

Speech by the Hon'ble Finance Member

on introducing the

Budget Proposals for 1933-34.

1. The story which I have to tell this year of the public finances of India is a simple and—viewed merely as a matter of public finance—a satisfactory one. The emergency plan which we introduced in September 1931 was designed to produce budgetary equilibrium for the two years 1931-32 and 1932-33, and now as we approach the end of the second of these two years and take stock of the position we can confidently say that our plan has worked.

2. *Summary of results for 1931-32 and 1932-33.*—Let me briefly summarise the position. The results for the year 1931-32 turned out to be nearly two crores better than I anticipated in my Budget speech last March, and the accounts for the year showed a deficit, after providing nearly 7 crores for Reduction of Debt, of 11½ crores.

For the current year (1932-33) our latest revised estimates indicate that our Budget forecast of a surplus of 215 lakhs will be almost exactly realised, and that the surplus—after providing again nearly 7 crores for Reduction of Debt—will be 217 lakhs.

The results for the two years combined thus show a total budgetary deficit of 9·58 crores against which may be set the total provision made for Reduction of Debt of 13·73 crores. We may therefore say that in the two years from April 1, 1931 to March 31, 1933, which I think may be fairly described as the two most difficult years for public finance that the world in times of peace has ever known, we shall not only have paid our way but have provided a net sum of 4 crores, 15 lakhs for the Reduction of Debt. I think that this result is one which is a legitimate cause for satisfaction, and which amply justifies the great improvement in the credit of the Government of India which the recent rise in our security prices has shown.

3. It is interesting to make a short comparison between these results and the forecasts which I gave when I introduced the emergency plan in September 1931. We then anticipated, after allowing for the normal provision for Reduction of Debt, a deficit of 10·17 crores for 1931-32 to be followed by a surplus of 5·23 crores for 1932-33, and that the net amount available for the Reduction of Debt in the two years, after allowing for the deficit on the combined results, would be 9·11 crores. As I have just shown, we now anticipate that the net figure available for the reduction of debt will be 4·15 crores, so that we are about 5 crores below our original estimate for the two years. As the combined amount involved in the two years is about 260 crores on each side of revenue and expenditure, I think we may claim that our forecast showing a variation of only 2 per cent. from the result was, considering the complete instability of the time, fairly near the mark.

It is also interesting to examine where the main differences from our estimates occurred. Revenue for the two years is 10·42 crores less than was forecasted, but expenditure was also less than the estimates by 5·78 crores. The reduction in expenditure is accounted for largely by savings in interest charges owing to the improvement of Government credit and the cheaper money conditions which have supervened; but there has also been a realisation of administrative economies beyond what we felt safe in hoping for last year. I shall deal later in greater detail with the position as regards expenditure, but Honourable Members will, I feel sure, regard it as satisfactory that the figures for these two years should show such a substantial reduction as compared with our estimates.

Table summarising Budgetary forecasts and results for 1931-32 and 1932-33.

(In lakhs of rupees.)

	Revenue.	Expenditure (including provision for reduction or avoidance of debt.)	Surplus or Deficit.	Provision for reduction or avoidance of debt included in expenditure.	Surplus of receipts over expenditure other than Reduction of Debt.
Emergency budget—					
1931-32 . . .	1,26,13	1,36,30	—10,17	6,90	—3,27
1932-33 . . .	1,33,06	1,27,83	+5,23	7,15	+12,38
Combined result for both years	2,59,19	2,64,13	—4,94	14,05	+9,11
Estimate at Budget Session, March 1932—					
1931-32 (Revised).	1,20,77	1,34,43	—13,66	6,89	—6,77
1932-33 (Budget).	1,29,96	1,27,81	+2,15	6,82	+8,97
Combined result for both years	2,50,73	2,62,24	—11,51	13,71	+2,20
Present estimates—					
1931-32 (Actuals) .	1,21,64	1,33,39	—11,75	6,89	—4,86
1932-33 (Revised) .	1,27,13	1,24,96	+2,17	6,84	+9,01
Combined result for both years	2,48,77	2,58,35	—9,58	13,73	+4,15

4. *Expectations for next year (1933-34).*—With a surplus of 217 lakhs anticipated as the final result for the current year, the next question is whether we can expect a repetition of such a surplus next year. In order to explain the answer which I have to give to that question it is necessary to analyse the factors which have contributed to the current year's result, and to review the general economic position. In anticipation of this examination I may remind the House of one important feature in the position, namely, that our revenue during the past 18 months has been specially augmented by the process of abolishing the salt credit system, the effect of which has been to give us the equivalent of two years' duty on credit salt in the space of 18 months. As a result we have benefited during 1932-33 by a special non-recurring addition of about 150 lakhs to our revenue. That of course drops out next year.

5. *Economic position.*—The general features of the economic position are so well known, and so closely resemble those which I had to describe last year that I need not deal with them at length. Again, as last year, I can say that the monsoon was fairly normal for India as a whole, and that so far as climatic conditions are concerned India might have been enjoying a year of normal prosperity*. Again, as last year, I can say that world economic conditions have been the overriding factor, and that India's trade and purchasing power have been suffering from the terribly low levels to which prices and demand for commodities have declined. In the latter respect the current year has touched still lower depths. Last year it seemed reasonable to hope that a move would be made to settle the world troubles, and that with the detachment of sterling from gold we might see a substantial rise in prices for commodities at least in terms of sterling and of the currencies linked with sterling. Unfortunately neither of these hopes has been realised. A good start was made at the Lausanne Conference in June, and the provisional agreement then achieved, which would have resulted in the removal of the disturbing factor of Reparation payments, spread at the time a feeling of justifiable optimism. But unfortunately the possibility of executing this agreement depends on the balancing cancellation of war debts, and for this problem there is no solution yet in sight. Indeed, except among the nations of the British Commonwealth, for which within their own area the Ottawa Agreement holds out hopes of improvement, there has been no advance towards that international co-operation which is so badly needed; and for the world in general it is unfortunately true to say that there has been not only no quickening up of the normal flow of trade, but on the contrary the restrictions which so many countries have been forced to impose on trade and exchange in order to maintain their balance of payments have operated still further to check the international exchange of goods. As regards prices, the anticipated rise in rupee and sterling prices has not materialised. The position, broadly speaking, is that, after an initial rise, prices towards the end of the period under review showed again a falling tendency, with the result that although the average level of prices on the basis of which India's exports during 1932 were sold is slightly higher than during 1931, the general level of prices at the end of the year had fallen below

* The monsoon was normal for India as a whole except in Bihar, the East United Provinces and North Madras coast. Otherwise though lighter than usual, it was fairly well distributed and fortunately rainfall in September was above the average. The sowing conditions for monsoon crops were only moderately favourable: sowing conditions for cold weather crops were generally favourable. The winter rains have been below the average and the yield of the crops now on the ground will depend to a greater extent than usual on the weather during the next few weeks. Slight frost damage in January has been reported from a number of places.

this average. The most that one can say is that countries with currencies linked to sterling have fared much better than those which are still on a gold basis.

If Honourable Members are interested in studying the position, I would commend to their attention the Review of the main items of India's foreign trade for 1932, which has been prepared by Dr. Meek, the Director-General of Commercial Intelligence and Statistics, and which I propose to circulate as usual with the budget papers. In my present speech I can only deal with the broad aspects of the position.

6. The results of the further deterioration in the general world position are revealed in India's export figures which for the 10 months from April to January showed a total value of 110½ crores as compared with 134½ crores for last year.

7. In the case of practically all the main items the decline is accounted for by a fall in the quantities rather than the price of the articles exported. This is true of the following decreases,—cotton exports 6½ crores, jute 1½ crores, grain, pulse and flour about 2 crores, seeds just over 2 crores. The only exception to this under the major heads of exports is the case of Tea where a slight increase in the quantity exported has been accompanied by a fall of 3 crores in value.

8. I may at this stage note that during 1932 there was a slight improvement from India's point of view in the correction of the disparity between the price levels for the main articles which she has to sell and those which she has to buy. According to Table XV of Dr. Meek's review it is shown that the average index figure for the main export articles, taking 1913-14 prices as 100, was 77 for 1931 and 79 for 1932. On the other hand, the index figure for the main articles of import averaged only 84 in 1932 as compared with 87 in 1931.

9. For appreciating the significance of the comparison which I have made between exports for the first 10 months of the current year and last year, it is necessary to compare the present figures with the general average levels for the post-war period. In the figures for the current year, the most striking feature has been the fall in the exports of Indian cotton which has been only offset to a very small extent by an increase of the consumption of cotton by Indian mills, for they have provided for their larger production mainly by greater purchases of imported cotton. Comparisons between results for the calendar year 1932 and the average for the 10 years from 1920 to 1930 bring out the same point.

		Quantities.			Values.		
		Average of 10 years ending 1930.	1932.	Percent-age.	Average of 10 years ending 1930.		Percent-age.
					Rs. (lakhs).	Rs. (lakhs).	
1. Cotton, raw . . .	Ton (000)	616	236	46	69,09	16,03	23
2. Hides and Skins (Raw and Tanned) .	Ton (000)	70	42	60	13,95	7,76	56
3. Jute, raw and manufactured . . .	Ton (000)	1,499	1,178	78	72,84	31,49	43
4. Tea	lb. (millions)	346	368	106	27,06	16,89	62
5. Groundnuts* . . .	Ton (000)	448	472	105	11,21	8,11	72
6. Rice (not in the husk) .	Ton (000)	2,067	2,076	100	36,98	17,16	46

*The trade in groundnuts has been expanding rapidly during the period.

This table shows how terribly the value of India's exports has declined compared with what had come to be accepted as a normal level in the post-war period. But even so the figures as regards quantities exported—with the sole exception of cotton—have kept up in a manner which seems to justify the view that India has not even yet suffered quite so badly as most of the other countries producing primary agricultural products.

Raw cotton is by far the worst sufferer and during 1932 the exports had fallen in quantity by more than a half, a fall which as a result of the lower prices is increased to one of more than three-quarters in value as compared with the average for the past 10 years. For jute the fall in volume was about a quarter while the fall in value is more than a half. In the case of tea, although the volume of export was more than maintained, the value was reduced by more than a third. In the case of rice, the volume of export was maintained but the value fell by over 50 per cent. Groundnuts on the other hand show an increase in quantity but a decline in value.

10. While the value of India's exports has thus further declined this year as compared with last, the course as regards imports has been strikingly different. For these, at 112½ crores for the first 10 months of the current year, show a rise of about 7½ crores on the corresponding 10 months of last year. Here again an examination of the actual changes in the case of the main articles of import is interesting and suggestive. By far the largest item is the increase of just over 7 crores in cotton piece-goods and yarns. It may perhaps be said that in this case exceptional factors have come into play, because the preceding period with which it compares, influenced as it was by non-economic factors such as the boycott, can hardly be regarded as normal. The important fact to remember, however, is that this increase in imports of cotton piece-goods was accompanied by a striking growth in the production of Indian mills,—which according to Dr. Meek's figures increased by about 11 per cent. or 284 million yards in the first 11 months of 1932 as compared with 1931. It must also be noted that there has been a marked increase in the imports of other piece-goods, woollen, silk, artificial silk, and mixtures.

The increase in Indian production of cotton goods accounts for the next interesting item of increased imports on which I must comment, namely, of raw cotton, which at 6.36 crores are 79 lakhs up on last year. The steady growth during recent years in these imports is most remarkable. Taking the "cotton years" up to August 31 in each case, imports of foreign cotton expanded from just over 20,000 tons in 1928-29 to 97,000 tons in 1931-32.

11. Another interesting item is machinery, where the imports at 9½ crores are only a few lakhs less than last year. Here there would have been a much greater fall if it had not been for a striking increase in the imports of plant for sugar factories, the imports of which in the 9 months to the end of December amounted in value to 138 lakhs as compared with 30 lakhs last year and only 9 lakhs in 1929-30.

In the case of certain other machinery too there have been increases which are encouraging. Thus, taking the full calendar year 1932 as compared with 1931, cotton machinery increased from 180 to 208 lakhs, while tea, jute and wool machinery increased by 13, 3 and 1 lakh, respectively.

12. These are the chief items of expanding imports. As against this I must comment on the two most striking examples of declines. Imports of foreign sugar at 3.66 crores are down by 1½rd crores. This indicates the continuance of a steady process of decline in the value of sugar imports which

for 1930-31 was about 9 crores, and in 1929-30 about 14 crores. The decline may be partly due to decreased purchasing power as evidenced by decreased consumption of refined white sugar, but I think it is a fair appreciation of the position to say that it is mainly due to the increase of Indian production. I explained last year that we estimated the production of Indian sugar to be increasing at the rate of 60,000 tons per annum, and it looks now as if this rate were being considerably accelerated. I shall deal later with the effects of this on our revenue position.

13. Another striking example of decline is the case of vehicles—mainly of course motor-cars, buses and lorries, which at 304 lakhs for the 10 months show a decline of 89 lakhs on last year and are less than $\frac{1}{3}$ rd of the value in 1929-30.

It is probable that I shall be told in the course of debate that the decrease is mainly due to the high level of our import duties. I think it more correct to regard it as mainly caused by loss of purchasing power, which on the one side restricts luxury expenditure, and on the other induces owners of cars and heavy vehicles which are not used for luxury purposes to avoid replacements which are not absolutely necessary.

14. It is not possible in a budget speech to go into all the interesting details in our trade returns, and I am concerned now only with broad conclusions, and more particularly with those that affect our revenue estimates. With some of these broad conclusions I wish now to deal. In the first place the results as regards imports combined with the figures of Indian production of such articles as salt and kerosine and cotton piece-goods seem to reinforce one of the points which I emphasised in my speech last year—namely, the extraordinary power of resistance, in spite of diminished purchasing power, which India shows in maintaining the consumption of certain standard necessities of the masses.

15. I have had a table prepared which will be printed with this speech analysing the results as regards certain main articles of consumption classified under three heads—luxury articles, requirements of industry, and necessities of the masses. The classification cannot be entirely accurate, and it is difficult to say exactly where such articles as sugar and artificial silk piece-goods should be placed; but if one takes such articles as cotton piece-goods, kerosine, and salt as necessities for the masses, machinery, lubricating oil, cement and chemicals as industrial requirements, and tobacco, liquors and motor-cars as luxuries, one can at least draw interesting conclusions.

In order to get at the figure of consumption I have taken imports plus local production for articles which are produced in India, and imports only for those articles which are not. This again may not be entirely accurate for a particular year, for some of the imports and home production may have gone into stock, particularly in the case of cotton piece-goods during 1932; but it affords a rough guide, and, for an average of years, must be fairly accurate. On this basis I have made a comparison between the consumption for the calendar year 1932 and the average annual consumption for the ten year period from 1920 to 1930, which may be regarded as a period of prosperity with high prices and high purchasing power. The table shows both quantities and values. Values have been calculated as follows. In the case of articles which are only imported the declared values have been taken and the various rates of import duties during the ten year period have been added. For articles which are both imported and

manufactured the value of the internal production has been estimated on the basis of the declared value of the corresponding imports together with the appropriate rate of duty for each year of the period.

The results shown in this table are, I think, extremely interesting. As regards the three articles which I have taken as necessities for the masses, the quantities of consumption are in all cases higher for 1932 than for the ten year average 1920-30. Piece-goods with a total of 5,827 million yards as compared with 4,923 million yards for the earlier period are 18 per cent. up. Kerosine oil with a total of 235 million gallons as compared with 232 million gallons for the earlier period is 1 per cent. up. Salt with a consumption of 2,106,000 tons as compared with 1,965,000 tons for the earlier period is 7 per cent. up.

Turning to values, there is of course a fall in these for 1932, owing to the lower prices prevailing in spite of the higher duties. The total value of all these three commodities consumed in 1932 was 162 crores representing 78 per cent. of the average for the ten year period, which was 207 crores.

In the case of the articles required by Industry, it is of course impossible to compare quantities for such miscellaneous heads as machinery and millwork, or chemicals. The Table shows a fall in value for machinery and millwork of about 40 per cent. which, allowing for the fall in prices, must indicate a very much smaller fall in quantities; a fall both in quantity and value of lubricating oil of between 30 and 40 per cent.; an increase in quantities of cement accompanied by a fall in values; and an increase of 26 per cent. in the value of chemicals. The total value of all these articles for 1932 is 70 per cent. of the value for the ten year period.

Turning to luxuries, there is a very heavy fall in motor-cars, with a figure of 5,300 cars for 1932 as compared with an annual average of 11,400 in the earlier period. Quantities represent 46 per cent. only, and values 43 per cent. only of the earlier period. I would note here that the value per car has fallen in spite of the increased duties. Tobacco consumption for 1932 represents 61 per cent. in quantity and 51 per cent. in value of the earlier period, and liquors 92 per cent. and 73 per cent. respectively. Altogether the total value of the three luxury articles consumed in 1932 represents 58 per cent. of the average value for the earlier period.

I think it is fair to say that these figures indicate that certain luxury and quasi-luxury articles show very heavy decreases in consumption; that industry has stood up fairly well, and that in certain fields—particularly the sugar industry and the textile industry—expansion in India is still progressing in spite of the world slump; and lastly that as regards the necessities of the masses the consumption figures are being maintained in a most remarkable way in spite of loss of purchasing power, while in spite of increased excise and import duties consumers have had a substantial benefit from the fall in prices.

I must add in conclusion one obvious but most important point, namely, that the really striking falling off in India's normal consumption has been in the case of precious metals. As is well known, India imported gold and silver of the average annual value of about 40 crores in the years from 1920-30. The power to cut out this enormous margin has been a tremendous factor—equal in importance almost to the actual sale of gold, to which I shall refer later—in enabling India to go through this period of depression without being forced to cut down her normal absorption of those commodities which are needed for daily consumption.

16. The figures in the following table indicate imports except in the case of articles marked * where the quantities given include figures of production so far as available. In the case of salt, production figures relate to British India excluding Aden. The value figures of production have been estimated on the basis of the average declared value for imports.

