1st March, 1923

THE

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LEGISLATIVE ASSEMBLY.

Thursday, 1st March, 1923.

The Assembly met in the Assembly Chamber at Eleven of the Clock. Mr. President was in the Chair.

QUESTION AND ANSWER.

PUBLICITY BUREAU.

441. ***Mr. K. G. Bagde:** Will the Government be pleased to state:

(a) Whether the present Director and Assistant Director of the Publicity Bureau were in employment of the Government of India or any Provincial Government before, and if so, in what capacity, and what were their salaries?

(b) What is the cost of the establishment of the Publicity Bureau?

(c) What is the amount spent annually on publications including postage and other charges?

(d) Have the Government any intention of continuing the establishment beyond May, 1923, and if so, whether any proposal for extension has been placed before the Standing Finance Committee? and

(e) Will an inquiry be instituted into the working of the Department before a further step is taken to extend its life?

The Honourable Sir Malcolm Hailey: (a) The Director and Assistant Director of the Central Bureau of Information were not in Government service when they were appointed to their present posts under the Government of India.

(b) The Honourable Member is referred to page 38 of the "Detailed Estimates and Demands for Grants for 1922-23."

(c) The charges of printing, publication, postage and distribution of the publications of the Central Bureau of Information fall, like those for the publications of other offices, upon the Superintendent, Government Printing, India. They are not a part of the expenditure of the Bureau, nor is the Bureau credited with the proceeds of the sale of its publications.

(d) The matter is under the consideration of the Government of India.

(e) This is unnecessary as there is already an Advisory Publicity Committee comprising among its number members of the Legislature.

INTRODUCTORY.

The Honourable Sir Basil Blackett (Finance Member): Mr. President, in rising to-day to present the budget statement for 1923-24, I claim, and I know I shall receive, the privileges of a new-comer and a new Member. It is a great privilege for me thus to be able to fulfil an old dream of returning to the land of my birth to serve India as so many of my ancestors have done. But two months is a very insufficient time for the task of preparing to present a budget to this House. I am, however, in many ways fortunate. First and foremost, I have the devoted services of the Finance Department under the Honourable Mr. Cook. Without their help there would have been no budget. I am the inheritor of the fruits of three years of hard labour of my friend Sir Malcolm Hailey. If there is a gleam of light in the budget which I am about to present, it is his doing. The fruit is the fruit of seed which he had sown, and I am reaping where he has ploughed. I am afraid that he had to put up with much inclement weather, with storms and rumours of storms, but if there is promise of harvest to-day, the credit is to him. For nothing perhaps am I more indebted to him than for his share in the credit of securing the appointment of the strong and able Retrenchment Committee, which has been so well presided over by Lord Inchcape. Possibly the most interesting part of the papers which I am laying on the table to-day and in the next few days in connection with the budget will be the report of the Inchcape Committee. Lord Inchcape shocked my modesty a few days ago by describing himself as my forerunner. He and his colleagues can perhaps be more aptly compared to the burly forwards in the American game of football on whom falls the duty of charging ahead of the man with the ball and beating down, with all permissible violence, any opponent who threatens to check his progress. Whatever views individual Members may take of this or that recommendation for retrenchment made by the Committee,—and I never heard any recommendation for retrenchment anywhere, except the stopping of the salary of the Finance Member, which was really popular,—I know the whole House will be unanimous in joining with me in expressing our heartfelt gratitude to the Committee for their devoted work, and, as I think I may promise, for their remarkable success in what is the most ungrateful of all ungrateful tasks.

2. Mr. President, my first duty to-day is to lay before this House the figures of the outturn, or rather the probable outturn, of the year 1922-23. Since I came to India, I have much envied the position of the British Chancellor of the Exchequer who, in presenting his budget, is always able to give accurate figures for the year which, under the British system, has just closed and not, as under the Indian system, is about to close. He is not confronted, as I am, with the necessity of making what is after all only a second guess on the basis of the first nine or ten months' experience of what the real figures are for the year preceding the year to which the budget which he is presenting relates. When I have laid before the House the figures for 1922-23, I hope to make a short review of the general financial position of India at the close of 1922-23, that is, the position as it presented itself to a new-comer as I am. It will then be my task to proceed with my proper function to-day—the presentation of the budget for 1923-24.

II.—Review of the year 1922-23.

Deficit as now estimated.

3. The budget estimates of the current year as finally passed provided for a deficit of 9·16 crores, the estimated revenue (including new taxation and increased postage and railway rates expected to yield 18¾ crores), being 133·23 crores, and the expenditure 142·39 crores. There is a saving of 4·14 crores on expenditure, but revenue will be 12·48 crores less than the estimate, so that as now revised the estimates point to a deficit this year of 17½ crores.

Revenue.

Trade conditions.

4. Our revenue estimates were not based on a hope of any marked or striking revival in trade, although we certainly expected some slight improvement on the general trade conditions of the previous year. On the whole, this anticipation has been justified. There was considerable stagnation during the earlier part of the summer, but, except perhaps in the cotton mill industry in Bombay, the general feeling prevailing in the business community has for some months been one of mild optimism. Considering the impoverishment of many of our former customers, our exports have undoubtedly shown a promising recovery, and, so far as merchandise alone is concerned, the balance of trade in favour of India during the first ten months of the financial year has been 62 crores which contrasts with an adverse balance of 29½ crores in the corresponding ten months of the preceding year. As against this, there has been a substantial net import of bullion in the current year, but after including the bullion figures there still remains a net balance of 20 crores in favour of India instead of an adverse balance of 33 crores in the first ten months of last year.

Customs.

5. Under Customs we budgeted for a total net revenue of 45½ crores, of which 9 crores was expected to accrue from the enhancement of duties imposed in the Finance Act of March last. We now expect a Customs revenue which will be some 3 crores short of the figure budgeted for. The most uncertain, and at the same time one of the most important factors affecting our revenue is the import of sugar, which in the previous year had yielded us the unprecedentedly large figure of 6½ crores at the old rate of duty of 15 per cent. For the current year we did not anticipate the continuance of such abnormally large imports, but expected, on the increased duty of 25 per cent., to realise about 6¼ crores. The figures of imports vary in a very erratic way from month to month which makes estimating difficult; recently, owing to a large drop in prices, imports were held up in order to get the benefit of the revised tariff valuation which came into force from the 1st January. We expect, therefore, large imports in the last 3 months of the year though the effect of this will be counterbalanced by the duty being calculated on a lower valuation. On the whole, we expect that the revenue from sugar will be less by 1½ crores than the budget figure. The excise duty on cotton manufactures will also bring us in substantially less than we expected; owing to the high price of cotton and a fall in the price of cotton cloth in the internal markets, there has recently been a reduced output from the mills, and we expect to be about 60 lakhs down under this head. As regards the other tariff heads, it is probable that there will be some deficiency in the revenue from liquors,

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matches, machinery, cutlery and other manufactured articles, but any losses here should be nearly counterbalanced by increased revenue from import duties on cotton piece-goods (which may give us 96 lakhs more than our estimated revenue of 5,60 lakhs), iron and steel and other metals, while the new excise duty on kerosene is likely to bring us in 89 lakhs as against 40 lakhs budgeted for.

