

Speech by the Hon'ble Finance Member on introducing the Budget Proposals for 1935-36.

1. It is to me somewhat confusing to find that I have to present three sets of accounts. English budget statements, which are made in April, of course only deal with the year which has just closed and the year which has just begun. In India it is necessary to give the final accounts of the year which ended 11 months earlier, a revised forecast of the outturn of the year which has still one month to run and a forecast of a year which has not yet started. I hope that I shall be able to give a clear but succinct account of all 3 years and in doing so I shall avoid all attempts at economic speculation—for I do not think it would be helpful to add one to the infinitude of economic theories which are circulating in India in particular and the world in general—and I shall confine myself to that bare minimum of prophecy which is incidental to presenting a budget statement.

FINANCIAL YEAR 1933-34.

2. I begin by setting out the final results of the year 1933-34?

When my predecessor presented his budget last February, it was anticipated that, after a provision of Rs. 3 crores had been made for debt reduction, the year 1933-34 would close with a surplus of Rs. 1.29 lakhs. The actual figure is Rs. 2.72 lakhs. The main causes of this improvement of Rs. 1.43 lakhs are four :—

First, the fact that a somewhat unusual number of holders of Government securities failed to draw their interest; secondly, the fact that recoveries from commercial departments were larger than expected; thirdly, forestalling in anticipation of an increase in the salt duty; and fourthly, the fortunate non-realisation of our expectations of a reduction in receipts from Income-tax in the areas affected by the earthquake of January 1934.

It will be remembered that my predecessor announced that the surplus would be carried to a suspense account and utilised for financial assistance in connection with the earthquake. The Government of India accordingly offered to provide the whole of the financial help required by local bodies to enable them to repair the damage done to roads, bridges, schools, hospitals and other buildings, and to carry out their current responsibilities until their income had regained its normal level. The latest estimate received from the Government of Bihar and Orissa indicates that the amount required for this purpose will be approximately Rs. 1.25 lakhs. In addition about Rs. 5 lakhs were required for the provision of country mills for the crushing of sugar-cane which could not be sent to the factories. It was further decided that the Central Government would assist the Government of Bihar and Orissa in reconstructing Government property which had been damaged by the earthquake to the extent of providing one half of the total capital expenditure involved and financing the remainder from the Provincial Loans Fund. The Local Government now anticipate that the grant required from us in this connection will amount to Rs. 51 lakhs. It was originally proposed that this should be treated as capital expenditure and should not be

debited to the special suspense account, but in view of the large increase in the surplus for 1933-34 we now think it more convenient to meet this expenditure also from the suspense account. So far as Bihar is concerned, therefore, the total liability of the Central Government amounts to Rs. 1,25 lakhs plus 5 plus 51, a total of Rs. 1,81 lakhs. In addition to this we shall need about Rs. 6 lakhs for the repair of earthquake damage in Bengal and we have also certain contingent liabilities in respect of loans granted to individuals in Bihar whose property was damaged by the earthquake, since it was agreed that in certain circumstances the Central Government would meet part of any loss which may result from the failure of the Local Government to recover these loans. So far as it is possible to judge at present, this liability will not amount to a very large sum, but in order to have a margin for unforeseen contingencies we propose to retain in the suspense account a total sum of Rs. 2,10 lakhs.

This leaves Rs. 62 lakhs to be carried forward to fortify the balances of the current year.

FINANCIAL YEAR 1934-35.

3. I now turn to the current year 1934-35. Our revised forecast shows a material improvement over the original budget anticipations and the surplus is now expected to be Rs. 3,27 lakhs instead of 10 lakhs. The difference is made up of an improvement in revenue of Rs. 3,87 lakhs and a deterioration of Rs. 70 lakhs in expenditure.

Incidentally, I must here make an apology to my predecessor for a somewhat gloomy remark I made last August as to the prospects of realising his revenue estimates. I ought to have known better than to turn myself into a prophet on so slight an acquaintance with India. It would also be fitting that I should pay a tribute to him for the hard and unpleasant work he performed in securing budgetary equilibrium in this country and express my sympathy that the fruits of his unremitting toil should not have fallen to him before his departure.

The actual figures, excluding Railways, are as follows:—

	(Lakhs.)	
	Budget 1934-35.	Revised 1934-35.
Revenue	87,13	91,00
Expenditure	87,03	87,73
Surplus	10	3,27

Full details are of course given in the Financial Secretary's memorandum but I should perhaps call attention to a few of the more important variations.

Revenue.