		Quantities.			Values (cum duty).			
		Average of 10 years ending 1930.	1932.	Percen- tage.	Average of 10 years ending 1930.	1932.	Percen- tage.	
					Rs. (lakhs).	Rs. (lakhs).		
(A) Luxury articles—								
1. Motor-cars . . .	No. (000)	11.4	5.3	46	3,50	1,51	43	
2. Tobacco . . .	lb. (000)	8,396	5,104	61	4,03	2,06	51	
3. Liquors . . .	Gal. (000)	5,915	5,429	92	5,93	4,30	73	
Total of (A) . . .		..	..	..	13,46	7,87	58
(B) Requirements of Industry—								
4. Machinery and mill- work . . .	..	..	..	..	19,62	12,04	61
5. Lubricating oil . . .	Gal. (Mil- lion).	22.3	14.3	65	2,28	1,57	69	
6. Cement * . . .	Ton (000)	492	551	112	3,73	2,86	77	
7. Chemicals . . .	..	..	..	..	2,64	3,34	126
Total of (B) . . .		..	..	..	28,27	19,81	70
(C) Necessities for the masses—								
8. (a) Cotton piece- goods (Mill-made) * . . .	Yds. (Mil- lions).	3,877	4,327	118	131,72	99,40	76	
(b) Cotton piece-goods (hand-loom).	Do.	1,246	1,500	120	44,85	34,46	77	
Total		Do.	4,923	5,827	118	176,57	133,86	76
9. Kerosine oil * . . .	Gal. (Mil- lions).	232	235	101	17,73	16,27	92	
10. Salt *	Ton (000)	1,965	2,106	107	12,74	11,84	93	
Total of (C) . . . . .		..	..	..	207,04	161,97	78
(D) Articles of doubtful classification—								
11. Artificial silk piece-goods.	Yds. (Mil- lion).	27.8	116.2	418	2,24	4,38	196	
12. Sugar	Ton (000)	781	462	59	23,69	12,75	54	

17. I must now turn to another broad aspect, the position as regards the balance of trade and of payments. With exports for the 10 months at 110½ crores and imports at 112½ crores, India has a slight adverse balance of trade in merchandise. As in the last months, however, the tendency has changed, and there has been a reduction in the adverse margin, one may not unreasonably anticipate that the year will end with an even balance. But owing to India's large "invisible imports"—mainly represented by external obligations—an even balance of trade in merchandise falls far short of giving us an even balance of payments, and therefore India could not support the present volume of imports without very embarrassing results unless the position were being helped by some other factor. That factor in the present case has been, as Honourable Members well know, the export of gold. I do not propose to give a mass of figures illustrating this aspect of the matter now, because I dealt with it very fully in a speech at the Ottawa Conference which I believe most Honourable Members have seen. The broad fact is that India could not with exports at their present level support the present volume of imports simultaneously with meeting her external obligations unless they were supplemented by gold exports. What is happening now may be put in two different ways, either that part of India's consumable imports are being paid for in gold, or that gold sales are providing the means to meet external obligations and, as I shall hereafter explain, to accumulate reserves in external currencies. The truth really is that what is happening is a combination of the two processes, for it must be remembered that so far as concerns the individuals who make up the mass of producers of goods for export and consumers of imported goods, they have to pay for the latter with customs duties added, and as customs duties on the 112 crores worth of goods imported for the 10 months of the current year amount to 38 crores, one may say that the exports to the value of 110 crores are being supplemented by gold sales in order to pay for goods at the imported value of 150 crores, so that 40 crores of the gold proceeds have been used to pay for consumable goods. To this extent therefore it may be said that India is helping herself to tide over a period of unexampled depression by drawing on her reserves of gold, and thereby avoiding reducing her consumption to the desperately low level which would otherwise be necessary. This, however, is by no means the whole story, and as there are many questions arising in connection with gold exports which have a vital bearing on the welfare of the nation, and as I know that Honourable Members take very great interest in it, I propose to deal with this subject again, as last year, at some length.

18. In the first place I know that there are many who regard what is happening as a dangerous process of living on capital. I think it fairer to regard it, as indeed I pointed out last year, as a process partly of exchanging one form of investment for another, and partly of tiding over a period of abnormal difficulty by drawing on reserves which had been accumulated in better times; reserves, moreover, which produce no revenue, so that their depletion does not bring about any decrease of income. To that extent we have regarded the process as a legitimate use of reserves, which has on the whole been beneficial to the people. How long such a process can, without damaging the country, continue is another matter, but I must point out that so far as Government is concerned nothing that it could do could prevent individual owners of gold selling their gold and using the proceeds for investment in other forms or for the purchase of consumable goods.

19. There is, however, another beneficial aspect of the process to which I think it important to direct attention. I have already commented on what

is the worst feature of the present world situation, namely, that practically every nation today in order to preserve its balance of international payments has been forced to put artificial restrictions on its imports, by way of high duties and exchange restrictions. This is checking the flow of international trade, so that its channels are gradually becoming completely dry, and is the main evil from which the world today is suffering. We ourselves by increasing our own import duties have done something to add to the evil, but if the flow of imports into India had not been helped by the exports of gold the case would have been very much worse. India in fact has been able to release into the world a commodity for which alone there is an undiminished market and the possession of which, if it is used as a basis for currency, does not diminish but rather increases the purchasing power of the countries which absorb it. By doing so India has been enabled to take more imports and thereby in this second way also to increase the purchasing power of her own potential customers. This last point indeed must always be borne in mind, for we cannot restrict our own imports without weakening the market for our exports of merchandise.

20. There is still a third point on the credit side of the account to which I must call attention. The proceeds of the gold which have been sold have only to a limited extent been balanced by the purchase of consumable commodities. A great portion has undoubtedly been invested. The increased demand for Government securities affords general evidence of this, and that the process has been widespread and not confined to the richer classes can be very clearly seen from the figures of Post Office cash certificates and Savings Bank deposits. The figures here are most striking. Making very conservative allowances for what we shall get in the last two months of the year, we estimate the net investment in Post Office cash certificates this year at 10 crores and the net addition to savings bank deposits at 4.35 crores. Both these figures greatly exceed any previous record, and I may point out that the figure of 10 crores for Post Office cash certificates compares with average net receipts of about 2½ crores annually for the period from 1917, when these certificates were first started, until March 31, 1931. Moreover the high figure for this year follows on the exceptionally high figure of 6.15 crores for net receipts last year. These figures therefore clearly show that proceeds of gold sales have been converted into investments by the poorer classes, and although the Indian habit of accumulating reserves of gold has stood the country in good stead in the present crisis, I feel forced to regard it as a beneficial advance that the exceptionally high price of gold in rupees should have started a process of exchanging barren gold reserves for interest-bearing Government securities as a form of investment. If only the process is kept in proper channels, and the people of India are not misled, as the people of the United States were in the post-war boom, to putting their savings into wildly speculative investments, the result must in the long run be of great benefit to India.

21. But I must now turn to another aspect of the matter. There may be some who would agree that there is some truth in what I have said up to this point, but who have an uncomfortable feeling that the country is being weakened by the process, and that Government if they had adopted a different policy could have prevented this weakening. Such people argue that, even if we could not prevent private individuals who wish to do so from selling their gold, Government ought to have acquired it for themselves and thus have prevented it leaving the country. I shall deal later with the criticism of Government policy. For the present I am only concerned with presenting an account of what has actually happened, and I think that Honourable Members will find the account interesting. I propose to take the period

of 15 months from the end of September 1931, just after England went off the gold standard, up to December 31, 1932, and shall endeavour to put the position in the simplest possible form.

22. (In this period of fifteen months, India on balance exported 107.08 crores of gold. We may thus take it that private individuals during this period acquired out of the proceeds of gold exports balances in external currency, probably mainly in sterling, to the extent of £80 $\frac{1}{3}$ rd millions. During this same period exports of merchandise were 181.37 crores and imports 161.45 crores, giving a favourable balance of 19.92 crores equivalent to, say, £15 millions. This sum also may be taken as having been converted into external currency balances by private individuals. Adding this £15 millions acquired against merchandise to the total of £80 $\frac{1}{3}$ rd millions acquired against gold exports, the total external balances acquired by private individuals from October 1, 1931, to December 31, 1932, amounts to £95 $\frac{1}{3}$ rd millions. Out of this sum Government has acquired by its purchases in the market as currency authority no less than £69 $\frac{2}{3}$ rd millions.

[The balance of £25 $\frac{1}{3}$ rd millions has been retained on private account. I will deal with this latter portion later and consider first what the Government has done with the sterling balances of £69 $\frac{2}{3}$ rd millions which it has itself acquired]

23. In the first place Government has used about £34 millions in meeting its ordinary recurrent commitments.

Secondly, it has used £15 millions in discharging the 5 $\frac{1}{2}$ per cent. sterling loan which matured on January 1, 1932, thereby liquidating an obligation which cost it £825,000 equivalent to Rs. 110 lakhs per annum, and greatly strengthening its credit in London.

Thirdly, Government has added about £11 millions to its currency reserves, and lastly, the balance of £9 $\frac{1}{4}$ millions was added to the Government's Treasury balances, and is really potentially available for further strengthening of its currency reserves.

Government therefore made good use of the abnormally high amount of sterling which it was able during these fifteen months to purchase as a result of the gold exports.)

In order to complete the picture I may here add that a 5 per cent. sterling loan for £10 millions was floated during the same period, out of the proceeds of which £6 millions 6 per cent. bonds were repaid and the remaining £4 millions of which were used as a further addition to the Treasury balances.

Taking this last transaction into account, the combined result is that during the fifteen months the Government has reduced its sterling debt by a net amount of £11 millions sterling, has increased its currency reserves by £11 millions and its treasury balances by £13 $\frac{1}{4}$ millions. The total of these amounts is £35 $\frac{1}{4}$ millions, so that out of our £69 $\frac{2}{3}$ rd millions sterling we used about £34 millions for meeting our current requirements and £35 $\frac{1}{4}$ millions sterling for strengthening our position. Incidentally we may thus be said to have advanced by £35 $\frac{1}{4}$ millions towards the position required for setting up a sound Reserve Bank.

24. I must now turn to consider the sum of £25 $\frac{1}{3}$ rd millions which, as I have explained, must be regarded as having been retained by private individuals out of the total proceeds of gold exports and the balance of trade in merchandise. What has happened to this money? In the first place, as Honourable Members are well aware, a substantial proportion of the external

currency derived from the sale of Indian exports abroad is always retained on private account. The amount required is influenced by two factors, first normal current requirements, and secondly, movements of capital. The normal current requirements are for such things as sea freights, interest and dividends on investments in India held abroad, family remittances, money spent abroad by travellers from India, etc., etc. The movements of capital may be either transfer of funds for permanent investment by private individuals, or the movement of funds by banks for temporary investment in treasury bills, etc. These movements of capital may of course take place either towards or away from India, and therefore either reduce or swell the amount required to meet current requirements. The annual reports of the Controller of the Currency always give clear figures and explanations on this point and I would refer Honourable Members to them. I cannot within the limits of this speech attempt any full examination of this matter, but from the investigations of the Controller of the Currency it appears to be a fairly accurate estimate to say that in the 15 months with which I am dealing about Rs. 15 crores or £11½ millions was required for the repayment of money invested in Indian treasury bills by foreign banks, and that the balance of about £14 millions was required to meet normal current requirements. The repayment of the treasury bills, of course, represents a strengthening of the Indian position.

25. It is now possible to reconstruct the whole picture. For this purpose I think it is fair to take the surplus balance of trade in merchandise of £15 millions as earmarked for meeting, in the first place, the normal private current requirements of £14 millions. Thus, in round figures, the position as regards the proceeds of the gold sales would be as follows. Out of £80 millions which represent the proceeds of the exports of gold Government acquired £70 millions and £10 millions served to repay foreign funds temporarily invested in India. Government out of its £70 millions used £34½ millions to meet its own current requirements and £35½ millions to repay sterling loans and strengthen its reserves. Therefore out of the total £80 millions of gold proceeds only £34½ millions were used to meet current requirements, and the balance of £45½ millions went to reduce India's external obligations and strengthen her public reserves.

Looking at the matter from the side of the Indians who have sold the gold, they have acquired 107½ crores of rupees and of this, while a portion has been spent in meeting current requirements (i.e., paying customs duty on imported goods and other taxes), a very substantial portion also, as is clear from the figures which I have given, must have been retained in currency or invested in Government securities.

Therefore whether the position is viewed from the side of public finance or private investment, it is clear that to a very large extent the gold exported does not represent a drawing on reserves, but merely the conversion of one form of reserve into another. Apart from this, as there are some who, while not criticising what has happened so far, consider that the process of so-called drawing on reserves has now gone far enough, I wish to remind the House that even though the amounts exported have been very large, the figures are still small in relation to India's resources. The fact that the published figures are given in values tends to give an exaggerated idea, because, of course, gold now stands at a premium of about 30 per cent. If we look at the statistics of the weight of imports and exports the strength of India's position is extraordinarily striking. From September 1931 up to the end of December 1932 India had exported slightly over 14 million ounces of gold. As compared with this the imports between April 1926 and September 1931 exceeded 15

million ounces ; so that, in spite of the enormous amounts hitherto exported, we are not yet back to where we were in April 1926. If we go further back the results are still more striking. The net imports from April 1922 to March 1926 exceeded 28 million ounces, and this means that India can go on exporting gold until the total quantities have risen to three times the amount of what has already been exported, and still have more gold in hand than she had eleven years ago.

So far, therefore, regarding the whole position of India as a single interest and considering the vast size of the accumulations of gold which exist, it cannot be said that there has as yet been any dangerous depletion.

26. I have been concerned in making this examination rather with presenting a picture of what has happened than of defending Government's policy, but it will help to complete my explanation if I now deal with some of the criticisms which have been made. The general argument is that if Government had prohibited the export of gold and been ready to purchase on its own account against rupees all the gold that has come forward for sale, then Government would have been able to reinforce its own currency reserves to that extent.

I have already shown that Government has actually acquired seven-eighths of the sterling proceeds of the gold exported up to December 31, 1932 ; but, as I wish to follow out the criticism, I will consider the simple question :—

“ What would have happened if Government had prohibited the export of gold and thereby allowed to those who wanted to sell it no other opportunity except to sell it for rupees ? ” In the first place it is highly improbable that the same amount of gold would have been sold—But I leave that out of account and will assume that Government would have bought it all. What then would have been Government's position ? In the first place it would have had to convert £45 millions of it into sterling to meet some of the purposes which I have already explained, namely, its current requirements and the net discharge of £11 millions sterling debt. As regards the £24½ millions which it has, as I have explained, actually used for strengthening its currency reserves and Treasury balances, it might have kept this sum in the form of gold. But I do not think this would have been good policy, for we already have our proper proportion of gold in our currency reserves, and we should have been well advised to convert this amount also into interest-bearing sterling investments.

27. I am left to explain what would have happened to the balance of £25½ millions retained on private account, or rather the £10 millions out of this sum which represents the proceeds of gold exports ; for it is this sum which our critics say we should have secured to ourselves if we had purchased the gold and which by our actual policy we have lost. (But should we have been able to retain it ?) Certainly not. This balance was needed for the purposes which I have explained, and if we had bought the gold for rupees, the private remitters would then have come to us, as the currency authority, and demanded that we, in accordance with our statutory obligation, should sell sterling to them. We could not under the existing law have refused to do so, and in that case we should have had to use the gold which we had acquired in order to buy sterling to meet our obligation, and thus would have found ourselves in precisely the same position as we are today. We could only have refused to sell the gold in two ways. (Either we should have had to get a law passed to relieve us of our statutory obligation, in which case who would venture to prophesy what would

have happened to the sterling value of the rupee ?) Or, as an alternative, we should have had to pass a law putting a rigid restriction on all exchange transactions, which would have been a gross and unnecessary interference with the liberty of private individuals to deal with their own property, and would necessarily have led to a very serious restriction of imports.

Either of these alternatives would have been very serious steps, which might have had far-reaching and dangerous effects on our position. Those who criticise our policy as regards gold must first be very sure in their own minds whether they would have welcomed them.

28. I have explained the position as fully and fairly as I can, and I hope that I have done so clearly. I have done this not as an advocate anxious to defeat his opponents, but as one who earnestly desires to clear his own mind as to what is right and to put the real issues before the public. We do not claim for ourselves either perfect wisdom or any monopoly of such imperfect wisdom as is attainable in this world, but I think what we can claim is that our policy has guided India through a period of quite unexampled difficulty without disaster, and that at the end of these two years we find ourselves with greatly improved public credit, with greatly strengthened resources, and with the freedom and security of private trade unimpaired. Nor can I believe that any single interest of the country has hitherto been sacrificed or damaged. The policy therefore has worked well so far, and more than this I do not claim. The times in which we live are so uncertain and abnormal that no one could venture to lay down that a particular policy must be for ever infallible. We must be guided by events. But till now and for the present we do claim that our policy has worked well, and that while that continues it would be unpardonable rashness to plunge into the unknown depths of wild experiments.

29. I am afraid that my argument as to Government's policy as regards gold exports has led me into something of a digression from the review of India's economic position which was my main purpose at this stage.

I may now sum up my own conclusions on that review. For my own part, the main impression gained by a study of what has been happening during these last two years of terribly difficult times is one of admiration and wonder at the way in which India and her people have adjusted themselves to the emergency. The more highly organised Western nations may well take lessons from her in this respect. While I have commented on the enormous decline in the demand for India's export products, it is a remarkable fact that this has not yet led here, as in other countries, to the piling up of unmanageable stocks which form both a source of weakness to the country that holds them and a menace to the rest of the world. The diversity of cropping in most parts of India has led to a comparatively quiet adjustment to changed conditions without elaborate schemes for restriction of production, or dangerous experiments for using public funds to finance surplus stocks. The striking restriction which was effected after the 1930-31 season in the jute area of Bengal is well known, but in the case of cotton also an adjustment has taken place aided partly by short crops and partly, though only to a regrettably small extent, by increased consumption by Indian mills of Indian cotton. To some extent, in certain cases such as sugar, Government policy has helped the agriculturalists to find profitable alternatives in money crops. Linseed is another important alternative crop for which possibilities of an increased outlet have been opened up by the Ottawa Agreement. In this case a fairly substantial increase in the area sown had been undertaken before the Ottawa Agreement was implemented, and the preference now secured in the British market may justify a further increase. Groundnuts, again, have provided

another alternative outlet, and this crop has become in Madras a moneycrop of first rate importance, and is becoming an alternative crop to cotton of growing importance in Bombay and Berar. Where export facilities have been lacking for a particular crop and alternative export crops have not been possible, there has been a spreading over into miscellaneous crops for local consumption. In the case of Bengal, where the main reduction in the jute area occurred before last year, it has been possible to examine conditions fairly closely, and there the alternative crops were mainly rice, maize, millets, smaller pulses, and to some extent sugarcane. It is difficult to trace exactly the complete economic effects of these adjustments, but one conclusion is probably justified, and that is that the poorer classes and particularly the wage-earning classes whose wages have not been reduced proportionately to the fall in values of local food produce, are at present being better fed than ever before. Thus some advantage at least is gained.

If one turns to the other side—the side of consumption—one gets the same impression of comparative stability, for here the power to draw on reserves has, as I have explained, resulted in a remarkably steady maintenance of consumption, in spite of increased duties, of the main necessities of the masses. In fact, by cutting off imports of precious metals and supplementing her purchasing power by drawing on her reserves of gold, India has been able to keep up her standard of living and her position as a customer for the goods supplied by the rest of the world to more nearly normal levels than most countries. In this way she has avoided an undue weakening of the position of her own potential customers, a result which has been further helped by the release of gold supplies to the world.

Simultaneously with all this the figures show a striking increase in investment by the poorer classes.

30. The result of this survey has seemed to us to justify the assumption for the purposes of our estimates that general conditions as regards consumption of dutiable articles may be expected, even without a striking world recovery, to remain fairly constant next year. But having stated this assumption it is necessary to add a note of warning. Neither the process of drawing on reserves, nor that of agricultural adjustments, can be continued indefinitely. As to the latter point, seeing that the contraction in export demand applies to practically all our export crops, the range of adjustment is comparatively narrow, and, if a further fall in purchasing power is to be avoided or minimised determined efforts are necessary both to make the most of every possible export outlet for our produce, and to supplant by local production imports of such articles as long staple cotton.

