

ESTIMATES COMMITTEE
1957-58

TWENTIETH REPORT
(SECOND LOK SABHA)
BUDGETARY REFORM

GOVERNMENT OF INDIA PRESS
SECRETARIAT UNDER RULE 382
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LOK SABHA SECRETARIAT
NEW DELHI
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MEMBERS OF THE ESTIMATES COMMITTEE, 1957-58

1. Shri Balvantray Gopaljee Mehta—*Chairman.*
2. Shri S. A. Dange
3. Shri Jogendra Singh
4. Shri Mahavir Tyagi
5. Shri Satyendra Narayan Sinha
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18. Shri Uma Charan Patnajak
19. Shri Raghubir Sahai
20. Pandit Dwarka Nath Tiwary
21. Shri Govind Malaviya
22. Shri R. L. Jangde
23. Shri N. C. Kasliwal
24. Shri Dodda Thimmaiah
25. Shri M. L. Dwivedi
26. Shri A. E. T. Barrow
27. Shri V. P. Nayar
28. Shri R. K. Khadilkar
29. Shri B. K. Gaikwad
30. Shri Shraddhakar Supakar.

SECRETARIAT

Shri S. L. Shakhder—*Joint Secretary*—
Shri A. R. Shirali—*Deputy Secretary*—
Shri C. S. Swaminathan—*Under Secretary.*

*Ceased to be a member on his appointment as Deputy Minister with effect from 2.4.58

INTRODUCTION

I, the Chairman, Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Twentieth Report on Budgetary Reform.

2. The Committee wish to express their thanks to the officers of the Ministry of Finance for placing before them the material and information that they wanted in connection with the examination of the question of Budgetary Reform. They also wish to thank Shri K. Santhanam, Shri Tulsidas Kilachand, Shri K. R. K. Menon and Shri D. R. Gadgil for giving their evidence and making valuable suggestions to the Committee.

NEW DELHI;
The 23rd April, 1958.

BALVANTRAY G. MEHTA,
Chairman,
Estimates Committee.

I

INTRODUCTORY

(a) Constitutional Provision

Article 112 of the Constitution of India lays down *inter alia* that:

- "(1) the President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure "(Budget in common parlance)" of the Government of India for that year, in this Part referred to as the "annual financial statement".
- (2) The estimates of expenditure embodied in the annual financial statement shall show separately—
 - (a) the sums required to meet expenditure described by this Constitution as expenditure charged upon the Consolidated Fund of India; and
 - (b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund of India,and shall distinguish expenditure on revenue account from other expenditure."

(b) Significance of Budget

2. Similar provisions existed in the Government of India Act, 1935 and the corresponding earlier enactments. The first Budget of the Government of India was presented to the Legislative Council on the 18th February 1860 by the first Finance Member, James Wilson. But content and significance came to be attached to the Annual Financial Statement only after Independence when the Government became responsible to the legislature and through it to the public. It has been said that the modern budget system has accompanied the growth of representative Government. In the early days even in England, the budget being the statement of estimated receipts and expenditure had only two objectives. Firstly, the Government had to determine how little money it need take out of the pockets of the tax-payers in order to maintain its necessary activities at the proper standard of efficiency. Secondly, the Parliament had to vote funds to the King and, therefore, had necessarily to know the plan of expenditure. Owing to historical evolution of budgetary control with its emphasis on the expense of the Sovereign, the notion persisted for a long time that the Budget was essentially a document through which a programme of expenditure was laid before the appropriating authority.

3. Modern society especially in a welfare state is characterised by an ever-increasing quantity and variety of governmental activities. This is particularly so in India where we have embarked on a purposeful expansion of the public sector as part of the development of the country's economy. Under the Directive Principles of State Policy laid down in the Constitution, the Government is no longer to confine itself to the restricted functions as in the past, but is to be an agency for promoting the general welfare by positive acts. Government budgeting is one of the major processes by which the use of the public resources is planned and controlled. The Budget, therefore, has become a significant statement of Government's policy and the major instrument for the expression of Government's programmes which have wide ramifications in the national economy both in the governmental as well as other sectors. It affects development and production, size and distribution of income and the availability of manpower and materials. In view of the vital role which the budget plays in the economy of a welfare state, the legislator and the citizen are more than ever interested to understand from the Budget what the Government is doing, how much it is doing and what the costs are. Parliamentary debate on Government's policy is also mostly centred on the Budget, which has a dual character. Firstly, it is the medium through which Parliament exercises control and ensures financial accountability of the executive. Secondly, it is an instrument for promoting economic stability and implementing programmes of economic and social development. Budgetary reforms in recent years have been mainly motivated by the second consideration. The question is not merely of keeping a check on expenditure by the executive but is one of evolving a pattern of taxation and expenditure which conforms to the objectives which the legislature regards as basic in policy formulation.

(c) Need for Reform

4. The budgetary process can make for better informed judgments concerning the allocation of Government resources and can encourage a more effective use of resources devoted to particular purposes. By its very purpose, the budgetary procedure, form and presentation require to be continuously reviewed and reshaped to suit the requirements of the times and to enable Government's programmes and policies to be understood, appreciated and approved by the Parliament and the public to whom the Government is responsible. The Estimates Committee (First Lok Sabha) in their very first Report dated 21st November, 1950, observed that the system of accounting and budgeting as it then existed might have had its advantages in the past, but it had become so cumbersome that a revision of the system was urgently called for. They accordingly recommended that a Committee consisting of the Budget Officer of the Government of India, a representative of the Comptroller and Auditor-General of India and a Member of the Estimates Committee might be constituted to examine the whole matter thoroughly

and to report to the Estimates Committee on the improvements that could be made in the existing system. In pursuance of that recommendation a Committee consisting of Shri Mahavir Tyagi, then a Member of the Estimates Committee as Chairman, Shri M. V. Rangachari, then Joint Secretary in the Ministry of Finance and the late Shri B. N. Sen Gupta, then Accountant General, Central Revenues, as Members, was appointed to consider the changes in the form of Budget Estimates. As a result of the recommendations made by that Committee, several changes in the Civil Budget Estimates were made with a view to arranging the demands in a rational manner, to make the Explanatory Memorandum fuller both in respect of schemes and notes thereon, etc. Although as a result the Budget emerged to be more intelligible, yet it is considered that it does not serve the purpose which a modern Central Government Budget is intended to. This has been particularly stressed over the last few years during the course of discussion on the Budget in the Parliament and elsewhere. The Estimates Committee also felt the need for a revision of the form and system of the Budget in the country and have set forth their recommendations in this Report.

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II BUDGET DOCUMENTS

(a) Present position

5. The following are the various documents which are submitted to Parliament along with the Annual Financial Statement to explain the contents of the various programmes and policies which form part of or underline the Budget.

- (i) The Budget of the Central Government.
- (ii) The Demands for Grants for Civil Estimates in three volumes.
- (iii) Demands for Grants of Posts & Telegraphs Estimates.
- (iv) Defence Services Estimates.
- (v) Explanatory Memorandum on the Budget.
- (vi) Finance Bill and Explanatory Memoranda.
- (vii) Finance Minister's speech introducing the Budget.
- (viii) Economic Survey for previous year.
- (ix) Economic classification of the Budget (Submitted after about a week).
- (x) Budget in brief (Submitted after about 2 months).

A separate Railway Budget comprising of items (i), (ii), (v) and (vii) above is also presented. In addition the Administrative Reports of the various Ministries are also submitted to Parliament about the time when the demands of a particular Ministry are discussed and voted.

6. The Finance Minister's speech and the Economic Survey are the important documents in so far as policy matters and the economic situation in the country are concerned. The Demands for Grants and the Explanatory Memoranda constitute the important documents in so far as the programme content of the Budget is concerned. The Demands for Grants following the recommendations of the *Ad Hoc* Committee presided over by Shri Mahavir Tyagi are arranged according to the Ministries and Departments which constitute the disbursing authorities for the sums voted. The Demands also exhibit the revenue and capital expenditure separately and set forth the Budget Estimates for the coming year, the Revised Estimates for the current year and the actuals for the previous year.

