

# Speech by the Hon'ble Finance Member

## on introducing the

### Budget Proposals for 1936-37.

1. A year ago I commented on the complicated character of a financial review which had of necessity to cover three years instead of the normal two. I still find this difference from English practice slightly confusing and I must therefore apologise in advance in case it should be found that my statement today is lacking in perspicuity.

I am afraid too that the statement may prove to be dull and this I suppose is inevitable, seeing that a budget speech must proceed on a set plan. But if you find it dull, please remember that I shall find it much more so, if for no other reason than that it is so much more familiar to me than to you.

#### FINANCIAL YEAR 1934-35.

2. Let me first examine the final accounts for 1934-35.

Last year I anticipated that they would disclose a surplus of Rs. 3,27 lakhs. The actual figure has proved to be Rs. 4,95 lakhs. The excess of Rs. 1,68 lakhs over the revised forecast is due in the main to an increase of Rs. 1,50 lakhs under Customs and Excise. For the rest there are excesses of Rs. 30 lakhs on Income Tax, Rs. 24 lakhs on Posts and Telegraphs, and Rs. 19 lakhs on Currency and Mint but these are partially counterbalanced by a short fall of Rs. 55 lakhs on Salt.

The decrease in Salt is due to a postponement of clearances at the end of 1934-35; the increases under the other heads I have mentioned all point to one cause, *viz.*, that the recovery in India's economic position had set in more strongly than could have been foreseen a year ago. Under the Customs and Excise head there were increases both on imported and on indigenous kerosene, improvements in the yield of the export duties on jute and rice, an improved yield from matches, and unusually high seasonal importations of cotton fabrics, raw cotton and machinery. None of these could have been foreseen when the Budget statement was made; indeed in the case of jute the early months of 1934-35 had shewn a decline and naturally a pronounced reversal of this tendency in the last three months of that year was an agreeable surprise. Similarly telephone receipts manifested a definite spurt in the last quarter of the year, as also did the profits from small coinage owing to the increasing demand for this means of payment—a sure sign of increasing prosperity.

In short, in my inexperience I attached rather too much importance to the Cassandra-like prophecies of those who were concerned for one reason or other to proclaim that India was being ruined by its attachment to the British Empire and its adherence to sterling, and too little to the assurances of those who told me that India had a marvellous power of recuperation from economic troubles. However, I would very much rather err on the side of caution than in the other direction and I do not feel called upon to be unduly penitent, though naturally I shall try to avoid repeating the miscalculation.

The House will remember that last year it was decided to devote the then surplus of Rs. 3,27 lakhs to various non-recurring objects including a crore for constituting a Fund for the Economic Development and Improvement of Rural Areas. After these allocations had been made, there remained a free surplus which was estimated at Rs. 13 lakhs. Later in the Session the Assembly agreed to transfer the whole of the unallocated surplus to the Rural Development Fund, and now that this surplus has turned out to be much bigger than was expected, the result is that the transfers to the Fund amount not to Rs. 1,13 but to Rs. 2,81 lakhs. It will be remembered from the paper which I circulated on 6th of September last that out of this fund we allocated Rs. 15 lakhs for the improvement of the Co-operative Movement and Rs. 92½ lakhs for grants to the various Provinces on schemes approved by the Government of India. There thus remains in the fund a balance of Rs. 1,73½ lakhs. In order to present my actual proposals as one co-ordinated whole I will leave this balance and come back to its disposal when I have set out more fully the financial situation and prospects as they now appear to me.

#### FINANCIAL YEAR 1935-36.

3. The revised forecast for the current year also indicates a considerable improvement over our estimates of a year ago and we now anticipate a surplus of Rs. 2,42 lakhs instead of Rs. 6 lakhs. This surplus is produced by an improvement of Rs. 3,53 lakhs in revenue offset by a deterioration of Rs. 1,17 lakhs in expenditure.

The actual figures are as follows :—

	(Rs. lakhs.)	
	Budget 1935-36.	Revised 1935-36.
Revenue . . . . .	82,99	86,52
Expenditure . . . . .	82,93	84,10
Surplus . . . . .	6	2,42

These are of course net and they exclude Railways altogether. Full details will be found in the Financial Secretary's memorandum which will be among the papers available when I have finished my speech, but clearly you will expect from me some explanation of such wide variations.

