

Budget, 1939-40.

Finance Member's Speech

One of the few satisfactory features about the budgetary history of the year 1938-39 was the fact that when I originally presented my proposals to the House I prefaced my remarks with the warning that India was a disappointing country for prophets and thereby forestalled possible future accusations of inaccurate budgetting. This anticipatory caution on my part is in keeping with the practice of one of the greatest of Chancellors of the Exchequer, who always inserted safeguarding or hedging phrases in his speeches, so that when Opposition Members tried to quote him against himself he could safely invite them to read the full text, secure in the knowledge that the precautionary words would be there. But in anything so serious as my last Budget speech I must not be flippant, and so I plunge without further ado into the flood of prosaic facts and figures which I have to put before you.

FINANCIAL YEAR 1937-38.

2. In our revised estimates for 1937-38 we anticipated that we should need to draw Rs. 1,09 lakhs from the Revenue Reserve Fund in order to balance our accounts, leaving in the Fund Rs. 75 lakhs to be carried forward to 1938-39. The actual amount required was however only Rs. 78 lakhs, for expenditure was Rs. 9 lakhs less than the revised estimates and revenue Rs. 22 lakhs better. The main variations in revenue were increases of Rs. 83 lakhs from Taxes on Income (including Rs. 43 lakhs on account of Corporation Tax) and Rs. 14 lakhs in the net receipts from Posts and Telegraphs, counterbalanced by decreases of Rs. 82 lakhs under Customs and Rs. 10 lakhs in Mint profits. The rather spectacular increase in receipts from Taxes on Income seems to have been partly due to an acceleration of the process of assessment and partly to overcautious estimating at a time when trade activity was diminishing. The main benefit of the Income Tax (as opposed to the Corporation Tax) part of the increase accrued of course to the Provinces and so augmented their share of the divisible pool under the Niemeyer Award. In our revised estimates for 1937-38 we assumed that this share would be Rs. 1,38 lakhs but in the middle of March of that year it looked as if Railway receipts were declining and we therefore decided to distribute Rs. 1,25 lakhs only. In the event however the reduction in the Railway surplus was no more than Rs. 8 lakhs while on the other hand the divisible pool of Income Tax increased by Rs. 33 lakhs so that the true Provincial share of Income Tax turned out to be Rs. 1,63 lakhs. Thus against the additional Rs. 31 lakhs available in the Revenue Reserve Fund we must set off this balance of Rs. 38 lakhs of Income Tax which will have to be paid to the Provinces together with the amounts to be distributed on account of the current year.

The fall in customs revenue was general. As was mentioned in my Budget Speech last year the previous upward movement had come to a halt in January and there soon developed a decline which was steeper than anything we anticipated. A rapid falling off in the import trade accounted for the shortfall,

in the closing months of the last financial year, of Rs. 82 lakhs and revealed the tendency which was to become so marked a feature of the first half of the current financial year.

FINANCIAL YEAR 1938-39.

3. Our revised estimates for the current year show a net deterioration of Rs. 2,92 lakhs in revenue, and this is more than accounted for by the severe fall in the receipts from Customs Duties. At the time of framing the Budget we had, it is true, anticipated a reversal of the previous rise and had accordingly reduced our estimates by Rs. 60 lakhs as compared with the revised figure for 1937-38. But the trade recession was much sharper than we feared though happily it showed signs of being shorter than usual. Its effects on the customs revenue in consequence proved much worse than we had had reason to expect and reduced the receipts in the earlier months of the year to such an extent that though there has since been a certain improvement, the reduction over the year is now estimated at Rs. 3,67 lakhs. Under expenditure there is a net diminution of Rs. 18 lakhs made up of a reduction of Rs. 1,18 lakhs in the Civil estimates mainly due to the special economy measures, counter-balanced by an increase of Rs. 1,00 lakhs for the Defence Services. The result is that instead of realising a surplus of Rs. 9 lakhs we have to reckon on a deficit of about Rs. 2,65 lakhs.

Revenue.

4. Apart from the shortage of Rs. 3,67 lakhs under Customs referred to above the other main changes in the budget figures are decreases of Rs. 18 lakhs under Currency and Mint and of Rs. 51 lakhs in the Railway contribution, as against improvements of Rs. 49 lakhs under Central Excise Duties, Rs. 32 lakhs under Corporation Tax, Rs. 47 lakhs under Taxes on Income other than Corporation Tax and Rs. 8 lakhs under Opium. Let me explain these variations in more detail.

