.1	0.2	4.5	3.2	77.9
TOTAL	30.0	16.2	136.0	4.6	6.3	21.2	33.8	8.6	2.9	1.2	15.2	13.8	289.9
<i>(D) Investments</i>													
13. Government securities	0.1	..	1.3	..	2.0	..	0.3	..	..	..	28.1	..	31.8
14. Semi-Government securities . . . . .	..	..	0.2	..	..	..	..	..	..	..	3.0	..	3.2
15. Industrial securities	6.1	..	2.0	..	2.0	..	7.0	0.4	..	0.7	..	0.3	18.5
TOTAL	6.2	..	3.5	..	4.0	..	7.3	0.4	..	0.7	31.1	0.3	53.5
<i>(E) (a) Advance of Income-tax</i>													
(b) E. P. T. deposits . . . . .	..	..	0.2	..	0.4	..	..	..	..	..	2.1	0.3	3.0
<i>(F) Other Assets</i>													
16. Current	0.9	0.5	1.4	..	0.1	..	1.7	0.8	..	..	8.0	0.2	13.6
17. Non-current	0.7	0.1	5.3	..	0.1	0.3	0.9	..	0.1	..	2.7	1.5	12.2
18. Intangible	0.4	7.5	43.5	..	8.9	0.7	1.3	..	..	..	..	4.6	66.9
<i>(G) Cash</i>													
TOTAL	555.2	514.8	108.1	36.2	57.8	154.8	417.7	125.8	24.5	14.5	489.5	196.8	3668.7

STATEMENT VIII.—Assets and Liabilities in 1951 of 41 Selected Manufacturing Companies started after 1946—contd.

(Amounts in lakhs of Rupees)

	Cotton	Other textiles	Engine- ering	Sugar	Chemicals	Veg. Oil	Cement	Tea	Coal	Electricity	Shipping	Other manu- facturing	Total
Number of Companies	5	2	12	1	3	2	3	3	1	1	2	6	41
(A) <i>Capital</i>													
Paid-up :													
1. Ordinary	233.9	167.3	492.9	20.0	25.8	45.6	170.6	42.5	20.0	8.0	330.0	101.7	1658.3
2. Preferred	55.0	174.7	64.3	..	13.0	10.0	69.5	37.5	..	4.0	..	27.4	455.4
3. Deferred	25.0	..	6.3	..	..	..	7.5	..	..	..	..	..	38.8
TOTAL	313.9	342.0	563.5	20.0	38.8	55.6	247.6	80.0	20.0	12.0	330.6	129.1	2152.5
(B) <i>Reserves</i>													
4. General	14.0	0.1	6.1	..	3.5	..	3.0	11.2	..	0.3	9.0	0.9	48.1
5. Taxation	2.7	..	32.1	..	3.3	..	..	11.0	1.9	..	25.8	0.5	77.3
6. Other specific	16.6	2.8	4.7	0.5	0.3	..	4.0	1.1	1.0	0.2	5.7	2.1	39.0
7. Development . . . . .	..	..	..	..	1.5	..	..	2.0	..	..	14.4	1.0	18.9

(C) *Borrowings*

8. Banks . . .	78.4	48.7	172.2	0.5	0.1	39.0	18.9	..	..	1.7	..	4.1	363.6
9. Mortgages and debentures . . .	..	..	..	5.0	..	15.0	44.0	..	..	..	..	2.0	66.0
10. Due to trade . . .	23.2	4.1	99.4	1.8	1.7	19.6	6.0	2.2	..	0.2	1.0	3.6	162.8
11. Others . . .	52.9	59.0	138.3	11.4	3.5	26.8	56.3	3.5	0.2	..	28.8	54.2	434.9
TOTAL . . .	154.5	111.8	409.9	18.7	5.3	100.4	125.2	5.7	0.2	1.9	29.8	63.9	1027.3

(D) *Other Liabilities*

12. Current . . .	50.4	54.1	94.0	2.7	4.4	11.0	25.9	11.1	1.3	0.7	70.4	11.0	337.0
13. Non-current . . .	3.6	0.3	3.0	..	0.5	0.4	7.3	1.1	..	..	..	0.2	16.4

(E) <i>Balance of Profits carried</i>	—0.5	3.7	—32.2	—5.7	0.2	—12.6	4.7	2.6	0.1	—0.6	4.4	—11.9	—47.8
TOTAL . . .	555.2	514.8	1081.1	36.2	57.8	154.8	417.7	125.8	24.5	14.5	489.5	196.8	3668.7

STATEMENT IX.—*Estimates of Gross Capital Formation for All Public Limited Companies in the Manufacturing Sector*

(Amounts in crores of Rupees)

Industry	Plant and machinery	Gross fixed assets	Inven- to tory	Total capital formation (gross)
	1	2	3	4
1. Cotton Textiles	54	71	73	181
2. Jute Textiles	17	15	14	39
3. Other Textiles	3	5	2	7
4. Iron and Steel	11	17	10	32
5. Engineering	17	35	28	67
6. Sugar	9	17	23	43
7. Chemicals	10	16	6	24
8. Paper	7	9	4	20
9. Vegetable Oil	5	10	10	20
10. Matches . . . .	..	1	1	2
11. Cement	8	12	3	20
12. Tea Plantations	4	17	8	29
13. Other Plantations . . . .	..	..	..	5
14. Coal	11	19	3	29
15. Electricity	4	18	3	24
16. Shipping	20	18	—1	21
17. Others	15	37	44	108
TOTAL	195	317	231	671

STATEMENT X.—Assets and Liabilities of Manufacturing Companies—
All Industries combined

(Amounts in lakhs of Rupees)

Items	1946	1948	1949	1950	1951
Number of Companies	(440)	(710)	(710)	(681)	(681)
ASSETS					
A. Fixed Assets					
(i) Land	25,67½	81,89	87,11	36,05½	37,01
(ii) Buildings	62,99				
(iii) Plant and machinery	1,68,43	1,82,77	2,00,14	3,17,09	3,36,23
(iv) Others	33,97	31,90	34,13	59,31	62,21
Less depreciation	1,58,08	1,70,93	1,81,26	2,49,17	2,70,90
(v) Net fixed assets	1,32,98	1,25,63	1,40,12	2,79,66	2,85,69
B. Stock and Stores					
(i) Raw materials, finished goods and work-in-progress and stores	1,30,31	1,86,10	1,80,52	2,58,00	3,10,83
(ii) Others	35	1,83	1,63	2,31	3,50
C. Receivables					
(i) Book debts	36,58	31,05	34,96	57,40	69,81
(ii) Advance against goods	6,96	9,56	7,78	11,49	13,84
(iii) Others	7,26	9,78	11,98	20,12	23,02
D. Investments					
(i) Government securities	32,84	17,88	15,64	19,81	17,89
(ii) Semi-government securities	17	25	21	40	35
(iii) Industrial securities	9,99	9,36	10,46	17,68	18,41
E. (a) Advance of Income tax					
(b) E. P. T. deposits	10,94	25,25	27,33	24,23	30,36
F. Other Assets					
(i) Current	12,67	4,25	4,38	4,57	5,58
(ii) Non-current	9,63	5,89	6,30	19,18	21,13
(iii) Intangible	2,22	2,47	2,01	3,85	3,88
G. Cash					
TOTAL	4,53,80	4,68,72	4,77,69	7,80,01	8,64,08

**STATEMENT X.—Assets and Liabilities of Manufacturing Companies—
All Industries combined—contd.**

(Amounts in lakhs of Rupees)

Items	1946	1948	1949	1950	1951
Number of Companies	(440)	(710)	(710)	(681)	(681)
LIABILITIES :					
A. Paid-up Capital . . .	1,65,76	1,65,33	1,75,86	2,90,79	2,99,71
B. Reserves					
(i) General . . .	42,88	55,19	53,80	76,45	82,49
(ii) Taxation . . .	51,55	47,37	39,54	51,38	63,27
(iii) Other specific . . .	30,94	29,08	31,11	50,69	56,62
(iv) Development . . .	15,72	1,14	1,04	27,82	33,52
C. Borrowings					
(i) Banks . . .	24,05	43,01	48,79	72,66	92,10
(ii) Mortgages and debentures	15,59	9,97	11,02	33,57	34,54
(iii) Due to trade . . .	18,98	21,02	20,66	38,75	46,41
(iv) Others . . .	20,93	32,34	34,60	44,48	48,45
D. Other Liabilities					
(i) Current . . .	52,11	56,40	55,10	86,83	97,10
(ii) Non-current . . .	10,09	5,45	6,28	10,11	10,59
E. Balance of Profits . . .	5,20	2,42	—11	—3,52	—72
TOTAL . . .	4,53,80	4,68,72	4,77,69	7,80,01	8,64,08

STATEMENT XI.—Balances in Reserves of 492 Selected Companies at the close of Accounting Years—All Industries combined

(Amounts in lakhs of Rupees)

	1946	1947	1948	1949	1950	Col. (6)— 1951	Col. (6)— Col. (1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. General reserve	52,36	56,41	61,04	59,13	62,71	67,91	15,55
2. Dividend equalisation reserve	4,66	4,70	7,90	8,66	9,16	10,42	5,76
3. Machinery renovation and development fund	17,08	17,84	21,60	22,69	24,67	30,64	13,56
4. Staff welfare fund	1,43	1,53	1,79	2,11	2,32	2,58	1,15
5. Others*	20,58	24,15	24,65	26,62	26,79	29,27	8,69
TOTAL	96,11	1,04,63	1,16,98	1,19,21	1,25,65	1,40,82	44,71

*Excluding depreciation and taxation reserves.