#### Revenue.

4. To take Revenue first. Of the excess of Rs. 3,53 lakhs the import duty on sugar is responsible for Rs. 1,85 lakhs and all the other heads of revenue account for Rs. 1,68 lakhs. What this means in effect is that the general under-estimate of 1934-35 was carried forward into 1935-36 and that in addition the tapering off of the sugar revenue has been somewhat delayed.

Apart from sugar, we hope to have an excess of Rs. 40 lakhs in Income Tax clearly due to the improvement in trade being greater than we expected, and in Customs, etc., we anticipate almost precisely the same kind of excesses as were shewn by the final results of 1934-35 over the revised forecast. Raw cotton, machinery, petrol, the export duty on jute and the excises on sugar and matches are all heading for surpluses. Textile fabrics as a whole do not disclose much variation but there are large differences in detail. For example, cotton fabrics of British manufacture are Rs. 80 lakhs below the estimate, but this is more than counterbalanced by an increase of Rs. 90 lakhs in cotton fabrics of other than British manufacture.

5. *Sugar*.—Sugar I must deal with in more detail for here we expect an excess of Rs. 1,85 lakhs on the Customs side or a gross figure of Rs. 3,60 lakhs which is not very materially below the figure of last year. I know that I was told a year ago that my figures here were too low and that the bad sugarcane crop combined with the inadequate protection would falsify my predictions. Well, my predictions look like being falsified but the reasons which were then advanced do not fit the facts. Here are the facts. In spite of the partial failure of the cane crop the yield of the excise duty appears likely to be some Rs. 21 lakhs above our expectations. The estimate which was itself 50 per cent higher than the actuals for the previous year was based on a factory outturn, excluding Khandsari production, of 510,000 tons, whereas the progress of collections points to a probable outturn of over 600,000 tons from factories alone. At the same time the volume of imports is being maintained at a figure only slightly below that of the previous year. It is a reasonable inference from these facts that there was a jump in domestic consumption combined with a decline in non-exciseable forms of indigenous production but our statistics do not enable us to say how much weight to attach to these two opposing factors.

Altogether the anticipated excess on Customs, etc., is Rs. 2,87 lakhs making with the Rs. 40 lakhs expected on Income Tax, Rs. 3,27 lakhs. The remaining Rs. 26 lakhs which go to complete the Revenue excess of Rs. 3,53 lakhs represents a balance of innumerable excesses and deficiencies under other heads, but I have only time to mention a few of these.

6. *Interest*.—The revised estimates for Interest receipts have been reduced by Rs. 13 lakhs because the return anticipated on the investments constituting the Silver Redemption Reserve has been almost completely offset by a depreciation in their market value.

7. *Currency*.—This shows no serious change but the revised estimate conceals an increase on account of unclaimed currency notes combined with a short-fall owing to the fact that our share of the Reserve Bank profits was Rs. 7 lakhs less than had been anticipated.

8. *Mint*.—Here we hope for a surplus of Rs. 16 lakhs due to the greater absorption of small coin.

9. *Posts and Telegraphs*.—As will be seen from the figures I give later, we now expect the position to be Rs. 19 lakhs better than the original estimate.

#### *Expenditure.*

10. I now turn to expenditure. The main increases in the revised over the original budget estimates fall under the following headings :—

(i) *Extraordinary Payments*.—Here the increase is Rs. 41½ lakhs and this represents the expenditure which we expect to incur from Civil Funds during the current year in connection with the Quetta earthquake. This includes the Government of India's contribution of Rs. 10 lakhs to H. E. the Viceroy's Quetta Earthquake Relief Fund, the provision of the extra police, public health and administrative and clerical establishments rendered necessary by the disaster and the cost of temporary hutting and lighting arrangements, of special measures for the protection of property in the ruined city and of the labour and plant required for salvage and site clearance operations. It also provides for assistance to the rural population in repairing their irrigation channels. I shall, of course, have a good deal more to say about Quetta later on.

