Bombay Finance

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BETWEEN the inauguration of provincial autonomy in 1937.38 and 194849, the annual revenue and expenditure of the Government of Bombay went up more than five fold. In Table I the annual revenue and expenditure of the Government of Bombay has been given for some selected years during the past 15 years. These years are significant landmarks in the recent financial history of the Province.

(i) 1936-37 was the last financial year under the Montague-Chelmsford Reforms and the Meston Award. Since that year with the reparation of Sind, the Provincial Treasury benefitted by Rs. 76 lakhs per annum.

(ii) 1945-46 was the last year of the war and of the administration under Section 93. When the Governor's regime ended and the Congress took over, the Provincial Government was in a sound, enviable and credit-worthy financial position. By continuous surplus budgetting helped through economy in expenditure and inflated revenue due to the rising prices, the Section 93 regime left for the popular ministry a Post-war Reconstruction Fund of Rs. 1250 lakhs and a Special Development Fund of Rs. 384 lakhs. It also paid back a debt of Rs. 1043 lakhs to the Government of India on which the province had to pay an interest of 44 per cent, per annum, by borrowing at a lower rate from the money market, thus effecting a net annual saving of nearly Rs. 15 lakhs. Thus the funds for reconstruction programme at the end of the Advisers' Regime was over Rs. 1600 lakhs.

(iii) 1948-49 was the last financial year before the merger of Baroda, Kolhapur and other States. Between 1946-47 and 194849 the provincial revenues were fortified through additional taxation, chiefly the Sales Tax, which brought nearly Rs. 678 lakhs in the latter year.

(iv) By the end of the financial year 1949-50 the process of mergers was completed. This has increased the provincial population by more than 36 per cent, from 21 to nearly 30 million according to the estimates for 1948, in Census of India, Paper II, published by the Govern ment of India, At existing levels of taxation and expenditure in the merged areas, this has involved the provincial government in a total financial burden—excess of expenditure incurred over revenues collected in the merged areas—of Rs. 540 lakhs. With the expected rentral subvention of Rs. 236 lakhs, the net burden on provincial revenues in 1950-51 is estimated at Rs. 304 lakhs.

TABLE I—Financial Position of the Government of Bombay
(in lakhs of rupees)

	1936-37 Accounts	1945-46 Accounts	1948-49 Accounts	1950-51 Budget
Revenue	11,54	34,51	49,51	61,39
Expenditure met from Revenue	11,16	25,37	51.32	61.37
Surplus or Deficit	38	9.14	—1,51	2 (1.98)

Some experts had forecast the financial bankruptcy of the province before the presentation of the budget for the year 195051. The prophets of gloom were, however, proved wrong when Shri V. L. Mehta presented the budget on Tuesday February 21, 1950. This is not to say that the overall financial position of the Government of Bombay is as sound today as it was on March 31, 1947, the date on which the Congress Ministry launched its five year plan. The budget for 1950-51 had to face a number of limitations which were accentuated by the decision to enforce total prohibition from April 1, 1950. The financial resources of the province were reduced by the following:

1. The merger of States meant a net annual liability of Rs. 304 lakhs. By the inclusion of these areas in the Provincial administration and the extension to them of nation-building activities, the pace of development will have to be slowed down. The Finance Minister has already given an indication that the original five year plan may now take ten (not five) years to complete.

2. According to clause 286 of the New Constitution which came into force on January 26, 1950, the Provincial Government will no longer be able to levy sales tax on articles of inter-state commerce and on commodities declared 'essential for the life of the community' by the Union Govern-no vernment. This has reduced the revenue from sales tax by Rs. 314 lakhs for the year.

3. In the coming year the Government of India have refused to give any subsidy or loans other than for Grow More Food purposes. The discontinuance of food subsidy would mean an additional loss of Rs. 176 lakhs.

4. For complete prohibition, the Government will have to forgo Rs. 284 lakhs of excise revenue in 1.950-51.

The aggregate loss of provincial revenue thus amounts to Rs. 12,08 lakhs of which nearly Rs. 824 lakhs are accounted for by extraneous circumstances over which the Government had no control.

These losses are offset by the following factors which are largely fortuitous: (1) Procurement having exceeded the targets laid down in the Central Basic Food Plan, Bombay will earn a food bonus from the Central Government to the extent of Rs. 145 lakhs; (2) A revised arrangement for compensation in lieu of Tobacco Duties with the Government of India may bring in Rs. 50 lakhs, inclusive of arrears; (3) The provincial share of divible pool of taxation of income other than Corporation Tax, may go up by Rs. 28 lakhs; (4) The cut in the provincial quota of imported food may reduce the subsidy on the sale of food to the rationed population by Rs. 300 lakhs; (5) The actual net expenditure on the sale of subsidised manures will be lower by Us. 100 lakhs; (6) With the disappearance of famine condition in Gujerat, the budget provision for famine will decrease by Rs. 80 lakhs; (7) Transfer of certain items from the revenue account to the Provincial Road Fund will effect a saving of Rs. 452 lakhs.