4. *Customs, etc.*—On the Revenue side the surplus is in the main due to Customs, etc., the principal items being:—

	Lakhs.
Sugar	1,38*
Cotton fabrics	90
Yarn and textile fabrics other than artificial silk	80

*This figure is net, i.e., it covers an increase of Rs. 1,70 lakhs in the import duty yield and a decrease of Rs. 32 lakhs in the revenue from the excise duty.

There have also been increases under motor cars, machinery, petrol and kerosene offset by decreases in the export duties on jute and rice and in the excise duties on matches. The actual figure for the export duty on jute—to which I shall have to return later—is Rs. 3,40 lakhs as compared with the Budget Estimate of Rs. 3,80 lakhs.

5. *Interest.*—Apart from Customs, etc., the only Revenue item I need mention specifically is Interest. Here, although the head discloses an increase of Rs. 26 lakhs only, this is made up of a considerable reduction of rupee, combined with a somewhat greater increase of sterling, receipts. The latter is due to our increased sterling balances but the former calls for more detailed comment.

The budget estimates for the current year provided for a receipt of Rs. 67 lakhs on account of interest on the loan granted to Bahawalpur State. During the year we have reconsidered the position with regard to this loan on the basis of the latest forecast supplied by the Public Works and Revenue Minister of the State. The forecast indicated that although the Sutlej Valley Project should ultimately yield a surplus which will be sufficient for the service of a loan of the existing dimensions, the surplus available for this purpose during the current and the next financial years is likely to be of negligible amount and will certainly be insufficient to pay interest at the prescribed rate, which for the greater part of the loan is 5½ per cent. In view of the recent fall in our borrowing rates the project could now be regarded as reasonably profitable even if it should prove to be unable to pay as high a rate as 5½ per cent, and we might with some justification have proposed an immediate reduction in this rate. As, however, the forecast is admittedly of a very provisional character, we have considered it preferable to defer a final settlement of the terms of repayment of the loan and to avoid taking any step, such as a reduction in the rate of interest, which might prejudice the provisions of that settlement. We have instead decided to charge no interest for a period of two years commencing with the payments which were due to be received during the current financial year. So far as the current year is concerned, this decision involves only a paper loss, since we should in any case have received practically nothing from the State. The final terms of repayment will be considered before the end of the period of two years, and in connection with that settlement we shall of course take into consideration the remission of interest charges which is now being granted.

Expenditure.

6. *Grant to Jute producing Provinces.*—The main part of the increase of Rs. 70 lakhs in Expenditure is due to the allocation to Bengal, Bihar and Orissa and Assam of a larger share of the proceeds of the jute duty than was originally provided for. The figures are now expected to be:—

Bengal	149·3 lakhs.
Bihar and Orissa	11·2 „
Assam	8·5 „

During the debate on the Matches (Excise Duty) Bill last April my predecessor explained that, in view of the reduction in the rates originally proposed for the duty, the abnormal issues from factories during March 1934 and the dislocation in the interval before banderols were available, we should probably only collect eight months' revenue in the first year.

Our estimate of income from this source during 1934-35 was, therefore, reduced to Rs. 1,38 lakhs, and consequently we were unable to promise the jute producing provinces the full amount of assistance originally proposed. Our final estimates were accordingly based on the assumption that those Provinces would be given only one-third instead of one half of the total receipts from the export duty on jute. At the same time it was made clear that we should be prepared to increase this proportion to one-half if the budget as a whole should turn out better than was then anticipated. This condition is clearly in process of being fulfilled. But the transfer was subject, in the case of Bengal, to the further condition that the Government of that province must satisfy us that they are doing everything possible on their side to restore equilibrium. I have twice discussed this question with the Government of Bengal, and I am satisfied that the Local Government cannot reasonably be expected to secure further material reductions in their present scale of expenditure. Indeed in some respects it seemed to me that retrenchment had been carried to the point where it was unremunerative. On the other side of the account, however, the Government of Bengal have, of their own accord, introduced five new taxation Bills which are expected to produce a total additional revenue of about Rs. 24½ lakhs in a full year. For my part I am bound to regard this action as conclusive evidence of the determination of the Local Government to do whatever they can to put their own affairs in order.

7. *Interest*.—On the Expenditure side too it is necessary to mention the Interest Leads. Again they show little variation as a whole but there is an excess on "Other Obligations" because of Provident Fund and Post Office Savings Bank deposits being higher than anticipated and of an increase in the amount of accrued bonus on cash certificates; and there is a saving on "Ordinary Debt" owing to the non-payment of the 58 lakhs due to the United Kingdom on the 1st December 1934 on account of the outstanding War Loan liability. Incidentally the United Kingdom has agreed that this non-payment should continue for the year 1935-36.

8. *Posts and Telegraphs*.—Finally I should say a word about Posts and Telegraphs.

