

Budget, 1938-39.

Finance Member's Speech.

India is a disappointing country for prophets. A very distinguished predecessor of mine described it to me as a land of unfulfilled prophecies. I don't know how far his experiences as Finance Member were responsible for this disillusioned judgment, but I can certainly say in my own case that my record in what I once called that minimum of prophecy inseparable from budget making would certainly not justify my setting up as a seer in other spheres. In extenuation I plead that in India we have to present our budget a month before the year to which it relates even begins, that the supply of statistical information follows a considerable time after the events to which it refers, that the budget of an agricultural country which is in fact a continent and which relies for its revenue so largely on indirect taxation is particularly sensitive to economic fluctuations, that the world at large on which India depends for its export markets is in constant change and disturbance and last but not least that in India we have just introduced the first stage of a new Constitution which has involved innumerable financial and economic adjustments.

With this preliminary warning or apology if you prefer to call it so, I turn to my task and I deal first with the year which ended on the 31st March last.

FINANCIAL YEAR 1936-37.

2. In our revised estimates for 1936-37 we anticipated a deficit of Rs. 1,92 lakhs. The actual deficit has turned out to be Rs. 1,79 lakhs but the net improvement of Rs. 13 lakhs is a complex of many more substantial pluses and minuses. Customs and central excise duties as a whole produced Rs. 22 lakhs more than expected. There were increases of Rs. 29 lakhs from the excise duty on sugar, Rs. 18 lakhs (net) from the export duty on jute and Rs. 18 lakhs from the duties on motor spirit. On the other hand there was a large shortfall of Rs. 35 lakhs under "Cotton fabrics not of British manufacture" and a deficit of Rs. 12 lakhs under "Silver". Currency and Mint receipts showed an improvement of Rs. 21 lakhs, but this was balanced by a decrease of a similar amount under Interest receipts owing to the fact that the interest earned by the securities held in our Silver Redemption Reserve was not sufficient to cover the depreciation in their capital value. Minor variations under other heads resulted in a net deterioration of Rs. 9 lakhs. As Hon'ble Members have already been informed in the Communications Member's speech introducing the Railway Budget the net revenues of the railways increased by no less than Rs. 1,02 lakhs, but under the arrangements which were then in force the whole of this increase was credited to the Depreciation Reserve Fund in partial repayment of the amounts withdrawn to meet the deficits of previous years, and general revenues were therefore not affected. It is interesting to note the main tendencies of the closing months of 1936-37 and to follow them into the succeeding year. In summary these are a rapid improvement in railway traffic and customs receipts the latter improvement concealing a rapid decline in the duties on the imports of silver and of cotton piecegoods. The import trade had clearly already begun to respond to the strong stimulus provided by the marked expansion of our exports, and to take that upward turn which was to continue throughout the rest of the calendar year 1937.

FINANCIAL YEAR 1937-38.

3. Our revised estimates show a total improvement of Rs. 3,90 lakhs in revenue, but as there is an increase of Rs. 3,22 lakhs in expenditure the net improvement is only Rs. 68 lakhs. The budget estimates provided for a nominal surplus of Rs. 7 lakhs after the utilisation of the whole of the Revenue Reserve Fund of Rs. 1,84 lakhs. According to the revised estimates we shall require only Rs. 1,09 lakhs from the Fund and shall be able to carry forward the remaining Rs. 75 lakhs to the year 1938-39.

4. Before referring to the main causes of these variations I should like to remind the House of the additional liabilities which we have had to undertake this year in connection with the separation of Burma and the inauguration of Provincial Autonomy. I said last year that the net loss on account of the separation of Burma was expected to be Rs. 2,33 lakhs. In arriving at this figure we allowed for a receipt of Rs. 3,23 lakhs in respect of the first of the annual payments to be made by Burma under the Amery Award. I mentioned, however, that this was only a provisional figure. The actual amount payable is now expected to be approximately Rs. 3,05 lakhs. Thus we are about Rs. 18 lakhs worse off as a result of separation than we calculated last year.

As regards the Provinces we anticipated debits amounting to Rs. 1,97 lakhs, partially offset by a small credit of Rs. 12 lakhs—a net deficit of Rs. 1,85 lakhs. The debits consisted of the following three items:—

- (1) Additional payments to Provinces from the proceeds of the export duty on jute—Rs. 51 lakhs;
- (2) Additional grants-in-aid to deficit Provinces—Rs. 56 lakhs; and
- (3) reduction in interest receipts—Rs. 90 lakhs.

The amount of the grants-in-aid are fixed under the Niemeyer award, but the additional 12½ per cent. payable out of the jute duty will cost 54 lakhs, and the loss on account of interest has proved to be about a crore instead of Rs. 90 lakhs. This is due to the fact that the balances made over to the Provincial Governments at the end of March 1937 were in some cases larger than we had expected, and they were therefore entitled to have a larger amount of debt set off under the debt settlement scheme. As a result of these increases we now estimate the extra liabilities incurred by the Central Government at Rs. 2,51 lakhs in the case of Burma and Rs. 1,98 lakhs in the case of the Provinces or Rs. 4,49 lakhs in all.

