

INDIAN BUDGETS

1921—1934

BY

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TO
THE MEMORY
OF
MY FATHER

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INTRODUCTION.

The idea of this book was inspired in me by Bernard Mallet's "British Budgets." I felt that a similar study of Indian Budgets was bound to prove of great use to those who are interested in Indian Finance and accordingly I ventured on the present attempt nearly two years ago. In plan, I have generally followed that adopted by the British author but with a slight modification. Like him, I have emphasised principles rather than details; and I have also tried to be as objective as possible in my treatment. But as the Opposition in the Indian Legislature has no chance, as things are, of getting into power and of carrying out its policies, I have given, to its view-point, more room than Sir Bernard does, under similar circumstances. In effect, I intend the present volume to be an introduction to a study of Indian public finance as well as a book of reference for those who deal with problems arising in that domain.

The period dealt with, 1921-1934 saw three Finance Members in India; Sir Malcolm Hailey, Sir Basil Blackett and Sir George Schuster. And their terms of office roughly coincided with peculiar turns in the recent financial history of the country. Sir Malcolm had to deal with the troublous post-war period when the finances of almost every country were out of gear. He saw a great trade-boom followed by an unexpected depression and he had to suffer the consequences of the unwise attempt made to overvalue the rupee at 2sh. The deficits he struggled against were phenomenal even as the fresh taxation he imposed was heavy. Whether he was a free agent or not matters little but there was truth in the popular criticism,

as volced by the late Sir. V. D. Thacksay, against "the mad policy of raising our exchange from 1sh. 4d. to 2sh. and following it up by the still madder policy of selling Reverse Councils."

No greater financier has perhaps handled India's finances than Sir Basil Blackett. When he came in 1923, he found that there had been deficits for five years in succession totalling up to no less 100 crores. And they had been met, about 30 crores by paper money and the rest by borrowing. The country's credit had thus fallen low. His task was to restore it and bring about budgetary equilibrium as well. That in doing so, he resorted to such drastic measures as the doubling of the salt-tax should not in any way lessen the credit due to him for his achievement. His position was almost desperate and he had to get out of it anyhow. By 1924-25, he had definitely steered the country clear of the era of deficits. Shortly after, he carried out "the greatest financial achievement of the years under review" *viz* the separation of Railway Finances from the General Finances. Later he effected various improvements in the financial machinery of the land such as the establishment of a Provincial Loans Fund, the formulation of a clear Debt Clearance Policy and the separation of Accounts and Audit. Finally he abolished Provincial Contributions, reduced the Salt-tax and did away with the Cotton Excise Duty.

These indeed are achievements enough for any man during a short period of five years. And to them would have been added another, the establishment of a Reserve Bank for India but for the high wall of suspicion that separates the rulers and the ruled in this country. It is responsible for the tone of bitterness that popular criticism of government almost always assumes in this country, especially in regard to military expenditure and exchange

manipulation. No year is free from popular accusations of government under these heads in the legislature. On the other hand, there is no doubt that even apart from military policy, India's military expenditure is quite on an unconscionably extravagant scale and is dictated by interests not always Indian in the main. So also the country's exchange policy. Indian opinion is emphatic in holding that though the government ordinarily seeks to promote the welfare of the masses, yet when there is a conflict of interests between Britain and India, the latter always goes to the wall, thanks to her political subordination. The lot of the Government of India, under such circumstances, is to defend in the press and in the legislatures policies and actions against which in all probability it itself put up strong, though unavailing fights with the British Government operating through the Secretary of State for India. The point I am urging hereby is this. In assessing the work of India's financiers, their political position *vis-a-vis* the British Government should not be disregarded by the fair minded student of Indian finance.

Sir George Schuster presented his first budget in February 1929 and his last in the winter of the current year, 1934. An estimate of his work is peculiarly difficult as, throughout his period of office, extraordinary events were operating both within India and outside. Mr. Gandhi's Civil Disobedience Movement began in April 1930. And it was technically suspended only towards the close of 1933. Not to speak of the extra expenditure involved in combating it and its effects on the collection of revenue and on general trade, the question of maintaining any government at all in the land took precedence over all financial considerations. But perhaps more important than that was the effect of the trade depression in the world. The Wall Street crash came in November 1929. The Credit Anstalt of Austria closed its doors in May 1931.

And England went off the gold standard in September 1931. Each of these events marks an epoch in recent financial history. To their accompaniment took place also a catastrophic contraction of industrial production and of commercial dealings such as had not been known before. The consequences that followed were clear. The howl of misery that then arose from all parts of the world has not died away even today. India stood exposed to the full blast of the mael-storm and Sir George, her financial pilot must have no doubt stood trembling in his shoes at the helm.

Naturally his attitude all through his period of office was defensive. Not being able to fathom the depths of the depression that was coming on, he constantly found that his estimates of revenue and expenditure were far too optimistic and that he had to impose fresh taxation again and again just in order to keep his head above water. Retrenchment of course he tried but his political subordination ruled out all possibilities of his taking any bold and fresh line of policy. Under the circumstances, his cuts amounted virtually to cheese-paring and concerned themselves mostly with details. Differences of opinion based on political grounds are bound to exist as to the need, the extent or the wisdom of certain of his measures of taxation and of retrenchment; but they need not be made to loom too large; after all, finance and politics are inextricably intertwined. Still in respect of one matter, Sir George must be held to have let down India badly. When Britain went off the gold standard, his instinct rightly told him to delink the rupee from the fallen sterling and he did so. But almost immediately the Secretary of State reversed his action and promptly reminded him that India was politically subordinate to Britain. What followed need not be traced now. But the wistful thought is bound to

arise in the mind of every Indian that had the rupee been allowed to stand by itself, and gold exports prohibited, a solid gold reserve would have been available now, our foreign debt would have been lowered, our credit considerably raised and what with well regulated inflation of currency, the country would not only have escaped from the severer aspects of the world depression but would have had her internal trade stimulated and on the whole, been helped on the path of economic self-sufficiency. On the other hand, such action in India would have weakened the sterling largely, deprived as it would have been of the support of India's gold. And Britain's financial imperialism would have been pushed further towards its end. The tale however of the "would have beens" is as long as it is profitless. Suffice it to say here that Sir George's action rendered more help to Britain than to India and that it was opposed to the entire consensus of Indian opinion.

A few other matters of importance on which he substantially differed from Indian opinion may be just referred to. His repudiation of the charge that the government had no economic plan but was merely drifting is quite unconvincing. Equally so, his scheme of industrialising the country so as to avoid hurting the existing importing interests, and his defence of sterling borrowings as being mainly in the interests of India. Specially, his Reserve Bank Scheme is very unsatisfactory as it does not fully secure the autonomy of the institution and preclude the possibility of unhealthy influences being exerted over it by the Bank of England. But in weighing his part in these regards, an important factor has to be borne in mind. The political reactions of the Civil Disobedience Movement over a British Government essentially conservative in outlook and Imperialistic could not certainly be favourable to the cause of India's financial autonomy or of her economic

self-sufficiency. And Sir George Schuster may be presumed to have done his best to serve India's interest against heavy odds. Assuredly his actions must be judged in the light of the situations that called them forth.

In conclusion I must express my thanks to those who unstintingly helped me with suggestions, books and reports in the course of my labours. To the Editor of "*Federated India*," Madras, in particular, I am obliged for permission to incorporate in this book a few chapters which originally appeared as articles in his journal. If my attempt renders some aid to those who deal with problems of India Finance, I shall be fully satisfied.

25TH DECEMBER, 1934. }
COLABA, BOMBAY. }

S. P. SARMA.

MR. MALCOLM HAILEY'S BUDGETS

BUDGET FOR 1921-22.

1st March 1921.

The Budget for 1921-22 marked the transition between the era of the Minto-Morley Reforms and that of the Montague-Chelmsford Reforms. The new Assembly possessed powers and responsibilities which were far greater than under the previous dispensation. And it was to the financial side of them that the Hon'ble Mr. W. M. Hailey referred at the outset of his Budget speech on the 1st March 1921. He pointed out that "save for the items of expenditure mentioned in Section 67 A (3) of the (Government of India) Act, all proposals for expenditure are subject to the vote of the House; and this is qualified only by the power of the Governor-General in Council to restore any provision if he can certify that such provision is essential to the discharge of his responsibilities" Further, the House could also impose additional taxation and scrutinise current expenditure by means of its Public Accounts Committee. Along with the powers, however, the responsibility also increased and measures had to be devised by the House "in regard to the larger questions of finance, the amortization of our public debt, the handling of our currency note issue and the conscious avoidance of the resort to floating debt to tide over temporary shortages of revenue". Thus India's finance had to be regulated on sound and healthy lines.

At the time of the last budget, they had recorded considerable prosperity. The demand for Indian goods abroad had been very high and there was consequently a very large balance of trade in her favour. But depression had rapidly overtaken the boom. The high value of the rupee had resulted in the import of large quantities of manufactured goods from abroad. And on the other hand, the purchasing power of India's foreign customers had fallen with disconcerting rapidity. Further, restrictions had to be imposed on the export of food-grains, the situation thus being made worse. On the whole then, there was "a violent swing of the pendulum and the large balance of trade in India's favour existing up to a year ago has now been converted into an adverse balance."

At the end of March 1920, India had a favourable balance of no less than 95 crores. But by September of the year, the figure had fallen to barely 2 crores. This was of course due to the adverse trade currents that set in in the meanwhile. And they were also reflected in the rupee-sterling exchange which had fallen from 2*sh.* 7*d.* in March 1920 to 1*sh.* 4*d.* in March 1921. As was alleged in some quarters, the Government was in no way responsible for the depreciation in exchange. That was due solely to the change in trade conditions. Others complained that Government had promised to maintain the 2*sh.* ratio, but had not done so. In the result, the import trade had suffered serious losses. Mr. Hailey maintained that the Government had made no such promise and that it had, on the contrary, clearly stated that it could not foresee what changes would take place in the value of the rupee. Actually, the Government had done its best to maintain the 2*sh.* basis of the rupee by selling Reverse Councils but had soon to withdraw from the market, lest the sterling resources available for the support of exchange should be dangerously reduced.

It was not thus open to those merchants who had suffered serious losses in the import trade to dishonour their contracts on the plea that the Government had defaulted. As for the future, there was no sovereign remedy that could cure the existing ills at a stroke : they had all to wait on events. But there was consolation in the fact that India's position was inherently sound and that her present plight was due only to factors external to herself. Besides, it looked as though things were improving slightly. Prices had fallen a little and imports had decreased also to some extent. The metallic portion of the Currency Reserve which was not more than a bare 4 crores as against a note-circulation of 115 crores in the currency crisis of 1918 had risen, in percentages, from 35 in 1919 to 53 in 1921. Again this was a welcome feature.

With reference to the Budget for 1920-21, Mr. Hailey made two preliminary observations. First, according to the Montague-Chelmsford Reforms, the budgets of the Provinces would be entirely separate from that of the Centre. Secondly, the accounts for the year had been kept on a *2s.* basis. But the average rate for the whole year worked out to about *1s. 9d.* only. Some difference, though not much, in calculation would arise out of this fact.

The Budget estimate for the year had expected a revenue of 132 crores and an expenditure of 130 crores with a balance thus of 2 crores. But there had been a total deterioration of about 22 crores. Collections under Customs and Income-tax had indeed been better than expected, but Railways were going to disappoint expectations ; for, in their case, though the income was not calculated to fall, the expenditure had risen due mainly to increases of pay to the staff. Next the Exchange difference between *2s.* and *1s. 9d.* amounted to no less than 11 crores with

reference to the Home Charges. Thus the improvement under Customs and Income-tax aggregating to $11\frac{1}{2}$ crores was more than set off by a deterioration of $7\frac{1}{2}$ crores under Railways, and 11 crores under Exchange. The remaining deficit of 15 crores out of the 22 was under the Military. Frontier operations had to be carried on and some delay also had taken place in demobilising part of the Army. These factors swelled the Military expenditure.

For a few years past, they had been having continuous deficits which the Government had met either by issuing fresh Treasury Bills to the public or by issuing Currency Notes against the security of Treasury Bills created *ad hoc*. This was a dangerous process and in so far as the Government was not able to fund this floating debt, they had imperatively to pay it out of the current revenues. This situation had to be got round as early as possible. Besides, according to the new arrangements to come into force from April 1921, the Provinces would get more revenue and the Government of India somewhat less. The Provincial Contributions also were bound to be abolished in course of time. The Central Government would thus have to stand on its own legs to a larger extent.

On the basis of existing taxation, the Budget estimates for 1921-22 expected a total revenue of $110\frac{1}{2}$ crores and a total expenditure of 129 crores, thus exposing a deficit of $18\frac{1}{2}$ crores. Estimates of revenue under Customs, Railways and Income-tax were all bound to be low on account of the trade depression. As for expenditure it was necessary to make some arrangements for amortising the two long-term loans of 1929-47 at 3% and of 1944-55 at 5%, free of income-tax. They were both at a discount at the time in spite of a depreciation fund of $1\frac{1}{2}\%$ of the total loan used every year to purchase and cancel scrip. Mr. Hailey proposed, therefore, to appropriate 80 lakhs a

year out of the current revenues for supplementing the two funds and thus enabling the loans to be amortised at maturity. The Military charges were estimated at 60·20 crores. Out of this, 4 crores represented extraordinary expenditure of a non-recurring nature and 58·20 crores only was ordinary. Even this was admittedly a high figure, but though the strength of the Army had been reduced to less than the pre-War strength, expenditure in other directions had increased. They had now the Royal Air Force and Mechanical Transport. The Ancillary Services also had to be increased and re-organised in accordance with military needs. The Finance Member assured the House that all possible economies had been made and the figure given was the lowest possible. On the whole, then, he expected a deficit of about 18½ crores.

On the revenue side, they would have to budget, therefore, not only for covering the deficit, but also for a slight surplus of one crore; in other words, for enhanced taxation to the tune of 19 crores. Out of this amount, he intended to get 8 crores under Customs. The proposals were (1) to increase the *ad valorem* duty of 7½ per cent to 11 per cent except in the case of matches and certain luxury articles. Government had not thought it necessary to impose any excise duty on Indian cotton manufactures at the same time. But they had made a previous reference on the point to Britain, and assured her that the proposed tariff changes were purely revenue measures. By increasing the general *ad valorem* duty, Government expected to realise 384 lakhs. (2) A specific import duty of 12 annas per gross box of matches in the place of the existing 7½ per cent *ad valorem* duty would probably give 110 lakhs. (3) A new scale of duties on imported liquors was devised which was calculated to yield about 94 lakhs extra. (4) The *ad valorem* duty on luxuries such as motor-cars, silk

piece-goods etc., would be increased from $7\frac{1}{2}$ per cent to 20 per cent, the estimated revenue from this source being 114 lakhs. (5) The import duty on foreign sugar would be raised from 10 per cent to 15 per cent, the increased yield being about 65 lakhs. (6) The last tariff proposal was that the duty on tobacco other than manufactured tobacco should be raised by 50 per cent, the benefit to revenues being about 40 lakhs. Next to Customs, it was proposed that Railways should be made to yield another part of the needed increase of revenue. Profits under the head had been diminishing year by year for some time, and in the current year, they were not likely to be more than 4 crores. Government proposed therefore to make a substantial increase in the existing surcharge on goods traffic, which was calculated to bring in $5\frac{1}{2}$ crores. This was intended to be only a temporary substitute for a general increase of goods rates that was in contemplation. Thirdly, by increasing the postal rates and particularly the charge for cards from quarter of an anna to half an anna and that for letters from half an anna to one anna, it was intended to gain $2\frac{1}{2}$ crores. The total increase thus amounted to 16 crores; and the remaining three crores needed was sought to be made up under Income-tax. On the upper grades the tax would be increased so as to yield a maximum of 16 pies in the rupee, the present rate being only 12 pies. And the super-tax on any excess over $3\frac{1}{2}$ lakhs of income would be raised so as to work up to 4 annas in the rupee. These changes under Income-tax were calculated to bring in $3\frac{1}{2}$ crores. On the whole, thus, additional taxation would bring in 19.17 crores, and the deficit of 18.1 crores would be converted into a surplus of 84 lakhs. All the changes proposed above would take effect only from the 1st April, 1921, but those relating to the tariff would begin to operate from the 1st March alone.

The additional revenue thus expected in the current year was about 70 lakhs which would go of course to reduce the deficit of $11\frac{3}{4}$ crores.

As for the Ways and Means accounts in the current year, the expected liabilities were 46 crores only. But in reality, they had amounted to 96 crores, the excess thus being no less than 50 crores. Railway capital expenditure had risen to 25 crores, and Government had also discharged the whole of the 1920 War Bonds and 9 crores of the 1921 Bonds. These were more or less normal transactions. But heavy losses had had to be incurred on account of the sale of Reverse-Councils by the Government of India which, from April 1, 1921, had come to £ 31 millions. To meet these, the Secretary of State had to withdraw from the Paper Currency Reserve a large amount of sterling securities, and realise them. As these had originally been valued on a *1s. 4d.* basis, the transaction meant a loss of about 17 crores. Government had met the increased liabilities of 50 crores incurred by the issue of Currency Notes backed by the Government's securities (*i. e.*) by Treasury Bills created *ad hoc*. In the next year, their total liabilities would come to about $24\frac{1}{2}$ crores out of which nearly 16 crores would be for the discharge of the 1921 Bonds. Out of that amount, 15 crores would be raised by floating a rupee loan. The Secretary of State also would try to raise £5 millions in London. There would be no provision for reducing the total floating debt, because it was more important to free the Government from financial embarrassments following on the War. But if the rupee loan yielded anything more than 15 crores, the excess would be devoted to bring down that debt. For the Railway capital program, the allotment would be 15 crores as against $22\frac{1}{2}$ crores of the current year. But in reality, the difference between the two figures would

not be more than a crore as 22½ crores was calculated on the basis of 2*sh.* and 15 crores on the basis of 1*sh.* 8*d.* As for the Secretary of State, he would need in the year coming £ 46 millions. But it was expected that he would be able to raise that amount without recourse to Treasury Bills. He could get £ 20 millions from the the War Office towards the recovery of some disbursements made by India on behalf of Britain, £ 12 millions from his cash balances etc., £ 5 millions by a sterling loan and the rest by operating on the Paper Currency Reserve and the Gold Standard Reserve. It was regrettable that at the very outset of its career, the House had been called on to face fresh taxation in order to balance a deficit budget.

In the general discussion that followed, the main points criticised were in regard to the Military Expenditure and the Exchange Policy. But other subjects also came in for a good deal of hostile attention. Thus Mr. T. Rangachari complained that the cost of the Civil Service which was 20 crores in 1917-18 had risen to 45 crores in the current year. Similarly, Bhai Man Singh pointed out that the administration was top-heavy, giving instances from the Home, Education and Finance Departments. Against the surcharge proposed on the railway rates for fodder, firewood and grain, Mr. N. M. Joshi protested on the ground that it would have to come from the poor people. And he also opposed the idea of raising third class passenger fares if a general revision of railway rates was in contemplation. On this point and in his opposition to increasing postal rates, Mr. N. M. Joshi was ably supported by Pandit Bhargava. General criticism of the new taxation proposals was also not wanting. Thus Col. Gidney preferred direct taxes to indirect ones as the latter hit the consumer badly. Mr. Pickford criticised the duty on hides and skins which was intended when first imposed in 1919

only as a protective measure. Since that object, however had not been gained, the duty, he claimed, should be abolished.

The main target of attack was, however, military expenditure. At a very early stage of the discussion, Mr. Venkatapathy Raju complained that the proportion of military expenditure to total expenditure was unconscionably high, that the Indian Army was always on a war-footing and that while the Dominions paid only a part of the cost of the British troops stationed in them, India was paying not only the whole of the cost of the British Army in her territories but was also compelled to pay contributions towards the cost of troops in Britain even while serving as depots for the regular troops in India. Mr. Rangachari questioned why though the strength of the Army had been reduced since 1913, the expenditure had gone up to nearly four times. Sir P. S. Sivaswami Iyer also stressed the same point and showed that the expenditure had risen by no less than 300%.

To these and other criticisms, replies were attempted by Sir George Fell and by the Commander-in-Chief. The former stated in effect that the Indian Army existed partly to prevent external aggression and partly for preventing internal disorder, that its cost had risen due to the higher pay of the personnel fixed in Britain, to the greater amenities provided for the sepoy and to the evolution of new types of weapons. Further, it was wrong to view military expenditure with reference only to the Central budget. It had to be seen in the light of the budgets of the whole of India and so done, it had fallen from 50% to 33% or so. The Commander-in-chief repudiated the suggestion that the Indian Army was maintained for Imperial purposes, and said that its main duty was to

guard the frontiers of India from attacks by the tribes who lived beyond. The War had shown that Indian troops were a very good fighting force but only when officered by Britishers. The Government, however, was trying to Indianise the higher ranks of the Indian portion of the Army. And in the meanwhile, it was impossible to reduce the strength of the fighting forces or to lessen the expenditure on them.

The other main point of attack by the House related to the Exchange policy to the Government. Mr. Rahim-tulla Currimbhoy said that Indian public opinion knew the rupee could not be maintained at 2 *sh.* and it was opposed to the Government's frittering away its resources by selling Reverse Councils when Exchange was not going down. Mr. Jamnadas Dwarkadas, referring to the sale of Reverse Councils, bluntly accused the Government of being led by the nose by Lambard Street. And among others who spoke on this point were Mr. J. Choudari Mr. Sahani and Mr. B. S. Kamath. Replying to these charges, Mr. Hailey stated that the Government had only carried out the recommendations of a committee that had thoroughly gone into the question, and recommended the 2 *sh.* ratio. At the time of the Committee's report, no voice of warning had been uttered against its recommendations. And at the most, the loss to the Government, on account of exchange, if it occurred at all, could not be more than about 75 lakhs. As for the criticisms of the proposed tariff increases, Mr. Hailey promised to pay attention to them.

This ended the general discussion of the Budget in the Legislature Assembly which had begun on the 7th March. Demands for Grants and discussion in the Council of State were both over by the 24th of the month when

the final approval of the Legislature for the Finance Bill was obtained. "The Budget was passed intact in all essentials, alterations being made only by the cutting of comparatively small sums from items of expenditure here and there, and by slight adjustments in the incidence of the new import duties." The relations between the Government and the House had in the whole been smooth and satisfactory.

BUDGET FOR 1921-22.

General Statement of the Revenue and Expenditure for 1920—21 and (In Thousands of Rupees)

REVENUE.	1920-21 Revised Estimates.	1921-22 Budget Estimates.
	Rs.	Rs.
Customs	32,37,80	37,73,28
Income-Tax	19,77,78	18,58,07
Salt	6,14,93	7,00,66
Opium	3,62,31	3,72,85
Other Heads	2,34,01	2,44,80
	64,26,83	69,49,66
Railways (Net Receipts)	25,59,32	27,25,63
Irrigation (Net Receipts)	4,23	4,24
Post and Telegraphs (Net Receipts)	1,68,64	2,08,71
Debt Services	3,74,30	3,49,09
Civil Administration	75,08	76,35
Currency, Mint, and Exchange	2,86,06	49,73
Buildings, Roads, and Miscellaneous Public Improvements	11,42	10,38
Miscellaneous	2,13,00	7,52,76
Military Receipts	3,37,02	4,11,10
Contributions and Assignments to the Central Government by the Provincial Governments.	9,83,00	12,93,75
TOTAL REVENUE	1,14,48,90,000	1,28,31,43,000
DEFICIT	20,45,79,000	...
TOTAL	1,34,94,69,000	1,28,31,43,000

BUDGET FOR 1921-22.

of the Government of India both here and in Britain
for 1921—22.

(In Thousands of Rupees)

EXPENDITURE.	1920-21 Revised Estimates.	1921-22 Budget Estimates.
	Rs.	Rs.
Direct demands on Revenue ...	3,90,86	4,93,51
Railway Interest and Miscellaneous charges ...	21,13,94	23,17,13
Irrigation ...	11,97	11,76
Post and Telegraphs (Capital Account) ...	1,73,40	98,02
Debt Services ...	13,77,38	13,08,61
Civil Administration ...	9,18,96	8,43,18
Currency, Mint, and Exchange ...	3,77,06	4,18,80
Buildings, Roads, and Miscellaneous Public Improvements ...	1,78,15	1,51,11
Miscellaneous ...	4,52,34	4,24,37
Military Services ...	74,36,79	66,31,10
Miscellaneous adjustments between the Government of India and the Provincial Governments ...	63,24	62,84
 TOTAL EXPENDITURE ...	 1,34,94,69,000	 1,27,60,43,000
SURPLUS ...	...	71,00,000
 TOTAL ...	 1,34,94,69,000	 1,28,31,43,000

BUDGET FOR 1921-22.

General Statement of the Receipts and Disbursements

in 1920-21 and

(In Thousands of Rupees)

RECEIPTS.	1920-21 Revised Estimates.	1920-21 Budget Estimates.
	Rs.	Rs.
Surplus	...	71,00
Railway, Irrigation, and other Capital expenditure not charged to revenue		
Capital Contributions by Railway Companies and Indian States towards construction of State Railways...	- 7,03	3,99,34
Deposit of Branch Line Companies ...	...	...
TOTAL CAPITAL ACCOUNT RECEIPTS ...	- 7,03	3,99,34
Debt, Deposit, and Advances		
Permanent Debt (Net incurred) ...	37,44,99	17,87,93
Temporary Debt (Net incurred) ...	23,07,33	...
Balances of Provincial Governments ..	1,06,52	...
Unfunded Debt (Net incurred) ...	3,20,40	4,14,66
Deposits and Advances (Net) ...	...	14,17,18
Loans and Advances by Central Government (Net Repayments) ...	12,75	18,23
Remittances (Net) ...	...	7,50,34
Secretary of State's Bills drawn ...	...	...
Sterling transfers on London drawn ...	30,98,80	...
TOTAL DEBT, DEPOSITS AND ADVANCES ...	95,90,79,000	43,88,34,000
TOTAL RECEIPTS ..	95,83,76,000	48,58,68,000
Opening Balance—India ...	26,47,59,962	16,37,18,962
Britain ...	11,99,73,930	6,00,18,930
GRAND TOTAL OF RECEIPTS ...	1,34,31,09,892	70,96,05,892

BUDGET FOR 1921-22.

of the Government of India both here and in Britain
in 1921-22.

(In Thousands of Rupees)

DISBURSEMENTS.	1921-22 Revised Estimates.	1921-22 Budget Estimates.
	Rs.	Rs.
Deficit carried forward	12,93,26	...
Railway, Irrigation, and other Capital Expenditure not charged to revenue		
Construction of State Railways	24,53,48	17,81,56
Capital outlay on the Indian Post and Telegraph Department	...	1,00,00
Construction of Irrigation Works	62,17	3,14
Initial Expenditure on New Capital at Delhi	1,24,21	1,06,89
Bombay Development Scheme	57,18	...
Payment for discharges of Debentures (Net)	49,20	3,99,34
Deposits of Branch Line Companies	2,95	1,53
TOTAL CAPITAL ACCOUNT DISBURSEMENTS	29,49,19	23,92,46
Debt, Deposit, and Advances		
Permanent Debt (Net Discharged)	...	...
Temporary Debt (Net Discharged)	...	20,41,69
Balances of Provincial Governments (Net)	...	5,71,41
Deposits and Advances (Net)	31,86,03	...
Loans and Advances by Provincial Governments (Net Advances)	5,65,28	...
Loans and Advances between Central and Provincial Governments (Net Advances)	...	1,19,56
Remittances (Net)	2,22,26	...
Secretary of State's Bills paid	...	...
Sterling Transfers on London Paid	31,77,70	...
TOTAL DEBT, DEPOSITS AND ADVANCES	71,51,27,000	27,32,66,000
TOTAL DISBURSEMENTS	1,11,93,72,000	51,25,12,000
Closing Balance—India	16,87,18,962	15,06,25,962
Britain	6,00,18,930	4,64,67,930
GRAND TOTAL	1,34,31,09,892	70,96,05,892

SIR MALCOLM HAILEY'S BUDGETS

BUDGET FOR 1922-23.

1st March 1922.

The Finance Member regretted at the outset that though the House had courageously agreed to enhance taxation last year, yet he had to relate to them, in the current year, that their revenues had fallen far below expectations. This was due not of course to any extravagance on the part of the Government but "to a falling exchange, to the continued depression in world trade, to reduced returns from our commercial services and increased running expenditure incidental to their maintenance." As for the general characteristics of the year, he said that he had indeed expected the depression to continue but not to reach such abysmal depths or to act so disastrously on the country's finances. For what happened, the causes were both internal and external. Wheat and rice continued to rise in price while labour troubles in collieries so affected the output as to necessitate import of foreign coal for railway purposes. Next, merchants could not or would not clear the stock of imported goods which consequently lay locked up. And outside India, the prevailing depression was largely aggravated by famine in Russia. These unfavourable factors consequently belied considerably the expectations formed in 1921 of revenue by the Government of India

For the year 1921-22, he had anticipated a revenue of 1281½ crores and an expenditure of 127½ crores, the surplus being about 71 lakhs. But actually the revenues had fallen and expenditure had risen. The revised

estimate of revenue was only 108 crores or $20\frac{1}{3}$ crores less. Customs was responsible in this fall for a little more than 4 crores, Income-Tax, Salt and Opium for nearly $2\frac{1}{2}$ crores, Railways for no less than 13 crores and Posts and Telegraphs, for about 90 lakhs. On the side of expenditure, Interest Charges had risen up by 2 crores due to the larger proceeds of the Rupee Loan raised in the year and to increased borrowings in London. Continued operations in Waziristan on a large scale, the expansion of the Territorial Force and the enhanced scale of pensions for the families of Indian soldiers had all raised the Military Budget from $62\frac{1}{4}$ crores as anticipated, to 65 crores, *i.e.*, by more than $2\frac{1}{2}$ crores. Then, there was the loss in Exchange. The Government's accounts were kept on the basis of 2*sh.* but the actual rate on an average was about 1*sh.* 8*d.* The total cost of this was about $5\frac{3}{4}$ crores. Altogether, the excess of expenditure over the anticipated figure was about $14\frac{1}{4}$ crores and the total deficit that had to be made up was no less than 34 crores. Sir M. Hailey drew the pointed attention of the House to the fact that the current was the fourth year of deficit in succession. In 1918-19, the deficit was 6 crores; in 1919-20, it was 24 crores; in 1920-21, it was 20 crores; and in 1921-22, it was 34 crores. The total deficit thus came to the alarming figure of 90 crores.

Turning to the estimates for 1922-23, the Finance Member said that the trade situation was getting slightly better. The monsoon had been good and the high prices had perforce to fall to a slight extent. On the other hand, the foreign markets of India were also showing feeble signs of recovery and very possibly, the full revival of trade was not far off. The Budget for 1922-23 had thus been prepared on the assumption that trade conditions would show some improvement during the year. Under Customs, there-

fore, he expected 36·42 crores, that is 3 crores more than in the current year; but under Income-tax, 19·87 crores or about 1 crore less than in the current year, as during 1921-22 collections of arrears had swelled the figure. Salt, he expected, would maintain its level of yield while Opium would be worse by about 60 lakhs. In estimating Railway receipts, he had had to contend against two uncertain factors, one, the uncertain yield of the new goods-rate and the other, the equally uncertain increase in the cost of fuel. The former, however, he estimated at 6 crores and the total gross receipts from Railways at 93½ crores. If the working expenses were taken at 68½ crores, the net receipts under the head would amount to 25 crores. But out of this sum had to be paid the interest and other indirect charges aggregating to 26 crores. The department would thus work at a loss of 1 crore on the whole. The Ackworth Committee had recently reported in favour of completely separating the Railway Finances from the General Finances of the country, but it had also decided that the time for such separation was not yet. In any case, it was clear that the Indian Railways had to be made to pay their way. And the only method of doing so appeared to be to increase the passenger fares by about 25%. The next large item of revenue was Posts and Telegraphs. In the accounts of this department, expenditure that was chargeable to revenue had been separated from that on Capital account. And this had resulted for 1922-23 in a total estimated expenditure of 11½ crores out of which 1·45 lakhs was on Capital account. In the Revenue account, expenditure was estimated to exceed receipts by no less than 96 lakhs. But if credit was taken to the tune of 17 lakhs for services rendered by the department to Indian States or to foreign Governments, the total loss under the head would come to 80 lakhs, that is 10 lakhs

less than in the current year. On the whole, then, the Revenue estimates for 1922-23 including the 6 crores raised by increasing passenger fares on Railways would come to $116\frac{1}{2}$ crores.

On the side of expenditure, the estimates for 1922-23 had been very carefully prepared. Provision had been made only for those items of fresh expenditure which were clearly of imperative necessity or which were likely to be immediately remunerative. Thus under Civil Works, the figure of 166 lakhs that had been entered was just sufficient to cover maintenance, establishment and repair charges. The payment of interest on debt, sinking funds, etc., was of course obligatory. And 16 lakhs had been provided for the urgent improvement of certain salt sources in northern India. Sir M. Hailey also mentioned, in this connection, an item of 60 lakhs under Political Charges, and speaking of it, he said "this is a tentative provision for the better solution of political troubles on the Frontier. It has not yet crystalised into a form which admits of the exhibition of full details." As regards Exchange, he said that as some average rate had to be assumed for the year, he would take the rate of 1*sh.* 4*d.* But as the Government of India accounts were maintained on a 2*sh.* basis, a debit would have to be allowed for and that would come to $15\frac{1}{2}$ crores. Of this amount, 10 crores only would appear under Exchange and the remainder would be debited in the estimates of the Commercial departments. Under the head of Provincial Contributions, the dues from Bengal had had to be waived. But he had resisted the demands for the reduction of their contributions from Madras, U. P. and the Punjab. And in consequence, the Central Government had not foregone any material portion of the Provincial Contributions. As for Military Expenditure, Established Charges were

estimated at 59·70 crores as against 58·20 crores in the current year; Wazaristan accounted for 2·13 crores against 3 crores; and Demobilisation expenditure for 0·35 against 1 crore. The total was, therefore, 62·18 crores or approximately the same as in the current year. The increase of nearly a crore and half under Established Charges was due to a slight expansion of the Territorial Force, to the increase in prices of provisions and other consumable stores and to necessary revision of pay in the case of certain classes of Indian personnel in the Army. On the other hand, severe retrenchment had been effected notably in Military Works, in the purchase of new equipment and in the strength of the Reserve. The figure for Wazaristan was of course tentative, as it depended on the military operations of the year. The net result of all these figures was that the expenditure was estimated at 142½ crores while revenue, on the basis of existing taxation, would amount to 110½ crores only. The deficit would thus be no less than 31¾ crores.

The problem then was how to meet the deficit. There were in general three ways of doing so. One was to budget for a deficit, another, to reduce expenditure and a third, to impose fresh taxation. Any or all of these methods might be adopted. As for the first, continued Sir Malcolm, the only occasion he knew in the past when the Government had deliberately budgeted for a deficit was in 1915-16, when Sir William Meyer presented the first budget after the War began. But the present was no time of grave emergency as 1915-16 was. Besides, the total deficit of the last few years had been due not to capital expenditure but only to items debitable to revenue. And it amounted to no less than 90 crores. This high figure had been raised only on credit, 37 crores by the issue of Fiduciary Currency Notes, 47 crores by incurring floating

debt in the shape of Treasury Bills mostly for 3, 6, or 9 months, and 6 crores out of regular annual borrowings. So far, they had easily renewed their Bills on maturity. But if trade revived and other demands on the money market grew insistent, it was possible that the Government would not be able to cover maturities with sales. Indeed, there had already been preliminary warnings of the danger ahead. If, thus, resorting to floating debt any further was out of question, equally so was the expedient of raiding the Gold Standard Reserve which had been built up for an entirely different purpose. And the raising of further Rupee or Sterling Loans to finance the deficit was also impracticable as, by that means, all the capital liabilities and productive expenditure of the Government had to be met. In short, to face the deficit and to manage things as they had done in previous years was unthinkable. They had, therefore, to examine the second of the devices noted above, that of reducing their expenditure, but this source had already been tapped both in the Military and in the Civil departments. The Government had also agreed to the appointment of a Retrenchment Committee to examine the field of Civil expenditure which extended however to no more than 20 crores. A useful Report would no doubt be produced, but the Finance Member had to frame his budget on the needs of actual expenditure, not on distant hopes. The second expedient, thus of meeting the deficit, also proved barren and they were forced to resort to the third course of trying to increase revenue. Now this could be done in two ways: first by ensuring that the Commercial departments did not prove a burden to the tax-payers but worked if possible at a profit; secondly, by increasing taxation. The Government proposed, under Commercial heads, to increase passenger fares and thus to realise 6 crores. And as for the Post and

Telegraphs Department, it was not possible to raise Telegraph charges which were already high. They were obliged, therefore, to increase the Postal rates and the House would have to reconsider the proposal that it had discountenanced last year, to double the cost of the post-card and of the letter. In this way, they would realise 160 lakhs or 760 lakhs under the Commercial heads. The deficit would thus be reduced from 31 crores and 76 lakhs to 24 crores and 16 lakhs. And this amount had necessarily to be met out of additional taxation.

The first head of increase of course that suggested itself was Customs. At the time of speaking, a Fiscal Commission was sitting and the Government could not therefore act so as to change the fiscal policy of the country. But short of that, it had to increase taxation fairly high to make up the deficit. The Import duty on articles would be raised from 11 per cent to 15 per cent and the Excise duty on Indian made cotton goods from $3\frac{1}{2}\%$ to $7\frac{1}{2}\%$. This would mean an addition of 5.45 crores. Then the duties on imported machinery, iron and steel, etc., on sugar, matches, kerosine, yarn and alcoholic liquors would all be raised so that in the aggregate, Customs would bring in no less 14.90 crores in the next year. But this increase would take effect from the day of speaking and in the current year, they would thus get on additional revenue of 80 lakhs. Under Income-tax, there would be no increase in the lower grades but an increase between Rs. 30,000 and Rs. 40,000 per annum; the rate would be raised from 14 pies to 15 pies in the rupee, and on incomes of 40,000 and above from 16 pies to 18. The higher rates under Super-tax would also be so regraded as to yield 6 annas instead of 4 annas in the rupee as at present. Income-tax and Super-tax would together be made thus to yield about $2\frac{1}{4}$ crores. Salt was

the next head of increase proposed and the rate on it would be raised from Rs. 1-4-0 per maund to Rs. 2-8-0. This would mean just 3 annas per head per annum which was not much. And the annual yield in this manner would be 430 lakhs, in the next year. But this increase also would come into operation from 1st March 1922, and in the current year, the Government expected under this head increase in revenue of about 20 lakhs. On the whole additional taxation was estimated to bring a little over 29 crores and there would be an uncovered deficit of about $2\frac{3}{4}$ crores. In addition, there was the indeterminate liability of Wazaristan operations. But the Government was not prepared to impose further taxation to make up the deficit. It preferred to face it in the hope that economy in expenditure and expansion of revenue would help to wipe it off.

Referring to the Ways and Means position, Sir Malcolm Hailey said that it had not been good for some years past. The Government had had to meet revenue deficits totalling no less than 90 crores out of their credit and they could not possibly continue in that direction any longer with safety. In the current year, the total Capital liabilities they had had to meet had come to 90 crores, more than one-third of which was the revenue deficit. As loans to Provincial Governments or as withdrawals by them out of their balances left with the Central Government, no less than $12\frac{1}{4}$ crores had to be met. Discharges of War Bonds represented $19\frac{1}{4}$ crores while the remainder was due to capital outlay on Railways, Delhi and Telegraphs. These were large liabilities and they were met in part by sundry assets and liabilities at the disposal of the Government worth about 15 crores. Both Rupee and Sterling Loans were raised to the tune of $72\frac{1}{4}$ crores and their immense success was undoubtedly due to the stagnation of trade conditions in the

country which made Government Securities the very best form of investment and to peculiarly favourable conditions in the London money market. As for the rest, Government anticipated an increase of $2\frac{3}{4}$ crores in the amount of Treasury Bills outstanding with the public as Floating Debt at the end of the year.

In 1922-23, it was expected that 10 crores would have to be given to the Provincial Governments either as advances or as drawings on their balances; 8 crores would have to be allotted towards the repayment of the 1922 War Bonds, $3\frac{1}{2}$ crores to the Telegraph Department and to New Delhi; 4 crores for reducing the amount of Treasury Bills outstanding with the public; and 30 crores for Railway Capital expenditure. This large amount would be spent only on the improvement of the existing lines and not on the construction of new ones. The sum-total of next year's liabilities thus came to $58\frac{1}{4}$ crores. This large amount it was mainly proposed to meet with borrowings. The Government would enter the Indian market for a Rupee Loan of 25 crores and the London market for a Sterling Loan of $\pounds 17\frac{1}{2}$ millions, the total amount of loan to be raised thus being $51\frac{1}{2}$ crores. While on this topic of loans, Sir Malcolm Hailey uttered a note of warning. It was true that generally gilt-edge securities were very popular in London, but recently there had been a fall in them due to the political conditions in India. And the Government could not, therefore, be always sure of the success of their sterling loans. As for rupee loans improvement of the trade conditions in the country would certainly render private investment popular once again and secondly, Provincial Governments would also enter the market shortly for substantial amounts. The Government of India had thus to be very careful with their loan operations in the future. So far, the problem in India. But the

Secretary of State had also to be kept in funds. Normally he got the money he wanted by selling Council Bills on India. But since 1918-19, he had not done so to any large extent as his needs had been met by recoveries from the British Government in respect of expenditure incurred by the Government of India during war-time. In the next year, the amount of recovery, under this head would be only $9\frac{1}{2}$ millions while the total expenditure of the Secretary of State was estimated to be $\text{£}52\frac{1}{4}$ millions. Of this large sum, $\text{£}17\frac{1}{2}$ millions would be raised by means of a Sterling loan and the rest would have to be met either by operating on the Sterling Reserves or by the sale of Council Bills. The former could be done by touching the Paper Currency Reserve or the Gold Standard Reserve; but in either case, it would involve cancellation of notes equivalent in value to the amount drawn from the Reserve. This would of course mean deflation and in the next year, if all their needs were to be met by this means, the total deflation would come to 32 crores. Cancellation of notes to this extent would considerably tighten the money market and cause great inconvenience to the public. The Government, however, would resort to this method to a judicious extent and would also take to the sale of Council Bills when and as far as necessary. It was not possible to give accurate figures on this point.

Concluding, the Finance Member made a passing reference to the general financial position of the Provinces. In the beginning of 1921-22, their balances with the Government of India had been 16.16 crores. But at the end of the period, they had deteriorated to barely $5\frac{1}{2}$ crores. Next, all the Provinces were budgeting in the current year for deficits which would together come to 8 crores. In fact, one of them would have to be granted advances from the Central Government merely in order to carry on.

As for the remission of Provincial Contributions, the position of the Government of India rendered it simply unthinkable. In referring to the Meston Award, two facts had particularly to be borne in mind. One was that it had been based on a ratio of 2sh. to the rupee and on the assumption of a military expenditure of 43 crores. But the rupee had fallen and made a difference to the Government of India of 15½ crores a year in the Home Charges alone. And in regard to the Army, its strength had not increased but the cost had, by no less than 20 crores. Remission or even reduction of Provincial Contributions was thus impossible at any rate for the time being. On the whole, Sir Malcolm Hailey concluded: "For us, for Provincial Governments, for the country at large, the year has been a difficult and disappointing one; nor is there yet any clear promise of an early lifting of the clouds which veil the horizon of our finances. We can only address ourselves with what determination we can command, to the task of finding a solution for the urgent problems which immediately confront us."

The general discussion on the budget which commenced on the 6th of March 1922 revealed, in a short while, that members had realised how limited their powers of financial control over the executive were. More than one clearly said, "our powers are limited and so shall our responsibilities be. The huge deficit of 32 crores in the current year is the work of the Government and let them therefore face it." The spirit underlying such statements was not of course fear of public criticism or of unpopularity on the part of the members, but only one of impotent rage at not being able to set right things according to their lights. The brunt of the criticism in the Assembly was against the proposed Excise duties on Indian-made cotton goods, the Exchange policy of the Govern-

ment and military expenditure. But detailed attacks were made on a variety of points. Thus, Mr. Harichandrai Vishindas said that though the salt tax might mean only 3 annas per annum of increased taxation on the poor man, yet it was not alone. Kerosine had been taxed higher and matches too. There was besides increase in postal rates and railway fares. All these would come to a large slice out of his small income. Mr. T. Rangachariar accused the Government of under-estimating the expenditure and over-estimating the revenues during the past few years—a feature which led to extravagance. Sir Manmohandas Ramji complained that within two years taxation had been increased by 50 crores *i.e.*, by Rs. 1-8-0 per head, which was of course extraordinary. Sir V. D. Thackersey said that he had been authoritatively told in London in 1919 that the salaries of the Services had been raised on account of the 2s/6. ratio. But Exchange had fallen and the burden had consequently grown heavier. Bhai Man Singh complained that the general level of salaries in India was far too high, while Mr. Samarth drew attention to the fact that though many subjects had been provincialised since the Reforms, establishments at Delhi had not been reduced at all. In reference to the Retrenchment Committee that was about to be appointed, Dr. Gour said that what was needed was general retrenchment and not cheese-paring in the civil departments over an extent of 20 crores only. As measures of retrenchment, Sir. D. P. Sarvadhikary suggested that the Railway programme and New Delhi could both wait for more prosperous times.

These were detailed criticisms. But the attacks on the proposed Excise duty were vigorous and sustained. Mr. Jamnadas Dwarkadas, early in the discussion, pointed out that the Government of Lord Hardinge had promised not to raise the Excise duty in the future and that accord-

ing to Sir M. Hailey's budget, if in addition to the Excise duty, $7\frac{1}{2}\%$ were to be levied on machinery and 15% on stores, dyestuffs, etc., the total burden on industry would be too heavy to bear. Sir Manmohandas Ramji complained that including the duty on machinery, stores, etc., Indian mills would have to pay 3.50 crores while the duty on imported piece-goods would be only 1.81 crores, a circumstance which was certainly unfair. Sir V. D. Thackersey complained that an Indian cotton mill was paying in all, including income-tax, stores and other articles, no less than 15% on the cost of production, a burden that would of course be transferred to the consumer, who, he calculated, would thus have to pay about 10 annas per head per annum thereafter. The other subject on which criticism was brought to a head was the Exchange policy of the Government. Mr. Spence pointed out that the lower the rupee fell, the heavier would be the loss to India on account of the sale of Council Bills. Government, he suggested, should tax imports of gold and silver which would not only yield revenue but also steady the Exchange. He also complained that if they had funded their $3\frac{1}{2}\%$ loan, other loans would have been easier to raise. Sir V. D. Thackersey loudly protested against "the mad policy of raising our Exchange from 1s. 4d. to 2s. and following it up by the still madder policy of selling Reverse Councils." He also suggested that as Exchange was not likely once again to go up to 2s., gold and gold securities in the Paper Currency Reserve should be revalued on the basis of 1s. 4d. and in consequence 6 crores of rupees could be credited to revenue. Besides, he said that 5.60 crores, which was being paid as annuities for the purchase of Railways should not be debited to the revenue account but to capital. Both these would mean a reduction of more than 10 crores in the deficit. Sir Montague

Webb said that for the rise in the expenditure of the Government, high prices were partly responsible. But he could not defend its action in calculating the last budget on the basis of 1*s*. 8*d*. and in selling Reverse Councils. He also strongly recommended an import duty on silver. Mr. Sahani complained that the Exchange policy of the Government was eating up the country's resources and wanted that India's surpluses should be located here and not in London.