Further, in regard to both points, India remains as deeply interested as any other country in efforts to promote international co-operation and the recovery of world trade. If the present low levels as regards both prices and world demand for agricultural products were to become stabilised, very serious problems would have to be faced and it would be necessary for those responsible for governing India to take stock again of the whole position.

Effects of the general economic position on tax revenue.

31. I want now to show as briefly as possible how some of the broad phenomena which I have been describing appear when translated into revenue results.

32. As might have been expected from what I have said, revenue from salt, kerosine and cotton piece-goods has been very satisfactory for the current year.

We estimate salt revenue at 10·33 crores as compared with a budget estimate of 9·43 crores.

Kerosine import and excise duties are expected to produce 4.25 crores as compared with a budget estimate of 4.42 crores.

Cotton piece-goods import duties are put at 6.40 crores as compared with a budget estimate of 3.79 crores.

33. In the case of cotton piece-goods, however, we think it necessary to treat the imports for the current year as to some extent abnormal.

Quantities imported have shown a great advance, the yardage in the 9 months, April to December, 1932, being about 30 per cent. up on the same months in 1930 and about 70 per cent. up on 1931. That this is partly due to other reasons than the price factor is shown by the fact that the recovery has been shared by British goods, the average price of which has not fallen appreciably. To this extent, general causes—notably the waning of the boycott movement—must have operated; but it remains true that so far as Japanese goods are concerned, the very heavy fall in prices which followed on the depreciation of the yen has been the most important stimulus to the import trade. The result was a strong demand from the Indian mill industry for the exercise by Government of their powers of increasing the protective duty; and on August 30th, 1932 this was done, the duty on non-British goods being raised from 31½ per cent. to 50 per cent. *ad valorem*, with the minimum for plain grey goods raised from 4½ annas to 5½ annas a pound. By this time, the imports from Japan had been 257 million yards against 135 million in April to August 1931, with an average value of 2.3 annas a yard against 2.6 annas in 1931. But in this trade it is prospects and forward business that are most important; and that the action taken in August was timely is shown by the fact that the considerable imports which came forward in the following four months had an average value as low as 2.03 annas a yard or 78 per cent. of the 1931 average. The effect of the increase of duty, coupled with the fact that imports made or contracted for before it had been made must have left fairly large stocks in hand, has been a steady decrease in imports so that in January the duty taken on non-British piece-goods was only seven-tenths of that taken, at the same enhanced rates, in September.

34. In close connection with cotton piece-goods I must mention artificial silk goods and mixtures. In spite of the great enhancement of the duty (from 20 per cent. to 50 per cent. and 34½ths per cent. respectively) and in spite of a striking reduction in the value of Japanese goods, the total values of imports have increased.

We now estimate receipts from artificial silk goods at 130 lakhs for the whole year and mixtures at about 20 lakhs, as compared with earlier estimates of about Rs. 70 lakhs and Rs. 13 lakhs respectively.

35. Other special heads under which revenue receipts have been most satisfactory are the new duties on raw cotton and machinery. Our estimate of revenue from the duty on raw cotton is now 62 lakhs against our original budget estimate of 32 lakhs. Similarly, in regard to duties on machinery we now anticipate a revenue of 115 lakhs against our budget estimate of one crore.

36. As against these satisfactory results I must comment on the main heads where we have fallen far short of our estimates. Sugar is the most important item. In this case we now only expect an import of about 435,000 tons producing duties, including land customs receipts, of Rs. 7.80 crores against the budget estimate of 550,000 tons and about 10 crores respectively. The development of sugar manufacture in India, though satisfactory in itself, is, as I have already noted, making a very serious

hole in our revenue. The duty at present works out at something like 166 per cent. *ad valorem*, and it is therefore obvious that if purchasing power which was once put into sugar is diverted to some other commodity paying lower rates of duty, the revenue must be a heavy loser. If, for example, 1½ crores are spent on sugar machinery including the 10 per cent. duty, the revenue gets about 13½ lakhs. On the other hand if 1½ crores are spent on sugar including duty, the share of the revenue in the total purchase price is about 93 lakhs.

37. Silver, again, has failed to come up to our expectations, and it is clear now that we cannot rely on any appreciable imports of any precious metals as long as the present depression continues.

38. Motor cars and cycles have shown heavily reduced figures and we now estimate receipts at 60 lakhs only against 80·63 lakhs budgetted and actuals of 95·01, 72·31 and 63·20 lakhs in three previous years,—despite the increases of the rate from 20 per cent. in 1929-30, when the duty was 95 lakhs to 37½ per cent. in the current year. We have carefully considered representations that this is due to the operation of the so-called law of diminishing returns, but have not been able to satisfy ourselves that this is the case. The use of motor vehicles has not diminished in anything like the same ratio: our estimate for this year for the motor spirit duty (customs and excise) is 4,30 lakhs, equivalent to 258 lakhs at 6 annas a gallon which was the rate in force in 1929-30, when these duties yielded 298 lakhs. It is very obvious that apart entirely from any enhancement of duties, a period of acute depression will affect what I may call capital expenditure more than recurring expenditure, and this factor must be particularly noticeable with motor vehicles, the number of which on the road was probably excessive before the depression came.

39. Of the taxes on luxuries, the most important (apart from silk and artificial silk piece-goods) fall on articles which are such as I have just described as representing recurring expenditure,—that is to say, goods that are consumed on being taken into use. The principal such items are liquors, tobacco and spices and betelnuts. The yield of the tobacco duties which we now estimate at 125 lakhs, has been greatly reduced as a result, not of decreased consumption, but of the transfer to India of the manufacture of many brands of cigarettes that used to be imported: we still get the duty on such imported leaf as is used in making these brands, but that duty is much lower than the corresponding duty on cigarettes. Liquors are standing up pretty well: the heavy increases of duty and the general depression have reduced consumption heavily, but those very increases serve to bring up the estimated yield for the year to a figure not far short of the actuals in 1929-30 and 1930-31. Betelnuts and spices, which have a duty less severe in its *ad valorem* incidence, have been very successful items; any decline in imports has been much more than set off by the increase in duty rates and our revised estimate for these two heads is 76 lakhs against actuals of 46 and 37 lakhs in 1929-30 and 1930-31.

Analysis of Revenue and Expenditure estimates—1932-33 and 1933-34.

40. I have dealt at some length with certain important factors which have played a part in the current year's results because I wanted to make clear what sort of considerations we had in mind in framing our estimates and in deciding what proposals to put forward.

It must be clear from what I have said that to estimate revenue for next year—particularly customs revenue—is, in view of the completely uncertain and abnormal conditions, a task of quite unprecedented difficulty. Indeed I may say that accurate estimation is impossible. In these circumstances and for the reasons which I have explained, we have thought that the most reasonable course is to assume that the general position next year will be the same as for the current year, neither better nor worse, and in particular that India will be able to maintain the same purchasing power for commodities imported from abroad.

41. *Customs*.—The assumption, however, that the value of imports will be maintained does not necessarily imply that the value of the import duties will also remain the same.

I have already explained the special position as regards sugar, showing how the present development of the Indian industry is affecting our revenue. On these considerations we think it necessary to allow for a drop of one crore in receipts from the sugar import duties which will not be offset by any increase under other heads.

In regard to cotton piece-goods also, for reasons which I have explained, we think it necessary to regard the revenue from import duties—at least on Japanese goods—as to some extent abnormal and not likely to be repeated. Here therefore we have allowed for a drop of 30 lakhs.

As against these reductions we have thought it safe to count on a small revenue (25 lakhs) from silver imports—because having closed the gap in our land customs line on the Burmese frontier, through which a large trade in silver from China was suddenly developing in the course of the last year, we think it reasonable to expect a moderate resumption of dutiable imports.

Making allowance for these and other minor variations, our customs revenue estimates for next year are put at 51,25 lakhs showing a reduction of 104 lakhs from the revised estimates of the current year.

The position as regards net receipts may be summarised as follows :—

	Revenue (Lakhs).
Budget Estimate, 1932-33	52,31·27
Revised Estimate, 1932-33	52,28·55
Budget Estimate, 1933-34	51,24·60

42. *Income Tax*.—In our estimates for income-tax we are as in the case of customs making the assumption of a repetition of the current year's results. On this basis we should have receipts of 17,70 lakhs next year to which must be added 53 lakhs representing the tax on official salaries in regard to which the exemption hitherto enjoyed is, according to our proposals, to be removed concurrently with the reduction in the cut in pay which we proposed. The total estimate is thus 18,23 lakhs out of which it is reckoned that the 25 per cent. surcharge will account for 3,50 lakhs, and the tax on incomes below Rs. 2,000 for 70 lakhs.

The position may be summarised as follows :—

	Revenue (Lakhs).
Budget Estimate, 1932-33	18,73·38
Revised Estimate, 1932-33	17,70·00
Budget Estimate, 1933-34	18,23·00

43. *Salt*.—The results for the current year justify us in anticipating the continuance of consumption at the present level. We have, however, now exhausted the special temporary acceleration of receipts resulting from the extinction of the salt credit system which was one of the features of our emergency financial plan of September 1931. This produced a special addition to our receipts during the current year of as much as 150 lakhs. Allowing for the disappearance of these exceptional receipts, the net revenue from salt will be 7,58 lakhs.

The position as regards net receipts may be summarised as follows :—

	Lakhs.		
	Revenue.	Expenditure.	Net.
Budget Estimate, 1932-33 .	9,43·40	1,15·69	8,27·71
Revised Estimate, 1932-33 .	10,38·00	1,14·77	9,23·23
Budget Estimate, 1933-34 .	8,75·00	1,16·96	7,58·04

44. *Opium*.—The revenue under this head is being gradually reduced owing to our declared policy of reducing exports. It is also subject to unexpected variations from year to year due to changes in the actual requirements of Foreign and Colonial Governments within their allotted quota. This latter factor accounts for 34 lakhs out of the drop of 38 lakhs in the revised estimate.

The position as regards net receipts may be summarised as follows :—

	Lakhs.		
	Revenue.	Expenditure.	Net.
Budget Estimate, 1932-33 .	1,32·63	71·62	61·01
Revised Estimate, 1932-33 .	94·92	86·36	8·56
Budget Estimate, 1933-34 .	1,20·05	57·36	62·69

45. *Service of Debt and Finance heads*.—It will be convenient if I deal with the service of Debt and the other Finance heads together.

In the first place, as regards interest payments, the reductions shown are satisfactory, namely, 204 lakhs as compared with 1931-32 and 51 lakhs as compared with the revised estimate for 1932-33. I must however explain that the full result of the conversion operations recently undertaken is not yet revealed. The results indeed of the latest operation were not known at the time our estimates had to be compiled; but apart from this there are other special reasons. Although our main conversion scheme has been directed to substituting one form of permanent debt for another, the process has been a continuous one which is not yet completed, and the first actual result in the current year has been to reduce treasury bills held by the public and the Paper Currency Reserve by approximately Rs. 34 crores. Current rates for treasury bills had fallen so low that this aspect of the conversion actually represents, initially at least, an increase in the interest charges. It must be remembered, however, that this large reduction in our treasury bill outstandings is not only a sound operation in itself, but by strengthening the Government position enables it to reduce interest rates both for the remaining volume of treasury bills and for its permanent debt.

A second point which I have to make in explaining the effect of the conversion operations is that the Government of India is not mainly a borrower on its own account. The great bulk of the borrowings is undertaken for the Railways and through the Provincial Loans Fund for the Provincial Governments.

In the case of the Railways in respect of the whole of their capital outlay met otherwise than from specific railway loans we charge them the average rate of interest which we ourselves pay. The total amount of non-specific debt which enters into our calculations for working out the average rate of interest is, in round figures, 450 crores, and the total Railway capital outlay on which interest at the non-specific debt rate is charged is, in round figures, 300 crores. Any savings from conversion operations will therefore be passed on to the Railways to the extent roughly of two-thirds. Bearing these two considerations in mind, as the sterling loan and the four rupee loans floated during the current year almost exactly cover our total liabilities in respect of loans maturing, in the case of sterling in 1932-33, and in the case of rupees in 1932-33 and 1933-34, we can reckon that these maturities have been converted at an annual saving in interest of approximately 70 lakhs for the rupee loans and 9 lakhs for the sterling loan, that is to say, that when the temporary effect of the loss due to the reduction of treasury bills has passed away, the permanent saving to the railways will be in the neighbourhood of 53 lakhs, and to general revenues of 26 lakhs.

46. Apart from this it must be noted that the conversion operations only affect what we call our Ordinary Debt. As regards our so-called 'Other Obligations', although we have reduced the rate of interest on Post Office Cash Certificates from about 6 per cent. to $4\frac{1}{2}$ per cent., the results of this will only very gradually be felt, while in regard to the other heads, Post Office Savings Bank Deposits and Provident Funds, the interest rates which we allow are calculated on methods which will not show any immediate reduction. In fact, as regards the important head of Provident Fund balances, on which we are paying interest at over $3\frac{1}{2}$ crores annually, the rates which we allow will actually show a slight increase next year, because we work on the basis of the average rate of the preceding five years, and we are therefore just now dropping out years when the interest was lower than it was last year.

47. There is, further, another special head under which an increase has had to be provided, which offsets some of our other savings under interest payments, namely, interest on War Debt. The House will recollect that the so-called Hoover moratorium originally extended to the first of the two payments due for 1932-33, and that His Majesty's Government agreed, when the moratorium was first introduced, that as they were not making payments on the debt due from them to America, they would not themselves demand interest on the debt owing from India and the Dominions to them. The House also knows that the moratorium was not extended, and that His Majesty's Government met the full payment on the second instalment due in December last. His Majesty's Government have, however, agreed not to demand any payment due at the present time from their own debtors—India and the Dominions—pending a final settlement of the War Debt question. How that will be settled no one knows, but I hope that it will be in a manner which will bring relief to the debtor nations, for I believe that the world's trade cannot flow in its normal course, nor can any country settle down to normal economic life, so long as these huge international obligations continue as disturbing factors. For the present, however, we have to take account of the fact that the debts exist, and we have made provision in the current year for the second instalment of interest due in December, and for next year on the basis of a full year's payment. For the current year the instalment due, but not demanded, has been debited under the interest head and credited to a suspense account. The amount, however, for which we are making provision next year, has been reduced because we have thought it reasonable to assume that, pending a comprehensive settlement of the

question of War obligations in which India's War Loan liability will possibly be included, His Majesty's Government will at least give us the benefit of a reduction in interest rates corresponding to the reduction which they have achieved by converting the British 5 per cent. War Loan. At the same time we have made provision for repaying by equated annual instalments over a period of 20 years our War Loan liability outstanding at the end of the current year including the arrear interest for a year suspended under the Hoover moratorium. The combined effect of this last-mentioned provision and of the reduction of interest rates is that the full provision for next year is £658,800 against a liability of £836,000 under the original arrangement. I must point out however that for 1932-33 we have only had to provide for half a year's interest at the higher rate, namely, £418,000; so that under the new proposal interest charges are increased by £240,000 or Rs. 32 lakhs.

While we are making provision for this amount it must be noted that we are not allowing for any receipts under the head of reparations, for these remain suspended under the Lausanne agreement.

We can only hope that these matters will be settled in a fair manner during next year and that possibly the settlement may leave us in possession of a margin. This is one of the favourable possibilities for the future.

The net result of the factors affecting Interest payments, some of which I have just explained, is that interest charges show a net reduction of 2,04 lakhs as compared with the actuals for 1931-32 and 51 lakhs as compared with the revised estimates for 1932-33.

48. The other items which may be classified as 'Finance heads' are the provision for Reduction and Avoidance of Debt and the net revenue from Currency and Mint. Under these heads there is no striking change as compared with the revised estimates. The provision for Reduction and Avoidance of Debt is put at 688 lakhs for next year as compared with 684 for the current year. The amount is arrived at automatically according to the present convention which is well known to the House. An important point to note is that it is a substantially heavier burden now than it was in the period of prosperity from 1923 to 1928—in fact, it is 2½ crores more than the annual average for that period.

49. As to Currency and Mint, the receipts under this head automatically go down when the rate on treasury bills falls. We are allowing for a net reduction of 61 lakhs as compared with the revised estimate for the current year.

50. It will be seen from what I have said that as regards Finance heads there is no great change compared with the revised estimates for the current year. Net interest charges are down by 51 lakhs, Reduction and Avoidance of Debt is up by 4 lakhs, and the net revenue from Currency and Mint is down by 61 lakhs. Interest receipts show a small decrease of 1 lakh. There is therefore a net deterioration of 15 lakhs.

51. *Commercial Departments.*—I now turn to the remaining important factor—receipts from Commercial Departments. So far as the Railways are concerned I need say little. We take credit in our budget for full interest payments, although, as the Honourable Member for Railways has explained, these can only be met by trenching on the unspent balance of the allocation for depreciation.

As to the Posts and Telegraphs, the position remains, I fear, unsatisfactory. The net loss on working account, which has to be carried in our budget, for next year is put at 57 lakhs as compared with about 48 lakhs in the revised estimate for the current year. This increase of 9 lakhs in the loss allows for an extra charge of 27½ lakhs on account of pay due to the proposed reduction in the cut and 15 lakhs on account of increments. As a small increase of 8 lakhs in revenue has also been assumed, net economies of 25 lakhs have accordingly been achieved in other directions.

52. *Expenditure position.*—Having thus dealt with the position as regards Tax revenue, Finance heads and Commercial departments, I must now turn to consider the main heads of expenditure, Civil and Military. It is this expenditure which above all needs careful watching, and I have no doubt that, now that our main retrenchment campaign is concluded, Honourable Members of the Legislature will feel it to be especially their function to satisfy themselves not only that we have carried out our promises, but also that we are not relaxing our efforts to achieve economy. With that I entirely agree, for I have always taken the view that the pressure for economy must be continuously applied and should not be allowed to become a process of violent energy at one moment to be followed by a period of lassitude and relaxation continuing until a new emergency arises. If, in giving an account of the present position, I am led into very small details, that is a reminder of the fact that it is only by painstaking attention to every detail that expenditure can be controlled.

53. *Civil Expenditure, 1932-33.*—The budget estimate of Civil expenditure for the current Year (1932-33), i.e., excluding military expenditure, expenditure on Commercial departments and Dept services, was 20,65 lakhs. Our revised estimate now gives the figure as 20,89 lakhs. There is thus an apparent increase of 24 lakhs. But a closer examination shows that this increase does not denote any increase in real expenditure, and, indeed, that the economy in recurrent expenditure has been greater than that which we promised. The figure of expenditure as shown in our accounts has had to be increased because special items amounting in all to 68½ lakhs, but the great bulk of which do not denote real expenditure, have had to be included.