STATEMENT XII.—Resting Account for 710 Manufacturing Companies : 1948-49

(Amounts in lakhs of Rupees)

Item	Cotton	Jute	Other Textiles	Iron & Steel	Engineering	Sugar	Chemicals
Number of Companies common to 1948 and 1949	215	54	12	3	78	44	107
U S E S							
I. <i>Gross Fixed Assets Formation</i>	933·0	181·8	23·1	288·3	230·5	210·4	70·9
(a) Land	} 151·0	-2·8	..	13·4	1·3	-0·3	0·3
(b) Buildings		33·5	7·0	52·5	66·6	82·4	26·4
(c) Plant and machinery	765·0	173·9	15·2	217·8	84·0	111·3	26·0
(d) Others	17·0	-22·8	0·9	4·6	78·6	17·0	18·2
II. <i>Inventory Accumulation</i>	242·0	-877·7	-15·0	81·4	389·8	-705·7	111·5
(a) Raw materials	-106·0	-757·8	} -3·8	-28·1	336·9	16·4	6·1
(b) Finished goods and work-in-progress	308·0	-195·7		-28·1	336·9	-790·1	78·0
(c) Stores	39·0	86·9	1·7	109·6	39·2	74·0	28·0
(d) Others	1·0	-11·1	-12·9	-0·1	13·7	-6·0	-0·6
III. <i>Lendings</i>	543·0	-45·5	-19·8	115·0	-14·8	-22·0	9·0
(a) Tax advances	128·0	-9·9	2·8	-14·3	28·8	19·2	2·1
(b) Receivables	415·0	-35·6	-22·6	129·3	-43·6	-41·2	6·9

IV.	<i>Net Change in Purchase of Securities</i>	—81·0	—45·8	—0·6	—5·5	—125·8	—21·2	—17·9
	(a) Government securities	—152·0	—73·9	..	—4·1	—125·7	—21·2	—16·9
	(b) Semi-government securities	—1·0	—0·8	..	—2·0	..	..	—0·3
	(c) Industrial securities	72·0	28·9	—0·6	0·6	—0·1	..	—0·7
V.	<i>Increase in Monetary Resources</i>	—497·0	28·8	—17·0	92·3	—75·7	24·8	—24·3
	TOTAL	1140·0	—758·4	—29·3	571·5	404·0	—513·7	149·2

A. *External*

SOURCES

VI.	<i>Fresh Capital</i> (including bonus shares)	434·0	198·0	5·2	..	33·0	15·3	34·9
VII.	<i>Borrowings</i>	1020·0	—170·0	—7·9	45·6	226·1	—600·3	65·2
	(a) Mortgages and debentures	—10·0	—0·9	..	—4·0	9·4	3·2	..
	(b) Others	1030·0	—169·1	—7·9	49·6	216·7	—603·5	65·2
	(of which from banks)	(799·0)	(—32·2)	(—6·8)	(—24·4)	(155·5)	(—429·5)	(11·0)
	B. <i>Internal</i>							
VIII.	<i>Depreciation</i>	440·0	—100·8	9·7	210·8	97·0	99·1	67·1
IX.	<i>Savings</i>	—550·0	—571·6	—24·8	35·4	20·8	86·2	2·1
X.	<i>Other Capital Receipts—E.P.T. refunds</i>	*	—6·7	..	..	1·0	*	—0·1
XI.	<i>Movement in other current and non-current assets and liabilities</i>	—204·0	—107·3	—11·5	279·7	26·1	—114·0	—20·0
	TOTAL	1140·0	—758·4	—29·3	571·5	404·0	—513·7	149·2

*Included in taxation; separate figures are not available.

NOTE.—Plantations, mining and shipping groups were not analysed for 1948 and 1949.

IV. <i>Net Change in Purchase of Securities</i>	.	—38·9	0·3	..	239·1	—10·3	—11·2	—118·8
(a) Government securities	. . .	—32·0	0·1	..	239·0	—22·4	—15·4	—224·5
(b) Semi-government securities	. . .	..	0·2	..	..	0·2	..	—3·7
(c) Industrial securities	. . . .	—6·9	..	..	0·1	11·9	4·2	109·4
V. <i>Increase in Monetary Resources</i>	. . .	—8·4	2·9	21·3	—145·4	93·3	6·5	—497·9
TOTAL	. . . .	128·2	61·8	48·0	400·3	297·7	29·6	1928·9

A. *External*

SOURCES

VI. <i>Fresh Capital</i> (including bonus shares)	.	10·1	2·7	72·0	173·5	64·4	10·0	1053·1
VII. <i>Borrowings</i>	. . . . .	50·1	48·1	—2·2	29·1	134·8	34·3	872·9
(a) Mortgages and debentures	. . . . .	..	..	..	..	102·2	5·3	105·2
(b) Others	. . . . .	50·1	48·1	—2·2	29·1	32·6	29·0	767·7
(of which from banks)	. . . . .	(44·0)	(27·8)	(—0·8)	(—1·4)	(10·6)	(24·8)	(577·6)
<i>B. Internal</i>								
VIII. <i>Depreciation</i>	. . . . .	18·2	18·8	9·9	100·2	45·9	16·9	1032·8
IX. <i>Savings</i>	. . . . .	40·6	—27·1	—42·6	58·1	24·8	—33·6	—981·7
X. <i>Other Capital Receipts—E.P.T. refunds</i>	.	3·2	2·9	4·6	..	0·8	1·3	7·0
XI. <i>Movement in other current and non-current assets and liabilities</i>	. . . . .	6·0	16·4	6·3	39·4	27·0	0·7	—55·2
TOTAL	. . . . .	128·2	61·8	48·0	400·3	297·7	29·6	1928·9

STATEMENT XIII.—Resting Account of 681 Manufacturing Companies : 1950-51.

(Amounts in lakhs of Rupees)

Item	Cotton	Jute	Other Textiles	Iron & Steel	Engineering	Sugar	Chemicals	Paper	Veg. Oil	
No. of Companies common to 1950 to 1951	148	47	14	3	66	51	43	11	16	
U S E S										
I. <i>Gross Fixed Assets Formation</i>	907·9	124·3	19·1	196·1	388·1	214·7	84·8	124·3	15·7	
(a) Land	9·6	3·3	0·5	40·9	4·1	8·6	6·1	4·0	—0·3	
(b) Buildings	152·8	25·6	4·9	16·7	104·2	43·8	26·3	23·1	3·5	
(c) Plant and machinery	693·4	84·5	7·1	115·5	234·7	125·4	68·1	95·7	9·4	
(d) Others	52·1	10·9	6·6	23·0	45·1	36·9	—15·7	1·5	3·1	
II. <i>Inventory Accumulation</i>	1547·7	1056·3	48·9	358·4	506·9	939·1	133·8	91·7	—29·7	
(a) Raw materials	338·0	866·3	—20·7	..	} 506·9	41·3	} 116·8	72·5	—36·6	
(b) Finished goods & work-in-progress	858·0	226·8	67·3	239·5		829·2		10·1	—8·9	
(c) Stores	298·1	—58·1	2·6	118·9		63·4		16·2	..	16·1
(d) Others	53·6	21·3	—0·3	..		5·2		0·8	9·1	—0·3
III. <i>Lendings</i>	341·5	475·2	—14·3	154·1	305·2	0·6	34·7	52·6	3·3	
(a) Tax advances	196·8	90·7	—1·5	96·5	31·3	10·7	2·6	21·9	—4·7	
(b) Receivables	144·7	384·5	—12·8	57·6	273·9	—10·1	32·1	30·7	8·0	

IV. <i>Net Change in Purchase of Securities</i>	-107.5	-12.9	-0.9	73.7	-65.0	-0.9	-6.4	13.6	-0.3
(a) Government Securities	-108.5	-22.9	..	58.7	-90.8	-12.2	-1.0	27.2	-0.3
(b) Semi-government Securities	-0.7	-2.1	..	..	..	..	..	..	..
(c) Industrial Securities	1.7	12.1	-0.9	15.0	25.8	11.3	-5.4	-13.6	..
V. <i>Increase in Monetary Resources</i>	364.9	0.2	-20.3	-380.1	33.4	7.8	20.2	78.2	-3.1
TOTAL	3054.5	1643.1	32.5	402.2	1168.6	1161.3	267.1	360.4	-14.1

SOURCES

A. *External*

VI. <i>Fresh Capital</i> (excludes bonus shares)	24.0	..	30.9	..	179.5	13.0	6.7	1.0	..
VII. <i>Borrowings</i>	533.4	947.4	65.2	-11.4	478.4	573.9	94.1	131.6	-28.2
(a) Mortgages and debentures	51.2	-0.2	..	-4.7	36.0	3.8	-19.5	100.0	..
(b) Others	502.2	947.6	65.2	-6.7	442.4	570.1	113.6	31.6	-28.2
(of which from banks)	(225.0)	(864.4)	(40.8)	-(28.8)	(202.6)	(279.4)	(76.4)	(5.7)	(-30.0)

B. *Internal*

VIII. <i>Bonus Shares</i>	188.3	8.4	..	..	..	24.6	..	21.0	..
IX. <i>Depreciation</i>	760.3	117.1	4.3	272.5	206.4	198.8	83.1	60.6	22.3
X. <i>Savings</i>	1153.2	425.2	-53.3	353.8	218.3	221.5	40.7	151.6	-21.0
XI. <i>Other Capital Receipts—E.P.T. refunds</i>	197.5	23.7	0.6	..	16.1	3.1	5.6	..	1.2
*XII. <i>Movement in other current and non-current assets and liabilities</i>	182.8	121.3	-15.2	-212.7	69.9	126.4	36.9	-5.4	11.6
TOTAL	3054.5	1643.1	32.5	402.2	1168.6	1161.3	267.1	360.4	-14.1

STATEMENT XIII.—Resting Account of 681 Manufacturing Companies : 1950-51—contd

(Amounts in lakhs of Rupees)