5. There is one other adjustment which I can conveniently mention at this stage. I said last year that the capital element in the instalments payable by the Provinces would be taken straight to the reduction of debt outside the budget. But in this first year owing to a change of the dates of payment made to suit the convenience of Provinces the equated instalments contain a larger element of capital and a smaller element of interest. I propose to adjust this in the accounts by making a reduction of Rs. 48 lakhs in the current year's provision for Reduction and Avoidance of Debt. I should like to assure Hon'ble Members that this is in effect an accounting change only and it does not at all represent a diminution of the actual amount allocated to debt redemption nor a conversion on my part to the imaginative school of finance.

6. Apart from the financial benefits which the Provinces received before and upon the introduction of Provincial Autonomy, the improvement in railway revenues makes it possible to begin the distribution of income-tax receipts under the Niemeyer award in the current financial year. As Hon'ble Members have already learnt, the net surplus of the Railways for the current year is now expected to be Rs. 2,83 lakhs. In order to arrive at the amount payable to the Provinces it is necessary to deduct from our total receipts in respect of Taxes on Income other than Corporation Tax the amounts attributable to (1) taxes collected in central areas, (2) taxes on salaries paid from central revenues, and (3) cost of collection. It is anticipated that the balance remaining after these deductions will be Rs. 11,55 lakhs. To this figure is added the amount of the railway surplus and the combined total less 13 crores is the amount distributable to the Provinces. In effect then we are entitled to retain Rs. 1,45 lakhs out of the railway surplus, and the amount of income tax distributable to the Provinces is consequently estimated at Rs. 1,38 lakhs. I am well aware that the returns of railway revenue for the early months of the year had given rise to hopes that the amount available for distribution might be considerably larger. They have also given rise to some highly coloured calculations in the Press. Naturally I am as disappointed as anyone else that these roseate dreams have not proved to be solid fact. But on the other hand a year ago nobody expected a distribution at all and moreover when the Niemeyer Award was announced there were gloomy forebodings—I think officially expressed by some of the Provinces—that the provision for conditional payments during the first five years was likely to prove a dead letter. The actual distribution will take place towards the end of March on the basis of the best revised forecast then possible and adjustments will be made on the basis of audited accounts in the following year.

7. Perhaps I may pause here and remind Hon'ble Members of the new charges which have been imposed on the central budget in recent years in the interests of the Provinces. I leave out of account the abandonment of the 9 or 10 crores of contributions under the Meston settlement. There are the Rs. 1,98 lakhs I have just given as the cost of the Niemeyer settlement plus Rs. 1,38 lakhs of income tax to be devolved. There are the grants of the previous year to Sind and Orissa amounting to Rs. 1,58 lakhs plus the original 50 per cent. of the jute duty now reckoned at Rs. 2,19 lakhs. There are the Road Fund grants of Rs. 1,41 lakhs and smaller recurring grants adding up to Rs. 16 lakhs a year all told—altogether a grand total of nearly 9 crores leaving out of account the 2½ crores for Burma. And I ask those who sometimes condemn the attitude of the Government of India towards Provincial aspirations to reflect that more than 20 crores of revenue have been relinquished to Provinces since the war and that under the Niemeyer Order-in-Council we are under an obligation to release a further 5 or 6 crores.

Revenue.

8. I now come to the revised estimates of revenue for 1937-38 and I remind Hon'ble Members of the summary which I gave of the trends which manifested themselves in the last quarter of the previous year, viz., a rapid improvement in railway traffic and customs receipts generally the latter concealing a rapid decline in the duties on the imports of silver and of cotton piecegoods. The increase in railway returns continued until the autumn and was then replaced by a steep decline from the figures of a year before. The decline is too serious for us to hope that it will shortly be reversed but we can

at any rate hope that it will become less steep and this is the basis of the estimate of a total railway contribution of Rs. 2.83 lakhs. Customs and central excise receipts continued to advance until the end of the calendar year but in December the percentage of improvement was lower than in the preceding months, and the returns of January of this year confirm the flattening of the curve. Our revised estimates are therefore less satisfactory than at one time seemed probable. Let me deal with these estimates in a little more detail.

9. *Customs and Central Excise Duties*.—I have already mentioned that the decline in the revenue from imports of silver and cotton piecegoods which was noticeable in the closing months of 1936-37 has continued into the current year. The actual decreases in our revised estimates for these items as compared with our budget estimates are as follows :—

Silver	1,28 lakhs.
Cotton fabrics of British manufacture	59 lakhs.
Cotton fabrics not of British manufacture	70 lakhs.

As regards silver I can only say that this is an item for which accurate budgeting is exceptionally difficult, and that an increase in imports of other commodities seems frequently to coincide with a decrease in imports of silver. The decrease under "Cotton fabrics not of British manufacture" is of course due to the war between Japan and China, but it is noticeable that British piecegoods have not participated in the resultant advantage to Japan's competitors in the Indian market. That advantage has accrued entirely to the domestic producer, whose steadily increasing out-turn has been accompanied by a steady decline in our total imports from abroad and in the revenues which we have derived from them.