54. I can classify these items as follows:—

- (a) Items which merely appear under expenditure heads in the accounts, but are not expenditure in the ordinary sense. These come to a total of 40½ lakhs. The details are as follows:—
- | | |
|--|-----|
| (1) Increase in the share of Customs revenue payable to the Travancore and Cochin Darbars. This is unavoidable under the terms of the agreement. It is not really expenditure, but rather a deduction from revenue | 2 |
| (2) Extra payments under Opium. This is necessitated by the fact that the yield of the crop was unexpectedly high. The opium has to be purchased from the cultivators, but of course the cost will all be subsequently recovered | 15½ |
| (3) Increased expenditure on fumigation of imports of American cotton. The whole of this cost is recovered | 3½ |
| (4) Carry-forward of certain expenditure from 1931-32 to 1932-33 (Aerodrome works at Juhu and cost of currency note forms) | 3½ |

- (5) Increase in the *net* expenditure under Survey of India and the Indian Stores Department owing to short recoveries due to financial stringency and general trade depression. This item does not represent increased expenditure, but as the amount of this grant in the budget is the *net* amount after deducting recoveries, this net amount is increased if the recoveries are reduced 4½
- (6) Payments to local Governments on account of re-allocation of leave and pensionary charges of officers lent by them to the Government of India and re-classification of certain other charges (port quarantine charges, etc.) as central 11
- Most of this merely represents the discharge of a liability already accepted. The potential liabilities under this head are now practically exhausted.

(b) Special non-recurring items. These account for a total of 17 lakhs and are made up as follows :—

- (1) Provision for the annual Research Grant to the Imperial Council of Agricultural Research not included in the original budget. This grant was suspended as part of the economy measures. As, however, a surplus is available on the 1932-33 budget, it was decided to recommend a special grant out of this surplus to the Imperial Council of Agricultural Research, which will increase their balance to a sum sufficient to provide for the completion of all the projects which they actually have in hand. A motion for a supplementary grant to cover this item will be moved in due course. The regular annual provision of this 5 lakhs still remains suspended 5
- (2) Increased terminal charges on pensions including commutation payments. These charges in excess of our original estimates had, of course, to be met 12
- (c) Items of special unforeseen expenditure. These amount only to the small sum of 11 lakhs. The following are the details :—

- (1) Expenditure on staff and roads in connection with the Khirtar Canal colonisation scheme ½
- (2) Expenditure on account of the special session of the Legislature in November 1½
- (3) Expenditure on account of the third Round Table Conference, the Ottawa Conference and the Capitation Tribunal 4½
- (4) Expenditure on repairs necessitated by flood damages 3½
- (5) Other minor items ½

55. As the special items to which I have just referred amount to 68½ lakhs, and as the total accounts expenditure for 1932-33 shows, as I have explained, an increase of only 24 lakhs, it follows that under the other heads of real expenditure we shall have achieved during this year economies of 45 lakhs more than we promised. It may be remembered that in my budget speech in March last (paragraph 34) I stated that, broadly speaking, against a total retrenchment in expenditure of 499 lakhs recommended by the four civil

sub-committees, Government had achieved economies of 433 lakhs, or nearly 87 per cent., before allowing for terminal charges which the committees did not take into account. The results according to the revised estimate for the current year which I have just given show that the actual economies achieved in normal expenditure amount to 45 lakhs more than this, that is to say, to a total of 478 lakhs, or nearly 96 per cent. of the amount recommended by the retrenchment committees.

56. *Civil Expenditure, 1933-34.*—Turning to the estimates of expenditure under these civil heads for next year, I am glad to be able to report a still further improvement. As compared with the current year with its budget estimate of 20,65 lakhs and the revised estimate of 20,89 lakhs, the estimates for 1933-34 are 20,53 lakhs, that is to say, a reduction of 36 lakhs on the current year in spite of the following facts; first, that we have allowed for reducing the cut in pay to 5 per cent. thereby incurring extra charges of 28 lakhs on these particular civil heads, secondly, that we have to meet the normal increments in time scale pay which still involve an annual addition of something like 15 lakhs, and thirdly, that we have to meet new obligatory expenditure amounting to about 17 lakhs, the nature of which I shall shortly explain. If all these items are taken into account it will be seen that the total of the net reductions otherwise effected under the normal heads of expenditure amount to no less than 96 lakhs. Honourable Members may say that they are not concerned with this figure but only with the saving of 36 lakhs actually effected, but I have given these explanations in order to show how we are continuing the retrenchment effort and what a constant effort is required *merely to prevent expenditure from growing.*

57. I must now explain the nature of the items which go to make up the 16½ lakhs of new unavoidable expenditure as shown in the accounts to which I have referred.

(1) Further increase in the share of Customs revenue payable to the Travancore and Cochin Darbars.	
This, as already explained, is not really expenditure but a transfer of revenue under the existing agreement	1
(2) Additional expenditure on income tax staff in Bombay necessary in the interests of revenue	½
(3) Further expenditure on staff and roads in connection with the Khirtar Canal colonisation scheme	1
(4) Expenditure under Police on construction of police quarters and rearmament of police	1
(5) Increased charges under Political on account of re-equipment of police, maintenance charges of buildings, replacement of a motor-car, additional establishment for Gyantse Trade Agency and land compensation charges	1
(6) Grant for Sugar Research	1½
(7) Additional expenditure under Aviation for works and staff	1
(8) Cost of compilation of inter-provincial trade statistics	2
(9) Cost of new civil works, <i>viz.</i> , improving the roadway on the Jumna bridge and Sibi water supply scheme	4½
(10) Lump provision for the Joint Select Committee	1½
(11) Other petty items (including about ½ for meteorological facilities for Karachi-Madras air route)	1½

It will be seen from this list that most of these items are beneficial expenditure. The largest of them—which I specially wish to mention—is a provision of 2 lakhs for improvement in our statistical records. This represents one step in a general plan for improving our economic intelligence organisation which we are now preparing.

58. *Military Expenditure.*—When I turn to the provision for the Military or Defence Budget the results are equally, or even more, satisfactory. For the current year (1932-33) allowing for the full effects of the 10 per cent. cut in pay, the net budgetary allotment was 46·74 crores. For next year the net expenditure provided for in the estimates, after allowing for an extra charge of 52½ lakhs due to the reduction in the cut in pay to 5 per cent. is 46·20 crores. That is to say although the pay bill is increased by 52½ lakhs the net expenditure is to be reduced by 54 lakhs. The further economies made therefore in other directions amount to 106½ lakhs.

59. It is necessary of course to point out that the provision now made is cut very fine, and that to some extent the reduction in expenditure progressively effected over the last five years is due to the fall in prices of commodities which the Army has to buy. The difference between commodity prices as taken for the present estimates, and those prevailing in 1928-29, represent a saving on the whole budget of about 1 crore. If prices were to rise again, as in the general interests of the country one must hope they will, obviously under this head charges would increase.

I must also point out that this budgetary provision includes no margin for unforeseen expenditure, or for the continuance of the re-equipment programme which was laid down in 1928 and which is still being financed (to the limited extent which is possible) from reserves accumulated under the stabilised military budget system which was then inaugurated.

60. Nevertheless, while these facts must be borne in mind, I cannot but feel that the reduction in the net military budget from 55·10 crores (including the Territorial Force grant) in 1929-30 to 46·20 crores in 1933-34 is a very satisfactory achievement. There are some ungenerous critics who, when they see large savings effected in public expenditure, are inclined to say that that only indicates how extravagant was the original provision. I must indeed confess that I make it my business, as Finance Member, to be perpetually telling the spending departments something very much on these lines. But, in the case of the economies effected in the last two years by the officers of the Army from the highest downwards, I know that a great part of their work has been, not the elimination of unnecessary or wasteful expenditure, but the giving up of cherished schemes destined to increase the efficiency of the Army or the amenities for the troops. They have given them up without rancour because they recognised the greater urgency in the public interest of preserving financial equilibrium during these critical times, and they have for this reason been wholehearted co-operators with the Finance Department in a task which I know has been most distasteful to them. The public interest can never properly be served without such co-operation. What I say of the Army is equally true of the other departments, and I hope that this Assembly will not deem it unfitting that I should take this occasion of expressing my gratitude to them for the part which they have played in our common effort to restrict public expenditure.

61. *Expenditure Position. Summary.*—The net result is that as regards the two main fields of administrative expenditure—the Civil heads, excluding expenditure on Commercial departments and Debt services, and the Defence

budget—the budgetary provision for next year comes to a total of 66·73 crores as compared with a total of 67·63 crores for the current year. The total provision has thus decreased by 90 lakhs in spite of allowing for extra expenditure of about 80½ lakhs under both heads due to the reduction of the cut in pay to 5 per cent., and in spite of the normal and unavoidable growth of expenditure due to increases in the pension bill and to the increments accruing under the time-scale system on salaries, which involves an increased provision next year of about 20 lakhs.

I would before leaving this subject like to remind the House that the expenditure in these two fields which stands for 1933-34 at 66·73 crores amounted in 1929-30 to no less than 78·82 crores.

62. The explanations which I have now given show in what respects, our estimates for next year must differ from the revised estimates for the current year, although as I have explained, we have adopted as a foundation for next year's estimates the assumption that the general conditions of the current year will be repeated.

63. I may summarise the position as follows :—

	Rs. lakhs.	
	Better.	Worse.
REVENUE—		
<i>Customs.</i> —(Reduction due to fall allowed for in imports of sugar and cotton piece-goods) . . . . .	..	1,04
<i>Income-tax.</i> —(Increase due to removal of exemption from surcharge on Government servants)	53	..
<i>Salt.</i> —(Reduction mainly due to termination of temporary increase in receipts on termination of credit system) . . . . .	..	1,63
<i>Opium</i>	25	..
<i>Finance heads.</i> —Net changes including additional expenditure of 1 on account of part restoration of cut in pay . . . . .	..	15
<i>Commercial departments.</i> —Net revenue . . . . .	..	11
<i>Miscellaneous.</i> —(Reduction of 30 due to no provision being included in next year's estimates for Gain by Exchange) . . . . .	..	45
EXPENDITURE—		
<i>Military.</i> —	{ Net reduction effected in spite of part restoration of pay cut costing 79½ lakhs under these heads as compared with the revised estimates. (This net reduction together with the reduction of 5 under Irrigation and Currency and Mint taken on the revenue side gives a total reduction of 90 as mentioned in para. 61)	
<i>Civil heads.</i> —		
	..	85
Total	163	338

64. As a result of the changes thus summarised the net deterioration for next year is estimated at 175 lakhs, and thus the surplus of 217 lakhs shown in the revised estimate for the current year will be reduced to a surplus of 42 lakhs.

The comparison between the two years may be thus summarised.

	Rs. crores.		
	1933-34. Budget.	1932-33. Budget.	Revised.
Revenue	124·52	129·96	127·13
Expenditure	124·10	127·81	124·96
Balance	·42	2·15	2·17

BUDGETARY PROPOSALS, 1933-34.

65. These figures are arrived at after allowing for the proposals as regards pay which were announced in the communiqué of February 3, and without them we should, on the basis of the retention of all existing taxes, have shown an estimated surplus of 97 lakhs. That then is the position which I have to put before the House, and I must now explain what we consider to be the right policy in this position.

The cut in pay.

66. In the first place I must say something about the proposal as regards pay which as I have just explained has been allowed for in our estimates.

Before explaining the details as regards its financial effects, I want to clear up one point about our procedure. We regard this proposal as being an essential part of the budgetary plan. Its justification must depend on the budgetary position and cannot be discussed without full knowledge of that. In these circumstances the normal course, and the course which we should have thought right, would have been to make the announcement as part of the budget speech, so that Honourable Members might simultaneously know the whole position and the whole plan for which Government sought their approval. Unfortunately that course was not practically possible, because on February 3, the budgetary proposals for the Railways had to be put before the Standing Finance Committee for Railways, and it was impossible to do this without revealing proposals about the pay cut for Railway officials. We could not put forward the Railway Budget on a hypothetical basis, nor could we feel it right in the special circumstances of the present case to treat the Railway staff on a basis different to other Government servants. For this reason we were forced to announce the whole plan which we proposed four weeks in advance of the budget speech.

67. The precise financial effect of the present proposals has already been indicated, as regards particular departments in my earlier remarks, but I think it well to summarise the position.

For the Central Government civil services, including the Posts and Telegraphs Department, but excluding the Railways, a restoration of the full cut in pay for twelve months would cost about 1,22 lakhs.

For the Army, taking the officers affected by our cut, it would cost 1,14 lakhs.

As under the original plan the 10 per cent. cut was to apply to all pay earned up to March 31, 1933, and as salaries are always paid on the first day of the month following that in which they are earned so that March pay is debited to the accounts only on April 1, there will in any case be one month

of the full cut included in the budgetary expenditure of the financial year 1933-34. Therefore any reduction in the cut for next year only affects eleven months' pay borne on the 1933-34 budget.

To reduce the cut in pay to one-half for eleven months means on the Civil side	55½ lakhs.
and on the Army side	52½ lakhs.
The total cost therefore is	108 lakhs.

As against this the Central budget will recover as a result of the withdrawal of the exemption of income-tax surcharges and the tax on incomes below Rs. 2,000 from Government officials—not only officials paid against the Central budget, but officials of the Railways and officials serving under the Provincial Governments—a net increase in income-tax receipts of 53 lakhs*.

The net cost of the proposal to the Central Government is thus 55 lakhs.

68. The considerations on which this proposal has been put forward by the Government of India are first, that it represents the maximum concession which the financial situation justifies, and secondly, that there are very strong reasons for going as far as the maximum which is justifiable. I do not propose now to go into all the arguments or to anticipate what may have to be said hereafter in the course of debate. I can explain Government's position in this matter very simply as follows.

69. In the first place I must recall what I said when introducing the original proposals in September 1931. We hoped then that the emergency with which we were called upon to deal was a temporary one, or at least that the degree of intensity which made the imposition of these extreme measures necessary would have passed by March 31, 1933. The cut in pay was thus definitely intended to be merely a temporary measure justified only by an extreme and, as we hoped, temporary emergency. It was essential to make this purpose clear, and I therefore stated as one of the main conditions that the cut

“should be of a temporary nature not extended beyond the need of the present exceptional emergency. Its justification is in the need for a common sacrifice in a national emergency.”

Further, in summing up the position, I again said :

“It must be clearly explained that there is no intention that they should remain operative beyond March 31, 1933. They will not be continued beyond that date without further examination of economic conditions.....”

We have acted exactly in accordance with the intention thus indicated. We have very carefully reviewed the economic conditions, and we have arrived at the definite conclusion that while we can take the risk of making some reduction, nevertheless an emergency continues sufficient to make it impossible to restore the whole of the cut.

*Note.—The actual increase in income-tax paid directly by officials is 67 lakhs, but the net gain is only 53 lakhs. The explanation of this is that, for special reasons, the value of the exemption in the case of Railway officials was previously being paid to Government by the Railway administration. This amounts to 14 lakhs, and of course when the Railway officials themselves pay the tax, the Railway administration will cease to make this payment.

That, then, is the first point which I must make, namely, that we regarded, and still regard, the cut as a temporary measure.

The second point is this, that we regarded a cut in the fixed pay of Government officers as an extreme measure only to be taken in the very last resort after the efforts of all other feasible measures for dealing with the situation had been exhausted. Obviously a measure which is thus only justified in the last resort ought to be the first to go when any relaxation is possible. On this point also I made our purpose perfectly clear in September 1931. I said, after expressing the hope that it would be possible in 1933 to relax the emergency measures,

“ It is perhaps forecasting events too much to say in what order these reductions should be made. But there are certain principles which we consider must be observed. Relief must come first in restoring the emergency cuts in pay and secondly in taking off the surcharge on the income-tax now to be imposed.”

Therefore on this point also we are acting in accordance with our declared purpose.

70. Now in dealing with this matter I have to make our position clear both to those who may think we have gone too far in the present proposal, and also to those who may think we have not gone far enough.

I will deal with the latter first. To them I would say that we have acted exactly in accordance with our declared purpose and that we have gone to the maximum extent that we considered justifiable. It must also be remembered that in deciding our policy we had to take into account not only the budgetary position of the Central Government, but also that of the Railways in which we are directly interested, and, further, that of the Provincial Governments who might be affected by our example and whose financial troubles react upon both the Central Government as their bankers, as also generally upon the financial position of India as a whole. Taking into account these wider implications we felt it to be absolutely clear that we could not go further at present towards the restoration of full pay than the half measure which we have proposed.

71. To those who may think that we have gone too far, or that we ought not to have taken this step in priority to relaxation of measures of taxation, I wish particularly to emphasise that this must not be regarded as optional expenditure to be weighed in the balance against other possible demands on the public funds. Government is not really meeting its full obligations as long as it is not paying the fixed rates of pay of its officials—rates, moreover, which in certain cases are guaranteed by the Government of India Act. Government is therefore bound to regard the task before it as one of producing a balanced budget after including full pay to its servants. In fact there is only one criticism which we could regard as relevant and valid, and that is if it could be maintained that the proposed remission goes further than financial conditions warrant. In this connection I would remind them of one very important point which I have brought out earlier in my speech, namely, that in spite of the actual addition of Rs. 108 lakhs on the expenditure side which this proposal involves or excluding the Posts and Telegraphs Department 8½ lakhs, we are able to show a net reduction in the Civil and Military expenditure of Rs. 90 lakhs. This fact alone should answer many criticisms. Apart from that, as regards financial justification, the action now proposed must be judged by the results. What we hope is that conditions will so improve during the next year that it may be possible not merely to avoid retracing the step now taken, but to take the further step of restoring full pay and after that making a start in reducing.

the burdens of taxation. Beyond the expression of such a hope it would be rash to go.

72. I may add one final point for consideration by critics who may think this proposal unduly favourable to the Services, namely, the significance of our having in our proposals coupled a reduction of the cut with the removal of the income-tax exemptions. We felt it to be important to get rid as soon as possible of the position in which Government officials were treated as a special class as regards taxation, and subjected to special burdens in lieu of some of the burdens of taxation falling upon ordinary citizens. Honourable Members who criticised our original proposals were always very ready to calculate the exact value of these exemptions. I trust that they will be equally ready to recognise what the burden of their removal means. For officials on the highest rates of pay it means that they benefit very little from the present proposal; in fact, for officers earning Rs. 1,500 per month and over, the surcharges amount to from 2½ to nearly 4½ per cent. The greater part of benefit is felt in the lower grades. The final result in any case is that Government officials are still subjected to a very special burden, for they have to suffer not only the heavy burden of ordinary taxation but are further penalised by a special deduction of 5 per cent. from their salaries.