Item	Matches	Cement	Tea	Other Plantations	Coal	Electricity	Shipping	Others	All Industries
No. of Companies common to 1950 to 1951	4	8	105	28	29	20	11	77	681
U S E S									
I. <i>Gross Fixed Assets Formation</i>	11·1	70·8	125·2	32·9	83·0	196·4	—31·6	212·5	2775·3
(a) Land	..	—11·5	2·9	12·6	6·4	6·0	..	2·4	95·6
(b) Buildings	5·7	17·5	64·8	13·3	11·6	28·0	—116·3	50·3	475·8
(c) Plant and machinery	3·0	5·6	41·5	6·1	55·7	39·8	203·9	124·3	1913·7
(d) Others	2·4	59·2	16·0	0·9	9·3	122·6	—119·2	35·5	290·2
II. <i>Inventory Accumulation</i>	85·4	—15·2	28·1	32·9	28·7	41·0	—64·0	611·9	} 5401·9
(a) Raw materials	50·8	48·7	..	..	..	..	..	..
(b) Finished goods & work-in-progress.	3·5	—17·8	—13·0	20·7	19·9	..	..	..
(c) Stores	6·8	—46·1	37·6	10·1	13·6	15·6	—61·2	617·0	
(d) Others	24·3	..	3·5	2·1	—4·8	25·4	—2·8	—5·1	
III. <i>Lendings</i>	—13·9	240·9	4·2	4·1	269·9	17·2	281·3	223·8	2380·4
(a) Tax advances	—7·0	61·1	1·2	—0·1	29·3	5·2	0·5	79·0	613·5
(b) Receivables	—6·9	179·8	3·0	4·2	240·6	12·0	280·8	144·8	1766·9

000

IV. <i>Net Change in Purchase of Securities.</i>	1.0	-28.6	-14.9	7.1	-3.9	-9.7	35.9	-2.9	123.5
(a) Government Securities	0.1	-4.9	-16.2	2.8	-7.7	-8.7	10.7	-18.1	-191.8
(b) Semi-government Securities . . . . .	..	..	0.7	-0.5	..	0.5	-2.8	..	-4.9
(c) Industrial Securities . . . . .	..	-23.7	0.6	4.8	3.8	-1.5	28.0	15.2	73.2
V. <i>Increase in Monetary Resources.</i>	-48.9	-77.9	-11.0	12.8	-24.6	18.9	312.8	-163.0	120.3
TOTAL	33.8	190.0	131.6	89.8	353.1	263.8	534.4	882.3	10554.4

SOURCES

A. External

VI. <i>Fresh Capital</i> (excludes bonus shares)	..	1.1	2.7	-0.1	6.5	124.7	113.2	113.5	616.7
VII. <i>Borrowings</i>	-0.2	-28.6	42.9	10.0	181.1	36.2	-49.7	206.8	3202.9
(a) Mortgages and debentures . . . . .	..	-6.0	-9.7	0.6	-1.2	17.3	-84.3	13.5	96.8
(b) Others	-0.2	-22.6	52.6	9.4	182.3	18.9	34.6	193.3	3106.1
(of which, from banks) . . . . .	..	(-14.0)	(34.4)	(7.3)	(77.2)	(-5.7)	(2.4)	(206.4)	(1943.5)

B. Internal

VIII. <i>Bonus Shares</i> . . . . .	..	..	18.1	19.9	..	..	..	..	275.3
IX. <i>Depreciation</i>	9.7	27.2	52.3	7.0	46.5	57.1	60.5	187.6	2173.3
X. <i>Savings</i>	12.1	147.5	-2.1	37.7	66.0	25.1	272.7	187.7	3236.7
XI. <i>Other Capital Receipts—E.P.T. refunds</i>	..	..	0.3	..	9.4	3.2	9.8	1.6	272.1
XII. <i>Movement in other current and non-current assets and liabilities</i>	12.2	42.8	17.4	15.3	43.6	17.5	127.9	185.1	777.4
TOTAL	33.8	190.0	131.6	89.8	353.1	263.8	534.4	882.3	10554.4

• STATEMENT XIV.—Annual Increases in paid-up capital of 492 Selected Companies during 1946—1952,
Industry-wise

(Amounts in lakhs of Rupees)

Industry	1946	1947	1948	1949	1950	1951	Total (1 to 6)	1952*	Total (7 plus 8)
	1	2	3	4	5	6	7	8	9
1. Cotton Textiles (96)	2,82	5,03	7,15	4,52	3,23	2,55	25,30	25	25,55
2. Jute Textiles (47)	8	1,17	1,34	1,71	20	8	4,58	..	4,58
3. Other Textiles (13)	28	11	43	29	23	27	1,61	3	1,64
4. Iron and Steel (3)	17	7	..	..	1,50	..	1,74	..	1,74
5. Engineering (52)	4,11	2,26	2,91	91	1,90	2,12	14,21	31	14,52
6. Sugar (26)	25	1,00	1,08	50	30	2	3,15	..	3,15
7. Chemicals (30)	1,06	50	1,49	7	1	(—)1	3,12	(—)15	2,97
8. Paper (7)	92	..	66	..	63	..	2,21	..	2,21
9. Vegetable Oil (7)	48	63	..	..	..	..	1,11	..	1,11
10. Matches (4)	..	84	6	66	..	..	1,56	..	1,56
11. Cement (8)	2,38	1,63	52	2,06	77	28	7,64	10	7,74
12. Tea Plantations (77)	1,01	87	97	13	9	15	3,22	3	3,25
13. Other Plantations (11)	2	3	..	..	..	4	9	..	9
14. Coal (17)	33	36	61	4	56	6	1,96	..	1,96
15. Electricity (22)	59	1,09	90	1,56	1,03	1,26	6,43	1,22	7,65

16. Shipping (11)	.	.	.	.	1,00	13	23	34	2,15	1,13	4,98	..	4,98
17. Others (61)	.	.	.	.	3,44	93	6,47	1,40	74	1,04	14,02	50	14,52
TOTAL (492)	.	.	.	.	18,94	16,65	24,82	14,19	13,34	8,99	96,93	2,29	99,22
of which bonus issues	.	.	.	.	2,96	8,09	13,89	7,72	5,69	2,63	40,98	73	41,71

NOTE.—Figures in brackets indicate the number of companies.

*Data for 1952 are for a smaller number of companies.

STATEMENT XV.—Profit and Loss Account of Manufacturing Industries : 1946—51

(Amounts in lakhs of Rupees)

Expenditure						Income					
	1946	1948	1949	1950	1951		1946	1948	1949	1950	1951
Number of Companies		710*	710*	681†	681†	Number of Companies		710*	710*	681†	681†
Opening stock of finished goods and work-in-progress	42,56	43,87	77,10	90,22	1,00,08	Sales	3,77,35	4,96,42	5,48,73	6,98,19	8,94,20
Manufacturing expenses†	2,10,19	3,05,26	3,35,55	4,29,31	5,90,74	Other income	9,64	10,21	10,23	12,40	16,07
Excise duty	41	8,98	10,15	9,93	11,09	Closing stock of finished goods and work-in-progress	42,57	77,10	73,29	1,00,27	1,26,50
Salaries and wages†	67,09	1,10,75	1,20,57	1,42,17	1,59,48						
Interest paid	1,82	2,79	3,65	5,33	6,38						
Managing agency commission	7,79	9,55	7,53	9,49	11,88						
Bad debts	5	7	7	22	27						
Other expenses	34,87	31,84	35,18	47,93	56,00						
Depreciation provision	9,24	13,52	12,69	22,72	25,70						
Taxation	30,89	29,06	15,08	20,78	29,17						

Dividend on										
(a) Ordinary shares .	12,88	11,01	9,67	17,00	19,43					
(b) Preferred shares .	2,15	1,88	1,83	2,82	3,06					
(c) Deferred shares .	74	42	39	60	77					
Appropriation to reserves	7,60	93	—1,95	13,55	20,10					
Profit/loss carried forward	1,29	13,81	4,72	—1,23	2,62					
TOTAL	4,29,56	5,83,74	6,32,25	8,10,85	10,36,76	4,29,56	5,83,74	6,32,25	8,10,85	10,36,76

*Common companies for 1948 and 1949.

†Common companies for 1950 and 1951.

‡Salaries and wages in plantation industry are included under Manufacturing expenses.

STATEMENT XVI.—*Net Profits as Percentage of Paid-up Capital**†

Industry	1946	1947	1948	1949	1950	1951	1952‡	1946—51 Average
	1	2	3	4	5	6	7	8
1. Cotton Textiles	33·8	28·7	52·8	17·1	22·1	33·2	9·3	31·2
2. Jute Textiles	20·0	17·5	16·9	†	21·8	24·0	2·8	15·8
3. Other Textiles	15·7	22·4	12·9	5·0	10·8	6·3	12·9	11·5
4. Iron and Steel	23·4	16·3	14·7	21·0	22·4	30·3	26·1	21·5
5. Engineering	3·8	5·2	4·0	4·3	4·0	5·0	3·0	4·4
6. Sugar	11·6	17·3	30·1	11·2	16·1	24·3	19·7	18·4
7. Chemicals	4·9	4·9	1·3	2·8	4·6	4·7	1·0	3·8
8. Paper	23·7	14·6	19·9	25·3	36·1	47·2	31·3	28·1
9. Vegetable Oil	15·1	12·5	10·0	9·0	5·0	†	†	8·2
10. Matches	59·2	41·8	45·9	55·1	45·9	43·9	70·4	49·0
11. Cement	7·7	4·7	6·7	8·7	12·8	16·9	11·5	10·0
12. Tea Plantations	28·2	33·9	20·9	22·2	35·1	20·7	†	26·6
13. Coffee Plantations	11·5	8·0	10·3	12·6	17·2	23·1	8·8	13·6
14. Coal	16·6	14·6	15·3	22·8	18·5	16·8	19·5	17·4
15. Electricity	9·0	10·2	11·1	11·1	10·2	10·2	3·2	10·3
16. Shipping	11·8	†	†	†	2·3	16·2	2·1	4·2
17. Others	12·2	11·3	11·9	12·7	16·5	17·1	12·9	13·8
All Industries	16·6	13·8	16·7	10·1	15·1	18·8	8·9	15·2

*Based on Questionnaire data for 492 Companies. Profits after allowing for depreciation, managing agency commission and taxation.