In spite of these large decreases our revised estimates for customs and central excise duties combined show a total net improvement of Rs. 1,91 lakhs. The improvement is spread over a wide range of articles included in the non-protective part of the tariff, and is largely accounted for by the increased imports of durable and semi-durable goods. Thus machinery is responsible for an additional Rs. 42 lakhs and motor vehicles for an additional Rs. 41 lakhs. There is also an increase of Rs. 45 lakhs from motor spirit.

10. *Taxes on Income*.—Our total revised estimate, including corporation tax and the other elements which are wholly central, is Rs. 15 crores as compared with the budget estimate of Rs. 14,30 lakhs, an improvement of Rs. 70 lakhs. This indicates that the progress of recovery in the country as a whole was not seriously interrupted during the previous year in spite of the temporary decline in imports which was reflected in our receipts from customs duties. The figure of Rs. 15 crores will in our accounts be reduced to Rs. 13,62 lakhs on account of the assignment of Rs. 1,38 lakhs to the Provinces, the gross railway contribution of Rs. 2,83 lakhs being, of course, taken to revenue in full.

11. *Other revenue heads*.—We expect an improvement of Rs. 10 lakhs under Salt and an improvement of Rs. 17 lakhs under Mint, which is due to an increase in the absorption of small coin. On the other hand there are two decreases which I must briefly explain :—

(1) The first is a decrease of Rs. 9 lakhs under "Payments from Indian States". This is due to the decision that in cases where the tribute paid

by an Indian State exceeds 5 per cent. of the total revenue of the State the excess over that percentage should be remitted. The Indian States Enquiry Committee of 1932 strongly recommended that such remissions should be granted as a first step towards redressing inequalities, irrespective of any arrangements which might be made in connection with the accession of the States to the Federation. We acknowledged the justice of that recommendation but found ourselves unable to implement it at that time. However now that a distribution of income-tax to the Provinces is being made it is unjustifiable to postpone further the removal of this grievance.

(2) The second item is a decrease of Rs. 39 lakhs under Currency. This arises from a reduction in the surplus profits of the Reserve Bank. Under section 33 of the Reserve Bank of India Act the sterling securities held in the Issue Department of the Bank must be "Government securities of the United Kingdom maturing within five years". There is, however, a proviso which allowed the Bank to hold longer-dated securities during the first two years of its existence. Consequently the full effect of the restriction has only been felt during the current financial year, and owing to the very low rates of interest which have been obtainable on short-dated sterling securities the effect has been more marked than we had anticipated. It is obviously desirable that the resources of a Central Bank should be held in as liquid a form as possible, and the restriction was deliberately inserted for this purpose. The reduction in the surplus must therefore be regarded as a part of the price which we have to pay for the strength of the Bank's present position.

12. *Posts and Telegraphs*.—The budget and revised estimates for the Posts and Telegraphs Department are as follows :—

	Budget, 1937-38.	Revised, 1937-38.
(in Lakhs)		
Gross receipts	11,16	11,46
Working expenses and interest charges	11,12	11,03
	4	43

Thus on the basis of the present accounting system the net receipts of the department are expected to amount to Rs. 43 lakhs against our budget estimate of Rs. 4 lakhs. The decrease in expenditure is mainly due to the postponement of the Empire Air Mail Scheme, and the improvement in revenue is due to increased receipts from telephones and from the sale of stamps. This improvement must be attributed to the general increase in trade activity which is reflected also in our customs estimates, but I might add that in the Posts and Telegraphs Department also the receipts began to show a decline at the beginning of the present calendar year. I propose to defer further comments on the financial position of the department until I come to next year's estimates.

Expenditure.

13. *Defence Services*.—I said that we now expect a total increase of Rs. 3,22 lakhs in expenditure. Out of this total Defence Services account for Rs. 2,60 lakhs. The most important single item is of course the cost of the military operations in Waziristan, which is now estimated at Rs. 1,76 lakhs. Another considerable item is the abandonment of the Lahore abattoir and the associated scheme for the establishment of cold storage facilities in northern India. It was originally anticipated that this might cost the taxpayer as much as Rs. 50 lakhs, but our latest estimate is only Rs. 26 lakhs. Here I might perhaps be

allowed to digress for a moment to pay a tribute on the one hand to the very reasonable attitude adopted by the majority of the firms and contractors in their claims against Government, and on the other to the skill of those entrusted with the negotiations on the Government side. In particular, I should like to acknowledge the very great value of the work done by Sir James Pitkeathly, the Chief Controller of Stores, who has taken a leading part in the negotiations.

The balance is made up of a variety of smaller items, the most important of which are :—

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| (1) Additional expenditure on the reconstruction of Quetta | Rs. 10 lakhs. |
| (2) Rise in prices | Rs. 10 lakhs. |
| (3) Initial expenditure on the reorganisation of the British Cavalry and Infantry . . . | Rs. 8 lakhs. |
| (4) Increased cost of British troops occasioned by the grant by His Majesty's Government of various improvements in the conditions of service in an attempt to arrest the growing shortage of recruits | Rs. 16 lakhs. |

I shall refer to the last two items again when I deal with the estimates for 1938-39, but I should say now that the last is a net figure after allowing for a certain shortage of British troops.

