

# ***Provincial Budgets***

## **A Statistical Analysis**

V B. SARASWATI

PROVINCIAL finance has come into limelight of late because of a number of reasons. With the coming of Swaraj, the demands on the Provincial Governments have increased out of all proportion to their ability to meet them. The financial allocation between the Centre and the Provinces still rests on the frame-work of the 1935 Act, which left the expanding sources of revenue to the Centre while it saddled the Provinces with the responsibility for the expanding social services e.g. education, public health, industry and agriculture.

Faced with growing deficits, the Provinces have been forced to explore the possibilities of raising more revenue. The field of taxation open to them being limited, it has led to tax measures which threaten to interfere seriously with the inter-provincial movements of goods, accentuate differences in conditions of trade and industry as between one Province and another, and give rise to double taxation in some cases. In their anxiety to secure new sources of revenue the Provinces have sometimes moved dangerously near to the taxing authority of the Centre, if not actually encroached upon it. The Government of Bombay had to be pulled up and the sales tax imposed by that Province on the goods moving in and out of the Province had to be modified.

The feeling therefore has been growing that such dissimilarities will spell disaster for the economic life of the country, that they enhance the tax burden without subjecting them to the scrutiny necessary for spreading this bur-

den evenly and equitably and that the taxation system of the country, whether the taxes are imposed by the Centre or by the Provinces, should be one unified whole. While a satisfactory solution of the problems now raised will necessarily have to wait till the provisions of the new constitution framed in the light of the situation now developing come into force, already the Central Government have been compelled to seek powers to intercede in the matter of sales tax. imposed by so many Provinces in order to introduce some sort of uniformity and to remove the odious incongruities.

Then, again, both at the Centre and in the Provinces, the result of the additional taxation has been to raise the proportion of indirect taxes. Though both have been guilty in reversing the healthy trend towards increasing the reliance on direct taxes which had been evident until 1946. Provinces have been held the worse culprits in this matter because the host of new taxes imposed by them are all, or nearly all, indirect in their incidence. By refusing to impose taxes on agricultural income, Madras has gone one better and exposed itself to the charge of deliberately resisting the trend towards a more equitable distribution of the tax burden between direct and indirect taxation.

Apart from the general dissatisfaction caused by the lack of uniformity and the absence of a unified principle in the new Provincial taxes, it has been held that the Provinces have not co-operated and not fallen into line

with the Centre in carrying out and implementing the larger purposes of the financial policies laid down by the Central Government. They have not, for instance, it is complained, been earnest in their efforts in securing a genuine budget surplus. On the contrary, with an eye on the next elections, they have gone in for financially wasteful experiments in pushing on with prohibition at a time when financial prudence and concern for the country's economic health clearly indicated the folly of such a policy. This charge has also sometimes been levelled against the policy of abolition of Zamindari to which many of the Provinces have committed themselves; but in fairness it must be admitted that it cannot be substantiated yet, for no financial commitments have not yet been made by any of the Provinces in pursuance of this measure.

An analysis of the Provincial budget in the light of the above would, therefore, be interesting though it is a pity that a complete statistical investigation has to wait so long after the publication of the Provincial budgets because no consolidated statement on the budget proposals have been available so far. May we suggest to the Finance Ministry of the Government of India to undertake the publication in future?

A change in the currents of public opinion with regard to Provincial finance may be noted at the outset. Hitherto the complaint had that the Provinces had been prevented by the iniquitous allocation of revenues from

pushing on energetically with the nation-building activities entrusted to them. Now opinion has veered round to the other extreme. Financial powers for the Provinces are increasingly being looked askance at. And at the same time not only is the Centre expected to make good the deficits in Provincial finance, but it has also increasingly been made responsible for meeting the food-subsidies and to put the Provinces on a sound financial footing by more liberal grants-in-aid.

In the following statistical analysis an attempt will be made to answer some of the questions raised above and to test the genuineness or otherwise of the complaints made. An analysis of the capital and current items, however, will have to wait for a forthcoming issue and cannot be covered here.

