

**THE
LEGISLATIVE ASSEMBLY DEBATES**

(Official Report)

FIRST SESSION

OF THE

SECOND LEGISLATIVE ASSEMBLY, 1924



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LEGISLATIVE ASSEMBLY.

Friday, 29th February, 1924.

The Assembly met in the Assembly Chamber at Half Past Four of the Clock, Mr. President in the Chair.

BUDGET FOR 1924-25.

INTRODUCTORY.

The Honourable Sir Basil Blackett (Finance Member): Sir, if precedent had been followed, I should not now be opening my Budget. It has been the practice in past years for the financial statement to be made on the morning of the 1st of March, and to be followed immediately by a motion for leave to introduce the Finance Bill. This year, I propose to introduce the Finance Bill on the 1st of March as usual: but, I make my financial statement to-night out of regard for the convenience of almost every one concerned, except perhaps the Finance Member. The commercial community will be glad of the opportunity to study the budget announcements overnight instead of in the middle of a busy day; and I am also glad to be able to afford some slight relief to the devoted band of officials who, on past occasions, have been kept at work all night in order to bring a new financial statement safely into the world in the morning. I am told that a record is being created in the presentation of the Government of India's Budget on the 29th February. But the choice of February 29th has no significance except that it happens this year to be the day before the 1st of March. The suspicion that to-day was chosen in order to enable us to impose taxes, which are annual taxes, until the 29th February, 1928, is, I hasten to assure the House, unfounded.

2. I had occasion a year ago to lament that I could not give exact figures for 1922-23 and had to be content with what I described as nothing more than a second guess, on the basis of nine or ten months' figures, of what the actual outturn would be of the Budget for the year then about to close. I had even better reason than I knew for this complaint. The figures which I then gave for 1922-23 showed revenue at a total of 121 crores and expenditure at a total of 138½ crores, leaving a deficit of 17½ crores. The actual figures show that I over-stated the deficit by no less than 2½ crores. Revenue amounted to 121.41 crores and expenditure to 136.43 crores, leaving a deficit of 15.02 crores. The improvement was mainly under the head of Military Expenditure, where, in addition to other minor improvements, a sum of £800,000 provided as the Indian share of the cost of disbanding surplus troops was not, in the end, utilised. In view of this important difference between the revised Budget figure, to which some

[Sir Basil Blackett.]

prominence is given in the annual Budget Statement, and the actual outturn, which receives practically no publicity, there will be bound up and circulated with the Budget speech a comparative table showing the actual outturn for each of the last ten years, which will, I think, be convenient to those who desire to study our finances.

3. My inability to present anything more than a second guess is even more vexing this year than it was a year ago. Last year, unhappily, the only question was how large the actual deficit would be; this year it may well be that the progress of revenue and expenditure in the last two months of the year may make all the difference between a surplus and a deficit on ordinary revenue. In every year but two of the last ten years the final outturn of the year has proved more favourable than the revised budget estimates have indicated.

4. The Budget estimates as finally settled a year ago provided for a surplus of 81 lakhs. The estimated revenue amounted to 134·90 crores and the estimated expenditure to 134·09 crores. I warned the House more than once that neither on the revenue nor on the expenditure side could the figures in the Budget estimates be counted upon with any great assurance. The revenue figures were arrived at in a spirit of some optimism as to the prosperity of trade and commerce not altogether justified in the light of European conditions, while the expenditure figures assumed that we should succeed in introducing and giving full effect to retrenchments recommended by the Inchcape Committee with much greater rapidity than a cautious Finance Member could promise. The information available at the present date makes it clear that our revenue estimates were unduly sanguine. On the other hand, I am glad to be able to inform the House that we have succeeded in reducing expenditure to a figure considerably below the Budget estimate. The present indications are that the total revenue will amount to 129·52 crores as against an estimate of 134·90 crores and the total expenditure to 129·90 crores as against an estimate of 134·09 crores, leaving a deficit on ordinary revenue of 38 lakhs. I leave out of account a windfall, of which I shall have more to say later. I mention it here only in order to bring out the happy fact that, while the margin between ordinary revenue and expenditure, on the basis of our revised Budget, is so narrow as to make it impossible, till final figures are available, to say for certain whether there is a surplus or a deficit, we are (even on the most unfavourable assumption) sure of a considerable realised surplus after taking extraordinary revenue into account.

REVIEW OF THE YEAR 1923-24.

Revenue.

5. As in 1922-23, so in 1923-24, we based our estimates on hopes not

indeed of a boom in trade, but of a steady revival
 General. of which there seemed to be some signs early in

the year. These hopes have, once again, not been fulfilled, although it seems likely that there will be in 1923-24 a record surplus of exports over imports. During the first ten months of the financial year, the surplus in value of exports of merchandise amounts to 108·47 crores as against 62½ crores in the corresponding period last year and an adverse balance of 29·60 crores the year before. The net imports of bullion, although substantial, have not reached the figures of 1922-23, with the result that there

remains a net balance after allowing for bullion of 68.42 crores in favour of India as against 20½ crores a year ago and adverse balance of 88 crores in the first ten months of 1921-22.

6. The volume of our export trade has continued to expand. The chief increase is under grain and pulse, where it amounts to 600,000 tons in the first nine months of 1923-24, due almost entirely to a resumption of exports of wheat; but with scarcely any exception every class of goods shows some increase. This is true of imports also, which show a serious decline in two cases only. In one of these the House will be specially interested. The imports of coal into India fell by exactly a third, or by 284,000 tons in the first nine months of the current year when compared with those of the corresponding period of 1922-23. "Grey twist and yarn" and "Grey piece-goods" also declined, but the quantity of practically every other class of imports has increased, while at the same time there has usually been a small fall in values. The year has been one of fairly steady, though at times difficult trade, but favourable to India in the balance.

7. Prices of Indian products have on the whole remained remarkably steady throughout the year, with the exception of raw cotton which, owing to the uncertainty and the eventual shortage of the American supply, has been subject to considerable fluctuation. In November 1923 cotton prices reached their highest level since 1918. This has inevitably reacted upon the activities of the cotton industry. Food grains, on the other hand, have fallen steadily since April and the wholesale price of cereals in Calcutta in December last was only 5 per cent. above the level at the end of July 1914. Sugar showed a tendency to advance, whilst tea has been obtaining record prices. The prices of raw jute have been consistently below those prevailing at the similar periods in the preceding year.

The close of 1923 was characterised by somewhat firmer prices for raw materials in the chief markets of the world, and it is fair to say that there is a greater sense of security among producers and merchants than at this time last year. The period of large returns has, however, passed and several industries have still to adjust themselves further to lower rates of profit.

8. The slow recovery of trade and the fall in prices of imported articles have resulted in our being once again disappointed in our Customs receipts. The actual figures for Customs receipts up to the end of January point to a net revenue for the year of 40.42 crores as compared with the Budget estimate of 45.10 crores. Sugar provides 1.15 lakhs less revenue than we had anticipated, and it is evident that under this head insufficient allowance was made for the reduced tariff valuation. While the volume of imports of other articles has in most cases not been unsatisfactory, the amount collected on account of our *ad valorem* duties has declined. We anticipated a decrease of 73 lakhs under imports of *piece-goods*, 58 lakhs under *metals*, and 35 lakhs under *cutlery and hardware*, while owing to adverse conditions in the Bombay mill-industry the *excise duty* on *cotton manufacturers* will fall short of the Budget by 38 lakhs.

9. To the extent of about 50 lakhs the failure of Customs revenue to fulfil our expectations is due to the decision of the Bombay High Court that stores imported by Railway Companies working State lines come under the definition of "Government stores" and have to be passed free of duty. An appeal has been preferred to the Privy Council against this.

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judgment. If we are successful, we shall recover 50 lakhs from the Company managed Railways which will go to the Revenue side of the Budget of 1923-24. If, however, we are not successful, we shall not only fail to realise the 50 lakhs in question but we shall have to pay to the Railway Companies a further sum, estimated at about 2 crores, by way of refund of duty collected from them after the definition of "Government stores" on which we had always hitherto acted was brought into question before the Courts.

10. The Budget estimate of gross receipts from Railways was placed at 95.57 crores. During the earlier part of the financial year the published figures of weekly earnings were unsatisfactory. They were considerably affected during the monsoon and again in December by breaches in important lines due to flood and storm. Since the middle of December, however, there has been a striking improvement in gross receipts which enables us to place our estimate for the whole year at the figure of 94.22 crores, which is only $1\frac{1}{2}$ crore less than the Budget estimate. On the other hand, we have effected a material reduction in working expenses and, in addition, the outgoings under the head of Programme Revenue expenditure have been less than we expected, and I may add, less than is really desirable in the interests of our Railway properties. The total saving in working expenses, as compared with the Budget, amounts to 1.93 crores. We thus anticipate an improvement of 58 lakhs in our net receipts.

11. Opium receipts exceed the estimate by 38 lakhs, but there is a decline of 22 lakhs in the net gain to Central revenues from the Posts and Telegraphs Department.

