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POPULATION PROBLEM IN INDIA—A CENSUS STUDY

TEXT BOOK

PARLIAMENTARY FINANCIAL CONTROL

IN

INDIA

By

P. K. WATTAL, M.A., C.I.E.,

Indian Audit & Accounts Service. (*Retired*)

1962

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PREFACE

Since this book was last published, interest in parliamentary financial control in this country has developed considerably. The size, scope and complexity of public expenditure has increased very largely, the parliamentary bodies concerned with financial control have gained in stature during the last twelve years and have brought out a number of important reports which have stimulated discussion of the subject in the executive, the public press and the public generally. Taking the cue from this increase in public interest, several new subjects, such as the Railway Budget, Public Undertakings, Democracy and Expenditure etc have been added in the present edition, old chapters have been enlarged and brought up to date and every attempt made to make the book as comprehensive as possible. In its present shape it is practically a new book.

We have chosen to adopt the British system of parliamentary government, under which Parliament, though theoretically sovereign, is really not much of a controlling influence in public finance, at any rate much less than the American Congress and its Standing Committees. Cuts in demands made for funds by the Executive are rare in U.K., while they are quite common in U.S.A. Accordingly, in India also, demands for grants are passed in exactly the form in which they are submitted, both at the Centre and in the States. Proposals for taxation are modified both in U.K. and in India, but cut motions are treated as involving confidence in Government and are invariably defeated. Proposals for examination of estimates of expenditure and revising them in committees of Parliament are made from time to time but never accepted.

There is some dissatisfaction with the present state of affairs both in U.K. and India. In U.K. since 1950 several parliamentary committees have dealt with the question of control of public expenditure, the latest being the Plowden Committee which reported in July 1961. This committee

has made several important suggestions, some of which should be adopted by us. It has recommended a major simplification in the form of the Estimates, which includes for the first time for each vote a statement showing how the total is divided between the categories which are used in the analysis in the National Income and Expenditure Blue Book. The British Government has accepted this recommendation. The Civil Estimates for 1962-63 recently published in the new form are designed not only to make it easier for the public to understand how and why the Government spends the money, but also to tighten parliamentary, Treasury and departmental control over spending. This is the first fundamental change in the way of presenting this part of the national accounts since 1866.

The same committee has suggested that regular surveys should be made of public expenditure as a whole, over a period of years ahead and in relation to prospective resources, decisions involving substantial future expenditure should be taken in the light of these surveys. With the principle of perspective planning which we have now adopted, it should be a natural step to make such a long-term survey of expenditure and resources and not confine it to Plan expenditure alone.

Parliamentary Committees in India for a long time had been criticising the over-budgeting and defective control of expenditure in their annual reports. It was accordingly decided in 1958 to make a change on the lines recommended by the Comptroller and Auditor-General. The Finance Ministry made large delegations of authority to the Administrative Ministries and also agreed that once a scheme was included in the budget no further financial sanction would be necessary. It was expected that the Audit Report 1962 would bring out the results of the experiment thus made. But the report placed before the Lok Sabha in June 1962 shows the same defects as in previous years. Despite the meticulous care taken in the preparation of the Estimates, the revenue received by the Government of India in the five years ending 1960-61 was in excess of the budget esti-

mates (except in 1958-59) while the expenditure (except in 1957-58) was less than the budget estimates. This resulted in the accounts closing with substantial revenue surpluses (except in 1958-59) although the budgets presented to Parliament during each of these years had anticipated revenue deficits. Substantial savings in the budget provisions have been a regular feature during all these years. The report says that "steps to ensure more approximate budgeting seem urgently called for".

Some external stimulus in the shape of a parliamentary investigation seems indicated.

30th July 1962
Cecil Hotel,
Simla.

P. K. Wattal

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(Throughout this book, one 'lakh' stands for one hundred thousand, and one 'crore' for ten million. The rupee is equivalent to one shilling and six pence.)

CHAPTER I

FINANCIAL CONTROL

Finance is the fuel of the administrative machine. Just as no motor car can run without petrol, so no government can function without finance. Apart from this, it is necessary that public revenue should be raised in an equitable manner and spent economically, so that the tax-payer may get full value for his money. In this sense, sound public finance is essential to good government.

The principles governing public finance closely resemble private finance in certain points and differ from it in certain others. Mr. Micawber, who never could keep his finances in order and was always dependent on something turning up, enunciated the golden rule of private finance in the following words :—

"If a man has twenty pounds a year for his income and spends nineteen pounds, nineteen shillings and six pence, he will be happy, but if he spends twenty pounds one shilling, he will be miserable".

The same rule applies to public finance. It is just as much necessary for a State as for a private individual to keep within its income. In some essential points, however, State economy is distinct from the economy of the private individual. An individual works with the idea of making a profit : the greater the profit he makes the more successful he is supposed to be. A State exists for the performance of certain services and not for the sake of making profits. The ideal of State economy is to establish a balance between receipts and expenditure. A State that has over a series of years very large surpluses is only slightly less ill-managed than one with large deficits. The best practical rule is to aim at a slight excess of receipts over outlay in order to prevent the chance of a deficit. The second main point of difference is that while an individual need not look beyond his own life-time, the statesman has to regard himself as trustee for the future and so regulate financial policy as not to impair the patrimony of the State. An individual is obliged to recognise the fact of death and to adjust his affairs accordingly. To take an extreme case, a man who has no one to depend upon him may, without criticism from anybody, convert his property into a life-annuity. The statesman cannot do this. He is called upon to manage the property of the people whose interests endure in

perpetuity. In matters of public finance it is incumbent that each succeeding administration shall find as broad a field from which to supply its needs and as fruitful a source of supply as the administration that preceded it.

It is generally accepted that democracy is an expensive form of government. This observation is as old as democracy itself, but in recent years the expensiveness of democratic administration has become more and more manifest. India is no exception to this general tendency. With the democratisation of government, the expenses of administration of India have increased very much. In 1913-14, for instance, when government was largely bureaucratic in character, the total central and provincial expenditure of undivided India came to Rs. 125 crores. The combined expenditure of the Government of India and of the State Governments for 1960-61 (Budget Estimates) was Rs. 2091 crores, or more than sixteen times the figure for 1913-14.

In addition to the expensiveness of democratic administration there is steady expansion of the functions of government with the transformation from the police to the welfare state, now so much in evidence. This means undertaking many activities previously regarded as lying within the field of private enterprise, and consequently leads to increase of expenditure.

Independence has increased the scope of Indian Government activities in the field of external affairs and defence and this has also meant more expenditure than previously. The special circumstances attending independence, such as partition, refugee relief and rehabilitation and strained relations between India and Pakistan are also responsible for new problems which have serious financial repercusions.

Agencies of Financial Control.

In parliamentary systems there are, as a rule, the following four agencies for the control of public finance :—

1. the Legislature,
2. the Executive Government,
3. the Finance Ministry,
4. the Audit Department.

The Legislature.

Control of public finance by the Legislature resolves itself into :—

(a) control over taxes and other revenue receipts ;
(b) control over expenditure ;
(c) control over borrowings; and
(d) control over accounts.

In democratic constitutions legislative authorisation is required for :—

(1) new taxes or increases in rates of existing taxes ;
(2) issue of public money for expenditure for any purpose ;
(3) raising public loans.

In addition, it is provided that the public accounts shall be audited by a statutory authority independent of the Executive Government and a report on the accounts submitted to the Legislature.

Though we have an elected President, we have chosen to follow the British system of responsible government rather than the American system based on the doctrine of 'separation of powers' of the Legislature, Executive and Judiciary. An inevitable corollary of this step has been that in matters of finance we have been obliged to adopt the practices and conventions of the British system of parliamentary government.

Under the American system, Congress has full power to alter the financial proposals of the Executive Government and exercises this power freely through numerous standing Committees. It can, and does, increase or reduce the proposed expenditure or taxation by any amount. There are no official members in the Legislature and consequently there is no question of Government being defeated. Sometimes, the Government has no majority in either House of Congress.

The Executive does not resign, as under the English system, simply because its proposals have not been passed in the form which it considers essential for the discharge of its responsibility to the public, any more than an Accountant-General would resign because his official superior, the Comptroller and Auditor General, has modified or turned down any proposal submitted by him. In this sense, the control of the Legislature over public finance under the American system is more real than it is under the English system.

The general principles which govern the financial action of parliament under the British system had their classic exposition in the language, often quoted, of Sir Erskine May:—

'The Crown, acting with the advice of its responsible ministers, being the executive power, is charged with the management

of all the revenues of the country, and with all payments for the public service. The Crown, therefore, in the first instance, makes known to the Commons the pecuniary necessities of the Government, and the Commons grant such aids and supplies as are required to satisfy these demands, and provide by taxes, and by the appropriation of other sources of the public income, the ways and means to meet the supplies which are granted to them. Thus the Crown demands money, the Commons grant it, and the Lords assent to the grant. But the Commons do not vote money unless it be required by the Crown; nor impose or augment taxes unless the taxation be necessary for the public service, as declared by the Crown through its constitutional advisers'.

The principles mentioned above may be summed up in four leading rules. The first rule regulates the constitutional relations between the Crown and parliament in matters of finance. The Crown, that is to say the king, acting through his ministers who constitute the executive government, cannot raise money by taxation, borrowing or otherwise, or spend money, without the authority of parliament.

The second rule regulates the relations between the two Houses of Parliament. The power to grant money in parliament, a power which includes both the raising of money by tax or loan and the authorizing of expenditure, belongs exclusively to the House of Commons. The House of Lords assents to, and may (except as provided by the Parliament Act) reject a grant of money, but cannot initiate or alter a grant.

The third rule imposes a restriction on the power of parliament to authorize expenditure. Parliament, that is to say, the House of Commons, cannot vote money for any purpose whatsoever, except at the demand and upon the responsibility of ministers of the Crown.

The fourth rule imposes a similar restriction on the powers of taxation. Parliament, that is to say, the House of Commons, cannot impose a tax, except on the recommendation of the Crown. Accordingly, any proposal for the levy of a new tax or for the increase of an existing tax must come from the Government. This rule applies only to general taxes, not to taxes levied by local bodies for local purposes which are known as 'rates'.

The statement and the rules given above are generally true (except for borrowings) in regard to Indian conditions, with the substitution of :—

(a) the President or Governor for 'the Crown';

(b) the Lok Sabha, or the Vidhan Sabha of a State, for 'the House of Commons';

(c) the Rajya Sabha, or the Legislative Council of a State, for 'the House of Lords'

Financial Committees of the Legislature.

The functions mentioned above are chiefly performed in sittings of the whole House or Houses of the Legislature. In addition, control over details is exercised through two Committees, the Estimates Committee and the Public Accounts Committee.* The composition and functions of these bodies are discussed in separate chapters, but it is necessary to state here that the Estimates Committee is mainly concerned with that aspect of financial control which relates to economy in the execution of the policy as approved in the Estimates passed by the Legislature, while the Public Accounts Committee is chiefly concerned with regularity of expenditure as disclosed in the public accounts. To a certain extent the functions of these two Committees overlap and we frequently find references in the reports of the Central Public Accounts Committee to observations made by the Estimates Committee on uneconomical expenditure and organization and methods of financial control. The powers of the Estimates Committees in India are wider than those of the Estimates Committee of the House of Commons. While the latter is restricted to making suggestions within the policy underlying a grant, the Indian Committees can (and do) suggest changes in policy itself which may seem desirable.

These committees have not the wide powers or functions of the Committees of the American House of Representatives and the Senate. In the U.S.A. the Estimates are discussed in detail by Committees of Appropriations of each House of Congress before they are submitted to the whole House. These Committees have large powers; they summon witnesses—official as well as non-official—and can call for public records. They usually make substantial additions and cuts in the official Estimates. The Estimates as revised by these Committees are discussed by the whole House, where again further additions and cuts are made. The Estimates as finally submitted for the

*In addition to these two committees, there is, as in other Ministries, an Informal Consultative Committee of Parliament on finance. This committee is summoned by the Finance Minister from time to time. No proceedings or reports are issued. Last time the committee met was in December 1960 when it discussed the question of deficit financing.

approval of the President may be quite different from those which the President originally submitted to Congress. While the House of Commons has to take on trust most of the details prepared for the Government by the Civil Service in Blue Books and White Papers, in America Congress has its own machinery for checking the proposals of the Executive and when, for example, it felt dissatisfied with the estimates for expenditure on the St. Lawrence Sea-way, it put that machinery to work and was able to show that the Executive's estimates were wildly extravagant. Under the parliamentary system which we have adopted, it is admitted **in theory** that Parliament is the sovereign and supreme body in matters of finance, but there is no instance in which Parliament, either in U.K. or in India, has effected a cut in the Estimates submitted by the Executive Government. All cut motions are treated as involving confidence in Government and are invariably defeated. Proposals to adopt the American Committee system are opposed by Government and rejected. Consultative Committees of Parliament are attached to some Ministries and suggestions are often made in Parliament that they should be given wider powers, if not on the same lines as in U.S.A. But even such suggestions are turned down by the Government. It is said that policy is a Ministerial and executive responsibility. That is true, but the point is how the executive can be held effectively responsible. The present system reduces parliamentary control of public finance to a farce.

Even in U.K. members of Parliament have begun to demand real control over public finance and the Leader of the House of Commons last year gave an assurance that Government would soon introduce a changed system of parliamentary control. Perhaps, we in India are waiting for such a change.

Entry 14 in List 1 of the Seventh Schedule of the Constitution of India gives the Government of India the right to enter into and implement treaties with foreign countries. In September 1960, the Prime Minister signed at Rawalpindi the Indus Waters Treaty between India and Pakistan, by which India agrees to make a fixed contribution of £62 million (Rs. 83 crores) towards the cost of certain irrigation works in Pakistan in ten equal annual instalments payable on November 1 each year. The treaty was subsequently ratified by the Government of India. Parliament was not consulted or asked to give its approval at any stage. The matter came up in the November session of the Lok Sabha and it was urged that the treaty should not have been

ratified, particularly as it contained financial liabilities, without the approval of Parliament. The Speaker ruled that treaty-making was a primary right of the Government. He also conceded Parliament's ultimate right to throw out the treaty and gave the clear verdict that not a **naya paisa** could be spent out of the Consolidated Fund of India without parliamentary approval. The matter came up again at the time of the appropriations debate in December 1960 when a supplementry demand for India's first payment under the treaty was made. But with the commitment already made Parliament had to agree to pay the instalment due to Pakistan under the treaty.

In the U.S.A., ratification of a treaty with a foreign power is vested in the Senate, and not in the President. In U.K., where treaty-implementing authority vests in the Crown, a tradition has been established to refer treaties concerning transfer of territory, the rights of the citizen and financial commitments to Parliament for approval. In India Parliamentary approval to transfer of territory is sought, as in the case of the agreement with France on the transfer of Pondicherry to India (made at the behest of the French Government) and the transfer of Beru-Bari to Pakistan. But a clear pattern has yet to emerge: the pattern that has emerged so far leaves much to be desired.

The Executive Government.

Control in all matters of policy, in finance as in administration, vests in the government as a whole and not in any one department of government. Expenditure depends upon policy and economy in administration is subordinate to this fundamental consideration.

General questions, such as fixing the financial powers of each administrative authority, pay, leave, travelling allowances and pension rules of government servants etc., whose effect is felt over the entire administration, come to be determined by the government as a whole.

In recent years, it has come to be recognised that the ultimate responsibility for both economy and efficiency must be placed squarely on the shoulders of administrative departments. Centralisation of financial authority leads not only to delays in the execution of works which by themselves add to the expenditure on big projects, but, what is far worse, it breeds a sense of irresponsibility in the administrative Ministries. They begin to feel that economy in administration is not their concern and that,

unless they inflate their expenditure estimates, they will not get the right amount of provision, as the Finance Department will in any case make cuts as a part of their inherent rights. It was on much the same grounds that Lord Mayo's Government in 1871 made financial settlements with the provinces and gave them an interest in economical administration. The Sixth Report of the Estimates Committee of the House of Commons (Session 1957-58) brought to light this new phase in the control of expenditure in U.K. in the following words :—

> "Ideally, the financial implications of all policy proposals should be fully considered by both the Treasury and Departments before any decision is taken. To achieve this it is not enough to discuss policy when and if proposals are submitted to the Cabinet. All policy proposals should be discussed between the officials concerned at the earliest possible stage and should continue to be thrashed out in partnership as the proposals mature, both informally and at the meetings of inter-departmental Committees. In this way the Treasury should be able to see what the Department has in mind in its proposals, and to appreciate the Department's problems and so be better equipped to criticise them; in this way too (and this is most important) the Department should be forced to face the financial implications from the inception of the proposed policy". (Paragraph 12 of the Report, printed July 23, 1958.)

Another important point which the above Report has emphasised is the danger of a thing living on its legend and going on because it was approved four or five years ago, without any one saying 'Why are we doing this' ? This applies as much to policy as to administrative matters. In a way this tendency is helped by the budget procedure, which requires estimates to be divided into two parts : (i) standing charges; and (ii) new schemes of expenditure. It is taken for granted that expenditure estimates in category (i) will be passed without any scrutiny at all, whereas only items in category (ii) will receive scrutiny in the Finance Department. In this way administrative and financial authorities acquire the habit of slackness and let dead wood continue without pruning for years and years. As the above-mentioned Estimates Committee of the House of Commons point out :—

"It is uneconomical for a good new policy to be rejected or cut while a less worthy policy is allowed to carry on without modification. Not only must new policies be scrutinised, but current policies must be as carefully reviewed". (Paragraph 17).

It is obvious that such a review of current policies cannot be carried out without the active cooperation of the administrative Departments. The Finance Department has neither the time nor the capacity for such a stupendous task. A new spirit must pervade the Administration, which must feel its peculiar responsibility in the matter. The morale of the services must be raised, particularly of classes II and III, at least to the level reached in British days.

The Finance Ministry.

The administration of public finance is the concern of one particular branch of the Executive Government known as the Finance Ministry (at the Centre), or the Finance Department (in the States). The main function of the Ministry is to see that economy is enforced in the spending of public money by the administrative departments. Every public servant is under an obligation to exercise the same care and vigilance in the expenditure of public money as a person of ordinary prudence would exercise in respect of expenditure of his own money. This, however, is a counsel of perfection and detailed guidance is needed for the conduct of day-to-day administration. This guidance is provided by the Finance Ministry.

In addition, the Finance Ministry has to see that administrative departments keep within their budget grants, that they do not get more funds than they are able to spend within a financial year, that they surrender savings in good time before the close of the year, etc. In regard to such matters, the administrative departments are primarily responsible to Parliament, but the Finance Ministry has to see that they are given the requisite staff for this purpose and that this staff is carrying out its duties competently. The Finance Ministry receives periodically progress reports from the spending departments and is in a position to advise them and control their activities, should it find that the progress of expenditure is such that Parliament would be obliged to intervene sooner or later.

A third function of the Finance Ministry is to act as a coordinating authority. Each department knows its own work and the conditions under which it is carried on. The Finance

Ministry also knows at what cost similar work in other departments is carried on and is in a better position to review and compare and thus obtain the best results at minimum cost. It has also to oversee the trend of Government expenditure as a whole and its distribution between the various aspects of the national economy and to fit the claims of any one department into the general frame-work.

In the States, the Finance Minister is generally given additional charge of administrative departments, mostly of a spending character. This is done because, apart from the short-lived pressure of the budget season, the Finance Department does not by itself provide enough work for a Minister. This cannot but affect his position of detachment vis-a-vis administrative Ministers. At the Centre, the Finance portfolio is a whole time charge, but the expenditure for which the Finance Ministry is responsible has increased very much in recent years.**

In order that the Finance Minister may function effectively, he should either be a leading member of the party in power or he should receive strong backing from the Prime Minister (or Chief Minister) whenever there is a difference of opinion between the finance and the administrative departments. The Finance Department cannot by itself overrule any administrative department, and unless its 'no' is treated as final in regard to matters of detail, effective control of expenditure is hardly possible. It is said that the British Treasury enjoys such a position of primacy that it can almost refuse applications from departments without giving reasons, the onus being considered to be on the departments themselves to justify their proposals. As a recent writer said, the power and unpopularity of the Treasury rise like twin Everests above the lesser peaks of the spending departments, with its call signal, once observed by Gladstone, to be "No, No, No" heard ringing through the ages.

This position of primacy for the Finance Departments in India has generally been lacking, except in those States where the finance portfolio is held by the Chief Minister himself. Such a position can, however, be given only in a well-defined sphere. There is a certain line beyond which no Finance Department can be permitted to go. In matters of policy the ultimate decision must be of the government as a whole and not of any one department. The Finance Department can neither dictate nor veto policy. All that it can do is to put

** For 1961-62, the Finance Ministry presented 23 Demands and 3 Appropriations for charged expenditure, totalling in all Rs. 6,500 crores.

before the government all the possible financial implications, the immediate cost as well as the ultimate commitment, so that government may come to a right decision. For instance, if the government proposes to introduce prohibition the Finance Department can only invite its attention to the diminution in revenue and increase in expenditure (on preventive staff) that it will entail. But in the last resort, in this as in every other question, considerations of public policy must prevail and the decision of government as a whole must be given effect to, whatever the views of the Finance Department may be.

(a) Control Over Revenue

It is obviously necessary for efficient management of public finances that the Finance Department should exercise control over both incomings and outgoings of the public purse. A unified control of expenditure and of revenue secures an overall picture of the fluctuations in the receipt and expenditure of the Government throughout the year and is therefore conducive to better financial control. While the position of the Finance Department in relation to expenditure is generally conceded in this country, its position in relation to revenue in the States is somewhat restricted. In Great Britain, the administration of revenue is exercised by the Board of Inland Revenue and the Board of Customs and Excise, which are both subordinate departments of the Treasury. Consequently, the control of the Treasury over public finances is complete and not one-sided.

Owing to the variety and magnitude of the problems involved, the administration of land revenue is entrusted to a separate authority, namely, the Revenue Department, which has its own codes and rules for the assessment, collection and remission of revenue and over the operations of which the control of the Finance Department is limited. The same remark applies to water rates, excise, stamps, registration and forests, which are the main heads of state revenue. Sales tax, which in some States is rising fast in comparison with land revenue, is administered by the Finance Department. But no department may, without previous consultation with the Finance Department, issue any orders which involve any grant of land or assignment of revenue or concession, grant, lease or licence of mineral or forest rights or a right to water power or any easement or privilege in respect of such concession, or any relinquishment of revenue for which credit has been taken in the budget. The Finance Department receives periodical reports of progress of

the collection of revenue and is entitled to advise the departments responsible for the collection of revenue regarding the progress of collection and the methods of collection employed.

The revenue system at the Centre is organised on the British system. The Central Finance Ministry has under its own control the Central Board of Revenue, which is responsible for the administration of the major portion of the Central Revenues, such as Customs, Central Excise Duties and Taxes on Income. The Board functions both as a Secretariat to Government responsible for the revenue policy of Government and also as the executive authority responsible for the collection of revenue.

Parliamentary control over revenue is much less than over expenditure. While there are two Committees, the Estimates Committee and the Public Accounts Committee, to scrutinise expenditure there is no parliamentary committee to look into revenue matters. The Central Estimates Committee recently submitted a report on the Central Board of Revenue, but chiefly on the organisational side.

(b) Control over Expenditure.

Certain powers of sanction to expenditure have been delegated to administrative ministries and heads of departments working under each Ministry. All powers not so delegated are reserved to the Ministry of Finance (or the Finance Department). Moreover, without the previous consent of the Finance Ministry, no expenditure may be sanctioned for which there is no provision in the budget, or which involves the introduction of a new principle or practice likely to lead to increase of expense.

The Audit Department.

We now come to the fourth and the last of the agencies of financial control mentioned in this chapter, namely, the Audit Department. The practical genius of the British race, which, after a protracted struggle with the Crown, hit upon the device of the responsibility of the Ministers of the Crown to Parliament and enforced this responsibility through the power of voting supply, followed it up with the independence of audit and its responsibility to Parliament. For, it was found by long experience that it was no use Parliament voting an amount for a particular purpose if the Executive was free to spend the money as it liked, without Parliament knowing whether its behests were complied with or not. That the Auditor should be independent

of the heads of the administrative departments was conceded long ago, but that he should be independent also of the Executive Government and report to Parliament irregularities in the application of moneys voted by Parliament was not so easily conceded. The Exchequer and Audit Departments Act of 1866 embodied this principle for the first time and is one of the lasting contributions of Gladstone to the solidity of the British financial system. This principle has since been adopted in other countries with parliamentary systems of government.

When the question of independence of audit was first raised in India, the Government of India in its despatch to the Secretary of State for India dated July 11, 1912 proposed (i) that the Auditor-General should be appointed by the Governor-General, and that he should be removable from office only by the Governor-General; and (ii) that he should have the right of direct access to the Governor-General. The Marquis of Crewe, who was then Secretary of State for India, queried these proposals and desired to have the opinion of the Government of India on the proposal that the chief audit officer should be appointed and be removable only by the Secretary of State for India. In their despatch dated February 7, 1913 the Government of India expressed itself against this proposal in the following terms :—

"We feel constrained to invite your Lordship's attention to the political aspects of the case which to our mind cannot be left out of account. Whatever may be the theoretical arguments in favour of an independent Auditor we cannot help feeling that such independence will inevitably be interpreted as an admission that the Governor-General and the Government of India either have proved themselves incapable of controlling, or that doubts are entertained regarding their desire or ability to control, expenditure in India. The implication is one no doubt which your Lordship would repudiate, but we have to consider how the matter would appear to the outside world, and on the broadest grounds we doubt the expediency of appointing in India any officer whom it is declared to be necessary, for the reasons we have indicated, to place outside the control of the Government of India. The step, it is clear to us, would be derogatory to the position both of the Government of India and especially of the Governor-General, and we need not emphasise to your Lordship the very serious objections to the adoption of a measure which might produce so unfortunate a result".

At that time, Sir Guy Fleetwood Wilson, who had come from the British Treasury, was in charge of Indian finances. He

dissented from this view and in a minute of dissent expressed himself as follows :—

"I regret to be in opposition on this question to the majority of the Council; but a principle of paramount inmportance is involved, and the duty of supporting it leaves me no option but to record my dissent.

This principle is that the Auditor-General should be subordinate to no other than the authority finally responsible for the sanctioning of the expenditure which he audits. An auditor is a judicial officer. Primarily, his duty is to determine what authority should sanction the expenditure involved. It is essential that the conditions of his office should enable him to discharge this duty without fear or favour, and this he is not in a position to do, so long as he is dependent on an authority whose orders, under the rules prescribed for his guidance, he may have to challenge.

Honest and sound finance has become essential to our very existence, and **the only way to insure honest and sound finance is to subject the expenditure to the searchlight of independent audit."**

In his despatch dated November 28, 1913, the Secretary of State for India accepted the view expressed by Sir Guy Fleetwood Wilson and overruled the Government of India on this point. Since then, the Government of India Acts and now the Constitution of India have embodied the principle of independence of audit as a part of the law of the land. The apprehensions expressed by the former Government of India regarding the independence of audit only excite amusement at this distance of time.

The whole structure of parliamentary financial control is based on the appropriation of expenditure. Appropriation implies three things :

(i) A sum appropriated to a particular service cannot be spent on another service.

(ii) The sum appropriated is a maximum sum. The whole amount need not be spent, if the same result can be achieved by a smaller expenditure.

(iii) It is available only for the year for which it is voted, and consequently any unspent balance has to be surrendered.

Though the responsibility for adhering to the wishes of the Legislature is placed on the Executive, the Audit Department scrutinises the results of executive action in so far as they are revealed in actual expenditure. Breaches of the intentions of the legislature in matters of appropriation are brought to the notice of the Public Accounts Committee by the Comptroller and Auditor-General in his reports on the appropriation accounts. In this capacity, audit acts on behalf of the Legislature.

While, in theory, the Executive cannot spend more than what the Legislature has sanctioned, cases of **ex post facto** sanction to unprovided expenditure are quite common. This has led to the suggestion that the rules should be amended to make it obligatory on the part of Government to consult the Public Accounts Committee before incurring any expenditure not sanctioned by the Legislature. The difficulty in accepting this suggestion is that the sanctioned expenditure is not centrally controlled and the controlling authority has no mechanism to find out the progress of expenditure at any particular time. A mechanism has to be devised whereby there would be greater control over expenditure. Till a more centralised form of payments is developed, one has to reconcile oneself to the position obtaining now.

Audit also acts in another capacity, and that is on behalf of the Executive Government. Government prescribes the financial powers of its officers and lays down rules and regulations for the conduct of financial business, the maintenance of accounts, the receiving, paying and keeping of public money, etc. There obviously ought to be some agency which should see that the orders of Government are not disregarded. Audit is this agency. Wasteful expenditure or disregard of economy in the application of public funds are also from time to time brought to notice by audit. In this respect, audit may be said to be the eyes and ears of the Finance Department, for through it alone the Finance Department can know how things are going on.

General Observations.

The two main principles to be observed in any system of financial control are economy and regularity, and the success of any system must depend upon the vigour with which economy and regularity are observed in day to day administration. The

distinction between regularity and economy is a thing worth remembering in financial administration. By regularity is meant the spending of money for approved purposes and with the sanction of duly constituted authority. Economy means getting full value for your money. The two are not necessarily the same thing. It is generally true that irregularity in the spending of public money will lead to extravagance and to this extent checking irregularity is of great importance. But it is also true that one may spend money without committing irregularity of any kind and yet spend it wastefully.

It will be seen from what has been said in this chapter that the machinery of parliamentary control of public finance is intended primarily to secure regularity only. It is designed to ensure that the Executive Government does not spend money for any purpose which the Legislature does not approve of and that for purposes which it does approve the Government does not spend more than the Legislature has voted. Constitutionally, this is important, but from the point of view of the tax-payer economy is more important. Economy is looked after by the Executive Government and more particularly by the Finance Department. It must be the active concern of the officers of the Executive Government who are responsible for the carrying on of administration. For this reason, it is necessary that a high standard of public duty should prevail in the Services. There can be, and is, no better safeguard of economy.

Recently, the Public Accounts Committees have begun to attach great importance to the observance of economy in the administration of expenditure and what is known as 'higher audit' receives much encouragement from these parliamentary bodies. The reports of these committees receive much publicity and comment in the public press. They also furnish material to members of Parliament in dealing with budget proposals and, particularly, the demands for grants. The Secretaries of these committees watch the implementation of their recommendations with great care, and though, in the last resort, the view of the Executive Government (conscious of its majority in Parliament) prevails, the elucidation of the points of view involved has a salutary effect.

CHAPTER II

THE MINISTRY OF FINANCE

The duty of financial control is entrusted to the Ministry of Finance, which is one of the Ministries created since 1860 for the orderly conduct of financial business in India. It functions within the field of jurisdiction of the Union Government. In the States, there is a Finance Department for each Government, with much the same functions, except that the policy in regard to all-India matters and economic questions such as currency, banking, exchange, regulation of prices etc. is laid down by the Centre.

The Ministry of Finance functions both on behalf of Parliament as well as the Executive Government, in much the same way as the Treasury does in U.K. But there is this important difference that whereas the Treasury in U.K. has latterly been given a statutory basis, the Finance Departments in India are mentioned only in the Rules of Business framed by the President (or the Governor) under Article 77(3) (or Article 166(3) for the States) of the Constitution of India. No Act passed by Parliament or any State Legislature recognises the existence of the Finance Department or imposes any duties in the manner in which it is customary to do so in U.K.

The Treasury in U.K.

In the U.K., there has been an embryo Treasury from the earliest times. The Treasury was originally a part of the King's Household. It collected the King's revenue much as the great landowners collected theirs. The development of the Treasury as a Department of State, exercising increasing control over financial affairs was bound up with the evolution of parliamentary government, and the struggle whereby Parliament gradually established control over the raising of the revenue and its expenditure.

The first stage in the development of Treasury control of expenditure was the emergence of the doctrine "Redress of grievances before Supply", in other words, Parliament would not vote financial supplies to the King until he had agreed to stop doing certain things to which Parliament objected, or had undertaken to do something which Parliament wanted done.

Later on, Parliament adopted the practice of voting money for specific purposes. The finishing touch to the present system of parliamentary control was the appointment under the Exchequer and Audit Departments Act of 1866 of the Comptroller and Auditor-General, responsible to Parliament and not to the executive branch of the Government.

The evolution of Treasury control mirrors the gradual establishment of parliamentary control over revenue and expenditure. Because of this parallel development there is in many fields no express statutory basis for Treasury control in the broadest sense. It derives by custom and constitutional practice from the Treasury's position as the Central financial authority. For example, in the case of new Departments created by statute during this century, Treasury consent to staff numbers and rates of pay has been prescribed in the statute; yet the Treasury has in practice exactly the same controls over the older Departments not set up by statute.

The development of the link with parliamentary control can be seen in other ways. In 1861 it was laid down by the Public Accounts Committee that the Estimates of Departments must be approved by the Treasury before they are presented to Parliament. And, indeed, the Estimates of the Civil Departments are presented by the Financial Secretary to the Treasury (and not by the Ministers-in-Charge). Further, the existence of Treasury control was recognised by the Exchequer and Audit Departments Acts of 1866 and 1921.

Though it is difficult to produce any precise definition of expenditure for which Treasury approval is necessary, the position may be briefly stated as below :—

> "Treasury approval is necessary for every new item of expenditure, for any new service, or for any change of policy which involves an increase in expenditure, subject to any delegated authority which may have been given to particular Departments in particular fields of expenditure. But a description of expenditure which requires Treasury approval is not a complete guide to the scope of Treasury control, because the Treasury can, and does, also intervene to question the scale or the continuance of expenditure which does not require specific approval, or which has previously received it. The most probable occasion for such intervention is the annual scrutiny of Estimates".
>
> (Treasury memorandum submitted to Sub-Committee D

of the Select Committee on Estimates of the House of Commons printed in its Sixth Report dated July 23, 1958—paragraph 19).

Though the nature and extent of Treasury control depends upon its relationship to Parliamentary control, it also depends upon the relationship between the Treasury and other Departments of Government. The view of Government finance which has won acceptance is that finance is something integral with policy and cannot be dissociated from it. The Estimates of a Department are, therefore, in some sense the embodiment of that Department's policy. In conformity with this theory, now-a-days, the Permanent Secretary of each Department who is responsible for advising his Minister on policy is also the Accounting Officer, thereby symbolising the association of finance and policy. A Finance Officer is appointed to each major Department of State, who is responsible for giving financial advice to the Permanent Secretary. The latter can overrule the Finance Officer, but he must simultaneously report the fact to the Treasury and the Comptroller and Auditor-General. Owing to the existence of a single Civil Service, officers with Treasury and administrative experience are easily available for appointment as Finance Officers. The control of the Civil Service is vested in the Treasury.

Treasury control of expenditure forms only part, together with Parliamentary and Departmental control, of the machinery for limiting and directing the expenditure of voted money by the executive. Parliament, in voting money under broad heads, expects the executive to show due regard for economy in their requests for authority to spend and in their spending Parliament specially relies on the Chancellor of the Exchequer, as the Minister responsible for raising the revenue and, now-a-days, for managing the national economy, to exercise the major control (within the executive) over the total of Government expenditure. Although much and increasing responsibility has been given to the spending Departments to determine the patterns of their own expenditure in detail, here too the Chancellor has an interest and a responsibility. As the Select Committee on Estimates says in its Sixth Report (Session 1957-58) :—"It is largely, then, to the Chancellor of the Exchequer, and his advisers in the Treasury, that Parliament must look to see that there is effective control of both the total and the detail of Government expenditure".

The final court of appeal in the event of disagreement between the Treasury and the Department concerned is the

Cabinet. Only the Cabinet can express a collective judgment about whether a particular scheme, which may be sound in itself, can find a place in the Government's programme as a whole. This aspect was highlighted by the resignation of the then Chancellor of the Exchequer, Mr. Peter Thorneycroft, in January 1958 over a difference of opinion regarding a provision of some £50 million in the Education Estimates.

Treasury control is thus, on the one hand, closely linked with Parliamentary control of expenditure, while, on the other hand, it is part of the general process of settling Government policy and deciding how much money the Government can afford to spend, and on what.

The Ministry of Finance.

At the head of the Ministry of Finance (at the Centre) is the Finance Minister who is of Cabinet rank and occupies a position of importance, though not necessarily next after the Prime Minister. In addition, there is the Minister-in-charge of Revenue and Civil Expenditure, whose designation explains his functions. He is a Minister of State and is not of Cabinet rank. There are, at the time of writing, two Deputy Ministers who assist the Finance Minister in the disposal of parliamentary business and deal with such work as he allots to them.

The Ministry of Finance is responsible for the administration of the finances of the Central Government and for dealing with financial matters affecting the country as a whole. It arranges for raising the resources for carrying on the administration and regulates the taxation and borrowing policies of the Government. It deals with all problems connected with banking and currency, and in consultation with the Ministries concerned arranges for the proper utilisation of the country's foreign exchange resources. In cooperation with the administrative Ministries it controls the entire expenditure of the Government of India. A list of the subjects dealt with in the Ministry of Finance is given in Appendix 1.

The duties and powers of the Ministry of Finance are regulated by the Rules of Business referred to at the commencement of this chapter. Under these rules, no proposal affecting any subject which belongs to the Ministry of Finance shall be brought before a meeting of the Cabinet or be circulated amongst the Ministers unless it has originated in or has been referred to and considered by the Finance Ministry. Moreover, no proposal

involving an abandonment of revenue, or involving expenditure for which no provision has been made in the budget or to which, though provision has been made, proper financial sanction has not been accorded, shall be brought for the consideration of the Government or of Parliament, nor shall any orders giving effect to such a proposal issue, without a previous reference to the Ministry of Finance. These provisions, however, do not operate to prevent a Ministry of the Government of India from exercising any power of sanctioning expenditure or of appropriating funds which have been assigned to it, specifically or generally.

In order to discharge the responsibilities entrusted to it, the Ministry of Finance is organised into three Departments; Expenditure, Revenue and Economic Affairs, each with a Secretary at the head. Each Department has a number of 'Divisions' headed usually by a Joint Secretary. Some 'Divisions' are headed by Additional Secretaries. Included in Divisions are 'Wings' headed usually by a Deputy Secretary.

(a) The Department of Revenue.

The Department of Revenue is in over-all control and supervision of the administration of all direct and indirect Union taxes. This control and supervision is exercised under a different designation, namely, the Central Board of Revenue. The Board—created under the Central Board of Revenue Act, 1924—is entrusted with administration of about fourteen revenue laws, the most important of which are the Income Tax Act, the Sea Customs Act and the Central Excises and Salt Act. Apart from its general functions as the Board under the respective revenue laws, the most important function of the Department of Revenue is that of advising the Government on fiscal policy. This necessitates constant review of the tax structure, examination of fresh proposals of taxation and promotion of legislation for modification of the tax structure or for additions thereto.

The Board is the statutory appellate authority for appeals under the Customs and Central Excise laws and for hearing appeals with regard to the valuation of property and determination of liabilities under the Estate Duty Act. There is a separate tribunal for income tax appeals. The Law Commission was of the view that this tribunal should be abolished and the work of appeals transferred to the High Courts, but Government have not accepted this recommendation.

The Central Board of Revenue consists of four Members who are ex-officio Joint Secretaries to Government. The Member in charge of Income Tax is designated Senior Member. Each Member is individually responsible to the Minister (in charge of Revenue and Civil Expenditure) in respect of the subjects allotted to him and acts directly under his orders.

The Department of Revenue is the same body as the Central Board of Revenue except for the Secretary to Government in the Revenue Department. The members of the Board have a statutory as well as a Secretariat status to enable them to issue orders of Government. While advising Government on policy matters and communicating the orders of Government they function as the Department of Revenue and while carrying out the revenue policy of Government they function as the Board of Revenue.

Parliamentary discussions on the working of the Department of Revenue make frequent reference to the large arrears in the collection of income tax. It was pointed out by the Finance Minister in August 1960 that the **effective** income tax arrears on March 31, 1960 amounted to Rs. 133.61 crores as against Rs. 152.36 crores on the corresponding date in 1959. It is stated that had Government machinery paid more attention to the collection of dues fresh taxation in recent years would largely have been avoided.*

The cost of collection of taxes has also come under criticism by the Estimates Committee. It is said that the cost is much higher in India than in the U.K. or the U.S.A. Taking the latest figures available for 1959-60, for a tax revenue of Rs. 639 crores, the cost of collection is Rs. 21 crores, or about 3.3 per cent. It should be much less, nearer 2 than 3 per cent.

In a poor country like India, taxes on individuals play a relatively smaller part than taxes on commodities. For the year 1960-61, taxes on income constituted 23 per cent of the total revenue, whereas Union excise and customs duties constituted 52 per cent. Taxes on income are believed to have reached a saturation point, and the greater part of the revenue for the Third Five-Year Plan will have to be collected from an expansion or intensification of Central Excise Duties. The poorer

*The number of pending cases relating to taxes on income is increasing from year to year, as figures given below will show :—

1957-58	4,42,044
1958-59	4,56,579
1959-60	5,09,275

Annual Report of the Finance Ministry for 1960-61, page 5.

classes, who form the bulk of the consumers, will naturally be hit more severely in the process, but in the present economic condition of the country this is unavoidable.

The Department of Revenue also deals with Sales tax & is responsible for administering the Central Sales Tax Act, 1956. It deals with problems arising out of the levy of Sales tax in India and with the scrutiny of Sales tax legislation referred to the President for his recommendations or assent. It also administers local Sales tax in the Union Territories.

(b) The Department of Expenditure.

The control of expenditure and the enforcement of economy in administration is the main job and the chief reason for the creation of a finance department in a government. The growth of expenditure since independence has been attracting the attention of Parliament every year, but the practical result is almost nil. It is recognised that there has been a growth in the activities of the Government since independence, but the growth in expenditure need not have been on the scale given below. Figures for expenditure on civil administration alone from 1948-49 to 1961-62 (Budget) are as under :—

	(Expenditure in lakhs of rupees)
1948-49	35,50
1951-52	53,67
1955-56	94,08
1956-57	122,29
1957-58	168,00
1958-59	193,49
1959-60	226,01
1961-62 (Budget Estimate) ...	231,83

(Government of India, Budget Memorandum, 1961-62, page 106)

Departments now-a-days are judged by the amount they have spent against the grant allotted to them for any particular year rather than by the results accruing from the expenditure incurred. The result is a fostering of the spirit of expenditure rather than of economy. The growth in staff has been on an unprecedented scale. Not less than one-third is superfluous. As an instance, might be cited the Home Ministry, which in 1933 (for undivided India) had on its superior staff one Member of Council, one Secretary, one Joint Secretary, two Deputy Secretaries and one Under-Secretary. In 1961 it

had one Minister, two Deputy Ministers, one Secretary, two Additional Secretaries, four Joint Secretaries, fourteen Deputy Secretaries and twenty three Under-Secretaries. The same is the case with other Ministries. Decentralisation of authority and jurisdiction on a large scale is clearly indicated. Expenditure on buildings and other public works has recently assumed huge proportions—about Rs. 1000 crores during the Second Plan period. All of it is neither necessary nor productive. Similarly, expenditure on printing is more than half wasteful. It is said that nearly 100,000 copies of the Second Plan were printed in the major South Indian languages, which were lying on the hands of the Department. Even the pursuit of economy has become a fad and special branches are maintained for enforcing it (with very little result) for which there should be no need if a spirit of thrift pervaded the spending departments.

The Department of Expenditure is sub-divided into the following four main Divisions:

(1) Establishment Division.
(2) Economy Division.
(3) Civil Expenditure Division.
(4) Defence Expenditure Division.

Establishment Division.

As its name implies, this Division deals with expenditure on staff and the administration of the various financial rules and regulations relating to conditions of service of Central Government employees.

Economy Division.

The Economy Division conducts, through a Unit called the Special Reorganisation Unit (S.R.U.), work studies in Ministries etc. with a view to economy and efficiency and imparts training in work study techniques.

It is understood that the Organisation and Methods Division, which previously worked as a part of the Cabinet Secretariat, has recently been merged in the Special Reorganisation Unit. The work of this unit comes under review in Parliament every year.

Civil Expenditure Division.

This Division consists of six "Wings" each headed by a Joint Secretary. The revised arrangements for budgeting and

financial control introduced with effect from August 20, 1958 govern the duties of this Division. The essence of the new arrangement is that the major scrutiny of the Finance Ministry in respect of any proposed expenditure is exercised before the budget is framed. Subject to the observance of any general or special directions issued by Government from time to time in regard to standards of expenditure etc. and subject to the existence of budget provision, administrative Ministries are free to issue sanctions to expenditure, except that in regard to schemes which involve a total outlay exceeding Rs. 50 lakhs, the prior concurrence* of the Finance Ministry is required. Where, however, the scope of a scheme previously accepted by the Ministry of Finance is substantially altered, even though the total cost may not be exceeded, or, if the total cost of an accepted project is likely to be exceeded, a reference to the Finance Ministry is necessary. As a part of the revised arrangements, Ministries have also been delegated wider financial powers. To assist them in exercising these powers they have been provided with Internal Financial Advisers with the necessary supporting officers and staff. These officers are employed on financial, budgeting and connected work and assist the Administrative Ministry in regard to the control of expenditure against appropriation. They are also associated with the formulation of proposals for inclusion in the budget from their inception** and are consulted in all financial matters arising in the Ministry. Their cost is borne by

*The use of the word 'concurrence' deserves to be noted. In relation to expenditure pertaining to administrative Ministries, the Finance Ministry only accords 'concurrence' while the administrative Ministries accord 'sanction'. Such 'concurrence' is required in matters beyond the financial powers delegated to administrative Ministries. The same applies to the Finance Ministry in relation to expenditure administered by it. It accords 'sanction'; but where the Finance Ministry is acting beyond the powers delegated to it as an administrative Ministry, the 'concurrence' of the Ministry of Home Affairs is required. This is based on the cardinal principle that no person should act as a judge in his own case.

**Sir Edward Bridges, a former Permanent Secretary to the British Treasury, in his Stamp Memorial Lecture 1950 lays stress on associating financial advisers with expenditure proposals FROM THEIR INCEPTION in the following terms :—

"If full benefit is to be derived from economic (or indeed other) advisers, it is no use putting them in a separate compartment from those who are engaged in the day-to-day work of administration in those fields in which advice is needed. Advisers must be given access to the same sources of material as those on which the administrators are working. They must live cheek by jowl with them and share their anxieties and aspirations. Only so can advisers make their influence felt at the early stages when facts are being sorted out, theories are beginning to emerge and the first pointers to future policy are being formulated"

the Ministry to which they are attached. In addition, there are External Financial Advisers working in the Civil Expenditure Division of the Ministry of Finance, who deal with matters requiring consultation with or concurrence of the Department of Expenditure.

A modification has been made in this arrangement in respect of certain Ministries. Instead of two sets of Financial Advisers, one Internal and the other External, some administrative Ministries have a combined financial advice set-up, under which the officers of the Finance Branches of the Ministries concerned function, in addition, as 'external' financial advisers. For the purpose of administrative control, the officers and staff of the Finance Branches of such Ministries have been brought over to the Department of Expenditure. The combined arrangements* are expected to ensure the avoidance of unnecessary duplication of work and also ensure the economical utilisation of manpower available for financial advice work. In other words, they have reverted to the status quo ante August 1958.

Where there are two sets of Financial Advisers, it has been laid down that where the advice tendered by the Internal Financial Adviser of a Ministry is not accepted by the Secretary of that Ministry, the case will be brought to the notice of the Minister-in-charge concerned and, in addition, a monthly statement giving a summary of the differences and the final decision taken will be furnished to the Secretary, Ministry of Finance (Department of Expenditure) and to the Comptroller and Auditor-General. A similar arrangement exists in the U.K.

The revised arrangements mentioned above were introduced to satisfy the administrative Ministries which felt that the existing procedures of budgeting and incurring of expenditure acted as a deterrent to progress in the speedy execution of development schemes. As the Prime Minister once remarked, nothing is more expensive than delay.** The main demand was that schemes

* Such combined arrangements exist at the time of writing in the case of all the Ministries, except the Ministries of Home Affairs, Labour and Employment, Irrigation and Power, and the Departments of (i) Mines and Fuel, and (ii) Transport.

** How far the need for financial control and regulation should prevail over speedy execution of projects and a quick return on investments was tested by the recent accident to the hoist chamber at Bhakra. The previous procedure was so cumbrous that no effective action could be taken in time before the next monsoon when nothing much could be done. It was accordingly decided to change it drastically and confer very wide powers on the engineers engaged in the task. The result was that they were able to repair the damage in good time before the mon-

once accepted in the budget should not be subjected to a second scrutiny in the Ministry of Finance. That only meant that the Ministry of Finance would be stricter in accepting schemes in the preliminary stages. The obvious remedy was to endow the Ministries with larger financial powers and to equip them with trained personnel to give financial advice. This is the practice now prevailing in U.K. where the old Gladstonian tradition of the Treasury indulging in 'cheese-parings and saving of candle-ends' has been discarded in favour of the theory of partnership between the Treasury and the Departments of State in economic administration and financial control. The view that prevails now is that economy is not something to be imposed on other Departments by a Treasury acting, in the words of Sir Warren Fisher, then Permanent Secretary to the Treasury, as the "single-handed champions of solvency, keeping ceaseless vigil on the buccaneering proclivities of permanent Heads of Departments", but rather that "the Heads of Departments should work togetther as a team in the pursuit of economy in every branch and every detail of the public service".

The main difficulty in applying the above doctrine in India is one of trained personnel. In the U.K., with a single Civil Service, many officers who have served in the Treasury are working in the administrative Departments and consequently giving advice based on their combined experience of finance and administration. In India, owing to a multiplicity of services, officers with combined experience of finance and administration are not so easily available, and, consequently, endowment of administrative Ministries with large financial powers in the expectation that they will use them with due regard to financial rules and principles may not yield the same results.

Impatience of financial control has led several administrative departments to claim the privilege of autonomy both in administrative and financial matters. So far as commercial undertakings are concerned, there is a case as has been stated in the chapter on public undertakings. Road Transport Corporations exist in practically every State. Their financial returns are good in some cases, but not in all. Recently, State Elec-

soon. This experiment in trust which was forced upon the Government by the emergency deserves to be extended cautiously, but without unreal misgivings. People at many projects are so drastically restricted that while few among them can do any wrong not many can do any right either. It could be that the burden of increased responsibility may produce among them the same reactions which the burden of the accident to the hoist chamber produced among the people at Bhakra.

tricity Boards have replaced the Government Department of Electricity and are working under the Indian Electricity Supply Act with separate budgets and large financial powers. In the name of development of power, the control of the State Finance Departments has been practically done away with, even though these Boards with their inflated staffs are running at a heavy deficit. The road Engineers are also demanding that a separate Fund should take over the construction of roads, even though there is no income, as in the case of Electricity, which they could utilise and practically the entire expenditure would have to be met from general or ceded revenues. A separate Posts and Telegraphs Board has recently been constituted as a result of the same feeling of irritation against financial control. This Board, though not constituted on the pattern of the Railway Board as it has no separate budget, exercises all the powers of the Ministry of Communications in administrative matters. In policy matters the Minister's approval is sought through the Secretary of the Ministry. The P & T Board has been vested with all the powers exercised by the Ministry of Communications in matters of internal finance. Where the concurrence of the Finance Ministry is needed, a reference is made through the administrative Ministry.

Defence Expenditure Division.

This Division is constituted with the Financial Adviser (with the rank of Additional Secretary to Government) at the head, for dealing with all defence matters having a financial bearing. The Financial Adviser is the principal representative of the Finance Ministry and is responsible to the Finance Minister. The Division renders financial advice to the Defence authorities, besides exercising financial control over defence expenditure. No proposal for fresh expenditure which has not been provided for in the Budget, or which having been provided has not been duly sanctioned, can be authorised without the concurrence of the Financial Adviser or his representative. Differences of opinion between the Financial Adviser and the Defence Ministry have to be referred to the Finance Minister. The Financial Adviser is also responsible for the internal audit, correct accounting and compilation of receipts and expenditure through the Controller-General of Defence Accounts and for the preparation of the Appropriation Accounts of the Defence Services.

The Defence Accounts Department, with a Controller-

General at its head, is responsible for the maintenance of the pay accounts of the Armed Forces and the payment, accounting and internal audit of all charges pertaining to the Armed Forces, including bills for supplies and services, works projects, miscellaneous charges, pensions, etc. The Controller-General of Defence Accounts functions under the administrative control of the Financial Adviser.

Defence expenditure arouses much interest in Parliament. It was completely non-voted in British days, but is now voted. The recent Sino-Indian boundary dispute has added a new dimension to the problem of defence. The general principles and considerations of control which the Finance Ministry exercises over defence expenditure are the same as in relation to other expenditure. The idea of attaching financial advisers to spending departments who are associated with expenditure proposals from their very inception originated with the Defence Department and has been extended to other Departments, though not in such an explicit manner. Defence expenditure will increase in the near future, as India becomes more and more self-sufficient in relation to her defence requirements. Expert financial control will become more and more necessary and will require greater tact and insight in the financial personnel dealing with problems of defence.

A separate memorandum on the Defence Budget running into nearly 200 pages is furnished to Parliament every year in which the organisation and functions of the Ministry of Defence as well as of the Defence Finance Division are explained. But the feeling in Parliament seems to be that unnecessary secrecy is maintained in this country in regard to many matters which are not treated as secret in other democracies. The demand is for the issue every year of a White Paper on Defence as in U.K.

Defence Audit Reports, in recent years, have become critical of the expenditure incurred in the Defence department, particularly on purchases of stores and works expenditure.

(c) The Department of Economic Affairs.

This Department has six Divisions, dealing respectively with Budget, Planning, Internal Finance, External Finance, and Insurance. There is also an Economic Division under the Chief Economic Adviser.

(1) The Budget Division.

The Central Budget, other than the Railway Budget (which

is prepared by the Ministry of Railways) is prepared in the Budget Division. The Estimates for Defence Services are scrutinised and compiled by the Defence Division of the Department of Expenditure, while those of the Posts and Telegraphs are scrutinised and accepted by the Communications Division of that Department but compiled by the Director-General, Posts and Telegraphs. The Estimates relating to other Ministries and Departments of the Central Government and the ways and means Budget of the Government as a whole are compiled by the Budget Division with the assistance of the respective Finance Divisions of the Department of Expenditure. The final consolidation of the budget and the preparation of the supporting documents is also done in the Budget Division, which is also responsible for obtaining supplementary grants and appropriations in each session of the Parliament during the course of the year and excess grants and appropriations recommended by the Public Accounts Committee. It is also in charge of matters connected with the floating of public loans, administration of the Public Debt, borrowing by State Governments, implementation of the recommendations of the Finance Commission and the administration of the Contingency Fund of India Rules. It deals with all questions relating to accounting procedure including incidence, classification of transactions in Government accounts and interpretation of and amendment to the Central Government Treasury Rules, the fixing of rates of interest, the productivity test rates, interest rates chargeable on loans sanctioned to State Governments, Commercial Departments and other parties, and the submission of the reports from the Comptroller and Auditor General to the President before presentation to Parliament. The Budget Division also compiles and circulates to the Ministries a monthly statement showing the progress of expenditure against the sanctioned budget during the year so as to facilitate control over expenditure and surrender of provision not required by them. The Division is in overall charge of the Small Savings Movement and is in administrative control of the National Savings Organisation.

(2) The Internal Finance Division.

The Internal Finance Division deals with all matters connected with currency and coinage, the Reserve Bank of India, the State Bank of India, the State-associated banks, the Refinance Corporation, and banking generally, the administration of the

Mints, the Assay Offices, the Silver Refinery and the India Security Press, the control of capital issues under the Capital Issues (Control) Act, 1947, and the administration of the Industrial Finance Corporation Act, 1948, the State Financial Corporations Act, 1951, and the Securities Contracts (Regulation) Act, 1956.

(3) The Planning Division.

The Planning Division is concerned with the following :—

The work connected with the preparation of the Capital Budget and the allocation of ceilings for capital expenditure of the various Ministries in consultation with the Planning Commission, the administrative Ministries, the Department of Expenditure and the Budget Division.

The administration of grants to the Indian Institute of Public Administration, New Delhi ; National Council of Applied Economic Research, New Delhi ; Indian Economic Association, Bombay and Institutes engaged in economic studies and research.

Questions relating to local and municipal taxes, terminal tax on goods and passengers carried by rail, sea and air.

General coordination in respect of the recommendations of the Taxation Enquiry Commission and scrutiny of legislation sponsored by the State Governments requiring the approval of the Central Government or the assent of the President.

Release of Central assistance to States in the form of Miscellaneous Development Loans for schemes in the State Plans approved by the Planning Commission for the purpose.

Release of Central assistance to States in the form of loans and grants for meeting expenditure on natural calamities e.g., floods, earthquakes, drought etc.

(4) The External Finance Division.

The External Finance Division is responsible for India's economic and financial relations with foreign countries and international institutions. All matters relating to foreign exchange including foreign exchange control, external economic, financial and technical assistance, foreign investments, payments and other financial agreements with foreign countries and economic, financial and technical assistance rendered by India to foreign countries are processed and co-ordinated in this Division. In the discharge of these functions it necessarily acts in close concert with the other

Ministries of the Government of India and the Planning Commission.

A continuous watch over the country's foreign exchange situation is kept. Every six months—and oftener if need be—the foreign exchange situation is reviewed in detail with reference to the availability of resources and the expenditure to be incurred. These estimates also serve as the basic material for the assessment of the country's requirements of external financial aid, and form the basis of any negotiation for foreign financial assistance.

All proposals for fresh foreign exchange expenditure are scrutinised with a view to ensuring that such expenditure is kept to the minimum, consistent with the maintenance of the economy and the execution of the development programmes which have been accepted by Government for implementation. As the country's foreign trade has a direct impact on the foreign exchange situation, the policy in regard to foreign trade is evolved by the Ministry of Commerce and Industry in consultation with this Division. All proposals in regard to trade and payments agreements with foreign countries are, therefore, examined in this Division.

Budgeting of foreign exchange.

The Second Plan estimated a foreign exchange deficit of Rs. 1100 crores. Actually, this deficit is expected to go up to Rs. 2000 crores. The main reason for this disparity is the great increase of imports in 1956 and 1957 over the amounts estimated for those years in the Plan. Parliament discussed the situation at great length in 1958 when the Planning Minister was hard put to it to explain how such a situation was allowed to develop. Balance of payments estimates are notoriously difficult to make. Even in the most advanced countries they have proved wide of the mark. Making allowance for this inherent difficulty, it is not easy to get over the fact that there was a scheme of budgeting of foreign exchange in the Finance Ministry, but for some years from 1954 onwards the Ministry of Commerce and Industry went on gaily issuing import licences* without furnishing any estimates of foreign exchange requirements to the Finance Ministry

* While import licenses are issued by the Ministry of Commrece, the actual remittance in foreign currency is made through the Reserve Bank which acts under the direction of the Ministry of Finance. To the layman it will be obvious that no foreign exchange commitment should be made by the Ministry of Commerce without getting a certificate from the Ministry of Finance that the required foreign exchange is available.

and the latter, after issuing two or three routine reminders which elicited no response, took no further interest in the matter. The Prime Minister, who was in charge of the Budget for 1958-59, explained the position in Parliament in the following cryptic manner :—

> "We used to have a kind of foreign exchange budget some years ago. It is not quite clear to me how it lapsed. It lapsed about 4 or 5 years ago, partly because we were actually gaining in foreign exchange and there was a certain period of boom and a period of optimism—the First Five Year Plan had succeeded and there was more production —and so it lapsed. It was wrong that it lapsed. Therefore, different Ministries went on budgeting things and nobody knew the entire position for sometime, neither the Planning Commission nor the Finance Ministry. Since the beginning of 1957, a strict budgeting of foreign exchange is now kept".

Appendix 9 explains the details of foreign exchange budgeting. Foreign exchange difficulties will continue for a long period and the cushion which sterling balances used to provide is now gone. Alertness in the Finance Ministry over such budgeting will have to be greater than ever.

(5) The Economic Division.

The main function of the Economic Division is to keep under review the emerging trends in the economy and to advise the Ministry on questions of economic policy as they arise from time to time. The work of the Division is organised under the following sections :—

(i) Public Finance and Planning ;
(ii) Monetary Economics ;
(iii) International Economics ; and
(iv) Economic Intelligence and Reports.