There are in all 142 such demands including appropriations each of which is divided into four Parts: Part I gives the total amount required under the Demand; Part II gives provisions under the Major Heads and under Sub-heads thereunder so as to broadly indicate the items of expenditure such as Pay of Officers, Pay of Establishment, Allowances and Honoraria, Other Charges in England, etc; Part III gives further details under the various sub-heads so as to specify the various items such as the number of officers and establishment, etc. required by the particular Ministry or Department to carry out the programmes for which it is responsible; and Part IV gives details of recoveries adjusted in the accounts in reduction of expenditure. The Explanatory Memoranda furnish information on the important aspects of the estimates of Revenue, expenditure met from Revenue and Capital and Debt Head transactions. In addition, these memoranda also contain a variety of statements bringing together in one place items of expenditure scattered over a number of Demands in the Budget documents. As a result, the Explanatory Memoranda have progressively become more informative than before.

(b) Budget Characteristic

7. The presentation of a large number of Demands for Grants containing subjects and details of expenditure in a highly itemised manner, in budget documents which run to over 3500 pages has been the result of a continuous attempt to furnish more information to Parliament and the public and to improve the contents of the Budget documents so as to make them self-contained and self-explanatory. One of the main defects which has, however, been pointed out in regard to the budget documents is that they do not indicate with sufficient clarity the programmes and schemes on which expenditure is proposed to be incurred and that the subject rather than the object of expenditure is given undue importance with the result that many developmental and other projects get submerged under a plethora of sub-heads and minor-heads, thus making it difficult to draw any rational conclusions. On the other hand, the present arrangement has the advantage that it enables the executive to sanction staff and expenditure by specified categories and thus enables the legislature as well as the executive to exercise control in regard to details. While this satisfies the requirements of administrative and appropriation control it is considered to be inconvenient from the point of view of understanding the implications and results anticipated from the various programmes and component schemes, their priorities or their allocations as also of their review and evaluation from time to time, in terms of what is proposed to be achieved or has been achieved and at what cost. In short, the present budget is believed to be predominated by the administrative and accounting approach, which does not assist in the economic analysis of the programmes in the budget.

(c) Lumpsum entries

8. In spite of the great detail in which most of the estimates are presented, there are quite a few items in the Demands for Grants which may be called lumpsum or omnibus entries, for which no details are given (e.g. lumpsum provision for Hyderabad Office—Rs. 1 lakh—Demand No. 21, lumpsum provision for new transmitters—Rs. 8 lakhs—Demand No. 67, Intensive Cultivation Schemes in Union Territories—Rs. 20 lakhs—Demand No. 44, etc.). It was explained in this connection that very often a scheme or a project was in an embryonic stage when the Budget was being prepared and no details therefor were available or could be included in the Budget documents. While this question will be discussed in a later section, it is obvious that *for proper budgeting and for a proper appreciation of the justification for expenditure provided for in the budget, it is necessary that such lumpsum entries should not ordinarily find a place in the Budget and if for some reasons, this is inevitable, at least the sub-divisions of the proposed entries together with full justification therefor should be given in the budget documents.*

(d) Total cost of a Service

9. Under the present system, each Ministry or Department, as in the U.K., estimates for all the receipts and charges which it deals with finally irrespective of whether such receipt or charge is on account of itself or on account of another Ministry or Department. It is against the Ministry or Department which will collect a receipt or control the expenditure, when incurred that the estimate is noted and not against a Ministry or Department which gives rise to the revenue or against the expenditure. This is so even in the case of Ministries or organisations which are in the nature of Service Departments, that is, those which discharge certain functions on behalf of others, the only exception being in respect of commercial departments. For instance, the Ministry of W.H. & S. executes works on behalf of other Ministries and the budget provisions for all these works are made under the Ministry of Works, Housing and Supply.

10. A defect in this system is that the total cost of a particular service or a Ministry is not known since a number of Departments, particularly, the Service Departments like the C.P.W.D., Printing and Stationery Department etc. may be incurring expenditure pertaining to a particular service or scheme at the same time. It is understood that this defect has been remedied in the U.K. where under the Estimates a footnote indicating the amount of expenditure borne by the other Departments is given. For instance, the Estimates for 'Treasury' in U.K. for the year 1951-52 is £ 3,504,425, but in a footnote the expenditure shown under other votes such as Ministry of Works, Law Charges, Stationery and Printing, Central Office of Information, Superannuation, Post Office, etc., has been shown and the total expenditure is given as £ 4,456,859. It was stated by the representatives of the Ministry of Finance that it would

be very difficult to implement this suggestion in India for various practical considerations. *The practice in U.K. is, however, a very desirable arrangement under which the entire cost of a service is shown by means of foot-note in addition to the items of expenditure for which a particular Ministry or Department is directly accountable and may with advantage be adopted in India.*

(e) International Obligations

11. It is observed that under various international obligations the Government of India have to pay regular contributions to a number of international bodies, e.g. the U.N.O., W.H.O., F.A.O., etc. The sum provided for such contributions are scattered over several Demands (e.g. contributions to F.A.O. and the Commonwealth Agricultural Bureau under Demand No. 46, Contributions to U.N.O. under Demands Nos. 24 and 38, Grants-in-aid to U.N.I.C.E.F. under Demand No. 49 etc.) with the result that it is difficult to get a complete idea of their nature and volume. It was explained that the existing arrangement followed the administrative responsibility of the Ministries, the amounts being distributed according to the Ministries responsible for the subject to which the payment relates. However, *it would be desirable to have at one place a list of all such contributions to international bodies together with brief details as to their nature, purpose etc.*

(f) Defence Estimates

12. A separate volume containing the Defence Services Estimates together with appropriate explanatory memoranda is at present being brought out. However, these documents could hardly be considered informative enough to make an intelligent appreciation of the defence programmes on which monies are proposed to be expanded. While the lack of sufficient information may be due to the understandable consideration that Defence matters should be kept secret, it is felt that so far no attempt has been made to distinguish between information the publication of which may affect the security of the State and that which would not. For example, under the Defence Capital Outlay, for which crores of rupees are demanded, details could be given to show the amounts that would be spent on various items or where budget provisions continue to be made even though no expenditure was incurred against similar provisions in previous years, it could be explained why the previous provisions were not utilised and what expectations there are for the budget year. Similarly information about expenditure proposed to be incurred on important activities like the Medical Services, Education, Training, Research and Development, etc. or various other institutions like the Service Headquarters, Commands' Headquarters, any Arm or Corps of Service is not available in the defence budget. Again, the expenditure on the inter-Service Organisations

catering to the needs of all the three Services and functioning directly under the control of the Ministry of Defence is at present scattered over a number of main heads and sub-heads under the Army Demands, from which it should normally be possible to separate them. *It is, therefore, felt that the form of the Defence Service Estimates requires to be completely reviewed as to show separately expenditure relating to various units, institutions, inter-Service Organisations, etc. and that they should contain more information than at present consistent with the requirements of the security of the country. Such a review would have to be undertaken by the Ministry of Finance and Defence in consultation with the Chiefs of staff.*

In this connection, it may be mentioned that there is a feeling that information regarding Defence Purchases equipment etc., which is freely published in some of the foreign journals is not available to the Members of Parliament through the Budget Documents. It might also be pointed out that the Defence Services Estimates in other countries, especially in U.K., are much more informative and contain details not only in regard to the composition and functions of the various arms of their services but also indicate the strength of the Services.