14. *Interest.*—Apart from the special adjustment as between Capital and Interest which I have already mentioned we now expect an increase of Rs. 72 lakhs under Interest. This is almost entirely due to Post Office Cash Certificates. During the last two years our disbursements on this account have been exceptionally high owing to very large maturities of certificates issued at a high rate of interest. We have met a part of this liability from a special fund which was built up during years when our actual disbursements were much lower, but unfortunately the fund was only started a considerable time after the inception of the Certificates and sooner or later a shortage in it was bound to occur. The actual figure for the interest disbursed in 1936-37 proved to be Rs. 36 lakhs above even the revised estimate owing to an increase in the rate of encashments. Consequently the balance remaining in the fund for the current year was only Rs. 1,16 lakhs instead of Rs. 1,52 lakhs. It now appears that our budget estimate for this year will also be exceeded by about Rs. 35 lakhs. The combined effect of these two excesses is an increase of Rs. 71 lakhs in the total amount to be met from revenue during the current financial year. Fortunately we have now passed the peak, since the certificates maturing next year bear a lower rate of interest and the amount payable will be correspondingly less. On the other hand it must be remembered that there is no longer anything left in the fund.

15. *Other expenditure heads.*—The only other item which I need mention at this stage is an increase of Rs. 25 lakhs under Tribal Areas. This is accounted for by the construction of roads in connection with the Waziristan operations. The figure would have been Rs. 49 lakhs but for the fact that we have utilised the balance of the fund set aside for roads in Tribal Areas to meet part of the cost of the Waziristan roads. Altogether it will be observed that of the total increase in expenditure of Rs. 3,22 lakhs the Waziristan operations and Interest together are responsible for no less than Rs. 2,73 lakhs.

WAYS AND MEANS.

16. At this stage it will be convenient to interpose the usual digression regarding ways and means.

New Loans.—No Government of India loans matured during 1937-38. This enabled us to leave the field clear for the Provinces during the first year of Provincial Autonomy. Loans were raised by five Provincial Governments and on the advice of the Reserve Bank they took the form of a simultaneous issue of 3 per cent stock at an issue price of 99 and redeemable in 1952. Next year we shall have the option of redeeming the Government of India 5½ per cent loan 1938-40. The amount outstanding in respect of this loan is a little over Rs. 19 crores. The time and manner of the redemption of the loan will of course depend on market conditions and on our ways and means position.

17. *Cancellation of sterling debt.*—During the current year the average market prices of our sterling securities have been appreciably lower than those of the corresponding rupee securities. As the Reserve Bank was in a position to provide the necessary exchange without difficulty we decided to take the opportunity of effecting some repatriation of our sterling debt. The Bank was therefore authorised to purchase our sterling securities in the open market as amounts became available and to transfer the securities so purchased to us for cancellation. The total nominal value of the securities cancelled in this way in the course of the year is about Rs. 4 crores. Out of this total approximately Rs. 2,87 lakhs consist of terminable securities. In their case the cost of cancellation has been met from our ordinary resources in India, and on the basis of our present borrowing rates they represent a profitable investment. The balance of slightly over one crore consists of non-terminable securities. In connection with these purchases we created additional rupee paper of the 3½ and 3 per cent non-terminable loans up to the same nominal value and this has been issued gradually by the Reserve Bank in accordance with the requirements of the market. Since the average sale price has been some four points higher than the average purchase price of the sterling stock, we have made a saving of over Rs. 4 lakhs on the transfer. We are not taking any credit to revenue in respect of this saving, but it will constitute a small additional contribution towards the redemption of debt. I should like to acknowledge the value of the advice and co-operation which we have received from the Reserve Bank in connection with these operations.

18. *Other sterling liabilities.*—Sterling railway debentures amounting to about £1½ millions have been repaid during 1937-38 and a further £4 millions will probably be redeemed next year. In addition to this we expect by the end of the current year to have transferred about £4 millions to the Commissioners for Family Pension Funds, leaving a balance of about £6 millions to be transferred next year. It would of course be inconvenient both from our point of view and from that of the Commissioners to transfer so large a sum in one instalment, but we hope that the transaction will be completed before the end of 1938-39 in order that we may obtain the benefit of the resulting reduction in interest charges. Incidentally I may mention that this transfer represents a definite diminution of our external obligations.

19. *Treasury Bills.*—Last April the Reserve Bank returned 5 crores of rupees under section 36 (1) of the Reserve Bank of India Act, and payment was made in the form of treasury bills. An additional 5 crores will almost certainly be returned next year. In spite of these transactions and the special

sterling disbursements which I have already mentioned we estimate that we should be able to meet all our requirements, including the additional capital expenditure of the railways and other departments, by a total increase in treasury bills of about 11 crores during the two years. With this increase the amount outstanding at the end of 1938-39 would be between 39 and 40 crores. This of course includes both the bills held by the general public and the bills issued to the Reserve Bank. At the beginning of the current month the Bank's share was roughly 45 per cent. of the total.