This Division prepares the 'Economic Survey' and the 'Economic Classification of the Central Government Budget' which are presented every year to Parliament with the Budget. These publications are described in the chapter on the Voting of Demands. The Economic Division also prepares briefs for Indian

delegations to international conferences concerned with economic questions.

During the year 1959-60, a small Tax Research Unit was set up, as recommended by the Taxation Enquiry Commission, to assemble and compile systematically the data on taxation both at the Centre and in the States. The Unit also studies problems in the field of taxation, such as incidence, economic effects of taxes and the like. It works in close collaboration with the Central Board of Revenue.

(6) The Insurance Division.

This Division deals with all matters connected with insurance, including the administration of the Insurance Act, 1938 and the Life Insurance Corporation Act, 1956, and the Insurance Claims Board.

CHAPTER III

THE BUDGET

Meaning Of 'Budget'.

The word 'budget' is derived from the French 'bougette', a diminutive of the old French bouge, meaning a small leather bag or wallet. In its present sense the word was first used in 1733 in connection with Sir Robert Walpole's financial scheme in a satire entitled 'The budget opened'. Walpole was represented in this pamphlet as a conjuror, the budget being his wallet or bag of tricks.[1] To this day, English newspapers publish photographs on Budget Day of the Chancellor of the Exchequer, with an attache case in his hand containing his financial proposals, while going to the House of Commons to make his budget speech. Similar photographs are published of the Finance Minister in India. 'Opening the budget' is the accepted parliamentary phraseology.

The meaning of the word 'budget' has shifted from the bag to the documents which the bag contains, that is, to the financial proposals which the Chancellor of the Exchequer puts before the House of Commons every year. In Article 112 of the Constitution of India, reference is made to the laying of an "annual financial statement" before both the Houses of Parliament. This document is a 'statement of the estimated receipts and expenditure of the Government of India' for the coming financial year and is generally known as the Budget. Similar statements for each State Government are laid before the Legislature of the State, under Article 202 of the Constitution.

These provisions in the Constitution have been borrowed from Section 33(1) (for the Centre) and Section 78(1) (for the Provinces) of the Government of India Act, 1935. In India it is customary to speak of the 'budget' of a department or an office when it is intended to refer to its estimates of expenditure. But in England the term 'Estimates' is generally used for this purpose. The word 'budget' is generally restricted to the taxation part of the Chancellor's proposals.

It should be noted that under our Constitution the annual financial statement has to be laid before both Houses of Parliament (for the Centre) or the House or Houses of the Legislature (for the States), as the case may be.

The States of Andhra Pradesh, Bihar, Gujarat, Madhya

Pradesh, Madras, Maharashtra, Mysore, Punjab, Uttar Pradesh and West Bengal have two Houses. The remaining five States, namely, Assam, Orissa, Kerala, Rajasthan and Jammu and and Kashmir, have only one House.

In the United States of America also the practice is the same as in India. The President transmits the budget (or estimates of receipts and expenditure for the ensuing fiscal year) to both Houses of Congress. But in England the Estimates and the Chancellor's Budget statement are presented only to the House of Commons and not to the House of Lords.

The budgetary system, as we know it to-day, is British in origin and has been adopted by nearly every country. Whatever the political system prevailing in a country, parliamentary, presidential, or autocratic, there is one factor which is common throughout, and that is the existence of the budget. As, however, in private life and in business concerns it is not customary to have a budget for a whole year, it is necessary to understand why a government should have a budget at all. One thinks in this connection of the woman in Punch, who said :—

"Of course I'm only a woman, but I don't see what good it does the country having a budget. It only means worrying before you spend the money instead of after."

This point can be best illustrated by citing American practice prior to 1921 when no provision existed in the federal government for the formulation by any agency of a single consolidated statement of the prospective revenues or of the estimated expenditure needs of the government, or of what we call the 'budget'. Each spending department prepared its own expenditure estimates and forwarded them to the Secretary of the Treasury, whose function was restricted to little more than that of acting as an agency for their transmission to Congress. The law provided that "all annual estimates for the public service shall be transmitted to Congress through the Secretary of the Treasury and shall be included in the book of estimates prepared under his direction". This was construed as precluding the Secretary of the Treasury from acting like his British counterpart, the Chancellor of the Exchequer, i.e. from revising or controlling in any way the estimates of the several departments. His only function was to print the estimates in one book and present them to Congress. There was no one in the administrative branch of the government whose duty it was to protect the treasury from demands made upon it for funds. It was but natural that each spending service should believe strongly in the importance of the

activities entrusted to its charge and seek to secure the maximum sums possible for carrying on and expanding such activities. Nor was the President, as the head of the Executive, expected to play any part in determining, or in submitting to Congress, his views in respect to the provision to be made for meeting the financial needs of the government. Congress had no means of knowing whether the requests for appropriations submitted by service heads through the Secretary of the Treasury met with his approval or not, nor in point of fact did Congress concern itself with this question. No attempt was made to consider the whole problem of financing the government at one time. Expenditures were not considered in connection with revenues. Even the idea of balancing the budget did not exist.

When the estimates were received by Congress they were distributed among no less than fourteen distinct Committees in the House of Representatives and fifteen Committees in the Senate, each acting independently of the others, and no one having responsibility for seeing that the total recommended to be appropriated bore a proper relation to available resources and prospective income. Each of these committees conceived it to be its duty to guard the interests of the department under its jurisdiction, irrespective of the general condition of the finances and independently reported appropriation proposals in separate bills. And these bills were inflated on the floor of the Houses by the "pork-barrel" measures of individual Congressmen. Federal revenue bills were prepared by another set of committees.

This chaotic system was allowed to exist only because of the relative prosperity of the federal treasury, the comparative lightness of the burden of federal taxation, and the fact that, due to federal taxes being almost entirely indirect in character, such burden as existed was scarcely felt by the individual tax-payer. Ultimately, it was brought to an end by the enactment of the Budget and Accounting Act, 1921 under which a national budget system on the lines generally in force in Great Britain was adopted. If any country were unprovided with a budgetary system, its finances, and consequently its administration, would suffer (in an even more exaggerated form) from the evils which prevailed in the United States of America prior to 1921. The budget is the main vehicle by which the Legislature controls the activities of the Government. Constitutionally, Government cannot spend any money unless the Legislature votes a grant. It is only after the annual budget is approved by the Legislature that funds become available to

the spending departments. The budget defines the objects on which money may legally be spent and prescribes limits for the expenditure of money on specific objects which may not be exceeded. It is, accordingly, the basis of orderly finance without which there can be no lasting social progress.

The Budget As An Instrument Of Social Policy.*

Apart from its importance as the basis of orderly finance, the budget has now become an instrument of social policy, in realising the plans of the government for increasing production, correcting inequalities in the distribution of wealth and maintaining employment. Lloyd-George in his People's Budget of 1909 utilised for the first time the potentialities of the fiscal instrument for social ends.† The first object (increase of production) is achieved by subsidising agriculture or industry, the second by taxing the rich on a progressive scale and utilising the proceeds in providing social amenities, such as better housing, educational or medical facilities etc. for the poorer classes, the third (namely, maintaining employment) by encouraging public works expenditure in slumps. In the days of **laissez faire,** the criterion to be applied to a budget was the smallness of the burden it imposed on the people: the less a government taxed the better for everybody. Those were the days when the main function of government was the maintenance of internal and external security. But this is no longer considered sufficient. People now insist that government should provide social services on a steadily increasing scale and for this purpose increasing taxation becomes more and more necessary.

Budgetary policy plays an important part in checking inflation during war time. The fundamental task of war finance is to restrict the consumption of the people and transfer the

* This aspect of the budget has assumed importance with the adoption by India of a socialist pattern of society. Since 1957 a series of taxes have been imposed whose monetary yield is small, but which are designed to reduce class inequalities, vide figures given below for 1960-61 :—

	(In crores of rupees)
Wealth Tax	7.0
Expenditure Tax	0.9
Gift Tax	0.8
Estate Duty	3.0

Income-tax in the higher stages of income is as high as in U.K. or U.S.A.

† In his Budget Speech, Lloyd-George said : "Four spectres haunt the poor: old age, accident, sickness & unemployment. We are going to exorcise them. We are going to drive hunger from the hearth. We mean to banish the workhouse from the horizon of every man in the land".]

resources thus made available to the purposes of war. Goods and services are mobilised for the common end by a vast outpouring of government money, and unless this is systematically re-absorbed on an adequate scale, it exercises an ever-increasing pressure on the reduced supplies available for civilian consumption. The effect on prices may be mitigated to some extent by controls and rationing, but these must be accompanied by measures to reduce the abundance of purchasing power. To mop up the surplus purchasing power, taxation and borrowing are used to the utmost extent possible. There are two 'gaps' to fill: the budgetary gap, or what is called the revenue deficit, and secondly the gap between other expenditure (not charged to revenue) and funds raised by borrowing and other resources available. The second gap is known as the inflationary gap, because it can only be closed by inflation or printing paper currency. Ever since World War II, nearly every government in Western Europe, as also Government of India, has to face the problem of inflation and consequently budgetary policy has to take account of both the 'gaps' in question. War finance and development finance present similar problems and require similar treatment. The only difference is that while war expenditure leads to no increase in production, development expenditure increases production and raises the general standard of living.

The conception of the welfare State now generally adopted involves the acceptance of a policy of full employment, as far as possible. The annual presentation of the budget hitherto was regarded as a grand review of national prosperity and the budget itself assumed the character of a national balance-sheet. Just as the success of a commercial enterprise is measured by its profit and loss account, so the surplus or deficit in the budget was taken not only as a measure of the success of governmental financial policies, but also as an indication of the state of national prosperity as a whole. The main responsibility of the legislature was to look after the interests of the electorate in their capacity as tax-payers, in much the same way as the responsibility of the board of directors of a company is to protect the interests of the share-holders. This narrow conception of responsibility has now given way to a broader one which considers the interests of the electorate as workers and consumers and not only as tax-payers. In this broader conception, account is taken of the money expended by the whole community—public authorities and public together—and one of the primary objects of public policy is to see that it is of sufficient amount to enable the wages of the whole

working community to be paid. "Employment" in Lord Beveridge's words, "depends on outlay", and in determining budgetary policy, the endeavour of government is to maintain outlay at a certain optimum level. Outlay in this context is divided into five different parts. There is first private consumption expenditure, i.e. the ordinary expenditure of the community on food, clothing, rent, amusements, etc. Secondly, there is public expenditure on current services, e.g. the expenditure of public authorities on education, medical services, national defence, etc. Thirdly, there is private investment expenditure, i.e. capital expenditure on buildings, machinery, and so on. Fourthly, there is public investment expenditure, that is capital expenditure by the government and the public authorities on buildings, machinery, roads, public utilities, and so on. And fifthly, and finally, there is the foreign balance, that is the difference between exports and imports. This must be included because exports involve labour but not expenditure at home, and imports vice versa.

Now it is agreed that at a given level of wages and prices the condition of full employment is that all these kinds of expenditure must add up to the output capacity of the community, that is to say, the estimated value of its output when all its man power is fully employed. From this two things follow. One, that a Government committed to a policy of full employment must be prepared to influence one or more of these five types of outlay in order to bring about the required aggregate of total outlay. Fiscal measures are among those which are now used to this end. The other is that the Government must be in a position to know within a measurable limit of accuracy what each class of outlay is running at in each successive period.

And for this purpose a new type of budget is obviously required, a budget which does not confine itself to drawing up estimates of the Government's own revenue and expenditure for the coming year, but estimates on the one hand of the total income of the community and on the other its total outlay under the five headings indicated above. In England the new statistics of national income made their first public appearance with the Budget of April 1941. The first National Income White Paper was then presented to Parliament and has been published annually ever since. It was in 1941 that these new statistics were first used by the Chancellor of the Exchequer as a means of assessing with some degree of certainty the inflationary gap. This marks the date when a new theme was introduced into the making of the Budget, a conscious attempt to use fiscal measures to hold the

balance between the money in people's pockets and what they could buy with it. This is now a well-established and important feature of the general aims of Treasury control. In addition, an Economic Survey is published by Government, two or three weeks before the Budget, as a sort of curtain-raiser, so that the general public may understand the background to the various proposals made by the Chanceller of the Exchequer. In the U.S.A, the President makes an annual Economic Report to the Congress, as required by Section 3A of the Employment Act of 1946.

In our country also, although there were no proper statistics during the first five years since independence, the Government have taken steps and several organisations like the National Income Unit, the National Sample Survey and the Central Statistical Organisation have been set up which work directly under the Cabinet Secretariat. These organisations collect and co-relate various types of statistics including the national income from year to year. Some of these figures are presented to Parliament at budget time.

Normal features of the Budgetary system.

According to Gladstonian conceptions of sound finance, the normal features of a budgetary system are given below :—

(1) **The budget should be balanced.**—This means that the expenditure should not exceed the revenue anticipated for the year. If anything, there should be a small surplus to provide for unforeseen contingencies. What the size of the surplus should be is a matter for determination by each country in the light of its own circumstances. According to the British view, the balancing of the budget is the first requisite of financial stability. No sacrifice is considered too great if it is necessary for balancing the national budget. Balancing the budget occupies the same place in financial administration as the maintenance of law and order in executive administration.

A departure from this fundamental principle was initiated under the influence of the late Lord Keynes, who was of the view that budgets might be deliberately unbalanced during an economic depression and the scale of expenditure increased so as to maintain employment in the economy. The U.S.A., and to a certain extent the U.K., Government adopted this view, but now that depression has been overcome, both the Governments have revert-

ed to the old conception of balanced budget.* To quote the classic words of President Eisenhower in his message to the Union of January 1956 :—"A third objective of the administration is fiscal integrity. Over the long term, a balanced budget is a sure index of thrifty management—in a home, in a business or in the federal government. When achievement of a balanced budget is for long put off in a business or home, bankruptcy is the result."

One or two deficit budgets in succession do not matter, and may be condoned if due to exceptional circumstances, but a gov ernment which habitually budgeted for more expenditure than the revenue at its disposal would soon suffer in financial credit. Unbalanced budgets are bound sooner or later to lead to monetary inflation, which, if uncontrolled, will terminate in national disaster.

It is as necessary for a government to live within its income as for a private individual. For balancing the budget it is necessary that the expenditure should not exceed the revenue for the year. This obviously raises two questions :—

(1) What may be included in "expenditure" ? (2) What may be included in "revenue" ? These are somewhat technical questions to which it is not easy to provide brief answers, but there is general agreement as to what may be excluded. As regards expenditure, capital outlay for reproductive purposes, such as railways, irrigation works, electric schemes, etc., may be excluded. Similarly, debt repayment may also be excluded, but not payments to sinking funds constituted for redemption of debt. All disbursements which are classified in the accounts under the head 'deposits' or 'remittances' may also be left out. All other expenditure, including capital expenditure for unproductive purposes should be included. As regards revenue, we should exclude all receipts which are of the nature of capital, such as sale-proceeds of Government lands or other public property constructed out of loan funds, or receipts from another government in liquidation of debt. Receipts classifiable under 'deposit' or 'remittance' heads should also be excluded. All other receipts may be included. It is far safer finance to budget for capital payments from revenue than to budget for revenue payments from loan funds. In a democratic government the temptation is strong in favour of meeting from loan funds unproductive expenditure which should be met out of taxation. After all, the question whether a budget is or is not balanced is largely one of what is

*[President Kennedy's first budget (for 1961-62) shows a deficit of $1800 million and he says the deficit might be considerably higher.]

included in or excluded from it and pre-eminently lends itself to what are called, 'the window-dressing ingenuities of public accounting'. (Unbalanced Budgets by Hugh Dalton and others, Routledge 1934-p. 12). For instance, a country may in a time of difficulty suspend or reduce its sinking fund payments and thus balance its budget. Similarly, in war time, defence expenditure may partly be met out of revenue and partly out of loans, so as not to cripple the productive capacity by raising taxation to a very high pitch. But that cannot be regarded as a really balanced budget. It is, therefore, of the greatest importance that in framing a budget sound principles of accounting should be observed.

Just as it is necessary to achieve a balance in the revenue receipts and expenditure, it is equally necessary to achieve a similar balance in regard to capital receipts and capital expenditure. Governments have accordingly started the practice of preparing separately what is called a 'capital' budget. It includes all transactions connected with loans raised by Government, treasury bills, ways and means advances, Post Office Savings Bank, all cash and savings certificates issued through the Post Office, all depreciation, reserve and development funds, loans and advances by the Government, and special deposits like income tax and excess profits tax deposits. It also includes the receipts and payments on capital schemes financed by Government outside the revenue account. The capital budget also takes credit for the amount provided in the expenditure side of the revenue budget for amortisation or reduction of debt.

Though a budget is termed 'surplus' or 'deficit' with reference to the revenue budget alone, governments ought to aim at a surplus after taking into account both the revenue and capital budgets together. The effect of a deficit on the economic life of a country is precisely the same whether the deficit is on revenue account or on capital account. Such a deficit, other things remaining equal, increases the available money supply in the hands of the community and at a time of inflation adds to the inflationary spiral. The fact is in no way altered even if the deficit in a particular year is met from the accumulated balances of the past. Deficit financing has come in for severe criticism in connection with the recent rise in prices, but with our restricted domestic resources, the only alternative is to slow down expenditure on development. This is considered politically unsafe.

(2) **Estimate should be on a cash basis.**—The second feature is that the budget should be prepared on the basis of what is expected to be actually received or paid (under proper

sanction) during the year, including arrears of past years, not for demands or liabilities falling due within the year. In other words, the budget is an estimate of cash receipts and cash payments during the coming year, irrespective of the fact that such receipts and payments relate to that year or previous years. For instance, material to be ordered in March 1961 but not expected to be paid for till April 1961 will be provided for in the budget for the year 1961-62 and not 1960-61. Similarly, revenue though due in March 1961 but not expected to be received into the treasury till April 1961 will be provided for in the receipt estimates of the year 1961-62 and not 1960-61. One advantage of having cash estimates is that the public accounts can be closed very much earlier than when they are prepared on a demand and litbility basis. In some European countries, where the latter practice is followed, the determination of the final surplus or deficit requires years and even decades. The French Budget for 1920 was finally closed in the beginning of 1937.

(3) **Only one budget for all financial transactions.**—The third feature is that there should be only one budget for all financial transactions of the government for the year. It is not correct to prepare extraordinary budgets for special purposes, or to have separate budgets for administrative departments. Such devices obscure the true financial position and make it difficult to assess the real surplus or deficit on the whole. What has been said above applies strictly to the administrative departments and not to commercial departments, like railways. For railways separate budgets are considered correct in principle and the practice of certain countries, such as France, Germany and Switzerland, is in favour of separation. The main grounds in favour of separation of the railway budget are :—

(i) that railway policy and railway administration should be free from political influence, and
(ii) that railways, after they have made their contribution to the State, should be free to devote their surplus profits to railway development.

In India for several years the railway budget has been separated from the general budget of the Central Government, but is presented to and voted by Parliament and cannot be said to be free from political influence. In the States there is only one budget for the entire financial transactions of each State government. State Electricity Boards have their own budgets, separate from the State budgets.

Latterly, autonomous bodies like the Damodar Valley Corporation have been created under Acts passed by the Central Legislature. These bodies derive their funds from the Consolidated Fund, but have been allowed to prepare and pass their own budgets, quite separately from the Government budget. In the case of the Damodar Valley Corporation, the Act prescribes that the budget shall be laid before the Central and State Legislatures concerned. There is no voting of details, only the total grant is voted.

(4) **Budgeting should be gross and not net.**—The fourth is that budgeting should be on a gross and not a net basis. The gross transactions in the case of both receipts and charges in each department should be entered separately. Receipts should be estimated on the receipt side of the budget and expenditure on the expenditure side, or, in other words, it is not permissible to deduct receipts from charges or charges from receipts and frame the budget for net receipts (in the case of revenue departments) or net charges (in the case of spending departments). The Legislature loses its control over the expenditure if the Government has considerable receipts available for meeting expenditure and comes to the Legislature for authority merely for that part of the expenditure which it cannot meet from such receipts.

Until 1854, estimates were not presented in England in respect of expenses of the revenue departments. Prior to that year, the charges of collecting the revenue were deducted by each department from the gross sums collected. But this practice was condemned by a resolution of the House of Commons dated May 30, 1848. At present, the whole of the revenue derived from taxation after the deduction of payments for drawbacks, repayments and discounts, is paid into the Exchequer, and the cost of the revenue departments is included in the annual estimates.

There are exceptions to this general rule of gross budgeting in India, some of which are only apparent but some are real. The main exception to this rule is the estimating (and accounting) of land revenue collections. The lambardar, who collects the land revenue, is not a government servant. From time immemorial he holds a hereditary office and is paid, in lieu of his services, five per cent on the revenue he collects. This percentage is known as **pachotra.** He deducts this **pachotra** from the gross collections made by him and credits only the net collections in the government treasury. It would therefore appear that the actual charges for the collection of land revenue (which is still

one of the main heads of State revenue) do not appear anywhere, either in the accounts or the estimates. The other exceptions to the rule are mostly apparent and not real. Refunds of revenue, for instance, are deducted from the gross collections and the budget is prepared only for the net receipts. The reason underlying this practice is that refunds do not really represent the expenditure of government but are merely repayments made out of the receipts. To show them on the expenditure side would unduly inflate the public accounts and estimates and give a wrong idea of the cost of collection of revenue. The same remarks apply to what are known as 'receipts on capital account'. These are also taken by deduction from expenditure and not shown on the receipt side. For instance, heavy capital outlay is incurred on State Trading Schemes, such as food grains. If the amounts received from sales made were shown as receipts they would give a wrong picture of the trading transaction. There are again certain cases in which a service is undertaken by one government on behalf of another government or outside body, subject to recovery of the cost of the service. For example, the audit of local funds which is a function of the State Governments has been entrusted in certain States to the agency of the Comptroller and Auditor-General of India who is an officer of the Central Government, the cost of the requisite additional establishments being reimbursed to the Central Government by the State Governments. In such cases the cost of the service is provided in the budget of the government undertaking the service as expenditure under the appropriate head. The expenditure is not, however, properly its own nor does the recovery represent in any sense revenue due to it. The practice was, till recently, therefore, to take the recovery in reduction of the gross expenditure provided under the relevant head and submit only the net amount to the vote of the Legislature. In the budget of the State concerned, the expenditure on local fund audit is shown in gross on the expenditure side and is submitted to the vote of the State Legislative Assembly. A similar practice was followed in relation to receipts realised from public works in progress. The technical estimates for these works took cognisance of the anticipated receipts from sale-proceeds of materials, plant, etc., received from the old structure and it was therefore, considered that such receipts should be treated as reduction of expenditure.

From 1952-53, however, the procedure was revised to conform to the principles laid down in the Constitution. Under the revised procedure, all credits and recoveries which were taken

as deductions from the gross expenditure are now excluded for the purpose of voting the supply and authorising the withdrawals of money from the Consolitated Fund.—In other words, vote or authority is taken for withdrawal of the gross amount of the demand, although in the accounts such recoveries are continued to be shown as reduction of expenditure.

In Great Britain a system of what is known as "appropriation in aid," is followed. Receipts from direct or indirect taxation are budgeted for under the appropriate receipt heads, but various spending departments receive small sums of money in the course of their business through fees, sales etc., which are not shown on the receipt side of the estimates. These departmental receipts are utilised for departmental expenditure. The House of Commons votes only the net amount, that is to say, the gross expenditure of the department **minus** the departmental receipts realised during the course of the year. In this manner Parliament obtains control even over the realisation of receipts, which is lacking under the gross system of budgeting, for receipt estimates are not voted upon and no departmental head is responsible to Parliament for not realising the full amount budgeted for as receipts. There is, of course, the possibility that if the actual receipts happen to be in excess of the budgeted figure, the department will be able to spend more than the gross amount budgeted by it. This contingency is provided for under the British system in the following manner. The Appropriation Act definitely and directly appropriates only the amount of issues out of the Consolidated Fund which represent the net expenditure, but it indirectly appropriates the balance of the expenditure by enacting that the sums set forth as estimated appropriations in aid (on account of estimated departmental receipts) may be applied to the respective services. Any amount received by the department in excess of the estimated appropriation in aid has to be surrendered to the Treasury and is not available for departmental expenditure. For instance, if the gross expenditure of a department is £1,000, and it expects to receive a sum of £100 as departmental receipts, Parliament votes £900 for issues out of the Consolidated Fund and authorises the department to appropriate £100 in addition out of departmental receipts. Should the actual departmental receipts during the year be less than £100, the department has to reduce its expenditure. But, if the actual receipts are, say £120, the balance of £20 in excess of the figure specified as 'appropriation in aid' in the Appropria-

tion Act cannot be utilised for departmental expenditure and has to be surrendered to the Treasury.

Under the Indian practice, heads such as Police, Education, Medical and Public Health are budgeted for on both the receipt and disbursement sides. In England, the receipts realised are taken by deduction from expenditure and only the net figure is shown on the expenditure side. In view of the fact that under the English system Parliament obtains control over the receipt side of the estimates also, whereas under the Indian system there is no control by Parliament over the departmental receipts, it seems desirable to adopt British practice in this matter.

(5) **Estimating should be close.**—The fifth feature is that estimating should be close. While provision should be made for all items that can be foreseen, it is essential that the amount of the provision should be restricted to the amount required for actual expenditure. When stated in this form the proposition seems self-evident and not in need of further elucidation. But it is seldom realised in practice : so great are the variations of administrative fact from budget estimates. The general tendency among estimating officers is to under-estimate the revenue and over-estimate the expenditure. To a certain extent, this tendency is natural, as it is safer to have a margin of possible error than to have none at all. It is obvious that over-estimating of revenue and under-estimating of expenditure would be by far the greater evil of the two. In a country like India it is dangerous finance not to be conservative, as it is so difficult to devise and levy new taxes to meet a deficit, and as the revenue is liable to sudden diminution from climatic and economic causes. It is no less difficult to effect retrenchment if expenditure is increased to equal over-optimistic forecasts of revenue. The insistence on close budgeting is based on two considerations. The legislature is naturally interested to see that more money is not taken from the tax-payer than is absolutely necessary for the requirements of the public service, and it is obvious that this would be the case if there were habitual and serious under-estimating of revenue and over-estimating of expenditure. Secondly, the Finance Department is also interested to see that the administrative departments do not obtain more money than they really need, for if a department is allotted funds which it will not be able to spend, it prevents others from getting grants for urgent or useful schemes or secures for itself a march over other departments in pushing through new schemes for which it can say it

has got the money, but which on their merits alone might possibly have been turned down.

Close budgeting means also that the services for which provision has been made and the particular items included in any vote should be specified and there should be no demand for lump sums under any head, which the Executive may be at liberty to allot after the budget has been voted, for any purpose it pleases. Block grants, as they are called, are very convenient to the Executive which knows that it will require money for various schemes during the coming year, but cannot afford the interval necessary to prepare the meticulous specification of every rupee of expenditure for a particular purpose. In some departments, such as the Public Works Department, block grants cannot be avoided. It would be quite impossible, for instance, to ask for definite amounts for repairs and maintenance of each Government building, canal or road. Lump sums are, therefore, provided in such cases. But, subject to these exceptional cases, the general rule is that there should be no demands for lump sums for unspecified purposes. Such demands are looked upon with particular jealousy by the Legislature, which is not satisfied by the assurance which the Executive generally gives it in such cases that the detailed figures will be 'vetted' and passed by the Finance Department. From the point of view financial control by the Legislature this means just nothing at all, as the nature of the scrutiny exercised by the Finance Department is mostly of details, while the Legislature is concerned with policy, more than anything else.

Recently, the Estimates Committee has expressed itself against providing lump sums in departments and Government have accepted this recommendation.

(6) **Budget to be on an annual basis :** The sixth feature is that the budget should be prepared on an annual basis.

In all countries budgets are voted for one year, except that in some American States they are on a two-year basis. In the first place, a year corresponds with the customary measure of human estimates, and secondly, a year seems to be the maximum of time for which legislatures can afford to give financial power to the executive and the minimum of time which the executive needs to put the budget into execution. In England it is the custom to raise a considerable portion of the revenue by permanent taxes and the balance by annual vote. Similarly, as regards expenditure, a fairly large portion, known as consoli-

dated fund services, is of a permanent character and is not included in the annual estimates. The remaining items of expenditure—known as supply services—are subject to the annual vote of the House of Commons. The same is the practice in the United States of America. In most of the States in India revenue is largely raised on the authority of permanent Acts of the legislature, but at the Centre the major portion is embodied in the annual Finance Bill which gives the legislature an opportunity of reviewing the entire fiscal and financial policy of the Government. Similarly, there are some items of expenditure which are not subject to the annual vote of the legislature. The remaining items have to be approved every year by the legislature.

(7) **The rule of lapse**: As the Legislature grants funds to the Executive on a yearly basis, it follows that no money can be spent for any year unless it is authorised in the sanctioned estimates for that year, irrespective of the fact that such sanction may have been accorded by the Legislature for the previous year. In other words, all appropriations expire at the close of the financial year, and no portion unexpended during the year may be reserved or appropriated by transfer to deposits or any other head, or drawn and kept in the cash chest to obviate the lapsing of the grant and to be expended after the end of the year for which the grant was made. This is known as 'the rule of lapse'. It is obvious that financial control would become difficult if spending departments were permitted to spend in any year unutilised savings of previous years in addition to the grants placed at their disposal for that particular year. At the same time, it must be recognised that this rule of lapse prevents economical planning of expenditure over a long period which sometimes leads to what is known as 'the rush of expenditure in March'. Officers in their eagerness to spend the money allotted to them sometimes authorise expenditure which they would not do if they were permitted to utilise the savings in the succeeding financial year. In spite of these disadvantages, the rule of lapse has the great advantage of enabling the national accounts to be made up and balanced, and the surplus or deficit ascertained in each year, instead of letting the accounts run on unbalanced for an indefinite period.

Apropos of what has been stated in the preceding paragraph, it is necessary to point out that any device for rendering grants non-lapsing by withdrawing amounts to a fund outside the Consolidated Fund is contrary to the strict theory of parliamentary

financial control. But such a course is permitted if adopted with the concurrence and approval of the Legislature. Subject to this fundamental condition, reserves or reserve funds may be constituted by the Central and State Governments under any statutory provisions or otherwise, either by allotment of sums from the revenues of a year or series of years or from grants or contributions made by other governments and outside agencies, with the object of expending the moneys accumulated in the funds on the specific and particular purposes for which they have been constituted.

To reserve and depreciation funds constituted for government commercial concerns, like railways and electricity schemes, there is not the same objection, as this is in strict accord with commercial practice. Governments in India have taken full advantage of this device and a large number of reserve funds have been constituted both at the Centre and in the States.

While the general position is as stated above, in order to avoid the abnormal rush of payments towards the close of the financial year, the Finance Ministry have assured the Administrative Ministries that "wherever grants have not been used to the full extent for valid reasons, the Finance Ministry would be prepared to consider proposals to allot provision for the unexpended amounts either in the original budget of the coming year or by means of supplementary grants in that year provided the purposes for which these amounts were originally included in the sanctioned grants continue to be operative. It is hoped that with this assurance the Ministries concerned would take positive steps to prevent the rush of expenditure in the closing months of the year, and also to refrain from making purchases in a hurry merely to avoid lapse of grants".

[Finance Ministry Office Memorandum dated 10th October 1957.]

These instructions were repeated in Finance Ministry Office Memorandum dated 12th September 1960, in which Administrative Ministries were requested again to take positive and effective steps to ensure even flow of expenditure and to prevent the rush of expenditure in the closing months of the year merely to avoid lapse of grants.

Both these memoranda are reproduced as Appendices 2 & 3.

(8) **Form of estimates to correspond to accounts:** It is essential that the form of the estimates should correspond to that of the national accounts. This will be easily understood.

If the estimates were prepared in a form different from that of the accounts, financial control would become impossible.

The rules for the conduct of business in Parliament provide that the Budget shall be presented to Parliament in such form as the Finance Minister may, after considering the suggestions (if any) of the Estimates Committee, settle. The practice in England is not to make important changes in the form of the Estimates without the previous approval of the Public Accounts Committee and of the Estimates Committee.

In India the Estimates Committee is consulted before making changes in the form of the Estimates.

(9) **Estimates to be prepared on a departmental basis** : In conformity with British practice, each department in India estimates for the whole receipt and charge with which it deals finally, irrespective of the fact that such receipt or charge is on account of another department. The deciding factor in answering the question as to who should prepare an estimate for any item is not so much the nature or the object of the receipt or expenditure, as the department which will collect the receipt or control the expenditure when incurred. For instance, if the Public Works Department is constructing a school building, the provision for it will be found in the Public Works Department estimates and not in the Education estimates. This rule applies to what are known as service departments. In the case of commercial departments, like railways, posts and telegraphs, etc., the department on whose account a service is rendered estimates for the charge and not the department which actually renders the service. Similarly, for receipts.

This method of preparation of estimates though convenient to the administration is confusing to the layman. He is interested more in finding out what the cost of a particular service is and whether he is getting value for his money or not. This he cannot get easily from the estimates. For instance, if one wishes to know what is the total expenditure from public funds on any Minister he will not be able to find it out. The estimate under the head 'Cabinet' will give only the pay, sumptuary allowances and tour expenses of Ministers, but in addition there is a fairly large expenditure attributable to Ministers, such as expenditure on rent-free furnished buildings occupied by Ministers which is classified under the head 'Civil Works', expenditure on State cars and aeroplanes used by Ministers, cost of armed guards, etc. which are under different heads in the estimates. Similarly, the ex-

penditure estimates under the head 'Education', for instance, do not show the total educational expenditure, but only that part which will be incurred under the administrative control of the Director of Public Instruction. The expenditure on educational buildings is shown under the head 'Civil Works', the expenditure on educational stationery under the head 'Printing and Stationery', that on the pensions of teachers under 'Superannuation Allowances and Pensions'; and so on. The same is true of other departments of the administration. In the British Estimates, there is, firstly, as in India, the estimated expenditure which is borne by the Department. Then there is a footnote in which is stated the expenditure borne by other departments. This completes the picture. This point is dealt with in another chapter.

Performance Budgeting.

An idea that has gained parliamentary approval in recent years is that of performance budgeting. That is to say, Parliament should be ensured that the results intended to be achieved once a budget is sanctioned have in fact been realised. Parliament depends mostly on the administration for such reports as it may make to Parliament. In order to have effective control over the spending of Government and to see that the moneys have in fact been spent for the purposes for which they were intended and full value has been obtained, it is being felt that Parliament should rely on some independent organisation which should report to it on such matters. This organisation should have under its control independent investigators and valuers who should evaluate the programmes and report to Parliament on their findings. Such a programme evaluation organisation may be mainly concerned with the following :—

(i) whether moneys have been spent for the purposes for which they were intended. The Audit Department does this in a sense, but not quite.

For instance, if a sum of rupees one lakh has been provided for a building, all that the Audit Department can do is to see that not more than rupees one lakh is spent thereon. But it is possible to keep within the money limit by reducing the accommodation or lowering the specifications, etc. Such points lie outside the purview of audit.

(ii) Whether results have been achieved within the time laid down and at minimum cost; and

(iii) Whether full value for the money has in fact been obtained.

The Estimates Committee has commended the idea of performance budgeting for railways and other government commercial organisations. Some approach towards review of performance has recently been made by the Railway Board to which a reference is made in another chapter.

At the 17th session of ECAFE held in Delhi in March 1961, Mr. B. R. Bhagat, Deputy Minister of Finance, expressed doubts if performance budgeting recommended by the Commission's Third Workshop on Budget reclassification could be undertaken in the near future. He listed five conditions to undertake performance budgeting satisfactorily. They were: (i) it would be necessary to have a system of advance programming of Government operations on a long-term basis, (ii) the "end results" of the programme must be measurable, (iii) the outlay shown in the budget should represent the entire costs, (iv) the programme should be administered by the budgeting authority, and (v) the total outlay should be capable of allocation between fixed and variable costs.

Mr. Bhagat, who was speaking on economic development and planning, added: "These requirements, we feel, can be satisfied only to a limited extent and it is doubtful if all the assessment can be synchronized with the preparation of the budget documents."

The process of programming and assessing the performance in respect of various items in the programmes is a complicated one, and the tasks have to be undertaken separately. India's Five Year Plans undertake advance programmes in respect of developments over a wide field. There is a detailed breakdown available of the end-products of targets to be achieved and of the outlays involved. No such programming is, however, feasible for items like defence, general administration, external relations, etc. as the end-products cannot be stated in measurable terms.

Even in areas where end-products are measurable, difficulties arise because of: (a) the federal constitution of the country; (b) the budgetary system based on the principle of accountability; and (c) the nature of budget provisions. For instance, some of the schemes included in the Plan in fields like irrigation, agricultural improvements, etc., involve both current expenditure and investment outlay only part of which is financed by the Centre. Even for schemes included in the Centre's Plan, difficulties arise when the executing agency is a separate autonomous corpora-

tion. Performance budgeting in respect of all the operations of the Centre, States and other autonomous agencies is hardly a practical proposition.

To state some of these difficulties is not to reject the idea but to stress the need for proceeding ahead cautiously, gradually and on a selective basis. As the Workshop rightly suggests, some of these problems need further study. The Estimates Committee of our own Parliament has recommended that some kind of performance budgeting should be attempted. Several teams have been set up under the Committee on Plan Projects to conduct various studies for securing economy and efficiency in the execution of Plan Projects. The progress reports on the Plan, the scrutiny of non-development expenditure by the Special Re-organisation Unit and the audit reports by the Comptroller and Auditor-General provide a review of programmes in terms of performance. The Railways have brought out a document with the budget this year, which attempts an appraisal of their performance in physical as well as financial terms since the beginning of the first Five Year Plan. It is proposed to explore the possibilities of similar studies regarding one or two other spheres of Governmental activity.

Four Budgetary Stages

In order to understand the system of financial control, one has to study four operations connected with the budget which occur in the following order :—

(1) Preparation of the budget;

(2) Voting of the budget;

(3) Execution of the budget;

(4) Review of the budget as executed;

Of these, numbers (1) & (3) are executive functions, and numbers (2) & (4) are parliamentary functions. In the chapters that follow each of these functions is described in detail.

CHAPTER IV

THE PREPARATION OF THE BUDGET

In connection with the preparation of the budget three questions arise :—

(1) Who prepares the budget ?

(2) When is the budget prepared ?

(3) How is the budget prepared ?

Who Prepares The Budget ?

There is general agreement that the budget should be prepared by the Executive. Stourm in his well-known book " The Budget " says :—

" The Executive alone can and should do this work. Situated at the centre of government, reaching through its hierarchical organisation to the smallest unit, the Executive more than anybody else is in a position to feel public needs and wishes, to appreciate their comparative merits, and accordingly to calculate, in the budget, a just appropriation which each of these needs and wishes deserves. Others may know certain details as well, possibly better than the Executive, but nobody can have so extensive and inpartial a view of the mass of these details, and no one can compromise the conflicting interests with so much competence and precision. Moreover, the Executive, charged with the execution of the budget, is compelled, through concern as to his future responsibility, to prepare as well as possible the plan."

As a member of the French legislature once beautifully put it :—

' The pilot in charge of steering a vessel is the only competent judge of the position and of the spread he has need to give his sails, because he alone is posted in such a way as to know the force and the direction of the winds and currents, which may hinder or delay his movements.'

In India, as in every other country where the budgetary system has been adopted, the same principle is followed and it is clearly laid down in the financial codes that the responsibility for the preparation of the budget estimates lies on the executive.

When Is The Budget Prepared ?

The time of preparation of the budget is usually regulated by three main considerations :—

(i) The date of commencement of the financial year.

(ii) The date fixed for the presentation of the budget in the legislature.

(iii) Regard for administrative convenience.

Owing to diversity in the conditions prevailing in the States, no one date is fixed for the submission of the budget estimates by local officers throughout India; but, generally, it may be said that the spade work in connection with the budget is done in the local executive offices in the month of September. This means that the estimates are prepared from 6 to 18 months in advance of the date of their actual execution. It is accordingly difficult to foresee everything so far ahead. This is to a certain extent inevitable; but what complicates the situation is the fact that the financial year begins on April 1 * and consequently the estimates are prepared in complete ignorance of the south-west monsoon, which is a most important factor in the framing of revenue estimates, particularly, land revenue. That is why, as a former Finance Minister said, budgeting in India is a 'gamble in rain'. The question of a suitable financial year was considered by the Chamberlain Commission on Indian Finance and Currency in 1919, who were of the opinion that 'from the financial point of view, the present date is almost the most inconvenient possible for the budget.' The Commission suggested that the date of the beginning of the financial year should be altered from 1st April to 1st November or 1st January. This suggestion was considered by the Government of India and the Provincial Governments also were consulted. As there was no marked unanimity of opinion in favour of making a change, the matter was dropped. To the Central Government, the question is not of any practical interest now, as its main receipts are from Customs and Excise duties and Income-tax, but the State Governments are still dependent largely on land revenue and their officers have a certain amount of justification if their estimates on the revenue side show a tendency to more than ordinary caution. If they had before them a full and complete account of the rains, they would know exactly what sort of harvests they were going to get in, and would accordingly

*The Marquess of Zetland in a debate in the House of Lords referred to April 1, as "not perhaps a very appropriate date."

be able to give better and firmer estimates than they do under the present conditions.

In its twentieth report issued in April 1958, the Estimates Committee again pointed out the desirability of changing the financial year to October 1. An extract from their report is reproduced as Appendix 4. Apart from the arguments given above, they urged :—

(i) By the time budget allocations for any financial year are communicated to the executive authorities, the monsoon breaks out in most parts of the country and public works get held up. The actual work starts only after the monsoon, that is about October and continues till the end of the financial year. Owing to this serious loss of time, large sums of money earmarked for many works remain unspent or there is a rush of expenditure towards the end of the financial year.

(ii) The present arrangement results in waste of national man-power in that it ties down the nation's representatives first for a three months' session for the discussion and voting of the budget and again for another three months because of the onset of the monsoon, thus preventing them from touring their constituencies and meeting the public.

The Government of India turned down the proposal of the Estimates Committee on the following grounds :—

"Although the south-west monsoon is the principal monsoon of the country, substantial areas depend upon the north-east monsoon, to which the financial year October to September would not be suitable. Moreover, in a vast country like India, it is not practicable to choose any particular period of 12 months which would suit the individual requirements of every State, nor is it possible to have different financial years for the States and the Centre. The existing financial year has the merit of long usage and any change in it, without proving more suitable for the country as a whole, would break statistical continuity and raise other problems. The convenience of the members of the Legislatures is an important factor but this could be remedied by suitably re-arranging the legislative programme. Another line of reform could be to accelerate pre-Budget scrutiny of new schemes so as to be in a position to issue the sanctions immediately after the passing of the Budget.

After taking into account all the factors, Government have decided that no change is necessary in the present financial year but an attempt should be made to readjust the Budget Session in such a way as to leave sufficient time to members of Parliament to tour their constituencies."

The practice in regard to the financial year varies from country to country and appears to have been largely a matter of historical development rather than of considered selection. Quite a number of countries adopt the calendar year (e.g., Argentine, Austria, Belgium, Brazil, China, France, Netherlands, Portugal, Switzerland, U.S.S.R.). Some like Canada, Denmark, Japan, New Zealand, follow the U.K. model of a year running from 1st April. A few others like Australia, Italy, Norway, U.S.A., have a year commencing on the 1st of July. Burma, Ceylon and Haiti start their financial year on the 1st of October, while Turkey has its year commencing on the 1st of June, Egypt on the 1st of May and Iran on the 21st of March. Pakistan has changed its financial year to the U.S.A. year, from July 1 to June 30.

How is The Budget prepared.

In view of the federal character of the Constitution, there is no one comprehensive budget for the whole of India, but a series of budgets, one for the Central Government (excluding Railways), one for each of the State Governments (fifteen in number) and one for the Railways. The demands for the Union Territories of Delhi. Himachal Pradesh, Manipur, Tripura, Andaman & Nicobar islands etc., are included in the Central Budget.

The various stages leading up to the compilation of the budget may be considered under the following heads :—

(i) Preparation of the estimates by local officers and their consolidation by heads of departments.

(ii) Scrutiny of the estimates by :—

(a) The Administrative Department* of Government.

(b) The Finance Department† of Government.

(c) The Accountant-General

*The term "Administrative Department" as used in this and other chapters means the Administrative Ministry in the case of the Central Government.

†The term 'Finance Department' as used in this and other chapters means the Finance Ministry in the case of the Central Government.

(iii) Final consolidation of the estimates and presentation to the Legislature.

Preparation of estimates By Local Officers.

The estimates are prepared by the local officers and sent to the head of the department in two parts:—

Part I relating to revenue and to standing charges.

Part II relating to new expenditure or fresh charges. The term 'new expenditure' applies not only to expenditure on all new services provision for which has not been previously included in the sanctioned grant or appropriation, but also expenditure involved in addition to, or extension of, an existing service, commitment or facility, e.g. provision of new buildings, new roads, additions to existing establishments, grants-in-aid, contributions and similar items of expenditure,

The revenue estimates included in Part I provide for all existing sources of revenue. Proposals for abandonment of an existing source of revenue, in whole or in part, otherwise than in pursuance of authorised codes, manuals or rules, are included separately in Part II.

Part I of the estimates is prepared on skeleton forms,—vide Appendices 5 and 6,—supplied by the Accounts Officer for the Central Budget and the Finance Department for State Budgets in the month of July or August. The estimate of revenue is separate from the estimate of expenditure, even though both the revenue and the expenditure may be under the control of the same officer.

As will be seen from the specimen forms, each form contains columns for :—

(i) Actuals of the previous year ;
(ii) sanctioned estimate for the current year ;
(iii) revised estimate for the current year ;
(iv) budget estimate of the next year ; and
(v) actuals of the current year available at the time of preparation of the estimates and actuals for the corresponding period of the previous year.

There is a separate column for explanatory remarks. All the columns are filled in by the local officers with the exception of the columns relating to the sanctioned estimate of the current year and actuals of previous years which are printed in the skeleton form. The principal columns are those relating to the

revised estimate of the current year and the budget estimate of the next year. Of these the making of the revised estimate of the current year always precedes the making of the budget estimate of the next year, as it is an axiom of budget procedure that, prima facie, the revised estimate of the current year is the best guide for the framing of the coming year's estimate.

The revised estimate is an estimate of the probable revenue and expenditure of the current financial year under the various major and minor heads, sub-heads and detailed heads, framed in the course of the year on the basis of the actual transactions so far recorded and the anticipations for the rest of the year. It is a financial estimate prepared for the information of the Executive showing how much they expect to receive or spend under any particular head and in no way replaces the figure in the sanctioned budget. For instance, if the budget grant for Police is Rs. 40 lakhs and the figure accepted by the Finance Department for the revised estimate is Rs. 45 lakhs, it does not mean that the Inspector-General of Police is authorised to incur expenditure up to Rs. 45 lakhs. Nor if a lower figure is adopted in the revised estimate, does it mean that the grant of the department is correspondingly reduced. The acceptance of a higher or lower figure in the revised estimate means nothing more than this that Government, on the basis of the latest information available, anticipate that the expenditure of the department in question will be greater or less than that authorised in the budget. If the expenditure anticipated is greater, the department concerned must take necessary steps in time to obtain a supplementary grant. If the expenditure anticipated in the revised estimate is less, the department must surrender the saving in good time before the close of the year to the Finance Department.

The revised estimate is not only used as the basis of the budget estimate for the next year, but also enables Government to arrive at the approximate closing cash balance of the current year or the opening balance of the coming year, which is necessary for the ways and means estimate of the next year. It has, therefore, to be prepared with great care, so that it may closely approximate to the actuals, which will be available only several months after the close of the year. It is prepared in the light of:—

(a) the actuals so far recorded in the current year,

(b) the actuals for the same period of the past and previous 3 years;

(c) the 12 months' actuals of the past and previous 3 years,
(d) orders, already issued or contemplated, of appropriation or re-appropriation or sanction to expenditure; and
(e) any other relevant facts.

After the preparation of the revised estimate of the current year the preparation of the budget estimate of the next year is undertaken. The task of framing the budget estimate is one requiring sound judgment and experience. It is not a simple arithmetical exercise in striking out averages of previous years' actuals and putting in a safe figure which would not look exactly like a repetition of the last year's performance. Behind figures lie the insistent realities of administration. The circumstances of no one year are exactly similar to those of the previous year and yet they are not quite dissimilar. One has, therefore, to use his judgment in estimating the similarities and dissimilarities and making due allowance for each.

Estimates of revenue are framed on the assumption that agricultural and economic conditions during the year in question will, in the absence of anything known to the contrary, be of a normal character. As regards expenditure the material available is more definite. The standing charges are known and in relation to new expenditure provision is made for only so much amount as will be spent on schemes properly sanctioned before the close of the coming year. No expenditure that can be foreseen and which will come for payment during the year should be omitted. Applications for fresh funds during the currency of the year are discouraged and accepted only in cases where it can be shown that the expenditure in question could not have reasonably been foreseen at the time of preparation of the budget and is moreover urgent and unavoidable.

The budget estimate is accordingly framed in the light of :—

(a) the revised estimate of the current year;
(b) the 12 months' actuals of the last and previous 3 years;
(c) any recognisable regularity in past years' figures; and
(d) any special features known to be, or likely to be, arising during the next year.

Brief explanations are furnished in the column 'Explanatory remarks' of material variations between the revised and budget estimates of the current year and between the revised estimate of the current year and the budget estimates of the coming

year. A statement showing the strength of the existing establishment with pay and allowances is attached. Explanatory memoranda and subsidiary statements for elucidating the new items of receipt or expenditure are also submitted where necessary.

Consolidation of estimates by heads of departments.

The estimates as received from the local officers are consolidated for the whole of the department by the departmental head. In addition to consolidation, the head of the department reviews and revises, where necessary, the figures supplied by the local officers in the light of his wider experience and more extensive information. The estimates of revenue and Part I expenditure are submitted by the several Heads of Departments to Government on prescribed dates between the months of September and November. One copy of the estimates is sent to the Administrative Department of the Secretariat and another to the Finance Department. The Administrative Department examines the revenue estimates and if it has special knowledge of any circumstances likely to affect the estimates, it suggests the necessary alterations to the Finance Department. It scrutinises the estimates of expenditure in detail and communicates its remarks to the Finance Department. The Finance Department subjects the estimates to a thorough scrutiny, and after considering the remarks of the Administrative Department passes orders on the departmental estimates. A consolidation of these estimates is made by the Finance Department in the month of January.

Scrutiny of estimates by the Accountant-General.

The scrutiny applied by the Accountant-General is different in character from that applied by the Administrative Department or the Finance Department. He is required to furnish any information in connection with the budget estimates which he is in a position to furnish and to offer any opinion or advice regarding the estimates which may be required by the Government. The amount of assistance rendered is not, however, uniform in all the States. In some States the Accountant-General's assistance is confined to the furnishing of actuals from his books and to the original preparation of certain estimates from the registers and accounts maintained in his office, such as the estimates of interest receipts and payments, superannuation allowances and pensions,

recoveries of loans granted to local bodies and estimates under most of the debt, deposit and remittance heads. Some States require the Accountant-General to scrutinise the departmental estimates with reference to the sanctions for fixed charges generally and to communicate the results of his examination to them.

Preparation of estimates of receipts and disbursements in England.

The procedure described in the foregoing paragraphs concerns primarily the estimates of receipts and disbursements in India and does not apply in its entirety to estimates of receipts and disbursements in England.

The receipts in England are small and the estimates are prepared mainly by the High Commissioner for India and the Chief Accounting Officer to the High Commissioner.

As regards expenditure, separate estimates are prepared by the same authorities.

Estimates for expenditure incurred by the High Commissioner are prepared in the first instance by heads of departments in the same detail as the estimates of expenditure in India and submitted to the Administrative Department of Government separately from and in advance of the consolidated departmental estimates, that is, about the middle of August. They are forwarded by the beginning of September to the Finance Department, which consolidates the estimates and communicates them to the High Commissioner by the beginning of October. Estimates for the purchase of stores in England are, however, returned to the estimating officer for transmission to the High Commissioner if the estimating officer is authorised to send indents for English stores direct; otherwise, the Administrative Department forwards the estimates direct. The High Commissioner, on the basis of the estimates and forecasts sent to him and the more up-to-date information in his possession as regards prices of articles, etc corrects the estimates sent to him from India and forwards his estimates for the current and ensuing years to the Finance Department by the third week of October.

The estimates received from England are passed on to the various Administrative Departments of Government for comment on the basis of the latest information available with them. Necessary modifications are then carried out in the Finance Department.

Estimates for new expenditure.

New expenditure comes under Part II of the estimates. This

part consists of schemes which have already been sanctioned by the Government subject to provision of funds in the ensuing year and schemes which have yet to be examined. It includes schemes involving abandonment of revenue. Heads of Departments are required to submit new schemes to the Administrative Department as soon as they are ready and in any case by the beginning of October. The Administrative Department scrutinises each scheme and forwards it to the Finance Department with its detailed remarks and recommendations by the beginning of November.

Scrutiny of estimates by Finance Department

The scrutiny applied by the Finance Department is different in character from that applied by the Administrative Department. For the policy of the expenditure or its necessity or general propriety, the Administrative Department is responsible. The Finance Department is mainly concerned with economy and is entrusted with the duty of keeping the demands of the departments within the funds available. Sustained differences of opinion between the Administrative Department and the Finance Department are submitted to the Cabinet for decision.

For some time, the administrative authorities concerned with projects of economic development have been protesting against the financial rule that acceptance of a new scheme in the budget does not dispense with the sanction of the Finance Ministry, if such sanction is required under the rules. The Government of India has recently decided to relax this rule in relation to a few administrative Ministries on an experimental basis. The tendency now is that once a new scheme is included in the budget, the spending Ministry is not to be disturbed by financial pin-pricks. Consequently, the scrutiny applied to new schemes in the Finance Ministry will be stricter and proposals will have to be submitted earlier than the dates now prescribed.

It is possible that State Governments also may adopt the change mentioned above.

After decisions have been taken on the schemes in Part II, the Finance Department prepares the first edition of the budget estimates which include the estimates of receipts and expenditure, both standing charges and schemes of new expenditure. It consists of the following four parts :—

(i) summary statements showing receipts and disbursements of Government, together with opening and closing balances ;

(ii) detailed estimates of revenue ;

(iii) detailed estimates of (a) expenditure met from revenue, (b) capital outlay and (c) repayment of debt and disbursements of loans and advances.

(iv) estimates of receipts and disbursements under State Provident Funds, deposits, and remittances.

Central Estimates

The principles governing the preparation of Central Estimates are essentially the same as for State Estimates. There are however, variations in procedure due to the complexity of the Central budget which comprises the following :—

(i) Estimates of the civil departments and territories administered directly by the Government of India.

(ii) Estimates of the non-civil departments, such as the Defence Services, Railways, and Posts and Telegraphs.

The compilation of the estimates is done by different agencies as indicated below :—

Under head (i) the estimates are prepared by the administrative officers concerned and are compiled generally by Provincial Accountants-General and the Accountant-General, Central Revenues. The estimates of non-civil departments are compiled as follows :—

(a) Estimates of the Defence Services by the Ministry of Finance, Defence Division.

(b) Estimates of the Railway Department by the Financial Commissioner for Railways.

(c) Estimates of the Posts and Telegraphs Department by the Ministry of Finance, Communications Division.

The special features of the estimates of the civil departments may be considered first. Skeleton forms for the preparation of these estimates are printed by the Accountant-General and distributed to the estimating officers. Part I of the estimates prepared by Heads of Departments is forwarded by the beginning of October both to the Accountant-General and the Administrative Department of the Central Government. The Accountant-General does not examine the estimates of revenue in any great detail but subjects the expenditure estimates to a detailed scrutiny. The fixed charges are checked with the sanctions, and it is seen that provision has been proposed for all sanctioned charges and

that unsanctioned charges have not been included. The account classification of the various items is also checked. Any orders that Government may have issued with regard to particular items are also looked into. After completing his examination the Accountant-General communicates his findings to the Finance Ministry.

Independently of the Accountant-General's examination, the estimates are scrutinised by the Administrative Ministry and forwarded with its remarks to the Finance Ministry before the middle of November. A copy of the remarks made by the Accountant-General is communicated by the Finance Ministry to the Administrative Ministry and the latter is generally consulted before any changes suggested by the Accountant-General are accepted. Orders on the estimates are then issued by the Finance Ministry and communicated to the Accountant-General and the Administrative Ministry.

The estimates relating to interest on ordinary debt, interest on miscellaneous obligations, superannuation allowances and pensions and extraordinary receipts and payments are prepared by the Accountant-General, as he is in the best position to frame them. They are furnished by him to the Finance Ministry by the beginning of December. No orders are issued on these estimates; they are incorporated by the Accountant-General in the consolidated estimates submitted by him to the Finance Ministry in January.

On receipt of the estimates from all departments the Finance Ministry prepared a rough budget forecast early in January.

The estimates for Defence Services are compiled by the Financial Adviser. Defence Finance. A reference to his functions is made in the chapter on the Ministry of Finance.

The estimates of the Railway Ministry are dealt with in a separate chapter.

The Financial Adviser Posts & Telegraphs, in consultation with the Accountant-General, Posts & Telegraphs, prepares the Posts and Telegraphs Estimates.

The Accountant-General's Budget Notes.

The next stage in the preparation of the Central budget is the consolidation of the estimates by major heads of account in the Accountant-General's Office. For this purpose, forms known as 'Civil Budget Notes' are supplied by the Finance Ministry

in the middle of December for completion and return to the Ministry in the second week of January. In the case of the following principal heads of revenue the Accountant-General does not prepare any estimates. He only fills the actuals of the previous year in the forms supplied to him. The estimates in respect of these heads are adopted by the Finance Ministry themselves and filled in in the forms. This provides for possible changes in taxation in the coming year. The heads are:— Customs, Union Excise Duties, Corporation tax, Taxes on income other than corporation tax, Estate Duty, Taxes on Wealth, Expenditure tax, Gift tax and Opium. In respect of the remaining heads, the Accountant-General sends the consolidated estimates as under :—

The actuals are first entered in the form and then the figures relating to the budget and revised estimates for the current year and the budget estimate for the next year. As most of the departmental estimates are prepared when actuals for 5 or 6 months only are known, the revised estimates then framed are modified with reference to 8 months' actuals and any other information available. The actuals of the last 4 months of preceding years as well as the departmental anticipations are also taken into consideration. In the case of the principal heads of revenue, other than Customs, Union Excise Duties and Opium, the revised estimates are reviewed also with reference to the preliminary actuals for December. As regards the budget estimates of the coming year, the figures entered under revenue heads are those already estimated by departmental officers in October but corrected with reference to the current year's revised estimates and any other available information. Under expenditure heads the figures entered are the amounts accepted by the Finance Ministry in Part I of the departmental estimates submitted in October plus provision for new items communicated by that Ministry from time to time for inclusion in the budget. The estimates in respect of certain heads, e.g. Interest, Superannuation allowances and pensions, commuted value of pensions etc. are filled by the Accountant-General with reference to later actuals. A detailed list of such heads is given in Appendix 7.

Explanatory notes are added detailing cases where the revised estimate materially differs from the original budget estimate of the current year or the budget of the coming year differs materially from the revised estimate. Under important revenue heads reasons are given for variations proposed by the

Accountant-General in the departmental anticipations for the current and next years. As the figures are estimated by the Accountant-General at this stage in the light of information more recent than that on which the departmental officers prepared their budget figures, the review by the Accountant-General has a special value from the financial point of view. It facilities closer estimating and suggests corrections to tendencies to which estimating officers are as a rule liable, namely, underestimating the revenue and over-estimating the expenditure.

Preparation of Demands for Grants.

Along with the budget notes, the Accountant-General sends the Demands for Grants which are practically the detailed estimates of expenditure in a condensed form. These are dealt with in the next chapter. The budget notes, together with the Demands for Grants, are forwarded by the Accountant-General to the Finance Ministry in the second week of January. He telegraphs to the Finance Ministry in the second week of February alterations of rupees one lakh or more under any major head which he considers necessary on the basis of nine months' actuals and also on a consideration of the preliminary actuals for the tenth month in the case of the principal heads of revenue.