The position is as follows :

	(Lakhs.)	
	Budget 1934-35.	Revised 1934-35.
Gross receipts	10,71	11,05
Working expenses	10,01	10,07
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Net receipts	70	98
Interest charges	84	84
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Balance	-14	+14
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We thus estimate that the year will close with a net surplus of Rs. 14 lakhs as compared with the deficit of Rs. 14 lakhs which was anticipated. The improvement is mainly due to increased sales of stamps, and it is satisfactory that this Department which since 1927-28 has been working at a loss is this year expected to show a small profit. But it is unfortunately not quite so satisfactory as it looks, for it will be remembered that it was decided to draw on the Depreciation Fund to the extent of Rs. 27 lakhs and to that extent, therefore, the accounts do not show a true picture.

Position as at 31st March 1935.

9. On the figures, which I have so far explained to the House, we shall, at the end of March next, have in hand two surpluses, one for 1933-34 of Rs. 62 lakhs and one for 1934-35 of Rs. 3,27 lakhs making Rs. 3,89 lakhs in all. I shall return to the disposal of this amount later but in the meantime I turn to the estimates for the coming year 1935-36.

FINANCIAL YEAR 1935-36.*Revenue.*

10. The total revenue, excluding Railways, may be put at Rs. 90,19 lakhs or 81 lakhs less than the revised estimate for the current year.

Customs, etc.—Here I estimate for Rs. 51,92 lakhs altogether or an increase of Rs. 75 lakhs over the revised figures for the current year. The main variations are a decline of Rs. 2 crores in the import duty on sugar combined with increases of Rs. 35 lakhs on the sugar excise, of Rs. 65 lakhs on the match excise and of Rs. 43 lakhs on kerosene and petrol. It is of course a matter of great difficulty to frame an accurate estimate of customs, etc., revenue at a time when there are so many uncertain factors at work. This uncertainty applies in a particular measure to the sugar duties. As I have already stated, our estimates for the current year have been revised to show an increase of Rs. 1,70 lakhs in the import duty and a decline of Rs. 32 lakhs in excise—the original figures being Rs. 2,05 and 1,47 lakhs respectively, and the revised Rs. 3,75 and 1,15 lakhs. We cannot, however, anticipate that the revenue from the import duty will remain at so high a figure in 1935-36 and the increased revenue to be expected from the excise duty will by no means compensate for this inevitable reduction. During the period when Indian factories were not working at their full strength, imports have been substantial, but when Indian production reaches its full level, imports of foreign sugar for ordinary consumption will almost disappear, and there will only be certain small imports of the finer varieties of sugar. This process may not, however, be completed during 1935-36 and the best forecast we can make is to assume an import revenue of Rs. 1,75 lakhs and an excise yield of Rs. 1,50 lakhs. The increase in petrol and kerosene is due to normal growth and that in the match excise merely represents a full instead of a part year's yield of the duty.

The changes in the estimates are set out in greater detail in the Financial Secretary's memorandum.

11. *Taxes on Income.*—During the current year there has been an undoubted improvement in the financial position of some of the more important industries, but this improvement will only be partially reflected in our Income-tax returns for 1935-36. I therefore estimate for an improvement of no more than Rs. 51 lakhs and of this Rs. 16 lakhs is due to the additional tax recovered from Government servants on account of the restored pay-cut. The actual figures are Rs. 17,25 lakhs for the current year and Rs. 17,76 for 1935-36.

12. *Opium.*—Our estimate under this head is Rs. 61 lakhs as compared with Rs. 71 lakhs for the current financial year. This is based on the assumption that only 257 chests of opium will be exported during 1935-36. As Hon'ble Members are aware, this source of income will practically cease at the end of the present calendar year in accordance with the policy which was announced some years ago by the Government of India, and in future we shall recover only the cost of opium sold for consumption in India.

13. *Interest.*—This shows a very large reduction amounting to Rs. 1,29 lakhs which is of course due to the transfer of the currency functions and, therefore the reserves, of the Government of India to the Reserve Bank. It is true that as against this we shall get the surplus profits of the Bank but in the first year instead of getting a full year's interest on the assets in our various reserves and balances we shall only get a part year's dividend from the profits of the Bank. We have included Rs. 50 lakhs on this account under the head "Currency" but the receipts here still show a drop of Rs. 11 lakhs owing to the lower rates prevailing for short term money.

Expenditure.

14. Expenditure as a whole, again excluding Railways, stands at Rs. 88,69 lakhs showing an increase of Rs. 96 lakhs which is of course almost entirely due to the restoration of the pay cut. A good deal of criticism has been passed on the Government's action in this matter and it cannot be denied that the decision has had one unfortunate concomitant in that it has increased the already serious difficulties of many of the Provinces and added to the magnitude of the financial problems to be solved at the inception of Provincial Autonomy. But in this matter the Government were bound by pledges which were both categorical and repeated and in my view those pledges are conclusive.