In connection with these estimates I should perhaps explain the arrangements which we have made to facilitate the investment of provincial balances. It was originally proposed that if the Provinces wished to invest their surplus balances in treasury bills they would have to compete for the bills which are sold each week by public tender. On reconsideration we felt that this procedure might cause some inconvenience both to the Provinces and to the market. In the absence of previous experience the Provincial Governments would have had difficulty in estimating the rates at which they should tender, and if in certain weeks they succeeded in obtaining a large proportion of the total amount offered there would be undesirable fluctuations in the amount available for the market. It was therefore decided that during the initial period the Reserve Bank should try to meet the requirements of the Provinces from its own holding of treasury bills. About Rs. 4½ crores of the total amount at present outstanding represents bills transferred in this way to the Provincial Governments. The arrangement has so far worked satisfactorily and the Bank has agreed to continue it for the present, but the question may have to be reconsidered in the light of further experience.

✓ 20. *Post Office Cash Certificates and Savings Bank Deposits.*—Our revised ways and means estimate allows for a net repayment of Rs. 4 crores in respect of cash certificates as compared with the budget estimate of Rs. 1½ crores, and we are assuming a further net repayment of Rs. 3½ crores next year. If these estimates prove to be correct our total liabilities in respect of cash certificates will still amount to the substantial figure of Rs. 56.9 crores and at the moment I see no reason to regret that the total is not being further increased. The reduction in the rate of interest has naturally made the certificates less attractive to the wealthier classes; but at the present level of 2½ per cent they still offer to the small investor—and it was for his benefit that they were intended—a better return than he can obtain from any other investment of comparable security and liquidity.

Savings Bank deposits continue to increase, although not quite so rapidly as we had anticipated. In the budget estimates we assumed a net increase during the year of Rs. 6½ crores excluding interest. The actual increase during the first seven months was Rs. 3.82 lakhs, but during November and December the seasonal decline in net deposits was somewhat greater than usual and indeed in these months deposits did no more than balance the withdrawals. This was probably due in the main to the delay in the movement of the cotton crop. In January deposits have again increased and since the rate of interest is appreciably more attractive than that offered by the banks in respect of similar accounts I see no reason to anticipate that the increase will not continue in later months. Our latest estimates provide for an increase of Rs. 4½ crores in the current year and Rs. 5 crores next year.

21. *Provincial requirements.*—Last year I said that in addition to the two crores payable to Burma we expected to transfer to the Provinces on the 1st of April 1937 a total sum of Rs. 8.60 lakhs on account of certain balances which

the Central Government had previously held on their behalf. These balances proved to be higher than we had anticipated and the actual amount transferred is approximately Rs. 10,70 lakhs.

22. *Remittance.*—During the current year there has been a considerable decline in our favourable balance of trade, and this seems to have coincided with an increase in private remittance for purposes of investment. These two factors have naturally resulted in a decrease in the amount of sterling offered to the Reserve Bank. In the first nine months of the year the Bank's purchases amounted to only £11½ millions as compared with £26½ millions in the corresponding period of the previous year, but in recent weeks large tenders have again been received. In view of the Bank's strong sterling position the delay has caused no serious inconvenience and exchange has remained steady throughout the year.

FINANCIAL YEAR 1938-39.

23. Honourable Members will remember that on the basis of our revised estimates for the current year we expect to require Rs. 1,09 lakhs out of the Revenue Reserve Fund in order to balance the budget, thus leaving Rs. 75 lakhs available for next year. Apart from this Rs. 75 lakhs our estimates for ordinary revenue amount to Rs. 85,17 lakhs as compared with Rs. 85,54 lakhs in the revised estimates, a decrease of Rs. 37 lakhs.

Revenue.

24. *Customs and Central Excise Duties.*—I must first try to explain the basis of our estimates for customs and excise revenue. Such estimates are necessarily subject to a considerable margin of error but we are bound to take note of the arrest which has shown itself in January of the previous upward tendency and in view of this we should certainly not be justified in expecting the maintenance of the current year's figures. This check may be attributed to the setback which has manifested itself primarily in the United States of America but which has also spread eastward. The Indian cotton grower has already been affected, and there are other economic indices which point in the same general direction. There has been a decline in our favourable balance of trade. I need not quote the figures of that balance which related to India and Burma combined, but for India alone the favourable balance during the first nine months of 1936-37 was Rs. 44,20 lakhs, while during the first nine months of the current year it is Rs. 27,56 lakhs. The difference is therefore over Rs. 16½ crores. The large increase in imports and consequently in customs revenue during the first nine months of the current year must be attributed to a considerable extent to the favourable balance of last year, and the decline in the balance is bound to have some effect on our imports next year—indeed it is already having its effect. It should also be remembered that since most of our customs duties are on an *ad valorem* basis an increase in prices automatically involves an increase in customs revenue. There was a marked increase in the general level of prices in the later months of 1936-37 and the early months of the current year, but recently the tendency has been in the opposite direction. There are of course certain items in our customs schedule which are likely to increase irrespective of general trade conditions. Motor spirit, for example, is almost certain to be an increasing source of revenue in view of the steady growth in the number of motor vehicles

in use in India. But it seems probable that such items will be more than balanced by decreases in other imports. Taking all these factors into consideration we have assumed a net reduction of Rs. 60 lakhs as compared with the revised estimates for the current year.