5. *Customs and Central Excise Duties.*—As I have already said there is a total shortage of Rs. 3,67 lakhs under Customs and an excess of Rs. 49 lakhs under Central Excise Duties. Under Customs the steady increase in the imports of machinery has provided Rs. 21 lakhs more than our estimates, and imports of raw cotton, which were expected to yield Rs. 60 lakhs, are now expected to provide Rs. 20 lakhs more. But under most of the other heads there has been a shortfall, which is particularly heavy in the case of artificial silk fabrics and yarn and certain other textile items including cotton fabrics of British manufacture. It is worth while to observe that, from the purely revenue point of view, the replacement of imports of consumers' goods by imports of plant and raw material of an equivalent value but subject to lower rates of duty results in a lower yield. This factor has been in operation concurrently with the setback in international trade. The yield of the export duty on jute, both raw and manufactured, though low in the first months of the year, has made a marked recovery and is now expected to reach the budget figure of Rs. 4,20 lakhs, so that the payments made on this account to the jute-growing Provinces are also likely to reach the budget estimates. Our revised estimates for motor spirit and kerosene, taking customs and excise together, are very much lower than the budget estimates but are still Rs. 24 and Rs. 6

lakhs respectively above the actuals of the previous year. Under Central Excise Duties the main rise has been under Sugar, where in spite of a smaller volume of factory production, high prices and under-stocked markets have stimulated the rapid clearance of finished sugar, and have incidentally provided an eloquent refutation of most of the arguments which were levelled against the increase of the excise duty two years ago.

6. *Taxes on Income.*—Our total revised estimate including Corporation Tax and other elements entirely Central is Rs. 16,04 lakhs compared with the budget estimate of Rs. 15,25 lakhs. The rise of Rs. 79 lakhs is of course a reflection into 1938-39 of the improvement which took place in the closing months of 1937-38. It includes increases of Rs. 32 lakhs under Corporation Tax and Rs. 12 lakhs in the portion attributable to the emoluments of officers serving under the Central Government and to centrally administered areas. The remaining Rs. 35 lakhs go to increase the pool of income-tax to be divided among the Provinces, but, as Hon'ble Members have learnt from the Railway Member, the estimated contribution from the railways to central revenues has been reduced from Rs. 2,56 lakhs to Rs. 2,05 lakhs and the amount payable to the Provinces on account of this year accordingly becomes Rs. 1,12 lakhs as compared to the budget forecast of Rs. 1,28 lakhs. On the other hand there is, as I have explained, a carry forward of Rs. 38 lakhs which will raise the total to be distributed to Rs. 1,50 lakhs.

7. *Other Revenue Heads.*—There is a small decrease of Rs. 2 lakhs under Salt, and an increase of Rs. 8 lakhs under Opium owing to increased demands for excise opium from Provincial Governments and Indian States. Under Mint there is a decrease of Rs. 27 lakhs, the profits from the circulation of small coin having declined. In the first seven months of the year there was a particularly heavy return of all denominations of nickel coin, partly by way of reaction to the exceptionally heavy demand of the year before and partly as a result of the general decline in trade; and though this return of coin has since November given place to seasonal absorption on a normal scale, the amount of nickel and bronze coins passed into circulation during the year will now be a great deal less than anticipated. The variation under Currency is due to an increase of Rs. 10 lakhs in the Government's share of the Reserve Bank's profits.

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

	Budget, 1938-39.	Revised, 1938-39.
(In lakhs).		
Gross receipts	11,70	11,52
Working expenses and interest charges	11,70	11,51

Indications of decline in revenue appeared early in the year, and steps were immediately taken to effect such reductions in expenditure as could be made without curtailing the existing facilities to the public. New projects were postponed and certain desirable activities, provision for which had been made in the budget, had to be abandoned. Thus, although we anticipate a fall of Rs. 18 lakhs in revenue we are still able to hope that the Department will end the year with a balanced account.

Expenditure.