The aggregate benefit to provincial revenue would thus amount to Rs. 746 lakhs as against the loss of revenue of Rs. 452 lakhs.

The remaining gap will be met by retrenchment in expenditure by a 6 1/4 per cent, cut on the expendilurc on Government staff and officers, 6 1/4 per cent, cut on grants-in-aid to establishments expenses of Government and semi-Government institutions, and 12.1 per *rent,* cut on expenditure on contingency and travelling allowances. These measures will reduce the gap by Rs. 268 lakhs, leaving a delicit of Rs. 182 lakhs to be made up by economy in expenditure spread over to all the innumerable activities of the Government.

Prohibition Policy

It would be interesting to compare the loss of revenue on account of prohibition viz. Rs. 384 lakhs with the slightly larger budgetary gap of Rs, 450 lakhs.

When partial prohibition was first introduced in 1938-39 the circumstances wera different from those in 1950-51. In the pre-war years the country was just emerging from the throes of a depression. The main economic justification for prohibition is that the consumer will save four times of what the Government will lose in revenue. If this happened at the time, a sum of Rs. 15 crores would have been left in the hands of the poor consumers. When diverted to consumer goods, this purchasing power would have raised demand and encouraged production at the time. Are the circumstances the same today? The revenue from excise struck its peak in 1946-47 when it reached Rs. 9 crores. Would the release of purchasing power in the hands of the consumers in the province of four times this amount or Rs. 36 crores, when spent on other goods, bring us any economic advantage? Will it help to step up production or only raise prices, since all consumer goods arc now in short supply? How much of the money will be saved or adjusted against past debts?

True enough, prohibition 'can be treated as a moral issue, irrespective of its economic consequences, but since neither the Government nor the public are disposed to treat it as such, and since both sides have paraded statistics, it is desirable that the issue be put to the test of facts, and a clear answer obtained once for all. The economic consequences of prohibition boil down to a simple question: in the present circumstances, will one excise revenue be less inflationary in its effect on price if it is spent by the Government, compared to what would happen if the money spent on drinks by the public is diverted to expenditure on other things? Roth the Bombay School of Economics and Sociology arid the Tata Institute of Social Sciences have addressed themselves to this study. The former is carrying on an investigation into the effects of prohibition in the rural areas, and the latter has taken up urban areas. The supposed benefits, moral and social, of total prohibition have to be weighed against the loss of provincial revenue, and the slowing down of development programmes which it will entail. In fact, prohibition raises an even wider issue. Can we lay down a scale of preferences or priorities for measures on social or moral reform? fn such a study, we must not lose sight of the negative or preventive aspect of the contemplated measures —in this case prevention of illicit distillation; black-mailing or evasion of restriction in others.

Welfare Activities

Even before the transfer of power, the section 93 administration launched a programme of social and economic development in 1945-46 which was later taken up with enthusiasm by the popular ministry as a result of which the provincial government has been changing over the police state to a Welfare State, Table II shows the increasing beneficient activities of the State.

From Table II it will be seen that the productive charges which cover the general cost of administration have been brought down to 41 per cent, of the total as compared to 45 per cent, in 1936-37 from the 52 per cent, it had reached in 1946-49 during the war. And also, correspondingly, expenditure on the secondary and development activities has increased in recent years. Among the latter again, the largest increase is on social services, the share of which has risen from 19 per cent, of the total expenditure in 1936-37 to nearly 33 per cent, in 1950-51. Even the economic activities in aid of production which include agriculture,"industries, capital outlay on electricity schemes met from revenue, show a market improvement in absolute figures, if not in percentage ratio. The expenditure on agriculture, for instance, which was only Rs. 12 lakhs in 1939-40, rose to' Rs. 248 lakhs in 1946-17 and was further raised to Rs. 487 lakhs in 1949-50. Rs, 11,28 lakhs which was budgeted for education in 1949-50, nearly equals the total social expenditure met from revenue under all heads put together in 1936-37. During the last four years, the expenditure on education has been trebled.