25. As I have said the real reduction under Customs and Central Excise Duties is Rs. 60 lakhs, but the budget statements show a reduction of only Rs. 10 lakhs. This apparent discrepancy is explained by two changes in accounting procedure :—

(1) The first change relates to our revenue from the excise duty on matches. We have hitherto treated the share which is payable to the Indian States as a deduction from revenue, but it has now been decided that such disbursements would be more correctly classified as expenditure. This accounts for an increase of Rs. 32 lakhs, which will of course be balanced by a corresponding increase on the expenditure side.

(2) The other Rs. 18 lakhs represent the duty on petrol and kerosene supplied for the Defence Services. The duty on such supplies has previously been remitted, but we have now decided to bring the procedure into line with that which is adopted in connection with other goods imported for the use of Government Departments. In this case also there will be a corresponding increase in expenditure.

26. *Taxes on Income*.—As Hon'ble Members are aware I hope shortly to be in a position to introduce an Income-tax (Amendment) Bill. The first effect of this Bill should be a considerable increase in revenue but none of this can accrue before 1939-40 and even so for that year and two years thereafter practically the whole benefit will go to the Provinces. After that one-half of the benefit will revert to the Centre. So far as the next year is concerned I feel justified in budgeting for an improvement of Rs. 25 lakhs in view of trade activity during the major part of the current year and in view of the efforts which we are making to tighten up the administration. Unless railway revenues should fall far below our expectations the greater part of this increase also will of course benefit the Provinces and not the Central Government. If our estimates for taxes on income are realised we calculate that on the basis of the railway estimates presented by the Communications Member for next year the amount of income-tax available for distribution to the Provinces should be Rs. 1.28 lakhs, which is equivalent to our retaining about one-half of the estimated railway surplus.

27. *Other revenue heads*.—We are allowing for a decrease of Rs. 20 lakhs in mint receipts as compared with our revised estimate for 1937-38. The absorption of small coin during the current year has been exceptionally high, and we cannot expect this to continue on the same scale. There will also be a reduction of Rs. 5 lakhs in the portion of the Burma payment which relates to pensions, and we shall have to pay to Burma a share of the amounts which we shall receive during the current year on account of coinage profits and the surplus of the Reserve Bank. This payment is expected to amount to about Rs. 6½ lakhs. On the other hand we expect small increases in our interest receipts and in our receipts from certain minor sources of revenue. The net result of all these variations is an improvement of Rs. 8 lakhs.

28. *Posts and Telegraphs*.—Before I deal with the ordinary revenue and expenditure estimates of the Posts and Telegraphs Department I should perhaps mention a small change of procedure in connection with the provision of

capital for telephone projects. To enable such projects to be undertaken with the minimum of delay we propose to create a special Telephone Capital Fund, the balance of which will not lapse at the end of the year, and we are providing for a capital grant to the fund of 2½ crores to cover expenditure for the next 5 years. We expect to spend Rs. 40 lakhs in 1938-39. Each project will continue to be scrutinised as carefully as in the past, but we hope to be able by means of the fund to dispense with some of the formalities which at present impede the department from going ahead as fast as they should with this remunerative branch of their activities.

29. As regards the ordinary revenue and expenditure of the department I mentioned in connection with this year's revised estimates that the increase in the surplus was partly due to the postponement of the Empire Air Mail Scheme. Next year the scheme will be in operation, and the net cost to the Posts and Telegraphs Department is expected to be about Rs. 11 lakhs. The surplus will be further reduced below the figure of 1937-38 as a result of two decisions which have recently been reached :—

(1) The first of these relates to the provision for the payment of the commuted value of pensions. In their report on the accounts for 1935-36 the Public Accounts Committee recommended that these charges should in future be met from current revenues instead of being charged to capital in the first instance. This recommendation is particularly important in the case of the Railways and the Posts and Telegraphs Department, since if a commercial department is to be worthy of the name it should obviously meet its own current liabilities. We have therefore decided to introduce the change, so far as these two Departments are concerned, from the next financial year. This decision will increase the expenditure of the Posts and Telegraphs Department next year by about Rs. 18½ lakhs.

(2) The second decision is that regular arrangements should now be made for the repayment of the accumulated losses on account of press telegrams. These losses have been treated as a separate liability and have not been taken into account for the purpose of calculating the surplus or deficit on the ordinary working of the department. The amount now outstanding is Rs. 2,04 lakhs. One-half of this amount will be repaid immediately out of the balance in the Renewals Reserve Fund. The remaining Rs. 1,02 lakhs will be repaid partly from the portion of the current year's surplus which is not allocated for the cancellation of other past deficits and partly by means of equated annual instalments. The first of these instalments, *plus* the loss of interest on the Renewals Reserve Fund, will involve a further reduction of about Rs. 13½ lakhs in the net surplus. The lump sum repayment of Rs. 1,02 lakhs will be treated as a capital receipt, but since the losses were financed partly from current revenues the annual instalments will be credited to revenue, and the loss of interest also involves a corresponding credit in the civil budget.