Under the heads of "Interest", "Currency" and "Miscellaneous", there is an improvement of 1.42 lakhs, largely due to the higher price for short money in London and to the fact that favourable opportunities for remittance have enabled us to build up large reserves in sterling which will be very useful to us during the coming year.

12. Honourable Members will not suspect me of forgetting Salt. The Budget provided for a total salt revenue of $11\frac{1}{2}$ crores, including the additional $4\frac{1}{2}$ crores expected from the doubling of the duty. Circumstances which are not unfamiliar have had the effect of seriously interfering with the normal progress of salt revenue during the year. To begin with, there were very large issues of salt during January and February 1923, in anticipation of the enhancement of the duty. The hope of profiting by a reduction in duty in 1924-25 has now led traders, especially in Northern India, to reduce their stocks as far as possible. An examination of past statistics shows that the issues against consumption in a normal year would amount at the present time to approximately 4.95 lakhs of maunds. The actual issues for 1923-24 are expected to amount to about 3.80 lakhs of maunds. The over-issue during January and February 1923 may be put at approximately 36 lakhs of maunds, so that something like 80 lakhs of maunds represents the amount of salt which would have been issued but for the anticipation of a reduction of duty in the present Budget. I may add that I have been unable to find any evidence that the restricted issues have been accompanied by any reduction in actual consumption. In the result, we now anticipate that our total revenue from salt in 1923-24 will amount to $8\frac{1}{2}$ crores, which is 3 crores less than the estimate.

Expenditure.

13. The only important excess of expenditure over the estimate occurs

Opium.

under the head "Opium". It will be remembered that a supplementary grant of 77 lakhs was voted during the July session to enable us to meet an excess of payments to cultivators in the United Provinces and in the Central India States due to an increase in the outturn of the last crop. It is now expected that the excess will actually amount to 70 lakhs.

14. There has been a substantial saving on the Budget provision for dis-

Discount on Treasury Bills, Interest on Rupee loans, etc.

count on Treasury Bills which reflects the great improvement in our ways and means position. On the 31st March 1922, Treasury Bills outstanding with the public reached the formidable total of 54 crores. This figure had been reduced to 22 crores on the 31st March 1923. On the 31st March 1924, it will be approximately 2 crores. It is not necessary for me to emphasise the great gain to our financial security which these figures disclose. With a large amount of debt maturing from day to day, all within a few months, we were in a serious position if any unhappy emergency had arisen. The Finance Department's constant anxiety was to know how to find the money if Treasury Bills had to be repaid, and they were often at the mercy of the market if the bills had to be renewed. The market also appreciates its release from constant demands by the Government for short money. Indeed, such is the perversity of human nature that the complaint now tends to be that there are not enough Treasury Bills to go round. The favourable rate at which the current year's rupee loan was issued has also resulted in a saving on the Budget provision for charges connected with new loans. There has been a small excess in the provision for new sterling loans owing to our having raised 18 million pounds in London instead of the 15 million pounds tentatively entered in the Budget statement. On the whole, we expect a saving of 74 lakhs in the gross interest charges on our debt.

15. Under the head of sinking funds, there is a net saving of 80 lakhs, as

Sinking funds.

we have found it unnecessary, owing to the improved state of the Government securities market, to use any portion of the additional provision of 80 lakhs which has been made during the last few years for supporting the two long-term 5 per cent. rupee loans.

16. The Budget estimates of Military expenditure for 1923-24 amounted

Military expenditure.

to 65.05 crores gross and 62 crores net. As has already been announced to the House, full effect has now been given to the reductions in British troops proposed by the Retrenchment Committee except in the case of one cavalry regiment and, though the full resulting economies will not accrue until 1924-25, His Excellency the Commander-in-Chief has found it possible by means of various economies to reduce the established charges of the Military services for 1923-24 to 60½ crores as against the figure of 61.94 crores included in the original estimate. A non-recurrent credit of 2½ crores from consumption or disposal of surplus stores was provided for in accordance with the recommendations of the Retrenchment Committee. The actual credit will amount to approximately 3 crores. On the other hand, the latest estimate of special expenditure in Waziristan is about 2 crores as against the figure of 1.69 crores included in the Budget. Gratuities, etc., for demobilised officers, for which 62 lakhs was provided, will cost us 1½ crores.

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17. All these figures include sterling expenditure converted into rupees at 16d., and on this basis the revised Military estimate stands at 60.20 crores net. From this total a sum of 46 lakhs has to be deducted representing the saving under the head of Exchange, making the net figure 59.74 crores—a total saving of 2.26 lakhs or, if exchange be excluded, of 1.80 lakhs.

18. The non-recurrent saving of 3 crores in respect of stores has of course been a prominent factor in keeping down our Military expenditure in 1923-24. Our position has also been materially assisted by a non-recurrent receipt of 41 lakhs. During the war temporary lines were constructed for a number of Indian Battalions raised for the British Government, and the cost of these lines was charged to the British Government. Since the termination of the war the lines have been gradually disposed of, but the British Government have only recently accepted our contention that the sale-proceeds belong to the Indian exchequer in consequence of the arrangement arrived at when the further contribution towards the expenses of the war was agreed to by India.

19. There has also been a saving of $\frac{1}{2}$ crore under other heads of Civil

Excha ge.

Expenditure, but the largest saving on the expenditure side occurs under the head "Exchange".

The rate of exchange has, except for a few days, stood above the figure of 1s. 4d. assumed for the purposes of the Budget for 1923-24. It has stood above 1s. 5d. almost continuously since November and the average rate for the current financial year is expected to work out to approximately 1s. 4 $\frac{1}{2}$ d. The resultant saving in net expenditure outside India, including Military expenditure and expenditure on commercial services chargeable to revenue, amounts to 1.28 lakhs. In addition, there is a saving in exchange of approximately 50 lakhs in respect of capital expenditure.

20. The above variations in revenue and expenditure are summarised below:

	(In lakhs of rupees.)	
	(+ Better)	(- Worse)
Customs revenue, less	...	4.88
Salt revenue, less	...	3.05
Opium revenue, more	38	...
Net receipts from Railways, more	58	...
Net receipts from Posts and Telegraphs, less (62 lakhs of the deterioration is nominal, due to the debit to the Department for the first time of the cost of pensions and to payment made for the stock of postage and telegraph stamps which have now been taken over by the Department)	...	1.24
Interest, Currency and Miscellaneous receipts, more	1.42	...
Military receipts, more	1.17	...
Loss by exchange on revenue realised in England as compared with 1s 4d. rate assumed for Budget	...	18
Minor variations	17	...
Total	3.72	9.10
Net deterioration in revenue	-5.38	

	(In lakhs of rupees).	
	(+ Better	- Worse).
Opium expenditure, more	70
Saving under expenditure on stamps and superannuation allowances and pensions owing to transfers to the Posts and Telegraphs Department (see explanation above under Posts and Telegraphs receipts)	62	...
Saving in interest chargeable to Posts and Telegraphs and in capital outlay of the Department charged to revenue	40	...
Saving in gross interest payments	74	...
Smaller interest recoveries from Provincial Governments	25
Saving in provision for sinking funds	80	...
Saving in gross Military expenditure	63	...
Saving in exchange on gross expenditure in England as compared with 1s. 4d. rate assumed for Budget	1,41	...
Minor variations (mainly savings in Civil expenditure)	54	...
Total	5,14	95
Net saving in expenditure	+ 4,19	
Net deterioration on Budget anticipations	- 1,19	
Surplus in Budget	81	
Deficit now anticipated	38	

Realised Surplus.

21. So far I have been dealing only with ordinary revenue and expenditure. The figures are so nearly equal that, although they point to a small deficit, it would not be surprising to find that the final figures show, after all, a small surplus on the ordinary Budget. We have, however, been fortunate enough to come in for a valuable legacy. There are certain sums which have for some time been lying in suspense and which represent the profits from the control of enemy ships and similar items. It has not hitherto been possible to say how much, if any, of these sums could be credited to Indian revenues. A great number of intricate problems had to be cleared up first and even to-day there is still some possibility of counterclaims being established against a portion of the amounts in question. But we are able to say with fair certainty that £3½ millions (equivalent at 1s. 4½d. to 4.78 crores) representing profits from the control of enemy ships belong to India. Out of this sum the Government of India propose to reserve 25 lakhs for the payment of *ex gratia* grants to private individuals in consideration of losses suffered through enemy action. If the whole of the remainder of this windfall were credited to the revenue of 1923-24, there would be a surplus (including both ordinary and extraordinary revenue) of over 4 crores after allowing for the deficit of 38 lakhs provisionally entered on ordinary account.