9. *Defence Services.*—The only increase on the expenditure side of the 1938-39 estimates arises under Defence Services which are expected to cost Rs. 1,00 lakhs more than the Budget estimate of Rs. 45,18 lakhs. The sum of Rs. 1,00 lakhs is the net result of increases aggregating Rs. 2,16 lakhs, and reductions totalling Rs. 1,16 lakhs. The main items of increase are :—

Improved conditions of service for British military personnel consequent on decisions taken by His Majesty's Government	Rs. 1,15 lakhs.
Waziristan operations	Rs. 45 lakhs.
Increased requirements of Ordnance Services	Rs. 32 lakhs.

As regards the first item, I should explain that it includes a sum of Rs. 25 lakhs which is still the subject of discussion with His Majesty's Government.

The principal decreases are :—

Abandonment of the scheme for the conversion of 4 British Battalions into Machine Gun Units	Rs. 48 lakhs.
Slowing-down of the programme of mechanization of British Cavalry Units and of other reorganisation measures	Rs. 26 lakhs.
Withdrawal of 4 British Battalions	Rs. 16 lakhs.

10. *Civil Estimates.*—In connection with the decrease of Rs. 1,18 lakhs in the Civil estimates it will be appropriate if I give a brief account of the various economy measures undertaken by Government during the course of the present year in order to reduce the deficit that was bound to occur once customs receipts began to show a serious decline. As long ago as last April, when the recession in trade showed the first indications of hardening into a considerable depression, all new schemes, even though they had been provided for in the Budget, were ruthlessly excised, and orders were issued that no proposal for fresh expenditure would be entertained unless it was absolutely inescapable or definitely remunerative. As the trade recession deepened and our customs revenue declined still further, a special committee of Secretaries, presided over by the Home Member, was set up to examine expenditure in detail and to propose further economies in the sanctioned grants. As an emergency measure orders were issued restricting officiating promotions and the recruitment of outsiders. Grants for travelling allowance and contingencies were cut by ten per cent, and all possible economies that did not involve the retrenchment of permanent staff or the cessation of valuable activities on the part of Government institutions were enforced. As the result of these measures savings amounting to Rs. 1,18 lakhs were achieved. After deduction of that part of the savings relating to the Posts and Telegraphs Department which went to balance the decrease in their receipts and so made no net contribution to our problem, the revised estimates show a net reduction of Rs. 94 lakhs as compared with our budget estimates. This is spread over practically all heads, though the largest reduction appears under Civil Works owing to the abandonment or postponement of building projects previously sanctioned.

11. *Interest.*—The remainder of the reduction in expenditure is accounted for by a net diminution of Rs. 24 lakhs under the Interest head. In the first place there is a reduction of Rs. 48 lakhs on account of Bonus on Post Office Cash Certificates. As the House knows, our disbursements on this account have been exceptionally heavy in recent years with the result that the fund maintained to assist in meeting this liability had become exhausted. Accrued interest on certificates presented for encashment has had therefore to be met entirely from revenue. Contrariwise a reduction in the accrued interest payable produces a direct budget saving. During the present year not only has there been a diminution in the volume of certificates presented for payment but many of those presented have carried a lower rate of interest. A further element is a saving of Rs. 18 lakhs in interest on Postal Savings Bank Deposits due to the reduction in the rate of interest last December from 2 per cent to 1½ per cent. This rate is still ½ per cent above that payable by the Imperial Bank, and we considered that the reduction might be made without materially affecting the steady increase in these Savings Bank Deposits, the outstanding balance of which has risen from Rs. 43 crores in 1933 to over Rs. 77 crores at the beginning of this financial year. Against these reductions there has been an increase of Rs. 26 lakhs in the discount on Treasury Bills due mainly to the higher rates of interest now current in the bill market, and various minor additions which I need not particularise.

Position as at 31st March 1939.

12. So on the basis of these figures we are faced with a deficit of Rs. 2,65 lakhs in the current year. As the amount provided for the reduction or avoidance of debt was Rs. 3 crores, this means that there will virtually be no debt repayment from revenue during the year though fortunately there will be no net addition to indebtedness. However in this connection I may point out with a certain consciousness of rectitude that, according to the decision explained in my Budget Speech last year, the sum of Rs. 1,02 lakhs paid to general revenues on the 1st April 1938 out of the balance in the Renewals Reserve Fund of the Posts and Telegraphs Department has been taken to reduction of debt outside the revenue account, whereas it might have been shown in reduction of our current deficit. If the latter course had been followed we should have exposed a deficit of only Rs. 1,63 lakhs.