30. After these adjustments have been made the net revenue of the department is expected to be just sufficient to balance the expenditure. It should be clear from what I have said that this result represents the financial position of the department much more accurately than the anticipated surplus of the current year. Before a commercial department can be regarded as paying its way it must be in a position to meet all the charges which are correctly attributable to its activities. Hitherto the Posts and Telegraphs Department has not satisfied this condition.

Expenditure.

31. *Defence Services.*—The total provision for the Defence Services is Rs. 45,18 lakhs. This is Rs. 2,04 lakhs less than the revised estimate for the current year but Rs. 56 lakhs more than the budget estimate. As I have already mentioned, Rs. 18 lakhs of this increase is due to a change in accounting procedure in connection with the duty on petrol and kerosene, so that the real increase is Rs. 38 lakhs.

32. Before I explain how this increase is arrived at it will be convenient to mention two agreements which have been concluded in recent months with His Majesty's Government on the subject of defence expenditure in India. The first relates to His Majesty's Government's contribution of Rs. 80 lakhs towards the capital cost of mechanising the British Cavalry and Infantry; the agreement is fresh in the minds of Hon'ble Members, and I do not, therefore, propose to say any more about it except to remind the House that the contribution is payable in three instalments of which the first instalment of 27 lakhs is to be paid in 1938-39.

33. Being an incurable optimist, I hope that the second agreement will escape the barrage of criticism which greeted the first. The agreement relates to Naval expenditure. The Government of India in conjunction with the Admiralty have recently had under examination the question of India's Naval Defence. Under long standing arrangements India pays a direct contribution of £100,000 a year to His Majesty's Government in the United Kingdom towards the Naval Defence of India and the protection of trade in alien waters, and also defrays various miscellaneous charges amounting to 2 or 3 lakhs a year on behalf of vessels of the Royal Navy. The conversion of the Royal Indian Navy into a combatant service capable of assisting in the work of the Royal Navy in war and the steps which are being taken by the Government of India to build up their local naval defence rendered it desirable to review existing arrangements. Accordingly in order that the necessary measures for the development of the Royal Indian Navy might be accelerated, the Government of India requested His Majesty's Government to forgo the annual payments hitherto made. This has been agreed to by His Majesty's Government on condition that the Government of India maintain a sea-going fleet of not less than six modern escort vessels which will be free to co-operate with the Royal Navy for the defence of India and in addition fulfil their responsibility for local naval defence of Indian ports. The Government of India have accepted these conditions, and their contribution will cease as from April 1st, 1938.

34. As I have said the real increase in the provision for the Defence Services as compared with the current year's budget is Rs. 38 lakhs. But in order to arrive at the total amount available for additional items of expenditure we must add to this figure the contribution of Rs. 27 lakhs from His Majesty's Government and also a sum of Rs. 90 lakhs which represents the net saving resulting from the temporary shortage of British troops in India after allowance has been made for the extra cost of the improved conditions of service to which I have already referred. The total to be accounted for, apart from the remission of the contribution to the Admiralty, is therefore Rs. 1.55 lakhs. Of this, Rs. 70 lakhs are absorbed by an increase in the normal standing charges of the Army, the more important items contributing to this increase being Rs. 21 lakhs under Ordnance Services, and the restoration of cuts amounting to about Rs. 24 lakhs made last year in the sums required for the equalisation of expenditure on the Royal Indian Navy and mechanical transport. The balance of 85 lakhs will be expended on the mechanisation of the British Infantry and Cavalry.

35. I have now accounted for the sums which are to be provided from revenue next year for defence purposes. But this does not exhaust the defence programme in 1938-39. We propose to supplement the budget grant by the remaining "free" balance in the Defence Reserve Fund, amounting to Rs. 35 lakhs and by drawing on balances in military expenditure equalisation funds which are not immediately required. The amount so drawn will be Rs. 45 lakhs. Among measures which will be financed, or for which we are earmarking funds in this way, are improvements in our coast defences, the erection of a factory to make India self-sufficient in the matter of high explosives and the mechanisation of certain Indian units, a scheme for which is now under consideration.

36. Last year I warned the House that the net figure for defence expenditure had only been achieved by the help of a curtailment of services which were bound to be provided for sooner or later, and that His Excellency the Commander-in-Chief considered the provision to be seriously inadequate for the real needs of defence. In view of the present world situation and the large increase in defence expenditure of almost all other countries, I do not think Hon'ble Members will be surprised that some increase has also been found necessary in India. Indeed we shall have cause to congratulate ourselves if it proves possible to keep down the increase to such modest proportions.

37. *Interest.*—As I mentioned in connection with the revised estimates for 1937-38, there will be a reduction next year in the amount payable on account of Post Office Cash Certificates. We are actually budgeting for a decrease of Rs. 1,51 lakhs but as we are, during the current year, meeting Rs. 1,16 lakhs of the disbursements from the balance remaining in the Cash Certificates Bonus Fund, the decrease in the amount to be provided from revenue is Rs. 35 lakhs only. This saving, and the saving due to the transfer of the Family Pension Funds to Commissioners, are partially counterbalanced by increases under other heads, notably interest on Post Office Savings Bank Deposits and interest on the Railway Depreciation Fund. The result of all these variations is a net decrease of Rs. 22 lakhs.