It was, however, not the Excise duty or the Exchange policy of the Government that had to bear the brunt of the attack, but military expenditure. And rightly too. A host of members complained against the Forward policy in Wazaristan which was draining away the country's resources, among whom were Messrs. Vishindas, T. Rangachari and Samarth. Col. Gidney said that the N. W. Frontier should be made an imperial burden in part. The strength of the army could not indeed be decreased but huge reductions were possible in various departments, *e.g.*, Supply and Transport, Military Works and Military Transport. In the Army Medical Service, expensive European nurses for British troops were not needed. Again, there were two heads of the Medical Services in India, each with a huge staff, the Director of Medical Services in India and the Director-General I. M. S. Large cuts were possible in these directions. Mr. Sahani said that as a large part of the military was non-native, there was a special sense in which military expenditure was too heavy. Besides, the army in India was always on a war-footing. One of the means of bringing down the high figure under military expenditure was to Indianise the army, but that was not done adequately. Munshi Iswar Charan was voicing the sentiments of the Assembly when he protested that Indianisation was in no way an experiment and that if the Govern-

ment only went about the task whole-heartedly, 15 or 20 years would quite suffice. But, Mr. N. M. Joshi said, the real impediment in the way was the Government's distrust of the people. To all these criticisms of military policy and expenditure, the Government replied through the Commander-in-Chief, the Foreign Secretary Mr. Denys Bray, and the Army Secretary, Sir Godfrey Fell. The Commander-in-Chief said that retrenchment had been effected in the army but the cost of food, clothing, etc., had risen and so also the total figure of expenditure. Reduction of the strength of the army was impossible till the loyalty of united India to the British Empire was beyond question. And as for Waziristan, domination of the Mahsud country by military force was the best solution possible of the difficulty. Indianisation was the ultimate goal in regard to the Army, but he asked, "Will it ever be possible to completely eliminate the British either in the Army or in the Civil Services"? The charges as to leakage and waste in stores purchase, transport of troops, etc., were all repudiated by Sir G. Fell who maintained that the greatest economy was being practised in all those matters.

The rest of the points raised in the course of the discussion were all answered on behalf of the Government by Sir M. Hailey at the end. He said that the high cost of the Services was not due mainly to the increased pay of the higher grades but to that of the lower staffs who had increments granted to them, especially in the Railway and Post and Telegraph departments as the result of recommendations made by Committees. The large deficit in the Budget could not be allowed but had to be faced somehow. He would consider the suggestions regarding the re-valuation of paper currency securities on the basis of the fallen rupee and the debiting of the payment of Railway annuities to capital account. Commercial Departments like the

Railways and Posts and Telegraphs could not afford to loose and the Government did not see how it could forego the revenue from increased postal rates and passenger fares. As for the Excise duty, he said it only meant that the Bombay mill-owners would make lower profits. Finally, he took a very serious view of the position of a few members who said that they were not responsible for the plight in which the Government found itself and therefore would have nothing to do with it. Such a view, he pointed out was wrong. The Reforms were only a stage in the constitutional progress of India and he asked that members should bear that fact in mind and take up a more helpful attitude towards the Government.

At the subsequent stages of Demands for Grants, consideration of the Finance Bill in the Assembly and of discussions in the Council of State, certain alterations were made in the budget proposals. The Assembly made a 5% all round reduction amounting to 95 lakhs, and also refused to raise the duty on salt, the cotton excise duty, and the existing import duty on machinery and cotton-goods. The total cuts came to 9 crores, so that the deficit of the year was increased by that figure.

BUDGET FOR 1922-23.

General Statement of the Revenue and Expenditure for 1921-22 and (In Thousands of Rupees)

REVENUE.	1920-21 Accounts.	1921-22 Budget Estimates.	1921-22 Revised Estimates.	1922-23 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Customs	30,97,67	37,73,28	34,60,14	45,41,84
Income Tax	20,91,74	18,58,07	18,14,13	22,11,39
Salt	6,18,80	7,00,66	6,41,62	6,88,03
Opium	3,53,41	3,72,85	3,03,24	3,09,30
Other Heads	2,25,26,077	2,44,80	2,20,46	2,35,85
	63,86,88	60,49,66	64,39,59	79,84,41
Railways (Net Receipts)	25,01,61	27,25,63	15,13,77	31,10,94
Irrigation (Net Receipts)	2,91	4,24	7,15	7,22
Post and Telegraphs (Net Receipts)	1,52,40	2,08,74	37,67	1,75,28
Interest Receipts	3,69,16	3,49,09	1,04,66	84,31
Civil Administration	73,20	76,35	72,14	86,49
Currency, Mint, and Exchange	2,88,23	49,73	4,20,56	3,22,31
Civil Works	11,33	10,38	11,46	10,92
Miscellaneous	2,63,88	7,52,76	6,85,31	66,11
Military Receipts	6,47,87	4,11,10	7,23,85	5,54,14
Contributions and Assignments to the Central Government by the Provincial Governments.	9,83,00	12,93,75	12,99,16	9,20,65
TOTAL REVENUE	1,16,80,47,592	1,28,31,43,000	1,13,15,32,000	1,33,22,78,000
DEFICIT	32,27,57,387	...	28,79,20,000	9,16,28,000
TOTAL	1,49,08,04,979	1,28,31,43,000	1,41,94,52,000	1,42,39,06,000

BUDGET FOR 1922-23.

of the Government of India both here and in Britain
for 1922—23.

(In Thousands of Rupees)

EXPENDITURE.	1920-21 Accounts.	1921-22 Budget Estimates.	1921-22 Revised Estimates.	1922-23 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct demands on Revenue.	4,13,73	4,93,51	5,06,31	5,69,90
Railways: Interest and Miscellaneous charges ...	19,37,52	23,17,13	24,40,54	25,98,53
Irrigation	11,82	11,84	13,51	11,19
Posts and Telegraphs ...	1,34,56	98,02	1,37,62	97,32
Debt Services ...	15,20,44	13,08,61	14,77,34	15,20,09
Civil Administration ...	9,36,51	8,43,18	8,95,66	10,01,45
Currency, Mint, and Exchange ...	4,33,49	4,18,80	9,92,81	10,88,22
Civil Works ...	1,95,57	1,51,03	1,52,77	1,69,54
Miscellaneous ...	4,39,77	4,24,37	4,50,00	4,13,11
Military Services ...	88,23,24	66,81,10	71,55,15	67,02,36
Miscellaneous adjustments between Central and Provincial Governments...	63,24	62,84	76,38	63,29
TOTAL EXPENDITURE CHARGED TO REVENUE.	1,49,09,96,081	1,27,60,43,000	1,41,98,09,000	1,42,30,00,000
SURPLUS ...	...	71,00,000	...	...
GRAND TOTAL ...	1,49,09,96,081	1,28,31,43,000	1,41,98,09,000	1,42,30,00,000

BUDGET FOR 1922-23.

General Statement of the Receipts and Disbursements

in 1921-22 and

(In Thousands of Rupees)

RECEIPTS.	1920-21 Accounts.	1921-22 Budget Estimates.	1921-22 Revised Estimates.	1922-23 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	...	71,00	...	...
Railway Capital not charged to revenue ...				
Capital Contributions by Railway Companies and State Railways towards construction of Railways...	...	3,99,34	64,65	3,86,74
Debt, Deposits, and Advances				
Permanent Debt (Net incurred) ...	28,30,15	17,87,93	24,66,08	40,46,93
Temporary Debt (Net incurred) ...	24,03,93	...	14,55,16	...
Unfunded Debt (Net incurred) ...	2,90,60	4,14,66	4,44,75	3,07,15
Deposits and Advances (Net) ...	...	14,15,65	17,98,25	27,61,27
Loans and Advances by Central Government (Net Repayment) ...	12,75	18,23	...	9,74
Loans and Advances by Provincial Governments ...	2,27	...	...	...
Remittances (Net) ...	15,30	7,50,34	6,58,65	35,73
Secretary of State's Bills drawn ...	...	...	...	...
Sterling transfers on London drawn ...	30,98,80	...	...	...
Balances of Provincial Governments ...	80,68,098	...	...	...
TOTAL DEBT, DEPOSITS AND ADVANCES ...	87,40,48,003	43,86,81,000	68,22,89,000	71,60,82,000
TOTAL RECEIPTS ...	87,40,48,003	43,57,15,000	68,87,54,000	75,47,56,000
Opening Balance—India...	26,47,59,962	16,37,18,962	13,83,56,901	11,88,74,901
Britain ..	11,99,73,931	6,00,18,930	7,20,98,319	7,00,27,319
GRAND TOTAL ...	125,87,81,896	70,94,52,892	89,92,09,220	94,36,58,220

BUDGET FOR 1922-23.

of the Government of India both here and in Britain
in 1922-23.

(In Thousands of Rupees)

DISBURSEMENTS.	1920-21 Accounts.	1921-22 Budget Estimates.	1921-22 Revised Estimates.	1922-23 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit ...	26,00,85	...	28,79,20	9,16,23
Railway, Irrigation, Post and Telegraphs and other Capital Expenditure not chargeable to Revenue				
Construction of State Railways ...	25,88,89	17,81,56	23,01,44	30,00,00
Capital outlay on Post and Telegraph De- partment ...	...	1,00,00	1,28,06	1,45,00
Construction of Irriga- tion Works ...	66,83,195	3,14	6,20	2,69
Initial Expenditure on New Delhi ...	1,25,75	1,06,59	1,40,10	2,00,00
Payment for discharge of Debentures ...	57,16	3,99,34	5,00	3,60,49
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	28,38,63,331	23,90,93,000	25,80,80,000	37,08,18,000
Debts, Deposits and Ad- vances				
Permanent Debt (Net Discharged) ...	...	...	...	...
Temporary Debt (Net Discharged) ...	...	20,41,69	...	26,87,46
Deposits and Advances (Net) ...	18,66,08	...	...	...
Loans and Advances by Central Government (Net) ...	...	...	2,72	...
Loans and Advances between Central and Provincial Govern- ments (Net) ...	...	1,19,56	5,92,00	5,50,00
Remittances (Net) ...	...	...	...	...
Secretary of State's Bills paid ...	...	...	...	...
Sterling Transfers on London Paid ...	31,77,70	...	...	...
Balances of Provincial Governments (Net) ...	...	5,71,41	6,26,10	4,35,60
TOTAL DEBTS, DEPOSITS AND ADVANCES...	50,43,78,069	27,32,66,000	12,20,82,000	36,73,06,000
TOTAL DISBURSEMENTS...	104,83,26,676	51,23,59,000	71,03,07,000	76,52,80,000
Closing Balance—India...	13,83,56,901	15,06,25,962	11,88,74,901	13,77,67,901
Britain...	7,20,98,319	4,64,67,930	7,00,27,319	4,06,10,319
GRAND TOTAL...	125,87,81,896	70,94,52,892	89,92,09,220	94,36,58,220

SIR BASIL BLACKETT'S BUDGETS

FIRST BUDGET, 1923-24.

1st March 1923.

In presenting his first budget to the Legislative Assembly on the 1st of March 1923, Sir Basil Blackett said at the outset that he envied the position of the British Chancellor of the Exchequer who, in presenting his budget dealt with a year that had just closed, and not, as in India, with a year that was about to close. The Indian Finance Member had to prepare his estimates for the current year only as a second guess on the basis of the first nine or ten months' experience. Next, taking up a review of the year 1922-1923, Sir Basil said that budget estimates as finally passed provided for a deficit of 9·16 crores, the estimated revenue being 133·23 crores and the expenditure 142·39 crores. As for revenue, there was a slight improvement in the conditions of the year. And so far as merchandise was concerned, there was a balance of trade in India's favour of 62 crores. Against this, there was also a substantial import of bullion: but still the favourable balance came to 20 crores as against an adverse balance of 33 crores in the previous year.

Under Customs, the budget estimate for 1922-23 was for a net revenue of 45½ crores, but actually it looked that Government would be 3 crores short of the figure. The import of sugar had fallen considerably and was likely to yield 1½ crores less than the estimate. The Excise duty on cotton manufactures was also expected to be 60 lakhs down and under other tariff heads like liquor, matches, cutlery, etc., a lower yield of revenue was almost certain. On the

other hand, increased revenue was expected from import duties on cotton piecegoods, iron and steel, etc. The new Excise duty on kerosine was also likely to bring in more. In particular, Sir Basil pointed out that the 30 per cent duty had not seriously affected the import of luxury articles like motor cars and silk manufactures : the public impression on this point was wrong. In regard to Railways, the estimated gross traffic receipts were 99½ crores, but actually only 92 crores were likely to be realised. There was, however, a saving of 2½ crores in connection with replacements and renewals debitable to revenue. Altogether the receipts would be down by 5¾ crores, but taking into account, interest charges, there would be a total loss under this head of nearly 1 crore. Under Posts and Telegraphs, the enhanced rates had reduced correspondence, during the first few months of the financial year, but recovery also had taken place soon. The anticipated receipts were 106 lakhs less than the estimates and on the whole, after debiting interest and by virtue of a small saving in working expenses, a small profit of 2½ lakhs was likely to accrue. In regard to Income-tax collections, a certain portion of the arrears expected to be collected had turned out to be bad debt and besides, as a result of the adjustment system in force under the former Act, heavy refunds had to be made in Calcutta. Altogether, a total deterioration of 3½ crores was expected. As for other heads, Opium would probably yield 89 lakhs and Salt 7 lakhs more than anticipated at first.

On the expenditure side, there was a saving of 186 lakhs under provisions for interest on debt. Rupee and Sterling borrowings had been larger than budgeted for, but interest on a large part of them did not fall due till the next year. And a substantial portion of the floating debt had been funded. A special provision of 60 lakhs

in the Civil Estimates had been made under the head 'Political' for expenditure in Wazaristan but 35 lakhs out of that amount had been saved in the sense that it had been thrown forward to the next year. Savings in other civil expenditure came to $\frac{3}{4}$ of a crore. The Exchange rate at which Government had budgeted was 1*sh.* 4*d.* At this point, the Finance Member announced a slight change in the method of accounting. Adjustments due to exchange fluctuation had been shown till then against individual heads of account so far as Commercial Services were concerned. And entries against other heads had all been lumped together under Exchange. The statutory rate being 2*sh.*, the House had complained last year that this method of accounting grossly understated expenditure especially on the military. It had been decided therefore to distribute exchange adjustments among the individual heads in the future. As for expenditure on the military, 65.10 crores had been provided for establishment charges, 2.13 crores for Waziristan operations and 52 lakhs for demobilization charges, the total thus coming up to 67.75 crores. Actually, however, military operations in Waziristan were now estimated at 3.85 crores. And owing to the unexpected progress made in the discharge of surplus officers, demobilisation charges would come to 2.8 crores. But due to shortage of British troops in India, fall in prices, etc. establishment charges would come to only 60.5 crores. On the whole, therefore, the saving anticipated was about 46 lakhs under the Military.

Sir Basil next turned to present a comprehensive picture of the position of Indian finances at the close of 1922-23. He showed that for five years in succession, India had had deficit budgets, the total of the deficits coming to no less than 100 crores. And this was in spite

of 28 crores of additional taxation during the last two years. There was besides unproductive expenditure as on New Delhi, classed under capital expenditure, while really it should have been charged to revenue. And lasty, Provincial Governments and Local Bodies were also having recurring deficits. Out of the 100 crores deficit at the centre, 31 crores had been covered by the creation of Paper money, i.e., by the I. O. Us. of the Government of India. The remaining 69 crores was borrowed, 22 in the shape of Treasury Bills. But this was a large amount to be left outstanding in a country like India where renewal on maturity could easily become very difficult even at high rates. Besides, during the next 3 or 4 years bonds were maturing to a large extent, 5½ crores in 1923, 3½ crores in 1925 and 38 crores in 1926. All this was the result of continued deficits. The question could also be viewed from another point of view. Constant borrowing had raised interest charges which in 1923-24 would come to no less than 5½ crores, an amount which had to be found at whatever cost. Further, they had impaired the credit of the Government, both at home and abroad. India had immense industrial possibilities the realisation of which depended on the necessary amount of capital being found, but if all the available quantity of it was used up for financing deficits, to a corresponding extent, the development of the country would be retarded. Credit therefore had to be maintained both in India and outside, and interest charges minimised. Summing up, the Finance Member said, "the deficits of the last few years have brought in their train a certain amount of taxation by inflation, a heavy annual charge on the present and future budgets of India, a deterioration in India's credit, an increase in the cost of borrowing, and a depletion of the resources available for desirable capital development."

Digressing then for a moment, Sir Basil stressed the need for stimulating the habit of investment among men of average means. In this way, he hoped that a considerable part, if not the whole, of the money required for capital expenditure in the provinces could be obtained through the Post-Office Cash Certificate system. Referring to the debt position, he said that since the 31st March 1914 debt had grown from 411 crores to 781 crores on the corresponding day in 1923. Out of this, 557 crores were classed as productive and 224 crores as unproductive. The latter figure was high in proportion, but it was mainly due to the War and the deficits of the last two years. Looked at from another point of view, the rupee portion of the debt had risen during the period from 146 crores to 421 crores and the sterling portion from 177 million pounds to 240 millions.

There had been keen controversy over the Exchange policy of the Government. The truth was the equilibrium of the sterling-rupee exchange which had been established at 1s. 4d. at the end of the 19th century was upset primarily by the War. All the belligerent countries also adopted methods of inflating currency which were again a disturbing factor on India's exchange ratio. She was almost swept along in the maelstrom of world events and any currency system was bound to be upset by them. Actually what happened was, the purchasing power of gold fell, the price of silver rose and the rupee had to depart from the traditional figure of 1s. 4d. The rate was fluctuating violently and an attempt was made to fix it at 2s. but it was an impossible one with all the exchanges of the world out of gear. Naturally it failed. Even at the moment of speaking, the Hon'ble Member said, the time had not yet come for a new attempt to fix the rupee. There existed, however, enough resources for maintaining the exchange.

For that purpose the sterling securities in the Paper Currency Reserve and the Gold Standard Reserve were the same. India's export trade had improved and the convertibility of Paper was assured by an ample metallic reserve of silver. In addition, in the Paper Currency Reserve there was a sum of 23 million pounds in gold ; and in sterling securities, easily convertible into foreign exchange, a total of £5,800,000 sterling. What was then necessary was an era of balanced budgets. As for the exchange, it was fairly steady at the moment of speaking between 1*s.* 4*d.* and 1*s.* 4½*d.* There was no sanctity in any particular rate of exchange. The question simply was what rate suited India best, but from the budget point of view a higher rate of exchange meant a smaller number of rupees to pay and, therefore, was a benefit to India. On the other hand, a lower rate involved increased expenditure for the Government in terms of rupees. These were general observations only. What was wanted was stability and not any special rate.

Sir Basil Blackett next took up the estimates for 1923-24 and began with expenditure. By way of a preliminary remark, however, he stated that the report of the Inchcape Retrenchment Committee had been received by the Government just a few days ago, and it had not been possible therefore to give effect to its recommendations and obtain the full value of the cuts proposed ; but in preparing the estimates for the year an atmosphere of economy had prevailed and retrenchment had been effected to some extent in advance of the Committee's report. Particularly, some reductions had been made in the military budget which were also subsequently recommended by the Retrenchment Committee. This was due to the advance knowledge of the retrenchment proposals which the Commander-in-Chief had. Similarly,

under Posts and Telegraphs also, a few of the proposed cuts had been effected. The same, however could not be said of the other civil departments, though the estimates for Demands for Grants had been prepared with great care.

It was not possible to say what additional reductions could be made after studying the Retrenchment Committee Report. But the Government undertook to carry out a lump sum cut of 4 crores in civil expenditure. How this would be spread over various heads could be known to the House when the time came for voting on Demands which would be not for the original total of each head, but for the reduced amount. Thus under civil expenditure, the estimate for 1923-24 was 101·3 crores and it was based on a reduction of 2·6 crores. The Government further undertook a cut of 4 crores, the total reduction being, therefore, 6·6 crores. But the Committee had recommended a total reduction in the non-military portion of the Budget of 8½ crores. The cut thus remaining was less than 2 crores and the Government undertook to effect it in the next budget year. Under military expenditure, the estimate which took account of reductions, was 62 crores for the year 1923-24. This represented a reduction of $5\frac{3}{4}$ crores over the figure of 1922-23. In the forefront of these reductions and forming the pivot on which other reductions depended in the case of the army was a substantial reduction in the strength of British and Indian forces. The total expenditure for 1923-24 taking sterling at 1s. 4d. was estimated at 204·37 crores.

The Finance Member next turned to revenue and said that in preparing the forecast he had assumed trade conditions to continue as they were. Allowance had been made for a small normal growth in revenue and no boom in foreign trade was counted upon. Customs was expected

to yield a net revenue of 45.09 crores and Income-tax of 19 crores. This meant an increase of 2.79 crores, under Customs over the current year's receipts, and the same expectations under Income-tax as for the current year. Railway earnings promised well and gross traffic receipts had been put down at 95½ crores which would be 3½ crores more than the Revised Estimates for 1922-23. Working expenses and other charges remaining the same, a net profit under this head of 35 lakhs for the year was anticipated. Posts and Telegraphs would probably yield a net revenue of 147 lakhs. The Budget position thus was on the basis of the existing taxation, one of deficit to the tune of 5.85 crores. The expenditure was 204.37 crores and the expected revenue was 198.52 crores.

Before considering the measures for wiping off this deficit, Sir Basil Blackett turned to the Ways and Means position during the year. Out of the proceeds of the Rupee and Sterling loans raised, Government expected to meet liabilities to the extent of 106 crores. The Rupee loan gave 47 crores and the Sterling loan 31½ millions. Out of these borrowings, floating debt had been reduced by 40.6 crores which was a very satisfactory feature. In London, on account of the strengthening of exchange, Council Bills were being sold somewhat in advance of actual requirements. It was thus anticipated that the balance in London on the 31st March 1923 would be about £8 millions while the normal minimum balance was £4 millions. But the surplus would be required early in the new financial year. The forecast for 1923-24 showed that the largest liability would be for Railway capital outlay. In 1922-23, the full 30 crores provided for the purpose under the five year programme had not been spent up: something had been carried forward. Adding this amount to the 30 crores for the next year, a total of

38·6 crores had to be provided under Railway Capital Expenditure. Bonds to the tune of $5\frac{1}{2}$ crores would also mature and other capital outlay would come to about 3 crores. Further, under loans and over-drafts to Provincial Governments, $13\frac{1}{2}$ crores was necessary; the greater part of the amount going to Bombay for her Development Scheme. As for assets, there were £8 million in London. And they would raise £15 millions by sterling borrowings and 25 crores of rupees by a rupee loan. This would enable not only the meeting of liabilities, but also a further reduction of 5 or 6 crores in the floating debt. In addition, a sum of £27 million would also have to be remitted to London. It would of course be done either by the purchase of Exchange or by drawing upon the Paper Currency Reserve or the Gold Standard Reserve in London. The particular methods could not of course be given out in advance. As for Provincial Contributions, however desirable it might be to reduce and even to extinguish them, it was not possible to do so with a deficit in the central Budget.

The practical question was, what was to be done with the deficit of 5·85 crores expected in the next year? The interest on the securities in the Paper Currency Reserve was being credited to revenue. If similar action was taken with regard to the Gold Standard Reserve also, an amount of 1·59 crores would be realised and the deficit would thus be brought down to 4·26 crores. This did not mean anything more than a change in the methods of book-keeping, but that change was necessary. Even the reduced deficit, however, could not be left uncovered, especially in view of continuous deficits during the past five years. Fresh taxation, therefore, was unavoidable. The question merely was what form the new taxation was to take? After long deliberation the Government had

decided to increase the salt tax to Rs. 2-8-0 per maund. This would bring about $4\frac{1}{2}$ crores of revenue and would thus leave a small surplus of 24 lakhs. This step was painfully necessary. In conclusion, Sir Basil Blacket appealed to the House "for one last long and strong pull, all of us pulling together in the confident assurance that so doing, we shall quickly get the boat out of the vicious current which is threatening to drag India down on to the rocks of insolvency."

In the general discussion that followed, a very large number of speakers referred to the Inchcape Committee on Retrenchment that had just sent up its Report. All of them complimented it on its work, but they were not satisfied that the Government had done as much as possible to carry out the cuts recommended in framing the budget estimates for 1923-24. In reply, the Government pointed out that if there was still some scope for further retrenchment, it was only because of the "lag" in effecting cuts, i.e., reductions could not all be made at once. They would take some time and by the next year, all the recommendations would be carried out. The policy in Wazaristan came in for a good deal of criticism at the hands of Dr. Nandalal, Mr. Rangachari and Mr. J. Choudary among others. One and all, they complained that the question of defence was not an Indian question only but an Imperial one and that quite a fortune had been sunk in the wilds of the North Western Frontier. The Government position was explained by Mr. Denys Bray, Foreign Secretary and the Commander-in-Chief. The former explained in detail that the policy was very necessary for the safety of India and the latter was decidedly of the opinion that the subjugation of the Mahsuds was essential. There was the usual protest against the heavy military charges and almost all the speakers were of the

opinion that there could be further reductions under the head. This was, for instance, what Messrs Sahani and Sambanda Mudaliar said. Mr. Rangachari pointed out that there had only been a reduction of 90 lakhs in the established military charges : Waziristan and discharge of surplus officers were not available every year for reducing expenditure. Mr. J. Choudary opined that the military could easily bear a cut of $4\frac{1}{2}$ crores and by this means, the need for fresh taxation would be avoided. Suggestions were also made for further cuts. Sir Sivaswamy Iyer wanted that the Capitation charges should be shared by Britain with India. Dr. Gour wanted that the internal security troops should be largely replaced by the police and the British troops by Indian troops. The reply to these observations made by Government through the Commander-in-Chief and Mr. E. Burdon, Army Secretary, was the Retrenchment Committee had been ruthless in dealing with the military, that there had been recommended a reduction of nearly 14,000 British and Indian troops which the Government would carry out and that in short the expenditure on the Army had been reduced as much as was compatible with safety and prudence.

As regards Railways, Messrs. Sambanda Mudaliar, and Mr. Seshagiri Iyer wanted that passenger fares should be lowered in order to raise the receipts. Dr. Nandalal and Mr. N. M. Joshi deplored the plight of the third class passengers. While Dr. Sarvadhikary complained that vast reductions were still possible in expenditure, Mr. Manmohandas Ramji pointed out that the Indian railways were highly pampered, and suggested that out of the 30 crores allotted for capital expenditure on railways during 1922-23, if the unspent amount of 8 crores was taken into revenue account during 1923-24, there would be no need to tax salt as was proposed. The question of debiting

railway annuities to Capital account was urged by a number of members, but Mr. A. V. V. Iyer said, for the Government, that the annuities were in the nature of a Sinking Fund and as such were rightly put down in the revenue account. As for other heads, one and all the members were opposed to the increase in the tax on salt, and suggested various alternatives, Mr. Sahani wanted the import duty on cotton cloth to be raised from 11 to 15%; Mr. Spence would tax silver and the production of petrol. Maulvi Abdul Kasim was for taxing the export of patrol, and he was supported in the matter by Mr. Sambanda Mudaliar, Mr. Agarwala, and Sir Montague Webb. To this suggestion, Mr. C. A. Innes, on behalf of the Government, replied in effect that by charging an export duty on petrol, the price of kerosine would be raised for the poor. Both Messrs Spence and Wilson pleaded for the abolition of the import duty on tinned foods: but Mr. Joshi rightly pointed out that taxing salt also was to tax food. And among other suggestions for increasing the revenue may be mentioned that of Mr. J. Dwarkadas to tax the export of jute, of Sir G. Frazer to reduce the increase on salt to 8 annas and to make up the difference by levying a surcharge of $\frac{1}{2}$ anna in the rupee on Customs and Income-tax collections, and of Mr. Venkatapathi Raju to raise the import duty on foreign salt so as to afford it protective value.

Exchange occupied the attention of the Legislature for a considerable period. The cleavage of opinion between the Government and the Indian members was very pronounced, especially in regard to the stabilisation of the ratio. Indian members complained that the Government had manipulated the currency and credit policy of the country times without number and at the present time also, they should do the same. Mr. J. Dwarkadas, Mr. H.

Vishindas and others were very emphatic on the point. As a means of developing the investment habit in the land, Sir Montague Webb suggested the issue of Bonus Bonds. Mr. J. Choudary felt no apprehension as to the credit of the country being in jeopardy as the unproductive debt was all due to the War and it was not much. Mr. P. P. Ginwala was outspoken and he accused the Government of blindly following Britain in regard to the methods of taxation, etc., He said the Government of India pursued a hand-to-mouth policy, having no broad and well-thought out programme of finance. And lastly, he complained that the budget estimates contemplated not taxing the rich man but only the poor.

At the end, Sir Basil Blackett replied on behalf of the Government. He dealt with the various suggestions for new taxation made by the members and pointed out that what one section suggested, another did not relish. Under the circumstances, he felt that the salt tax held the field. He said that it was a well-recognised custom in Britain to charge military works and repairs to revenue and the Government of India was therefore, right in acting as it did. Even so in regard to debiting railway annuities to the revenue account. To fix exchange was very difficult and he felt sure that the time had not yet come for that, as the currencies of all the countries in the world were out of gear. He hoped, in conclusion, to balance the budget with the aid of the salt-tax and thereby to steer India clear of the deficit era which she had been through.

On the whole, the House received the Budget with keen dismay. It did not like the idea of having to vote for further taxation, and especially to tax salt, when already in the last two years, it had agreed to very heavy

burdens being imposed on the country. Accordingly, it made cuts in the budget to the extent of about 1·76 crores. But the Governor-General restored them almost in entirety: 1·14 crores under Railways, and 3 lakhs under Miscellaneous. The real fight, however, was in regard to the Salt Tax. The Legislative Assembly rejected the proposal to enhance it by 59 votes against 44. Government next took the proposal to the Council of State which endorsed it, but, in accordance with the rules, when it was brought to the Assembly again, that body once more threw it out by 58 votes to 47. Upon this, the Governor-General issued a long statement pointing out the need for enhancement of the tax, and certified it. That is to say, the proposal acquired the force of law.

BUDGET FOR 1923-24.

General Statement of the Revenue and Expenditure for 1922—23 and (In Thousands of Rupees)

REVENUE.	1921-22 Accounts.	1922-23 Budget Estimates.	1922-23 Revised Estimates.	1923-24 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Customs ...	34,40,98	45,41,84	42,30,03	49,09,41
Income-Tax ...	18,74,13	22,11,39	17,89,31	19,04,64
Salt ...	6,34,38	6,86,03	7,17,84	11,75,00
Opium ...	3,07,25	3,09,30	3,98,68	3,93,12
Other Heads ...	2,20,17	2,35,85	2,37,37	2,44,97
	64,76,91	79,84,41	73,73,23	82,27,14
Railways (Net Receipts) ...	15,20,83	31,10,94	25,81,31	31,76,58
Irrigation (Net Receipts) ...	5,94	7,22	10,26	10,63
Post and Telegraphs (Net Receipts) ...	56,53	1,75,28	90,58	2,08,32
Interest Receipts ...	1,11,00	84,31	1,04,11	2,50,96
Civil Administration ...	77,29	86,49	56,20	62,08
Currency, Mint, and Exchange ...	4,37,42	3,22,31	3,53,10	2,69,26
Civil Works ...	11,34	10,92	11,25	10,69
Miscellaneous ...	7,18,57	66,11	67,62	48,34
Military Receipts ...	8,06,94	5,54,14	5,01,01	3,04,87
Contributions and Assignments to the Central Government by the Provincial Governments. ...	12,98,73	9,20,65	9,21,50	9,21,36
TOTAL REVENUE ...	1,15,21,50,317	1,33,22,78,000	1,20,70,17,000	1,34,90,43,000
DEFICIT ...	27,65,01,700	9,16,28,000	17,25,35,000	...
GRAND TOTAL ...	142,86,52,017	1,42,39,06,000	1,37,95,52,000	1,34,90,43,000

BUDGET FOR 1923-24.

of the Government of India both here and in Britain
for 1923—24.

(In Thousands of Rupees)

EXPENDITURE.	1921-22 Accounts.	1922-23 Budget Estimates.	1922-23 Revised Estimates.	1923-24 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct demands on Revenue	5,27,12	5,53,32	5,30,73	5,37,22
Railways: Interest and Miscellaneous charges ...	24,29,83	25,98,53	25,23,91	27,91,32
Irrigation	14,18	11,19	12,25	14,20
Posts and Telegraphs ...	1,66,00	97,32	66,42	53,35
Debt Services ...	15,99,70	15,20,09	15,07,90	17,21,57
Civil Administration ...	9,40,80	9,74,06	10,01,05	9,78,29
Currency, Mint, and Exchange ...	1,07,48	10,81,72	1,59,28	1,13,11
Civil Works ...	1,54,20	1,61,49	1,50,01	1,76,63
Miscellaneous ...	5,58,91	4,05,91	5,30,32	5,15,39
Lump allowance for fur- ther reductions in Civil Expenditure ...	...	...	...	4,00,00
Military Services ...	77,87,98	67,72,14	72,09,79	65,04,87
Miscellaneous adjustments between Central and Provincial Governments...	...	63,29	3,86	3,62
TOTAL EXPENDITURE ...	1,42,86,52,017	1,42,39,06,000	1,37,95,52,000	1,34,09,57,000
SURPLUS ...	...	...	...	80,86,000
GRAND TOTAL ...	1,42,86,52,017	1,42,39,06,000	1,38,25,52,000	1,34,90,43,000

BUDGET FOR 1923-24.

General Statement of the Receipts and Disbursements for 1922-23 and

(In Thousands of Rupees)

RECEIPTS.	1921-22 Accounts.	1922-23 Budget Estimates.	1922-23 Revised Estimates.	1923-24 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	...	...	...	80,86
Railway Capital not charged to revenue ...				
Capital Contributions by Railway Companies and State Railways towards construction of Railways...	63,88	3,86,74	26,78	4,51,26
Debt, Deposits, and Ad- vances				
Permanent Debt (Net incurred) ...	42,26,70	41,21,93	66,45,36	33,15,56
Floating Debt (Net incurred) ...	6,92,60	...	...	...
Unfunded Debt (Net incurred) ...	4,62,47	3,07,15	3,14,11	5,01,85
Deposits and Advances (Net) ...	18,71,20	24,76,67	18,64,85	11,42,69
Loans and Advances by Central Government (Net Payments) ...	...	9,74	18,99	6,67
Remittances (Net) ...	3,24,36	1,41,53	1,64	...
Secretary of State's Bills drawn ...	...	...	2,57,00	...
Balances of Provincial Governments ...	...	...	1,57,37	...
TOTAL DEPOSITS AND ADVANCES ...	75,77,33,084	70,57,02,000	92,59,32,000	49,66,77,000
TOTAL RECEIPTS ...	70,41,21,254	74,43,76,000	92,86,10,000	54,98,89,000
Opening Balance—India...	13,83,56,901	22,48,09,901	25,66,13,170	23,89,58,170
Britain ...	7,20,98,319	7,00,48,319	8,99,53,817	7,41,81,817
GRAND TOTAL ...	97,45,76,474	1,03,92,34,220	1,27,51,76,987	86,30,28,987

BUDGET FOR 1923-24.

of the Government of India both here and in Britain
for 1923-24.

(In Thousands of Rupees)

DISBURSEMENTS.	1921-22 Accounts.	1922-23 Budget Estimates.	1922-23 Revised Estimates.	1923-24 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit ...	27,65,01	9,16,28	17,25,35	...
Railway, Irrigation, Post and Telegraphs and other Capital Expendi- ture not chargeable to Revenue				
Construction of State Railways ...	22,96,39	30,00,00	20,16,05	38,63,95
Capital outlay on Post and Telegraph De- partment ...	81,62	1,45,00	1,10,36	94,30
Construction of Irriga- tion Works ...	1,18	2,69	2,00	22
Initial Expenditure on New Delhi ...	1,35,27	2,00,00	1,91,50	1,97,00
Payment for discharge of Debentures ...	7,85	3,60,49	60,00	4,51,26
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	25,22,31	37,68,18	23,79,91	46,06,73
Debts, Deposits and Ad- vances				
Permanent Debt (Net Discharged) ...	...	...	...	...
Floating Debt (Net Dis- charged) ...	...	29,94,46	41,15,00	5,50,00
Deposits and Advances (Net) ...	...	...	...	...
Loans and Advances by Central Government (Net) ...	1,47,235	...	...	...
Loans and Advances between Central and Provincial Govern- ments (Net Advances) ...	6,38,28	5,50,00	11,43,11	13,46,77
Remittances (Net) ...	...	...	...	80,15
Secretary of State's Bills paid ...	...	...	2,57,09	...
Balances of Provincial Governments ...	3,53,01	4,35,44	...	1,20,12
TOTAL DEBTS, DEPOSITS AND ADVANCES...	9,92,76,361	39,79,90,000	55,15,11,000	20,97,04,000
TOTAL DISBURSEMENTS...	62,80,09,487	86,04,36,000	96,20,37,000	67,03,77,000
Closing Balance—India...	25,66,13,170	13,63,31,901	23,89,58,170	14,76,21,170
Britain...	8,99,53,817	4,24,63,319	7,41,81,817	4,50,30,817
GRAND TOTAL...	97,45,76,474	1,03,92,34,220	1,27,51,76,987	86,30,28,987

SIR BASIL BLACKETT'S BUDGETS

SECOND BUDGET, 1924-25.

1st March 1924.

Explaining how, as a matter of convenience, he was introducing the budget on the day before and not on the 1st March as usual, Sir Basil said, in the beginning, that the actuals for 1922-23 showed a deficit of only 15·02 crores and not as anticipated in the Revised Estimates given out in 1923, a deficit of 17·25 crores. As for the year 1923-24, current estimates made on the basis of ten months' experience showed that the revenue would be a little less than expected, being only 129·52 crores as against 134·90 anticipated. Fortunately, the expenditure also was less, due to a windfall for the Treasury. Originally, it was put down at 134·09, but actually, it was likely to come to only 129·90 crores. Thus, the expected balance of 81 lakhs had been converted into a deficit in revenue of about 38 lakhs. But there were still two months to run and they could not, therefore, say whether there would actually be a deficit or not.

Dealing generally with the year 1923-24, he said that the revival of trade had been slower than expected. Imports and exports had both expanded, the latter mainly due to the resumption of wheat exports. Under imports, the increase was general except in regard to coal and grey piece-goods. As for prices, they were steady throughout the year to a large extent and towards the close of 1923, former prices began to rule for raw products in the world markets. Coming to particular heads of revenue, Sir Basil said that Customs were likely to yield only 40·42 crores against a budget estimate of 45·10 crores, sugar,

piece-goods, and the excise duty on cotton manufactures all contributing to the decrease. In particular, the Bombay High Court had decided that stores imported by railway companies working state-lines should come in as Government stores and therefore free of duty. This meant not only a loss of 50 lakhs that could not be recovered from the Railways but actual payment of about 2 crores in the shape of refund. An appeal, however, had been filed by the Government before the Privy Council. Under Railways, the estimated gross receipts were 95·57 crores, but the revised estimate would only come to 94·22 crores. There had been however a reduction in working expenses of 1·93 crores. And thus, the net improvement under this item was expected to be about 58 lakhs. There was a decline under Posts and Telegraphs of 22 lakhs, but Opium was better by 38 lakhs and under "Interest," "Currency," and "Miscellaneous", there was an improvement of 1·42 crores. Salt was anticipated to yield $11\frac{3}{4}$ crores, but it would now yield only $8\frac{3}{4}$ crores. The fall was due to over-issue of stock in January and February 1923 with a view to avoiding the expected increase in the salt duty and the reduction of stock in the current year in anticipation of the abolition of the increase.

On the side of expenditure, there had been an excess of 70 lakhs due to increase in the out-turn of the opium crop in the U. P. and in the C. P. States. Under gross interest charges for debt, there would be a saving of 74 lakhs. The Treasury Bills out-standing had been reduced from 54 crores on 31st March 1922 to 22 crores on the 31st March 1923 and next year on the same day they would be only 2 crores. This had greatly bettered the credit of the Government of India and had led to the very easy terms and the low rate at which the current

year's rupee loan was obtained. The sterling loan raised in the year was £ 18 millions, instead of £ 15 millions. And still, the saving was obtained as indicated of 74 lakhs. The improved state of the Government securities market made it also possible to avoid payment of 80 lakhs into the Sinking Fund, as was being done during the last few years, for supporting the two long-term 5% rupee loans. The estimates under Military were 65·05 crores gross and 62 crores net. But a non-recurrent credit of 3 crores was obtained by the consumption or disposal of surplus stores. There was also a non-recurrent receipt of 41 lakhs being the sale proceeds of temporary lines constructed during the War for Indian battallions raised by the British Government. On the other hand, Wazaristan cost 2 crores and gratuities for demobilised officers 1·50 crores. In the aggregate, the entire revised military estimate stood at 60·20 crores net. And allowing for the exchange saving of 46 lakhs at 16d per rupee, the final figure stood at 59·74 crores. As for Exchange, the rate assumed for the year 1923-24 in the budget was 16d. But actually, the average worked out to 1sh. 4½d. The saving this meant to India in all expenditure outside the country was 128 lakhs. In addition, under capital expenditure alone, there was a saving of 50 lakhs. There was another windfall also to note. A sum of £3¼ millions had accrued to India as profits from the control of enemy ships. Of this amount, 25 lakhs would be granted to private individuals for losses suffered through enemy action. Then 2 crores would be set apart for payment to the Railway authorities, if the Privy Council decided finally that imported railway material by companies operating state-lines should be free from duty. And the remainder would be devoted to the reduction of debt or the avoidance of borrowing for capital expenditure.

Turning next to the general outlook for Government finances, the Finance Member said that it had greatly improved. Budgets had been balanced both in the Centre and in the Provinces, and the floating debt had greatly been reduced. There was also an improved market for rupee securities and a new sterling loan was not necessary in the coming year. Particularly, the sale of Post Office Cash Certificates was very encouraging. Since the 1st April 1923, the terms on which they were issued had improved and within ten months, receipts under the head had amounted to no less than 6 crores gross and $4\frac{1}{2}$ crores net (*i. e.*) after re-payments. The debt position deserved careful consideration. On the 31st March, 1924, the rupee debt of the Government of India was 3,60,92 lakhs and the sterling debt 393,12 lakhs of rupees. With the addition of unfunded debt which came to 73,35 lakhs and of the capital value of the liabilities being redeemed through terminable Railway Annuities, which was 90,14 lakhs, the total debt of India was roughly 917.53 crores. Out of this amount, 578.39 crores was productive debt and 228.45 unproductive. The question was, what steps were being taken to pay off these amounts? Charging to "contribution for avoidance of debt" Railway Annuities, a sum of nearly 4.52 crores had been set apart in the 1923-24 budget estimates for debt reduction. But this amount had been hit upon only by way of an accident. Amortisation of debt, however, should proceed on some principles. Thus for clearing of productive debt, 80 years is not too long a period, but for dealing with unproductive debt, not more than 50 years may be permitted. Out of the total debt of the Government of India (*i. e.*) 917.53 crores, 98.91 were loaned out to Provinces and adequate arrangements existed for amortising them. Deducting other sums, the net figure was 806.84 crores of which

578·39 crores was productive and 228·45 crores unproductive. On the principles indicated above, a sum of 3·66 crores would be needed every year, or calculating compound interest for five years, a sum of 4·04 crores. This was by co-incidence also the amount that had already been set apart. As for fresh loans, it would be well if one-eightieth of the net addition to the debt were set apart for paying the amount off. And this referred only to productive debt.

Sir Basil next announced his proposal to separate the Railway Budget from the General Budget. Not to anticipate a full explanation of the proposal, he very broadly showed how if the separation was effected, there would be more certainty in regard to Railway Finance, which would not then be subject to the vagaries of the General Budget. The system he wanted to adopt was this. The Railway would pay the State (a) the full interest on the capital invested on commercial lines, (b) a dividend of five-sixths of one per cent of that capital and (c) one-fifth of any surplus earned thereafter. In the current year, the State would get under the new arrangement a net income of 427·30 lakhs, while under the old, it would get only 416 lakhs. Further, the new system would enable them to build up a Reserve Fund.

Turning then to the Budget Estimates for the year 1924-25, Sir Basil Blackett said that Government intended to alter the law, so that thereafter Government stores might be charged Customs duty like any other stores. And exchange was going to be calculated on the basis of 1*sh.* 4¾*d.* During the year 1924-25, the Military was calculated to cost 60·93 crores net at 1*sh.* 6*d.* Establishment charges came to 58½ crores and this was even a little less than the figure assumed by the Retrenchment

Committee. But, as desired by it, it would not be possible to reduce the military expenditure to about 57 crores and ultimately to 50 crores. Including the expenditure on the civil side, the total figure came to 104.57 crores. As against this, on the existing basis of taxation, Customs was expected to give 45.02 crores net, Income-tax 18.22 crores, investments in British Treasury Bills made out of the large sterling remittances of the current year 50 lakhs, and Posts and Telegraph 10.14 crores gross and 9.03 crores net, expenditure, (*i. e.*) an amount of 24 lakhs as receipts. On the whole the revenue estimate was 107.93 crores and the calculated surplus, 3.36 crores. In respect of the Ways and Means position, the new rupee loan would be limited to only 20 crores, while there was no need for a sterling loan. There was a sterling reserve largely built up in 1923-24 in London of no less than 14 millions and Government would, if necessary, draw from it. Only one question remained, *viz.*, how was the surplus of 3.36 crores to be disposed of. The most important rival claims were reduction of provincial contributions and reduction of salt tax. The Government proposed to forego 1.82 crores by bringing down the salt tax from Rs. 2-8-0 a maund to Rs. 2-0-0 only and to devote the remainder for the reduction of provincial contributions.

In the general discussion, several members questioned if it was a surplus budget that had been presented to them. Sir P. Thakardas complained that the so-called windfall of $3\frac{1}{4}$ millions, which had accrued to India as profit from the control of enemy ships, was nothing of the sort, as the Government had known of it all along and really speaking, it should have gone to reduce debt and not to swell the revenues and show an apparent surplus. Similarly interest on the Paper Currency Reserve had been credited to revenue as well as 5 crores of rupees, being the excess

over the £ 40 millions required in the Gold Standard Reserve. This was wrong in principle. The Honourable Member held, therefore, that the budget before them was really a deficit budget. But the Finance Member in his reply maintained that the amount was a windfall as the Government were not certain about it till it was actually allotted to them by the British Government. Mr. R. K. Shanmukam Chetty pointed out that to provide crores of rupees for amortisation of unproductive debt while spending largely on railway capital programme was virtually to finance capital expenditure out of revenue. Pandit Malavya complained that no railway workshops on an adequate scale had been opened in the country to make it self-supporting in that respect. But the bulk of the criticism was in regard to military expenditure. Almost every other member spoke of it as being excessive, Mr. Jamnadas Mehta going so far as to say that the budget figure of 63 crores was misleading and that the percentage of military expenditure was really 80% of the country's revenues. Pandit Malavya said that the internal security troops, who were about 27 thousand Britishers, were unnecessary and that by retrenching them the country would save crores. Other ways of bringing down military expenditure were also suggested, for instance, by Mr. Harchandrai Vishindas, who wanted replacement of British troops by Indian troops, and by Mr. Jinnah who wanted the Territorial Force to be expanded largely. To all these criticisms, the Commander-in-chief and the Army Secretary, Mr. Burdon replied that a force of 200,000 men was not too much to defend a large country like India, that of the 60 crores of military expenditure, 10 crores was really due to pensions, etc., and that Indianisation would proceed as rapidly as possible. Sir Basil Blackett added that the main reason why military expenditure had grown since 1913-14 was

that prices had nearly doubled. If its proportion to general revenues appeared high, the reason was that other items of expenditure had not developed, as they were bound to, the country being poor.

The other important subject round which discussion took place was the salt tax. Members denied that the reason for the fall in revenues under salt was due, as the Finance Member stated, to overstocking in February and March 1923 and to reduced stocks in March 1924 in anticipation of reduction of duty. They said that the country was aware of the solid opposition in the legislature to the tax and counting on it, had not taken any action. The tax did not fulfil anticipations really because of reduced consumption only. This view point was put forth by many members, among them being Mr. T. Rangachari Dr. Gour and Mr. H. Vishindas. To this charge, Sir Basil Blackett replied at the end, scoring no more than a debating point. He said, that if the House had supported him, the returns would have been better. He further felt convinced that the increase had not been felt to be onerous at all and that he had thereby been enabled to remit a portion of the provincial contributions for healthy nation-building activities.