FINANCIAL YEAR 1939-40.

13. I come now to the financial year 1939-40. Our total revenue estimates amount to Rs. 82,15 lakhs as compared to Rs. 83,00 lakhs in the revised estimates for this year.

Revenue.

14. *Customs and Central Excise Duties.*—Next year's budget estimate for customs is Rs. 40,10 lakhs against the current year's revised of Rs. 40,14 lakhs. It has, however, been decided on the recommendation of the Public Accounts Committee that with effect from next year the amount payable to the States of Cochin and Travancore as their share of the customs revenue of the Cochin Port is to be treated as a deduction from revenue and not as expenditure. This involves a reduction of Rs. 39 lakhs under both revenue and expenditure and so we are really budgetting under customs for an increase of Rs. 35 lakhs. This is based on the assumption of increasing yields from such items as petrol and machinery, which continue to show a steady growth in spite of

fluctuations in trade conditions, and of further reductions in the receipts from artificial silk fabrics and yarns and other textile fabrics. For the rest we have taken no more than the revised estimates for the current year. There are signs, notably the revival of confidence in the stock and commodity markets that took place last June, and the improvement in the foreign trade position that has continued since then, that the present depression will not be so prolonged as the last and should in the ordinary course give way to a general trade revival. On the other hand there is the continued uncertainty of the international political situation, and it would perhaps be unduly optimistic to count on any marked revival in time to affect materially the accounts of next year. Thus, though the customs returns of the last few months have shown an improvement on those of the earlier part of the year, and the figures for India's favourable balance of trade have been consistently better than those of the corresponding months of the previous year, conditions do not appear to justify our raising our general estimates above the level of the returns of the current year.

15. Our estimates for Central Excise duties, which amount to Rs. 8,23 lakhs, also follow our revised estimates except for minor variations. The main component of this figure is the estimate of Rs. 4,00 lakhs from the duty on sugar. I have adopted Rs. 4,00 lakhs as a nominal figure on a review of various conflicting considerations and in conjunction with a figure of Rs. 20 lakhs, also largely nominal, which has been included in the Customs estimates. I am aware that the outturn of the cane crop for the present crushing season points to a considerable shortage in the production of factory sugar during that season. On this basis it would be reasonable to adopt a much lower forecast of the yield of the excise. The financial year however bestrides two crushing seasons and there are other elements of uncertainty in the situation. In the first place, the continuance of high prices for refined sugar must have a depressing effect on the volume of consumption. Secondly, a shortage of factory production can be made up by an expansion of *khandsari* production as well as by imports of foreign sugar. To the extent that *khandsari* production supplies the deficiency the result is that little or no compensation accrues to the revenue for the loss of the excise from factory sugar. On the other hand, imports of foreign sugar more than compensate for the loss of revenue from indigenous supplies. On a careful review of the various conflicting and indeterminate factors in the problem I have come to the conclusion that I should not be justified in assuming a total revenue from both Excise and Customs duties on sugar of more than Rs. 4,20 lakhs. I have not made any attempt at a precise apportionment of the revenue to these two heads; the figures under Excise and under Customs are alike nominal. I do however attach considerable importance to the gross figure which represents a considered decision of what we can safely expect from this source.

16. It will be convenient at this point to say something about the change which we intend to introduce in regard to the levy of Excise duty on *khandsari* sugar. Here we are introducing legislation which will extend the liability to pay duty and will at the same time enable us to reduce the rate of duty. The estimated quantity of *khandsari* sugar produced annually in British India has at various times fluctuated from 100,000 tons to upwards of 200,000 tons. Yet the yield of excise duty at the present rate of Re. 1 per cwt. is not more than Rs. 50,000; in other words, the quantity of *khandsari* sugar on which duty is paid is less than 2 per cent of the total production. This is due largely to the definition of a "factory" in the Sugar Excise Duty Act, 1934, which confines the charge of the duty to sugar produced in premises employing 20 or more workers. This liability is easily avoided by the common practice of