22. In the absence of any special arrangement this surplus would, in the ordinary course, go automatically to debt reduction, and, in view of the deficits of previous years, it is clearly desirable that as much of it as possible should be so applied. An item of extraordinary revenue of this sort ought not to be used for meeting ordinary recurrent expenditure or, indeed, any expenditure normally chargeable against ordinary revenue. We have, however, still to provide the means of meeting the special

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charge of 2 crores for repayment to the Railways of customs duty on imported railway materials if the case goes against us in the Privy Council. This expenditure is, indeed, part of the expenditure properly chargeable to 1923-24 if it eventually has to be incurred. I therefore propose to retain 2 crores out of the available surplus temporarily in suspense pending the decision of the Privy Council. The remainder of the surplus, estimated at present at approximately 2.06 lakhs, will be applied automatically to the reduction or avoidance of new borrowings for capital expenditure.

GENERAL.

23. I do not propose to go again over the ground which I covered a year ago in reviewing the position of India's finances at the close of 1922-23. Broadly speaking it may be said that both in the provinces and in the Central Government the era of unbalanced budgets has now been brought to an end. We have got rid of practically all our embarrassments in regard to floating debt and can face the necessity of meeting short-term bonds which mature in the next few years with confidence. There is no longer any fear of our being forced to undesirable expedients, such as currency inflation, in order to meet our outgoings. And if the time has not yet come at which we can replace the present statutory, but inoperative, ratio of 2s. gold to the Rupee by an effective ratio, this is due not to our inability to maintain our currency in a sound condition but to a continuance of economic instability in other parts of the world, which makes immediate stabilisation unattractive.

24. The improvement in our position is happily reflected in the improved market price of all our rupee securities. On the 15th February, 1923, the 5 per cent. tax-free loan 1945-55 was quoted at R88-10; on the 15th February 1924 it was quoted at R98. The quotation for the 5 per cent. loan 1929-47 has risen in the same period from R82-10 to R93-2. In 1923 we were able for the first time since 1919 to raise money by a long-term issue, and the improved quotations which I have mentioned give us good reason to hope that we may do even better in 1924-25. More important still, the general improvement in our position should enable us, as I shall show later on when I come to the Ways and Means Budget for the coming year, to avoid any new borrowing in London.

25. One striking feature of the year 1923-24 is the increased popularity of our Post Office Cash Certificates. Originally issued in 1917, these certificates, thanks to a strenuous campaign for saving, were taken by the small investor to a total of 8 crores net during the period ending 31st March 1919. From that time onwards, year by year, repayments considerably exceeded new purchases and on the 31st March 1923 the total outstanding had been reduced to 3 crores. There is nothing which will give a greater stimulus to economic progress in India than the extension of the saving habit. The year 1923-24 has seen a very hopeful development in this direction. From the 1st April 1923 the terms on which Post Office Cash Certificates were issued were improved, so that they now offer a net yield of 6 per cent. compound interest to those who hold them till maturity. At the same time as the issue of new certificates began, endeavours were made in various directions to popularise them, with the result that during the ten months ending the 31st January 1924 a total of 6 crores gross and 4½ crores net (after allowing for repayments) was invested in this way to the great advantage both of the small investor who lent us the money and of the Government of India

who borrowed it, as well as of the Indian people as a whole who are richer individually by the amount of their savings and collectively by the productive capital assets in which these savings have been invested. It may shortly be necessary to reconsider the terms on which cash certificates are issued if, as seems probable, the Government of India are able to place rupee loans in the open market on terms which show a considerable improvement on the yield of about $5\frac{1}{2}$ per cent. subject to tax at which last year's loans were issued. But it is my earnest hope, and I trust that all Members of the Legislature will use their influence in the same direction, that the habit of investing in Post Office Cash Certificates will go on spreading throughout India and that both the number of small investors who take to the habit and the aggregate volume of their purchases will go on increasing.

26. The holders of all our securities in India have benefited by the general improvement in the outlook for Government finances, and not least those holders of our $3\frac{1}{2}$ per cent. rupee debt who bought or subscribed for that stock before the war at or near par. It will be remembered that the question of doing something to assist such holders was carefully examined a few years ago. But the conclusion reached, and indeed it was the only possible conclusion, was that the sound and sure way of alleviating their position is to restore the general stability of our finances. The rise in the quotation of the $3\frac{1}{2}$ per cent. rupee paper from its lowest point of Rs 52 to a maximum figure of Rs 66-2 during 1923, and the further rise which occurred early this month, when seasonal influences might have been expected to depress the price, is an earnest of what we may hope will prove a permanent recovery.

Debt.

27. I now come to our debt position. The figures which I am about to give are in a new form which is, I think, more comprehensive and accurate than the form hitherto adopted. The total debt of the Government of India on the 31st March 1924 will be constituted as follows:

In India—		(Rs. Lakhs.)	
Loans	.	3,58.79	
Treasury Bills in the hands of the public	.	2.13	
Total in India		...	3,60.92
In England (at Rs. 15)—			
Loans	.	3,64.22	
War contribution	.	28.90	
Total in England		...	3,93.12
Unfunded—			
Post Office Savings Banks	.	24.87	
Cash Certificates	.	8.51	
Provident Funds, etc.	.	39.97	
Total unfunded		...	73.35
			8,27.39
Add—			
The Capital value of the liabilities undergoing redemption by way of Terminable Railway Annuities, amounting, on 31st March 1924, to £60,095,485, or at Rs. 15			90.14
Total debt			9,17.53

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I have excluded Treasury Bills, amounting to 49·65 crores, held in the Paper Currency Reserve, as these represent a liability not entirely comparable to ordinary public debt. If, however, they are included, the gross total of the debt amounts to 9,67·18 crores. The corresponding total on the 31st March 1923 was 9,29·55 crores including a similar total of 49·65 crores of Treasury Bills in the Currency Reserve and 8,79·90 crores excluding these Treasury Bills.

28. Of the total on the 31st March 1924, 11·88 crores are due to the discount at which some of the loans were issued. This liability is treated as an interest charge under our system of book-keeping and is being extinguished by annual appropriations from revenue within the period of each loan. It should therefore be excluded from our total debt figure, which is thus reduced to 9,05·65 crores. Of this, 5,78·39 crores are classed as productive debt and 2,28·45 crores as unproductive debt. The balance of 98·81 crores represents loans to Provincial Governments. These figures compare with 5,55·07 crores of productive debt and 2,29·11 crores of unproductive debt a year ago and 87·49 crores of loans to Provincial Governments. The rupee debt, which stood at 4,23·98 crores on the 31st March 1923, amounts to 4,84·27 crores on the 31st March 1924, while the sterling debt has risen from 304 million pounds on the 31st March 1923 to 322½ million pounds on the 31st March 1924.

29. This brings me to the general question of the provision made for debt redemption annually in our expenditure for sinking funds. So long as we have a considerable annual programme of new productive capital expenditure, any provision for sinking funds operates, not to reduce the net total of our debt, but to reduce the amount of it which is unproductive, and the amount provided becomes in effect a contribution out of revenue towards productive capital expenditure. Instead, therefore, of speaking of such a provision by the convenient but misleading title of a sinking fund, it is preferable to describe it as a contribution out of revenue for reduction or avoidance of debt.

30. The amount provided for reduction or avoidance of debt in the Estimates for 1923-24 was as follows:

	(Rs. Lakhs.)	(Rs. Lakhs.)
<i>In India—</i>		
1½ per cent. Depreciation Fund against—		
5 per cent. Indian War Loan, 1929-47	41	
5 per cent. Tax-free Loan, 1945-55	33	
Lump sum addition to the above made in and since 1921-22	80	
		1,54
<i>In England—</i>		
	£	
War contribution—annual instalment in repayment of principal	442,900	
Railway Annuities (capital portion) and sinking funds	1,544,300	
Total in England	1,987,200	
Which at Rs. 15=		2,98
Total provision		4,52

As I have already explained, the special optional addition of 80 lakhs, made in and since 1921-22 to the depreciation fund for the two 5 per cent. Rupee loans was not required during 1923-24. There was also a saving in exchange on the sterling items of 9 lakhs, so that the total actual expenditure for reduction or avoidance of debt during the year will have been Rs. 63 lakhs.

The corresponding figures for 1924-25 on the same basis would be Rs. 65 lakhs including the special 80 lakhs and Rs. 85 lakhs excluding those 80 lakhs. An addition of 14 lakhs has to be made to the Depreciation fund for the 5 per cent. tax-free loan 1945-55 as the result of the further issue of that loan last summer. The balance of the difference between the figures for the two years is explained by exchange variations and by an automatic increase in the capital portion of certain annuities.

31. It will be remembered that a year ago there was some discussion in connection with the Budget of the propriety of charging to capital that portion of the Railway annuities, provided in the Railway grant, which represents repayment of capital. In accordance with a promise which I made last year, we have now reconsidered this particular charge in connection with the general subject of debt. We have come to the conclusion that this charge should henceforth be excluded from the Railway budget, but treated along with our other provision in the general budget for the reduction or avoidance of debt. By so treating it, we are able to get a clear picture of what exactly is our total provision out of revenue against our total debt and to consider whether it is sufficient. In order to do this we must first ask what is the basis on which our present total provision rests and what ought to be the basis. Why, in fact, did we provide 4.52 lakhs in 1923-24 and was that an adequate total?