(ii) *Interest*.—The House is aware of course that there are two interest heads. "Interest on Ordinary Debt" consists of what we have to pay on our market obligations less what we get back in respect of our outstanding loans to Provinces and the commercial Departments. "Interest on Other Obligations" consists of the amounts paid in respect of Provident and other Service Funds, Savings Bank Deposits and Cash Certificates. I am bound to confess that I cannot see any satisfactory reason for this division into two heads, for they are essentially one. Taking them together, they show a revised figure of Rs. 10,63 lakhs instead of Rs. 10,39 previously estimated. It is impossible to give any simple explanation of the increase for it is the result of the combined operation of a large number of forces pulling in different directions.

(iii) *Currency and Mint*.—The increase of Rs. 10 lakhs is entirely due to a larger demand for currency notes and small coin. It is of course more than made up by an increase on the Revenue side.

(iv) *Miscellaneous Adjustments*.—Here too the excess is more apparent than real for we have an increase of Rs. 15 lakhs in the payments to the Jute growing provinces, owing to an improvement of Rs. 30 lakhs in the yield of the export duty, combined with a decrease of Rs. 6 lakhs due to a transfer of a certain item to the head "Civil Administration".

The remainder of this increase of Rs. 1,17 lakhs is made up by a number of items which fall mainly under Civil Administration and under this head the principal excess is under Frontier Watch and Ward.

11. *Defence*.—The Budget figure was, as the House will remember, Rs. 44,98 lakhs and under the normal procedure any saving on this figure lapses to the Defence Reserve Fund. The principal variations within the total figure of Rs. 44,98 lakhs are as follows :—

Receipts show increases on various items totalling about Rs. 9½ lakhs. On the expenditure side substantial savings have accrued from entirely unforeseen causes. The despatch of troops outside India in connection with the international situation is expected to result in a saving of over Rs. 10 lakhs. In order to provide funds for emergency expenditure at Quetta, the Military Engineering Services postponed about Rs. 9½ lakhs of their new works programme, and in consequence of the earthquake the bulk, *viz.*, Rs. 2½ lakhs, of their ordinary maintenance grant for Quetta lapsed. There has been a gain on Exchange amounting to Rs. 4½ lakhs. A further under-spending of Rs. 14 lakhs represents merely the carry forward of liabilities in respect of which the administrative authorities have been unable for various reasons to spend the allotments made in the current year.

These improvements account for about Rs. 50 lakhs but against them we have to set substantial expenditures not contemplated at the time of the budget. The most important of these are about Rs. 36 lakhs arising from the earthquake in Baluchistan mainly on account of temporary housing (including tentage), transportation and stores and Rs. 12 lakhs representing that part of the cost of the Mohmand operations which is expected to be brought to final account this year.

The result of all these variations is an under-spending of Rs. 4 lakhs which will accrue to the Defence Reserve Fund.

During the course of the year certain withdrawals from the Fund have been made to finance the re-equipment programme and other measures. At the end of the year, in addition to the Rs. 4 lakhs above mentioned, we shall deposit in the Fund from the 1935-36 budget the Rs. 14 lakhs which I have referred to as representing postponed but inescapable liabilities and Rs. 22 lakhs representing the annual contributions towards the various military equalisation funds. The estimated result of all these transactions is to effect a reduction of about Rs. 25 lakhs in the balance of the Fund as it stood on the 31st March, 1935.

12. *Posts and Telegraphs*.—All that remains in order to dispose for the time being of the year 1935-36 is to give a revised forecast of the results of the Posts and Telegraphs Department. For this Department we show on the Revenue side of the general budget the excess of Gross Receipts over Working Expenses while on the Expenditure side we show the Interest on the capital at charge of the Department. Here are the figures :—

	(Rs. lakhs).	
	Budget 1935-36.	Revised 1935-36.
Gross receipts . . . . .	11,33	11,50
Working Expenses . . . . .	10,62	10,64
	<hr/>	<hr/>
Net receipts . . . . .	71	86
Interest charges . . . . .	84	80
	<hr/>	<hr/>
Balance . . . . .	—13	+6

Thus we now expect, instead of an appreciable loss, a small profit. Lower interest rates are responsible for some of the improvement but in the main it is due to increased sales of stamps and a rise in receipts from trunk telephone calls.

*Position as on 31st March, 1936.*

13. To recapitulate we now expect that the current year will close with a surplus of Rs. 2,42 lakhs. This too I leave over for later examination and meanwhile I place before the Assembly the estimates for the coming year.