In Table I, the revenue expected at the existing rates of taxation in each of the nine Provinces of the Indian Union have been given separately along with the revenue expected from the additional taxation. It will be seen that the expected returns from additional taxes add up to Rs. 10.73 crores in all as against Rs. 264.65 crores expected collection from the existing taxes. Therefore, the increase of total Provincial taxation does not exceed 4 to 5 per cent which is not a very heavy increase, considering the circumstances. It is therefore the vexatious nature of the new taxes their number and variety which is more to be blamed for the dissatisfaction caused than the net burden of the new imposts.

Among the provinces, Madras, Bombay, West Bengal, East Punjab and Assam were faced with sizeable deficits, while for C. P. and Berar, and Orissa the deficits were nominal. On the other hand,

**TABLE I.**  
**PROVINCIAL BUDGETS 1949-50 (Rupees Crores)**

Province	Revenue at existing taxation.	Revenues from additional taxes.	Total Revenue	Expenditure	Surplus (+) Deficit (-)
Madras	51.75	4.00	55.75	55.66	+0.09
Bombay	48.81	4.10	52.91	52.80	+0.11
W. Bengal	31.83	1.00	32.83	32.94	-0.11
U. P.	55.73	—	55.73	55.58	+0.15
E. Punjab	15.93	—	15.93	22.92	-6.99
Bihar	24.44	0.79	25.23	19.17	+6.06
C. P. & Berar	18.62	0.38	19.00	18.80	+0.20
Assam	8.92	0.18	9.10	9.52	-0.42
Orissa	8.62	0.28	8.90	8.76	+0.42
<b>Total</b>	<b>264.65</b>	<b>10.73</b>	<b>275.38</b>	<b>275.76</b>	<b>-0.38</b>

**TABLE II.**  
**PROVINCIAL EXPENDITURE (Rupees Crores)**

Province	1938-39	1946-47	1947-48	1948-49	1949-50
Madras	16.10	56.99	50.69	57.04	55.66
Bombay	12.80	36.42	41.33	51.91	52.41
W. Bengal	12.77 *	42.41 *	13.28+	30.82	32.94*
U. P.	12.80	32.63	38.73	48.47	55.88
E. Punjab	11.61 *	25.51 *	9.31+	26.05	22.92
Bihar	4.93	14.39	16.80	22.80	19.17
C. P. & Berar	4.71	11.55	11.36	17.27	18.80
Assam	2.99	5.70	6.85	8.22	9.52
Orissa	1.81	4.49	5.84	9.13	8.76
<b>Total</b>	<b>80.52</b>	<b>230.09</b>	<b>194.19</b>	<b>271.11</b>	<b>275.76</b>

\* These figures relate to undivided Bengal and Punjab in all the tables.

† These figures relate to 7½ months period from 15th August, 1947 to 31st March, 1949, in all the tables.

**TABLE III.**  
**Expenditure on Administrative Services as percentage of the Total.**

Province	1938-39	1946-47	1947-48	1948-49	1949-50
Madras	35.5	23.2	27.0	31.1	28.4
Bombay	24.7	25.8	26.2	34.5	32.3
W. Bengal	41.1	25.0	28.5	24.6	26.8
U. P.	31.9	27.9	29.7	29.4	29.7
E. Punjab	28.5	31.8	27.0	19.7	22.4
Bihar	41.6	36.4	33.6	31.3	32.7
C. P. & Berar	34.6	28.7	33.3	25.3	24.0
Assam	27.0	27.5	22.2	24.2	17.3
Orissa	33.7	29.0	25.5	21.2	21.9
<b>Total</b>	<b>33.1</b>	<b>26.9</b>	<b>28.2</b>	<b>28.7</b>	<b>28.1</b>

United provinces did not have to impose any additional taxes at all and Bihar expected a comfortable surplus of rupees six crores and odd, The heaviest deficit faced by any Province was that of East Punjab. This was largely due to the heavy expenditure on refugee relief and rehabilitation estimated at Rs. 8.3 crores. This is expected to be made good from grants-in-aid from the Centre. Bombay had an expected surplus of Rs. 50 lakhs after the imposition of new taxes but this was reduced to a surplus of Rs. 11 lakhs only by the deficit budgets of the States which were merged with the Province during the year.