To many members it looked as though the pitting of provincial contributions against salt tax was purposely done by the Government. But almost all of them wanted both the tax and the contributions to go. As for the rest, various suggestions were made by the members in the course of the debate, *viz*, to abolish the excise duty on cotton goods, to help the sugar industry and the steel industry, to levy an excise duty on jute and to relieve the country from the unjust burden of the Ecclesiastical Department. The total impression left by the budget

discussion was that the Government being fully conscious of their strength, were not really anxious for the support of the legislature

On the whole the attitude of the Assembly towards the budget was more political than critical. As a result of the elections in the autumn of 1923, a strong popular majority had formed itself in that body. And accordingly, on the very first day of Demands for Grants, it threw out the first four items, which included the pivotal heads of Customs and Income-tax. Further, it refused permission for the introduction of the Finance Bill, again on grounds of general policy. This step led to the certification of the Bill by the then Viceroy Lord Reading. In effect, the Salt-tax was reduced to Rs. 1-4-0 per maund, and with the exception of an imposition of duty on empty match boxes and splints, all the tariff changes proposed in the draft Finance Bill were dropped. The Finance Member subsequently described the action of the Assembly as a message of despair to all those who looked for increased expenditure on beneficial services.

BUDGET FOR 1924-25.

General Statement of the Revenue and Expenditure of the
Government of India both here and in Britain
for 1922—23 and for 1923—24.

(In Thousands of Rupees)

REVENUE.	1922-23 Accounts.	1923-24 Budget Estimates.	1923-24 Revised Estimates.	1924-25 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Customs	41,34,65	45,09,41	40,41,53	45,01,82
Income-Tax	17,39,41	19,04,64	19,07,45	18,21,97
Salt	6,82,46	11,75,00	8,70,27	9,04,62
Opium	3,78,92	3,93,12	4,30,64	4,33,60
Other Heads	2,34,00	2,44,97	2,34,27	2,22,32
	72,29,45	82,27,14	74,84,16	78,84,33
Railways (Net Receipts)	26,82,98	31,76,58	32,37,87	29,74,93
Irrigation (Net Receipts)	10,91	10,83	11,20	12,47
Post and Telegraphs (Net Receipts)	1,22,29	2,08,32	84,94	1,07,41
Interest Receipts	1,15,70	2,50,96	3,24,25	3,17,25
Civil Administration	44,35	62,08	67,49	72,01
Currency, Mint, and Exchange	3,62,03	2,69,26	3,07,68	3,63,86
Civil Works	14,33	10,69	13,19	12,36
Miscellaneous	62,47	48,84	3,23,44	67,48
Military Receipts	5,73,79	3,04,87	4,19,53	2,75,16
Provincial Contributions and miscellaneous adjustments between Central and Provincial Governments	9,22,94	9,21,36	9,22,29	9,22,11
TOTAL REVENUE	1,21,41,29,156	1,34,90,43,000	1,31,96,04,000	1,30,09,37,000
DEFICIT	15,01,76,392	...	...	...
GRAND TOTAL	1,36,43,05,548	1,34,90,43,000	1,31,96,04,000	1,30,09,37,000

BUDGET FOR 1924-25.

General Statement of the Revenue and Expenditure of the
Government of India both here and in Britain
for 1923-24 and for 1924-25.

(In Thousands of Rupees)

EXPENDITURE.	1922-23 Accounts.	1923-24 Budget Estimates.	1923-24 Revised Estimates.	1924-25 Budget Estimates.
	Rs.	Rs.	Rs.	
Direct demands on Revenue.	5,22,05	5,37,22	5,60,92	5,54,12
Railways: Interest and Miscellaneous charges ...	25,60,99	27,91,32	26,09,87	25,16,79
Irrigation	13,75	14,20	16,51	22,85
Posts and Telegraphs ...	76,98	53,35	12,62	-11,00
Debt Services ...	16,15,90	17,21,57	16,74,88	18,32,51
Civil Administration ...	9,94,32	9,78,29	9,57,10	9,80,28
Currency, Mint, and Exchange ...	1,03,19	1,13,11	1,05,32	77,31
Civil Works ...	1,34,81	1,76,63	1,61,11	2,06,60
Miscellaneous	5,20,56	5,15,39	4,80,13	4,88,73
Military Services ...	71,00,59	65,04,87	63,93,72	63,00,16
Miscellaneous adjustments between Central and Provincial Governments...	..	3,62	17,79	22,65
TOTAL EXPENDITURE CHARGEABLE TO REVENUE.	1,36,43,05,548	1,34,09,57,000	1,29,89,97,000	1,29,90,90,000
SURPLUS ...	...	80,86,000	2,06,07,000	18,47,000
GRAND TOTAL ...	1,36,43,05,548	1,34,90,43,000	1,31,96,04,000	1,30,09,37,000

BUDGET FOR 1924-25.

General Statement of the Receipts and Expenditure of the
Government of India both here and in Britain
for 1923-24 and for 1924-25.

(In Thousands of Rupees)

RECEIPTS.	1922-23 Accounts	1923-24 Budget Estimates.	1923-24 Revised Estimates.	1924-25 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	...	80,86	2,06,07	18,47
Railway Capital not charged to revenue ...				
Capital Contributions by Railway Companies and State Railways towards construction of Railways...	28,27	4,51,26	...	80,24
Debts, Deposits, and Advances				
Permanent Debt (Net incurred) ...	66,22,99	33,15,56	37,21,89	36,85,62
Floating Debt (Net incurred) ...	...	...	...	...
Unfunded Debt (Net incurred) ...	2,96,51	5,01,85	10,52,36	7,51,45
Deposits and Advances (Net) ...	17,82,39	11,42,69	4,89,88	15,42,67
Loans and Advances by Central Government (Net Repayments) ...	20,42	6,67	20,44	6,70
Remittances (Net) ...	37,92	...	...	1,38
Balances of Provincial Governments ...	6,35	...	5,03,81	...
TOTAL DEBTS DEPOSITS AND ADVANCES ...	87,66,58,640	49,66,77,000	57,88,38,000	59,87,82,000
TOTAL RECEIPTS ...	87,94,85,197	54,98,89,000	59,94,45,000	60,86,53,000
Opening Balance—India...	25,66,13,170	23,39,58,170	25,95,80,424	29,77,01,424
Britain...	8,59,53,817	7,41,81,817	9,82,19,688	7,63,95,688
GRAND TOTAL ...	1,22,60,52,184	86,30,28,987	95,72,45,112	98,26,50,112

BUDGET FOR 1924-25.

General Statement of the Receipts and Disbursements of the
Government of India both here and in Britain
for 1923-24 and for 1924-25.

(In Thousands of Rupees)

DISBURSEMENTS.	1922-23 Accounts.	1923-24 Budget Estimates.	1923-24 Revised Estimates.	1924-25 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit ...	15,01,76	...	...	...
Railway, Irrigation, Posts and Telegraphs and other Capital Expenditure not chargeable to Revenue				
Construction of State Railways ...	18,43,42	38,63,95	23,60,64	30,00,00
Capital outlay on Postal and Telegraph Department ...	65,62	94,30	96,65	1,73,95
Construction of Irrigation Works ...	2,25	22	7	...
Initial Expenditure on New Delhi ...	1,84,79	1,97,00	1,82,00	1,47,00
Payment for discharge of Debentures ...	63,34	4,51,26	1,04,07	1,44,86
Redemption of liabilities involved in the purchase of Railways ...	...	...	...	27,07,03
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	21,59,43	46,06,73	27,43,43	61,72,84
Debts, Deposits and Advances				
Permanent Debt (Net Discharged) ...	...	...	...	...
Floating Debt (Net Discharged) ...	40,61,80	5,50,00	19,16,00	2,13,00
Deposits and Advances (Net) ...	...	...	...	...
Loans and Advances by Central Government (Net Advances) ...	...	...	...	...
Loans between Central and Provincial Governments (Net Advances) ...	9,59,53	13,46,77	11,32,26	12,72,62
Remittances (Net) ...	...	80,15	10,69	...
Balances of Provincial Governments ...	...	1,20,12	...	3,00,23
TOTAL DEBTS, DEPOSITS AND ADVANCES...	50,21,32,697	20,97,04,000	30,88,95,000	17,85,85,000
TOTAL DISBURSEMENTS...	86,82,52,072	67,03,77,000	58,32,38,000	79,58,69,000
Closing Balance—India...	25,95,80,424	14,76,21,170	29,77,01,424	13,87,36,424
Britain...	9,82,19,688	4,50,30,817	7,63,05,688	4,80,54,688
GRAND TOTAL...	1,22,16,52,184	86,30,28,987	95,72,45,112	98,26,60,112

SIR B. BLACKETT'S BUDGETS

THIRD BUDGET, 1925-26.

28th February 1925.

This year, the Finance Member began by referring to the advantages the country was sure to derive from the separation of the Railway Budget from the General Budget. Not only was the reform calculated to mean more efficient and cheaper transportation, but also to relieve the general revenues of the uncertainties of railway finance. Secondly, the accounts of the Posts and Telegraph Department which had hitherto been kept on a cash basis were now commercialised. That is to say, credit would hereafter be taken for the services of the department in connection with the P. O. Savings Bank, the issue and discharge of Cash Certificates, the management of the Postal Life Assurance Fund, etc. Besides provision would also be made for interest on capital and for depreciation. Pensionary charges too would be debited to the department. Thirdly, some changes had been made in the form of Demands for Grants involving greater facilities for criticism to the Legislature.

REVISED ESTIMATES, 1924-25.

Sir Basil next turned to the actuals for 1923-24 and pointed out that the surplus realised was 2·39 crores, while the Revised Estimates anticipated only 2·06 crores. Under Military, expenditure had gone down by about 3 crores to 56·23 crores, but as against this, surplus stores had been used for the amount, so that the total net charge remained as of old at 59 crores and odd. As for the year 1924-25, trade had improved considerably, prices had risen and the favourable balance was high. This feature was reflected

in the Customs revenue. Receipts fell under tobacco, matches and machinery, but rose under nearly every other head. The gross figure now expected was 48·74 crores, *i. e.*, 2·72 crores more than the original figure. The Privy Council had confirmed the decision that stores imported by railway companies working state lines should be free from duty. And in consequence refunds to the tune of nearly 28·0 crores had to be made. But this was essentially a matter of book-keeping: for, what was lost under Customs was gained under Railways. And the net railway contribution to the general revenues was increased by about 37 lakhs. Income-tax would bring in 1·75 crores less than the estimated figure of 18·22 crores. And the reason was during the year 1924-25 the arrears were not heavy to collect. There was an attempt in some quarters to evade the supertax by starting bogus companies, but the Government was taking strict measures to put an end to it. Under Salt, the receipts would be about 1·31 crores less than the budget estimate, the reason being that the reduction of duty last March was followed by unexpectedly large replenishments of stock before the next official year commenced on 1st April 1924. Opium receipts too showed a decline. Government was selling a definite quantity to other Governments direct and in addition were selling about 3,000 chests a year by auction at Calcutta to traders for export. Recent international discussions on opium had rendered foreign trade very uncertain and auction sales were nil, for instance, in February. The Budget estimate was for 2·25 crores; but it was not expected that the receipts would be more than 1·76 crores. By virtue of the separation of railway finance from general finance, Government expected from Railways a fixed sum of 5·09 crores and in addition, as one-third of the excess over 3 crores of the net balance,

about 0.55 crores, *i. e.*, on the whole 5.64 crores. Under Posts and Telegraphs, for 1924-25, the gross receipts would amount to 10.07 crores, the expenses to 9.44 crores and the net receipts to 63 lakhs. But interest charges and others had to be allowed for and then, the out-turn would show a loss of less than three lakhs. For the next year, the estimates were 10.41 crores receipts, 9.76 crores expenditure and net receipts 65 lakhs. Interest charges, etc., would come to about 66 lakhs and the loss of the Department would be about 60 thousand.

As to expenditure, an important variation was that on account of exchange. The rate expected on the average for the year 1924-25 was 16 $\frac{3}{4}$ d, but actually it had been 17 $\frac{1}{2}$ d. This meant a net saving of nearly 2.15 crores. For the Military, a figure of 60.25 crores had been put down at the outset, but the revised estimate would be only about 56.33 crores. The reduction was due to shortage in establishments, exchange gains, consumption of stores, etc. Civil expenditure was in excess of the estimates by about 29 lakhs net, the increase being due in part to the bounties given under the Steel Protection Act and to the recommendations of the Lee Commission regarding pay, pensions and allowances. Thus, on the whole, while the budget estimates provided for a modest surplus of 18 lakhs, the actual surplus was likely to be no less than 4 crores.

PUBLIC DEBT.

As to the Public Debt of India, Sir Basil said that on the 31st March 1925 it would amount to Rs. 1013.71 crores, the productive portion being Rs. 725.15 crores and the unproductive Rs. 288.56 crores. During the current financial year, the increase in the productive debt was 42.17 crores and the decrease in the unproductive debt was 6.65 crores. A scheme had been prepared, according

to which for a period of five years in the first instance, an annual provision would be made for the reduction of the debt by 4 crores plus $\frac{1}{80}$ th of the excess of the debt outstanding at the end of each year over that outstanding on the 31st March 1923. At this rate, the provision for 1925-26 would be 4.78 crores. And the systematic attempt now made towards the reduction of debt would not only reduce the amount to be borrowed, but also increase credit in the market and thereby lower the interest charged for fresh loans. Another innovation in the Public Debt policy was in regard to the establishment of a Provincial Loans Fund. At present Provincial Loans were being granted out of the balances of the Central Government and interest charges and periods of amortisation were all settled piecemeal. But according to the new arrangement, a Central Fund would be created for the time being out of the Government of India balances with rates of interest and other terms in regard to advances granted for various purposes all fixed. This would mean recognition of definite principles in the case of provincial borrowings. And Sir Basil looked forward to a time when the Fund would be administered by a body corresponding to the National Debt Commissioners in Britain and when the Government of India account would be clean separated, in regard to Public Debt, from the loan accounts of the Provinces. This would greatly clarify matters in regard to the public debt of the country.

EXCHANGE.

Sir Basil Blackett next took up the question of Exchange and said that it was an old fallacy to imagine that high exchange benefited the importer of goods from abroad, and a low exchange, the primary producer and exporter. This theory, he said, was entirely false. It was really due to the deep-rooted suspicion that existed in

some quarters as to the policy of the Government of India in regard to Currency and Exchange being consciously dictated by considerations other than those pertaining to the welfare of India. He vehemently protested that such suspicion was entirely unfounded. What lent an appearance of logic to the charge was this: while during the last twelve months, the world prices were going up and down, the rupee exchange had kept prices in India fairly steady. Imported goods had gone up in value considerably in terms of sterling, but had remained fairly steady in those of rupees. Similarly, exported goods denoted steady rupee prices but raised sterling ones. In other words, the exporter had got a larger amount of sterling for his exports but the same number of rupees. The result had therefore been, he said, neither to discourage exports nor to encourage imports, rupee values having been more or less constant. The Finance Member next took up the suggestion that but for the high rate of exchange, the exporter would have been getting high rupee prices. In regard to this, he pointed out that this supposed disadvantage was quite balanced by a corresponding reduction in the number of rupees required by India for her imports. Continuing, he said that it was wrong to argue that as the producer was concerned mainly with the market, it would have been better if he had obtained a few more rupees for his articles. He said that in the long run internal prices were bound to be effected by external ones and if the producer did gain a few rupees by virtue of a low exchange, he would have got them only at the expense of the consumer who was himself an Indian. Having thus far dealt with two aspects of popular criticism of the Government's exchange policy, he next dealt with the position that a high exchange was only an indirect form of taxation. In truth, however, high exchange only

had enabled the Government to present a fairly prosperous budget during the last year or two, in particular to offer the alternatives of a reduction in the Salt Tax or in Provincial Contributions. A low exchange would have meant not less taxation but more. He concluded by pointing out "that neither the producer nor the consumer nor the tax-payer has anything to gain by legislative intervention to reduce the rate of exchange to 1*sh.* 4*d.* gold". To do so "would certainly not benefit the consumer nor the wage-earner nor the producer generally", but only the Bombay mill-owner, who would be able to get more for his products. What the country as a whole demanded thus was not high exchange or low exchange but stability of internal prices and stability of exchange.

ESTIMATES OF EXPENDITURE 1925-26.

The Finance Member next took up the estimated expenditure for 1925-26 and began with the largest item, military expenditure. He provided for a gross amount of 60.26 crores and a net expenditure of 56.25 crores. These figures represented a continuous and substantial reduction over those for previous years which had been inflated for special reasons. The Retrenchment Committee had recommended that a net Budget Estimate for 1923-24 should be fixed at 57.75 crores, but the figure in the current estimate, was less than the one recommended. Once again, in 1925-26 stores could be utilized without replenishment to a total of 70 lakhs, the net expenditure for the year in cash and kind being thus 56.95 crores. A sum was also necessary in 25-26 for terminal charges on account of gratuities to demobilised officers, the amount being 1.71 crores. All abnormal items excluded, the established charges of the Army, for 1925-26 amounted thus only to 55 crores. The Honourable Member confidently looked forward to further important reductions in

1926-27. The amount of money locked up in military stores had also been brought down by 4 crores to 16½ crores on the 31st March 1925, and a further reduction of 70 lakhs was expected in the next year.

As for Civil Expenditure, the provision to be made in the next year for interest on debt and other obligations would be less than in 1924-25 by 97 lakhs, owing to a large increase in the amount of interest due on railway investments and on loans to Provinces. Additional expenditure also was sought to be incurred on beneficial services like the Indian Research Fund and the Forest Research Institute. Again precautions had been taken against over-estimating by providing for lump reductions in some of the more important heads of expenditure so as to allow for probable savings. The total cut thus made in the expenditure under civil heads amounted to 15 lakhs. An important question was whether expenditure should be shown gross or net. The Public Accounts Committee in the current year had taken considerable interest in the matter, but had not come to any conclusion. The Finance Member opined that it was desirable that the Assembly should deal with gross expenditure for the purpose of voting Demands for Grants, but when the gross amount required was fully explained in the Demands, the Budget estimates could profitably deal with net expenditure.

REVENUE ESTIMATES, 1925-26.

Turning to the estimates of Revenue, the Finance Member estimated that Customs receipts from cotton piecegoods, sugar and cotton excise duty as well as from protective duties would be in 1925-26 only 46.35 crores, that is, 1.21 crores less than in the current year. Income Tax estimates were put down at 17.35 crores, a figure which was 88 lakhs higher than the revised estimate for

the current year. Salt was expected to bring in a normal revenue of 6·95 crores in the coming year or 79 lakhs less than the revised figure for 1924-25. Opium was calculated to bring in 3·56 crores gross and 1·76 crores net; Railways to give the fixed contribution of 5·09 crores and in addition, 15 lakhs representing 1/3 of the excess over 3 crores, according to the Separation Convention. In other words, in 1925-26 Railways would yield 5·24 crores as compared with 5·64 crores in the current year. In regard to Posts and Telegraphs, a slight change had been made in the accounting procedure relating to the treatment of Postal and Telegraphic stores. But it would not affect the Budget position to any noteworthy extent. As for interest on the Paper Currency and Gold Standard Reserve investments, it was being appropriated to Revenue as usual. The Babington Smith Committee reported that it should be utilised to writing down the *ad hoc* securities of the Government but conditions had now changed completely. Contraction of currency by such means was no longer necessary and Government proposed to follow the course indicated. To strike a balance now, the estimated revenue for 1925-26 was 133·68 crores and the estimated expenditure 130·44 crores, the surplus thus being 3·24 crores.

FINAL PROPOSALS.

As for the Ways and Means position in 1924-25, the total liabilities were less than the Budget estimate, the reduction being mainly due to the Railways not being able to use up the funds allotted to them for Capital outlay. The year was anticipated to close with a balance of 36·19 crores. For 1925-26 the Railway Capital outlay was estimated at 23 crores. There were also 3½ crores of 1925 War Bonds. Loans to Provincial Governments were put down at 14 crores and New Delhi about 1½ crores.

The Government would raise a Rupee Loan of 12 crores which was quite within the competence of India—a Conversion Loan also would be floated in the country. Apart from the ordinary Sinking Funds which are operating to repay the sterling debt, it would be necessary to provide £2½ million of G. I. P. Railway guaranteed stock, when that Railway was taken over by the State. As for remittances in 1924-25, the figure would probably be 42 millions and in the next year £31½ million.

As for his final proposals Sir Basil Blackett said the surplus of 3.24 crores, was quite genuine as doubtful factors like railway receipts had been eliminated by separating the Railway Budget, and by taking the monsoon to be not an exceptionally good one. The amount had to be distributed between such claimants as may be deserving. But only about 2½ crores could be taken as the final surplus, nearly 70 lakhs being accounted for by non-recurrent savings. Taking up the proposal first of reducing postal charges, the Honourable Member said he failed to see why a commercial department like Posts and Telegraphs should be afforded relief from the general revenues. Provincial contributions were more important and he proposed to remit them in the order of priority provided for in the Devolution Rules. Bengal would also be given a further moratorium in view of the strong position of Central Finances in India. At the same time, Government intended to discontinue the refund of Duty on Government stores imported into the country by the Provinces. The amount involved in this matter was only 20 lakhs, but the principle was important that the Provinces should be encouraged to purchase their stores in India.

In conclusion, Sir Basil Blackett said that cheap satisfaction could not be derived from their past efforts and

there was vast work lying ahead of them as there were $6\frac{3}{4}$ crores of Provincial contributions to be wiped off as their immediate task.

GENERAL DISCUSSION.

A remarkable feature of the general discussion that followed was that the criticisms were more political than they were in the previous years. And even where they related to finance, they were very general and not specific, with, of course, certain exceptions. Mr. Narain Dass complained that the administration was top-heavy, and hence all the departments were working at a loss. Mr. T. C. Goswami complained of increased staff and of a large number of civil servants being appointed to special posts. Mr. Kasturbhai Lalbhai pointed out "that a system has been inaugurated since the last two years and continued during the current year of underestimating revenues and overestimating expenditure at the time of the presentation of the budget estimates so as to show little or no surplus or a small deficit; and when a large surplus is realised at the end of the year to utilise it in writing down Suspense Accounts or discount on loans thus depriving the tax-payer of his due by remission of taxation". Messrs. C. S. Ranga Iyer and M. K. Acharya said that the budget was only a rich man's budget; for while the taxes on patrol and cigars had been lowered, those on post-cards, for instance, were not. Of special criticisms, the Military was the target of many. Mr. Ahmad Ali Khan wanted a Military College, and he was supported in his demand by Sir P. S. Sivaswami Iyer. Sir Purushotamdas Thakurdas wanted that military stores should be reduced to 11 crores as per the recommendations of the Inchcape Committee. Mr. Harichandra Vishindas recommended the substitution of Indian troops for British troops as a measure of economy. Mr. Goswami roundly stated that

the reductions in the military expenditure were only deceptive. Savings in exchange had amounted to 70 lakhs, sale of surplus stores to 114 lakhs, and a further large sum had been obtained by the sale of buildings and barracks in India. These credits were not a recurring item, while the 29 lakhs were, which had been provided for free passages and revision of pay and allowances. Thus "whereas recurring military expenses have gone up actually, Sir Basil Blackett wants this Assembly to believe that he has reduced military expenditure", Sir P. S. Sivaswami Iyer confined his speech entirely to the military department. He complained that transportation charges still formed a very heavy item in the budget. Then he also referred to the possibility of a reduction in the military estimates by the expansion of the Reserves. He wanted that the system of Short Colour Service and Reserves should be fully worked, so that a large number of Reserves could be had. And lastly, he wanted the establishment of a nautical school under the head Marine.

Mr. Kelkar referred to the losses due to exchange and said that they had been so many and persistent that the theory of their being mere errors of judgment was meaningless. And similarly, other complaints also were made of mismanagement in currency and exchange matters, viz, by Mr. R. K. Shanmukam Chetty. Regarding the amount set aside for debt redemption, Sir P. Thakurdas said that during the last three years, no less than 22 crores had been set apart for the purpose. He asked where the need was for that high figure in view of the fact that India's credit was not low at all. Mr. Shanmukam Chetty too made the same point as Mr. Kelkar. Among other matters referred to was the need for the abolition of the cotton excise duty as the country was enjoying fat surpluses. The claims of internal navigation were advanced by Mr.

B. Das, and the anomalous character of the Ecclesiastical Department being financed for the sake of Christians in a country which was predominantly Hindu and Mussalman, was brought out by Mr. Harchandrai Vishindas.

OFFICIAL POSITION EXPLAINED.

The official replies to all these criticisms were given by the Commander-in-Chief, Mr. Burdon, and Sir Basil Blackett. The first said that military expenditure had been reduced within five or six years from 87 crores to just 56 crores in the year. This was a great achievement, though in part the reduction was due to exchange and to abnormal conditions following the War rapidly disappearing. Besides, the conditions of Indian soldiers had been improved rapidly. He was doing his best in regard to Indianisation, but of a necessity, the progress was bound to be slow. Mr. Burden explained that revised scales of pay had to be given to British officers in India as their comrades in Britain were given. And of course, Indian officers got the benefit too. Lastly, Sir Basil Blackett pointed out that much should not be made of the division into voteable items and non-votable items. Such a distinction obtained even in Britain. As for the Sinking Fund, there was nothing new in what he had done. He had set aside really just the same amount as was previously being set aside also. But now he had calculated it on a rational basis. The charge that the budget was only a rich man's budget was wrong. If there was no reduction of burden in respect of post-cards or of salt, he had arranged for the remission of Provincial Contributions which meant that more money was now available for being spent on the nation-building departments.

The general discussion took place on the 3rd and the 4th of March. The Swaraj Party assumed a largely

political attitude towards the budget, but the Independents considered it on its merits. At the second stage of the budget, that of Demands for Grants, a formal cut of Rs. 100 was proposed by Mr. K. C. Neogy on the ground that Bombay and Bengal did not get any share in the Income-tax revenue. This was carried against the Government as well as another cut motion for Rs. 100 based on the ground that the government did not pay sufficient attention to the encouragement of the local manufacture of salt. The next important cut proposed and carried by the House was on the motion of Mr. Kasturbhai Lalbhai to delete the entire provision for the establishment collecting and levying the cotton excise duty. But this cut was restored by the Governor-General-in-Council.

The final stage in the consideration of the Budget arrived with the taking up of the Finance Bill. The Swarajists seized the opportunity to raise a political discussion on this point, and opposed the introduction of the Bill. But the House agreed to it by 76 votes to 40. Next motions were made to reduce the salt-tax to 8 annas and next to 12 annas but they were both defeated. The remaining motion however to fix it at Re. 1 was carried in the face of the government. The Bill then went to the Council of State which restored the salt-tax to Rs. 1-4-0. And when it came once again to the Assembly, that body passed it by 70 votes to 50. The Finance Bill was safely through but the fight between the government and the House had been strenuous and bitter.

BUDGET FOR 1925-26.

General Statement of the Revenue and Expenditure charged to
Revenue for the Central Government of India and in England
for 1923—24 and for 1925—26.

(In Thousands of Rupees)

REVENUE.	1923-24 Accounts.	1924-25 Budget Estimates.	1924-25 Revised Estimates.	1925-26 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Customs	39,69,64	45,01,82	44,76,44	46,85,00
Income-Tax	18,23,56	18,21,97	16,47,26	17,34,87
Salt	10,01,51	9,04,62	7,73,78	6,95,00
Opium	4,24,82	4,33,60	3,68,30	3,55,85
Other Heads	2,28,56	2,22,32	2,08,21	2,23,14
	74,48,09	78,84,33	74,73,99	76,43,86
Railways (Net Receipts)	32,69,42	29,74,93	34,19,37	33,89,44
Irrigation (Net Receipts)	10,54	12,47	8,91	10,42
Post and Telegraphs (Net Receipts)	96,13	1,07,41	91,14	68,11
Interest Receipts	3,16,60	3,17,25	3,79,59	3,60,44
Civil Administration	68,51	72,01	70,70	72,60
Currency, and Mint	3,12,74	3,63,86	3,94,93	4,08,07
Civil Works	37,05	12,36	12,12	10,18
Miscellaneous	94,78	67,48	33,50	43,21
Military Receipts	4,81,56	2,75,10	4,16,96	4,01,17
Provincial Contributions and miscellaneous adjustments between Central and Provincial Governments.	9,21,55	9,22,11	9,25,16	6,72,14
Extraordinary items	2,59,66	...	2,55,89	38,33
TOTAL RECEIPTS	1,33,16,63,305	1,30,09,37,000	1,34,92,26,000	1,31,17,97,000
DEFICIT	...	...	...	...
GRAND TOTAL	1,33,16,63,305	1,30,09,37,000	1,34,82,26,000	1,31,17,97,000

BUDGET FOR 1925-26.

General Statement of Revenue and Expenditure charged to
Revenue for the Central Government in India and in Britain
for 1924-25 and for 1925-26.

(In Thousands of Rupees)

EXPENDITURE.	1923-24 Accounts.	1924-25 Budget Estimates.	1924-25 Revised Estimates.	1925-26 Budget Estimates.
	Rs.	Rs.	Rs.	
Direct Demands on Revenue	5,44,04	5,54,12	5,45,62	5,28,91
Forests and other Capital Outlay charged to Re- venue ...	...	...	21,11	32,93
Railways: Interest and Miscellaneous charges ...	26,25,21	25,16,79	28,55,02	28,65,70
Irrigation ..	16,42	22,85	21,94	17,79
Posts and Telegraphs ...	22,38	- 11,00	- 62	- 28,17
Debt Services ...	17,33,43	18,32,51	17,92,04	18,18,06
Civil Administration ...	9,83,97	9,80,28	10,26,87	10,97,98
Currency, and Mint ...	99,07	77,31	73,20	73,47
Civil Works ...	1,70,32	2,06,50	1,93,27	1,68,47
Miscellaneous ..	4,46,50	4,88,73	4,47,95	4,01,91
Military Services ...	61,04,32	63,00,16	60,49,96	60,26,17
Miscellaneous adjustments between Central and Provincial Governments...	37,99	22,65	56,32	15,74
Extraordinary items ...	3,40,96	...	...	25,00
TOTAL EXPENDITURE CHARGED TO REVENUE ...	1,30,77,63,547	1,29,90,90,000	1,30,82,68,000	1,30,43,96,000
SURPLUS ...	2,88,99,758	18,47,000	3,99,58,000	74,01,000
GRAND TOTAL ...	1,33,16,63,305	1,30,09,37,000	1,34,82,26,000	1,31,17,97,000

BUDGET FOR 1925-26.

General Statement of the Revenue and Expenditure of the
Government of India both here and in Britain
for 1924-25 and for 1925-26.

(In Thousands of Rupees)

RECEIPTS.	1923-24 Accounts.	1924-25 Budget Estimates.	1924-25 Revised Estimates.	1925-26 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	2,39,00	18,47	3,99,58	74,01
Railway Capital not charged to revenue ...				
Capital Contributed by Railway Companies and Indian States towards construction of State Railways ...	- 1,02,95	- 27,71,65	- 27,65,45	- 5,71,30
Debts, Deposits, and Advances				
Permanent Debt (Net incurred) ...	37,13,70	36,85,62	30,05,83	8,95,14
Floating Debt (Net incurred) ...	...	...	...	...
Unfunded Debt (Net incurred) ..	9,80,07	7,51,45	9,67,35	9,80,21
Deposits and Advances (Net) ...	7,19,17	15,42,67	2,48,38	9,03,08
Loans and Advances by Central Government (Net Repayments) ...	...	6,70	...	...
Railway Depreciation and Railway Funds (As per Railway Budget) ...	...	...	6,19,65	4,51,68
Remittances (Net) ...	...	1,38	1,07,67	...
Balances of Provincial Governments (Net) ...	3,67,86	...	...	...
TOTAL DEBTS DEPOSITS AND ADVANCES ...	57,80,80,243	59,87,82,000	49,48,83,000	32,30,11,000
TOTAL RECEIPTS ...	59,15,85,317	32,34,64,000	25,82,95,000	27,32,82,000
Opening Balance—India...	25,95,80,424	29,77,01,424	31,13,62,292	24,26,92,292
Britain..	9,82,19,688	7,63,05,688	10,38,42,476	11,91,73,476
GRAND TOTAL ...	94,94,85,429	69,74,71,112	67,35,00,768	63,51,47,768

BUDGET FOR 1925-26.

General Statement of the Receipts and Disbursements of the
Government of India both here and in Britain
for 1924-25 and for 1925-26.

(In Thousands of Rupees)

DISBURSEMENTS.	1923-24 Accounts.	1924-25 Budget Estimates.	1924-25 Revised Estimates.	1925-26 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit ...	...	...	...	...
Railway, Irrigation, Posts and Telegraphs and other Capital not charged to Revenue				
Construction of State Railways ...	20,79,98	30,00,00	12,85,00	23,00,00
Redemption of liabilities involved in the pur- chase of Railways ...	...	...	...	3,43,33
Construction of Irriga- tion Works ...	13	...	16	27
Capital outlay on Postal and Telegraph ...	75,22	1,73,95	1,64,98	2,13,53
Initial Expenditure on New Delhi ...	1,54,74	1,47,00	1,37,00	1,55,00
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	23,10,06,788	33,20,95,000	15,87,14,000	30,12,13,000
Debts, Deposits and Ad- vances				
Permanent Debt (Net Discharged) ...	...	...	...	...
Floating Debt (Net Dis- charged) ...	19,46,70	2,13,00	2,12,20	...
Deposits and Advances ...	...	...	...	...
Loans and Advances by Central Government (Net Advances) ...	3,25	...	1,17,01	14,79,30
Loans between Central and Provincial Govern- ments (Net Advances) ...	10,12,12	12,72,62	9,39,20	...
Remittances ...	70,67	...	...	9,65
Balances of Provincial Governments (Net) ...	...	3,00,23	2,60,80	18,18
TOTAL DEBTS, DEPOSITS AND ADVANCES...	30,32,73,873	17,85,85,000	15,29,21,000	15,07,13,000
TOTAL DISBURSEMENTS...	53,42,80,661	51,06,80,000	31,16,35,000	45,19,26,000
Closing Balance—India...	31,13,62,292	13,87,36,424	24,26,92,292	13,13,10,292
Britain...	10,38,42,476	4,80,54,688	11,91,73,476	5,19,11,476
GRAND TOTAL...	94,94,85,429	69,74,71,112	67,35,00,768	63,51,47,768

SIR B. BLACKETT'S BUDGETS

FOURTH BUDGET, 1925-27.

1st March 1926.

This year's budget presented before the Legislative Assembly on the 1st March, 1926 was remarkable for the virtual abolition of the Cotton Excise Duty, which had ceased to be levied as from the 1st of December, 1925. After making an announcement to this effect, Sir Basil Blackett gave the actuals for 1924-25 which were better than anticipated by nearly 1·69 crores at the figure of 5·68 crores.

Then reviewing the year 1925-26, he said that general trade had been better than in the previous year. Prices were continuing to fall, the index figure for 1924 December being 176 while for December 1925, it was 163. But raw-cotton and cotton piece-goods remained fairly high. The import of motor-cars rose by 24%. Money was not very dear, the bank rate being at 7% only for a few months.

ESTIMATES OF EXPENDITURE 1925-26.

Under Revenue in 1925-26, Customs duty on cotton imports was not likely to yield more than 6 crores, while on sugar imports, it would probably come to 130 lakhs more than anticipated. The abolition of the Cotton Excise Duty would mean a loss of nearly 71 lakhs. But on the whole, the gross Customs receipts were estimated at 47·13 crores *i. e.* 30 lakhs more than was expected. The year 1924-25 was not a prosperous one, and accordingly, Income-tax would probably be less than anticipated by 110 lakhs at 16·25 crores. On account of accumulation of stock during the early part of 1925, Salt at Rs. 1-4-0 would yield only 6·40 crores, or less by 55 lakhs than was expected. Opium

would yield 48 lakhs more than the estimate, or 2.24 crores on account of purchases of the stock by Local Governments having brought in 24 lakhs more than was allowed for. Railways would contribute 5.32 crores, out of which 5.09 crores represented the fixed contribution to the General Revenues and 23 lakhs represented one-third of the excess of gain over three crores, which was to go to the Railway Reserve. Including other items of income, the estimated revenue for 1925-26 was on the whole 131.35 crores instead of 130.68 crores as once anticipated.

In regard to revised estimates for expenditure during 1925-26 the rupee-sterling ratio was calculated in the accounts at 1*sh.* 6*d* but actually, it worked out to an average of 1*sh.* 6 and 3/32*d*. This meant a saving of nearly 10 lakhs. Military expenditure was likely to come to 56.28 crores, that is, very nearly to budget anticipations. But there were variations under it in regard to different items. On account of non-effective services between Britain and India since 1919, a special credit of 70 lakhs could be taken in the year. 40 lakhs were granted for ordinance equipment, 15 lakhs for ghee in advance of requirements, and 20 lakhs on account of higher prices for food and fodder, while there was a saving of 16 lakhs on pensions. Under Civil Expenditure, an excess of 35 lakhs was spent on Opium, and another 35 lakhs towards interest charges on Permanent Debt. On the other hand the Bombay government had paid to the Provincial Loans Fund interest for 15 months instead of for 12 months only, a change adopted to bring their interest dates to the 31st of March in each year. As for Posts and Telegraphs, the gross receipts were expected to be 10.24 crores, or less by 18 lakhs than the estimate. But, a saving of 19 lakhs in working expenses brought down the total expenditure to 9.57 crores. The surplus thus anticipated was about 67

lakhs exclusive of interest which was an item to be calculated on the depreciated block value of the assets of the department. And while it had once been estimated to come to 66 lakhs, actually the depreciation was greater, and it came to barely 49 lakhs; *i. e.* a saving of nearly 18 lakhs. Other items however ate this up so that the final figures for the working of the department remained practically as before. The total value of the stocks of Postal and Telegraph stores and of the Indo-European Telegraph Department proposed to be transferred to capital account came to 181 lakhs, a non-recurring item of credit.

On the whole the revised estimate of revenue was 131·35 crores as against 130·68 expected, and the revised estimate for expenditure was 130·05 crores as against 130·44 expected. The revised surplus thus was 130 lakhs, or 24 lakhs more than anticipated. Out of this amount, it was proposed to spend 50 lakhs towards the creation of an Indian Archeological Fund, a measure that would save recurring annual expenditure. The rest of the surplus would go towards redemption of debt.

INDIA'S PUBLIC DEBT

Regarding the public debt of India, it was anticipated at the time of the Budget in 1925, that a rupee loan as well as a conversion loan would have to be floated. But for various reasons, the former was not needed. The latter which was meant to convert bonds maturing between 1925 and 1928, brought in 30·61 crores, and saved 18·7 lakhs of interest annually besides making nearly $4\frac{3}{4}$ crores of the new debt liable to Income-tax. The Government of India was thus in a strong position. During the year, "instead of borrowing over 7 crores net in the market in India as anticipated in the Budget statement, we have

discharged 2 crores net of market debt in India and have paid off 5·7 crores of market and other debt in England. Nevertheless, we have financed new capital expenditure chargeable to loan funds to a total of 30 crores, of which 6 crores is on behalf of Provincial Governments through the Provincial Loans Fund." For the year 1926-27, 24 crores would be required against maturing debt, and about 35 crores for new capital expenditure ; *i. e.* 60 crores in all. This amount the Government proposed to realise by taking 15 crores from the Cash Balances, 11½ crores from Post Office Certificates and other unfunded debt, and 5 crores from the Debt Redemption provision. The sum still required to be raised as a loan would be only 22 crores. And this would be raised only in India. "There is no likelihood of our having to resort to external borrowing during 1926-27, this being the third year in succession in which the issue of an external loan will have been avoided." The strength of the position of the Government of India thus disclosed was reflected in the lower rates of interest at which the government was able to borrow, and in the market prices for the Government of India securities. India Government Stock in London also told the same tale. Two improvements had been made in the financial machinery during the year. Demands for Grants were brought into general conformity with the Appropriation Reports so as to facilitate comparisons between estimates and actuals. Secondly, accounts and audit were separated, the former being in control of Provincial Governments while audit would remain as at present in the hands of a single authority, the Auditor-General, all over India. This change facilitated a closer and a more efficient control of expenditure by the department responsible for that expenditure as a continuous process during the period of the expenditure.

Considering the debt-position generally, Sir Basil then said that the public debt of India on the 31st of March 1926 would be 967·91 crores. Of this only 225·81 was unproductive, the rest was all productive. Again, internal debt on the same date would be 396·88 crores and external debt 456·64 crores. "At the present moment, it may be said, in order to put the position in a graphic way, that the whole of our rupee debt, and more than half of our sterling debt, is productive; and that our unproductive debt is now less than one-quarter of the whole debt." The figure for external debt above given. *viz.*, 456·64 crores included 4·67 crores or £ 3½ millions of the Great Indian Peninsular Railway Company's debentures which were not really an increase in the debt of India as a whole, but were merely a transfer from the railway company to the government of the liability to meet the same interest charge out of the earnings from the same railway. "If India would only learn to use her potential capital in greater measure for productive purposes than she does at present,—I do not mean merely for investment in Government securities—and by the development of the banking and investment habit would make available for remunerative expenditure in India a larger portion than she now does of the surplus which she earns annually by the export of her products, not only would an immense impetus be given to the commercial and industrial development of India's resources, and new active fields opened for the employment of her educated young men, but the process of converting external debt into internal debt could be very easily accelerated." One of the most prominent instruments of the Government's policy of encouraging the investment habit was the Post Office Cash Certificate. It was an ideal form of security for the small investor, and during the last year, its success had been more pronounced than ever. But in view of the general fall in the rate of interest

obtainable on other Government securities, the rate of 6 per cent compound interest on Cash Certificates held until maturity was a little too high and would have to be reduced. Referring then to the charge that the Government had no sympathy with the tax-payer of the day, the Hon'ble Member said that the policy of avoiding all borrowing for other than truly productive purposes, and making adequate provision for avoidance or reduction of debt had contributed in 1926-27 to interest charges being less by 1 crore than in the revised estimates for 1925-26. It was also responsible in a way for the abolition of the Cotton Excise Duty, for reduction in railway rates and fares, and for the relief given in regard to provincial contributions. There was no doubt that the policy had fully justified itself.

ESTIMATES OF EXPENDITURE FOR 1926-27

Regarding Budget Estimates for 1926-27, under the head Military Expenditure fuller explanation would be given of the various details of the estimates for the coming year. At present, the system of Cost Accounts was in force in the Army. According to that, each unit of the Army was to take a financial interest in its affairs, and watch the cost of its upkeep. But radical modifications had been found necessary in the system and a Committee had been appointed to go into the matter. The net military expenditure for the year was estimated to be 54.88 crores. Out of this amount, only 54.24 crores were the establishment charge, the remainder of 66 lakhs representing special post-war charges in the shape of gratuities to demobilised officers. As per the recommendations of the Retrenchment Committee, one British Cavalry regiment costing 22 lakhs had disappeared, while charges for pensions in India and in Britain showed a recurring reduction of 37 lakhs. On the whole, military

expenditure had been brought down from 69·81 crores in 1921-22 to about 56·28 crores in 1925-26. Rates of pay for the British soldier had been reduced with effect from October 1925, but the relief accruing would not be much, as the reductions applied only to recruits. The amount of stocks held proved to be appreciably in excess of the amount indicated in the figures placed before the Retrenchment Committee, and an examination of surplus and obsolete stocks would be undertaken soon by an expert Committee of Inquiry.

As for Civil expenditure, the estimates for 1926-27 were 41·76 crores, and this amount included a reduction of one crore saved in interest under the conversion scheme. Besides, nearly one-third of the area under opium had been curtailed as there existed huge stocks on hand already, and this meant, of course, reduction of expenditure. The provision for avoidance or reduction of debt under the Debt Redemption Scheme was 4·83 crores; but on this matter, Government proposed two changes. It would discontinue setting aside towards debt-redemption a sum equal to the customs duty on stores imported on capital account. On principle, revenue should not be inflated at the expense of capital; but railways paid a contribution to general revenues on the basis of their capital expenditure, including whatever might have been paid in customs duty. The proposed change therefore had something to be said in favour of it. Secondly, the share of India in the German Reparations came to 1·2% of the share of the British Empire, which was in itself 22% of the total sum available. This would come roughly in 1926-27 to £120,000. It was proposed to utilise the amount thus obtained partly for compensating the losses suffered by private persons and by local bodies, but in the main for reduction of debt. Both these proposals, *viz.*, the dis-

continuance of the practice of setting aside towards debt-redemption a sum equal to the customs duty on stores imported on capital account, and the saving in interest effected by devoting part of the German Reparation receipts to reduction of debt, would relieve the revenues of a charge of nearly 7 lakhs.

REVENUE ESTIMATES. 1926-27.

As for Revenue Estimates during 1926-27, imports of sugar were likely to diminish but those of cotton-piece-goods to improve. The total estimate under Customs was 48.15 crores. On account of trade depression, Income-tax was not likely to yield more than 16.15 crores. Salt and Opium would probably yield 6.90 and 2.26 crores respectively. Railways would contribute 6.01 crores, being the fixed contribution based on the actual receipts of 1924-25—a very profitable year. But they would not yield any more as the profits were not expected to be more than 3 crores. As for Posts and Telegraphs, the Post Office was estimated to yield a profit of 20 lakhs, while the loss on Telegraphs would be 20 lakhs and that on Telephones 10 lakhs. Thus estimates pointed to a loss of nearly 10 lakhs on the working of the department as a whole. Besides owing to reduced traffic, the Indo-European Telegraph department indicated a loss of nearly 6.7 lakhs. For this reason as well as for the other that prices had risen largely since 1914 and therefore the working expenses, it was entirely out of question to revive the old postal rates for cards and letters. The interest on the Paper Currency Reserve and the surplus in the Gold Standard Reserve of over £ 40 millions would as usual be appropriated to revenue.

The final balance-sheet thus showed an estimated revenue for 1926-27 of 133.43 crores, and an estimated expenditure of 130.38 crores, the surplus thus being 3.05

crores. Out of this, 1.75 crores would disappear on account of the abolition of the Cotton Excise Duty. That left 130 lakhs, 125 lakhs out of which, was proposed to apply to a further reduction of the Provincial Contributions, in accordance with the Devolution Rules.

In concluding his speech, Sir Basil proposed to take a glance backwards and a glimpse forwards. He said "The first Assembly was burdened with the ungrateful task of imposing extra taxation in order to bridge the yawning gap between revenue and expenditure....The Budget of 1924-25...signalised our definite...escape from the era of deficits...Six months later, it (the House) placed to its credit the convention in regard to the separation of railway finance from general finance, a reform which I regard as the greatest financial achievement of the years under review. We have made other advances in our financial machinery during this period, such as the establishment of the Provincial Loans Fund, and the formulation of a clear policy of reduction and avoidance of debt, and we have paved the way for other advances, as for instance, the separation of Accounts and Audit, and the reform of the Indian Currency system. We have moreover greatly improved the mechanism of the Assembly's financial control. (We) have progressed nearly half-way on the road to extinction of the Provincial Contributions, and we have reduced the salt tax and abolished the Cotton Excise Duty...The Government of India and this Assembly have not always seen eye to eye on financial questions, but the record shows that we have worked together, not without reward, to establish a foundation of financial stability far more firmly based than when we began."

GENERAL DISCUSSION.