FINANCIAL YEAR 1936-37.

*Revenue.*

14. The total figures for revenue, excluding Railways, are Rs. 87,35 lakhs, an improvement of Rs. 83 lakhs over our revised estimate for the current year.

15. *Customs, etc.*—Here the receipts are estimated at Rs. 54,82 lakhs. This figure presumes a deterioration of Rs. 1,60 lakhs under the import duty on sugar and an all round improvement of Rs. 1,71 lakhs under other heads. Full details of the changes will be found in the Financial Secretary's memorandum, but I must again say a word regarding the yield of the import duty on sugar.

There are three elements in the calculation of the margin available for imports of sugar. First the growth of domestic factory production, secondly the extent to which this displaces other forms of indigenous production, and thirdly the growth of consumption. In the end we can confidently predict that the outcome of the operation of all the factors will be the reduction of sugar imports to very small dimensions. But the speed at which this result will be attained is quite uncertain. Last year the process was delayed by a partial failure of the cane crop and by a combination of the second and third of the above factors, but even so it is clear that the running down process will be somewhat slower than we thought when framing the original estimates for last year. In these circumstances it is extremely difficult to do more than make an enlightened guess and on the whole the best we can do is to assume a figure of Rs. 2 crores for next year's yield of the import duty which is higher than last year's original estimate but considerably lower than this year's results are likely to be. I do not make this prophecy with any over-weening confidence but let me point out to the Assembly that for many years the original estimate of sugar revenue has been wildly inaccurate and unfortunately not always in the same direction. The yield of the excise has been estimated at Rs. 1,96 lakhs allowing for an increase of roughly 15 per cent. over the revised estimate of the current year's outturn.

The other items call for no particular comment except that we provide for some recovery from the very striking fall in the imports of British cotton fabrics which I mentioned a few minutes ago and for a continued expansion of the yield of the match excise and the petrol duties.

16. *Taxes on Income.*—Here we are counting on the undoubted and we hope continuing improvement in economic conditions and we anticipate a receipt of Rs. 17,60 lakhs for next year or an increase of Rs. 80 lakhs even over the revised estimate for the current year, or Rs. 1,20 lakhs over the current year's original estimate after allowing for the reduction in the surcharges. This is obviously a very optimistic estimate and the fact that I put it forward should acquit me of any charge of being too conservative under this head at any rate.

While on this subject, I might say a word on the visit of the two income-tax experts who arrived from England last October. They are at present touring India under the guidance of one of our senior Income Tax Commissioners. As I have repeatedly said, the real purpose of their enquiry is a thorough administrative overhaul but at the same time they are not ignoring altogether the question of revising the law and arrangements have accordingly been made for the Committee to receive representations from responsible commercial bodies at the various centres it visits. Their task is a big one and they have a great deal of ground to cover so that I do not expect to receive their report before October next. This means that any changes that may be found necessary or desirable as a result of their recommendations cannot come into force before 1937-38 and therefore will have no effect on the estimates for the budget year 1936-37.

17. *Currency receipts.*—The only other revenue item that calls for specific mention is Currency receipts. The estimate of Rs. 81 lakhs under this head assumes Rs. 65 lakhs as our share of the profits from the Reserve Bank on a full year's working.

#### *Expenditure.*

18. The total figure for expenditure, exclusive of Railways, is Rs. 85,30 lakhs showing an increase of Rs. 1,20 lakhs over the current year's revised estimate. There is an increase under Civil Works a considerable part of

which is due to larger payments to the Road Development Fund—an automatic result of the expanding yield of the duty on motor spirit. But there are more important changes to which I wish to draw your attention, *viz.*, a decrease under Interest and increases under Miscellaneous Adjustments, Civil Administration and Defence. In addition I shall have to mention Extraordinary Expenditure though it does not shew a very large variation from the revised figure of 1935-36.