†Excluding bonus shares issued during 1946—52.

‡Loss.

§Data are for a smaller number of Companies.

STATEMENT XVII.—Profits Distributed as Percentage of Paid-up Capital*

Industry	1946	1947	1948	1949	1950	1951	1952†	1946—51 Average
	1	2	3	4	5	6	7	8
1. Cotton Textiles . . .	14·8	12·2	11·0	9·4	8·9	9·7	5·9	10·6
2. Jute Textiles . . .	12·1	13·1	11·3	5·0	9·8	12·0	6·0	10·5
3. Other Textiles . . .	6·0	7·5	5·8	5·5	6·2	4·5	12·9	6·0
4. Iron and Steel . . .	11·6	9·3	10·3	11·6	11·6	13·2	10·5	11·3
5. Engineering . . .	2·4	2·5	2·1	2·3	2·4	2·7	1·3	2·4
6. Sugar . . .	7·2	7·0	7·8	7·3	7·2	9·3	5·8	7·7
7. Chemicals . . .	3·0	2·0	1·9	1·4	3·2	2·9	0·9	2·4
8. Paper . . .	11·2	9·7	9·0	9·8	10·4	12·7	8·9	10·6
9. Vegetable Oil . . .	6·6	5·7	4·4	4·4	3·5	3·5	1·7	4·6
10. Matches . . .	21·4	11·5	8·5	10·6	10·6	10·6	10·6	11·2
11. Cement . . .	6·0	4·1	4·8	5·1	7·2	8·3	7·2	6·0
12. Tea Plantations . . .	19·7	19·2	12·1	13·7	18·7	12·9	3·2	15·8
13. Other Plantations . . .	8·0	6·7	7·8	6·7	10·0	14·9	3·2	8·9
14. Coal . . .	12·5	10·2	9·4	11·0	9·6	8·8	7·8	10·0
15. Electricity . . .	7·8	7·6	7·3	7·5	7·4	7·7	2·2	7·5
16. Shipping . . .	5·8	3·4	1·7	1·9	0·9	4·2	1·2	3·0
17. Others . . .	6·7	6·5	4·9	5·9	7·1	8·5	6·1	6·7
All Industries . . .	9·1	8·1	7·2	6·7	7·5	8·3	4·8	7·7

Based on Questionnaire data for 492 Companies.

*Including bonus shares.

†Data are for a smaller number of Companies.

STATEMENT XVIII.—Profits after Tax of 492 Selected Companies during 1946 and their Disposal, Industry-wise

(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfers to reserves	Bonus* payments	Net increase in Balances carried forward	Retained profits (3+5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles	8,53	3,99	3,87	..	36	4,23	46.8	49.6
2. Jute Textiles	3,72	2,26	1,12	..	34	1,46	60.8	39.2
3. Other Textiles	21	8	3	..	10	13	38.1	61.9
4. Iron and Steel	4,07	2,03	1,02	1,08	(—)6	96	49.9	23.6
5. Engineering	85	54	24	..	7	31	63.5	36.5
6. Sugar	53	34	26	..	(—)7	19	64.2	35.8
7. Chemicals	42	26	10	1	5	15	61.9	35.7
8. Paper	68	36	31	..	1	32	53.0	47.1
9. Vegetable Oil	25	11	12	..	2	14	44.0	56.0
10. Matches	58	21	38	..	(—)1	37	36.2	63.8
11. Cement	92	72	10	10	..	10	78.3	10.9
12. Tea Plantations	1,62	1,15	41	..	6	47	71.0	29.0
13. Other Plantations	10	7	..	..	3	3	70.0	30.0
14. Coal	69	52	12	..	5	17	75.4	24.6
15. Electricity	1,17	1,03	13	1	..	13	88.0	11.1
16. Shipping	1,31	64	68	..	(—)1	67	48.9	51.1
17. Others	2,15	1,20	78	..	17	95	55.8	44.2
TOTAL	27,80	15,51	9,67	1,51	1,11	10,78	55.8	38.8

*Excluding bonus payments charged to revenue account.

STATEMENT XIX.—Profits after Tax of 492 Selected Companies during 1947 and their Disposal, Industry-wise

(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfers to reserves	Bonus* payments	Net increase in balances carried forward	Retained profits (4+5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles . . .	7.59	3.90	3.54	2	13	367	51.4	48.4
2. Jute Textiles . . .	3.38	2.60	97	..	—19	78	76.9	23.1
2. Other Textiles . . .	32	11	24	..	—3	21	34.4	65.6
4. Iron and Steel . . .	2.86	1.62	1.57	56	11	68	56.6	23.8
5. Engineering . . .	1.26	60	52	..	14	66	47.6	52.4
6. Sugar . . .	84	40	38	1	5	43	47.7	51.2
7. Chemicals . . .	43	18	21	..	4	25	41.9	58.1
8. Paper . . .	42	31	13	..	—2	11	73.8	26.2
9. Vegetable Oil . . .	25	13	12	..	..	12	52.0	48.0
10. Matches ¹ . . .	41	22	17	..	2	19	53.7	46.3
11. Cement . . .	1.64	55	1	9	—1	..	85.0	..
12. Tea Plantations . . .	2.10	1.29	75	..	63	81	61.4	38.6
13. Other Plantations . . .	7	76	2	..	—1	1	85.7	14.3
14. Coal . . .	67	46	14	..	7	21	68.7	31.3
15. Electricity . . .	1.37	1.08	23	1	5	28	78.8	20.4
16. Shipping . . .	—27	38	—74	..	9	65	..	..
17. Others . . .	2.05	1.23	1.06	1	—25	81	60.0	39.5
TOTAL . . .	24.39	15.12	8.32	70	25	8.57	62.0	35.1

*Excluding bonus payments charged to revenue account.

STATEMENT XX.—Profits after Tax of 492 Selected Companies during 1948 and their Disposal, Industry-wise

(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfers to reserves	Bonus* payments	Net increase in balances carried forward	Retained profits (3)+(5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles	14,49	4,33	9,86	10	20	10,06	29.9	69.4
2. Jute Textiles	3,28	2,39	62	..	27	89	72.9	27.1
3. Other Textiles	22	11	12	..	—1	11	50.0	50.0
4. Iron and Steel	2,57	1,81	96	..	—20	76	70.4	29.6
5. Engineering	1,08	58	81	..	—31	50	53.7	46.3
6. Sugar	1,47	53	76	1	17	93	36.1	63.3
7. Chemicals	13	20	6	1	—14	—8	153.8	..
8. Paper	63	35	24	..	4	28	55.6	44.4
9. Vegetable Oil	20	10	10	..	..	10	50.0	50.0
10. Matches	45	16	62	..	—33	29	35.6	64.4
11. Cement	95	68	8	14	5	13	71.6	13.7
12. Tea Plantations	1,32	93	51	..	—12	39	70.5	29.5
13. Other Plantations	9	7	4	..	—2	2	77.8	22.2
14. Coal	71	48	19	1	3	22	67.6	31.0
15. Electricity	1,59	1,11	52	2	—6	46	69.8	28.9
16. Shipping	—46	20	1	..	—67	66	..	..
17. Others	2,58	1,25	83	2	48	131	48.4	50.8
TOTAL	31,30	15,28	16,33	31	—62	15,71	48.8	50.2

*Excluding bonus payments charged to revenue account.

STATEMENT XXI.—Profits after Tax of 492 Selected Companies during 1949 and their Disposal, Industry-wise

(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfers to reserves	Bonus* payments	Net increase in balances carried forward	Retained profits (3)+(5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles	4.77	4.12	1.68	4	-1.07	61	86.4	12.8
2. Jute Textiles	-96	1,15	-1.63	..	-48	-2,11	..	..
3. Other Textiles	10	12	3	..	-5	-2	120.0	..
4. Iron and Steel	3.69	2.03	1.66	..	..	1.66	55.0	45.0
5. Engineering	1.19	65	55	..	-1	54	54.6	45.4
6. Sugar	56	53	28	1	-26	-2	94.6	3.6
7. Chemicals	29	16	8	1	4	12	55.2	41.4
8. Paper	80	38	39	..	3	42	47.5	52.5
9. Vegetable Oil	18	10	6	..	2	8	55.6	44.4
10. Matches	54	27	24	..	3	27	50.0	50.0
11. Cement	1,41	83	44	18	-4	40	58.9	28.4
12. Tea Plantations	1,43	1,08	36	..	-1	135	75.5	24.5
13. Other Plantations	11	6	4	..	1	5	54.5	45.5
14. Coal	1.07	57	40	..	10	50	53.3	46.7
15. Electricity	1,76	1,26	48	2	..	48	71.6	27.3
16. Shipping	-17	22	22	..	-61	39	..	..
17. Others	2,85	1,57	1,34	2	-8	1,26	..	44.2
TOTAL	19,62	15,10	6,62	28	-2,38	4,24	77.0	21.6

*Excluding bonus payments charged to revenue account.