The cost of restoration will be Rs. 55 lakhs for the Civil Departments, excluding the Railways, but including the Posts and Telegraphs Department, and Rs. 53 lakhs for the Army, a total of Rs. 1,08 lakhs, but there is, as I have said, a set off against this in the form of extra income-tax to the extent of Rs. 16 lakhs.

Apart from the pay cut, there are only minor increases, most of them on new services, e.g., the marketing scheme, grants to the handloom and sericultural industries, the new Dairy Institute and the Institute of Industrial Research. There is also a small increase on Defence and a deficit on Posts and Telegraphs, which is, however, more than explained by the abolition of the pay cut.

15. *Defence.*—The Defence Budget shows an increase, leaving out of account the pay cut, of Rs. 7 lakhs over the original estimate for this year but the partial restoration by His Majesty's Government of the pay cuts of British soldiers, which has necessarily to be applied to British soldiers on the Indian establishment, accounts for Rs. 5 lakhs of this. The purely nominal increase of Rs. 2 lakhs which remains conceals however a considerably increased provision for necessary services and re-equipment which had to be postponed during the financial emergency.

In his budget speech last year my predecessor again communicated to the House a warning previously given that the large reduction in Defence expenditure in recent years had been secured to some extent by emergency measures of a temporary character and that the figure of Rs. 44.38 crores could not be regarded as representing a new permanent level of Defence expenditure. The contingency then foreseen has become a fact and new or rather postponed services amounting to Rs. 67 lakhs have had to be provided for. This sum has been found as to Rs. 20 lakhs by closer estimating for grains and other food stuffs and as to the remainder by economies in other directions.

My predecessor also stated that His Excellency the Commander-in-Chief had undertaken that he would not relax his search for further economies and I think it will be agreed that the figures I have given demonstrate that this undertaking has been amply fulfilled.

16. *Posts and Telegraphs*.—Honourable Members will remember that I said we now expected a surplus on the Posts and Telegraphs accounts for 1934-35 amounting to Rs. 14 lakhs but that this result was only achieved in consequence of a raid of about Rs. 27 lakhs on the Depreciation Fund. At the time of this raid my predecessor explained that this could not be repeated in toto but that the whole question of the amount of the annual contribution to the Fund was under review. The final results of this review are not yet available but it is clear that the amount to be provided need not be so high as under the old rules by something like Rs. 10 lakhs. There is here therefore a deterioration in the estimates for 1935-36 as compared with 1934-35 and it is one of Rs. 19 lakhs and not one of Rs. 27 lakhs. When we add to this the cost of restoring the pay cut for the Posts and Telegraphs Department, *viz.*, Rs. 27 lakhs, we get an initial disadvantage of Rs. 46 lakhs to be made up. We are however estimating for a deficit not of Rs. 32 lakhs but of Rs. 13 lakhs which means that comparing like with like we reckon on a net improvement of Rs. 19 lakhs.

17. *Reduction of Debt*.—There is only one other item which I wish specifically to mention at this stage and that is the provision for the reduction and avoidance of debt. As Hon'ble Members are aware, our revised estimates for 1933-34 and those for the current financial year included only Rs. 3 crores for this purpose. It is of course a matter of common knowledge that 60 per cent. of the Government of India debt is attributable to the Railways and it seems to me that it would be imposing too heavy a burden on the general Budget to revert to the Sinking Fund arrangements in force prior to 1933-34 before the Railways have resumed the practice of making a contribution to the General Revenues. I therefore accept as reasonable for the time being the provision of Rs. 3 crores now prevailing but I should like to make it clear that, in my view, an increased provision for debt reduction ought to be a first charge on any contribution from the Railways in the future.

18. It is interesting here to compare the budget expenditure, actual or estimated as the case may be, for the years 1931-32 onwards and in order to get a fair basis of comparison, I deduct in every case the provision for debt reduction and avoidance and take net figures for Interest, Posts and Telegraphs and Defence :

1931-32	1932-33	1933-34	1934-35	1934-35.	1935-36
Actual.	Actual.	Actual.	Budget.	Revised.	Budget.
83,78	80,59	75,97*	78,12	78,53	80,06

The lowest year was 1933-34. The estimate for 1935-36 shows a net increase from this low level of Rs. 4,09 lakhs. Of this, Rs. 1,79 lakhs is due to the grant of a share of the jute duty to Bengal, Bihar and Orissa and Assam, Rs. 1,30 lakhs is due to the increased provision for bonus on Cash Certificates and Rs. 1,08 lakhs represents the cost of restoring the second half of the pay cut. Apart from these changes the remarkable economies made in Defence and other charges have not only been maintained but extended.