19. *Interest.*—Again taking the two heads of Ordinary Debt and Other Obligations together we get a figure of Rs. 9,20 lakhs as against Rs. 10,63 lakhs in the revised estimate for 1935-36, or a reduction of nearly Rs. 1½ crores. But the position is really better than this, for under “Interest on Other Obligations” there is an increase of Rs. 62 lakhs due mainly to an alteration in the arrangements in respect of the Indian Military Service and the Indian Civil Service Family Pension Funds. At present the subscriptions collected on account of these funds are credited to general revenues and the pensions are paid from the same source. The interest on the balances in the funds does not enter the Government accounts. A *pro forma* account is, however, maintained, showing the balances in the funds, the interest accrued, the subscriptions received and the pensions paid. As the present accounting arrangements are admittedly erroneous, it has been proposed that in future the balances to the credit of the funds should be shown as regular unfunded debt. The subscriptions received and the interest on the balances will be credited to the funds and the pensions will be paid direct from the funds. The Rs. 62 lakhs increase under Interest is offset by reductions of Rs. 34 lakhs under Military Pensions and Rs. 20 lakhs under Civil Pensions. Comparing like with like, the improvement under the Interest heads is over Rs. 2 crores. The reasons for this improvement are, firstly, that we shall get the full benefit of the conversion operations of the current year, and secondly, that we hope to repay the £16·8 millions of 5½% Sterling Stock maturing next year without floating a fresh loan.

20. *Subventions to Sind and Orissa, 1936-37.*—The increase under Miscellaneous Adjustments is due to the provision of Rs. 1,58 lakhs for subventions to Sind and Orissa—Rs. 1,08 lakhs for the former and Rs. 50 lakhs for the latter. It has been decided that these two new provinces shall begin their careers on April 1st, 1936 in advance of the full institution of Provincial Autonomy. It has all along been recognised that they would require subventions at any rate for some years after they began their separate existence. The definitive subventions fall to be determined by His Majesty in Council after considering the recommendations of Sir Otto Niemeyer’s enquiry, but in the meantime the two Provinces must be put into a position to carry on under the provisional regime, and the present subventions are intended for this purpose. The amounts provided are larger than was at one time anticipated but I do not think that they are framed on an over-lavish basis. They do not purport to provide any substantial margin for new schemes of expenditure and apart from furnishing small opening balances they are intended to do very little more than enable the provinces to balance their budgets during their first year’s working. Let me repeat that these subventions are entirely provisional. They are not intended to prejudge the claims of these two provinces at the enquiry which Sir Otto Niemeyer is now holding, when their future subventions will fall to be considered in conjunction with the claims of other provinces.

21. *Civil Administration.*—The increase amounts to Rs. 64 lakhs and I now proceed to describe some of the more important items which go to make up this total. First there are Rs. 18 lakhs for two public health schemes in

Delhi. The present methods of dealing with the refuse of Delhi have evoked general comment and have been a menace to public health for a considerable time and a new scheme has now been sanctioned for which a provision of Rs. 13 lakhs is made. The system of dealing with Delhi sewage has also been examined and has been found to be inadequate and defective : a final decision has not yet been reached on this, for it has so far been found impossible to frame a scheme the cost of which is not prohibitive. However, the effort to formulate a scheme at a reasonable cost is being continued and in the meantime a provision of Rs. 5 lakhs is made to permit of a start being made in 1936-37 if such a scheme turns out to be possible. The opening of the Delhi Broadcasting Station, together with some necessary improvements in programmes generally, will require a further Rs. 4 lakhs in the coming year and there is an extra Rs. 5 lakhs for Civil Aviation where the Capital programme inevitably involves an increase in maintenance charges. Finally, provision is made for the restoration of the cut in pay for the full twelve months of the year instead of eleven as in the current year's figures. This means an extra 11 lakhs.

22. *Defence.*—The Defence Budget stands at the figure of Rs. 45.45 lakhs. Of this, however, Rs. 60 lakhs is a special provision for the reconstruction of Quetta and the replacement of military stores consumed in connection with the earthquake. The ordinary Budget is, therefore, Rs. 44.85 lakhs of which Rs. 18 lakhs is for new measures. The total figure for the present year is Rs. 44.98 lakhs but this includes Rs. 34 lakhs for Indian Military Service Family Pensions which, as I explained in dealing with the Interest heads, is omitted from the Defence budget of next year. The comparable figures for the two years are therefore Rs. 44.64 lakhs and Rs. 44.85 lakhs. The real increase is thus Rs. 21 lakhs and this is more than accounted for by two items. Rs. 5 lakhs represents the restoration of the remaining half of the cut in pay of British soldiers which was not budgetted for in 1935-36 and Rs. 20 lakhs an increased provision for ordnance stores. In regard to the latter I must reiterate the warnings which have been given in this connection in recent years that the present budget figures do not represent a new permanent low level of Defence expenditure. The surplus stocks of ordnance stores, the existence of which in the past has tended to keep down the budget are approaching exhaustion and the time has now come at which expenditure under this head must inevitably rise.