splitting up the process of manufacture and having the different processes performed in separate premises. The result is not only a loss of revenue but an inequitable incidence of taxation which has given rise to numerous complaints from the sugar mills of unfair competition. It is therefore intended to amend the definition of "factory" in section 2 (a) of the Sugar Excise Duty Act, 1934, so as to omit any reference to the number of workers employed. I should make it clear that there will be no extra burden on the small agriculturist who does not employ mechanical power in any of the processes of sugar production. We propose at the same time to reduce the rate of excise duty on *khandsari* sugar from Re. 1 to annas eight per cwt. We estimate that this change will yield an increase in revenue of approximately Rs. 5½ lakhs, but this figure is included in the general estimate of the Excise revenue from sugar.

17. *Taxes on Income*.—As already mentioned we have put up our revised estimates for 1938-39 by Rs. 79 lakhs over the budget figure. The preceding year had been on the whole a prosperous one and the decline in trade did not appear until the last few months of it. As I have pointed out the trade recession which then set in was sharp, and we estimate that the effect of this on our figures for 1939-40 will be a reduction of Rs. 81 lakhs, which wipes out the gain shown in the revised estimates for 1938-39. Of this fall Rs. 20 lakhs is on account of Corporation Tax. On the other hand we have to reckon on the increases that are expected to result from the introduction of the provisions of the Income Tax (Amendment) Bill, together with the application of a new scale based on what is called the Slab System.

18. The new scale of rates, which will appear in the Finance Bill, is that shown in Appendix 2 of the Income-Tax Enquiry Report of 1936, with no alteration other than that Hindu Undivided Families with more than one adult married male member are treated in the same way as other Hindu Undivided Families, that is to say, the rates of tax will be the same for them as for individuals. I need not describe the scale in detail now because it was fully present to the minds of Hon'ble Members throughout the recent debates on the Income Tax Bill. It is also proposed to abolish the Rs. 50,000 exemption limit for Company super-tax.

19. Provision is made in the Finance Bill, as in past years, for the previous year's rates to be applied to incomes from salaries, interest on securities, and company dividends, but this year, owing to the change from the Step to the Slab System, the provision is more complicated and involves the application of the old rates to the total income if more than half the total income is from these sources.

20. I have already told the House that the majority of individual assesses will gain by the introduction of the Slab System. For individuals we expect a decrease of Rs. 93 lakhs in income-tax and an increase of Rs. 1,17 lakhs in super-tax. From companies we hope to get increases of Rs. 31 lakhs in Income-Tax and (after allowing for the removal of the Rs. 50,000 exemption limit) of Rs. 21 lakhs in super-tax.

21. From the legislative changes contained in the actual Income-Tax Bill, i.e., apart from the changes of scale to be provided for in the Finance Bill, but including the withdrawal of the leave pay exemption, we hope to get in round figures Rs. 50 lakhs. This may appear to Hon'ble Members a very modest sum after all the alarums and excursions which have attended the passage of this legislation. But it is at any rate a good start and in succeeding years, when its provisions have had time to become fully effective, we may hope for much larger sums.

22. All told the combined effect of the legislative and quasi-legislative changes is an increase of Rs. 1,31 lakhs of which Rs. 21 lakhs is under Corporation Tax. Taking into account also the reduction due to the fall in profits we arrive at final estimates of Rs. 1,88 lakhs for Corporation Tax and Rs. 14,66 lakhs for Taxes on Income other than Corporation Tax—the latter figure representing an increase of Rs. 49 lakhs over the revised estimate for 1938-39. Of the Rs. 14,66 lakhs, Rs. 12,65 lakhs represents the divisible pool for Niemeyer purposes and Rs. 2,01 lakhs the purely Central share. As the Railway contribution has been estimated by the Railway Member at Rs. 2,13 lakhs, the Provincial share of Income Tax comes to Rs. 1,78 lakhs, which is Rs. 66 lakhs more than the revised estimate for 1938-39.

23. *Posts and Telegraphs*.—For the next year the revenue of the Posts and Telegraphs Department is expected to be Rs. 11,64 lakhs, and expenditure Rs. 11,63 lakhs. Although recent months have indicated a slight improvement in certain classes of traffic, the general economic conditions in the country do not warrant anything more than a small increase of Rs. 12 lakhs in revenue. The estimated expenditure is also Rs. 12 lakhs above the revised estimate for the current year; the rise is mainly accounted for by increases of about Rs. 8 lakhs due to normal increments of salaries and of Rs. 3 lakhs in pensionary charges.