General discussion on the Budget commenced on the 4th March 1926. On this occasion, the Swaraj Party did

not take any part in the discussion as a mark of constitutional protest, and hence the number of speakers was very small. Among them, Colonel Crawford pressed for a reduction of the customs duties on necessary clothing, cheap motor-cars, patent medicines, and tinned foodstuffs. Such a step, he felt, would not decrease revenue but increase it. Support for the suggestion also came from Mr. H. G. Cocke who said that it should be one of the most important considerations in connection with the reorganisation of the tariff. In his general reply, Sir Basil Blackett said on this point that of the articles referred to only motor cars paid 30% while the rest paid only 15%. He could not see his way to any reduction of duty, and in particular, with regard to motor cars, prices were falling, and to reduce the duty at such a time was inadvisable. Mr. W. F. Hudson was grateful for the abolition of the Cotton Excise Duty but complained about the fate of Bombay under the Meston Award. He showed that Bengal had never paid a single pie of its contribution, and while Bombay and Bengal were both in financial difficulties for much the same causes, he failed to see why the latter should be treated more favourably than the former. Sir Basil's reply was that under the Meston Settlement, the worst sufferer in many respects had been the government of India. There was a large gap between the amount claimed by the provinces on the abolition of provincial contributions and the amount that the Central Government would get in that event, a gap likely at the moment to be nearly 5 crores. No hope therefore could be held out of any overhauling of the settlement in the near future. Dr. S. K. Datta wanted to know why expenditure on the Ecclesiastical Department had gone up from 24 lakhs in 1924, and 30 lakhs in the revised estimates for 1925-26, and to 33 lakhs in the demands for the next year. To this, the Hon'ble Finance Member replied

that the recommendations of the Retrenchment Committee were being followed up as far as possible and that the higher figure of 33 lakhs was largely due to the inclusion in England under the same vote as Ecclesiastical expenditure, instead of under a separate vote, of certain items of expenditure. In the course of the discussion, general criticisms had been made of military expenditure, and in regard to them all, the Commander-in-Chief said in his speech that the ideal of 50 crores military expenditure had not been accepted by his distinguished predecessor, Lord Rawlinson. Its realisation was, besides, dependent on a large fall of prices, and on a further reduction in the number of troops which was not possible. Actually, huge reductions had taken place in the strength of the army since 1914. Before the War, there were 9 British Cavalry regiments; now there were only 5: then, there were 52 British Indian battalions; now, only 45. Similarly, the number of batteries of the Royal Horse Artillery had been reduced from 11 to 4. In the Indian Army, cavalry regiments had been reduced from 39 to 21; and 126 battalions of Indian Infantry exclusive of Pioneers had been reduced to 100. Further, 6 battalions were serving outside India at the moment, and as each of them returned, one battalion would have to be reduced. Lastly, the House had to bear in mind that military estimates included a number of items which could not be regarded as of truly military value; for instance, Customs duty, Stationery, Territorial Force and Education. Some of these had been transferred to the military estimates so as to place them on a commercial basis; some represented items which in other countries did not come into military expenditure at all; and some others represented money which came back to the government under other heads.

THE SWARAJIST WALK-OUT.

After the general discussion of the Budget was over, the second stage in its progress began when Demands for Grants came up on the 8th March. Mr. Jinnah speaking for the combined forces of the Swarajists and Independents, moved that the 28th Demand relating to the Executive Council be taken up first, and that all the earlier ones be adjourned. He explained that in doing so his idea was to enable the Opposition to move its vote of censure on the government for political reasons. The President however ruled the motion out of order and said that if a vote of censure was all that the Opposition wanted to move, one Demand was as good as another. And the Opposition was at liberty to take its chance even with regard to the first Demand. Mr. Jinnah then moved that the head Customs be adjourned but the motion was lost by a majority. Then rose Pandit Motilal Nehru the leader of the Swarajists. He launched a fierce attack on the government on account of its attitude in the matter of constitutional reforms, and at the end of the speech left the Assembly accompanied by all his followers.

Thus the Legislature was denuded of a large and solid block of important members. And when budget discussion was resumed the next day, the House rejected a proposal of 50 lakhs for Archeological Research. Next came Mr Jinnah's motion for the appointment of a Royal Commission on Constitutional Reforms made in connection with the Grant for the Executive Council. Discussion went on for two days, and finally, the rump of the House rejected the motion by 47 votes to 31. The passage of the budget had been through very stormy weather.

BUDGET FOR 1926-27.

General Statement of the Revenue and Expenditure charged to
Revenue for the Central Government in India and in England
for 1924—25 and for 1926—27.

(In Thousands of Rupees)

REVENUE.	1924-25 Accounts.	1925-26 Budget Estimates.	1925-26 Revised Estimates.	1926-27 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	45,75,31	46,35,00	46,84,57	46,40,00
Income-Tax ...	16,01,48	17,34,87	16,24,69	16,14,67
Salt ...	7,39,05	6,95,00	6,40,00	6,90,00
Opium ...	3,79,76	3,55,85	4,39,00	3,80,00
Other Heads ...	2,06,93	2,23,14	2,19,05	2,25,43
TOTAL PRINCIPAL HEADS.	75,02,54	76,43,86	76,07,31	75,50,10
Railways Net Receipt (as per Railway Budget) ...	37,22,95	33,89,44	33,76,91	35,44,32
Irrigation (Net Receipts) ...	10,92	10,42	11,00	8,21
Posts and Telegraphs (Net Receipts) ...	1,11,25	68,11	68,38	45,52
Interest Receipts ...	3,41,00	3,60,44	4,03,19	3,47,11
Civil Administration ...	73,97	72,60	83,10	77,86
Currency, and Mint ...	3,99,33	4,08,07	4,61,55	4,29,68
Civil Works ...	13,21	10,18	11,62	9,98
Miscellaneous ...	45,90	43,21	42,57	39,27
Military Receipts ...	4,03,12	4,01,17	3,85,89	4,29,79
Provincial Contributions and miscellaneous adjustments between Central and Pro- vincial Governments ...	9,25,21	6,22,14	6,24,26	5,45,12
Extraordinary items ...	2,54,52	38,33	59,47	16,00
TOTAL REVENUE ...	1,38,03,92,244	1,30,67,97,000	1,31,35,25,000	1,30,42,96,000
DEFICIT ...	...	...	...	...
GRAND TOTAL ...	1,38,03,92,244	1,30,67,97,000	1,31,35,25,000	1,30,42,96,000

BUDGET FOR 1926-27.

General Statement of Revenue and Expenditure charged to
Revenue for the Central Government in India and in England
for 1925-26 and for 1926-27.

(In Thousands of Rupees)

EXPENDITURE.	1924-25 Accounts.	1925-26 Budget Estimates.	1925-26 Revised Estimates.	1926-27 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue.	5,87,02	5,28,91	5,53,85	5,00,14
Salt and other Capital Outlay charged to Re- venue ...	17,32	32,93	10,44	10,20
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	30,44,53	29,65,58	28,44,93	29,43,45
Irrigation ..	22,36	17,79	20,38	17,34
Posts and Telegraphs ...	30,88	- 28,17	- 1,04,53	86,01
Debt Services ...	18,68,23	18,18,06	18,54,30	17,51,76
Civil Administration ...	10,12,59	10,97,98	11,25,27	11,45,30
Currency, and Mint ...	71,41	73,47	71,94	78,24
Civil Works ...	1,77,73	1,68,47	1,72,43	1,80,11
Miscellaneous ...	4,35,32	4,01,91	4,51,88	3,96,31
Military Services ...	59,66,52	60,26,17	60,13,89	59,17,79
Miscellaneous adjustments between Central and Provincial Governments...	50,74	15,74	14,32	6,00
Extraordinary items ...	1,02	2500	25,77	5,00
TOTAL EXPENDITURE CHARGED TO REVENUE ...	1,32,35,66,546	1,30,43,84,000	1,30,54,87,000	1,30,37,65,000
SURPLUS ...	5,68,25,698	24,13,000	80,38,000	5,31,000
GRAND TOTAL ...	1,38,03,92,244	1,30,67,97,000	1,31,35,25,000	1,30,42,96,000

BUDGET FOR 1926-27.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1925-26 and for 1926-27.

(In Thousands of Rupees)

RECEIPTS.	1924-25 Accounts.	1925-26 Budget Estimates.	1925-26 Revised Estimates.	1926-27 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	5,68,26	24,13	80,38	5,31
Railway Capital not charged to revenue ...				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	14,05	-4,84,68	97,49	2,95,19
Debt, Deposits, and Ad- vances				
Permanent Debt (Net incurred) ...	11,74,77	8,95,14	...	...
Unfunded Debt (Net incurred) ...	8,96,12	9,80,21	12,15,77	9,58,16
Deposits and Advances (Net) ...	2,32,84	8,81,41	7,19,98	8,25,02
Railway Depreciation and Reserve Funds (As per Railway Budget) ...	...	4,51,94	6,63,41	5,25,06
Remittances (Net) ...	1,13,36	...	17	...
Balances of Provincial Governments (Net) ...	2,64,95	31,82	1,95,93	29
TOTAL DEBT DEPOSITS AND ADVANCES ...	26,82,03,933	32,40,52,000	27,95,26,000	23,08,53,000
TOTAL RECEIPTS ...	32,64,34,509	27,80,02,000	29,73,13,000	26,09,03,000
Opening Balance—India...	31,13,62,292	24,26,92,292	31,73,60,743	15,17,32,743
England...	10,38,42,476	11,86,63,476	13,51,68,257	18,09,33,257
GRAND TOTAL ...	74,16,39,277	63,93,57,768	74,98,42,000	59,35,69,000

BUDGET FOR 1926-27.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1925-26 and for 1926-27.

(In Thousands of Rupees)

DISBURSEMENTS.	1924-25 Accounts.	1925-26 Budget Estimates.	1925-26 Revised Estimates.	1926-27 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit ...	...	...	...	...
Railway, Irrigation, Posts and Telegraphs and other Capital not charged to Revenue				
Construction of State Railways ...	13,45,98	23,00,00	19,50,00	26,00,00
Discharge of Debentures (as per Railway Budget) ...	63,31	...	1,06,58	3,61,85
Redemption of liabilities involved in the pur- chase of Railways ...	...	3,43,33	3,41,55	...
Construction of Irriga- tion Works ...	96	27	- 1,15	- 55
Capital outlay on Posts and Telegraphs ...	1,17,56	2,13,53	2,28,92	59,32
Capital outlay on Vizaga- patam Harbour ...	...	...	66,20	48,70
Payment of commuted value of pensions ...	...	...	...	35,00
Initial Expenditure on New Capital at Delhi ...	1,42,19	1,55,00	1,35,00	1,00,50
Capital outlay on Security Printing ...	...	...	16,84	1,72
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	16,70,00,219	30,12,13,000	28,43,94,000	32,06,54,000
Debt, Deposits and Ad- vances				
Permanent Debt (Net Discharged) ...	...	...	3,97,60	89,17
Floating Debt (Net Dis- charged) ...	2,11,80	...	40	...
Loans and Advances by Central Government (Net Advances) ...	1,22,69	14,79,30	9,29,82	8,06,23
Loans between Central and Provincial Govern- ments (Net Advances) ...	8,86,61	...	...	...
Remittances (Net) ...	...	9,65	...	5,48
TOTAL DEBT, DEPOSITS AND ADVANCES...	12,21,10,058	14,88,95,000	13,27,82,000	9,00,88,000
TOTAL DISBURSEMENTS...	28,91,10,277	45,01,08,000	41,71,76,000	41,07,42,000
Closing Balance—India... England...	31,73,60,743 13,51,68,257	13,13,48,292 5,79,01,476	15,17,32,743 18,09,33,257	12,83,14,743 5,45,12,257
GRAND TOTAL...	74,16,39,277	63,93,57,768	74,98,42,000	59,35,69,000

SIR B. BLACKETT'S BUDGETS

FIFTH BUDGET, 1927-28.

28th February 1927.

For the fourth time in succession, India was able to expect a surplus during 1927-28. The audited accounts for 1925—26 revealed a surplus of nearly 3·31 crores, which was more than what the revised estimates expected. Improved Customs receipts on the Revenue side, and practically all heads on the Expenditure side were responsible for it. Turning to the year 1926—27, Sir Basil Blackett said that general trade conditions were good, but that the cotton industry was going through a depression on account of a fall in the price of cotton. On the Revenue side, there was buoyancy in the yield from sugar, and the protective duties on steel were specially successful. Customs receipts on the whole were expected to exceed the original estimates by 1·30 crores. Income-tax was likely to bring less than the estimated receipt as there had been an increase in refunds in connection with double income-tax relief consequent on the reduction in the standard rate of income-tax in Great Britain. The revenue from Salt was quite up to expectations till the end of December 1926; but since then, hopes of a reduction in the duty had affected clearances. Revenue therefore was likely to fall in the new year. Opium receipts improved over the budget figure; railway receipts stood as expected at 6·01 crores; and India's share of the German reparations brought in 31 lakhs. On the side of expenditure, an increase of 67 lakhs over the budget estimate was likely under the Military head, due mainly to increased expenditure on purchase and manufacture of ordnance and other stores amounting to 70 lakhs. This was an item of

recurrent increase as the surplus stores left over after the War were exhausted. But there was a saving of 82 lakhs in interest on dead weight debt, which was a result of cheaper interest on fresh borrowings. Thus the revised estimates for revenue came to 130.25 crores and for expenditure to 127.15 crores. The anticipated surplus was therefore 3.10 crores the fourth year in succession for a surplus to accrue.

CRITICISM OF 1926-27

Unlike the previous year when the Swarajists had refrained, in 1927 there was full discussion of the budget. In fact, the Swarajists fresh from their victories in the 1926 elections, were particularly combative. At the very outset, one of them, Mr. Jamnadas Metha questioned Sir Basil's statement about trade conditions in 1926-27 having been good. Sir Basil had unfortunately quoted in support of his opinion Mr. Shroff, President of the Bombay Stock Exchange. Mr. Metha was too skilful a debater to miss his opportunity. He called to his support the Finance Members of Bengal, Bombay, and Assam who had all stated recently that the closing year had been a particularly bad and depressing one. He went further and cited the authority of the Commerce Member of the Government itself who had admitted that 1926—27 had been a year of universal trade depression. And in view of this, Mr. Metha asked, how the Finance Member could rely, for his statement, on the authority of the Bombay Stock Exchange "which we are often told consists of speculators and not businessmen". Sir Victor Sassoon wholeheartedly joined him in the criticism. Proceeding next to review the income of the current year Mr. Metha said, "that the legitimate sources of taxation" *viz.* Customs, Income-tax, Salt etc. all showed decreased receipts during the last four or five years. The figure under Customs included nearly 3 crores of

income due to the levy of protective duties. Excluding that, the receipts for the current year would be the same as for 1924-25 *i. e.* 44 lakhs. Next, income-tax and super-tax told the same tale. In Bombay, the latter had gone down from 2.03 crores in 1923-24 to barely 94 lakhs in the budget year. It was true, as the Government admitted that imports of cotton yarn, cotton piece-goods etc. had all fallen. But, motor-cars, and cycles, articles of food and drink, all showed better records. Particularly, income from liquors, ale, beer, port, etc. had mounted from 234 lakhs in 1922-23 to 276 lakhs in the budget year. "That shows that those who received the Lee concessions were thoroughly enjoying them" and that while the poor suffered, the rich continued to prosper.

WAYS AND MEANS POSITION

Regarding the Ways and Means position and the Public Debt, Sir Basil claimed credit for solid achievements. He said "In 1926-27 against 26 crores borrowed in the open markets, we shall have discharged debt amounting to 37 crores, including 8.18 crores of Treasury Bills held in the Paper Currency Reserve. The amount of debt which we expect to have to discharge in India in 1927-28 is about 18 crores, while the tentative figure for the money to be raised by a loan in the open market is 27 crores." Again, an external loan would be avoided this year also. But "since the end of the financial year 1923-24, the last year in which we issued a sterling loan, we have spent outside India £26.2 millions for the purposes of capital outlay, and £9.9 millions on reduction of sterling debt, a total of £36.1 millions. The whole of this outlay has been financed without resort to external borrowing." In the next year, Government intended to spend £8.7 millions on capital account outside India, and £2.7 millions on reduction of sterling debt; *i. e.*, a total

of £11·4 millions. And again there was no intention to borrow abroad. The avoidance of external loans for such a long period was naturally reflected in the higher market prices quoted for the Indian Government securities, and in the credit which India commanded in the London market. While, on the 31st March 1927, the total debt of India would have increased from 969·04 crores to 975·54 crores, the sterling debt would have decreased from 456·55 to 452·40 crores. Similarly, productive debt would have increased from 737·98 to 773·83 crores, and unproductive debt decreased from 231·06 to 201·71 crores. Besides, these improved figures had a healthy reaction on the rate of interest at which Government could get money in the market.

The House was highly critical. It complained the budget was wholly plausible. Mr. A. Rangaswami Iyengar said that the successive surpluses were all due to over-estimating the expenditure and under-estimating the revenue. "That has been the bane of the Indian budgets since the days when the late Mr. Gokhale protested in the then Imperial Council against it." In the opinion of a large section of the House the apparently satisfactory figures in the budget were due to manipulation of the exchange by the Government. Mr. G. D. Birla complained that by raising the value of the rupee from 1*sh.* 4*d.* to 1*sh.* 6*d.*, Government concealed higher taxation. In terms of sterling, he said, that it had taken from the Indian tax-payer between 1925-27, no less than £40 millions or nearly 60 crores of rupees. There was no wonder then that the Government could show surpluses, and remit provincial contributions. Sir Victor Sassoon poited out the effect of the changed ratio on the public debt of the country. Converting both the rupee debt and the sterling debt into grains of gold, he said that the

higher ratio meant an increase in the total debt of nearly 60 crores. And the interest on this at $4\frac{1}{2}\%$ came to 270 lakhs. This of course was very unjust to India. As for the effect of the higher ratio on trade and commerce, Sir Purushottamdas Thakurdas said that it had been very depressing, since in order to keep up the 1sh. 6d. ratio, Government had contracted currency since 1st April 1926 to the tune of nearly 30 crores. To all these remarks Sir Basil Blackett replied at the end. He said that in comparing the expenditure of a country at any two periods, the correct basis of comparison was not the gold value of the rupee, but the commodity value of it. During the War, prices rose as the commodity value of gold, its purchasing power, fell. But since then prices had fallen, *i.e.* the commodity value of gold had risen in the world. Still, gold prices at the time of speaking were 50% higher than in 1914. And the 1sh. 6d. ratio had prevented them from going further up; and incidentally, it had helped Government to restore budget equilibrium. There was nothing in all this that the Government could be blamed for. As to the charge that they were manipulating the exchange, the Finance Member admitted it, but said they had to do so as there was no other authority. Sir Victor Sassoon had tried to show that the new ratio had increased the debt burden of the people. But his argument was vitiated by the assumption that all the debt was contracted at 1sh. 4d. As a matter of fact, however, "out of the 369 crores of rupee debt raised in the open market outstanding on the 40th November 1926, Rs. 211 crores were raised when exchange was higher than 1sh. 4d, Rs. 158 crores when exchange was at or below 1sh. 4d... the Honorable Baronet entirely ignores, (besides), the effect of changes in price levels which is a very much more important factor." By going back to 1sh. 4d, the rupee

creditors would be made to loose while the external creditors would as usual get their payments in sterling. The best course therefore, in the opinion of the Government was to leave the rupee severely alone.

DEBT REDEMPTION SCHEME.

The Debt-redemption Scheme of the Government was not also satisfactory to the House. Mr. Jamnadas Mehta said that while Britain whose unproductive debt in 1926-27 amounted to £7600 millions, set aside per year barely £50 millions for debt, (Sir Basil here said the latest figure was £60 millions) India was asked to pay up 5 crores. In other words, Britain was content to extinguish her debt in 125 years while India was to do so in 30 years. The amount of 5 crores per annum was therefore too high. Mr. Shanmugam Chetty said that such a huge sum set aside for the reduction or the avoidance of debt, in addition to the permanent provision made for a sinking fund, was entirely unjustifiable. But he congratulated the Finance Member on having reduced the Cash Balance held in London from 15 crores to 5 crores. The defence of the Government was that surpluses were on principle to go towards the avoidance or the reduction of debt. By that means, the interest on the dead-weight debt had been decreased in India, and the Provinces also had been in a position to take loans at a lower rate of interest. It is noteworthy that the Debt-redemption Scheme came in for criticism at the hands of an official member also. Mr. N. Gopalswami Iyengar, the nominated official member from Madras, took an ingenious, though nevertheless a correct, view of the surpluses. He said that they should not have been utilised to create reserves or to avoid or reduce the debts of the Government of India. Provincial contributions had been intended only to meet the deficits of the Centre. And when there were no deficits, when in

fact there were surpluses, the proper course of action for the Government was of course to reduce provincial debt, to the Centre. Thus in his opinion the utilisation of the surpluses of 1926-27 and of 1927-28 in relief of provincial contributions was no lapse from financial virtue, as the Finance Member had phrased it but only "a deviation into financial justice."

ESTIMATES FOR 1927-28.

According to the Budget Estimates for 1927-28, Customs revenue was likely to suffer a reduction in the yield from the protective duty on steel, due to the Steel Industry Protection Bill. Imports of sugar also were likely to be less than in previous years. But taking into account the normal growth of revenue from other items Customs could be expected to bring in 49.15 crores *i.e.*, a little more than in the current year. The net receipts from Income-tax were estimated at 16.50 crores, again more than in the current year, the reason being partly more profitable trade, and partly, the substitution of tax-subject for tax-free Government of India securities. On the basis of normal growth in consumption, Salt would yield 6.9 crores while Opium, on account of a reduction of 10 per cent in exports as per the policy of the Government, would bring in a net revenue of 2.92 crores only as compared with 3.12 crores in the current year. Railways would give 5.48 crores which was nearly 50 lakhs less than in the current year. Other receipts came to 15.70 crores. And thus the total estimate of revenue for the budget year was 128.96 crores, as against a revised estimate of 130.25 crores for the current year. On the side of expenditure, the Military would cost on the basis of the revised estimates for 1926-27 about 55.55 crores. This figure included savings on account of the disappearance of post-war charges for demobilised soldiers, savings in pension

charges, and in the pay of British officers and troops. But it provided also for increased expenditure in improving barrack accommodation for British and Indian troops, on the purchase of ordnance and other stores, and towards the creation of the Royal Indian Navy. Under Civil expenditure, the most important variation was the saving in interest charges. The policy of debt-redemption in force was primarily responsible for this and the benefit was felt alike by Railways, Irrigation, Forests, etc. The Government had also decided to restore some of the cuts made by the Inchcape Committee in regard to beneficial activities, such as a five-year programme for the spread of education in the North Western Province. As for Posts and Telegraphs, during 1926-27, the revised estimates showed a net loss of nearly 9 lakhs. But in 1927-28, the position was expected slightly to improve. The gross receipts were put down at 10·80 crores, while expenditure was higher by 76,000 rupees. It included more than 12 lakhs designed to improve the pay and prospect of the subordinate staff of the department. After all, the Indian Post and Telegraph Department was not a profit making one but was intended primarily to benefit the public. On the whole, the aggregate expenditure of the Government came to 125·26 crores. The estimated revenue being 128·96 crores, the surplus was likely to be about 3·70 crores.

It is not to be expected that so long as the Army in India is not controlled by the Indian Legislature, that bitter and prolonged criticism of its expenditure every year would cease. During the budget discussions of this year, Pandit Hriday Nath Kunzru's criticism of the subject was the most pointed. He showed that in 1926, in his speech on the budget, Sir Basil Blackett had been able to foresee "savings, of an automatic character in our

established charges in future years as the result of the reduction of the rates of pay of the British soldier which came into effect in October 1925." In the year 1926-27, the establishment charges had been estimated at 54½ crores. But in the budget year, they had increased to 55½ crores. And further, the Finance Member had warned the House that "only the strictest economy and the strictest vigilance can now prevent our Military budget from showing a tendency to rise rather than to fall." This was a very disquieting feature, and the Hon'ble Pandit exclaimed in wonder, "May we know what is in store for us" ? The Government explained that savings due to the reduction of pay were comparatively small, and that on the basis of the existing strength of the Army, no more economies were possible. The House was not satisfied with the Postal budget also. It agreed with the Government that the Post and Telegraph Department should not be run for profit but as a public utility concern. And if only the Postal Department was separated from the Telegraph Department, it would be quite possible to reduce postal rates to the old level. The Telegraph Department was working at a loss, and was a drag on the Postal Department. "This unjust combination" was responsible, said a Member, "for depriving the masses of the benefits of a cheap postal service." The Finance Member had pleaded that reduction of rates would mean the postponement of all increase in the pay and prospects of the subordinate staff of the department. But the House did not obviously believe that the two reforms were really inconsistent with each other. Nor was it convinced by the other plea of the Government that reduction of rates mainly benefited the commercial classes and not the agriculturists.

TAXATION PROPOSALS.

The Report of the Taxation Enquiry Committee had been published recently. And in the light of it, Government intended during 1927-28 to make a few changes in the existing system of taxation. There was no doubt that any reform of taxation should be directed "first, towards a more equitable distribution of its incidence.....and then towards the abolition of those imports which are obnoxious in principle such as the existing export duties. When our finances permit, we should aim at a general reduction of taxation to a level which gives some relief to the tax-payer." No more than minor changes, however, were possible in the budget year. The first proposal before the House related to the abolition of the export duty now levied on hides and on tea. The former was wrong in principle and dangerous in effects. As for the latter, it was bringing in 50 lakhs now—a large income to forego. Government, however, intended to abolish the duty. But they would raise the share of the total profits of tea-companies assessed to income-tax from 25 per cent to 50 per cent. In the next year, this would bring in nearly 45 lakhs, almost making up for the loss of export duty. Next it was proposed to reduce the import duty on motor cars from 30 per cent to 15 per cent. The reduction was in accordance with the recommendations of the Taxation Inquiry Committee, and would encourage the development of motor transport in the country. Thirdly, the 15 per cent *ad valorem* duty on rubber and rubber stamps now in existence would also be abolished. The proceeds of the duty were inconsiderable, and an important industry in Burma would be encouraged. Again, the stamp duty on cheques and on other Bills of Exchange payable on demand would be abolished with effect from the 1st July 1927. The loss would fall on Provincial

Governments, but relief would be afforded to them in other directions. Finally, in order partly to make up for the diminution of revenue resulting from the aforesaid changes, the Government intended to increase the import duty on unmanufactured tobacco from Re. 1 to Rs. 1-8-0 per pound. The net effect of all these measures was that Customs revenue was reduced by 51 lakhs, while income-tax revenue was increased by 45 lakhs. The estimated surplus thus stood at 3.64 crores.

Of the changes proposed in taxation, the one abolishing the export duty on hides came in for a very large share of criticism. Sir Basil had intended to encourage export : but the House wanted that the industry should be supported in the land. Messrs. A. Rangaswami Iyengar, T. Prakasam and Sir Purushottamdas Thakurdas all questioned the wisdom of the proposed step, and relied on the support of the commercial community in their position. Mr. Prakasam, in particular, read a telegram of protest sent to him by the Madras Skins and Hides Merchants' Association, a body intimately connected with the trade in India. The critics felt that really an increase in the export duty would have helped the trade. In his final reply, Sir Basil admitted that opinion on the question was divided ; but declined to drop his proposal. The other measure of reduced taxation that provoked strong comment was the one relating to motor cars. While complaints were made on the one hand that the reduction benefited only the rich, it was pointed out on the other hand that the change would increase transport facilities. This much was intelligible. But Sir Basil went much further and claimed that his measure facilitated military transport, and thereby saved military expenditure. Assuredly, the benefit indicated was so far-fetched and insignificant that the argument looked almost amusing.

The various taxation changes reduced the estimated surplus from 3·70 crores to 3·64 crores. The Finance Member said that for many reasons, it could be taken to be a recurrent one. And the natural use of a recurring surplus of course would be to reduce provincial contributions. Government proposed therefore that 3½ crores of the contributions should be permanently reduced leaving thus only 1·81 crores of them to be abolished. The finances of Bombay had been in a bad way for some years, and that presidency was in need of urgent help. Instead of giving it any special benefit however, Government intended to take 1·81 crores out of the current year's surplus and devote it to remitting the whole of the remainder of the contributions. This left barely 1·29 crores out of the current year's surplus on hand. But even out of this, 28 lakhs or half of Bombay's contribution for 1926-27 would be remitted to her in the hope that she would be able to balance her budget. The sum still left on hand was 1·01 crores; and that, the Government would use as a nest egg either for relieving the budgets of 1928-29 and 1929-30, of certain temporary charges preliminary to the inauguration of the new currency system or for increasing the strength of the reserves to be handed over to the Reserve Bank. The diversion of the realised surplus for 1926-27 from its proper application to the reduction or avoidance of debt to other purposes was admittedly objectionable; but the complete abolition of the provincial contributions was really a very big prize. And it undoubtedly merited a special procedure.

MISCELLANEOUS CRITICISMS.

The general discussion evoked a number of important criticisms of a miscellaneous character which may well be grouped here in a paragraph. It was asked why non-Christians should pay 31 lakhs for the upkeep of the

Ecclesiastical Department, which was not catering to the army alone but to others as well. Besides, if it could be Indianised, a large saving would take place. Mr. S. N. Haji said that under the system of Indian income-tax, there were far too many exemptions which together meant a loss of nearly 5 crores to the Government. For instance, those resident abroad but were getting income from India were exempted. Then the income accruing in other countries of persons resident in India was also exempted. Again, interest on sterling securities was not charged, nor the Indian earnings of foreign shipping. If the reason for the present practice was that double taxation should be avoided, a reasonable policy of give and take should be adopted between India and other countries. Mr. S. Srinivasa Iyengar's speech was the most "wholehearted condemnation" of the budget. It pointed out that while the non-voteable heads were so many, even the voteable ones were not properly arranged and classified under a few heads, so as to admit of discussion of every item. The number of Demands for the year was 94, and the time allotted for voting on them was only five days. If ever "a budget was framed to escape scrutiny and discussion, this budget is of that description" he said.

In concluding his budget speech, Sir Basil Blackett said: "Each of the three budgets laid before the Second Assembly was not only balanced at the time of its introduction, but has presented India with an appreciable realised surplus of revenue over expenditure. The necessity of reducing the salt-tax from Rs. 2-8-0 to Rs. 1-4-0 per maund in the budget of 1924-25 postponed the beginning of the remission of provincial contributions. The budgets for 1925-26 and 1926-27, relieved finally of the uncertainties of Railway Finance by the separation of the Railway Budget effected a reduction in provincial

contributions amounting to 3·75 crores.....In addition, the budget for 1926-27 signalised the demise of the unlamented Cotton Excise Duty. In its first budget, this new Assembly has before it proposals for a complete extinction of the Provincial contributions." These are by no means negligible claims to success. And the general summing up of the work of Sir Basil Blackett as Finance Member given by an official colleague of his is not far from just and correct. "There is no period in the recent history of Indian public finance" he said "which has been so full of interest, so crammed with attempts consciously made, deliberately planned and firmly carried to success as the period during which Sir Basil Blackett has held the office of the Finance Member of the Government of India."

The next stage in the progress of the Budget was that of demands for grants which began on the 9th March. Mr. M. R. Jayakar began by moving for the total omission of the Demand for the Executive Council and he carried the House with him. Next the heads of Customs, Posts and Telegraphs and Salt took a good deal of the remaining time of the House. But the interest evinced in them was not great when compared to that in the Army Demand which was rejected. On the whole only five Demands were discussed out of the 79 that had been tabled.

The final stage of a Budget is arrived at when the Finance Bill is presented. This year the Assembly passed a motion recommending that the Salt-tax be reduced from Re. 1-4-0 per maund to barely As. 10, but the Council of State restored the original figure. A proposal however to reduce the cost of post cards was rejected by the Assembly. When at last the Finance Bill was presented

to the Assembly as amended, the Swarajists opposed it on the principle of "No Taxation without Representation" but the House passed it by a large majority. The changes by the Council of State in the Bill had been very trifling.

BUDGET FOR 1927-28.

General Statement of the Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1926—27 and for 1927—28.

(In Thousands of Rupees)

REVENUE.	1925-26 Accounts.	1926-27 Budget Estimates.	1926-27 Revised Estimates.	1927-28 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	47,77,95	46,40,00	47,69,71	48,64,37
Income-Tax ...	15,85,92	16,14,67	15,85,47	16,95,05
Salt ...	6,32,97	6,90,00	6,70,00	7,00,00
Opium ...	4,14,99	3,80,00	4,18,51	3,83,08
Other Heads ...	2,12,60	2,25,43	2,26,42	2,27,06
TOTAL PRINCIPAL HEADS.	76,24,45	75,50,10	76,70,11	78,69,56
Railways Net Receipt (as per Railway Budget) ...	34,40,13	35,44,33	32,81,80	34,97,13
Irrigation (Net Receipts) ...	12,03	8,21	9,73	10,36
Posts and Telegraphs (Net Receipts) ...	86,35	45,52	48,92	58,07
Interest Receipts ...	4,21,95	3,47,11	3,81,48	3,16,13
Civil Administration ...	89,98	77,86	82,00	84,21
Currency, and Mint ...	4,63,89	4,29,68	4,17,69	2,48,70
Civil Works ...	12,85	9,98	14,91	17,45
Miscellaneous ...	54,18	39,27	55,97	46,90
Military Receipts ...	4,39,51	4,29,79	4,65,23	1,80,49
Provincial Contributions and miscellaneous adjustments between Central and Pro- vincial Governments. ...	6,24,09	5,45,12	5,17,61	...
Extraordinary items ...	63,57	16,00	52,03	1,96,76
TOTAL REVENUE ..	1,33,32,98,658	1,30,42,97,000	1,29,97,48,000	1,25,25,76,000
DEFICIT ...	...	...	...	...
GRAND TOTAL ...	1,33,32,98,658	1,30,42,97,000	1,29,97,48,000	1,25,25,76,000

BUDGET FOR 1927-28.

General Statement of Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1926-27 and for 1927-28.

(In Thousands of Rupees)

EXPENDITURE.	1925-26 Accounts.	1926-27 Budget Estimates.	1926-27 Revised Estimates.	1927-28 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue.	5,37,59	5,00,14	4,34,41	4,30,30
Salt and other Capital Outlay charged to Re- venue ...	7,18	10,20	8,39	18,79
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	28,91,09	29,43,46	26,80,93	29,49,05
Irrigation ...	20,15	17,34	16,52	18,70
Posts and Telegraphs ...	-1,01,90	86,01	78,60	84,61
Debt Services ...	18,34,35	17,51,76	16,68,69	15,74,34
Civil Administration ...	10,76,48	11,45,30	11,27,53	11,31,50
Currency, and Mint ...	70,11	78,24	77,91	74,85
Civil Works ...	1,60,42	1,80,11	1,90,25	1,66,98
Miscellaneous ...	4,25,60	3,96,31	4,02,26	3,97,15
Military Services ...	60,39,37	57,17,79	60,20,23	56,72,49
Miscellaneous adjustments between Central and Provincial Governments...	15,68	6,00	4,72	...
Extraordinary items ...	25,77	5,00	2,87,04	7,00
TOTAL EXPENDITURE CHARGED TO REVENUE ..	1,30,01,80,471	1,30,37,66,000	1,29,97,48,000	1,25,25,76,000
SURPLUS ...	3,31,18,187	5,31,000	...	...
GRAND TOTAL ...	1,33,32,98,658	1,30,42,97,000	1,29,97,48,000	1,25,25,76,000

BUDGET FOR 1927-28.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1926-27 and for 1927-28.

(In Thousands of Rupees)

RECEIPTS.	1925-26 Accounts.	1926-27 Budget Estimates.	1926-27 Revised Estimates.	1927-28 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	3,31,18	5,31	...	...
Railway Capital not charged to revenue ...				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	77,15	2,95,19	...	2,55,32
Debt, Deposits, and Ad- vances				
Permanent Debt (Net incurred) ...	...	...	3,35,11	7,22,41
Unfunded Debt (Net incurred) ...	13,45,50	9,58,16	12,70,76	11,63,39
Deposits and Advances (Net) ...	9,53,74	7,01,96	19,25,20	3,05,76
Railway Depreciation and Reserve Funds (As per Railway Budget) ...	6,00,99	5,25,07	2,97,05	4,11,58
TOTAL DEBT DEPOSITS AND ADVANCES ...	29,00,24,030	21,85,19,000	38,28,12,000	26,03,14,000
Remittances (Net) ...	...	...	64,13	...
Balances of Provincial Governments (Net) ...	3,20,25	29	..	...
TOTAL RECEIPTS ...	36,28,83,105	24,85,98,000	38,92,25,000	28,63,06,000
Opening Balance—India...	31,73,60,743	22,88,39,743	25,14,88,041	24,73,44,041
England .	13,51,68,257	14,49,33,257	15,04,63,055	5,24,32,055
GRAND TOTAL ...	81,54,12,105	62,23,71,000	79,11,76,096	58,59,82,096

BUDGET FOR 1927-28.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1926-27 and for 1927-28.

(In Thousands of Rupees)

DISBURSEMENTS.	1925-26 Accounts.	1926-27 Budget Estimates.	1926-27 Revised Estimates.	1927-28 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit ...	...	...	...	...
Railway, Irrigation, Posts and Telegraphs and other Capital not charged to Revenue				
Capital outlay on Security Printing ...	16,40	1,72	16,68	12,000
Construction of State Railways ...	19,24,50	26,00,00	27,00,00	25,00,00
Discharge of Debentures (as per Railway Budget)	82,62	3,61,85	2,63,43	3,31,86
Redemption of liabilities involved in the purchase of Railways ...	3,42,74	...	...	...
Construction of Irrigation Works ...	- 96,675	- 55	- 76	16
Capital outlay on Posts and Telegraphs ...	2,23,54	59,32	31,35	58,02
Capital outlay on Vizagapatam Port ...	64,76,753	48,70	38,14	39,43
Currency Capital outlay...	...	...	8,61	19,23
Initial Expenditure on New Capital at Delhi...	99,06	1,00,50	75,00	70,00
Payment of commuted value of pensions ...	...	35,00	35,00	33,35
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	27,52,65,397	32,06,54,000	31,67,45,000	30,52,17,000
Debt, Deposits and Advances				
Permanent Debt (Net Discharged) ...	4,03,35	89,17	...	...
Floating Debt (Net Discharged) ...	25	...	8,18,15	...
TOTAL DEBT, DEPOSITS AND ADVANCES...	4,03,60,226	89,17,000	8,18,15,000	...
Loans and Advances by Central Government (Net Advances) ...	8,92,45	8,06,23	5,19,45	3,03,02
Remittances (Net) ...	85,90,778	5,48	...	14,95
Balances of Provincial Governments (Net) ...	...	...	4,08,95	5,18,92
TOTAL DISBURSEMENTS...	41,34,61,009	41,07,42,000	49,14,00,000	38,89,06,000
Closing Balance—India...	25,14,88,041	15,61,98,743	24,73,44,041	14,69,89,041
England...	15,04,63,055	5,54,30,257	5,24,32,055	5,00,87,055
GRAND TOTAL...	81,54,12,105	62,23,71,000	79,11,76,096	58,59,82,086

SIR B. BLACKETT'S BUDGETS

SIXTH AND LAST BUDGET, 1928-29.

29th February 1928.

On the 29th February 1928, Sir Basil Blackett introduced into the Legislative Assembly his last Indian Budget. It was noteworthy on account of the final and official abolition of the Provincial contributions. It showed that the actuals for 1926-27 were better by 14 lakhs than the revised estimates presented in 1927, the total revenue being 130·70 crores and the total expenditure 128·74 crores. The surplus thus was 296 lakhs, and it was taken into the Revenue Reserve Fund. As for the year 1927-28, Sir Basil said that general trade conditions were better than in the previous year, both imports and exports sharing in the betterment. Practically all the articles of export and import contributed to the increase. But cotton showed a falling off, while motor-cars showed a decrease in yield though not in numbers, the reason being the lower duty on imports. Generally, the post-war depression could be said to have been lifting.

In regard to Revenue, Customs receipts were likely to be less than the budget figure of 48·73 by about 10 lakhs. Tobacco, mineral oil, protective duties on iron and steel and jute were all better than expected; but there was deterioration in the case of cotton-goods and in that of matches. Income-tax was very disappointing as the yield was estimated to be down by nearly 130 lakhs, being not more than 15·65 crores. Variations under Salt and Opium were not appreciable. And railways gave 6·36 crores, or 90 lakhs more than expected. On the side of expenditure, the Army Budget stood at 54·92 crores, which was the

original figure. There were savings owing to troops being sent to China, and to other causes ; but modernisation of the army had been taken on hand which meant increased cost. In the net there was no saving under the head. Interest payable showed a saving of nearly 17 lakhs as railways spent 30 crores instead of only 25 as budgeted originally on capital works, and as larger advances were given also to the Provincial Loans Fund, which means more interest received. On the whole the variations from the original estimate for the better and for the worse were 165 lakhs on each side. And the net difference amounted only to some 3 lakhs.

ESTIMATES FOR 1928-29

As for budget estimates for 1928-29, Customs revenue was calculated to increase under sugar, motor cars and cycles, and cotton goods. The total yield would come to about 50·18 crores, or 1·55 crores, more than the revised estimates of the current year. Income-tax was put down for 17 crores, which was more than expected in the current year as the prosperity of the jute trade would be reflected in it. Salt would bring in 7 crores and opium would show a net yield of 25 lakhs less than in 1927-28. Railways whose contribution during the budget year depended on their working in 1926-27 were expected to give 5·23 crores, as well as a sum of 25 lakhs representing one-third of the surplus over 3 crores due to the general revenues. This was 88 lakhs less than in the current year. In regard to expenditure, the Military required 55·10 crores, the extra amount of 10 lakhs being intended for the expansion of the Territorial Force. Excluding that figure military estimates were 8 lakhs more than for the current year. Under Debt-services, the provision for interest during 1928-29 was 9·51 crores. The corresponding item in 1923-24 was 15·97 crores, which meant that

the Debt-redemption scheme enabled a saving of 6.46 crores. "In other words the saving in the interest on dead-weight debt in the five years (from 1923 to 1928) is more than three and a half times the increase in the provision for debt-redemption, and over a crore more than the actual provision on this account in 1928-29". The budget year's figure for interest *viz.*, 9.51 crores included two special items, one being 81 lakhs for the premium on the 5½% Bonds issued in 1918 and maturing in 1928 at 105. and the other 25 lakhs for bonus on Cash Certificates. Even so, however, the provision was 67 lakhs less than in the current year. Next, Civil Administration was expected to cost 41 lakhs more than in 1927-28 mainly on account of increased expenditure on beneficial services. The Post and Telegraph Department was expected to show, according to the revised estimates a loss of nearly 4½ lakhs, the chief reason for this being that the book value of a large volume of surplus, obsolete and overvalued stores had to be written down to their current values and nearly 8 lakhs lost thereby. In the year 1928-29, after providing 14 lakhs for improving the lot of the subordinate staff, the department was expected to yield a small profit of Rs. 23,000/-. Thus, on the whole, the aggregate revenue expected during the budget year was 132.23 crores, and expenditure 129.60 crores, the surplus being 2.63 crores.

PROVINCIAL CONTRIBUTIONS ABOLISHED.

The Finance Member then stated that last year, though they had remitted the whole of the provincial contributions, yet 2.58 crores had been definitely stated to be temporary. During the budget year, he announced the contributions would be wiped out fully and finally, the surplus being utilised for this purpose. The net surplus would thus be only a small sum of 5 lakhs. But in doing

this, an important consideration had to be borne in mind. The Government had accumulated a large liability in respect of the bonus on Cash Certificates. They were first issued in connection with the Indian War Loan in 1917, and on the 31st March 1928, no less than 40 crores worth (nominal value) of them would be outstanding. The actual amount payable on their encashment was fixed on a progressive scale, so that the longer they were kept, the greater was the inducement to keep them till maturity. It was thus impossible to forecast precisely the amount to be paid in any year, and what the Government had so far done was to pay out of revenue each year the actual amount needed, but not to provide for the accrued liability in respect of bonus. He calculated that that accrued but undischarged liability would stand at 5½ crore on the 1st October 1928. No provision had been made in the past by setting aside any sums from out of revenue as a separate fund to meet this huge liability: and in the budget year also, a similar course would be adopted, and about 50 lakhs for actual payment of bonus would be provided for. The reason for this apparently unwise practice was of course that the Government of India budget was in the main a cash budget providing only for the actual receipts and disbursements during the financial year. But there was nothing serious in the position. Surpluses were likely to recur thereafter, and therefore, the final remission of provincial contributions from out of the surplus of 1928-29 could safely be provided for.

This was the last budget that Sir Basil was presenting to the House: he left India on retirement in the April following. But in the course of his budget speech, he had purposely avoided "reminiscent prolixity," and had been specially brief. Not so however the House. The general discussion this year assumed the appearance of a general

impeachment of the retiring Member for all the sins of commission and omission he was supposed to be responsible for during his regime. Thus the attacks were mostly of a general nature, relating to financial policy in the past. Among criticisms bearing on particular points one was that of Mr. Arthur Moore who complained against the export duty on jute which was being levied by the government of India. He said that the duty which was levied on all exports of jute, in raw form or in manufactured state, was crippling an Indian industry, and therefore it deserved to go. But if it was to be levied at all, Bengal had the right to do so. This argument however did not convince the government. Sir Basil Blackett said in his reply that either the export duty was a bad tax which fell on the agriculturist and therefore had to be abolished, or it was paid not by the agriculturist but by the importing user of jute overseas and had therefore to be in the hands of the Central Government so that it might regulate it whenever there was a change in the monopolist character of the article. Another criticism was with regard to the liability for bonus on the Cash Certificates. Mr. G. D. Birla accused the Finance Member of arbitrarily concealing deferred interests from the House and eventually paying them in one year. Sir Purushottamdas Thakurdas asked how the government was justified in overlooking provision for the deferred interest in previous years. On the eve of his departure, Sir Basil had faced the House suddenly with a liability of $5\frac{3}{4}$ crores, and this neglect could not be allowed to pass "without the severest condemnation." A reply to this was attempted by Khan Bahadur Mian Abdul Aziz, a nominated official from the Punjab who showed that there had been no concealment of the liability. On the contrary, the Finance Member had made a clear statement on the point in answer to a question on 23rd

February 1925. Thus far, the defence appeared satisfactory; but the gentleman went on to show that against similar liability in Britain, a sinking fund was provided, and in saying this, he gave up his case, for it was really the lack of any such provision that the House criticised and not really what it called concealment of liability. And it did not agree with Sir Basil that the Indian budget was a mere statement of receipts and disbursements in cash.

MILITARY EXPENDITURE CRITICISED.

Though military expenditure was a target for vigorous attack every year, yet, during this session, its examination was particularly close and the criticism specially hot. Pandit H. N. Kunzru made a very thoughtful speech in which he pointed out that in the budget year, economies due to revision in the pay of officers and men would amount to 36 lakhs so that the military budget would really come to 55½ crores, and include the provision of 10 lakhs for the new Urban Battalions. Dr. B. S. Moonje gave elaborate figures to show that military expenditure in India was proportionately very high, and that, further, an unduly large portion of it was spent on British troops. Thus, he said 4000 British cavalry men cost Rs. 15 lakhs while 15,000 Indian cavalry men cost only Rs. 8 lakhs. Again the British Infantry consisted of about 40,000 soldiers and 16 lakhs of rupees were spent on it, while the Indian Infantry of 97,000 men did not get more than 6 lakhs. Similarly, British hospitals served 60,000 men in all, whereas Indian hospitals served 194,000 men. And yet, the respective provision was 70,000 lakhs and 50,000 lakhs only. Lieut. Colonel Gidney, representative of the Anglo-Indian community went on in the same strain, pointing out the injustice done to his community in the medical section of the army. He said that the Royal Army Medical Corps was top-heavy 'with 75% of its

officers as senior officers,—who draw two and three times the salaries of junior officers and only perform the duties of junior officers.” He suggested that in the place of these senior R. A. M. C. Officers, British-qualified Indian Medical Department officers should be employed, as their skilled knowledge and services were being wasted to-day. They were no doubt mostly members of the speaker’s community. The gallant member also complained against “the many differences in pay, pensions, accommodation, allowances, and promotions, etc.” between the members of the I. M. D. and the commissioned officers of the Indian Unattached List (a term referring to the old S. & T. Corps now called the I. A. S. Corps, the Indian Army Officers Corps, the Military Works Department and other such allied departments). Other speakers on the subject included Messrs. D. K. Lahiri Choudari, Munshi Iswar Charan and V. V. Jogiah.