While expenditure on developments has thus increased in terms of money by ten times from the prewar years. the economic benefits flowing from them have not been commensurate. This is because during the war, and in the post-war years, the cost of social services had gone up tremendously on account of the rise in prices and increased dearness allowances etc. While the Government of Bombay now spends as much on education as they did on all social activities before the war, the number of pupils in primary schools for instance, has not increased correspondingly. The cost of primary education per pupil has gone up from Rs, 14 to Rs. 36 and although primary educa-

TABLE II

Functional Analysis of Expenditure in Bombay State

(Figures in brackets show percentages)

(In lakhs of rupees)

Category of Expenditure	1936-37	1945-46	1948-49	1949-50	1950-51
Primary and Protective Functions					
A. Protective Charges	5,08	15,00	21,02	27,50	27,04
	(45.4)	(52.4)	(44.6)	(43.8)	(44.0)
B. Unavoidable Charges on Revenue	2,26	5,03	5,06	3,06	3,01
	(20.2)	(17.5)	(10.7)	(4.9)	(4.9)
Total	7,34	2,003	2,608	3,056	3,005
	(65.7)	(69.9)	(55.3)	(48.7)	(48.9)
Secondary and Developmental Functions					
A. Social Services	2,21	5,25	13,73	17,09	20,19
	(19.8)	(18.5)	(29.2)	(27.2)	(32.9)
B. Economic Activities in aid of Production	1,61	3,34	7,21	10,07	9,13
	(14.5)	(11.6)	(14.5)	(16.1)	(14.9)
C. Extraordinary	—	—	—	5,00	2,00
				(8.0)	(3.3)
Total	3,82	8,59	20,97	27,16	29,32
	(34.3)	(30.01)	(44.5)	(43.3)	(47.8)
GRAND TOTAL	11,16	28.62*	47,05	62.72	61,37
	(100)	(100)	(100)	(100)	(100)

* During the year 1915 10 a transfer of Rs. 550 lakhs to the Revenue Reserve (Post-war Reconstruction and Development) Fund was made. This is not included in the expenditure shown here.

1. Protective charges include expenditure on Direct Demands on Revenue General Administration. Administration of Justice, Jails and Convict Settlements, Police, Miscellaneous departments, Stationery and Printing, and Civil Works for the Government.
2. Unavoidable charges on Revenue include interest on Public Debt, Appropriation for Reduction or Avoidance of the Debt, and Superannuation Allowances and Pensions.
3. Social Services include Education, Medical, Public Health, Veterinary, Co-operation. Labour Welfare, etc.
4. Economic Activities in aid of production include Agriculture, Industrie-, Capital Outlay on Electricity Schemes met from Revenue and miscellaneous activities.
5. Extraordinary charges account for the net expenditure of the Provincial Government on the sale of subsidised food to the rationed population.

tion has been made compulsory in 19 districts, not all boys and girls of school-going age arc actually going to school. While originally the Government of Bombay had thought that in ten years time they would be able to give education to all children of school-going age. the process will now take more than two decades as forecast by the Central Advisory Board of Education. Of the total expenditure on education of Rs. 11 crores. Rs. 3.5 crores go to meet dearness allowance and the increased pay scales of primary teachers.

Thanks to its expanding revenue, of all the provinces in India, Bombay has been the most self-reliant in executing its developmental programme. Whereas provinces like East Punjab, Orissa, West Bengal, Bihar, C. P. and U. P. depend on Central grants and loans for 55 to 99 per cent, of their developmental expenditure, Bombay has been in the fortunate position of being able to meet nearly 90 per cent, of such expenditure from its own revenues. When Bombay launched the five-year plan, it was promised Central assistance to the extent of Rs. 17.50 lakhs by the end of the fifth year of the plan. During the last three years it has received a total grant of only Rs. 5 crores. A loan of Rs. 5 crores promised for 1949-50 did not materialise in view of the decision of the Central Government for economy and retrenchment. Between 1946-17 and 1949-50 the Provincial Government spent a total of Rs. *16.08* lakhs on development of which Rs. 26.38 lakhs were on revenue account and Rs. 19,70 lakhs on capital account. Fven then at the end of the financial year 1950, the Government has a Post-war Reconstruction Fund of Rs. 17,29 lakhs During the coming year 1950-51 the Government has budgetted for a developmental programme of Rs. 23,95 lakhs of which Rs. 13,94 lakhs would be on revenue account and about Rs. 10 crores on capital account. The latter is proposed to be met by drawing Rs. 4 crores from the PWR Fund and the balance of Rs. 6 crores would be met by borrowing. The total debt of the Government of Bombay now outstanding is only Rs. 29.78 lakhs. This compares very favourably with its annual revenue of Rs. 61.39 lakhs, and suggests a wide scope for borrowing without any risk of adding much to the annual expenditure from revenue on account of debt charges. In the existing conditions of the money market. however, it is doubtful if the provincial government would be able to tap the market, particularly in view of its unhappy experience last August. It is highly desirable nevertheless, that the essential soundness of the province's finances should be better known to the money market.