Coming to Provincial expenditure, it will be seen that in the case of Bombay, West Bengal, U. P., C. P. and Berar, and Assam, expenditure for the year 1949-50 is larger than in any of the previous years. The other four provinces show only a slight decrease. The total of all the provinces increased from Rs. 271.71 crores in 1948-49 to Rs. 275.76 crores in the current financial year. Though the cost of administration has tended to increase enormously in all the provinces, the share of expenditure on social services has not actually gone down in any of the Provinces except in Orissa. Table IV gives the percentage which the expenditure on social services viz. education, medicine, Public Health, Co-operation, Industries and Scientific Departments bear to the total in each of the Provinces. It is not in Orissa alone, however, that administrative expenses account for a larger share of the total expenditure in the year 1949-50 than it did in the previous years. West Bengal as well as East Punjab and Bihar, and to a very minor extent U.P., also reflected this tendency.

Taking all the provinces together, social services accounted for 30.8 per cent of the aggregate in 1949-50, as compared to 26.0 per cent in 1938-39, while administrative services accounted for 28.1 per cent of the expenditure in 1949-50 and 28.7 per cent in 1948-49 as compared to 33.1 per cent in 1938-39. Assam shows a spectacular increase in the share of social services which went up to 31 per cent in the current financial year as against 18.5 per cent in the pre-war year. Generally speaking, the share of administrative services has gone down considerably in the post-war years. It used to be much higher before the war, being as high as 41.1 per cent in the case of undivided Bengal.

Much of the financial troubles of the provinces, as is well-known, arise from the gradual introduction of prohibition. Madras and Bombay suffered a heavy fall in the excise revenue which came down to Rs. 40 lakhs this year, in the case of the former, from Rs. 3.81 crores in the year 1948-49. In Bombay, the revenue from excise declined from Rs. 6.36 crores in 1948-49 to Rs. 4.95 crores in the current year. Taking the provinces together, the

fall in excise revenue this year amounts to Rs. 5.73 crores. In order to make good this loss, provinces have turned mainly to the sales tax which is the only elastic and flexible source of revenue available to them. In fact, the provinces together expect to raise the revenue from sales tax by Rs. 7.48 crores compared to the previous year, the total collection under this head in the current year being estimated at Rs. 38.9 crores. This has been done by withdrawing the exemption from sales tax hitherto allowed to tea exports and cotton in Madras which has also raised the rate of the tax on groundnuts. Bombay has imposed a tax of one anna in the rupee on luxury goods and has included new items in the list of articles subject to the tax. Exports from the province, hitherto exempted are now subject to a sales tax of half-anna in the rupee. The revenue from sales tax in Bombay alone is expected, as a result of these various extensions, to go up from Rs. 6.81 crores in the previous year to Rs. 10.08 crores in the current year. C. P. and Berar, Bihar, and U. P. have also raised the revenue from the sales tax by excluding some items from the exemption list. Among

TABLE IV.

Expenditure on Social Services as percentage of the Total.