32. It appears on examination that the present provision is largely the result of accident. We happen to have entered into certain contracts with third parties, such as the contracts with railway companies to buy up their property by means of terminable annuities, and the contract with subscribers to our 5 per cent. war loans to provide a depreciation fund. These contractual obligations account for 3.72 lakhs in the Budget Estimates for 1923-24. The only optional payment was the extra 80 lakhs for additional depreciation funds for the 5 per cent. loans. It is obvious that a total made up in this way does not represent a considered plan, and that the aggregate of individual items does not necessarily conform to any criterion of what our total provision should be. Let me give an example of what I mean. Let us suppose that we come to the conclusion that 3.99 crores, which with exchange 1s. 4d. is the aggregate of the obligatory items in 1924-25, represents almost exactly what ought to be provided. Suppose further that in the course of the next few years the money required for new productive capital expenditure and the money needed to meet the large total of maturing bonds were raised mainly or entirely by the issue of one or other of the 5 per cent. loans to which a contractual depreciation fund attaches. A large addition would then have to be made to our provision for depreciation funds. It is, of course, proper that the provision for reduction or avoidance of debt should grow with the growth of our total debt. But is there any reason why it should grow by exactly the amount of the depreciation funds? And in so far as the new borrowing merely represents the replacement of maturing bonds is there any reason for an increase at all?

33. We are clearly in need of some criterion and we should aim at a regular programme based on stable and well considered principles, not

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subject to haphazard changes. The best way of arriving at such a programme is, I think, to take the gross total of our debt, examine the capital assets which we hold against that debt, and fix approximate periods within which it is desirable to amortise each category of debt. The gross total of our debt on the 31st March 1924, according to the figures already given, is approximately 9,17.53 crores. I exclude as before the 49.65 crores of Treasury Bills in the Paper Currency Reserve, for redemption of which statutory arrangements have already in fact been made in our Paper Currency Act. Of this total of 9,17.53 crores, 98.81 crores represents debt incurred on behalf of the Provincial Governments. Those Governments themselves provide for repayment to us of what they have borrowed, and proposals are under consideration for putting these arrangements on a more regular footing and for the establishment of a Provincial Loans Fund. For the purposes of the Central Government's provision for debt reduction, we may, therefore, exclude this sum of 98.81 crores as also the sum of 11.88 crores representing discount on past loans, leaving a net total of 8,06.84 crores, of which 5,78.39 crores is productive and the balance of 2,28.45 crores is unproductive debt.

84. It seems desirable, however, to analyse our unproductive debt a little further. Approximately 98 crores of it represent the accumulated deficits of the five years ending 31st March 1923. The building of New Delhi accounts for 9.85 crores. We are thus left with a figure of 1,20.00 crores which may be said to be our true war debt. It is reasonable to fix different periods for the redemption of different classes of debt. For productive debt 80 years is not too long. For unproductive debt generally a period of more than 50 years is not easily defensible. For repaying the debt due to our deficits or for such an onerous obligation as the building of New Delhi, shorter period, say 25 years for the first and 15 years for the second, ought to be taken, since in both cases the next generation of taxpayers is in danger of being called upon to provide sums which ought strictly to have been met out of annual revenue. War debt, on the other hand, however desirable it may be to meet war expenditure to the utmost extent possible out of war revenue, is the inevitable outcome of war conditions and part of the cost of war, and may legitimately be passed on to the generations which benefit by the sufferings and privations of their predecessors. *Per contra*, the fact that borrowing may be needed for emergencies such as war makes it most undesirable for a Government such as the Government of India to borrow for non-productive purposes in time of peace. It should manage to provide in peace time for the gradual amortization of all its debt. Moreover, the existence of a regular provision out of revenue for reduction or avoidance of debt will not only reduce the net amount of our new borrowings for productive purposes but will materially reduce their cost.

85. It is not possible in a Budget speech to treat the whole subject exhaustively and I do not pretend that the periods suggested above are the only possible or reasonable periods to take. But for the purpose of my argument they will serve well enough by way of illustration. If we take the periods named and apply them to the different classes of debt mentioned and assume further that any sums provided year by year were set aside to accumulate at 5 per cent. compound interest, we obtain as our result a figure of 3.66 crores as the amount which it would be necessary, on the above basis, to provide annually beginning with the year 1924-25 to redeem the whole debt within the periods

named. But it would not be convenient or desirable to set this sum aside year by year to accumulate at compound interest in the manner assumed in the calculation. It must be expended in the year in which it is provided either on actual repayment of existing debt or for new capital purposes in order to reduce the amount of our new borrowings. By so using it, we reduce the amount we have to pay in interest in the future. We could, indeed, obtain a result equivalent to accumulation at compound interest if we first of all provided 3.66 crores in 1924-25, and then set aside in 1925-26, in addition, a sum equivalent to 5 per cent. interest on 3.66 crores, and so on in future years. In that case the sums actually required during the next five years would be:

(In crores of Rs.)				
1924-25.	1925-26.	1926-27.	1927-28.	1928-29.
3.66	3.81	4.04	4.24	4.45

36. This would, however, be rather a cumbrous arrangement, and in view of the hypothetical nature of some of the data on which the calculation is based, for example, the assumption of a rate of exactly 5 per cent. for the interest, it would be better to achieve the results desired by some more simple process. The same amount of debt would be redeemed if a provision of 4.04 crores were made in each year for the next five years. We may therefore conclude that a figure of 4 crores per annum would be an adequate provision to include in our Budget expenditure for the next five years for dealing with our existing debt.

37. I do not mean that we ought to lay down finally as a law of our financial system that a provision of 4 crores per annum shall be made in each of the next five years. In any case I must remind the House that this figure makes no provision for the further debt which will be incurred during 1924-25 and thereafter. The criteria which I have suggested evidently require that an addition should be made each year for all new debt incurred. On the assumption, which I hope will prove correct, that such debt will (with the one exception of the expenditure now nearing completion on New Delhi) be entirely for productive purposes, the annual addition might be a sum equal to one-eightieth of the net addition to our debt during the year. It is much to be desired that in the near future we should arrive at a definite programme—it might with advantage be a statutory programme—for dealing with this subject. For the present, however, I am content to deal with the year 1924-25 only, leaving for further consideration in the light of the discussion which will, I hope, be provoked by what I have said, the final determination of our future programme.

38. The House will not fail to observe that the figure of 4 crores is almost exactly the figure of our obligatory payments. This coincidence is satisfactory as showing that our provision for dealing with our debt hitherto has been a reasonable one. It also provides a further justification for the omission of the optional item of 80 lakhs for additional depreciation fund. In view of the strength of the market for Government securities, this extra 80 lakhs is clearly not required for its specific purpose.

Separation of Railway Finances from General Finances.

39. Before coming to grips with the figures of the general Budget for 1924-25, I must devote attention to one more special subject, the subject of Railway Finance. Honourable Members have all seen the Resolution on the subject of the separation of the Railway Budget from the ordinary Budget which has been

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on the table of the House for some days. I know of no reform which offers greater attractions and greater benefits to our finances and our Railways alike than a definite separation, if it can be achieved. The condition of affairs hitherto prevailing has inevitably tended to an alternation between raids by the Railways on the taxpayer and raids by the taxpayer on the Railways. If we can succeed in putting an end to this state of affairs, we shall have achieved a piece of genuine constructive work, for which the credit will be, in large measure, due to the initiative of the legislature which has pressed the problem upon the Government. It is proposed that time shall be set apart on Monday next for a full discussion of the Resolution on this subject. I must not, therefore, delay the House now by dwelling upon it. I want only to say that in my opinion the reform proposed will bring us valuable dividends in our future budgets, and at the same time lead to great economies in the working of our Railways. It will give them a real incentive to increase their efficiency and to provide better service at reduced cost to their customers, the Indian public.

40. In the figures of the general Budget as presented, the return which we expect to receive from our investment in the Railways is included in accordance with the new settlement now proposed. The taxpayer, instead of paying the whole of the expenses and taking the whole of the incomes of the railways, will enter into a bargain with the Railways to receive from them (a) a sum sufficient to pay in full the interest on the capital he has invested in the commercial lines, (b) an additional dividend of five-sixths of one per cent. on that capital and (c) a share of one-fifth of any surplus earnings that may be secured in addition. In return, the railways will be left to carry on their business with the right to retain any surplus over and above what they pay to the Government and to apply it to railway purposes, first of all for creating reserves and then by using those reserves to improve the services they render to the public and reduce the price which they charge for those services. The Government of India and this Assembly will remain in complete control of the Railway Administration just as they now are. That control will be in no way impaired. But there will no longer be any need to consider from the narrow standpoint of their effect upon the general revenues in a particular period of twelve months, that is in a particular Budget period, proposals by the Railway authorities which, though excellent and desirable in themselves, might, under the present system, upset the apparent equilibrium of the Budget for the year. The taxpayer will secure a regular and increasing contribution from his investment, largely independent of fluctuations in railway receipts and expenditure, and the railways will be able to spend money according to the real needs of the railway system, unimpeded by the necessity for conforming to the vagaries of Budget figures and the requirements of Budget accounting. The Railways will become a real commercial undertaking managed on commercial lines, and the taxpayer will get the benefit of commercial accounts and management.