The reply of the government did not meet any of these points directly. Indeed, the speech of the Commander-in-chief was mainly devoted to an important announcement of policy following on the publication of the Skeene Committee Report. But there were financial aspects of it which were of some interest. At the outset, the Army Member stated that since the publication of the Inchcape Committee Report the cost of certain services rendered by the other departments of the government was being charged to the army: e.g. Customs duty, Printing and Stationery etc. This of course enhanced military charges to some extent. Another cause contributing to the same result was the rise in the cost of foodstuffs. The prices of all staple food grains had risen, excepting that of ghee. Besides, to say that the entire army expenditure was unproductive was wrong, as substantial sums returned to the Central Government in the shape of

Customs on imported stores, income-tax on the pay of officers etc. Then payments were made by the military for goods supplied or for services rendered, as for instance, towards the cost of rail transport, and the services of post, telegraph and telephone. Further, about 65 lakhs of rupees were being spent by the Army on general education, sanitation, administration of cantonments etc. And lastly, no less than 150 lakhs went to pay labour employed in agricultural and industrial concerns run for satisfying military needs, such as, grass and dairy farms, ordnance and clothing factories, and Indian Army Service Corps workshops. All these items mounted up to a handsome total of nearly 5 crores of rupees. These were all cold facts; but they were lost sight of in the general tide of resentment following the announcement of military policy by the Commander-in-Chief.

BURDEN OF TAXATION

Several members complained of excessive taxation and of increasing poverty in the country. Mr. G. D. Birla showed that in spite of the appreciation of exchange, in spite of good years and in spite of fall in the general level of prices, the government of India and the provincial governments were collecting more revenue from the people than in 1923-24. No relief had been given by reduction of taxation. Sir P. Thakurdas complained that taxation continued to be at the same level as during war-time, whereas in every other country, it had been substantially decreased. Mr. Jamnadas Mehta proposed to elaborate this point. He gave figures to show that the total burden of taxation since the Reforms, levied both before Sir Basil became Finance Member and after came to no less than 68 crores in all. And the remission had been only 23.50 lakhs, "which leaves to the credit or the discredit of the government of India a balance of addi-

tional taxation to the tune of 45 crores"; on the other hand, the results of the financial policy of the government clearly showed that the country was not prosperous. To take for instance the particulars of company flotations, in 1914, there had been 70 crores of new flotations; then, a steady decrease in amount followed till in 1926-27, the figure stood at barely 19 crores. An abysmal slump prevailed in the industrial world, due to heavy taxation year after year and to government competition in the money market. During the last few years, India had gone backward both industrially and commercially, as could be seen from the Customs returns and Income-tax returns. And in concluding his speech, the Hon'ble Member categorically stated "that the administration of the Finance Member during the last five years has been an unqualified calamity on the central and provincial taxpayers alike." Sir Basil Blackett in India had been a "brilliant but inglorious failure." Messrs. B. Das and Munshi Iswar Charan were among the others who spoke at length on this point.

In the course of his speech, Sir Basil said, with reference to the Ways and Means position, that during the current year, the net proceeds of the rupee loan amounted to $18\frac{1}{2}$ crores only. Government also raised money by means of sterling bills and a sterling loan. Treasury Bills were introduced again into India. And in all these ways, an amount of $27\frac{1}{2}$ crores was raised, out of which, $21\frac{1}{2}$ crores were utilised to meet the bonds maturing in 1927 and 1928. But 13 crores were still required to meet railway and other capital outlay including that of provincial governments. This was no inconsiderable achievement in a year of rather difficult money conditions. As for 1928-29 railway capital expenditure was being restricted to 24 crores, with an additional 4 crores for the

purchase of Burma railways. And including the drawings of provincial governments, the aggregate capital expenditure was estimated at 40 crores. If allowance was made for capital resources available, a loan of 32 crores was estimated to suffice, and the whole of this could possibly be raised in India. Remittances to London would come to about £ 36 millions. The prices of Government Securities in India stood high while in the London market India stock was considerably higher than even local securities. In the last year, there was considerable disparity between the prices of India $3\frac{1}{2}$ rupees stock and India $3\frac{1}{2}$ sterling stock. Consequently large transfers of money from India to London took place in order to take advantage of the higher yield of the sterling stock. But during the current year stabilisation of the rupee had to some extent checked the tendency though an external loan was still necessary. On the whole however during 1927-28, India's total indebtedness had increased by 16 crores while her dead-weight debt had decreased by 22 crores. Summing up the position, the Finance Member said "In the five years since the 31st March 1923, when the era of deficits came to an end, the aggregate debt has increased by 113 crores, the productive debt has increased by as much as 189 crores and the unproductive portion had been reduced by 76 crores. By the end of 1928-29, we hope to have just about liquidated the debt due to the five years of revenue deficits from 1919-21 to 1922-23, and if the recent rate of progress is continued, our unproductive debt should vanish altogether in about twelve years time."

CRITICISM OF WAYS AND MEANS POSITION.

Several speakers criticised the Ways and Means budget of the government. Sir Purushottamdas Thakurdas asked how the appreciation of the rupee from 1 *sh.* 4 *d.* to

1 sh. 6d. was said to have decreased by 57 crores only the unproductive debt, and not also the assets of the productive portion of it. Besides he questioned the propriety of utilising the railway Reserve Fund and the Depreciation Fund in reduction of debt when the Railway Budget had been separated from the General Budget. Mr. Jamnadas Mehta offered to present the House with what he called ironically "two striking examples of his (Sir Basil's) financial genius." One was the government's having converted the 7 per cent loan of 1921 into a 3 per cent loan by doubling the face value of the bonds. If the currency of the loan had been long, the conversion would have meant a saving. But the loan was already being liquidated, and the tax-payer had therefore been put to considerable loss. Secondly, the Finance Member had borrowed by Treasury Bills five millions in the London money market when money was cheap, and recently, when money was dear, he had borrowed $7\frac{1}{2}$ millions as a long term loan at $4\frac{1}{2}$ per cent to repay the £5 millions of Treasury Bills. "He should have floated the long term loan when the rate was low; but he did not. He should have borrowed by means of Treasury Bills when the rate of interest was high; again he did not." But the most sustained fire proceeded from Mr. R. K. Shanmugam Chetty, who seriously questioned the claim of the Finance Member to have reduced the unproductive debt within five years by 76 crores. Government could legitimately take credit only for a reduction of about 36 crores, representing the sinking fund of $22\frac{1}{2}$ crores and the realised surpluses of $14\frac{1}{2}$ crores. Besides, the member contended, utilisation of resources on hand for productive purposes was quite different from what was called the replacement of unproductive debt by productive debt. To speak of such replacement was absurd because the only way of reducing

unproductive debt was to set apart a sinking fund and pay it off. Then in giving a statement about the debt-position of India, the Finance Member had not included the enormous sum of 26 crores among the liabilities. "Surely at least after the separation of railway finance from the general finance of the country, whatever amount stands to the credit of the railways in the form of depreciation and reserve funds must be considered as a liability of the general revenues towards the railway revenues." And finally, Mr. Chetty refused to give any credit to the government for having reduced the interest on dead-weight debt. Such reduction was only the result of revenue surpluses; and to say that surpluses were the result of the reduction was nothing else than *suggestio falsi*.

GOVERNMENT REPLY.

In his reply, Sir Basil dealt with many of the points raised. He defended the exclusion of the Depreciation Fund and the Reserve Fund of the railways from the statement showing the debt of the government of India as they were money owed by the government to itself. And that was not debt. Exactly the same thing had been done during the past three or four years and the members who referred to it had not made any discovery. As for replacement of unproductive debt by productive debt, the proposition was a very intelligible one. He could not understand "why you should buy unproductive debt in the market and then issue some other debt of apparently the same denomination, and call it productive, because it was issued for productive purposes." Unproductive debt consisted of that portion of the total debt which was not represented by assets earning for the tax-payer a sum equal to or greater than the amount of interest he had to pay on it. Interest on such debt came directly from

the pockets of the tax-payer out of increased taxation. And there was no doubt that India's unproductive debt had shown very steady reduction. Concluding, Sir Basil regretted that during his term of office it had not been possible to make any large reduction of taxation. But that was because they had prior obligations to the provinces. He hoped that "from 1929-30 onwards, it will be the privilege of this House and of my friend and successor, Sir George Schuster.....to find no outside claimant to the recurring surpluses which I hope it will their good fortune to enjoy in the coming years and they will be free to turn their minds on the one hand, to new directions in which money can be usefully laid out for India's advancement, and on the other hand, to the readjustment of the burden of taxation, and to those reductions of taxation... which... with the one big exception of the Cotton Excise Duty, have been beyond our reach in my term of office."

The reception of the budget was more political than financial. Token cuts were moved to denote disapproval of policy in the case of a number of items. And large reductions were also effected as for instance when an entire demand was omitted on the ground that the High Commissioner's office was unnecessary. But on the whole no substantial alterations were effected in the budget of the year.

BUDGET FOR 1928-29.

General Statement of the Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1927—28 and for 1928—29.

(In Thousands of Rupees)

REVENUE.	1926-27 Accounts.	1927-28 Budget Estimates.	1927-28 Revised Estimates.	1928-29 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	47,33,11	48,73,37	48,63,50	50,18,37
Income-Tax ...	15,64,96	16,95,05	15,64,62	16,99,58
Salt ...	6,69,81	7,00,00	6,75,42	7,00,08
Opium ...	4,33,14	3,83,08	3,80,22	3,47,77
Other Heads ...	2,17,50	2,27,06	2,27,64	2,20,10
TOTAL PRINCIPAL HEADS.	76,23,52	78,78,56	77,11,40	79,85,90
Railways Net Receipt (as per Railway Budget) ..	34,07,08	34,97,13	38,95,20	38,50,00
Irrigation (Net Receipts) ...	10,25	10,36	10,47	12,36
Posts and Telegraphs (Net Receipts) ...	70,64	58,07	51,76	57,37
Interest Receipts ...	4,08,59	3,16,13	3,30,50	2,91,97
Civil Administration ...	86,05	84,21	95,34	1,01,32
Currency, and Mint ...	4,15,51	2,48,70	2,72,97	2,48,81
Civil Works ...	15,79	17,45	15,63	14,41
Miscellaneous ...	60,01	46,90	46,49	81,82
Military Receipts ...	4,94,68	1,80,49	1,48,84	2,94,12
Provincial Contributions and miscellaneous adjustments between Central and Pro- vincial Governments. ...	5,17,75	...	10,59	...
Extraordinary items ...	60,10	1,87,65	1,84,79	26,67
TOTAL REVENUE ..	1,31,69,99,799	1,25,25,65,000	1,27,73,98,000	1,29,64,75,000
DEFICIT ...	...	...	...	...
GRAND TOTAL ...	1,31,69,99,799	1,25,25,65,000	1,27,73,98,000	1,29,64,75,000

BUDGET FOR 1928-29.

General Statement of Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1927-28 and for 1928-29.

(In Thousands of Rupees)

EXPENDITURE.	1926-27 Accounts.	1927-28 Budget Estimates.	1927-28 Revised Estimates.	1928-29 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue.	4,19,95	4,30,30	4,19,95	4,24,84
Salt and other Capital Outlay charged to Re- venue ...	7,18	18,79	16,87	6,41
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	28,05,95	29,49,05	32,59,62	33,02,00
Irrigation ...	15,50	18,70	92,00	23,10
Posts and Telegraphs ...	75,82	84,61	81,67	81,66
Debt Services ...	16,74,50	15,74,34	15,57,83	14,90,61
Civil Administration ...	11,13,44	11,31,39	11,28,16	11,69,45
Currency, and Mint ...	76,37	74,85	91,49	69,63
Civil Works ...	1,89,74	1,66,98	1,62,55	1,73,31
Miscellaneous ...	3,96,16	3,97,15	3,91,74	4,10,06
Military Services ...	60,91,64	56,72,49	56,40,84	58,04,12
Miscellaneous adjustments between Central and Provincial Governments...	4,53	...	3,47	...
Extraordinary items ...	2,99,21	7,00	18,87	4,50
TOTAL EXPENDITURE CHARGED TO REVENUE ...	1,31,69,99,799	1,25,25,65,000	1,27,73,98,000	1,29,59,69,000
SURPLUS ...	...	...	...	5,06,000
GRAND TOTAL ...	1,31,69,99,799	1,25,25,65,000	1,27,73,98,000	1,29,64,75,000

BUDGET FOR 1928-29.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1927-28 and for 1928-29.

(In Thousands of Rupees)

RECEIPTS.	1926-27 Accounts.	1927-28 Budget Estimates.	1927-28 Revised Estimates.	1928-29 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	...	...	...	5,06,00
Railway Capital not charged to revenue ...				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	59,275	2,58,92	...	2,03,80
Debt, Deposits, and Advances				
Permanent Debt (Net incurred) ...	3,31,66	7,22,41	4,45,25	12,86,09
Unfunded Debt (Net incurred) ...	12,72,14	11,63,39	11,60,52	11,74,84
Deposits and Advances (Net) ...	19,40,79	3,14,87	9,98,79	7,08,13
Railway Depreciation and Reserve Funds As per Railway Budget (net) ...	4,32,47	4,11,58	5,42,26	6,45,30
TOTAL DEBT DEPOSITS AND ADVANCES ...	39,77,05,662	26,12,25,000	31,46,82,000	38,14,66,000
Remittances (Net) ...	1,21,88	...	6,45	26,53
TOTAL RECEIPTS ...	40,99,58,453	28,71,17,000	31,53,27,000	40,50,05,000
Opening Balance—India...	25,14,88,041	24,73,44,041	27,87,75,069	12,73,48,069
England...	15,04,63,055	5,24,82,055	4,31,13,807	8,07,11,807
GRAND TOTAL ...	81,19,04,549	58,68,98,096	63,72,15,376	61,30,64,376

BUDGET FOR 1928-29.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1927-28 and for 1928-29.

(In Thousands of Rupees)

DISBURSEMENTS.	1926-27 Accounts.	1927-28 Budget Estimates.	1927-28 Revised Estimates.	1928-29 Budget Estimates.
	Rs. ...	Rs. ...	Rs. ...	Rs. ...
Deficit				
Railway, Irrigation, Posts and Telegraphs and other Capital not charged to Revenue				
Capital outlay on Security Printing press ...	16,50	12,000	-9,79	67,000
Construction of State Railways ...	27,22,78	25,00,00	30,00,00	24,00,00
Discharge of Debentures (as per Railway Budget)	2,63,73	3,31,86	65,90	2,03,80
Redemption of liabilities involved in the purchase of Railways ...	...	...	...	4,00,00
Construction of Irrigation Works ...	-70,632	16,000	16,93	1,74
Capital outlay on Posts and Telegraphs ...	32,59	58,02	57,56	68,02
Capital outlay on Vizagapatam Port ...	31,86	39,43	37,61	47,53
Currency Capital outlay...	8,66	19,23	18,08	17,000
Initial Expenditure on New Capital at Delhi ...	61,63,117	70,00	54,00	78,68
Payment of commuted value of pensions ...	28,85	33,35	35,52	34,85
Capital outlay on Bombay Land Scheme ...	...	...	20,74	2,05,22,000
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	31,65,91,522	30,52,17,000	32,97,55,000	34,40,68,000
Debt, Deposits and Advances				
Floating Debt (Net Discharged) ...	8,18,00	...	53,20	...
TOTAL DEBT, DEPOSITS AND ADVANCES...	8,18,00,000	...	53,20,000	...
Loans and Advances by Central Government (Net Advances) ...	5,88,76	3,03,02	7,58,04	8,16,92
Remittances (Net) ...	...	14,95	...	...
Balances of Provincial Governments (Net) ...	4,35,26	5,18,92	1,82,77	13,05
TOTAL DISBURSEMENTS...	50,07,94,502	38,89,06,000	42,91,56,000	43,70,65,000
Closing Balance—India...	27,87,75,089	14,79,00,041	12,73,48,069	11,98,78,089
England...	3,23,34,978	5,00,87,055	8,07,11,307	6,61,21,307
GRAND TOTAL...	81,19,04,549	58,68,93,096	63,72,15,376	61,30,64,376

SIR GEORGE SCHUSTER'S BUDGETS

FIRST BUDGET, 1929-30.

28th February 1929.

Sir George presented his first budget to the Legislative Assembly on the 28th February 1929, and in doing so, began with a personal note. He said that the success of a Finance Member in a country like India depended a large deal on the seasons. But of course he would try to serve the country to the best of his capacity. The actuals for 1927-28 were 127·26 crores expenditure, revenue falling below anticipations; and the budget could be balanced only by taking 222 lakhs from the Revenue Reserve Fund which thus had only 74 lakhs left in it in consequence.

The general conditions of the year 1928-29 were on the whole good. The balance of trade including imports of treasure during the nine months ending the 31st December 1928 was 39·77 crores as against 33·07 crores last year. Exports rose by about 10 crores compared with 1927, while imports fell by about a crore. Money conditions had been rendered difficult all over the world on account of the speculative boom in the U. S. A., rates for money had gone up consequently in all countries, and in India, the Imperial Bank rate also had gone up to 8 per cent.

CURRENT ESTIMATES.

Regarding revenue for the current year, Customs were expected to yield 49·98 crores, *i.e.*, 20 lakhs less than expected. Sugar and mineral oil had shown better results but cotton piecegoods and the protective duties on iron and steel had fallen. Income-tax would bring in '16½ crores or half a crore less than the budget estimates. Salt

might be put down for 7 crores and interest receipts would improve by 66 lakhs. On the expenditure side, the amount under Debt Services exceeded the budget figure by 133 lakhs. This was due to larger borrowings and higher rates. But recoveries had been considerable from the Commercial Departments and the Provincial Loans Fund. And in consequence the net deterioration was only to the tune of 65 lakhs; but this was more than covered by the improved receipts of 66 lakhs. Under Opium there was saving of 22 lakhs and under Civil Administration, of 21 lakhs. Railways would yield 5.46 crores including the amount of $\frac{1}{2}$ of the excess over 3 crores available for the Railway Reserve Fund. Posts and Telegraphs would show a loss of 29 lakhs partly because the reduction in the rates for foreign telegrams did not bring in the expected growth in the volume of traffic, and partly because increments of pay had been granted to the staff. Military expenditure had stood at the estimated figure of 55.10 crores. This left a balance of 30 lakhs which would be transferred to the Revenue Reserve Fund, raising the total there to 104 laks.

Proposals for the next year, *i. e.* 1929-30 required some preliminary explanations. In 1926-27, there was a surplus of 296 lakhs which was transferred to the Revenue Reserve Fund. On the strength of that, Provincial Contributions to the tune of 258 lakhs were fully remitted. The expectation was that the Revenue Reserve Fund could be utilised to balance the budget if necessary next year. But receipts did not mount up as expected. Even the year 1928-29 would have closed with a deficit of 75 lakhs but for some adventitious aids. In other words the effects of the remission of provincial contributions had not yet been got over. In order to balance the budget, one alternative was to raise fresh taxation. But, said Sir

George Schuster, he would not adopt that course on the present occasion. First, he wanted to assure himself that the need for additional taxation was permanent : secondly, he wanted to study the expenditure side carefully ; and thirdly, he wanted to study conditions in the country for himself. But if after doing all this, he came to the conclusion that fresh taxation was necessary, he would of course have no hesitation in proposing it to the House.

To turn to the estimates for the next year. Customs revenue would be 40 lakhs more than the Revised estimate for the current year, or about 50·38 crores. The main reason for improvement was the expectation that the imports of cotton goods would be better. Income-tax was put down for 16·60 crores or for 10 lakhs more than the revised estimates for the current year. Salt would bring 6·35 crores as against 7·65 in 1928-29. Opium was expected to show a loss of 42 lakhs and Other Heads of Revenue an improvement of 36 lakhs. As for expenditure, Debt Services showed a reduction of 133 lakhs on account of large recoveries from the Commercial Department and the Provincial Loans Fund. Other Obligations showed an increase of 95 lakhs, and provision for reduction or avoidance of debt an increase of 34 lakhs mainly due to the larger volume of debt. He wanted to dwell a little on the Other Obligations. That item included a provision of 50 lakhs for meeting the growth in the bonus on Cash Certificates. Next year the total demand under the head was expected to come to about 110 lakhs. Now there was a fundamental difference between Cash Certificates and Treasury Bills. In the case of the former the interest due was paid at the end but in the case of the latter, it was paid at the very outset. At the present moment, the Government had two obligations in connection with the Cash Certificates. One was to provide for a fair rate of

interest on the amount in use now ; and the other to clear off the arrears due to the shortage in the bonus paid over the actual interest accruing. On this computation, the interest due in 1929-30 would amount to 150 lakhs, out of which 110 lakhs would be paid off and the remaining 40 lakhs set aside. Next, as for the arrears of interest due, the Finance Member proposed that the Debt Redemption Scheme was due for examination at the end of 1929, and the question could be taken up along with that.

ESTIMATES FOR EXPENDITURE 1929-30.

Regarding other items of expenditure, Civil Administration cost 118 lakhs more than in the current year on account of a number of non-recurring items such as India House, 29 lakhs ; an Endowment Fund recommended by the Agricultural Commission 25 lakhs, and 7.25 lakhs recurring per annum ; Civil Aviation 20 lakhs, etc. In this connection, Sir G. Schuster promised to see if from next year non-recurring items of expenditure could not be clearly separated in the budget from the recurring ones. Railways would give 6.25 crores inclusive of 13 lakhs representing $\frac{1}{3}$ of the excess over 3 crores available for the Railway Reserve Fund. Posts and Telegraph showed a loss of 8 lakhs and the Indo-European Telegraph Department one of $5\frac{3}{4}$ crores. As for military expenditure, the net demand was for 55 crores only. Since the Inchcape Committee reported, prices had not fallen low enough to bring down the demand under the head to 50 crores while on the other hand the need for modernising the army was rapidly becoming urgent. The Government had thought it best to enter into a four year agreement with the army in accordance with which annually a grant of 55 crores would be made. The army would be striving for retrenchment all through the period but would utilise its savings for improving the efficiency of its units. The

plan would operate from 1928-29, when the standing charges would come to only 53½ crores ; next year, they would probably be just 52·94 crores and so on. The total cost of modernisation was estimated to come to 10 crores and the army expected to achieve it in this manner. The plan did not mean relaxation of any control by the Government over military expenditure, or that the Government was bound to it at all costs. On the other hand, it did mean that the army authorities would not rush through expenditure at the end of a year and that they would cooperate more enthusiastically with the Finance Department in looking for possible avenues of economy in the certainty that the savings would remain for their own use. The net result of this forecast for 1929-30 was a deficit of 90 lakhs.

It was proposed however to take this amount from the Revenue Reserve Fund which had 104 lakhs and to balance the budget. In the result only 14 lakhs would be left there. One item had to be mentioned incidentally. The Indian Road Development Committee had recommended an increase from 4 annas to 6 annas per gallon in the import and excise duties on motor spirit. The amount thus expected was 6 laks which however would not accrue to the general revenues but was earmarked for a different purpose. The final figures of revenue and expenditure for 1929-30 were 134·06 crores in each case.

WAYS AND MEANS.

As for the Ways and Means position, Sir George wanted at the beginning to take stock of the situation, as he found it on taking office. From the 1st April 1923 to 31st March 1928, Government had spent 120 crores and £ 49½ millions on capital expenditure, but the net amount borrowed was only 12 crores and £ 13 millions. The remainder, viz., 108 crores and £ 36½ millions had been

found otherwise. Out of the total amount of capital expenditure, 69 crores and £ 48 $\frac{3}{4}$ millions had been spent on Railway, 12 crores and £ 750,000 on other capital works, and 39 crores on Advances to the Provincial Loans Fund. As for the sources that gave the bulk of the capital expenditure incurred, they were Post Office Cash Certificates 37 crores, Savings Bank Deposits 19 $\frac{3}{4}$ crores, Revenue Surplus 12 crores, Provision for Avoidance or Reduction of Debt 22 $\frac{1}{2}$ crores, Reduction in opening Cash Balance in India 16 $\frac{3}{4}$ crores, Depreciation and Reserve Funds 25 $\frac{1}{2}$ crores etc. The total came to 152 $\frac{3}{4}$ crores out of which 108 crores had been spent in India and 44 $\frac{3}{4}$ crores had been remitted to Britain for expenditure there. In this manner it had been possible to avoid borrowing in the past. But practically all the sources mentioned had dried up or were not available for other reasons. Thus if capital expenditure had to be kept up on the old level or even on a reduced one, it was inevitable that resort should be had to public loans hereafter.

In the current year, the opening balance had been 4 crores less than expected, as the issue of Treasury Bills had been 1 $\frac{1}{2}$ crores less and railway capital expenditure 2 $\frac{1}{2}$ crores more than expected. In the course of 1928-29, railway capital expenditure had mounted up to 26 crores as against 24 crores provided for, and the yield from Cash Certificates had fallen off. In consequence, £6 million sterling bills had been issued in August and in January, a £ 10 million loan at 4 $\frac{1}{2}$ per cent. Out of the realisations from this loan, the sterling bills of August had been paid off and provision made for the purchase of the Burma Railways. In India, two loans had been floated, the 4 $\frac{1}{2}$ per cent 1955-60 loan which brought 9.06 crores (nominal), and the 4 $\frac{1}{2}$ percent 1934 bonds which gave 25.98 crores (nominal). Together, the total sum raised by the loans

was thus 33·8 crores. This already made the need for increased borrowing hereafter quite apparent. Regarding the next year, strict control had been exercised over railway capital expenditure. The capital programme had proceeded too far in some cases to be stopped without enormous waste. But new constructions had been minimised. Even so the estimate came to 26½ crores. Government had given notice of purchase to the Southern Punjab Railway, but the amount needed, £ 5¼ crores, would be raised by a sterling loan. On the whole only 18 crores would have to be raised by fresh loans, and that would be done in India or in London as it might be considered proper at the time. Home remittances in the current year were only 29½ millions, but in the next they would come to 35¼ millions.

At this juncture, the Finance Member dilated on the borrowing policy of the Government. He said there could be no question of holding up the economic development of the land for lack of capital, and that as far as possible loans should be raised in India alone. But the people here preferred to import treasure and not to lend and the Government was obliged thereby to resort to foreign borrowing. It was said by some that India's borrowing was all to London's advantage but that was wrong. Rather, the truth was that India was a privileged borrower in London. There was also no indignity in foreign borrowing. Even countries like Japan and the U. S. A. had done so. At one time, for instance, the amount of British capital sunk in the railways of the U. S. A. came to no less than £ 760 millions. Again, India's borrowing has not been very heavy at all, and what she borrowed she utilised well. Thus during the six years ending 31st. March 1929 capital expenditure had been incurred abroad of nearly £ 60 millions. But the net increase in sterling indebtedness was

only £ 17 millions. Regarding the exchange ratio, Sir George was aware there was keen feeling in the country, but they could not alter it suddenly after working it for nearly five years without thereby affecting their credit. Besides, inflation was admittedly no remedy for curing the present ills; it was a dangerous policy. Further to be talking about change of ratio constantly diverted men's minds from more useful occupations. The government had no idea of reverting to 1*sh.* 4*d.*

In conclusion he said that a review of the past six years had shown the inherent strength of the government's financial position. Capital expenditure had risen, but productive assets had also risen in high proportion to the loan liabilities incurred. On the revenue side, 10 crores of provincial contributions had been given up, 1 $\frac{3}{4}$ crores on cotton excise, 85 lakhs on matches, and 1 $\frac{1}{2}$ crores on opium. These were notable achievements indeed. And what was needed at the time was a steady hand on expenditure and careful conservation of credit.

GENERAL DISCUSSION.

In the general discussion that followed, Mr. N. C. Kelkar said that, for the government, capital expenditure really meant expenditure on railways. Foreign borrowing was to be avoided as far as possible as it hypothecated Indian properties to British creditors. And the real reason why people in India did not lend to the government, was that they had no confidence in it. Mr. Gaya Prasad Singh said that the country could be made self-sufficing in the matter of salt, but that the government was not anxious about it as it was in regard to oil. Considerable economies could be effected in the ground troops by the development of the Air Force. Colonel Crawford dwelt mainly on military expenditure. He was glad of the contract arrangements

made with the military, and knew that "wire-less, aeroplanes, troop carriers, armoured cars, improved motor transport" would all reduce the cost of the army. There were also too many high officers at the top drawing grade pay but this was due to the War. Mr. G. D. Birla was opposed on political grounds to foreign borrowing. He complained of contraction of currency which was going on with the result that the industries of the country were crippled and the price of Government securities rose. Its main object was only to maintain an unnatural ratio. Sir Purushottamdas Thakurdas questioned the wisdom of using the liquid resources of the country for capital works, and complained also against contraction of currency. Sterling loans might be cheaper for India than for other countries but they involved the obligation to use British material British personnel etc, all of which were not necessary. Figures for foreign trade and railway returns were not satisfactory indices of national prosperity. The industrial development of the land was being neglected. Lt-Col. Gidney complained that the Army Headquarters were too costly, and that the Supply Department, being run by army officers, was very inefficient and wasteful. Instead, he suggested as in the U. S. A. the utilisation of businessmen in the task. Retrenchment in the cost of the Army could be effected to some extent if the vast number of high grade Royal Army Medical Corps officers could be reduced. As it was, a Major was often doing the work of a low grade officer. There were also too many costly British nurses.

In the opinion of Mr. Jamnadas Mehta, world causes were not primarily responsible for the plight of India. When the bank-rate in Britain was only $5\frac{1}{2}$ per cent, the Government had raised the bank-rate in India to 8 per cent. Their object, of course, was to maintain their pet

ratio, but the country suffered heavily for want of money. In regard to the revenues from Customs, imports of luxuries were increasing like silk piece-goods, motor-cars, sugar etc; but salt and income tax were stagnant. That showed that the poorer classes and the middle classes did not prosper but only the rich. There was no national policy behind the tariff. Very strong exception had to be taken to the Ways and Means policy of the Government. According to its own showing, it had financed capital expenditure out of current revenue to a very substantial extent. And yet when the House pleaded for a cheaper post-card or for cheaper salt, the Government always said it did not have funds. Its borrowing policy again was highly detrimental to the country. The cases of Japan or America were different from that of India. When Britain lent money to this country, though at a lower rate of interest, she was sure of very many incidental advantages which she did not expect when lending money to other countries. Thus, instead of India being a privileged borrower in the London market, it was Britain that was a privileged lender to India. The case of Egypt was a classical example of a ruinous policy of foreign borrowing which India should consider as a warning to her. Mr. R. K. Shanmugam Chetty said that the revenues from Customs and Income tax had both fallen, thus indicating the revenue position to be bad. The Ways and Means position was also bad. Capital expenditure of the Government in the past had exhausted such sources of relief as Revenue Surpluses, and Cash Balances; P. O. Cash Certificates showed a fall too; the only sources still available were the provision for Reduction or Avoidance of Debt, and the Depreciation Funds. This was not at all a satisfactory position. He agreed with Mr. Jamnadas Mehta that the Government ought not to have utilised current revenue surplus to meet capital expenditure.

In replying to the general debate, Sir George Schuster endeavoured to meet many of the points raised in it. As he truly remarked, the statement he made at the outset contained answers to many of the criticisms made. Capital expenditure on railways had to be considered along with the general financial position, for it really dominated the latter. As for the Debt Redemption Scheme, it had to be examined by the end of the year and he would certainly consult the House on that occasion. He would also make attempts to get reliable figures regarding the economic position of the country. Regarding the ratio there could be no question of reopening the problem

The reductions made by the Legislative Assembly in the demands for 1929-30 mainly related to the Executive Council and the Army Department ; the former involved a sum of Rs. 65,999 and the latter, and their sum of Rs. 5,35,800. The Governor-General in Council decided that these two reductions were not to be allowed in view of his responsibilities and therefore certified them. But the other reductions under Salt, North Western Frontier Province, and the Army Department together amounting to Rs. 400/ only were left untouched.

BUDGET FOR 1929-30.

General Statement of the Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1928-29 and for 1929-30.

(In Thousands of Rupees)

REVENUE.	1927-28 Accounts.	1928-29 Budget Estimates.	1928-29 Revised Estimates.	1929-30 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	48,21,42	50,18,37	50,04,18	51,21,77
Income-Tax ...	15,06,39	16,99,58	16,50,10	16,59,60
Salt ...	6,63,18	7,00,08	7,64,69	6,34,64
Opium ...	3,94,52	3,47,77	3,47,77	3,05,57
Other Heads ...	2,29,99	2,20,10	2,19,90	2,22,67
TOTAL PRINCIPAL HEADS.	76,15,50	79,85,90	79,86,64	79,44,25
 Railways Net Receipt (as per Railway Budget) ...	 38,67,48	 38,50,00	 38,91,00	 40,55,00
Irrigation (Net Receipts) ...	9,05	12,36	11,31	13,40
Posts and Telegraphs (Net Receipts) ...	31,45	57,37	32,14	57,73
Interest Receipts ...	3,61,90	2,91,97	3,57,55	3,45,64
Civil Administration ...	98,69	1,01,32	1,00,79	1,12,25
Currency, and Mint ...	2,77,46	2,48,81	2,68,44	3,05,77
Civil Works ...	16,07	14,41	16,03	18,45
Miscellaneous ...	52,45	81,82	88,15	85,44
Military Receipts ...	1,54,40	2,94,12	3,36,44	3,48,71
Provincial Contributions and miscellaneous adjustments between Central and Pro- vincial Governments. ...	6,10	...	4,50	...
Extraordinary items ...	2,35,60	26,67	26,68	1,19,69
TOTAL REVENUE ...	1,27,26,28,351	1,29,64,75,000	1,31,18,67,000	1,34,06,33,000

BUDGET FOR 1929-30.

General Statement of Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1928-29 and for 1929-30.

(In Thousands of Rupees)

EXPENDITURE.	1927-28 Accounts.	1928-29 Budget Estimates.	1928-29 Revised Estimates.	1929-30 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue.	4,18,87	4,24,84	4,09,23	4,39,43
Forest and other Capital Outlay charged to Re- venue ...	12,58	6,41	5,74	7,88
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	32,89,65	33,02,00	33,45,24	34,30,23
Irrigation ..	17,39	23,10	21,77	22,66
Posts and Telegraphs ...	78,73	81,66	84,11	81,20
Debt Services ...	15,61,13	14,90,61	15,63,88	15,59,88
Civil Administration ...	11,20,78	11,69,45	11,48,53	12,66,74
Currency, and Mint ...	87,67	69,63	73,84	71,02
Civil Works ...	1,58,47	1,73,31	1,71,24	2,59,35
Miscellaneous ...	3,75,31	4,10,06	4,17,44	4,06,93
Military Services ...	56,33,95	58,04,12	58,46,44	58,58,71
Miscellaneous adjustments between Central and Provincial Governments...	3,50	...	1,08	...
Extraordinary items ...	18,22	4,50	31,13	2,25
TOTAL EXPENDITURE CHARGED TO REVENUE ...	1,27,26,28,351	1,29,59,69,000	1,31,19,67,000	1,34,06,33,000
SURPLUS ...	...	5,06,000	...	...
GRAND TOTAL ...	1,27,26,28,351	1,29,64,75,000	1,31,19,67,000	1,34,06,33,000

BUDGET FOR 1929-30.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1928-29 and for 1929-30.

(In Thousands of Rupees)

RECEIPTS.	1927-28 Accounts.	1928-29 Budget Estimates.	1928-29 Revised Estimates.	1929-30 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	...	5,06	...	...
Railway Capital not charged to revenue ...				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	22	2,03,80	83,14	2,65,19
Debt, Deposits, and Ad- vances				
Permanent Debt (Net incurred) ...	4,38,88	12,86,09	27,69,08	22,12,02
Floating Debt (Net in- curred) ...	...	...	6,57,50	...
Unfunded Debt (Net incurred) ...	11,86,63	11,74,84	8,58,25	10,23,31
Deposits and Advances (Net) ...	7,90,47	7,08,43	...	6,58,81
Railway Depreciation and Reserve Funds As per Railway Budget (net) ...	4,99,50	6,45,30	5,95,14	5,35,73
TOTAL DEBT DEPOSITS AND ADVANCES ...	29,15,48,057	38,14,66,000	48,99,97,000	44,29,90,000
Remittances (Net) ...	19,22,402	26,53,000	15,20,000	1,08,000
TOTAL RECEIPTS ...	29,34,92,053	40,50,05,000	49,98,31,000	46,96,17,000
Opening Balance—India ...	27,87,75,069	12,73,48,069	9,16,10,089	11,73,03,089
England...	4,31,13,304	8,07,11,307	7,54,87,402	7,29,96,402
GRAND TOTAL ...	61,53,80,426	61,80,64,376	66,69,28,491	65,99,76,491

BUDGET FOR 1929-30.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1928-29 and for 1929-30.

(In Thousands of Rupees)

DISBURSEMENTS.	1927-28 Accounts.	1928-29 Budget Estimates.	1928-29 Revised Estimates.	1929-30 Budget Estimates.
	Rs. ...	Rs. ...	Rs. ...	Rs. ...
Deficit ...				
Railway, Irrigation, Posts and Telegraphs and other Capital not charged to Revenue				
Capital outlay on Security Printing press ...	- 9,76	67	- 4,43	45
Construction of State Railways ...	32,48,42	24,00,00	26,00,00	33,52,67
Discharge of Debentures (as per Railway Budget)	66,78	2,03,80	83,14	2,65,19
Redemption of liabilities involved in the purchase of Railways ...	...	4,00,00	4,00,00	...
Construction of Irrigation Works ...	7	1,74	1,16	1,99
Capital outlay on Posts and Telegraphs ...	46,88	68,02	59,37	68,13
Capital outlay on Vizagapatam Port ...	29,05	47,53	32,00	40,00
Capital outlay on Light-houses and Light-ships...	...	...	...	8
Currency Capital outlay...	12,94	17	3,02	52
Initial Expenditure on New Capital at Delhi...	46,58	78,68	49,72	71,66
Payment of commuted value of pensions ...	44,26	34,85	33,43	31,17
Capital outlay on Bombay Land Scheme ...	20,74	2,05,22	...	...
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	35,05,96,603	34,40,68,000	32,57,36,000	38,31,86,000
Debt, Deposits and Advances				
Floating Debt (Net Discharged) ...	1,94,60	...	...	94,75
Deposits and Advances (net) ...	...	...	1,44,91	...
TOTAL DEBT, DEPOSITS AND ADVANCES...	1,94,60,000	...	1,44,91,000	94,75,000
Loans and Advances by Central Government (Net Advances) ...	7,77,48	8,16,92	12,12,61	6,24,28
Balances of Provincial Governments (Net) ...	4,77	13,05	1,50,81	2,58,11
TOTAL DISBURSEMENTS...	44,82,82,935	42,70,65,000	47,65,69,000	48,09,00,000
Closing Balance—India...	9,16,10,089	11,98,78,069	11,73,63,089	11,56,88,089
England...	7,54,87,402	6,61,21,307	7,29,96,402	6,33,88,402
GRAND TOTAL...	61,53,80,428	61,80,64,376	66,69,28,491	65,99,76,491

SIR GEORGE SCHUSTER'S BUDGETS

SECOND BUDGET, 1930-31.

28th February 1930.

This year's budget was remarkable for the fact that it contained less detail than its predecessors, and was rather a broad descriptive statement of the financial position. The actuals of 1928-29 showed that while a surplus had been expected of 30 lakhs, the deficit had been no less than 106 lakhs. During 1929-30 the vagaries of the monsoon, and political turmoil in the land had both upset financial calculations. And then, there had been the Wall Street Stock Exchange boom which at first created an unprecedented demand for money, and then collapsed in a crash. With that event began the slackness of trade and general economic depression which India shared with the rest of the world. In the current year, exports showed a deterioration of $8\frac{1}{2}$ crores, while imports fell by 4.54 crores. But though the fall in exports was about twice that in imports, the visible balance of trade, including the private import of treasure for the first nine months in the year, was 41.62 crores as against 39.76 crores in 1928 and 33.07 crores in 1927. The reason for the rise in the balance of trade was of course that private imports of treasure had fallen more than exports had.

As for the Revised Estimates for the year 1929-30, the revenue from Income-tax, Salt, and Tobacco showed an improvement of about 112 lakhs. On the other hand, Customs, Railways, Posts and Telegraphs and other heads deteriorated in the aggregate by 178 lakhs. There was thus a worsening of the yield by 66 lakhs. And this had to be added to the 90 lakhs deficit expected in the original

budget, the total deficit coming to 156 lakhs. But as against this, a sum of 156 lakhs also accrued to the Government of India under the Treaty of Versailles on the German Liquidation Account. And in this manner, the year 1929-30 would close with an even balance. Last year, the question was asked whether the gap created in the Central revenues by the remission of provincial contributions had been filled up with new sources of income. The actual position was that the deficit in 1927-28 amounted to 221 lakhs, in 1928-29 to 106 lakhs, and in 1929-30, it would have been 156 lakhs but for a windfall. "These results indicate that, taking into account the unavoidable increase in expenditure, and even making allowances for the present depressed trade conditions, the gap caused by the remission of the provincial contributions, has not, on a normal estimate of revenue and expenditure, been fully filled."

ESTIMATES FOR 1930-31.

Regarding prospects for the year 1930-31, it was impossible to assess the financial implications of political events like the Civil Disobedience Movement. But generally, trade could not be expected to be bright. The forecast, accordingly, for tax-revenue during the year was only for 5 lakhs more than that provided for in the budget estimates during the current year. In detail, Customs was put down for 49.30 crores, showing a deterioration of 109 lakhs; Income-tax was expected to be better by 70 lakhs at 17.30 crores; Salt also was expected to be better at 7.05 crores by 70 lakhs; but Opium showed a net diminution of 26 lakhs. Of the Commercial departments, Railways with their yield of 5.74 crores would be down by 51 lakhs; and Posts and Telegraphs anticipated a deficit of 48 lakhs. Thus the two departments together meant a loss of revenue to the extent of 99 lakhs when compared with 1929-30.

Expenditure was to be distinguished according to whether it was the normal administrative expenditure, or it was for debt services, including charges for the service of loans, or for the redemption of debt. One important item of the former, during the year 1929-30 was the increment in pay for Government officials working on a time-scale basis. This amounted to nearly 25 lakhs. Then there were a number of special items, like the cost of the Banking Enquiry Committee, the Labour Commission, Census Operations, Territorial Force, and Civil Aviation. These together came to 121 lakhs, so that the total increase in administrative expenditure amounted to 146 lakhs. Regarding expenditure connected with debt-services, interest on ordinary debt showed an increase of 46 lakhs partly as a result of larger Treasury Bill transactions, and partly because larger provision had been made for the cost of Conversion operations. Then interest on other obligations including provision for Cash Certificates increased by 61 lakhs, of which 15 lakhs represented higher rates of interest on Provident Fund Balances, and 21 lakhs higher borrowing rates. In respect of the interest receipts from the Gold Standard Reserve, Sir George Schuster said that this amount was liable to violent fluctuations in the past, and consequently the budgetary position was being seriously affected by what after all was an extraneous circumstance. His new proposal was to treat £ 1,600,000 as the standard figure of revenue. If in any year the receipts exceeded the sum, one half of the surplus was to be added to revenue and the other half was to be transferred to an Equalisation Fund which would be available to be drawn upon so as to make up the standard figure if in any year the receipts fell below that level. In the course of the general discussion on the budget, Sir Purushottamdas Thakurdas objected to the creation of this Fund as it meant the diversion of nearly 20 lakhs in the

current year from its legitimate objects and the need for increased taxation to that extent. The Finance Member, in reply, further explained the proposal by stating that no sum of 20 lakhs existed in the current year for relieving revenue, that the sum of £ 1600 thousand represented the interest on £ 40,000,000 held in the Gold Standard Reserve, less the amount actually held in gold, at the rate of 4 per cent, and that in creating the Fund, no principle of disposing of investments in the Gold Standard Reserve was involved.

Next, Government calculated to pay 1 crore of rupees as Bonus on Post Office Cash Certificates in the next year. And in addition provision had been made for meeting the accruing liability by setting apart another sum of 88 lakhs. The question of provision for the reduction or avoidance of debt was another important one. It was intimately wound up with the question of Railway contribution which virtually was a percentage on the capital advanced to the railways by the State. The truth regarding the contribution broadly speaking was that the Government got no profit, but applied practically all that they received, apart from a refund of their own interest payments, for the amortisation of capital. If the railway contribution fell below a certain figure, the Government would have to show a net loss in the year. But this question of railway contribution and of avoidance of debt would be together considered at the time of the constitutional reforms. In the meanwhile, the Government had decided to devote the receipts from German Reparations amounting to about 32 lakhs, not towards additional provision for reduction or avoidance of debt, but towards the provision for meeting the Post Office Cash Certificates. On the whole the deterioration in the estimates for 1930-31 as compared with those for 1929-30 was 557 lakhs. Against this, there was a net improvement

in the main revenue heads of 5 lakhs so that the total gap to be filled was 552 lakhs.

The Government had tried to avoid all new expenditure; and when any item of expenditure became inevitable, they had tried to effect economies to that extent. Accordingly a saving of 62 lakhs had been made in the civil estimates, and another of 80 lakhs in the military estimates. What had really been done in the case of the latter was this. In order to enable the army to carry through their plan of re-equipment, a program had been arranged providing for a stabilised military budget at a net figure of 55 crores for the four years beginning 1928-29 and ending 1931-32. Two years had already elapsed and two alone remained. The military authorities had from the next year agreed to spread their program of reequipment over three years instead of over two. This meant that instead of getting 55 crores in each of the next two years, to be followed by a drop in the third, they were to work on a basis of getting 54·20 crores for each of the next three years, and then there might be a substantial drop. The savings under both the heads, Civil and Military thus came to 142 lakhs so that the final gap to be filled by finding new sources of revenue during the next year was 410 lakhs.

NEW TAXATION PROPOSALS

Government relied for the new income they wanted on reductions and increases in the Customs duties. First, the export duty on rice would be reduced from 3 annas a maund to two annas three pies. This would help Burma considerably but also meant a loss of 30 lakhs to the Treasury. Next the revenue duty on the imports of cotton piecegoods would be raised from 11% to 15%; and in addition, a protective duty of 5% with a minimum of 3½ annas per pound on plain greys would be levied on all non-British goods. Speaking on this point, the Finance

Member entered into an elaborate defence of government action in showing tariff preference to Britain, and said in substance that it did not mean the acceptance of Imperial Preference in principle, or a violation of the Fiscal Autonomy Convention. In this manner it was hoped to raise 125 lakhs. Thirdly excise duty on kerosine was increased from 1 anna to $1\frac{1}{2}$ annas per gallon, and at the same time, the import duty was reduced from $2\frac{1}{2}$ annas to $2\frac{1}{4}$ annas. The combined effect of the proposals was to give 35 lakhs. An increase of Rs. 1-8-0 per hundred-weight would also be made in the import duty on sugar, irrespective of grade. And by this means 180 lakhs would be realised. All these were indirect taxes; but Government proposed to levy some direct taxes also. They intended thus that on personal incomes of Rs. 15,000 and upward, the income-tax rates should be raised by 1 pie in the rupee; and a corresponding increase should be made in the super-tax in all grades other than the flat rate of super-tax on companies. The additional yield from income-tax was estimated at 54 lakhs, and that from super-tax at 14 lakhs—a total of 70 lakhs. All these fresh taxes would bring in 410 lakhs; but there was still a deficit of 30 lakhs to make up. And the Government sought to raise this amount by levying an import duty on silver. This might mean exactly one crore of rupees, and the surplus in the budget was roughly 70 lakhs therefore.