23. *Extraordinary Payments.*—I have referred above to the provision in the Defence Budget arising out of Quetta. There is also a provision on the Civil side of Rs. 40 lakhs under the head "Extraordinary payments." This relates mainly to the reconstruction of the most urgently required civil buildings and to the continuance of the special establishments created there to deal with the emergency. While the bulk of the expenditure on salvage will be incurred in the current year, site clearance operations will continue for sometime into the new year and have had to be provided for.

24. *Quetta.*—This is probably the most convenient place to review the Quetta problem as a whole. In 1935-36 we expect to spend from Civil Funds proper Rs. 41½ lakhs, and Rs. 36 lakhs from Army Funds. Practically the whole of this has been on relief, temporary housing, and salvage though there has been a beginning of clearance. Next year we shall have to complete clearance and begin reconstruction. Under Civil Grants Rs. 40 lakhs are provided of which Rs. 12 lakhs are for clearance and special staff and Rs. 28 lakhs for reconstruction. Under Defence there is Rs. 10 lakhs for replacement of stores and Rs. 50 lakhs for reconstruction. Thus the cost to Government of the disaster up to the stage of beginning reconstruction may be put at



Rs. 41½ plus 36 plus 12 plus 10 lakhs or almost exactly a crore in all. The reconstruction both Civil and Military is at present expected to cost something over 7 crores. These estimates are provisional but I have every hope that they will not be exceeded. The work will take 7 or 8 years and we do not anticipate that it will be possible to spend appreciably more than a crore in any one year. In 1936-37 we begin with Rs. 78 lakhs of which Rs. 50 lakhs is for Military and Rs. 28 lakhs for Civil buildings, and in the following years the programme will proceed at the rate of about a crore a year.

In explaining the charges on Civil funds I have left out of account the expenditure to be incurred by the two commercial Departments, Railways and Posts and Telegraphs. They have incurred some small expenditure in connection with the immediate emergency and they will both have to incur expenditure on reconstruction. For Railways the cost will be something like Rs. 40 lakhs in all, of which Rs. 12 lakhs has been included in next year's Railway budget and for the Posts and Telegraphs department the cost will be Rs. 9½ lakhs of which Rs. 1 lakh will be spent this year and nearly Rs. 4 lakhs in 1936-37.

We have already heard something and I daresay we are destined to hear a good deal more about the wickedness of paying for the reconstruction of Quetta out of revenue. Perhaps therefore I had better say a few words on this subject as a brief opening to the inevitable debate. I take it that nobody will contend that the immediate expenditure on relief, salvage and other emergency measures incurred during the current year should have been charged to capital, with no other results than to decrease the call by the Army Authorities on the Defence Reserve Fund and to increase the surplus on the general budget by some Rs. 40 lakhs. But what will be advocated widely will be that the expenditure upon the reconstruction of the Government buildings together with that to be incurred in clearing the site of the city should be borrowed and this is the proposition that I shall briefly examine. In the first instance let me say that it is contrary to strict financial orthodoxy to borrow for expenditure which does not yield a cash return equivalent to the interest and sinking fund charges on the amount borrowed. I know that this strict view has not always been followed in India but some people might say that our financial difficulties would now be considerably less if a little more orthodoxy had been observed in years gone by. Apart from that, however, unorthodoxy was clearly easier to justify in the days when there was an annual provision of something like Rs. 7 crores a year for the reduction and avoidance of debt. Borrowing for capital expenditure or shall we call it raiding the Sinking Fund, for it is nothing else, may not be a very heinous offence when the Sinking Fund is more than adequate but is that the case now? Leaving out of account the deficit budgets of the early thirties the actual provision in recent budgets has been limited to Rs. 3 crores. Last year I expressed a certain discomfort at the smallness of this amount but comforted myself with the thought that the Railways, which then looked as if they would very shortly resume their contribution to General Revenues, would soon provide ways and means for an increase in the Sinking Fund contribution to a figure more commensurate with a capital debt of Rs. 1,200 crores. But clearly a Railway contribution has now disappeared into the somewhat remote future and we are faced with a situation in which the Sinking Fund contribution is no more than a quarter of 1 per cent. of the debt—obviously a dangerously inadequate figure. Who dare say then that for the next 7 or 8 years we should by this high-sounding device of borrowing to pay for Quetta still further reduce this already inadequate provision by sums which vary from year to year of course but which are of the order of Rs. 75 lakhs? I certainly cannot accept such a proposition.