41. Among the papers which are being circulated with the speech, Honourable Members will find statements showing, first, how the net contribution by the railways to general revenues is arrived at under the proposed new settlement, and second, a comparison of the figures under the two systems showing what the contribution would be under the old system. The main figures in the Railway Budget framed according to the proposed new plan are, traffic receipts 97.07 crores, working expenses 65.28 crores, interest and other charges 26.23 crores, leaving 1,33.48 lakhs

as reserve and 4,27.80 lakhs as the net contribution to general revenues. Under the old system the net contribution is 4.16 lakhs. It is necessary, however, to mention one special point. One of the results of the close scrutiny of Railway finances which has taken place during the past year has been to bring to light a difference on the wrong side between the value of stores held for the capital suspense account and the true market value of those stores. Some of them are not now required for railway purposes and must be sold for what they will fetch. Others are required but are worth less than the figure at which they stand in the books. It becomes necessary, therefore, to write off 3 crores from the Capital account and this can only be done by a charge against revenue. The loss has been accumulated over a series of years and is partly the result of the large rise in prices after the war and the subsequent slump. How are we to deal with this charge of 3 crores? It is necessary that the loss should be written off at once in order to enable us to arrive at a proper valuation of the East Indian and the Great Indian Peninsula Railways when they are taken over by the State. If we were in a position to do so, we ought undoubtedly to provide this 3 crores out of the revenue of 1924-25. Under the settlement proposed to be made with the Railways, this charge will be taken over by them and spread over a period of ten years, during which there is reason to believe that they will be able to meet it out of their share of surplus profits. Under the old system there is no provision for building up a reserve out of profits, as profits are taken automatically into general revenues for the year in which they accrue. There is, therefore, less justification for spreading the charge. If, however, the whole 3 crores were charged against the revenue of 1924-25, the contribution of the railways to general revenues during the year would be reduced almost to vanishing point. I trust that the need for deciding this difficult point will be avoided by the adoption by this House of the proposed system of commercial accounting and separation of the railway finances. But in the contrary event, there seems to be no better solution than to set up a special provision of 80 lakhs a year, beginning with 1924-25, to amortise the debt in ten years, and it is only by this unsatisfactory device that the figure of 4.16 crores for railway net receipts on the present system is arrived at.

BUDGET ESTIMATES FOR THE YEAR 1924-25.

42. I have, I am afraid, already taxed the patience of the House as severely as the Government are accused of taxing the people of India. But the subjects of Debt Redemption and Railway finance have an interest far beyond the immediate question of the Budget of 1924-25, and it was necessary to deal with them at some length in order to prepare the way for the Budget statement itself. Two other subjects, which are of immediate importance for the year 1924-25, must still be disposed of before I am in a position to present the figures for which the House is waiting. The first of these is the question of making Government stores liable to Customs Duty and the second is Exchange.

43. I have already referred to the complications caused during 1923-24 by the decision of the Bombay High Court which brought stores purchased for Company Railways into the category of "Government stores". Proposal to charge imported Government stores to customs duty. We hope that the decision of the Privy Council will upset this ruling on appeal. But quite apart from that question, we have come to the conclusion that the time has arrived when Government stores should be treated

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for Customs purposes like any other imports, and as the House is aware, we have introduced a Bill to rescind the proviso to section 20 of the Sea Customs Act by virtue of which Government stores are admitted duty free.

44. The Budget figures are presented on the assumption that this Bill will become law. The effect is to add about 1,63 lakhs to our estimate of revenue and about 58 lakhs to our general expenditure, of which 25 lakhs occur under the head of Military expenditure and 22 lakhs represent the assignments to be made to Provincial Governments during 1924-25 to compensate them for the duty which they will have to pay. An additional charge of about 1,10 lakhs to Railways is also involved, partly Revenue and partly Capital. Of this 1,10 lakhs about 90 lakhs would in any case accrue if the decision of the Privy Council were in our favour. It has been the practice hitherto to take credit to Revenue for customs duty on stores imported by company-managed Railways for capital purposes even when the capital is provided through the Government of India. We thereby get an increase in revenue at the expense of an increase in capital. It is true that the capital is spent on productive purposes and that the Railways are expected to charge their customers fares and freights sufficient to pay interest and earn profits on capital expenditure. But there are obvious objections to increasing revenue at the expense of capital and this system will be reconsidered during the course of the year. It is not proposed to change it in the present Budget, in so far as the company-managed lines are concerned. But we think it would be unsound to extend the practice to State Railways, which will now have to pay Customs duty on the stores they import. It is accordingly proposed to earmark as a special contribution from Revenue to Capital a sum equivalent to the duty collected from State Railways on stores imported by them for capital purposes. The amount in 1924-25 is estimated at 11 lakhs. It will be larger by 30 lakhs in 1925-26 when the Great Indian Peninsula and East Indian Railways are taken over by the State, and the fact of their transfer to State management will thus automatically reduce the extent of the objection to the present system in the case of company-managed lines. The amount of duty on stores for company-managed lines which involves a debit to capital in 1924-25 is estimated at 51 lakhs.

Exchange.

45. It will be remembered that in the Budget estimate for 1921-22 a rate of 1s. 8d. per rupee was taken for the purpose of converting into rupees that part of our expenditure which is in sterling. The Government were supposed to have made a prophecy or even a promise that the average rate for the year would be 1s. 8d. and were severely criticised when the rate fell far below that figure. This year and the year before the rate taken was 1s. 4d., which proved just about right in 1922-23, while in 1923-24 the average rate has been 1s. 4½d. What rate are we to take for 1924-25? The figures were prepared in the first instance on the basis of a 1s. 4d. exchange, but are we content to leave them on that basis? If we do so and the rate for the year averages 1s. 4½d. we shall have over-estimated our expenditure to the extent of 88 lakhs (apart from Railways) and if the average rate were as high as 1s. 5d. we shall have over-stated our outgoings by 1.71 crores. Is the House prepared to pass our Demand

Grants on the basis of 1s. 4d. at a moment when the market rate has been almost continually above 1s. 5d. for nearly four months?

46. But if we do not take 1s. 4d. what rate are we to take? The Government of India cannot prophesy or promise any particular rate, and he would be a bold man who ventured any confident statement in complete ignorance, as he must be, of the nature of the 1924 monsoon, the course of events in the Ruhr and elsewhere, and the movements of the dollar-sterling exchange. We are compelled to adopt some definite figure and yet we are entirely unable to control the events which will determine the accuracy of whatever figure we may adopt. After careful consideration we have decided to frame our forecast on the basis of an average rate for the year of 1s. 4½d. or ½d. better than the actual average in 1923-24.

Expenditure.

47. We are now at last in a position to proceed to a balance-sheet for 1924-25. I begin with the expenditure side.

Military expenditure for 1924-25 is estimated at 63 crores gross and 60·25 crores net, which includes a saving on Military expenditure. Exchange of 68 lakhs. On the basis of 1s. 4d. to the rupee, the net amount required would be 60·98 crores. In order to assist comparison with the current year the remaining figures of Military expenditure which I shall proceed to give will be on the basis of 1s. 4d. to the rupee.

48. Established charges come to 59 crores which compares with the Revised estimate of 60½ crores and the original Budget figure of 61·94 crores for 1923-24. But 25 lakhs is included in the 1924-25 figure for the payment of customs duty on imported stores, which was not required in 1923-24. We shall require 30 lakhs for roads and barracks in Waziristan and 1·63 lakhs for special terminal charges. If we exclude the special sum of 25 lakhs representing customs duty, which will come back as revenue, the established charges will amount to 58½ crores as against the figure of 59·88 crores assumed by the Retrenchment Committee. The non-recurrent saving arising from reduction in stocks cannot of course be repeated for next year. But we have managed to reduce the established charges below the Committee's figure—an achievement for which we are greatly indebted to the vigilance of His Excellency the Commander-in-Chief and his keen anxiety to effect all possible economies which do not interfere with the essential structure and organisation of the reduced Army.

49. Full information about the action taken on the detailed recommendations of the Retrenchment Committee has already been supplied to the House. I may remind Honourable Members that the Committee expressed the view that in matters of detail the Commander-in-Chief must be left a certain amount of discretion in carrying out their proposals. As the financial effect of the retrenchments actually secured is not less than the total specific economies recommended by the Committee, the Government can rightly claim that they have given full effect to the Committee's recommendations. We have not overlooked the fact that the Retrenchment Committee expressed the opinion that the adoption of their recommendations would enable the Military estimates to be reduced in subsequent years to about 57 crores and ultimately to 50 crores, though, as they stated, the Commander-in-Chief did not subscribe to this opinion. Their specific recommendations, however, worked out to a figure of 57½ crores

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which included the special non-recurrent saving of 2½ crores from reduction in stocks. There was thus a gap of 3 crores between the figure arrived at as a result of the specific recommendations of the Committee and the figure of 57 crores. Further the Committee took no account of the inevitable increase in non-effective charges. Owing to a growth in the pension list, which has been accelerated by reductions of personnel, the provision for non-effective charges included in the established charges of the Military services is, on the basis of a 1s. 4d. rupee, 85 lakhs higher in the Budget of 1924-25 than in the Budget of 1923-24. It is evident, therefore, that the goal of 57 crores is not immediately attainable. For the last year our energies have been fully occupied in securing the actual retrenchments specifically recommended by the Retrenchment Committee. But I am not without hope that, with the continued co-operation of His Excellency the Commander-in-Chief, it may be possible further to reduce the level of the established charges of the Military services in 1925-26, though unfortunately we have reason to anticipate that terminal charges will be specially heavy in that year.