73. There is one consequence of our proposals which must have struck all Honourable Members. So far as the net burden to the Central Government is, under these proposals, mitigated by the recovery of full income-tax surcharges from Government officials including those serving under the Provincial Governments, it may be argued on behalf of the latter that it is inequitable that we should thus for our own benefit convert a deduction which was formerly treated as a cut in pay into a deduction in the form of income-tax. We cannot admit that such a result would in any sense be improper, for it follows necessarily from the present constitutional position as regards taxation, and we would regard it as a very dangerous precedent to admit that the Central Government may have to give up the proceeds of taxes on the ground that they are borne by officers serving Provincial Governments. Nevertheless so long as an emergency justifying a cut in pay persists it must be admitted that the circumstances are exceptional, while, having regard to the sequence of events, it must be recognised that there is some ground for the feelings of Provincial Governments. We desire within the limits of our resources to take account of these special considerations, and if the financial results for the year prove that it is possible, we intend in due course to put before the Legislature proposals that, in the case of Provincial Governments that can satisfy us that they are in unavoidable deficit, special grants shall be made to them representing the amount collected during 1933-34 from the emergency income-tax increases now to be levied for the first time on the salaries of such of their officials as are still subjected to a cut in pay. Our estimates show that the total amount involved for all officers in the service of the Provincial Governments would be about 36 lakhs. If therefore our budget estimates are realised we shall be in a position to make these grants.

74. Having explained the considerations which guided us in making our proposals about the cut in pay, it will be fairly obvious to Honourable Members what our general policy in other matters must be. We have treated the restoration of the cut as our first objective, and the tentative step of partial restoration which we have proposed represents the limit to which we think it safe in present circumstances to go. Otherwise the whole carefully balanced framework of the financial plan which we introduced in September 1931 must in our view remain undisturbed. The position is sound; the plan has worked

and proved equal to the emergency ; budgetary equilibrium has been restored. But the future is still dark with uncertainty. Some of us may feel hopes that an improvement is coming. But one cannot make budget estimates or frame financial policy on hopes. We are materially better off than we were in September 1931 in the sense that we have got the measure of our difficulties and proved that our structure is strong enough to stand up against the storm, at least as hitherto experienced; but there could be no more fatal folly than to weaken that structure before the storm is over, and thus jeopardise all the success which has been achieved.

75. We therefore think that the structure must, at least until things are clearer, remain unaltered, and I have accordingly no remissions of taxation to propose.

76. We have considered very carefully whether in any cases of customs duties a point of so-called diminishing returns has been reached, but I am quite satisfied that there is no class of ordinary imports in regard to which a reduction of the duty would so stimulate the demand as to produce an increase of revenue. I have little doubt that in the course of the budget debate questions of this kind will be raised, and I can defer a statement of the evidence in regard to any particular item until then. We have given special consideration to two very high import duties, those on silver and sugar. As to silver, it might perhaps be argued with greater force than in the case of any other article that a reduction in the duty might stimulate consumption, or at least that, as we are recovering so little duty now, we could afford to risk the experiment. If revenue were the only consideration there is doubtless a good deal in the argument. But we had to take other considerations also into account. The internal price, which affects many classes in India, depends on the rate of the import duty, and any lowering of that would have had a disturbing effect. On the whole we thought it to be in the public interest not to introduce disturbing factors of that kind just now.

In the case of sugar it is essential to remember that the present rate of duty is substantially higher than the maximum protective duty recommended by the Tariff Board. It is conceivable that a lowering of the duty might in this case stimulate imports of foreign sugar. But just at this moment many new factories are being started and for that reason one must hesitate to make any sudden change. On the other hand it would be highly imprudent for those who are investing money in the sugar business to forget that present conditions are more favourable than those on which, according to the recommendations of the Tariff Board, they have any right permanently to rely. For this reason a due proportion of the profits that are earned on the present basis ought to be accumulated as reserves, for no right can become established to a continuance of the present position.

77. As regards Taxes on Income, we deplore as much as anybody the necessity for a continuance of the present rates, but all that we can promise, and this we do most sincerely, is that they will not be continued longer than is necessary and that all our efforts will be directed to keeping down expenditure, and to preparing in other ways for a lightening of this particular burden.

78. While our general plan is, as I have explained, to stand on our present position without weakening any part of it, there are three proposals of minor importance which are included in the Finance Bill and which I must now explain.

79. The first two are changes in the import duties on boots and shoes and artificial silk goods which can be described as revenue measures with a protective significance. Their justification really depends on the combination of these two qualities.

80. Special taxes, going beyond the ordinary 25 per cent. surcharge, viz., a specific minimum duty on boots and shoes and enhanced rates of duty on artificial silk manufactures, were imposed on these two classes of articles in the Emergency Act of 1931, and these have proved excellent revenue producers. We estimate the yield from the duty on boots and shoes during the current year at Rs. 27 lakhs, while the year's yield from artificial silk manufactures may be roughly estimated at nearly 1½ crores. In the revenue estimates for 1933-34 I have assumed that these two taxes will bring in as much revenue next year as in the current year, but it would not be safe to reckon on such a result if the duties were left unchanged. I will explain the reason for this.

81. First, in the case of boots and shoes, establishments have been set up in India for the production of shoes made from imported canvas uppers and imported rubber soling sheets. Both of these constituents pay duty at no more than the standard revenue rate, and the result is that by this very simple process of merely assembling in India what are really foreign manufactures the amount of duty paid by importers is very greatly reduced. The Bill proposes, therefore, to apply to uppers for boots and shoes a minimum specific duty at half the rate applicable to complete boots and shoes. This will do much to safeguard the revenue, while it will at the same time leave some slight margin of advantage to the local assembly plant as compared with the importer of the complete article. Leather uppers, which in any case could not be cheap enough to fall within the scope of the minimum specific duty, are excluded for the technical reason that the *ad valorem* duty to which they are liable is, owing to the operation of the Ottawa Trade Agreement, different from that applicable to other uppers.

82. I now come to the second group of proposals which relate to artificial silk goods and to mixtures in which either silk or artificial silk may be included. The existing rate for mixtures is, owing to the operation of surcharges, 34⅞ths per cent. This item was introduced as providing an intermediate rate between that applicable to silk and that applicable to the other textile ingredient, whatever it may be, with which the silk is mixed. With the raising of the duty on non-British cotton piece-goods to 50 per cent. by the notification of last August, a new situation has been created, for manufacturers of such goods can escape this special duty by introducing at a trifling expense a very small quantity of silk or artificial silk into the warp or weft of cotton goods, and thus secure assessment at the lower rate of 34⅞ths per cent. applicable to mixtures—a result which would not only involve loss of revenue but would impair the operation of the protective policy of the Government. We have rejected a proposal that the mixed rate should be raised to 50 per cent., since that would be unfair to all the remaining classes of silk or artificial mixtures where the duty is still an intermediate one, and have resorted instead to the device of a minimum specific duty.

83. While a change in the duty on mixtures has been necessary for these reasons, it has also appeared desirable to us to guard against any falling off from the very satisfactory revenue that we have been receiving from the higher *ad valorem* duties on pure artificial silk goods, the imports of which are 99 per cent. Japanese. Such losses might occur either through a further fall in prices of Japanese goods, or through a decline in the volume of imports. We are also not able to leave out of consideration the possibility that to some extent competition of these goods, no less than of mixtures, when imported at very cheap rates, may impair the effectiveness of the special protective duties on cotton piece-goods. Here again merely to raise the *ad valorem* rate

would not only be a dangerous device from the revenue point of view, but would also be unfair to the manufacturers of the more expensive article in countries other than Japan; and for both these reasons we have in this case also resorted to the device of a minimum specific duty.

84. The duties which we propose in both these cases have been carefully worked out in the light of the objectives to be attained, and they are 4 annas per square yard for pure goods and 2 annas 3 pies for mixtures.

(I may here note that in the case of both these proposals no distinction is made between silk and artificial silk. I have already explained why this must be so in the case of mixtures. In the case of pure goods, although the arguments in favour of imposing the specific duty for pure artificial silk goods do not apply to pure silk goods, nevertheless in practice it is highly unlikely that the duty which we have proposed will ever come into operation with silk goods; while it is desirable on administrative grounds to maintain the duty on silk goods and artificial silk goods at the same level. We are therefore nominally extending the minimum to silk goods also. We do not think that these specific duties should be applied to fents, which, as in the case of cotton fents, will remain liable to the ordinary *ad valorem* duty.)

The value per square yard of the classes of piece goods concerned can only be estimated, since the trade is recorded in linear yards, but on the best estimate that can be made we calculate that with present prices the *ad valorem* incidence of the proposed duties will, in the case of pure artificial silk goods, be 100 per cent. on the Japanese and from 26 to 32 per cent. on others; while on silk and artificial silk mixtures the average incidence will be 47 per cent. on Japanese goods and from 32 to 36 per cent. on others. In regard to mixtures I would remind the House that we are here mainly concerned with a possible abuse of the mixture definition so as to pass off what should really be called cotton goods as mixtures, in which case the *ad valorem* incidence of the specific duty would be very much higher.

Finally, I may say that we are making one more slight change and taking this opportunity to round off to 35 per cent. the present duty on mixtures, which, owing to the operation of the two surcharges, has reached the uncomfortable figure of 34 $\frac{3}{8}$ ths per cent.

85. The last of the three small changes which, as I have explained, we are proposing in the Finance Bill is designed to benefit not the Central but Provincial revenues. The House will remember that the stamp duty on cheques was abolished with effect from the 1st July 1927 on the recommendation of the Currency Commission of 1926. It was hoped that the abolition of the duty in India would lead to a wide adoption of cheques as a means of payment and thereby to a desirable encouragement of the banking habit. The actual results, however, have not been encouraging, and from enquiries made the Government of India believe that the remission of the duty has not had much effect. The report of the Indian Central Banking Enquiry Committee tends to confirm this belief, as it found that the most serious obstacle to the growth of the cheque habit in the country was the illiteracy of the people. We therefore felt that we had no strong grounds on which to resist the demand which has been pressed upon us by various Provincial Governments that the stamp duty should be reimposed in order to help their revenue, and we have accordingly somewhat reluctantly agreed to propose a reimposition of the duty for a limited period of three years. In order to allow due notice to banks and the public the change will, according to our proposal, only come into effect on the 1st July 1933. A provision for this purpose is included in

the Finance Bill. The legislation must be central but the proceeds will be divided among the Provinces. We estimate that the proceeds in a full year will be about seven lakhs of which the greater share will go to Bombay and Bengal.

86. *Ways and Means*.—I must now turn to a review of the Ways and Means position for the current year and the next.

The outstanding features of the year have been the sensational improvement in our credit both in England and locally, which enabled us to fund a much larger amount of our loan commitments than appeared possible when I made my budget speech last year, and the strengthening in our currency reserves which has been possible as a result of the improvement both in our credit and in sterling exchange.

87. I will deal first with the latter. In my budget speech for 1932-33 I showed that one of the first sequels to the currency policy adopted in September 1931 was a large demand for currency in India. This currency had to be supplied, and though we were able to effect large purchases of sterling we decided that in the first instance the additional currency should be provided by the creation of *ad hoc* treasury bills, and that the sterling should be used for other purposes, such as the liquidation of our immediate loan liabilities in London. In this way we effected a net expansion of 35 crores against treasury bills. At the same time, I indicated that if in the current year we obtained more sterling than was necessary for supplying the requirements of our Home Treasury and the repayment of sterling loans falling due, the surplus would be used to strengthen our sterling currency reserves. This policy has been carried out and sterling securities have been substituted on a large scale for Treasury bills, the net reduction of the latter so effected during the year amounting to 14.39 lakhs.

I have already dealt with this question in my broader survey of the position as regards gold exports.

88. *Loans*.—In my last budget speech I anticipated that it would be possible to reduce the amount of treasury bills held by the public by about $7\frac{1}{2}$ crores from the current resources, and that we should not have to raise any loans during the year except to meet our maturing liabilities. I indicated, however, that if conditions were favourable we should take the opportunity by loan issues to strengthen our position and in particular to fund as much as possible of our floating debt. The continuous rapid improvement in our credit enabled us to float no less than one sterling and four rupee loans at rates which improved from over $5\frac{3}{4}$ per cent. to something below $4\frac{1}{2}$ per cent. The results of the latest conversion loan operation are not yet fully known, and when the estimates had to be completed early in February we could only work on guesses as to how much would be converted. For the purpose of the printed estimates we have assumed that Rs. 22 crores would be converted, and I have had to work out all my figures on this cautious assumption, though this amount had actually already been reached by February 21st. If I assume a higher figure, say, 30 crores, the position is that against an originally estimated discharge of permanent debt of $26\frac{1}{2}$ crores during the year we shall be able to discharge nearly 78 crores, and in addition to reduce the treasury bills outstanding with the public by 19.53 lakhs as compared with our original estimate of 7.51. When the discharge of *ad hoc* treasury bills, to which I have already referred, and the repayment of Ways and Means advances are included, this means that during the current year we shall have been able to fund immediate liabilities to the huge amount

of 121 crores, as compared with a budget estimate of 34. The bulk of this has been converted into regular loans for which the obligatory maturities range from 8 years in the case of the first loan issued last year, to 37 years in the case of our latest conversion scheme. The details of these loans are as follows :—

REVISED, 1932-33.		Rs. lakhs.
<i>India.</i>		
4 per cent. 1943		14,67
4 per cent. 1960-70		30,00
5 per cent. 1940-43		24,68
5½ per cent. 1938-40		18,76
		88,11
<i>England.</i>		
5 per cent. Stock 1942-47		12,67
	Total .	100,78

89. Our general programme has also been helped by exceptionally large receipts from post office cash certificates and savings bank deposits. Though the cheapening of money rates has enabled us to reduce the yield on the former from 6 per cent. to 4½ by two stages, the latter becoming operative on January 1, on which date most banks in India also reduced their rate of interest on deposits, no less than 14,35 lakhs was obtained from these two sources, as compared with the budget estimate of 7 crores, and an average of less than 5½ crores for the 5 years from 1926 to 1931. I want to direct particular attention to this result on which I have already commented in my general review of the economic position.

90. *Capital Expenditure—Railways.*—The Railway capital outlay in the current year is now estimated to be 81 lakhs as compared with 4,15 lakhs estimated in the budget—this reduction meaning an improvement of 3,34 lakhs in our Ways and Means position. As against this, the results of normal operations have made somewhat heavier demands on our Ways and Means position than was anticipated. The gross receipts continued to be disappointing, though the fall was largely offset by increased savings in working expenses.

The net result is that a loan of 934 lakhs had to be taken from the depreciation fund as compared with the estimate of 759 in the budget. In this connection, however, I must point out that the accretion to the depreciation fund during the year was 815 lakhs so that the effect of this loan is to reduce the fund by only 119 lakhs, from 14,86 to 13,67.

91. *Provincial drawings.*—The provincial drawings have been much less than was anticipated when framing the budget, amounting to 564 lakhs as compared with 10,62, this being the effect of the policy of the drastic restriction of advances from the provincial loans fund to capital works already in hand, and the curtailment of these as far as possible. Unfortunately, though the position of some Provinces was better than anticipated, others, particularly Bengal, have had again to face heavy deficits.

92. *Revenue surplus.*—It is estimated that the revenue surplus will be 217 lakhs as compared with the 215 lakhs originally budgetted for.

NEXT YEAR 1933-34.

93. *Capital Expenditure.*—I shall have something to say in my concluding remarks as regards our general policy of Capital expenditure and the possibility of expansion in the future. But whatever change in the direction of a more expansive programme we may hereafter feel justified in considering, it is not likely to have appreciable effects as regards expenditure in the coming year. For the purpose of the estimates we are including provision for Capital expenditure of 330 lakhs on the Railways and 424 lakhs for loans to the Provincial Governments.

94. *Borrowing programme, 1933-34.*—With this reduced capital programme I estimate that it will be possible to effect a further reduction of 8 crores in our outstanding treasury bills and still have approximately 17 crores available to meet our maturing loan liabilities apart from what we may obtain from fresh borrowing. This is clearly a very strong position. In making this estimate I have allowed for the possibility of drawing to the extent of about 11 crores on our sterling balance with the Secretary of State. Owing to the very large figure at which this balance now stands, such a reduction would be quite legitimate. Apart from this I have allowed only for receipts to the amount of 840 lakhs from savings bank and cash certificate receipts. This is of course very substantially less than the estimated figure of 14,35 lakhs in the current year. I have allowed for this decrease because of the reduction in the rate of interest to 4½ per cent., but this form of investment has now so thoroughly popularised itself throughout India that it is not at all improbable that our budget estimate will be materially exceeded.

95. Against these resources of 17 crores our maturing loan liabilities are of very modest dimensions. We have the option of repaying the £7 millions 6 per cent. sterling 1933-35 bonds, and we shall have to deal with any portion of the rupee loans of 1929-47, 1933 and 1933-36 which is not converted. On the assumption that 30 crores of the latter are converted, we shall only require to raise a loan of 4 crores in India, and on the assumption that we repay the £7 million sterling loan, we should require to raise only £6 million equivalent to 8 crores in London. These figures, however, cannot be regarded as more than tokens. If conditions are favourable in London we might issue a larger loan and use the proceeds for strengthening our sterling currency reserves, or to repay £10 million 6 per cent. 1933-34 Bonds which we have the option of repaying on the 15th December. If the conversions on our present scheme are larger than 30 crores, the loan liabilities in India will be so much less, and we may proceed further with the funding of treasury bills.

One important point to note is that according to these estimates, and without any further loans, the treasury bills outstanding with the public will, on our present estimates, be reduced to the comfortable figure of 23 crores by March 31, 1933, a very satisfactory reduction from the 84½ crores outstanding at the end of August 1931.

96. *Home charges.*—Exchange was very steady throughout the year, and large purchases of sterling were made from the middle of August. The estimated purchases for the year are approximately thirty-nine million pounds. In addition, £715,000 was taken over from the Calcutta Port Trust, being the balance of a sterling loan floated by them. Our requirements for the year were £24 millions so that the balance of approximately £15½ millions was available for strengthening our currency reserves, which I indicated in my last budget speech as the most appropriate use to which they could be put. I estimate that our closing balance in London this year will be £13,400,000, as compared

with £15,900,000 last year. This is still a large figure, but I consider it advisable to adhere to it, as an alternative source from which we can meet our sterling loan maturities should this prove preferable to sterling borrowing. On the assumption that we float a sterling loan of six millions, this means that the sterling which we will have to purchase in 1933-34 will be £21 million, and if further remittances are obtained, it will probably prove best to devote them, as in this year, to the further strengthening of our sterling reserves.

97. The position which I have thus explained may be summarised as follows ; but I must repeat that this summary is compiled on the assumption that only 22 crores will have been taken up under the February conversion scheme. If the results are different from this the figures as regards rupee loans, both for the current year and next year will be substantially altered.

Liabilities.

-----	Budget, 1932-33.	Revised, 1932-33.	Budget, 1933-34.
Railway Capital outlay	4·15	·81	3·30
Other Capital outlay	1·50	1·52	1·23
Provincial drawings	10·62	5·64	4·37
Discharge of permanent debt	26·56	69·48	37·10
Discharge of treasury bills—			
(a) with the public	7·51	19·53	8·00
(b) in the Paper Currency Reserve . . . . .	..	14·39	..
Ropayment of Ways and Means advances . . . . .	..	9·50	..
Loans and advances by Central Government	·26	·76	·72
Other transactions	·06	1·53	—2·53
	50·66	123·16	52·19

Resources.