6. Before leaving the subject of Customs, I must refer briefly to a matter which has attracted some public attention during the year, namely, our revenue from the so-called "luxury" articles, which are assessed to duty at 30 per cent. Honourable Members will have seen from time to time various articles in the press, the object of which was to show that this high rate of duty has very seriously affected the trades concerned, and it was implied, if it was not asserted, that a lower rate of duty would have brought in more revenue. These contentions are scarcely borne out by the facts. In the current year we budgeted for a return of 2,84 lakhs from the 30 per cent. duty; we actually expect to receive only 11 lakhs less in spite of a considerable fall in prices. The principal articles included in the 30 per cent. schedule are motor cars, silk manufactures, glass bangles and beads, and tyres and tubes. Except in the case of silk manufactures, the quantities imported during the first nine months of the current year have been in excess of those imported in the corresponding period of the preceding year. Nearly twice as many motor cars have been imported; and if the value of the cars imported has fallen considerably, this is due partly to the general fall in world prices and partly to the fact that people have been importing the cheaper American car in preference to the more expensive English car. I doubt very much if the duty has had much to do with this substitution. The conclusion is that there is certainly no case at present for any alteration of the schedule.

Railways.

7. As Honourable Members will have seen from the published returns, our traffic receipts from railways have been disappointing. The increase in passenger fares was expected to add some 6 crores to the receipts. Traffic, both passenger and goods, especially the latter, has, however, fallen off, and as against the estimated gross traffic receipts of 99½ crores, we do not expect to get more than 92, the small improvement over the gross earnings of last year being mainly due to the increased passenger fares. On the other hand, we expect a saving of 2¼ crores on that portion of the expenditure on replacements and renewals which is debitable to revenue, counterbalanced by an excess of about 1 crore in ordinary working expenses. Altogether our net railway revenue is likely to be down by 5¾ crores. Taking into account interest charges, I am sorry to say that the final result for the general tax-payer will be that there will again be no profit from railways, but a loss of about a crore.

Posts and Telegraphs.

8. The effect of the new postal rates, during the first few months of the financial year, was to reduce correspondence, but there have since been signs of recovery, and the public are now gradually getting used to the higher postal charges. For the present, however, I think we must anticipate a diminution of 1,06 lakhs in our anticipated receipts in 1922-23. There is a small saving in working expenses, and after debiting interest, the department will probably prove to have been running at a profit of about 24 lakhs.

9. We expected large arrear income-tax collections, but after the beginning of the year it became evident, not only that the allowances that we should have to make for bad debts, etc., would be large, but also that our revenue was to be seriously affected by heavy refunds which have had to be made in Calcutta as a result of the adjustment system in force under the former Act; fortunately this will, under the new Act, not disturb our estimates again. I understand that in Calcutta companies have in many cases actually received a cheque from the income-tax authorities instead of paying any tax to Government, and the net receipts in Bengal are not expected to be more than 3½ crores. The collections have been good in the other provinces, particularly in Bombay, though the lower profits which the cotton mills have recently been making will, I fear, affect our revenue from that city in 1923-24 Altogether, we expect a total deterioration of 3½ crores.

Income-tax.

10. As regards other heads, I need only say that we expect to get 89 lakhs more from opium than we anticipated, and there will probably be some slight improvement—7 lakhs or so—under salt.

Opium and salt.

Expenditure.

11. On the expenditure side, there will be a substantial saving of about 1,86 lakhs in our budget provision for interest on debt. Our rupee and sterling borrowings have been larger than we budgeted for, but a full half year's interest in respect of the greater part of these does not fall due till next year; the success of our borrowings has, moreover, enabled us to fund a substantial portion of our floating debt, and the payment of interest made for short periods this year on our new loans is less than that which would have been payable for the replacement of the treasury bills discharged.

Interest.

The House will recollect that a special provision of 60 lakhs was entered in the Civil estimates as part of the expenditure in Waziristan (under the head "Political"). We now anticipate that there will be a saving of nearly 35 lakhs therein, owing to a part of the expenditure being thrown forward to next year. There will also be a saving of ¾ crore in other civil expenditure, mainly as the result of retrenchments carried out during the year.

Other Civil expenditure.

The average rate of Exchange for which we budgeted was 1*s*. 4*d*. We expect no appreciable deviation from the budget under this head.

Exchange.

12. Before dealing with military expenditure, I must explain briefly a change which has been made in the method of showing the figures; it affects all the non-commercial heads but is most marked in the case of the military portion of the accounts. Our practice in the last two years in distributing exchange adjustments has been to show them against the individual heads of account in so far as the commercial services were concerned, and to lump the entries under one head "Exchange" in respect of the remaining heads. This method would answer well enough if the difference between the statutory rate (2 shillings to the rupee) and the actual rate was fairly small; but it gives our figures a misleading appearance when the difference between the two rates is as large as has been the case during the past two years. It was not at all surprising, therefore,

Change in method of accounting.

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that serious objection was taken to this procedure in the course of the discussion of the budget in both Houses last year, on the ground that it had the effect, on the surface, of largely understating the actual expenditure incurred on military services. It has now been decided to distribute the exchange adjustments between the individual heads in all future accounts and estimates. The figures of military expenditure which I shall give this morning have accordingly been arrived at after converting sterling into rupees at the rate of 1*s*. 4*d*.

Military expenditure.

13. The Budget provided 65·10 crores for the established charges of the Army, 2·13 crores for Waziristan expenditure and 52 lakhs for demobilisation charges, making a total of 67·75 crores. In regard to the Waziristan expenditure my predecessor stated that the figure could be regarded as tentative only, since it is always difficult to forecast the exact effect of military operations of this nature. His apprehension has unhappily proved correct and Waziristan expenditure in 1922-23 is now estimated at 3·85 crores. Demobilisation charges will amount to 2·8 crores owing to unexpected progress with the discharge of surplus officers and to a claim from the War Office for the cost of demobilisation of British troops which had become surplus on the reduction of Indian establishments. On the other hand, the established charges will now amount to only 60½ crores, owing to a continued shortage of British troops, fall in prices and a variety of other causes. A careful control has been maintained over these charges; and savings in Budget grants have not been allowed to be re-appropriated for new measures involving a permanent liability of any considerable magnitude, though a small portion had to be made available to meet initial expenditure on equipment the purchase of which could not be further postponed. In spite therefore of the excess expenditure of 1,72 lakhs in Waziristan, we have been able to effect a saving of 46 lakhs in the budget grant for Military expenditure.

Summary of variations.