• STATEMENT XXIII.—Profits after Tax of 492 Selected Companies during 1951 and their Disposal, Industry-wise

(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfers to reserves	Bonus* payments	Net increase in balances carried forward	Retained profits (3)+(5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles . . .	9,83	4,79	4,84		16	5,00	48·7	50·9
2. Jute Textiles . . .	4,68	2,77	1,86	..	5	1,91	59·2	40·8
3. Other Textiles . . .	14	12	3	..	—1	2	85·7	14·3
4. Iron and Steel . . .	5,76	2,50	3,20	..	6	3,26	43·4	56·7
5. Engineering . . .	1,54	87	86	1	—20	66	56·5	42·9
6. Sugar . . .	1,26	71	58	2	—5	53	56·3	42·1
7. Chemicals . . .	48	31	32	1	—16	16	64·6	33·3
8. Paper . . .	1,49	57	88	..	4	192	38·3	61·7
9. Vegetable Oil . . .	—2	8	1	..	—11	—10	..	..
10. Matches . . .	43	27	14	..	2	16	62·8	37·2
11. Cement . . .	2,90	1,42	87	33	28	1,15	49·0	39·7
12. Tea Plantations . . .	1,38	1,04	17	..	—13	34	75·4	24·6
13. Other Plantations . . .	21	14	8	..	—1	7	66·7	33·

14. Coal	81	51	30	1	—1	29	63·0	35·8
15. Electricity	1,84	1,47	33	3	1	34	79·8	18·5
16. Shipping	2,38	64	46	..	1,28	1,74	26·9	73·1
17. Others	3,91	2,40	1,48	3	..	1,48	61·6	37·9
TOTAL	39,02	20,61	16,71	48	1,22	17,93	52·8	46·0

*Excluding bonus payments charged to revenue account.

STATEMENT XXII.—Profits after Tax of 492 Selected Companies during 1950 and their Disposal, Industry-wise

(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfers to reserves	Bonus* payments	Net increase in balances carried forward	Retained profits (3)+(5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles	6,20	4,16	2,47	1	—44	2,03	67·1	32·7
2. Jute Textiles	4,25	2,25	1,59	..	41	2,00	52·9	47·1
3. Other Textiles	24	15	16	..	—7	9	62·5	37·5
4. Iron and Steel	4,26	2,20	2,10	..	—4	2,06	51·6	48·4
5. Engineering	1,15	72	71	..	—28	43	62·6	37·4
6. Sugar	82	55	27	1	—1	26	67·1	31·7
7. Chemicals	47	34	12	1	—1	12	72·3	25·5
8. Paper	1,14	47	67	..	..	67	41·2	58·8
9. Vegetable Oil	10	8	3	..	—1	2	80·0	20·0
10. Matches	45	26	20	..	—1	19	57·8	42·2
11. Cement	2,16	1,21	65	28	2	67	56·0	31·0
12. Tea Plantations	2,29	1,48	76	..	5	81	64·6	35·4

13. Other Plantations	.	.	15	9	4	..	2	6	60.0	40.0
14. Coal	.	.	88	55	27	1	5	32	62.5	36.4
15. Electricity	.	.	1,72	1,32	35	2	3	38	76.7	22.1
16. Shipping	.	.	32	12	15	..	5	20	37.5	62.5
17. Others	.	.	3,76	1,94	1,41	2	39	1,80	51.6	47.9
TOTAL	.	.	30,36	17,86	11,96	36	15	12,11	58.9	39.9

*Excluding bonus payments charged to revenue account.

STATEMENT XXIII.—Profits after Tax of 492 Selected Companies during 1951 and their Disposal, Industry-wise

(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfers to reserves	Bonus* payments	Net increase in balances carried forward	Retained profits (3)+(5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles . . .	9,83	4,79	4,84		16	5,00	48·7	50·9
2. Jute Textiles . . .	4,68	2,77	1,86	..	5	1,91	59·2	40·8
3. Other Textiles . . .	14	12	3	..	—1	2	85·7	14·3
4. Iron and Steel . . .	5,76	2,50	3,20	..	6	3,26	43·4	56·7
5. Engineering . . .	1,54	87	86	1	—20	66	56·5	42·9
6. Sugar . . .	1,26	71	58	2	—5	53	56·3	42·1
7. Chemicals . . .	48	31	32	1	—16	16	64·6	33·3
8. Paper . . .	1,49	57	88	..	4	192	38·3	61·7
9. Vegetable Oil . . .	—2	8	1	..	—11	—10	..	..
10. Matches . . .	43	27	14	..	2	16	62·8	37·2
11. Cement . . .	2,90	1,42	87	33	28	1,15	49·0	39·7
12. Tea Plantations . . .	1,38	1,04	4	..	—13	34	75·4	24·6
13. Other Plantations . . .	21	14	8	..	—	7	66·7	33·

14. Coal	81	51	30	1	—1	29	63·0	35·8
15. Electricity	1,84	1,47	33	3	1	34	79·8	18·5
16. Shipping	2,38	64	46	..	1,28	1,74	26·9	73·1
17. Others	3,91	2,40	1,48	3	..	1,48	61·6	37·9
TOTAL	39,02	20,61	16,71	48	1,22	17,93	52·8	46·0

*Excluding bonus payments charged to revenue account.

STATEMENT XXIV.—Profits after Tax of 492 Selected Companies during 1946—51 and their Disposal, Industry-wise
(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfers to reserves	Bonus* payments	Net increase in balances carried forward	Retained profits (3)+(5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles . . .	51,40	25,29	26,22	54	—65	25,57	49·2	49·7
2. Jute Textiles . . .	18,36	13,42	4,51	..	43	4,94	73·1	26·8
3. Other Textiles . . .	1,22	70	59	1	—8	51	57·4	41·8
4. Iron and Steel . . .	23,21	12,20	9,51	1,64	—14	9,37	52·6	40·4
5. Engineering . . .	7,07	3,97	3,70	1	—61	3,09	56·2	43·7
6. Sugar . . .	5,48	3,07	2,54	7	—20	2,34	56·0	42·7
7. Chemicals . . .	2,22	1,44	89	4	—15	74	64·9	33·3
8. Paper . . .	5,16	2,44	2,63	..	9	2,72	47·3	52·7
9. Vegetable Oil . . .	96	59	42	2	—7	35	61·5	36·5
10. Matches . . .	2,85	1,39	1,74	..	—28	1,46	48·8	51·2
11. Cement . . .	8,98	5,40	2,15	1,13	30	2,45	60·1	27·3
12. Tea Plantations . . .	10,14	6,97	3,25	..	—8	3,17	68·7	31·3
13. Other Plantations . . .	72	48	23	..	1	24	66·7	33·3
14. Coal . . .	4,83	3,10	1,41	2	30	1,71	64·2	35·4

15. Electricity	.	.	.	9,46	7,26	2,04	12	4	3,38	76.7	22.0
16. Shipping	.	.	.	3,12	2,20	77	1	14	91	70.5	29.5
17. Others	.	.	.	17,31	9,61	6,91	10	69	7,60	55.5	43.9
	.	.	.								
TOTAL	.	.	.	172,49	99,53	69,51	3,71	—26	69,25	57.7	40.1

*Excluding bonus payments charged to revenue account.

STATEMENT XXV.—Profits after Tax of 256 Selected Companies during 1952 and their Disposal, Industry-wise

(Amounts in lakhs of Rupees)

Industry	Profits after tax	Profits distributed	Net transfer to reserves	Bonus* payments	Net increase in balances carried forward	Retained profits (3)+(5)	(2) as per cent. of (1)	(6) as per cent. of (1)
	1	2	3	4	5	6	7	8
1. Cotton Textiles (61)	2,75	2,94	78	2	—99	—21	106.9	..
2. Jute Textiles (24)	55	1,39	—24	..	—60	—84	252.7	..
3. Other Textiles (7)	29	35	—1	..	—5	—6	120.7	..
4. Iron and Steel (2)	4,95	2,00	2,87	..	8	2,95	40.4	59.6
5. Engineering (18)	92	43	29	..	20	49	46.7	53.3
6. Sugar (16)	1,02	44	42	..	16	58	43.1	56.9
7. Chemicals (7)	10	9	10	..	—9	1	90.0	10.0
8. Paper (4)	99	40	66	..	—7	59	40.4	59.6
9. Vegetable Oil (4)	—1	4	—3	..	—2	—5	..	..
10. Matches (2)	69	27	41	..	1	42	39.1	60.9
11. Cement (7)	1,98	1,25	77	32	—36	41	63.1	20.7
12. Tea Plantations (51)	—50	26	—44	..	—32	—76	..	..
13. Other Plantations (2)	8	3	6	..	—1	5	37.5	62.5
14. Coal (11)	94	45	45	1	3	48	47.9	51.1

15. Electricity (7)	.	.	.	61	44	15	2	..	15	72.1	24.6
16. Shipping (4)	.	.	.	31	18	12	..	1	13	58.1	41.9
17. Others (29)	.	.	.	2,96	1,78	1,67	1	-50	1,17	60.1	39.5
TOTAL			(256)	18,63	12,74	8,03	38	-2,52	5,51	68.4	29.6

NOTE.—Figures in brackets indicate the number of companies.

*Excluding bonus payments charged to revenue account.

Electricity (22)	28	30	31	29	31	33	182	11	1,93	11.1	11.0	11.4	18.1
Shipping (11)	32	21	23	17	22	47	162	20	1,82	10.8	..	14.1	21.4
Others (55)	23	26	29	32	32	46	188	31	2,19	4.5	5.6	6.1	5.5
TOTAL (479)	7,32	7,07	9,07	7,25	8,00	10,12	48,83	6,05	54,88	11.6	13.5	13.7	13.7

*Including remuneration to managing directors ; 13 out of the 492 companies have neither managing agents nor managing directors; most of them are managed by boards of directors, some of these are large concerns and the remuneration, allowances, etc. to directors is likely to be substantial but could not be included as information was not furnished. Thus, the total amount shown here is to some extent understated.

†Profits include managing agency commission and provision for taxation but exclude depreciation and interest charges.

‡Data are for a smaller number of companies.