(g) Expenditure on new services

13. The budget documents and particularly the Demands for Grants include expenditure on all schemes and services proposed to be incurred in the following year. These would consist of the existing services which are of a standing or continuing nature and new items of expenditure to be taken up in the new year. The latter are shown in thick type in Part III of the Demands for Grants, where details of the expenditure are shown. In addition, a list of items costing Rs. 5 lakhs and above is included in the Explanatory Memorandum. *It would, however, be desirable for a proper understanding of the budget if the new items of expenditure are shown separately from the standing charges and in a separate section within a Demand for Grant, both in Part-III where details are given and in Part-II where the abstract is given, instead of their being shown in the Explanatory Memorandum or by thick letters in Demands for Grants.* This would enable Parliament to concentrate attention on the new schemes and services instead of having to go to the Explanatory Memorandum for details. It might be pointed out in this connection that in the U.S.A. the summary budget accounts distinguished between the President's recommendations in regard to the programmes based on existing legislation and those based on legislation which the President proposes so as to enable the Congress to treat them differently.*

* 'Government Budgeting' by Burkhcad—7. 24.

(h) Loans and Grants

14. The Central Government gives loans and grants to the States either under statutory provisions or under the awards of the Finance Commission or as mutually agreed upon in furtherance of developmental and other schemes. They form a substantial portion of the Union Budget amounting as they do to over Rs. 430 crores in the estimates for the year 1958-59. The loans and advances are provided under a single demand under the Ministry of Finance, but are categorised under certain broad heads. The statutory Grants-in-aid are provided under the Demands for the Ministry of Finance while the other grants are provided in the Ministries concerned. The loans and grants to States are shown under broad categories in the explanatory Memorandum. However, neither the Explanatory Memorandum nor the Demands for Grants set forth sufficient details such as the State to which it is given, the scheme for which the loans or etc. It is no doubt true that the schemes for which the loans or grants are to be given pertain to the States and as such would figure in their respective budgets. But the Parliament while sanctioning loans and grants is entitled to know the purpose for which they are being made and what they would mean to the national economy. It is obvious, therefore, that the present arrangement is not satisfactory. While the various suggestions have been made in regard to the checks and control which may be exercised in sanctioning these loans including the setting up of a statutory corporation for the purpose, *for the present it may perhaps be enough if a separate statement giving an upto-date list of loans and grants made and those proposed to be made, explaining their purpose, their utilisation in the past and the benefits that have accrued or would accrue from the expenditure by the States of such loans and grants, the broad details of schemes for which they have been made, etc, is brought out along with the budget.*

(i) Plan expenditure

15. The annual budgets at both the Centre and the States are prepared against the background of the Five Year Plans in close consultation with the Planning Commission. While the Plan is for 5 years its implementation has to be reviewed annually in the light of the economic and financial trends prevailing from time to time. Yearly plans are therefore drawn up in consultation with the State Governments, Planning Commission and the administrative Ministries. However, *it would be a distinct advantage if the Plan itself could indicate against the various projects, which might be serially numbered e.g. in order of priority etc. the requirements of funds for each of the 5 years of Plan, so as to enable timely action to be taken to provide funds or at least to have a clear idea of year-wise requirements for each project. Further, it would also be desirable to indicate this in the budget documents together with the allocation, actual expenditure, trends etc. so as to enable a proper appreciation to be made of the progress as also the future commitments which a particular scheme might involve.*

16. Large sums of money are spent annually on various schemes included in the successive Plans. Side by side expenditure on other schemes of a non-developmental nature is also being incurred. The country would naturally like to know from the budget documents how much expenditure has been incurred or is proposed to be incurred under the Plan from year to year. At present, an annexure showing the provisions for development expenditure as well as the revised estimates of the current year is included in the Explanatory Memorandum. This annexure, however, indicates broadly major headwise schemes of developmental nature for which provision is being made. There has been a suggestion made from time to time that Plan expenditure and estimates should be shown separately from non-Plan expenditure and estimates within the Demands for Grants and other documents accompanying the Budget. This question, it is learnt, was thoroughly examined by the Government in consultation with the Comptroller and Auditor-General in 1955-56 and it was found that the exhibition of Plan and non-Plan expenditure and estimates separately in the budget documents was not a practical proposition. It was thought, however, that it should be possible for the administrative authorities from their own records and with the assistance of fairly elaborate details in which Government accounts are maintained to work out broad figures of expenditure on the Plan. It is understood that this question is again being examined by the Government of India. *It is to be hoped that it would be possible to give effect to the suggestion made earlier for the exhibition of Plan and non-Plan expenditure separately in the budget documents at least from 1959-1960.*

17. In this connection it may be pointed out that Parliament having generally approved the Plan with its targets, priorities and allocations, should have ready means of knowing at periodical intervals, preferably at the time of the discussion of the Budget, the progress that has been made in the Plan sphere from time to time and the prospects for the coming year. In order to achieve this objective, *it would be desirable to have a separate statement giving a review of the Plan expenditure and estimates both for developmental and non-developmental purposes and classified under Revenue and Capital and presented at the time of the Budget.*

(j) Annual Reports

18. At present the budget documents invariably do not contain data on physical targets and accomplishments of various budget allocations and under various schemes, at any rate, to the extent necessary for assessing expenditure in terms of services planned for and actually rendered. The Explanatory Memoranda no doubt give broad details of expenditure schemes but even they do not enable a proper appreciation of the expenditure to be made. Further, the annual reports of the Ministries which contain considerable information relating to the working of the Ministry and the schemes undertaken by them do not also attempt any

terms of the physical targets or accomplishments. *It is desirable that this lacuna should be made good to the extent possible by correlating clearly programmes with the budget or revised estimates as well as performance with expenditure in the budget documents and particularly in the Annual Reports.*

(k) Performance budget

19. The country is at present engaged on the Second Five Year Plan and the prospective planning for the third Plan will shortly be under way. The essence of planning is to define the goal to be achieved, assess the resources available and to select from among the number of programmes particular schemes or programmes which can best help to attain those goals speedily. As pointed out earlier, the budgetary process can make for better informed judgements concerning the allocation of Government resources and encourage a more effective use of resources devoted to particular purposes. It can also provide the occasion for periodical reviews and reassessment of community needs and resources. It is often considered that the performance-cum-programme type of budgeting is an important tool both for the executive and the legislature in making such reviews and evaluation in reaching correct decisions.

20. The performance budget is a budget based on functions, activities and projects which focus attention on the accomplishments, the general character and the relative importance of the work to be done and the services to be rendered rather than upon the means of accomplishment such as personnel, services, supplies, equipment, etc. Under this system the functions of various organisational units would be split into programmes or activities, sub-programmes and component schemes, etc. and estimates would be presented for each. Before this is done, the schemes and programmes would have to be set in terms of measurable end-products which may differ from scheme to scheme, costs would have to be carefully determined for each and targets in physical and monetary terms would have to be fixed. This would facilitate a review of the performance and of the proposed programme and consequently for decision making at a high level and is particularly suited to the requirements of over-all budgetary planning. It is recognised, however, that the budget must also serve management purposes at and below the departmental level. The performance budget does not, therefore, rule out the existing accounting budget which is necessary for control purposes. In fact it would be considered more or less an additional 'activity' statement representing the information scattered over a number of budget documents or supplementing the annual reports, and split in terms of programmes, sub-programmes, projects, component schemes, etc. In this sense it may be said that the performance budgeting does not involve a radical departure from the existing budgetary methods but only a reorganisation of the existing procedure to meet the requirements of the changed circumstances.