The Accountant-General also furnishes to the Finance Ministry in the second week of January an estimate of central transactions in his State under debt, deposit and remittance heads.

When the budget notes and demands for grants have been received from all the Accountants-General, they are reviewed by the Finance Ministry and consolidated in the Economic Affairs Department. Questions of policy arising from the budget, such as fresh taxation or allocation of surplus are considered and decided upon by Government. After such decisions have been taken the annual financial statement and the Demands for Grants are prepared for presentation to the legislature.

A budget calendar embodying in chronological form the dates fixed by the Centre for each budget step from the beginning to the end is given as Appendix 8.

CHAPTER V

DEMANDS FOR GRANTS

It has been stated in the previous chapter that the demands for grants are practically the detailed estimates of expenditure in a condensed form. This is true up to a point. But it leaves the question of what is to be treated as 'expenditure' undetermined. Besides, the estimates are prepared by heads of account and the demands for grants are not always in this form. It is, therefore, necessary to describe in greater detail the composition of the Demands for Grants.

The Consolidated Fund.

In order to understand what is included in the term 'expenditure' (for which alone a demand for grant is made) and what is not, it is necessary to give a brief description of the receipts and disbursements of governments in India.

All receipts and disbursements are kept in three separate parts :—

Part I—The Consolidated Fund.

Part II—The Contingency Fund.

Part III—The Public Account.

Under Article 266 (1) of the Constitution of India "all revenues received by the Government of India, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled "The Consolidated Fund of India", and all revenues * received by the Government of a State, all loans raised by that Govern-

*In its sixteenth Report (1954-55) the Public Accounts Committee observed that it was not constitutionally correct to levy a cess on certain commodities and constitute a separate fund from the proceeds thereof for an earmarked purpose, as under Article 266 of the Constitution all revenues received by the Government of India shall form one Consolidated Fund. They added that it would be manifestly impossible for Parliament to exercise any close control over the administration of public finance, if the system of assigning particular receipts for specified purposes prevailed. Further, such earmarking would turn out to be bad budgting, as there would be no direct correlation between the amount of such taxes which were ultimately paid by the general consumers and the actual requirements for the development of the industry concerned.

ment by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled "The Consolidated Fund of the State".

Article 266(3) further provides that "no moneys out of the Consolidated Fund of India or the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in this Constitution".

All issues of public money on account of cost of collection of revenue, expenses of civil administration, expenses of the Public Works Department, defence services, administration of debt services, capital outlay on public works, repayments of permanent and floating debt (which includes treasury bills, ways and means advances etc.) and loans and advances made by Government are treated as 'expenditure' out of the Consolidated Fund of India which come within the jurisdiction of the Legislature.

The creation of a consolidated fund in India is based on English analogy. In England the Consolidated Fund was the creation of the younger Pitt and dates from 1787. Before that date the practice had been to charge the produce of specific taxes with the payment of specific debts, representing money borrowed by the State at different times for different purposes. There had been partial consolidations of these charges, but no general consolidation. What Pitt did by his Act of 1787 was to carry practically all the national revenue of Great Britain, whether derived from taxes, crown lands, or other sources, to one general account or fund called the Consolidated Fund, and to charge all the national debts on this fund. The Consolidated Fund is now represented by the account kept by the Government at the Bank of England, which is generally called the 'Exchequer Account,' or simply the 'Exchequer'. It will thus be seen that in England the term 'Consolidated Fund' has a justification, but in India, the term 'Consolidated Fund' has no special meaning, as there has been no consolidation of any revenues previously kept separate and distinct. On the other hand, certain items which, under the Government of India, Act 1935 and the practice prevailing thereunder, formed part of the 'revenues' of a government have now been excluded from that term and relegated to another category, known as the 'public account', described in a later paragraph.

The transactions (net) of the Consolidated Fund of India (which is exclusive of the Consolidated Funds of the States) for the year 1961-62 are of the following order :—

(In crores of rupees)

	Accounts	Revised Estimate	Budget Estimate
	1959-60	1960-61	1961-62
Receipts	622	398	522
Disbursement	745	920	911

It will be noticed that for every year the disbursements are greater than the receipts. The Consolidated Fund of India is not self-financing and requires the aid of the Public Account to keep it going.

The Contingency Fund

Under Article 267 of the Constitution, Parliament (for the Centre) and the Legislature of a State (for the State concerned), may by law establish a contingency fund. This fund is of the nature of an imprest and enables the Executive Government to meet unforeseen expenditure pending its authorisation by the Legislature by law. There is a Contingency Fund of Rs. 15 crores at the Centre, and for each State, the amount* being varied suitably. The administration of the fund vests in the Finance Department concerned. There was no such fund during the period of operation of the Government of India Act, 1935. Section 80(3) of this Act provided that no expenditure from the revenues of a province shall be deemed to be duly authorised unless it was specified in the authenticated schedule. There was an identical provision for the Centre in Section 35(3) of the Act. The result was that expenditure not provided for in the authenticated schedule was incurred every year and supplementary demands submitted a long time afterwards, in spite of the protests of the Opposition parties in the Legislatures that such a procedure was illegal. This was a lacuna in the Act of 1935. No government can foresee all possible demands during the currency of a year and provide for them in the Appropriation Act. The executive departments would be greatly hampered in the discharge of their duties if they had to await the sanction of the legislature before incurring unforeseen, but unavoidable, expenditure. At the same time if the expenditure is incurred without parliamentary sanction it is

*It has been held that though the amount which can be held in the Contingency Fund is fixed by statute, a Government may by Ordinance increase it, pending ratification by the Legislature at its next session.

illegal. The existence of a contingency fund does not absolve the Executive from the duty of submitting such expenditure to the Legislature for sanction, nor does it commit the Legislature to approving the expenditure, simply because it has been met out of the Contingency Fund. Parliamentary control over the expenditure is thus in no way diminished by the creation of the Fund. A contingency fund has existed for a long time in Great Britain for similar purposes and is administered by the Treasury.

As no demand for grant for a financial year can be moved after the year has closed, it follows that amounts drawn from the Contingency Fund must be recouped by taking a supplementary grant from the Legislature before the close of the year in question.

The Public Account.

For payment out of the Public Account, no demand is required to be presented to Parliament and the requirements are met by executive authority from time to time as they arise. These payments are largely of the nature of banking transactions. State Provident Funds, Depreciation and other Reserve Funds of Government departments, Postal Savings Bank, Post Office Cash and other Savings Certificates, Postal Life Insurance Funds, ad hoc funds created by Government by appropriation from revenue or otherwise, miscellaneous deposits and remittances are included in the Public Account. It is broadly correct to say that none of the monies lying in the Public Account belong to Government. They have to be paid back at some time or other to the public, as in the case of State Provident Funds, Postal Savings Bank, Postal Cash Certificates, etc. or to be utilised by Government in an agreed manner, as in the case of ad hoc funds set up for special purposes. It may be mentioned, to complete the picture, that the approval of Parliament is necessary to any appropriation from revenue to create a fund and, unless the monies thus funded are made over to corporate bodies with separate legal status of their own, similar approval is required for incurring subsequent expenditure from such funds. When an amount is transferred to any such fund, it is shown as expenditure in the estimates of the year in which the transfer is made. Expenditure met from these funds is similarly shown in the estimates of the year in which it is incurred, but an equivalent amount is transferred from the fund to meet this expenditure. Parliamentary control is thus secured on both the creation of such funds and the utilisation of the monies in them.

The transactions (net) in the Public Account of India (which is exclusive of the Public Account of each State) as given in the Budget of the Central Government for the financial year 1961-62 are of the following order :—

(In crores of rupees)

	Accounts	Revised Estimate	Budget Estimate
	1959-60	1960-61	1961-62
Receipts	175	532	408
Disbursements	17	29	20

Mr. A. K. Chanda, former Comptroller and Auditor-General, says in his"Aspects of Audit Control":—

"The establishment of a Consolidated Fund as distinguished from the Public Account (which includes all public moneys received by or on behalf of Government without actual physical separation of balances) has practically defeated the purpose underlying Articles 114(3) and 204(3) of the Constitution, inasmuch as funds in the Public Account can, without let or hindrance, be utilised on expenditure which is debitable to the Consolidated Fund. In fact, under our present system, no body would know at any particular moment whether this is happening or not. If moneys outside the Consolidated Fund can be freely utilised for meeting expenditure legally payable only out of the said Fund, the restrictions imposed by the passing of the Appropriation Act are rendered null and void in practice".

Composition of Demands for Grants

The estimates of expenditure to be met from the Consolidated Fund are presented to the Lok Sabha (at the Centre) and the Vidhan Sabha (in the States) in the form of Demands for Grants, except to the extent to which such expenditure is 'charged' on the Consolidated Fund and, in consequence, does not require a vote of the Legislature. Each demand is divided into four Parts. Part I gives the total amount required under the Demand. Part II gives provisions under the Major heads of account and sub-heads so as to indicate broadly the items of expenditure, such as Pay of Officers, Pay of Establismment, Allowances and Honoraria, Other charges, 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. existing and proposed by the particular Ministry or Depart-

ment 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.

Each demand is prepared for the **gross** amount of the expenditure, without regard to the recoveries that may come in during the course of the year. As pointed out above, recoveries are adjusted in the accounts in reduction of expenditure, but so far as the spending authorities are concerned recoveries are not available to them and they are answerable to Parliament for the gross amount of expenditure, which in a sense represents the real outgoings from the Consolidated Fund for which the authority of Parliament is required. This is not the practice in U. K., where the demand (or vote) is for the net amount.

Each demand is in the following form :—

> "That a sum **not exceeding Rs.** . . . . . be granted to the President to defray the charges which will come in course of payment during the year ending the 31st day of March . . . . . in respect of the Ministry of . . . . . .

The words 'not exceeding' deserve to be noted. Only a maximum amount is mentioned which cannot be exceeded, but it is not necessary to draw it to the full, if the needs of the public service can be met within a smaller amount.

There is no vote for estimates of revenue or receipts on capital account.

For all items, figures are supplied for :—

(i) actuals of the previous year;

(ii) budget estimate of the current year;

(iii) revised estimate of the current year.

(iv) budget estimate of the next year.

New items of expenditure are shown in a distinctive manner to assist the members of the Legislature in gauging the financial effect. Votable and non-votable (or 'charged' as they are called) items in each demand are shown separately. Where expenditure is wholly 'charged', a separate 'appropriation' is included for it in the Book of Demands. In the U.K., non-votable items are omitted from the Estimates presented to the House of Commons. In India, the Legislature gets a complete picture of the financial position, even though it is not required to vote on 'charged' items of expenditure.

In respect of expenditure for 1961-62 in the general

budget, the Government of India submitted 141 demands and appropriations covering a gross expenditure of Rs. 7832 crores. In addition, there were 22 demands in the Railway Budget for Rs. 1091 crores.

Each Government has perfect freedom to include whatever items of expenditure it likes in any one demand. The only restriction on this freedom is that a demand for expenditure on revenue account must be separate from a demand for 'other' expenditure, such as capital outlay, etc. It is customary to consult the Estimates Committee and the Public Accounts Committee before making any changes in the form of a demand. At the Centre, there are about twenty one volumes prepared Ministry-wise, each dealing with all the demands pertaining to a single Ministry.

Since 1959-60, Five Year Plan Schemes in the Central Budget are shown as separate items under the relevant sub-heads in Part III of the Demands for Grants. This has been done at the suggestion of the Estimates Committee which emphasised the difficulty in watching the expenditure against the Plan arising out of the merger of Plan and non-Plan expenditure. The growth of non-Plan expenditure and utilisation therefor of resources meant for Plan expenditure was the subject of adverse criticism. In the States, the difficulty is that grants for Social Services are given for a limited period after which the expenditure in question becomes part of the normal budget of the States and it is difficult without disorganising the entire budget to make such a separation. Consequently, the manner in which Plan expenditure should be exhibited in the State budgets has been left to the convenience of the State Governments.

The demands generally cover the requirements of each individual administrative service. For example, a Ministry will have a demand for its own expenditure and one for the expenditure of each of the various departments under its administrative control. Except in special circumstances, a demand does not cover more than one department or more than one head of account. The main exception to this is that all expenditure controlled by the head of each of the Union territories is brought together in a single demand. In the case of major heads which are too unwieldy and heterogeneous to be included in a single demand such as 'General Administration' two or more demands are presented. For example, the expenditure falling under "25-General Administration" is split up by the State Governments into demands for (i) "Heads of States, Ministers and Headquarters

Staff", (ii) "Legislative Bodies", and (iii) "District Adminstration and Miscellaneous", and by the Central Government according to Ministries controlling the expenditure falling under the major head, such as Ministry of Education-General Administration, Ministry of Finance—General Administration, Ministry of Communications-General Administration.

A single demand covers the loan requirements of all Ministries and Union territories. Demands are also presented for the working expenses of the commercial departments, although in the accounts the expenditure is taken in reduction of the revenue of the departments.

The total of all the demands relating to a major head and the 'charged' expenditure provided under that head may not agree with the total shown in the "annual financial statement" or what is known as the budget, which is prepared by heads of account. This is because certain recoveries are taken in the accounts in reduction of expenditure while in the demand these recoveries are not taken into account. These recoveries mostly relate to inter-departmental adjustments or recoveries from other Governments, ad hoc funds, etc. Thus, if the Union Excise Department does some work for Customs, the gross expenditure will appear in the demand under Union Excises while the accounts will show only the net expenditure (i.e. gross expenditure less recovery from Customs) under the major head 'Union Excise Duties'. Similarly, while the interest received on the capital advanced to commercial departments and State Governments is taken in the accounts in reduction of expenditure under the major head 'Interest', the appropriation for 'Interest' will show the actual sum which Government have to find for the payment of intesest on and the servicing of the outstanding debt and other interest-bearing obligations.

After the demands have been voted by the Lok Sabha (or Vidhan Sabha in a state), the Appropriation Bill is prepared to give legal authority to withdraw monies from Consolidated Fund.

A specimen form of a demand for grant is given in Appendix 10.

Comparison of English with Indian Estimates.

In the English Estimates, the figures of the year for which the budget is framed are compared with the budget figures of the previous year. There is no such thing as a revised estimate.

Each 'vote' in the English Estimates is divided into three parts:—

Part I specifies the services for which the estimate is presented and the net amount of the grant demanded from Parliament.

Part II summarises under sub-heads the expenditure and receipts (if any) which make up the total amount specified in Part I, names the department which will account for expenditure of the grant under those sub-heads, and states the gross expenditure in connection with the service for which the grant is made. In a footnote is stated the expenditure borne by other departments.

Part III explains in such detail as is considered necessary the nature of the expenditure and receipts provided for under each of the sub-heads in Part II with comparable figures for the previous year.

Part I is the operative part of an estimate. Parts II and III are explanatory. The sum to be voted is a net sum, being the difference between the total expenditure and the receipts arising in the course of business of a department. These receipts are not paid into the Exchequer but are appropriated in aid of the department's estimate as if they were moneys provided by Parliament for that purpose. The amount of its receipts which a department may use is limited and subject to parliamentary control, as any surplus actually received in excess of the amount estimated to be received by a department is not applied as an appropriation in aid but is paid into the Exchequer.

Parts II and III of the English Estimates are more informative than the corresponding parts of the Indian demands. First of all, the footnotes in Part II of the English Estimates bring out the expenditure borne by other departments, which is entirely lacking in the Indian system. Secondly, the details given in Part III of the English Estimates are much more complete than in the Indian demands and give as much information as a member of the Legislature can need for forming an intelligent opinion on the Estimates. For instance, in relation to the establishment dealt with in each vote, not only the numbers and scales of pay of each class of establishment are given but also their conditions of service and any variation proposed therein. Similarly, in the estimate for the House of Commons under the sub-head 'Salaries' are given the details of the various payments made to members of the House and the authority for each class of payment is cited. Mention is also made of special items, such as late night transport service and the expenditure incurred thereon. If the Indian demands were to give such detailed information, members of the

Legislature would find it more helpful in the discharge of their functions.

The Estimates Committee of the Lok Sabha in its twentieth report on Budgetary Reforms suggested the adoption of the U.K. system of footnotes with a view to giving an indication of the total cost of a particular service or a Ministry, which under the present system of estimating and accounting it is impossible to work out. But the Government of India decided against any such change. Briefly, their view is that the analogy of U.K. does not hold good in India and the bulk of what is treated as common services in England—namely, cost of Exchequer & Audit Department, expenditure on buildings, stationery and printing and on pensions—is provided for in the Indian budget as expenditure of the departments concerned. This is merely stating a fact, but does not constitute an argument against changing existing practice. As regards the remaining common services, the allocation cannot, in the view of the Government of India, be made without a radical change in the accounting system prevailing at present. Further, the results to be achieved would not be commensurate with the time, labour and expenditure involved. The Comptroller and Auditor General is of the view that there is no strong ground for disturbing the status quo and the Government of India agree with this conclusion.

Supplementary Demands.

No expenditure in excess of the sums authorised in the Budget by Parliament can be incurred without obtaining fresh supply from Parliament. This is done by presenting to Parliament a Supplementary Estimate. Under Article 115(a) of the Constitution, a supplementary demand may be made if the amount authorised to be expended for a particular service for the current financial year is found to be insufficient for the purposes of that year or when a need has arisen during the current financial year for supplementary or additional expenditure upon some new service not contemplated in the annual financial statement for that year.

It will thus be seen that a supplementary demand may be in respect either of a new service or of an ordinary service. This at once raises the question what constitutes a 'new service'. No formal definition is prescribed either in U.K. or in India. The matter is left to be determined by the Ministry of Finance in consultation with the Auditor-General and the Public Accounts Committee. Without making any pretence to technical accuracy, it may

be said that an extension of the activities of a department would constitute a new service. The view of the Public Accounts Committee is accepted in cases where there is a difference of opinion between the Ministry of Finance and the Auditor-General.

In respect of a new service, Government have no power to incur expenditure without the approval of the Legislature and a supplementary demand must be submitted as soon as the necessity for incurring the expenditure becomes known. It is not considered correct to incur the expenditure first and obtain the approval of the Legislature afterwards. In respect, however, of items of ordinary service, Government are competent to find funds by reappropriation, even though no funds may have been provided in the original estimates. In such cases, it is generally found advisable to defer the submission of supplementary demands to as late a period in the financial year as possible. The submission of supplementary demands very early in the financial year generally results in funds being granted which are subsequently found unnecessary, as they could have been met by reappropriation. Such demands are looked upon with particular jealousy by the legislature, inasmuch as they tend to diminish its control over public expenditure, and, if for large sums, really amount to a breach of contract between the Government and the legislature. "It is a sound principle, that one, and only one, estimate of national expenditure should be laid before Parliament during each session; for to render parliamentary control effectual it is necessary that the House of Commons should have the money transactions of the year presented to it in one mass and in one account." (Col. Durell's Parliamentary Grants, Chapter 1, page 49).

In all such cases, the Ministry concerned has to satisfy Parliament that:—

(i) The expenditure in question could not be foreseen at the time of the preparation of the main estimates; and

(ii) The expenditure cannot in the public interest be postponed to the next year.

Votes on Account.

Under Article 116(1)(a) of the Constitution, the Lok Sabha has power to make any grant in advance in respect of the estimated expenditure for a part of any financial year pending the passing of the Appropriation Act.

As the voting of expenditure for a particular financial year is not completed till the month of April, it is necessary to make

provision for defraying the expenditure likely to be incurred till then. Such votes are known as votes on account—i.e. votes for expenditure from the beginning of the financial year until the main budget is voted. The estimated requirements broadly represent one-twelfth of the whole year's gross requirements, except in a few cases where the expenditure is not uniformly spread over the year and larger provision is required to meet the likely payments in the month of April. The latter items are detailed, with explanation of the reasons for the additional requirements. According to established usage, demands for grants on account are restricted to such services as have received the sanction of Parliament. It is not usual to use such votes for new services.

Grants on account may also be rendered necessary by a dissolution of Parliament. If the dissolution occurs in the early portion of a session, before supply is completed, it may be necessary to take votes on account sufficient to carry on all the services until the new Parliament is able to consider the grant of supply. Similar votes are also taken in a general election year in February or March. The new Parliament deals finally with the budget and not the one whose life is about to expire.

When the final grant for a service is being voted, the vote on account is deducted from the total amount of the Estimate and only the balance is voted. No detailed discussion takes place in Parliament on such votes but explanatory questions can be put by members to the Minister concerned.

Excess Grants

Under Article 115 (1) of the Constitution, the Lok Sabha has power to vote 'excess grants' if any money has been spent on any service during a financial year in excess of the amount granted for that service and for that year.

Such grants are looked upon by Parliament with disapproval. The Commons resolved on 30th March, 1949 that "when a certain amount of expenditure for a particular service has been determined upon by Parliament, it is the bounden duty of the department which has that service under its charge and control, to take care that the expenditure does not exceed the amount placed at its disposal for that purpose."

In paragraph 18 of its first report on the appropriation accounts of 1948-49, the Central Public Accounts Committee made the following observations on excess expenditure. "It is a grave matter if expenditure in excess of the sanctioned sum

under a grant is incurred without Parliamentary sanction having been obtained in advance. It is immaterial whether there is justification for incurring such expenditure or whether it has happened through a deliberate or an innocent act. The fact remains that the Ministry runs a great risk if at any time during the year its sanctioned grant is exceeded by any amount without Parliamentary sanction. It is a serious matter of which the Committee and subsequent Parliament are bound to take notice and to suggest drastic action."

The facility for presenting supplementary estimates is in normal cases sufficient to prevent a department being put in the position of exceeding in the course of a financial year the supply granted for its needs by Parliament. The need, however, of excess expenditure may be unavoidable in the closing weeks of the financial year when, owing to the state of parliamentary business, it may be impossible to get a supplementary estimate voted in time before the close of the financial year. In this case the excess must be voted in the following year. In India excesses are also incurred because the departments do not know what is the balance of the amount at their disposal at any particular time.

Token Demands

Where funds are available within a grant for a particular expenditure not provided for in the Estimate, but the expenditure is either on a new service or is of a such a special character that it is considered desirable to bring it to the notice of Parliament, a token demand (or vote, as it is called in U.K.) is presented. The demand is usually for a sum of Rs. 100 and when the demand is passed, funds for the requisite amount are arranged by re-appropriation within the existing grant.

Exceptional Grants*

Under Article 116(b) and (c) of the Constitution, the Lok Sabha has power to make a grant for meeting an unexpected

*Special grants in U.K. require the sanction of Parliament. A recent instance is the contribution by U.K. to the scheme for the distribution of the Indus river waters between India and Pakistan. The amount involved was £20,860,000. Grants of £7,500 and £15,000 respectively were also announced, *subject to parliamentary approval*, to aid the victims of cyclones and tidal waves in the Chittagong area of East Pakistan.

No such grant has been made in India so far.

demand upon the resources of India when on account of the magnitude or the indefinite character of the service the demand cannot be stated with the details ordinarily given in an annual financial statement; as also to make an exceptional grant which forms no part of the current service of any financial year. Article 206 gives similar powers to the State Vidhan Sabha.

Size of a demand.

The size of a vote is determined by two considerations :—

(1) effectiveness of parliamentary control;

(2) administrative convenience;

These two considerations are not always in accord with each other. From the point of view of Parliament the more explicit the appropriation the more effective the control. From the point of view of the Executive Government, the wider the scope of a demand the greater the freedom they have in utilising savings for meeting unforeseen charges or excesses over sub-heads within the demand.

CHAPTER VI

THE VOTING OF DEMANDS

The budget, after having been passed by the Executive Government, is presented to the Legislature towards the end of February or the beginning of March. Under the former set-up there was no provision for votes on account, and, therefore, the whole budget programme was so arranged that the voting of the demands for grants as well as the passing of the taxation bills was completed before the commencement of the next financial year. But now that votes on account have been introduced, there is not the same urgency to finish the budget debates before the next financial year begins. This gives the legislature longer time for budget discussions. There is a feeling that even now there is not enough time for a thorough scrutiny

The budget goes through five stages before it is passed :—

(1) Presentation to the Legislature.
(2) General discussion.
(3) Voting of demands.
(4) Consideration of the Appropriation Bill.
(5) Consideration of the Finance Bill.

The first four items will be dealt with in this chapter. The consideration of taxation proposals will be dealt with in the following chapter.

Presentation of Budget.

It has been stated in chapter II that the budget, or the "statement of the estimated receipts and expenditure", is laid before the Legislature every year. Where there are two chambers, the budget is laid before both. In England, the presentation of the budget is made only to the House of Commons and not to the House of Lords. The financial paragraph in the Queen's Speech is addressed to the Commons alone. Rule 213 of the Manual of Business and Procedure in the Lok Sabha provides that the Budget may be presented in two or more parts and when such presentation takes place each part shall be dealt with in the same manner as if it were the budget. This rule regularises the procedure for dealing with the railway budget, for which there is no specific provision in the Constitution, but which is presented separately from the general budget. The Constitution requires that the

estimates of expenditure embodied in "the financial statement" shall show separately :—

(a) the sums required to meet charged (or non-votable) expenditure; and

(b) the sums required to meet other (or votable) expenditure.

It is further provided that expenditure on revenue account shall be distinguished from other expenditure. The surplus or deficit is the resultant of the revenue receipts minus the expenditure on revenue account.

The Finance Minister's Budget Speech.

In England, the Budget Day has its ritual. On the eve of the Big Day, the Chancellor of the Exchequer goes to the Palace to dine with the Sovereign. Next day he poses for the photographers, holding aloft his red despatch case containing the Budget speech, on the steps of 11, Downing Street, his official residence. The despatch case is the same used by Chancellors since the days of Gladstone. Having arrived at the House of Commons, the first thing the Chancellor does is to place by the despatch box a glass of something to fortify himself during the performance. It is also customary for the Chancellor to make a joke about his drink. "I will now proceed to fortify the revenue." That was Sir Winston Churcill's little joke when he was the Chancellor of the Exchequer many years ago. Mr. Heathcot Amory's glass in April, 1959 contained a drink of milk, honey and a dash of rum. While taking it, he said :—"I wish to stimulate economy". In India there is no such ceremony. Even the leather brief case traditionally associated with Budget speeches was nowhere to be seen when Mr. Morarji Desai presented his first Budget in 1959. A glass of water is provided on a special stand with a light attached, for the Finance Minister to keep his manuscript.

On introducing the budget the Finance Minister reads a printed speech in the Lok Sabha (or Vidhan Sabha of a State.) In the other Chamber, where it exists, the budget is presented by a member of the Government. Budget speeches everywhere follow a classical pattern and only occasionally betray the touch of a human hand. Such speeches in India differ both in substance and form from the budget speech made by the British Chancellor of the Exchequer before the Committee of Ways and Means of the House of Commons, some time in April after the commencement of the financial year to which it relates. The Chancellor deals with the expenditure estimates in the most general terms, the esti-

mates of some of the spending departments having already been presented to the House of Commons in February & March and expounded to the Committee of Supply by the member (concerned) of the British Government. The Chancellor of the Exchequer normally deals with the revenue estimates of the year and expounds the method of financing the expenditure of the government by additions or alterations in the existing scale of taxation. English budget statements only deal with the year which has just closed and the year which has just begun. In India three sets of figures are presented. First of all, are given the audited accounts of the year which ended eleven months earlier. Secondly, a revised forecast of the outturn of the current year which has still about one month to run. And, thirdly, a forecast of the coming financial year. In England, figures for issues from the Exchequer, which are readily available, are adopted for the purpose of the budget statement as they do not generally show wide variations from the audited accounts, and the surplus or deficit of the year as indicated in the budget speech is usually correct. There is thus no need for guess-work, as in India, where the surplus or deficit of the current year as shown in the 'revised' estimates may differ substantially from the audited accounts figure. It is not unusual for an anticipated deficit in the revised estimates to be superseded by a large surplus in the audited accounts.

As regards the coming year, more detail is given. The revenue and expenditure estimates are analysed and proposals for meeting the surplus or deficit, as the case may be, expounded. The capital programme which, under the Five-Year Plan, is assuming greater importance, is explained. The ways and means estimates for the coming year are outlined, so far as it is possible to do this many months ahead.

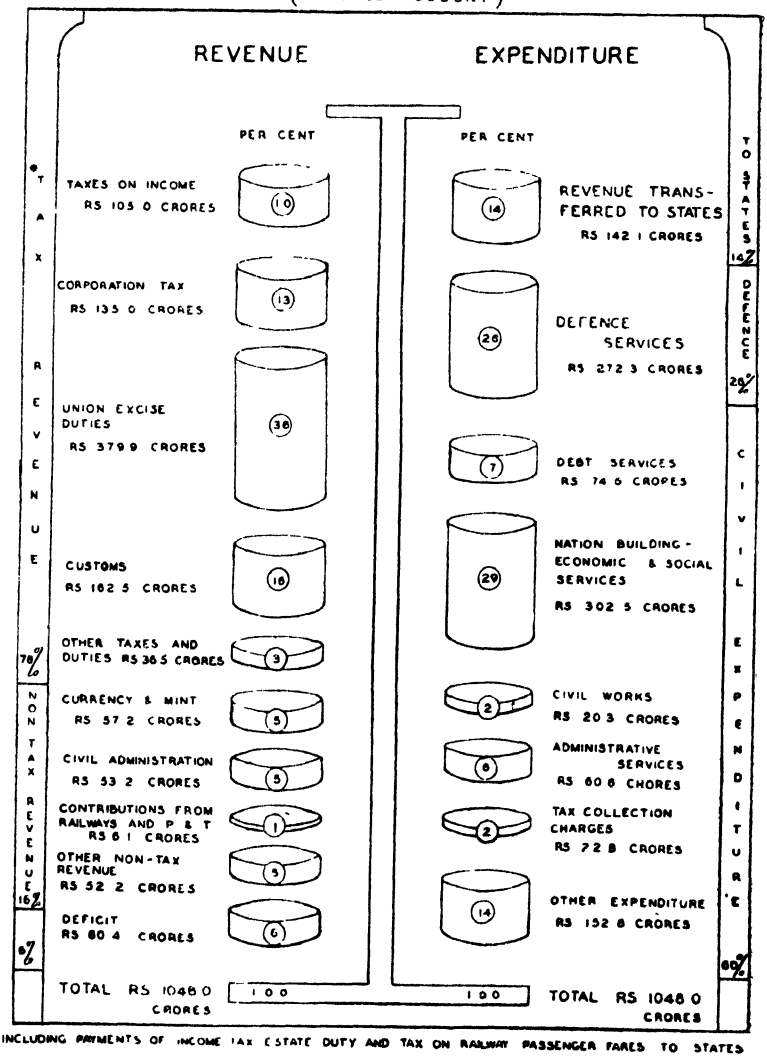
There is some comment that budget speeches in India are much too long and uninteresting in comparison with budget speeches in other countries. Part A of the speech takes generally an hour and Part B, dealing with taxation proposals, less than half an hour. In U.K. opening budget speeches generally take about the same time. Another comment is that budget speeches in India are read. Only once, within the recollection of the present writer, was a budget speech delivered extempore (without any notes) by a Finance Secretary to the Government of India in presenting the budget to the Council of State. Reading the speech does make it dull for listeners, but is inevitable when a mass of figures is involved, unless the speaker has an extraordinary memory.

A graphical presentation of the Central Government Budget for the year 1960-61 is given below:—

THE CENTRAL BUDGET

1960-61

(REVENUE ACCOUNT)



INCLUDING PAYMENTS OF INCOME TAX ESTATE DUTY AND TAX ON RAILWAY PASSENGER FARES TO STATES

In addition to the Finance Minister's printed speech, a copy of which is supplied to every member of the legislature, are :—

(1) the Budget of the Central Government, under the various account heads.
(2) Explanatory memorandum on the Budget.
(3) Summary of Demands for Grants.
(4) Demands for Grants, Ministrywise, one volume for each Ministry, about 21 volumes. (presented later, during the course of the session)
(5) Defence Services Estimates.
(6) Finance Bill and Explanatory memorandum thereon. (Dealt with in the chapter on Voting of Taxes)
(7) Economic Survey.
(8) Economic Classification of the Budget.
(9) Budget in Brief—A graphical presentation. (Issued after about 2 months).
(10) Administrative Reports of the various Ministries. (presented with the demands for grants of each Ministry)
(11) A Hindi version of the Budget Speech is also presented, together with Hindi translation of the Budget statement, Explanatory Memorandum, Administration Reports and Demands for Grants, simultaneously with the English version.
In the States, the regional language takes the place of Hindi.

The Explanatory Memorandum on the Budget.

This memorandum, which deals only with civil estimates, consists of two sections, the first dealing with the estimates of revenue and expenditure met from revenue, and the second dealing with the receipts and payments on capital account as also transactions connected with loans, treasury bills and ways and means advances. Under each section, explanations are given of variations between :—

(i) the revised and budget estimates of the current year; and
(ii) the budget estimates of the next year and the revised estimates of the current year

Explanations of variations in the provision under individual Demands for Grants and notes on important schemes appear in the separate volumes in which the demands for grants of the individual Central Ministries are presented. The balance-sheets

and accounts of commercial and other undertakings are included in the volumes of Demands of the Central Ministries concerned.

Defence Services Estimates

This gives the detailed figures for the Defence Services and is prepared on the same lines as the 'Explanatory Memorandum on the Budget' mentioned above. Parliamentary feeling is that more information, as in U. K., should be given, consistent with the requirements of security. In particular, expenditure relating to various units, institutions, inter-Service Organisations etc. should be shown separately.

Economic Survey

This analyses the main trends in the economy during the year current (on the date of presentation of the Budget) and presents in broad outline the background against which the budgetary and economic policies for the coming year have to be considered. It deals with agricultural and industrial production, employment, monetary trends, prices, balance of payments, the economic situation and the measures taken to cope with it. The outlook for the future is also dealt with briefly. This document should be presented at least a fortnight earlier than the presentation of the Budget, as is the practice in U.K. Members would then be better prepared for the budget discussion.

Economic Classification of the Budget

The first Workshop Session held at Bangkok from August 30 to September 10, 1955 on budget re-classification in the ECAFE Region recommended that supplementary classification 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 of India brings out every year an economic classification of the Central Government Budget, which attempts to focus the impact of the budgetary operations of the Central Government on the country's economy by eliminating all inter-account and inter-departmental transfers. Not much use is made of this compilation either in budget debates or in the public press. The State Governments do not issue such a document.

Budget in Brief.

This brochure explains, by means of statements and charts, the salient features of the Budget in comparison with those of

earlier years. It also explains the main economic trends in the field of agricultural and industrial production, wholesale and consumer prices, money supply, banking and balance of payments.

Administrative Reports

These are presented to Parliament when the demands of a particular Ministry are discussed and voted. They contain information relating to the working of the Ministry and the schemes undertaken by them during the year under report. The Estimates Committee has suggested that they should also correlate programmes with the budget or revised estimates as well as performances with expenditure. (Twentieth Report, 1957-58, paragraph 18).

Conspectus of Budgets, Central and State Governments

The aim of this compilation is to present in a single document detailed information about the Central and State Budgets. The details of receipts and disbursements of the Central and State Governments under their major components indicate the overall position of Government transactions as well as afford an opportunity for a comparative study of the various State transactions.

Voted and Charged (non-voted) Expenditure.

Items charged on the Consolidated Fund, are non-votable. Under Article 202 (3) of the Constitution of India, the following expenditure is charged on the Consolidated Fund of a State :—

(a) the emoluments and allowances of the Governor and other expenditure relating to his office;

(b) the salaries and allowances of the Speaker and the Deputy Speaker of the Vidhan Sabha and in the case of a State having a Legislative Council, also of the Chairman and the Deputy Chairman of the Legislative Council;

(e) debt charges for which the State is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt;

(d) expenditure in respect of the salaries and allowances of Judges of any High Court;

(e) any sums required to satisfy any judgment, decree or award of any court or arbitral tribunal;

(f) any other expenditure declared by the Constitution, or by the Legislature of the State by law, to be so charged.

Article 112 (3) gives the items charged on the Consolidated Fund of India :—

(a) the emoluments and allowances of the President and other expenditure relating to his office;
(b) the salaries and allowances of the Chairman and the Deputy Chairman of the Rajya Sabha and the Speaker and the Deputy Speaker of the Lok Sabha;
(c) debt charges for which the Government of India is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt;
(d) (i) the salaries, allowances and pensions payable to or in respect of Judges of the Supreme Court;
(ii) the pensions payable to or in respect of Judges of the Federal Court;
(iii) the pensions payable to or in respect of Judges of any High Court which exercises jurisdiction in relation to any area included in the territory of India or which at any time before the commencement of the Constitution exercised jurisdiction in relation to any area included in a Governor's Province of the Dominion of India.
(e) the salary, allowances and pension payable to or in respect of the Comptroller & Auditor-General of India;
(f) any sums required to satisfy any judgment, decree or award of any court or arbitral tribunal;
(g) any other expenditure declared by the Constitution or by Parliament by law to be so charged.

In addition to the items specified in Articles 112 and 202 of the Constitution, there are a few other items which are declared under other Articles to be charged on the Consolidated Fund— These are :—

(1) Administrative expenses of the office of the Comptroller & Auditor-General, including all salaries, allowances and pensions payable to or in respect of persons serving in that office. [Article 148 (6)].
(2) Administrative expenses of the Supreme Court and High Courts, including all salaries, allowances and pensions payable to or in respect of officers and servants of such Courts. [Article 146(3) & Article 229(3)].

(3) Expenses of the Union & State Public Service Commissions, including any salaries, allowances and pensions payable to or in respect of members or staff of such Commissions. [Article 322].
(4) Grants-in-aid to States. [Article 275].
5) Privy Purses to former Rulers of Indian States. (Article 291).
(6) Loans given by the Central Government to a State (Article 293).

The percentage of non-voted to total expenditure is small. In the general budget it consists mostly of debt charges. In the railway budget the percentage is smaller, almost nominal, as debt charges on railway capital are borne by the general budget.

There is no specific provision in the Constitution for the determination of disputes whether an item of expenditure does or does not fall within any of the items mentioned in the Constitution as charged on the Consolidated Fund, corresponding to clause 4 of Section 33 of the Government of India Act, 1935 which vested this power in the Governor-General (or Governor) in his discretion. But, as in other cases, such a question, when it arises, is a matter of legal interpretation and the Government are guided by the advice of their legal advisers in arriving at a decision. The advice of the Auditor-General is also taken in such cases.

In accordance with the directive issued by the Speaker, special attention of Parliament is drawn whenever a 'charged' item of expenditure is included in the Budget for the first time, or whenever a change is made from 'voted' to 'charged' or vice versa.

The Estimates Committee is also informed of the decision taken by Government from time to time in regard to such changes.

The Estimates in the Legislature.

The first point which a comparison of English and Indian budget procedures brings to light is the absence of Committees of the whole House in India. In England, as Sir Erskine May points out (page 664, 1950 Edition), a charge on the public revenues or on the people (i. e. any proposal involving public expenditure or taxation) must be first considered in a committee of the whole House, and the resolution of the Committee, when agreed to by the House, forms a necessary preliminary to the bill

or clause by which the charge is authorised. In England the major portion of budget work in parliament is done in the Committees of Supply and Ways and Means and the House of Commons generally endorses their recommendations. In India there is no such preliminary examination by any Committee of the whole House. A suggestion was once made that such committees should be introduced in India, but the point was not pressed. The advantages in having whole House Committees are :—

(i) Informality of procedure. Discussion is conversational in character, members can speak as often as they like, no seconder is required to a motion and discussion can take place without the formal proposal of a question from the chair.

(ii) Greater time is allowed for a thorough scrutiny. A decision once made by the House is final and is not easily revocable. But a recommendation of a committee can be set aside when on report fresh arguments reversing it are presented.

On the other hand, some people think that whole House Committee procedure in really a waste of time and that discussion in the House as it takes place in India is more economical of parliamentary time.

The procedure for the discussion and voting of the estimates in the Legislature is contained in the Legislative Rules, which are framed with the approval of the Legislature. Each Chamber has its own set of rules and enjoys equal freedom in the allocation of time for the discussion of the budget. Details may accordingly vary from place to place, but, generally speaking, the procedure is briefly as follows :—

The General Discussion of the Budget.

There is no discussion of the budget on the day on which it is presented to the Legislature. A few days after the presentation of the budget, begins the general discussion in either Chamber of the budget as a whole or any question of principle involved therein, but not of the details of the budget. This discussion usually lasts two to four days. No motion can be moved at this stage, nor can the budget be submitted to the vote of the House.

This discussion is a relic of the old days when no voting was permitted. It is continued under the present Constitution. The general discussion is supposed to serve three purposes. It enables the members of the Legislature :—

(i) to discuss revenue estimates;
(ii) to discuss the ways and means programme of government;
(iii) to discuss 'charged' expenditure.

The speeches made at this stage also enable the Government to feel the pulse of the House and judge as to how their budget proposals may be dealt with in subsequent stages. Otherwise, the discussion is of an academic character, is marked by a sense of unreality and produces few serious contributions to budgetary finance. The debate is wound up by the Finance Minister who has a general right of reply at the end of the discussion.

The Voting of Demands.

After the general discussion is over, the second stage commences, namely, the voting of demands. This has reference only to votable items. So far as 'charged' or non-votable items are concerned, the Legislature has finished with them at the general discussion stage. In the States, the Vidhan Sabha alone is competent to deal with the budget at this stage. The Legislative Council has nothing to do with the voting of demands for grants. Similarly, at the Centre, the voting of demands is the function exclusively of the Lok Sabha and not of the Rajya Sabha.

During the year 1960-61, 24 days were allotted to the voting of demands in the Lok Sabha. In the States, the time allotted is less, from ten to fourteen days. In England, 26 days are allotted to supply, which include discussion on supplementary grants, excess votes, votes on account and consideration of reports from the Public Accounts Committee and the Estimates Committee. These twenty six days are distributed over several months, lasting generally from February to July each year.

Procedure for the Voting of Demands.

Each demand* is introduced by the Minister-in-charge and is in the following form :—

"That a sum not exceeding Rs. be granted to the Governor (or President) to defray the charge which will come in course of payment during the year ending 31st March 19 in respect of (here the subject of demand is stated)."

*The reader should note the distinction between a demand and a grant. It is the same as between a bill and an Act. Once a demand for grant has been voted it becomes a grant.

In submitting the demand, a speech is sometimes made by the Minister, as in Great Britain, which is largely political, very seldom financial. It is a review of the work done by his department during the year and a statement of what he proposes to do during the coming year. The speeches of other members are also of the same character.* A reply by the Minister-in-charge to the various points made in debate closes the discussion.

A fixed number of days is allotted by the Speaker, in consultation with the Leader of the House, for the general discussion and voting of demands. The order in which the demands are taken up is determined after consultation with the Opposition. The demands of the Finance Ministry are taken up last. Every Ministry is given a limited amount of time within which discussion has to be finished. The views of the Opposition are given weight in fixing the time-limit for each demand, as well as the order in which the demands are taken up. For the discussion of any one demand a maximum limit of time is fixed (usually not exceeding two days), and as soon as this limit is reached, the Speaker is, under the rules, required to put forthwith every question necessary to dispose of the demand under discussion. Similarly, if the last day of the days allotted for voting of demands is reached and the discussion is not finished by 5 p.m., the Speaker is required to put forthwith every question necessary to dispose of all the outstanding matters in connection with the demands for grants. This is known in parliamentary language as 'the guillotine.' Under the operation of the guillotine several demands are passed every year without any discussion, in the States as well as at the Centre. However much one may regret it as detracting from parliamentary control of public finance, it is inevitable so long as the number of days allotted to supply is not considerably increased and the number of cut motions on the demands largely reduced. A similar state of affairs exists in U.K. as will appear from the following extract from Hilton Young's System of National Finance, 3rd edition, page 53 :—

*It cannot be said that the debates (in the Committee of Supply) now serve the cause of economy to any noticeable degree. Occasionally, some example of waste or extravagance may be unearthed; but the debates have become occasions on which members with special knowledge of and interest in the subject of an Estimate press views on the Minister concerned which are often likely to involve increased, rather than reduced, expenditure".

Sir Herbert Brittain
"The British Budgetary System".
Page 232. (George Allen and Unwin 1959)

"Between a third and a half of the total expenditure for the year is often voted in an hour or so, without any sort or kind of debate or criticism. A more unsatisfactory state of affairs could hardly be imagined. It reduces the whole laborious process of the control of expenditure by the House to something of a farce."

On the analogy of the practice in the British House of Commons, it is customary in India for the Leader of the House to confer informally with the leaders of the various political parties, consult their wishes and convenience and then issue a list giving the order in which the demands for grants are to be taken. In this manner, demands which are considered important are put first and others—quite a large number— are left for discussion if there is time, otherwise they come under the guillotine, as stated above.

In accordance with English parliamentary practice, the Constitution prescribes that no demand for a grant shall be made except upon the recommendation of the President (for the Centre) or the Governor (for a State), which, in either case, means the Executive Government, on whose advice the President or the Governor acts. Such a provision is necessary as a safeguard against improvident expenditure or expenditure for which the Executive Government is not prepared to take responsibility. It also protects the private member from importunate demands from his constituents for expenditure on subjects in which they are particularly interested, but which may not be necessary in the interests of the country as a whole. In the United States of America there is no such limitation on the right of private members (there are no official members in U.S.A.) and great difficulty is caused in the passage of the budget.

Further, when a demand is made, the Legislature may refuse assent to it or reduce it, but may not increase it, nor vary its destination or annex any condition, as that would be tantamount to proposing a new grant.

Cut Motions.

In almost all parliaments, motions may be moved by a Member to reduce any Demand by what are called 'cut motions'. A cut motion is a motion for the reduction of a votable item of expenditure in a Demand for Grant submitted to the vote of the House. Cut motions may be either for disapproval of policy or for effecting economy or a taken cut in order

to ventilate a special grievance under a Demand for Grant. Such motions may be moved in any of the following ways :—

(a) "That the amount of the demand be reduced to Re 1/-" representing disapproval of the policy underlying the demand. A member giving notice of such a motion has to indicate in precise terms the particulars of the policy which he proposes to discuss. The discussion is confined to the specific point or points mentioned in the notice and it is open to members to advocate an alternative policy.

(b) "That the amount of the demand be reduced by a specified amount" representing the economy that can be effected. Such specified amount may be either a lump sum reduction in the demand or omission or reduction of an item in the demand. The notice indicates briefly and precisely the particular matter on which discussion is sought to be raised and speeches are confined to the discussion as to how economy can be effected.

(c) "That the amount of the demand be reduced by Rs. 100/-" in order to ventilate a specific grievance which is within the sphere of responsibility of the Government concerned. Discussion is confined to the particular grievance specified in the motion.

No cut motion can be moved on a matter which is under adjudication by a court of law, or in relation to expenditure charged on the Consolidated Fund.

It is a well-established parliamentary convention that cut motions relating to the Speaker's Department are out of order. The demands relating to Legislative Bodies are passed without any discussion.*

* On his attention being drawn to a number of cut motions in respect of the Parliament Secretariat a former Speaker, Mr. G. V. Mavlankar, gave the following ruling :—

The Speaker said that as a matter of convention for years no discussion or cut motions were allowed in this respect. "The Parliamentary Secretariat", he added, "is the Speaker's department and the Speaker cannot be the subject matter of any discussion in the House. If the hon'ble member wants any information about the Parliamentary Secretariat or if he has any doubts, he is welcome to see the Secretary and get the information he needs. If he is dissatisfied he can see the Speaker and get all possible information and explanation. As a token of the sovereignty of the House, the Speaker cannot be the subject of any discussion in the House itself. If the hon'ble member is dissatisfied with the Speaker the remedy is to move a motion of no-confidence in the Speaker or a motion for his removal. That is the only way in which members dissatisfied with the Speaker can raise the question in the House.

Supplementary Demands

The procedure on a supplementary demand is generally the same as for an original demand. But the debate in the legislature on supplementary demands is confined to the items constituting the same and no discussion is permissible on the original grants nor the policy* underlying them, save in so far as it may be necessary to explain or illustrate the particular items under discussion.

In respect of schemes which have already been sanctioned in the original Budget, no discussion on any question of principle or policy is allowed. As regards demands for which no sanction has been obtained, such as for a new service, the question of policy must be confined within the item on which the vote of the House is sought.

A general grievance cannot be ventilated on a supplementary demand.

Excess Grants

Cases involving excesses over grants are brought to the notice of the Lok Sabha (or State Vidhan Sabha) by the Comptroller and Auditor-General through his report on the Appropriation Accounts. The excesses are then examined by the Public Accounts Committee, to whom the Ministries concerned submit notes (through the Audit Officer) explaining the circumstances in which the excesses in question occurred. The Committee then makes its recommendations to the House regarding their regularisation. The Minister of Finance (or the Minister of Railways in the case of Railway Grants) thereafter approaches the Lok Sabha (or State Vidhan Sabha) for grants/appropriations to cover the excess expenditure, and also places on the Table of the House a Book of Demands for Excess Grants with a note that the Public Accounts Committee has recommended the regularisation of the excess, which it usually does.

Cut motions on demands for excess grants are permissible and are made both at the Centre and in the States. They are invariably turned down. A difficult situation—more so than in the case of the original demand, as the expenditure has already been incurred—would arise if any such cut motion were carried.

* This practice in India is based on the current practice in U.K. But the Select Committee on procedure of the House of Commons in paragraph 44 of its Report has suggested a change. It is of the view that the scope of debate on the Supplementary Estimates should be widened so as to allow discussion of the policy underlying the main Estimate.

An interesting debate on this point took place in the Lok Sabha on August 12, 1958 in connection with the excess grants for Railways for the year 1954-55. The Chairman of the Public Accounts Committee referred to the excessive delay of over 3 years in bringing the excess grants before the House and attributed it to the accounting system in vogue and also to the long time taken by the Ministries in furnishing explanations to the Committee. He added —"I can assure this House that whenever we find that there has been a deliberate defiance of the vote of this House, the Public Accounts Committee will never tolerate any such thing. They will simply refuse to recommend, and it will then be for the House to regularise". There has been no case so far where a recommendation for regularisation has not been made.

In the U.K. cases have occurred where the Public Accounts Committee were not satisfied with the reasons given for the excesses. In such cases they have either issued a warning, or even, in really bad cases, recommended that such and such part of the money be realised from the officer concerned and the other part may be voted.

The motion moved in the House in relation to excess grants is in the following form :—

> "That a sum of Rs.————be granted to make good the excess on the grant in respect of————for the year ended on the 31st March 19——".

Excess grants are far more common in India than in U.K. and no improvement in the position has been made. In its tenth Report (1958-59), the Public Accounts Committee came to the conclusion that 'as in the previous years, the excesses were primarily due to defective estimation both at the time of framing the budget and also at the time of framing the 'revised estimates' and that such excesses could have been 'anticipated and provided for'.

In the U.K., the Treasury enjoys powers of 'virement' (or reappropriation) between the votes for Defence Services (which the Finance Ministry in India does not), but it has very restricted powers of reappropriation within a vote in regard to Civil Estimates. It cannot transfer funds for expenditure on items not contemplated at the time the original budget estimates were placed before Parliament. Even so, normally no excesses occur in the Civil Accounts in the U.K., as they do in India. There are a few cases arising out of errors in accounting which could not be rectified in time necessitating Parliament's sanction of the excess. But such cases are rare.

The Appropriation Bill.

Voting of the expenditure estimates does not by itself confer on Government sufficient authority to incur expenditure to the extent voted. Financial procedure is so constructed as to give the fullest opportunity for ventilation of every point of view and to avoid haste as far as possible. After the voting of demands is completed, an Appropriation Bill is brought in, to give legal effect to the demands as voted and to authorise the issue of moneys from the Consolidated Fund. An appropriation bill is brought in for an original demand, a supplementary demand, a vote on account and an excess demand. The procedure is exactly the same in all these cases. Clause (2) of Article 114 of the Constitution prohibits the moving of any amendment to an Appropriation Bill which has the effect of varying the amount or altering the destination of any grant made or of varying the amount of any expenditure charged on the Consolidated Fund. This is in accordance with English practice and will be easily understood. It is obvious that the grants already voted by the House should not be disturbed. The debate is purely formal.

As in U.K. an Appropriation Bill has to go before both the chambers of the Legislature. Being a money bill, the power of the Rajya Sabha to deal with it is limited, vide the chapter on Voting of Taxes.

The following extracts from the proceedings of Parliament dated March 24, 1950 containing the speech delivered by the then Speaker in explaining the scope of discussion on an Appropriation Bill will be found interesting —

"Hitherto, there was no such thing as the Consolidated Fund of India. The Consolidated Fund has been constituted by Article 266 as a reservoir in which all collections by way of taxes, etc., shall be first accumulated; and, thereafter, the moneys required for expenditure are to be taken out from that reservoir. The Appropriation Bill is intended as an outlet machinery for the funds accumulated, to flow for the purpose of expenditure.

"Hitherto, on the passing of the demands for grants, a schedule of authorised expenditure, signed by the Governor-General, under section 35 of the Government of India Act, was laid on the table and no expenditure from the revenues of India was deemed to be duly authorised unless it was specified in the schedule. It is obvious that the procedure outlined in section 35 of the Government of India Act was not in accord with the

provisions in our Constitution, and it is now necessary that Parliament itself should by statute provide for appropriation out of the Consolidated Fund of India of all moneys required to meet the grants made by Parliament and the explenditure charged on the Consolidated Fund. The Appropriation Bills thus provide the Government with the necessary statutory authority to draw from the Consolidated Fund. We have therefore two Bills before us :—

(1) for appropriation of funds for all activities of Government other than the Railways; and
(2) for similar appropriation on account of Railways.

In view of the fact that all Demands specified in the Schedule to the two Bills have been passed by Parliament, the Appropriation Bills, may, in a sense, be said to be a formal legislation to give a statutory form to the decisions of the House in respect of the various Demands of Grants, both on account of the General Budget and the Railway Budget. Though the Bills are thus formal ones, they are yet important as a further opportunity which they give to honourable Members of making suggestions and comments on the activities of Government in respect of the various heads under which the moneys are being authorised to be drawn from the Consolidated Fund.

At this stage, I may state to the House the various opportunities it has of criticising and discussing the finances of the Government :—

(1) After the Budget is presented, the first opportunity is afforded in the form of a general discussion of the Budget under Rule 132. This discussion is limited to the Budget as a whole or any question of principle involved therein. This determines the character of the discussion at that stage.

(ii) The second opportunity presents itself when the Demands for Grants are made and Cut Motions on Demands can be moved. The discussions at this stage are limited to each head of the Demand, and where Cut Motions are moved they are still further limited to the particular subject in respect of which the cut motion is moved. The discussion at this stage is more pointed both as regards the particular head of administration as also the particular points of grievances or criticism as in the Cut Motion. The object is to enable the honourable

Members to focus attention on specific points instead of having a vague or diffused discussion.

(iii) A third opportunity of discussion on the finances is presented when the Finance Bill is before the House. It is an acknowledged principle that any subject can be discussed on the Finance Bill and any grievance ventilated, the principle being that the citizen should not be called upon to pay, unless he is given, through Parliament, the fullest latitude of representing his views and conveying his grievances.

(iv) The fourth opportunity is when the Appropriation Bill is before the House.

It is difficult to lay down precise boundaries of the sphere of discussion between the stage of discussion on Demands for Grants and the Cut Motions and the stage of the Appropriation Bill. It is to a large extent inevitable that the same kind of discussion can be raised on matters of administration as can be done when the Demands and Cut Motions are before the House. A clear-cut distinction exists as between the Finance Bill in so far as taxation proposals go on the one hand and the Appropriation Bill on the other. Apart from the wide latitude in discussion on the Finance Bill so as to cover the entire field of administration, there is a specific issue therein consisting of the taxation proposals which can be discussed only on the Finance Bill.

Honourable Members will therefore see that when the Appropriation Bills are considered it will not be permissible to raise discussion on the taxation proposals. The dscussion can cover any matter of public importance or of administrative policy implied in the Grants and the expenditure charged on the Consolidated Fund, in so far as the same is permitted under the Constitution and the Rules of Procedure, questions of effecting economy, improvement in administration, scrutiny and maintenance of proper accounts, reappropriation etc —in fact, generally all matters in respect of which the House would like to point out defects or give directions to the Administration for improving its tone for better service to the people, better efficiency and better economy."

Usually, in the Lok Sabha there is no discussion on an Appropriation Bill. The Bill is put from the Chair and passed in a minute. The Speaker, however, has discretion to allow discussion even at the Appropriation Bill stage if members give him advance intimation of the specific points they intend to raise

and if he is satisfied that the points in question are of sufficient public importance and are not repetitions of the matters discussed on a demand for grant.

As regards Appropriation Bills for votes on account, the Speaker has suggested (and the Government accepted the view) that the explanatory note appended to the Bill should be a little more elaborate so that members might know for what they are asked to give their vote.

In the Rajya Sabha no demands for grants are presented. Consequently, there is a convention allowing greater latitude to members to raise points on a discussion of an Appropriation Bill which in the Lok Sabha would be considered valid only on the discussion of Demands for Grants.

The Appropriation Bill in U.K. has been adopted as a model for the Appropriation Bill in India. But there is an important difference. In the U.K., besides authorising the issue of sums required for supply and appropriating all the money granted it authorises the Treasury to borrow by means of Treasury Bills or ways and means advances.

In India there is no statutory authority for any kind of borrowing.

In the U.S.A. there is not one Appropriation Bill, but a series of such Bills, corresponding to the appropriation in question.

Emergent Expenditure.

Section 72 D. (2) of the Government of India Act, 1919, gave the Governor of a Province power to authorise expenditure in cases of emergency, when the Legislature was not in session and no supplementary demand could be moved. This corresponded to the power of issuing ordinances conferred on the Executive Government, when the Legislature is not in session. In the Government of India Act, 1935, there was no provision for authorising emergent expenditure. The position was that under the law no expenditure could be incurred unless it was included in the authenticated schedule of expenditure. But in practice this was not found possible and the Government of India incurred every year expenditure in anticipation of the sanction of the Legislature and submitted ex-post facto supplementary demands. This defect has been removed under the new Constitution. Every Government has to incur unforeseen expenditure and for this purpose, as explained in the previous chapter, there

now exists in India, as in other countries, what is known as the Contingency Fund. The purpose of this fund has also been explained. The expenditure is first incurred from this fund and a supplementary demand submitted later (during the year) for the sanction of the Legislature, which has a two-fold purpose—(i) the sanction of the Legislature to the expenditure already incurred; and (ii) recouping the advance taken from the Contingency Fund by an issue from the Consolidated Fund.

Practical Result of Parliamentary Control over Expenditure and Revenue.

The Budget is at present passed in one session only. During the short period of one month or so all the various aspects of administration are discussed and for want of time they are taken up in such quick succession that the effect of the discussion in the case of each individual subject in Parliament is not quite the same. Moreover, life is a continuous stream and things happen before and after a particular period of the discussion, but since the opportunity is gone, members in many cases have to wait till the next year to raise those matters. By that time the events themselves become stale. It is important from the Parliamentary point of view that discussions should be spread out, should be more intensive and their effect should be properly focussed. Members should have time to think about the various subjects that they are interested in and they should not be called upon to deal with them at the same time. The system in the U.K. gives us a model to follow. There the Budget discussions are held at convenient intervals from February to July. Thus the public affairs remain under the constant scrutiny of Parliament for nearly 6 months in a year. The Budget is completed in parts. A few subjects are taken up every month so that there is proper assimilation of ideas and guidance from Parliament. If Parliament's weight and influence are to be felt the present system of budget discussions should be altered on the U.K. model adopting it with such variations as may be necessary or convenient in our case.

It has been stated above that neither the Committee of Supply nor the House of Commons has any power to increase a grant except as demanded by, or recommended from, the Crown. Constitutionally, Parliament has the power to reduce or reject a grant. But in practice such power can rarely, if ever, be exercised without bringing about the downfall of the government in power. Cut motions are generally opposed by the government and treat-

ed as questions of confidence, with the result that they are always defeated, so long as the government commands a majority in the House. This must place a terrible strain on the patience of Parliament and contain an unwarranted assumption that the Executive Government must be correct to the last pound in the estimates. There has been no instance in U.K. of the House of Commons ever reducing a vote within living memory, and many people think that the so-called control of Parliament over public expenditure is a farce. Even Sir Erskine May's Parliamentary Practice refers to this in the following restrained terms :—

"It is unnecessary here to describe the process (which has been in operation for a long period) whereby the consideration of votes in Committee of Supply has lost its literal and acquired a symbolic meaning—in other words has ceased to be a consideration of the financial reasons for the Crown's demands and become an occasion for criticising administrative policy. Perhaps, the most important factor in the process is that government responsibility for the estimates has long been taken to cover every detail of every vote, so that the reduction by £100 of an estimate would be regarded as a major defeat probably involving the resignation of Government. As the House as a whole cannot, therefore, collaborate in fixing the sums contained in the estimates, it has long ceased to consider their financial aspect and concentrates upon the policy and activities of the ministers and officials whose salaries are provided in them".