14. These variations in revenue and expenditure are summarised below:

	(In lakhs of rupees) (+ better,	— worse).
(i) Customs revenue, less	...	3,12
(ii) Income-tax revenue, less	...	3,42
(iii) Opium and salt revenue, more	96	...
(iv) Net revenue from Railways, less	...	5,86
(v) Net revenue from Posts and Telegraphs, less	...	94
(vi) Interest and Currency receipts, more	51	..
(vii) Saving in provision for interest on debt	1,86	...
(viii) Saving in Military expenditure (net)	46	...
(ix) Saving in civil expenditure including Political expenditure in Waziristan) and other items	1,21	...
	5,00	13,84
	—8,84	
Deficit as budgeted for	—9,16	
Deficit according to present estimate	—17,50	

III.—Position of Indian Finances at the close of 1922-23.

Succession of Deficits.

15. Before I proceed to present the budget for 1923-24, I should like, with the permission of the House, to make a short survey of the financial position of India at the present time, and to attempt to give the House a new-comer's first impressions, or as Mr. Punch would say, first depressions. I am afraid that much of what I say may sound rather superficial, and that I shall be open to the charge of doing what has been done before by more than one globe trotter who, after spending a few weeks in the country, sets to and writes a book about India. One of the many books about India which I brought with me to read on boardship on my way out was a volume entitled "The Moral and Material Progress Report". I was rather shocked by the odd assumption in the title that there had necessarily been progress. When I came to look into the finances of India for the last few years, I was tempted to wonder whether it was not rather a rake's progress. For five years in succession, India has had a deficit. The accumulated total of these deficits amounts to no less than 100 crores, and this in spite of the fact that in the last two budgets additional taxation has been imposed estimated to bring in about 28 crores during the year 1922-23. Even this is not the whole story. Apart from our revenue deficits, we have spent many crores on unproductive purposes, the expenditure on which is classed as capital expenditure. New Delhi is the most obvious example. I can see no justification, other than sheer necessity, for not treating this expenditure as chargeable against revenue, and in any case it ought to be repaid out of revenue at an early date. Moreover, besides the deficit of the Central Government, the recurring deficits of the provincial Governments and of many local bodies throughout India must not be forgotten.

Their Danger.

16. I ask the House to pause a moment and consider what these deficits mean. Unfortunately, we are accustomed in these days all over the world to budget deficits, and familiarity breeds contempt in spite of the fact that more than one awful example is before us among the nations of Europe of the chaos which continued budget deficits inevitably induce. The individual who lives beyond his income year by year does not escape the penalty and the same is true of a State. The individual who makes this mistake quickly finds himself compelled to consent to a ruthless cutting down of his expenditure or is driven either to sell or to mortgage a part or the whole of his possessions; or, in the worst event, to cheat his creditors. A State is in the same position, but the position is frequently obscured by the fact that the State's creditors are in another capacity the citizens of the State and its taxpayers. And the State which is driven to cheat its creditors does not always realise what it is doing although its unsound methods are adopted at the expense not only of the wealth and happiness of its own citizens, but also at considerable risk to social order within its borders. Much of the present unrest in the world is due to the way in which States in all parts of the world have cheated their creditors by unsound currency manipulation and the creation of paper money with no real assets behind it.

Inflation and Floating Debt.

17. India has not entirely escaped the evils of taxation through inflation, but as compared with many other countries she has come off well. Out of the total deficit of 100 crores during the last five years, it is estimated that 31 crores have been covered by the creation of paper money, representing nothing but the I. O. U.'s of the Government of India. The remainder amounting to 69

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crores has been raised by borrowing. Moreover to the extent of 22 crores the borrowing has thus far taken the form of issues of Treasury Bills to the public. It is true that, owing to special conditions during 1922-23, we were able to reduce our Treasury Bills by 32 crores, in spite of the deficit, out of the proceeds of long term loans. Still, 22 crores of Treasury Bills in a country like India is far too large an amount to have outstanding. A large volume of Treasury Bills is an evil even in England, where the condition of the money market is such that it is always possible to renew maturing bills by offering a competitive rate, but in India conditions might easily arise under which even an impossibly high rate would be insufficient, and in that case the Government of India would be driven back to replacing the Treasury Bills by paper currency, *i.e.*, would be driven to taxation by inflation.

Maturing Debt.

18. In this connection, a word may be said about our early maturing debt. We have to find the means of meeting bonds during the next three or four years to the extent of 5½ crores in 1923, 3¾ crores in 1925, and nearly 38 crores in 1926. These amounts, too, have to be competed for against other demands on the market, and may be said, in part at any rate, to be one of the outcomes of the deficits for the last few years.

Increased Interest charge.

19. But the deficits of 100 crores can be looked at from another point of view, when again their evil effects are prominent. In the budget for 1923-24, the charge for interest would be at least 5½ crores less had it not been for these accumulated deficits. This extra 5½ crores has to be met either by reducing expenditure, possibly by reducing desirable expenditure, or by raising new taxation, or at best by maintaining existing taxes which could otherwise be reduced.

Effect on India's credit and handicap to her development.

20. Moreover the continued deficits are threatening to impair India's credit in the market both at home and abroad, and increasing the cost of borrowing whether for covering the deficits or for new capital expenditure. India is a country where, as it seems to me, there is an almost unlimited field for new capital expenditure on new development. At the last Assembly of the League of Nations at Geneva, India established her claim to be one of the eight premier industrial States of the world. Every one admits, however, that India is only at the beginning of her industrial development, and it is out of her capital resources, *i.e.*, out of her accumulated savings and her new savings, that the capital to develop India industrially must be found. We have borrowed all that we could borrow in India and in England during the last few years for capital expenditure purposes, and we have undertaken a minimum programme of 30 crores a year for capital expenditure on Railways. I wish it could be more. So far as I can judge at the present time, the amount which might usefully be spent on profitable development of transportation in India is limited mainly by the possibilities of finding capital resources. Yet we have spent 100 crores out of capital in the last five years in financing deficits, thereby diminishing to a corresponding extent the resources available for developing India. Let us make no mistake about it. If recourse to inflation is ruled out, if it is agreed that the concealed method of taxation by inflation is the worst of all methods, the money to meet the annual expenditure of India, whether on capital or on revenue account, must come out of the savings of the country. The only exception, which is not a real exception, to this statement is that some of the capital may be borrowed abroad, and it has of course been a commonplace of the history

of the last century that capital has been found by the older industrial countries of the world for the development of new-comers in the field, to the great advantage both of the borrower and of the lender. But the amount that India can borrow abroad is limited both by the amount available abroad, which in the present condition of the world may prove a comparatively small amount for some time to come, and by the capacity of the borrower to meet the annual charges for interest. These annual charges for interest are in effect a claim on the future resources of India and ultimately come out of the same pocket as the money required to meet the rest of India's expenditure, *i.e.*, out of the savings of the people. To sum up, the deficits of the last few years have brought in their train a certain amount of taxation by inflation, a heavy annual charge on the present and future budgets of India, a deterioration in India's credit, an increase in the cost of borrowing, and a depletion of the resources available for desirable capital development.