Summary of the position for 1935-36.

19. The final position for 1935-36 is thus as follows :—

Revenue	90,19 lakhs.
Expenditure	88,69 „
Surplus	1,50 lakhs.

*Excludes Rs. 2,72 lakhs transferred to the Earthquake Fund.

WAYS AND MEANS.

20. Before explaining our proposals for dealing with the surplus of Rs. 1,50 lakhs which we anticipate in the year 1935-36 and with the accrued balance of Rs. 3,89 lakhs left over from previous years, I shall turn aside to deal briefly with the ways and means position.

21. *Reserve Bank.*—First of all let me refer to the changes due to the inauguration of the Reserve Bank. As has already been announced, the assets of the Currency Department will be transferred to the Bank with effect from the 1st of April 1935. From that date the Reserve Bank will be responsible for the maintenance of the currency, for the investment of the currency reserves in rupees and sterling and for supplying the Secretary of State with sterling for his London requirements. The effect of this on our ways and means estimates will be twofold. In the first place, once the new system is in full operation the Secretary of State will not maintain a larger balance in London than is necessary for his day to day transactions with the Bank of England. He will not, as he does at present, hold surplus funds for temporary investment until he requires them. For this reason you will see that at the end of the next year we have provided for the reduction of his balance to a nominal amount of £500,000. To begin with, as it is not contemplated that the Reserve Bank will assume its full banking business until about the beginning of July, it seemed desirable, in order to avoid the necessity of his coming to the Bank for his sterling requirements during that period, to provide him with a sufficiently large opening balance to meet his requirements up to July.

The second change is consequent on the creation of a Silver Redemption Reserve. A memorandum on this subject was submitted to the Joint Select Committee on the Reserve Bank Bill, but the Committee recommended that the Government proposals should be further studied by the Legislature. In accordance with their recommendation the memorandum was submitted to the Standing Finance Committee at a meeting held on the 20th of March 1934, and the Committee expressed their general approval of the arrangements suggested. The proposal which was placed before the Committee was in brief that after the inauguration of the Reserve Bank the proceeds of any sales of silver should be credited to a separate Fund on the lines of the present Gold Standard Reserve which would be called the Silver Redemption Reserve and would be invested by Government in its entirety in gold or sterling securities. This Reserve is required mainly to meet the liability imposed by Section 36 of the Reserve Bank Act under which Government are under an obligation to pay full value for surplus rupees which may be transferred by the Bank up to a maximum of five crores a year. It was originally intended that the Reserve should be gradually built up to a maximum of Rs. 10 crores which would be sufficient to meet a return of 25 crores of rupees by the Bank. Owing to the large remittance which it has been possible to make during the current financial year, the balances at the disposal of the Secretary of State will now be sufficient to enable the Fund to be constituted with the full amount of Rs. 10 crores with effect from the 1st of April 1935.

22. *Remittance.*—The ways and means forecast for the current financial year provided for the purchase of sterling to the extent of £26·7 millions. According to our latest estimate the total should reach about £39 millions, but this figure is of course liable to modification. If the estimate is realised, we should be able not only to set aside the Rs. 10 crores required for the Silver Redemption Reserve but also to increase by about Rs. 14 crores the external assets held as security for the note issue.

23. *Gold exports.*—The increase in our estimate for remittance is, needless to say, largely accounted for by the strength which the continuance of gold exports has given to the exchange. For the 10 months ending on the 31st January 1935 the exports of gold were approximately Rs. 41 crores as compared with Rs. 42½ crores during the corresponding period of the previous year.

I do not propose to discuss at length the arguments which have been advanced in favour of restricting these exports, but I take this opportunity of saying that I cannot share the views which attribute to them some abstruse monetary significance nor do I find in them an indication that India is being driven by distress to part with her last reserves. Indeed I can see no sufficient reason for placing them in a different category from exports of any other commodity of which India has a surplus, and I therefore find no cause for regret or alarm in the fact that India is still able to obtain so handsome a profit from the reserves of gold which had been accumulated in previous years.