Expenditure.

24. The total figure for expenditure is Rs. 82,65 lakhs, or Rs. 3,00 lakhs less than the revised estimates for the current year. This somewhat startling reduction is explained by decreases of Rs. 1,73 lakhs under Interest and Rs. 1,00 lakhs under Defence, coupled with the fact that the special economies enforced this year are being continued in the budget for next year.

25. *Defence Services*.—The Defence Budget for 1939-40 stands at Rs. 45,18 lakhs. This is the same figure as the Budget Estimate for the current year, but Rs. 1,00 lakhs less than the Revised Estimates.

I do not suppose that there is another important country in the world whose Defence Budget for 1939-40 will not show an increase, and, in some cases, a very large increase, over the Budget for 1938-39. Whatever may be the true position in this respect, it does not admit of doubt that no other country of importance has been able to escape with such modest increases in Defence expenditure as has this country during the past four years.

I have not concealed from the House in my previous Budget speeches that the sums, which it has been possible to allocate to the Defence Services in recent years, have not corresponded with military necessities or the international situation: rather have they been determined by financial exigencies.

The same is true of the Budget Estimate for 1939-40. The total sum proposed provides merely for standing charges and commitments. Even so, we have been able to keep down to Rs. 45,18 lakhs only as a result of:—

- (i) The receipt of the addition of £500,000 to the Garran contribution which I announced on the 13th of September last;
- (ii) The transfer to the Imperial Establishment of 4 British Battalions, 1 Cavalry Regiment and 5 Tank Companies, which have already left India, or will have left by the end of the present trooping season;
- (iii) Drawing on military Sinking Funds to the extent of Rs. 49 lakhs for purposes other than those for which they were set up.

The Budget Estimate also allows for the receipt of £2,150,000, being the first part of the capital grant of £5 million which I announced at the same time as the additional recurring grant of £500,000 just mentioned. As the House will remember, this capital grant was related only to certain British and Indian Units in India : it falls far short of the sums required if our Military and Naval Forces are not to be left in a condition far inferior to the Defence Forces of other countries. I can only express the hope that the decisions of His Majesty's Government on the Report of the Expert Committee on Indian Defence under the Chairmanship of Lord Chatfield will result in further substantial sums becoming available to give us those modern Defence Forces which are required by recent developments in military science and are dictated by the present world situation.

26. *Interest.*—The decrease in next year's estimate under Interest, as compared to this year's budget estimate, is no less than Rs. 1,96 lakhs. The main elements which go to make up this large saving are as follows :— First, there is a reduction of Rs. 1,60 lakhs in the amount payable as bonus on Post Office Cash Certificates. This is due to the fact that the certificates now falling due were issued at considerably lower rates of interest and are also less in amount than the exceptionally heavy maturities of recent years. The high interest certificates were all issued in years prior to that beginning on the 1st April 1934. With a lowering of the rate the value of new certificates sold naturally decreased. During the year 1934-35 the average rate of interest was 3 per cent. whereas at one time it had been as high as 5½ per cent., and the value of certificates sold was under Rs. 10 crores as opposed to over Rs. 13 crores in the previous year. It is the certificates sold in the year 1934-35 which ordinarily fall in for payment in 1939-40 and we are able therefore to reduce our estimate for the amount payable as bonus on certificates due to be discharged to Rs. 2,25 lakhs as compared with last year's budget estimate of Rs. 3,85 lakhs and a revised estimate of Rs. 3,37 lakhs. Then there are savings of Rs. 35 lakhs on account of the conversion operation of last summer, over and above of course a substantial saving to the Railways, of Rs. 37 lakhs, being a full year's consequence of the reduction in interest on Post Office Savings Bank Deposits which I have already mentioned, and of Rs. 15 lakhs in interest on sterling Family Pension Funds due to their transfer to the Family Pension Fund Commissioners in London. Against these savings there is increased expenditure of Rs. 28 lakhs on Treasury Bills owing partly to the larger balance outstanding at the start of the year but mainly to the rise in rates, an increase of Rs. 9 lakhs in the interest on Provident Funds due to normal growth in deposits, and extra interest amounting to Rs. 22 lakhs earned on the larger balances in the Railway Depreciation Fund.