50. On the Civil side also, we have given effect to almost all the recommendations of the Retrenchment Committee and Civil expenditure generally has been kept low. Under Opium, we are able to count on a decrease of 49 lakhs as compared with the current year's expenditure, as the special payments necessitated this year by an increase in the outturn of the last crop should not recur. A provision of 25 lakhs has been made, as I have already mentioned, for *ex gratia* payment of compensation to private individuals who suffered from enemy action during the war, but it can be met from an equivalent sum set apart from the windfall from the working of enemy ships. Eliminating Railway transactions, which cease to be a direct charge on Central revenues under the new arrangements which I have explained, our total expenditure amounts to 1,04.57 crores. What is the revenue on the basis of existing taxation from which to meet it?

Revenue.

51. We expect a net customs revenue for 1924-25 of 45.02 crores against 40.42 crores now expected in Customs. the current year. The former figure includes the extra 1.63 crores already mentioned on account of duty on imported Governments stores including Railway stores. Apart from this special factor, the estimate of revenue for 1924-25 allows for the higher tariff valuation for sugar which came into force from the 1st January last and for a normal expansion of revenue under other tariff heads.

52. Some small changes in the tariff are being proposed in the Finance Bill, the most important, being the reduction of the Excise Duty on Motor Spirit to 4½ annas a gallon, which will cheapen motor spirit without loss to our revenue, and the imposition of specific duties on empty match boxes and splints, in order to protect our match revenue. I ought perhaps to add in passing that for Budget purposes it has been necessary to assume that the final outturn of 1924-25 will be unaffected by any changes which may be introduced into our customs tariff as the result of the recommendations of the Tariff Board.

53. Under Income-tax, the unsatisfactory condition of the Bombay mill industry in the current year will reduce our revenue in that province in 1924-25, but this decline in revenue should be partly set off by increases in other provinces, and we do not anticipate a reduction of more than 85 lakhs on the net revenue expected for the current year, making the total figure 18·22 crores.

54. We expect no material variation in the estimates under other heads of revenue, except under Currency where the investments in British treasury bills made out of the large sterling remittances effected in the current year will result in an increase in revenue of about $\frac{1}{2}$ crore. We propose that the interest on investments of the Currency Reserve as well as the surplus holdings in the Gold Standard Reserve in excess of £40 millions should, as in the current year, continue to be credited to revenue.

55. The net budget estimate of expenditure of the Indian Posts and Telegraphs Department is 9·03 crores. The revenue for 1924-25 is put at ₹10·14 crores. These figures are not comparable with those presented a year ago owing to the inclusion on both sides of certain items not hitherto included. The changes introduced represent the results so far achieved in the attempt to present commercial accounts. It had been hoped that it would be possible to have a commercial account ready for this Budget, but, partly owing to the desirability of awaiting a settlement of the cognate problems in the commercialisation of the Railway accounts, we have had to be satisfied with something less this year. We are able, however, to include in the detailed estimates a profit and loss account which indicates that the actual profit for 1924-25 will be about 24 lakhs.

56. It will be remembered that the Retrenchment Committee laid considerable stress on the large amount of capital locked up in stores. The actual balance in stock in the case of this Department has been reduced from ₹257 lakhs to ₹196 lakhs during 1923-24, and by the 31st March 1925 it is expected that the figure will have been brought down to less than 1 crore.

Surplus.

57. Replacing the net receipts from Railways by the fixed contribution of 4·27 crores, we thus arrive at a total revenue estimate of 107·98 crores, giving us, on the basis of existing taxation, a surplus of 8·36 crores. How are we to utilise this surplus? I see many claimants. I should like to have been able to reduce some of our Customs duties which in certain cases are undoubtedly hampering trade, though not, I think, so much as has been contended in certain quarters. It is tempting to consider a reduction here and there of some of our charges for postal and telegraph services; these, however, must wait till we know more exactly what the real surplus on the working of the Posts and Telegraphs is. Then there are the Provincial contributions. We had some discussion on these a few weeks ago, and the desirability of getting rid of them was widely recognised. So long as they remain unreduced, we are in the position of having over 9 crores of prior obligations between us and the things we should like to do with our surplus. Moreover, the existence of this liability is a constant source of bitterness in the relations between the different Provincial Governments, and between the Government of India and the Provincial Governments, not excluding Bengal, whose three years of grace expire at the close of 1924-25. A beginning of reduction is being eagerly anticipated by the Provinces, especially by Ministers who are anxious to develop the services under their

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charge and are severely hampered by lack of cash. Undoubtedly the Provincial contributions have a very strong claim. And finally there is the salt tax. It was raised from ₹1-4 per maund to ₹2-8 per maund this year owing to the paramount necessity of balancing the Budget. To reduce it to ₹2 per maund would demand 1-82 crores out of our surplus, to reduce it to ₹1-4 per maund would take away ₹3-32 crores, that is, would devour practically the whole surplus.

WAYS AND MEANS.

58. But perhaps it would be better if, before continuing this exciting inquiry, I were to divert your attention for a moment to that necessary but less exciting portion of the annual Budget Statement—our Ways and Means Budget.

The following statement summarises the Ways and Means operations in India and England together during 1923-24 and 1924-25:

<i>Liabilities.</i>	[Crores of Rs.]	
	Revised.	Budget.
Railway capital outlay	23-6	30-0
Delhi, Irrigation and Telegraph outlay	2-8	3-2
Discharge of funded debts, etc.	5-2	1-0
Discharge of Treasury Bills with the public	19-5	2-1
Loans to Provincial Governments	11-3	12-7
Drawings of Provincial Governments from their balances	2-3
	<hr/> 62-4	<hr/> 51-3

Met as follows:

Central Government's revenue surplus	2-1	...
Surplus revenues of Provincial Governments	5-0	...
Rupee loan	23-1	20-0
Sterling loan	16-2	...
Net receipts from Post Office Cash Certificates	5-1	1-5
Net receipts from Savings Bank deposits	5-3	6-0
Miscellaneous items	2-3	7-9
Reduction of cash balances	1-0	15-0
	<hr/> 62-4	<hr/> 51-3

59. I have already referred to the satisfactory receipts from Post Office Cash Certificates in the current year and to the practical extinction of Treasury Bills issued to the public. I want to draw special attention to three further points in these figures, the amount of our proposed Rupee borrowings, the position in regard to our sterling remittances, and the absence of any provision for new sterling borrowing. The last is a very satisfactory feature in view of the onerous obligations for the future which the provision of interest and sinking fund on external debt involves. I must,

however, remind the House that our Ways and Means Budget figures are necessarily illustrative rather than exact, and in particular I must not be taken as saying that in no circumstances will the Government of India borrow abroad during 1924-25. Something must depend on the relative cost of borrowing inside and outside India. But all indications point to our being able to meet all our capital requirements and all our sterling requirements in 1924-25 without issuing any external loan.

60. Moreover, we hope to achieve this while at the same time reducing our demands on the market in India, where, thanks to the reduction of our total requirements for new capital, we expect to be able to limit ourselves to a rupee loan of not more than 20 crores as against the total of 24 crores in 1923. We are assisted in reaching these results by having built up during 1923-24 a large reserve against our sterling needs during 1924-25. Our total purchases of sterling, whether by purchases in India or by sales of rupees in the form of Council Drafts in London, during 1923-24, are estimated to amount to £26½ million. During the summer we drew £5,850,000 in sterling from the Paper Currency Reserve against payment into the Reserve in India. On the other hand, in order to take advantage of the more attractive rates at which sterling has been obtainable during the winter months and at the same time to do something to mitigate stringency in the Money Market, we have remitted no less than 12 crores to London against issues of Paper Currency in India. We shall start the year 1924-25 with £14 millions in sterling securities in the Paper Currency Reserve, all of which we can, if necessary, apply towards meeting our sterling outgoings. But if conditions are at all similar in the winter of 1924-25 to those which prevailed this year, we may have to replace some of the amount so applied during the summer in order to meet the requirements of the Indian Money Market in the winter. We have, therefore, assumed a net draft on these sterling reserves of £10 million. The Ways and Means figures given above ignore, it will be noticed, any revenue surplus in 1924-25, and they are subject to modification in the light of the final decision as to the use of that surplus.

FINAL PROPOSALS.