Province	1938-39	1946-47	1947-48	1948-49	1949-50
Madras	28.7	20.5	28.3	29.7	32.2
Bombay	23.4	26.9	29.4	30.7	34.6
W. Bengal	23.7	24.6	22.4	21.2	35.0
U. P.	27.9	22.5	24.2	30.3	31.9
E. Punjab	27.2	26.5	18.5	14.0	17.5
Bihar	27.6	22.7	22.7	21.2	26.2
C, P. & Berar	20.5	19.1	26.2	27.0	29.1
Assam	23.8	26.8	21.8	18.5	31.0
Orissa	24.3	29.0	32.2	29.1	25.8
<b>Total</b>	<b>26.0</b>	<b>23.6</b>	<b>26.1</b>	<b>26.4</b>	<b>30.8</b>

the additional taxes, C. P. has enhanced the tax on motor vehicles and has imposed a duty on electricity consumed for domestic and industrial purposes. Bihar has lowered the exemption limit in respect of tax on agriculture incomes and most of the provinces have increased the rates of taxes on entertainments.

The breakdown of the expenditure on social services under the separate heads of education, and medicine and public health, is given in Tables V and VI expressed as percentage of the total expenditure in the provinces.

The share of expenditure on education has increased during the year 1949-50 in all the provinces except East Punjab and Orissa. Even in the case of the latter, the total amount spent is not less; it is much more, being Rs. 81 lakhs for the current year as compared to Rs. 26 lakhs in 1938-39 but the expenditure on other heads has gone up so much that the proportion has suffered. In the case of East Punjab alone the absolute amount as also the percentage share show a big drop from the pre-war year, but then the former relates to undivided Punjab and hence no comparison is possible. The decline in the proportion of expenditure on education in East Punjab, however, is very noticeable. Education accounted for only 2.4 per cent of the total expenditure of the province during the year as compared to 6.4 per cent in 1948-49 and 13.9 per cent in 1938-39.

Taking the provinces as a whole, though the share of education shows an increase over the years immediately preceding, it is still below the pre-war level. Only four out of the nine provinces, viz: Madras, Bombay, C. P. and Assam are currently devoting a larger share of the budget to education than in the

**TABLE V.**  
Expenditure on Education as percentage of the Total.

Province	1938-39	1936-47	1947-48	1948-49	1949-50
Madras	16.3	10.3	13.9	15.5	16.9
Bombay	14.9	10.7	15.0	16.1	18.0
W. Bengal	12.2	7.1	6.7	6.4	8.9
U. P.	16.3	10.0	10.6	11.2	12.4
E. Punjab	13.9	11.9	9.6	6.4	2.4
Bihar	14.4	7.4	7.4	6.0	6.8
C. P. & Berar	11.7	10.6	16.2	13.8	15.3
Assam	12.1	13.0	11.3	10.3	13.4
Orissa	14.4	14.0	13.4	10.6	9.3
<b>Total</b>	<b>14.5</b>	<b>10.2</b>	<b>12.2</b>	<b>11.7</b>	<b>12.9</b>

**TABLE VI**  
Expenditure on Medicine and Public Health  
as percentage of Total

Province.	1938-39	1946-47	1947-48	1948-49	1949-50
Madras	7.8	5.3	8.4	6.3	6.3
Bombay	5.7	5.7	6.0	5.9	6.7
W. Bengal	7.6	10.0	5.6	5.8	13.1
U. P.	4.8	5.3	5.4	5.5	5.9
E. Punjab	6.3	5.5	3.3	2.9	4.0
Bihar	7.1	8.1	8.3	6.8	9.8
C. P. & Berar	4.6	3.0	4.5	4.0	4.9
Assam	7.8	7.5	6.9	5.6	7.5
Orissa	5.8	7.9	7.2	7.5	6.5
<b>Total:—</b>	<b>6.4</b>	<b>6.5</b>	<b>6.5</b>	<b>5.6</b>	<b>7.1</b>

pre-war year.

As regards Medicine and Public Health, all the provinces together propose to spend 7.1 per cent of their total expenditure on them in 1949-50 as compared to 6.4 per cent in 1938-39. The changes under this head are not very significant except in the case of West Bengal where the share of expenditure on Medicine and Public Health has gone up sharply from 7.6 per cent in 1938-39 for undivided Bengal to 13.1 per cent for the current year. Is it because Bengal has a medical man as the Premier or the people are more sick than elsewhere?