(Pages 292-3, 15th (1950) edition.)

This is not the case in the United States of America where the Congress (both the House of Representatives and the Senate) alters the estimates considerably, without causing any upheaval in the Executive Government. It will be recalled that former President Eisenhower, who faced a hostile majority in both the Senate and the House of Representatives, had asked for a sum of $3909 million for the year 1959-60 for extending military and economic assistance to friendly nations, but the amount actually granted by the Congress was $3556 million. Such an alteration would be inconceivable in a parliamentary system of government. India has adopted the English system and is working it on exactly the same lines as in Great Britain. The result is that parliamentary control over the estimates in India is practically nil.

CHAPTER VII

THE VOTING OF TAXES

In all democratic countries it is a fundamental principle that there should be no taxation of the people without the consent and authority of the chosen representatives of the people. Article 265 of our Constitution embodies this principle in laying down that no tax shall be levied or collected except by authority of law.* Moreover, as Government cannot function without adequate funds, it is considered politically expedient that the public revenue should consist of two parts :—

(i) derived from permanent Acts, and

(ii) derived from annual and temporary Acts.

Part (ii) should bear a substantial proportion to the total revenue and not be nominal or insignificant in character, so that the government may, by economising on superfluities, avoid recourse to Parliament.

The principle of providing funds limited to one year in duration is well-known to British constitutional practice. A fair amount of revenue in Great Britain comes from permanent Acts, but income-tax and a few other taxes are levied from year to year. The annual finance bill was introduced in the financial system of India after the Montagu-Chelmsford reforms, even though the principle of responsibility of the Executive Government to the Central Legislature was absent. In the Taxation Bill of 1921 a non-official member moved an amendment which sought to limit the operation of the Bill to one year. He explained that his object was to establish a convention similar to that in force in the House of Commons, and to oblige the Government to come before the legislature and render an account of their stewardship, so that if the taxes they have levied

* The Supreme Court has, however, recently ruled that retrospective effect can be given to a tax imposed by law, without violation of fundamental rights under Article 19(1) or under 31(1) of the Constitution.

during the year are justified and their financial arrangements are justified, the legislature may renew them or modify them just as may seem proper. The Government accepted the amendment, except in respect of the customs tariff (later on the customs duties were also included in the Finance Bill). This convention has since been scrupulously followed. It facilitates discussion and concentrates attention on the financial position of the country. It also saves time; for, if four or five separate bills were to be introduced, their passage through both the Chambers would take much time. On the other hand, there is the disadvantage that if the Finance Bill is thrown out, the whole financial machinery is dislocated and Government's position is shaken.

For the introduction of entirely new taxes like the Estate Duty or the Expenditure Tax, separate Bills are presented. Changes in rates under existing taxes or new excise duties are included in the Finance Bill. In the States, the device of the Finance Bill is rare.

Taxation by Executive Action.

Taxation by executive action is repugnant to British minds and does not prevail in Great Britain. As Dicey in his *"Law of the Constitution"* says: "All taxes are imposed by statute, and no one can be forced to pay a single shilling by way of taxation which cannot be shown to the satisfaction of the judges to be due from him under Act of Parliament." (Page 315—1939 Edition). This is, however, not the case in this country. The Joint Parliamentary Committee on the Government of India Bill, 1919, in their report made the following observations :—

"The Committee are impressed by the objections raised by many witnesses to the manner in which certain classes of taxation can be laid upon the people of India by executive action without, in some cases, any statutory limitation of the rates and, in other cases, any adequate prescription by statute of the methods of assessment. They consider that the imposition of new burdens should be

gradually brought more within the purview of the Legislature. And, in particular, without expressing any judgment on the question whether the land revenue is a rent or a tax, they advise that the process of revising the land revenue assessments ought to be brought under closer regulation by statute as soon as possible."

From the date of coming into effect of the Constitution, namely, January 26, 1950, no tax can be imposed either at the Centre or in the States by executive action, but there are, prior to this date, certain taxes so levied.

The position is reviewed below :—

(a) Main State Revenue Heads.

Land Revenue.—The land revenue codes and Acts in force empower the Executive Government to fix the assessment of land revenue, which is revised periodically under the orders of Government. There is no appeal in revenue cases to any court of law. Separate revenue courts exist for hearing such appeals.

Water rate for irrigation.— Water rates can be imposed or altered by executive orders of Government and legislation is not necessary. No maxima have been prescribed within which executive action may be limited.

Excise.— The Executive Government has full power under the Excise Acts passed by the State Legislature to direct the levy of duty at such rates as it may prescribe in that behalf, on all liquor and intoxicating drugs, imported into and exported from or manufactured and sold in each State.

Stamps.- The stamp duties chargeable on all instruments are prescribed by Acts of the Legislature and cannot be altered by executive action.

Forests.— Though an important source of state revenue, forests are really commercial undertakings. The income derived under this head is governed by market considerations and cannot be classed as taxation.

Sales Tax.— This is now an important source of state revenue and ranks in some States even higher than land revenue. In most of the States the rates are provided in the Act itself and cannot be varied by executive action.

Registration.— With the exception of Bombay, where the Indian Court Fees Act applies and amendments can be carried out only by an Act of the Legislature, in all other States the State Government has power, under the Indian Registration Act, to alter the existing rates of taxation without approaching the Legislature.

Entertainments Tax.— The rates are prescribed in the Act and cannot be altered without approaching the Legislature.

Electricity Duty.— The rates are prescribed in the Act and cannot be altered without approaching the Legislature.

Tax on sales of motor spirit.—The rates are prescribed in the Act and cannot be altered without approaching the Legislature.

(b) Main Central revenue Heads.

Customs.— Under Section 20 of the Sea Customs Act, 1878, customs duties are leviable at such rates as may be prescribed by, or under, any law for the time being in force, which, at the date of writing, is the Indian Tariff Act, 1934, as amended from time to time, the latest being the Indian Tariff (Amendment) Act, 1959.

Section 2 of the Indian Tariff Act says that there shall be levied and collected at the ports import and export duties specified in the First and Second Schedules respectively. These duties, therefore, cannot be varied by the Executive Government without resort to legislation. In regard to an existing protective duty the Central Government has power to increase or reduce it to such extent as it thinks necessary, if it finds that the existing duty has become ineffective or excessive for the purpose of securing the protection intended to be afforded by it. (Section 4 of the Indian Tariff Act.)

The Central Government has power to levy new protective duties upon a recommendation made to it by the Tariff Commission in that behalf and up to an amount not exceeding the amount recommended by the Tariff Commission. Confirmation of action so taken has to be obtained at the earliest possible date by bringing in a bill before Parliament. Though included in the annual Finance Bill, customs duties are exempted from the operation of the one year duration clause. This is done to remove uncertainty to trade and industry which would otherwise prevail.

Taxes on income.— All such taxes are controlled by legislative (and not executive) action. Under the Indian Income-Tax Act the rates of taxes on income are to be determined *every* year by an Act of the Indian Legislature. The annual Finance Act contains the necessary provisions from year to year. The Income Tax Act further provides that if on the 1st day of April in any year provision has not yet been made by an Act of the Indian Legislature for the charging of income tax for that year, the rates in force in the preceding year continue to be in force.

Central excises.— These duties are governed by the Central Excises and Salt Act, 1944. The rates of duty are specified in the First Schedule to the Act and cannot be increased by executive action. The Central Government has power, under the Act and the rules made thereunder, to exempt any excisable goods from the whole or any part of the duty leviable on such goods.

Excise duties are now included in the annual Finance Act, and like customs duties, are exempted from the operation of the one year duration clause.

Salt.— Under Section 3 of the Central Excises and Salt Act, 1944, the Central Government could impose a duty not exceeding three rupees per maund (82 2/7 lbs.) on salt manufactured in or imported by land into any part of India.

While the Constitution was being framed, the Drafting Committee put in an article to the effect that 'no duties

on salt shall be levied by the Union'. This was deleted in the Constituent Assembly after a heated debate, on an assurance given by the Prime Minister that no government for which he was responsible would bring in such a tax. Accordingly, the position at present is that the Finance Bill contains every year a clause that the discontinuance of the salt duty is maintained for the next year.

Postal rates.— Section 7 of the Indian Post Office Act, 1898, empowers the Executive Government to fix the rates of postage and other sums to be charged in respect of postal articles sent by inland post, subject to a maximum limit prescribed in the First Schedule to the Act. Under Sections 10, 28, 30, 34 and 43 the Executive Government may make rules *inter alia* regarding the rates to be charged on foreign postal articles, registration and insurance of postal articles, value payable postal articles and money orders. While this is the statutory position, postal rates are also included in the Finance Bill and are thus subject to the control of the Legislature.

Telegraph and telephone rates.— Under Section 7 of the Indian Telegraph Act, 1885, as modified from time to time, Government have power to fix the rates for telegrams and actually the rates are so regulated. Telephone rates are also regulated by executive action.

Railway fares and rates.— The Legislature has no voice in the fixing of railway passenger fares and goods rates. This is done entirely by executive action. Surcharges on railway rates and fares are, however, included in the Finance Bill.

It will be seen from what has been stated above that the tendency nowadays is for the Executive Government to refrain from exercising its powers to increase taxation and to bring measures involving taxation more and more within the purview of the Legislature. Advisory Councils have also been constituted at the Centre and in some of the States (re Sales Tax) to advise the Government on measures for developing mutual understanding between taxpayers and revenue authorities.

Legislative Procedure with regard to the Finance Bill.

The procedure with regard to the Finance Bill is just the same as for any other bill. It contains a recommendation from the President under Clauses (1) and (3) of Article 117 and Clause (1) of Article 274 (affecting taxation in which States are interested) for the introduction and consideration of the Bill, over the signature of the Secretary to the Lok Sabha.

The discussion is opened by a motion by the Finance Minister in the Lok Sabha that the Bill be taken into consideration. On this motion a general discussion on the entire expenditure or taxation policy of the Government is in order and usually takes place. After the House has agreed to the motion, the Bill is generally referred to a Select Committee of the House. When the report of the Select Committee is received, it is taken into consideration and the Bill discussed clause by clause. Each clause (the title and preamble coming last) is put to the House and amendments considered. No amendment is in order which either increases the rate of an existing tax or introduces a new tax. Such an amendment requires a recommendation from the President. Amendments making provision for the reduction or abolition of a tax are in order. After the amendments and the substantive questions with regard to each clause have been disposed of, new clauses (not being part of the Bill as introduced) are taken up and similarly discussed and dealt with. After all the clauses have been finished, the Schedules to the Bill are taken up and discussed in detail and amendments proposed therein also similarly dealt with. This finishes the detailed consideration of the Bill. A motion is then moved that the Bill as amended by the House be passed. On this motion a more or less desultory discussion takes place, after which the question is put and the Bill is passed by the House. The Bill is then sent to the Rajya Sabha. After the bill has been agreed to by both the Chambers, it is submitted to the President. When the President has given his assent, the Bill is treated as an Act and becomes the law of the land.

If the Speaker certifies the Finance Bill to be a 'money bill'—it will be noted that in England the Speaker has not always given such a certificate on Finance Bills—the provisions of Article 109 relating to discussion of money bills in the Rajya Sabha apply.

Owing to the fact that the Finance Bill is subject to alteration by the legislature, the exact phraseology of the title and preamble of the bill cannot be settled until all the clauses have been dealt with. The point will be clear by an illustration from what actually took place in 1922. In the Finance Bill as first introduced, the words used in the title and preamble with regard to the duty on salt were:— 'to enhance'. As, however, the legislature did not agree to the enhancement, the word 'enhance' was changed into 'fix'. Also in the same Bill, as originally introduced, the Cotton Duties Act, 1896, was proposed to be amended by raising the excise duty on cotton goods and consequently it was stated both in the title and preamble that it was a bill 'further to amend the Cotton Duties Act, 1896'. As, however, the Assembly did not agree to the increase, these words were deleted from the title and the preamble of the Finance Act, as finally passed.

Money Bills :

A 'money bill' is defined in Article 110 of the Constitution, reproduced below : —

"110. (1) For the purposes of this Chapter, a Bill shall be deemed to be a Money Bill if it contains only provisions dealing with all or any of the following matters, namely—

(a) the imposition, abolition, remission, alteration or regulation of any tax;

(b) the regulation of the borrowing of money or the giving of any guarantee by the Government of India, or the amendment of the law with respect to any financial obligations undertaken or to be undertaken by the Government of India;

(c) the custody of the Consolidated Fund or the Contingency Fund of India, the payment of moneys into or the withdrawal of moneys from any such Fund;

(d) the appropriation of moneys out of the Consolidated Fund of India;

(e) the declaring of any expenditure to be expenditure charged on the Consolidated Fund of India or the increasing of the amount of any such expenditure;

(f) the receipt of money on account of the Consolidated Fund of India or the public account of India or the custody or issue of such money or the audit of the accounts of the Union or of a State; or

(g) any matter incidental to any of the matters specified in sub-clauses (a) to (f).

(2) A Bill shall not be deemed to be a Money Bill by reason only that it provides for the imposition of fines or other pecuniary penalties, or for the demand or payment of fees for licences or fees for services rendered, or by reason that it provides for the imposition, abolition, remission, alteration or regulation of any tax by any local authority or body for local purposes.

(3) If any question arises whether a Bill is a Money Bill or not, the decision of the Speaker of the Lok Sabha thereon shall be final.

(4) There shall be endorsed on every Money Bill when it is transmitted to the Rajya Sabha under article 109, and when it is presented to the President for assent under article 111, the certificate of the Speaker of the Lok Sabha signed by him that it is a Money Bill."

This definition has been taken from the British Parliament Act, 1911, which runs as follows :—

"A money bill means a public bill which in the opinion of the Speaker of the House of Commons contains only provisions dealing with all or any of the

following subjects, namely, the imposition, repeal, remission, alteration, or regulation of taxation; the imposition for the payment of debt or other financial purposes of charges on the Consolidated Fund, or on money provided by Parliament, or the variation or repeal of any such charges, supply, the appropriation. receipt, custody, issue or audit of accounts of public money; the raising or guarantee of any loan or the repayment thereof; or subordinate matters incidental to these subjects or any of them. For the purposes of this definition, the expressions "taxation", "public money", and "loan" respectively do not include any taxation, money or loan raised by local authorities or bodies for local purposes".

(May's Parliamentary Practice. Pages 792-3 Fifteenth Edition.)

Article 110 (3) says :—

"If any question arises whether a Bill is a Money Bill or not, the decision of the Speaker of the Lok Sabha thereon shall be final.

Sub-clause (4) of Article 110 says that on every Money Bill when transmitted to the Rajya Sabha shall be endorsed a certificate of the Speaker signed by him that it is a Money Bill.

These sub-clauses have also been borrowed from the British Parliament Act 1911 and were the subject of acute controversy in the Council of States (as it then was) on April 29, 1953 when the Income Tax (Amendment) Bill, 1952 went up to the Council with the Speaker's certificate that it was a money bill.

May's Parliamentary Practice has it that in U.K. before the Speaker records a certificate on a Money Bill, "he is directed to consult, if practicable, those two members of the Chairmen's Panel who are appointed for the purpose at the beginning of each session by the Committee of Selection" (page 793, 15th edition).

In India there is no such provision in the Legislative Rules and the Speaker's discretion is absolutely unfettered.

Constitutional Position of Either Chamber.

The procedure for passing a money bill has also been modelled on the British Act. A money bill must originate in the Lok Sabha or the Vidhan Sabha (in a State) where there are two chambers. After having been passed by the Lok Sabha, a money bill goes to the Rajya Sabha. The Rajya Sabha is empowered to make recommendations and is required to return the bill to the Lok Sabha within a period of fourteen days from the date of its receipt. The Lok Sabha may either accept or reject all or any of the recommendations of the Rajya Sabha. If the Lok Sabha accepts any of the recommendations of the Rajya Sabha the money bill is deemed to have been passed by both Houses with the amendments recommended by the Rajya Sabha and accepted by the Lok Sabha. If the Lok Sabha does not accept any of the recommendations of the Rajya Sabha, the money bill is deemed to have been passed by the Lok Sabha without any of the amendments recommended by the Rajya Sabha.

This is a special position given to the Lok Sabha in respect of money bills. In respect of other bills, the powers of the two Houses are equal. Similar provisions exist for the States. Under Article 117 (1) of the Constitution, a money bill cannot be introduced or moved except on the recommendation of the President. But no such recommendation is required for the moving of an amendment making provision for the reduction or abolition of any tax. Nor is any such recommendation necessary for the introduction of a Bill by reason only that it provides for the imposition of fines or other pecuniary penalties or for the demand or payment of fees for licences or fees for services rendered, or by reason that it provides for the imposition, abolition, remission, alteration or regulation of any tax by any local authority or body for local purposes.

This special position exists in other countries also. In U.K., Money Bills may originate only in the House of Commons. In the U.S.A. the Senate has not the power of initiation, but otherwise it has equal powers over revenue bills. In Canada, Money Bills may originate only in the House of Commons, but the Senate can amend them. By convention, however, the Senate has never claimed the right to increase an item of supply or revenue, except at the instance of the Government. In Australia, the Senate may neither originate nor amend Money Bills but may only suggest amendments. In South Africa, Bills appropriating revenue or money or imposing taxation may originate only in the House of Assembly. The Senate may not amend any Money Bill.

Financial Bills.

In addition to Money Bills the Constitution recognises what are called 'financial bills' referred to in Article 117. The main point of difference between a money bill and a financial bill is that while the former (i.e. a money bill) contains *only* provisions relating to matters specified in clause (I) of Article 110, a Financial Bill has other provisions also.

Financial Bills may be sub-divided into two classes:—

(i) Those making provision for any of the matters specified in sub-clauses(a) to (f) of clause(I) of Article 110, and

(ii) those involving expenditure from the Consolidated Fund after enactment and enforcement.

A Bill falling under category(i) cannot be introduced or moved except on the recommendation of the President and a Bill making such provision cannot be introduced in the Rajya Sabha; A Bill falling under category (ii) cannot be passed by either House of Parliament unless the President has recommended to that House the consideration of the Bill.

The reader will notice the difference regarding the two categories (i) and (ii) above,

A Bill in category (i), which comes under clause (1) of Article 117, requires the President's recommendation as a condition precedent to its introduction.

A Bill in category (ii), which comes under clause (3) of Article 117, may be introduced without the President's recommendation. But such recommendation must be obtained before moving the motion for consideration of the Bill.

This introduces an element of complexity in actual practice. It is not easy to define whether a Bill is a money bill or not. Cases have occurred in U.K. where the Speaker has not certified a Finance Bill as a money bill. It is even more difficult to say in a particular case whether a Bill is a Financial Bill or not, within the meaning of Article 117.

In regard to Financial Bills (in the above sense) the Rajya Sabha has equal jurisdiction with the Lok Sabha. as in the case of other Bills. A Financial Bill can be referred to a joint committee of both Houses, but a money Bill cannot. This ruling was given by the Speaker on March 13, 1960 on an objection raised to a motion made by the Home Minister to refer the Bombay Reorganisation Bill of 1960 to a joint committee of both Houses.

Parliamentary rules provide that a Bill involving expenditure shall be accompanied by a financial memorandum which shall invite particular attention to the clauses involving expenditure and shall also give an estimate of the recurring and non-recurring expenditure involved in case the Bill is passed into law. The Finance Bill also contains such a memorandum, when necessary.

The Provisional Collection of Taxes Act and the Finance Bill.

The Finance Bill is introduced in Parliament the same day that the budget is presented. At the end of the bill a clause is inserted declaring that it is expedient in the public interest that the bill shall have temporary effect under the provisions of the Provisional Collection of

Taxes Act, 1931. This clause is inserted to give retrospective effect from the date of the presentation of the budget to changes proposed in customs and excise duties. Even prior to the passing of the Provisional Collection of Taxes Act, it had been the practice to give effect by executive orders to proposed changes in taxation from the date of introduction of the budget in the legislature, without waiting for such changes to be formally embodied in the law, which necessarily took some time. Such a step was and is obviously necessary in order to avoid loss to Government by the passing of goods through the customs or the removal of goods from bond in the interval between the introduction and the passing of the Bill. Executive regulation did not, however, invariably prevent losses to Government, as some importers objected to paying duty at the higher rates pending the passing of the Bill, and when the Bill was passed with retrospective effect, it was not always possible to recover the difference between the lower rate actually paid and the higher rate due under the new Act. A similar situation arose in England when Mr. Gibson Bowles refused to pay, without fresh legal sanction, the income-tax which is renewed in England every year The case went to the Courts and they decided that, custom or no custom, there was no legal authority to exact income-tax or any new tax until the resolution of the Committee of Ways and Means had been clothed by the Finance Act with the force of law. To provide for such contingencies the Provisional Collection of Taxes Act was passed by the British Parliament in 1913, which gives the Government power to collect taxes and duties for a period of four months in anticipation of the passing of the Finance Bill. The Indian Act (originally passed in 1918 and replaced in 1931 by a new Act) follows the lines of the English Act but with this difference that while in England retrospective effect to any fresh measure of taxation can only be given from the date of passing of the resolution to that effect by the Committee of Ways and Means of the House of Commons, in India retrospective effect can be given from the date of introduction of the Bill in the legislature, or, in other words, from the date of presentation of the budget,

as both these events are simultaneous. The Indian Act provides that before its provisions can have effect with regard to a particular bill, a declaration shall be inserted in the Bill itself that it is expedient in the public interest that the Bill shall have temporary effect under the provisions of the Provisional Collection of Taxes Act. Such a declaration is accordingly inserted in the Finance Bill as introduced in the legislature. The provisions of this Act apply only to impositions or increases of duties of customs and excise. Retrospective effect can now be given to a bill for a period of 60 days. Thus the Government has to get the Finance Bill passed through the legislature within a period of 60 days from the date of its introduction. If this period of 60 days is over and the legislature has not dealt finally with the bill, the extra duty realised under the provisions of this Act has to be refunded. If the bill is passed into law by the legislature in a modified form, the Bill has effect under the Provisional Collection of Taxes Act as so modified, that is to say, if the legislature reduces the taxation proposed by the Government, any duty collected in excess has to be refunded. This actually happened in 1951 when Parliament made considerable reductions in taxation proposals and Government had to refund the higher duties collected under the Provisional Collection of Taxes Act.

From the Act as finally passed, the declaratory clause with regard to the application of the Provisional Collection of Taxes Act is deleted as being unnecessary.

CHAPTER VIII

THE RAILWAY BUDGET IN PARLIAMENT

The Railway Board.

The Railway Board controls the administration of railways in India and functions as a Ministry of the Government of India. The Board consists of the Chairman, the Financial Commissioner, Railways, and three permanent Members. In addition there are at present 5 additional Members on a temporary footing The Chairman is ex-officio Secretary to the Government of India in the Ministry of Railways. The Financial Commissioner for Railways is also an ex-officio Secretary to the Government of India in the Ministry of Railways in financial matters

Financial Commissioner, Railways.

The Financial Commissioner for Railways is also the representative of the Finance Minister in the Railway Ministry. He is selected with the joint approval of the Finance Minister and the Railway Minister. He is a full member of the Railway Board and is vested with the full powers of the Government of India to sanction railway expenditure. No proposal involving expenditure or affecting railway revenues which comes up to the Ministry of Railways can be sanctioned without his prior concurrence. Should there be a difference of opinion between the Chairman and the Financial Commissioner, the case has to go to the Railway Minister. If the Financial Commissioner is not satisfied with the decision of the Railway Minister, he has to apprise the Finance Minister of the position. Certain important matters have to be reported by him to the Finance Minister, even if he is in agreement with the decision of the Railway Minister. The Financial Commissioner is responsible for the compilation of the Railway Budget and for its execution after it has been passed by Parliament. He is the Chief Accounting Officer of the Ministry

of Railways and head of the Railway Accounts Department. The Railway Appropriation Accounts are compiled by him and he appears along with the Chairman and other Members of the Board before the Public Accounts Committee on behalf of the Railway Ministry.

Below the Financial Commissioner, there are two Directors: Finance (Accounts) and Finance (Expenditure). All proposals for expenditure on Establishment, Works, Rolling Stock etc. and questions connected with planning are dealt with in the Directorate of Finance (Expenditure) The compilation of accounts and the Railway Budget, as well as the general administration of the Railway Accounts Department (which is separate from the Indian Accounts and Audit Department) is dealt with in the Directorate of Finance (Accounts).

Railway Administrations.

Under the Railway Board there are eight Railway Administrations, each under the charge of a General Manager, who is the administrative head of the Railway. He exercises wide powers, both administrative and financial.

Financial Adviser and Chief Accounts Officer.

Under the General Manager, there are heads of Departments, one of which is the Finance and Accounts Department, presided over by the Financial Adviser and Chief Accounts Officer. He works in a dual capacity. As Financial Adviser, he is responsible for the examination and appraisal of financial implications of all proposals of expenditure on staff, works, etc. He prepares the budget of his railway and watches the progress of expenditure against the grants. All important proposals relating to railways have financial implication of some kind or other; they either affect expenditure or the earnings of the railway; and thus the Financial Adviser has his finger on the pulse of railway finance within his jurisdiction. As the Chief Accounts Officer, he deals with the maintenance of accounts of railway earnings and expenditure and the re-

lated 'internal' audit of all transactions of the Railway. Though the Financial Adviser is subordinate to the General Manager, he enjoys a special position, somewhat (but not quite) akin to that of the Financial Commissioner. The General Manager has to consult him on all matters affecting the financial administration of his railway and is not expected to disregard his views even in matters in regard to which he has full powers. In the event of a difference of opinion between the Financial Adviser and the General Manager, the Financial Adviser's views in the particular matter have to be reported to the Railway Board in his own language and, ordinarily, the General Manager awaits the orders of the Board before taking any action involving financial commitments. If, however, the General Manager considers that the delay involved in doing so would be gravely prejudicial to the interest of the Railway Administration, he may overrule the Financial Adviser and take responsibility for the decision.

Statutory Audit.

There was a time when the Chief Accounts Officer also did what is now known as 'Statutory' audit (to distinguish it from 'internal' audit) and was independent of the General Manager. His designation then was Chief Auditor. But now audit is done by a Chief Auditor who has no accounts functions. There is a separation of accounts from audit on Railways. The Chief Auditor is under the control of the Comptroller and Auditor-General of India. The cost of statutory audit is charged to the Railway Budget.

Nationalised Undertaking.

The railways are the biggest nationalised undertaking in the country and employ over one million persons. The total mileage of nationalised railways is slightly over 34000. The capital-at-charge at the end of the year 1960-61 was Rs. 1559.37 crores. The ratio of net revenue to capital-at-charge was 4.7 per cent in 1957-58, 4.4 per cent in

1958-59 and 5.2 per cent in 1959-60. The dividend paid by railways (which includes interest on railway debt) to general revenues was Rs. 44.40 crores in 1957-58, Rs. 50.39 crores in 1958-59 and Rs. 54.43 crores in 1959-60. The financial importance of railways to the Central Exchequer will thus be appreciated.

Railways have a dual position in the national economy: as commercial concerns and as public utilities. As public utilities they are expected to render a service to the public irrespective of profit. As commercial concerns they must pay their way. These two aspects sometimes conflict with each other. Broadly speaking, one may say that Indian railways function as a public utility-cum-commercial organisation. If for the benefit of the community the construction of a railway line is required, the line has to be constructed whether it will yield any profit or not. But it is the endeavour of the Railway Department to see that whatever money is invested in the railways gives a reasonable net return.

Cost of Construction of New Lines.

It is generally the policy not to sanction a railway which would not, after five years of its opening, yield a net return of 5 per cent on its estimated cost. As the estimated cost is always exceeded, sometimes very considerably on the completion of the line, and as the market borrowing rate of the Government of India is higher than 4 per cent—particularly borrowing from the World Bank and other foreign sources is very costly—there is not much of a margin for a net return in a productivity test of 5 per cent. In the British days it used to be 6 per cent, when the average rate of borrowing was 3 per cent. The cost of construction of new lines has almost quadrupled since independence. In its thirty first report (1955-56), the Estimates Committee were "very much concerned to note the great increase in costs of construction (para 46)". The committee were "not satisfied that the scope for economy and for reducing the cost of construction to a reasonable

level is entirely limited". They, therefore, recommended that "a cost analysis of some of the new lines recently constructed should be undertaken to see what positive steps could be taken to reduce costs of construction" (para 47). Whether such an analysis was ever made and if so with what result cannot be stated, but the cost of construction is going on increasing as the figures given below will show :—

"Taking 100 as the index of construction cost of railway lines in 1938-39, the indexes for 1946-47 and 1955-56 would be approximately 350 and 450 respectively" (para 43). In 1955-56 the cost of construction of important lines on broad gauge varied from Rs. 9 to Rs. 14 lakhs per mile. In his Budget speech for 1958-59, the Railway Minister referred to two important new lines opened for traffic, namely, the 100 mile Robertsgunj-Garhwa Road line on the Northern Railway costing Rs. 17 crores—which gives the cost of construction at Rs. 17 lakhs per mile—and the 40 mile long Nuri-Ranchi connection on the Eastern Railway, costing Rs. 5.9 crores—which gives the cost of construction at Rs. 15 lakhs per mile, nearly.

The reader will note the upward trend of the figures.

The Railway Budget.

The principles governing the preparation, compilation and review of the railway estimates are the same as for the general budget, which have been described in the earlier chapters of this book. Briefly, each head of department prepares his own estimates, the authority responsible for compilation being the Financial Adviser, under the general supervision of the General Manager. These estimates are sent to the Railway Board, where the Financial Commissioner deals with them in much the same manner as the Civil Estimates are dealt with in the Finance Ministry. Important points relating to capital expenditure, contribution to general revenues, loans from general revenues, raising or lowering of rates and fares, etc. are discussed with the Finance Ministry. But, otherwise, the Railway Board has full powers.

There is no provision in the Constitution for the presentation of a separate Railway Budget to Parliament. Even before independence the Railway Budget was presented to the Legislature separately from the General Budget, and this practice has been continued ever since. The view taken is that there is nothing in the Constitution to prevent the Budget being presented in parts; and, on this view, each part is treated in the same manner during its passage in Parliament. The Budget is presented about the middle of February each year by the Railway Minister in the Lok Sabha, and by a Deputy Minister, or some other person representing the Railway Minister, in the Rajya Sabha on the same day. The following papers are presented to Parliament after the Railway Minister has read his speech:—

(i) Speech of the Minister for Railways introducing the Railway Budget, together with a Hindi version.

(ii) Budget of Railway Revenue and Expenditure for the coming year;

(This is by account heads).

(iii) Explanatory Memorandum on the Railway Budget for the coming year. (This memorandum compares actuals, revised and budget estimates, as in the case of Civil Estimates.)

(iv) A review of the performance of Indian Government Railways (This is an important document, presented for the first time in February, 1960 and repeated every year.)

(v) Demands for Grants (only to Lok Sabha) for the Budget year;

(vi) Works, Machinery and Rolling Stock Programmes for the Budget year;

(vii) Indian Railways—Working for the year;

(viii) Towards Better Conditions of Travel—An annual account of Railway amenities.

There is no discussion on the day the Budget is presented, and after about a week or so a general discussion on the Budget takes place in both the Houses which lasts about 3 to 4 days in each House. After the general discussion, Demands for Grants are taken up in the Lok Sabha, for which three days are allotted. When the Demands have been voted, the Appropriation Bill is brought in. The Demands for Grants and the Appropriation Bill are usually passed in the same form in which they are presented.

There is no Finance Bill in connection with Railway revenue receipts. Rates and fares are fixed entirely by the Executive Government. (See the Chapter on Voting of Taxes.) The variations, if any, are mentioned in the Railway Minister's Budget speech. The Railway Minister may, as a result of comment during budget debates, make any changes in his own proposals, but no legislation is necessary.

Demands for Grants.

There are twenty two Demands for Grants in the Railway Budget, as per details given on page 129 for the year 1961-62.

It would be tedious to explain what each Demand represents; some are self-explanatory and others will be explained later on, while dealing with the Railway Convention

It will suffice to state that railways, unlike Civil Departments, pay for all services rendered and goods supplied by other Government departments. They pay for their accounts and audit, stationery and printing, pensions and gratuities. They also pay for the police and the watch and ward arrangements which cost quite a lot, The only respect in which they are differentially treated from commercial companies is that they are exempt from income tax. They, however, pay sales tax, excise duty and cess on coal purchased for railway use.

Number of Demand	Name of Demand	Amount (In thousands of rupees)	
		Voted	*Charged*
1	Railway Board	29,07,16	..
2	Miscellaneous Expenditure	98,19	3,00
3	Payments to Worked Lines and Others	2,11,91	..
4	Working Expenses—Administration ..	23,97	..
5	Working Expenses—Repairs and Maintenance	38,78,93	..
6	Working Expenses—Operating Staff .	125,22,60	..
7	Working Expenses—Operation (Fuel)	75,30,37	..
8	Working Expenses—Operation other than Staff and Fuel	73,70,09	75,46
9	Working Expenses—Miscellaneous Expenses	26,67,56	4,99
10	Working Expenses—Labour Welfare ..	11,61,37	..
11	Working Expenses—Appropriation to Depreciation Reserve Fund	65,00,00	..
12	Payments to General Revenues .	77,83,95	..
13	Open Line Works (Revenue)—Labour Welfare	1,36,71	..
14	Open Line Works (Revenue)—Other than Labour Welfare ..	10,63,63	..
15	Construction of New Lines	61,13,46	3,86
16	Open Line Works—Additions ..	312,72,04	..
17	Open Line Works—Replacements ..	99,56,91	..
18	Open Line Works—Development Fund	23,00,00	..
19	Repayment of loans from General Revenues and interest thereon—Development Fund	30,19,48	..
20	Appropriation to Development Fund ..	17,21,57	..
21	Appropriation to Revenue Reserve Fund	..	..
22	Withdrawal from Revenue Reserve Fund	8,57,15	
	TOTAL ..	1,090,96,87	87,31

Cut Motions.

After the general discussion, the voting on demands begins. Unlike the general budget, each demand is not taken up separately. The practice hitherto has been to discuss Demand No. I for Railway Board as a separate item, and the remaining Demands from Nos. 2 to 22 all together.

The number of cut motions is so large that it is impossible to find time to deal with them. For instance, during the 1961-62 Budget, 236 cut motions to Demand No. I were admitted. They related mostly to local needs, but among those which raised general issues may be mentioned the following :—

(i) need to check corruption, over-crowding, insecurity of travel and late running of trains

(ii) need to reduce strength of officers

(iii) need to improve catering services

The discussion on the demands, particularly after the Demand for the Railway Board has been dealt with, becomes a kind of a second general discussion of the Railway Budget and, therefore, infructuous. Members are unable to agree to drop their own cut motions in favour of three or four important ones on which discussion could be concentrated and which could enable the Railway Minister to deal with the points in his reply. As it is, no particular purpose is served, except that every one has had his say.

Railway Appropriation Bills.

After the Demands for Grants are passed by the Lok Sabha, the sums voted and the purposes for which they are voted are put in the shape of a Bill which has to be passed by both the Houses of the Legislature, as in the case of general Appropriation Bills. An Appropriation Bill is prepared for an original demand, a supplementary demand, a vote on account, an excess grant, as in the case of the General Budget. In the Lok Sabha practically no

debate takes place on the Appropriation Bill, because all the points have been discussed on the Demands for Grants and nothing new remains to be brought up before the House. In the Rajya Sabha, on the other hand, there is no submission of Demands for Grants and therefore, a convention has been established that while the Appropriation Bill is before the House any Member is at liberty to raise a discussion on any point arising from the Railway Demands. In the Debate which took place in connection with the 1959-60 Appropriation Bill, some of the matters raised were :—

(i) Increase in ratio of working expenses to railway revenues;

(ii) Pooling of locomotives within the various Railway Zones;

(iii) Importance of scientific research for Railways;

(iv) Filling of jobs reserved for scheduled castes;

(v) Amalgamation of the Ministries of Railways and Transport;

(vi) Participation of workers in the management of Railways;

(vii) Victimisation of workers for trade union activities, etc. etc.

Growth of Railway Expenditure.

It is a matter of general comment that Railway expenditure is rising faster than Railway revenue and that this unhealthy tendency is not being checked.

In support of this observation, it is pointed out that what is known as the operating ratio—namely, the percentage ratio of ordinary working expenses (including appropriation to the Depreciation Reserve Fund) to gross earnings——of the Railways is rising steadily.

Figures from 1951-52 are given below :—

Operating Ratio on Indian Railways: —

1951-52	77.0
1952-53	80.6
1953-54	84.5
1954-55	82.3
1958-59	82.4
1959-60	79.2

The figure for 1959-60, though higher than that for 1951-52, is lower than for some previous years, but there is no doubt that compared with pre-independence days our railways are not being run economically. The operating ratio for 1938-39 was only 66.48 It should be kept below 75.

The working expenses on railways in 1951-52 were Rs. 225.8 crores for a route mileage of 33343. The working expenses for 1959-60 were Rs. 334.62 crores for a route mileage of 34,000. This shows that there has been a growth in expenditure of over Rs. 100 crores in nine years. The main contributory items are:—

Cost of Staff.

(i) The biggest single item of cost on Railways is the cost of staff. In 1950-51 the total number of staff was 913,553, costing Rs. 113.82 crores. In 1959-60, the latest year for which figures are available, the total number of staff was 1,154,013, costing Rs. 189.25 crores. The average cost per employee was Rs. 1263 in 1950-51. In 1959-60 the average cost rose to Rs. 1660. Against a percentage increase of 26.3 in number of staff, there was a percentage increase of 31.4 in average cost per employee. (Figures given above are taken from Table XXVI-Wage bill of railway employees since 1950-51, given on page 47 of the official Review of Railway Performance presented with the Railway Budget for the year 1961-62).

The strength of the running staff at railway stations, the gang strength for maintenance of track, etc. is determined by the Adjudicator's Award, over which Railway Administrations have no control. This Award costs the Railways about Rs. 27 crores. Some increase of staff is due to provision of better amenities for the travelling public, such as larger number of watermen, carriage cleaners, etc. Also, intensive patrolling at bridges to avoid accidents.

Sir L. P. Misra, an ex-Chief Commissioner of Railways, in his evidence before the Estimates Committee on December 1, 1955 stated that there had been a sad decrease in individual out-turn and efficiency. The Railways were employing more men at present than what was necessary to keep things going" (paragraph 9, page 38 of the Proceedings. E.C. No. 17 dated March 1956).

The only way in which clerical staff can be reduced is by introducing job analysis. Job analysis is carried out in respect of all categories of persons, to ensure that every employee has sufficient work for the period of duty allotted to him. Job analysis is being undertaken extensively in British Railways and has yielded good results. In this country, however, the staff are so allergic to job analysis that it has not been possible to make any headway. Propaganda is started whenever job analysis is undertaken, that staff would as a result be retrenched and consequently an obstructionist attitude results. This, in spite of repeated announcements by the Railway Ministry that no retrenchment of permanent staff is contemplated.

Much attention is being devoted to studying methods and evolving suitable organisation for securing the best results, but little is being done to raise the morale of the human element. The present writer notes with regret that whereas in the days he was in service clerks had to be literally bundled out of their offices for work after office hours which caused much inconvenience to the caretaker who had to lock their rooms, nowadays it is difficult to find anybody in office after office hours—the place is empty within five minutes after closing time. It is a

commonplace observation that the highest productivity comes from office staff that has the best morale. As the Persian poet has it "Ke mazdoor-e-khushdil kunad kar besh". To increase efficiency, staff members should be given jobs for which they have an aptitude; they should be given incentives in the form of fair salaries and opportunities and provided with attractive and clean working conditions. It cannot be said that the staff in Government departments is better placed now in the above respects than it was in the days gone by.

(ii) Cost of Coal.

The next important item of expenditure is coal. The gross expenditure on fuel (which is mostly coal) was Rs. 30.72 crores in 1950-51 and Rs. 66.56 crores in 1959-60, or more than double in 9 years.

This is said to be mostly due to:—

(i) Increase in the price of coal. The index numbers (with 1952-53=100) of coal prices were 101 in 1956, 121 in 1957, 132.7 in 1959 and 135.2 in 1960.

(ii) Increase in the quantity of coal consumed due to increase in train mileage and rolling stock. About 10 million tons were consumed in 1950-51 and 15 million tons in 1959-60. Against this there was an increase in gross ton miles (all traction) from 99.4 in 1950-51 to 161.6 billions in 1959-60.

(iii) Increase in the rate of coal consumption on account of the increasingly larger proportion of inferior quality of coal supplied to the railways. This makes a difference in consumption from 5 to 8 per cent.

The supplies of selected grade coal to Railways have declined progressively from 35 6 per cent of the total quantity in 1950-51 and 33.3 per cent in 1955-56 to 28.1 per cent during 1959-60. Besides, coking coal (of which supplies are limited) which is far superior to the non-coking variety, has progressively been diverted to steel plants.

It must be remembered that coal is being carried by railways at rates which do not even cover the costs of haulage—the earnings per ton mile from coal traffic are 3.33 naya paisa on broad gauge as well as metre gauge, whereas the costs of haulage are roughly 3.80 naya paisa per ton mile on broad gauge and 5.79 naya paisa on metre gauge lines. This may be regarded as the contribution which railways make towards industrial development in the country. But, at the same time, these rates keep the railway fuel bill down. If railways were to charge economic rates, their fuel freight bill would be much bigger.

It is an open secret that there is quite a lot of leakage and loss due to pilferage. The extent of this loss obviously cannot be put into figures. The official Review of Performance merely says:—

> "The matter of exploring avenues for economy in fuel consumption by various internal measures continues to receive special attention." (page 42).

It has been suggested that the future pattern of rail traction should be changed from steam to diesel and electricity, as has been done on several Western railway systems. Electric traction and dieselisation will cost more in capital expenditure (and, therefore, also in interest and depreciation) but will reduce the running costs, as compared with steam, and will give faster and more punctual service. Diesels by enabling the operation of longer and faster trains have led to a large reduction in the number of trains and, because they are available for use more continuously, fewer locomotives are needed, representing an economy in capital. But there are two disadvantages:—

(i) Enough oil is not at present produced in the country and in case of emergency, such as war, diesel locomotives will come to a standstill, whereas, coal is produced in the country and can be used at any time. The recent oil discoveries in Cambay, Ankleshwar, Assam and other parts of India may, however, remove this difficulty in course of time.

(ii) Secondly, both diesel as well as electric locomotives will require considerable foreign exchange. In steam traction, the foreign exchange requirement is nominal, particularly now that locomotives, passenger coaches and goods wagons are produced within the country. The production of electric and diesel locomotives is being taken up, but this will take time.

Places which are very far from collieries have already to pay a very high cost for the use of coal. They may be served with diesel engines, and places which are near collieries may be served with steam traction. That might be the picture of future development of railway locomotion in this country. Electrification has its advantages for suburban areas and is being developed in industrial places like. Bombay, Calcutta and Madras, where the density of traffic justifies it and persons have to be carried over longer distances to and from their working places.

(iii) Cost of Repairs and Maintenance.

Another big item of expenditure is in respect of repairs and maintenance, the cost of which is debited to Demand No. 5. The actual expenditure in 1959-60 was over Rs. 110 crores. The total cost under this head in 1950-51 was of the order of Rs. 57.11 crores, which means that cost has increased by over Rs. 50 crores in 10 years The major items under this head are :—

(i) Way and Works, and

(ii) Rolling Stock.

The expenditure under this Demand is influenced by the steadily increasing volume of railway assets requiring upkeep, as reflected roughly by the increase in the capital-at-charge. Prices of materials purchased have risen during the period which also affects the figures for expenditure.

The Capital-at-charge in 1950-51 was of the order of Rs. 834 crores. In 1959-60 it stood at Rs. 1434 crores. On the basis of the level of expenditure in 1950-51, the expen-

diture on assets of Rs. 1434 crores should have been Rs. 98 crores, as against the actual figure of Rs. 110 crores, i.e Rs. 12 crores higher.

The number of locomotives repaired in 1950-51 was Broad Gauge 1874, Metre Gauge 557; and the expenditure on repairs was Rs. 7.16 crores; or Rs. 29,453 per locomotive. In 1959-60, the number of locomotives repaired was Broad Gauge 2779, Metre Gauge 1102; and the expenditure on repairs was Rs. 12.54 crores or Rs. 32,311 per locomotive.

The number of coaching vehicles repaired in 1950-51 was Broad Gauge 11,038, Metre Gauge 6943. The expenditure on repairs was Rs. 4.97 crores; or Rs.2764 per vehicle.

In 1959-60, the number of Coaching Vehicles repaired was Broad Gauge 20,224. Metre Gauge 14,090. The expenditure on repairs was Rs. 8.37 crores, or Rs. 2439 per vehicle.

The number of wagons repaired in 1950-51 was Broad Gauge 49,724; Metre Gauge 16,008. The expenditure on repairs was Rs. 3.93 crores; or Rs. 598 per wagon.

The number of wagons repaired in 1959-60 was Broad Gauge 70,489, Metre Gauge 33.366. The expenditure on repairs was Rs. 7.52 crores; or Rs. 724 per wagon.

(All figures given above are taken from Table XVII—Review of Performance—1961-62: pages 34 and 35).

The above is a rough and ready method of presenting the index of performance and does not pretend to any great accuracy. But, such as it is, it would seem to show that, with the exception of repairs to coaching vehicles, the expenditure on repairs per locomotive and wagon has gone up considerably. In view of the fact that the percentage of over-age stock to total on line at the end of 1959-60 was much lower than at the end of 1950-51, the higher cost of repairs must be due to causes other than over-age.

Financial procedure for control of expenditure.

The Estimates Committee, in their thirty-first Report dated March 1956, recorded the view that "the present procedure for financial scrutiny and expenditure control requires vast changes with a view to improving the efficiency of working, reducing the incidence of expenditure and increasing the earnings of the Railways."*

"A Budget for a commercial organisation like the Railways should be a flexible one, with the estimates of expenditure closely linked with the estimates of performance. Such a Budget would be more useful for managerial control than the present form."

"At present, Parliament sanctions the Budget, but it is not aware of the quantum of service that will be rendered in the various aspects of Railway activity covered by the Demands, and there is no assurance that if the performance falls short of the anticipations at the time of the Budget, the excess funds will be surrendered and will not be wasted by inefficient working."

The control of expenditure on Railways, like other administrative departments of Government, is mainly an appropriation or budgetary control. That is to say, if Parliament has voted an amount for a particular purpose, control is directed to see that :—

(i) expenditure incurred does not exceed the amount sanctioned by Parliament; and

(ii) the amount voted is not used for any purpose other than that sanctioned by Parliament.

This is obviously not sufficient for a commercial department, where the quantity and quality of the service rendered has also to be taken into account.

A mere comparison of the total expenses under any particular head, either of the various units for the same period or of the same unit for different periods, serves no useful purpose since these expenses are affected by many varying factors. The volume of traffic, for example,

would affect the expenditure booked under the head "Operating Expenses" and a comparison of such expenses without taking into consideration the corresponding volume of traffic would not yield any fruitful results.

To take another example, the quantity of coal to be consumed in the Budget year, the rate at which it is expected to be purchased, the total volume of traffic to be moved expressed in gross ton miles and the target of consumption, namely, pounds per 1000 gross ton miles, should be stated along with Demand No. 7—Operation (Fuel), together with such other relevant information as affects this Head.

A beginning has been made with the preparation of a Review of Performance which has been presented with the budgets for 1960-61 and 1961-62. It should, however, be related to the estimates of the budget year in addition to previous years.

A large number of new works undertaken on the Railways are on grounds other than financial. Such unremunerative items consist of passenger amenities, labour welfare, operating improvements, as also unremunerative new lines undertaken for the development of the country and are charged to Open Line Works (Revenue) and Development Fund. The expenditure on unremunerative items is very high comparatively to the net capital outlay. As the rules stand, such expenditure does not come in for any sort of financial review. The major portion of this expenditure is on Operating Improvements, namely, for the purposes of improving operational facilities and to remove bottlenecks in transport. They are not expected to yield any return on the expenditure directly but an improvement in operational performance is expected as a result of the expenditure. Figures for such unremunerative outlay are not easily available. They should be shown item by item in the Budget memorandum alongside the figures for total capital outlay.

The suggestion relating expenditure to performance is particularly useful in relation to Works expenditure,

which exceeds Rs. 250 crores in a year. The departmental rules provide that besides the usual checks there should be a productivity test, namely, that works which have been sanctioned on financial grounds, that is to say, that they will yield sufficient revenue on their completion, should be examined to see, after they have been put into commission, whether they have fulfilled the anticipations. This is particularly necessary in the case of works charged to Capital. If a work has been sanctioned on the expectation that it would yield a certain amount of return on the capital invested, it is not necessary merely to see that the sanctioned cost of the estimate has not been exceeded, but it is also necessary to see that it has yielded the return on the expectation of which the work was sanctioned. Similarly, if expenditure is sanctioned with a view to improving operational performance, it should be possible to state in the proposal what particular increase is expected, and when the work has actually been completed it should also be possible to compare the performance with the anticipations in this regard.

Railway Earnings.

The major portion of railway earnings is derived from passenger and goods traffic. Goods earnings constitute nearly two-thirds of the 'gross traffic receipts' and are more than double the passenger earnings. Among the passenger earnings, the 'Upper' class (which really is the 'Second' class of former days) contributes about one-eighth to the total passenger earnings, the remainder being contributed by the 'third' class. It would contribute more if loss due to travelling without a ticket was not so large. Railway revenue is governed by the general economic activity in the country, such as agricultural production, industrial production, internal and external trade, trends in national income etc. With the heavy outlay now being incurred under the Five Year Plan, economic activity is increasing and railways have to handle an increasing volume of traffic every year.

Railway rates and fares (rates relate to goods and fares to passenger traffic) are regulated by executive action, (as indicated earlier in the chapter on voting of taxes) and not by legislative action. Parliamentary control is, therefore, not so direct as in the case of taxation. The fixation of fares is a comparatively simple matter. But the goods rate structure is very complicated and not easy to describe in a few words.

Principles governing goods rates.

Railways are engaged in the business of transportation. In fixing the selling price of transportation, they have to pay due regard to the needs of both the railways and the railway users. The price must be satisfactory to the public, in that it must enable them to market their products, meet competition and realise a profit. To the railways also it must yield a profit, if they are to remain in business. The general level of rates must, therefore, exceed the general level of expenses. The margin above expenses should be large enough to pay the interest on the capital-at-charge, to build up revenue reserve, to contribute towards the general revenues and to provide for improvements, new equipment and necessary extensions.

The principal factors in the fixation of rates for commodities are :—

(i) Cost of service,

(ii) Value of service.

Cost of Service.— In the construction of rates, cost of service, though in itself not conclusive, is an exceedingly important consideration. It is the minimum level which the Railways must always have in mind. The total revenue must exceed total cost. The total cost must be distributed over all the traffic which the Railways carry. This cannot be done, however, through the sole consideration of the relation of volume of any commodity to the volume of traffic moved. That is to say, the Railways cannot reason that a commodity which furnishes 10 per cent of its

total traffic volume should produce 10 per cent of its revenues. But, by and large, each variety of goods should not be charged less than it costs to move it, the cost being the roughly estimated 'out of pocket' cost.

Value of service.— The fundamental criterion is that each variety of goods should be charged no more than it can ordinarily afford to pay for transport. The determination of the rates for individual commodities in this manner is known as charging "what the traffic will bear". In this way, goods of high value are made to pay more, so that commodities of low value, including foodstuffs and industrial raw materials, may be carried for less.

It is from this principle of charging "what the traffic will bear" that the railways derive sanction for the classification of commodities into different groups (nearly 3000 commodities are listed individually in the freight tariff and each of them is assigned one of the 45 classes), within each of which a sufficient degree of affinity of transportation and economic characteristics can be found and to each of which a different scale of basic rates is applied.

In what circumstances and to what extent do the twin principles of "cost" and "value of service" control the evolution of a railway freight tariff? The answer is provided by Ripley in the following words :—

> "Both principles are of equal importance; and both must be continually invoked as a check upon each other. The tendency to the elevation of cost of service to a position of priority—rather characteristic of regulative bodies and of legislators—is no less erroneous than the marked disposition of railway managers to insist upon the universal applicability of the principle of charging what the traffic will bear. Neither will stand the test of reasonableness alone."

Railways are at present unable to cope with the traffic that is offered, owing to shortage of wagons, particularly in coal and foodgrains and there are serious complaints of shortages, which are really due to inadequate transport

facilities. Corruption in railway staff is mainly due to this.

With the above enunciation of general principles governing the fixation of railway rates, a description of the existing railway freight rate structure is given below:—

Railway Freight Structure.

Railway freight rates are on what is known as 'telescopic' basis, that is to say, with increase in the distance carried the rate per mile tapers off. For the purpose of taper, the distance up to 1200 miles has been divided into seven blocks, and the distance beyond 1200 miles forms one block. For each succeeding block there is a lower rate per mile than for the preceding one, while there is no increase in freight charges for any increase beyond 1500 miles in the distance travelled. In other words, goods traffic is carried free after 1500 miles.

There is one standard class which is designated class 100. The rate for every commodity is expressed in terms of this class as a percentage, higher or lower. Thus the structure of the telescope is the same for all commodities; only the rate-scales are different. Coal and livestock, however, have telescopes constructed differently from the standard.

The charge thus worked out is an all-inclusive one; there are no frills as they used to be formerly, e.g., terminal or short-distance charges.

The rate charged per hundred kilogrammes for a consignment or a portion thereof which does not make a full wagon load is higher than that for full wagon load consignments.

With some exceptions, all goods traffic is now carried at railway risk. In other words, the railway, while accepting a consignment for transport, accepts all the responsibilities of a public carrier. This was not the case previously when consignments were carried at owner's risk, unless a substantially higher rate was paid. Certain arti-

cles called 'excepted' articles must, however, be insured against loss. If they are not insured, the railway has no responsibility.

All parties must be charged the same rate. There can be no discrimination. If any party feels aggrieved that in the fixation of rate it has been discriminated against, it can appeal to the Railway Rates Tribunal, an independent body which is presided over by a retired judge of a High Court, and which generally follows the rules of judicial procedure. The decisions of the Tribunal are mandatory.

Parcels traffic carried by passenger trains is charged for at a uniform rate. There are three such rates, full parcel rates, half parcel rates and quarter parcel rates. The last apply to perishables e.g., fruits, vegetables, milk etc., and the consignor has, in writing, to absolve the railway of all responsibility for damage through whatever cause.

Economics of Passenger and Goods Operation.

The Review of Performance gives an interesting analysis of the results of working of the two major wings; namely, passenger and goods services separately. The conclusion arrived at is that since 1957-58, the earnings from coaching services, namely, passenger and other coaching, do not cover the expenses. The proportion of expenses to earnings under goods, despite increase in freight rates, has also recorded only marginal improvement. Earnings on the metre and narrow gauges, in the case of both coaching and goods services, fall below the expenses. It is only because the entire Railway system in India is operated as one financial unit, and further that about 70 per cent of the passenger traffic in terms of passenger miles and 84 per cent of the goods traffic in terms of ton miles are handled on the broad gauge that Railways are able to achieve a modest surplus, in spite of the fact that the metre and narrow gauges are uneconomic.

The obvious suggestion is that the present rates and fares should be increased. It is well known that as com-

pared with some of the foreign railways they are very low. Whether the economy would be able to bear the increase is a separate matter altogether.

Economics of the transport of low-rated commodities.

Consequent upon the need to carry a greater proportion of industrial raw materials, such as coal, ores and limestone, the pattern of freight traffic moving by rail now contains a larger proportion of low-rated commodities. There is no corresponding increase in the high-rated commodities—such as sugar, cotton raw, cotton manufactures—which are gradually being diverted to alternative means of transport, mostly by road. Railway freight transport is now mainly confined to transport of raw materials while practically all manufactured goods are transported by road. The overall average cost of hauling a ton of goods, taking all commodities together, one mile (including interest) during 1959-60 was 4.44 nP* on the broad gauge and 8.19 nP. on the metre gauge. The average earnings fall short of the overall average cost of hauling a ton of goods one mile in the case of coal on both the broad and the metre gauges. The average earnings also fall short of the average costs on the metre gauge in the case of grains, oilseeds, marble and stone, salt, metallic ores, cement, fruit and fresh vegetables.

Conversion of existing metre gauge lines into broad gauge, wherever feasible, would thus be a financially attractive proposition. But this is obviously not practical.

It is appropriate that goods of high value are made to pay higher railway freight rates, so that essential commodities of low value may be carried at lower rates in the public interest and for developing the national economy as a whole. But there is a limit beyond which this cannot be permitted. With the present tendency towards a progressive growth in the volume of traffic in low-rated com-

* Road enthusiasts claim that a medium petrol-driven vehicle in terms of its pay-load, pays more than 7-25 n.P. (Naya Paisa) per ton mile in taxation alone. If this is correct, how can it complete with railways which carry traffic at less per mile.

modities, without a corresponding growth of traffic in high-rated commodities, the margin between the earnings and expenditure of railways is correspondingly being narrowed down.

This problem is met with not only in India but in other countries also. So far, no solution is forthcoming.

The Railway Convention.

In the early years of railway working there were large deficits which were borne by general revenues. It was only since 1905 (after more than 50 years) that railways began to yield a net revenue. This surplus revenue was appropriated by the State, as railway finances were a part of the general finances of the Government of India.

During the First World War the net gain from railway working was large, owing to growth of traffic as a result of the War and reduction of expenditure on renewals and replacements, which were rendered difficult due to the War.

The Acworth Committee on Railways reviewed the position in 1920-21 and recommended that the Railways should have a separate budget of their own and assume the responsibility of earning and spending their own income. These recommendations were eventually put in the shape of an official resolution on the separation of Railway from General Finance, which was passed by the Central Legislative Assembly on the 20th September, 1924.

As stated in the preamble to the Resolution, the main idea of separation was 'to relieve the general budget from the violent fluctuations caused by the incorporation therein of the railway estimates and to enable railways to carry out a continuous railway policy based on the necessity of making a definite return to general revenues on the money expended by the State on Railways.' The contribution was to be a sum equal to one per cent on the capital-at-charge of commercial lines.

The interest on the capital-at-charge and the loss in working, of strategic lines was to be borne by general revenues and was to be deducted from the contribution so calculated in order to arrive at the net amount payable from railway to general revenues each year.

The interest on railway capital, the annual payment to the Depreciation Fund (constituted for the first time under the Convention) and other railway charges were to be borne by the Railway Budget.

These arrangements were to be subjected to periodic revision but were to be provisionally tried for at least three years. This is given the name of the Railway Convention, because it is not based on any law, but on a mere resolution of Parliament.

After several abortive attempts in the intervening period, a Convention Committee was appointed in 1949 which laid the foundation of the present system. A period of 5 years was fixed for each revision since April 1, 1950. Some slight changes were made at the revision which took effect from April 1, 1955. This arrangement would have terminated on April 1, 1960, but was extended to another year, to make the period of the new Convention correspond with the Third Five Year Plan. The arrangement at present in force is that recommended by the Railway Convention Committee, 1960, which was accepted by Parliament in December 1960.

The convention does not bring about a complete separation of Railway from General Finance. The separation has reference only to Railway revenue and the expenditure chargeable thereto vis-a-vis the non-Railway (General) revenue and the expenditure chargeable thereto. It does not effect a separation of the ways and means part of the two accounts. The Railways have no working balance of their own, whether opening or closing. General Finances act as the banker for Railways and the reserve funds of the Railways are deposited with their banker who is free to utilise them for his ways and means financing. General Finance, however, pays to the Railways interest on the

balances accumulated in these reserve funds. This is a convenient arrangement, though it does involve a certain limitation on the freedom to draw upon these balances at their discretion which Railways might otherwise have. The existing arrangements are calculated to serve the larger interests of the country and to contribute substantially to the strengthening of the financial structure of the State as a whole, on which ultimately the economy of the country including the Railways depends. It will be obvious that with an annual working balance of Rs. 50 crores or so, the Government of India is in no position to separate the railway from the general balances of the country—the former being much the larger of the two.