Sir George Schuster felt he was imposing a very heavy burden on the country at a time when it was not particularly well off, for he at once proceeded to justify at length his measures. He said that if the short-fall of revenue was merely the result of a temporary combination of abnormal circumstances, then one might hesitate to impose the full corresponding burden of permanent taxation. If on the other hand, there was a permanent and unavoidable

shortage of revenue, then the position had to be tackled boldly in order to establish, before it was too late, a sound foundation. The present position of Indian finances was by no means a temporary one; the difficulties were permanent. On the one hand there was no possibility of further substantial retrenchment in the cost of the civil administration. And as for the provision made for debt-services, nothing less than what had been set apart towards interest or redemption of debt would suffice to keep up India's credit. On the other hand revenue showed a permanent falling off. Some of the existing sources of revenue like Opium were bound to disappear while in the case of the others, reductions might be desirable. Besides, a larger margin of safety was needed in India with its loss of revenue from failure of rains or from floods. The Government believed that their taxation proposals were therefore not only needed but were well nigh inevitable.

MILITARY BUDGET CRITICISED.

The House had little sympathy to give to the Government. As usual it devoted a very large portion of its time to the criticism of military expenditure. Mr Amarnath Dutt said that if the British element in the Indian army was eliminated to half its present strength and the vacancies filled by Indians, there would be a saving of five crores, for the Inchcape Committee had said that an Indian soldier cost only Rs. 631 per annum while a British soldier cost Rs. 2503 per annum. Sir Purushottamdas Thakurdas argued that since the time of the Inchcape Committee, prices had fallen and exchange had appreciated from 1*sh* 4*d.* to 1*sh* 6*d.* Then there were savings in the pay of British troops amounting to 25 lakhs. All these, he said, came to nearly 4 crores and thus there was no cause for extra taxation at all. Sir Hari Singh Gour quoted *The Manchester Guardian* to show that the British army in

India was meant for the protection of British power in the East. And Dr. Moonje complained that the nation-building part of the army, the Territorial Forces, was being starved with barely 5 lakhs. But by far the most useful criticism on the subject was that of Pandit H. N. Kunzru who showed by specific instances where retrenchment was quite possible in the military expenditure. He said that the Inchcape Committee recommended that the peace-strength of infantry battalions should be 20% below their war-strength. This would mean in the 80 battalions they had, a reduction of about 7200 men, which in turn would involve a reduction in the establishment of training battalions, the purpose of which was to train new recruits to the active battalions. So much for Indian troops ; but the maintenance of the 2·5 to 1 ratio between them and the number of British troops would justify a reduction of nearly 2800 British soldiers. And as each such soldier cost about 4 times what an Indian soldier did, the total saving that could be thus effected would be very appreciable. Secondly by way of Capitation charges, India was being debited heavily with the cost of training British officers and soldiers in England. This was an unjust charge against which protests were being made for nearly half a century. And India was entitled to justice in the matter. Thirdly, regarding the charges for the transport of troops to India, and from India, the British Government agreed at the time of the Welby Commission to pay half of them, *i. e.* £ 130,000 at the time. But since then the cost of transport had mounted up to 76 lakhs and British Government would have to pay 38 lakhs. And yet it was paying only about 18 lakhs as of old. Along all these ways, the Pandit concluded, it was further possible to cut down expenditure on the army.

Criticism of the proposed measures of taxation related mainly to the grant of tariff preference to British cotton piece-goods, to the duty on kerosine, and to the import duty on silver. Almost all the members opposed Imperial preference, about the mildest statement being that of Mr. Shanmugam Chetty who said that Imperial Preference as such should not be opposed but that it should be considered like any other proposal from the view-point of India's interests. As for the duty on kerosine, Mr. B. Das felt he could not understand the preference given to British industry. The capital invested in the oil industry in Burma was purely British and he saw no reason why the duties should not be equalised. He probably meant that the excise and the import duties should both stand at the same level so that the Burma oil companies might not have any preferential advantages in the Indian market. On the other hand, Mr. Lamb said that in the matter of raising the excise duty and at the same time lowering the import duty, Government was not dealing fairly with an "indigenous" industry. On the contrary, it was inviting foreign companies like the Standard Oil Company to raise their rates and to profit thereby. Regarding the import duty on silver, Mr. Shanmukam Chetty said that it would increase the value of the silver hoardings in which the poorer people principally invested their savings. In view of the establishment of a Gold Standard in the country, he was not opposed to the sale of silver by the Government. But he asked what did the Government do with the proceeds of the sale? If they were utilised to meet the expenditure of the Secretary of State as in the past, no good would come out of it. Sale of silver by the Government should mean the replacement of the metal in the currency reserves with gold. And besides the duty on silver ware and silver thread also should be increased. Pandit Malaviya said that by the sale of silver, Government had reduced the price of silver and

had impoverished the people who held their savings all in silver. To these criticisms, Sir George Schuster replied by saying that by the sale of silver, the public of India had gained some advantage, that the amount sold by the Government had not been an over-riding factor in the world, and that they had not been in the market all through during the last three or four years.

WAYS AND MEANS POSITION.

With reference to the Ways and Means position, Government had floated in the current year a loan of 35½ crores, out of which 22¼ crores represented conversion of bonds maturing from 1930 to 1932. There was need also to borrow in London sterling bills to the value of £ 12 millions. Government had to purchase the Punjab Railway and also to spend a large sum for railway capital expenditure. And that is why it was obliged to float sterling loans though the London market had been shy first on account of the New York Stock Exchange boom and then on account of the political developments in India. In addition Government had to supplement their reserves by the issue of Treasury Bills in India to the extent of about 10 crores. Currency had been contracted against the cancellation of rupee Treasury Bills to the extent of 6.86 crores and against silver withdrawn for sale to the extent of 2.94 crores. The position of the Government was very embarrassing in regard to currency operations, said Sir George, at this juncture. "The Government are not only the currency authority but are themselves the chief operators in the remittance market. When there are difficulties as regards exchange, which would be expressed in other countries by a tendency to export gold, that is expressed in India by difficulties for the Government to effect remittance; and when we take action to protect the currency position, which in other countries would be regarded as

quite normal, it is represented here as artificial manipulation of exchange by Government in order to meet their own remittance needs." Regarding the internal currency position if prices fell and the country required less currency, government had to resort to contraction so as to avoid inflation which would involve a check on exports. That meant loss to the currency authority for all issues of currency brought profit to it and the greater the volume of currency required, the greater was the profit. But at that stage the public complained that the government contracted currency and starved trade. While the contraction of 10 crores of currency had counterbalanced part of the Government's borrowings, their Ways and Means position had been rendered worse by two factors. Railway receipts had fallen off, and Working expenses had risen, the deterioration from this source being 3 crores. And next Provincial borrowings had exceeded the estimates by $2\frac{1}{4}$ crores.

As for 1930-31, the railway capital program had been cut down to 16.75 crores, including a sum of 2.35 crores already sanctioned for 1929-30. In view of this, the actual borrowing needed in the year was very modest. The £ 6 million India Bills falling due in December 1930 would have to be renewed. And in India, a loan of $23\frac{1}{2}$ crores would have to be raised. Out of this, only 7.4 crores would be new money, the rest, 16.1 crores, being utilised to redeem outstanding loans, particularly the 1930 Bonds. These transactions rendered possible the reduction of the amount of Treasury Bills outstanding from 24 crores at the end of the current year to 20 at the end of the next. Regarding Home Remittances, the capacity of the Government of India to make them in the current year had been largely curtailed owing to trade depression. On the whole they came only to £ 19 millions. If to this figure, sterling

borrowings effected during the year were added, as well as the £ 9½ millions transferred through the Paper Currency Reserve, the Secretary of State would be left with a closing balance of £ 6·8 millions at the end of March. And regarding the new year, if the £ 6 million India Bills maturing in December 1930 were renewed, the total required for remittance would come to £ 31·8 millions.

NEED TO KEEP UP CREDIT.

The credit of the government of India during the current year had fallen somewhat, as reflected in the prices of their rupee securities on 20th February. The 5% tax-free rupee loan 1944-45 had stood at 103·15-0 in 1929; today, it had fallen to 100. And similarly, the 3½% loan had fallen from 72·6-0 in 1929 to 64·1-0. What were the reasons for this? The first, said the Finance Member, was the government's own needs. From 1925 to 1928, government had met its capital expenditure largely from its reserves; but then it was obliged to go to the market. And naturally, the price of its securities fell. Secondly, the moneymarket had been very tight over the greater part of the year, the bank-rate in London standing at one time as high as 6½%. Thirdly political events in India had produced their own reactions. Still the general economic depression was not peculiar to India but was a world malady; and there was sound reason to hope that recovery would not be long delayed.

Thus concluded Sir George Schuster his budget speech in a tone of almost imperceptible optimism. As he correctly remarked, the criticism of the House was less concerned with particular proposals for taxation than with the general economic situation. Two speeches stood out prominently from the rest. Mr Shanmukam Chetty

delivered as usual a studied and telling speech, and pointed out that during the last two or three years, the gap between the revenue and expenditure of the government had been growing wider. The total deficit during the period was 736 lakhs; and that had been made up, 295 lakhs from the Revenue Reserve Fund, 289 lakhs from abnormal receipts, and 156 lakhs from German Reparations. In addition, $7\frac{1}{4}$ crores of accrued liability in the P. O. Cash Certificates had also been used up. Thus, he rightly exclaimed, government had lived on borrowed capital and extraneous windfalls during the last three years. The position had to be redeemed somehow. And as the government would not retrench further, there was no other way than taxation left to get over the crisis. Mr. G.D. Birla showed with reference to the consumption in the country of cloth, sugar, and food-stuffs other than rice that the purchasing power of the people had gone down very much since the pre-war period. Regarding the practice of hoarding, he said that, in Britain, the amount of currency in circulation was said to be 360 millions, while bank-deposits amounted to 2000 millions. But in India, currency in circulation was about 500 crores and deposits were worth 200 millions. It was the paucity of banking facilities, he said, that were responsible for the hoardings here.

POLICY OF RETRENCHMENT

The final reply of the Finance Member to the debate elucidated some fresh points. Referring to charges of the country having reached the high water mark of taxation during the war and of the injustice of asking it to stand more taxation, he said that they were not true at all. Between 1916-17 and 1922-23, taking railway fares there was an increase in them of 11.95 crores; and in other taxation the rise had been 37.29 crores. Then during the regime of Sir Basil Blackett, there had been a reduction of

just over 5 crores in railway fares and over 2 crores in taxation,—a total of 7·12 crores. If to this were added the remission of provincial contributions amounting to 9·83 crores, the total diminution in the spending capacity of the Government of India would come to about 17 crores—a very substantial figure. In the matter of retrenchment, the question had to be considered from two aspects. There was retrenchment in detail, the careful elimination of waste in any particular department, and there was retrenchment on a large scale, which meant elimination of whole services, or the alteration or conditions of service, or other changes of policy. As regards the former, Government was straining every nerve and would continue to do so. But as regards the latter, Sir George rightly asked the members how he could possibly be expected to tackle questions of that sort on the eve of a constitutional revision. And these remarks applied to civil matters as well as to military ones. Thirdly there was the charge of a lack of constructive economic policy on the part of the government. And in reply, he pointed to the government's cotton proposals, sugar proposals, the provision for agricultural research work, and the Banking Inquiry. After all, there was no other object for the government of India than "the advancement of the good of the people of India."

The following reductions were then made by the Legislative Assembly in the Demands presented to them: Finance Department Rs. 100; Army Department Rs. 5,46,999 and North Western Frontier Province Rs. 100. Of these, the Governor-General-in-Council under Section 67-A (7) of the Government of India Act, decided that the amount relating to the Army was essential to the discharge of his responsibilities. The remaining alterations resulted in a reduction of the expenditure in 1930-31 by Rs. 201,

but as the estimates were in round thousands of rupees, they remained unaffected by the alterations.

On the other hand, the insertion of clause 4A in the Indian Finance Bill and the passing of the Silver (Excise Duty) Bill had the effect of raising the Customs revenue for the year 1930-31 by Rs. 1 lakh and Rs. 15 lakhs respectively, so that the revenue surplus as well as the closing cash balance for the year, as shown in the statements presented to the Legislature, were increased by Rs. 16 lakhs.

BUDGET FOR 1930-31.

General Statement of the Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1929—30 and for 1930—31.

(In Thousands of Rupees)

REVENUE.	1928-29 Accounts.	1929-30 Budget Estimates.	1929-30 Revised Estimates.	1930-31 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	49,28,00	51,21,77	51,02,09	54,47,81
Income-Tax ...	16,70,34	16,59,60	17,10,06	17,99,78
Salt ...	7,59,93	6,34,64	6,72,19	7,04,83
Opium ...	3,26,59	3,05,57	3,08,27	2,71,80
Other Heads ...	2,23,85	2,22,67	2,28,02	2,30,86
TOTAL PRINCIPAL HEADS.	79,08,72	79,44,25	80,20,63	84,55,08
 Railways: Net Receipts (as per Railway Budget) ..	 37,48,76	 40,55,00	 37,06,80	 38,10,00
Irrigation (Net Receipts) ..	9,40	13,40	12,75	14,25
Posts and Telegraphs (Net Receipts) ...	7,41	57,73	7,99	21,52
Interest Receipts ...	2,80,03	3,45,64	4,32,78	3,45,31
Civil Administration ...	1,00,93	1,12,25	1,13,06	1,06,44
Currency, and Mint ...	2,88,33	3,05,77	2,85,51	2,89,15
Civil Works ...	17,05	18,45	24,35	26,17
Miscellaneous ...	89,47	85,44	92,21	86,11
Military Receipts ...	3,39,37	3,48,71	3,97,77	3,62,08
Provincial Contributions and miscellaneous adjustments between Central and Pro- vincial Governments. ...	3,99	...	...	...
Extraordinary items ...	1,04,62	1,19,69	1,90,23	32,00
 TOTAL REVENUE ..	1,28,98,10,475	1,34,06,33,000	1,32,84,08,000	1,35,48,11,000
 DEFICIT ...	31,54,002	...	...	...
 GRAND TOTAL ...	1,29,29,64,477	1,34,06,33,000	1,32,84,08,000	1,35,48,11,000

BUDGET FOR 1930-31.

General Statement of Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1929-30 and for 1930-31.

(In Thousands of Rupees)

EXPENDITURE.	1928-29 Accounts.	1929-30 Budget Estimates.	1929-30 Revised Estimates.	1930-31 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue	4,02,13	4,39,43	4,12,99	4,35,57
Forest and other Capital Outlay charged to Re- venue ...	3,62	7,88	5,21	6,83
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	32,25,56	34,30,28	30,94,94	32,36,43
Irrigation ..	22,25	22,66	30,36	25,71
Posts and Telegraphs ...	81,64	81,20	81,11	92,73
Debt Services ...	15,62,44	15,59,85	16,51,88	17,81,58
Civil Administration ...	11,43,51	12,66,74	12,68,72	13,26,59
Currency, and Mint ...	71,62	71,02	74,89	77,66
Civil Works ...	1,59,28	2,59,35	2,63,25	2,81,06
Miscellaneous ..	4,05,93	4,06,93	4,58,39	4,16,87
Military Services ...	58,49,37	58,58,71	59,07,77	57,97,08
Miscellaneous adjustments between Central and Provincial Governments...	1,08	...	...	...
Extraordinary items ...	1,20	2,25	7	50
TOTAL EXPENDITURE CHARGED TO REVENUE ..	1,29,29,64,477	1,34,06,33,000	1,32,49,08,000	1,34,78,11,000
SURPLUS ...	...	...	35,00,000	70,00,000
GRAND TOTAL ...	1,29,29,64,477	1,34,06,33,000	1,32,84,08,000	1,35,48,11,000

BUDGET FOR 1930-31.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1929-30 and for 1930-31.

(In Thousands of Rupees)

RECEIPTS.	1928-29 Accounts.	1929-30 Budget Estimates.	1929-30 Revised Estimates.	1930-31 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	...	...	35,00	70,00
Railway Capital not charged to revenue				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	15	2,65,19	...	...
Debt, Deposits, and Advances				
Permanent Debt (Net incurred) ...	28,01,91	22,12,02	19,81,13	14,66,00
Floating Debt (Net incurred) ...	3,62,25	...	23,35,80	...
Unfunded Debt (Net incurred) ...	8,40,95	10,23,34	14,04,26	9,36,52
Deposits and Advances (Net) ...	...	6,58,81	...	5,57,80
Railway Depreciation and Reserve Funds As per Railway Budget (net) ...	4,97,88	5,35,73	23,70	5,08,95
TOTAL DEBT DEPOSITS AND ADVANCES ...	45,02,98,926	44,29,90,000	57,44,39,000	24,69,27,000
Remittances (Net) ...	75,66,103	1,08,000	7,42,000	4,95,000
TOTAL RECEIPTS ...	45,78,79,823	46,96,17,000	57,86,81,000	25,44,22,000
Opening Balance—India...	9,16,10,089	11,73,63,089	9,20,46,097	17,79,20,097
England ..	7,54,87,402	7,29,96,402	6,99,36,668	9,30,41,668
GRAND TOTAL ...	62,48,77,314	65,99,76,491	74,06,68,765	52,53,83,765

BUDGET FOR 1930-31.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1929-30 and for 1930-31.

(In Thousands of Rupees)

DISBURSEMENTS.	1928-29 Accounts.	1929-30 Budget Estimates.	1929-30 Revised Estimates.	1930-31 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit ...	31,54	...	...	...
Railway, Irrigation, Posts and Telegraphs and other Capital not charged to Revenue				
Capital outlay on Security Printing press ...	-4,75	45	23	45
Construction of State Railways ...	25,35,76	33,52,67	31,20,57	16,75,00
Discharge of Debentures (as per Railway Budget)	3,99,31	2,65,19	...	...
Construction of Irriga- tion Works ...	36	1,99	2,53	1,01
Capital outlay on Posts and Telegraphs ...	53,33	68,13	52,13	68,71
Capital outlay on Vizaga- patam Port ...	29,23	40,00	34,50	34,20
Capital outlay on Light- houses and Light-ships...	...	8	...	...
Currency Capital outlay...	3,37	52	1,58	1,88
Initial Expenditure on New Capital at Delhi ...	36,65	71,66	67,74	51,84
Payment of commuted value of pensions ...	36,09	31,17	35,24	33,59
Capital outlay on Bombay Land Scheme ...	...	...	...	2,05,22
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	30,89,34,484	38,31,86,000	33,14,52,000	20,71,90,000
Debt, Deposits and Ad- vances				
Floating Debt (Net Dis- charged) ...	...	94,75	...	4,00,00
Deposits and Advances (net)	1,79,98	...	2,27,59	...
TOTAL DEBT, DEPOSITS AND ADVANCES...	1,79,98	94,75,000	2,27,59,000	4,00,00,000
Loans and Advances by Central Government (Net Advances) ...	12,72,24	6,24,28	6,97,24	6,73,62
Balances of Provincial Governments (Net) ...	56,84	2,58,11	4,57,67	2,61,13
TOTAL DISBURSEMENTS...	44,29,94,549	48,09,00,000	46,97,02,000	34,06,85,000
Closing Balance—India...	9,20,46,097	11,56,88,089	17,79,20,097	12,79,94,097
England...	6,99,36,668	6,33,83,402	9,30,41,668	5,67,21,668
GRAND TOTAL...	62,49,77,314	65,99,76,491	74,06,63,765	52,53,83,765

SIR GEORGE SCHUSTER'S BUDGETS

THIRD BUDGET, 1931-32.

28th February 1931.

Sir George Schuster began his third budget speech with a reference to the prevailing economic depression in the world the effects of which had been worsened in India by political troubles. It had caused fall of prices principally of agricultural products, and thus countries like India and Australia suffered more than those like Britain and America. For the same reason too, India's exports had fallen in value more than her imports. The political disturbances in the country had led to considerable fall in the internal trade, and their effect on finance had been particularly bad. Capital became shy for trade and for new enterprise, Indian securities both of the Government and of private companies dwindled, and export of capital also began from the country. As regards the state of Indian trade, during the calendar year 1930 as compared with the calendar year 1929, exports had fallen in volume by only 4 per cent but in price by no less than 18%. And in particular, jute and cotton had been very unsatisfactory. The visible balance of trade during the first 9 months of the current year was 34.43 as compared with 41.62 in 1929.

The Revised Estimates for 1930-31 showed that Customs would be down by $9\frac{1}{2}$ crores, and Income-tax by 2.20 crores. Posts and Telegraph would show a loss of 136 lakhs as against 48 lakhs anticipated. And Finance heads were disappointing to the tune of nearly 138 lakhs. On the whole, revised estimates were worse than anticipations by 14.42 crores. As a surplus of 86 lakhs had been

expected in the original budget, the final deficit was likely to be about 13·56 crores. In budgetting for the next year, Government presumed that world conditions would remain much the same, but they hoped that political conditions would improve. Customs were expected to yield 46·64 crores, *i. e.* 8 crores less than the budget estimates for the current year. And Income-tax might yield 13·50 crores, which was $4\frac{1}{2}$ crores worse than the current budget. Opium receipts would of course show a normal drop. And on the whole, tax-revenue may be said to deteriorate by 13·16 crores. Among Commercial undertakings, Posts and Telegraphs were badly affected by the current depression, and the revenue from them was expected to be lower than in the current year by 80 lakhs. As to Railways, they were living on the Reserves, and their contribution could not exceed in the next year 5·36 crores as against 5·74 crores in the current year, *i. e.* a deterioration of 38 lakhs. Together then Commercial undertakings showed a fall of 118 lakhs. To consider next, General Finance Heads which included Interest Receipts, Currency and Mint Receipts, Interest on Debt, and the provision for Reduction or Avoidance of Debt, Government suffered a loss owing to the decreased volume of currency in circulation of about 227 lakhs and owing to lower rates of interest on the Gold Standard Reserve about 54 lakhs: that is, a total loss of 281 lakhs under the first head. Next there were higher charges of interest to be paid on new loans and though these were transferred to the commercial departments which wanted money, a total deterioration of 1 lakh would have to be faced by the general budget. Next Interest on other Obligations mainly accounted for by the larger liability for bonus on Cash Certificates would come to 16 lakhs. And lastly the automatic increase in the provision for Avoidance of Debt would come to 78 lakhs. Under the Finance

Heads the total deterioration thus amounted to 376 lakhs. Under all the heads the fall in revenue as compared with the budget estimates of the current year amounted to 18·10 crores. But as those estimates provided for a surplus of 86 lakhs, the gap left was reduced to 17·24 crores; and this had to be filled either by cutting down expenditure or by finding new sources of income.

Taking up Military expenditure first, a saving had been effected of 175 lakhs in it. Government had originally provided for a stabilised budget of 55 crores for four years from 1928-1932. The amount had accordingly been included in the budgets of 1928-29, and of 1929-30. But last year, when two years out of the four were remaining, government decided to lengthen the period by one year, thus reducing the annual allotment to 54·20. The same process had been repeated this year, another year had been added to the remaining two, and the annual allotment had been consequently reduced to 53·63 crores, for three years. In addition, on account of lower prices of various articles and the postponement by the military of certain of their services, a saving also of 113 lakhs had been made. And the expenditure on the Territorial Force had been cut down by 5 lakhs. On the whole, military expenditure showed a fall in the year of 175 lakhs. Regarding retrenchment in civil expenditure, it might be designed primarily to meet the difficulties of the next year or to effect a far-sighted and general reduction in the standard of Government expenditure. Taking up the former question first, there were many difficulties in tackling it, such as the need for increased expenditure on health services and sanitation in the N. W. F. Province, grants for Agricultural Research etc. Still special cuts had been made in the provision for contingencies and for allowances which amounted to 26 lakhs. Then expenditure on Frontier Watch and Ward had

been cut down by 22 lakhs and other grants by 14 lakhs. Civil Works saved 33 lakhs, and Road Fund grants and other adjustments 31 lakhs. The total cuts amounted thus to 126 lakhs. On the other hand, the automatic growth in pay-bills etc came to 29 lakhs, thus reducing the Civil cuts to 97 lakhs. Two other items of expenditure too had to be incurred in the year, viz, Census 34 lakhs and Capital expenditure on Civil Aviation 19 lakhs, or a total of 53 lakhs. But as against this a windfall of 54 lakhs had been received from the sale of the Indo-European Telegraph undertaking. And in the net 1 lakh could be added to the saving which amounted in this manner to 98 lakhs. Adding this to the saving under the military of 175 lakhs, the total amount of retrenchment came to 273 lakhs. The expected deficit for the next year was 17.24 crores and the saving being 2.73 crores, the gap still to be filled up by new taxation was 14.51 crores.

Regarding the second aspect of retrenchment dealing with changes of policy, Sir George offered to appoint a Retrenchment Committee consisting of five non-official members elected by the House and of two nominated officials. It could investigate the possibilities of retrenchment in the Civil expenditure of the Government on the lines suggested by Mr. Jukes in his Report. The Post and Telegraph Department had just appointed a Committee to examine the system of commercial accounts in it. As for Railways, the Railway administration was considering the question of retrenchment. Another special enquiry by a Committee was that into the expenditure in the N. W. F. Province. And in the field of Military expenditure, there was no substantial economy possible without raising up questions of policy. The problem of the pay and conditions of service of Government servants was a very important one. As to their

cost, in the Civil Departments exclusive of the Railways the pay of all the officials of Government, British and Indian, high paid and low paid, Central and Provincial amounted to just under 57 crores. Out of this the Central government's share was 16 crores, and that of the Provinces 41 crores. This total was distributed between gazetted officers on the one hand, and the establishments on the other, meaning by the term, all officers getting a maximum of Rs. 500 a month. The total cost of establishments, Central and Provincial, came to 41 crores and that of the officers, British and Indian, Central and Provincial, including leave-pay came to 16 crores, out of which the share of the Centre was under 4 crores and that of the provinces a little over 12 crores. British officers cost only $6\frac{1}{2}$ crores all told. Thus if the total pay of officers was reduced by 10% the saving for the whole of India would be only 160 lakhs, while the Centre would benefit to the extent of only 38 lakhs and the provinces to the tune of 122 lakhs. This showed that the scope for retrenchment in regard to salaries was not very extensive. Another point to note in connection with the Services was the distinction between the conditions for future entrants and the alteration in the position of existing officials. Again in the case of the latter, the regular basic and fixed pay had to be treated differently from allowances which were quite variable. Action in regard to allowances was easy and had been taken. But alteration in basic rights was a serious affair in all cases as it would mean a breach of contract; but it was specially serious in the case of those officers who had certain constitutional rights. For all these reasons, retrenchment in services was a serious affair, and government, considering the present emergency, had decided to deal with it by means of an income-tax. And in regard to future entrants they, intended to

summon a conference of the representatives of Provincial Governments early in order to consider the question of the conditions of their entry.

The House was not satisfied with the retrenchment proposals of the Government. Mr. Ramasawmi Modaliar took exception to military expenditure being spread over three years when within a year or two a new Government would come into being. And so also with the attempt to fix with the aid of the Provinces the pay and the conditions of service of the new entrants. Mr. B. V. Jadhav thought that retrenchment was largely a matter of show as was seen on the occasion of the Montague-Chelmsford Reforms. Some cuts were then made but whole departments had been created and entire sets of new offices. Sardar Harbans Singh Brar complained that the Governor-General was the highest paid official in the world, and that the pay of the Indian officials was much higher than that of their brothers in Germany and America. Mr. Jagannath Agarwal said that as prices had fallen since the Lee Commission had reported, the concessions given by it should be withdrawn. Mr. Mahammad Yakub did not see any reason for the maintenance of the Ecclesiastical Department which cost about 30 lakhs of rupees and he wanted the Intelligence Bureau of the Government of India also to go: it was costing more than 7 lakhs and out of that amount, no less than 2,60,000 was spent on Secret Service. A number of members criticised the military budget. In replying to all these criticisms, Sir George Schuster said that he had made it plain that any cuts that the House could make in the military expenditure would have scrupulously to avoid touching questions of policy. As to the Committee that he offered to appoint, it was for the House to accept it or not. If the House did accept it, it could satisfy

itself as to the extent to which retrenchment had already been carried out. The Government had eliminated all waste and so far as policy lay within its competence, it had changed that also to suit the present emergency. As to the increasing cost of Government, it was inevitable that a democratic form of Government should cost more than an autocratic one.

The gap in the revenue for the next year was 14.51 crores, and of course it had to be met by new taxation. The Finance Member said that in estimating the present situation, he thought that some of the new taxes would have to be permanent while others would only be temporary. On the basis of the existing taxes, he expected that the Centre would in normal times be able to balance its budget, and therefore the proposed tax-burden would to that extent be temporary. But the provinces needed more revenue, and so far, some of the new taxes might be permanent. Government plans for new taxation were all under two heads, Customs and Income-tax. And under Customs substantive rates would be charged in the case of a number of articles, while in the case of others surcharges would be levied. To the 10% schedule, a surcharge of $2\frac{1}{2}\%$ had been added, to the 15% schedule one of 5% and to the luxury or 30% schedule, 10% had been added. The surcharge of 5% was laid on cotton-goods also which were thus expected to yield 90 lakhs, and on kerosine and motar spirit as well. As to the substantive tariff, it had been imposed on liquors, sugar, silver bullion, betel nuts, spices and exposed cinematograph films. Generally speaking, they had been transferred from the group paying the ordinary rate of duty at 15% *ad valorem* to that which paid the luxury rate of 30%.

Sugar and silver required special mention. The Report of the Tariff Board on Sugar was ready but the Government could not take any action on it without the Legislature discussing it. Therefore the measures proposed at present were without prejudice to the recommendations of the House and were intended as only revenue measures. Regarding the duty on silver, Government intended an increase of 2 annas an ounce, and in this manner they hoped to get 75 lakhs from import duty and 7 lakhs from excise duty, that is, 82 lakhs in all. To this course, the only objection could be this, that the increase in duty would check consumption in India and that the price of silver in the world market would thereby fall. Government, however, was sure that India's consumption would not fall; it had not fallen on account of the 4 annas duty imposed last year. In fact they expected a consumption of between 100 and 110 million ounces in the current year. As for maintaining its world price-level, to the offer of the Government of India made last year to co-operate in any practical scheme for controlling the production of silver and the sale of existing and fresh stocks, the only response was from the producing interests in America. They wanted that their own production of the metal should be unrestricted but that India should refrain from realising her holdings. Of course the Government would not agree. India had absorbed in the five years ending March 31, 1930, 540 million ounces of silver. And by the end of the current year, the amount would probably be 650 millions. As against this, she had sold out a total of 90 millions ounces only. Surely this could not have depressed the market. The truth was, silver prices had fallen just as the prices of other metals had fallen. Silver was of course being used as currency and therefore the fall in its price might have other results than the fall in

price of the other metals. But the causes were the same in all the cases, and Sir George Schuster felt that international co-operation would be effective only if it dealt with all the causes and not with those relating to silver alone.

The combined results of all the proposals in regard to Customs was to yield an additional revenue next year of 9.32 crores. From the increased import duties on galvanised pipes and sheets, another sum of 50 lakhs was expected, so that the total increase under Customs would be 9.82 crores. In regard to the current year, the new duties would operate from the 1st March 1931, and the duty on galvanised pipes and sheets, from the 30th December 1930. Both of them would give about 88 lakhs, so that the current deficit would be reduced to 12.68 crores.

The other main head under which revenue could be increased was Income-tax. The taxable minimum which was at present Rs. 2000 would not be lowered. But on incomes above that up to Rs 5000 the rate would be increased by 4 pies. And beyond, up to Rs. 40,000 by 5 pies, 6 pies, or 7 pies as the case may be. Between Rs. 40,000 and 1 lakh the rate would be raised from 19 pies to 25 pies and beyond a lakh to 26 pies. The net increase estimated on these accounts was 454 lakhs. In regard to Super-tax, the reduction allowed would be lowered from 50,000 to 30,000 Rupees; and from 30,000 to 50,000 the rate would be 9 pies, while, above 50,000 the graduated scales would be increased by 2 pies throughout. This would mean 46 lakhs, so that increase in taxes on income would together come to 5 crores. Some considerations were to be noted in this connection. The specific proposals for income-tax would not be permanent, but certain of their features would probably be, like the

adjustments in the grading of the tax and the reduction of the super-tax level. The entire question, however, would be considered next year. In the meanwhile, Government accepted the charge that the increased levy operated as a cut in salaries and to that extent the Central government benefited at the expense of the provinces. Secondly, Government had considered the question of allowing assesseees to set off business-losses incurred in previous years against business profits. But they had decided not to take any action in the matter for the present, and to wait till the revenue position improved. Thirdly, Government had discovered that a serious lacuna existed in the income-tax law as it obtained, which afforded a direct incentive to investors to place their money in foreign securities for the sake of avoiding income-tax. Legislation for enabling Government to tax income from foreign investments would be brought forward in the current session.

Such a heavy load of fresh taxation very naturally roused the House from various sides of which Government was attacked. Mr. T. Rangachari, while complaining against the income-tax suggested that it should be collected in two or three instalments as it used to be. Mr. Jagannath Agarwal complained that by imposing an import duty on silver, Government was creating only an artificial market in which its silver could be sold. As for the duty on sugar, it was "terrible". The increase in income-tax was so high as to be between 43 and 79 per cent, and it hit the middle classes sorely. Mian Mahammad Shaw Nawaz complained that the income-tax was heavy but he was glad that foreign incomes would hereafter be taxed. He also suggested the imposition of an import duty on wheat. Mr. H. P. Mody suggested the taxation of agricultural incomes and of artificial silk imports. He

regretted the Government was not taking up keenly the matter of allowing assesseees to carry forward losses. Mr. R. S. Sarma was glad that the Finance Member was thinking of a Committee to investigate the possibilities of taxing tobacco, and added that an inquiry should be conducted in regard to matches also. As regards the imposition of death duties, delay was not at all necessary. Mr Jamal Mahmmad Sahib took exception at the outset to the Government having included the imports of treasure in calculating the balance of trade in the country ; he wanted only merchandise to be considered. He did not like the income-tax increases and suggested an export duty on hides and skins which would help the struggling tanning industry of the country. In his reply to the debate, Sir George did not conceal from the House that he himself disliked the budget but there was no other way out. He assured the House that Government did not in any way intend to bind its successors in office either with regard to military retrenchment or with regard to the pay and prospects of its civil servants. As for silver negotiations, India was the most important factor in the world and without it nothing could possibly be done by anybody. He agreed that the income tax proposals were a little hard on the country but hoped they were very temporary, imposed just to meet the emergency.

Regarding the Ways and Means budget, Government expected last year that a loan of 23½ crores in India and one of £ 6 millions in London would enable them not only to meet the excess of disbursements over receipts, but also to reduce the amount of treasury bills outstanding in India by about 4 crores. But actually, they had borrowed 29.71 crores in India and £ 31 millions in London, while treasury bills outstanding with the public in India had mounted up to 45 crores, *i. e.*, 25 in excess of

expectations. The total deterioration was thus about $64\frac{1}{2}$ crores. One reason for it was the heavy demands made by the provinces and the Railways on the Government of India as their bankers. The former had very heavy expenditure to meet in connection with the C. D. movement and the relief of agricultural distress, and were expected to demand $3\frac{1}{2}$ more than the budget estimate of 8 crores. And the Railways might draw 9.65 crores more than anticipated. The second reason was connected with P. O. Cash Certificates and Savings Banks Deposits. Sales of the former had risen since 15th September when the yield had been raised to 6% but encashments were heavy. And there were considerable withdrawals from the Savings Bank deposits also. Receipts from both these sources were thus likely to be less than anticipations by 3.74 crores. The current year's budget deficit of 13.54 crores would have to remain uncovered, and be an addition to the unproductive debt. This was the third cause for the deterioration. And the last was contraction of currency by the Government. Slackness of business, and political disturbances had made currency in the country largely redundant, and Government therefore contracted it to the extent of $36\frac{1}{4}$ crores between the 1st April, 1930 and 7th February, 1931. As against this, silver rupees amounting to $17\frac{1}{2}$ crores had returned from circulation, and the net result was that the amount of note issue on the 7th February was 159 crores as against 177 crores on the 1st April, 1930. Of course it was only contraction against rupee securities that affected the Ways and Means position, and such contraction had come in the current year to 29 crores. In addition, last March, 5 crores had been contracted so that the total contraction amounted to 34 crores. Under these four headings, had taken place the deterioration of $64\frac{1}{2}$ crores pointed above.

With regard to the Ways and Means budget for 1931-32, Railway Capital expenditure had been drastically reduced from 16.75 in the current year to 11.45 in the next. The borrowing program of the provinces had been strictly controlled, the provision being only for $9\frac{1}{2}$ crores in the next year compared with $11\frac{1}{2}$ in the current. With reduced provision under these two heads, the amount of new money required would be about $7\frac{3}{4}$ crores only. And if to this were added the need for converting the $7\frac{1}{4}$ crores of 6% 1931 Rupee bonds, the total loan required would amount to 15 crores. Besides, the £ 15 million loan outstanding from the $5\frac{1}{2}$ % 1932 bonds maturing in January 1932 would have to be converted. As for treasury bills outstanding with the public, it was estimated that their amount at the end of the next year would be 45 crores and that conditions would improve enough to enable the Government to fund a portion of this floating debt. In the matter of Home Charges, the current year had seen a substantial export of capital and that, occurring at a time of trade depression considerably affected the ability of the Government to make remittances through the market. Funds therefore in London had been borrowed in the net to the extent of £ 25 million ; sterling had also been purchased worth £ 5,395,000. And these amounts together would enable the Secretary of State to close the year with a balance of about £ 4.8 millions. In the next year, if the £ 15 million $5\frac{1}{2}$ 1932 loan was converted, the net requirements of the Home Treasury would be about £ $33\frac{1}{3}$ millions. And that amount could easily be remitted through the market.

Turning to a review of the currency policy of the Government, Sir George then said that there were four main charges brought against the Government on that point. One was that excessive contraction had created shortage of

currency in the country and had thus produced a fall in prices. Regarding this, the truth was that India played but a minor part in the world-action affecting prices, and that her prices rather followed than led world-prices. If she failed to keep her prices on a parity with those of the world, inflation would result, and her export trade would be affected. Besides the extent of contraction had not at all been excessive. On 1st April 1926, the amount of rupee coin outstanding was 350 to 400 crores, out of which 77 crores was in the Paper Currency Reserve. The note issue on that date was 193 crores so that the total amount of currency in circulation was between 466 and 516 crores. Between 1st April 1926 and 31st December 1930, 64 crores of rupees had returned from circulation, and the amount of note issue on the latter date was 161 crores so that the currency in circulation was 370 to 420 crores. This meant a drop since April 1926 of 18 to 20 per cent. During the same period the Calcutta index number of wholesale prices had fallen from 148 in 1926 to 101 in December 1930, i. e. a drop of 31.5 per cent. Thus, "the contraction effected by the Government has been an essential sequel to the fall in world prices, and it has not been carried to an excessive extent."

The second charge was that the contraction had resulted in Government incurring a heavy floating debt with serious loss to revenue. This inevitably followed a contraction of currency, for Government lost its profits over the minting of silver coin and the printing of notes. Treasury bills in the Currency Reserve decreased while those in the hands of the public increased. Thirdly came the charge that the difficulties of the business world had been increased by the artificial creation of dear money. As regards this, there were special causes actuating the Government. On account of political reasons, export of

capital was taking place on a large scale. Part of it was real investment money but part consisted of speculative remittances. Now the government wanted to check this process and to attract capital to India. And hence the high rates it maintained. No doubt the policy affected Government finances as well as those of the public, "but it has been forced on the Government by those private interests who for various reasons, nervousness as to India's future or the desire for speculative gain are sending money out of the country." The last charge referred to the reaction on the credit of India and to the costly borrowing which followed Government policy. This had led to the decline in Government securities in India and in London. So the critics said. But the truth about the decline was that it was due to political causes, viz the uncertainty connected with India's future form of Government, which was on the anvil. A word about the ratio of 1sh. 6d. Those who preferred 1sh. 4d. had to bear in mind that they would have also had to take practically all the steps the Government had taken to maintain stability. The real question was not what the ratio was but whither it was stable.

The debate brought out a number of speakers who were opposed to the Government ratio and to the contraction of currency by the Government. But to a very large extent they had been answered by the Finance Member in anticipation. Mr. R. S. Sarma advised the Government to get more into touch with bankers, especially the exchange bankers, who were the only people who could help in regard to a loan, or in remitting money to the Secretary of State, or in selling Treasury Bills. Mr. Hari Raj Swarup put forward a few suggestions to the Government. He wanted that the Railway Convention should be examined. And also that the

Government should formulate a definite policy regarding its borrowing program. Next he suggested a central financial corporation with backing from the provinces for helping the agricultural classes in their financial, productive, and marketing operations. Lastly, he wanted that the money in the P. O. Savings Bank and P. O. Cash Certificates should be earmarked for investment in co-operative societies, and that Government should purchase their military requirements through the agency of such societies. The speech of Mr. R. K. Shanmugam Chetty dealt with the Ways and Means budget only. Mr. Chetty took exception to the estimate of the number of rupees in circulation given by Sir George Schuster. He said the number of rupees minted was known, as well as the number that had come back to the Paper Currency Reserve or that remained in the Treasuries. But all the rest could not be said to be in circulation. Some rupees might have been melted down, some might have been hoarded, while some might have gone to Tibet, Nepal or Afghanistan. Then he said that the Government had last year announced that they were issuing a loan for an unlimited amount. The effect was a distinctly bearish factor had been let loose on the market, people lost confidence in the Government and the export of capital began. The political disturbances were after all a minor cause of the phenomenon. As regards the position next year, the amount of treasury bills remaining with the public at the time was 52 crores roughly. That put the Government simply at the mercy of the money market and of the bankers. Considering the size of the money market in India, the available liquid resources, the elasticity of the treasury bills, and also the fact that those who resorted to them were mainly banks and insurance companies, the capacity of the Indian market was at best only 15 to 20

crores. Accordingly 52 crores of treasury bills meant a heavy burden to it. And this was seen in the discount rate in the market. While under healthy conditions there should be a difference of 1 per cent between treasury bills and three months deposit rates in favour of Government, actually the latter stood at $5\frac{1}{2}$ per cent while the former was as high as $6\frac{3}{4}$ per cent. The position had therefore to be retrieved as early as possible. And Mr. Chetty suggested a plan. He wanted that the Government should enter the gilt-edge market when necessary and offer to purchase securities with the aid of the sinking fund. The announcement of the intention itself would suffice to steady the market generally; but if needed, the Government might purchase 2 or 3 crores worth of securities, for it was only that amount of paper that kept floating and disturbing the market. And the bankers who stood to benefit by this means would certainly help the Government.

Sir George Schuster replied to these criticisms fully. He asked way if the financial policy of the Government was responsible for the low market for securities, sterling securities were higher than rupee ones. That meant political disturbances did have great influence. As for his figures regarding the number of rupees in circulation, he was sure they were not so wide of the mark. The next suggestion about Government entering the market was riddled with difficulties. If the sinking fund was used for gilt-edge market operations, new money to that extent would have to be raised. Then each loan had already a sinking fund for itself. Thirdly the main depressing factor had been the London market and not that in India, both of which of course influence each other. And lastly, though the psychological effect on the market was true, yet there might exist outweighing factors in the other

direction. As to the suggestion made for an Economic Advisory Council, Government did call together non-officials for consultation last year, but nothing could be done owing to the country's pre-occupation with other affairs. In concluding his budget speech Sir George Schuster said "Confronted with a large deficit, we have made proposals which are, I venture to claim adequate to meet the present situation, and which, while fairly distributing the burden which it is necessary to impose, may have some results not unpropitious for the development of Indian industry.....The future demands that not merely we should balance the budget at the Centre, but that we should provide a margin for distribution to the new provincial Government." One of the tasks ahead was to explore new heads of revenue, three of which the Finance Member indicated. One was on tobacco, another was on matches, and the third was death-duties. "I have in these proposals tried to measure the needs fairly, and to meet them fully, guided above all things by the purpose of handing over a sound business to my successor."

The reductions made in the Demands by the Legislative Assembly were the following: Railway Board, Rs. 1,00,000 and 100 each in Customs, Income-Tax, Executive Council and Army Department. All the cuts were accepted except the one relating to the Railway Board.

The Indian Finance Act, 1931, as made by the Governor-General, involved a reduction of Rs. 1,05 lakhs in the income-tax revenue for the year 1931-32 as previously forecasted. The gap thus created was partly filled by a reduction of Military expenditure to the extent of Rs. 60 lakhs and by a reduction of Civil expenditure to the extent of 15 lakhs. The remainder of the gap, viz., Rs. 30 lakhs had the effect of reducing the revenue surplus from Rs. 31,06,000 to Rs. 1,06,000.

BUDGET FOR 1931-32.

General Statement of the Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1930—31 and for 1931—32.

(In Thousands of Rupees)

REVENUE.	1929-30 Accounts.	1930-31 Budget Estimates.	1930-31 Revised Estimates.	1931-32 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	51,27,66	54,83,81	46,01,93	56,45,97
Income-Tax ...	16,70,61	17,99,78	15,79,83	17,44,54
Salt ...	6,76,46	7,04,83	6,85,00	7,05,00
Opium ...	3,04,09	2,71,80	2,62,60	2,15,58
Other Heads ...	2,25,69	2,30,86	2,20,63	2,21,46
TOTAL PRINCIPAL HEADS.	80,04,43	84,71,08	73,49,99	85,32,55
 Railways: Net Receipts (as per Railway Budget) ...	 37,16,42	 38,10,00	 39,18,71	 39,54,02
Irrigation (Net Receipts) ...	9,96	14,25	8,95	13,75
Posts and Telegraphs (Net Receipts) ...	1,49	21,52	- 63,85	- 49,21
Interest Receipts ...	4,40,60	3,45,31	3,32,07	2,91,99
Civil Administration ...	1,16,59	1,06,44	96,99	1,03,45
Currency, and Mint ...	2,73,69	2,89,15	1,25,98	63,34
Civil Works ...	22,65	26,17	28,00	24,85
Miscellaneous ...	95,62	86,11	85,63	73,89
Military Receipts ...	3,98,09	3,62,08	3,62,30	4,47,57
Provincial Contributions and miscellaneous adjustments between Central and Pro- vincial Governments. ...	8	...	...	...
Extraordinary items ...	1,88,94	32,00	98,84	30,44
 TOTAL REVENUE ...	 1,32,68,55,102	 1,35,64,11,000	 1,23,43,61,000	 1,34,86,64,000
 DEFICIT ...	 ...	 ...	 12,68,42,000	 ...
 GRAND TOTAL ...	 1,32,68,55,102	 1,35,64,11,000	 1,36,12,03,000	 1,34,86,64,000

BUDGET FOR 1931-32.

General Statement of Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1930-31 and for 1931-32.

(In Thousands of Rupees)

EXPENDITURE.	1929-30 Accounts.	1930-31 Budget Estimates.	1930-31 Revised Estimates.	1931-32 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue	4,08,40	4,35,57	4,40,14	4,40,34
Forest and other Capital Outlay charged to Re- venue ...	5,13	6,33	5,69	2,16
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	31,04,57	32,36,43	33,45,14	34,18,00
Irrigation ..	29,97	25,71	38,54	22,10
Posts and Telegraphs ...	82,68	92,73	95,54	42,49
Debt Services ...	16,58,67	17,81,58	17,22,26	18,77,40
Civil Administration ...	12,65,91	13,26,59	13,54,35	13,06,36
Currency, and Mint ...	74,20	77,66	97,73	78,71
Civil Works ...	2,58,27	2,81,06	2,68,13	2,41,28
Miscellaneous ...	4,45,64	4,16,87	4,34,53	4,08,92
Military Services ...	59,08,08	57,97,08	57,92,30	56,47,67
Miscellaneous adjustments between Central and Provincial Governments...	...	...	...	...
Extraordinary items ...	6	50	15,62	25
TOTAL EXPENDITURE CHARGED TO REVENUE ...	1,32,41,71,504	1,34,78,11,000	1,36,12,03,000	1,34,85,58,000
SURPLUS ...	26,83,598	86,00,000	...	1,06,000
GRAND TOTAL ...	1,32,68,55,102	1,35,64,11,000	1,36,12,03,000	1,34,86,64,000

BUDGET FOR 1931-32.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1930-31 and for 1931-32.