Necessity for stimulating habit of Investment.

21. Perhaps I may be allowed to digress at this moment to touch on a subject in which I have always taken very great interest. Every one who has studied the subject agrees that a wonderful era of prosperity would be ahead of India if the habit of investment could be stimulated, if investment in India became anything like as general a practice as it is in such countries as England and France. It is true that much has been done in recent years. The rupee loans of the last few years have been unprecedented in amount. But much remains to be done if the Indian people are to form the habit of investing their talents in reproductive enterprises rather than wrapping them up in a napkin, and perhaps I should also add, if some of them could learn to be content with sound and steady returns on the money they invest instead of looking for impossibly high dividends.

22. I have been making some inquiries as to the progress of the Post Office Cash Certificates. I was an original member of the National Savings Committee appointed in England at the beginning of 1916 largely through the efforts of Mr. Montagu and was privileged to take a part in what is widely regarded in England as a most extraordinarily successful movement. The change from thriftlessness to thrifty habits which has taken place among many sections of the English people has been described as a revolution. National Savings Certificates to the value of nearly £360 millions are now held by the small investor in the United Kingdom. When I contrast the sales of the Post Office Cash Certificates, which were not inconsiderable during the war when they were first started but have since declined, I cannot help thinking that there must be great possibilities of development in this system. What a great improvement in our financial outlook would result if by development of the Post Office Cash Certificate system a considerable part, if not the whole, of the money required for provincial capital expenditure could be found out of the proceeds of Cash Certificates! It is my earnest hope that before long means may be found for taking up this subject in earnest. It is a subject in which above all others, if we are to succeed, non-official effort must be enlisted to second governmental action.

Growth of Unproductive Debt.

23. As the results of the deficits of the last few years and of the war, India's debt has grown from a total of 4,11 crores on the 31st March 1914 to an estimated total of 7,81 crores on the 31st March 1923. This figure includes the floating debt and the early maturing debt of which I have already spoken, but it excludes no less than 63 crores of obligations which it is I find the practice to treat separately from the debt of India, though as far as I can see these obligations are just as much a part of India's

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debt as the rest. Taking, however, the figure of 7,81 crores which I have given of the total debt of India on the 31st March 1923, we find that 5,57 crores is classed as productive and 2,24 crores as ordinary or unproductive debt. The proportion of productive to unproductive debt is one which naturally looks strikingly good to any one who thinks of Great Britain's figure of £7,500 millions of debt, all of which has gone in powder and shot. But this comparison must not blind us to the fact that since the 31st March 1914 the total debt has increased by 3,70 crores and the unproductive debt by 2,27 crores, and we must not forget that the yield on that part of our productive debt which is invested in railways has not been sufficient in the last two years to meet the interest charges.

24. The debt, again, has to be divided between rupee debt and sterling debt. The rupee debt has risen since the 31st March 1914 from 1,46 crores to 4,21 crores and the sterling debt has risen from £177 millions to £240 millions in the same period. The sterling debt of £240 millions represents a claim on India's production of goods and services in the future up to the value of the principal together with a further claim on those goods and services for interest during the interval until the principal is paid off.

Currency and Exchange.

25. This question of the sterling debt brings me by a natural transition to a new subject, which is certainly not the last one to be brought to the attention of an incoming Finance Member—I mean the question of currency and exchange. Now, it is no good crying over spilt milk, and I do not think the House will expect me to delve deeply into the history of Indian currency during recent years. It is easy to be wise after the event. There were some wise men, however, even in 1919-20, who held that the right course at that time would have been to adopt a waiting policy, and I am convinced that, for the moment at any rate, a waiting policy is still the right policy. What was it that upset the equilibrium of the rupee-sterling exchange which had been so painfully stabilised at 1*s*. 4*d*. at about the end of the 19th century? Primarily of course it was the Great War and the adoption of inflationary methods by all the belligerent countries. Whatever system of currency had been in force in India during the Great War, it would have been profoundly disturbed by the events of 1914-18. In so far as India had a choice and was not swept along in the maelstrom of world events, India's choice was necessarily between an attempt to keep the exchange value of the rupee more or less stable and an attempt to keep rupee prices more or less stable. As a matter of fact, India's first choice was the former, and for some time the rupee remained at or about 1*s*. 4*d*., but then the rise in the price of silver, which occurred as the natural consequence of the fall in the purchasing power of gold, introduced a new complication. It is impossible over a long period to keep a coin in circulation which is worth more as bullion than it is as current coin. Once the traditional figure of 1*s*. 4*d*. for the rupee was departed from nothing remained stable, though in comparison with the rest of the world Indian prices up till 1920 remained relatively stable in terms of gold. Thus, it was essentially the rise in the price of silver which upset the Indian currency system. I need say no more of the attempt that was made to stabilise the rupee at a new, or rather at the old, fixed rate of 2 shillings gold in 1920 except that it failed. Looking back, we are able to say that the attempt was an almost impossible one with all the exchanges of the world out of gear, with world prices moving up and then down with unexampled rapidity, and with relative prices as between one commodity

and another fluctuating in an unheard-of manner. Can we say that the position to-day is such that an attempt to give the rupee a fixed value, whether at 1*s*. 4*d*. or any other rate, in terms of gold, or in terms of some other currency, is much more likely to succeed than it was in 1920? I think not. The French are in the Ruhr; the whole of Continental Europe is faced with the threat of impending chaos; throughout the world prices are unstable; sterling has approached close to par with gold but it is not yet at par; and even if it were at par, it is too soon to say whether political and monetary conditions in the United States may not lead to a fresh cycle of rising prices in terms of dollars which would almost necessarily have to be followed by a rise in sterling prices. For the moment, therefore, I repeat that the time has not yet come for a new attempt to fix the rupee, whether at 1*s*. 4*d*., 1*s*. 6*d*., or any other figure.

Strength of Indian Currency Reserves.

26. Subject, however, to one essential condition, namely, that the era of unbalanced budgets, central, provincial and local, in India, is succeeded by an era of balanced budgets, there is, I think, reason to regard the currency position of India with some satisfaction. We had a good monsoon last year and India's export trade has taken a turn for the better. For internal purposes the metallic reserve of silver seems to be fully ample to maintain the convertibility of the paper currency. In addition to the reserve of silver rupees, there is in the Paper Currency Reserve a sum of £24 millions in gold, and in sterling securities, easily convertible into foreign exchange, a total of £5,800,000 sterling. Over and above and outside these Reserves, we have £40 millions in the Gold Standard Reserve. In spite of the separation between the two Reserves, if we are looking at the resources available for maintaining the rate of exchange of the rupee, the sterling securities in the Paper Currency Reserve and the Gold Standard Reserve all serve the same purpose.