21. *In view of the foregoing it is obvious that the performance-cum-programme system of budgeting would be ideal for a proper appreciation of the schemes and outlays included in the budget, especially in the case of large scale developmental activities. At the same time it has to be recognised that its introduction might involve a number of changes in the existing budget practice besides a review and analysis of the current activities of each Ministry and department in terms of specific programmes and sub-programmes and the determination of performance units in terms of which the schemes, targets and accomplishments would be measured. It would also mean a substantial revision of the classification of accounts so that the accounting system may be in line with the programme-wise allocation of funds. These changes would require considerable time for determination as well as for implementation. The performance budgeting should, therefore, be the goal which should be reached gradually and by progressive stages without any serious budgetary dislocation.*

22. In this connection, it is understood that the subject of performance budgeting was discussed in the second session of the Workshop on Budgetary Classification and Management held at Bangkok in September, 1957, which was jointly sponsored by the U.N. Fiscal Division and ECAFE and was attended by a delegation from India. The Workshop, it is learnt, unanimously recommended to the member countries to make a beginning towards performance budgeting on a selective basis in order to supplement the traditional budget and that the possibility of a pilot experiment in this direction is being explored by the Government of India. *It is to be hoped that the experiment would be expedited and that the 1959-60 Budget would contain concrete results of it at least in the case of selected Ministries or projects.*

(1) Rearrangement of documents

23. To give effect to the various suggestions made earlier it would be necessary to rearrange the budget documents suitably so that while on the one hand they focus attention on essentials such as programmes, activities and performance, at the same time they do not render administrative or appropriation control difficult. *As a first step in this direction the budget documents relating to a particular Ministry such as Demands for Grants, Explanatory Memoranda and the Annual Reports as improved on the lines suggested earlier, may be brought out in a single volume. This volume in respect of each Ministry may be divided into suitable parts to facilitate a proper understanding and appreciation of the budget. The first part may divide the activities of the Ministry into broad objects and programmes of expenditure and might eventually correspond to the performance-cum-programme type of budgeting for each Ministry. The second Part might give the items on which the expenditure in the budget is proposed. These need not, however, be given in such detail*

as at present. For example, in view of the Ministry-wise compilation of budget documents it may no longer be necessary to have a large number of demands for each Ministry. Further, separate budget provision under various sub-heads such as Pay of Officers, Pay of Establishments etc. might also be not necessary. In this way it might be possible to rationalise the demands for grants and the sub-heads within them so as to reduce their complexity. At the same time for facility of administrative control and accounting the details which would be necessary e.g., the number of officers and establishment in individual organisation, scheme etc., might be included as an Appendix to the volume. The aim should, however, be to provide sufficient opportunities to Parliament to understand and appreciate the budget broadly while at the same time leaving minor details necessary for administrative control and management to the executive instead of treating them as Budget documents. *This re-arrangement of the existing budget documents may be given effect to as early as possible so as to improve the understanding of the budget documents, programmes and policies.*

(m) Programmes of undertakings in the Public Sector

24. With the expansion of the public sector more and more State enterprises which were at one time used to be run as departmental concerns have come to be run either as statutory corporations or as private limited companies. But, whatever the form, they are initially set up and financed almost entirely by money drawn up from the Consolidated Fund of India. Parliament has, therefore, a responsibility to see that the money lent to the undertaking is properly utilised and for that purpose should be enabled to have all information relating to their working. At present, the Explanatory Memoranda accompanying the budget contain a statement showing the investment made in these bodies and that proposed to be made during the budget year and also contain the balance-sheets and profit and loss accounts of some of the enterprises, but not all. Thus in the Explanatory Memoranda for 1958-59, accounts of 17 enterprises only have been given although the total number of such enterprises is over 45. Also the accounts do not in all cases pertain to the same period as the financial years of some of them are different from the normal financial years. Moreover, the budget of such enterprises with perhaps the solitary exception in the case of D.V.C., are not made available to Parliament. Even in this case there are considerable delays.

25. The Union Government would be spending over Rs. 500 crores during the Second Plan period on industrial enterprises in the public sector and the future investment in such enterprises is expected to be quite heavy. The impact of these enterprises on the national economy would be significant. It would, therefore, be necessary for Parliament to take into account the activities of all the State enterprises while approving the budget. For this purpose, *the*

undertakings should prepare a performance and programme statement for the budget year together with the previous year's statement and it should be made available to the Parliament at the time of the annual budget. Further these bodies might also be encouraged to prepare business-type budgets which would be of use to Parliament at the time of the budget discussion. In addition, the latest accounts and balance-sheets as well as the annual reports should also be made available to Parliament at the same time.

26. It has been suggested earlier that along with the annual budget a separate volume for each Ministry and Department should be brought out incorporating the budget and portions from Explanatory Memoranda and Annual Reports, as further improved. *This volume should also include a separate chapter containing information and documents as mentioned in para 25 in respect of all undertakings which are related to the Ministry concerned. In addition, it would be desirable to bring out a consolidated volume containing the documents mentioned earlier for all the statutory bodies and private limited companies of Government containing an appreciation of their working and their net result on the budget, so that their impact on the national economy could be appreciated.*

27. Further, *to facilitate the understanding of all the activities of the public enterprises it would be desirable that they should have a common financial year, namely, the same as that of the Government.*

(n) Functional and Economic classification of the Budget ✓

28. It is well recognised that budget data on expenditure and revenues must be presented in such a way that their significance may be understood and comparison facilitated. Further since Government activities are conducted by departments and agencies which administer programmes designed to serve public functions, classification of their budgets as well as accounts must be arranged in such a way as would facilitate programme formulation, execution and accountability.

29. The budget is broadly divided into capital and revenue transactions. The classification followed for the purpose is stated to compare favourably with most advanced countries. A separate Book of Demands for Grants on capital account is brought out as one of the Budget Documents. *In the rearranged set up of the Budget Documents a consolidated statement of capital transactions would still be necessary. But it would be advantageous if it could be split up into various types of capital expenditure, such as increase of assets, reduction of liabilities, investments, capital formation, etc. as also their net effect on the economy.*

30. The system of classification at present followed is designed mainly to suit the needs of accountability and it is believed that it does not assist in proper programme formulation and appreciation as well as execution which would help understanding whether

optimum results have been achieved or would be achieved, with a given outlay. For this purpose it is necessary that there is some sort of a functional classification of governmental expenditure so as to focus attention on the various functions of the Government and their relative importance. It has been suggested earlier that the first part of each of the budget volumes should indicate broadly the activities and programmes of a Ministry on which the expenditure would be incurred. While this would assist in appreciating the programme, content and the expenditure of a particular Ministry, it would still be necessary to broadly group the various activities of all the Ministries in such a way as would enable an understanding of the diverse activities of Government on which expenditure is incurred by various organisations and Ministries. For example, it can bring out clearly the role of the Government in promoting social welfare and economic development *vis-a-vis* the traditional functions of administrative nature. Even now, some elements of functional classification of governmental expenditure are available in the budget in so far as the Ministries and Departments are organised on a functional basis *e.g.* Education and Health. There are, however, certain overlaps *e.g.* a certain amount of expenditure on education is included in the demands for Ministries other than Education. For any systematic classification of governmental expenditure these would have to be culled out and put together for proper understanding.

31. It is understood that the first Workshop session held at Bangkok on budget reclassification in the ECAFE region recommended that supplementary classifications of government transactions into economic and functional categories with a cross-classification of the two would be useful for formulating social and economic policy. Accordingly, the Government brought out "An Economic Classification of the Central Government Budget" for 1957-58. The scheme of classification followed in this document is stated to be an advance in many respects over that recommended by the Workshop. However, the coverage of the reclassification is limited to the Central Budget only. In this connection, the following observations in the preface to "An Economic Classification of the Central Government Budget for 1958-59" are relevant:

"For a complete analysis of this type, it is essential not only to reclassify the information available in the budgets of State Governments but also to bring into line the accounts of industrial and commercial undertakings owned and operated by the Government as well as accounts of important sectors of the rest of the economy so as to reveal the impact of the transactions of each sector on the rest of the economy. Only then can the transactions of the Government be linked up with the economic budget for the nation as a whole. The preparation of such a 'national budget' requires a variety of statistical data—enabling reasonably accurate forecasts

to be made—on different aspects of the economy. All these data are not available and have to be built up over a period of time.”

It is evident that for an economic classification to be really useful it would have to take into account the expenditure and proposed outlay on various functional activities in the entire country i.e. Central and State budgets, the autonomous and other Government undertakings and the Private sector also. It was explained that there were considerable difficulties in analysing the State budgets and of the autonomous and other undertakings, mainly because of the time factor. It is necessary, however, that a beginning should be made in this direction and that steps be taken for the purpose.

