

I rise to present the first Budget of a free and independent India

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AS the Azadi Ka Amrit Mahotsav is the hot topic this week, I will give a little rest to CAG's objections and take you to that first budget of 1947.

The First budget of Independent India was presented by Finance Minister R.K. Shanmukham Chetty on November 26, 1947.

A little about Shanmukham Chetty:-

Sir Ramasamy Chetty Kandasamy Shanmukham Chetty, KCIE served as President of India's Central Legislative Assembly from 1933 to 1935 and Diwan of Cochin from 1935 to 1941. Chetty is said to have possessed one of the best financial minds in India. He was not a congressman - rather was a strong critic of the Congress Party, but was still made the first finance minister of India as Gandhi had reminded that 'freedom comes to India, not to the Congress', urging the formation of a Cabinet that included the ablest men regardless of party affiliation.

But Shanmukham Chetty had to resign from the cabinet under controversial circumstances.

The story going round was:

An Income Tax Investigation Commission (ITIC) was set up to look into tax evasion by Indian companies during the war period. The investigation, it seems, unearthed tax evasion running into hundreds of crores. And some of the evaders were very high profile influential people - as usually they are. With several firms falling into the ITIC's net, Chetty, from a business family himself, was alleged to have helped some of his friends. Newspapers published stories hinting at Chetty's role in striking some names off the investigation list. Chetty was not exactly popular with many Congressmen who pestered Nehru to drop him from the cabinet. And Chetty was asked to resign.

Thus, Shanmukham Chetty the first Finance Minister of the country became the first minister in India to resign from the cabinet.

The high standards of public life that existed can be seen from this extract of a letter from Nehru to the Chief Ministers.

"Before you get this letter you will have learnt of the resignation of our Finance Minister Shri Shanmukham Chetty and our acceptance of it. I made it clear that there is no question of our doubting theÂ bona fidesÂ of Shri Shanmukham Chetty. Nevertheless, some things were done which can only be described as a grave error of judgment. In such matters, we have felt that we must have the highest standards of public conduct and so I have agreed with deep regret to accept his resignation. I trust that this occurrence will help both our provincial ministries and the general public realizing that in public affairs only the highest standards must be maintained and evenÂ bona fideÂ errors cannot be tolerated "

That was 1948!

Let's come back to Chetty's Budget and read some extracts. Starting his speech, Mr. Chetty said,

I rise to present the first Budget of a free and independent India. This occasion may well be considered an historic one and I count it a rare privilege that it has fallen to me to be the Finance Minister to present this Budget. While I am conscious of the honour that is implied in this position, I am even more conscious of the responsibilities that face the custodian of the finances of India at this critical juncture.

Food was a major problem and Mr. Chetty said,

The food position has continued to cause grave anxiety both to the Provincial Governments and the Central Government. The country has just weathered a serious threat of a breakdown of its rationing system. The meagre exchange resources available to us are consumed by the purchase of foodstuffs abroad with the result that we have to impose the most stringent restrictions on the import of many other essential articles.

Just imagine, now we are trying to prevent export of food items.

The Deficit:

I have budgeted for a revenue of Rs. 171.15 crores and a revenue expenditure of Rs. 197.39 crores. The net deficit on revenue account in the period covered by these estimates will be Rs. 26.24 crores.

I have carefully considered if any part of the deficit for this year should be covered by additional taxation and I have come to the conclusion that it should be left largely uncovered. If, for any reason, our ordinary expenditure threatens to outrun our revenue there will be a clear case for either reducing the expenditure to within the available revenue or raising additional revenue to meet the expenditure.

The Revenue deficit for 2022-23 is estimated to be Rs. 9,90,241 Crores, compared to the 26 crores in 1947.

Interestingly, in his 1948 budget, Mr. Shanmukham Chetty announced,

"The House will be glad to know that I now estimate the deficit at only Rs. 6.52 crores. The improvement is due to some increase in the anticipated revenue and a decrease in expenditure." And presented a budget with a deficit of ₹ Rs. 1.09 crores.

Customs Revenue of 50 Crores:

Customs receipts have been placed at Rs. 50.5 crores and take into account the effect of the recent restrictions on imports for conserving our foreign exchange resources.

Revenue from the Posts and Telegraphs Department is expected to amount to Rs. 15.9 crores and the working expenses and interest to 13.9 crores leaving a net surplus of Rs. 2 crores.

As regards the contribution from Railways we do not expect anything in the current year.