The main changes in the structure of public finance due to the Convention are briefly indicated below :—

(a) Dividend to General Revenues.

The general taxpayer has been given the status of the sole shareholder in the Railway undertaking, entitled to a guaranteed dividend* (4 per cent) on the capital invested in the undertaking. The Convention Committee of 1960 recommended that the dividend be raised to 4¼ per cent. The main grounds for the change were :—(i) the average rate of interest has hardened and now stands at 3.58 per cent instead of 3.17 per cent in 1954-55 and 3.18 per cent in 1949-50. (ii) In respect of loans obtained specifically for the Railways from the World Bank since 1957, the rate of interest varied from 5-5/8 per cent to 6 per cent.

The term 'capital invested', as used above, is a term of art and is not synonymous with the 'block account', as understood by Commercial Accountants, namely, the value of the physical assets which pertain to a concern. The value of physical assets of the Railway undertaking is much larger than the figure taken into account for the purpose of calculating the dividend payable to general revenues. The capital expenditure incurred out of the Deve-

* The 'dividend' throws the charge for interest on railway debt on general revenues, instead of on railway revenues, as under the original Convention.

lopment Fund, the "improvement" part debited to the Depreciation Fund and the portion which under the rules of allocation between capital and revenue is charged to the revenue account have to be added to the 'Capital-at charge'. For instance, up to 1958-59, the Capital-at-charge was taken as Rs. 1356.59 crores, when the Block Account stood at Rs. 1611.70 crores. At the time of writing, the Block Account must be over Rs. 2000 crores, when the Capital-at-charge is about Rs. 1560 crores.

No dividend was previously paid on capital expenditure on unremunerative strategic lines. The Convention Committee of 1960 recommended that the annual loss on the working of strategic lines should be borne by general revenues—as was done under the first Convention of 1924. This has been accepted.

On the element of 'over-capitalisation'* (now assessed at Rs. 121 crores) in the 'Capital-at-charge' dividend is payable at the rate of interest charged to commercial departments, which is lower than the general rate of interest.

Payment of dividend on capital invested in new lines is made from the sixth year onwards 'only if the net income of the new lines leaves a surplus after payment of the current dividend'.

As dividend—which is at present of the order of Rs. 69 crores—includes interest, general revenues bear the interest on debt attributable to railways, which at the time of writing amounts to over Rs. 60 crores. The net gain (after deducting interest) is small. The figures are given below:—

* The over-capitalisation arose chiefly during pre-independence days when the Depreciation Fund bore only the original cost of a replaced asset, while the balance, due to rise in prices between the period of original purchase of the asset and its replacement, was debited to capital. Since April 1, 1950, this has been changed and the Depreciation Fund now bears both the inflationary and improvement costs of the replaced asset.

Real contribution to General Revenues from railways.

	In crores of rupees
1958-59	6.26
1959-60	5.63
1960-61	4.77

In comparison with British and American Railways, (where rail-road competition is far more severe) Indian railways are yielding good returns. But two things must be borne in mind:—

(i) Indian railways pay no income tax as other railways do. Consequently, the dividend which the tax payer receives is a gross and not a net return. Other nationalised undertakings, Central and State alike, all pay income tax.

Amortisation of Railway Debt.

(ii) If the only capital invested in Indian railways were of the nature of share capital, which is permanent and not repayable, the dividend in question would, subject to the remarks in (i) above, represent some kind of a commercial dividend on equity capital. But a fair portion of the railway capital is of the nature of loan or debenture capital, raised on the security of Indian revenues (and not of railway revenues alone) which is repayable. Since the War, heavy amounts have been borrowed abroad, particularly from the World Bank at high rates of interest and their repayment will soon be due. If the railways were a commercial concern, they would have to provide for amortisation of their debt out of their own earnings. But, under the present arrangement, general revenues bear the responsibility of repayment of railway debt.

This question of amortisation of debt has been before the Convention Committees, but every time they have put it off and made no attempt to deal with it or even to work

out its financial implications. The Committee of 1960 expresssed the view that "having regard to the tight financial position of the Railways the time is not yet ripe for amortisation". The Committee nevertheless felt that "this question should not be lost sight of, in as much as in the context of the re-patriation of all the dollar loans, it will assume importance".

The British adopted a conservative policy in regard to construction of public works, their aim being not to increase unproductive expenditure, as far as possible. It is due to this policy that in spite of two World Wars the uncovered debt of India during the British period remained small. Under the rules they framed for allocation of expenditure current revenues could not be used except within small limits for financing unremunerative projects like increased passenger amenities. To capital nothing could be charged which did not fullfil the prescribed test of productivity.

With independence, the demand for amenities, both for passengers and railway staff, gathered momentum. Greater stress came to be laid on railways being a public utility rather than a purely commercial service. The Convention Committee of 1949 regarded the rules of allocation between capital and revenue as "unduly restrictive for a nationalised public utility undertaking" and considerably liberalised them, as they remain to this day.

Up to Rs. 25000, revenue bears expenditure on amenities for passengers and other railway users. Previously, this limit was Rs. 10,000. Unremunerative operating improvements costing not more than Rs. 3 lakhs are charged to revenue. Beyond this figure, such improvements are charged to the Development Fund and not to Capital. The Development Fund, which is built out of surplus revenues, also bears all expenditure on amenities in excess of Rs. 25000. The Committee felt that "if the financial stability of the undertaking is to be adequately safeguarded, the process of annual additions to the capital structure should be arrested and the commercial principle

of financing as much as is possible out of surplus earnings should be adopted".

(b) Depreciation Reserve Fund.

With the separation of railway from general finance, a Depreciation Reserve Fund was instituted with effect from April 1, 1924. The 'straight line' method was adopted as the basis: the annual provision was determined by the original cost of an asset divided by the number of years of its estimated or assumed life. The assumed life of each asset had to be worked out. This involved the maintenance of very elaborate records. It was later on found as a result of experience that the actual contribution corresponded approximately to an amount equal to 1/60th of the total capital-at-charge. It was accordingly decided with effect from 1935-36 to simplify calculations and make contributions at this flat rate.

The straight line method works very well so long as prices are stable, but they are seldom stable over a long period. Consequently, when assets have to be replaced on the expiry of their normal life, the total accumulation in the Fund is usually not enough to meet the higher cost of the new assets. And this is what actually happened during and after the Second World War. Another weakness of the plan adopted was that when the Fund was started no provision was made in respect of arrears of depreciation accrued up to 1923-24, but the responsibility for finding this amount was laid on the Railway Administration.

In the lines then worked by Companies, the 'replacement' method was in vogue. That is to say, the annual contribution to the Fund was based on the probable cost of replacement and not on the original cost. This is the method generally adopted in commercial firms now a days. Only, there is a certain amount of guesswork as to the cost of replacement at the end of, say, 30 or 40 years. The practice followed is to set apart for the Depreciation Fund an amount higher than what would have been set apart, if it were based purely on the original cost of the asset concerned.

For a number of years the straight line method worked well. The annual withdrawals towards renewals and replacements from the Fund were considerably smaller than the annual appropriation to the Fund. During the war period (i.e. from 1938-39 to 1945) owing to the difficulty of getting supplies from abroad, replacements were very limited. Consequently, large arrears of renewals and replacements were left for the Railways at the end of the War. From 1924-25 to 1950-51, the Depreciation Fund accumulated a large balance of over Rs. 124 crores. From 1951-52 onwards, withdrawals became heavy and the balance in the Fund started falling.

This unsatisfactory position was also due to two factors:- (i) The large increase in prices that had taken place since the initiation of the Depreciation Fund in 1924; and (ii) the Depreciation Fund received no contribution in respect of the depreciation on assets in existence at the time of the institution of the Fund, i.e. what could be called accumulate depreciation. These arrears of depreciation were estimated at the time at Rs. 20 crores.

To meet the problem of rehabilitation thus created for the railways, the annual appropriation to the Fund was raised to Rs. 15 crores a year under the convention approved by Parliament on December 21, 1949.

A provision of Rs. 17 crores was made in the estimates of the year 1950-51 as appropriation to the Depreciation Reserve Fund. The withdrawals from the Fund were, however, running at a level of Rs. 35 crores a year. At the then rate of appropriation, there was a danger of the Fund getting completely liquidated in the next three or four years. In terms of the new Convention, both the inflationary and improvement elements in replacement costs, which were previously charged to capital, were to be charged to the Fund, thus adding to the drain on the Fund. The costs of replacements had also increased nearly fourfold since pre-war times and bore no relation to the costs on which the rates of depreciation had been determined. The expenditure involved in the replacement

and renewal of assets of State Railways taken over as a result of federal financial integration was also considerable

In the next revision of the Convention, which took place in December, 1954, the annual contribution to the Fund was enhanced from Rs. 30 to Rs. 35 crores. This was again enhanced (with the approval of Parliament) to Rs. 45 crores. The reasons for these enhancements were precisely the same as those given above for the year 1950-51. Even this enhanced figure proved to be inadequate. Withdrawals from the Fund are of the order of Rs. 70 to Rs. 80 crores. The closing balance on the 31st March, 1961 in the Fund was estimated to be Rs. 14.13 crores only, which was not even equal to one year's gap between withdrawals and the annual appropriation to the Fund.

The Railway Freight Structure Enquiry Committee considered that the annual appropriation to the Fund should be related to the capital-at-charge and not fixed on an ad hoc basis. They recommended that a sum of Rs. 66 crores should be provided for the year 1960-61 and not Rs. 45 crores.

The Convention Committee of 1960 supported the view that the appropriation of Rs. 45 crores was utterly inadequate and recommended the following scale.

Year	(In crores of rupees) Appropriation to be provided.
1961-62	65
1962-63	67
1963-64	70
1964-65	73
1965-66	75

This has been accepted by Parliament.

It expected that at this rate of provision, the Depreciation Fund will have a balance of Rs. 34 crores at the end of the Third Plan.

(e) Development Fund.

A Betterment Fund was instituted for the first time with effect from April 1, 1946 to finance expenditure of a capital nature on amenities for passengers and on works connected with staff welfare, and on operating improvements which would not either produce revenue or give operating economies. It was decided that all expenditure in excess of Rs. 10,000/-, which could not be justified on financial grounds, should not be charged to capital but met out of revenue through the Betterment Fund.

The corpus of the Fund was created by the transfer of a sum of Rs. 12 crores from Revenue Reserve so that immediate steps could be taken to embark on a plan for provision of amenities. Originally, the Betterment Fund was to finance expenditure only on the following:—

(a) Amenities to passengers;

(b) Works connected with staff welfare, and

(c) Unremunerative operating improvements costing not more than Rs. 3 lakhs.

During the debate on the Railway Budget for 1948-49, the Legislature expressed itself in favour of restricting expenditure from the Betterment Fund to passenger amenities alone. This was given effect to retrospectively from 1st April, 1949.

When the Convention Committee of 1949 came to consider the matter it felt that "further railway development could no longer be conditioned by commercial considerations alone and that a system of nationalised railways must fill a positive and complementary role in the general economic development of the country. The obligation of the state to expand rail facilities in undeveloped areas unhampered too much by considerations of the adequacy of

the return on the capital invested could not be escaped. It would be imprudent to finance such unremunerative expansion from loan capital on which a minimum liability equivalent to the dividend payable thereon had of necessity to be immediately assumed. The committee, therefore. came to the conclusion that a Railway Development Fund created out of the revenue surpluses of prosperous years would be a suitable way in which such expansions of the service could be financed without adding to the already overcapitalised structure of the undertaking.

This Fund was to be responsible for:—

(a) Provision of passenger amenities;

(b) Provision of labour welfare; and

(c) Financing projects which are necessary but unremunerative at the time of construction.

A proviso was added that for the next five years a sum of Rs. 3 crores a year should be earmarked for passenger amenities out of the Development Fund. At the next quinquennial revision of the convention in 1954, it was decided that expenditure on unremunerative operating improvements costing over Rs. 3 lakhs, which was split up between open line works and Development Fund under the 1949 Convention, should be charged wholly to the Development Fund. Further, in the event of the balance in the Development Fund becoming insufficient to meet the cost of development works chargeable to the Fund, the General Revenues were to advance to the Railways such loans bearing interest at the rate charged to commercial departments as might be necessary. The loans so advanced would not form part of the capital-at-charge of the Railways.

For some years the entire surplus, after meeting the dividend payable to General Revenues, has been credited to the Development Fund. In spite of this, the position of the Fund is weak. The Fund has no closing balance and is being fed by loans from general revenues.

The Comptroller and Auditor-General questioned the advisability of financing the Development Fund by temporary loans from General Revenues. He suggested that the Fund should rely only on revenue surpluses and that, therefore, the expenditure therefrom should be restricted to amounts available and for purposes for which the Fund was originally created. The Convention Committee of 1960 doubted whether during a period of developing economy it would be preferable to implement his suggestion. They were averse to the curtailment or limiting of expenditure on works met out of the Development Fund which, they said, were as important as additions financed from capital. They accordingly saw no alternative but to continue this facility to the Railways during the next five years also, unless the net surplus was able to meet in full the requirements of the Development Fund. Such loans are still being made.

The Railway Convention Committee, 1960 recommended that the outstanding liabilities of the Development Fund to General Finance as on March 31, 1961 should be liquidated by an ad hoc adjustment made from Development Fund to capital of the cost of all new lines under construction on April 1, 1955 hitherto charged to Development Fund in accordance with the 1949 accounting.

With effect from 1961-62, the expenditure on construction of unremunerative lines has been writen back to capital and a residual liability of Rs. 8.57 crores of the Development Fund to General Finance met out of the balance in the Revenue Reserve Fund.

It would thus seem that the original intention of the Convention Committee of 1949 of financing construction of unremunerative lines out of revenue surpluses has been departed from.

(f) Revenue Reserve Fund.

This Fund was created as a part of the scheme of separation of Railway Finance from General Finance in 1924 with a view "to secure payment of the annual contribution to General Revenues, to provide, if necessary, for arrears of depreciation and for writing down and writing off capi-

tal and to strengthen the financial position of railways in order that the services rendered to the public may be improved and rates may be reduced". The scope of the Fund, as originally contemplated, was thus quite comprehensive, the object being to build up for an undertaking of the magnitude of the Indian Railways, adequate general reserves not only to meet specific contingent demands e.g. shortfall in the contribution to General Revenues and deficit in the working of the Railways, but also for a number of other purposes, like amortisation of capital, improvement in services to the public, etc.

The Convention Committee of 1949, while recognising the need for such a Fund, felt that its scope should be restricted to maintaining the agreed payments to General Revenues and for making up any deficit in the working of the Railways and did not refer to amortisation of capital.

The closing balance in the Fund on the 31st March, 1962 is expected to be of the order of Rs. 55 crores. There has been no appropriation to the Fund from revenue surplus since 1946-47, because the entire railway surplus has been credited every year to the Development Fund.

Financial Return on Railway Working.

Year	Capital-at-charge	Dividend to General Revenues.	Surplus	Ratio of net revenue to Capial-at Charge
	(In crores of rupees)			
1951-52	850.11	33.41	28.34	7.3%
1952-53	857.38	33.99	13.19	5.5%
1953-54	869.30	34.36	2.56	4.2%
1954-55	901.58	34.96	9.10	4.9%
1955-56	968.98	36.12	14.22	4.2%
1956-57	1071.71	38.16	20.22	5.4%
1957-58	1222.44	44.40	13.38	4.7%
1958-59	1356.59	50.39	8.93	4.4%
1959-60	1432.28	54.43	20.12	5.2%
1960-61	1520.87	55.86	32.01	5.8%

CHAPTER IX

CONTROL OVER BORROWINGS

The power of the Executive Government to raise loans in countries with a parliamentary form of government, as in Great Britain, or even the presidential (democratic) form as in the United States of America, is subject to legislative sanction as in regard to taxes. Just as in levying taxation government has to seek legislative sanction, similarly in raising loans it has to approach the legislature and seek powers to raise money, whether inside or outside the country. The purposes for which, and the terms on which, the loan is raised are sanctioned by the Legislature.

The position in regard to this matter in U.S.A., U.K. and Canada is given in appendix 13.

In India the position in regard to loans is not the same as in regard to taxes. Whereas there is a provision in the Constitution that a tax will not be levied or collected except by authority of law, there is no such provision with regard to raising of loans. On the other hand, the Constitution has adopted the provision in the Government of India Act, 1935 to the effect that the executive power of the Union (or State) extends to borrowing upon the security of the Consolidated Fund, within such limits, if any, as may from time to time be fixed by Parliament (the Legislature of the State) by law and to the giving of guarantees within such limits, if any, as may be so fixed (Articles 292 and 293 (1)). Similarly, the Government of India may, subject to such conditions as may be laid down by or under any law made by Parliament, make loans to any State or, so long as any limits fixed under Article 292 are not exceeded, give guarantees in respect of any loans raised by any State. (Article 293 (2)).

A State may not, without the consent of the Government of India, raise any loan if there is still outstanding any part of a loan which has been made to the State by

the Government of India or by its predecessor Government, or in respect of which a guarantee has been given by the Government of India or its predecessor Government (Article 293 (3)). As practically all States are indebted to the Central Government, they exercise no independent borrowing powers.

No limits have yet been fixed by Parliament or the Legislature of a State, as contemplated in the Articles referred to above. It will be noticed that the Articles refer only to monetary limits and not to the purposes for which a loan may be raised or the terms on which it may be raised. These are even more important and are subjected to considerable discussion in legislatures in democratic countries, except in time of war when only monetary limits are prescribed. The Government of India today borrows money entirely on its executive authority and does not seek parliamentary sanction for the exercise of such power.

Historical Background.

There is an interesting history behind the present constitutional provision in India which may not be generally known, and is accordingly given below.

Before the introduction of the Government of India Act, 1919, the provincial governments had no borrowing powers at all. It was held that they had no revenues of their own on the security of which they could borrow. The law knew only one expression, i.e. 'the revenues of India', and these revenues were constitutionally the property of the Government of India (not even of the Government of India, only of the Secretary of State for India in Council). The constitution of the country was based on the Government of India Act passed by the British Parliament in 1858 and amended from time to time. This Act contained no provision authorising the Government of India to borrow money.

Notwithstanding the absence of such a provision, rupee loans were raised in India by the Government of India, with the sanction of the Secretary of State for India

in Council. The Secretary of State relied, for the exercise of this power, on the plenary powers conferred on him by the Government of India Act in relation to the finances of India and not on any specific statutory authority. At this time it was the practice to raise sterling loans for the purposes of India. Such loans were raised by the Secretary of State for India under the authority of East India Loan Acts passed by the British Parliament, like any other Minister of the British Crown in the United Kingdom. It is customary in the United Kingdom and the British Dominions to state in the loan notification the parliamentary provision under which the loan is to be raised and the revenues on the security of which it is based.

Under the Montagu-Chelmsford reforms, certain revenues were 'allocated' to provincial governments and they were empowered to borrow on the security of those revenues, subject to certain conditions and restrictions contained in the Local Government Borrowing Rules. The previous sanction of the Governor-General in Council was necessary in the case of loans to be raised in India and of the Secretary of State in Council in the case of loans to be raised outside India. As, however, provincial governments had no juristic existence and the only body corporate was the Secretary of State in Council, they could only raise loans on behalf, and in the name, of the Secretary of State in Council and not on their own behalf and in their own name.

The position as regards loans by the Centre remained the same. All loans by the Central Government were raised on behalf of the Secretary of State in Council and in the same manner as before. Even though the provinces had the power to borrow on the security of their own revenues, the Government of India continued to go to the market on the security of Central revenues and of the revenues of the provinces.

Governments of certain provinces like the United Provinces, Bombay and Punjab, raised loans in the open market under the above authority. They, however, found that such loans were dearer than the loans raised by the

Government of India. Consequently, the provincial governments preferred to take advances from the Government of India instead of going to the market themselves. To meet this demand of the provinces, a Provincial Loans Fund was set up by the Government of India in 1925. The Provincial Loans Fund was used by the provinces for the major portion of their loan requirements up to the inauguration of provincial autonomy on April 1, 1937.

Under the Government of India Act, 1935, the borrowing powers of the Centre and the provinces were enlarged. Section 161 terminated the powers vested in the Secretary of State in Council of borrowing on the security of the revenues of India, but under Section 315 he could (until the Federation was inaugurated) raise sterling loans on behalf of the Governor-General in Council if provision was made by an East India Loan Act of the British Parliament in that behalf.

Section 162 conferred power on the Central Government to borrow on the security of its revenues and to give financial guarantees. No sterling loans could be raised by the Government of India until the inauguration of the Federation.

Similar power was conferred by Section 163 on the provincial governments. But provinces had no power to borrow outside India without the consent of the Centre. They had also to obtain the consent of the Centre to borrow even in India if there was outstanding any part of a loan made to a province by the Centre or in respect of which a guarantee had been given by the Centre. The consent of the Central Government in the case of provinces which were indebted to it was necessary to enable the Central Government to ensure that its prior claims upon those provinces were not endangered, but the Central Government was not concerned with the purpose of the proposed borrowing or with the terms on which the money was to be borrowed.

With the above background, the reader will be in a better position to understand the provisions in the Consti-

tution on the subject of borrowing. He will see that we are still far from attaining the parliamentary control which exists in Great Britain in relation to borrowing of all kinds. It is true that expenditure incurred out of loan funds is subject to the vote of Parliament. But this is not enough. The raising of a loan, its purposes and terms should be subject to the same parliamentary sanction as in Great Britain and the United States of America.

Borrowing by the Executive Government is both for short-term as well as long-term purposes. For short-term purposes resort is generally had to 'ways and means advances' and 'treasury bills'. In England the Appropriation Act and other Consolidated Fund Acts empower the Treasury to issue 'treasury bills' or take 'ways and means advances' from the Bank of England up to specified monetary limits. Appropriation Acts in India do not contain any such provision, but should do so.

The meaning of the terms 'ways and means advances' and 'treasury bills' is explained below :—

Ways & Means Advances:

It generally happens in financial administration that revenue does not come in regularly throughout the twelve months of the year, whereas expenditure is spread more or less evenly throughout the year. For instance, in India current revenue generally falls short of current expenditure in the months from April to December; the last quarter from January to March registers a surplus of revenue over expenditure. Also, sometimes, exceptionally heavy payments have to be made at a certain period of the year by when the revenue has not sufficiently accumulated to meet them. To enable them to tide over such short-term tightness of the cash position, governments take advances from the bank with which they do financial business: the Bank of England for Great Britain and the Reserve Bank of India for India. Such advances are known as 'ways and means' advances. Both the principal and the interest on such advances are usually repaid as soon as the revenue

comes in and in any case by the end of the year. These advances are generally made at a little below the bank rate.

Treasury Bills.

The purpose for which treasury bills are issued is the same as for ways and means advances, namely, to finance a short-term excess of expenditure over revenue. But, whereas, ways and means advances are taken only from the Central Bank, treasury bills are issued to the public for periods of 3 to 6 months generally. If a government finds that there is a glut of money in the market and the terms are cheaper than for ways and means advances, it will prefer to raise money by treasury bills. The issue of treasury bills is generally during the slack season in the money market (i.e. from April to November), and they carry interest at a lower rate, about 2 per cent or a little over.

Recent Parliamentary discussion on the subject.

The question of parliamentary control over borrowing has been raised several times in the Lok Sabha. But the Government of India does not think it 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.

The Estimates Committee, in its twentieth report on Budgetary Reform (April 1958), expressed the following opinion :—

"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".

In reply to this, Government stated in September 1958 that it is not practicable to go to Parliament each time a loan is floated before this is done. The time of flotation, the amount and the rate of interest, they said, are highly secret and cannot be divulged before the loan is floated. It is also possible that Parliament might not be in session at the time Government decided to float a loan. They, however, added that the question of laying a report in Parliament of the results of loans floated from time to time was under consideration.

The Estimates Committee in their sixtieth report (April 1959) recorded the following remarks on the above reply:—

> "The Committee feel that since particulars regarding loans are notified in the Press, there should not be any objection to make a report to Parliament regarding loans, as and when it is decided to float them."

The question was discussed on a resolution moved by a private member in the Lok Sabha on August 28-29, 1959. Opinion in the House was divided on the point. The Finance Minister reiterated the view previously expressed by Government in the following terms :—

> "There is ample provision for Parliament, as it is, to exercise a sound check on Government in the matter of the borrowing policy, because at the time of the Budget discussion and on other occasions, these things can be criticised and proper decisions can be taken. This extra legislation is not necessary. If it were necessary, this Government would have brought it forward immediately; that is why they have not brought forward; and the moment it is found that it is necessary, Government will certainly bring it forward."

The resolution was withdrawn. The status quo stands.

In its seventh Report (1957-58) the Central Public Accounts Committee observed as follows :—

"The Committee understand from the Comptroller and Auditor-General that in the United Kingdom the procedure is that whenever a guarantee is given which involves a contingent liability on the Consolidated Fund, the matter is placed before Parliament. But this procedure is not generally followed in India, and this precludes Parliament from being informed as to the magnitude of the sums guaranteed by the Government which constitute a contingent liability on the Consolidated Fund of the Government of India."

The Budget memorandum now gives a complete statement of guarantees given by the Government of India. State Governments should do the same.

In the same Report, the Public Accounts Committee had suggested that Parliamentary approval should be taken in all cases where substantial sums of irrecoverable loans are proposed to be written off. Government have accepted the suggestion in principle. Budget provision is made in the Demands for Grants in respect of writes-off of all loans. But all proposals involving individual writes-off of rupees one lakh and more for which provision is proposed in the Budget Estimates are explained in the Explanatory Memorandum on the Budget. Further, if in the course of the year, new cases involving writes-off of loans of rupees one lakh or over occur, such cases are treated as expenditure on a 'new service' and a supplementary grant obtained for the full amount or a token grant if the additional expenditure can be met from within the amount already voted by Parliament under the particular head.

CHAPTER X

DEMOCRACY AND EXPENDITURE

Constitutional Position in U.K. and India.

Democracy is an expensive form of government. The very fact that members of the Legislature have to give their consent to the proposals of the Executive puts them in a position to demand a quid pro quo. The public purse has to be protected from its own custodians: from demands of private members of the House under pressure from their constituents, who may be interested in particular items of expenditure, which are otherwise of no public urgency. Consequently, in most democratic systems constitutional safeguards are provided against proposals for increasing expenditure which do not bear the imprimatur of the Executive Government. The practice in U.K. as embodied in Standing Order No. 78* of the House of Commons is usually stated in the following classic words :—

The Crown demands money; the Commons grant it, and the Lords assent to the grant: but the Commons do not vote money unless it be required by the Crown; nor do they impose or augment taxes, unless such taxation be necessary for the public service, as declared by the Crown through its constitutional advisers.

This has largely (but not entirely) been adopted in the Constitution of India.

Article 113(3) provides that "No demand for a grant shall be made except on the recommendation of the President".

When a demand for a grant is before the House, Article 113(2) provides that the House "shall have power to

* The terms of the Standing Order are given below :—
"That this House will receive no petition for any sum relating to public service or proceed upon any motion for a grant or charge upon the public revenue, whether payable out of the Consolidated Fund or out of money to be provided by Parliament, unless recommended from the Crown".

assent, or to refuse to assent, to any demand, or to assent to any demand subject to a reduction of the amount specified therein".

The House has thus no power to increase the amount demanded by the Executive. In U.K., even a Minister of the Crown cannot propose an increase. If an increase is necessary, a supplementary estimate must be presented or the original estimate must be withdrawn, and a revised estimate presented. This is the case in India also.

Similarly, as regards taxation, Article 117(1) provides that no Bill proposing an increase in taxation shall be introduced or moved except on the recommendation of the President.

Not very long ago, a private member brought in a Bill seeking to provide a monthly salary of Rs. 500 to Mr. V. D. Savarkar, Mr. Birendra Kumar Ghose (brother of Mr. Aurobindo Ghose) and Dr. Bhupendra Nath Datta (brother of Swami Vivekananda) in recognition of service to the country. The motion to introduce the Bill was objected to by Government on the ground that the President's previous sanction was necessary for introducing the Bill as it entailed expenditure by the Government. The Deputy Speaker overruled the objection and said that under Article 117(3) of the Constitution no such objection could be entertained at the introduction stage. The Constitution only provided that a Bill involving expenditure from the Consolidated Fund of India could not be passed by either House of Parliament unless the President had recommended to that House the consideration of the Bill. Leave to introduce the Bill was refused by the Lok Sabha by 75 votes to 48.

The sovereignty of Parliament places it in a peculiar position. It can criticise expenditure proposed by the Executive Government, but who is to criticise the expenditure which it votes for itself. There was a time when both in U.K. and in India honorary service was rendered by members of the Legislature and they were only paid travelling expenses and some daily allowance. But they did not re-

ceive any salary. With the extension of the franchise and the return of members who had no independent means and practised no profession, the growing expense of elections and the longer time devoted to parliamentary business, the need for a remuneration to the members of the Legislature was felt.. The position now all over the world is that such service is paid for and a monthly salary is attached to the office, which is paid even when Parliament is not in session, in addition to travelling allowances. There are other concessions which vary from country to country, but the tendency is generally to enlarge their scope and magnitude.

Expenditure on Ministers

Before independence, the Budget for 1946-47 for the Governor-General's Executive Council for undivided India was for a total sum of Rs. 13.80 lakhs. The Budget for 1962-63 for the Union Cabinet was for Rs. 39,30,000. In place of six Executive Councillors we have at the Centre, 17 Cabinet Ministers, 12 Ministers of State, 21 Deputy Ministers and 5 Parliamentary Secretaries. The salary of an Executive Councillor was Rs. 80,000 per annum, but he received no perquisites. A Cabinet Minister gets Rs. 2,250 per month as salary. He gets a free furnished house and pays nothing for the use of water and electricity. In the 1959-60 Budget, the amount set aside for the salaries, allowances and travel expenses of the Central Council of Ministers was Rs. 19,18,400, the salaries alone accounting for Rs. 11,28,000. Four Ministers receive a sumptuary allowance of Rs. 500 a month. As members of Parliament. Ministers get a free rail pass for private journeys. But this is only a fraction of the real cost to the tax payer, which is not available (as it should be) at one place under the present system of budgeting and accounting. The real cost has to be pieced together from other portions of the Budget. The free furnished houses and the free use of electricity and water cost another Rs. 5 lakhs a year. This amount is shown under the Central P.W.D.'s share of the Budget. Security arrangements for Central Ministers cost

Rs. 6 lakhs a year, which is borne by the Police Budget. A former Finance Minister was reported to have expressed the view that he did not intend having more than one additional junior Minister for the reason that 'A Minister costs the exchequer about Rs. 1,30,000 a year'.

The position in the States is just the same. The number of Ministers in 1962 varies from 8 in Madras to 16 in West Bengal, besides Ministers of State, Deputy Ministers and Parliamentary Secretaries. U.P. and Punjab have a Ministry of 43 and 29 respectively. A small State like Assam has as many as fifteen Ministers. The salary varies from Rs. 750 to Rs. 1500 per month. Ministers get a free furnished house and a free car and free water and electricity. In the Punjab State, where the question was recently investigated, it was found that while a Minister received a salary of Rs. 1000 per mensem, the average of the total further expenditure that was being incurred on other items for a Minister ran between Rs. 1700 to Rs. 2800 per mensem, thereby giving a total expenditure figure of Rs. 3,100 per Minister per month. The expenditure on cars was between Rs. 1000 and Rs. 1300 per month. The Rajasthan Estimates Committee reported in March 1955 that while the actual salary of a Minister was only Rs. 1000 per mensem, each of the Rajasthan Ministers costs the State over Rs. 5000 per month. The running of a Minister's car costs more than Rs. 1250 per month, and the amount incurred on telephones by Ministers came to Rs. 21,980 in 1952-53. On an examination of the details for a particular month (November 1951) the Committee learnt 'with pain' that a large number of the calls were made for personal and domestic use and charged to the State. Even servants attached to Ministers utilised trunk telephones at the cost of the State.

In order that the public may have a correct idea of what it has to pay for a Minister, it is suggested that the position which prevailed in regard to Executive Councillors in the British regime may be reverted to: the salaries of Ministers may be raised and their perquisites curtailed. In any case, the Budget memorandum should contain a

precise statement of all the items of expenditure on Ministers, besides their salaries.

The Auditor-General has invited attention to the non-observance of the accepted principle that official journeys of Ministers should not coincide with attendance at political or private functions. The use of Government cars for election and party propaganda has been the subject of much comment in the public press.

Cases have also occurred where Ministers have sanctioned under their own powers expenditure in which they were personally interested. Such expenditure should require Cabinet sanction, if not of the Government of India.

Expenditure on Officers.

The Chairman and Deputy Chairman Rajya Sabha, the Speaker and Deputy Speaker, Lok Sabha are treated in exactly the same manner in regard to salary and enjoy the same easements and concessions which Ministers and Deputy Ministers receive.

The same is the case in the States.

Expenditure on Elections.

The total cost to the public exchequer of the first general election was over Rs. 10 crores. The second general election cost only half as much, a little over 5.9 crores. For the third general election, there is a new scheme for further reducing the expenditure by availing of the services of panchayats in rural areas, printing electoral rolls by some cheaper process of multigraphing and reducing the number of the electoral staff. By growth of population, the electorate keeps on increasing. India is the largest of the world's democracies. Consequently, increase of expenditure on elections is to a certain extent inevitable.

The candidates' and parties' campaign expenses are not included in the above figures. They amount to a

much larger figure, but no reliable estimate can be made, because the Election Commission says that the law on expense returns is defective. Political parties are not required either to limit or submit returns of election expenses—only candidates do so. Many of them are not even registered bodies and so are not required to produce accounts at all. And no one knows the extent of contributions by business houses—a legalised system whose pernicious implications the party in power and Government have refused to look at. Under Parliamentary pressure, Government have agreed to a ceiling of Rs. 25000 or 5 percent of the total profits on such contributions, whichever is less.

For every seat on an average there are three candidates—so two must lose and only one can win. The large amount the winner has spent on his election he regards as an investment and he would not be human if he did not make the most of the opportunities which his public office gives him to recoup the expenditure which he has incurred.

Expenditure on Legislators.

There are 505 members of the Lok Sabha and 232 members of the Rajya Sabha. For the 15 States, 11 have a bicameral and 4 a unicameral legislature. The Legislative Councils have 780 members and the Legislative Assemblies have 3177 members.

Under the Salaries and Allowances of Members of Parliament Act, 1954, a member of Parliament gets a salary of Rs. 400 per month, and a daily allowance at the rate of twenty one rupees for each day during any period of residence on duty. They are also entitled to travelling allowances on duty and are provided with one free non-transferable first class pass entitling them to travel at any time by any railway in India. This is for journeys unconnected with official duty. .In addition, they get residential accommodation at concessional rates at the Capital, medical facilities for themselves and for members of their families and telephone and postal facilities.

In the Budget for 1959-60, there was a provision of Rs. 22,46,400 for the salary of Members of the Lok Sabha. A sum of Rs. 1,00,000 was provided on account of free railway passes issued to members, and a sum of Rs. 1,22,000 on account of free telephone facilities provided to members. For the Rajya Sabha, a sum of Rs. 10,58,700 was provided under 'Salary of Members', and a sum of Rs. 45,000 for telephone facilities.

The total budgeted expenditure on the Lok Sabha was Rs. 1.00,66,000; and on the Rajya Sabha Rs. 34,50,000.

Altogether, the Central Legislature cost Rs. 135 lakhs.

In the States, a similar system prevails. Salaries of members vary from Rs. 250 to Rs. 350 per mensem and their daily allowance from Rs. 8 to Rs. 12. Residential accommodation at headquarters is provided at concessional rates.

Expenditure on Legislative Secretariats.

In the pre-independence days, the Legislative Secretariats were treated as a part of the Secretariat of the Executive Government and were subject to the same financial control as the administrative Departments. But with the enactment of the Constitution, the Legislature has become a separate arm of the State, each Legislature has a separate Secretariat and the question of financial control has had to be dealt with on a new basis.

The position in U. K., which has governed the present practice in India, is briefly this:—

The House of Commons staff is under the control of the Speaker, to whom by long-established convention the House itself has left such matters, and they are all appointed by the Speaker. But the staff have got to be paid their salaries. The House of Commons does not vote money unless it is first asked for by the Crown, i.e. by a Minister. Hence the House of Commons Estimates have to be presented to Parliament by a Minister i.e. the Chancellor of the

Exchequer, as the Head of the Treasury. In India also, the constitutional position is the same. A Demand for a Grant can only be made on the recommendation of the President i.e. the Executive Government. Accordingly, the Estimates for Parliament are presented by the Finance Minister. They are passed by the House without any discussion. The same applies to the States.

Technically, the Treasury in Great Britain could query the Speaker's Estimates for staff etc. and the Chancellor of the Exchequer could refuse to present the Estimates to Parliament, if he thought the demand was too large. Even the Speaker and the House of Commons cannot vote money for their own staff unless the Crown demands it. However, it has been agreed that the Treasury would not query any of the Speaker's Estimates, but would present them to Parliament without comment, if the Speaker on his part agreed that all the officials of the House should be appointed on the same terms with regard to salary, conditions of service, pension, etc., as the ordinary members of the Civil Service. The Speaker has agreed to this.

Very much the same arrangement has been evolved in India at the Centre and in the States. All appointments to sanctioned posts are made by the Speaker or under his authority.

So far as creation of posts below a certain category is concerned, the Speaker has full powers, but their emoluments should be similar to corresponding posts under Government. It is a well-established practice that proposals of the Lok Sabha Secretariat for staff strength are not subjected to any detailed examination by any Committee of the Executive. The proposals, after having been fully justified and approved by the Secretary, are forwarded to the Ministry of Finance whenever it is necessary to do so and are as a matter of course accepted by the Ministry of Finance. In the case of any difference of opinion, the Speaker's decision in the matter prevails.

By a convention, the Government have recognised the Speaker's autonomy in financial matters. The Speaker, on his part, has agreed to accept the normal financial rules and regulations and provisions applicable to the Ministries and Departments of Government. If the Speaker thinks it necessary that there should be certain changes in the normal rules and provisions so far as the Speaker's Department is concerned, these are discussed first at the Secretary level i.e. between the Secretary Lok Sabha and the Finance Secretary. If there is difference of opinion and the difference remains unresolved, the matter is discussesd between the Speaker and the Finance Minister.

Clause (1) of Article 98 of the Constitution states that each House of Parliament shall have a separate Secretarial staff. This means that such staff does not form part of the normal executive machinery of Government. This provision carries the necessary implication that as soon as such a separate Secretarial Staff is created, rules and regulations governing it should be framed in respect of all matters, including financial matters. The Constitution does not expressly provide for making rules in this behalf, but an arrangement has been arrived at between the Government and the Speaker that the Secretary of the Lok Sabha should have all the powers that a Secretary of a Ministry of the Government of India enjoys and if the Speaker thinks that any change or variation in these powers is necessary, changes to that effect can be made by agreement with the Government.

Under clause (3) of Article 98 of the Constitution rules have been made by the President, after consultation with the Speaker, in regard to the recruitment and conditions of service of the Secretarial staff. The unique position and autonomy of the Speaker is recognised in these Rules, and he has power to relax the rules in exceptional cases, after consultation with the Ministry of Finance. Rules and orders issued by the Executive Government do not apply to the staff of the Legislative Secretariat, unless and until adopted by the latter and issued on their own authority, with or without modifications.

What has been stated above in relation to the Lok Sabha applies *mutatis mutandis* to the Rajya Sabha and also to the State Legislative Secretariats.

Linguistic States.

The adoption of the principle of linguistic States has led to considerable increase of expenditure; on creation of new capitals, new Legislatures, new High Courts, new Governors, new Ministers, new Heads of Departments (with diminished charges) etc., which can be justified on one and one ground alone, namely, that responsible government is likely to flourish best in small homogeneous units. Most of the new States (created out of surplus composite States) have revenue deficits which are met by grants from the Centre under Article 275 (1) of the Constitution.

The States Reorganisation Commission accepted the importance of the principle of financial viability. The term 'viable' is generally understood to mean "capable of living or existing or developing". The two cardinal concepts of viability are:—

(a) maintenance; and

(b) growth.

Translated into financial terms, these concepts imply that a State should have adequate financial resources to maintain itself and to develop its economy. The Commission stated that a unit to be regarded as financially self-supporting should be able to meet the following broad tests :—

(i) on the average, and over a reasonably short period, a State's revenue and expenditure should be in balance—unless a deficit is deliberately being planned as a part of wider economic policy for the country as a whole; this balanced budget standard should be attained after providing in full for servicing the State's public debt, including all the loans obtained from the Centre;

(ii) consistently with (i), the State should be able to afford such increases as are necessary in the expenditure on productive and nation-building services which are legitimately within the State sphere, e.g., the extension of community projects. No all-India standards can, of course, be prescribed, but it should be possible for each State to set apart progressively more and more funds for development purposes; and

(iii) no State should be dependent on the Centre to such an extent as to cause any embarrassment either to itself or to the Centre.

Financial viability, as defined above, was to be regarded as an important criterion bearing on the reorganisation of States. "Financial considerations, however, have to be weighed with other important factors, and decisions have to be taken on a balance of arguments and advantages and in accordance with the larger national interests".

It seems that in coming to decisions in individual cases of linguistic redistribution of States, 'the larger national interests' have prevailed over the principle of financial viability. Even now, it cannot be said that we have seen the last of the new States to be so created, despite official declarations to the contrary. We may derive such comfort as we can from the theory enunciated by Professor Toynbee that the fragmentational process, even though disruptive, is necessary in the world's movement towards democratic unity. Whatever good may have accrued from the formation of linguistic States, it cannot be denied that it has simultaneously released forces which have definitely weakened the unity of the country.

CHAPTER XI

THE EXECUTION OF THE BUDGET

Distribution of Grants.

When the demands for grants for a year and the Appropriation Act have been passed, the work of distributing the grants amongst the various disbursing and controlling officers is taken up. This work becomes somewhat onerous when lump sum reductions are made in the estimates of departmental officers, either by government or by the legislature. Particularly is it the case when the estimates of departments, such as medical, education, police, jails, etc., are affected, as the reduction has to be spread over a large number of separate estimates by districts and over numerous detailed heads in each district.

Sub-heads of Appropriation.

The scope of a grant is determined by the Minister of Finance in consultation with the Estimates Committee. As stated in the chapter on "Demands for Grants" a grant may or may not be co-extensive with a major head of account or it may be a combination of amounts under more than one major head of account. Within a grant there are what are called 'sub-heads of appropriation'. The term 'sub-head of appropriation' is generally used for a head subordinate to a minor head for which appropriation is ordinarily made in the budget estimates. Ordinarily, the sub-head of appropriation* is the lowest unit for the purpose of appropriation, but in some cases the provision under a detailed account head is treated as a specific appropriation. For instance, each major work under Civil Works may have a specific appropriation. In such a case the detailed account head is the unit of appropriation and not the sub-head. The sub-head plays in practice a very important part in the scheme of financial control through appropriations. Controlling officers are required to see

* It is also referred to as a primary unit of appropriation.

that the expenditure under each sub-head is kept within the appropriation and that, if expenditure beyond the existing appropriation is essential, steps are taken in time with a view to the necessary appropriation being provided by the competent authority for the additional amount required. It is only by watching the progress of expenditure against each sub-head that controlling officers are in a position to see that the expenditure against the grant as a whole is not exceeded.

The following are the more common sub-heads of appropriation adopted in the grants :—

Pay of Officers
Pay of Establishments
Allowances and Honoraria
Other Charges
Grants-in-aid, Contributions and Donations
Original Works—Major Works
Original Works—Minor Works
Extensions and Improvements
Repairs and Maintenance
Tools and Plant
Assignments and Compensations
Establishment Charges payable to other Governments, departments, etc.
Reserve
Suspense
Expenditure in England
Loss or Gain by Exchange.

It is open to the Finance Department to prescribe sub-heads of appropriation other than those stated above or to prescribe an entirely different set of units where such a course appears desirable.

A sub-head of appropriation includes provision both for charged expenditure and for the expenditure voted by the legislature. The provision under each class is exhibited separately under each sub-head.

Appropriation.

Appropriation means the assignment, to meet specified expenditure, of funds included in a primary unit of appropriation.

All sanctions to appropriation (or re-appropriation) specify the grant number, the sub-head of appropriation and the detailed head affected. An appropriation (or re-appropriation) can be authorised at any time before, but not after, the expiry of the financial year. It is intended to cover all the charges, including the liabilities of past years, to be paid during the year or to be adjusted in the accounts of it. It is operative until the close of the financial year. Any unspent balance lapses and is not available for utilization in the following year. After the date of closing of the financial year, namely, the 31st March, all cash and stock transactions are treated as pertaining to the following year, but *bona fide* transfer entries* are permissible for some months.

Re-appropriation.

Re-appropriation means the transfer of funds from one primary unit of appropriation to another such unit within a grant. It is only permissible when it is known or anticipated that the appropriation for the unit from which funds are to be diverted will not be utilised in full, or that savings can be effected in the appropriation for that unit. The other remarks made above regarding appropriatitons apply also to re-appropriations.

Administrative sanction and budget provision.

There are two conditions which must be satisfied before public money can be spent :—

(1) The expenditure should be sanctioned by a general or special order of the authority competent to sanction such expenditure; and

* Transfer entries are entries intended to transfer an item from one head of account to another.

(2) Sufficient funds should be provided for the expenditure in the Appropriation Act or by a re-appropriation of funds by the authority competent to sanction such a re-appropriation.

These two conditions are independent and it is not sufficient for only one of them to be satisfied. Both must be satisfied before any expenditure is incurred.

Further, every Government servant who incurs or authorises the incurring of any expenditure from public funds is required to see that it does not contravene the following principles :—

I. The expenditure should not be prima facie more than the occasion demands. Every Government servant should exercise the same vigilance and care in respect of all expenditure from public moneys under his control as a person of ordinary prudence would exercise in respect of expenditure of his own money.

II. Public revenues may be spent only on legitimate objects of public expenditure.

III. No authority should exercise its powers of sanctioning expenditure to pass an order directly or indirectly to its own advantage.

IV. The amount of any allowance, such as a travelling allowance, granted to meet expenditure of a particular type, should be so regulated that it is not on the whole a source of profit to the recipient.

V. Without the previous consent of the Finance Ministry no expenditure may be sanctioned which involves the introduction of a new principle or practice likely to lead to increased expenditure in future.

All orders conveying sanction to expenditure or advance of public money have to be communicated to the Audit Officer :—

(a) if the order is issued by an authority subordinate to Government, by that authority;

(b) if the order is issued by Government and is one in regard to which powers have been delegated to Administrative Departments, by the Administrative Department concerned;

(c) in other cases by the Finance Department.

These orders are scrutinised in the Audit Office both as regards the correctness of the administrative sanction and the appropriation of funds. If found incorrect in any respect, prompt steps are taken to have the matter regularised.

Special provisions for works expenditure.

In addition to the above conditions, there are two more for the expenditure of money on public works, namely, administrative approval and technical sanction, which precede, in the order indicated above, expenditure sanction (or administrative sanction, as stated in the preceding paragraph) and appropriation of funds.

A work has to be designed so as best to fulfil its purpose. Thus the design has usually to be prepared in consultation with, and finally to be approved by, the authorities for whom the work is to be erected. This approval is called 'administrative approval' and is, in effect, an order to the Public Works Department to execute certain works at a stated sum to meet the administrative needs of the department requiring the work. In other words, the administrative experts have to say—this work meets our requirements, and we do not consider the cost, as shown in a preliminary estimate accompanying the design submitted for administrative sanction, will be extravagant. After administrattive approval is obtained the detailed estimate is prepared, which has to receive the "technical sanction" of the Public Works Department.

Technical sanction, as its name indicates, amounts to nothing more than a guarantee that the plans are structurally sound and meet the requirements of the indenting department and that the estimates are accurately calculated and based on adequate data.

The necessity for these two preliminary stages needs no explanation. After these stages have been passed, come the remaining two stages common to other expenditure generally, namely, sanction to expenditure and appropriation of funds.

Rules regarding appropriations and re-appropriations.

Ordinarily, each head of office is expected to adhere to his budget, and expenditure for which no provision has been made in the budget cannot be incurred. If, however, on account of exceptional reasons expenditture, which is either not provided for in the budget or is in excess of the budget provision, has to be incurred a formal application for the provision of additional funds is necessary. The reason for considering it indispensably necessary that the outlay should be immediately incurred and not postponed to the next financial year has to be stated. It has also to be explained why the need for the expenditure was not foreseen in time for its inclusion in the budget estimates. Such funds may be provided either by fresh appropriation or by re-appropriation.

A vote (or, a grant, as it is called) cannot be exceeded without the sanction of the Legislature. In such cases, supplementary, additional, or excess grants are necessary. Supplementary or additional grant is also necessary when the need arises in the course of a year for expenditure upon some new service not contemplated in the annual financial statement of the year. Subject to this limitation, the Government possesses full powers of transferring the provision from one sub-head to another within a grant provided that such action shall not have the effect of restoring an item specifically cut out or reduced by the Legislature.

To all powers of appropriation and re-appropriation there are the following general restrictions :—

(a) Funds shall not be appropriated or re-appropriated to meet any item of expenditure which has not been sanctioned by an authority empowered to sanction it.

(b) No re-appropriation shall be made from one grant or appropriation for charged expenditure to another grant or appropriation for charged expenditure.

(c) Funds shall not be appropriated or re-appropriated to meet expenditure on a new service not contemplated in the budget as approved by the legislature.

All powers of re-appropriation conferred upon subordinate authorities are subject to the condition that without the previous consent of the Finance Department no re-appropriation may be made :—

1. from and to the provision for Secret Service expenditure;

2. so as to augment the provision under the primary units 'pay of officers' and 'pay of establishment' taken together for the entire grant or appropriation;

3. subject to the provisions of clause(b), between the primary units under which provision is made for a scheme which involves augmenting the provision under any such unit by more than 5% provided that the consent of the Finance Ministry shall not be required in cases where such augmentation does not exceed rupees one lakh; and

4. from the provision made for a scheme in one primary unit to meet expenditure for any other purpose provided in other primary units.

Control of expenditure and watching of actuals.

It is an axiom of financial control that for every grant there must be an authority responsible for its administration and particularly to see that the expenditure is kept within the funds allotted for the purpose. It is also generally agreed that this authority must be the administrative head of the department or some other officer connected with the administration and not the Accountant-

General. The Accountant-General comes in only as an expert adviser to acquaint the administrative authorities with the facts as ascertained from the accounts from time to time.

The funds voted by the Legislature for expenditure during a financial year are, as far as that body is concerned, money placed at the disposal of the Executive Government as a whole for expenditure on specific activities, and the Executive Government has no power to spend more on those activities than the amounts voted by the Legislature. The funds so voted are actually spent, however, by a large number of individual (disbursing) officers, no one of whom, generally speaking, has any knowledge of how much money another may have spent.

The machinery which the Government have devised for discharging their responsibility in the matter consists of the grouping of disbursing officers under various controlling officers, the latter being directly responsible to Government for the control of the expenditure of their particular groups. The grouping is generally on a departmental basis with the departmental head as the controlling officer. The funds voted by the Legislature are placed by Government at the disposal of the controlling officers concerned, whose duties are to exercise a continuous vigilance over current and anticipated expenditure in order to see that the amounts so placed at their disposal are not exceeded without additional funds being obtained in time, and that any amounts which they find they cannot use are promptly surrendered to Government. A controlling officer may either distribute his grant in detail among his disbursing officers, restricting their expenditure to the amounts he gives them, or may retain the funds wholly or partly under his own direct control. To facilitate control, he is vested with certain limited powers of re-appropriation. Disbursing officers are required to submit to their controlling officer monthly detailed accounts of their expenditure, which the controlling officer compiles in his office into a consolidated account showing the total expenditure up to date against each sub-head of appropriation

for which he is responsible. The idea is to give the controlling officer early and sufficiently accurate information of his financial position in detail, and to keep him in touch with his commitments. Early information is vital to successful control. The departmental accounts are then reconciled with the accounts kept by the Accountant-General in order to eliminate discrepancies which might defeat control. Where separate Pay and Accounts officers have been created, the duty of reconciliation devolves on them and not on the Accountant-General.

The Accountant-General furnishes to the Finance Department monthly accounts showing the progressive figures of receipts and payments and the closing balance to the end of the month. As regards expenditure, the Accountant General is also required to see that at no time during the year has the expenditure up to date under any subhead of appropriation proceeded at such a rate that it is likely to exceed the allotment before the end of the year. Whenever such excessive proportionate outlay is detected, the Accountant-General is required to bring the matter to the notice of the controlling authority. A watch is also kept on the revenue in the office of the Accountant-General and any large increase or falling off is reported at once.

For ways and means purposes, the Finance Department gets a report from the Accountant-General by the 15th of each month showing the receipts and issues from the treasuries under heads of revenue and expenditure, as well as under debt and remittance heads. This enables Government to see whether the progress of actuals with estimates is or is not satisfactory and if not satisfactory how the situation can be met.

In addition, a formal review of the estimates for the current year takes place four times during the year, namely, at the time of preparation of the three-monthly, the six-monthly, and in the two editions of the revised estimate. By the end of August the three-monthly estimate is prepared. It gives the actuals of expenditure for the previous four months, (it should really be called a four-

monthly, instead of a three-monthly estimate) and shows what is the likely figure for the next eight months on the best and latest information then available. By the middle of November the six-monthly estimate is prepared on the basis of six months' actuals plus six months' approximates. By this time the financial position is clearer and the prospects of the current year are fairly well known. The position is again reviewed when the revised estimate is prepared. The procedure for the preparation and review of the revised estimate has already been described in the chapter on the preparation of the budget.

Excesses and Savings in Appropriations.

A department or disbursing officer may find in the course of the year that the expenditure is likely to be less than the provision in the budget. All anticipated savings have to be surrendered to Government unless they are required to meet excesses under some other unit or units which are definitely foreseen at the time. Savings cannot be held in reserve for possible future excesses. (Rule 95-General Financial Rules-Volume I). Such surrenders are taken as exonerating the Ministries concerned from the sin of excess budgeting.

Similarly, it may be found that an excess is likely and unless it can be met by available savings under other sub-heads, an application for additional appropriation of funds is made to the Finance Department through the Administrative Department.

All anticipated savings and excesses over existing grants are reported to the Finance Department twice in the form of Statements of Excesses and Savings (or surrenders). The first statement is submitted in December and the second in February. In these statements figures relating to each sub-head are shown separately in respect of voted and charged expenditure, and causes of excesses and savings explained in respect of each sub-head.

The Statements of Excesses and Savings (or surrenders) are intended solely for the purpose of fixing the re-

vised estimate of the year after examination of the actual expenditure to date and for indicating what the surrenders and excesses are likely to be. On the basis of these statements, the Finance Department determines the ways and means position of the current year and the next year, and if necessary passes orders of re-appropriation transferring funds from one primary unit to another such unit within a grant, or places supplementary demands before the Legislature.

CHAPTER XII

PUBLIC UNDERTAKINGS

Definition.

The term 'public undertakings' refers to enterprises of an industrial, commercial or financial nature set up by Government. In a sense every Government organisation is a public undertaking, but it is deemed convenient to give the term a restricted connotation as indicated above.

Growth after independence.

The British Government in India generally stuck to the view that development of industry was not a function of government and had best be left to private enterprise. Government could create conditions which would favour the growth of industries and remove obstacles in the way of such growth, and their duty ended there. In the matter of railways they departed from this policy. Also, under the stress of the Second World War, they took an active interest in the development of defence and a few other industries which assisted the war effort. But, by and large, they were reluctant to assume direct responsibility for the economic development of India. Increasing production in the country or raising the general standard of living was beyond their purview.

Soon after independence, the national Government of India issued a Resolution dated April 6, 1948 regarding their policy in the industrial field. They indicated that for any improvement in the economic condition of the country an increase in national wealth was essential. and that to secure this the State must play a progressively active role in the development of industries. The principle of government ownership and control was made applicable to a segment of the economy comprising arms and ammunition, atomic energy and railway transport.

In regard to certain key industries like coal, iron and steel, aircraft manufacture, shipbuilding, manufacture of telephone, telegraph and wireless apparatus, and mineral oils the State was made responsible for further expansion, except to the extent that it considered the cooperation of private enterprise. necessary for the purpose. In the rest of the industrial field, the initiative for development and the responsibility for management lay with private enterprise.

The adoption of the concept of a Welfare State in the Constitution of India in November, 1949 further emphasised the urgency of more active state participation in the industrialisation of the country.

In March, 1950, the Government set up a Planning Commission which was required explicitly to formulate plans in conformity with the constitutional provisions and the Industrial Policy Resolution of 1948. The Commission observed that a rapid expansion of the economic and social responsibilities of the State was necessary if the objective aimed at was to be realised. This need not involve complete nationalisation, the Commission said, of the means of production, but it does mean a progressive widening of the public sector and a re-orientation of the private sector to the needs of a planned economy (First Five Year Plan, page 32).

In December 1954, a further step was taken when Parliament accepted a socialistic pattern of society as the objective of the country's economic policy, where the principal means of production will be under social ownership or control.

In view of the changed circumstances, the Government of India decided to review their industrial policy which "must be governed by the principles laid down in the Constitution, the objectives of socialism and the experience gained" during the years since the promulgation of the Resolution of April 1948.

According to the revised industrial policy statement which was announced on April 30, 1956, "the State will

progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale".

In regard to the public sector, the policy Resolution said:—

"The adoption of the socialist pattern of society as a national objective, as well as the need for planned and rapid development, required that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector."

Industries were classified into three categories :—

(i) Those whose further development was to be the exclusive responsibility of the state.

(ii) Those which the public sector will share with the private sector; and

(iii) Those which will, in general, be left to the initiative and enterprise of the private sector.

Forms of public undertakings.

There has, accordingly, been a large increase in the number of public undertakings in the country.

Broadly speaking, they take three forms :—

(i) Departmentally managed.

(ii) Statutory Corporations, about 15 in number.

(iii) Government Companies, about 45 in number.

Of the undertakings departmentally managed, the more important are:—

Railways, Chittaranjan Locomotive Works, the Integral Coach Faactory at Perambur, Madras, the Ordnance

Factories, the Postal, Telegraph and Telephone Services. Among the bigger statutory corporations are the Reserve Bank of India, the State Bank of India, the Life Insurance Corporation, the Damodar Valley Corporation, the State Trading Corporation, the Indian Airlines Corporation and the Air-India International Corporation. Of the Government Companies, the most important is the Hindustan Steel Limited, which ranks next after railways in size, and Electronics Limited, Hindustan Aircraft Limited, etc. At the suggestion of the Estimates Committee, it has been decided to reduce the number of independent undertakings and bring together enterprises functioning broadly in the same field. Such a measure should lead to overall economy and efficiency, provided there is no excessive centralisation of power or undue intervention in the day-to-day activities of the individual units.

In its seventy third Report dated February, 1960, the Central Estimates Committee has stated that the investment in Government Companies and statutory corporations would appear to exceed Rs. 765 crores. This does-not include investment made in bodies like the Reserve Bank of India, the State Bank of India, Commodity Boards etc. Considering investments in industrial undertakings alone, the total amounts to Rs. 605 crores up to March. 1961 and the percentage of profit on this outlay during 1960-61 is of the order of .3 per cent (Explanatory memorandum on the Budget of the Central Government for 1962-63. Annexure XVII, page 200). This seems rather low.

Earlier ideas of running public undertakings on a no profit, no loss basis have given way to the realisation that if they are to be run efficiently, they must yield reasonable profits. Not only this, but they should provide for their own expansion and financing, as private concerns do They should show sufficient surpluses to pay for interest and depreciation as also for the repayment of the capital loaned to them and plough back their earnings into the concerns.

Public participation in State undertakings.

An idea that has attracted persons in authority is that of direct investment by the people in public sector undertakings. It is hoped in this manner to attract fresh capital without diverting the funds which are at present being invested either in the private sector or in Government securities. It is said that in West Germany, in pursuance of the policy of de-nationalisation and 'privatisation', shares of State undertakings have been sold at a high premium, sometimes at twice the face value. There is no idea of de-nationalisation in India. The proposal in this country is to limit to 25 per cent the share capital to be offered for sale to the public. No such step has so far been taken.