(o) Survey of National Economy

32. As indicated earlier the Central Government budget to-day is no longer a pure and simple annual financial statement of receipts and expenditure. It is the instrument which expresses the Government's nation building and other programmes and the statement of Government's policies which affect the national economy. This makes it necessary and in fact presupposes that the budget is formulated on the basis of the fullest consideration and understanding of the total economic situation in the country and the operative trends in it. Further, (it is also necessary that Parliament should fully understand and appreciate the economic situation in the country.) This would mean that the economic situation in the country should be continuously examined and analysed and its salient features pointed out to the Government as well as to the Parliament and the public. It is understood that in U.K., U.S.A. and some European countries budget proposals are related to comparatively elaborate data and analysis of not only the current economic situation but also to statistical forecasts regarding future trends. The present position in this respect in India is that certain progress reports are prepared by the Planning Commission giving the progress of the Plan but not in all cases are they related to the total economic situation in the country. The annual report published by the Reserve Bank of India attempts a general review of the operation of the economy but this document is also chiefly in the nature of a *post facto* attempt at analysis. This year, a beginning was made by presenting to Parliament with the budget for 1958-59 an economic survey for the year 1957-58, which contains valuable information. (While all these documents progressively give more information than before, what seems to be really required by all concerned is not mere information or statistical series, but an analysis made by Government experts of the situation in its dynamic aspects and relating it in terms of policy objectives and in a concrete manner to the proposals of expenditure and taxation contained in the budget.) This would be necessary and should be possible especially since planning for economic development involves consci-

ous direction of the economy. It was pointed out by an eminent economist that:

"At present, in spite of the very difficult times through which the country is passing, one fails to have any detailed cogent picture of the operation of the economy and its ills being presented by Government. Parts of Government policy appear to be based on the assumption that there is either actual or potential inflation and a pressure of demand; other parts of it seem to be based on assumption of inadequate demand in such important sectors as cloth. There appears on the one hand, urgency felt for the need to help agriculture and small industry actively and awareness of the possibility of deterioration of the employment situation. On the other hand, there is talk of pruning the plan which together with State Governments being dissuaded from raising loans should result in lower outlay on the part of State Government in these desired directions. All the talk about the core of the Plan or of phasing the Plan or pruning it is in vague and general terms. In such a situation confusion of thought, divided counsels, confused analysis, lack of co-ordination, all these dominate the scene and the situation can deteriorate without anybody or any organ, in particular, feeling or being held responsible for it."

It is, therefore, necessary that the economic situation in the country should be analysed, related to objectives and proposals and explained by Government experts in a manner which would enable the correct position to be understood and appreciated by all. It should also explain the position relating to foreign exchange, balance of payments, trade and commerce, production, national product and income, cost of living, imbalances in economy, world trends etc. The analysis should attempt as is done in U.K. and other advanced countries an analysis of economic situation of all aspects of the entire national sector. Such an analysis should be made available to the Parliament sufficiently early to be made use of during budget discussions.

33. One difficulty which has been expressed in regard to the compilation of this information is the availability of statistical data which should form the basis of an assessment of the economic situation as also the reliability of whatever data are available. This is particularly so in the case of small scale and cottage industries which constitute a sizeable part of the economy as also the agricultural production. There is also another difficulty inasmuch as our economy is not as well organised as the economy of some of the advanced countries. *It is evident that efforts would continuously have to be made to improve the sources and methods for collection of data and that definite steps have to be taken by Government in that direction.*

34. In this connection it was brought to notice that occasionally there are discrepancies between the figures given to Parliament at different times, e.g., the total import of consumer goods in five years was stated to be Rs. 392 crores in a note prepared by the Planning Commission which was laid on the Table of the House in March 1958, while the Minister of Commerce and Industries gave the corresponding figure to be Rs. 1185 crores on 21-8-57. It was explained that the data relating to imports and exports are collected and published by two departments and that as a result these discrepancies had arisen. Another reason for discrepancy related to the fact that while the D.G.C.I. & S. would include in his statistics barter trade and trade that escapes exchange control, such trade would not be recorded in E.C.D. data. *It is necessary that some uniform pattern should be adopted so that the statistical information compiled by different agencies for different purposes does not contain discrepancies.*

35. Incidentally, it is understood that the responsibility of assessing the economic situation in the country from time to time rests on the Economic Division in the Ministry of Finance. *It is to be hoped that steps would be taken by this Division to ensure the setting up or rationalisation of the existing machinery for the collection of reliable data of their interpretation as also for proper co-ordination at all levels with various other bodies in the country to facilitate quick and efficient analysis of the economic situation.* In this connection it is understood that in the U.S.A. there exists an Economists Council advising the President and it makes available to the Congress every 6 months a review of the working of the economy made at an expert level. *It would be desirable for Government to examine the machinery at the disposal of and the working of the Council in U.S.A. with a view to adapting them in India.*

III MISCELLANEOUS

(a) Financial Year

36. The present financial year commences on the 1st of April and ends on 31st March. Until 1866-67 the financial year of the Government commenced on 1st May and ended on 30th April and this was changed to conform to the English practice in 1867.

37. Different countries have different financial years. Thus Great Britain, New Zealand, Germany, Greece and Japan have their financial years commencing from 1st April and in Canada the date of commencement of the fiscal year is 1st January. It was later changed to 1st July and then again changed to 1st April. In France, Austria, Belgium, Czechoslovakia and Poland it begins on 1st January and in Australia, Hungary, Italy, Sweden and the U.S.A. it begins on the 1st of July. In Burma the year commences on 1st October.

38. The suitability of the financial year to Indian conditions has been considered a number of times. It has necessarily to be determined by such considerations as administrative convenience, better predictability of revenues and efficient execution of budget. In this connection it would be relevant to quote from the Report of the Chamberlain Commission on Indian Finance and Currency of 1915:

"The revenues of India whether shown under Railways or customs or directly under the head of land revenue fluctuate to an extraordinary extent with the success or failure of the agricultural operations of each year and these again depend permanently on the South-West monsoon which spreads over the Indian continent and Burma in the months of June to October. Under present arrangements the Indian budget is presented before the end of March and the Finance Minister has accordingly to prepare his estimates in ignorance of the most important factor on which the results of the year will depend."

The Commission expressed the opinion that:

"from the financial point of view the present date is most inconvenient possible for the Budget."

They suggested that the commencement of the financial year should be altered from 1st April to 1st November or 1st June. As, however, the provincial governments were not in favour of the change, the Government of India decided in 1923 not to alter the date. Since

then, this question is reported to have been examined by the Government as well as by the National Development Council and it was concluded that the financial year needed no change.

39. The question of the predictability of revenues and its connection with the monsoon might not interest the Central Government much since their main receipts are from customs, excise duties and income-tax. However, in the case of the State Governments land revenue still makes an important difference. Apart from this question, there are two other points which require careful consideration. The budget is passed by the end of April every year and thereafter the various budget allocations are notified to the Ministries and the Heads of Departments who in turn pass them down to their subordinate authorities. Normally, it takes a month or so before information is passed on to the authorities who are in direct charge of the implementation of the schemes. By then in most parts of the country the monsoon breaks out and development work in many spheres is held up. The actual work, therefore, starts only after the monsoon, that is, in about October and continues till the end of the financial year. However, even before two or three months are over, the departments are called upon to submit fresh schemes for inclusion in the budget which is presented to the Parliament towards the end of February. The result is that many works not only remain incomplete during the year in which they are undertaken but large sums of money earmarked for them remain unspent or there is a rush of expenditure towards the end of the financial year. Further, the present arrangement also results in waste of national manpower in that it ties down the nation's representatives nearly 750 in number at the Centre alone—first for a three months' session for the discussion and voting of the budget and then for another three months because of the onset of the monsoon, thus preventing them from touring their constituencies and meeting the public.