Revenue surplus	2·15	2·17	·42
Rupee loans (net)	14·50	80·11	12·00
Sterling loans (net)	8·00	12·67	8·00
Post Office cash certificates and savings bank	7·00	14·35	8·40
Other unfunded debt	4·71	3·67	4·96
Appropriation for reduction or avoidance of debt	6·82	6·84	6·88
Depreciation and Reserve Funds	·52	—·91	—·20
Reduction of cash balances	6·96	4·26	11·73
	50·66	123·16	52·19

98. I have endeavoured to give the House a fair appreciation of our present position. I fear that I have taken a great time, but even so it has only been possible to touch superficially on many important points. In the field of finance the outstanding features of the year under review are, first, the re-establishment of budgetary equilibrium, secondly, the great improvement in Government credit which has completely transformed the market for Government securities, thirdly, the creation of cheap money conditions.

99. I want to say a few final words on the last two points which are closely connected. If we turn our memories back eighteen months ago to that day in September 1931 when I had to introduce the emergency financial plan, the transformation is indeed marvellous. At that time $3\frac{1}{2}$ per cent. paper in India stood at 53; now it stands at about 82; Indian $3\frac{1}{2}$ per cent. sterling securities stood at 46; now they stand at about 89. The 1960-70 4 per cent. loan of which we hope to place about 30 crores on our present conversion plan and which stands at about $9\frac{1}{2}$ then stood at 62, and at that time the idea of placing a long term loan on any terms would have been utterly impossible. Eighteen months ago the bank rate stood at 8 per cent., today it stands at $3\frac{1}{2}$ per cent. and I would remind the house that at least as far back as I have been able to trace, that is for 29 years back to 1904, the bank rate at this time of the year has never stood below 6 per cent.

Eighteen months ago we had a floating debt of Rs. 84 crores; today it is reduced to 35 crores. Now in all this we have obviously been helped by world conditions, and of course cheap money is to some extent a sign of low industrial and commercial activity. But making every allowance for these factors, the transformation in our position would have been quite impossible unless our own budgetary policy had been sound.

100. The maintenance both of Government credit and of cheap money conditions is dependent on the maintenance of a sound budgetary position, for if Government were to start meeting its current needs with borrowed money, we might not only become unable to borrow that money at cheap rates, but it might also be necessary to raise the bank rate in order to protect the currency position.

101. I wish, moreover, to emphasise how vitally important it is in the interests of commerce and industry to maintain both these conditions of high credit and cheap money. Indeed, the one hope amid the present depression is that the power to raise long term loans at low rates of interest will provide a stimulus for the revival of capital expenditure; and that is the only sound way by which an exit can be found from the present depression. I know that many people hold that the present high rates of taxation, particularly of income-tax, are crushing industrial enterprise; but I would put it to them that nothing is more likely to damage business than a premature relaxation of our present measures leading to difficulties and unsoundness in public finance. For this again would lead not only to a loss of Government credit and a rise in the general rates of interest, but would almost certainly make it necessary in the long run to reimpose taxation at higher rates in order to recover the lost ground. If, on the other hand, the Government keeps its position strong, and if, as a result of the confidence thus created, the public become ready to invest in long term securities at low rates of interest, that offers hope of an industrial revival which will soon make it possible to reduce taxation. There is no other sound remedy for the present disease.

102. Let me say also a few words as to Government's own policy in these matters. We believe that the time is coming when our own position will be so strong that we can safely contemplate relaxing the restriction on capital

expenditure which we have had to impose during the last few years. With the success of our conversion schemes we are gradually approaching a period when we shall be entirely relieved of the embarrassment of having to meet heavy loan maturities each year. Once that stage is attained we shall require to raise only a very small amount of money from the public each year in order to support quite a substantial programme of capital expenditure.

103. But there are certain conditions which will very definitely govern our action.

In the first place we must adhere to the policy of not regarding any schemes as suitable objects for capital expenditure which are not economically sound and productive. In the second place we do not intend to launch out into any programme on a scale which is likely to depress the market for Government securities by putting us in the position of having to ask the investing public to subscribe more money than it has readily available for investment. We are approaching a period when there is more money for investment in Government loans than we require to raise. That is a very healthy change of conditions from those of the past few years and we do not intend to disturb these new conditions.

104. As regards the outlets for capital expenditure, these again must be carefully chosen. Contrary to the general public impression, it does not appear that there are any very urgently needed railway extensions or railway works, for in spite of the restrictions of the past few years, the railways have kept fairly well abreast of current needs. Railways, moreover, must no longer be treated in isolation; they must be regarded merely as one part of a general system of transportation and communications, of which roads also are a most important feature. At the Conference on Road and Railway policy which is to be held at Simla on April 24, as announced by His Excellency the Governor-General when he addressed the Assembly at the opening of this session, we shall consider the whole problem of financing road development. Whether any immediate opening for sound capital expenditure can be found in connection with roads I cannot yet say. All that I can say is that the time has come when we think it right to give these matters our active consideration.

105. In the matter of our future policy as regards conversion schemes and funding operations, I cannot of course announce any precise plans. We have proceeded so far step by step, and at each step we have raised the level of securities and given to the investors concerned an opportunity to convert their holdings in a manner which has left them a good margin of profit. I have every reason to anticipate that this process will continue, for I believe that, subject always to the maintenance of sound Government finance, we have before us a long period of cheap money and the possibility of seeing securities reach a substantially higher level. In this policy we are looking not merely to the immediate, but also to the more distant future. We feel that with the new constitution approaching we have a special duty to prepare the way, so that the first years of the new Government may be freed from embarrassment. In particular, we desire to consolidate the position so as to make it possible to start a Reserve Bank on sound foundations.

106. And that brings me to the last thing which I have to say. I fully realise that the budgetary plan which I have just announced is not of a nature to stir enthusiasm. It involves a continuance of the grim effort which has been sustained during the past eighteen months. But if Honourable Members look round the world, they will, during the next few weeks, see the Finance Ministers in every country which believes in sound finance introducing budgets very much of this kind. If they dislike the continuance of this effort, I am

sure they will appreciate that I dislike it equally, and that it must be a very great disappointment for me, on this occasion of the last budget of my five-year term, not to be able to take for the first time the pleasant path of relaxing burdens of taxation. But I have felt it necessary to take the harder path; and I have at least this consolation. When I first took office, though the rest of the world was still booming, it became apparent to me very early that India was faced with special difficulties, and was destined for a period both of constitutional uncertainty, and of borrowing to meet past commitments, which would inevitably reduce her credit. But today we have recovered from all that and I think we may feel that India, amidst a world which is floundering in the gravest trouble and distress, has reached a position in regard to her public finance which challenges comparison with that of any other country. That we have been aided both by special fortune and by the strong reserve resources of the Indian people in attaining this position, I should be the first to admit. But that, while it does not diminish the value of the position, only strengthens the obligation which rests upon us to make the utmost efforts to maintain it. I would appeal to the House to support us both in those efforts and in the fulfilment of what is now our guiding purpose—the purpose of leaving to the new Government of India a house well stored and buttressed against all the storms which it may encounter.

GEORGE SCHUSTER.

The 28th February 1933.

STATEMENT ON THE FINANCIAL POSITION

BY

THE FINANCE MEMBER.

I rise to make a statement on the financial position and on our plans for dealing with it, in somewhat unusual and difficult circumstances. On the one hand it is necessary that we should not delay in restoring equilibrium between revenue and expenditure. On the other hand the foundations on which we have to base our estimates are at the moment fluctuating owing to the changes which have come upon our currency position in the week which has just passed. But the very nature of that change makes it all the more necessary that our internal financial position should be sound—for once a country's currency is cut adrift from the moorings of a stable standard such as Gold, it is particularly necessary to avoid getting into any sort of inflationary position resulting from a failure to balance current expenditure with current revenue. If we can convince the world that our internal budgetary and monetary position is sound, then with our favourable balance of trade we shall be able to preserve confidence in our currency and save the country from those disasters which some honourable members who spoke on Saturday professed to apprehend. Therefore we must take immediate steps to ensure clear and solid foundations for our internal position.

But the very fact that the steps must be immediate creates its own difficulties. In the first place we have to present to the Legislature an emergency plan with very short notice. I can assure the House that we do this with the greatest possible reluctance. We recognise that honourable members may be put to very great inconvenience by any sudden change in plans, but I am sure that they on their side will recognise that we must put the public interests first, and that if the public interests make it imperative to take a certain course of action, Government ought not to hesitate to ask the members of the Legislature to make any sacrifice involved. Nevertheless, when I have said this, I must also add that, so far as it is consistent with what we consider to be our duty as a Government, we will do our utmost to meet the convenience of honourable members. And in this respect I should like to say at the outset of my speech that we have taken account of the last portion of the motion of my Honourable friend the Deputy President which was passed by a large majority in this House on Saturday, and that we are prepared to act on the suggestion which emanated from the non-official benches in the course of the debate on that motion.

We have to get through business which we consider to be in the national interest but our desire is to put it through in such a way as best suits the convenience of this House. We very much appreciate the tone and spirit in which Saturday's debate was conducted, and we believe that we can detect in the attitude of the whole House a desire to take a full share of responsibility in the present emergency. That here will be criticism of some of our proposals I cannot doubt, but I believe that it

will be fair criticism—and fair and honest criticism we shall always welcome.

Then I come to the second of the difficulties to which I have referred resulting from the necessity for immediate action. It is quite clear that in present circumstances it is impossible to prepare accurate estimates of what our revenue is likely to be in the next 19 months. The course of the exchange value of sterling and of the rupee is uncertain, while no one can yet foretell what the reactions in the world of England going off the Gold Standard will be. I am sure that I shall be told in debate that in these circumstances it is not fair to come before the country with a programme of taxation; or that my estimates are unreliable and that I cannot justify the taxes which I am proposing. But I have explained the reasons why we cannot wait, and I would most earnestly appeal to this House, and through them to the country, to respect those reasons. It has seemed to us that the only sound course is to take our estimates as we had been able to foresee them before the events of last week and to put before the House a plan which would produce equilibrium on the basis of those estimates.

Then there is another difficulty, resulting from immediate action, in that we have not yet had time fully to consider the reports of the various retrenchment committees and to work out plans based on them. Honourable members are aware of the circumstances in which these reports have been received. They were formally submitted on Saturday, 19th September. A sub-committee of Council commenced their consideration the very next day—Sunday. Then on Monday we found ourselves landed in the crisis which has been so much before the House in the past week, and further consideration of the reports has therefore been retarded. I shall have to deal with these reports in a later portion of my speech, but I should like to make clear at the outset that we shall approach all these proposals with the firm intention of giving effect to them to the utmost extent possible. I should also like at this early stage to express my great appreciation of the work which has been done by all the honourable members who have served on these committees. They have been working like slaves, or, as one honourable member put it to me at the last meeting of the main committee, "like devils", and I can assure the House that their labours are appreciated. I have every confidence that as a result of a general scaling down of expenditure which the recommendations of these committees, if carried out, will effect, the finances of the Government of India will be established on a more secure basis than has existed since before the war, and that by these efforts a position will have been produced which will not only make it possible to establish a new Federal Government on a sound foundation, but will leave a margin available for the development of those nation-building services for which the Provincial Governments will mainly be responsible. That, however, is looking to the future, and before we emerge from the dark and tangled jungle of our present difficulties into the clear air and sunlight to which I have cast my imagination forward, we have to accomplish a period of hard and self-sacrificing labour. I will not say unpleasant labour, for, although many of the immediate effects are unpleasant, I will not describe the task as a whole as unpleasant, for it is one which is essentially constructive in its nature, and merely involves self-restraint and determination for the sake of that

India which we are serving, and in the hope of better times to come. Let us now address ourselves to the immediate task.

Revenue Prospects.

Tax Revenue.—The returns of the first five months indicate that we shall fall short of our budget estimates for customs by at least Rs. 10 crores, the heaviest reductions being under cotton piece-goods, sugar, silver, spirits and liquor, excise on motor-spirit, iron and steel and in the jute export duty. As regards income-tax, we expect a deficit of 1½ crores; while on salt we expect a reduction of about 8 lakhs. This brings the total deficit on tax revenue to 11 crores 33 lakhs.

Commercial undertakings.—As regards the Railways, traffic returns to date show a very disquieting position. Without attempting to give an exact estimate now, we must clearly accept the fact that it will be impossible for the Railways, in spite of all their retrenchment measures, to make any general contribution to the budget until the present economic depression completely passes. At present it looks for the current year at least as if they will not only have to use the whole of the remaining balance of their reserves, now standing at Rs. 525 lakhs, but also to draw further on their depreciation fund to the extent of about Rs. 160 lakhs in order to meet the interest due on Government advances. It is highly important, if possible, to reduce freights on agricultural products at the present time, and, if it could be done, it would certainly be in the public interest to find a method for easing the Railway position through the present period of extreme depression. Whether it will be possible to relieve the Railways in any way so as to enable them to reduce charges remains to be seen; but, when our taxation proposals are considered, this aspect of the position should be kept in mind. For the present I can only say that we shall not get any Railway contribution this year, and for this reason Rs. 5.36 crores drops out of our budget.

Under Posts and Telegraphs a fall of 18 lakhs is anticipated in revenue, after taking into account additional receipts from enhanced parcel rates and revised scale of fees for insurance of postal articles introduced with effect from the 15th June and 15th August 1931 respectively. A saving of 6 lakhs is expected under Working expenses, leaving a net deterioration of 12 lakhs. Honourable members will recollect that we estimated for a budget deficit of 147 lakhs, so that the position here is extremely unsatisfactory. If the recommendations of the committee presided over by my honourable friend, Sir Cowasjee Jehangir, for investigating the possibility of adjusting the accounts of the Posts and Telegraphs were accepted, the budget deficit of 147 lakhs would be reduced to 92, but that of course represents merely an adjustment in the Government accounts and no improvement as regards the financial position of the Government as a whole. I shall revert to this matter again.

Finance headings.—Owing to the cancellation of treasury bills in the Currency Reserve and the utilisation of sterling securities in the Reserves for meeting the requirements of the Secretary of State, the receipts under Currency and Interest show a falling off of 34 lakhs.

The emergence of a revenue deficit in our budget, and in the budgets of the Provincial Governments, and the replacement of treasury bills in the Currency Reserve by treasury bills in the hands of the public

as a result of cancelling redundant currency, have not only increased the amount of our borrowings by treasury bills, but also have been the cause of higher discount rates. The charges for discount on treasury bills have therefore increased by 221 lakhs. A reduction of 12 lakhs is anticipated under Interest on ordinary debt in India on account of operations of the Depreciation Funds. The saving of 56 lakhs (representing one half year's interest on the outstanding amount of the War Loan liability) realised from the acceptance of His Majesty's Government's proposal on the principle of the Hoover plan has been partly counterbalanced by the increase of 40 lakhs on interest on the sterling loan of £10 millions raised early the year.

Owing to the deterioration in the position of Provincial Governments and the Railways, the charge under the heading Interest on other obligations on account of interest on their balances will be reduced by 10 lakhs.

There will be an automatic increase in the provision for Reduction or Avoidance of Debt of 12 lakhs on account of the amount of treasury bills outstanding with the public on the 31st March, 1931, being 10 crores more than was assumed in the budget.

The net result of all these factors is that under the Finance headings our position will be adversely affected to the extent of 2.29 crores.

Under Extraordinary receipts we have to provide for a reduction of 23 lakhs, as under the Hoover plan we shall have to forego 9 months' Reparations receipts. As already noted, however we have, against this, a saving on the interest on our own War Debt of 56 lakhs.

Civil Expenditure.—As regards Civil expenditure we have unfortunately some items which have not been provided for. These include exceptional items such as the loss owing to the heavy return of nickel coin from circulation due chiefly to the prevailing depression. This accounts for no less than 43 lakhs which according to our practice has to be debited to the budget. Then again there is a good deal of expenditure in connection with the Round-Table Conference and the various commissions of enquiry in the North-West Frontier Province and elsewhere which have had to be set up in order to carry out recommendations of the last Round-Table Conference. As against these items we shall have some savings in the current year owing to reductions which have been made (apart from the special retrenchment proposals, to which I shall refer later); but these will probably not be sufficient to offset the items of deterioration which I have mentioned. On all these heads we feel it necessary to anticipate a deterioration of about 23 lakhs.

To sum up, the total deterioration in our income and expenditure is:—

- 11.33 crores in tax revenue,
- 5.48 crores on commercial departments,
- 2.29 crores on general Finance headings,
- .23 crore under Extraordinary receipts,
- .23 crore under other heads including Civil expenditure.

As the budget provided for a small surplus of 1 lakh, on the basis of the present estimates, there will be a net deficit of 19.55 crores.

Prospects for 1932-1933.—As far as we can see at present, there seems to be no justification for expecting any large improvement in the budgetary position next year. In fact, income-tax revenue may be considerably less than in the current year. On the other hand, there will be a saving of 48 lakhs in the interest payments on the outstanding amount of our War-Loan liability.

I have already dealt with the factors of uncertainty which affect any estimate that we can give at present. But we consider that the only safe line to take now is to estimate that conditions will not substantially improve at least before the end of the next financial year, and that we must reckon again on a deficit of 19½ crores for 1932-33.

Putting the deficit for the current year and next year together, we have a gap to fill of 39.05 crores. If we are, straightaway, to establish a really sound position, we need to devise a plan which will provide us during the remainder of the combined two-year period, either with reductions in expenditure or with increased revenue to fill this gap. That is, indeed a task of extreme difficulty. We have a two years deficit to deal with, but we have only 18 months left during which new measures can operate. Nor is even this period fully available, for, although new taxation can be made effective from the beginning, there must be some considerable delay before the full results of our retrenchment plans can be met.

Three lines of action.

This is the position, and the line of action which we have to take to deal with it may be divided into three distinct lines.

First, reductions in expenditure due to more economical organisation of Government departments and restriction of activities.

Secondly, an emergency cut in salaries.

Thirdly, fresh taxation.

Reduction in Expenditure.—I will deal first with reductions in expenditure, and I put this first because honourable members know that I have throughout attached primary importance to this line of action. I may say that after the last budget discussions I registered to myself a resolution that I would not come before this House and ask them to vote any fresh taxes until I could feel myself to be in a position to satisfy them that we, on the Government side, were going to give effect to the maximum possible measures of retrenchment. In these circumstances I am sure all honourable members will appreciate that if I put forward the whole of our present programme at a time when the Government has not yet completely worked out its retrenchment plans, so that all the details cannot be displayed before the House, I do so only under the compelling hand of necessity. But I would ask them also to appreciate that it is only the details which are lacking, and that we are determined, as I have already said, to approach all these proposals with the firm intention of giving effect to them to the utmost extent possible. Variations in subsidiary matters there must be, and where essential public interests are concerned Government must have time to weigh fully the considerations at stake, but our aim and intention is to adhere as closely as possible to the recommendations of the committees. I hope that before the discussions of our present proposals are finished and before the House is asked to record

any final vote as regards new taxation, we shall be able to put before them a more definite and detailed plan. I feel that honourable members are entitled to ask for this, and that we have no justification in putting plans for taxation before them except under the most solemn pledge of effecting the maximum reduction of expenditure. I feel no hesitation in taking this line because it is the right line in the public interest. Any improvement that we can effect by way of reduction of expenditure is a certain improvement ; but any improvement that we seek to make by increasing taxation depends entirely on our estimates being realised, and, in the present conditions, with reduced purchasing power, and when the effects of the reduced gold value of the rupee on imports are still unknown, estimates, particularly of customs revenue, are, to say the least, highly uncertain. Having said this I will turn to a statement of what we expect to achieve by way of retrenchment, and I will be as definite as possible.