STATEMENT XXVII.—*Depreciation Provision made by 332 Manufacturing Companies and corresponding Depreciation allowed by Income-tax Department during 1947—52, Industry-wise*

(Amounts in lakhs of Rupees)

Industry	For assets acquired prior to 1946		For assets acquired in or after 1946		Initial depreciation allowance	For all assets		(7) as per cent. of (6)
	Provision made by the companies	Allowed by Income-tax Department	Provision made by the companies	Allowed by Income-tax Department		Provision made by the companies	Allowed by Income-tax Department	
	1	2	3	4	5	6	7	8
1. Cotton Textiles	4,67	5,56	8,20	10,38	3,34	12,87	15,94	123.9
2. Jute Textiles	2,73	2,64	1,46	3,54	1,35	4,19	6,18	147.5
3. Other Textiles	32	25	94	2,70	82	1,26	2,95	234.1
4. Iron and Steel	8,28	6,19	2,34	8,65	2,86	10,62	14,84	139.7
5. Engineering	1,06	99	4,56	6,56	2,32	5,62	7,55	134.3
6. Sugar	27	26	26	26	8	53	52	98.1
7. Chemicals	44	51	1,43	3,81	84	1,87	4,32	231.0
8. Paper	55	37	50	78	30	1,05	1,15	109.5
9. Vegetable Oil	17	22	39	80	24	56	1,02	182.1
10. Matches	22	19	47	39	12	69	58	84.1
11. Cement	24	25	1,58	3,03	80	1,82	3,28	180.2
12. Tea Plantations	36	45	1,55	1,56	54	1,91	2,01	105.2

13. Other Plantations	1	1	1	1	..	2	2	100.0
14. Coal	59	49	2,10	2,87	82	2,69	3,36	124.9
15. Electricity	1,56	1,81	42	2,67	1,28	1,98	4,48	226.3
16. Shipping	47	60	4,77	8,74	2,96	5,24	9,34	178.2
17. Others	1,27	1,08	3,72	5,45	1,56	4,99	6,53	130.9
TOTAL	23,21	21,87	34,70	62,20	20,23	57,91	84,07	145.2

STATEMENT XXVI.—Remuneration of Managing Agents*

Industry	Remuneration to Managing Agents										Remuneration of Managing Agents as per cent. of Profits†			
	(Amounts in lakhs of Rupees)													
	1946	1947	1948	1949	1950	1951	1946—51	1952‡	1946—52	1946	1948	1951	1946—51	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)		
Cotton Textiles (96)	2,86	2,50	4,01	2,80	2,92	3,99	19,08	2,41	21,49	13.5	12.9	18.4	16.4	
Jute Textiles (47)■	1,31	1,54	1,79	1,10	1,45	1,79	8,98	88	9,86	14.2	22.4	19.3	20.3	
Other Textiles (12)	4	10	6	4	6	5	35	6	41	10.9	13.2	23.5	13.8	
Iron and Steel (3)	52	47	37	44	51	56	2,87	49	3,36	6.9	7.9	5.8	7.3	
Engineering (52)	29	28	27	36	37	37	1,94	16	2,10	12.7	11.2	10.9	12.0	
Sugar (22)	16	22	36	31	27	36	1,68	20	1,88	15.3	13.8	15.7	15.8	
Chemicals (29)	9	9	9	9	11	12	59	3	62	12.7	25.7	12.8	14.8	
Paper (7)	16	12	15	17	21	26	1,07	16	1,23	11.0	11.4	10.0	11.2	
Vegetable Oil (7)	7	6	5	4	3	3	28	1	29	10.2	11.6	..	13.1	
Matches (4)	25	17	19	17	15	14	1,07	14	1,21	15.9	14.6	15.5	15.4	
Cement (8)	20	16	28	27	34	48	1,73	37	2,10	10.4	10.6	9.1	.3	
Tea Plantations (76)	24	30	31	35	41	38	1,99	26	2,25	9.1	13.8	15.9	12.0	
Other Plantations (11)	2	2	2	2	2	3	13	1	14	12.8	16.5	11.0	13.0	
Coal (17)	28	27	29	31	30	30	1,75	25	2,00	16.4	18.8	16.9	16.7	

Electricity (22)	28	30	31	29	31	33	182	11	1,92						
Shipping (11)	32	21	23	17	22	47	162	20	1,82	10.8	..	14.1			
Others (55)	23	26	29	32	32	46	188	31	2,19	4.5	5.6	6.1	5.5		
TOTAL (479)	7,32	7,07	9,07	7,25	8,00	10,12	48,83	6,05	54,88	11.6	13.5	13.7	13.7		

*Including remuneration to managing directors ; 13 out of the 492 companies have neither managing agents nor managing directors; most of them are managed by boards of directors, some of these are large concerns and the remuneration, allowances, etc. to directors is likely to be substantial but could not be included as information was not furnished. Thus, the total amount shown here is to some extent understated.

†Profits include managing agency commission and provision for taxation but exclude depreciation and interest charges.

‡Data are for a smaller number of companies.

STATEMENT XXVII.—*Depreciation Provision made by 332 Manufacturing Companies and corresponding Depreciation allowed by Income-tax Department during 1947—52, Industry-wise*

(Amounts in lakhs of Rupees)

Industry	For assets acquired prior to 1946		For assets acquired in or after 1946		Initial depreciation allowance	For all assets		(7) as per cent. of (6)
	Provision made by the companies	Allowed by Income-tax Department	Provision made by the companies	Allowed by Income-tax Department		Provision made by the companies	Allowed by Income-tax Department	
	1	2	3	4	5	6	7	8
1. Cotton Textiles	4,67	5,56	8,20	10,38	3,34	12,87	15,94	123.9
2. Jute Textiles	2,73	2,64	1,46	3,54	1,35	4,19	6,18	147.5
3. Other Textiles	32	25	94	2,70	82	1,26	2,95	234.1
4. Iron and Steel	8,28	6,19	2,34	8,65	2,86	10,62	14,84	139.7
5. Engineering	1,06	99	4,56	6,56	2,32	5,62	7,55	134.3
6. Sugar	27	26	26	26	8	53	52	98.1
7. Chemicals	44	51	1,43	3,81	84	1,87	4,32	231.0
8. Paper	55	37	50	78	30	1,05	1,15	109.5
9. Vegetable Oil	17	22	39	80	24	56	1,02	182.1
10. Matches	22	19	47	39	12	69	58	84.1
11. Cement	24	25	1,58	3,03	80	1,82	3,28	180.2
12. Tea Plantations	36	45	1,55	1,56	54	1,91	2,01	105.2

13. Other Plantations	1	1	1	1	..	2	2	100.0	
14. Coal	59	49	2,10	2,87	82	2,69	3,36	124.9	
15. Electricity	1,56	1,81	42	2,67	1,28	1,98	4,48	226.3	
16. Shipping	47	60	4,77	8,74	2,96	5,24	9,34	178.2	
17. Others	1,27	1,08	3,72	5,45	1,56	4,99	6,53	130.9	
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TOTAL	23,21	21,87	34,70	62,20	20,23	57,91	84,07	145.2	

STATEMENT XXVIII.—*Depreciation Provision made by Manufacturing Companies and corresponding Depreciation allowed by Income-tax Department, Annual : 1947—51*

(Amounts in lakhs of Rupees)

Year	For assets acquired prior to 1946		For assets acquired in or after 1946			For all assets		
	Allowed by Income-tax Department	Provided by companies	Allowed by Income-tax Department		Provided by companies	Allowed by Income-tax Department		Provided by companies
			Total	Initial		Total	Initial	
	1	2	3	4	5	6	7	8
1947	4,92	5,06	3,53	2,00	2,28	8,45	2,00	7,34
1948	4,73	4,80	7,84	3,92	3,65	2,57	3,92	8,45
1949	4,09	4,35	12,33	4,65	6,05	16,42	4,65	10,40
1950	3,67	4,12	14,41	3,87	7,73	18,08	3,87	11,85
1951	3,28	3,77	16,92	4,41	9,90	20,20	4,41	13,67
1952*	1,18	1,11	7,16	1,39	5,07	8,34	1,39	6,18
TOTAL	21,87	23,21	62,19	20,24	34,68	84,07	20,24	57,89

Questionnaire data; figures relate to 332 companies only,

*Data are for a smaller number of companies,

STATEMENT XXIX.—Imports of Machinery* since 1935-36

Year	Value (Rs. lakhs)
1935-36	14,38
1936-37	14,78
1937-38	17,98
1938-39	19,72
1939-40	15,37
1940-41	11,82
1941-42	13,70
1942-43	10,52
1943-44	11,30
1944-45	16,30
1945-46	22,75
1946-47	32,70
1947-48	59,65
1948-49	81,56
1949-50	1,05,50
1950-51	93,00
1951-52	1,11,88
1952-53	87,89
1953-54	85,84

*Including imports on government account from 1948-49.

STATEMENT XXX.—Paid-up Capital of 500 Selected Private Limited Companies

(Amounts in lakhs of Rupees)

Industry	At the end of the year preceding the assessment year			
	1946-47	1947-48	1948-49	1949-50
	(1)	(2)	(3)	(4)
<i>Manufacturing</i>				
Cotton Textiles (19)	80	1,20	1,51	2,65
Jute Textiles* (21)	1,74	1,95	2,02	2,18
Other Textiles (27)	1,04	1,13	1,16	1,97
Iron and Steel and Engineering (77)	6,16	6,83	8,60	9,58
Sugar (13)	1,17	1,34	1,30	1,65
Chemicals (19)	34	39	64	75
Paper (3)	11	12	14	14
Tea Plantations (7)	12	13	18	25
Coal (16)	45	73	79	83
Electricity (6)	50	50	62	62
Shipping (6)	7	37	58	60
Others (148)	10,65	12,85	15,34	17,28
TOTAL (362)	23,14	27,54	32,87	38,48
<i>Non-Manufacturing</i>				
Transport and Communications (Other than Shipping) (1)	10	10	10	10
Trading (24)	2,25	2,44	2,93	2,99
Managing Agency (23)	7,92	9,76	9,86	8,96
Banks (2)	16	22	22	22
Investments (18)	7,74	7,79	7,99	8,16
Other Financial Companies (24)	3,31	4,10	4,62	5,04
Hotels (2)	4	8	10	15
Theatres (Motion Pictures and Films) (1)	8	8	8	8
Others (43)	7,31	7,97	8,25	8,09
TOTAL (138)	29,40	32,53	34,16	33,79
All Industries (500)	52,54	60,07	67,04	72,27

Figures in brackets denote the number of companies.