40. *It is felt that the various difficulties mentioned above can be overcome by changing the financial year to commence from the 1st of October. The monsoon months from June to August may in that case be utilised for the penultimate and final stages of the preparation of the budget. As the works season will almost be over by the time the preparation of the budget starts, the framing of the revised estimates can be done with a better degree of accuracy. The budget may be presented to Parliament in the latter half of August and voted by the end of September. It can also be ensured that legislation other than the finance, taxation and appropriation bills, unless it is of great urgency, is not taken up in this session. As the works season from October to May falls in the same financial year instead of being spread over two years as at present, the execution of the works as also the spending of the allotments might become easier. It is desirable that early action to give effect to this change is taken in consultation with all the State Governments.*

(b) Pre-Budget Scrutiny

41. The expenditure estimates are prepared by the various subordinate authorities and submitted to the administrative ministries by the 15th October of the preceding year. These are prepared separately for the standing charges and for new expenditure. These are scrutinised by the administrative ministries before they are submitted to the Ministry of Finance by the 1st of November. In the Ministry of Finance the standing charges are subjected to scrutiny by the Budget Division while the new items of expenditure are examined by the respective Financial Advisers accredited to the various administrative ministries before the necessary provision is included in the budget. Estimates of capital expenditure are also examined by the accredited F.As. and are further considered and screened by the Department of Economic Affairs in consultation with the Planning Commission on the basis of the availability of the overall resources and with reference to the priority of each item among the competing demands for inclusion in the budget.

42. The nature of scrutiny that is exercised by the Ministry of Finance before the schemes are included in the budget varies with the type of scheme. For instance, in the case of continuing schemes, the scrutiny is mostly confined to a survey of the progress made in the previous year and the progress that is likely to be made in the coming year. As regards new schemes, in the case of those which involve several crores of rupees, usually project reports are drawn up by consultants appointed for the purpose. Some budget provision is made in a preliminary way on the basis of what is expected to be spent during the following year. In such cases no details are available until the receipt of the final project report by which time most of the major schemes are converted into companies or corporations. As far as the middle-size schemes are concerned, there is a rule that any scheme costing over Rs. 10 lakhs is to be submitted with details under certain categories, *e.g.* staff, equipment, works etc. The details required are, however, not very minute. In the case of small schemes it is easier to get the picture because most of the particulars are easily available.

43. It would appear especially in the case of new schemes which involve heavy expenditure that the pre-budget scrutiny is not always very thorough. The result has been that only a lumpsum is often provided in the budget in the absence of a clear idea as to the real requirements. According to the Ministry of Finance an element of guesswork in forecasting expenditure in the future is unavoidable except when fixed and known charges are concerned. It is learnt that very often administrative ministries come up with schemes for inclusion in the budget which are nothing more than mere ideas and then also most of the schemes are made available to the Ministry of Finance just at the time of the preparation of the budget. Inclusion of such schemes in the budget makes the post-budget scrutiny inevitable, thus leading to delay in the issue of expenditure sanctions. All

this can hardly be considered satisfactory. *It is necessary that the administrative ministries should submit their respective schemes to the Ministry of Finance for inclusion in the budget only when all relevant details necessary for having a sufficiently clear picture of a particular scheme have been worked out. For this purpose the prospective schemes should be processed throughout the year so that the rush at the time of the preparation of the budget is avoided.* It is understood that in U.K. the pre-budget scrutiny is fairly detailed and schemes which are not approved are not included in the Budget. This practice of thorough pre-budget scrutiny should be adopted with advantage in this country and to that extent the post-budget scrutiny could be eliminated or at least reduced so as to prevent delay in execution of work.

44. In this connection the question of lapse of funds at the end of the financial year and the consequent tendency to spend fast towards the end of the year are also matters for concern. This aspect has been commented upon in successive Reports of the P.A.C. It is understood that even though the budget might include provision for loans and grants to States as well as for various development projects, the financial sanctions thereof which are necessary for incurring expenditure are not issued until the schemes have been thoroughly scrutinised and found acceptable. As a result the sanctions are delayed and various authorities have to take up the projects late in the year so that there is a rush of expenditure towards the end of year and the work remains incomplete and money lapses. Thus the total funds which lapsed during 1954-55 amount to about Rs. 238 crores. While the issue of sanctions after the voting of the budget is understandable in the case of new projects, for reasons explained in the previous para, it creates unnecessary delays and difficulties in the case of continuing projects. Further, there would be no certainty that the money un-utilised during a year would be available in the following year for completing it. These and other allied questions are stated to be at present engaging the attention of the Ministry of Finance and the Planning Commission. *It is necessary that a procedure should be evolved whereby the necessity of a further sanction after the budget should be done away with and also whereby an assurance would be given to the various authorities including the State Governments that in respect of funds provided for approved projects, the unspent amount would be available in the next financial year.* Apart from having a psychological effect in the minds of the State Governments and Spending Departments such a promise would also facilitate the execution of the projects on smoother lines and prevent rush of expenditure towards the end of the year.

(c) Borrowing

45. Public borrowing is an essential part of the financial management of a Government. Like the power to tax, the power to borrow is enjoyed by all sovereign Governments. However, no modern Government, exercises this power without proper parliamentary control.

The powers of the Government of India as regards borrowing are contained in Article 292 of the Constitution which lays down that:

"The executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed."

46. Although Article 292 of the Constitution contemplates the enactment of a law fixing the limits of borrowing as well as of giving guarantees by the Union Government, no such law has so far been made. It is understood that the question of fixing limits by law on Government borrowing under Article 292 of the Constitution was considered a number of times, but the Government of India did not think it necessary or advisable to introduce any legislation on the subject mainly on the following grounds:

1. The enactment of law under Article 292 is permissive and not mandatory.
2. The extent of Government borrowings including deficit financing, if any, is clearly indicated in the budget documents and is in effect determined by Parliament in approving the budget.
3. Government is functioning within a Plan which has been approved by Parliament. The Plan contemplates deficit financing of a substantial order. The annual budget is merely a projection of the approved Plan in the light of the requirements of that year. Thus the Government borrowings in a year are regulated within the limits provided in the budget for the execution of the Plan.
4. The limits, if any, to be imposed by law, must necessarily cover both the market borrowings as well as the extent of deficit financing. They will thus have to be sufficiently high. While wide limits would provide no real checks, narrowing them would be impracticable.
5. In a system of Government responsible to Parliament where Government policies including borrowings are governed by and regulated under the wishes expressed by Parliament, imposition of limits on borrowings by law would hardly offer any additional safeguards.

47. While from the point of view of practical considerations it might be difficult to fix rigid limits on borrowings by Government at least in the present developmental stage of economy, it is desirable that the Government should report to Parliament every time they go in for borrowing. Further the details of individual borrowing might also be brought to the notice of Parliament both before going to the market and after.

(d) Amendment of important Acts through the Finance Bill

48. In some recent years, amendments of a substantial nature have been made in important Acts such as, the Income Tax Act, through the Finance Bill. The Finance Bills are nowadays not always scrutinised by any Select Committee and budgetary legislation is usually too crowded to allow of adequate consideration of substantial amendments to other Acts. The propriety or otherwise of continuing the practice, therefore, requires careful consideration.

49. The Finance Bill is intended for the purpose of making changes in rates of taxation etc. It is understood that the Government as far as possible avoid inclusion of any amendments in the Finance Bill which are wholly unconnected with changes in the existing scheme of taxation and tax rates proposed therein. It was, stated, however, that from the administrative point of view it was very difficult to make a clear cut distinction for this purpose. The substantive provisions of the principal Act have also to be amended to correspond to the changes in the scheme of taxation and tax rates in the Finance Bill. It was, therefore, represented that it would be inconvenient if the two matters were to be dealt with in two separate Bills.

50. It is possible that when a particular section in the Income Tax Act, for instance, is sought to be amended through the Finance Bill, there are other matters in the same section which are not directly connected with the Taxation proposals. At present these amendments are also brought in because of the fact that the main section itself is being amended by the Finance Bill and that it is felt unnecessary to bring in a multiplicity of amending Bills at different times to make amendments to the same section.