Within the last four years the provincial government has achieved some very creditable results. The number of primary schools has increased from 18,263 to 21,084. Basic education, though very costly no longer remains in the experimental stage. The number of co-operative societies has increased from 6,000 in July 1946 to 12,000 in 1949. About 7,986 tenements have been built and 1,432 have been reconditioned. The Crow More Food Schemes have added, it is reported. 3 lakh tons to the production of foodg rains.

Though the Provincial Covernuieiit publishes every year its budget plan for development, the actual achievements from year to year are not reported in a systematic manner. Four years have parsed since the development programme was started and it is high time that the Government took stock of the situation and also took the public into confidence by publishing progress reports on their reconstruct ion activities.

Scope for Additional Taxation

We have already Indicated that the Province was faced by serious financial difficulties which were got over through fortuitous circumstances, Even then, retrenchment had to be called for. Is there re scope for additional taxation that might decrease the need for retrenchment? Certainly there is. Indeed, it is surprising that the Province has not yet thought of taxing agriculture incomes. A revision of land revenue assessment has been long overdue for almost all the districts. Undei the existing abnormal circumstances, a revision of land revenue which would be effective for the next 30 years may not be feasible. But surely a tax on agricultural income can be levied, Besides yielding a revenue of nearly Rs. 50 lakhs per annum, it would correct the existing lack of equity in the proportional and regressive land taxation and would also remove one of the unfortunate anomalies in the existing structure of taxation on incomes in the country. France is a country of peasant proprietors like Bombay; so are Sweden and Denmark. But they all tax agricultural income. If Bihar could levy an agricultural income-tax, why not Bombay? Further, when the Central Government levies Death Duties, it will give considerable financial advantage to the province which has the largest number of income-tax payers in the country.

Summary and Conclusions

The above survey shows that:

1) The finances of the province have been very prudently managed hitherto. With a population of 30 million, the annual revenue of the Government of Bombay of Rs. 62,72 lakhs in 1949-50 compares very favourably with the annual revenue of Rs. 70,25 lakhs of the Central Government of Pakistan with a population of over 80 million.

2) When the Provincial Government started its live-year plan of reconstruction, it had a Development-al Fund CPWB Fund plus Special Development Fund) of over Rs. 16.00 lakhs. At the end of March 1950, the Post-War Reconstruction Fund stands at Rs. 17.28 lakhs. This shows that all the development programmes daving the last four years have been met from revenue and from borrowing. Of the total expenditure of nearly Rs. 17 crores by the end of March 1950. the Central Government controled only Its. 5 crores.

3) But for extraneous circumstances like the merger of States, constitutional limitations in relation to Sales Tax and reduction of Central help on food account, the progress of the .Provincial Development programme could have been much faster.

4) Remarkable progress has been achieved in education, cooperation and in the Grow More Food Cam paign.

5) There is scope for additional taxation particularly through the levy of Agricultural Income Tax, and the Provincial revenues will also benefit by the proposed Central legislation with reference to Death Duties.

6) There is scope for more borrowing and much larger capital expenditure in the second live-year plan, with the help of the existing PWR fund, Though expenditure on development activities has increased many-fold in money terms, the wartime and postwar increases in establishment charges and cost of dearness allowance have greatly reduced the actual benefits by increasing the unit cost of social and economic services.

From *the London End*

Ominous Rumblings

April I5

THE United Kingdom has. since the end of the war, enjoyed a period of remarkable industrial peace. In 1948, there were only just under two million man-days lost as a result of strikes or lock-outs, and the number was further reduced in 1949. Of these stoppages, all but a handful were unofficial and the workers involved had to face the opposition not only of their employers, hut of their trade unions, Of course, the factors that contributed to this situation were extremely complex, but, sorting out the complexities, the two dominant factors oppear to be the rise in real earnings and the peculiar position of the trade unions in relation to the Labour Party.

There has been a substantial rise in real earnings (i.e., pay including payment by results and overtime) since 1938. Although on the average the workers are working fewer hours per week I 15.1 in October. 1010 compared to 40.5 in October. 19.48), their real earnings (money earnings adjusted for the rise in the cost of living! are considerably higher. While the working class cost of living was up 80 in October 1.949 as compared to 1938, earnings of all workers had increased by 129% (Men: 107%. women: 142% ; boys: 130% girls: 179%).

While real earnings have gone up real wage rates have lagged behind, and the higher we go up the