Movements in Exchange.

27. The movements of the rupee-sterling exchange during the past year reflect a clear improvement in the position of the rupee. A year ago, in February 1922, the telegraphic transfer rate in Calcutta on London had fallen as low as 1*s*. $2\frac{15}{16}d.$, and it was not till the end of December that it reached 1*s*. 4*d*. Since then, after a rather rapid rise to over 1*s*. 5*d*., followed by a sharp re-action, it is for the moment fairly steady at between 1*s*. 4*d*. and 1*s*. $4\frac{1}{2}d.$ This improvement in terms of sterling reflects an even greater improvement in terms of gold owing to the rise which has taken place during the year in the value of sterling in terms of gold, and the improvement is reflected also in prices. The Bombay Labour Office figure for Indian wholesale prices for December 1921 was 190. For December 1922 the corresponding figure was 173. There has been a still more striking fall in retail prices of food grains. This fall in Indian prices has been taking place during a period in which there has been an actual rise in dollar prices and sterling prices have remained approximately stationary.

General observations on Exchange.

28. I have said that I do not think the time has come for fixing on a new policy in regard to exchange. I do, however, want to make one or two general observations. There is no sanctity in this era of instability about any particular rate of exchange, whether 1*s*. 4*d*. or 2*s*. or anything else; it is simply a question of what rate of exchange best suits India's needs. Ultimately India's payments outside India are, and must be, made in the form of exports of Indian goods and services. But, if we look at the matter

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from the narrow point of view of the budget, the following statistical data are of interest. The Government of India's sterling debt of £240 millions sterling at 1s. 4d. amounts to 360 crores, at 1s. 5d. it amounts to 339 crores, at 1s. 6d. it amounts to 320 crores while at 2s. it amounts to 240 crores. Of the deficit for 1922-23, 5½ crores would have been saved had exchange been at 1s. 6d. and 9½ crores if it had been at 1s. 8d. Statistics proverbially can be made to prove anything. Nevertheless, these figures are striking and it must be remembered that, apart from the sterling indebtedness of the Government of India, there are large sterling debts owed by municipalities, port trusts, and many other Indian borrowers, who would all be individually benefited by a higher exchange so far as their sterling indebtedness is concerned. Then, again, although since 1920 the tendency of rupee prices to remain relatively more stable than world prices, or rather to follow changes in world prices rather slowly, has to a large extent ceased to operate, it is very doubtful, I think, whether internal prices in India have yet adjusted themselves to a level corresponding to a 1s. 4d. exchange, so that were exchange stabilised now at 1s. 4d., internal prices would have to go up, and certainly there are various kinds of Government expenditure which would have to go up considerably in terms of rupees. Finally, we do not want ever again to find the rupee more valuable as bullion than as currency. That is one side of the picture. There is, of course, another side. An attempt to force up exchange violently would at once cause stringency. Severe stringency in the money market is never desirable for its own sake, is always bad for trade for the time being, and is most inconvenient from the point of view of a government which is engaged on a programme of capital expenditure, involving considerable capital borrowings. Any policy which threatened seriously to restrict India's exports is also to be deprecated, and trade above all desires stability of exchange, perhaps even more than stability of prices. I myself had some part in the International Conference at Genoa last April and May, and the first recommendation of that Conference was that "an essential requisite of the economic reconstruction of Europe is the achievement by each country of stability in the value of its currency." If, therefore, the time has not yet come for an attempt finally to stabilise the currency of India, stability is our goal and we mean to achieve it at the first opportunity.

IV.—Budget for 1923-24.

Expenditure.

29. While drawing attention to the above recommendation of the Genoa Conference, I am naturally led to quote another of its most important recommendations, which reads:

> "In each country, the first step towards re-establishing a gold standard would be the balancing of the annual expenditure of the State without the creation of fresh credit unrepresented by new assets. The balancing of the budget is the first consideration."

What then about the budget for 1923-24? Is it going to be balanced? The Members of the Legislature are not the only people in India who are taking an interest in this question. Only a few days ago, I received the following postcard:

> "Sir, kindly let us know by wire at our expense whether the customs duty will be decreased or increased on foreign imported wines and spirits. Awaiting your favourable reply by wire."

30. At the outset of my statement of the figures for 1923-24, I must explain what action the Government of India propose to adopt in order to be able to show the results of the report of the Retrenchment Committee in the budget figures. The first part of the report of the Inchcape Committee came into the hands of the Government little more than a fortnight ago, while the second part of the report reached us only on Saturday last and the third part yesterday. The complete and final report has not yet been signed. It has been a difficult problem to decide how to fit the proposals of the Retrenchment Committee into the budget. A report of this importance obviously requires careful and detailed examination by the Government of India in consultation with the Secretary of State, and the House will naturally desire an opportunity of studying the proposals on their merits. There has not been time, therefore, for final conclusions to be arrived at in regard to a great many of the Committee's recommendations. On the other hand, it was obviously necessary to frame a budget in which allowance would be made for the reductions in expenditure which we all expect to result from the Committee's work. In any circumstances, it would, of course, have been impossible, and it is clearly recognised by the Retrenchment Committee itself that it would be impossible, to obtain the full value of the cuts which are to be made in the first year of operation. Some of the retrenchments proposed can only be introduced gradually so that allowance has to be made for what I may call the "lag", while in many cases allowance has to be made for extra expenditure on what I may call the "terminal charges", *i.e.*, special charges which have to be incurred in closing down establishments and getting rid of the staff. Throughout its report, the Committee's recommendations are given in the form of reductions on the budget figures for 1922-23, which are, of course, quite different from the budget figures for 1923-24 as they appear before allowance is made for special cuts based on the Committee's recommendations. A fair proportion of the total reductions recommended by the Committee are either automatic reductions on the 1922-23 figures or actual retrenchments which we ourselves have been able to effect in the budget for 1923-24 in advance of the receipt of the Committee's recommendations. The activities of the Committee cast their shadow before, and estimates prepared in the atmosphere of economy which they created naturally reflected part of that atmosphere.

Retrenchment Committee.

31. In the Military budget, we have been able to take credit for the reductions, which, subject to final agreement with the authorities in London, we propose to effect as the outcome of the Retrenchment Committee's recommendations. This we were able to do because we had advance knowledge of the reductions which were going to be proposed, and His Excellency the Commander-in-Chief, working in close co-operation with the Retrenchment Committee and with his Colleagues in the Government, had arrived at a general agreement in regard to the total. In the case of the Posts and Telegraphs budget, we have been able to present figures showing the effect for 1923-24 of some though not all of the reductions which we propose to effect in consequence of the recommendations of the Retrenchment Committee. Our preparations could not be so far advanced in regard to the other Civil Departments. It was necessary to prepare, for the purpose of presentation to this House, the estimates for the Demands for Grants before we had sufficient knowledge of the proposals which were going to be made by the Retrenchment Committee. The estimates for the Demands for Grants, which are about to be presented, accordingly show the figures of civil expenditure before allowance is made for

Extent to which credit has been taken in Budget for retrenchment proposals.