(In Thousands of Rupees)

RECEIPTS.	1929-30 Accounts.	1930-31 Budget Estimates.	1930-31 Revised Estimates.	1931-32 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	26,83	86,00	...	1,06
Railway Capital not charged to revenue				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	2,44	...	...	...
Debt, Deposits, and Ad- vances				
Permanent Debt (Net incurred) ...	20,39,57	4,66,00	46,47,65	10,21,62
Floating Debt (Net in- curred) ...	30,10,65	...	...	...
Unfunded Debt (Net incurred) ...	13,04,22	9,36,52	4,92,67	9,69,72
Deposits and Advances (Net) ...	...	5,57,80	1,62,67	7,44,43
Railway Depreciation and Reserve Funds as per Railway Budget (net) ...	...	5,08,95	...	1,04,33
TOTAL DEBT, DEPOSITS, AND ADVANCES ...	63,54,44,755	24,69,27,000	53,02,99,000	28,40,10,000
Remittances (Net) ...	...	4,95,000	9,10,000	6,47,000
TOTAL RECEIPTS ...	63,83,72,029	25,60,22,000	53,12,09,000	28,47,63,000
Opening Balance—India...	9,20,46,097	17,79,20,097	25,76,33,677	12,74,69,677
England...	6,99,36,668	9,30,41,668	8,51,57,683	6,46,96,683
GRAND TOTAL ...	80,03,54,794	52,69,83,765	87,40,00,360	47,69,29,360

BUDGET FOR 1931-32.

General Statement of the Receipts and Disbursements of the
Central Government in India and in England
for 1930-31 and for 1931-32.

(In Thousands of Rupees)

DISBURSEMENTS.	1929-30 Accounts.	1930-31 Budget Estimates.	1930-31 Revised Estimates.	1931-32 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit	...	...	12,68,42	...
Railway, Irrigation, Posts and Telegraphs and other Capital outlay not charged to Revenue				
Capital outlay on Security Printing press	23	45	4,43	- 3,94
Construction of State Railways	30,18,34	16,75,00	14,50,00	11,45,00
Discharge of Debentures (as per Railway Budget)	...	...	...	...
Construction of Irrigation Works	2,99	1,01	46	67
Capital outlay on Posts and Telegraphs	33,07	68,71	3,36	91,30
Capital outlay on Vizagapatam Port	35,75	34,20	35,75	43,18
Capital outlay on Light-houses and Light-ships	13	...	...	...
Currency Capital outlay	69	1,88	1,58	5
Initial Expenditure on New Capital at Delhi	72,72	51,84	52,90	24,72
Payment of commuted value of pensions	33,09	33,59	39,51	37,38
Capital outlay on Bombay Land Scheme	...	2,05,22	2,12,29	...
TOTAL CAPITAL ACCOUNT DISBURSEMENTS	32,02,00,638	20,71,90,000	18,03,28,000	13,38,36,000
Debt, Deposits and Advances				
Floating Debt (Net Discharged)	...	4,00,00	17,20,70	5,39,60
Deposits and Advances (net)	1,06,65	...	...	...
Railway Depreciation and Reserve Funds as per Railway Budget. (net)	1,24,98	...	6,80,99	...
TOTAL DEBT, DEPOSITS AND ADVANCES	2,31,63,272	4,00,00,000	24,01,69,000	5,39,60,000
Loans and Advances by Central Government (Net Advances)	7,20,11	6,73,62	8,43,95	7,49,71
Remittances (net)	51,12	...	...	...
Balances of Provincial Governments (Net)	3,70,76	2,61,13	5,01,00	3,21,00
TOTAL DISBURSEMENTS	45,75,63,434	34,06,65,000	68,18,34,000	29,48,67,000
Closing Balance—India	25,76,33,677	12,95,94,097	12,74,69,677	12,03,84,677
England	8,51,57,683	5,67,24,668	6,46,96,683	6,16,77,683
GRAND TOTAL	80,03,54,794	52,69,83,765	87,40,00,360	47,69,29,360

SIR GEORGE SCHUSTER'S BUDGETS

SPECIAL BUDGET, 1931-32.

Statement of the 29th September 1931.

Consequent on the abandonment of the gold-standard by Britain in September 1931, the financial position of the Government of India needed to be reconsidered. And accordingly making a statement to the Assembly, Sir George Schuster said on the 29th September 1931 that the Government was placed in somewhat unusual and difficult circumstances in dealing with the financial position. On the one hand, they could not delay in restoring equilibrium between revenue and expenditure. And on the other, Britain having gone off the gold standard, and the rupee having been linked to the fallen sterling, the foundations on which budget estimates were usually based had changed. Nevertheless Government proceeded in their present proposals on the basis of the estimates made before the currency crash came on. As for the various retrenchment Committees that were sitting, Government regretted that they had not been able to utilise their services fully for want of time.

Regarding revenue prospects for 1930-31, the returns for the five months of the current year, showed that tax revenue would be below the estimates by about 11 crores 33 lakhs. Customs revenue fell heavily under cotton piece-goods, sugar, silver, spirits and liquor, excise on motor spirit, iron and steel, and in the jute export duty. Income-tax and Salt would show deficits of $1\frac{1}{4}$ crores and of 8 lakhs respectively. Of the Commercial undertakings, Railways, in spite of all their retrenchment measures would not be able to give anything to the general revenues. And

this meant a drop of Rs. 5.36 crores in the budget estimates of the current year. Posts and Telegraphs were originally expected to show a deficit of 147 lakhs. But revenue receipts so far showed a probable decline of 18 lakhs for the year, and as working expenses also would fall by 6 lakhs, the total deterioration was by 12 lakhs. And thus Commercial Heads together would be down to the extent of 5.48 crores. Finance Heads owing to a variety of causes fell by 229 lakhs. Extra receipts expected did not materialise to the amount of 23 lakhs and unexpected expenditure came to another 23 lakhs. The budget of 1931-32 expected a small surplus of 1 lakh. And thus on the present estimates, the total shortage of revenue in the year would be 19.55 crores.

THREE COURSES OF ACTION

As for the next year, 1932-33, the budget position could not be expected to improve with any justification. A deficit therefore of about 19½ crores may be expected then as in the current year. For the two years therefore the combined deficit expected was 39.05 crores. And either by means of retrenchment or of increased revenue or both, Government had to meet it within a period of 18 months only that was remaining. Government proposed three lines of action: (1) to reduce expenditure by means of more economical organisation of Government departments, and restriction of activity. (2) to introduce an emergency cut in salaries (3) to impose fresh taxation.

In regard to the reduction of expenditure on the Civil side, the General Purposes Sub-Committee had recommended savings in a number of departments to the tune of about 120 lakhs. If out of this amount 20 lakhs was deducted for compensation and recurrent pensions payable in respect of officials whose posts were abolished, the net reduction would be about 1 crore. Other depart-

ments not yet investigated by the Committee might together save about 90 lakhs. And other Retrenchment Committees than those on Railways and the Army might all improve the position by another 60 lakhs. Thus savings in Civil expenditure would come in the next year to about 250 lakhs. And for the current year, the estimated savings on this footing were about 30 lakhs. Regarding Military expenditure the Retrenchment Sub-Committee had not yet finished its labours. But the majority of the measures it proposed were accepted by the Army authorities in principle; indeed many of the measures had already been initiated by them. For the present, they guaranteed a net reduction of $4\frac{1}{2}$ crores in their expenditure for the next year. That would mean a net defence budget for 1932-33 of only 47.40 crores as compared with 51.90 in the current year and with the stabilised figure of 55 crores of two years ago. The figure of 47.40 crores included a reduction of 1.75 crores of non-recurrent expenditure on the special program of re-equipment which had been postponed. But it did not include any allowance for cuts in the pay of officers, nor for any savings that might accrue from reduction of troops.

CUTS IN PAY

The second line of action proposed by the Government was cuts in pay. And the general conclusions reached by them on this matter were three. First, that any cut applied must be general and on a fair basis. Secondly that it should be of a temporary nature, not extended beyond the need of the present exceptional emergency; thirdly, that it should not affect pension or provident fund rights. As to the way in which a cut should be applied, all sorts of graduated scales were considered and at last, it was decided that a uniform scale was the fairest and the best in public interests, after providing for the

exemption of all salaries below a certain limit. The general rate of decrease would not be more than 10% in any individual case, and the limit of exemption was Rs. 40/. The Viceroy had decided to impose on himself a cut of 20%, while the Executive Councillors had surrendered 15%. The Secretary of State would get the necessary legislation passed in Parliament relating to the cuts in the pay of the Imperial Services. And as for the services under the control of the provincial governments there was no doubt that reductions in their salaries would have a measure of uniformity throughout India. The cuts in the pay of the higher officers were inclusive of the enhancement in income-tax rates which was part of the present proposals. All the cuts would take effect from the 1st December 1931, and they would not be operative beyond the 31st of March 1933, when there would be an examination into the question. The realisations from the cuts were estimated as follows:—Civil officers including those of the Post and Telegraph Departments, 115 lakhs in 1932-33, and 35 lakhs in the current year; the savings under Railways would be substantial but they would not relieve the general treasury: Army officers, 75 lakhs, in 1932-33, and 25 lakhs in the current year.

Government also sought to improve its finances by abolishing the Salt Credit System. Accordingly, the gradual termination of the system had been notified by limiting credits to three months as from 1st October 1931, and discontinuing the grant of new credits altogether from the 1st March 1932. This meant collection in the current year and also in the next year of 15 months revenue instead of 12 months revenue. On this account the increased collections would be one crore each year. This of course meant no increase in taxation.

THE LEVY OF SURCHARGES

The third plank in the Government's taxation proposals was to put a temporary surcharge on all existing taxes, with the exception of Customs duties on exports. The rate of surcharge was 25%. In collecting income-tax surcharge, there was a difficulty to be provided against. The tax was calculated on the basis of the income in a full year, which was now subject to a cut in pay. If on the reduced income a surcharge was levied of 25%, there would be double imposition. Therefore, Government had decided to levy in the current year a surcharge only of $12\frac{1}{2}\%$ but on the income of the full year. Next, apart from general surcharges, there would be also new taxes imposed. The exemption limit for income-tax had been lowered from Rs. 2000/- to Rs. 1000 and the tax imposed was 4 pies in the rupee. In the current year, the rate would be only 2 pies which would be levied on the income of the whole year. Secondly, the existing import duties were increased on silk pieces-goods, and silk-yarn, on brown sugar, on boots and shoes, on camphor and on electric bulbs. Surcharges in all these cases would be levied on the increased duty. Thirdly, an import duty of 10% was put on machinery and dyes and of $\frac{1}{2}$ an anna per lb on raw cotton. The increase in income-tax now imposed on salaries above Rs. 1000 would be merged in the general cut of 10% in pay. Lastly, the rates for inland postal letters would be raised from 1 anna to $1\frac{1}{2}$ anna and for post-cards from 6 pies to 9 pies.

Thus, the current year's deficit would be reduced from 19.55 crores to 10.17 crores, and 1932-33 would yield a small surplus of 523 lakhs. In the current year the increase of revenue was 9.38 crores and in the next, 24.73 crores. The combined deficit for the two years was 39.05 crores, and the increase of revenue on account of the new

measures was 34.11 crores, the deficit still remaining, for the two years taken together, at 4.94 crores. Expressed in another way, half the current year's deficit had already been incurred, *i.e.*, about 9.80 crores. Government had therefore to raise 29.25 crores in 18 months. And as they had provided for an income 34.11 crores, they expected a surplus of 4.86 crores.

If the expectations were fulfilled, then of course, after 31st March 1933, there would be an easing of the burdens. Relief would come first in restoring emergency cuts in pay, and secondly in taking off the surcharge on the income-tax now to be imposed.

THE DANGERS OF INFLATION

The basic reason for the present proposals of the Government was that it wanted to avoid inflation at all costs, in order to meet the current expenses. If once the process started, the currency of the country was bound to collapse in the course of time. "That was the experience of all the countries whose currencies collapsed after the War. Budgetary deficits met first by borrowing ; then a reluctance of the public to subscribe to Government loans or treasury bills ; then recourse to the note-printing press, and inflation to provide funds to meet current public expenditure ; then collapse in confidence in the currency notes printed faster and faster until the amounts reached astronomical figures ; and finally the complete disappearance of any value to the currency at all. Government wanted to erect a solid barrier against the possibility of India getting on to that slippery slope. That was the reason for its proposals."

SUPPLEMENTARY FINANCE BILL

4th November 1931.

In moving the second reading of the Indian Finance (Supplementary and Extending Bill) before the Legislative Assembly, Sir George wanted to place a few facts and realities before the House. He corrected an error at the outset that he had made in his statement on the financial position; the increase in postal letters was not 6 pies but only three pies: the correction did not affect the estimate of the revenue. Regarding his proposals, he wanted to answer three lines of criticism that had been made against them. He would ask himself three questions and endeavour to answer them. (1) Had the Government relied too much on taxation and too little on retrenchment? (2) If taxation was needed, were the particular proposals made fair and just? (3) Were government trying to raise too much?

The first question could be considered under two heads; cuts in pay and general retrenchment. Regarding the cuts, the General Purposes Sub-Committee had recommended a graduated scale, but Government had not adopted it. Instead, they had imposed a uniform cut of 10%. On this point, the opposition to the Government might be on the ground of finance or on that of justice. Government was able to realise by a uniform cut 128 lakhs but the graduated scale (including the Post and Telegraphs but excluding the Army and the Railways) only gave 102 lakhs. The number of officials getting Rs. 1000/—and more were too few to be of much use. Their salaries came to only 195 lakhs while the salary bill of those getting less than that was 1459 lakhs. The latter had to be hit

if substantial relief were to come to the Government. In regard to the opposition on the ground of justice, he could not agree that income-tax surcharge should be levied on the reduced pay of the higher officials. To do so would be very hard on them especially on those officials who were outside the time-scale of pay. After all, the suggestions of the Retrenchment Sub-Committee would have brought in only 9½ lakhs whereas the Government had realised 26 lakhs according to their plan.

As for allowances and concessions to the higher officers, some were for covering actual expenditure such as travelling expenses and some were additions to pay. The former had substantially been reduced while the latter, the Lee Concessions, were very largely misunderstood. These were either additions to pay or concessions regarding passages, pensions, and medical attendance. The pay had come under the cut; the passages had cost only about 25 lakhs per annum in the last five years and out of this, the share of the Central Government was 5 lakhs; the cost of pensions rose from 1.2 lakhs to 19 lakhs, the present cost being 9 lakhs out of which the share of the Centre was 3 lakhs; and the rest of the concessions all came to 5 or 6 lakhs. In all, the Lee Concessions meant but 14 or 15 lakhs.

The General Purposes Committee for Retrenchment had also suggested income-tax on interest on sterling securities, pensions, and leave pay and allowances received out of India. Now the Income-Tax Act as it stood did not permit the collection of the tax on foreign recipients. But apart from this difficulty, Government could not go against the terms on which the securities had been issued or the pensions earned. Taxes on leave pay etc. could be collected when the officials concerned returned

to India, but that would be unjust as their leave pay was already affected by the cut in pay.

SCOPE OF GENERAL RETRENCHMENT

As for general retrenchment, the Government could not expect much relief in the next year. The railways had effected cuts in pay, and by means of them hoped to save 2 crores next year and 5 crores in 1932-33. The Post and Telegraph Department saved 16.4 lakhs for the next year and the Army 5.25 crores out of which 75 lakhs represented cuts in pay. Regarding Civil Expenditure, the Sub-committees on Public Works and Accounts and on Stores, Stationery, and Printing recommended reductions to the extent of 201 lakhs out of an expenditure of 7.56 crores. And the Government had accepted 180 lakhs or nearly 90%. In the departments not yet scrutinised by Retrenchment Committees, out of an expenditure of 10.76 crores, Government had saved 14.2 lakhs or 13%. In all, Civil expenditure had been reduced by 17.6% or by 3.22 crores.

Government would next turn to consider their efforts in comparison with those of the Inchcape Committee. Then, cuts in Civil expenditure to the tune of 124 lakhs had been proposed and the Government had accepted 63 per cent of them. Now Government had effected 322 lakhs of retrenchment or had accepted 90 per cent of the recommendations. And this was in addition to the pay cuts. Then the total expenditure on the Army and Civil administration was reduced from 85.11 crores to 75.08 crores, i.e., by $11\frac{1}{4}$ per cent in two years. Now Government had made corresponding reductions from 77.59 crores to 64.78 crores, a fall of $16\frac{1}{2}$ per cent. Then army expenditure was reduced from 65.27 crores to 55.63 crores, and that was mainly done by a reduction in the number of troops and by saving on stores which had accumulated on

account of the War. Neither device was now open to the Government, and yet, they had reduced their army expenditure from 55 crores to 46·65 crores.

There now remained only one question to answer, was the Government taking too much from the people? And were the proposals fair? Government thought that they could not take too much in order to regain budgetary stability. Their plans had to be taken as a whole. Parts might undoubtedly be bad, but he asked the members to view them in their entirety.

GENERAL DISCUSSION.

A discussion followed for four days in the course of which a very large number of speakers criticised the statement. They said broadly speaking that there was room for further retrenchment especially in the Military, that the uniform cut in pay was very hard on the low-paid staff, and that the taxes on salt, on the import of raw cotton, on machinery, and on incomes below Rs. 2,000 down to Rs. 1,000 were all affecting the poor very much. By way of constructive suggestions, Mr. B. Das said that if export duty on hides and skins were levied to a moderate extent, the revenues would benefit by nearly 70 or 80 lakhs. Again an excise duty and an import duty on tea would give 1 crore and a similar duty on coffee another crore. A tax on mineral oils including kerosine would yield more than 1½ crores. And in these suggestions, he was supported by Mr. R. K. Shanmukam Chetty who analysed the budget figures and showed that the difficulties of the Government were not new but had commenced nearly five years ago. Ever since then, the Government was having budgetary difficulties. Even during the time of Sir George Schuster, the House had granted extra taxation to the extent of 42·31 crores. The Government had stated that political considerations should not be imported into financial matters. But

Mr. Chetty said that the Government had done just the thing in the matter of cuts in pay, and in that of the Lee Concessions. After all, it was not possible to make that separation so clean and absolute.

Sir George Schuster gave an elaborate reply to many of the points raised at the end. He said that the duty on the import of raw cotton would tend to encourage the growth of long-stapled cotton in the country. The General Purposes Retrenchment Sub-Committee had recommended the abolition of the Ecclesiastical Department. But abolition was not retrenchment. And then there was not much difference between the estimates of possible reduction made by the Committee and by the Government. Some speakers had said that the Government should have anticipated what had befallen the country and taken steps in time. But it was really impossible to have done so. No Government in the world had so anticipated events, and Britain, America, and France were all in difficulties. Next, Sir Walter Layton had been quoted by some speakers in their criticism of the military expenditure. But his point had been, not that military expenditure was high but that other expenses of a beneficial nature were low. He had shown that in Britain the expenditure on defence per head of the population was £2-10-0; but in India it was only £0-3-4. Taxation in India came to 6 % of the national income but in Britain and in Japan it was 20 %. Members had spoken of the law of diminishing returns in respect of the new taxation proposals. But that law did not say that no income would come at all but only that the income would not be proportionate. In India their need was to broaden the basis of the tax system, and no taxes were so sure to yield extra revenue as those on salt on lower incomes etc. Sir Walter Layton had also suggested other taxes such as death duties, excise duty on

matches etc. And they would all have to be considered in time. Regarding the Army, it had been stated that no retrenchment had been effected in the current year. The truth was that no less than 2·30 crores had been cut out of the army budget at the beginning of the year. And if a number of items like the strategic railway expenditure was not included in it, there were others which were included such as pension charges, customs duties etc. He assured the House at the end that only Indian considerations had prevailed with him in framing his proposals and none other. He then moved for the second reading of the Supplementary Finance Bill.

SIR GEORGE SCHUSTER'S BUDGETS

FOURTH BUDGET, 1932-33.

7th March 1932.

The budget which Sir George Schuster introduced into the Legislative Assembly on the 7th March 1932 was an unusual one : it contained no new proposals for taxation. Nor did it suggest modifications or extensions of the plan for raising revenue put forward in the Supplementary Budget of September 1931. Its object was merely to take stock of the financial position generally, and to consider the Ways and Means budget for 1932-33.

The actuals of 1930-31 were better than what the revised estimates of March 1931 showed. Revenue was Rs. 84 lakhs more and expenditure Rs. 26 lakhs less than anticipated-- a total improvement of 110 lakhs. And the actual deficit for the year was Rs. 11·58 crores instead of Rs. 12·68. As regards the general economic position in 1931-32, both exports and imports fell in value to a bare half of what they were two years ago, mainly on account of low prices produced by world conditions. But on the whole, the country had a favourable balance of trade for the first ten months of the current year, worth 71 crores as compared with 43 crores for 1929-30. The reason for this was of course the export of gold. To consider next the effect of the new measures of retrenchment and taxation adopted in September 1931, at that time a deficit was expected in the current year of more than 10 crores and a surplus in 1932-33 of about 5 crores. Realisations however since then showed the position worse on each side by about 3 crores, so that the current deficit would be 13·66 crores and the next year's surplus only 2·15 crores. Taking

the two years together, the Government was thus down by nearly 11.51 crores ; but as they also provided during the same period no less than 13.71 crores for debt redemption, they were in reality on the right side by 2.20 crores.

REVISED ESTIMATES.

As for the present estimates for the current year and for the next, under Customs, the original anticipations for 1931-32 stood at 56.46 crores. But Government was not likely to obtain more than 46.23 crores during the current year, and for the next, their expectations were only for 52.31 crores. The fall in the yield was mainly due to reduced imports of sugar, consequent on the loss of purchasing power in the country. Besides, silver, cotton piece-goods, and liquor all brought in less than expected. Further, on the occasion of the Supplementary Finance Act in September last, import duties on three articles had been imposed afresh, viz., machinery, raw cotton, and dyes. Together, they were expected to yield in 1932-33, 207 lakhs ; but on the basis of their reduced productivity during the current year, they could not be estimated to bring in more than 152 lakhs for the period. By way of Income-tax, the revenue expected in the budget for 1931-32 was 17.44 crores. But the revised estimates were less by 14 lakhs ; and for the next year Government expected 18.73 crores. In September 1931, the minimum income liable to income-tax had been lowered from Rs. 2000 to Rs. 1000. But in spite of this, if the next year's estimate of revenue was still a conservative one, the reason was that due allowance had to be made for deterioration of business. Under Salt, Other Tax-revenue, and Opium, the original estimates were for an income of 10.36 crores during the current year ; revised estimates showed an improvement of 1.15 crores, and for the next year, the figure put down was higher still slightly at 11.64 crores. With reference

to the Commercial departments, Railways would not be able to pay anything towards the general revenues either during the current year or the next. And the Post and Telegraph department after allowing for the full effects of the retrenchment and fresh taxation measures in the next year, would probably show a loss of about 16 lakhs. Under Finance Heads, including Interest Receipts, Currency and Mint Receipts, Interest payments on Debt, and Provision for Reduction or Avoidance of Debt, the next year would be better by 41 lakhs than the current year. Thus on the whole, while the revenue originally anticipated for 1931-32 was 134·87 crores, the revised estimates pointed to 120·77 crores. And during 1932-33, revenue estimates could not be considered safe at anything beyond 129·96 crores.

On the side of expenditure, Civil estimates in 1931-32 came to 23·34 crores. But the revised estimates pointed to 22·65 crores; and the figure for the next year was 20·65 crores. The corresponding amounts for military expenditure were 52·00 crores, 51·76 crores, and 46·74 crores. Thus the total net expenditure for 1932-33 was 67·39 crores, or 11·84 crores less than for 1930-31 and 7·95 crores less than the original estimate for the current year. Retrenchment on the Civil side was able to save for the next year no less than 433 lakhs. This figure represented 87% of the economies suggested by the various Sub-Committees for Retrenchment whose figure was 499 lakhs. There were however a few items of expenditure for which the Committees working on the budget figure for 1931-32 could not make any allowance. Thus time-scale increments in pay became due automatically. Secondly, there were some apparent additions to expenditure on account of, for example, the Government of India taking over the administration of Aden, increased income-tax staff, etc. Thirdly, there were unavoidable outgoings on account of the Round Table Conferences,

Delhi Conspiracy Case etc. These three items were responsible for 35 lakhs, 29 lakhs, and 89 lakhs respectively, or for a total expenditure of 153 lakhs.

The Military authorities were carrying on the retrenchment campaign on an 18 months plan. And in the current year, they had so far succeeded that they were able to meet out of savings the entire cost of the troops employed in suppressing the Burma Rebellion which came to 30 lakhs, and were further able to carry forward 21 lakhs towards the payment of terminal charges in 1932-33. For the next year, they had accepted a cut of $5\frac{1}{2}$ crores over the 1931-32 budget figure. And that, they had spread in the following manner: 1.40 crores on cuts in pay, 3.10 on measures of recurring expenditure, and 1 crore on postponement of progress with the special re-equipment program. These were not recurrent savings, even the second being accounted for by the eating down of stocks and the postponement of essential buildings. And they would have to be given up as soon as conditions permitted. Besides, if the cost of food-stuffs rose, military expenditure also would have to rise correspondingly. It was therefore important that the House did not consider the budget figure of 46.76 crores for 1932-33 as representing "a new standard level of standing charges."

PROTECTION AND REVENUES.

Commenting on the general budgetary position as described above, the Finance Member then said that there were two important points to be borne in mind. The first was the effect of the recent protective policy on the revenues of the Government. Till a few years ago, cotton piece-goods and sugar were the largest individual items of revenue. But today, even with higher duties, they were not yielding enough. Naturally, as the protective effect

of a duty increased, its revenue producing capacity decreased. And accordingly it was necessary that Government should have a properly balanced machinery of taxation at its command, and devise means of getting increased revenue through income tax or otherwise. The second noteworthy fact related to the direction in which reserve powers of taxation could be exercised in an emergency. And this could be seen by examining how the estimates of revenue from increased taxes and from new taxes were working out. Broadly speaking, sugar, silver, liquors, tobacco, motor cars, and all articles subject to the basic rate of 30% and known as luxury articles showed a heavy falling off. On the other hand, some necessities like kerosine, salt, betel nuts, and spices responded very well to the increases in duty and brought in substantial returns. The conclusion therefore was clear that in time of emergency, if a Finance Member needed to raise extra revenue, his most sure and reliable course was to impose slight increases in the taxes which fell on the masses of the population. Of course, other sources of increased revenue like direct taxes should not be left untapped. A third important feature of recent Indian finance was the increased pressure on tax revenue due to deterioration in yield under other heads of Government receipts like Commercial departments, Finance heads, and Opium receipts. For the five years from 1923-28, the receipts from these heads averaged 15.71 crores annually. But in 1932-33, the estimates under them came to only 4.83 crores. In other words, Government would hereafter have to rely mainly on tax-revenue, and even in regard to that, it would have to explore in larger measure the possibilities of direct taxation. In any emergency, if indirect taxes were to be raised at all, articles of need alone could be relied upon and not articles of luxury.

THE INCIDENCE OF TAXATION.

The general discussion this year was rather featureless; indeed at one stage, the House had nearly no quorum, such being its lack of interest in the proceedings. But some important points were made, relating mainly to retrenchment and the burden of taxation. Mr. Bhupat Singh complained that Government had not taken to real retrenchment. Its so-called retrenchment meant only that men at the bottom were axed. He asked for the numbers of the Imperial Service European officers whose posts had been retrenched. And even when a cut in pay was made, in the case of highly paid officers, the effect of the cut was neutralised by merging the cut in salary with the surcharge on income-tax. Sir Abdur Rahim, who was Chairman of one Retrenchment Sub-Committee wanted to know how far Government had kept in view the principles of retrenchment enunciated by the Committee. They had laid down that if certain officials were to be dismissed, the departments should begin with those who were on the verge of retirement so as to cause the least hardship possible. Secondly, the policy of Indianisation was in no way to be affected by the way in which retrenchment was carried out. And thirdly, in the case of those retrenched before pension was earned, ample compensation was to be given to them, as, after a certain age, they could not be expected to find employment elsewhere. In regard to the burden of taxation, there were no two opinions in the House. Mr. Mody accused the Government of not having done anything to fight the depression till a few months ago though it began in 1929. The country had reached the very limits of taxation, and could not bear any more of it. Mr. Bhupat Singh accused the Government of intentional over-budgetting and adopting a policy of drift with the hope that trade might revive and prices go up. Government had tried to increase revenue by raising

import duties, postal and railway rates ; but they had never realised the expected revenue. The incidence of taxation however was a subject of hot controversy between different sections of the House. And in particular Mr. Mody and Mr. N. M. Joshi might be said to be the chief protagonists on either side. The former said that Mr. B. Das spoke with his tongue in the cheek in saying that the richer classes were not being taxed and that the burden was falling on the poorer classes. And he proceeded to show that out of a revenue of 80 crores, nearly 70 crores, *i. e.* 52 crores Customs, and 18 crores Income-tax, were being paid by people who could not be called poor. This promptly roused Mr. Joshi who proposed to show from whom the revenue was obtained and on whom it was spent. He said that Mr. Mody was giving loose rein to his tongue when saying that the 52 crores obtained from Customs fell on the richer people. The Government got 61 crores of rupees from indirect taxation and only 18 crores by direct taxation and that showed "there is no proper adjustment of taxation in the country.....The proper principle of taxation...is that the burden should fall on the people according to their ability to bear it." As for the way in which government spent their money, no less than 46 crores was for the army, which existed only to protect the lives and property of the rich. "The statement of Karl Marx that the workers of the world have nothing to lose but their chains still remains true." The reply of Sir George Schuster in the matter of the incidence of taxation was very non-committal. He stated he did not really want to tax the poor, but had merely put before the House "an absolutely impartial objective view of the facts "

WAYS AND MEANS POSITION

As for the Ways and Means position during the current year, the figure provided in the original estimates

was 52.84 crores, but actually, it had mounted up to 63.15 crores. An important feature of the year was the large expansion of currency that was made by the Government. During the previous two years, currency was being contracted in order to avoid an inflationary position in India in view of the fall in world prices. But in September 1931 Britain went off the gold standard, and when the rupee was linked to sterling, there was need for expansion. And in the net, the processes of contraction and expansion had resulted in an addition to the currency of 35 crores. Regarding loans, it was expected that the £ 15 million 5½% sterling loan maturing in January 1932 could be converted by the flotation of another sterling loan. But only £ 10 millions has been realised in that way and the remainder was paid out of the Home Treasury balances. The rupee loan brought in 16.95 crores as against 15 crores expected, the response being very satisfactory as the loan was kept open "on tap" for nearly three months, and special facilities were given for subscriptions at Post Office Savings Banks by small investors. Railways had been expected to show a surplus of 122 lakhs and to pay 536 lakhs to the general revenues by raiding their reserves to the extent of 414 lakhs. But they showed a deficit and would not be able to pay any contribution. With provincial drawings, government had been very strict and had not allowed any new schemes to be taken up. But even so, the drawings had been 6 crores more than expected. And over and above all these, there was the current deficit which would go to swell the public debt.

The next year, Railway capital expenditure would not be more than 4.15 crores as compared with 29.35 crores in 1928-29, and 30.16 crores in 1929-30. As for the borrowing program, Government had the option to repay

the 6% sterling bonds 1932-33 on the 15th of June 1932. And they had decided to repay. For that purpose, if exchange continued favourable, a sterling loan would not be needed but only a rupee loan. And in addition a 14½ crores rupee loan would be floated to provide for the repayment of the 6% bonds 1932 falling due on 1st October 1932. Home Charges were expected in the original budget for the current year to come to about £33½ millions. Exchange however was so weak during the first six months that not only was the Government not able to purchase sterling, but had to sell £14 million from out of the securities in the Reserves. But with the abandonment of the gold standard by Britain, matters improved, thanks to the export of gold, and the Government hoped to be able to remit no less than £35½ millions through the market. If sterling purchases exceeded this amount, the surplus would be added to the currency reserves. The closing balance in the Home Treasury at the end of the year would be about £10.80 millions.

TWO CRITICISMS

Sir George Schuster then took up for refutation two criticisms of Government policy that were being made by the public. One of them was "that the recent expansion of the currency is not justified by any rise in rupee prices; and that the Government is in effect using the note-printing press to meet its own requirements, thereby causing a dangerous inflationary position." It was natural that so long as the Government was also the currency authority, people should say that its currency policy was dictated by revenue considerations. But the very best reply to that criticism was the great improvement seen in the credit and exchange position of the Government. If currency had been expanded beyond the needs of the

market, exchange would have readily weakened. To give figures, during the last two years, Government had contracted currency of the value of $43\frac{1}{2}$ crores. And during the current year, they had expanded it by 35 crores, so that they had yet $8\frac{1}{2}$ crores worth of ground to cover, before attaining the original position. The expansion carried out had fully been responded to by the public which had absorbed the increased currency. In this connection, it was necessary to note that in India contraction and expansion of *credit* had not yet taken the place of the contraction and expansion of currency, as in a modern western country.

The other criticism was with reference to the export of gold. Such export could be either from the monetary reserves, or from private holdings. Indian exports had not been from the reserves which in fact had increased during the current year. It was private gold that had gone, and about 50 crores worth of it. But during the last 30 years, the country had imported no less than 700 crores worth of the yellow metal, and thus, her present exports were quite insignificant in amount. Besides, India had an adverse balance of trade now, and the gold exports were creating for her a favourable balance. If however Government were asked why they did not purchase the metal and build up reserves, he would reply first, "for the Government as currency authority to buy gold, now that the currency is divorced from gold, would be a pure speculation." Secondly "The Government could not afford to buy and hold all the gold that is being offered now, for it has its external obligations to meet." Thirdly, "if currency reserves are required, and if we could now afford to accumulate them, we have already our proper proportion of gold. It is rather for external securities that we need to provide an

ample margin of reserves." And lastly, "we are indirectly acquiring sterling securities against the gold exports so far as the proceeds are not required to meet the balance of payments due on private account. So far as our financial position permits of it, we shall use these securities to increase our currency reserves." The House was openly suspicious of this elaborate defence of gold exports. Mr. Nabakumar Sing Dudhoria said that the unrestricted gold exports from India were intended to benefit Britain which was getting gold-depleted. And Sir Abdur Rahim joined him in the complaint. These two could be taken to represent the general feeling of the House on the matter.

This year, Dr. Ziauddin Ahmad was a particularly stern critic of the loan policy of the Government. He said that during the last six years, Government had given a loan of 160 crores to the railways. Out of this amount, 46 crores had been invested in new capital yielding an income of 1%, and the remainder had been spent on running lines, and yielded no income. Government had borrowed the money at 5.7% and had lent it to a railway concern which was yielding a profit of 3.4%. This was of course not a business proposition. "The net result is that we are paying an amount of about 55 crores a year as interest on our undertakings; and out of this we expect to get only 41.71 crores from the commercial concerns: and most of it also is a paper transaction. The remaining 13 crores are to be collected from our tax-payers." As for the expansion of currency, it could have been justified only if there had been increased trade. But trade was diminishing, and the expansion was only calculated to replace the gold that people had sold with notes on paper or on silver. Gold was coming into the market because of dire necessity, and when the stocks of the metal were exhausted, the financial crisis would begin in the land.

Amidst the surrounding gloom, said Sir George Schuster, there were a few signs of encouragement. The amount invested in Post Office Cash Certificates during the current year was no less than 6 crores as compared with 4.5 crores which was the average for the last eight years. Then the increase in the Post Office Savings Banks deposits was about 120 lakhs as against a decrease of 10 lakhs in the last year. And subscriptions by small investors to the $6\frac{1}{2}\%$ Treasury Bonds were about $6\frac{1}{2}$ crores out of a total of 16.95 crores. Besides, Government securities and other stock had improved considerably in value. The House did not agree with some of these opinions. For example, Mr. Nabakumar Sing Dudhoria and Raja Bahadur Krishnamachari among others said that increase in the value of the Post Office Cash Certificates and in the Post Office Savings Banks deposits did not mean the prosperity of the poorer people but only of the richer classes. All the same, in his concluding words, the Finance Member struck a note of keen optimism. "If we look around the world in the present times of difficulty," he said "we may fairly claim that there is no country in the world whose intrinsic financial position is sounder, or whose ultimate prospect of economic advance in the future is more bright."

The reductions made by the Legislative Assembly in the Demands presented to them consisted of two token cuts of Rs. 100 each in Demand No. 28—Executive Council. These were accepted. They do not however affect the figures in these statements which are in round thousands of rupees.

BUDGET FOR 1932-33.

General Statement of the Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1931—32 and for 1932—33.

(In Thousands of Rupees)

REVENUE.	1930-31 Accounts.	1931-32 Budget Estimates.	1931-32 Revised Estimates.	1932-33 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	46,80,76	56,45,97	46,22,55	52,31,27
Income-Tax ...	16,00,33	17,44,54	17,30,49	18,73,38
Salt ...	6,83,22	7,05,00	8,48,03	9,43,40
Opium ...	2,53,27	2,15,58	1,98,24	1,82,63
Other Heads ...	2,03,22	2,21,46	2,15,08	1,79,39
TOTAL PRINCIPAL HEADS.	74,20,82	85,32,55	76,14,39	83,60,07
 Railways: Net Receipts (as per Railway Budget) ...	 39,13,71	 39,54,02	 33,86,51	 34,18,44
Irrigation (Net Receipts) ...	4,83	13,75	9,39	1,86
Posts and Telegraphs (Net Receipts) ...	- 60,31	- 40,21	- 42,54	78,99
Interest Receipts ...	3,38,43	2,91,99	2,24,89	1,80,12
Civil Administration ...	96,87	1,03,45	95,09	90,11
Currency, and Mint ...	1,24,30	63,34	1,85,25	3,31,17
Civil Works ...	27,15	24,85	23,40	26,79
Miscellaneous ...	95,64	73,89	1,58,33	66,87
Military Receipts ...	3,98,90	4,47,57	4,06,60	4,17,96
Provincial Contributions and miscellaneous adjustments, between Central and Pro- vincial Governments. ...	...	...	...	...
Extraordinary items ...	99,20	30,44	15,63	23,91
 TOTAL REVENUE ...	 1,24,59,55,721	 1,34,86,64,000	 1,20,76,94,000	 1,29,96,29,000
 DEFICIT ...	 11,58,44,974	 ...	 13,65,84,000	 ...
 GRAND TOTAL ...	 1,36,18,00,695	 1,34,86,64,000	 1,34,42,78,000	 1,29,96,29,000

BUDGET FOR 1932-33.

General Statement of Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1931-32 and for 1932-33.

(In Thousands of Rupees)

EXPENDITURE.	1930-31 Accounts.	1931-32 Budget Estimates.	1931-32 Revised Estimates.	1932-33 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue.	4,33,10	4,40,34	4,20,55	4,16,64
Forest and other Capital Outlay charged to Re- venue ...	4,02	2,16	1,22	3,16
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	33,40,14	34,18,00	33,86,51	34,18,44
Irrigation ..	35,57	22,10	21,61	4,32
Posts and Telegraphs ...	95,06	42,40	38,19	1,01,25
Debt Services ...	17,42,13	18,77,40	20,02,80	19,92,35
Civil Administration ...	13,33,81	13,06,36	12,32,40	9,64,93
Currency, and Mint ...	96,96	78,71	1,04,01	70,02
Civil Works ...	2,62,62	2,41,28	2,22,68	1,94,19
Miscellaneous ..	4,30,08	4,08,92	4,20,06	4,00,09
Military Services ...	58,28,90	56,47,57	55,82,60	50,91,96
Miscellaneous adjustments between Central and Provincial Governments...	...	...	...	1,02,00
Extraordinary items ...	15,62	25	10,15	22,10
TOTAL EXPENDITURE CHARGED TO REVENUE ...	1,36,18,00,695	1,34,85,58,000	1,34,42,78,000	1,27,81,45,000
SURPLUS ...	...	1,06,000	...	2,14,84,000
GRAND TOTAL ...	1,36,18,00,695	1,34,86,64,000	1,34,42,78,000	1,29,96,29,000

BUDGET FOR 1932-33.

General Statement of the Receipts and Disbursements of the
Central Government in India and in England
for 1930-31 and for 1932-33.

(In Thousands of Rupees)

RECEIPTS.	1930-31 Accounts.	1931-32 Budget Estimates.	1931-32 Revised Estimates.	1932-33 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	...	1,06	...	2,14,84
Railway Capital not charged to revenue				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	..	...	...	...
Debt, Deposits, and Ad- vances				
Permanent Debt (Net incurred) ...	46,97,54	10,21,62	1,20,70	...
Floating Debt (Net in- curred) ...	...	...	37,99,70	49,20
Unfunded Debt (Net incurred) ...	5,78,41	9,69,72	9,87,94	11,71,03
Deposits and Advances (Net) ...	...	7,44,48	...	6,73,02
Railway Depreciation and Reserve Funds as per Railway Budget (net) ...	...	1,04,38	...	51,21
TOTAL DEBT, DEPOSITS, AND ADVANCES ...	52,75,94,879	28,40,10,000	49,08,34,000	19,44,46,000
Remittances (Net) ...	6,15,123	6,47,000	3,29,000	4,37,000
Balance of Provincial Governments (Net) ...	...	...	...	1,02,68,000
TOTAL RECEIPTS ...	52,82,10,002	28,47,63,000	49,11,63,000	22,66,85,000
Opening Balance—India...	25,76,33,677	12,74,69,677	17,28,23,746	10,18,90,746
England...	8,51,57,683	6,46,96,683	7,40,43,787	14,71,59,787
GRAND TOTAL ...	87,10,01,362	47,69,29,360	73,80,30,533	47,56,85,533

BUDGET FOR 1932-33.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1930-31 and for 1932-33. (In Thousands of Rupees)

DISBURSEMENTS.	1930-31 Accounts.	1931-32 Budget Estimates.	1931-32 Revised Estimates.	1932-33 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit	11,58,45	...	13,65,84	...
Railway, Irrigation, Posts and Telegraphs and other Capital outlay not charged to Revenue				
Capital outlay on Security Printing press	4,02	-3,94	-3,94	4
Construction of State Railways	13,20,87	11,45,00	8,35,00	4,15,00
Discharge of Debentures (as per Railway Budget)	...	...	...	...
Construction of Irrigation Works	28	67	15	...
Capital outlay on Posts and Telegraphs	-3,68	91,30	87,63	23,15
Capital outlay on Vizagapatam Port	38,73	43,18	37,52	55,55
Capital outlay on Light-houses and Light-ships	-13	...	-2	...
Currency Capital outlay	1,35	5	1	4
Initial Expenditure on New Capital at Delhi	48,27	24,72	12,22	...
Payment of commuted value of pensions	42,66	37,38	38,26	46,55
Capital outlay on Bombay Land Scheme	2,10,37	...	...	...
Payment to Retrenched Personnel	...	...	10,00	25,00
TOTAL CAPITAL ACCOUNT DISBURSEMENTS	16,62,74,008	13,38,36,000	10,16,83,000	5,65,33,000
Debt, Deposits and Advances				
Permanent debt (Net Discharged)	...	...	...	12,06,19
Floating Debt (Net Discharged)	6,59,36	5,39,60	...	...
Deposits and Advances (net)	31,33	...	4,39,45	...
Railway Depreciation and Reserve Funds as per Railway Budget. (net)	9,24,82	...	4,29,08	...
TOTAL DEBT, DEPOSITS AND ADVANCES	16,15,50,515	5,39,60,000	5,68,53,000	12,06,19,000
Loans and Advances by Central Government (Net Advances)	10,97,02	7,49,71	14,09,60	11,90,96
Balances of Provincial Governments (Net)	7,70,63	3,21,00	2,29,00	...
TOTAL DISBURSEMENTS	62,41,33,829	29,48,67,000	48,89,80,000	29,62,48,000
Closing Balance—India	17,28,23,746	12,03,84,677	10,18,90,746	11,36,83,746
England	7,40,43,767	6,16,77,683	14,71,59,787	6,57,53,787
GRAND TOTAL	87,10,01,362	47,69,29,360	73,80,30,533	47,56,85,533

SIR GEORGE SCHUSTER'S BUDGETS

FIFTH BUDGET, 1933-34.

28th February 1933.

Sir. G. Schuster began his budget speech this year by casting first a comparative glance at the position in September 1931 when the Emergency Budget was introduced for 18 months till the end of March 1933. He said that on the whole the plan adopted had worked very well. The results for 1931-32 showed, after a provision of 7 crores for Reduction of Debt, a deficit of $11\frac{3}{4}$ crores, which was 2 crores less than what was expected. And in the current year, after similar provision for debt, they expected a surplus of 217 lakhs. Thus, after a debt provision of 13.73 crores, there was a total budgetary deficit of 9.58 crores. This was very nearly what was anticipated in September 1931.

In 1932-33, the monsoon had been fairly good, but prices had not risen to any extent. It was anticipated that the linking of the rupee with the fallen sterling would mean improved prices, but it had not turned out to be so. World conditions were too bad to allow of improvement in India's case. Naturally, therefore, her exports had fallen considerably. For ten months in 1932-33, they were only $110\frac{1}{2}$ crores as against $134\frac{3}{4}$ crores last year. Besides, the fall was more in quantity than in prices. Taking 1913-14 prices as 100, the index figures for the main articles of export were 77 for 1931 and 79 for 1932. Perhaps, the most remarkable fall in exports was in the case of cotton. The export of the commodity in the current year was only 46 per cent of the average quantity exported during the ten years ending with 1930 and in terms of value was only

23 per cent. On the other hand, imports did not fare so badly, the figures being 84 for 1932 and 87 for 1931, in comparison with the index figure of 100 in 1913-14. Their total value during the first 10 months of the year was $112\frac{3}{4}$ crores or $7\frac{1}{2}$ crores better than in the previous year. In particular, owing to the absence of non-economic factors, such as boycott, cotton piece-goods came in for more than 7 crores than during the last year. Raw cotton was also another important item of import, being in greater demand for Indian mills. Sugar was declining as an article of import rapidly and motors also showed the same tendency.

FEATURES OF INDIA'S TRADE.

On these features of India's trade, Sir George then made a few comments. He classified articles into luxury articles, like tobacco, liquors, motor-cars, requirements of industry, like cement, lubricating oil and chemicals and necessities for the masses like kerosine, salt, and cotton piece-goods. Taking the average for the period from 1920 to '30, he said that consumption of necessities had not fallen at all in 1932. Piece-goods were up by 18 per cent, kerosine by 1 per cent and salt by 7 per cent. In regard to industrial requirements, the fall was 78 per cent and to luxuries, 70 per cent. From these figures, he drew the conclusion that India showed an extraordinary power of resistance, in spite of diminished purchasing power, particularly in regard to necessities. Her balance of trade thus was adverse, but even with an even balance, she could not get on as her invisible imports had all to be paid for. And this she had done in the current year by the export of gold. On the 112 crores worth of goods she had imported, the customs duty came to 38 crores. And as her exports came only to 110 crores, the rest she had paid for in gold. In other words, 40 crores worth of gold had been used to pay for consumable goods.