Expenditure

The total expenditure for the year is estimated at Rs. 197.39 crores, of which Rs. 92.74 crores is on account of the Defence Services, the balance representing Civil expenditure.

Defence services

The strength of the Army at the time stood roughly at 410,000 troops. After the completion of the reconstitution of the Army, India will have roughly 260,000 troops.

On the best estimate that can be made at this stage, the net expenditure on Defence Services during the period 15th August 1947 to 31st March 1948 is estimated at Rs. 92.74 crores.

Ways and means

The budget for the current year provided for a borrowing of Rs. 150 crores but this target will not be reached. Owing to the communal disturbances in the country and the uncertainties of the political situation, the securities market was very unsettled in the opening months of the year and no loan was actually floated before the 15th August 1947. After the doubts about the political future had been cleared by the decision to partition the country, there was some improvement in the position and although the market has been fairly steady in recent weeks, there is not as yet any large sustained demand for investment. Government issued early this month a fifteen year loan for Rs. 40 crores carrying interest at two and three quarter per cent. The need for money is now as urgent as ever if Government are to finance their own development plans and assist the Provincial Governments to implement their plans for development. There is also the short-term aspect to this problem, viz. the urgent necessity to counter the inflationary forces which are still present by withdrawing from the public as much surplus purchasing power as possible through Government loans.

Foreign Exchange

STERLING BALANCES:

The peak figure which the sterling balances reached was Rs. 1,733 crores on the 5th April 1946. Thereafter, they have declined very rapidly. At the end of March 1947 they stood at Rs. 1,612 crores showing a reduction of Rs. 121 crores in twelve months. In the middle of July 1947, from when our new agreement became effective, they stood at about Rs. 1,547 crores. We had thus drawn as much as Rs. 65 crores in a little over six months. These large decreases were due largely to heavy imports mainly of food grains and of consumer goods, of which the country had been starved during the period of the war. They also reflected some movement of capital from India, largely British.

This rapid depletion of the sterling balances caused some anxiety to the Government of India. These balances represent the entire foreign exchange reserves of this country and it is of the utmost importance that they should not be lightly frittered away on the import of unessential and luxury articles or on luxury living in foreign countries. The view of the Government of India is that these reserves should not be used to finance deficits in the balances of payments on what may be called normal current account. Our aim should be to meet our normal day-to-day requirements from abroad through the earnings of our current exports and we should draw upon these accumulated reserves, broadly speaking, only for the purpose of purchasing capital goods, the import of which is necessary for developing the agricultural and industrial productivity of the country.

With this aim in view, the Government of India decided to follow a more restrictive import policy from the second half of the calendar year 1947. Broadly speaking, that policy consists of dividing imports into three categories: free, restricted and prohibited. Imports of food, capital goods, the raw materials of industry and certain essential consumer goods are free and no exchange restrictions are placed upon their import. Consumer goods which are not absolutely essential are licensed on a quota basis, while others which in the context of the economy of this country must be regarded as totally unessential and luxury imports have been altogether prohibited.

Salt separated from Central Excise: The Finance Minister informed the Assembly:

Central Excises and Salt .-The subject of Salt has been transferred to the administrative control of the Ministry of Industry and Supply from the 1st November 1947. Provision has, however, been included for the combined Salt and Central Excises organisation in this demand, as there was no time to determine the requirements of Central Excises and Salt separately. The position will be regularised late in the year when a separate grant will be obtained for Salt and the surplus provision in this demand surrendered.

Government runs on paper:

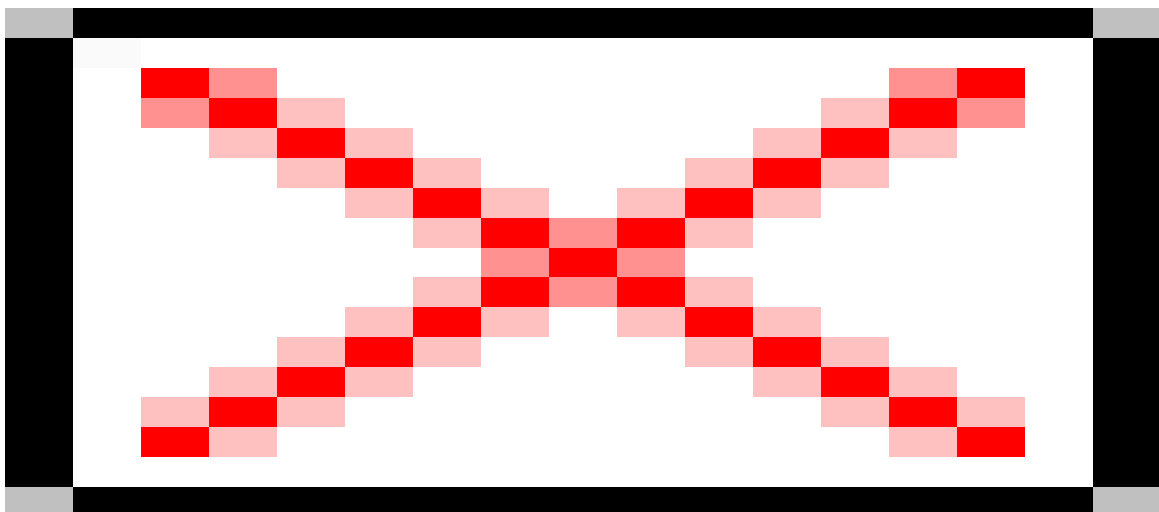
Stationery and Printing:- The gross expenditure is estimated at Rs. 233 lakhs of which Rs. 150 lakhs will be on the purchase of paper and stationery.

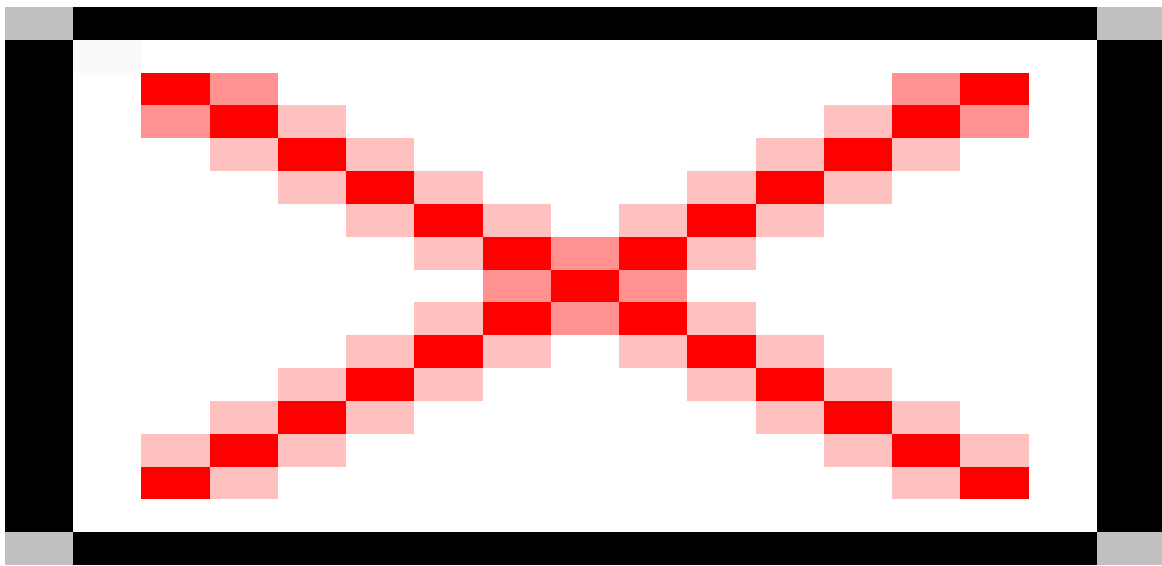
Major source of Revenue in 1947

Principal Heads of Revenue	Budget Estimate,1947-48 in		Budget Estimate 2022-23 CRORES
	thousands of Rupees	Crores	
Customs	521500	(52.15 crores)	2,13,000
Central Excise Duties	220800	(22.08 crores)	3,35,000
Corporation Tax	427100	(42.71 crores)	7,20,000
Taxes on income other than Corporation Tax	452400	(45.24 crores)	7,00,000
Opium	8874	(0.8874 crore)	Â
GST	Â	Â	6,60,000
Total Revenue	1973875 With deficit	(197.38crores)Withdeficit	27,57,820

The budget provided for some grants like

Institution	Amount in lakhs
Indian Statistical Institute, Calcutta	2.15
Indian Institute of Science, Bangalore	28.0
Delhi Polytechnic	5.3
Delhi University	28.13
Aligarh Muslim University	14.15
Benares Hindu University	16.40
Income Tax Appellate Tribunal	3.0





Until Next week