24. *Post Office Cash Certificates and Savings Bank deposits.*—It will be observed from the ways and means statement which is printed with the Financial Secretary's memorandum, that the figure for net receipts from Post Office Cash Certificates has been reduced in the revised estimate for the current year from Rs. 5.50 lakhs to Rs. 2.78 lakhs, and that we have included Rs. 2.75 lakhs under this head in our forecast for next year. This is of course due to the reductions in the rate of interest on these certificates which took place in April and December 1934, the actual rate being now 3 per cent. Post Office Savings Bank deposits, on the other hand, show a net increase from Rs. 6.00 lakhs in the original estimates for the current year to Rs. 7.10 lakhs in the revised and Rs. 8.75 lakhs in the forecast for 1935-36. The rate of interest on these deposits has been 2½ per cent. since the end of 1933, and this is clearly becoming increasingly attractive with the general decline in security yields.

25. *Provincial requirements.*—The revised estimate here shows a reduction from Rs. 6.25 lakhs to Rs. 4.40 lakhs, but we have provided in our forecast for 1935-36 for an increase to Rs. 10.82 lakhs, owing to the fact that we have decided to finance the repayment of the Bombay Development Loan, 1935.

26. *Treasury Bills.*—Last year my predecessor estimated that at the end of the financial year the amount of treasury bills outstanding with the general public would be about Rs. 30 crores. The actual figure on the 1st of April 1934 was Rs. 33.31 crores. In addition treasury bills held in the Paper Currency Reserve amounted to Rs. 25.93 crores. The figures for the 31st March 1935 are expected to be Rs. 22 and Rs. 27½ crores respectively. After the transfer on the 1st of April 1935 of the assets in the Paper Currency Reserve to the Reserve Bank, all treasury bills will be shown under one head. On this basis the figures for the beginning and end of the year 1934-35 are Rs. 59.24 and Rs. 49½ crores respectively and in our forecast for the coming year we have anticipated a further reduction to Rs. 46 crores.

27. *Borrowing programme.*—We have issued two loans in India during the current year. The first was a re-issue of 3½ per cent loan 1947-50 at 98/8 per cent and the amount subscribed was approximately Rs. 25.13 lakhs. A few months later owing to the continued improvement in our credit we were able to issue a rupee loan at a nominal rate of 3 per cent for the first time since 1896. The 3 per cent bonds 1941 were issued at 99 per cent, and the amount subscribed was Rs. 10.67 lakhs. As a result of these new loans we have been able to repay Rs. 19.48 lakhs of 4 per cent loan 1934-37 and Rs. 12.94 lakhs of 4½ per cent bonds 1934. Both of the new issues stand well above their

original price. Next year we shall have to provide for the repayment of Rs. 16 crores of 6½ per cent Treasury Bonds, 1935, and Rs. 11·4 crores of 5 per cent Bonds 1935. We have also the option of repaying £11·9 millions of 6 per cent Sterling Bonds 1935-37 and £3½ millions of East Indian Railway 4½ per cent debenture stock 1935-55. The total amount of loans which we can repay or convert is thus approximately Rs. 48 crores. In addition to this we are, as I have just said, providing for the repayment of the Bombay Development Loan, 1935, and we expect to reduce the total amount of treasury bills outstanding by a further Rs. 3½ crores. Allowing for a remittance of £26 million we anticipate that we could meet all these liabilities without raising more than Rs. 25 crores by fresh borrowing, but of course the amount, time and manner of our borrowing will depend entirely on market conditions during the year.

PROPOSALS FOR 1935-36.

28. I now come to our proposals both in regard to the balance of Rs. 3,89 lakhs which we expect to have at 31st March next and to the surplus of Rs. 1,50 lakhs which we estimate for 1935-36. The former is of course non-recurrent and is only available for non-recurring purposes. The latter represents the maximum limit of the sums which can be devoted to tax-reduction during the year 1935-36.

29. *Grants to provinces for schemes in rural areas.*—To take the non-recurrent balance of Rs. 3,89 lakhs first we consider that the needs of the rural areas should have the first claim on this and we have decided to set aside a sum of Rs. 1,00 lakhs for distribution to the provinces to be spent on schemes for the economic development and improvement of such areas. I recognise that it may be contended that schemes for rural development are primarily the function of Provincial Governments, whether those schemes take the form of the introduction of improved methods of agriculture, the establishment of industries to give employment to, and increase the income of, the cultivators, or measures designed to effect a general improvement in the condition of village life. It is a problem to which all Local Governments are fully alive and to which Provincial Ministers in particular have devoted much attention, since these matters were entrusted to them. Schemes have been examined and worked out but unfortunately many of them are still merely paper schemes, for even before the financial stringency of recent years some Local Governments could only devote very inadequate funds to those purposes and in the recent years of crisis and retrenchment it has been impossible for any Local Government to find money for new projects however likely they were to contribute to the prosperity of the province. We feel therefore that now when the Central Government fortunately happens to have balances on which it can draw, we cannot do better than make some share of it available to the provinces to carry out schemes which have been held up and thereby show that the Government of India have a very deep concern with the welfare and prosperity of the cultivators and are prepared to help Local Governments to carry out schemes for their benefit.