61. This brings me back to the problem of what to do with our surplus. It is one of the ironies of fate that the boon which a Finance Member most desires—a Budget surplus—is frequently the cause of more embarrassment to him than anything else. He has first to examine carefully whether he can safely give away any part of his surplus without laying up a store of trouble for future years. We do not want to remit taxation or give away part of the Provincial contributions this year and then be faced with the necessity of imposing additional taxation next year or the year after. How do we stand in this respect? When the 1923-24 Budget was framed we doubted our ability to effect within the year all the retrenchments which we had under consideration. We were justifiably in doubt whether our revenue estimates were not unduly sanguine. We managed just to balance our Budget on paper, and though it is still doubtful whether the ordinary revenue will quite cover the ordinary expenditure, we have at any rate reached equilibrium. But we attained our balance this year only by special cuts in certain directions which could not possibly be recurrent. I have already explained the way in which this use of non-recurrent savings affects the comparison between the Military budgets for 1923-24 and 1924-25. In the case of the Railways, we made an even less satisfactory saving which

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was not merely non-recurring but involved the postponement of urgently necessary works of rehabilitation. The cut in Programme Revenue Expenditure in 1923-24, justifiable as it was in all the circumstances, makes it all the more necessary that money should be found in 1924-25. In 1923-24, therefore, even if our paper surplus had been more assured, it would have been an unthinkable act of improvidence to have given up any part of the Provincial contributions. We need not perhaps stop to consider whether it would have been proper to give away to the Provinces the proceeds of a tax not agreed to by the House.

62. The Budget for 1924-25 as it stands gives us, I am happy to assure the House, a sounder basis on which to build. I must admit that the estimates of Revenue are still experimental. This is inevitable in the present disturbed state of the world. If our estimate of Customs revenue is a little more cautious than in 1923-24, there are reasons for thinking that our estimate of Income-tax receipts in 1924-25 may be optimistic. But on the expenditure side, there are no such large non-recurrent cuts as disturbed the prospects a year ago, and we are justified in looking forward to the early disappearance of special war and terminal charges, though I have warned the House that the charge for surplus officers may be rather larger in 1925-26 than in 1924-25. Our Railway Budget will, I hope, be established from henceforward on sound commercial principles. Our provision for debt is, as I have shown, not unsatisfactory. Urgently desirable expenditure on new works is still postponed for financial reasons, but this at any rate is what I can call optional expenditure. We must not, indeed, forget that a poor monsoon is due before long. On the other hand, a real improvement in trade would appreciably increase the yield from our existing taxation. We have, moreover, to remember that a contribution of 68 lakhs will be due from Bengal in 1925-26. All things considered, we are justified in regarding the surplus of 8-36 crores as a real surplus, and I come back to the two claimants which the House will, I feel sure, agree to be the only possible ones, the Provincial contributions and the Salt Tax.

63. There is one important distinction between these alternatives. If we retain taxation at its present figure and give away our surplus in whole or in part to the Provincial Governments, we can face the year 1925-26 with some hope not merely of again achieving a balance but with the brighter expectation that some further reductions in expenditure or some normal growth in the yield of our existing sources of income will again give us a small surplus. If, however, we were to reduce the salt tax to ₹1-4-0 per maund, we have an initial deficiency of 2-16 crores to face in 1925-26. The receipts in 1924-25 would be abnormal partly because dealers would at once replenish their depleted stocks if the duty were reduced to ₹1-4-0 and partly because we give the dealers six months' credit. For the first five months of 1924-25, we shall in any case be collecting some revenue at the rate of ₹2-8-0 a maund. A reduction to ₹1-4-0 in the 1924-25 Budget would not, therefore, have its full effect on our figures till 1925-26. The same would be true of a reduction to some intermediate figure, though of course to a smaller extent.

64. One further objection to a reduction of the Salt Duty is that, as I have already shown, the hope that the enhanced rate would endure for one year only has induced dealers to run down their stocks and they have thus to a great extent managed to evade payment of the full duty. It is

believed that they cannot reduce stocks much further, and a decision by this House to retain the duty at Rs 2-8 would make them give up hope of pocketing the special profits which they have been trying to secure. They would gradually replenish their stocks and the Exchequer would no longer fail to obtain its due revenue. If the tax is reduced to Rs 1-4, they will certainly succeed in retaining for themselves part of what they ought to have paid to the Government and will not pass on the whole benefit to the consumer.

65. I know that many in this House regard reduction of the Salt Tax from a standpoint which includes wider considerations than those which are purely financial and economic. I am authorised to say that the choice will be left to the House. We are not, as last year, confronted by the vital distinction between a Budget which balances and a Budget which does not.

66. But are the economic objections to the salt duty so great as to justify the House in giving up this recurrent source of revenue at a time when the Provincial contributions remain unreduced, and the needs of the Provinces are as great as they are to-day? We have a sum of over 9 crores between us and a Budget which balances without the assistance of the Provincial contributions. If we reduce the salt tax to Rs 1-4, we are in truth proclaiming to the Provinces that neither in 1924-25 nor in 1925-26 can we offer them any certain prospect of relief. We are at the same time postponing indefinitely the date at which we can foresee any reasonable possibility of reducing other onerous taxes or increasing our expenditure on beneficial services. It is a message of despair to all those who are looking to expenditure, whether by the Central Government or by the Provincial Governments, for the amelioration of the conditions of life, and for improved educational and sanitary services, throughout India.

67. Let not the House deceive itself. We certainly hope for progressive reduction in our Military expenditure, for progressive improvement in the yield of our existing sources of revenue. We hope too that the Committee on Taxation will be able, in due course, to recommend important improvements in the machinery and scope of our taxation system, so that it may be possible for India to raise in taxation an amount equal to what she raises to-day at less sacrifice to the tax-payer. But the results of this inquiry can hardly be available in time for the 1925-26 Budget, and the improvements in our position for which we may look owing to reduced expenditure and increased yield from existing taxes can hardly do much more in 1925-26 than fill the gap of over two crores created by the loss of salt revenue. We have once again explored with exhaustive care the practicability of alternative taxation, and we are unable to recommend any alternative. We cannot, as I have already shown, afford to contemplate reduction of the Provincial contributions by postponements of inevitable expenditure or by any devices, even if they were available, which will merely improve the appearance of one year's Budget by laying up trouble for the next. And we cannot return to the era of unbalanced Budgets. The choice is clear and unambiguous. We can, if we like, reduce the salt tax to Rs 1-4, but by so doing we do a definite disservice to the true interests of India's finances.

68. But, it may be said, is there not a middle way? A reduction to Rs 1-4 costs us Rs 3-82 crores in 1924-25 and a further Rs 2-16 crores in 1925-26, making a total loss of Rs 5-48 crores in 1925-26. Thereafter, allowing for normal growth in yield, the annual recurrent loss is in the neighbourhood

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of 6 crores. A reduction to Rs2 per maund involves a loss in 1924-25 of Rs1.82 crores and little more in 1925-26. With the salt tax fixed at Rs2 per maund by the verdict of this House, the disturbing factors which have upset the calculations in 1923-24 in regard to issues of salt would be eliminated, and though the dealers would, it is to be feared, succeed in making some of the special profits which they have had in view in reducing their stocks, their gains would not be so appreciable as would result from a reduction to Rs1-4. A reduction of the salt duty to Rs2 per maund would still leave us with a surplus of 154 lakhs in 1924-25, and the extra loss in 1925-26 is so small that we could afford to ignore it. Even though on purely financial and economic grounds they may be doubtful of the desirability of reducing taxation in face of the claims of the Provinces for reduction of their contributions, are the Government not prepared to adopt this middle course?

69. After full consideration of all the special circumstances, the Government of India have decided not to ask the House to continue the salt duty at Rs2-8 a maund. But in view of their repeated pledges on the subject of the Provincial contributions, and still more because they are convinced that even the poorest Indian—and perhaps the poorest most of all—will benefit far more by the maintenance of sound finances in the Central Government and by a beginning of a reduction in the Provincial contributions, they have decided that the middle course is the right course. They propose to divide the surplus between the two claimants.

70. The recommendation of the Government of India therefore is, and I desire to make it clear to the House that this recommendation is made after full consultation with the Secretary of State and with his full approval and support, that out of the surplus of 3.86 crores a sum of 1.82 crores be applied to reducing the salt tax from Rs2-8-0 per maund to Rs2 per maund and that a sum of Rs1.50 crores be applied to a reduction of the Provincial contributions. This will give immediate relief to four provinces. It will reduce the contribution of Madras from 348 lakhs to 268 lakhs. It will reduce the contribution of the Punjab by 38 lakhs, from 175 lakhs to 137 lakhs. The contribution of the United Provinces will be reduced from 240 lakhs to 210 lakhs, a reduction of 30 lakhs. Burma will get a small reduction of 2 lakhs on its contribution of 64 lakhs.