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special retrenchments consequent on the report of the Committee. As I have already explained, this does not mean that none of the results of what the Committee recommends appear in those estimates, but simply that the final retrenchments are not included in the figures.

Civil expenditure.

32. Our problem, therefore, has been how to include in the budget statement the additional reductions which we hope to effect after studying the report of the Committee, and how to place the House in a position to examine and vote on the Demands for Grants in proper form. The Government are not yet in a position to announce definitely which of the particular recommendations of the Committee will be adopted; nor has it been possible to frame an accurate forecast of the allowance to be made for the fact that particular retrenchments cannot come into full effect as early as the 1st April 1923. But after giving careful consideration to the report, the Government of India have decided that they will be justified in taking the responsibility of saying that they believe that a reduction of 4 crores can be effected, over and above what has already been done, either in the ways proposed by the Retrenchment Committee or by some modification of them. A further paper will be circulated as soon as possible showing how this lump sum reduction of 4 crores is proposed to be spread over the various heads, and when the time comes for voting upon the Demands for Grants, the House will be asked to vote not the original total of each head but only the total as reduced in each case by the special cut made in the light of the Retrenchment Committee's recommendations. In the non-military portion of the Budget excluding interest, the Committee recommend reductions of about 8½ crores on a total Budget estimate in 1922-23, of 103·9 crores. The corresponding figure in our detailed Budget statements for 1923-24 is 101·3 crores, a reduction of 2·6 crores. The House will see that our cut of 4 crores, together with the amount of 2·6 crores which represents retrenchments proposed by the Committee already taken account of in the estimates, makes a total of 6·6 crores. The difference between these two figures, amounting to less than 2 crores, represents the allowance which it is thought necessary to make for the fact that many of the recommendations, even if accepted, cannot be in full operation during 1923-24. This allowance is not a large one. The Government of India will do their utmost to make sure of converting their hopes into accomplished facts and will leave no stone unturned in their endeavour to make actual reductions to the full extent of the 4 crores. We must cut our coat according to our cloth, and where necessity drives, we must be content to forgo even desirable outlays. But I cannot conceal from the House that it will task all our ingenuity to give full effect to the 4 crores reduction within the year 1923-24, and that some risks are being taken in assuming that figure for Budget purposes.

Military expenditure.

33. Some risks are also being taken in regard to our Military expenditure, risks of the same financial kind as in the case of Civil expenditure owing to the uncertainties caused by the circumstances in which our estimates have had to be framed, and risks of a military nature as well. In the case of Military expenditure the total for which the House will be asked to provide funds in 1923-24 is 62 crores. This figure represents, as I have already explained, the total required after taking into consideration the recommendations of the Retrenchment Committee. This total, which includes 1·69 crores for expenditure in Waziristan, compares with the total of 67¾ crores for 1922-23, a reduction of 5¾ crores.

34. Opportunity will arise in the ordinary course for a general discussion by this House of the Army expenditure, but I may say that in the forefront of these reductions and forming the pivot on which the other reductions depend is a substantial reduction in the strength of British and Indian forces.

Reduction of troops.

I am not in a position to-day to give details of the reductions in troops which it is proposed to effect. These reductions are being discussed between the Government of India and His Majesty's Government. The form which the reductions should take is necessarily a matter of some intricacy and complication as it is desirable to impair as little as possible the essential structure and organisation of the Army and so to retain after the reductions the maximum degree of efficiency. The decision, as the House will understand, is also a very responsible one and the difficulties being what they are, there simply has not been time to arrive at final decisions. In any case the full financial effect of these reductions and of other proposals in regard to the military expenditure cannot for practical reasons be expected in the coming year. If these reductions and the others which have been agreed upon could have been fully and effectively in operation by the 1st of April 1923, the net Military budget for 1923-24 would be 57·75 crores, but a sum of 4·25 crores has to be allowed for special expenditure in Waziristan and for the fact that the reductions cannot be in full force throughout the year.

Total expenditure, 1923-24.

35. It is not my intention to-day to go through the expenditure for 1923-24 in detail. Full statements under the various heads will be circulated, and I think it will be for the convenience of the House that I should leave Honourable Members to study these for themselves. It will be enough for me to say now, therefore, that, as compared with the original Budget Estimate of expenditure for 1922-23 of 2,15·27 crores inclusive of the working expenses of commercial departments, our total expenditure for 1923-24, taking sterling expenditure at the rate of exchange of 1*s*. 4*d* per rupee, is estimated to be 2,04 37 crores, a reduction of 11 crores in spite of an increase of 1¾ crores for interest.

Revenue, 1923-24.

36. I turn now to the Revenue. In framing our revenue forecast, we have assumed that trade conditions will continue much as they are at present. We have allowed, that is, for a small growth in revenue such as may normally be expected from year to year; we have not counted upon any early boom in foreign trade.

Customs.

37. Under Customs, I do not think we can prudently anticipate for next year imports of sugar on anything like the same scale as in 1921-22, and allowing for the new tariff valuation we estimate a revenue from sugar of 5 crores as against 4¾ crores for the current year. As regards the other tariff heads, we have either repeated the figure which we anticipate for the current year, or have provided for a small increase where an expansion seems probable. Altogether we assume a total gross revenue of 45·99 crores, or, allowing for refunds, a net revenue of 45·09 crores, which is 2,79 lakhs more than what we now expect to collect in the current year. This figure is arrived at after allowing for a reduction to 5 *per cent.* all round of the export duty on hides and skins, a reduction necessitated by the state of the trade.

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Income-tax.

38. As regards Income Tax, we shall not again have to make the heavy refunds to which I have already referred; on the other hand, there is fairly certain to be a falling off of revenue in Bombay, while the collection of arrears will also be less; these may be expected to balance each other, and we have entered a revenue of 19 crores, which is roughly the same as we expect to raise this year.

Railways.

39. I come now to the Railway budget. There is no doubt that as soon as any marked revival in internal trade takes place, Railway earnings ought to show a considerable rise; the autumn harvest has been so good and the promises for the spring crop are so favourable that it is not unreasonable to expect a revival before long. The difficulty is to say how soon this revival will occur. Traffic receipts suffered a check in 1922-23, and on the whole I do not think it is safe to budget on the assumption that there will be a very rapid revival in 1923-24. Our estimate for gross traffic receipts is accordingly put at 95½ crores. It is 3½ crores higher than the revised estimate for 1922-23. Two factors account in the main for this increase of 3½ crores. The first is that in the earlier months of 1922-23 there was a considerable loss of revenue due to the strike on the East Indian Railway and the second is that the present increased rates did not come fully into effect on all Railways until about the 1st of July 1922.