*Including jute baling, hemp and flax.

STATEMENT XXXI.—Gross Fixed Assets of 500 Selected Private Limited Companies

(Amounts in lakhs of Rupees)

	Plant and machinery				Total fixed assets			
	At the end of the year preceding the assessment year				At the end of the year preceding the assessment year			
	1946-47	1947-48	1948-49	1949-50	1946-47	1947-48	1948-49	1949-50
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
<i>Manufacturing</i>								
Cotton Textiles	44	48	52	1,31	75	89	93	2,05
Jute Textiles*	67	69	76	99	1,60	1,70	1,93	2,20
Other Textiles	80	85	90	1,28	1,15	1,25	1,43	1,92
Iron & Steel and Engineering	3,57	4,05	4,16	4,62	6,51	7,35	7,76	8,18
Sugar	1,11	1,34	1,31	1,39	1,19	1,87	1,88	2,02
Chemicals	6	9	13	24	15	20	40	54
Paper . . . . .	..	1	1	1	1	2	2	2
Tea Plantations	6	7	7	15	24	25	28	37
Coal	35	43	50	51	60	77	87	91
Electricity	18	19	28	29	37	39	49	51
Shipping	5	6	9	11	23	26	41	48
Others	2,80	4,08	4,66	5,56	647	9,15	10,61	12,42
TOTAL	10,09	12,34	13,39	16,46	19,57	24,10	27,01	31,62
<i>Non-Manufacturing</i>								
Transport and Communications (other than shipping) . . . . .	..	..	..	..	4	5	5	5
Trading	23	20	24	44	93	1,15	1,73	1,64
Managing Agency	16	17	17	34	1,10	1,21	1,27	1,66
Banks . . . . .	..	..	..	..	1	1	1	1
Investments	10	10	13	15	86	76	83	85
Other Financial Companies	2	4	4	2	1,06	1,10	1,02	1,21
Hotels . . . . .	..	1	2	2	1	2	6	15
Theatre (Motion Pictures and Films)	1	1	1	..	18	18	18	17
Others	30	37	40	44	3,58	3,88	4,02	4,24
TOTAL	76	90	1,01	1,41	7,77	8,36	9,17	9,98
All Industries	10,85	13,24	14,40	17,87	27,34	32,46	36,18	41,60

*Including jute baling, hemp and flax.

STATEMENT XXXII.—Investments of 500 Selected Private Limited Companies

(Amounts in lakhs of Rupees).

Industry	At the end of the year preceding assessment year 1946-47						At the end of the year preceding the assessment year 1949-50						Increase during the three years preceding the assessment year 1949-50
	Govt. securities	Shares of other companies	Debentures of other companies	Loans to other companies	Other loans, deposits and advances	Total	Govt. securities	Shares of other companies	Debentures of other companies	Loans to other companies	Other loans, deposits and advances	Total	
	1	2	3	4	5	6	7	8	9	10	11	12	13
<i>Manufacturing</i>													
Cotton Textiles . . . . .	..	1	..	26	7	34	..	77	..	27	53	1,57	1,23
Jute Textiles*	14	4	..	61	13	92	5	15	..	15	70	1,05	13
Other Textiles	11	2	..	13	33	59	10	6	..	16	74	1,06	47
Iron & Steel and Engineering	1,20	92	2	44	98	3,56	1,08	1,27	..	58	1,83	4,76	1,20
Sugar	8	14	..	14	30	66	2	15	..	38	34	89	23
Chemicals . . . . .	..	2	2	3	5	12	..	6	2	22	11	41	29
Paper	1	1	1	1	5	9	9	2	..	..	4	7	—2
Tea Plantations	1	..	..	..	1	1	..	..	..	2	1	4	3
Coal	1	..	..	..	10	11	..	1	..	9	12	22	11
Electricity	1	..	..	3	22	26	..	15	..	1	50	66	40
Shipping	1	..	..	..	2	3	..	3	..	..	8	11	8

Others	1,04	1,12	2	25	1,78	4,21	37	1,90	1	14	3,70	6,12	1,91
TOTAL	2,60	2,28	7	1,90	4,04	10,89	1,65	4,55	3	2,01	8,70	16,94	6,05

Non-Manufacturing

Transport													
Communications (other than shipping) . . . . .	..	16	..	..	9	25	..	22	..	..	3	25	..
Trading	20	93	4	55	84	2,56	18	1,45	2	10	1,67	3,42	86
Managing Agency	93	3,51	..	49	4,56	9,49	1,03	5,33	..	1,10	2,90	10,36	3
Banks	33	38	..	..	12	83	..	..	..	..	14	14	-69
Investments	2,09	7,65	32	1,36	3,00	14,42	2,54	10,19	34	1,51	4,70	19,28	4,86
Other Financial Companies	12	2,01	7	3	1,96	4,19	15	2,92	13	9	71	4,00	-19
Hotels . . . . .	..	..	..	..	..	..	..	..	..	..	1	1	1
Theatres (Motion Pictures and films)	..	5	..	..	1	6	..	..	..	..	..	..	-6
Others	71	4,28	3	37	1,14	6,53	20	5,91	3	47	2,12	8,73	2,20
TOTAL	4,38	18,98	45	2,81	11,72	38,34	4,10	26,03	52	3,26	12,27	46,18	7,84

TOTAL	6,98	21,26	52	4,71	15,76	49,23	5,75	30,58	55	5,27	20,97	63,12	13,89
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*Including jute baling, hemp and flax.

STATEMENT XXXIII.—Capital Formation in Private Limited Companies in the Manufacturing Sector—Sources of Funds for 362 Selected Companies

(Amounts in lakhs of Rupees)

Industry	External						Internal				
	Increase during the three years preceding the assessment year 1949-50						Profits retained during the three years preceding the assessment year 1949-50	Depreciation accrued during the three years preceding the assessment year 1949-50	Total (8)+(9)	Grand total (7)+(10)	
	Paid-up capital*	Deben- tures	Borrowings from			Total 1+2+6					
			Banks	Share- holders	Others		Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
<i>Manufacturing</i>											
Cotton Textiles	1,70	..	9	17	1,26	1,52	3,22	—18	21	3	3,25
Jute Textiles†	44	5	37	16	—1	52	1,01	51	20	71	1,72
Other Textiles	93	5	22	4	23	49	1,47	19	23	42	1,89
Iron & Steel and Engineer- ings	1,40	—2	1,82	2,43	1,28	5,53	6,91	1,58	1,29	2,87	9,78
Sugar	28	..	1,71	—5	30	1,96	2,24	1,04	43	1,47	3,71
Chemicals	19	2	7	..	15	22	43	13	4	17	60
Paper	3	..	..	2	..	2	5	—1	..	—1	4
Tea Plantations	10	..	6	..	..	6	16	4	3	7	23
Coal	39	..	3	—4	6	5	44	6	16	22	66
Electricity	12	..	6	3	7	16	28	—3	4	1	29
Shipping	52	..	16	..	6	22	74	—12	8	—4	70
Others	5,46	..	5,28	1,05	1,55	7,88	13,34	2,66	2,25	4,91	18,25
All Industries	11,55	10	9,87	3,81	4,96	18,64	30,29	5,92	4,96	10,88	41,17

*Bonus issues are excluded since retained profits are taken separately in column 8.

†Including jute baling, hemp and flax.

STATEMENT XXXIV.—Profits after Tax and their Disposal of 500 Selected Private Limited Companies during the four years preceding the Assessment Year 1949-50—Industry-wise

(Amounts in lakhs of Rupees)

Industry	For the year preceding the assessment year 1946-47					For the year preceding the assessment year 1947-48					For the year preceding the assessment year 1948-49		
	Pro- fits after tax	Divi- dends	Retain- ed profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)	Pro- fits after tax	Divi- dends	Retain- ed profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)	Pro- fits after tax	Divi- dends	Retained profits (1-2)
	1	2	3	4	5	1	2	3	4	5	1	2	3
<i>Manufacturing</i>													
Cotton Textiles	7	3	4	42.9	57.1	8	6	2	75.0	25.0	11	7	4
Jute Textiles*	15	2	13	13.3	86.7	16	5	11	31.3	68.8	36	10	26
Other Textiles	12	5	7	41.7	58.3	13	8	5	61.5	38.5	13	8	5
Iron & Steel and Engineering	1,46	66	80	45.2	54.8	1,07	91	16	85.0	15.0	1,45	93	52
Sugar	13	3	10	23.1	76.9	49	6	43	12.2	87.8	53	8	45
Chemicals	1	2	—1	200.0	..	5	4	1	80.0	20.0	11	6	5
Paper . . . . .	..	..	..	..	..	1	..	1	..	100.0	..	..	..
Tea Plantations	2	1	1	50.0	50.0	3	2	1	66.7	33.3	6	3	3
Coal	3	1	2	33.3	66.7	2	2	..	100.0	..	5	2	3
Electricity	1	1	..	100.0	0.0	—4	1	—5	..	..	2	1	1
Shipping	1	..	1	0.0	100.0	1	1	..	100.0	..	1	2	—1
Others	1,66	1,04	62	62.7	37.3	2,40	1,27	1,13	52.9	47.1	1,88	1,27	61
TOTAL	3,68	1,88	1,80	51.1	48.9	4,40	2,52	1,88	57.3	42.7	4,73	2,65	2,08

STATEMENT XXXIV.—Profits after Tax and their Disposal of 500 Selected Private Limited Companies during the four years preceding the Assessment Year 1949-50—Industry-wise—contd.