I have used the expression economic development and improvement of rural areas and I have indicated that I use that expression in a wide sense to cover any measure which will conduce to the amelioration of the conditions of the cultivators and rural classes. One such measure is the Co-operative Movement and we have for the last 7 or 8 months had an expert on duty under the Central Government to examine how the movement stands. Mr. Darling who has acquired great experience of the movement in the Punjab has been

touring round the provinces discussing the question with Local Governments and Provincial Registrars. We propose to earmark a sum of Rs. 10 to 15 lakhs out of the crore which I have mentioned and this, we hope, will enable governments to develop the movement on sound financial foundations. Details of the measures and the conditions on which the grants will be given will be settled after we have considered Mr. Darling's Report.

As regards the remaining Rs. 85 to 90 lakhs I do not propose at present to define very closely the terms on which it will be distributed to the Provinces or the purposes for which it will be used. I may, however, say that we shall probably adopt the basis of rural population for distribution and we shall certainly impose the two following conditions :—

- (1) that the grant should be spent on schemes approved by the Government of India which will improve the economic position of the people, and
- (2) that it will be devoted only to schemes which the Local Government would not otherwise have been able to undertake in the immediate future.

We shall give preference to schemes which can be put quickly into operation but the money need not all be spent immediately or during the year 1935-36. Some provinces may not have schemes in final shape ; in others the Local Government may prefer to spread the expenditure over more than one year. It will of course rest primarily with the Local Government to decide what schemes can most profitably be undertaken. What may be suitable in one province will not necessarily be suitable to another, but Provincial Ministers are fully acquainted with local conditions and the needs of the rural population and will know what is most suited to those needs. We shall keep the public fully informed of what is done in each province. Having regard to the huge population of rural India I recognise that the sums we are allotting will not go very far, but they will at least do something to help the cultivator.

30. *Roads*.—We also propose to make a special contribution of Rs. 40 lakhs to the Government of India's reserve in the Road Development Fund. There is obviously great scope for expenditure on road development, and I am very glad to be in a position to supplement the somewhat exiguous resources of the Road Development Fund reserve, which was designed, as Hon'ble Members are aware, for the purpose of making grants towards works of special importance or to specially necessitous parts of India. The Government have drawn up a programme for the expenditure of the additional sum now available and in this prime consideration is being given to the needs of the Province of Assam, which seems to me to be about the most necessitous of all the provinces.

31. *North-West Frontier Roads*.—A further sum of Rs. 25 lakhs we propose to set aside for schemes of development in the North-West Frontier Province. Most of this will be spent on the construction of roads in the tribal areas, and the remainder will be devoted to schemes of economic development in that area. I wish to make it clear that we have no intention of implementing this policy by force or without the consent of the tribes in whose territory the roads will be constructed. A petition has already been received from the Afridis asking that a road may be constructed through a small area in Tirah and it is hoped that this development may lead to a fuller recognition not only by this important tribe but also by others of how their true interests are served by improvement of their communications with British India. It is considered that from the point of view of Government this expenditure, which will probably be spread over several

years, is fully justified both on financial and political grounds. As the House is aware the relations between the frontier tribes and Government have not always been peaceful and very large sums have been expended from time to time upon military operations of a punitive and wholly unproductive nature. We hope that by improving communications and by assisting the tribes to become economically self-supporting we shall not only avoid the necessity for such operations in future but shall transform in course of time a potential danger into a source of strength to India.

32. *Broadcasting.*—The last item of special expenditure which I have to mention in this connection is a provision of Rs. 20 lakhs for the development of Broadcasting. As has already been announced, it is proposed shortly to construct a large transmitting station in Delhi, and we hope later to undertake the construction of a similar new station at Madras. The existing stations at Calcutta and Bombay are also in urgent need of improvement and extension. Broadcasting is of course an immensely important factor in the intellectual and cultural development of a country and India cannot afford to fall too far behind in this matter.

33. After these special grants have been made there should remain a balance of Rs. 2,04 lakhs. A large part of this sum I propose to put aside for two schemes which it was provisionally decided to finance from capital. These are the civil aviation programme, which is expected to cost Rs. 93 lakhs, and the transfer of the Pusa Institute to Delhi which will cost about Rs. 36 lakhs. I was not myself very happy about the decision to charge to capital these two schemes, which are certainly not in any strict sense of the word remunerative. And now that we have an accrued revenue surplus it seems to me sound policy to use part of it for these purposes and to avoid the creation of what might have become an awkward precedent. The remainder of the surplus amounting to Rs. 75 lakhs will now go as an additional allotment for the reduction of debt and this concludes the disposal of the sums which we expect to have in hand on the 31st March next.