Unsuitability of Government type of organisation.

The question arises which form of organisation is best suited for public undertakings. If the latter have to compete with private enterprises, it is obvious that production and sale of their products must take place under conditions which are more or less similar. Even where competition is restricted or non-existent, the public interest requires that the service which public enterprises render or the goods they produce should be of good quality and produced at as low a price as may be consistent with a reasonable return on the capital invested, together with a margin for expansion and modernisation. It is generally agreed that a purely departmental form of management is not suitable for public enterprises, mainly for the following reasons:-

1. Permanent staff is subject to rules and regulations applicable to civil servants, under which seniority rather than merit is the consideration governing promotion and prompt disciplinary action is difficult.
2. Cash receipts have to be put into Government account and cannot be taken out without special sanction.

3. Restricted powers of disposal of Government officers compared with managers of private industrial concerns.
4. Little discretion to the management to deal with individual cases on their merits quickly and without regard to account and audit rules.
5. Lack of interest and incentive in servants of Government undertakings in promoting the good name and profitability of their concerns.

To meet the difficulties inherent in Governmental types of organisation, the device of public corporations has been adopted in several countries.

Public Corporations.

The principal characteristics of the public corporation are :—

(i) It is wholly owned by the State.

(ii) It is generally created by, or pursuant to, a special law defining its powers, duties, and immunities and prescribing the form of management and its relationship to established departments and ministries.

(iii) As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts and acquire property in its own name. Corporations conducting business in their own name have been generally given greater freedom in making contracts and acquiring and disposing of property than ordinary government departments.

(iv) Except for appropriations to provide capital or to cover losses, a public corporation is usually independently financed. It obtains its funds from borrowing, either from the Treasury or the public, and from revenues derived from the sale of goods and services. It is authorized to use and re-use its revenues.

(v) It is generally exempted from most regulatory and prohibitory statutes applicable to expenditure of public funds.

(vi) It is ordinarily not subject to the budget, accounting and audit laws and procedures applicable to non-corporate agencies.

(vii) In the majority of cases, employees of public corporations are not civil servants, and are recruited under terms and conditions which the corporation itself determines.

All public corporations in India have been created by statutes passed by Parliament. In the enacting legislation of most of them provisions exist that their management is to vest in a body usually styled as the Central Board or the Board of Directors. At the head of the Board is a Chairman who is appointed by Government. There is provision for the appointment of an executive or principal officer. This appointment is either made by Government, sometimes after consultation with the Board, or by the Board itself with the approval of Government.

Accounts and audit reports of statutory corporations are presented to Parliament, as far as possible, before the budget for the next year is discussed in Parliament. This applies to Government companies as well.

Government control is generally exercised under two broad categories:—

(a) Rule-making powers; and

(b) Power to issue directions.

In regard to (a), the relevant statutes confer certain powers relating to term of office of members, salaries and allowances and conditions of service of members and officers, conduct of business, preparation of budget estimates, maintenance of accounts, etc. Power (b) is also derived from statutes and is more important as it relates to administration. With a view to maintaining coherence between the policy of the Government and its prosecution through the instrumentalities of these corporations defi-

nite powers to issue directions of a *general character* (as distinct from day to day administration) have been conferred on Government in nearly all cases. In some statutes power to give directions in regard to specific matters also exists.

A directive should always be issued in writing and not conveyed in such a manner as to blur responsibility. A glaring instance of this type occurred a few years ago when the higher officials of the Life Insurance Corporation testified before a Commission that certain views expressed to them by the Principal Finance Secretary were regarded by them as directives, while the Secretary said that they were only suggestions.

Government Companies.

While public corporations are formed in other countries also, a special device has been introduced in India in the shape of Government Companies set up under the Indian Companies Act. These are of two types :—

(i) The Government private company; and

(ii) The Government public company.

In respect of (i), Government is normally the sole shareholder, all the directors are appointed by Government and are removable by it. The Chairman of the Board of Directors and the Managing Director are also appointed by Government. The management of the company, subject to the control and supervision of the Board, is in the hands of the Managing Director. In respect of (ii), the Government public company, the Government, though holding a majority of shares is only one of the shareholders. Its dominant position is, however, ensured by the fact that the Chairman of the Board of Directors is appointed on the recommendation of Government. An annual report on the working and affairs of each Government Company is laid before both Houses of Parliament together with a copy of the Audit Report and comments thereon by the Comptroller and Auditor-General.

All companies have an internal Financial Adviser, who functions subject to the authority of the General Manager.

Government companies are set up under the company law by executive decisions of the Government. Approval of Parliament is not obtained specifically for setting up the companies, though funds may be provided for them in the budget. The Estimates Committee is of the opinion that the company form of organisation may be resorted to only:—

(i) When the Government may have to take over an existing enterprise in an emergency.

(ii) Where the state wishes to launch an enterprise in association with private capital; or

(iii) Where Government wishes to start an enterprise with a view eventually to transfer it to private management.

The Committee does not favour the company form of organisation for public undertakings and considers that it should be resorted to only in the exceptional cases mentioned above.

The Committee is of the view that:-

"The propriety of earmarking separate sums from the Consolidated Fund for a large number of public undertakings in the shape of companies, and putting them out of reach of normal parliamentary control on expenditure on the ground that the undertakings are autonomous is open to question."

This view does not seem to have been accepted.

Nationalised Industries in U.K.

In the U. K. there are no departmentally managed industries (except for defence) and no government companies. The public corporation is the type favoured. The Labour Government set the ball rolling and the Conservative Government have kept it going, except for iron and steel, which has been restored to private ownership. As

a whole, the undertakings which the Labour Government nationalised in 1945 succeeded and have been profitable. The exceptions are coal and railways, which are making large over drafts on current account from year to year. Steps are being taken to make them pay their way.

The ownership of each undertaking is vested in a board which is responsible for day-to-day management, though it is competent for the Government to give general directions on matters of policy. The power to give general directions is hardly ever used. Whenever it is used, the Government has to give the direction in writing and publish it. This is a good check against abuse of the power.

Accounts and audit reports of each nationalised industry are laid before Parliament. There is a select Committee of the House of Commons which examines these accounts and reports.

The auditor is selected in each case by the Minister in charge. The Comptroller and Auditor-General does not audit these accounts. He is, however, concerned, as Comptroller of the Exchequer, to see that corporations keep within the maximum limits authorised by Parliament in respect of advances on capital account.

Apart from the Select Committee, various opportunities are provided to Parliament for the discussion of the affairs of such concerns. It is generally accepted that politicians should not interfere with the day-to-day management of public corporations. But it is not easy to lay down a precise limit between policy and administration. Lord Morrison, who was concerned with the establishment of public corporations in U. K., in a public lecture in Bombay in February, 1961 is reported to have said that there was a tendency for M. P.'s to persuade the Government to interfere with the public corporations as a result of questions in Parliament.

Public Enterprises in U.S.A.

There is a fairly large number of public enterprises in U.S.A. They are governed by the Government Corpora-

tion Control Act, 1945. The Act envisages two types of public corporations, wholly owned corporations and mixed ownership corporations. All wholly owned corporations are set up only by specific Acts of the Congress. The corporation is authorised to use its revenues and to borrow money from the Treasury in the shape of permanent revolving funds. It is not dependent for its existence on annual appropriations.

Control both by the Executive Government and by the Congress over these corporations is very elaborate. They are required to prepare an annual business type budget in accordance with specifications laid down by the Bureau of the Budget and submit it, through the Bureau, to the President.

This budget is modified, amended or revised by the President and is transmitted to the Congress as part of the Government's annual budget and the Congress may, after considering it, enact legislation making available such funds and financial resources as may be determined. This is not done either in U.K. or in India.

The accounts of both the wholly owned and partly owned corporations are audited by the Comptroller-General of U.S.A. The audit reports are submitted to Congress. Congressional Committes are closely concerned with the policy of the corporations.

Public Enterprises in Canada.

In between U.S.A. and U.K.—the former as a type of elaborate control and the latter as a type of complete autonomy—comes Canada, where also there are public enterprises.

These are governed by the Financial Administration Act of 1951. Each corporation has annually to submit to the appropriate Minister an operating budget for approval of the appropriate Minister and the Minister of Finance.

The appropriate Minister lays annually before Parliament the capital budget of each corporation as approved by Government. All loans and advances made to a corporation by Government have to be reported to Parliament.

The accounts of each corporation are audited by an auditor appointed by Government. The Auditor-General is eligible to be appointed the auditor or joint auditor. All audit reports are placed before Parliament. In any case where the auditor is of opinion that any matter should be brought to the attention of Government or the Finance Minister, action is taken accordingly.

Accountability of Public Undertakings in India.

The accountablity of departmental undertakings to Parliament is complete, their management being directly under the Ministry concerned. Their budgets are presented to Parliament and their accounts are audited by the Comptroller and Auditor-General and the audit reports reviewed by the Public Accounts Committee. The Minister has as much responsibility for them as he has in regard to other departments included in his portfolio.

The departmentally managed undertakings work largely, if not entirely, for the state itself. In enterprises concerned with production for public consumption there is competition with the private sector and unless production takes place under conditions similar to those in private enterprise the undertakings will fail. There is, therefore, the need to introduce flexiblity in administration and to confer large powers on the executives in their day to day dealings.

It is not easy to reconcile accountability with the needs of efficiency. We cannot get away from the fact that while the private business man is working with his own money and has a strong incentive to make the business a success, the civil servant in a public enterprise has no direct financial interest and does not stand to lose anything if the enterprise does not show good results. This

consideration applies to every body spending some body else's money. He must render an account of what he has done.

Apart from the question of financial interest, the need for accountability arises from the further fact that where the public undertakings are in the nature of monopolies like electricity, the monopoly may enable the enterprises to cloak inefficiency by an adjustment in prices and rates. It is necessary to see that the service to the public is rendered at a minimum cost consistent with quality.

There are accordingly two schools of thought on the subject. Those who feel that not a naya paisa should be spent out of the Consolidated Fund without the authority of Parliament tend to emphasise control, while those who are anxious to see that the enterprises are successful tend to emphasise autonomy. Obviously, a balance has to be struck between these two conflicting view-points.

Accountability is generally enforced in the following ways:—

(i) questions in Parliament;

(ii) debates, discussions and examinations of estimates and expenditure by committees of Parliament;

(iii) scrutiny of accounts by the Comptroller and Auditor-General and audit reports thereon.

So far as (i) goes, any Member has a right to ask questions of a Minister, to elicit information regarding public undertakings, subject to the rules of admissibility of such questions.

But a convention has been established by the Speaker that he will not allow questions which raise matters of day to day administration of public undertakings for which the Minister has no responsibility.

Members of Parliament may also obtain, under a convention recently established, any information they may desire direct from the public undertakings theselves, who have instructions to supply the same, unless in the public

interest or for any other sufficient reason it has to be withheld.

Debates and discussions on the affairs of public undertakings are not regarded with favour, as they tend to bring up matters which lie within the sphere of the boards. Notwithstanding this, during the budget session every year, Members avail themselves of the opportunity to refer to the working of public undertakings when the Demands of the concerned Ministries are discussed in the House. Members may table cut motions to draw the attention of the House to particular aspects of the working of these bodies. But it is generally recognised that such matters can be dealt with satisfactorily only in committees of Parliament and not in the whole House. In May 1959, the Speaker issued a direction for the constitution of a standing Sub-Committee of the Estimates Committee on public undertakings, with power to call for information and hear officials and take any other evidence connected with the estimates of the public undertakings under examination. The Public Accounts Committee also examines their accounts.

But it is now proposed to follow the example of U.K. and have a separate Select Committee for such concerns which would work more or less on the lines of the Estimates Committee and the Public Accounts Committee and have similar powers and functions. In such an event the present functions of the Estimates Commtitee and the Public Accounts Committee in relation to public undertakings will cease.

As regards (iii), the present tendency is to bring all audit of the accounts of public undertakings within the purview of the Auditor-General. So far as departmental undertakings are concerned, the position of the Auditor-General is unchallenged as in regard to ordinary Government Departments. In respect of Government Companies, Section 619 of the Indian Companies Act establishes his position.

Auditors of Government companies are appointed by the Central Government on the advice of the Comptroller and Auditor-General. The latter has power to direct the manner in which the accounts shall be audited and to give instructions to the auditors in regard to any matter relating to the performance of their functions as such. In addition, he has the power to conduct a supplementary or test-audit of the accounts by his own officers.

A copy of the Commercial Auditor's report* is submitted to the Comptroller and Auditor-General, who has the right of commenting upon it or supplementing it in such manner as he may think fit.

Such reports are at present presented to the Public Accounts Committee and dealt with as in the case of other audit reports. In future they will be presented to the Select Committee referred to above.

There remain only statutory corporations. The Reserve Bank of India, the State Bank of India and the Life Insurance Corporation are the only important corporations whose accounts do not come within the audit of the Auditor-General. These audits are done by private auditors appointed by the Central Government. But the accounts and audit reports are presented to Parliament. All other accounts are audited by the Auditor-General or conducted under his supervision.

In the end, we should draw attention to the caution administered by Lord Morrison in his 'Government and Parliament':—

"The fact has to be faced that if we decide for the public corporation then certain limitations on parliamen-

* Parliamentary opinion in India generally is in favour of audit of Public Undertakings by Government auditors. Commercial Auditors are appointed from year to year on the recommendation of the Board of Directors and cannot afford to exercise independence of thought and expression. Besides, under Company law, they are required only to say whether the accounts present a true and fair view of the affairs of the undertaking or not. They are not required to go into the wisdom of the expenditure, much less to criticise waste or extravagance, as the Government auditors do. On the other hand, some persons holding responsible positions have expressed the view that Government audit is unsuitable for Commercial Undertakings : They regard it as too meticulous and consider it hampers initiative and quick disposal, which are the very life of business dealings.

tary accountability must inevitably follow. If we establish the public corporation, it must be for certain reasons. What are they? They are that we seek to combine the principle of public ownership, of a broad but not too detailed public accountability, of a consciousness on the part of the undertaking that it is working for the nation and not for sectional interests, with liveliness, initiative and a considerable degree of the freedom of a quick-moving and progressive business enterprise. Either that is the case for the public corporation, or there is no case at all. It is perfectly legitimate (indeed, it is the great art of public administration) to seek the best of both worlds, but what is not fair when one has made a deliberate departure from part of one world is to expect that all the characteristics of that world will survive. Those who want detailed parliamentary accountability must plump for state departmental management; those who favour publicly owned industry being vested in a public corporation must be prepared to face the consequences, namely, some limitation on detailed parliamentary accountability".

CHAPTER XIII

THE ESTIMATES COMMITTEE

The British system.

Under the British financial system, which we have adopted, there is no discussion of details when the Estimates are before Parliament. Only policy is discussed and every cut motion is treated as a question of confidence and hardly ever does Parliament make any reduction in the estimates as presented by Government. Consequently, the need is felt for a detailed examination of the Estimates apart from political implications The plan adopted for this purpose in U.K. is to appoint a Select Committee of the House of Commons at each session. This Committee "is empowered to examine any of the Estimates presented to the House, to suggest the form in which the Estimates might be presented, and to report what economies, consistent with the policy implied in the Estimates, might be effected".

(May's Parliamentary Practice)

The qualifications in the above terms of reference deserve to be noted. In the first place, the Committee has to work within the policy implied in the Estimates; and secondly, it can only suggest economies and not additions to expenditure. The recommendations of the Committee have no binding character and hardly ever have any effect on the estimates for the current year. They may or may not influence future estimates.

The American system.

The U. S. A. system is different from the British system. The Executive Government is not represented in either House; and, may have to face a hostile majority in both the Houses which have complete control of the public purse. The estimates as submitted

by the President are referred to the Appropriations Committee of the House of Representatives. Acting through Sub-Committees, the Appropriations Committee reviews the estimates and holds hearings to permit officials to explain and justify the proposed expenditures. The Sub-Committees are assisted by a professional staff of analysts. The questioning of federal officials by Committee members is penetrating and close and frequently has been hostile. Following hearings, the Committee submits its proposed appropriation bills to the House. Frequent cuts and even additions are made in the Committee stage. The House measure is then transmitted to the Senate which follows a similar procedure. The powers of the two Houses are equal in matters of finance and differences are resolved by adjustment and compromise—no constitutional remedy is provided. When congressional action is completed, appropriation bills are sent to the President, who has the power to veto any bill as a whole but not specific items in it.

The Standing Finance Committee.

In the British period, there was a Standing Finance Committee of the Central Legislative Assembly composed of ten members elected by the Assembly with the Finance Member of the Governor-General's Executive Council as Chairman. To this Committee were submitted schemes for fresh votable expenditure put forward by departments for inclusion in the next year's budget estimates. The functions of the Committee were purely advisory and were limited to questions of expenditure and did not extend to the consideration of the availability of resources to meet the expenditure, still less of the methods of providing such resources. In 1946, just before independence, the scope and functions of the Committee were extended to new items of expenditure covering non-votable heads. It was also agreed that when new items of expenditure not previously included in the budget were brought before the Committee, they would be furnished, as a necessary background, a statement showing the standing charges of the

department for three years including the year current; the additional expenditure on account of new demands and the financial effects during the budget year as well as in future years of expenditure on these new demands, besides those new items which were specifically referred for the consideration of the Committee.

With independence, the Finance Minister took the chair at the meetings of the Committee, but otherwise it continued to function until April 1950, when it was replaced by an Estimates Committee on the British model

The question of the revival of the Standing Finance Committee has been raised several times in Parliament as well as by the Estimates Committee. But the Government does not view the suggestion favourably on the following grounds :—

(i) When the Standing Finance Committee was originally constituted, the Executive Government had no responsibility to the Legislature, but now Parliament is supreme and has numerous opportunities for financial control.

(ii) Setting up of Standing Parliamentary Committees is not in keeping with the system of parliamentary government after the U.K. pattern which has been adopted in India.

(iii) Great delay is caused in getting new projects through such Committees.

Mr. Gopala Reddy, the then Union Minister for Revenue and Expenditure, re-stated the position in the Rajya Sabha on March 6, 1959 and concluded his speech in the following words :—

> "This question, whether a Standing Finance Committee as it used to exist in the old days is necessary, has been considered very carefully, and it has been held that there is no necessity for such a Committee now".

Even in U.K., the decline of parliamentary financial control in recent years is exercising the public mind. Conservative back-benchers voiced a grievance in the House

of Commons in March 1960 on the second reading of the Consolidated Fund Bill that they must not be asked to vote huge sums of money for Government departments and the nationalised industries without more opportunity being given for careful scrutiny. The Leader of the House replied that new opportunities for the scrutiny of Government expenditure, before it is voted, will be created for the next session of Parliament. A new expenditure committee or the enlargement of the existing Estimates Committee were proposals which were being discussed. He added that Government recognise that if members of Parliament are going to be granted their legitimate demand for some form of control over spending they must be able to look at the policy underlying expenditure before the money is spent. It follows that the committee would be able to call Ministers to explain their policy and answer questions upon it, although it would not be granted any semblance of power on the model of some American Committees. Some time has elapsed, but nothing has been done so far. When, probably, the change in the U.K. system takes place, India will follow suit.

Composition of the Committee.

The Estimates Committee is elected every year from amongst the members of the Lok Sabha (in the States, the Vidhan Sabha) only, according to the principle of proportional representation by means of the single transferable vote. A Minister is not eligible for election, and if a member, after his election to the Committee, is appointed a Minister he ceases to be a member of the Committee from the date of such appointment. The Central Committee consists of 30 members and the term of office of the members of the Committee is one year, but the maintenance of continuity is sought by a convention according to which only a third of the members retire every year The quorum is one-third of the number of members.

The Chairman is nominated by the Speaker, provided that if the Deputy Speaker is a member of the Committee, he becomes the Chairman of the Committee automatically.

In the U.K. the Chairman of the Committee is elected by the members of the Committee after it has been constituted. He is generally a senior back-bench member of the majority party.

The Secretariat of the Committee is provided by the Parliament Secretariat.

Functions of the Committee.

With the adoption of the Constitution, an Estimates Committee was set up on April 10, 1950 "for the examination of such of the estimates as may seem fit to the Committee and to report what, if any, economies consistent with the policy underlying those estimates may be effected therein; and to suggest the form in which the estimates shall be presented to Parliament".

The reader will notice the correspondence of the above terms of reference with those of the British Committee on Estimates.

In the very first year of its inception, however, the Committee complained that its scrutiny was circumscribed and its usefulness curtailed by the exclusion of policy from its terms of reference. In mid-1953 the rule was amended to expand the scope of the Committee's examination as follows :—

> "To suggest alternative policies in order to bring about efficiency and economy in administration".

The term 'policy' has been held by the Speaker to relate only to policies laid down by Parliament, either by means of statutes or by specific resolutions passed by it from time to time. It is accordingly open to the Committee to examine any matter which may have been settled as a matter of policy by the Government in the discharge of its executive functions.

The Committee may not go into any policy approved by Parliament, but where it is established on evidence that a particular policy is not leading to the expected or desired results or is leading to waste, it has been held by

the Speaker to be the duty of the Committee to point out the defects and to bring to the notice of Parliament the need for a change in the policy.

It is also a function of the Committee "to examine whether the money is well laid out within the limits of the policy implied in the estimates". In the course of its work the Committee has placed a liberal interpretation on its terms of reference. It devotes a great deal of attention to the organisational aspect and to measures which, in its opinion, would provide for the money voted by Parliament being better spent. It claims that economy is linked with efficiency and efficiency with organisation. The Estimates Committee in India has thus a wider sphere than the U.K. Estimates Committee. It is also provided in the Rules that "the House may refer for examination and report any specific estimate or estimates to the Committee". In the provisional Parliament, on March 15, 1951, in the course of the discussion on the Supplementary Demand for Grant for Rs. 30 lakhs in respect of Demand No. 7—Ordinary Working Expenses—Operation (Fuel) (Railways) in respect of which a number of cut motions had been tabled, a suggestion was made that the matter might be examined by the Estimates Committee whose report to Parliament might serve as the basis for the consideration of the Demand in question. The matter was accordingly referred to the Estimates Committee by the House. The report of the Committee was presented to the House on March 24, 1951, when after some discussion on the Report the Demand for Grant was finally voted by the House.

Estimates Committee's Report on the Planning Commission.

In its twenty-first Report, 1957-58 session, (Second Lok Sabha) on the Planning Commission issued in April 1958, the Estimates Committee expressed doubts about the association of the Prime Minister and other Cabinet Ministers with the Planning Commission in the following terms :—

> "While the Prime Minister's formal association was absolutely necessary during the formative stages and while he would still have to provide the guidance and assistance to the Planning Commission so as to facilitate the success of planning, it is a matter for consideration whether it is still necessary for him to retain a formal connection with the Planning Commission. Similarly, it would also have to be considered whether it is necessary to continue the formal association of the Finance Minister and other Ministers of the Central Government with the Commission".

This expression of opinion drew a great deal of public attention at the time as involving criticism of a matter of policy and led the Government to examine the question of the Committee's field of responsibility. Eventually, it is understood that the Union Law Minister who was consulted gave an opinion that the Estimates Committee did not 'exceed' its functions in making the above suggestions and that its functions are much wider than those of the Estimates Committee of the British House of Commons.'

The Committee criticised *no policy laid down by Parliament.* There has never been any formal Parliamentary approval of the composition of the Planning Commission. The first announcement regarding the constitution of the Planning Commission was made in the President's Address to Parliament on January 31, 1950. No resolution or Bill was brought before Parliament to define the strength of the Commission, the qualifications for membership, the proportion between Minister and non-Minister members or the functions of the Commission. They were all settled by a Government Resolution dated March 15, 1950. The strength of the Commission was changed from time to time and all these changes were made by Government in its executive discretion and were never placed before Parliament for approval. Had such a body been constituted in U.K., an Act of Parliament would have been necessary, like the Atomic Energy Authority Act. Speaker, Shri M. A. Ayyangar, inaugurating the Estimates Committee in May 1959 said :—

"Your function is not to lay down any policy. Whatever policy is laid down by Parliament, your business is to see that that policy is carried out—not independently or divorced from its financial implications. You must bear in mind constantly that you are a financial Committee and you are concerned with all matters in which finances are involved. It is only where a policy involves expenditure and while going into the expenditure you find that the policy has not worked properly, you are entitled and competent to go into it. Where the policy is leading to waste, you are entitled to comment on it in a suitable way".

In the U.K. the Executive Government takes the approval of Parliament to many matters which in India are dealt with by executive action. The Atomic Energy Commission is a department of the Government of India, whereas in the U.K., Australia and Canada specific Acts have been passed by Parliament. The Indian Export Risks Insurance Corporation was established by a decision of Government without any reference to Parliament. In U.K. and Canada, the Government guarantees for export risks have been provided for by law. The Broadcasting Service is entrusted to a statutory corporation in the U.K., Canada and Australia. In India, it is only a departmental organisation. Even in matters like education there is a noticeable difference. The Education Act of 1944 in U.K. regulates the whole educational system. It is under the provisions of this Act that the Minister of Education and his department have been created and are functioning. The same applies to the Minister of Transport, the Minister of Health and other Ministers. In India no Minister has been created by Act of Parliament and portfolios are frequently subtracted from and added to by executive decision. In U.K., the Ministers of the Crown Act, 1937 fixes the number of Ministers of different ranks and their distribution between the two Houses. The above instances are not exhaustive, but only illustrative of the trend prevailing in India on the question of division of functions as between the Legislature and the Executive Government.

Sub-Committees.

In the U.K. the Estimates Committee normally works through Sub-Committees. There are six Sub-Committees, of which five examine the Estimates and one considers matters relating to the Estimates which are of general interest to the Committee. One of these Sub-Committees, Sub-Committee D, (Session 1957-58) has brought out a valuable report on Treasury control of expenditure, which has been published together with the proceedings of the Committee, and the evidence taken before the Sub-Committee. To any one interested in Treasury control, it is a mine of information.

In India the Sub-Committee system has been adopted only in two cases:—

(i) Consideration of the Estimates relating to the Ministry of Defence;

(ii) Consideration of the estimates relating to Public Undertakings.

In addition, there is a Standing Sub-Committee which watches the implementation by Government of the recommendations of the Committee.

The Sub-Committees are, as in U. K., authorised to take evidence and formulate their report which is considered by the whole Committee. Apart from these Sub-Committees, the Estimates Committee itself considers all the matters which it has taken up for consideration during the year.

Study Groups.

The Committee usually appoints Study Groups and divides the subjects among the Study Groups. These Groups are distinct from Sub-Committees, as they are purely internal in character, do not take evidence and make no report to the Committee. The Study Groups make an intensive study of the subjects which have been allotted to them. They go through the memoranda and other material furnished by the Ministries on the subjects in question and prepare questionnaires for eliciting further infor-

mation from the Ministries. These questionnaires are issued after approval by the Chairman. They further undertake study tours and circulate notes of their impressions to the members of the Committee. Sometimes, Sub-Committees or the whole Committee also pay visits to Central or out-station offices of the various organisations, departments or Ministries which are under examination by them. These visits are purely informative in character and no decisions are taken or minutes recorded of meetings at such places.

These groups also meet to indicate the broad points on which the report of the Committee to the House may be drafted. The draft reports are discussed by the groups, if they so desire, before they are circulated to the Committee for consideration.

Study Groups have ensured speedier transaction of business in the Committee, specialisation by members of particular subjects, better and more coordinated examination of witnesses and quicker consideration of draft reports by the Committee.

The Estimates Committee in Action.

Both in U.K. and India, the work of the Estimates Committee begins after the estimates of expenditure have been presented to the House. In the U.K. the process of passing the Estimates is longer: in India it is much shorter. Consequently, while in U. K. the Estimates Committee sometimes makes its reports while the Estimates are still under consideration in the House, in India they have been already passed when the reports of the Estimates Committee start coming in. This, however, makes no difference to the final result for the year in question in either case.

When the internal examination of the estimates is completed, the formal examination at which official witnesses are summoned begins. The plan of seating and other arrangements are the same as for the Public Accounts Committee, (which have been given in another

chapter), except that the Comptroller and Auditor-General is not there to assist the Committee. There is no expert to do this job other than the Estimates Committee branch of the Lok Sabha Secretariat.

The examination of witnesses is conducted in the same manner and under the same conditions as in the Public Accounts Committee. The power of the Committee to call for persons, papers and records is also the same.

After the report is finalised by the Committee, it is sent to the Ministry or Department concerned for verification of facts. A copy is also sent to the concerned Financial Adviser for the same purpose. The Ministries are not concerned with expressions of opinion contained in the report, but while communicating corrections of facts they sometimes give their comments on the recommendations contained in the draft report. The Committee may consider the comments of the Ministry and if any new facts have been brought to their notice, the Committee may review its recommendations and modify them. The report is kept secret until it is presented to the House. In the U. K. the report is not sent to the Ministry for such verification.

The procedure for laying the report on the Table of the House and forwarding it to the Ministry concerned is the same as for the Public Accounts Committee.

As already pointed out,, the action taken by Government on the reports is watched by a Standing Sub-Com mittee. The Sub-Committee goes into every recommendation and may sometimes call the departmental witnesses to amplify the written statement supplied by the Department. That it does take its work seriously will be clear from the fact that, for the period from November, 1957 to April. 1960, out of 97 reports submitted by the Committee as many as 44 related to implementation. In the U.K. there is no regular machinery for watching the implementation of recommendations. The Estimates Committee ceases to have any concern with the reports after they have been presented to the House. After the presentation of a re-

port, the Ministry or Department concerned usually sends its reply to the Committee which then publishes it as a separate report. In such reports, the Committee frequently comments on the departmental observations and calls for a further reply after taking evidence on the reply itself from departmental witnesses. But neither the Committee nor its successor is required to report the progress of the implementation of recommendations. In India, notwithstanding the additional step taken, it cannot be said that there is any more speedy disposal of recommendations made by the Committee. Much time passes before any final action, either in acceptance or rejection of the recommendations, is taken.

In the U. K. the Committee works mostly on party lines, but this is not so in India. Both in India and the U. K. no minutes of dissent to reports are allowed. The Indian Committee does not work on party lines and generally obtains unanimity on the conclusions embodied in its reports, even though members are drawn from all political parties in the House. It is open to a member to say that his alternative view may be recorded in the minutes of the sitting of the Committee, which, however, are not generally printed. Sometimes, the Committee itself indicates in the body of the report that there was another view in the Committee which was not accepted, or there was a majority view for a particular matter without indicating who were in the minority or majority.

The evidence is not presented to the House nor is it printed or made available to any body. The reasons for this are given in the chapter on the Public Accounts Committee.

As in the U. K., debates in the House on the reports of the Estimates Committee do not take place, but these reports furnish valuable material to members of Parliament in preparing their speeches on the budget and demands for grants and the Finance Bill, when taken up in the House.

Towards better budgeting and financial control.

The work of the Estimates Committee to a certain extent overlaps that of the Public Accounts Committee. Both are concerned with the form of the Estimates and changes are made only with their approval. Under their terms of reference, both are primarily concerned with expenditure, one with current and the other with past expenditure. To the extent that a wrong practice involving expenditure is being continued, the Public Accounts Committee has jurisdiction and frequently makes recommendations to discontinue it. So far as extravagance and waste and losses of public money or property are involved, as they refer mostly to the past, the Public Accounts Committee has a clearer jurisdiction, but the Estimates Committee was the first to draw attention to the Jeep 'scandal' which resulted in a heavy loss to the exchequer. Such being the case, it is clearly necessary to see that these two Committees do not make conflicting recommendations on identical matters. In the U. K. coordination between them is provided by making the Chairman of the Estimates Committee invariably a member of the Public Accounts Committee. In India, this is not generally done. But the Speaker has frequently suggested that the two Chairmen should arrange meetings for discussion of matters of common interest and to avoid conflict of views.

During the ten years of its existence-upto April 1960-the Central Estimates Committee has presented 68 Reports to the First Lok Sabha and 97 Reports to the Second Lok Sabha. It will thus be observed that with greater experience more intensive work is being done. And all this is without the assistance and expert knowledge of a Special Officer, like the Comptroller and Auditor-General for the P.A.C. Of the 68 Reports of the first period, 15 relate to Railways, 9 to Transport, 9 to Defence, 5 to Production, and so on. As many as 11 Reports deal with the progress of implementation of recommendations. In the second period, out of 97 Reports, as many as 44 deal with implementation. It will, therefore, be obvious that, unlike U.K., a great deal of the activities of the Committee is devoted to mak-

ing an impression of its existence on the Ministries. The English Committee does not devote so much time to it.

It would require a separate book to deal with the work of the Committee over this period of ten years. We are here concerned only with important changes in the financial system which can be placed to the credit of the Committee.

(a) Budgetary Reform.

In its very first report on the Ministry of Industry and Supply (December 1950), the Committee raised the question of budgetary reform. It pointed out that the whole budget for which the Ministry of Industry and Supply was responsible was spread over a number of Grants and it was difficult for a layman to get a complete picture of the total budget of the Ministry at a glance. One had, in the first instance, to collect information of all the grants with which a particular Ministry was concerned and wade through a number of items in order to get a complete picture. The Committee added that that system of accounting and budgeting might have had its advantages in the past, but it appeared so involved and cumbersome that its revision was urgently called for. This revision has since been carried out, and Estimates and Appropriation Accounts are now prepared Ministry-wise. In the States, this is not generally done, and the old system of preparing budget estimates mostly by account heads still prevails.

The Committee also suggested that the demands for grants of a Ministry should not only indicate the estimated expenditure, but also show the estimated revenues that are expected to be earned by or on behalf of that Ministry during the year. They should also indicate the amounts spent over services and supplies rendered by a particular Ministry to other Ministries and Departments of the Government. If all these various aspects are included, it will, the Committee added, readily be possible for any one to know at a glance how a Ministry stands in regard to its entire revenue and expenditure.

Some such thing is already being given in the English Estimates. It is a pity that this suggestion has not been given effect to. The reasons for not doing so have been given in the chapter on Demands for Grants.

In its fifty-fifth Report on the Ministry of Finance (Department of Expenditure) 1958-59, the Committee has suggested a re-classification of the Estimates under the following three broad heads:—

(i) Standing Charges.
Pay of Officers and Staff.
Allowances of Officers and Staff;
Office Contingencies.
Other items (Specify major items costing over Rs. 10,000 each).

(ii) Continuing Schemes—big schemes to be detailed. (same sub-heads as for (i)).

(iii) New Schemes—schemes to be detailed. (same sub-heads as for (i)).

The Committee is of the opinion that the present classification, which shows 'officers' and 'establishment' separately has now no meaning (when both officers and establishment are Indian) and should be changed.

In its twentieth Report (1957-58) issued in April 1958, the Estimates Committee dealt with budgetary reform in a comprehensive manner. The student of the budgetary system is advised to go through the whole of this report. Some of the important suggestions are summarised below:—

(a) For proper budgeting and 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 reason this is inevitable, at least broad sub-divisions of the proposed entries, together with full justification therefor, should be given in the budget documents.

Previously, lump sum provisions were the rule, but it was provided that no department could make use of such funds without the sanction of the Finance Department. Lump sum provisions avoid the necessity of applying for supplementary grants for unforeseen and unavoidable expenditure. But the practice has now been dropped. The suggestion of the Estimates Committee has been adopted.

(b) Administrative Ministries to submit their respective schemes to the Ministry of Finance for inclusion in the budget only when all the relevant details 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. This suggestion, though adopted in theory, is not rigidly observed.

(c) Five Year Plan expenditure and estimates to be shown separately from non-Plan expenditure and estimates within the Demands for Grants.

This is now being done. The idea is to compel departments to check the growth of non-Plan expenditure, as far as possible.

(d) Preparation of a performance-cum-programme system of budgeting, for a proper appreciation of the schemes and outlays included in the Five Year Plan.

The Railway Ministry prepared for the first time a review of performance in connection with the budget estimates for 1960-61. The Estimates Committee recommended that performance budgets should be prepared for all Government commercial undertakings and public enterprises. They expressed the hope that "performance budgeting should be the goal which should be reached gradually and by progressive stages without any serious budgeting dislocation".

The idea has been adopted from U. S. A., where it is in force for Federal, State and Municipal budgets. The reasons for not accepting this suggestion have been given in a previous chapter.

(e) Budget discussion could be made better informed if the Minister concerned himself initiates discussion on demands concerning his Ministry and explains all relevant facts likely to be raised in the debate.

All Ministers do not seem to have adopted this excellent suggestion. Some do, and others merely content themselves with moving the Demand without making any speach, reserving only the right to reply at the end of the discussion.

Changes in Financial Procedure.

The Ninth Report of the Committee (1953-54), issued in May 1954, is an important one and deals with administrative, financial and other reforms. Many of the suggestions are of a comprehensive character and are still under consideration. But some have been carried out.

(a) Delegation of enhanced financial powers to administrative Ministries.

In paragraph 5 of the report the Committee suggested that:—

"Before a scheme is embarked upon, it should be properly planned and it should also be ascertained whether the money required for it is available or can be made available at the proper time. Detailed plans and estimates should be worked out fully so as to enable the Ministry of Finance to approve the scheme and accord financial concurrence.

After the scheme is concurred in from the financial point of view by the Ministry of Finance, the detailed execution of the scheme and spending of money thereon should be the responsibility of the administrative Ministry concerned, *whch should also be given power to vary or*

alter the amounts under the sub-heads of the scheme, so long as the total outlay is not affected".

This is really what has been authorised in the Finance Ministry Office Memorandum dated August 18, 1958. A further step in this direction has been taken in Finance Ministry Office Memorandum dated 14th September 1961, which lays down that the control of the Finance Ministry would be exercised mainly through pre-budget scrutiny and through random checks and work studies as may be considered necessary.

(b) Appointment of Internal Financial Advisers.

In para 9 of their Ninth Report the Committee suggested that in order to enable administrative Ministries to exercise their enlarged responsibilities as suggested in (a) above, they should have proper internal financial advice.

"The Secretary will be responsible for the sanctioning of expenditure on the advice of the Financial Adviser, and it will be the responsibility of the Financial Adviser to give him proper advice, and in cases of disagreement between the Financial Adviser and the Secretary, the matter shall be referred to the Minister, who shall, in consultation with the Minister of Finance, take appropriate decision in the matter".

This sugestion has been accepted, and orders issued together with suggestion (a).

(c) Periodical Review of Standing Charges.

In para 11 of its fifty-fifth Report on the Ministry of Finance, Department of Expenditure, 1958-59 (issued in April 1959), the Committee sugested a periodical review of standing charges by Administrative Ministries and also by the Ministry of Finance. The results of such reviews should be embodied in the Annual Report of the Ministry and their monetary value indicated clearly and co-related with the Estimates in question. This is not being done at present.

(d) Systematic and periodical review of continuing schemes.

In the same report (fifty-fifth) the Committee sugested that continuing schemes should be periodically and systematically reviewed by the Administrative Ministries and their Internal Financial Advisers with the assistance of technical and other experts and that such reviews should be called for and taken into account by the Ministry of Finance during the pre-Budget scrutiny of such schemes.

(e) Control over grants-in-aid.

In view of the increasing expenditure under grants-in-aid spread over almost all the Ministries, more particularly the Ministries of Education, Health, Scientific Research and Cultural Affairs, etc., and the doubts expressed regarding the actual use to which the grants are put by the grantees and the benefits derived therefrom, the Committee in its fifty-fifth report recommended that:—

> "The concerned Administrative Ministry and its Internal Financial Adviser should obtain annually a performance or achievement report from the grantee in respect of each grant and with the assistance of some leading non-officials interested in the object of the particular grant review annually its utilisation so as to regulate the payment of the grant-in-aid in future. The results of such review should be included in the annual report of the Ministry concerned.

This question has been raised in the U. K. also. Its urgency stems from the fact that audit has no means of checking the actual expenditure and receives only a certificate from the grantee that the grant has been utilised for the purpose for which it was sanctioned.

In the case of States, grants-in-aid to local bodies and educational institutions are regularly checked by the Examiner, Local Audit Department, who works under the Finance Department but at the Centre there is no such machinery and only certificates are received.

(f) Scrutiny of contributions to international bodies.

The extent of scrutiny exercised in respect of contributions to international bodies is even less than in respect of grants-in-aid under (e) above, since they are treated as obligatory payments on account of international agreements. The total amount of such payments is over Rs. 3 crores annually.

The Committee in its fifty-fifth report recommended that in regard to such payments also the administrative Ministry concerned should attempt a periodical review of the benefits flowing therefrom in its annual report.

The Committee also suggested that, as in U.K., grants given to non-governmental bodies should be indicated in the Estimates of a Ministry and reproduced in the Appropriation Act. No action in this regard has been taken so far.

(g) Large agreements to be negotiated by a committee of experts.

In its fifty-fifth Report, the Committee reiterated the suggestion made in its thirty-third report on Hindustan Steel Limited that all negotiations for large agreements and contracts should be conducted by a committee of technical as well as financial experts rather than by individuals. They were fortified in making this suggestion by what they considered to be the 'undesirable' provisions of the various contracts and agreements entered into by Government in connection with the Steel projects, Ordnance Factories, Bharat Electronics Ltd., etc.

Functional and Economic Classification of the Budget.

In paras 28-31 of its Twentieth Report on Budgetary Reform, the Estimates Committee pointed out the necessity of some sort of functional classification of governmental expenditure so as to focus attention on the various functions of the Government and their relative importance. Even now, they pointed out, 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 is, however, some overlapping, e.g., a certain amount of expediture on education—on construction of educational buildings and payment of superannuation allowances to educational staff—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.

This question of functional and economic classification was discussed in the first Workshop Session held by ECAFE in Bangkok from August 30 to September 10, 1955 on budget re-classification at which the Government of India was represented. It 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 of India brought out "An Economic Classification of the Central Government-Budget" for 1957-58. Every year since then such a document is being presented with the Budget papers. But it cannot be said that it has been used either in the budget debates or in the Press very much. No such document is prepared by the State Governments in connection with their budgets.

Survey of national economy.

In para 32 of its Twentieth Report on Budgetary Reform, the Estimates Committee observed that it was 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 the economy, world trends etc. Such an analysis, the Committee added, should be made availa-

ble to Parliament sufficiently early to be made use of during the discussions on the budget.

In the United Kingdom an Economic Survey is published a little before the Budget. This document gives a comprehensive analysis of the economic situation. In India an Economic Survey is presented with the Budget papers, dealing with some of the points outlined above. If it were issued a fortnight earlier, it would be of greater help to members of Parliament in dealing with the Budget. State Governmets, though they have Economic Advisers, do not generally issue such a document with the Budget papers.

Growth of Civil Expenditure.

Much attention has been devoted to the colossal growth of civil expenditure since India attained independence. The Economy Committee appointed by the Government of India soon after independence drew attention to this, but the efforts of the Committee bore no fruit. Since then Economy Divisions have been functioning in the Finance Ministry, the Cabinet Secretariat and the administrative Ministries, with little practical result. Progress is judged by the volume of expenditure incurred and in the process economy is apt to be looked down upon. In its ninety-second Report on the growth of civil non-Plan expenditure issued in April 1960, the Estimates Committee pointed out that out of Rs. 1044 crores which was realised as a result of "the massive tax effort" of the Second Five Year Plan, only Rs. 439 crores was available for the Plan and Rs. 605 crores was absorbed by non-Plan expenditure. The Committee suggested the laying down of specific targets for non-Plan expenditure for each Ministry.

As regards growth of personnel (excluding Railways and the Indian Missions abroad), the increase in the strength of Joint Secretaries, Deputy Secretaries and Under-Secretaries since 1947 (to 1959) has been 'unduly high' The increase in 'clerical' establishment has been more than 28 per cent and under 'administrative and executive'

more than 50 per cent, during the same period. The Committee reiterates the recommendation made in para 46 of its fifty-fifth Report that scale of work should be laid down for each job on scientific and business principles and that the staff strength should be based in the light of such standards. It also emphasises the necessity for properly directed periodical reviews by each Ministry of its standing charges as well as the continuing services. The Committee observes that the percentage cost of collection of taxes in the Central Government varies from 2.3% to 2.34% in respect of Income and allied taxes, from 1.91% to 2.17% in respect of Customs and Excise Duties, and from 2.38% to 2.78 per cent in respect of total revenue. Also the percentage cost of collection tends to rise though one would have expected naturally that it would go on decreasing with the increase of tax revenue. In this connection, the Committee point out that the cost of collection of Income Tax and Death Duties varies from 1.3% to 1.34% in U. K. and is less than .5% in the U. S. A. The cost of collection of Customs and Excise Duties varies from .7% to .8%. In the circumstances, the Committee state that 'there appears to be room to bring down the cost of collection in India'.

Whenever the growth of expenditure is criticised, Government reply that this is inevitable and is due to economic development plans. In order to leave no room for doubt on this point, the Committee suggest that the total administrative expenditure should be classified under broad heads, such as administrative services, tax collection, developmental and social services separately under Plan and non-Plan heads and included in the Explanatory Memorandum on the Central Budget. This has to a certain extent been adopted.

CHAPTER XIV

THE COMPTROLLER & AUDITOR-GENERAL

Statutory Provisions.

The Comptroller and Auditor-General is one of the three safeguards of the Constitution, the other two being the Supreme Court and the Public Service Commission. Articles 148 to 151 contain the provisions regarding the position and functions of the Comptroller and Auditor-General. Article 149 of the Constitution prescribes his statutory function as follows :—

> "The Comptroller and Auditor-General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament and, until provision in that behalf is so made, shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States as were conferred on or exercisable by the Auditor-General of India immediately before the commencement of the Constitution in relation to the accounts of the Dominion of India and of the Provinces respectively".

It is understood that a Bill defining the duties and powers of the Comptroller and Auditor-General is under preparation. For the time being, he is working under the Government of India (Audit and Accounts) Order, 1936, as adapted under the India (Provisional Constitution) Order, 1947.

Under the British regime he was designated Auditor-General. Under the Constitution of India his designation has been changed to Comptroller and Auditor-General. In England, the Comptroller and Auditor-General's full designation is "Comptroller-General of the Receipt and Issue of His Majesty's Exchequer and Auditor-General of

the Public Accounts". Though the Indian Constitution has introduced the same designation there is no mention of the Comptroller and Auditor-General exercising the same function in relation to receipts and issues from the public treasury which is vested in his English counterpart. At present he exercises no control over such receipts and issues. Control over issues is vested under the statutory "Treasury Rules" in the Finance Department of each Government and not in the Audit Department.

Conditions of Service of the Comptroller & Auditor-General.

Under Article 148 of the Constitution, the Comptroller & Auditor-General is appointed by the President by warrant under his hand and seal and can only be removed from office in like manner and on the like grounds as a Judge of the Supreme Court. That is to say, he cannot be removed from office except by an order of the President passed after an address by each House of Parliament, supported by a majority of the total membership of that House and by a majority of not less than two-thirds of the members of that House present and voting, has been presented to the President in the same session for such removal on the ground of proved misbehaviour or incapacity. This guarantees his independence both in relation to the Executive and the Legislature.

Before he enters upon his office he has to make an oath or affirmation, like the Judges of the Supreme Court, that he will bear true faith and allegiance to the Constitution of India and that he will perform the duties of his office without fear or favour, affection or ill-will and that he will uphold the Constitution and the laws. This is special to India. No oath of office is prescribed for his counterpart in U.K. or U.S.A.

The Constitution makes him ineligible for further office either under the Government of India or under the Government of any State after he has ceased to hold his office. During the course of discussion in the Lok Sabha on December 21, 1960 on the appointment of Mr. A. K.

Chanda, former Comptroller and Auditor-General, as Chairman of the Third Finance Commission, the Finance Minister cited the opinion of the Attorney-General (which had the concurrence of the Law Minister) that the term 'further office' refers only to an office carrying remuneration. To an office without remuneration re-employment is permissible.

The Second Schedule to the Constitution prescribes a salary at the rate of Rupees four thousand per mensem for the Comptroller and Auditor-General.

Under an Act of 1953, the Comptroller and Auditor-General holds office for a term of six years, without any age-limit. Judges of the Supreme Court in India can go on till the age of 65 years. In the U.K., his counterpart holds office, like judges of the High Court, during good behaviour, without any specified age-limit or term of office. In the U.S.A., the Comptroller-General holds office for a period of 15 years, subject to the age-limit of 70 years. In other Commonwealth countries the age of retirement has been prescribed to be 65 years. The Finance Minister (Mr. C. D. Deshmukh) in dealing with this point in Parliament said :—

> "The danger of laying down a very high age-limit would be, in view of the present cadre from which we shall have to make a choice, that we should have to have the same person as Comptroller and Auditor-General for, I do not know, how many years—may be fourteen years or fifteen years. I think that it is not right that any such office should be held for such a length of time by any single person, no matter how good and how deserving he may be. There is always the danger of his getting stale, shall we say, or losing that fresh outlook and that initiative which he ought to possess if he is to discharge his responsibilities competently".

Under the same Act of 1953, he gets a maximum pension of Rs. 12,000 a year if he is a non-I.C.S. Officer, and a maximum pension of £1000 per annum, if he is an officer of the Indian Civil Service.

The administrative powers of the Comptroller and Auditor-General are prescribed by rules made by the President after consultation with the Comptroller and Auditor-General. Since the creation of his office, a convention has been observed in the Finance Ministry that if the Ministry is unable to accept a proposal emanating from the Auditor-General, it should be reported to the Finance Minister before orders are issued, so that the matter may be discussed by him personally with the Auditor-General.

In addition to his own salary and pension the administrative expenses of the office of the Comptroller and Auditor-General, including all salaries, allowances and pensions payable to or in respect of persons serving in that office are charged upon the Consolidated Fund of India. This does not apply to the offices subordinate to him, namely, the Accountants-General and their offices. Their salaries and pensions are votable.

Duties of the Comptroller and Auditor-General.

The present organisation of the Accounts and Audit Department dates from 1866 and is based on the report of two commercial accountants deputed from U.K. Messrs. Foster and Whiffin. Changes of detail have taken place with changes in administrative and political structure from time to time but, broadly speaking, the department is functioning more or less as it was first formed. The only two changes of principle have been:—(i) the separation of the department of paper currency, and its transfer first to the Finance Department and later on to the Reserve Bank of India; and (ii) the separation of accounts from audit in the Defence and Railway Departments.

As a measure of economy, it was decided to combine account and audit functions in India, even though the tradition in England had been to treat accounts as a purely departmental function and audit as a separate and independent organisation. Even today, it can roughly be said that two-thirds of the staff in account and audit offices is engaged on accounting duties and only one-third on purely

audit duties. This arrangement has worked well in practice, even though it seems wrong in theory.

In consequence of the above arrangement, the duties of the Comptroller & Auditor General broadly fall under two heads :—

(i) Duties as an Accountant; and

(ii) Duties as an Auditor.

Each of these duties will be dealt with below:—

(i) Duties as an Accountant.

The Comptroller and Auditor-General prescribes (with the approval of the President) the form in which the accounts of the Union and of the States are to be kept. He is responsible for the keeping of the accounts of the Union and of each State, other than the accounts relating to defence or railways. The Executive Government have power, under the Audit and Accounts Order, to relieve the Comptroller and Auditor-General from responsibility for the keeping of the accounts of any particular service or department. Under the terms of this proviso, the Comptroller and Auditor-General has been relieved of the responsibility of keeping the accounts of certain Ministries at the Centre, as referred to later in this Chapter. Another exception to the generality of the above power regarding keeping of accounts is that under another set of rules, known as the Initial and Subsidiary Accounts Rules, the Comptroller and Auditor-General has been relieved of the responsibility for keeping initial accounts kept in treasuries and departmental offices, including accounts of stores and stock, trading, manufacturing and profit and loss accounts that may be required to be kept in any particular office or department, but this does not impair his authority to prescribe the form in which accounts are to be rendered to his offices and the forms in which initial records on which such accounts are based are to be kept. He has to be consulted by the Executive Government on a question as to the head of account under which any specified transaction

or transactions of any specified class is, or are, to be included. A decision on a question of classification rests in the last resort with the President or with the Governor of a State, as the case may be, which in effect means the Executive Government.

He has to prepare in each year accounts (including in the case of accounts kept by him, appropriation accounts) showing the annual receipts and disbursements of each Government, classifying the transactions under respective heads, and to submit them to the Governments concerned. The accounts so prepared are known as (i) the Finance Accounts; and (ii) the Appropriation Accounts.

He has to prepare annually and submit to the President a General Financial Statement incorporating a summary of the accounts of the Union and of all the States for the preceding financial year and particulars of their balances and outstanding liabilities and containing such other information as to their financial position as the President may direct to be included in the statement.

The General Financial Statement is known as the Combined Finance and Revenue Accounts of the Union and State Governments.

(ii) Duties as an Auditor.

It is his duty—

(a) to audit all expenditure from the revenues of the Union and of the States and to ascertain whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or the purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it. The only limitation is in respect of secret service expenditure.

In relation to secret service expenditure, he cannot call for particulars, but has to accept a certificate from the competent administrative authority that the expenditure has been so incurred under his authority.

(b) to audit all transactions of the Union and States relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business,

(c) to audit all trading, manufacturing, and profit and loss accounts and balance sheets kept by an order of the President or the Governor of a State; and in each case to report on the expenditure, transactions or accounts so auditd by him.

The Comptroller and Auditor-General may with the approval of, and shall if so required by, the President or the Governor of any State, audit and report on—

(i) the receipts of any department of the Union or, as the case may be, of the State;

(ii) the accounts of stores and stock kept in any office or department of the Union or, as the case may be, of the State.

He has more freedom in relation to audit of expenditure than in relation to audit of receipts and of stores and stock accounts. Whereas in relation to expenditure he decides the scope of audit and frames his own audit codes and manuals, he has to proceed with the approval of the Executive Government in relation to rules for the conduct of the other audits.

Function of Audit in Parliamentary Financial Control.

The statutory duties of audit given above will make it clear that the Comptroller and Audit or General has mainly to see whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or the purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it. In other words, his function is to maintain regularity in the field of public expenditure. Wherever irregularity of any kind is noticed he makes a report which is examined by the Public Accounts Committee of the Legislature. It will be seen that the statutory audit which the Audit Department conducts is limited

in scope and serves a limited purpose. It certifies that the accounts are arithmetically correct and within the appropriations made and also certifies about the legality and formality of the expenditure. While this is necessary as ground work, it is not sufficient under modern conditions. What the legislature and the tax payer are interested in is whether the expenditure has been incurred with wisdom, faithfulness and economy. This is largerly the function of the Finance Department, but by convention, both in U. K. and in India, has been assumed to a certain extent by the Audit Department, with the support of the Public Accounts Committee.

This aspect of audit, which in departmental jargon is known as 'higher audit', has taken precedence over what is called mere statutory audit. It is inevitable that procedures which were evolved when the maintenance of law and order was the main function of the State should prove inadequate in a welfare state which concerns itself also with economic development and ever-expanding social services. The tremendous growth of public expenditure in India since independence renders vigilance by the Audit Department more necessary than ever before. As the idea of performance budgeting gather strength, performance audit will become more and more necessary. With the change in the pattern of governmental expenditure it is necessary that expenditure on different schemes should be examined to ascertain whether (i) such schemes are being executed, and their operations conducted, economically, and (ii) they are producing the results expected of them. For instance, it has recently been noticed that the area actually irrigated by several big irrigation canals has fallen short of the potential they possess, because either field distributaries have not been constructed or the farmers are not willing to pay for the water at the rates demanded of them. Though the broad principles of performance audit can be laid down, the detailed technique will have to be evolved having regard to the nature of the scheme and the purpose which it is designed to serve. This will require new thinking and initiative and a change in the angle of

vision of the personnel engaged in the various processes in the Audit Department.

Combination of Account and Audit Functions.

To a person not steeped in Indian practice, the combination of account and audit functions which generally prevails in this country—except in regard to railways, defence services, a few Central Ministries, the Lok Sabha and the Rajya Sabha—would seem highly incongruous. Accounting is essentially an executive function and must be under the control of the executive head of the department. Auditing is a quasi-judicial function, which involves a checking of the financial transactions of the executive authorities for report to the Legislature. A combination of these two essentially distinct functions is almost as bad as a combination of judicial and executive functions. In every modern administration and even in commercial firms, accounting and auditing functions are kept distinct and separate from each other. It is only then that the auditor's certificate regarding the correctness of the accounts has any meaning. Where there is a combination of account and audit functions there is necessarily a contradiction, in as much as the officer compiling the account is also the officer who certifies to its correctness. The system was introduced in India by the British on grounds of economy and expediency, even though it was contrary to the system followed in their own country. In Great Britain each Department of State has its own accounting officer, who is subordinate to the Minister-in-Charge of the department. He is concerned with payments, scrutiny of claims and compilation of the departmental account. The Audit Department is a separate department, presided over by the Comptroller and Auditor-General, who has nothing to do with authorisation of payments or compiling the account. His function is a scrutiny of the financial transactions of the department, on behalf of the House of Commons and also on behalf of the Treasury.

The Indian system of accounts and audit was first subjected to an exhaustive review by the Welby Commission

on Indian Expenditure, which reported in 1901. It drew attention to the striking dissimilarity of the Indian with the British system and the theoretical incorrectness of combination of two essentially distinct functions. But, as it was mainly concerned with reduction of expenditure and as any suggestion for separation of account and audit functions would necessarily have led to considerable increase of expenditure, it did not recommend any change.

With the introduction of dyarchy in the provincial field in 1921, the question of separation of accounts from audit became one of practical urgency. The grants made by the Legislature were controlled by the head of the department and he was made responsible to the Legislature for keeping within the grant, but he knew nothing about the accounts of his department which were kept by the provincial Accountant-General. So it was difficult for him to explain savings or excesses or to control the expenditure. The Reforms Enquiry Committee of 1924 examined the question and came to the conclusion that separation was desirable, as autonomy granted to the provincial governments would be rudimentary until they exercised some control over the agency maintaining their accounts. This agency was entirely Central and paid for out of Central revenues. A scheme of separation was brought into being as an experimental measure in April 1924 in the Police and Education Departments of the United Provinces Government. Simultaneously, the question of evolving a system of control over expenditure by heads of departments to enable them to keep within their grants was considered. In 1927, the present system of monthly reconciliation of departmental accounts with the accounts kept by the provincial Accountant-General was introduced.

The experiment started in U.P. in two departments was considered a success and was extended in April 1926 to the whole of the United Provinces and the North-Western Frontier Province and extended later to the East Indian Railway.

Later experience showed that the scheme was proving costly and resulted in considerable extra staff. The provin-

cial government had to bear a new expenditure, which it found to be not worth the trouble. The experiment was accordingly abandoned, but the Secretary of State for India in Council made it clear that economy and not necessarily the disapproval of the scheme of separation was the reason for the decision taken.

The Simon Commission also suggested separation. The Joint Select Committee of the British Parliament on the Government of India Bill suggested separation and even went so far as to recommend provincialisation of audit, which was incorporated in the Government of India Act, 1935. No action was taken on this provision, as provincial governments were not keen on taking over their accounts and paying for them.

The question was revived by Mr. Narahari Rao, a former Comptroller and Auditor-General. He was of the view that it was the duty of each Administration to keep its accounts, to watch the progress of expenditure so that it functioned properly and effectively. The Administration, he said, will be a live organisation only when the excessive Central financial control was eliminated and more responsibility in the field of financial control and accounts was delegated to the administrative authorities.

The Central Public Accounts Committee in its third report dated December 20, 1952 recorded the view that the existing system was fundamentally wrong in principle and placed the Auditor-General in a most embarrassing and anomalous position. They recommended that the Auditor-General should be relieved of this work and urgent steps should be taken to this end by the Governments concerned.

In 1955, the President of India, while laying the foundation stone of the present building which houses the office of the Comptroller and Auditor-General, stated that the Government of India had accepted the separation of audit from accounts in principle and he expressed the hope that before long the Government's decision would be implemented.