51. *It would, therefore, be desirable if—*

- (i) *amendments directly connected with changes in the tax rates; and*
- (ii) *major amendments which, though not directly and immediately connected with the tax proposals, have to be made in the sections of the Act which are so connected; only are included in the Finance Bill leaving amendments of other description to be dealt with separately.*

(e) Budget discussion

52. The presentation and discussion of the Budget are important occasions for ventilating the grievances before supplies are voted and are watched with expectation and anxiety both by Parliament and the public. It needs no special mention that the Parliament to whom Government is responsible, has a responsibility to ensure that the Budget has been drawn up in full consideration of national interests and that it is in accordance with the broad policies approved by Parliament. It has also to ensure that all expenditure proposals and

schemes for the previous year were carried out without losing sight of the twin objectives of economy and efficiency and that they hold out reasonable prospects that the schemes for the future would be carried out equally efficiently, if not improved upon. In a parliamentary form of democracy and government that we have adopted in this country, there might be no drastic revision of the budget by Parliament but there is considerable scope for well-informed criticism of the financial policies and the programme content of the budget which could help the executive in adjusting the programmes and policies in response to popular will. This would presuppose and in fact necessitate that Government keeps Parliament very well-informed of its policies and programmes in such a manner as would enable the Members to understand, appreciate and approve them. To this end a number of suggestions have been made in this Report which would improve the content and presentation of the budget documents so as to make them easily intelligible. Even then as often happens the budget discussion might be confined however rightly to policy aspects and broad questions of administration and might rarely extend to individual subject or schemes. This would point to the need for Members to be more familiar with the schemes and projects included in the budget. An opportunity for this purpose was available to the representatives of the people before the advent of responsible government in India, in that the Standing Finance Committee consisting of Members of the legislatures scrutinised the expenditure schemes of Government above a certain limit before they were included in the budget. This Committee was abolished some time after the Government became responsible to Parliament. *It might be a distinct advantage both to Government and to Parliament if this Committee is revived. It might have the authority to scrutinise such new items of expenditure above a certain limit as the Government might place before it before they are included in the budget. The Committee may, however, be purely advisory and Government need not be bound to accept all its suggestions or its criticism. Even then it would provide an opportunity to Members of Parliament to study the proposals in their proper perspective and thus enable them to offer well-informed criticism on individual schemes in a manner which would not be otherwise possible in the Parliament. Besides, this would also enable public participation in the drawing up of schemes for inclusion in the budget.*

53. *Even with the revival of the Standing Finance Committee, it would still be necessary to devise means to ensure that the budget discussion is effectively utilised by Parliament to express the popular will and to ensure in other ways that the country gets the best and most efficient use of its resources and of the expenditure being voted. One method by which the budget discussion could be made more well-informed would be for the Minister concerned himself to initiate discussion on demands concerning his Ministry and explain all relevant facts which are likely to be raised in discussion and again to reply to the discussion before the demands are voted. This is what is done*

in the case of Railway Budget and could easily be extended to other Ministries also. It might be mentioned that this system more or less obtains in U.K. also.

54. Even after making the Parliament and its members well-informed of the details of the budget, there might still be the difficulty of having a thorough discussion in the House partly because of the time factor and partly because of the large and diverse membership of Parliament. The Budget, like the Five Year Plan of which the former is the annual financial vehicle, has got to be the people's budget or at least one in which representatives of the people are more directly concerned with formulation as well as discussion and adoption. The Financial Committees of Parliament, especially, the Estimates Committee, have no doubt an important role to play in this matter. The Estimates Committee examines the details of the estimates of various Ministries and makes suggestions for effecting economies with a view to ensuring that the money proposed to be expended is well laid out and also spent economically and efficiently. But actual experience has shown that the Estimates Committee is not able to examine all the Ministries and Departments of the Government even over a fairly long period. *It seems, therefore, desirable that there should be some additional machinery by which opportunity is provided to Members of Parliament to feel enthused to take greater and lively interest in the budget particularly at the discussion and the voting of supplies stage and thereby to guide and control effectively the Government.* In this connection the devices adopted in some of the older democracies would be worth examination. Thus, in U.K. they have adopted the system of converting the entire House into a Committee to discuss the Budget. Again, in France they have the Financial Committee which makes a very minute examination of the budget documents, the programme, content, policies, etc. and makes reports to the House. Again, in U.S.A. the Appropriation Committees of the House examine the demands of the various Ministries in a critical manner. There is, however, a difference between the Constitution of India and that of U.S.A. which has to be taken into account. In our own country an innovation was made when the *Second Five Year Plan* was discussed by a number of Committees of the House which discussed the various parts of the Plan and later presented their proceedings to the House. This procedure could perhaps be adopted with advantage for discussion of the Budget also since it would enable various Members of Parliament to concentrate on certain Ministries and come into contact with the Ministers and officials and get all their doubts and grievances appreciated or resolved. This would go a long way in promoting healthy criticism of the policies and programmes included in the budget. This, however, is a matter which concerns the Procedure of the House and is being placed separately before the Speaker for consideration.

(f) Conclusion

55. Great changes have taken place in foreign countries in the concept of Government budgets and financial administration. In

underdeveloped countries, the budget has become an instrument of economic development and a powerful tool for carrying out social objectives, and a weapon for stabilisation of economy in countries with a high degree of industrial maturity. The size of the budget of the Government of India has as a result been steadily increasing and is of the order of Rs. 8,30 crores for 1958-59, if all transactions pertaining to Revenue, Loans and Capital and Debt Heads are included. The problem of Budgetary Reform involves difficult and complex questions. It is concerned with the relation between the executive and the legislature, the impact of the budget on the various economic sectors, the relationship of Government finance to private finance, the incidence of tax and benefits of public expenditure, the diversion of resources from private to public use and their allocation to different uses, etc. It is hoped that the various suggestions made in this report would make for better presentation of budget and for a well-informed discussion in the House and thus secure effective Parliamentary control over the budget and Government policies, schemes etc. At the same time it is necessary that the Government should continuously review the budgetary procedures and practices so that while on the one hand they do not lag behind the advances made in other countries, on the other, they take into account the special features, economic and otherwise obtaining in this country.

BALVANTRAY G. MEHTA,

Chairman,
Estimates Committee.

NEW DELHI;
The 23rd April, 1958.

APPENDIX

*Statement showing the summary of conclusions/Recommendations of the
Estimates Committee contained in the Report*

Sl. No.	Ref. to para No. in the Report	Summary of Conclusions/Recommendations
1	2	3
1	8	For proper budgeting and for a proper appreciation of the justification for expenditure provided for in the budget, it is necessary that lump sum entries should not ordinarily find a place in the Budget and if for some reasons, this is inevitable, at least the broad subdivisions of the proposed entries together with full justification therefor should be given in the budget documents.
2	10	The practice in U.K., under which the entire cost of a service is shown by means of a foot-note in addition to the items of expenditure for which a particular Ministry or Department is directly accountable, may with advantage be adopted in India.
3	11	It would be desirable to have at one place a list of all contributions paid by the Government of India to international bodies together with brief details as to their nature, purpose etc.
4	12	It is felt that the form of the Defence Service Estimates requires to be completely reviewed so as to show separately expenditure relating to various units, institutions, inter-Service Organisations etc. and that they should contain more information than at present consistent with the requirements of the security of the country. Such a review would have to be undertaken by the Ministries of Finance and Defence in consultation with the Chiefs of Staff.
5	13	It would be desirable for a proper understanding of the budget if the new items of expenditure are shown separately from the standing charges and in a separate section within a Demand for Grant, both in Part III where details are given and in Part II where the abstract is given, instead of their being shown in the Explanatory Memorandum or by thick letters in Demands for Grants.