Working expenses and interest and other charges, without allowing for the share attributable to this head of the Inchcape Committee's cuts, amount to nearly the same figure, leaving a net profit for the year of 35 lakhs which compares with the net loss on the current year's budget as now revised of R92,60,000.

Posts and Telegraphs.

40. In the case of Posts and Telegraphs, we are able to estimate for a net receipt of 147 lakhs as compared with the net receipt of 24 lakhs in the 1922-23 budget as revised. This improvement is due in part to expected recovery in revenue and in part to reductions in working expenses made in anticipation of, or in consequence of, the recommendations of the Retrenchment Committee.

Total revenue.

41. We thus arrive at the following budget position on the basis of existing taxation. As against an expenditure of 2,04·37 crores, we have an expected revenue of 1,98·52 crores, leaving a deficit of 5·85 crores. Before I proceed to explain to the House what we propose to do in regard to this deficit, I must turn for a moment to our ways and means position.

V.—Ways and Means.

42. Public attention is usually concentrated on the annual budget of revenue and expenditure, but the Ways and Means budget is of equal importance, for after all it is the Ways and Means budget which shows the sums which the Government has to pay out under one head or another during the year and the sums which it has to get in from the public. Whether it is a provincial overdraft or an advance on capital account, or whether it is a revenue deficit, the money to meet the outgoing has to be got in before it can go out. The Ways and Means budget is, however, one which it is difficult to present in a clear and easily intelligible form. It is never possible to adhere to a strict programme in regard to Ways and Means operations. In financing the country's various liabilities and in

finding cash for our own and the provinces' day to day disbursements, we have to be guided very largely by the changing conditions of the money market both here and in London.

Funding of Floating Debt.

43. During the current year we expect to meet liabilities, over and above what has been met from revenue, amounting to 106 crores. These will have been financed mainly out of the proceeds of our rupee and sterling loans which have been on an unprecedentedly large scale. Our rupee loan realised nearly 47 crores and £31½ millions was borrowed in London during the year. One satisfactory feature of the year, to which I have already referred, is that out of these borrowings we have been able to reduce our floating debt by 40·6 crores, of which 32·4 crores consists of a net discharge of Treasury Bills held by the public and 8·2 crores of a cancellation of Treasury Bills held in the Currency Reserve. We cannot hope to continue the reduction of floating debt on the same scale over a long period, but I feel sure that the House will agree with me that it must be our constant policy to secure the early extinction of the floating debt by its conversion into securities of longer term.

Remittances to London, 1922-23.

44. Our sterling borrowings have facilitated the provision in London of the sums required to meet our sterling obligations during the year. But advantage has been taken of the strengthening of exchange which occurred at the New Year to effect remittance by the method of selling Council Bills. Weekly sales have been taking place of moderate amounts since the beginning of January, and we have thereby been placing funds in London at a moment which, although somewhat in advance of actual requirements, is nevertheless convenient to the market. We anticipate that our balance in London will be about £8 millions on the 31st March 1923 as against a normal minimum balance of £4 millions, but the surplus will be required early in the new financial year.

Summary.

45. The following statement summarises the Ways and Means operations for India and England together during 1922-23 and 1923-24:

Liabilities.

	(Crores of rupees.) Revised.	Budget.
Railway capital outlay	21·4	38·6
Delhi, Irrigation and Telegraph capital outlay	3·0	2·9
Discharge of funded debts, etc.	12·4	5·2
Discharge of Treasury Bills—		
With the public	32·4	5·5
In the Paper Currency Reserve	8·2	
Loans to Provincial Governments	11·4	13·5
Central Government's revenue deficit	17·3	...
Drawings of Provincial Governments	...	1·3
	1,06·1	67·0

Met as follows:

	Revised.	Budget.
Central Government's revenue surplus	...	·2
Surplus revenue of Provincial Governments	1·0	...
Rupee loans	46·9	25·0
Sterling loans (converted at 1*s*. 4*d*.)	47·3	22·7
Net receipts from Savings Bank deposits, etc.	3·1	5·0
Miscellaneous items	2·5	2·2
Reduction of cash balances	5·3	11·9
	1,06·1	67·0

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Forecast for 1923-24.

46. In 1923-24, if the measures which I propose are adopted, we shall not again have to face the necessity of financing a large revenue deficit. Our largest liability will be for Railway Capital outlay. During 1922-23, it has not been possible to spend the full 30 crores allotted under the 5-year programme; there will be a large carry forward. We are adding this to the 30 crores for next year, making a total of 38·6 crores to be provided for capital expenditure on Railways in 1923-24. We have about 5¼ crores of maturing bonds to meet, and our other Capital outlay is expected to reach about 3 crores. Loans or overdrafts to the Provincial Governments will absorb 13½ crores, the greater part of which will go to the Bombay Government for expenditure on their Development scheme.

Remittances to London, 1923-24.

47. We expect to start the year, as I have already said, with a cash balance of £8 millions in London. We are assuming, for the purpose of the Ways and Means estimate, that we shall be able to raise £15 millions by new sterling borrowings. We are assuming for budget purposes also that we shall be able to secure a rupee loan of 25 crores. With these resources, we hope to meet the liabilities I have mentioned, and in addition to effect a further reduction of five or six crores in our floating debt. In addition to the new sterling borrowings of £15 millions we estimate that we shall require to remit £27 millions to London from India during 1923-24. It is unnecessary, I think, for me to discuss at the present moment the various alternative methods of effecting this remittance. In addition to the ordinary method of purchase of exchange, the £5¾ millions in the Paper Currency Reserve in London, and after that the Gold Standard Reserve of £40 millions, can be drawn upon against an equivalent earmarking of rupees for those Reserves in India. Which particular combination of the various methods available will be adopted is a matter upon which it is impossible for Government to commit themselves in advance, since much must depend upon exchange conditions during the year.

VI.—PROVINCIAL CONTRIBUTIONS.