71. I do not wish to appeal to provincial particularism. We here represent the whole of India. As I said a few weeks ago, borrowing the words of the Honourable Pandit Madan Mohan Malaviya, this is a national question and should be looked at from a national standpoint. The Devolution Rules prescribe the proportions in which each province's contribution is to be reduced as money becomes available. The provinces named are the first to get relief. But "well begun is half done." The turn of the others comes next and their prospect of reduction is brought so much the nearer by the clearing away of prior claims. But more important still is the interest of India as a whole in making a beginning in dealing with this running sore of the Provincial contributions. This House, in the first year of its life, has an opportunity of helping to make good the financial basis of the Reforms from lack of which many of the difficulties of the last three years have sprung. The Government of India ask the co-operation of the Assembly in enabling them so to manage the finances of the country that the way may be clear for constitutional progress unhampered by any impediments arising from financial disorders.

STATEMENT I.

Statement comparing the actual Revenue and Expenditure of the Central Government (Imperial Revenue and Expenditure before the Reforms) with the Revised Estimates for each year from 1913-14 to 1922-23.

(See paragraph 2 of speech.)

[In thousands of Rupees.]

	REVISED ESTIMATES.			ACTUALS.		
	Revenue.	Expenditure.	Surplus (+) Deficit (-)	Revenue.	Expenditure.	Surplus (+) Deficit (-)
1913-14 . .	80,66,56	78,43,56	+ 2,23,00	81,32,71	77,85,85	+ 3,46,86
1914-15 . .	74,89,38	79,07,23	-4,17,85	76,15,35	78,23,14	-2,07,79
1915-16 . .	78,89,08	81,58,21	-2,69,13	80,00,96	81,79,26	-1,78,30
1916-17 . .	97,25,67	88,27,37	+ 8,98,30	98,58,10	87,31,37	+ 11,21,73
1917-18 . .	1,14,84,48	1,06,37,74	+ 8,56,74	1,18,70,58	1,06,57,52	+ 12,13,06
1918-19 . .	1,27,94,65	1,34,79,88	-6,85,23	1,30,40,06	1,36,18,72	-5,78,66
1919-20 . .	1,44,07,56	1,59,18,67	-15,11,11	1,37,13,98	1,60,79,27	-23,65,29
1920-21 . .	1,35,10,35	1,46,03,61	-12,93,26	1,35,63,32	1,61,64,17	-26,00,85
1921-22 . .	1,13,15,32	1,41,34,53	-28,19,21	1,15,21,50	1,42,86,12	-27,65,02
1922-23 . .	1,30,70,17	1,37,95,82	-7,25,65	1,21,41,29	1,36,48,05	-15,01,76

STATEMENT II.

Calculation of the net contribution from Railways to General Revenues in 1924-25.

(See paragraph 41 of speech.)

(Figures in thousands of rupees.)

		Revised Estimate, 1923-24.
A.	(i) Capital at charge, all lines	6,45,80,91
	<i>Deduct—</i>	
	(a) for strategic lines	26,50,37
	(b) for capital contributed by Indian States and Railway Companies	74,90,40
		1,01,40,77
	(ii) Capital at charge, commercial lines	5,44,40,14
	(iii) Contribution at $\frac{1}{4}$ th of 1 per cent.	4,53,67
B.	(i) Gross traffic receipts, all lines	94,22,02
	<i>Deduct—</i> Receipts, strategic lines	1,97,23
	(ii) Gross traffic receipts, commercial lines	92,24,79
	(iii) Working expenses, all lines	60,96,00
	<i>Deduct—</i> Expenses, strategic lines	2,28,17
	(iv) Working expenses, commercial lines	58,67,83
	(v) Share of surplus profits paid to Indian States and Railway Companies	1,11,42
		59,79,25
	(vi) Net receipts, commercial lines [(ii) <i>minus</i> (iv) and (v)]	32,45,54
	<i>Add—</i> Subsidized Companies, Government share of surplus profits	23,27
	(vii) Total net receipts	32,68,81
	(viii) Interest on capital at charge, all lines	17,37,98
	<i>Deduct—</i> Interest, strategic lines	1,01,76
	(ix) Interest on capital at charge, commercial lines	16,36,22
	(x) (a) Interest portion of annuities in purchase of Railways	3,11,84
	(b) Interest on capital contributed by Indian States and Railway Companies	3,11,79
	(xi) Total interest charges, commercial lines	22,59,35
	(xii) Land and subsidy	7,41
	(xiii) Miscellaneous Railway expenditure	16,72
	(xiv) Total (xi), (xii) and (xiii)	22,83,48
	(xv) Net gain from commercial lines (vii) <i>minus</i> (xiv)	9,85,33
	(xvi) Contribution at $\frac{1}{4}$ th of 1 per cent. on capital at charge [A (iii)]	4,53,67
	(xvii) Surplus profits	5,31,66
	(xviii) $\frac{1}{4}$ th of surplus profits	1,06,33
	(xix) Total contribution [(xvi) <i>plus</i> (xvii)]	5,60,00
	(xx) <i>Deduct—</i>	
	(a) loss in working strategic lines	30,94
	(b) interest on capital at charge, strategic lines	1,01,76
		1,32,70
	(xxi) Net contribution	4,27,30

NOTE.—The contribution will in future years be calculated on the actual results of the penultimate year's working; but in 1924-25, the year of inception of the new system, on the results of the working in 1923-24. The net contribution of 4,27,30 shown in this statement is therefore subject to adjustment when the actuals of 1923-24 are known.

STATEMENT III.

Comparison of the contribution from Railways to General Revenues in the year 1924-25 under the present and proposed (separation) systems.

(See paragraph 41 of speech.)

Present system.		(Figures in thousands of rupees.)	
	Budget Estimate, 1924-25.	Proposed system.	Budget Estimate, 1924-25.
(i) Gross traffic receipts . . .	97,03,92	(i) Gross traffic receipts . . .	97,03,92
<i>Deduct—</i>		<i>Deduct—</i>	
(a) Working Expenses . . .	66,68,04	(a) Working Expenses . . .	65,23,04
(b) Share of Surplus Profits paid to Indian States and Railway Companies . . .	1,14,87	(b) Share of Surplus Profits paid to Indian States and Railway Companies . . .	1,14,87
	67,82,91		66,37,91
(ii) Net receipts . . .	29,24,01	(ii) Net receipts . . .	30,69,01
(iii) Subsidized Companies, Government share of surplus profits . . .	25,92	(iii) Subsidized Companies, Government share of surplus profits . . .	25,92
(iv) Total net receipts . . .	29,49,93	(iv) Total net receipts . . .	30,94,93
(v) (a) Interest on capital at charge . . .	19,18,05	(v) (a) Interest on capital at charge . . .	19,18,05
(b) Interest portion of annuities in purchase of railways . . .	2,97,56	(b) Interest portion of annuities in purchase of railways . . .	2,97,56
(c) Interest on capital contributed by Indian States and Railway Companies . . .	2,80,09	(c) Interest on capital contributed by Indian States and Railway Companies . . .	2,80,09
	24,95,70		24,95,70
(vi) Land and subsidy . . .	16,00	(vi) Land and subsidy . . .	16,00
(vii) Miscellaneous Railway expenditure . . .	22,45	(vii) Miscellaneous Railway expenditure . . .	22,45
(viii) Total (v), (vi) and (vii) . . .	25,34,15	(viii) Railway reserves . . .	1,33,48
(ix) Net contribution from Railways to General revenues [(iv) minus (viii)] . . .	4,15,78	(ix) Total (v), (vi), (vii) and (viii) . . .	26,87,63
		(x) Net contribution from Railways to General revenues [(iv) minus (ix)] . . .	4,27,30

NOTE.—The figure for Working Expenses is 1,45,00 less under the proposed (separation) system than under the present system, because :—

- (i) As an integral part of the proposed system the allocation of expenditure on renewals between Capital and Revenue will be revised; and with the revised allocation 1,15,00 is expected to be charged to Capital next year, which, under the present system, must be charged to Revenue.
- (ii) Under the present system 30 lakhs must be charged to Working Expenses next year, in order to write down to market prices the value of stores in stock, and to write off out of Revenue the loss involved in the sale of surplus and obsolete stores. Under the proposed (separation) system, this charge will be met from the Railway reserves.

It will be observed that this figure of 1,45,00 is the equivalent of (1) the increase of 11,52 in the contribution expected to be made from Railways to General revenues under the proposed (separation) system and (2) the amount of 1,33,48 expected to be carried to Railway reserves.

THE INDIAN FINANCE BILL.

The Honourable Sir Basil Blackett (Finance Member): Sir, I beg to move for leave to introduce the Indian Finance Bill, 1924.

Mr. President: The question is:

"That leave be given to introduce a Bill to fix the duty on salt manufactured in, or imported by land into, certain parts of British India, to remit or vary certain duties leviable under the Indian Tariff Act, 1894, to fix maximum rates of postage under the Indian Post Office Act, 1898, to reduce the import and excise duties on motor spirit, further to amend the Indian Paper Currency Act, 1923, and to fix rates of income-tax."

The motion was adopted.

The Assembly then adjourned till Eleven of the Clock on Saturday, the 1st March, 1924.