

17. Assuming a capital inflow of the order envisaged in the programme, and the resultant increase of incomes as it is executed, it is estimated that internal finance to meet the cost of development over the six-year period could be made available as shown below :—

Table 6.—India : Internal Finance available for Development in the Public Sector, 1951-57

	Annual average	Rs. millions <i>Total</i>
Current Revenues of Central and State Governments	816	4,900
Surplus of state-owned enterprises (mainly railways)...	300	1,800
Net borrowings from the public	400	2,400
Proceeds of Railway Depreciation Fund	200	1,200
	<hr/> 1,716	<hr/> 10,300
	(£128 m.)	(£772 m.)

18. The estimate given above of the sums likely to be available for development out of the revenues of the Central and State Governments includes the revenue which is already being spent on development ; it also takes account of economies in public expenditure, which is now running at an annual rate of Rs.7,130 million. These economies are expected to release something like an extra Rs.1,100 million for development over the period. Allowance has been made for certain new forms of taxation which will be introduced. There is not, however, much scope for an increase in the yield of income tax, which is expected in the budget year 1950-51 to provide about a quarter of the total revenues of the Central and State Governments, estimated at Rs.7,115 million. The existing rate of income tax is only slightly less than in the United Kingdom and it is already acting as a disincentive to saving and investment. Some increased finance is also expected to become available from the earnings of State-owned enterprises.

19. The most careful plans have been made to stimulate domestic savings. The stagnation prevailing in the capital market has prevented any large-scale borrowing by the Government during the last two years. As inflation is brought under control, however, and real incomes rise, the capital market is expected to yield net subscriptions to public loans of the order of Rs.400 million per year. There are already some indications of a revival of the capital market. The Government have taken a series of measures for dealing with the problem of inflation. There is a comprehensive system of controls on prices, foreign exchange, imports and exports, and some essential commodities are subject to allocation. In recent years the Government have also taken steps to regulate credit facilities in order to discourage speculative holding of stocks. Trading in futures has been prohibited in certain commodities, and some commodity prices have been statutorily reduced. A vigorous drive for National Savings is in operation, and this offers various alternative schemes at the attractive rate of nearly 4.13 per cent. (simple interest) as compared with the current yield on long-term securities of 3.15 per cent. This is not likely, however, to produce spectacular results in view of the country's low level of income per head ; there is only a small margin left for saving ; this is largely in the hands of a section of the urban population, which has also to bear a relatively heavy burden of taxation. Acting on the advice of an Expert Committee which reported, recently, however, the Government have taken steps to extend banking to rural areas for the purpose of mobilising such savings as are available among the agricultural classes.