Thursday, 28th February, 1929

THE

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SECOND COUNCIL OF STATE, 1929

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COUNCIL OF STATE.

Thursday, 28th February, 1929.

The Council met in the Council Chamber of the Council House at Five of the Clock, the Honourable the President in the Chair.

THE GENERAL BUDGET FOR 1929-30.

THE HONOURABLE MR. E. BURDON (Finance Secretary): Sir, I rise to present the Budget Statement for the coming financial year. In a short time Honourable Members will receive, as usual, a complete set of the printed Budget papers, including the Budget Statement proper, which sets forth the figures in detail under each account head, a copy of the Financial Secretary's Memorandum explanatory of the details of the Budget Statement, and a copy also of the inaugural Budget speech which the Honourable Sir George Schuster, the recently appointed Finance Member, is now making in another place. Honourable Members will find that the Finance Member's speech comprises this year an extensive review of the general position of the finances of the Central Government, but in my own presentation of the Budget Statement, I propose to confine myself in the main to the course of the revenue and expenditure of the current and ensuing years, and to a brief account of our principal Ways and Means operations. I do not think I should be doing the Council any real service—it would indeed be supererogation—if I were to repeat here the analysis which will be found in the Honourable the Finance Member's speech of other aspects of our financial administration which, while they are of great importance and of engrossing interest, are extraneous to the actual Budget of 1929-30. I am sure that Honourable Members of this Council will find it more convenient to study this at their leisure in print.

ACTUAL OUTTURN OF 1927-28.

To make my narrative clear from the commencement, I must first correct the starting point of the year which is now expiring, by translating the revised estimate of 1927-28 into the now ascertained figures of actual revenue and expenditure for that year.

The revised estimates for 1927-28 provided for a total revenue of 1,27·74 crores and a total expenditure of the same amount, the revenue estimate including an appropriation of 1,69 lakhs from the Revenue Reserve Fund, which stood at 2,96 lakhs at the beginning of the year. The final figures show a total expenditure of 1,27·26 crores, and, in order to balance the revenue account, it was necessary to increase the appropriation from the Revenue Reserve Fund from 1,69 lakhs, as originally estimated, to 2,22 lakhs. The deterioration in the revenue position as forecasted a year ago has thus amounted to 53 lakhs, which is mainly accounted for by a throw-forward of 40 lakhs representing Land Customs collections at Viramgam from 1927-28 to the current year.

This reduces the balance now at credit of the Revenue Reserve Fund to 74 lakhs.

[Mr. E. Burdon.]

This brings me at once to the review of the year 1928-29. As regards this, I think I can most fairly describe general conditions in the financial year which is now drawing to a close by saying that they have been chequered, but that it would be a mistake to assess the general position by looking only to the black squares on the chess board and to say that, viewed as a whole, it gives ground for serious dissatisfaction. During the months of June to September the monsoon was on the whole fairly active except in parts of Northern India where the rains failed, and in the same area the recent exceptional cold and frost have caused serious damage to crops in certain localities. It is difficult as yet to estimate how far these troubles will have any general effect on the balance of trade and the Ways and Means position. But the adverse factors certainly give ground for caution in making revenue forecasts. The year was also disturbed by prolonged strikes in various parts of the country, particularly in the cotton mill industry of Bombay.

In spite of all this, the trade statistics so far available are, on the whole, encouraging. The visible balance of trade, including private imports of treasure, for the nine months ended the 31st December 1928 was in favour of India by 39·77 crores against 33·07 crores in 1927 and 22·55 crores in 1926. Exports of Indian merchandise show an improvement of over 10 crores as compared with 1927.

The imports as a whole show a fall of about a crore—the result of a drop in cotton and cotton-yarn and manufactures counterbalanced to a large extent by a rise in the imports of grain, machinery and vehicles. The two items last mentioned are particularly interesting. Imports of machinery show a rise of about 16 per cent. for which the recent abolition of duty is, no doubt, largely responsible. The number of motor cars and commercial motor vehicles, which came into the country during the nine months, also shows an improvement of as much as 38 per cent. although the amount of duty collected is still slightly less than the figure for 1926. We may permit ourselves to hope that the leeway will be made up and that our Customs revenue will soon begin to benefit more largely from this source. Prices in general continued throughout the period to remain fairly stable.