Accordingly, an experimental scheme of separation was inaugurated on April 1, 1955 in three selected Minis-

tries at the Centre, namely, the Ministries of Food, Rehabilitation and the Supply Department of the Ministry of Works, Housing and Supply. It was extended later on to cover payments on account of the Rajya Sabha and Lok Sabha (1-10-1955) and the Department of Printing and Stationery (1-12-1955). A limited scheme was also introduced in West Bengal on 1-8-1955 and in Saurashtra on 1-10-1955. The Saurashtra scheme was abandoned on the merger of Saurashtra with Bombay in November 1956. The experiment in West Bengal (which covered only two departments and caused much additional expenditure was also abandoned with effect from 1-11-1957, as it did not work satisfactorily.

Mr. Chanda took a different view from that of his predecessor. He held that the combination of auditing and accounting functions is not inappropriate in the context of our administrative organisation. Accounting and audit functions are not incompatible. They are inter-related and it is not possible to draw rigidly a line of demarcation. The pre-check of claims before admission, examination of contract documents, etc., with reference to financial principles and practice, undertaken in accounting are essentially audit processes. In practice, the accounts organisation's primary function is that of an internal auditor. An audit, independent of administration, is necessary to ensure that the internal accounting organisation has not slurred over its responsibilities, or has not been coerced by the administration into admitting questionable claims and overlooking irregular practices. But where the accounting function is not under the control of the Executive as in the field of our Civil Administration at present, there is nothing inherently wrong or objectionable in the combination of the two functions. On the contrary, considerable economy in man power and money*

*It has been officially estimated that the separation of accounts from audit throughout the whole of India would entail an extra recurring expenditure of the order of Rs. 12 crores per annum, against the present cost of the combined accounts and audit department of Rs. 11 crores per annum; and that it would involve an additional employment of 45,000 men, whose proper training would present in itself a formidable problem.

results from this combination. When financial authority is transferred to administrative Ministries, as has been done in U.K., the Whitehall model may be adopted. Without financial authority, as at present, the transfer of the accounting function, whether to the administrative Ministries or to the Ministry of Finance, has no meaning or significance and would only lead to dissipation of resources and manpower.

Audit of Receipts.

Audit is in the main applied to expenditure. From the point of view of the tax payer it is just as bad when what is legally due to the public purse does not come in as when more money than is warranted is paid out. No greater sanctity attaches to the audit of expenditure than to the audit of receipts. A test audit of receipts is carried out in respect of the Railways, Posts and Telegraphs, and Customs Departments. An audit of Central Excise and income tax revenue has now been taken up. The audit is on the lines prescribed in U.K ; that is to say, it is concerned with seeing that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue and to satisfy itself that such regulations and procedure are being duly carried out. The Audit Department does not interfere with the performance of their statutory duties by the Revenue authorities and does not question their judgment in individual cases. In the State field, action has been initiated to take up the audit of receipts of Sales Tax. The Audit Department has now to build up an organisation and perfect its tools.

We may express the hope that as the new organisation is built up, audit of receipts under other heads of revenue will be taken up in course of time.

Audit of Expenditure.

Audit of expenditure constitutes the major duty of the Audit Department in India. From the point of view of

control by Parliament the Auditor-General, in auditing expenditure, has to ascertain whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged, and whether the expenditure conforms to the authority which governs it. The very same requirements are contained in Section I (1) of the English Exchequer and Audit Departments Act, 1921, with only this difference that while in the English Act it is stated that the Comptroller and Auditor-General shall examine every appropriation account on behalf of the House of Commons, no such statement is to be found either in the Constitution of India or in the Audit and Accounts Order.

In practice the Auditor-General in India carries out his audit on behalf of the legislatures, (Central and State), so far as the above provisions are concerned. In addition, he also sees that the financial rules of the Executive Government are observed in practice.

From the strict letter of the rule cited above, it would appear that audit is mostly concerned with regularity in expenditure. But there has been a steady expansion of the functions of audit in the realm of checking of waste and extravagance which has occurred in U.K. also. The following extract from paragraph 24 of the memorandum prepared by the British Comptroller and Auditor-General for the information of the Committee of Public Accounts in 1916 narrates what has happened in U.K.

> "The Public Accounts Committee has never considered that the Comptroller and Auditor-General is limited in his Reports merely to those points which he is bound under the terms of the Act to bring to the notice of Parliament. The Committee of 1888 stated that while it is no doubt difficult in all cases to draw a distinction between questions bearing directly on audit matters and those which may trench on administrative functions, yet at the same time, if in the course of his audit the Comptroller and Auditor-General becomes aware of facts which appear to him to indicate an improper

expenditure or waste of public money, it is his duty to call the attention of Parliament to them. The Select Committee of 1902 on National Expenditure recommended the Public Accounts Committee, even more than in the past, to encourage the Comptroller and Auditor-General to scrutinise and criticise improper or wasteful expenditure".

A similar development has taken place in India. The Public Accounts Committee has devoted considerable attention to cases of waste and extravagance brought to light in the audit reports. As this part of the duty of audit involves some kind of conflict with the administration it has to be performed with great tact and care. Reports by audit of over-budgeting or lack of control over expenditure or even excesses over grants do not excite much attention either in the Press or Parliament, but cases of waste and extravagance invariably do. The Kerala Government was recently reported to have spent Rs. 500 on advertising the sale of an old horse which ultimately fetched no more than Rs. 15.

Audit of expenditure is conducted both on behalf of the Legislature as well as the Executive Government. The Executive Government has laid down rules defining the powers of the various administrative authorities to sanction expenditure. It is the duty of the Audit Department to see that these rules are observed in day to day administration. The audit of sanctions to expenditure is, therefore, an important function of the Department. A yardstick which measures cloth lengths should itself be of the standard length before it can serve its purpose. Similarly, a sanction to expenditure should be correct in all respects before it can be used to admit expenditure incurred thereunder.

It is also a fundamental rule of audit that no authority should sanction expenditure which is either for its own benefit or which, when incurred, will not be subjected to the audit of an independent authority. The latter condition applies mostly to expenditure incurred by the Audit Department itself under its delegated powers. Consequently, expenditure sanctions accorded by the Comptroller and

Auditor-General are audited by an officer of the Finance Ministry; and expenditure incurred in one State audit office is audited by another State audit officer.

Audit in India, owing to the combination of account and audit functions, is in a position to effect recoveries of moneys irregularly drawn, which the British Comptroller and Auditor-General cannot do. The latter can only report to the Executive and ultimately to Parliament, but the power to order a recovery does not rest with him. In India the Treasury Officer will effect recoveries from pay bills of the Officer concerned and will listen to no argument against such a step. Moreover, no personal claim from a gazetted officer will be entertained unless it has been authorised by the Accountant-General. This is a great safeguard against overdrawals.

With the expansion of social welfare activities expenditure on grants-in-aid is increasing. This expenditure, like secret service expenditure, is admitted mostly on certificates given by the grantees that the amount has been applied to the purpose for which it was granted. This is manifestly inadequate. Audit of grants-in-aid has to be as complete as in respect of other expenditure. If certificates of administrative authorities were likewise accepted for expenditure generally, there would be no need to maintain an audit department.

Audit of Stores and Stock.

The audit of payments for the purchase of stores is conducted according to the rules prescribed by the Comptroller and Auditor-General in regard to the audit of expenditure from the Consolidated Fund.

Irregularity in the disposal of public stores is equivalent to an illegal appropriation of public money, and an audit of the expenditure of money on the purchase of stores cannot in itself be a complete audit of the final application of the money without an audit of the disposal of stores. The physical verification of stores and stock is left

mainly to the departmental authorities in whose custody they are kept.

The Comptroller and Auditor-General does not audit the accounts of stores and stock kept in any office or department of Government as a matter of course, except in so far as it forms part of his duty in relation to the audit of the subsidiary accounts of Government commercial undertakings. His statutory position in relation to the audit of stores and stock accounts is the same as in the case of audit of receipts. Under paragraph 13 (2) (ii) of the Audit and Accounts Order he may with the approval of, and shall if so required by, the President or Governor of a State, audit and report on the accounts of stores and stock, subject to regulations with respect to the conduct of such audits framed by the Executive Government, after consultation with him.

In England the Comptroller and Auditor-General, under section 4 of the Exchequer and Audit Departments Act of 1921, undertakes *on behalf of the House of Commons* an examination of stock and stores accounts in order to ascertain that adequate regulations have been made for control and stock taking and that the regulations are duly enforced, and that any requirements of the Treasury have been complied with. He is also required to report to the House of Commons the result of any such examination. Such reports come up for consideration by the Public Accounts Committee. In India, the audit is not of a statutory character and is limited in scope even where it is applied. However the results of such audit are brought to the notice of the P.A.C.

Audit of Government Commercial Undertakings.

In the chapter on public undertakings the nature of the audit applied to Government commercial undertakings has been briefly referred to. This audit is now coming more and more into prominence, with the large sums of money invested in Government companies and public corporations, besides the moneys spent on departmentally managed concerns. Previously the idea was to work such under-

takings on a no-profit no-loss basis, but now that they are supposed to work on a profit-making basis, it has become more than ever necessary to apply such audit as will bring out the true profits earned by them. Each commercial undertaking has an accountant who keeps the accounts mostly on commercial lines and works under the directions of the head of the undertaking. The main functions of audit, which is controlled by the Director of Commercial Audit who works at the headquarters of the Comptroller and Auditor-General, are :—

(a) to secure that the commercial accounts present a full and true picture of the financial results of the undertaking in terms of commercial ideas of liability and asset, debit and credit, profit and loss.

(b) to ensure that the subsidiary accounts are so prepared as to render it possible to compare, as far as may be, the relative efficiency of Government trading and manufacturing institutions with one another or with similar institutions not controlled by Government;

(c) to verify the correctness of the allocation of expenditure between capital and revenue, the valuation of assets upon a reasonable basis, and the adequacy of provision for depreciation and bad debts.

Parliament takes keen interest in the working of commercial concerns run by the Central Government. The Explanatory Memorandum on the Budget of the Government of India gives every year a statement of the profits earned by each public undertaking. It has already been stated that a decision has been taken to have a separate parliamentary committee for looking into the working of public enterprises at the Centre. It is possible that such committees may also be appointed by the State legislatures. The Comptroller and Auditor-General, in a speech made at Jaipur on 15th November 1961, indicated his intention to have a separate chapter in the audit report to review the working of commercial organisations, to bring to light

the financial results of their working, whether they are working at a profit or loss, whether their target regarding outtput has been fulfilled, and so on.

Owing to the large number of Government companies and public corporations, it may not be possible every year to give a detailed review of each such undertaking, but it is hoped to give in respect of the various companies at the Centre and in the States a review of their general working as a whole, together with a detailed review of some of the companies each year. In a period of three to five years each of these undertakings will come for a detailed financial review at the hands of audit and by virtue of the fact that it will form part of the audit report, the companies and corporations would automatically come under the purview of the Public Accounts Committees, or, as may be the case later, of the new parliamentary (or state legislative) committees that may be appointed in future.

Control over Issues of Money from the Treasury.

In England the Comptroller and Auditor-General combines in his own person two characters which formerly belonged to different officials. In his capacity as Comptroller of the Exchequer he controls the receipt and issue of public money; in his capacity as Auditor-General he audits the public accounts. These two functions are distinct from each other. In the exercise of his duty of control the Comptroller is bound to see that the whole of the national revenue, which is lodged in the Bank of England to the account of the Exchequer, is paid out under legal authority, that is, under the provisions of some Act of Parliament. He is enabled to do this because, whenever the Treasury has to draw out money for the public service, it makes a requisition to the Comptroller for authorising the issue from the Exchequer Account at the Bank of the definite sum required. Whether the money is required for 'Consolidated Fund Services', or for 'Supply Services' the Comptroller must, before granting the necessary credit, satisfy himself that he is authorised in doing so by the terms of the Act of Parliament under which it is demanded.

He must also satisfy himself that every legal formality necessary for obtaining public money from the Bank has been duly complied with. Unless, and until, he is satisfied he does not grant a credit for the amount required; and until this credit is obtained, the money required cannot be drawn out of the Bank. This power prevents the issue of money for an unauthorised purpose and also prevents excesses over grants.

This power of the Comptroller and Auditor-General may appear to many readers a mere formality and generally it is so. But cases may occur (as one did occur a long time ago) where this power may be far from being a formality. In 1811 Lord Grenvile, as Auditor of the Exchequer, refused to make an issue of £500,000, though required to do so by the First Lord and four other Lords of the Treasury, for want of due authority of the Crown, which in consequence of the incapacity of George III, could not be obtained. This case is cited by Dicey in his Law of the Constitution. (Pages 321-2 Ninth Edition).

Prior to the introduction of the Montagu-Chelmsford Reforms, the designation of the head of the Accounts and Audit Department in India was Comptroller and Auditor-General, but he exercised no control over issues of money from the public treasury. Consequently, later on, the designation was changed to Auditor-General. While the latter designation accords with the facts as they prevail in the country, namely, that the Auditor-General is purely an auditor of the public accounts and is not concerned with control over treasury issues, there is decidedly a gap in the chain of parliamentary financial control. It is clearly necessary that disbursing officers should not be in a position to obtain unlimited sums of public money without satisfying some independent officer that the amounts required are legally available. It is true that unauthorised public expenditure will in due course be brought to notice by the Audit Department, but from the common sense point of view it is much better to prevent unauthorised issues than to bring to notice unauthorised expenditure several months after the expenditure has actually been incurred.

As they say in common parlance, it is no use crying over spilt milk.

In the Constitution of India, the designation of the head of the Audit Department has again been changed to that of Comptroller and Auditor-General of India. Control over exchequer issues by the Comptroller and Auditor-General is thus contemplated by the Constitution, but no specific Act of Parliament has yet been passed entrusting this duty to him. As stated elsewhere, the Comptroller and Auditor-General is only exercising the functions of an auditor-cum-accountant, but is not exercising any control over treasury issues.

The 'Treasury Rules' of the Union and State Governments, issued under Article 283 of the Constitution, provide that all moneys received by or tendered to Government servants on account of the public revenue shall without undue delay be paid into the treasury or into the Bank to the credit of the Consolidated Fund. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept outside the Consolidated Fund. This applies to payment of revenue and is generally in accord with English practice, except to the extent that in England departmental receipts up to a certain amount (specified in the Appropriation Act) are not paid into the Exchequer Account and can be utilised to meet departmental expenditure. It is in respect of withdrawal of moneys from the Consolidated Fund that the practice in India is essentially different from that in England. The Treasury Rules do say that moneys may not be withdrawn from the Consolidated Fund without the written permission of the Treasury Officer or an officer of the Indian Audit Department authorised in this behalf by the Accountant-General. They further say that a Treasury Officer has no general authority to make payments of the demands presented at the treasury, his authority being strictly limited to the making of payments authorised by the rules. A claim which the Treasury Officer considers to be disputable should not be honoured by him. He should require the claimant to refer it to the Accountant-General. None the

less. several departments, like the Defence, Railways, Public Works and Forest Departments, are authorised to draw money by means of cheques without limit of amount. The responsibility for keeping within the amount sanctioned in the budget is entirely that of the departmental authorities. The Accountant-General does not come into the picture until some time later when the expenditure is subjected to audit.

The question was examined by the Public Accounts Committee 1952-53. They expressed the opinion that "there are no insuperable obstacles in the way of the introduction of a satisfactory system of Exchequer Control with a view to ensuring that the grants voted and appropriations made by Parliament are not exceeded. The reform is urgently needed, apart from the necessity of obedience to the Constitution, in view of the expansion of the activities of Government which have resulted in enormous increase of expenditure not only on the normal administration of the country but also on account of State Trading Schemes, Community Projects, the Rehabilitation schemes, and the multi-purpose River Valley Schemes and various other schemes included in the Five Year Plan. The Five Year Plan itself involves a further enormous commitment. The ensuing years will, therefore, progressively go beyond the already very high level of Governmental expenditure during the last decade. In these circumstances, strict economy in and control over expenditure is essential. For this purpose, Parliament, which is the sole authority under the Constitution empowered to sanction funds to the Executive Government for all this expenditure, should ensure that an adequate machinery exists to see that no money is spent out of the Consolidated Fund by the Executive Government beyond the appropriation provided by law by the Parliament."

Notwithstanding these arguments in favour of control over issues, it does not seem that the existing system will be changed. The prevailing view is that owing to the vastness of the country, the lack of development of the banking habit and the resultant demand for cash payments at hun-

dreds of places far removed from the Central authority, the change is not feasible and would result in great delays and inconvenience to the executive and to the public. When payments by cheques become as common as they are in U.K, the introduction of any such scheme could be considered. Such being the case, the double-barrelled designation of the head of the Indian Audit Department seems to require justification.

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CHAPTER XV

THE PUBLIC ACCOUNTS COMMITTEE

Accountability a British Conception.

It is a recognised provision in the financial systems of countries enjoying responsible government that there should be a review of transactions after the budget has been executed. It is clearly useless to give to the Legislature the power of voting money for particular purposes unless the Legislature is in a position to satisfy itself that the money has been spent by the Executive for the purposes for which it was voted. As Bastable says in his 'Public Finance', "The most admirable provisions respecting the preparation and voting of the budget will be useless unless there is adequate machinery to secure conformity to the determinations of the Legislature".

The plan usually adopted to secure such conformity consists of a thorough and continuous audit of the public accounts by a body of public servants independent of the Executive Government. Further, the report of such an auditor, together with the accounts, is laid before the legislature and is remitted to a committee of the legislature for scrutiny and report to the House.

This is the practice of countries with parliamentary system of government, but it is not the case with all democratic countries. While independence of audit is generally accepted wherever democracy prevails, the idea of accountability to the Legislature is essentially a British conception and is mainly confined to countries of the British Commonwealth. In the U.S.A., for instance, while the legislature subjects the Executive Government's estimates to a gruelling examination in seven Committees, once it has passed the numerous Appropriation Bills, it takes very little interest in the way the money is actually spent and there is nothing like a Public Accounts Committee.

Origin of the Public Accounts Committee in U.K.

The proposition that there is no use Parliament voting money for specific purposes unless there is a scrutiny of the application of funds seems self-evident, but the evolution of this idea has been of very slow growth. The main instrument in the hands of Parliament has throughout been appropriation—that is, the attachment to grants to the King of conditions as to how these grants shall be used. In the early days the King's own income was normally sufficient to enable him to meet the expenses of government, but when wars were undertaken costs increased and the King was compelled to come and ask the people's representatives to raise additional money. That gave them their opportunity. The first recorded instance was in 1353 when a subsidy on wool was granted to be applied only to the purposes of war and not to be spent by the King on "wine, women and song". A similar condition was attached to a grant by Parliament in 1426, but generally in Tudor and early Stuart times appropriation was only occasional.

After the Revolution of 1688 Parliament began to appropriate grants for specific objects. The grants though appropriated by Parliament passed out of parliamentary control as soon as they were voted, for the House of Commons had no means of ascertaining whether the money was actually expended on the service for which it was voted.

By an Act of 1785, Parliament created "Commissioners for Auditing the Public Accounts". but they were subordinate to the Treasury until 1834 when they were made directly responsible to the Legislature. The Exchequer and Audit Act of 1866 completed the circle of independence of audit and laid the foundation of Appropriation Accounts as we know them today.

It was not until 1832 that Parliament required every Department to submit accounts showing how the money voted had been spent. This procedure, in the typically British way, was applied first to the Navy in that year,

and having proved useful was extended to the Army in 1846 and the Office of Works in 1851. Ten years later, on the initiative of Mr. Gladstone, then Chancellor of the Exchequer, a Committee of Public Accounts was set up by a resolution of the House of Commons of 8th April, 1861 to examine the detailed accounts so presented. It was further ordered that "the Committee have power to send for persons, papers and records and to report their observations, together with the minutes of evidence taken before them, from time to time, to the House". This resolution is now embodied in Standing Order No. 90 of the House of Commons. The institution of the Public Accounts Committee in the U. K. is one hundred years old and has stood the test of time. Sir Edward Fellowes, Clerk of the House of Commons, in his evidence before the Select Committee of the House of Commons on Procedure on May 8, 1959, said that the Public Accounts Committee "is recognised as being, in its own way, almost the perfect bit of machinery for the purpose for which it was devised".

During this period of one hundred years there has been built up a corpus of financial procedure which is embodied in two volumes called the Epitome of the Reports of the Public Accounts Committee. These volumes contain a mass of what in judicial circles would be called ""case law" and provide a guide, approved by Parliament, to the financial administration of Government Departments.

Evolution of Public Accounts Committee in India.

For a long time under British rule in India, finance was controlled by the Secretary of State for India-in-Coun cil. Under the Government of India Act, he was the sole authority in respect of expenditure from the revenues of India and the Central and Provincial Governments acted under delegated authority. Legislatures existed, but they had only the power of general discussion of the budget and of passing resolutions of a non-binding character. Consequently, there was no scope for a Public Accounts Committee of the Legislature.

With a partial transfer of power to the provincial legislatures under the Government of India Act, 1919, Public Accounts Committees were constituted in 1921 at the Centre and in the provinces. They dealt with the appropriation accounts and the reports of the audit officers thereon and such other matters as the Finance Department referred to them. The Finance Member of the Government of India, Sir Malcolm Hailey, in his speech on the motion for election of the first Public Accounts Committee (at the Centre) on February 22, 1921 said:—

"The Committee will (inter alia) call the attention of the Assembly to any case in which there is proved to be either an offence against rules or a waste of public money, and it will be for the Assembly, either by Resolution or by the other constitutional means within their power, to put pressure on Government to take proper action in the matter".

It will thus be seen that from the very beginning the Committee was concerned with (i) regularity, and (ii) financial propriety, of the expenditure incurred by the Executive Government.

The Committee made a very important recommendation in the matter of regularisation of excess grants which marked the first milestone on the road to the development of parliamentary control over public expenditure and which in later years became a rule. The Committee said :—

"If after the accounts for the year are closed, the total grant under any demand has been exceeded, the excess ought to be regularised by a vote of the Assembly. The excess would, in the first instance, be examined by the P. A. C. and in making a demand for an excess grant, the Government would place before the Assembly any recommendation that the Committee might desire to make".

This recommendation, which was accepted by Government, was remarkable, in as much as the Legislature had no final authority over grants at the Centre and in the reserved field in the provinces. Only in respect of expen-

diture on transferred subjects in the provinces, the provincial legislatures had a final voice.

Strictly speaking, the Committees were then concerned only with voted expenditure, but by a convention which was observed ever since their inception, they also dealt with non-voted expenditure. In relation to Defence expenditure, which was non-voted, the functions of the Committee were very restricted.

In the course of their working, the Committees extended their functions to cover scrutiny of receipts, so far as such matters were mentioned in the Appropriation Report; to examination of all cases of expenditure held by audit to constitute a 'new service' etc. In these matters, the Committees were guided by the practice evolved in the United Kingdom.

With the introduction of provincial autonomy under the Government of India Act, 1935, the powers of the provincial Public Accounts Committees were enlarged so as to cover the whole field of provincial expenditure. Provincial Finance Ministers, however, continued to be ex-officio Chairmen of P. A. C.'s in their provinces and the Finance Departments furnished secretarial assistance to the Committees.

The constitutional position at the Centre remained unchanged, but the influence (if not the power) of the P.A.C. was felt in Central finance also to a considerable extent.

With independence and the framing of a new constitution the position has changed fundamentally. Though no reference to Public Accounts Committees is to be found in the Constitution of India, under Article 208 (1) (for the States) and Article 118 (1) (for the Centre), the Legislature is competent to frame rules regulating the procedure and the conduct of its business. The composition and functions of the Public Accounts Committee are included in these Rules.

Composition.

A Committee on Public Accounts is constituted at the commencement of the first session of the Legislature. At

the Centre, the Committee consists of fifteen members elected by the Lok Sabha from amongst its members on the principle of proportional representation by means of the single transferable vote. With them are associated seven members from the Rajya Sabha, with effect from the year 1954-55. In States with two Houses of the Legislature the Committee is similarly composed of members of both the Houses. At the Centre, a Minister is not eligible for election as a member of the Committee, and if a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment. In some States—by no means small or backward—Finance Ministers are still members and ex-officio Chairmen of the Committee, but this is not the general rule. In the U.K., the Financial Secretary to the Treasury, who has the status of a Minister, is a member of the P.A.C., so that he may receive the papers circulated to it, but it is a tradition that he does not regularly attend meetings. He attends to represent the Government's point of view if he deems it desirable to do so. The Chairman of the Estimates Committee in the U.K. is invariably a member of the P.A.C.

The term of office of the members of the Committee in India is one year, but as continuity of experience is a valuable asset in the work of the Committee it is generally the practice to let a member continue in office for two years. In the U.K., a new Committee is appointed each session, but the majority have generally served on previous Committees, some for as long as twenty years. It seems desirable in the public interest to let members continue in office for three years at least, and even longer if practicable. The Chairman of the Committee is nominated by the Speaker. In U.K., by long tradition, the Committee elects as its Chairman a member of the Opposition. As Sir Frank Tribe, a former Comptroller and Auditor General of U.K., remarked—"This always seems to me a typically British arrangement, and many foreigners find it difficult to understand." In India, in pre-independence days, Finance Ministers were generally Chair-

men of Public Accounts Committees. This at times proved embarrassing when the Finance Minister as Chairman had to criticise the proceedings of his own Government. After independence, Finance Ministers have, except in a few States, ceased to be Chairmen, but except in Madhya Pradesh in 1962, no member of the Opposition has been nominated to fill the post of Chairman. In Madhya Pradesh, for the first time, the Speaker has nominated the Leader of the Opposition as Chairman. It is held that if there were a properly organised Opposition capable of providing an alternative Government—which does not exist at present either at the Centre or in most of the States—the question of selecting a Chairman from the Opposition might be considered.

The student of British constitutional history will be struck by the inclusion of members of the Rajya Sabha (and Legislative Councils in States) in the P. A. C. The House of Lords has no place on the English P.A.C. and has no say in financial control generally. In India, when the Prime Minister moved the original motion on May 13, 1953 in the House of the People (now Lok Sabha) seeking the approval of the House to the 'association' of seven members of the Council of States (now Rajya Sabha) with the Public Accounts Committee, it raised a prolonged debate. It was urged, with something of the vehemence of a constitutional crisis, that this constituted an encroachment on the exclusive jurisdiction vested in the House of the People with regard to voting of supply. The Prime Minister in reply stated that such apprehensions were groundless, as the Public Accounts Committee was not vested with any power and that its function was limited to a scrutiny of public expenditure. He added that under Article 151 of the Constitution the reports of the Comptroller and Auditor-General relating to public accounts were to be laid before each House of Parliament. When this was done, it was within the competence of the Council of States, in exactly the same manner as for the House of the People, to appoint a Committee to go through the accounts and audit reports and to authorise this Committee

to take evidence of officials and to proceed in the same manner as the Public Accounts Committee. It would lead to great waste of time of officials as well as non-officials if two Committees were functioning in the same field, more or less simultaneously. He pleaded for a spirit of cooperation between the two Houses. Ultimately, the motion was approved by the House. The same arrangement has been adopted by the State Legislatures with two chambers. Though composed of members of both the chambers the whole body is under the control of the Speaker. All the members, however, have equal status so far as the deliberations and voting and other things in the committee are concerned.

The Secretariat of the Committee.

Prior to the inauguration of the Constitution, the Committee was run by the Finance Department and had no separate office of its own. Usually, a Deputy Secretary, or some other officer of the Finance Department, acted as Secretary to the Committee. With the enactment of the Constitution, which provided for an independent Secretariat for the Legislature, both at the Centre and in the States, this was considered anomalous. The Public Accounts Committee became a Parliamentary Committee with a non-official Chairman appointed by the Speaker and its Secretariat functions were also transferred from the Ministry of Finance to the Parliament Secretariat (now Lok Sabha Secretariat) in April, 1950. In the words of the then Chairman of the Central Public Accounts Committee, "This has enabled the Committee to function in a free atmosphere and to offer its criticism in an unrestricted manner". In the States also the same change has taken place. In the U. K. the P.A.C. has always functioned separately from the Treasury and its staff is a part of the staff of the House of Commons.

Functions of the Committee.

The main function of the Committee is to examine the accounts showing the appropriation of the sums grant-

ed by the Legislature to meet the expenditure of the Government and such other accounts laid before the Legislature as the Committee may think fit. In scrutinising the Appropriation Accounts and the report of the Comptroller and Auditor-General thereon, it is the duty of the Committee to satisfy itself :—

(a) that the moneys shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which they have been applied or charged;

(b) that the expenditure conforms to the authority which governs it; and

(c) that every reappropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority. It is further the duty of the Committee:—

(1) to examine the statement of accounts showing the revenue and expenditure of State Corporations, trading and manufacturing schemes, concerns and projects, together with the balance-sheets and statements of profit and loss accounts which the President (or Governor) may have required to be prepared under the provisions of the statutory rules regulating the financing of a particular corporation, trading or manufacturing scheme or concern or project and the report of the Comptroller and Auditor-General thereon;

(2) to examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the Comptroller and Auditor-General of India either under the direction of the President (or Governor) or by a statute of Parliament (or State Legislature); and

(3) to consider the report of the Comptroller and Auditor General in cases where the President (or Governor) may have required him to conduct an

audit of any receipts or to examine the accounts of stores and stocks.

If any money has been spent on any service during a financial year in excess of the amount granted by Parliament (or State Legislature) for that purpose, the Committee has to examine, with reference to the facts of each case, the circumstances leading to such an excess and make such recommendations as it may deem fit. This is an important part of the duty of the Committee.

In addition, the Committee examines any other accounts which the Speaker may direct it to do so and report to the Lok Sabha (or State Legislature) in due course, such as the accounts of the World Agriculture Fair.

Transfer of items from voted to charged is also referred by the Speaker to the P.A.C. as it has the effect of taking away the jurisdiction of Parliament over such items. Similarly, the Committee is consulted on important changes in the form of the Estimates and accounts.

Cases relating to 'new service' which require a vote of the Legislature are brought to the notice of the P.A.C. wherever there is a difference of opinion between the audit and the finance Departments.

Members of the P.A.C. sometimes visit state undertakings, projects, etc. in connection with the accounts awaiting or under consideration for an on-the-spot study of their working. Such visits provide an opportunity to Members to have a visual impression of the working of a project, undertaking, etc. and enable them to approach questions in a realistic manner at the time of examining the representatives of the Ministries concerned. These visits are arranged through the Ministry concerned, who are requested to ask the local authorities concerned to make necessary arrangements.

In the States, Finance Accounts are regularly prepared each year by the Accountant-General and countersigned by the Comptroller and Auditor-General. These accounts are submitted by the Comptroller and Auditor General to the Governor to be laid before the State Legis-

laure and when so laid are open to examination by the P.C.A. But no statutory rules are prescribed for their examination. Such examination as they do receive is not as detailed as in the case of the Appropriation Accounts, nor is any report on these accounts usually made to the House. The Auditor-General is considering revision of procedure regarding these accounts and their scrutiny.

The Finance Accounts are the accounts of the receipts and outgoings of Government and to this extent supplement the accounts of audited expenditure, which are presented as appropriation accounts. They also contain a report on the financial results disclosed by the different accounts and other data coming under examination, that is to say, both the revenue and capital accounts, the accounts of the public debt and the liabilities and assets of the Government concerned as deduced from the balances recorded in its books and other information. The report confines itself to a statement of facts and comments of a critical nature are generally avoided.

At the Centre, the compilation of the annual Finance Accounts from the year 1947-48 onwards has been delayed on account of non-settlement with the Pakistan Government of debt balances on the date of partition. With a view to scrutinising the revenue side of the Government Accounts, with particular reference to borrowing, public debt, etc. the P.A.C. has decided that pending the resumption of the publication of the Finance Accounts, the necessary details shall be furnished to the Committee in a form which has been designed by the Ministry of Finance in consultation with the Comptroller and Auditor-General and duly approved by the Committee.

Questions of Policy.

The P.A.C. is not concerned with questions of policy approved by Parliament. For instance, nationalisation of life insurance has been approved by Parliament. It is not open to the P.A.C. to say that nationalisation is wrong. The Committee scrutinises the application or execution of

the policy laid down by Parliament and the results ensuing therefrom. The Committee expresses its considered views on questions of extravagance and waste in carrying out a policy and points out defects which it feels on closer examination are inherent in the policy itself. In this connection the following cases are cited from the Reports of the Central Public Committee as examples:—

(i) Import and Sale of Japanese Cloth case—(Fourth Report of Public Accounts Committee 1952-53, Fifteenth Report of Public Accounts Committee 1954-55, Twenty-fifth Report of Public Accounts Committee, 1956-57).

(ii) Pashabhai Patel Implements case—(Seventh Report of P.A.C. 1952-53, Twelfth Report of P.A.C. 1953-54, Fifteenth Report of P.A.C. 1954-55, Seventh Report of P.A.C. (Second Lok Sabha) 1957-58).

The position in U.K. is exactly the same. Colonel Durell in his book on Parliamentary Grants says :—

"The (Public Accounts) Committee is, on the other hand, in no way concerned with questions of policy in the broader sense. With the policy of the method of expenditure it is only concerned in a limited degree. It might, for instance, discuss the propriety of expenditure in one way rather than in another, or the propriety of the compromise effected by a department which often arises. Even in such cases, however, it will be on debatable ground, and the tendency will usually be to restrict rather than to widen the scope of its enquiries. In all matters which are more definitely determined by the settled policy of the Government, the Public Accounts Committee does not attempt any enquiry. It regards it as a rule to be carefully observed that no expression of opinion should be given on points of general policy or on such matters as for example colonial administration. Such matters are beyond the strict province of accounts and audit. An opinion to the same effect was agreed to in 1909". The

reference is to para 19 of the Fifth Report of the Public Accounts Committee, 1909, which runs as follows:—

"The policy under which money has been expended in accordance with the decision of Parliament is not subject to review as a matter of account, and as a general rule the account records of the department do not furnish such information as would enable a correct judgment to be formed upon the economic results of that policy".

Power of P.A.C. to Call for Papers, Persons, Etc.

Under Rule 270 of the Rules of Procedure and Conduct of Business in the Lok Sabha (similar rules exist in the State Legislatures) a parliamentary committee has power to send for persons, papers and records. This power is subject to the proviso that if any question arises whether the evidence of a person or the production of a document is relevant for the purposes of the Committee, the question is referred to the Speaker whose decision is final There is a further proviso that Government may decline to produce a document on the ground that its disclosure would be prejudicial to the safety or interests of the State. The power of a Parliamentary Committee to send for persons, papers and records derives its authority from Article 105 of the Constitution, which says that the powers and privileges of parliamentary committees shall be those of committees of the British House of Commons. As has been already stated, the British P.A.C. has from the very beginning enjoyed this power under Standing Order No. 90 of the House of Commons.

It is unusual for Government not to comply with a request from the Public Accounts Committee for the production of any records concerning any matters that are dealt with in the Accounts and Audit Reports thereon and are under examination by the Committee. Where an official witness wishes to rely upon the above-mentioned proviso relating to relevancy or security the practice has been for him not to state the matter in the form of an objection before the Committee but to give an interim re-

ply that it is necessary for him to look into the papers and take a little time before giving an appropriate or a considered reply to the question. He then gets into touch with the Chairman or the Secretary of the Committee and states his difficulties and the Chairman then indicates to him what further steps he should take in the matter and whether it is necessary to bring the Minister into the picture or not.

The aim of the Committee is threefold. Firstly, it has to ascertain whether the money granted by Parliament has been spent by the Government 'within the scope of the demand'. This phrase is comprehensive in its application. It demands that expenditure should not merely exceed the appropriations made without parliamentary approval, but also that the nature of items of expenditure compiled against a grant should warrant their being so recorded. This examination is important to ensure that a vote of Parliament has not been avoided by the Executive by adjusting expenditure in excess of a grant to another vote where a saving has occurred. It also requires that a grant should have been expended only on purposes set out in detail in the budget estimates and not on any 'new service' not contemplated in the demand.

The Committee is assisted in discharging this function by the reports of the Auditor-General on the appropriation accounts. These reports also deal with cases where grants have been exceeded and require regularisation by the House. The audit reports also comment on cases of defective budgeting or inadequate control over expenditure Such cases have latterly come into prominence and have led the P.A.C. as the custodian of public funds to make recommendations for improvement in the system of budgeting and financial control which are dealt with in a succeeding section.

The second aim of the Committee is to ensure the exercise of economy and to draw attention to cases of waste, extravagance, losses and nugatory expenditure. This function, though stated nowhere in the statutory rules,

is by convention a well-established aim of the Committee. To use the classic words, 'the function of the Committee extends beyond the formality of the expenditure to its wisdom, faithfulness and economy'. Here also, the Comptroller and Auditor-General supplies the material for the consideration of the Committee.

The Committee, in dealing with such cases, is concerned with removing defects of system, if any, disclosed in investigation and seeing that the department concerned has taken necessary steps by disciplinary action or otherwise, to prevent a recurrence. Names of delinquent officers or private individuals need not be divulged before the Committee. This part of its functions has attracted far more attention in the public press and in Parliament than its statutory function in relation to appropriation.

The third aim of the Committee is to maintain high standards of public morality in financial matters. The Committee insists on the strict observance of what have come to be called in audit codes as the 'canons of financial propriety' and does not spare officers, however high in status, when it comes across doubtful practices or a falling off in the standards of public duty.

The Appropriation Accounts : Form and Preparation.

The P.A.C. exercises control over public funds chiefly through the scrutiny of what are known as the Appropriation Accounts and the audit reports thereon. By the term 'Appropriation Account' is meant an account comparing the total grant (original, supplementary, etc.) made by the Legislature for any particular purpose for a particular financial year with the actual expenditure incurred for that year on that purpose. This account is not to be confused with the general finance accounts of Government, giving particulars of receipts, disbursements and cash balances for any particular year. In making a comparison between grants and actual expenditure, explanations are given for appreciable variations under each sub-head, whether for excesses or savings. No amounts or percen-

tages are prescribed for explaining these variations. Explanations are given in respect of those cases only which are likely to be required by the Public Accounts Committee.

A specimen of such an account is given in Appendix 14.

As a general rule, appropriation accounts are prepared by persons responsible for keeping the public accounts. Owing to the combination of account and audit functions generally in India, the appropriation accounts, except in relation to specified departments, are prepared by the Audit Officers.

The Appropriation Accounts of a State Government are prepared by the Accountant-General, who is an Officer under the control of the Comptroller and Auditor-General and not under the State Government. They are submitted to the Comptroller and Auditor-General, who countersigns them after subjecting them to a detailed examination in his office. At the Centre, there are the following categories of accounts :—

(i) Civil, minus (ii).

(ii) Accounts of certain Central Civil Ministries and authorities which are separate from (i).

(iii) Posts and Telegraphs.

(iv) Railways.

(v) Defence Services.

In respect of category (i), the appropriation accounts are prepared by the Accountant-General, Central Revenues for each Ministry, corresponding to the respective grants. The Accountant-General, Central Revenues, like State Accountants-General, is under the control of the Comptroller and Auditor-General and not under the Central Government. These accounts, like the State Government Accounts, are submitted to the Comptroller and Auditor-General, who countersigns them.

Category (ii) comprises certain accounts like those of the Food Ministry, Rehabilitation Ministry and Supply Department of the Works, Housing and Supply Ministry,

the President's Secretariat, the Lok Sabha Secretariat, the Rajya Sabha Secretariat and Department of Printing and Stationery, which have separate Pay and Accounts Officers under the control of the Ministries & Departments concerned. In these cases, the appropriation accounts are prepared by the respective Pay and Account Officers, countersigned by the Secretary to the Ministry of the Department concerned and are certified as correct by the Auditor-General, after examination by his own officers.

In respect of category (iii) the Appropriation Accounts are compiled by the Accountant-General, Posts and Telegraphs, who is under the control of the Comptroller and Auditor-General. They are submitted, like accounts in category (i), to the Comptroller and Auditor-General for countersignature.

Categories (iv) and (v) can be dealt with together These are the two big departments of the Central Government where accounts have been separated from audit. In respect of Railways, the appropriation accounts are compiled by the Financial Commissioner for Railways and for Defence Services by the Financial Adviser, Defence Finance. The Appropriation Accounts of both these Departments are countersigned by the respective Secretaries to Government and submitted to the Comptroller and Auditor-General, who certifies their correctness after subjecting them to examination by his own officers. The position is similar to that in U.K.

Subsidiary Statements and Accounts.

Subsidiary statements and accounts are appended to the Appropriation Account in respect of certain classes of expenditure. Profit and loss accounts and balance-sheets of Government commercial enterprises are incorporated in the relevant Appropriation Accounts. Similarly, the Appropriation Account of grants for the purchase of stores gives a complete account of stores and stocks. In the case of expenditure on public works, a detailed statement of

expenditure on important new works is added to the appropriation account. To the extent that the audit of receipts of any particular department is conducted by the Comptroller and Auditor General, the results of the audit are included in the appropriation account of the department concerned.

Accounting Officer in U.K.

The arrangement prevailing in India is different from that prevailing in U.K., where there is a separation of accounts and audit functions and the Comptroller and Auditor-General has nothing to do with the preparation of the Appropriation Accounts. Under Section 22 of the Exchequer and Audit Departments Act, 1866, the Treasury nominates one person in each Department as "Accounting Officer" and on him (and not on his Minister) rests the responsibility of accounting to Parliament for every penny voted to his Department. He has the duty of ensuring that the funds entrusted to him are applied only to the purposes intended by Parliament and that no more is spent than has been voted.

Up to the end of the First World War, the Treasury frequently nominated the head of the finance branch of a Department, generally called the Accountant-General, as Accounting Officer, but now the post is almost invariably filled by the Permanent Secretary, known in some departments as the Permanent Under-Secretary of State. This is due to a recognition that finance is some thing integral with policy and cannot be disassociated from it. The Permanent Secretary accordingly signs the Appropriation Account of his Department and is personally responsible to Parliament.

This places the Permanent Secretary in a difficult position. He is under the orders of his Minister and cannot refuse to carry out his Minister's directions. At the same time, it is laid down in the letter of appointment of Accounting Officers that it is their duty to represent to Ministers their objections to any course of action which

they regard as involving inefficient or uneconomical administration. If such objections involve the Accounting Officer's personal liability on a question of formal regularity or propriety, he has to set out his objection to the proposed expenditure and his grounds for it in writing to his Minister and he only makes the payment upon a written instruction from his Minister overruling the objection. After making the payment he informs the Treasury of the circumstances and sends the papers to the Comptroller and Auditor-General for the information of the Public Accounts Committee. For all irregular payments authorised by him otherwise, the Accounting Officer is liable to have to defray the expenditure from his own purse, unless Parliament is prepared, at the request of the Treasury, to make good the deficiency by voting the money.

Practice in India.

In India, Secretaries to Government, even when they do not countersign the Appropriation Account, are required to appear before the Committee when the examination of the account relating to their Department is taken up by the Committee. In case they are unable to be present they have to intimate the reasons for their absence and also the names of the officers deputed by them to appear on their behalf.

The Secretary, like his counterpart in U.K., works under the orders of his Minister but has no statutory responsibility to Parliament. Recently, Financial Advisers have been attached to Administrative Ministries to whom larger financial powers have been delegated, under Ministry of Finance Office Memorandum dated August 18, 1958. Following U.K. practice, it has been laid down :—

> "All cases in which the advice tendered by the Financial Adviser of the Ministry is not accepted should be referred to the Secretary of the Ministry for orders, and if the Secretary also differs from the advice, the case should be brought to the notice of the Minister. A monthly statement of the cases, if any,

where the Financial Adviser's views have not been accepted, giving a summary of the differences and the final decision, should be forwarded by the Secretary of the Ministry to the Finance Ministry, Department of Expenditure, for information, a copy being endorsed to the Comptroller and Auditor-General of India simultaneously".

The fundamental difference between the Indian and U.K. positions will be easily grasped by the reader. In the U.K, the Permanent Secretary is personally accountable to Parliament and, therefore, he informs the Comptroller and Auditor-General of differences of opinion between him and his Minister. In India the Secretary to Government neither prepares nor (in most cases) signs the Appropriation Accounts, but appears before the P.A.C. to explain the accounts. The Financial Adviser has no responsibility for administration, he does not even sign the Appropriation Accounts (which are signed by the Comptroller and Auditor-General, except in regard to certain Departments), but has been placed in a position of personal responsibility for regularity and propriety of the expenditure of his Ministry. The anomaly will be removed only when administrative and financial responsibility is placed squarely on the Secretary to Government and he is made an 'Accounting Officer' as in U.K.

Reports of the Comptroller and Auditor-General.

The Audit and Accounts Order, which prescribes the functions and powers of the Auditor-General, imposes on him the duty of reporting on the accounts audited by him. The audit reports are presented with the accounts to the Finance Ministry who arrange, through the Minister for Parliamentary Affairs (at the Centre) or the Vidhan Sabha Secretariat (in the States) to have them laid on the Table of the House. As Parliament may not be in session when an audit report is available, it is the practice to circulate the audit report with the accounts to the Members of Parliament, pending their formal presentation to Parliament under Article 151 of the Constitution on a convenient date

early in its new session. Once they have been circulated, they come within the competence of the Public Accounts Committee. In this manner, the Committee has more time and greater leisure for doing its work. But the Committee does not submit any report on the accounts to the House before the accounts themselves are formally laid on the Table of the House.

The audit reports contain comments on the regularity and propriety of expenditure and are expressed in detached and dispassionate terms, without giving names of the officers involved. They bring to notice important financial irregularities, such as deficiencies in financial sanctions, failure to enforce prescribed rules and procedure, breaches of accepted standards of financial administration, etc. Cases of unwise or extravagant expenditure, losses, writes-off and nugatory expenditure of public money are also brought to notice. These are in addition to comments on defective budgeting and inadequate control over expenditure, which directly arise out of appropriation audit.

In order that there may be no dispute as to facts pertaining to any matter which is brought to notice, it is, as in U.K., the practice of the Audit Department to prepare a draft paragraph on the subject and send it to the administrative department of the Government for verification and comment, if any. Much time would be wasted in the Public Accounts Committee if there was a dispute between the Audit Department and the Administrative Department regarding the accuracy of any statement made in the audit report.

This is the general practice of the Audit Department. But sometimes cases are included in the Audit Report without showing the draft para to the Department concerned.

Defence Audit Report 1960.

A heated debate took place in the Lok Sabha in connection with the presentation of the Defence Audit Report, 1960 relating to the accounts of the year 1958-59. The Report was presented to the House, without the connected

Appropriation Accounts on the 8th April, 1960. The debate on the Demands for Grants of the Defence Ministry commenced on 8th April and went on till 9th. Members naturally referred to certain points (financial irregularities) in the audit report. The Defence Minister contested the statements made in the Audit Report and said that some points had not even been shown to the Defence Ministry before incorporation in the report. With the actual irregularities dealt with in the Audit Report, we are not concerned, but two points of a constitutional nature were brought out, which are mentioned below :—

(i) Whether, under Article 151 of the Constitution, it is correct to present the Audit Report without the Appropriation Accounts; and

(ii) Whether points which have not been shown to the the Administrative Ministry concerned can be included in the Audit Report.

The Finance Minister replied as follows:—

(i) Shortly after independence, due to various reasons, Audit Reports and Appropriation Accounts used to be considerably delayed. These delays reduced the importance of the Audit Reports very considerably. Accordingly, the Public Accounts Committee in 1952 decided that where there was likely to be delay in the presentation of the Appropriation Accounts, the Audit Report might be presented in advance. As a result of this change in procedure, there has been a considerable improvement in the time-lag in the presentation of Audit Reports. On three or four occasions in the past, Audit Reports had been presented without the connected Appropriation Accounts and this procedure did not violate the requirements of Article 151 of the Constitution. (The Article merely says that the reports 'relating to the accounts' shall be laid before the House. It does not say 'with the accounts'.)

(ii) There are no rules in existence, either in the Constitution or in the Audit and Accounts Order, which lay down the manner in which the Auditor-General should conduct the audit of the accounts and what he should say in the Audit Report. The Audit Code (which lays down a certain procedure in audit matters) is issued on the sole authority of the Comptroller and Auditor-General and is binding on no body except his own officers. The provisions of the Audit Code can be amended or altered in the sole discretion of the Comptroller and Auditor-General.

This was said with reference to Article 268 of the Audit Code, which runs as follows:—

"It is *desirable* that the Government concerned should have an opportunity of making such observations and comments as it may think fit on important cases of financial irregularity which it is proposed to include in the Audit Report.... ..The draft of all matter in which it is proposed to question the action of the Finance Ministry or Department and of all matter it is proposed to record under item 7 of Article 264 (cases of losses, writes-off, nugatory or improper expenditure of public moneys) should be shown to the Finance Ministry or Department of the Government concerned, before final inclusion in the report so that that department may have an opportunity of suggesting correction or modification. *This is done as a matter of precaution and is not obligatory.*"

It will be seen from the portions italicised that there was no constitutional impropriety in not showing the paragraphs in question to the Defence Ministry. The provision in the Audit Code is meant as a protection to the Audit Department, and the Comptroller and Auditor-General in discarding this precaution does in no way affect the right of the Administrative Ministry to present its own case before the Public Accounts Committee. In fact, ad-

ministrative Ministries often present new facts to the P.A.C. even when they have been shown draft paragraphs in advance, and no objection is taken to their doing so. Much the same objection was raised on the Defence Audit Report, 1962.

Dates of Submission of the Appropriation Accounts and Audit Reports.

It is of some importance that (i) the preparation of the appropriation accounts should be completed at an early date, and (ii) the audit reports thereon submitted to Parliament before the matters dealt with become ancient history As the audit department exercises no authority over the administrative departments and cannot compel them to deal quickly with the draft paragraphs sent to them for verification and comment, dates are prescribed in the United Kingdom by the Exchequer and Audit Department Act for (i) the transmission of the appropriation accounts to the Comptroller and Auditor-General by the departments, (ii) the submission to the Treasury of audit reports thereon, and (iii) the presentation by the Treasury of the audit reports and the accounts to the House of Commons. In accordance with this schedule, the accounts of, for example, the financial year 1961-62, would be submitted to the Auditor-General from November 1962 to January, 1963. The Auditor-General would examine and report in the first months of 1963. The Public Accounts Committee would examine the accounts and report to the House of Commons from February to July 1963. If, however, the Treasury does not, within the time prescribed, present to the House of Commons any report made by the Comptroller and Auditor-General on the accounts, the Comptroller and Auditor-General is free, under section 32 of the Exchequer and Audit Departments Act, to present such reports forthwith. There is no such binding date or dates in the Indian financial system. There is criticism in Parliament as well as in the Public Account Committee of inordinate delays in the submission of accounts and audit reports to Parliament. The delay arises

at two stages:—(i) in the verification of accounts figures by the heads of departments, without which the appropriation account cannot be prepared, and (ii) in returning (with comments) by the administrative departments of the draft paragraphs on specific points sent to them by the audit department. The Comptroller and Auditor-General stated during the proceedings of the meeting of the Public Accounts Committee held on May 22, 1951 that there should be a provision similar to that in U.K. mentioned above. That is to say:—

(i) The Audit Department should receive the accounts duly verified by the Heads of Departments within a specified date, where the Appropriation Accounts are prepared by the Audit Department;

(ii) Similarly where, as in Railways and Defence and certain other Departments, the Appropriation Accounts are prepared departmentally and not by Audit, dates must be prescribed for the submission of the Appropriation Accounts to the Audit Department;

(iii) The Comptroller and Auditor-General must submit Appropriation Accounts with the audit reports thereon to the Finance Ministry by a specified date.

(iv) The Finance Ministry must arrange to lay the accounts and audit reports on the Table of the House by a given date; and

(v) The Comptroller and Auditor-General must be empowered to send audit reports direct to the Speaker if the report is not laid by the Finance Minister before the House by a specified date.

Notwithstanding the present handicap, steps have been taken by the Comptroller and Auditor-General to present the appropriation accounts of a financial year together with the audit report thereon before the close of the following financial year. It is not possible to present

them earlier, within a period of 6 months after the close of the financial year to which the report relates, as suggested by the Speaker of the Lok Sabha at the Conference of P.A.C. Chairmen held on 14-15th March 1959. It is equally necessary that the P.A.C. should deal expeditiously with the audit reports and present its report to the Legislature during the following budget session, so that notice may be taken of the points brought out before they become out-dated.

Where important cases of misuse of public money or misappropriation or other irregularities come to the notice of Audit, special reports in such cases are made concurrently during the year so that the Legislature and the P.A.C. may be seized of the matter while the expenditure is being incurred and not after the event.

Examination of Reports and Accounts by the Committee.

When the Appropriation Accounts and audit reports thereon are laid before Parliament, they automatically stand referred to the Public Accounts Committee for examination and report to the House. No specific resolution of the House for the latter purpose is needed. This is the practice in U.K. also.

These documents are so voluminous that it is impossible for a layman to have an idea of all the facts and figures contained therein in a reasonably short time. In order to assist the members of the P.A.C., a key statement (which used to be prepared by the Comptroller and Auditor-General until recently) is now prepared by the Secretariat of the Committee and copies thereof circulated to the Members in advance. This statement facilitates the Committee's deliberations and examination of the respective accounts. The Comptroller and Auditor-General prepares a list of important points arising out of the accounts and his comments thereon which is circulated to the Committee.

When the internal examination of the material placed before the Committee has been completed the programme

of formal meetings is prepared and communicated to the Ministries concerned. They are requested to depute the concerned officers to give evidence before the Committee. The Comptroller and Auditor-General is also requested to attend the sittings of the Committee. In the States, the Accountant-General concerned is so invited and is generally present at the meetings. The Ministry of Finance also is informed and requested to depute a representative to attend the meetings.

At the sittings of the Public Accounts Committee when the official witnesses appear before the Committee, the Committee conducts business at a horse-shoe table; at the open end of the horse-shoe where separate tables are placed for closing the gap sit the Chairman of the Committee with the Secretary to the Committee on his left and the Comptroller and Auditor-General of India and the senior officers of his office on his right. The Comptroller and Auditor-General continuously holds consultations with the Chairman as the evidence is proceeding and very frequently puts questions to the departmental witnesses and also makes comments and observations in the course of such evidence. The witnesses sit at the other end of the horse-shoe shaped table.

In the U.K., the Comptroller and Auditor-General attends the meetings of the P.A.C as a witness when evidence is being taken by the Committee. He does not sit next to the Chairman, but sits at the other end of the table, opposite to the Treasury officials and intervenes in the discussion only when the Chairman asks him to clarify a point or some information is required from him. This is because, before the commencement of each formal meeting, a conference is held in the room of the Chairman at which the Comptroller and Auditor-General and the Clerk of the Committee are present. At this conference the Comptroller and Auditor-General conveys to the Chairman the points which need to be brought out.

The Secretary of the Ministry or the Department concerned who normally appears before the Committee sits

opposite to the Chairman with senior officers accompanying him. The Members of the Committee sit on the two sides of the horse-shoe shaped table.

Official Reporters sit on the right side of the table and near them sits an officer of the Ministry of Finance as an observer.

A diagram of the Seating Plan of the Committee is given in appendix 15.

The Committee sit informally for half an hour before the commencement of each day's sitting for discussing amongst themselves the important points that might be taken up with the witnesses.

On the first day of the examination of the Accounts relating to a particular Ministry, etc., the list of witnesses is placed before the Chairman of the Committee who introduces them to the Members of the Committee.

The Chairman begins by announcing the paragraph in the Audit Report which is to be taken up for consideration. He then puts some questions on that paragraph to which the witness replies. Other Members then put questions and supplementaries in turn and receive replies from the witness. Wherever necessary, the Chairman supplements the questions by further questions or remarks and observations.

The Comptroller and Auditor General assists the Committee by asking questions and by disclosing further facts and figures as might be available with him.

After consideration of a particular paragraph of the Audit Report, the same process is repeated for other paragraphs. Usually, the paragraphs are taken up in serial order but where several paragraphs relate more or less to similar type of irregularities, etc. they are taken up for consideration together.

After the transaction of a particular day's business, the Chairman adjourns the sitting.

Sittings for the consideration of a particular Account are held continuously till it is concluded. The duration of a sitting of the Committee, when the Accounts and Audit Report etc. are considered is generally three hours each day.

If, in the course of the sittings of the Committee, the representative of the Ministry promises to furnish certain further information on a particular point of his own accord or at the instance of the Committee, the Chairman asks him to furnish written notes for the consideration of the Committee. Such notes are routed through Audit for verification of facts contained therein.

The sittings of the Committee are not open to the Press. But a daily communique is prepared by the Lok Sabha Secretariat for communication to the Press giving information about the Accounts and names of the Ministries etc. examined by the Committee during the day.

Like U.K. party politics does not enter into the deliberations of the P.A.C. If an expenditure has been incurred irregularly, the Committee does not overlook the irregularity, much less does it say that it is all right because it has been spent for a good purpose, whatever the political affiliation of some of its members may be.

When the examination of the accounts is completed a draft report is prepared by the Secretariat of the Committee and sent to the Comptroller and Auditor-General in advance for factual verification and when the draft report is considered by the Committee, the Comptroller and Auditor-General is present to assist the Committee. Decisions are taken by a majority vote when there is difference of opinion, but no minutes of dissent to the report are allowed. The Chairman is authorised to sign the report on behalf of the Committee. He also presents the report to the House, when the House is in session. To the report are attached the minutes of each meeting and the documents supplied to the Committee. The full evidence given orally is not printed nor laid on the Table of the House. It is not even supplied to the Ministries concerned. This is at variance with U.K. practice where a

verbatim record of the evidence is taken and published. In this country it is held that witnesses speak freely when they know that their names and the evidence they give will be kept confidential; that it takes a long time to print the evidence and therefore deprives the report of its real interest; and further that the resulting expenditure is in many cases not justified.

Verbatim proceedings are printed only when the Committee deems it necessary.

In the U.K., periodically an epitome of the reports of the Public Accounts Committee is brought up-to-date by the Comptroller and Auditor-General. It is customary for the Chairman of the Public Accounts Committee to move in the House for a return containing the epitome of the reports from the Committee and of the Treasury minutes thereon with appendix and index. Before doing so, the Chairman writes to the Financial Secretary to the Treasury asking him to inform the Speaker that he has no objection to the motion. In India, a similar epitome is brought out by the Comptroller and Auditor-General. This epitome is kept in the Library of the Public Accounts Committee and is not laid on the Table of the House. It would be a good thing to publish it periodically.

Privileges of the P.A.C.

As a parliamentary committee, the P.A.C. has certain privileges which, under Article 105 of the Constitution, are similar to those of the P.A.C. of the British House of Commons. To cast reflections on the work of the Committee or to attribute to it uncharitable motives constitutes a breach of privilege. "Scandalous charges or imputations directed against members of a Select Committee are directed against the House itself" (Erskine May-13th Edition Page 93).

Instances have occurred in India where the P.A.C. has considered that certain comments made by Ministers, Government Officers or the Press constituted breaches of privilege and action was taken to get them corrected. A

Minister of a State Government stated in 1955 in the Legislative Assembly that certain observations made by the P.A C. against officers of Government appeared to be the result of some misunderstanding and lack of proper appreciation of the enormous difficulties faced by the officers and that these incidents appeared to be the background of trying to fling mud and belittle a particular officer. The P.A.C. took strong exception to these remarks which were withdrawn by the Minister who tendered an apology to the House and through the Speaker to the Public Accounts Committee.

Similarly, in September 1955, the Chief Administrator, Rehabilitation Finance Administration gave an interview to the press in which he stated that the observations of the Public Accounts Committee in paras 94 to 99 of their Fifteen Report in so far as they related to the working of that body were "based partly on incorrect data and partly on insufficient understanding of the foundation on which the structure of the Administration was laid". A member of the Public Accounts Committee put a question in the Lok Sabha on the subject. The Minister-in-charge stated that it was clearly improper for Government Officers to make public comments on the reports of Parliament and in this particular case, he further said, "the Officer concerned has since expressed his sincere regret for this incident".

The Lok Sabha Secretariat took this occasion to point out to the Ministries of the Government of India that according to parliamentary law of privilege, statements, comments, or observations on the contents of the report of a Parliamentary Committee made without the knowledge of the Committee or without the permission of the Speaker might involve and be considered a breach of privilege of the House.

Refusal on the part of witnesses (appearing before the Committee) to answer questions, prevarication or wilfully giving false evidence or suppressing the truth or trifling with the Committee, returning insulting answers are also

held to constitute breaches of privilege and contempt of the Committee.

Discussion of P.A.C. Reports in the House.