This point gave the Finance Member an opportunity to defend the gold exports so strongly criticised throughout the land. He said that what really happened was that one form of investment had only been transformed into another. During a period of exceptional difficulty, the community had drawn on its reserves of gold and there was nothing unnatural in it. Besides, at a time when international trade was at a very low ebb, owing to tariff barriers and certain other reasons, India, by sending out her gold which was lying idle, to parts of the world where it was needed, had in reality increased the purchasing power of her customers and thereby aided her own fallen exports. There was a third point on the credit side too. On account of the sale of gold, the people had made vast profits and the fact that the poor had benefited also in the process was shown in the figures for Post Office Cash Certificates and Saving Bank Deposits which compared very favourably with those for the period from 1917. Next Sir George Schuster took up the criticism of those who said that the Government should have purchased all the gold in the market and not have allowed it to go out of the country. Since September 1931, during a period of fifteen months, 107·08 crores of gold had gone out of India and roughly the people had acquired export balances in external currency worth nearly £80½ millions. Besides, the excess of exports over imports in the period came to about £15 millions, so that the total external balances came to £95½ millions. And out of this amount, Government had acquired £69½ millions while the rest £25½ was retained on private account. As to what Government had done with the £69½ millions, it had used £34 millions in meeting ordinary recurrent commitments, £15 millions in discharging a 5½% sterling debt which matured on January 1, 1932, added £11 millions to its currency reserves and the balance of £9¼ millions roughly, to Treasury Balances.

On the whole, then, £34 millions had gone towards recurrent expenditure and £35½ millions for strengthening the position in view of the Reserve Bank to be established. As for the £25 millions retained on private account, roughly £14 millions was spent on normal current requirements, such as sea-freights, interest on foreign capital invested in India, etc. And the balance of £11½ millions was used in repaying money invested in Treasury Bills by foreign banks. Thus, both from the view of public finance and of private investment, the gold that had gone out had been made very good use of.

EFFECT ON TAX REVENUE.

Turning next to the effects of the general economic position on the tax revenue of the Government, the Finance Member said that during the current year, the yield under salt and kerosine was near anticipations. But that under cotton goods had increased on account of the increased duty imposed on non-British goods on 30th August 1932. The revenue from artificial silk goods, raw cotton and machinery had also been satisfactory. On the other hand, the development of the sugar industry was seriously affecting the customs duty on sugar imports. Motor cars and cycles were also showing very reduced figures while luxuries like tobacco, liquors and spices were standing up. As for the estimates under Customs for 1933-34, Sir George felt that the general position would be the same as during the last year. Sugar would probably yield less by a crore and cotton-piece goods would be down by about 30 lakhs due to the absence of the abnormal features of the previous year. On the whole, the estimates under Customs for 1933-34 might be taken to be about 51·25 crores or 104 lakhs less than during the current year.

Income-tax in the current year was expected to bring in 17·70 crores. And to this, had to be added a sum of

53 lakhs, in the estimates for 1933-34, which represented the tax on official salaries till now exempted. Thus the next year, income-tax would bring in 18·23 crores roughly. Salt would bring 7·58 crores and Opium 62·69 crores net. In regard to Debt Service and Finance Heads, the Government had floated conversion loans as a result of which 34 crores worth of treasury bill outstandings had been reduced. The total non-specific debt of the Government was 450 crores out of which Railway debt represented nearly 300 crores or two-thirds. The one sterling conversion loan of the year and the four rupee conversion loans together went to reduce interest charges by 79 lakhs (i.e.) by 53 lakhs in the case of Railways and about 26 lakhs in the case of the general revenues. These transactions related only to Ordinary Debt. As for "Other obligations" represented by P. O. Cash Certificates and Provident Funds, there would not be any reduction of interest. Lastly, there was the War-Debt. Provision had been made for repaying it by equated annual instalments extending over a period of 20 years. And the arrear of interest for a year suspended under the Hoover moratorium had been debited under Interest head and credited to a suspense account. In regard to "Finance Heads" (i.e.) to reduction and avoidance of debt, provision had been made of 688 lakhs for the next year as against 684 lakhs in the current year according to the existing convention. In regard to commercial heads, there was no need to say anything about the Railways. And the Post and Telegraphs were not satisfactory, the loss being 57 lakhs as estimated for the next year as against 48 lakhs in the current year.

Turning next to Civil expenditure during 1932-33, the Finance Member said that the revised estimates showed an addition of 24 lakhs to the budget estimates of 1932-33 (i.e.) an increase from 20·65 crores to 20·89 crores. This

was not, however, due to lack of retrenchment, but only to special items which together came to 68½ crores. Thus, the fact was that retrenchment had gone farther than anticipated at first. As for the estimates for 1933-34, the figures was 20·53 crores and this in spite of special items involving 96 lakhs. One of them was 28 lakhs, being the value of the restoration of the salaries cut by half. In other words, increase of expenditure was 60 lakhs and reductions were 96 lakhs and therefore a net reduction of 36 lakhs in civil expenditure from 20·86 crores in 1932-33 to 20·53 crores in 1933-34. With regard to military expenditure, prices had considerably fallen and the re-equipment programme was still being financed from reserves. Partly on account of these reasons, the figure was only 46·20 crores for 1933-34 as against 46·74 crores in the current year, (*i.e.*), there was a fall of 54 lakhs. But the restoration of the cut had put an extra charge of 52½ lakhs to be borne. In effect, there was a reduction of no less than 106½ lakhs in military expenditure. Thus, on the whole, for 1933-34, the anticipated surplus would be 175 lakhs less than in 1932-33 or about 42 lakhs in substance. The estimated revenue was 124·54 crores, the estimated expenditure 124·10 crores, as against 127·13 and 124·96 crores respectively, according to the revised estimates for the current year.

SOME NEW PROPOSALS.

Budget proposals for 1933-34 were next taken up. And in doing so, Sir George Schuster dealt at first with the restoration of half the pay cut in the salaries of officials. He said that Government was bound to consider the question after 31st March 1933 and that they had decided on partial restoration as the economic situation had greatly improved. Further, the exemption from income-tax surcharges and from the tax on incomes below Rs. 2,000 of

Government servants had been withdrawn. Thereby, while the restoration itself cost about 108 lakhs, as much as 53 lakhs was recovered in regard to charges, and the net increase in expenditure was thus only about 55 lakhs. So long as Government had not fully restored their salaries to its servants, it did not feel justified in removing the surtax on incomes that now existed. But at the same time, in view of the existing economic situation, it did not like to go farther in the matter of removing the cut. In regard to customs duties, no reduction was contemplated in the high import duties on silver and sugar existing at present. No change was also contemplated in the high rate of income-tax. But there were three changes that were proposed. On the uppers for boots and shoes a minimum specific duty of half the rate applicable for completed shoes and boots would be imposed. Next non-British cotton piece-goods were now paying 50% import duty, while mixtures in which silk or artificial silk was included paid only 34 $\frac{3}{8}$ %. This difference made importers include a nominal quantity of silk in cotton-goods and thereby escape the higher duty. What was therefore now proposed was to charge 4 annas per square yard for pure goods and 2 annas 3 pies for mixtures. The third change related to the imposition of stamp duty on cheques, and it was intended to benefit the Provincial Governments only.

WAYS AND MEANS.

The Finance Member next turned to the Ways and Means position. He said that in 1932-33 the credit of the Government had risen very much and in the result, there had been considerable strengthening of the currency reserves and loan commitments had also been largely funded. Immediately after September 1931, there was very great demand for currency and Government issued 35 crores against treasury. But in the course of time, it

was possible to substitute sterling securities for treasury bills and this had been done to the tune of about 14·39 crores. As to loans, there had been one sterling loan and four rupee loans during the year, all of which together yielded 100·78 crores at 4 to 5½%. These were all conversion loans and the process had been of great benefit to India. Post Office cash certificates and Savings Banks deposits were exceptionally large being no less than 14·35 crores. Railway capital was estimated only at 81 lakhs. The gross receipts denoted a heavy fall and a raid had to be made on the Depreciation Fund in the form of a loan of 934 lakhs. The accretion to the fund in the year was 815 lakhs so that it was worse off only by 119 lakhs. Provincial drawings were only 564 lakhs as against the anticipated figure of 1,062 lakhs, the reason being the drastic retrenchment in the capital programme of the Provinces. Thus, the revenue surplus was expected to be 217 lakhs as opposed to 215 lakhs budgeted for. During 1933-34, the capital expenditure was not likely to be more than 330 lakhs on the Railways and 424 lakhs for loans to the Provincial Governments. This reduced capital expenditure meant that Government would be further able to reduce treasury bills by 8 crores and still have about 17 crores for meeting maturing liabilities. The need for borrowing afresh was not great. There were the £7 millions 6 per cent sterling 1933-35 bonds in London and there was also the unconverted portion of rupee debts worth about 30 crores. Both these had to be paid. In regard to the Home charges, the exchange was steady and purchases of sterling from the middle of August amounted to £39 millions. The normal requirements of the year were calculated at only £24 millions so that about £15 millions were left over for strengthening the reserves of currency. This was a high figure, but Sir George preferred to adhere to it.

Concluding his long speech, the Finance Member said that the position had considerably improved since September 1931. In the field of finance, the chief features were: (1) the re-establishment of the budgetary equilibrium, (2) the great improvement in Government credit and (3) the creation of cheap money conditions. This satisfactory result had been achieved only with great effort but they could not afford to relax yet. It was necessary to hold on for a time longer before permanent relief could be expected. India's position in this respect was not peculiar at all but was only what almost every country was passing through.

GENERAL DISCUSSION

In the course of the discussion, attention was mainly devoted by members to two important subjects only, to the gold exports and the 50 per cent restoration of salary cuts. But of course various other matters were also referred to. The ball was set rolling by Sir Leslie Hudson who said that agricultural distress in the country was very keen and the gold that had been exported had only been distress gold. This point was emphasised by many others who in effect said that a balanced budget did not necessarily mean prosperity of the people. The actual figures therefore presented to the House were a very false indication of the state of the people. Sir Leslie Hudson said that if an embargo was not laid on gold exports, at least an export duty might be levied for the benefit of the Government. Dr. Ziauddin complained that the profits of 93 crores made by the Government out of the exports had not been used most beneficially. Sir Abdur Rahim pointed out that the increase in the Post Office Certificates was no sure sign of peasant prosperity: it was really due to profiteers. In view of this wretched state of the poor, members failed to see how half the cut in salaries could

have been restored with justice. Mr. S. C. Mitra pointed out that while Government defended its action on the score of sanctity of contract, they were not equally anxious to enforce their contracts when the Services asked for increment on the ground of fallen exchange. And similarly, Mr. B. Das complained of the Lee Commission grants to the Services when the question of contract was never thought of. Mr. Ramaswami Moodaliar argued that as the pay cuts were emergency cuts, they had to continue as long as the emergency continued, as in Britain.

On the other hand, the members were sorry that no relief had been given to the tax-prayer at all. The minimum level for income-tax could have been raised to Rs. 1500 and relief could have been granted in regard to sur-tax also. Again, postal rates remained as high as ever. In particular, Mr. Lahiri Choudary and Mr. S. C. Mitra were very emphatic regarding the Postal Department. The latter wanted the Posts to be separated from Telegraphs while the former complained that depreciation charges were being over estimated by the department. Further Government unjustly sought to impose stamp duties on cheques and on this point strong feeling was shown by Messrs Rameswar Singh and Har Bilas Sarda. The usual cry in the wilderness was raised against the heavy military expenditure by Dr. Gour, while among other suggestions made to the Government were the following: Dr. Ziauddin wanted the export duty on hides and skins to go. He also said that as 114 cwts. of sugar were needed to prepare 100 cwts. of candy, Japan was importing candy straight away, thus evading to some extent the full customs duty. Steps were needed to prevent this, Sir Abdur Rahim wanted to check the outlay of capital on Railways and Mr. B. Das wanted that kerosine and gambling on the Stock Exchange should

both be taxed. Mr. O'Sullivan wanted Death duties in India as in Britain, while Mr. Ramaswami Mudaliar suggested a conversion loan in Britain.

In replying to the debate, the Finance Member, Sir George Schuster, said that he did not deny the situation of the country was bad. Indeed, he had only told the House that "the story.....of the public finances of India is a simple, and *viewed merely as a matter of public finance*, a satisfactory one" (*Italics mine*). He assured the House that the subject of a Sterling Conversion Loan was not far from his mind. As for his having provided for the repayment of War Debt, there was no reason why the Government of India should default in that respect if some of its own debtors did. As for a railway capital programme, he was not pushing it forward at all. But the country needed road development now. Lastly, there was very little that the Government of India could do to raise the general level of prices. Action in the matter had to be taken only by Britain for all countries which were off the Gold Standard.

The reduction made by the Legislative Assembly in the Demands presented to them consisted of a token cut of Re. 1 in Demand No. 39—Army Department. This was accepted. The Indian Finance Act, 1933, as passed by the Legislature involved a reduction of Rs. 17 lakhs in the income-tax revenue for the year 1933-34 as previously forecasted. This reduction, had the effect of reducing the estimated revenue surplus from Rs. 41,61,000 to Rs. 24,61,000. The other changes as made by the Legislature were inappreciable in their effect on the revenues of the Central Government.

BUDGET FOR 1933-34.

General Statement of the Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1932—33 and for 1933—34.

(In Thousands of Rupees)

REVENUE.	1931-32 Accounts.	1932-33 Budget Estimates.	1932-33 Revised Estimates.	1933-34 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	46,43,67	52,31,27	52,28,55	51,24,60
Income-Tax ...	17,48,73	18,73,38	17,70,00	18,06,00
Salt ...	8,57,93	9,43,40	10,38,00	8,75,00
Opium ...	2,07,42	1,32,63	94,92	1,20,05
Other Heads ...	2,19,24	1,79,39	1,90,74	1,89,93
TOTAL PRINCIPAL HEADS.	76,76,98	83,60,07	83,22,21	81,15,58
 Railways: Net Receipts (as per Railway Budget) ...	 33,61,56	 34,18,44	 33,40,90	 33,39,45
Irrigation (Net Receipts) ...	12,79	1,86	1,67	- 14
Posts and Telegraphs (Net Receipts) ...	- 16,34	78,99	33,65	30,41
Interest Receipts ...	2,40,95	1,80,12	1,82,67	1,82,00
Civil Administration ...	94,45	90,11	90,52	82,62
Currency, and Mint ...	1,78,62	3,31,17	3,40,75	1,74,68
Civil Works ...	24,52	26,79	20,92	21,55
Miscellaneous ...	1,56,91	66,87	93,17	57,34
Defence Receipts ...	4,12,74	4,17,96	3,84,78	4,31,67
Provincial Contributions and miscellaneous adjustments between Central and Pro- vincial Governments ...	...	...	...	...
Extraordinary items ...	21,48	23,91	1,79	...
 TOTAL REVENUE ...	 1,21,64,65,714	 1,29,96,29,000	 1,27,13,03,000	 1,24,35,16,000
 DEFICIT ...	 11,74,73,277	 ...	 ...	 ...
 GRAND TOTAL ...	 1,33,39,38,991	 1,29,96,29,000	 1,27,13,03,000	 1,24,35,16,000

BUDGET FOR 1933-34.

General Statement of Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1932-33 and for 1933-34.

(In Thousands of Rupees)

EXPENDITURE.	1931-32 Accounts.	1932-33 Budget Estimates.	1932-33 Revised Estimates.	1933-34 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue.	4,17,59	4,16,64	4,28,92	4,15,94
Forest and other Capital Outlay charged to Re- venue ...	66	3,16	2,83	2,34
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	33,61,56	34,18,44	30,40,90	33,39,45
Irrigation ...	21,52	4,32	5,33	4,74
Posts and Telegraphs ...	25,37	1,01,25	88,26	91,22
Debt Services ...	19,72,39	19,92,35	18,13,97	17,67,36
Civil Administration ...	12,17,55	9,64,33	9,68,02	9,59,22
Currency, and Mint ...	76,09	70,02	69,04	64,19
Civil Works ...	2,20,78	1,94,19	1,83,76	1,93,92
Miscellaneous ...	4,34,15	4,00,09	4,24,45	4,11,76
Defence Services ...	55,88,74	50,91,96	50,58,78	50,51,67
Miscellaneous adjustments between Central and Provincial Governments...	...	1,02,00	96,35	1,00,00
Extraordinary items ...	2,98	22,10	15,62	8,74
TOTAL EXPENDITURE CHARGED TO REVENUE ...	1,33,39,38,991	1,27,81,45,000	1,24,96,23,000	1,24,10,55,000
SURPLUS ...	...	2,14,84,000	2,16,80,000	24,61,000
GRAND TOTAL ...	1,33,39,38,991	1,29,96,29,000	1,27,13,03,000	1,24,35,16,000

BUDGET FOR 1933-34.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1932-33 and for 1933-34.

(In Thousands of Rupees)

RECEIPTS.	1931-32 Accounts.	1932-33 Budget Estimates.	1932-33 Revised Estimates.	1933-34 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	...	2,14,84	2,16,80	41,61
Railway Capital not charged to revenue				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	..	...	1,03,04	...
Debt, Deposits, and Ad- vances				
Permanent Debt (Net incurred) ...	...	...	24,48,08	...
Floating Debt (Net in- curred) ...	40,03,76	49,20	...	...
Unfunded Debt (Net incurred) ...	10,18,08	11,71,03	18,02,39	13,36,43
Deposits and Advances (Net) ...	...	6,73,02	4,44,50	8,25,56
Railway Depreciation and Reserve Funds as per Railway Budget (net) ...	...	51,21	...	2,88
TOTAL DEBT, DEPOSITS, AND ADVANCES ...	50,21,83,712	19,44,46,000	46,94,97,000	21,64,87,000
Remittances (Net) ...	...	4,37,000	...	1,21,000
Balance of Provincial Governments (Net) ...	...	1,02,68,000	2,51,00,000	...
TOTAL RECEIPTS ...	50,21,83,712	22,66,35,000	52,65,81,000	22,07,69,000
Opening Balance—India ...	17,28,23,746	10,18,90,746	12,69,10,744	11,73,19,744
England ..	7,40,43,787	14,71,59,787	21,15,32,561	17,84,98,561
GRAND TOTAL ...	74,90,51,245	47,56,85,533	86,50,24,305	51,65,82,305

BUDGET FOR 1933-34.

General Statement of the Receipts and Disbursements of the
Central Government in India and in England
for 1932-33 and for 1933-34.
(In Thousands of Rupees)

DISBURSEMENTS.	1931-32 Accounts.	1932-33 Budget Estimates.	1932-33 Revised Estimates.	1933-34 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Deficit ...	11,74,73	...	...	...
Railway, Irrigation, Posts and Telegraphs and other Capital outlay not charged to Revenue				
Capital outlay on Security Printing press ...	- 3,82	4	4	- 1,11
Construction of State Railways ...	6,09,00	4,15,00	1,40,00	3,30,00
Discharge of Debentures (as per Railway Budget) ...	6,63	...	44,32	...
Construction of Irrigation Works ...	9	...	...	...
Capital outlay on Posts and Telegraphs ...	87,92	23,15	19,66	15,80
Capital outlay on Vizagapatam Port ...	36,48	55,55	54,00	49,80
Capital outlay on Light-houses and Light-ships... ..	...	...	...	...
Currency Capital outlay... ..	- 6	4	1	- 78
Initial Expenditure on New Capital at Delhi ...	14,61	...	...	...
Payment of commuted value of pensions ...	42,32	46,55	65,76	60,65
Payment to Retrenched Personnel ...	1,45	25,00	12,41	- 1,27
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	8,54,62,710	5,65,33,000	3,26,20,000	4,53,09,000
Debt, Deposits and Advances				
Permanent debt (Net Discharged) ...	47,89	12,06,19	...	17,09,55
Floating Debt (Net Discharged) ...	...	...	43,41,75	8,00,00
Deposits and Advances (net) ...	4,83,61	...	...	...
Railway Depreciation and Reserve Funds as per Railway Budget. (net)...	..	...	1,19,18	...
TOTAL DEBT, DEPOSITS AND ADVANCES...	5,31,50,187	12,06,19,000	44,60,91,000	25,09,55,000
Loans and Advances by Central Government (Net Advances) ...	12,63,48	11,90,96	8,91,47	3,71,72
Remittances (net) ...	1,22,07	...	3,53	...
Balances of Provincial Governments (Net) ...	1,59,68	...	...	46,00
TOTAL DISBURSEMENTS...	41,06,07,940	29,62,48,000	58,92,11,000	33,80,36,000
Closing Balance—India...	12,69,10,744	11,36,83,746	11,73,19,744	11,29,30,744
England...	21,15,32,561	6,57,53,787	17,84,93,561	6,56,16,561
GRAND TOTAL...	74,90,51,245	47,56,85,533	86,50,24,305	51,65,82,305

SIR GEORGE SCHUSTER'S BUDGETS

SIXTH AND LAST BUDGET, 1934-35.

27th February 1934.

On rising to present the Budget for 1934—35, Sir George Schuster said that as it was the last occasion for him to present an Indian Budget, he would take stock of the course of financial affairs during the last few years. The depression had reduced the value of India's exports and re-exports of merchandise considerably, for the ten years ending March 31 1930, it was 326 crores but for 1930-31, it was only 226 crores, for 1931-32, 160 crores and for 1932-33 only 135½ crores. Imports had not fallen proportionately as they had partly been supported by gold-exports. The reduction meant of course a fall in Customs revenue which was brought about by another factor also *viz.*, protective duties by India on cotton piece-goods and sugar. In addition, Income-tax revenue also fell no less than non-tax revenue. The latter for instance was 30½ crores in 1923-24, 19½ crores in 1929-30 and only 5½ crores for 1934-35. All these factors meant continued deficits in the budgets which had finally been got over by extraordinary measures of retrenchment and taxation.

REVISED ESTIMATES FOR 1933-34.

For 1933-34, the financial results were likely to be less favourable by 284 lakhs than expected. Revenues deteriorated by 504 lakhs but a saving of 220 lakhs was made in the expenditure ; and hence the net figure of 284 lakhs. The drop in revenue was due partly to Customs, the imports under sugar and textiles being lower by no less than 438 lakhs. Income-tax revenue was lower by 93 lakhs and Currency and Mint receipts by 51 lakhs. On the

other hand, expenditure was down by 220 lakhs an account of two factors. Following the award of the Capitation Tribunal, the British Government paid to India a sum of 178 lakhs and secondly 88 lakhs of interest on war-debt was not paid during the year.

Improvement could be observed in the total budgetary position also. As to Currency Reserves, on September 21, 1931, gold and sterling reserves were only 57·82 crores as against a note issue of 146 crores (*i.e.*) about 40%. But on March 31, 1934 they would be 106 crores out of a note issue of 178 crores or 60%. The floating and short-term debt position of the Government had improved too. The total of such debt in September, 1931 was 336·55 crores but at present it was only about 165 crores. Further interest charges had been saved to the extent of nearly 4·22 crores.

ESTIMATES FOR 1934-35.

During the next year Customs revenue was likely to be better under certain heads. The agricultural season was good and prospects could be said to be somewhat rosy in spite of low prices. Government felt justified therefore in expecting a moderate recovery under certain Customs heads; but there were others which were definitely discouraging. The development of the sugar industry locally was likely to lead to an extermination of imports at an early date. Indeed "the success of our protective policy for sugar is the main cause of our budgetary difficulties." There was a substantial drop in the machinery import duty also as well as in that on imported cigarettes. Together these losses amounted to about 4 crores over the revised figure for the current year. And if the increase under the head expected was put down at 1·75 crores, the net loss under Customs would amount to 2·25 crores. Added to this there were other heads of

revenue like Income-tax, Opium etc. On the whole, revenue in the next year would show a drop of 2.74 crores over the revised figure for the current year.

Regarding expenditure, strict control was being maintained over it and the figure for the next year was practically the same as for the current year. To note a few details, "the Defence Budget for 1934-35 is no less than 10½ crores below the expenditure of 1928-29. Towards this result, certain factors have contributed which are, wholly or partially, outside the control of the military authorities in India. Thus in round figures, one crore of the reduction is due to the fall in prices, one crore to the effects of the 1925 revision of pay of British soldiers, two crores to the recent contribution by his Majesty's Government towards Indian defence expenditure and half a crore to the general emergency pay-cut. But after allowance has been made for these factors, there remains to the credit of the military authorities a solid reduction of over 6 crores. This has been secured partly by the postponement of the re-equipment and building program, partly by reduction of stocks of stores, and partly by real permanent retrenchments and economies." Under Interest on other Obligations, there was an increase of 68 lakhs over the revised figure for 1933-34. Out of this, part was due to interest being payable on larger amounts in the Post Office Savings Bank but no less than 50 lakhs was in order to meet the maturing Post Office Cash Certificates and their bonus charges.

The final position now was that the current year would close with a surplus of 1.29 crores which would be allotted for relief measures in connection with the Behar earthquake. The revenue was less by 280 lakhs and the expenditure more by 2 lakhs (*i.e.*) a worsening of the position by 282 lakhs. In other words, even to balance the budget for 1934-35, a sum of 153 lakhs had to be found.

PROPOSALS FOR 1934-35.

But before devising measures for finding out that sum, it was necessary to review the general emergency plan adopted in September 1931. It had been scheduled upto the end of March 1933 but then it was extended for one year in the hope that the World Economic Conference would give a happy turn to events. That however was not to be and the present plan of taxation had to continue. To consider first, the surcharges on protective duties, the case of sugar was a very difficult one. The industry had flourished very well and government had indeed to consider whether the stimulus to it was not in excess of what was needed. Then there was the need to ensure that the agricultural producer got his full share of benefit out of the policy of protection; and lastly protection had naturally meant loss of revenue, thus raising up the question of replacing that loss. In order to meet these points, government had decided on a dual policy (*i.e.*) to impose an excise duty on factory produced sugar and to introduce legislation at the centre enabling the provincial Governments to apply schemes for enforcing a minimum price for cane to be paid by the factory to the grower.

Apart from protective duties, there were surcharges on other items which had to be considered. There were for instance cigarettes. At present, the duty on imported cigarettes was nearly double the duty on the tobacco used for making similar cigarettes in India. And consequently, foreign interests which were once importing these brands were now beginning to make them straight away here. Government had therefore decided to fix the relation between the duty on cigarettes and the duty on raw tobacco on a rational basis. Next the present excise and import duty on silver was 6 annas per ounce and the surcharge was 25%; (*i.e.*) the duty on the whole was $7\frac{1}{2}$ annas per

ounce. Due to lack of purchasing power in India imports of silver had fallen largely. Partly on account of this and partly on account of the Silver Agreement between India and the U. S. A. Government decided to reduce the duty to 5 annas per ounce. On the export side, the proposal was to abolish the export duty on hides, but not on skins. The trade was in a bad way and the action of the government might help to stimulate it. The next change contemplated was in connection with the postal and telegraphic rates. Consequent on their recent enhancement, there had been a large fall in the volume of business. And in order to meet it, Government had decided to lower the initial weight of inland letters from $2\frac{1}{2}$ tolas to $\frac{1}{2}$ a tola coupled with a reduction in the charge from $1\frac{1}{4}$ annas to 1 anna. Book packets also would bear an increase from $\frac{1}{2}$ anna to $\frac{3}{4}$ anna. Regarding telegrams, the present charges were 12 annas for a message of 12 words. But thereafter for 8 words, the charge would be 9 annas only. The rate for the inland post-card would be the same. These proposals meant to the department a loss of 27·50 lakhs but it was intended to make it up by means of enlarged traffic and by administrative economies.

Summarising his taxation proposals, Sir. G. Schuster then said "The proposals which I have mentioned, namely Sugar Excise net revenue 140 lakhs, Tobacco duties 30 lakhs, Silver 4 lakhs less the loss of 5 lakhs on the abolition of the export duty on raw hides, should produce a net improvement in revenue of 169 lakhs, which will cover the deficiency of 153 lakhs, and leave us with a small surplus of 16 lakhs."

ASSISTANCE TO BENGAL AND BEHAR.

The Central Government could not be callous to the position of provinces like Bengal which had been incurring deficits since 1930 at the rate of about 2 crores per annum.

To help Bengal, Government proposed to hand over half the jute-export duty to the jute producing provinces which of course chiefly meant Bengal. In figures, this would mean about 189 lakhs to be distributed between Bengal, Behar and Osissa, and Assam at the rate of 167 lakhs to Bengal, 12½ lakhs to Behar Osissa and 9½ lakhs to Assam. The central government would thus suffer a loss of nearly 190 lakhs which it was sought to make up by levying an excise duty on matches. In connection with this two facts were to be noted. Indian States which were already manufacturing matches or were likely to do so in the near future would be induced to join the government in levying the excise within their own territories. The amounts thus collected would all be pooled together and divided between British India and the States on the basis of consumption. Matches produced in States that did not fall in with the scheme would be prohibited entry into the zone of agreement. A second feature was that Burma was already levying a match excise and was thereby getting about 18 lakhs. Out of the total excise collections, this amount would have to be given to her and the Government of India was calculated to get 192 lakhs. If 189 lakhs went to compensate the loss incurred on account of jute, the central Government would benefit by 3 lakhs and its total surplus would come to 19 lakhs.

Another important item in the financial proposals of the year related to the relief of Behar on account of the recent earthquake there. Four items of such relief could be distinguished. Provincial Government buildings had to be reconstructed and help also had to be given to Local Bodies for repairing or building anew their properties. Private individuals had again to be helped out of relief funds and damage to agricultural land had to be repaired too. Government intended to spend on the whole about

3½ crores on relief work but not all of it would be out of revenues or in the current year.

WAYS AND MEANS.

During the current year, government was able to maintain the improvement in its credit both in Britain and in India. It was able to fund a larger amount of its loan commitments and also to remit more than anticipated thus strengthening its reserves. Government assumed during the current year that there would be no need for either expansion of currency or contraction, and accordingly it utilised all its surplus remittances to strengthening its external currency reserves. Additions to sterling reserves meant a transfer of gold from the Gold Standard Reserve to the Paper Currency Reserve and a proportionate cancellation of *ad hoc* securities. In this way Government expected to replace rupee securities with external assets to the tune of 17·73 crores during the current year.

Regarding its loan policy, Government had come to rely very largely on Treasury Bills. No doubt 17·73 crores worth of bills had been replaced during the current year by sterling securities but an increase had also taken place in their volume to the tune of 30 crores. Government did not consider this a very large amount for India especially as interest rates were very low. As for permanent debt, Government had discharged 42·54 crores including the balance of the 5% 1929-47 loan and approximately 10 crores of the 4% conversion loan 1916-17. In England, it had paid off the balance of the 6% Bonds 1933-35 and also the £ 10 millions 6% Bonds 1933-34. On the other hand one loan had been floated in India of 30·82 crores at 3½% 1947-50 and two in Britain, 4% stock 1948-53 for 11·7 millions and the 3½% stock 1954-59 for £ 10 millions. The interest rates on P. O. Cash Certificates and P. O. Savings Bank deposits had

been lowered from 3% to $2\frac{1}{2}\%$ and yet the receipts were 16.90 crores as against anticipations of only 8.40 crores. Railway capital outlay was less in the current year than budgeted for, being only 45 lakhs compared with the estimate of 3.30 crores. And similarly provincial borrowings had been only 4 crores as against 4.7 crores anticipated.

For the next year, Government had budgeted for 4.68 crores towards railway capital expenditure and 6.25 crores for the provinces. As for the borrowing program the only securities maturing for repayment next year were the $4\frac{1}{2}\%$ Bonds of which 12.98 crores had already been converted and only about 13 crores was remaining over. In England, there were no accruing maturities. But there were two large British loans which Government had the option to pay in 1935 and 1936, both amounting to £ 29 millions or about 40 crores. And in India, there were loans amounting to about 47 crores which could be converted if possible. For reasons already explained Treasury Bill outstandings would not be allowed to go below 30 crores. The Home charges was another important item. The budget estimate for the current year was only £ 21 millions but by the 20th February, no less than £ 36 millions had been received. The estimate for the next year was about £ 26.7 millions.

ECONOMIC PROSPECTS.

Turning next to the influence on India of other countries and of India's financial policy on her general well-being, Sir Gorge repudiated the charge that the Government was largely drifting. On the contrary, it was holding fast to well-recognised principles of public finance and was boldly facing difficulties as they cropped up. It was not, like Japan for instance, depreciating its currency and piling up debts for the future generations to pay. Another

charge brought against Government was that it had no economic plan. But the reply to this was twofold. Government had taken very good care to maintain the currency and credit of the country, for it was on their basis that all planning could take place. Secondly, the machinery of the Government of India was not suited to such rigid control over national economic life as was possible under President Roosevelt in the U. S. A. The main object aimed at was only to enable private enterprise to flourish well in the land.

Sir George next proceeded to show that India had advanced even industrially during the last ten years. With the index figure at 100 in 1928, textile production in the first ten months of 1933 in India was 141, while the corresponding figures for the United Kingdom and the U. S. A. were only 75. Similarly, in regard to steel, the figures were U. S. A. 46, France 70, Britain 80, Japan 155 and India 175. The same tale was told by sugar and many other industries in the land. Agriculture was improving too, though Government had not resorted to depreciation of currency. Figures for exports bore out this statement amply. At the present moment the problems of the Government were mainly three, how to deal with the increase in the real burden of debt due to fall in prices, how to increase the internal demand for agricultural produce and how to improve external demand.

The first problem had been met by substantial remissions in water-rates and in land-revenue. Generally speaking the repayment of debts had not been pressed for and the rural classes were taking in the usual quantity of necessities like cotton piece-goods, salt and kerosine. But the Government was also calling for a conference in April to consider the problem of rural indebtedness. Secondly, the demand for agricultural produce had to be

increased in India and one obvious method of doing so was to develop the industries of the land. At this juncture however, Sir George then gave a curious twist to his argument. He said "that if we produce what other countries used to sell us, there purchasing power for our exports will diminish *unless* we can raise the general standard of living in India and provide an increased market capable of not only absorbing the products of Indian industries but also of continuing the use of imported commodities". And he instanced his point by elaborating on the mutual advantages of Indo-British co-operation. Another method of increasing internal demand was for the Government to undertake expenditure on public works. Various considerations prevailed in connection with this matter And in view of them all, Government had sanctioned capital expenditure on railways, on Delhi and by the provinces too.

The third problem related to the improvement of external demand for Indian goods. Under this head there were three possibilities. A group of nations could agree to a favourable regime for mutual trading which would benefit all of them. The Ottawa Agreement was an illustration of that. India, he said, had greatly profited by it and those who were responsible for it had done a great service to her. Or bilateral agreements could be effected, as recently between Japan and India, which defined the broad policies of trade between the two countries. And lastly there was the field of ordinary trade unaffected by special agreements which had to be nursed by improving the quality of our goods, their grading, our marketing arrangements, etc. For acting in any one of the three directions indicated, the Government wanted adequate and accurate statistical data and they had recently set up a Bureau for Economic Intelligence and Statistics. In conclusion, the Honorable Member

pointed out that the need for expansion of indirect taxation would become greater as industries developed and foreign trade fell and along with it, customs duties. In this budget, as the depression seemed to be lifting Government felt its estimates were on a more solid foundation than ever before. And on the whole, India's financial position was so strong as to challenge comparison with that of any country in the world.

GENERAL DISCUSSION.

A general discussion duly followed, Mr. C. S. Ranga Iyer leading the attack with a strong protest against the sugar excise duty. He said it amounted to a tax on production and not on profits. There was really no over production of sugar in India but even if there were, where was the objection, he asked. Besides, a tax on food had to be avoided; to-day it might be on sugar, to-morrow it might be on something else. Mr. T. N. Ramakrishna Reddy complained that the budget surpluses of the current and of the next year were unreal and accidental because they were due mainly to reduced provision for Avoidance of Debt. The excise duty on matches was unjust. It was due only to Bengal deficits which in themselves arose on account of terrorism and the Permanent Settlement. Again, Government had not done anything to raise the level of prices, in particular of rice which was 53% of the staple products of India. The export duty on hides was to be retained as it helped the tanning industry.

Lieut.-Col Sir. Henry Gidney confined his remarks largely to the need for economy in military administration. He pointed out that the overhead charges in the Indian army were $1/20$ th of the whole which was far too much. Secondly the clerical establishment drawn from the ranks got very high salaries, even upto Rs 1,000 per mensem. Next the Royal Army Medical Corps officers

did merely the work of Assistant Surgeons and yet got the pay of their high ranks. Two-thirds of them were Majors who got upto Rs. 1,200. Again the members of the Queen Alexandria Military Nursing Service consisted all of British nurses who would get in Britain only £ 70 but got in India Rs. 300 per month to start with. There were also the R. A. M. C. (Ranks) male nurses. The high expenditure under these heads was thoroughly unjustified and had to be cut down. Mr. B. Seetharama Raju viewed the budget from the point of view of general principles of finance, and found it quite unsatisfactory. It taxed the prudent provinces for the benefit of the improvident; apart from the depression, its estimates were too sanguine; the rich and the poor were taxed alike irrespective of their capacity to bear the burden; and industries were discouraged as, for instance, by the removal of the tax on hides export.

Sirdar Harbans Singh was against forcing the I. M. S on civil departments while Mr. S. M. Mitra spoke chiefly regarding the Post and Telegraph Department. He held that more income was being devoted to the Telegraph section than to the Postal section, that Telegraph Engineering and Telegraph Traffic Branches were highly pampered and that retrenchment in the postal departments was indiscriminate and merciless. Mr. A. Das supported him in his position. The Bombay members were all keen regarding the diversion of trade from Bombay to Karachi and other places like Bhavnagar and Cochin. Sir Leslie Hudson deplored this fact; and he wanted to know why a lower provision was considered safe towards Avoidance of Debt. Sir Cowasji Jehangir was not sorry that Bengal got some relief but he pointed out that Bombay had had her difficulties too. Mr H. P. Mody said there was no doubt a balanced budget but on

the other hand, there were heavy indebtedness, high taxation and low production. What the country needed was an Economic Council which could advise her regarding the co-ordination of efforts at economic improvement.

Sir Mahammad Yakub wanted a re-orientation of educational policy in the land while the Raja of Kollengode asked that the rates of income-tax be lowered. In assessing it, due account should be taken of the necessary expenses of a person and deductions made accordingly. An independent tribunal also should be instituted as an appellate authority. Sir Abdur Rahim also pointed out the irony of a balanced budget with the country badly off. Government need not make much of military expenditure having fallen off, for general revenues also had fallen. Mr. B. Das opined that there was no use complaining against excise duties for they were bound to be a feature of future budget, no less than specific duties for customs revenue. He showed that Income-tax was largely being evaded and wanted also to know whether railways were paying interest on the 24 crores of rupees due by them to the general revenues at the rate of 6 crores during the last 4 years. And he had some constructive suggestions to make. Excise duties on vegetable oil products could be levied and import and export duties on kerosine and other products should be equalised. Thirdly export duty on gold and import duty on rice should be imposed; and lastly the remaining sterling loans should be converted at lower rates.

Mr. N. M. Joshi blamed the Government for not taking any steps for the cancellation of war-debts. And the prevailing system of taxation ignored the principle of ability to pay. The Government also was wrong to think that trade development should mean the export of raw products in return for manufactured goods. Rather it

should mean interchange of manufactured goods. Dewan Bahadur A. Ramasawmy Modalliar referred to the inadequacy of the debt provision and complained that with the imposition of excise duties, the whole pitch had been queered for the Federal Government. Mr. A. H. Ghuznavi wanted an embargo on gold exports and a definite economic policy for the Government, while Mr. J. N. Agarwal made light of the balanced nature of the budget. He said that it was the Capitation Award Tribunal and the exports of gold that had saved the budget and nothing else.

The reply of the Finance Member could not, naturally, meet all the points raised by the House. But Sir G. Schuster said that even with the excise duty, sugar production would be profitable. And Government would allow a rebate of the full excise duty on exports. It had been said by a section of the House that Bengal was improvident and yet the Government of India was helping her. That was not true as Bengal had done everything possible to economise. As for the apparently low provision for reduction of debt, the House could see that credit had not fallen. The fact was of course credit depended on a number of factors.

As a result of the discussions in the Assembly and the Council of State, the rate of excise duty on matches was lowered from that proposed by the Government; and consequently the receipts under the head were reduced from Rs. 210 lakhs to Rs. 138 lakhs. This in turn affected the amount provided for distribution among the jute-growing provinces as their share of the jute-export duty. The fall was by Rs. 63 lakhs. And finally the estimated revenue surplus became Rs. 10,15,000 instead of Rs. 19,15,000.

BUDGET FOR 1934-35.

General Statement of the Revenue and Expenditure charged to Revenue of the Central Government in India and in England

for 1933—34 and for 1934—35.

(In Thousands of Rupees)

REVENUE.	1932-33 Accounts.	1933-34 Budget Estimates.	1933-34 Revised Estimates.	1934-35 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Principal Heads of Revenue				
Customs ...	51,95,17	51,24,80	46,87,00	47,76,00
Income-Tax ...	17,97,40	18,06,00	17,13,00	17,25,00
Salt ...	10,07,36	8,75,00	8,55,00	8,73,00
Opium ...	89,86	1,20,05	1,58,65	97,07
Other Heads ...	1,84,85	1,89,93	1,86,07	1,81,81
TOTAL PRINCIPAL HEADS	82,74,65	81,15,58	75,99,72	76,50,88
 Railways : Net Receipts (as per Railway Budget) ...	 33,37,17	 33,39,45	 32,86,96	 32,58,27
Irrigation (Net Receipts) ...	1,64	— 14	— 12	3
Posts and Telegraphs (Net Receipts) ...	39,19	30,41	31,63	69,78
Interest Receipts ...	1,87,63	1,82,00	1,58,98	1,86,25
Civil Administration ...	56,08	82,62	77,49	78,28
Currency, and Mint ...	2,30,63	1,74,68	1,23,35	1,27,02
Civil Works ...	23,37	21,55	24,02	23,86
Miscellaneous ...	93,23	57,34	68,54	56,37
Defence Receipts ...	3,63,50	4,31,67	5,24,74	5,20,47
Provincial Contributions and miscellaneous adjustments between Central and Pro- vincial Governments ...	...	...	...	...
Extraordinary items ...	2,06	...	35,63	...
TOTAL REVENUE ...	1,26,39,74,868	1,24,35,16,000	1,19,30,94,000	1,19,71,21,000
DEFICIT ...	...	...	...	...
GRAND TOTAL ...	1,26,39,74,868	1,24,35,16,000	1,19,30,94,000	1,19,71,21,000

BUDGET FOR 1934-35.

General Statement of the Revenue and Expenditure charged to
Revenue of the Central Government in India and in England
for 1933—34 and for 1934—35.

(In Thousands of Rupees)

EXPENDITURE.	1932-33 Accounts.	1933-34 Budget Estimates.	1933-34 Revised Estimates.	1934-35 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue.	4,23,68	4,15,94	4,27,38	4,00,79
Forest and other Capital Outlay charged to Re- venue ...	2,37	2,34	1,46	1,46
Railways: Interest and Miscellaneous charges (as per Railway Budget)...	33,37,17	33,39,45	32,86,98	32,58,27
Irrigation ...	5,40	4,74	3,85	5,95
Posts and Telegraphs ...	85,65	91,22	87,06	88,32
Debt Services ...	18,45,62	17,67,36	12,65,98	18,33,55
Civil Administration ...	9,68,80	9,59,22	9,58,69	9,58,62
Currency, and Mint ...	65,67	64,19	60,89	66,39
Civil Works ...	1,77,16	1,98,92	2,06,88	2,01,96
Miscellaneous ...	4,23,52	4,11,76	4,25,38	4,31,74
Defence Services ...	50,37,50	50,51,67	49,67,21	49,58,47
Miscellaneous adjustments between Central and Provincial Governments...	98,05	1,00,00	1,00,00	2,52,44
Extraordinary items ...	15,95	8,74	1,39,20	3,10
TOTAL EXPENDITURE CHARGED TO REVENUE...	1,24,84,55,676	1,24,10,55,000	1,19,30,94,000	1,19,61,06,000
SURPLUS ...	1,55,19,192	24,61,000	...	10,15,000
GRAND TOTAL ...	1,26,39,74,868	1,24,35,16,000	1,19,30,94,000	1,19,71,21,000

BUDGET FOR 1934-35.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1933-34 and for 1934-35.

(In Thousands of Rupees)

RECEIPTS.	1932-33 Accounts.	1933-34 Budget Estimates.	1933-34 Revised Estimates.	1934-35 Budget Estimates.
	Rs.	Rs.	Rs.	Rs.
Surplus ...	1,55,19	24,61	...	10,15
Railway Capital not charged to revenue				
Capital Contributed by Railway Companies and Indian States towards outlay on State Railways (as per Railway Budget)...	10,08	...	...	...
Debt, Deposits, and Ad- vances				
Permanent Debt (Net incurred) ...	22,71,74	...	...	...
Floating Debt (Net in- curred) ...	...	...	...	...
Unfunded Debt (Net incurred) ...	20,09,74	13,36,43	22,45,62	17,65,38
Deposits and Advances (Net) ...	3,31,29	8,25,56	...	5,69,48
Railway Depreciation and Reserve Funds as per Railway Budget (net) ..	...	2,88	...	...
TOTAL DEBT, DEPOSITS, AND ADVANCES ...	46,12,77,000	21,64,87,000	22,45,62,000	23,84,86,000
Remittances (Net) ...	...	1,21,000	...	3,14,000
Balance of Provincial Governments (Net) ...	2,59,81,000	...	...	...
TOTAL RECEIPTS ...	51,31,72,260	21,90,69,000	22,45,62,000	23,48,15,000
Opening Balance—India...	12,69,10,744	11,73,19,744	14,58,99,614	13,43,92,614
England..	21,15,32,561	17,84,93,561	13,19,33,230	7,10,26,230
GRAND TOTAL ...	85,16,15,565	51,48,82,205	50,23,94,844	44,02,33,844

BUDGET FOR 1934-35.

General Statement of the Receipts and Disbursements of the Central Government in India and in England for 1933-34 and for 1934-35. (In Thousands of Rupees)

DISBURSEMENTS.	1932-33 Accounts.	1933-34 Budget Estimates.	1933-34 Revised Estimates.	1934-35 Budget Estimates.
	Rs. ...	Rs. ...	Rs. ...	Rs. ...
Deficit ...				
Railway, Irrigation, Posts and Telegraphs and other Capital outlay not charged to Revenue				
Capital outlay on Security Printing press ...	1	- 111	- 1,11	- 1,15
Construction of State Railways ...	7,14	3,20,00	25,00	4,68,00
Discharge of Debentures (as per Railway Budget)	24,23	...	20,23	...
Construction of Irrigation Works ...	...	...	...	...
Capital outlay on Posts and Telegraphs ...	14,81	15,83	15,69	39,70
Capital outlay on Vizagapatam Port ...	52,42	49,80	49,80	18,46
Capital outlay on Light-houses and Light-ships...	...	...	...	...
Currency Capital outlay...	- 3,84	- 78	- 4,14	- 85
Initial Expenditure on New Capital at Delhi ...	...	...	10,00	67,67
Payment of commuted value of pensions ...	78,89	60,65	85,47	49,56
Payment to Retrenched Personnel ...	12,64	- 1,27	2,90	- 3,36
TOTAL CAPITAL ACCOUNT DISBURSEMENTS...	1,86,31,000	4,53,09,000	2,03,84,000	6,38,03,000
Debt, Deposits and Advances				
Permanent debt (Net Discharged) ...	...	17,09,55	5,87,56	12,44,30
Floating Debt (Net Discharged) ...	45,12,65	8,00,00	13,82,20	...
Deposits and Advances (net) ...	...	...	3,40,21	...
Railway Depreciation and Reserve Funds as per Railway Budget. (net) ...	2,80,33	...	27,11	35,22
TOTAL DEBT, DEPOSITS AND ADVANCES...	47,92,98,000	25,09,55,000	23,37,08,000	12,79,52,000
Loans and Advances by Central Government (Net Advances) ...	6,91,63	3,71,72	3,96,65	7,48,95
Remittances (net) ...	66,90	...	19	...
Balances of Provincial Governments (Net) ...	..	46,00	32,00	25,00
TOTAL DISBURSEMENTS...	57,37,82,721	33,80,86,000	29,69,76,000	26,91,50,000
Closing Balance—India...	14,58,99,614	11,12,30,744	13,43,92,614	10,39,61,614
England...	13,19,33,230	6,56,15,561	7,10,26,280	6,71,22,230
GRAND TOTAL...	85,16,15,565	51,48,82,205	50,23,94,844	44,03,33,844

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