As regards Civil expenditure, apart from commercial departments, an enormously preponderating portion falls within the scope of the General Purposes sub-committee. The General Purposes sub-committee took up first a selected set of subjects which *prima facie* offered the most likely scope for retrenchment. The measures recommended by the sub-committee for this portion of the field would produce savings estimated at about 120 lakhs. For my present purposes I am taking as the estimated saving, this figure, reduced by a margin of 20 lakhs, representing what we estimate may be the charge for compensation and recurrent pensions payable in respect of officials whose posts are abolished. Thus we reckon to get a net saving of about a crore on this part of the field. We have also to take into account the grants for those departments (largely the main administrative and revenue-collecting departments) which have not yet been examined by the General Purposes sub-committee. Over this part of the field the scope for retrenchment is more restricted. In respect of it we estimate that we shall be able to effect a net saving of about 90 lakhs, including an automatic drop of about 23½ lakhs in the expenditure on Census operations, but taking into account something for compensations, etc. This is only an estimate, and in making it we have anticipated that the sub-committee will be guided by the same principles that they have applied in dealing with other departments. While it is necessary for me to put in some estimated figure for my present purpose, we rely on the help and recommendations of the General Purposes sub-committee in regard to these departments just as much as we have relied on them for those which have already been examined. If they can find economies of greater extent than we have estimated, so much the better. If their final recommendations fall short of our figure, then we shall have that much to make up in some way or other. The difference can hardly be of such magnitude as to effect our general plan, and when I have completed my presentation of the general plan it will I think be clear that there is sufficient margin available.

Recommendations of the other retrenchment sub-committees (other than those for Railways and the Army) indicate measures for improving the Civil position for 1932-33, as compared with the budget for the present year, by a gross sum of about 97 lakhs. Taking into account compensations, etc., we propose to count on a net improvement of 60 lakhs under these grants.

Out of the retrenchment measures to which I have referred we expect to realise savings of about 30 lakhs in the current year.

Military Expenditure.—Now I come to the Army—and before I get to details I must make some general remarks. I have in the past incurred some criticism in this House for venturing to express my appreciation of the helpful way in which I had been met by His Excellency the Commander-in-Chief and his principal staff officers. I am as little anxious as any Member of a Government could be to expose gratuitous targets for attack, but I should fail in my duty and I might even say in all sense of decency, if I did not take this occasion to express publicly what I feel about the way in which the Army authorities have helped in the past months. I am sure the members of the Army Retrenchment Sub-committee who are present here to-day will not quarrel with me when I say that they have been impressed with both the efficiency and helpfulness of the Chief Staff officers whom they have seen. To unofficial members of this House the Army has hitherto been a closed book. It has been fully opened now at least to the members who have been on the Retrenchment Committee. I think that they have been impressed by what they have read in it, and that discussions on the Army will hereafter be conducted in a clearer atmosphere and with better understanding on both sides.

The military authorities have been working throughout in very close touch with their Retrenchment Sub-Committee, and have been examining all possible methods of economy. The great majority of the measures proposed by the Committee have been accepted in principle; indeed many of them had already been initiated by the military authorities. We have given His Excellency the Commander-in-Chief a free hand as to the methods by which retrenchment should be effected with the minimum loss of efficiency. The Army Retrenchment Committee has not yet explored all parts of the field and estimates have had to be included for the savings here. There is therefore possibly some room for further improvement while some of the measures recommended may lead to greater reductions in future years. For the present the Army authorities guarantee for next year a net reduction of 4½ crores. These reductions, therefore, for which we hope, will produce a net defence budget for 1932-33 of Rs. 47.40 crores, as compared with Rs. 51.90 in the current year, and with the stabilised budget figure, of Rs. 55 crores two years ago.

In mentioning this figure, I must make it clear that :—

- (a) It includes a reduction of Rs. 1.75 crores of non-recurring expenditure on the special programme of re-equipment which, though very necessary and important from the point of view of efficiency, His Excellency the Commander-in-Chief has, in view of the present financial crisis, agreed to postpone.
- (b) It does not include any allowance for cuts in officers' pay. I shall deal with the possibilities from this separately.
- (c) It does not include any savings which may accrue from reduction of troops, except that of a small reduction on the Frontier.

In accordance with resolutions of the Round Table Conference, the question of the future strength of the Army in India is under examination by the Committee of Imperial Defence.

What this really amounts to is that in 2 years without impairing the strength of the fighting forces without taking into account the possibilities of a temporary cut in officers' pay, Army expenditure will have been reduced from 55 crores to 47.40 crores. This, Sir, is I submit no mean achievement ; it has been done quietly, and without the imposition or display of Royal Commissions. It has been achieved by hard patient work and co-operation between the Army Department, the Finance Department and the chosen representatives of this Assembly. That, I submit, is the right way to work out economies, and brings credit on all concerned.

Emergency cuts in pay.—I now come to the difficult question of an emergency cut in pay. Let me state at the outset the general conclusions reached by the Government as part of the plan which I am now presenting.

These are :—

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. Its justification is in the need for a common sacrifice in a national emergency. Although it may be said that the subordinate ranks have gained from the low level of prices, there is as yet no proof of a substantial fall in the cost of living of many classes of Government servants.

Thirdly, that it should not in any way affect pension or provident fund rights.

We have given a great deal of thought to the way in which a cut should be applied, and after the most searching consideration of all sorts of graduated scales we have come to the following conclusions.

We think, first, that a simple plan is best, and that although it may be necessary to exempt pay below a certain low limit at the bottom, a uniform scale is really the fairest and best in the public interest.

We consider that the rate should not exceed 10 per cent. in any individual case, and that, as I shall explain later, this should include the enhancement of income-tax now proposed. For the general Government services we think that the limit of exemption should ordinarily be about Rs. 40—perhaps a bit higher, perhaps a bit lower. I ought, however, to mention that special considerations may have to be applied to a great commercial undertaking like the Railways, but the maximum will not be exceeded in any case.

I may, however, here interpose that I am pleased to be able to say that His Excellency the Viceroy has decided that he will impose upon himself a cut of 20 per cent., and that for ourselves, the members of his Council, we will surrender 15 per cent. of our pay.

The action to be taken by Provincial Governments in regard to officers within their rule-making powers will be for their own decision, but we have little doubt that they will recognise the desirability of

attaining throughout India as large a measure of uniformity as possible. In this connection I may mention that uniformity is particularly desirable in the police service, and since local governments are far more concerned in this matter than the Central Government, we shall not reach final conclusions in this case until after further consultation with them.

I must also refer to the fact that it does not lie within the power of the Government of India to take decisions as regards all the officers within its service. Certain officers have been guaranteed their rights under the Government of India Act and these cannot be altered without legislation in the British Parliament. As regards other officers, their position is governed by Fundamental Rule 23, and can only be altered under rules made by the proper authorities. For the great bulk of officers, the rule-making power now lies with the Government of India and local Governments, subject to the sanction of the Secretary of State in Council. There are certain officers, however, in regard to whom the Secretary of State in Council has himself to make the rules. The position is, that we have received the assurance of the Secretary of State that he will sanction the rules which we, or Provincial Governments, may make in those cases where we or they have the power. Further, in regard to officers protected by the Government of India Act, or in regard to whom the Secretary of State has himself to make rules, I am authorised to say that His Majesty's Government are satisfied that a financial necessity exists amounting to a national emergency, which requires that a reduction should be made in pay, and that His Majesty's Government have undertaken to introduce legislation in Parliament at the first practicable opportunity. The legislation would be of an emergency character, and would authorise the Secretary of State in Council to reduce the salaries of officers protected under the Government of India Act for a limited period and subject to a maximum of 10 per cent. which would be inclusive of the enhancement of income-tax contained in my present financial proposals and subject to a discretionary power for the Secretary of State in Council to make exceptions in cases of hardship. It would apply to the special class of protected officers serving under local Governments as well as under the Government of India Act. Officers not specifically protected by the Government of India Act, but in regard to whom the Secretary of State has himself to make rules, would be treated on the same lines as the protected officers.

This is a general description of our plan, and we shall explain our proposals in greater detail at a later stage in the discussions on the Finance Bill—particularly as regards the exemptions which may be made in the lowest grades.

We think that it should be practicable to impose the cuts from December 1st next. It must be clearly explained that there is no intention that they should remain operative beyond March 31, 1933. They will not be continued beyond that date without further examination of economic conditions; and if economic conditions so required or permitted, we should re-consider them before that date.

And that brings me to a point of essential importance in this matter. A cut of this nature must be regarded as a very exceptional measure which can only be justified in very exceptional circumstances. It is nothing less than a direct variation of the conditions under which an officer enters the

Government service, and it must be remembered that the security of these conditions represents an essential attraction of service under a government. It would be fatal to the public interest if that sense of security were destroyed. Therefore no variation can be justified except in a real national emergency and when it is quite clear that all other measures have been fully tried. Even so it is necessary to examine the case still further. We must test the emergency by an examination of the causes which have created it. In the present case it was clear that the emergency had arisen from an unprecedented fall in prices of those commodities which India produces and on which the revenue of the country depends. The value of commodities had fallen too low in terms of money, the value of money had gone up too high. But in the last days a change has been made in the basis on which the value of our money, or our unit of currency, depends. The results of this, or of any general economic recovery producing an improvement in the revenue position, may make it necessary to re-consider the justification and necessity for this cut. It is of course clear that a general decline in the gold value of the rupee would affect all servants of Government alike, while I might further mention incidentally that if, on the other hand, the rupee had been detached from sterling and the value of the rupee had either appreciated or declined in relation to sterling, there would have been some difference in the case of certain classes of officers of which Government would have had to take account.

However that may be, or might have been, what I have to say now is that in the conditions on which we have to base our present estimates, we and His Majesty's Government consider an emergency cut on the lines already indicated to be absolutely essential.

As regards the financial effect of cuts on the scale which we propose, I have estimated the position roughly as follows for the purpose of my present financial plan.

Civil.—We put the total saving for 1932-33 at 115 lakhs, and for the four months from December 1st of the current year at 35 lakhs. This includes savings on the personnel of the Posts and Telegraphs Department.

Railways.—The saving on Railways will be very substantial. I refrain from giving an exact figure pending the final settlement of a plan. In any case it will not directly affect my present proposals, for we consider that any saving effected by a cut in pay on the Railways must be utilised to improve their own internal position, and that it cannot be translated into any improvement of general revenues. As I have already stated, a cut in fact will only be justifiable during the continuance of the present emergency, and during such period we cannot in any case rely on receiving any general contribution from the Railways. It is in our opinion essential that if they have any margin it should be made available for reduction in freights on agricultural products.

Army.—As regards Army officers, the same cut would apply to them as to Civil officers of the Government. We estimate a saving of 75 lakhs in 1932-33 and 25 lakhs for the four months of the current year from December 1st. I may note that if this saving is effected it will reduce the expenditure of the Army next year to 46.65 crores.

Abolition of Salt Credit System.—I have now dealt with the first two lines of action, first, General Retrenchment, secondly, cuts in pay; and before I come to the third—which is new taxation—I have to mention another measure which is in the nature of an expedient to improve our revenue position over the next 18 months.

We have been studying since the end of the last Budget session the possibility of effecting an immediate increase in our salt revenue by reducing or abolishing the credit system. After careful examination of the question in consultation with the officers of the salt department, we came to the conclusion that, subject to giving fair notice to trade, we might justifiably terminate credits altogether. We have accordingly notified the gradual termination of the system by limiting credits to 3 months as from the 1st October 1931, and discontinuing the grant of new credits altogether from the 1st March 1932. This means that we shall actually collect in the current year and again in next year 15 instead of 12 months' revenue on all salt issued under the credit system. I expect our revenue will be increased by one crore each year on this account. This of course involves no real increase either in taxation or revenue. It only means that we shall, during the next 18 months collect 24 months' revenue on credit salt. After that we shall be entirely on a cash basis.

Taxation.—I must now turn to the third measure—new taxation. Here our plan is very simple, and though unpleasant, I hope that honourable members will on the whole recognise it as fair.

General Surcharge.—The main plank of our proposals is to put a temporary surcharge on all existing taxes, with the exception of customs export duties, for these could not without detriment to our export trade be included. With this exception, the surcharge will apply to all customs and excise duties (including salt) and to the income-tax and supertax. The surcharge which we propose is 25 per cent. on the existing rates in each case.

The principle is uniform, but as regards the income-tax there is an administrative difficulty inasmuch as the tax, although only imposed as from October 1st, has to be collected on a 12 months' basis. It would lead to great hardship in case of salaries or other income taxed at the source if we were to supplement deductions already made by a retrospective increase at the full rate of 25 per cent. Therefore we propose that the surcharge for the current year should be 12½ per cent. on income-tax, but it will be collected at this rate on the whole year's income.

New Taxes.—Apart from these general surcharges, we are forced to include certain new taxes. As regards income-tax, we consider that in this emergency there is justification for reducing the exemption limit and imposing a small tax of 4 pies in the rupee on incomes between Rs. 1,000 and Rs. 2,000 per annum. For the same reasons as I have explained already in connection with the surcharge on the existing income-tax, the rate will be imposed at 2 pies for the current year and 4 pies for next year.

The remaining special increases or new taxes which we propose are in regard to import duties. I will deal first with the increases in existing duties.

We propose to increase the import duty on artificial silk piecegoods from 20 to 40 per cent. and on artificial silk yarn from 10 per cent. to 15 per cent. We also propose to increase the duty on brown sugar from Rs. 6-12-0 to Rs. 7-4-0 per cwt. This follows the Tariff Board's recommendation. As regards boots and shoes, we propose that there should be

imposed as an alternative to the 20 per cent. duty a minimum of 4 annas per pair. The duty will thus be 20 per cent. or 4 annas a pair whichever is the higher. We also propose to increase the duty on camphor and on electric bulbs from 20 to 40 per cent. As regards all these articles the surcharge will be levied on the increased duty.

Then there are three items formerly on the free list on which we think it justifiable to impose a small duty on revenue grounds. The result of the surcharges imposed in last Budget and proposed now is that the level of the general revenue tariff has been increased from 15 to 25 per cent. There is, therefore, some justification for adding a 10 per cent. duty to articles hitherto free.

We propose to put duties of 10 per cent. on machinery and dyes, and of $\frac{1}{2}$ anna per lb. on raw cotton. I must expect criticism of these duties especially from the cotton mills, and I must acknowledge that their imposition may appear to be in some ways inconsistent with previous policy. The justification must be the need for revenue, while as regards the cotton mills we may claim that on balance their position will be improved by our surcharge proposals, for under these the import duties on cotton piecegoods will be increased by one quarter. This more than offsets the burden of $\frac{1}{2}$ anna per lb. on goods made from imported cotton, and affords an effective answer to possible criticisms on the grounds to which I have referred.

I have one more word to say as regards the income-tax proposals. In considering the cut to be applied to the salaries of Government officials we considered what total reduction of their emoluments could fairly be imposed. If the general rate of reduction is to be 10 per cent., that represents what we think fair, and if further increases of income-tax were to be added, that would go beyond the reasonable limit. We therefore propose that increases of income-tax, both by way of surcharge on existing rates or by way of imposition of a tax for the first time on salaries from Rs. 1,000 to Rs. 2,000 should be merged in any general cut which we are imposing or which the Provincial Governments may impose.

Postal rates.—Apart from measures of taxation we propose some enhancement of the inland postal rates, namely to increase the existing rates in respect of letters and postcards by one-half. That is, the rates for inland postal letters will be $1\frac{1}{2}$ annas instead of 1 anna and for postcards 9 pies instead of 6 pies. This enhancement should produce 73 lakhs in a full year and should go a long way to cover the deficit of 92 lakhs in the working results of the department which would, as I stated before, be left even if the recommendations of the Posts and Telegraphs Accounts Enquiry Committee are accepted.

Summary of the plans.

I may now summarise the effects of all these plans :—

For the current year we shall improve the position as follows :—

	(Figures in lakhs of rupees.)	
Special retrenchment programme ..	30	
Cuts in pay—Civil ..	35	
Military ..	25	
Total cuts and retrenchment ..	90	
Anticipation of salt revenue ..	100	

Extra taxation—

Customs—New or increased duties ..	154	
Surcharges on existing taxes	331	
Salt—Surcharge	21	
Income-tax nett	205	
Total new taxation ..		711
Increased Post and Telegraph charges ..		37
The total improvement is thus		938
Against an estimated deficit of		19,55
We should thus close the year with a deficit of		10,17

On the other hand, in 1932-33 we should have the following improvements :—

Retrenchment measures—Civil	250	
Military	450	
Cuts in pay—Civil	115	
Military	75	
Total cuts and retrenchment ..		890
Anticipation of salt revenue		100
Extra taxation—		
Customs—New or increased duties ..	310	
Surcharges on existing taxes	662	
Salt—surcharge	85	
Income-tax—nett	353	14,10
Increased Post and Telegraph charges ..		73
The total improvement is thus		24,73
Against an estimated deficit of		19,50
We should thus close the year with a surplus of		5,23

We should thus close the current year with a deficit of 10,17 and the next year with a surplus of 5,23.

That is to say, the combined result of the two years will be a deficit of 4,94.

We consider that we are justified in regarding this deficit as covered by making during this period of exceptional stress a reduction of about 247 in each year from the provision for Reduction or Avoidance of Debt. Even after making this deduction, this provision will amount to 4,43 in the current year and about 4,68 in 1932-33. When it is remembered that the portion of our debt which is not covered by productive assets or cash balances is no more than 194 crores this may fairly be claimed as an adequate Sinking Fund allocation during a period of exceptional depression.

But I may put the position in another way which throws up in a still more favourable light what we are proposing. I have explained that on present estimates the combined deficit for the two years is just over 39.05 crores. We may fairly say that half the current year's deficit has already been incurred—say about 9.80 crores. If we look at our task as one of having to make a new budget for 18 months, starting with October 1st, we should have to find means for filling a gap of 29.25 crores. We are actually providing for finding improvements of 34.11 crores over the next 18 months. Therefore we are not only providing a balance for that period, but we should have a surplus of 4.86 crores towards making up the deficit of 9.80 crores on the first half of the current year.

If these forecasts are fulfilled, then even if there is no improvement in the economic position, the Finance Member, when he presents the budget for 1933-34, will find himself in possession of a surplus of 5.23 crores and he will be able to make a substantial easing of the burdens.

It is perhaps forecasting events too much to say in what order these reductions should be made. But there are certain principles which we consider must be observed. Relief must come first in restoring the emergency cuts in pay and secondly in taking off the surcharge on the income-tax now to be imposed. I think we may predict with as much certainty as is possible for any such forecasts that these special impositions will not in any case be extended beyond March 31, 1933.