What is being spent per head of the population on education

and public health gives a better idea in some ways of what is being done by way of social services than the percentage distribution of the expenditure under these heads. For this purpose, the expenditure on all the social services together per head of the population as well as that on education, medicine and public health have been calculated separately for the provinces during the years 1938-39 and 1946-47 to 1949-50. The population of the provinces for these years have been estimated for this purpose on the assumption of a geometric rate of growth on the basis of the census data for the years 1931 and 1941. The population of West Bengal for 1947-48 has been taken as 21.2 million as given by the Bengal Congress Boundary

Committee for 1947, All population figures relate to calendar years.

The table on 'per capita expenditure brings into sharp relief the wide differences in the social services provided in one province and another. This holds good as much about the per head expenditure on education as that on public health. In the pre-war year, five of the provinces out of the nine now under the Indian Union spent less on social services per head of the population than the average for the provinces taken as a whole. While Bombay could claim an expenditure of

Rs. 1/8 per head, Bihar spent only 6 as. while Bengal came a close second with an expenditure of 8 as. per head. The war does not seem to have made much difference in this respect. Even for the current year, four out of the eight provinces, for which figures are available, spent less than the average for the provinces taken together. Bombay still leads with an expenditure of Rs. 7 12 per head while Bihar is still the lowest in the list, spending no more than Re. 14 while Bengal is still a close second with an expenditure of Rs. 1/10 per head of the population on social services. On education Bihar was

spending only 3 as. per head? of the population before the war and Bengal 4 as. as against the 6 as. average for all-India and 15 as. per head in Bombay. Now Bombay has raised the expenditure on education to Rs. 4/1 per head as compared to only as. 5 in the case of Bihar. Though the exact figure for Bengal is not available, it will not be much higher. These disparities highlight one of the crucial problems of provincial finance, viz., that of bringing about a more equitable distribution of expenditure which is as important as the problem of increasing the financial resources of the provinces.

### PER CAPITA EXPENDITURE IN THE PROVINCES

(In Rupees and Annas)

	1938-1939†			1946-1947‡			1947-1948‡‡			1948-1949			1949-1950		
	Education	Medicine & Pub. Health	Total Social Services	Education	Medicine & Pub. Health	Total Social Services	Education	Medicine & Pub. Health	Total Social Services	Education	Medicine & Pub. Health	Total Social Services	Education	Medicine & Pub. Health	Total Social Services
Madras	0-9	0-4	1-0	1-2*	0-9	2-4	1-5	0 13	2-12	1-11	0-11	3-3	1-12	0-11	3-5
Bombay	0-15	0-6	1-8	2-0	0-15	4-6	2-12	1-1	5-6	3-10	1-5	6-15	4-1	1-8	7-12
W. Bengal	0-4	0-3	0-8	0-7	0-40	1-9	0-7	0-6	1-6	..	..	..	..	..	..
U. P.	0-6	0-2	0-11	0-9	0-5	1-4	0-11	0-6	1-9	0-14	0-7	2-8	1-2	0-9	2-15
E. Punjab	0-10	0-4	1-3	1-0	0-7	2-3	..	..	..	..	..	..	..	..	..
Bihar	0-3	0-2	0-6	0-4	0-5	0-14	0-5	0-6	1-0	0-5	0-6	1-4	0-5	0-8	1-4
C.P. & Berar	0-5	0-2	0-9	0-11	0-4	1-4	1-0	0-5	1-11	1-5	0-6	2-10	1-9	0-8	3-0
Assam	0-6	0-4	0-12	0-11	0-6	1-6	0-11	0-7	1-5	0-12	0-6	1-5	1-1	0-10	2-9
Orissa	0-5	0-2	0-8	0-11	0-6	1-7	0-14	0-7	2-1	1-1	0-12	2-14	0-14	0-10	2-7

† Figures relate to undivided Bengal and Punjab.

‡ Figures relate to 7½ months from 15-7-47 to 31-3-48.