48. There is another subject on which I should like to say a word owing to its close connection with the problem of covering our deficit, and that is the vexed question of the provincial contributions. I do not think that any one considering Indian finances at the present time can fail to be impressed by the undesirability of a long continuance of the present unsatisfactory position in regard to the provincial contributions. The Government of India have stated plainly that, as soon as they are able to do so, they intend to reduce, and eventually extinguish, these contributions. I am aware that this is not the solution which finds universal favour, though I think this is what the majority of the Provincial Governments desire. But so long as we have a deficit in the Central budget, it is obviously impossible for us to make a beginning with the reduction of provincial contributions. Meanwhile, every Provincial Government, without exception, is finding very great difficulty in balancing its budget. The majority, I am afraid, did not succeed in doing so in 1922-23, though they are doing better I am glad to see for 1923-24 though we did not help them by our action in regard to the Stamp Duty Bill earlier this week. It has been suggested to me by more than one spokesman for the provinces that there is a feeling in the minds of the Provincial Governments and of their Legislatures that it would be unwise for them to show balanced budgets. They

are, it is hinted, taking a leaf out of the book of some charitable and religious bodies which make a habit of showing an annual deficit in order to make a striking appeal to their supporters to come to their rescue. The Provincial Governments think, it is said, that they will get more sympathy from the Central Government and get rid of their provincial contributions quicker if they can show a handsome deficit and appeal to the charity of the Central Government. I should like to say for my part that the strongest appeal that the Provincial Governments can make to me in this matter of the Provincial contributions is to show themselves worthy of assistance from the Central Government by strenuous and successful endeavours to make both ends meet for themselves. Much, therefore, as we should have liked to be able to make a beginning of the reduction of the provincial contributions, it is obvious that this year we must confine ourselves to an attempt to deal with our own deficit. I would, however, add this appeal to all who are interested in a reduction in the provincial contributions. Let them give us their full support in any measures we propose for securing a balanced Central budget in the certainty that by so doing they are hastening the day when the contributions can begin to be released.

VII.—Proposals for dealing with the Deficit.

Interest on Gold Standard Reserve.

49. What then is to be done about the deficit of 5·85 crores? First of all, we propose to make an adjustment which, though little more than a change in methods of book-keeping, has the effect of reducing the apparent figure of the deficit by 1·59 crores. It is proposed to ask the House to continue during 1923-24 the arrangement made a year ago for crediting to revenue the interest on the securities in the Paper Currency Reserve. There is a similar source of income in the interest on the £40,000,000 in the Gold Standard Reserve, which is expected to amount to 1·59 crores in 1923-24. This is, in essence, of the same nature as the interest on the Paper Currency Reserve's investments, and we propose for 1923-24 to treat it in the same way. This change does not really add anything to our available resources or alter our Ways and Means position, but I think it is justified on merits.

Deficit cannot be left uncovered.

50. We are thus left with a deficit of 4·26 crores, and the only way left for meeting it is by additional taxation. If the House will turn its mind back for a moment to what I said about the accrued deficits of the last five years, it will recognise that it cannot leave the deficit of 4¼ crores untouched. It will perhaps be asked whether the fact that several crores in the military expenditure and a considerable additional amount in the non-military expenditure represents non-recurrent expenditure due to "lag" and "terminal charges" would not justify the deficit being allowed to continue for one more year. This argument unfortunately does not represent the full facts. If some crores in the military budget represent non-recurrent expenditure, on the other hand over 2 crores of the cuts made in the military budget represent non-recurrent savings, being arrived at simply by a reduction in stores Similar considerations apply to some of the other cuts both in the military and the non-military budgets, in particular in the railway budget. Moreover, some terminal charges will still have to be met in 1924-25. Whatever our hopes may be, we have no reasonable certainty that the budget for 1924-25 would balance on the basis of present taxation. Moreover we have not yet begun to provide anything towards making good past deficits. If 1924-25 were to turn out much

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better than it is possible to promise at this moment, we can, if we have got through 1923-24 without a deficit, turn our thoughts to reduction of the provincial contributions.

New taxation necessary.

51. Our conclusion, therefore, is that we must ask for some increase in taxation. No one likes new taxation. It is a disappointment to the House, and it was a great disappointment to me, that new taxation is needed at all. If he is wise, a Finance Member dislikes new expenditure and dislikes new taxation even more. But most of all, he loathes and abhors a deficit. I hope the House will agree that I have demonstrated to the full the absolute impossibility of its leaving a sixth year's deficit of 4¼ crores to be added to the appalling aggregate of 100 crores of the deficits of the last five years. The House would be false to its trust if it allowed the Government to adopt so pusillanimous and mischievous a course. The credit of India is in jeopardy. It is already under the cloud of the deficits of the last five years. But India's financial record has been so good for decades preceding those five years that hitherto the damage is not irreparable. The world has trust in India's record and has felt sure that the era of deficits could only be a passing phase. It is our duty to-day to justify that trust. We have made drastic cuts in our expenditure, but we have not achieved a balance. New taxation is, therefore, inevitable.

Increase in Salt duty.

52. What form then is the new taxation to take? We have carefully reviewed the existing taxes. In particular, we have examined those taxes which were proposed last year and not accepted. One after another we have had to reject promising expedients, and finally we have come to the conclusion that the right course is to ask the House to agree to an increase in the salt tax to R2-8 a maund. In a full year, this increase is estimated to yield 6 crores, but we cannot count on its bringing in more than 4½ crores in 1923-24. The House will see that this additional revenue is just sufficient to cover the deficit of 4¼ crores, to give us a balanced budget, and to leave us a small surplus of 24 lakhs. In view of the uncertainties of our estimates of expenditure, this House will agree that this is not an undue margin to leave over for contingencies.

CONCLUSION.

53. My allotted task is finished. I have laid before the House the Government of India's account of their stewardship for the year that is passing and their proposals for the year 1923-24. I am painfully conscious of the responsibility which attaches to the Member introducing the budget. He cannot hope that his proposals will receive universal approbation. I have no doubt that when the details of our proposed expenditure come up for discussion, some Members will criticise this or that retrenchment as iniquitous and the retention of this or that item of expenditure as outrageous. Some other Members will disagree entirely with them on one or other or both of these criticisms. But all will manage to disagree with me on some point or other. I hope none the less that the Government of India will receive the credit which I claim is their due for courageously shouldering their burden and boldly coming forward with a budget which, at one and the same time, effects drastic reductions in expenditure and calls for a further sacrifice in the form of new taxation. I appeal to the House for one last long and strong pull, all of us pulling together, in the confident

assurance that so doing we shall quickly get the boat out of the vicious current which is threatening to drag India down on to the rocks of insolvency. Once back in safe waters, I have every hope that in a surprisingly short time we shall find ourselves on the flood tide of prosperity, and shall be able to turn our minds to pleasant thoughts of reduced provincial contributions, reduced taxation, and increased devotion of our resources to the development of India. I was struck a little more than a week ago by a remark that fell from Sir Deva Prasad Sarvadhikary when, speaking on the Racial Distinctions Bill, he said that the House had had three red letter days in succession. Let us crown our successes by a fourth red letter day, and end our Session with a balanced budget.

THE INDIAN FINANCE BILL.

The Honourable Sir Basil Blackett (Finance Member): Sir, I ask for leave to introduce a Bill to fix the duty on Salt manufactured in, or imported by land into, certain parts of British India; to vary the duty leviable on certain articles under the Indian Tariff Act, 1894; to fix maximum rates of postage under the Indian Post Office Act, 1898; to amend the Indian Paper Currency Act, 1923, and to fix the rates of income-tax.

The motion was adopted.

The Honourable Sir Basil Blackett: Sir, I introduce the Bill.

The Assembly then adjourned till Eleven of the Clock on Monday, the 5th March, 1923.