27. Perhaps the House will bear with me if I turn aside and point the moral of this huge reduction in our interest charges. It is due largely to careful management of our public debt on the part of my predecessor and also of course to the policy of sound finance which has been pursued by the Government of India over a number of years. And if there are Hon'ble Members who are inclined to jeer at what they conceive to be the undue orthodoxy of the policy I hope they will reflect upon the very remarkable fruit which it is now bearing in enhanced credit and reduced debt charges. I make no apology for dwelling a little on this question for, as I have said, the main responsibility for the results lies at the door of my predecessor.

28. *Other Expenditure heads.*—As I mentioned in connection with the revenue estimates there is a decrease of Rs. 39 lakhs under customs, due to the payments on account of the Cochin Port being treated as deductions from revenue. The expenditure under the remaining heads has on the whole been

kept at the level of the reduced amounts shown in the revised estimates by the prolongation of the economy measures brought into operation this year. Such unavoidable increases as have had to be provided for have been counter-balanced by extra savings from some of the economies which could not produce their full effect till next year.

Position as at the 31st March 1940.

29. Thus, on the basis of the adoption of the new rates for Income-Tax, etc., and of the maintenance of existing taxation otherwise we arrive at the following result :—

Revenue	Rs. 82,15 lakhs.
Expenditure	Rs. 82,65 lakhs.
Prospective deficit	Rs. 50 lakhs.

Before I proceed to deal with the question of making up this deficit I must turn aside and give the usual review of our Ways and Means position.

WAYS AND MEANS.

30. *New Loan.*—During the current year the Government of India made a combined cash and conversion issue of 3 per cent. 1963-65 stock at 98. The 5½ per cent. 1938-40 and the 5 per cent. 1939-40 loans were accepted at Rs. 101-12 and Rs. 104 respectively. The issue, which was oversubscribed within 5 minutes of its opening, produced Rs. 26,31 lakhs of which Rs. 19,98 lakhs represented conversions. The unconverted part of the 5½ per cent. 1938-40 loan was notified for discharge on October 1st. Next year we shall have the option of redeeming the remainder of the Government of India 5 per cent. 1939-44 loan, the outstanding balance of which is a little over Rs. 20 crores. The time and manner of the redemption will of course depend on market conditions and on our Ways and Means position.

31. *Sterling Liabilities.*—With the decline in our balance of trade that occurred during the earlier part of last year and a certain increase in private remittance for purposes of investment the amount of sterling offered to the Reserve Bank has until recently been comparatively low. In the first ten months of the current year the Bank's purchases amounted to £12 millions as compared to £15 millions in the corresponding period of the previous year, but in the last two months the amounts purchased have been considerably larger than those of the corresponding weeks of last year. With the trade balance rising again there is good reason to expect that by the end of the year a much more satisfactory shewing will have been made. In the year a further £3 millions of sterling Railway Debentures are being discharged and we also expect to complete the transfer of our outstanding liabilities in respect of sterling family pensions, amounting to about £6 millions. These further repayments of sterling debt will bring the total amount repatriated since 1935 to something like Rs. 65 crores. Next year our sterling requirements are estimated at a little over £27 millions as compared to £36 millions in the current year, £37 millions in 1937-38 and £41 millions in 1936-37. This reduced remittance programme should offer us no difficulty.

32. *Treasury Bills.*—In 1938-39 we had reckoned on an increase of Rs. 5 crores in the value of treasury bills outstanding. Actually the figure looks like being Rs. 6,70 lakhs with the result that the total amount outstanding

at the end of 1938-39 will be between Rs. 44 and 45 crores. Next year, however, in spite of the virtual certainty of our having to pay for a further 5 crores of silver rupees returned by the Reserve Bank, we expect to be able to reduce this balance by some Rs. 6 crores. Taking both years together, we shall have made only a trifling addition to our floating debt in spite of an increase of Rs. 10 crores in the silver debt and of having had to make a special remittance of about Rs. 8 crores on account of the Family Pension Funds.