It is generally not the practice either in India or in U.K. for Parliament to formally discuss the reports of the P.A.C. presented to the House or to move any motions thereon. On the question of excess grants dealt with in the report and their regularisation a definite motion is moved, as indicated in a preceding chapter, but otherwise the points dealt with are left to be thrashed out with the appropriate Ministries of the Executive Government. The report of the Committee is highly technical and covers many subjects. A discussion on the whole report would be very general and attention might not be concentrated on any one point. There is accordingly a convention that discussion should not be raised on the reports of the Committee in the House, unless there is a serious disagreement between the Committee and the Government or the matter is so fundamentally important that it ought to be discussed in the House.

Implementation of the Recommendations of the Committee.

The recommendations made by the Committee are forwarded to the Ministries concerned and they are required to keep the Committee informed of the action taken, or proposed to be taken, by them thereon. In the large majority of cases, Government accepts the recommendations of the Committee and issues orders accordingly, but cases do occur where there is a divergence of view. In such cases, Government have to place their views before the Committee which may, if considered fit, present a further report to the House after considering the views of Government in the matter. A special watch is kept in the Lok Sabha Secretariat over outstanding recommendations not implemented by Government. It is obvious that if this were not done, the whole object of appointing the Committee would be defeated.

The Committee has prescribed a time-limit of two months for Ministries to furnish reasons leading to excesses over grants. It has also recently suggested that each Ministry should nominate an officer charged with the responsibility of seeing that replies to points made by the Committee are sent in time.

Two cases have occurred in which, after a frank and repeated interchange of views, the Government finally informed the Committee that they were unable to accept the recommendations of the Committee. These cases are briefly dealt with in the succeeding section.

It is necessary in this connection to point out that under the Constitution executive authority vests in the Government and in the Government alone. Whoever has the responsibility must also have the power. The Public Accounts Committee is not an executive body and has no power, even after the most minute examination and clearest evidence, to disallow any item or to issue an order direct to any Government officer. It can only act through the Executive Government. It may disagree with the Government on any specific point and report to the House accordingly. The House, of course, is the final court of appeal and if the House chooses to accept the Committee's view it would amount to a loss of confidence in the Government and would be treated accordingly.

Purchase of Jeeps in U.K.

In July 1948, a contract was entered into with a firm (Anti-Mistants, Ltd.) in the U.K. for the supply of 2000 Jeeps to be supplied at a price of £250 each. Ten per cent spares were also to be supplied by the firm at a price of £20,000. The deliveries were to be completed not later than 150 days from the date of contract.

Nearly 5 months after the stipulated date, only 155 jeeps reached India up to April 1949, although in all 65 per cent of the cost of 1004 jeeps was paid to the firm by the 13th December 1948, and a further 20 per cent of the cost of 155 jeeps was paid between February and March

1949. On inspection of the 155 jeeps in India, it was found that 151 of them needed heavy repairs and that the vehicles had not been properly overhauled. The Ministry of Defence cabled to the High Commissioner to suspend further shipment until agreement for 10 per cent inspection could be reached. No further jeeps were, however, despatched by the firm. The Government of India, having already paid for 1004 jeeps in part, stood to lose £1,43,775 or Rs. 19 lakhs

In their first report (December 1950) the Estimates Committee recommended that an enquiry should be made into the matter, responsibilities fixed and, in future, contracts should be drawn up with the prior approval of legal and technical experts of the Government of India.

In April, 1949, a new agreement was entered into with a new firm (S. C. K. Agencies, Ltd.) for the supply of 1007 jeeps. The firm agreed to give credit to the Government of India for £1,43,162 for the jeeps already paid for against the first contract.

In its second Report 1951-52, the P.A.C. observed in dealing with this case that early steps should be taken to suggest remedial measures to avoid recurrence of such a state of affairs and disciplinary action should be taken against the officers concerned. The Committee also desired that a monthly report of the progress of supply of jeeps under the second contract should be submitted to the Committee.

In January 1952, the new firm (S. C. K. Agencies Ltd.) wanted a revision of the original terms of the contract by providing for a price revision clause to cover a rise in the price of jeeps. At this stage, the Government of India decided to take legal action against the firm for breach of contract. In reply, the firm repudiated any responsibility and stated that the contract was at an end.

The P.A.C. of 1953-54 made the following observations on the case in their Ninth Report :—

(1) No scrutiny of the new contract was made.

(2) The objectionable features of the first contract were :—

(i) Short-circuiting of the normal procedure for placing of a contract through the Director-General, India Store Department, London;

(ii) Failure to invite tenders;

(iii) Selection of a newly-formed private limited company which was not an established firm dealing in Jeeps and whose antecedents and financial standing were not known;

(iv) Failure to obtain necessary bank references and securities;

(v) Unjustified revision of contract which made large payments possible without proper inspection certificate;

(vi) Payment of second instalment of £81,575, without any certificate of inspection for 502 jeeps;

(vii) Failure to proceed against Anti-Mistants Ltd. for the recovery of damages.

The Ministry of Defence sent to the P.A.C. a note dated 18th December 1954 requesting the Committee to reconsider their recommendation. Before the Committee could consider it, the Minister of Finance made a statement in the House on December 21, 1954 in which he stated that a Committee of Ministers under the chairmanship of the Prime Minister had gone into the case and had come to the conclusion that though there had been some technical and procedural irregularities, there was no reason to doubt the bona fides of the officers concerned. Instructions had been issued to set right the procedural and other defects. The Finance Minister expressed the hope that with the above explanation the P.A.C. and the House would treat the matter as closed.

The P.A.C. of 1954-55 considered the Finance Minister's statement and also the note of the Defence Ministry dated December 18, 1954. The Committee came to the con-

clusion that they had already made their views known from which they saw no reason to deviate, but obviously what further action was to be taken was essentially a matter for the Executive to determine (Fourteenth Report—P.A.C. 1954-55, Paras 16-21).

In a note submitted to the Committee on September 26, 1955, the Ministry of Defence stated :—

> "Government have very carefully examined this part of the Report. They find, however, that no new fact or circumstance has been adduced by the Committee. In the circumstances, while the Government are reluctant to disagree with any recommendations made by such a distinguished body as the Public Accounts Committee, they must adhere to the position that they had already taken, namely, that as these matters have already been enquired into by Government at the highest level, no purpose will be served by the appointment of a further Committee of Enquiry.
>
> Government trust that in the light of the explanations now given, the Public Accounts Committee will agree to treat this matter as closed".

The Minister of Defence also made a statement in this case on the floor of the House on September 29, 1955 and laid a copy of the above note on the Table of the House.

The P.A.C. of 1955-56 considered the above note submitted by the Ministry of Defence and did not make any comments thereon.

In a speech made in Parliament in December 1958, the Prime Minister said that the contracts in question were made when the Kashmir trouble had started and nobody could rule out at that time the possibility of the conflict widening into an all-out war with Pakistan. There was also the police action against Hyderabad in that year. Those responsible then for the country's security had to bear a heavy burden considering the arms and vehicles then in the possession of the defence services. In order to

meet the situation certain contracts were made by the new department of the India House in London. Till then every contract was negotiated through the India House which was a British agency. In this case India was in a violent hurry because of the dangerous situation and had, therefore, to settle the deal. Later, Government inquired into the deal thoroughly. He did not mean to suggest that some people in the United Kingdom or elsewhere did not make money. He was convinced that they did because some money had been lost. The fact, however, remained that the people in London were hustled into agreeing to certain terms in those special circumstances which normally they might not have accepted. It was unfortunate, but there was no deliberate fault of any person.

A case against the firm was filed before the High Court in London by the Government of India for recovery of damages for breach of contract, but the Prime Minister informed the Lok Sabha on April 21, 1960 that a compromise out of court was arrived at under which the claim of the Government of India for £254,498 and the counter-claim of the opposite party for £270,058 would be written off. There was another claim of the party for £20,000 which was under arbitration. The Government of India, had, however, admitted this claim to the extent of £14,000. Under the settlement, it had been agreed that this amount would not be paid and would be set off against damages. Two main reasons were given for taking this step : —

(i) there was no chance of getting any damages from the party concerned, even if the case was won; and

(ii) it would have meant spending a huge amount in contesting the case without any hope of a financial return.

Import and Sale of Japanese Cloth.

Towards the end of 1946 and in early 1947, circumstances prevailing in India were such that the cloth available for internal consumption was in short supply. At that

time, on receipt of a message from the Indian Embassay in Washington that a good deal of cloth and yarn of Japanese production was available and could be sold to India only on payment in U.S. dollars, a decision was taken by the then Government of India for the purchase of seven varieties comprising 80 million yards of cloth suitable for Indian needs. Accordingly, the Indian Embassy in Washington was asked on March 28, 1947 to sign the contract on behalf of the Government of India. The cloth started coming to India in October 1947. Out of 80 million yards, only 24 million yards were brought to Bombay. It was decided subsequently that the remaining 56 million yards lying in Japan should be exported to destinations outside India direct from there. Even the quantity brought to Bombay had to be sold to the Indian exporters for want of a market at the prices demanded. Thus, not a single yard of cloth was sold in India, although the deal was entered into "for clothing the under-clothed rural population".

The consignment of 24 million yards was sold at a profit in Bombay by adding 10 per cent to the landed cost. Similarly, 20 million yards more lying in Japan were sold at a profit, but, thereafter, the prices of Japanese cloth fell considerably, and the remaining quantity had to be sold at a loss. The net result of the transaction was a loss of about Rs. 55 lakhs, which included a sum of Rs. 15 lakhs as due from a firm named Messrs Banwari Lal & Co., who backed out of the contract because of falling prices, after purchasing certain quantities of cloth. These losses were disclosed in the Appropriation Accounts (Civil) 1947-48 (Post-Partition) and the Appropriation Accounts (Civil) 1949-50.

In their Fourth Report presented to the House of the People on February 20, 1953 the P.A.C. inter alia recommended that :—

(1) a judicial inquiry should be held to fix responsibility for handling the transaction;

(2) steps should be taken to recover the sum of Rs. 15 lakhs from the firm, Messrs Banwari Lal & Co.

(3) clear procedure for the examination of proposals involving huge financial commitments at all levels of Government should be laid down.

On August 11, 1953, Shri T. T. Krishnamachari, Minister for Commerce and Industry, laid on the Table of the House a statement on this deal. The statement said that the Government of India were of the opinion that "there was no need for a judicial inquiry into the transaction, as they were fully convinced that such an enquiry was not likely to bring out any fresh facts".

The P.A.C. raised the question that Government should not have made the statement in the House without giving the P.A.C. an opportunity to consider it. They referred the point to the Speaker who agreed with the P.A.C. and a circular letter was issued to all Ministries inviting their attention to the observance of the proper procedure consistent with parliamentary conventions in the implementation of the recommendations made by the P.A.C. and the Estimates Committee.

A question was put in the House on November 27, 1953 about the recovery of Rs. 15 lakhs from Messrs Banwari Lal & Co. It was disclosed that the matter was to be referred to arbitration.

In their fifteenth Report, the P.A.C. 1954-55 reiterated the views expressed by them in their Fourth Report. They said that they were not convinced by the arguments set forth in the Ministerial statement with regard to shortage of cloth in the country, and suggested that the arbitration proceedings should be speeded up and the matter settled early.

The Ministry of Commerce and Industry forwarded to the P.A.C. of 1956-57 on January 29, 1957 a copy of the statement which the Minister for Commerce intended to lay on the Table of the House in connection with the observation made above in the Fifteenth Report of the P.A.C. The P.A.C., while expressing their distress over the manner in which the deal had been entered into and proceeded with, and their regret over the way in which the officials

had acted, concluded that while there might not have been any *mala fides* in the deal, the loss amounting to Rs. 49 lakhs would not have occurred had there been proper co-ordinatiton between the Textile Commissioner and the Ministry. The Committee therefore did not wish to press for a judicial inquiry.

Messrs Banwari Lal & Co., who had been held liable by the arbitrator to pay damages for breach of contract, later paid to Government the sum of Rs. 5.9 lakhs plus cost and interest awarded by the arbitrator.

This brought down the net loss on the transaction from Rs. 55 lakhs to Rs. 49.1 lakhs.

Towards Better Budgeting and Financial Control.

So much time and ingenuity is spent in the Finance Ministry in the preparation of the annual budget that it seems unkind to say that the job is not being well done. But this is the inference that one would draw from a perusal of P.A.C. Reports.

For instance, in their Seventh Report (April 1958) on the Appropriation Accounts (Civil) 1953-54 and 1954-55 the P.A.C. comments as follows :—

> "An examination of the accounts (above mentioned) has led the Committee irresistibly to the conclusion that the standards of budgeting during the years under report have, instead of improving, deteriorated. There have been a large number of excesses, savings, injudicious surrenders and even non-utilisation of funds obtained from Parliament by means of supplementary grants. The Committee have in the past repeatedly deprecated the over-optimism of administrative Ministries which results in inflating the estimates. It is essential that detailed estimates should be carefully scrutinised and the possibility of their utilisation assessed by the administrative and Finance Ministries before their inclusion in the Budget".

The audit report for 1960 brings to light the same defects :—

> "The accuracy of budgeting and control of expenditure during the period revealed the same deficiencies as in the past, resulting in large savings and excesses. Out of 130 grants, savings to the extent of Rs. 155 crores occurred in 119 grants. The savings amounted to 13% of the total grant. Out of the savings, Rs. 140 crores were surrendered before the close of the year.
>
> Supplementary grants for Rs. 143.9 crores were voted by Parliament, but grants under five heads ultimately proved unnecessary. There have been excesses in 11 voted grants aggregating Rs. 42,43,475".

Ever since the fifties this position has been going on. The P.A.C. which was keeping a watch over this state of affairs eventually came to the conclusion that the system of budgeting was defective and needed overhauling. They accordingly entrusted the task of making suggestions to the Comptroller and Auditor-General. The Auditor-General submitted a scheme (printed as an appendix to the Audit Report (Civil 1955) which was approved by the P.A.C. and forwarded to the Finance Ministry for consideration.

The main point made by the Auditor-General was that, under the existing system, provision in the budget for new projects was based on mere expectations and on nothing more concrete and positive. Unless a figure was communicated to the Finance Ministry for inclusion in the budget estimates, the scheme could not be taken in hand when it matured. Lapses of allotments were thus inherent in the make-up of the budget. Over-estimation of spending capacity. excessive concentration of financial control in the Finance Ministry and the adoption of impracticable principles, particularly in the case of Centrally-assisted State projects, were also major contributory factors. The cumulative effect of all these was reflected in wide variations between actuals and estimates.

In their 8th Report (Second Lok Sabha), the Committee pointed out that the existing system of budgeting,

administrative and financial control was not appropriate in the present context of a planned national economy. In this direction, the Committee made certain important suggestions to ensure more effective financial control *viz.*, the need of making a small provision enough to cover the expenses of survey, preparation of the detailed estimates and preliminary expenses; discontinuance of the practice of asking for large appropriations on the basis of mere expectations; confining of provision for new schemes to schemes for which full details are available; as and when details of the new scheme or a phase thereof are worked out, Parliament, if in session, should be approached for a supplementary grant; if Parliament was not in session, funds sufficient to cover the immediate expenditure on the scheme to be advanced out of the Contingency Fund and a supplementary grant for the full amount obtained from Parliament at the earliest possible opportunity.

This arrangement according to the Committee would enable Parliament to have a "preview" of the current and prospective expenditure on such projects well before commitments were made or liabilities incurred apart from pinpointing the performance of the Ministry concerned. The Committee also observed that so long as the provision made in the budget was not exceeded and there was no change in the scope or the total cost of a project, the administrative Ministry should have freedom to incur expenditure without having recourse to consultation with the Ministry of Finance. The Committee also recommended wider delegation of powers to the administrative Ministries with a view to avoiding wasteful and infructuous expenditure and introducing flexibility and order in the execution of the Plan Projects.

The Committee also asked for re-examination of powers of re-appropriation of the Ministries and other authorities; delegation of powers by the Administrative Ministries to lower officers; deployment of technical personnel concentrated in the Secretariat etc.

The Committee also made certain important recommendations in the matter of reappropriation of funds between schemes; matching grants to States, etc.

Almost all of these recommendations were accepted in Government of India, Ministry of Finance Office Memorandum dated August 18, 1958. Details have been separately dealt with in the chapters relating to the Finance Ministry.

The impact of the new procedure cannot be assessed till the accounts for the year 1959-60 come under examination and review. Even then, any conclusions formed must be tentative. Sufficient time must elapse before a proper judgement can be formed.

General Observations.

We have given above some idea of the nature of control which Public Accounts Committees in India exercise over public expenditure and over public finance generally. The reader may be inclined to ask, has this control served any purpose, if so what? The P.A.C. is primarily concerned with regularity of expenditure; that is to say, the spending of public money for the purposes and in the manner prescribed. Constitutionally speaking, regularity is important but from the point of view of the tax-payer economy is more important. It is quite possible to spend money without any irregularity and yet to spend it wastefully. The P.A.C., therefore, has extended its function to investigating cases of waste and extravagance brought to light in the audit reports. Such cases generally involve either defects of personnel engaged in administration of expenditure or defects of system. The former are not susceptible of generalised treatment. But defects of system are more important from the point of view of prevention of irregularities in the future. It is, therefore, proposed to give below a brief survey of the important changes introduced in the financial system as a result of the working of the P.A.C.

The forty years during which the P.A.C. has worked fall into two periods :—

(i) the British period; and

(ii) the independence period.

Of this, (i) is by far the larger, 26 years. During this period, financial power was vested chiefly in the Secretary of State for India in Council, except over transferred subjects in the provinces where the Legislature had full control. As no spring can rise higher than its source, no P.A.C. exercised any power at the Centre and in the reserved field in the provinces. Notwithstanding these constitutional and political limitations, the influence exercised by the P.A.C. in securing regularity, and even propriety, in public expenditure, both over the voted and the non-voted fields, was considerable.

All changes in the form of the estimates and the public accounts were referred to the P.A.C. and generally made with their approval. They still are.

Demands for grants in India even in British days showed both votable and non-votable expenditure. In Great Britain, non-votable items are omitted from the estimates presented to the House of Commons and, therefore, also from the Appropriation Accounts. In this way, the Legislature and the P.A.C. in India got a complete picture of the financial position, at the Centre and in the provinces, even though about 17 per cent of provincial expenditure and as much as 72 per cent of Central expenditure, excluding Railways, was non-voted. The Appropriation Accounts were prepared for both voted and non-voted expenditure and the P.A.C. freely commented on irregularities in the voted as well as the non-voted field. This tradition has been inherited by the present P.A.C.

Even though Defence expenditure was entirely non-voted under the British regime, the P.A.C. asserted its voice, with the result that an ad hoc Committee, which was entirely offiicial, was set up in 1925 and its report was placed before the P.A.C. and incorporated as part of its own report. This ad hoc Committee (called the Military Accounts Committee) continued to consider the De-

fence Accounts till 1931, when the P.A.C. again considered the procedure. In para 31 of its Report on the Accounts for 1929-30 the P.A.C. decided that in future the Committee should consist of the Finance Member (of the Governor-General's Executive Council) as Chairman, the Finance Secretary and three non-official members nominated by the P.A.C. The re-constituted Military Accounts Committee continued to function on this basis up to 1947.

After independence, when defence expenditure became votable, the P.A.C. of 1948-49 decided that the Appropriation Accounts of the Defence Services and the Audit Report thereon should in future be considered and dealt with by the Committee as a whole, which is the present arrangement. As a result of this change-over, a simplification in the headings of the Defence Budget has been made. This has achieved two purposes: the reduction of the burden on the Accounts offices, and securing more effective budgetary control.

The regularisation of excess grants was also due to the endeavours of the P.A.C., as has been pointed out in an earlier section in this chapter. Similarly, the Committee extended its scope over receipts, as already pointed out.

The Committee which examined the accounts for 1926-27 made the following observation in regard to the definition of "New Service" about which no working rule had been laid down :

> "We agree with the Auditor-General that, as in England, there should be no cast-iron rule and that the application of the term to concrete cases could best be governed by the evolution of a body of case law. We recommend that, in placing cases before the Standing Fnance Committee, the Government of India should state whether the expenditure is in respect of a new service; and that, if Audit holds a different view in particular cases, such cases should be brought to the notice of the Public Accounts Committee through the Appropriation Accounts."

One important result of the steady pressure exercised by the P.A.C.'s in this period in the matter of regularity of expenditure was that the margin of difference between estimates and actuals, both at the Centre and in the provinces, was considerably reduced. This advantage seems to have been lost in recent years, with the colossal growth of expenditure under the Five Year Plans.

With independence, there has been a growth of stature and power of the Legislature and the P.A.C. The Central P.A.C., during this period has, up to April 30, 1960, presented 54 reports (or, on an average, nearly five reports a year) dealing with the appropriation accounts and other matters brought to its notice. Reference has already been made to its reports on the purchase of Jeeps for the Defence Services and the import and sale of Japanese cloth where it stood its ground against the Executive Government. Similarly, a reference has been made to its 8th Report (Second Lok Sabha) on Budget Estimates and Financial Control where its efforts met with success. Its reports on the Hirakud Dam Project and the Damodar Valley Corporation also led to correction of several irregularities and prevention of wasteful expenditure in construction.

All accounts, with the exception of those few which relate to minor departments, are usually examined by the Committee each year. Thus all Heads of Departments have to appear before the Committee every year. In the U.K., on the other hand, a number of accounts are considered without witnesses being summoned to answer for them. The aim in U.K. is that *over a period of years* the P.A.C. should have the opportunity to examine the Accounting Officer for every account. The Minister of Railways Mr. Jagjivan Ram, in dealing with the excess grants for railways on August 12, 1958 said that officers in all the Ministries of the Government of India were afraid of the Public Accounts Committee. He added :—

> "I always impress upon my officers that whenever any queries are received from the P.A.C., we should try to give full details, much more than what the P.A.C.

will require, so that there should not be any occasion to feel that something is being kept away from them".

Not only is the P.A.C. supplied with complete information by the Executive Government, but the Legislative Secretariats have been considerably expanded and have Research Departments which bring out useful studies relating to public finance in other countries, and furnish material to members in the discharge of their duties. In fact the need is now felt for an agency to compress the material available so as to save the time of the members of the Committee.

Important changes in Financial System due to P.A.C.

Among the specific changes introduced in the financial system on the initiative of the P.A.C. the following may be mentioned:—

(i) Inclusion of a review of the financial working of Railways in the Railway Appropriation Accounts. Such a review should be included in all accounts of Commercial undertakings, such as Steel plants (when completed), State Electricity Boards, Road Transport Corporations, etc.

(ii) *Introduction of Administrative Audit.*

In para 10 of its Report on the Accounts of 1947-48 (post-partition) the P.A.C. recommended that the Ministry of Finance in consultation with the Comptroller and Auditor-General should formulate comprehensive rules and regulations for introducing administrative audit in all large spending departments, such as the administrative audit in vogue in the Military Engineerng Services.

The Committee of 1952-53 in para 134 of their 7th Report reiterated that the question of extending the introduction of such an audit on the various river valley projects under the control of the Government

of India should be considered. In January, 1959, the Ministry of Irrigation and Power accepted the recommendation of the Committee and agreed with the Committee that the introduction of the Administrative Audit system in river valley projects was highly desirable.

The recommendation of the Committee was also implemented by the Ministry of Works, Housing and Supply in the Central Public Works Department by creating an organisation of a Chief Technical Examiner for carrying out an inspection of important works executed departmentally after completion, as also during the progress of the works.

(iii) Exhibition in accounts of adjustments between the Consolidated Fund of India and the Public Account regarding the expenditure from various Reserves *created out of revenues:* —

In its 10th Report (1953-54), the Committee pointed out that the Depreciation Reserve Fund (Railways) should not be kept apart from the General Revenues but should form part of the Consolidated Fund of India as envisaged in Article 266 of the Constitution. The Railway Board decided, in consultation with the Ministry of Finance and the Comptroller and Auditor-General, to adopt an accounting device by means of which the expenditure should first be treated to have been incurred from the 'Consolidated Fund', the 'Consolidated Fund' being recouped by transfer of an equal amount from the 'Public Account'. This procedure is being followed in respect of all earmarked funds like Cess Funds for various commodities.

(iv) *Recovery of tax on perquisites of dignitaries.*

Under Section 4 of the Salaries and Allowances of Ministers Act 1952 and the Salaries and Allowances of Officers of Parliament Act, 1953 a Minister or Officer of Parliament receives :—

(a) rent-free accommodation, consisting of a furnished residence the maintenance charges of which are borne by Government; and

(b) free supply of electricity and water to the residence.

There is a difference in law between perquisites and income. A perquisite is not income within the meaning of the Income Tax Act, though it is taxable in certain circumstances under Section 7 of the Income Tax Act, as amended.

The perquisites (a) and (b) were being dealt with as follows:—

For (a) Ministers and Officers of Parliament were being taxed and the value of the perquisite for the purpose of the tax was fixed at 12½ per cent of the salary.

For (b) they paid no tax.

The Public Accounts Committee in its Seventh Report, 1958 expressed the following view:—

"The amendment to Section 7 of the Income Tax Act made in 1955 is intended to cover not merely the actual rental value of the rent-free accommodation but also any concessional recovery of rent. As such, the valuation of rent-free residence at 10 per cent (if unfurnished) and 12½ per cent (if furnished) on salaries under the executive instructions is no longer permissible and application of executive instructions in the case of Ministers and certain other dignitaries of the Union Government whose salaries and privileges are regulated by Acts of Parliament is not correct. Further, exclusion from the total income of the Ministers and other dignitaries of the value of water and electricity supplied free to them in terms of the relevant Acts of Parliament, following the old executive instructions, is not in accordance with the present law".

"The conclusion, therefore, is inescapable that the continued application of the executive instructions not in

accordance with the present law is not only resulting in loss of revenue to the State but also is giving extra legal benefit to a class of people which is not permissible in view of the provisions of Section 60(3) of the Income-tax Act".

The matter was ultimately regularised by amending Section 12 of the Finance Act 1958 empowering the Central Board of Revenue to make rules for determining the value of any perquisite chargeable to tax in such a manner and on such a basis as they might consider reasonable. The Board were also authorised to give those rules retrospective effect from such date as they thought fit. These rules have recently been issued.

The above enumeration is by no means exhaustive and is only illustrative in character. There is a feeling that the Committee only carries out a *post mortem* which can have only a deterrent effect, if at all. This is only a half-truth. With the vast growth of development expenditure and the much greater opportunities it gives for misuse and extravagance, the work of the Public Accounts Committee has assumed great importance. India is a poor country with limited resources and cannot afford to overlook slackness and corruption. Mr. M. V. Mavlankar, the first Speaker after independence, in his inaugural address at the first meeting of the Central Public Accounts Committee on April 10, 1950 said :—

"The consciousness that there is some one who will scrutinise what has been done is a great check on the slackness, negligence or absolutism of the Executive. The examination (of accounts and witnesses), if it is properly carried out, leads to general efficiency of the administration. The examination by the Committee may also be useful as a guide for both future estimates and future policies".

After twelve years, it can be said that the Public Accounts Committee has admirably fulfilled this function.

APPENDIX I.

List of subjects for which the Ministry of Finance is responsible:—

A.—Department of Economic Affairs

I. Exchange Control

1. Administration of the Foreign Exchange Regulations Act.

2. Foreign exchange budgeting.

3. Control of the foreign exchange resources including scrutiny of proposals for imports from the foreign exchange point of view.

4. Foreign investment.

5. Import and export of gold and silver.

II. Foreign Aid for Economic Development

6. Technical and economic assistance received by India under:—

(a) The Technical Cooperation Scheme of the Colombo Plan.

(b) The United States Point Four Programme.

(c) The United Nations' Technical Assistance Administration Programme.

(d) *Ad hoc* offers of Technical Assistance from various foreign countries

7. Assistance given by India:—

(a) Economic and Technical assistance to the Government of Nepal under the Colombo Plan for Cooperative Economic Development.

(b) Technical assistance to the Member countries of the Colombo Plan under Technical Cooperation Scheme of the Colombo Plan.

8. All matters relating to the Meetings of Colombo Plan Council and the Consultative Committee of the Plan and:—

(i) U. S. Technical Cooperation Mission.

(ii) U. S. Development Loan Fund.

(iii) Colombo Plan.

(iv) Norwegian Aid.

(v) Ford Foundation and Rockfeller Foundation.

(vi) Loans and Credit from foreign countries.

(vii) Loans and credit from IBRD and IMF, Export Import Bank etc.

III. Internal Finance

9. Currency and Banking, that is to say, questions relating to:—

(a) the Security Press and the Mints including the Assay Department and Silver Refinery Project.

(b) Coinage.

(c) Note Issue.

(d) The Reserve Bank of India, the State Bank of India and other banks.

(e) Indigenous banking.

(f) Money lending and Money lenders.

(g) Holidays under the Negotiable Instruments Act, 1881.

(h) Administration of the Indo-Pakistan Banking Agreement.

(i) Functions of the Treasurer of Charitable Endowments for India

IV. Economic Advice

10. Preparation of briefs and submission of material on financial and economic questions relating to India's participation in the United Nations and Allied Organisations (as for example, Economic and Social Council, Economic Commission for Asia and the Far East etc.).

V. Budget

11. Ways and means.

12. Preparation of Central Budget, other than Railway Budget, including Supplementary and Excess Grants.

13. Borrowing and floatation of Market Loans by the Central and State Governments.

14. Administration of the Public Debt Act.

15. Administration of the Central Treasury Rules.

16. Fixation of interest rates, including Borrowing Rates, Productivity Test Rates etc.

17. Accounting and Audit procedures including classification of transactions.

18. Financial matters relating to Partition, Federal Financial Integration and Re-organisation of States.

19. Administration of the Contingency Fund of India Rules.

20. Treasury Bills including *ad hocs* to replenish the Central balances.

21. Sterling pensions—transfer of responsibility to U.K. Government and actual calculation of the liability involved.

22. Conspecus of Central and State Government Budgets.

23. Finance Commission.

24. Small Savings, including the administration of the National Savings Organisations.

VI. PLANNING

25. Statutory grants to States provided for in the Constitution and *ad hoc* grants and loans to them for financing their development schemes and other approved purposes.

26. Local Taxation.

27. State Finance.

28. Borrowing of Public Bodies such as Corporations, Municipalities etc.

29. Capital Budget.

30. Co-operation in regard to important economic issues.

31. Planning and Development.

32. Taxation Enquiry Commission.

33. Grants to the Indian Institute of Public Administration.

34. Scrutiny of Central and State Legislation having financial and economic implications.

VII. SALES TAX

35. Administration of Central Sales Tax Act, 1956.

36. Administration of Sales Tax Laws Validation Act, 1956.

37. Replacement of Sales Tax by Additional Excise Duty.

38. Matters relating to States Sales Taxes coming up for President's assent.

VIII. INSURANCE

40. Policy relating to General Insurance; Administration of the Insurance Act, 1938; Insurance Companies Association Pool; Subsidiaries of the Life Insurance Corporation.

41. Policy relating to Life Insurance; Nationalisation of the Life Insurance business; Administration of the Life Insurance Corporation Act, 1956; Life Insurance Tribunal.

IX. CORPORATIONS

42. The Administration of Industrial Finance Corporation Act, 1948 and Rehabilitation Finance Administration Act, 1948.

43. State Financial Corporations under the State Financial Corporation Act, 1951.

44. The Industrial Credit and Investment Corporation of India, Ltd.

45. The Refinance Corporation for Industry.

X. STOCK EXCHANGE

46. Administration of Securities Contracts (Regulation) Act, 1956.

47. Regulation of Stock Exchanges.

XI. CAPITAL ISSUES

48. Control over the Issues of Capital by Joint Stock Companies.

XII. MISCELLANEOUS

49. Administration of the Department of Insurance.

B—DEPARTMENT OF EXPENDITURE

1. Financial rules and regulations and delegation of financial powers.

2. Financial sanctions relating to all Ministries and offices of the Government of India, which are not covered by powers delegated or conferred by the rules or by any general or special orders.

3. Review of the staffing of Government establishments with a view to securing economy.

4. Advice to Ministries and Government Undertakings on cost Accounts matters and attending to Cost investigation work on their behalf.

5. Expenditure proposals relating to the Delhi Administration.

6. Indian Audit and Accounts Department.

7. Defence Accounts Department.

8. Office of the Financial Adviser and Chief Accounts Officer Hirakud Dam Project, Hirakud.

9. Central Pay Commission.

C—Department of Revenue

1. All matters relating to Central Board of Revenue.

2. Stamp duties on bills of exchange, cheques, promissory notes, bills of lading; letters of credit; policies of insurance; transfer of shares, debentures, proxies and receipts.

3. Supply and distribution of all kinds of stamps.

4. All questions relating to income-tax (except questions relating to the Income-tax Appellate Tribunal), corporation tax, capital gains tax, excess profits tax, business profits tax and estate duty, wealth tax, expenditure tax and gift tax and also questions relating to Railway Passenger Fares Act.

5. Administration of excise in the Union Territories *i.e.* all questions relating to:—

(a) Alcoholic liquors for human consumption.

(b) Opium, Indian hemp and narcotic drugs and narcotics.

6. Medicinal and toilet preparations containing alcohol, or any substance included in 5(b).

7. Opium, as regards cultivation, manufacture and sale for export.

8. International agreements relating to dangerous drugs and their implementation.

9. All matters relating to Customs excluding those relating to Tariff Policy (*i.e.* Indian Tariff Act, Tariff Board, tariff valuations tariff protection to industries, land customs policy, and inter-Commonwealth tariff preferences); but including duties on goods imported or exported by sea, land or air; prohibitions and restrictions on imports and exports imposed in the interest of revenue, and interpretation of the Customs tariff.

10. All matters relating to Central Excise.

11. All matters relating to pre-partition duty refund claims on salt.

12. Subordinate Organisations:—

(a) Income Tax Department;

(b) Customs Department;

(c) Central Excise Department; and

(d) Narcotics Department.

[Notification in Gazette of India Extraordinary, dated January 18, 1961]

APPENDIX II.

Rush of Expenditure in March:— Finance Ministry Office Memorandum dated 12th September, 1960.

The undersigned is directed to invite the attention of the Ministry of Home Affairs etc. to para 9 of the twenty fifth Report (1959-60)—Volume I of the Public Accounts Committee in which they have stated that they attach great importance to the even flow of expenditure during the year.

2. It has been laid down in Para 96 of the General Financial Rules (VolumeI) that money should not be spent hastily or in an ill-considered manner merely because it is available or that the lapse of grant could be avoided and that rush of expenditure, particularly in the closing months of the financial year, will ordinarily be regarded as a breach of financial regularity. In this Ministry's O.M. No. 14(18)-E. II(A)/56 dated the 24th October, 1956, the Ministry of Home Affairs, etc. were requested to keep a close watch on the progress of expenditure by reviewing the position every quarter. In the case of large capital grants they were requested to keep a close watch on the progress of expenditure by reviewing the position every month during the last few months of the financial year. These instructions were, repeated in this Ministry's O.M. No. 14(3)-B/57, dated the 10th October, 1957, in which Ministries have also been assured that whenever grants have not been used to the full extent for valid reasons the Finance Ministry will be prepared to consider proposals to allot provisions for unexpended amounts either in the original budget of the coming year or by means of supplementary grants in that year provided the purposes for which these amounts were originally included in the sanctioned grants continue to be operative.

3. The undersigned is to request the Ministry of Home Affairs etc. to take positive and effective steps to ensure even flow of expenditure and to prevent the rush of expenditure in the closing months of the year merely to avoid lapse of grants.

APPENDIX III.

Rush of expenditure in March:— Finance Ministry Office Memorandum, dated 10th October, 1957.

The undersigned is directed to state that inspite of the provisions of paragraph 96 of the General Financial Rules Volume I and the instructions issued by this Ministry from time to time, rush of expenditure in the closing months of the year is not showing any signs of abatement. Excessive expenditure in the closing months of the year is likely to create the impression that Government moneys are being expended hastily or in ill-considered manner without proper scrutiny and check. Every attempt has, therefore, to be made to prevent this unhealthy practice and Ministries must review periodically the progress of their expenditure so as to ensure a regular flow, throughout the year, as far as possible. In this connection attention is also invited to the recommendations made in paragraph 13(b) of the Public Accounts Committee's 15th Report which were brought to the notice of the Ministries in O.M. No. F. 14(18)EII(A)/55 dated the 24th October, 1956 and in which a similar suggestion was made for a periodical review of the progress of expenditure by the Ministries which would check rush of expenditure at the end of the year.

2. Rush of expenditure on purchases of Stores, Contingencies, Stationery etc., in the closing months of the year is partly attributable to the desire on the part of spending authorities to avoid the lapse of Grants. Ordinarily, the budget for the year includes provision for all works in progress, for commitments, carries-over from the previous year, for the normal expenditure of the year and for such new items as have been accepted. There is no real risk, therefore, that the moneys unexpended in the current year would not be made available again next year if required. Prudent budgeting also demands that the estimates for the coming year should be as realistic as possible and should include adequate provision for all expenditure likely to be incurred during that year including liabilities taken over from the current year.

3. The undersigned is to reiterate that wherever grants have not been used to the full extent for valid reasons, Finance Ministry would be prepared to consider proposals to allot provision for the unexpended amounts either in the original budget of the coming year or by means of supplementary grants in that year provided the purposes for which these amounts were originally included in the sanctioned Grants continue to be operative. It is hoped that with this assurance the Ministry concerned would take positive steps to prevent the rush of expenditure in the closing months of the year and also to refrain from making purchases in a hurry merely to avoid lapse of grants.

APPENDIX IV.

Extract from the 20th report of the Central Estimates Committee relating to change in the financial year.

(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 ot 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 the 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, 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 man power 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.

APPENDIX V.

BUDGET FORM FOR REVENUE RECEIPTS

Budget Estimates 1961-62	Revised Estimates 1960-61	Budget Estimates 1960-61	Accounts 1959-60	Outstanding estimated Demand on 1-4-1960	Demand for the year 1960-61	Total Demand	Revised Estimate of of realization 1960-61	Unrealized Demand anticipated at the close of the year 1960-61	Estimated Demand for 1961-62	Total Budget Estimates 1961-62

APPENDIX VI.

BUDGET FORM FOR EXPENDITURE

Budget Estimates 1961-62	Revised Estimates 1960-61	Budget Estimates 1960-61	Accounts 1959-60	Actuals 5 months 1959-60	Actuals 7 months 1960-61	Budget as proposed by Department 1961-62

APPENDIX VII.

List of estimates for the preparation of which the Accountant-General is responsible.

State

XX Interest — Interest on loans to Government servants.

XLIV — Receipts-in-aid of superannuation.

XLVI Miscellaneous.

Collection of payments for services rendered.

7-Land Revenue Assignments and compensations—

Pensions in lieu of resumed lands.

22 Interest — all heads.

23 Appropriation for Reduction or Avoidance of Debt.

55-Superannuation Allowances and Pensions.

83-Payments of commuted value of Pensions payable to other Governments.

State Provident Funds.

Union.

XX Interest.

XLIV Receipts in aid of superannuation.

XLVI-Miscellaneous—

(1) Unclaimed deposits.

(2) Fees for Government Audit.

(3) Collection of Payments for Services rendered.

(4) Gain by exchange on local transactions. . .

(5) Miscellaneous.

22-Interest on Ordinary Debt.

26-Audit.

54-A Territorial and Political Pensions.

55-Superannuation and Retired Allowances.

62-Miscellaneous Adjustments between Central and State Governments.

63-Extraordinary items.

64-C-Pre-partition Payments.

APPENDIX VIII.

Budget Calendar of the Government of India:—

S. No.	Particulars	Due date
		June
1.	Resolution on Budget	1st
2.	Despatch of skeleton forms of Demands to Press	15th
3.	Compilation of Summary of Revised Estimates for previous year and Budget Estimate for current year for despatch to Press.	30th
4.	Despatch to Press of Civil Budget Notes (final edition) for proof.	30th
		July
5.	Final edition of Explanatory Memorandum.	1st
6.	Despatch of Budget Volume to Press	15th
		August
7.	Receipt of Summary from Press.	1st
8.	Despatch of Summary to Accounts Officers.	15th
9.	Receipt of Budget Volume (final print)	15th
10.	Despatch of Civil Budget Notes (final edition) to As. G.	31st
		September
11.	Receipt of skeleton forms of Demands from Press.	15th
12.	Despatch of skeleton forms of Civil Budget Notes to Press.	30th
		October
13	Issue of circulars to Ministries etc. asking for Budget Estimates (Parts I and II and Debt Deposit Heads).	15th
14.	Despatch of skeleton forms of Demands to Accounts Officers.	15th
		November
15.	Receipt of printed copies of English Estimates.	15th

S. No.	Particulars	Due date
16.	Despatch of skeleton forms of Civil Budget Notes to the Accounts Officers.	15th
17.	Receipt of Budget Estimates (Part I) and draft N.I.S.	15th
		December
18	Issue of circular to Ministries, different divisions C.A.G., etc. asking for material for Annual Report of the Finance Ministry.	1st
19.	Receipt of Estimates under heads controlled by Accounts Officers (Interest, Superannuation, etc.)	1st
20.	Receipt of Revised and Budget Estimates of Defence Services, Railways and P & T.	7th
21	Receipt of 1st correction to English Estimates.	10th
22.	Receipt of fair copies of N.I.S.	10th
23.	Issue of circular to Ministries etc. asking for information for the Explanatory Memorandum.	15th
24.	Issue of circular to Ministries, different Divisions of Finance Ministry, R.B.I. etc. asking for material for Budget Speech.	15th
25.	Receipt of Preliminary estimates of Revenue, other than 1-Customs to VI-Opium from all the Accounts Officers.	15th
26.	Receipt of information for Annual Report.	20th
27.	Receipt of Printed copies of 1st correction to English Estimates.	25th
28	Despatch of N.I.S. to accounts Officers (in convenient batches from 10th December onwards).	31st
		January
29.	Receipt of information for Explanatory Memorandum.	10th
30.	Receipt of 2nd correction to English Estimates.	10th
31.	Receipt of skeleton form (manuscript) of Demands-States portion from As.G.	11 to 14th
32.	Receipt of Civil Budget Notes (Excluding India).	11 to 14th

S. No.	Particulars	Due-date
		January
33.	Receipt of Debt, Deposit Estimates.	15th
34.	Submission of the Preliminary Revised Budget Estimates.	15th
35.	Despatch of States portion of Demands (manuscript) to Press (for 1st proof).	15th
36.	Receipt of material for Budget Speech.	20th
37.	Receipt of Printed copies of 2nd correction to English Estimates.	20th
38.	Receipt of India Budget Note.	21st
39.	Receipt of India portion of Demands (manuscript).	22 to 25th
40.	Consolidation of Debt head estimates.	25th
41.	Despatch of India portion of Demands (manuscript) to press (for 1st proof).	25 to 31st
42.	Receipt of 1st proof of Demands (States portion).	20 to 30th
43.	Receipt of 1st proof of Demands (India portion).	26th January to 5th February
		February
44.	Receipt of last correction to English Estimates.	5th
45.	Despatch of 1st proof of Demands (States portion) to Ministries for examination and comments.	27th January to 5th February
46.	Despatch of 1st proof of Demands (India portion) to Ministries for examination and comments	5th
47.	Receipt of Ministries' comments on Demands (States portion).	3 to 8th
48.	Receipt of Ministries' comments on Demands (India portion).	7th to 12th
49.	Submission of Debt head estimates.	10th
50.	Submission of Budget Speech (Part A) to F.M.	14th
51.	Inclusion of Debt head estimates in the Budget Statement.	14th
52.	Despatch of combined proof of Demands (Parts II & III)	15 to 20th

53.	Receipt of combined proof of Demands.	16 to 20th
54.	Submission of Budget Speech Part B.	21st
55.	Despatch of Budget Speech Part A to Press.	20th
56.	Despatch of Demands to Press for page proof.	22 to 24th
57.	Despatch of Budget Speech Part 'B'.	25th
58.	Despatch of Demands to Press for final proof.	24 to 26th
59.	Despatch of page proof of Demands to Ministries	25th
60.	Final printing of the Explanatory Memorandum and the Budget Statements.	25th
61.	Receipt of Books of Demands for Grants from Press.	27th
62.	Despatch of Books of Demands for Grants to Ministries etc.	*March* 4th to 8th

APPENDIX IX.

FOREIGN EXCHANGE BUDGETING

Foreign exchange budgeting, as its name implies. is a system in which a periodical assessment is made of the foreign exchange resources available to the country and the distribution or budgeting of such resources amongst the various obligations and competing demands for various purposes. Unlike the rupee budget, however, the foreign exchange budget is complicated by the fact that there may often be a considerable time-lag between the time when the foreign exchange commitment is accepted or entered into and the time when the resultant foreign exchange expenditure is actually incurred. The control that can be exercised over foreign exchange expenditure is, therefore, at the stage when foreign exchange commitments have to be entered into. Whereas the ordinary rupee budget of the Government of India proceeds on the basis of cash receipts and cash payments over a given period of time, the foreign exchange budget has to be considered from a dual aspect, viz., (i) the new foreign exchange commitments that might be permitted in a given period of time having regard to the resources available; and (ii) the actual balance of payment position that will emerge during that period (i.e. the net result of the actual income and outgo), as a result of the commitments and obligations (partly old and partly current) actually materialising.

As regards the first aspect referred to, a careful assessment is undertaken every six months on the basis of information and data called for from the Ministries of the Government of India, State Governments and the Reserve Bank of India (the foreign exchange budget is prepared on a six monthly basis, viz., from April to September and from October to March; the Government of India's policy for licensing of imports is also on the same basis). The object is to make an assessment over the remaining years of the Plan period, of the likely foreign exchange resources that can be mustered from proceeds of exports, earnings from invisibles (foreign investments, shipping, tourism, investment income, etc.), as well as of whatever receipts can be expected from foreign loans and grants whether negotiated or still to be negotiated. From the total resources so computed, deductions have to be made for payments of an obligatory character, e.g., payments arising out of the commitments already entered into, payments that have to be incurred to utilise foreign credits received, payments that have to be incurred by virtue of continuing contracts and obligations entered into and so on. Making further deductions on account of "invisible" payments of all kinds expected, both on current as well as on capital account (travel, freight, interest on loans, repayment of capital liabilities, etc.), it is possible to arrive at the balance of

resources available for fresh import commitments. These resuorces would relate to a period of years and for purposes of the six monthly budget period, a suitable proportion of this figure has to be taken and this represents the limit upto which fresh import commitments can be entered into both for the public and the private sectors during the six monthly period concerned, apart, of course, from such fresh commitments as are related to foreign loans and grants separately accounted for in the budget exercise.

The problem that arises, is to make the best possible allocation of this balance to cover the demands for commercial imports and those required in public sector. In view of the tight foreign exchange position it is impossible to meet all the demands made, and it, therefore, becomes necessary to establish some kind of priorities. The Finance Ministry has therefore, been guided in this matter by the consideration that the first priority has to be given to what is required for the maintenance of the economy including security. This also includes small amounts of foreign exchange required to complete projects that have already gone far ahead. Secondly, the Finance Ministry has to ensure that foreign exchange is provided to the extent possible for proceeding with the core of the Plan. Lastly, if any foreign exchange resources are still available, consideration can be given to other projects of a desirable character and of a high priority, though not in the core of the Plan. According to the resources at present available there is no foreign exchange available at all for this category of requirements. The allocations for various purposes are thoroughly discussed with all concerned before they are finalised. The allocations are of the nature of budgetary allocations and before the Ministries are allowed to incur any foreign exchange expenditure, it is necessary to obtain specific approval of the Department of Economic Affairs which considers each application in the context of specific principles prescribed for controlling foreign exchange expenditure generally. In fact, the foreign exchange control has, since the latter half of 1956, been centralised in the Department of Economic Affairs and no foreign exchange expenditure can be incurred whether in the public or private sector except on the specific approval given by the competent authority. There has been the necessary delegation of authority in practice and in the case of expenditure on private invisibles (like private foreign travel) the Reserve Bank of India's approval is necessary, and in the case of private imports an import licence from the Chief Controller of Imports is required. In the case of the public sector, the approval of the Department of Economic Affairs has to be taken for both 'visible' and 'invisible' expenditure.

Having determined the allocations, attention is to be paid to the other aspect of the foreign exchange budgeting referred to earlier, viz., the preparation of the balance of payments forecast for

the relevant period. This forecast attempts to assess the actual foreign exchange receipts from such sources as exports, invisible foreign exchange earnings, capital receipts, receipts from foreign loans and aids and, on the payments side, the estimates take account of payments for imports both on commercial as well as Governmental accounts, payments on account of invisible transactions as well as payments of a capital nature, including repayments of loans and credits. The difference between the total of the receipts and the total of the payments so estimated, represents the balance of payments deficit during the six monthly period in question and can be taken to be an index of the fall in the foreign exchange reserves during the budgetary period.

APPENDIX X.

Specimen Form of a Demand for Grant
Ministry of Finance
Demand No. 26

Stamps.

I Estimate of the Amount required in the year ending 31st March, 1961 to defray the charges in respect of Stamps. Voted — Two crores, Fortynine Lakhs and Twenty-two thousand rupees.

Charged — Ten lakhs and eight thousand rupees.

II. Sub-heads under which this Grant will be accounted for on behalf of the Ministry of Finance.

Major Head "9".	*Actuals* 1958-59	*Budget Estimate* 1959-60	*Revised Estimate* 1959-60	*Budget Estimate* 1960-61
A Non-Judicial A.1. Central Stamp Office, Calcutta.				
A.1.(1)-Pay of Establishments.	14,588	15,900	25,000	15,000
A.1.(2)-Allowances, Honoraria, etc.	18,347	19,800	34,500	20,500
A.1.(3)-Other Charges.	544	1,300	500	1,500
Total- Central Stamp Office, Calcutta.	33,479	37,000	60,000	37,000

III. The details are given below:—

Numbers.		C-General.		
1959-60	1960-61	C.1. India Security Press.		
		C.1.(1) - Press charges.		
		C.1((1)(1) Pay of Officers.	12,000	12,700
1	1	Master India Security Press (¾th of pay)		

Numbers			*Actuals* 1958-59	*Budget Estimate*	*Revised Estimate*	*Budget Estimate*
1959-60	1960-61			1959-60	1959-60	1960-61
1	1	Deputy Master India Security Press ..		13,000		13,500
2	3	Assistant Masters, India Security Press. ..		13,400		10,700 5,900
1	1	Labour Officer (10th of pay)		3,700		4,600
1	1	Deputy Controller of Stamps.		16,400		9,500
	1	Assistant ..				3,500
6	8	Total	55,883	58,500	54,500	60,400

IV. Details of recoveries adjusted in accounts in reduction of expenditure:—

BOMBAY

General India Security Press				
Leave and Passage Contributions.	68,119	73,000	71,000	71,000
Capital Outlay on India Security Press - met from Revenue:				
Amount provided for depreciation.	4,56,700	4,54,000	4,55,000	4,68.000
Total - Bombay	5,24,819	5,27,000	5,26,000	5,39,000

APPENDIX XI.

ALLOCATION OF TIME TO FINANCIAL BUSINESS

1. General Discussion on the Budget for 1959-60.	20 *hours (Excluding time for Government's reply)*

2. Demands for Grants Budget (General) in respect of Ministry of—

(1) Commerce and Industry	7 hours
(2) Community Development and Co-operation	8 hours
(3) Defence	6 hours
(4) Education	5 hours
(5) External Affairs	6 hours
(6) Finance (including Planning) ...	8 hours
(7) Food and Agriculture	8 hours
(8) Health	5 hours
(9) Home Affairs	8 hours
(10) Information and Broadcasting ...	4 hours
(11) Irrigation and Power	6 hours
(12) Labour and Employment	6 hours
(13) Law	5 hours
(14) Rehabilitation	4 hours
(15) Scientific Research and Cultural Affairs	3 hours
(16) Steel, Mines and Fuel	8 hours
(17) Transport and Communications ...	8 hours
(18) Works, Housing and Supply	4 hours
(19) Department of Atomic Energy ...	1 hour

APPENDIX XII.

LOK SABHA

Order of discussion and Voting on Demands for Grants (General Budget) for 1959-60 in the Lok Sabha

The Minister of Parliamentary Affairs announced in the House, the following order of discussion and voting on the Demands for Grants (General Budget) for 1959-60.

(1) Department of Atomic Energy ...	Monday, the 16th March, 1959.
(2) Ministry of External Affairs ...	Monday, the 16th March, 1959. Tuesday, the 17th March, 1959.
(3) Ministry of Education	Tuesday, the 17th March 1959.
(4) Ministry of Law	Wednesday, the 18th March, 1959 Thursday, the 19th March, 1959.
(5) Ministry of Home Affairs ...	Thursday, the 19th March, 1959 *Friday, the 20th March, 1959.
(6) Ministry of Irrigation and Power	Monday, the 23rd March, 1959.
(7) Ministry of Health	Thursday, the 26th March, 1959.
(8) Ministry of Information and Broadcasting ..	Thursday, the 26th March, 1959 *Saturday, the 28th March, 1959.
(9) Ministry of Steel, Mines and Fuel	Monday, the 30th March, 1959 Tuesday, the 31st March, 1959.
(10) Ministry of Works, Housing and Supply	Tuesday, the 31st March, 1959.
(11) Ministry of Scientific Research and Cultural Affairs	Wednesday, the 1st April, 1959.
(12) Ministry of Transport and Communications	Wednesday the 1st April 1959 Thursday, the 2nd April, 1959.
(13) Ministry of Labour and Employment	*Friday, the 3rd April, 1959 Monday, the 6th April, 1959.
(14) Ministry of Food and Agriculture	Monday, the 6th April, 1959 Tuesday, the 7th April, 1959.
(15) Ministry of Rehabilitation ...	Tuesday, the 7th April, 1959 Wednesday, the 8th April, 1959.
(16) Ministry of Defence	Wednesday, the 8th April, 1959 Thursday, the 9th April, 1959.
(17) Ministry of Community Development and Co-operation . .	Thursday, the 9th April, 1959 *Saturday, the 11th April, 1959 Tuesday, the 14th April, 1959.
(18) Ministry of Commerce and Industry	Tuesday, the 14th April, 1959 Wednesday, the 15th April, 1959.
(19) Ministry of Finance	Thursday, the 16th April, 1959 *Saturday, the 18th April, 1959.

APPENDIX XIII.

Position in United Kingdom, Canada and United States of America in relation to Parliamentary control over the borrowings of Government.

UNITED KINGDOM

The British practice is that the House of Commons alone can authorise borrowing. The authority may be a continuing one as it is now under the War Loan Acts, in the case of loans raised to repay existing obligations. Or it may be special, as it was in the case of Consols issued before the war. Some authority from the House of Commons there must be. Provisions in a Bill authorising the Crown to raise money by the issue of a loan are required to be based on a 'ways and means' resolution (e.g. War Loan Bill, Defence Loans Bill, National Loans Bill and Armed Forces (Housing Loan) Bill). Temporary borrowing by 'ways and means' advances and Treasury Bills is authorised by permanent statutes (Exchequer and Treasury Bills Act, 1866 and 1877).

For an addition to the national debt a resolution is introduced in the Committee of Ways and Means, authorising the loan. This passes committee and report stages, and is then embodied in a special Act, or in the next Consolidated Fund Act or Appropriation Act. However, the Treasury are allowed to issue the loan as soon as the resolution has passed the Committee of Ways and Means without waiting for the Act: but the Act must have been passed before the first payment of interest is made on the new stock.

CANADA

Canada follows more or less the same practice as is in vogue in the United Kingdom. There the normal practice is for the House of Commons to authorise all loans. When the Government wishes to add to the Dominion debt by borrowing, it introduces (usually through the Minister of Finance) a resolution in the House of Commons which is then discussed in a Committee of the Whole House. When the Committee of Ways and Means has passed and reported this resolution, it is embodied in a special Act, or in the next Appropriation Act, more often the latter. Ordinarily, the loan may be issued as soon as the resolution has passed the Committee without waiting for the passage of the Act; but the Act must be passed before the first payment of interest can be made on the new securities. Loan Acts ordinarily confer borrowing power on the Government sufficient to meet the normal requirements for two years. These Acts are not passed for specific loans.

UNITED STATES OF AMERICA

In the United States of America public borrowing has always to be authorised by law. The borrowing powers of the federal government are defined in the federal Constitution (Art. 1, Sec. 8, 2). The statutory limit to such federal borrowing is fixed by Congress, which alone can change it from time to time. The State Governments have full inherent powers to borrow, subject only to such limitations as have been provided in the federal Constitution (Art. 1, Sec. 10, 1) and their own constitutions. Local governments have only such powers of incurring debt as are delegated to them by State Constitutions and statutes. In 1937, all forty-eight States imposed debt limits upon some or all of their local governments; in thirty-six of the States these limits on local government debt were established by the State constitutions and therefore highly resistant to change Thirty-four State governments were limited in the amount of their borrowing by their constitutions.

Some State constitutions also cover various terms of State borrowing (e.g. interest rates, maturity period, etc.). In some states bond proposals are required to be submitted to the electorate by referendum.

The federal debt limit is stated in terms of an absolute number of dollars. Debt limits imposed on most State governments (27) are stated as an amount in dollars, ranging from $50,000 in the case of Rhode Island to $1,000,000 in the cases of Kansas and Pennsylvania. In a few States (6), the State debt limit is calculated as a percentage of the valuation of property within the State, ranging from 1 per cent. to 10 per cent. Debt limits for local governments are most frequently stated as percentages of property valuation, ranging from 1 to 20 per cent though in a few cases the debt is limited to an average of recent annual revenue receipts.

The present federal debt limit ($285 billion) was fixed by Congress in August, 1955. It will be examined again by Congress when the Executive makes a new request. This limitation is effected from time to time through an Act popularly known as the Public Debt Act.

The procedure followed in prescribing or raising the debt limit in U.S.A. is that the President transmits to the Congress a Message desiring the increase or a new prescription of the debt limit. The Chairman of the Senate and the Speaker of the House of Representatives lay before the Senate and the House respectively the President's message. The message, which may be accompanied by a statement presented by the Administration in support of the move, is immediately referred to the Committee on Finance of the Senate, and Committee on Ways and Means of the House of Representa-

tives for consideration and for reporting back to their respective Houses appropriate legislation on the subject.

The Chairman of the Committee of the Whole House on the State of the Union having reported the Bill to the House, the Bill is ordered to be endorsed and read a third time and adopted (or rejected as the case may be), after allowing for one motion to recommit before the final passage of the Bill.

The procedure in the Senate is that the message of the President is taken into consideration simultaneously with the House. While the Resolution on the debt limit is under passage in the House, it is also considered and reported back to the Senate by the Committee on Finance with such amendments as it considers necessary. In case there are some amendments of the Senate to the Bill as passed by the House, the Senate appoints a panel of conferees to consult their opposite numbers from the House of Representatives and difficulties are thus ironed out, and the Bill as amended and agreed to is passed by the House of Representatives or the Senate as the case may be.

The procedure in the Committee on Finance in the Senate and the Committee on Ways and Means in the House of Representatives in such cases is to hold their sittings in executive session and take testimony from the Members of the Administration, such as Secretary of the Treasury, before discussing the legislation and preparing a report to the House of Representatives or the Senate.

APPENDIX XIV.

Appropriation Account 1955-56, Civil, Ministry of Finance—Customs—Grant No. 26.

Major head and sub-head 1	Final grant or appropriation 2	Actual expenditure 3	Excess+ Saving— 4
Major Head 1-Customs.			
B-Sea Customs Charges at the Ports. B 1-Pay of Officers			
O 7,26,000 R 5,87,000	13,14,400	13,27,161	+12,761
B 2-Pay of Establishments O 52,85,400 R —7,64,700	45,20,700	45,49,492	+28,792
B 3-Overtime and Holiday allowances.			
O 14,09,400 R 1,56,400	15,65,800	15,19,920	—45,880

Col. 4. In Bombay, a fluctuating charge being dependent on the requirements of trade (Rs. 28,727), in West Bengal, less shipping (Rs. 11,189) and in Madras, non-payment of claims pending settlement of objection (Rs. 7,733); partly offset in Travancore-Cochin by adjustment under this sub head instead of B 4 (Rs. 1,352) and increase in over time postings (Rs. 417).

O — stands for original grant.

R — Reappropriation to (+) or from (—).

APPENDIX XV

Seating Plan of the Central Public Accounts Committee