(Amounts in lakhs of Rupees)

Industry	For the year preceding the assessment year 1946-47					For the year preceding the assessment year 1947-48					For the year preceding the assessment year 1948-49		
	Profits after tax	Divi- dends	Retain- ed profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)	Profits after tax	Divi- dends	Retain- ed profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)	Pro- fits after tax	Divi- dends	Retain- ed profits (1-2)
	1	2	3	4	5	1	2	3	4	5	1	2	3
<i>Non-manufacturing</i>													
Transport and Communi- cations (other than ship- ping)	4	1	3	25.0	75.0	2	1	1	50.0	50.0	1	1	..
Trading	16	4	12	25.0	75.0	5	10	—5	200.0	..	1,18	13	1,05
Managing Agency	53	44	9	83.0	17.0	64	51	13	79.7	20.3	90	63	27
Banks . . . . .	..	..	..	..	..	1	..	1	..	100.0	—4	..	—4
Investment	1,02	37	65	36.3	63.7	40	42	—2	105.0	..	13	31	—18
Other financial companies	18	7	11	38.9	61.1	7	10	—3	142.9	..	12	6	6
Hotels	1	..	1	..	100.0	2	..	2	..	100.0	6	1	5
Theatres (Motion Pictures and Films).	—2	..	—2	..	..	—1	..	—1	..	..	—1	..	—1
Others	54	31	23	57.4	42.6	52	53	—1	101.9	..	42	49	—7
TOTAL	2,46	1,23	1,23	50.0	50.0	1,73	1,67	6	96.5	3.5	2,76	1,65	1,11
TOTAL.	6,14	3,11	3,03	50.7	49.3	6,13	4,18	1,95	68.2	31.8	7,49	4,30	3,19

* Including jute baling, hemp and flax.

332

STATEMENT XXXIV.—Profits after Tax and their Disposal of 500 Selected Private Limited Companies during the four years preceding the Assessment Year 1949-50—Industry-wise—contd.

(Amounts in lakhs of Rupees)

Industry	For the year preceding the assessment year 1948-49		For the year preceding the assessment year 1949-50					Total for the four years preceding the assessment year 1949-50				
	(2) as per cent. of (1)	(3) as per cent. of (1)	Profits after tax	Dividends	Retained profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)	Profits after tax	Dividends	Retained profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)
	4	5	1	2	3	4	5	1	2	3	4	5
<i>Manufacturing</i>												
Cotton Textiles	63.6	36.4	—9	15	—24	..	..	17	31	—14	182.4	..
Jute Textiles*	27.8	72.2	29	15	14	51.7	48.3	96	32	64	33.3	66.7
Other Textiles	61.5	38.5	27	18	9	66.7	33.3	65	39	26	60.0	40.0
Iron & Steel and Engineering	64.1	35.9	209	119	90	56.9	43.1	6.07	3.69	2.38	60.8	39.2
Sugar	15.1	84.9	34	18	16	52.9	47.1	1.49	35	1.14	23.5	76.5
Chemicals	54.5	45.5	14	7	7	50.0	50.0	31	19	12	61.3	38.7
Paper . . . . .	..	..	—2	..	—2	..	..	—1	..	—1	..	..
Tea Plantations	50.0	50.0	1	1	..	100.0	..	12	7	5	58.3	41.7
Coal	40.0	60.0	6	3	3	50.0	50.0	16	8	8	50.0	50.0
Electricity	50.0	50.0	1	..	1	..	100.0	..	3	—3	..	..
Shipping	200.0	..	—9	2	—11	..	..	—6	5	—11	..	..
Others	67.6	32.4	211	119	92	56.4	43.6	8.05	4.77	3.28	59.3	40.7
TOTAL	56.0	44.0	5.12	3.16	1.96	61.7	38.3	17.93	10.21	7.72	56.9	43.1

STATEMENT XXXIV.—Profits after Tax and their Disposal of 500 Selected Private Limited Companies during the four years preceding the Assessment Year 1949-50—Industry-wise—contd.

(Amounts in lakhs of Rupees)

Industry	For the year preceding the assessment year 1946-47					For the year preceding the assessment year 1947-48					For the year preceding the assessment year 1948-49		
	Profits after tax	Divi- dends	Retain- ed profits (1-2)	(2) as per cent, of (1)	(3) as per cent, of (1)	Profits after tax	Divi- dends	Retain- ed profits (1-2)	(2) as per cent, of (1)	(3) as per cent, of (1)	Pro- fits after tax	Divi- dends	Retain- ed profits (1-2)
	1	2	3	4	5	1	2	3	4	5	1	2	3
<i>Non-manufacturing</i>													
Transport and Communi- cations (other than ship- ping)	4	1	3	25.0	75.0	2	1	1	50.0	50.0	1	1	..
Trading	16	4	12	25.0	75.0	5	10	—5	200.0	..	1,18	13	1,05
Managing Agency	53	44	9	83.0	17.0	64	51	13	79.7	20.3	90	63	27
Banks . . . . .	..	..	..	..	..	1	..	1	..	100.0	—4	..	—4
Investment	1,02	37	65	36.3	63.7	40	42	—2	105.0	..	13	31	—18
Other financial companies	18	7	11	38.9	61.1	7	10	—3	142.9	..	12	6	6
Hotels	1	..	1	..	100.0	2	..	2	..	100.0	6	1	5
Theatres (Motion Pictures and Films).	—2	..	—2	..	..	—1	..	—1	..	..	—1	..	—1
Others	54	31	23	57.4	42.6	52	53	—1	101.9	..	42	49	—7
TOTAL	2,46	1,23	1,23	50.0	50.0	1,73	1,67	6	96.5	3.5	2,76	1,65	1,11
TOTAL.	6,14	3,11	3,03	50.7	49.3	6,13	4,18	1,95	68.2	31.8	7,49	4,30	3,19

* Including jute baling, hemp and flax.

STATEMENT XXXIV.—Profits after Tax and their Disposal of 500 Selected Private Limited Companies during the four years preceding the Assessment Year 1949-50—Industry-wise—contd.

(Amounts in lakhs of Rupees)

Industry	For the year preceding the assessment year 1948-49		For the year preceding the assessment year 1949-50					Total for the four years preceding the assessment year 1949-50				
	(2) as per cent. of (1)	(3) as per cent. of (1)	Profits after tax	Dividends	Retained profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)	Profits after tax	Dividends	Retained profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)
	4	5	1	2	3	4	5	1	2	3	4	5
<i>Manufacturing</i>												
Cotton Textiles	63.6	36.4	—9	15	—24	..	..	17	31	—14	182.4	..
Jute Textiles*	27.8	72.2	29	15	14	51.7	48.3	96	32	64	33.3	66.7
Other Textiles	61.5	38.5	27	18	9	66.7	33.3	65	39	26	60.0	40.0
Iron & Steel and Engineering	64.1	35.9	209	119	90	56.9	43.1	6.07	3.69	2.38	60.8	39.2
Sugar	15.1	84.9	34	18	16	52.9	47.1	1.49	35	1.14	23.5	76.5
Chemicals	54.5	45.5	14	7	7	50.0	50.0	31	19	12	61.3	38.7
Paper . . . . .	..	..	—2	..	—2	..	..	—1	..	—1	..	..
Tea Plantations	50.0	50.0	1	1	..	100.0	..	12	7	5	58.3	41.7
Coal	40.0	60.0	6	3	3	50.0	50.0	16	8	8	50.0	50.0
Electricity	50.0	50.0	1	..	1	..	100.0	..	3	—3	..	..
Shipping	200.0	..	—9	2	—11	..	..	—6	5	—11	..	..
Others	67.6	32.4	211	119	92	56.4	43.6	8.05	4.77	3.28	59.3	40.7
TOTAL	56.0	44.0	5.12	3.16	1.96	61.7	38.3	17.93	10.21	7.72	56.9	43.1

STATEMENT XXXIV.—Profits after Tax and their Disposal of 500 Selected Private Limited Companies during the four years preceding the Assessment Year 1949-50—Industry-wise—concl'd.

(Amounts in lakhs of Rupees)

	For the year preceding the assessment year 1948-49		For the year preceding the assessment year 1949-50					Total for the years preceding the assessment year 1949-50				
	(2) as per cent. of (1)	(3) as per cent. of (1)	Profits after tax	Dividends	Retain- ed profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)	Pro- fits a ter tax	Divi- dends	Retain- ed profits (1-2)	(2) as per cent. of (1)	(3) as per cent. of (1)
	4	5	1	2	3	4	5	1	2	3	4	5
<i>Non-manufacturing</i>												
Transport and Communications (other than shipping)	100.0	..	1	4	-3	400.0	..	8	7	1	87.5	12.5
Trading	11.0	89.0	1,99	14	1,85	7.0	93.0	3,38	41	2,97	12.1	87.9
Managing Agency	70.0	30.0	36	46	-10	127.8	..	2,43	2,04	39	84.0	16.0
Banks	..	..	..	..	..	..	..	-3	..	-3	..	..
Investment	238.5	..	72	33	39	45.8	54.2	2,27	1,43	84	63.0	37.0
Other financial companies	50.0	50.0	13	8	5	61.5	38.5	50	31	19	62.0	38.0
Hotels	16.7	83.3	8	3	5	37.5	62.5	17	4	13	23.5	76.5
Theatres (Motion Pictures and Films)	..	..	-1	..	-1	..	..	-5	..	-5	..	..
Others	116.7	..	50	41	9	82.0	18.0	1,98	1,74	24	87.9	12.1
TOTAL	59.8	40.2	3,77	1,49	2,28	39.5	60.5	10,72	6,04	4,68	56.3	43.7
TOTAL	57.4	42.6	8,89	4,65	4,24	52.3	47.7	28,65	16,24	12,41	56.7	43.3

*Including jute baling, hemp and flax.

GIPD—SS—316 M of F—16-2-55—12,000.