But there is another consideration. Borrowing has got to be paid for some time and clearly the burden of it in this instance of Quetta would be fully felt by the Central Budget in the early forties, i.e., at the time when it will or ought to be distributing a proportion of its Income-tax receipts to the Provinces. The task of a Finance Member at the present time must be to see that India is put into a position to finance the new Reforms and at the same time is left if possible with its credit in a state of inexpugnable strength. This being so I cannot possibly have any part or lot in a device which is both unsound in itself, having regard to the size and structure of our debt, and which moreover would diminish the amount ultimately available for distribution to the Provinces.

25. *Posts and Telegraphs*.—In my budget speech last year I referred to the fact that the fixation of the contribution to the depreciation fund was still under examination. That examination is now complete and it is proposed to abandon the depreciation fund conception altogether and to adopt instead that of a fund for renewals and minor improvements. The renewals fund will take over the existing depreciation fund of Rs. 3,17 lakhs and will be fed by annual contributions to be fixed for periods of five years. For the first quinquennium we have, with the assistance of the Auditor General, calculated that a contribution of Rs. 25 lakhs will be an appropriate figure and the Posts and Telegraphs budget provides for this amount instead of the Rs. 29 lakhs provided last year.

The only other item I need mention on the expenditure side of the department is an enhanced provision of Rs. 2 lakhs for providing improved postal facilities in rural areas. Last year my Honourable friends opposite made strong representations on this subject and they will no doubt welcome the fact that the improved financial position of the department enables us in the coming year to do more in this direction than has been possible in these last few years of depression.

On the Revenue side we are reckoning on a continuance of improving trade and an increase of Rs. 38 lakhs over the revised figure for 1935-36. On this basis the position works out as follows :—

	(Rs. lakhs.)
Gross receipts . . . . .	11,88
Working expenses . . . . .	10,93
Net receipts . . . . .	95
Interest charges . . . . .	80
Net surplus . . . . .	15

*Summary of the position for 1936-37.*

26. I am now in a position to summarise the estimates for 1936-37 as follows :—

	(Rs. lakhs.)
Revenue . . . . .	87,35
Expenditure . . . . .	85,30
Surplus . . . . .	2,05

Before disposing of this and the surpluses for the two earlier years, I must turn aside and give some account of our Ways and Means position.

## WAYS AND MEANS.

27. *The Reserve Bank.*—First a word about the Reserve Bank. The Bank began to act as the bankers of Government with effect from 1st of April 1935. It took over the management of the currency and the duties of selling treasury bills on behalf of Government and of supplying the Secretary of State with his sterling requirements from the same date. In the beginning of July it assumed its full banking functions and fixed its first bank rate. The first elections to the local boards have been made and its first annual meeting has been held at which the Executive of the Bank submitted their report of its first nine months working. This report has been published in the Gazette and I need say nothing about it except perhaps to mention that in accordance with Section 47 of the Act the Government of India has received Rs. 43 lakhs as its share of the profits, which sum has been included in the revised estimates for the current year, 1935-36.

28. *Remittance.*—The ways and means estimates for the current year provided £26 millions as the sterling requirements of the Secretary of State. Our revised forecast stands at £12 millions. This reduction is due to the large opening balance which the Secretary of State had on 1st of April 1935. It will be remembered that our remittance operations are now conducted through the Reserve Bank. For the 10 months up to the end of January the Bank has in fact purchased nearly £29 millions of sterling of which about £19½ millions is still shewn among the assets of the Banking Department. In the Issue Department there are considerable sterling assets in excess of the statutory requirement and altogether the external position of the Bank is one of extraordinary strength. Next year we shall expect to call upon the Bank for £41 millions and this includes the repayment of £16·8 millions of 5½ per cent. Stock, 1936-38 without fresh borrowing in London. On present shewing there should be no difficulty whatever about achieving this programme.