DISPOSAL OF SURPLUS FOR 1935-36.

34. We can now turn to next year and the surplus of Rs. 1,50 lakhs available for tax reduction. But I must first mention three items which though they do not appreciably affect the financial position are nevertheless of some importance.

35. *Additional Import Duty on Salt.*—The first of these is the additional import duty on salt. Personally I am very doubtful whether this duty can ever achieve the purpose for which it was designed. I have moreover a good deal of sympathy with the views which have in the past been expressed by Hon'ble Members from Bengal that an impost which has the effect of helping the producers of Aden at the expense of the consumers of Bengal is fundamentally unfair. In any case the duty will require reconsideration in view of the impending separation of Aden and Burma. Taking all these things into consideration I was disposed to think that the duty ought to be abolished at once but that would perhaps have been a little harsh to the vested interests which have grown up and I shall therefore propose to the House that the duty shall be extended for one year, without prejudice to any action which Government may see fit to take at the end of that year. I hope that this extension will be accepted by the House though I should perhaps make it

clear that, if it should prefer to remove the duty at once, in this matter at any rate we should accept its decision. Incidentally we do not propose to make any change in the arrangements for the distribution of the proceeds of the duty.

36. *Silver*.—The next is silver and here we propose to reduce the duty to 2 annas an ounce. This action is dictated by no theory as to the place to be taken by silver in the monetary economy of the world nor has it any connection with the view sometimes expressed that India should be encouraged to build up her hoards of the metal. It is simply a matter of business. There is no doubt that at the present level the duty is encouraging smuggling, there is no doubt that this smuggling is extremely difficult to prevent and there is no doubt that the honest trader is being injured by the illicit trade which is being carried on. At the lower level which we now propose smuggling should become unprofitable and the honest trader will come into his own. I propose to assume that we shall get the same yield from the 2 annas as would have been obtained from the 5 anna duty which is, I think, fully justified by the circumstances in which the reduction is taking place. The reduction will take place immediately by notification.

37. *Export Duty on Skins*.—The third change of a minor order is the abolition of the export duty on raw skins. During the eight months ending 30th November 1934 the export trade in raw skins declined in volume, as compared with the corresponding period of the previous year, from 13,133 tons to 8,938 tons and in value from Rs. 2,24 lakhs to Rs. 1,19 lakhs. We all believe of course that the most necessary factor in India's economic recovery is a revival of her export trade. Many of us feel angry and humiliated at our inability to suggest any positive action designed to promote that end apart from international action of a kind which is not at present likely to be taken, namely, a general agreement to reduce tariffs and quotas. But here is one case, though unfortunately only a small one, where some action is possible within the bounds of our available resources and I think that it should be taken. The change will take place as from the 1st April and the loss of revenue will be Rs. 8 lakhs.

MAIN PROPOSAL FOR 1935-36.

38. *Reduction of Taxes on Income*.—We still have Rs. 1,42 lakhs left to dispose of and I propose to do this in accordance with the pledge of my predecessor in which he said "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."

Although the tax on smaller incomes was not strictly a surcharge, it does, I think, come within the spirit of the pledge and I propose to deal with it and the surcharges on income-tax and super-tax together. The removal of the surcharges altogether would cost Rs. 3,34 lakhs a year while the removal of the tax on incomes between Rs. 1,000 and Rs. 2,000 would cost a further Rs. 75 lakhs. Clearly with a surplus of Rs. 1,42 lakhs only we cannot remove the whole of the two surcharges and the quasi-surcharge but what we can do is to reduce them all by one-third and this is what I in fact propose. The cost will be Rs. 1,36 lakhs leaving us with a purely nominal surplus of Rs. 6 lakhs.

CONCLUSION.

39. Clearly this Budget will completely satisfy very few people. It certainly does not satisfy me. There are many who will bitterly complain that it has not been possible to remove the whole of the emergency taxes on income, I myself am extremely disappointed that it has not been possible to take the first steps in the revision of our revenue tariff in a downward direction. Certainly that tariff is too high, certainly it is far too complicated and on both counts it is a restraint on trade and recovery. No doubt I shall be told that if only I had exercised a little more imagination, both of these desirable objects could have been achieved but do not let us forget that imaginative financiers usually end up in gaol. In any case we have before us the task of financing the inception of Provincial Autonomy. This cannot be performed by any effort of pure imagination, but if we continue in the path of prudence we shall, I believe, find that we can fulfil it triumphantly and; what is more, from time to time provide further alleviations to taxpayers.

P. J. GRIGG.

The 28th February 1935.