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6	14	A separate statement giving an up-to-date list of loans and grants made and those proposed to be made to States explaining their purpose, their utilisation in the past and the benefits that have accrued or would accrue from the expenditure by the States of such loans and grants, the broad details of schemes for which they have been made, etc. should be brought out along with the budget.
7	15	It would be a distinct advantage if the Plan itself could indicate against the various projects which might be serially numbered e.g. in order of priority etc. the requirements of funds for each of the 5 years of the Plan. It would also be desirable to indicate this in the budget documents together with the allocation, actual expenditure, trends etc.
8	16	It is to be hoped that it would be possible to show Plan expenditure and estimates separately from non-Plan expenditure and estimates within the Demands for Grants and other documents accompanying the Budget, in the budget documents at least from 1959-60.
9	17	It would be desirable to have a separate statement giving a review of the Plan expenditure and estimates both for developmental and non-developmental purposes and classified under Revenue and Capital and presented at the time of the Budget.
10	18	It is desirable that programmes should be clearly correlated with the budget or revised estimates as well as performance with expenditure in the budget documents and particularly in the Annual Reports of the Ministries.
11	21-22	The performance- <i>cum</i> -programme system of budgeting would be ideal for a proper appreciation of the schemes and outlays included in the Budget, especially in the case of large scale developmental activities. The performance budgeting should be the goal which should be reached gradually and by progressive stages without any serious budgeting dislocation. It is to be hoped that the experiment towards performance budgeting on a selective basis in order to supplement the traditional budget would be expedited and that the 1959-60 Budget would contain concrete results of it at least in the case of selected Ministries or projects.
12	23	The budget documents relating to a particular Ministry such as Demands for Grants, Explanatory Memoranda and the Annual Reports may be brought out in a

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		single volume. This volume in respect of each Ministry may be divided into suitable parts to facilitate a proper understanding and appreciation of the budget. The first part may divide the activities of the Ministry into broad objects and programmes of expenditure and might eventually correspond to the performance-cum-programme type of budgeting for each Ministry. The Second part might give the items on which the expenditure in the budget is proposed. These need not be given in such detail at present. For facility of administrative control and accounting the details which would be necessary, e.g., the number of officers and establishment in individual organisation, scheme etc. might be included as an Appendix to the volume. This re-arrangement in the existing budget documents may be given effect to as early as possible.
13	25	Industrial Undertakings should prepare a performance and programme statement for the budget year together with the previous year's statement and it should be made available to the Parliament at the time of the annual budget.
14	25	These bodies might also be encouraged to prepare business-type budgets which would be of use to Parliament at the time of the budget discussion.
15	25	The latest accounts and balance-sheets as well as the annual reports should also be made available to Parliament at the same time.
16	26	The separate volume for each Ministry and Department, incorporating the budget and portions from Explanatory Memoranda and Annual Reports, should also include a separate chapter containing the above information and documents in respect of all undertakings which are related to the Ministry concerned.
17	26	It would be desirable to bring out a consolidated volume containing the documents mentioned above for all the statutory bodies and private limited companies of Government containing an appreciation of their working and their net result on the budget.
18	27	To facilitate the understanding of all the activities of the public enterprises it would be desirable that they should have a common financial year namely the same as that of the Government.
19	29	In the rearranged set up of the Budget Documents a consolidated statement of capital transactions would still be necessary. But it would be advantageous if

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		it could be split up into various types of capital expenditure, such as increase of assets, reduction of liabilities, investments, capital formation, etc. as also their net effect on the economy.
20	30	It is necessary that there should be some sort of functional classification of Governmental expenditure so as to focus attention on the various functions of the Government and their relative importance. It would be necessary to broadly group the various activities of all the Ministries in such a way as would enable an understanding of the diverse activities of Government on which expenditure is incurred by various Organisations and Ministries.
21	31	For an economic classification to be really useful it would have to take into account the expenditure and propose outlay on various functional activities in the entire country, <i>i.e.</i> , Central and State budgets, the autonomous and other Government undertakings and the private sector also.
		It is necessary that a beginning should be made in analysing the State budgets and of the autonomous and other undertakings and that effective steps should be taken for the purpose.
22	32	It is necessary that economic situation in the country should be analysed, related to objectives and proposals and explained by Government experts in a manner which would enable the correct position to be understood and appreciated by all. It should also explain the position relating to foreign exchange, balance of payments, trade and commerce, production, national product and income, cost of living, imbalances in economy, world trends etc. Such an analysis should be made available to the Parliament sufficiently early to be made use of during discussions.
23	33	Definite steps should be taken by Government to improve the sources and methods for collection of statistical data which should form the basis of an assessment of the economic situation.
24	34	It is necessary that some uniform pattern should be adopted so that the statistical information by different agencies for different purposes does not contain discrepancies.
25	35	It is to be hoped that steps would be taken by the Economic Division in the Ministry of Finance to ensure the setting up or rationalisation of the existing machinery for the collection of reliable data

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of their interpretation as also for proper co-ordination at all levels with various other bodies in the country to facilitate quick and efficient analysis of the economic situation.

It would be desirable for Government to examine the machinery at the disposal of and the working of the Economists' Council in U.S.A. with a view to adapting them in India.

- 26 40 The financial year may be changed to commence from the 1st of October. The budget may be presented to Parliament in the latter half of August and voted by the end of September. It is desirable that early action to change the financial year to commence from the 1st of October is taken in consultation with all the State Governments.
- 27 43 It is necessary that the administrative Ministries should submit their respective schemes to the Ministry of Finance for inclusion in the budget only when all relevant details necessary for having a sufficiently clear picture of a particular scheme have been worked out. For this purpose the prospective schemes should be processed throughout the year so that the rush at the time of the preparation of the budget is avoided.
- 28 44 It is necessary that a procedure should be evolved whereby the necessity of a further sanction after the budget should be done away with and also whereby an assurance would be given to the various authorities including the State Governments that in respect of funds provided for approved projects, the unspent amount would be available in the next financial year.
- 29 47 It is desirable that the Government should report to Parliament every time they go in for borrowing. Further, the details of individual borrowing might also be brought to the notice of Parliament both before going to the market and after.
- 30 51 It would be desirable if
- (i) amendments directly connected with changes in the tax rates ; and
 - (ii) major amendments which, though not directly and immediately connected with the tax proposals, have to be made in the sections of the Act which are so connected;
- only are included in the Finance Bill leaving amendments of other description to be dealt with separately.

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31	52	It might be a distinct advantage both to Government and to Parliament if the Standing Finance Committee is revived. It might have the authority to scrutinise such new items of expenditure above a certain limit as the Government might place before it before they are included in the budget. The Committee may however, be purely advisory and Government need not be bound to accept all its suggestions or its criticism. Even then it would provide an opportunity to Members of Parliament to study the proposals in their proper perspective and thus enable them to offer well-informed criticism on individual schemes in a manner which would not be otherwise possible in the Parliament. Besides, this would also enable public participation in the drawing up of schemes for inclusion in the budget.
32	53	Even with the revival of the Standing Finance Committee, it would still be necessary to devise means to ensure that the budget discussion is effectively utilised by Parliament to express the popular will and to ensure in other ways that the country gets the best and most efficient use of its resources and of the expenditure being voted. One method by which the budget discussion could be made more well-informed would be for the Minister concerned himself to initiate discussion on demands concerning his Ministry and explain all relevant facts which are likely to be raised in discussion and again to reply to the discussion before the demands are voted.
33	54	It seems desirable that there should be some additional machinery by which opportunity is provided to Members of Parliament to feel enthused to take greater and lively interest in the budget particularly at the discussion and the voting of supplies stage and there by to guide and control effectively the Government.
<p>An innovation was made when the Second Five Year Plan was discussed by a number of Committees of the House which discussed the various parts of the Plan and later presented their proceedings to the House. This procedure could, perhaps, be adopted with advantage for discussion of the Budget also since it would enable various Members of Parliament to concentrate on certain Ministries and come into contact with the Ministers and officials and get all their doubts and grievances appreciated or resolved.</p>		

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This would go a long way in promoting healthy criticism of the policies and programmes included in the budget.

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It is necessary that the Government should continuously review the budgetary procedures and practices so that while on the one hand they do not lag behind the advances made in other countries, on the other, they take into account the special features, economic and otherwise obtaining in this country.