33. I may add that it has been found satisfactory to all the parties concerned to continue the arrangement by which, instead of the Provinces competing for the supply of treasury bills sold each week by public tender, the bills required for the investment of their surplus balances are provided by the Reserve Bank from its own holding. Of the total amount of treasury bills at present outstanding approximately Rs. 4½ crores represent bills transferred in this way to the Provincial Governments.

34. *Post Office Cash Certificates and Savings Bank Deposits.*—Our revised ways and means estimate allows for a net repayment of Rs. 62 lakhs only in respect of Cash Certificates as compared with the budget estimate of Rs. 3½ crores. Encashments have been slightly less than anticipated while sales have now begun to show a distinct improvement. This is no doubt due to the effect of the recent reduction in the rate of interest on Post Office Savings Bank deposits in increasing the relative popularity of the Certificates. Our estimate for the net repayment next year is therefore taken at no higher figure than Rs. 50 lakhs. On the other hand the rate of increase in Savings Bank deposits has fallen off though, as I said earlier, there is no sign of a reversal of the process which has resulted in a steady rise in the total deposits since 1933 from Rs. 43 to Rs. 77 crores. In fact, as against an increase of Rs. 5 crores (excluding interest of course) assumed in the budget, our latest estimates provide for an increase of Rs. 3,30 lakhs this year and of Rs. 3,75 lakhs next year.

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35. I now return to the prospective deficit of Rs. 50 lakhs. In present circumstances our resources in the way of new taxation are somewhat circumscribed. The yield of increased Income-tax goes mainly to the Provinces; even over the revenue part of the field Customs Duties in general are as high as is consistent with a maximum yield, while over the protective part the return is rapidly declining. So far as Excises are concerned a delicate situation has been created by the judgment of the Federal Court which amounts to saying that there is concurrent power in the realm of internal indirect taxation. The full implications of this judgment are not yet apparent to me but one of the most important of them has been pointed out by the Chief Justice himself, *viz.*, the need for mutual forbearance in this sphere lest the taxing authorities should by the simultaneous exercise of their powers raise the price of the article taxed to a height at which consumption is seriously curtailed. There is also the reminder of the Chief Justice that, in the absence of this mutual forbearance, the ability of the Centre to continue to make or to make new devolutions under Section 140 of the Government of India Act will be jeopardised. The first subject chosen for the exercise of the concurrent taxing power is of course Motor Spirit and, if I may say so, the *obiter dicta* of the Chief Justice apply with great force in this instance. Certainly for my part I do not propose to meet our own deficit by an increase in the taxation on Motor Spirit.

36. However I must not tax your curiosity any longer—particularly as it will yield no revenue—and so I say that I have finally come down in favour of increasing the taxation on one of the extremely few items of the Customs tariff which shows an expanding yield, *viz.*, that relating to Raw Cotton, and I propose that the duty should be doubled. I shall no doubt be told that by this measure I am indulging my usual vendetta against indigenous industry. I might with a good deal more justice retort that perhaps the increased duty would do something to promote the growing of the longer staples of cotton in India and this is no contemptible objective when we remember that Indian Mills are importing over 700,000 bales of these varieties a year. However I take neither the blame nor the credit for either of these objectives. My design is simply to balance the budget by the least burdensome means open to me and that I claim to be doing. The increased duty will operate as from tomorrow and we can, I think, safely put the extra yield at Rs. 55 lakhs a year. With this addition to the revenue our final figures become :—

Revenue	82,70 lakhs.
Expenditure	82,65 lakhs.
Surplus	5 lakhs.

37. At this stage I suppose I ought to review the whole financial history of my five years of office or at any rate to try to draw its moral. But I shall do nothing of the sort. For India, as for the rest of the world, the future is much more important than the past. The political outlook has many menacing features both in India and outside. Many difficult problems face those responsible for the conduct of affairs in India and elsewhere. For India as for the rest of the world there is no hope save in a release of the stresses which operate between race and race and between community and community. If that release can take place India will not only be more prosperous in itself, it will also share in the very much increased prosperity of the world at large and in both cases the potential growth of economic welfare is almost limitless. And I would like the last words of my last budget speech to be simply a restatement of the obvious truth that without political reconciliation—the word appeasement has perhaps become too hackneyed—Central and Provincial Governments alike in India must fail in the great task allotted to them of raising the standards of life of the people.