38. *Other items.*—Apart from the provision made for the Defence Services and for Interest, our expenditure estimates show a net increase of Rs. 1,46 lakhs as compared with the current year's revised estimates. As I have already explained, however, Rs. 32 lakhs of this increase is due to a change in the accounting arrangements in connection with the proceeds of the excise duty on matches; and there are three other items which are directly connected with specific increases in revenue:—

(1) The first of these is an increase of Rs. 16 lakhs in the provision for the payments made to the States of Cochin and Travancore under the Cochin Port Agreement. This is due to the increase in the customs revenue collected at the port during the current year.

(2) The second item is an increase of Rs. 29 lakhs in the allocation to the Road Fund. This is of course based on the anticipated revenue from the customs and excise duties on motor spirit.

(3) The third item is an increase of Rs. 10 lakhs in the provision for expenditure on sugar research partly due to the expectation that we shall have to pay out more in grants to the Provinces from that portion of our sugar excise revenue which has been set aside for this purpose since the imposition of the tax.

39. After these items have been deducted there remains a net increase of Rs. 59 lakhs. This is the result of variations under a large number of different heads. Increased expenditure on the reconstruction of civil buildings at Quetta accounts for Rs. 15 lakhs, and there is an increase of Rs. 12 lakhs in the provision for the Stationery and Printing Department. This is necessary partly owing to a rise in prices and partly in order to replenish stocks which have become seriously depleted through efforts to keep within the budget allotments of previous years. Other increases are due to the needs of expanding departments such as Civil Aviation and Broadcasting, to our efforts to improve the administration of the revenue producing departments, and to unavoidable new items of expenditure such as the Federal Court.

40. *Summary.*—I can now summarise the position. As I have said, the provision for the Defence Services is Rs. 2,04 lakhs less than the revised estimate for the current year and there is a decrease of Rs. 22 lakhs in interest charges, but other expenditure is expected to increase by Rs. 1,46 lakhs. The net decrease is therefore Rs. 80 lakhs, as compared with a decrease of Rs. 37 lakhs in revenue apart from the Revenue Reserve Fund. If we include the balance of Rs. 75 lakhs remaining in the fund the total figures are as follows :—

	(lakhs).
Revenue	85,92
Expenditure	85,83
<u>Surplus</u>	<u>9</u>

41. After the flamboyant forecasts of some of our more imaginative journalists this result will appear somewhat disappointing. Certainly I myself am deeply disappointed. For one thing we are still, apart from the carry forward in the Revenue Reserve Fund, more than half a crore short of true equilibrium. Secondly it is clear that the greatest care will be necessary in conserving the central revenues if the fulfilment of the Nijemeyer programme is to be reasonably assured and finally there can be no immediate expectation of a devolution to the Provinces out of our present central resources beyond that provided for in that programme. During the current year there can clearly be no large central grants for social expenditure, but in any case with the inception of Provincial Autonomy I personally should be inclined to rank this objective after that of the provision of free money for the Provinces. But there is an objective even more important than that, namely, to ensure so far as is humanly possible the stability of our central finances. Without this Provincial advance or even stability is impossible and the fortunes of the Provinces are in the end so inextricably mixed with ours that they cannot prosper without a willingness on both our parts to co-operate to common ends.

42. I think I may claim that, while I have been in India, I have kept two main tasks in view : the financing of the new Constitution and the provision of money for rural development. The first involves an anxious regard to the health of our own finances. It also involves preparations for meeting smoothly the successive obligations which the new Constitution entails. We have found with no net increase, indeed with a net decrease of taxation, all the money required to start the Provinces on their autonomous way. During this year we have begun on the task of releasing to them 7 crores of income tax. At one time I hoped that it was going to be possible to speed up the performance of this task, but it now looks as if there will have to be a pause

for the consolidation of our own position. Of course it might be argued that we should increase some of our staple taxes in order to make more money available for the Provinces. I do not however propose to do this, though in the case of income tax I hope to introduce an Amending Bill this session to carry out a number of the recommendations of the recent Expert Enquiry. In present circumstances almost the whole of the increased yield resulting from these changes will accrue to the Provinces and I hope that I may on this account reckon on more support than might otherwise be the case. I offer this as an earnest of the sincerity of my desire to help the Provinces. As regards rural development I must now recognise that the main responsibility for this has been entrusted to the Provinces and central grants for the purpose must in large measure be postponed in favour of ensuring the due delegation of revenues. However much I may regret this I recognise the needs of the Provinces as a prior obligation.

43. I suppose that a budget which merely preserves the *status quo* will be characterised as a dull one. But it will be something to have achieved dullness in a world which is full of intense excitements—many of them of an extremely undesirable character. And if next year we are able to produce another dull budget providing for no spectacular increases in defence expenditure, no catastrophic falling off in revenue and for the maintenance or even increase of our assistance to the Provinces, I shall be only too thankful.