This is the picture, but I must add a few words before I leave it. Much will be said about the increase in the burdens of taxation. But I want the public to appreciate that we are not so much increasing the total amounts of taxes levied as providing by increasing the rates for collecting the same amount of revenue.

Our difficulties have not in any way been caused by an increase in expenditure. Quite the contrary. We have in fact to face three things—a drop in the yield of the current taxes, a drop in the revenues from commercial departments, and a deterioration under the Finance headings. The first we meet mainly by increasing the rates of the taxes; and the last two by retrenchments. I want Honourable Members to give particular attention to a table which I will circulate with copies of my speech in which I analyse expenditure and revenue and show in parallel columns tax revenue and net administrative expenditure. By the latter I mean the net expenditure on the Army and all other heads charged to revenue with the exception of the debt services. They will find here the true record of our achievements and proposals. This figure of net administrative expenditure will, according to our plans, have proceeded as follows:—

(Figures in crores of rupees.)

1930-31	..	..	..	70.67
1931-32	..	..	..	74.66
1932-33	..	..	..	65.95

If this can really be achieved, then we shall be able to congratulate ourselves on having put matters on a really sound basis.

Conclusion.

Then I want to add something as to the reasons for the present measures. I referred at the outset of my speech to the dangers, now that we are divorced from a gold standard, of any inflationary action for the purposes of meeting the current expenditure of the Government. If once that process starts, it may be impossible to save the country from a complete collapse of its currency. That has been the experience of all countries whose currencies collapsed after the War. They all went through the same process. 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. *We want to erect a solid barrier against the possibility of India getting on to that slippery slope.* That is the essential justification for our proposals. We have heard much talk in the last days about the disappearance of our currency reserves. But no currency reserve can be large enough to stand up against a lack of confidence in the currency. Reserves are only valuable to tide over temporary difficulties. The real safeguard must be confidence in the soundness of a country's financial situation. If a country meets current expenditure with current revenue, and if, further, it has a favourable balance of trade, then it can face all the vicissitudes of fortune with confidence, and its actual currency reserves are of minor importance.

That brings me to the last thing which I have to say to-day. I know that our proposals of taxation will be criticised. But I will appeal to all critics, either in this House or outside it, not to criticise them hastily or unfairly. We believe that we are doing the right thing for India—that in these critical times, and looking to the years before us, when we have to meet heavy loan maturities both external and internal, the matter of vital importance is to preserve the trust of the public of India and elsewhere in the soundness of our financial position. Let honourable members, by all means, examine our proposals with searching criticism, but I would appeal to them, with all the emphasis which I can command, to do or say nothing which will lead the outside world to suppose that they have not a full sense of their responsibility, or that they do not believe that the paramount duty of every man, who has India's interest at heart, and who can in any way influence the situation, is to preserve intact that financial stability on which the whole fabric of the country's life depends.

GEORGE SCHUSTER.

The 29th September 1931.

EXPLANATORY MEMORANDUM

BY

THE FINANCIAL SECRETARY.

NOTE 1.—Unless otherwise stated, the amounts are in lakhs of rupees. The expressions “current year” and “next year” stand for the financial year 1931-32 and 1932-33, respectively.

NOTE 2.—A supplementary note showing the reductions proposed under the various heads of expenditure as a result of the work of the retrenchment committees is attached. The figures in this explanatory memorandum do not take those reductions into account.

1. The following table compares the total recorded revenue and expenditure of the Government of India in the years 1929-30 with the revised estimate of 1930-31 and the budget and the present forecast for the current year :—

	1929-30, Accounts.	1930-31, Revised.	1931-32, Budget.	1931-32, Present forecast.
Revenue	1,32,69	1,23,44	1,34,87	1,17,39
Expenditure	1,32,42	1,36,12	1,34,86	1,36,94
Surplus + Deficit —	+27	—12,68	+1	—19,55

2. The revised figures for the current year in the above table do not take into account the effect of either proposals for retrenchment and cuts in pay or those for securing additional revenues. On the present basis the figures of revenue and expenditure for the next year will be as follows :

1932-33.				
Revenue .. .. .	..	..	..	1,16,50
Expenditure .. .. .	..	..	..	1,36,00
Deficit .. .. .	..	..	..	19,50

The total deficit for the current year and the next will thus be 19,55 plus 19,50 = 39,05.

3. The proposals for retrenchments and cuts in pay and for increasing the revenues are expected to yield the following results :

	1931-32 (6-months)	1932-33 (12 months)
(1) Retrenchments—		
Civil expenditure including posts and telegraphs but excluding railways	30.	2,50.
Military expenditure	—	4,50.
(2) Cuts in pay—		
Civil officers and establishment including posts and telegraphs but excluding railways	35.	1,15.
Military officers	25	75.
Total of retrenchments and cuts in pay	90	8,30

(3) Additions to revenue—

Customs revenue	4,85	9,72
Income-tax (net)	2,05	3,53
Salt—		
(i) Abolition of credit sales	1,00	1,00
(ii) Surcharge	21	85
Posts and Telegraphs	37	73
	8,48	15,83
Total additions to revenue		

4. With the above changes, the revised estimate of the current year and the present forecast for the next year will be as follows :—

	Revenue.	Expenditure.	Surplus + or deficit—.
Revised 1931-32	125,94	136,11	—10,17
Forecast 1932-33	132,51	127,28	+5,23

It will be seen from the statement above that after taking into account the net effect of all the proposals for economy and taxation, the uncovered deficit over the two-year period will be 10,17—5,23 or 4,94. It is proposed provisionally to meet this deficit by reduction of the provision for reduction or avoidance of debt by 2,47 each year.

5. As usual, some further details of the changes in the figures of revenue and expenditure are given below.

Customs.

6. The net deterioration of 10,00 in the Customs revenue in the current year, which is due to the prevailing trade depression and the reduced purchasing power of the people, is distributed as follows :—

	Better + Worse—
Spirits and liquors	—70
Sugar	—100
Tobacco	—35
Mineral oils	—25
Motor cars and cycles	—30
Silver	—100
Metals—iron and steel	—10
Articles of food and drink	—50
Raw materials	—10
Cutlery, hardware, etc.	—20
Metals other than iron and steel	—30
Yarn and textiles	—30
All other articles wholly or mainly manufactured	—60
Other articles	—15
Betel nuts	+10
Iron and steel (protective)	—60
Cotton piecegoods	—200
Export duty on jute	—90
Excise duty on motor spirit	—75

—1,000

These estimates were framed before the events of the last week happened and as explained by the Honourable the Finance Member in his statement, they do not take into account the possible reactions of those events on the revenues.

7. The proposals in the new Finance Bill, after providing for a reduction in consumption, are expected to yield an additional revenue of 14,57 under Customs as detailed below:—

(i) *Levy of new duties and increase in existing duties (excluding the surcharge).*

	1931-32.	1932-33.
Sugar	3	7
Artificial silk piecègoods	29	57
Artificial silk yarn	5	10
Raw cotton	43	87
Machinery	52	103
Dyes	8	17
Boots and shoes	7	14
Camphor	2	5
Electric bulbs	5	10
	154	310
	464	

(ii) *Surcharge of 25 per cent. on customs import duties including excise duties on motor spirit, kerosene and silver.*

	Rs.	Rs.
Surcharge	3,31	6,62
	9,93	

Taxes on income.

8. On the present basis of taxation the revenue estimates show a fall of 1,25 in the current year as compared with the budget estimate of 17,44. Business has been generally worse in the current year than in the last, so that with the existing rates of income-tax and supertax, the revenue will show a still further falling off next year.

9. The net increase in revenue anticipated from taxation of incomes between Rs. 1,000 and 1,999 and from the 12½ per cent. surcharge in the current year and from the 25 per cent. surcharge in the next after allowing for the merging of the tax on salaries of Government officers in the cut in pay is shown below:—

	1931-32.	1932-33.
	Rs.	Rs.
Taxation of lower incomes	38	70
Surcharge	1,74	3,01
	2,12	3,71
Total	5,83	

10. The reduction of the taxable limit of income from Rs. 2,000 to Rs. 1,000 involving the addition of a large number of assesseees will necessitate the entertainment of extra establishment which will cost 7 in the current year and 18 in the next, or 25 in the two years together.

Salt.

11. The salt revenue was estimated at 7.05 in the budget of the current year. A reduction of 8 is anticipated due mainly to reduced sales of locally manufactured salt in Madras.

12. The limitation of salt credits to 3 months in the current year as from the 1st October 1931 and the termination of the credit system altogether from the 1st March 1932 is expected to give an additional 2.00 in the two years. The imposition of the surcharge of 25 per cent. will, after taking into account reduction in consumption, give a further increase of 1.06 in the two years. The distribution of the total increase of 3.06 is as follows:—

	1931-32.	1932-33.
	Rs.	Rs.
(i) Limitation and ultimate abolition of credit system ..	1.00	1.00
(ii) Imposition of surcharge	21	85
Total ..	1.21	1.85
	} 3.06	

13. As regards expenditure a reduction of 7 is anticipated as a result of economy in the current year.

Opium.

14. The total revenue from opium was taken in the budget estimate of the current year at 2.15. It is now expected that owing to a reduction in the indents for excise opium, there will be a small decrease of 9 in the current year's revenue under this head.

15. On the other hand, there will be an increase of 8 under opium expenditure in the current year due partly to the increased outturn of the last season and partly to increased payments to certain Indian States under existing agreements regarding production and sale of opium in the States.

Posts and Telegraphs.

16. The statement below shows the present estimates of revenue and expenditure based on the actuals of the first few months:—

	1931-32, Budget.	1931-32, Present estimate.
Gross receipts	10.96	10.78
Deduct working expenses	11.45	11.39
Net receipts	—49	—61
Interest on capital outlay	87	87
Net loss including capital charged to revenue ..	1.47	1.59

The saving under Working Expenses is due to various measures of economy already adopted. The deterioration of 18 is due chiefly to anticipated short realization in stamp revenues and money order commission, due allowance being made for the additional receipts expected during the year from enhanced parcel rates and insurance fees already introduced.

17. The enhancement of the postal rates for letters and postcards is expected to bring in an additional revenue of 37 in the current year and 73 in the next.

Interest Receipts.

18. Owing to the replacement of the sterling securities in the Gold Standard Reserve by gold, the interest receipts in England from the investments in the Reserve are estimated to be 24 less in the current year than was provided in the Budget. The receipts from this source will probably diminish further next year.

Interest Payments.

19. The budget estimates for the current year under the head Interest on Ordinary Debt were as follows :—

<i>Gross payments.</i>							
India	22,35	
England	21,14	
						43,49	
<i>Deductions.</i>							
Chargeable to commercial departments and the Provincial Loans Fund.						40,42	
<i>Net</i>						3,07	

20. The expenditure in India included 2,80 on account of discount on treasury bills. For the reasons explained in the Honourable the Finance Member's statement on the financial situation, the present estimate of the year's expenditure on this account is 5,01, or an increase of 2,21 over the current year's budget figure. There will however be a small saving of 12 under interest on ordinary loans.

21. As regards expenditure in England, there will be an increase of 40 on account of interest and other charges in connection with the sterling loan of £10 million floated early in the current year. As against this, there will be a saving of 56 representing one half year's interest on the outstanding amount of India's war contribution as explained in the press *communiqué* dated the 26th June 1931 regarding the effect of His Majesty's Government's proposals following the Hoover plan.

22. The total gross interest payments in the current year will thus be increased by 1,93 to 45,42.

23. The amount of advances to the Provincial Loans Fund in the current year may be increased as compared with the budget owing to deterioration in the financial position of the Provincial Governments, but it is not proposed to make any change at present in the interest chargeable to the Provincial Loans Fund in the absence of reliable estimates. The net interest payments on ordinary debt in the current year will therefore be 5,00.

24. As regards interest on other obligations, a saving of 10 is anticipated in the payments on account of interest on the balances of Provincial Governments and Railways.

25. The present estimate of total interest payments in the current year is 13,82 against 11,99 budgetted for, or a deterioration of 1,83.

Appropriation for Reduction or Avoidance of Debt.

26. The budget provision for the current year under this head was 6,78 made up as follows :—

Obligatory provision for railway annuities and sinking funds and for the 5 per cent. rupee loan sinking funds	4,19
Non-obligatory provision to make up the total provision according to the Debt redemption scheme	2,59
Total	6,78

27. Owing to the amount of the treasury bills in the hands of the public outstanding on the 31st March 1931 being 10,00 more than the figure assumed in the current year's budget there is an automatic increase of 12 in the provision under the head after taking into account the small reduction due to larger cancellations in 1930-31 of the 5 per cent. rupee loans on account of purchases for the depreciation funds.

28. A sufficiently reliable estimate can not at present be framed of the total outstanding debt of the Government of India at the end of the current year to enable an accurate estimate of next year's provision under Reduction or Avoidance of Debt but it may safely be assumed that the provision in 1932-33 will not be less than that in the current year and may be 20 to 30 more.

29. As explained in the Honourable the Finance Member's statement, it is proposed to reduce the total provision in the two years by the amount of the uncovered deficit during that period, that is, on present estimates 4,94.

Currency and Mint.

30. As pointed out in the Financial Secretary's explanatory memorandum in connection with the budget of the current year, the estimates under this group depend on the transactions connected with the securities in the Paper Currency Reserve and the circulation of nickel coin. Owing to the cancellation of treasury bills in the Reserve and a large return of nickel coin from circulation on account of prevailing depression, there will be a deterioration of 53 under this group of which 43 is the estimated loss on nickel coin circulation.

Extraordinary Items.

31. Provision has been made for a reduction of 23 under Extraordinary receipts in the current year as under the Hoover proposals nine months' Reparation receipts will not be forthcoming. The net receipts will be 7 against 30 in the current year's budget.

Other Heads.

32. The other variations in the current year under heads not specified above result in a net improvement of 30 as compared with the budget, which is chiefly due to an all round reduction in expenditure.

The 29th September, 1931.

H. DENNING.

Supplementary note on Retrenchment in the civil and posts and telegraphs departments.

1. A convenient summary of the recommendations of the General Purposes Sub-committee will be found on page 70 of their report. The two largest items are Civil Aviation and the Survey of India. The proposal to hold in abeyance the Indian State Air Service has already been accepted by Government, while the recommendations regarding the Survey of India are undergoing detailed but urgent examination, as it will be necessary to come to a decision before the survey parties would ordinarily take the field.

2. The Public Works, Accounts and Audit Departments Sub-committee has recommended a reduction of nearly 3 lakhs in the Irrigation grant and, of nearly 32 lakhs in the Civil Works grant. The total of these two grants in 1931-32 is 172 lakhs, excluding the block grant for road development. In addition they have pointed out that by closing the New Delhi capital estimates a sum of about 12 lakhs yearly (representing rents and charges for electricity and water, etc.) may be legitimately credited to revenue. All these economies Government are expecting to effect. They are also hoping to save something by charging certain maintenance costs of communications in centrally administered areas to the Road Fund, if the Assembly assents to the Resolution on the subject.

3. Under Audit and Accounts Government have already taken steps to stop the experiment of the separation of accounts and audit in the civil departments. By these and other means proposed by the retrenchment sub-committee Government expect to realise a gross saving of most of the sum of 15½ lakhs recommended by that sub-committee. Of this sum about 12½ lakhs affect the two civil grants 43-Audit and 37-Separation of Accounts from Audit aggregating 116½ lakhs.

4. The Stationery Retrenchment Sub-committee has recommended a reduction of about 16½ lakhs in the net grant of 63½ lakhs for 1931-32 under Stationery and Printing. Government expect to achieve this, but 10 lakhs, representing a reduction of the abnormal carryover of stock in 1931-32, will have to be restored in 1933-34.

5. The Stores Retrenchment Sub-committee has proposed retrenchment amounting to 3½ lakhs in the net grant of 8.32 lakhs for the Indian Stores Department.

6. The activities of Government within the purview of the General Purposes Sub-committee regarding which the sub-committee has not yet reported include the revenue earning departments under the Central Board of Revenue, the Secretariat departments of the Government of India, the activities under the Commerce Department, and the centrally administered areas and sphere of the Foreign and Political Department. It is hoped to effect a net saving of 90 lakhs in these departments, taking into account expenditure on Census.

7. The actual economies proposed by the Posts and Telegraphs Retrenchment Sub-committee (excluding the effect of a cut in the pay of present incumbents) aggregate Rs. 14.30 lakhs immediately and Rs. 44.23 lakhs ultimately.

8. A statement showing the effect of the above retrenchments is appended. The last column of the statement shows the net saving after allowing roughly for the cost of compensation to retrenched staff.

STATEMENT.

	Budget grant, 1931-32.	Reduction in 1932-33.	Net Saving.
Field covered by General Purposes Sub-Committee	321.77	121.21	100
Field not yet covered by General Purposes Sub-Committee including Census	1,758.39	120	90
P. W. Grants	172.17	34.79	} 60
(out of New Delhi account) .. .. .	..	12.00
Stationery and Printing	63.29	16.56	
Audit (Civil)	116.56	12.43	
(P. & T.) .. .. .	..	2.55
(Railways) .. .. .	..	.50
Indian Stores Department	8.32	3.77	
Posts and Telegraphs .. .. .	..	14.30
Total (lakhs)	24,40.50	338.11	250

Table referred to in the Honourable the Finance Member's Statement on the financial position.

(Figures in lakhs of rupees.)

Year.	Total Net Revenue.	Tax Revenue included in column 2.	Expenditure charged to Revenue excluding provision for Debt Services and taking net figures for Army.	Interest on Debt.	Reduction or Avoidance of Debt.	Transfers to Revenue Reserve Fund.	Total Expenditure charged to Revenue.	Surplus + Deficit —
1921-22 ..	91,32	60,63	1,00,81	13,70	4,46	..	1,18,97	—27,65
1922-23 ..	91,59	67,39	88,19	13,87	4,55	..	1,06,61	—15,02
1923-24 ..	1,03,19	69,16	81,21	15,97	3,62	..	1,00,80	+2,39
1924-25 ..	1,02,15	70,25	77,79	14,90	3,78	..	96,47	+5,68
1925-26 ..	99,16	71,07	77,51	13,37	4,97	..	95,85	+3,31
1926-27 ..	97,92	70,84	78,22	11,77	4,97	2,96	97,02	..
1927-28 ..	90,30	71,12	76,91	10,57	5,04	—2,22	90,30	..
1928-29 ..	91,66	74,82	77,10	10,20	5,42	—74	91,98	—32
1929-30 ..	95,69	75,96	78,83	10,85	5,74	..	95,42	+27
1930-31 (Revised)	84,22	69,82	79,67	11,08	6,15	..	96,90	—12,68
1931-32 (First Revised).	76,66	70,77	75,49	13,82	6,90	..	96,21	—19,55
1931-32 (Second Revised based on present proposals).	85,21	78,95	74,66	13,82	4,43	..	92,91	—7,70
1932-33 (Forecast based on present proposals).	91,67	85,05	65,95	13,34	4,68	..	83,97	+7,70