29. *Post Office Cash Certificates and Savings Bank Deposits.*—The 6½ per cent Treasury Bonds, 1935 and the 5 per cent Bonds, 1935 matured in September and evidently some of the smaller holders have deposited the funds made available to them in the Post Office Savings Bank. This accounts for the increase in the revised estimate to Rs. 9,50 lakhs as against the budget figure of Rs. 8,75 lakhs. Next year's forecast assumes deposits in the Post Office Savings Bank of Rs. 8,25 lakhs net and by 'net' I mean of course the excess of deposits over withdrawals.

The reduction in the rate of interest on Post Office Cash Certificates in 1934 has naturally been followed by larger discharges. We now expect a balance between purchases and discharges during the year 1935-36 and a net discharge of Rs. 50 lakhs during the year 1936-37. It will be remembered that maturities will be particularly heavy during the coming financial year.

30. *Loans to provinces.*—The estimates for the requirements of provinces this year included provision for the repayment of the 6½ per cent Bombay Development Loan, 1935. There will be no such unusual item in 1936-37 and we are providing about Rs. 5½ crores only instead of about Rs. 11 crores.

31. *Borrowing Programme.*—Government have been able to take considerable advantage of the low market rates for borrowing which prevailed both in India and in England during the year. Two loans were issued. The first was a sterling loan early in July for £10 millions of 3 per cent stock, 1949-52 in part replacement of £12 millions of 6 per cent Sterling Bonds, 1935-37. The loan was issued at 98 and was oversubscribed seven times, the lists being closed

10 minutes after opening. The services of the Governor of the Reserve Bank, who was in London at the time, were available during the negotiations for this loan, and I am glad to be able gratefully to acknowledge them.

At the end of the same month a 3 per cent Rupee Loan, 1951-54 for Rs. 15 crores at Rs. 96-8 was announced. The Reserve Bank was entrusted with the issue of the loan and applications amounted to nearly 30 crores. Applications for conversion of 5 per cent Bonds, 1935 and 6½ per cent Treasury Bonds, 1935 were accepted in full and were allotted nearly Rs. 13 crores. This is the first time that the Government of India has been able to raise a 3 per cent medium term loan at such a favourable rate.

£3½ millions of East Indian Railway 4½ per cent debenture stock, 1935-55 have also been repaid during the year.

Next year there are no rupee maturities but as I have previously mentioned £16·8 millions of 5½ per cent Sterling Stock, 1936-38 fall due for repayment and we are proceeding on the assumption that we shall be able to repay this amount without further borrowing in London. However, that depends on conditions later in the year and not being a prophet I can only express hopes. I do, however, estimate on the basis of my hopes and for the purpose of calculating interest charges next year I assume the repayment of the sterling stock without replacement. This together with the full effect of the conversion operations of the present year enables us, as I have already said, to reduce the estimate for interest charges to Rs. 9,20 lakhs, or nearly Rs. 1½ crores less than the revised estimate for the current year.

32. *Treasury Bills*.—The Treasury Bills outstanding on 1st April 1935 amounted to Rs. 18,27 lakhs with the Public and Rs. 36,07 lakhs with the Reserve Bank, a total of Rs. 54,34 lakhs. The revised estimate provides for the reduction of this amount to Rs. 13,99 lakhs with the Public and Rs. 20,10 lakhs with the Reserve Bank, Rs. 34,09 lakhs in all by the end of March 1936, as against a total of Rs. 46 crores anticipated in the budget. The difference of Rs. 12 crores is due to the cancellation of Bills held in the Issue Department of the Reserve Bank mainly as a result of the transfer of surplus sterling assets to the Bank. The average rate of interest on Treasury Bills for the 10 months ending January 31st 1936 was Rs. 1-4-9 per cent against Rs. 1-8-10 per cent for the corresponding period last year.

Next year, on the assumption that we are able to repay the sterling loan without further borrowing from the market, we expect the outstanding balance of treasury bills on the 31st of March 1937 to be Rs. 20,10 lakhs with the Reserve Bank and Rs. 24,99 lakhs with the Public a total of Rs. 45,09 lakhs.