Money conditions have at times been difficult and in the last few weeks have been affected by world conditions which themselves have been largely governed by the situation in the United States. The volume of speculation there has tended to force up rates for money in all countries which have an important share in international trade, and this is the root cause to which the recent rise in the bank rate of the Imperial Bank to 8 per cent. must be attributed. I do not propose to enter into any detailed examination of this subject now, but I would call attention to one point which seems to have escaped the attention of those who have criticised this action. As the Honourable the Finance Member observed the other day in answering a question in the Legislative Assembly, it has been said that it was normally understood that the rate would not rise to 8 per cent. until expansion of currency against commercial bills had reached its full limit of 12 crores, and that in the recent case the rate was raised after only 9 crores of expansion had taken place. It must, however, be borne in mind that this year Government had expanded currency to the extent of 1 crore against sterling and 1 crore against created securities, and that there had been a further expansion of 2·4 crores against imported gold, so that the total expansion had really been well over 13 crores.

REVENUE.

To turn to the revenue receipts of the year, the net Customs receipts were originally taken at 50·18 crores, and the revised estimate is now put at 20 lakhs less. Larger imports of sugar have increased the receipts by 70 lakhs, while the land customs collections show an improvement of 70 lakhs, including the 40 lakhs thrown forward from last year. These gains are more than counterbalanced by deficiencies under a number of other heads.

The revised estimate under Taxes on Income has been taken at 16½ crores against the Budget figure of 17 crores. The reduction is mainly accounted for by certain large refunds which have had to be made as a result of legal decisions.

Owing to unexpected and considerable speculation at Sambhar, the estimate of Salt revenue, which was originally taken at 7 crores, will probably be exceeded by about 65 lakhs in the current year. But as it does not seem safe to calculate on an average revenue of more than 7 crores, the extra 65 lakhs, which we expect to collect in the current year, must be treated as being gained at the expense of next year. This unexpected factor seriously disturbs the distribution of revenue as between the current year and next year, and I shall have to refer to this point again.

The only other item which needs comment is that of Interest receipts which shows an improvement of as much as 66 lakhs, but this should really be set against a more or less corresponding increase in Interest payments to which I shall presently refer.

EXPENDITURE.

I now turn to the Expenditure side of the account. The gross payments on account of Interest on Ordinary Debt have exceeded the Budget figure by 1,33 lakhs as a result mainly of larger borrowing operations and a small increase in our borrowing rate. But the net payments, after deducting recoveries from the Commercial Departments and the Provincial Loans Fund, show a deterioration of 65 lakhs only which, as I have already stated, is covered by the increase in Interest receipts. I must take this opportunity of explaining to the House that the net payments would have been considerably larger but for a change which has been introduced this year in the method of calculating the interest chargeable to Commercial Departments in respect of Capital outlay incurred after the 31st March, 1917, whereby these departments are required to share the loss which the general revenues suffer through the tax-free concession attached to certain portions of our rupee debt. This alteration has increased the recoveries from the Railways to the extent of 59 lakhs under this head, although it has had the simultaneous effect of reducing the Railway contribution otherwise receivable by about 20 lakhs. The former method of calculation was really erroneous as it meant that Government did not actually recover from the Commercial Departments the interest which they were in effect themselves paying.

Under other heads the only important variations from the original estimate are a saving of 22 lakhs in Opium expenditure, which has resulted from short deliveries and poorer outturn, and another of 21 lakhs under Civil Administration, which includes 7 lakhs on account of a carry-forward of the expenditure on the India House to next year.

[Mr. E. Burdon.]

Departmental transactions are the next item of importance. As the House is already aware, the Railway contribution is now estimated at 5·46 crores, which is only a little less than the Budget figure of 5·48 crores. The present estimate includes 23 lakhs, being one-third of the excess over 3 crores available for transfer to the Railway Reserve Fund.

The working of the Indian Posts and Telegraphs Department is now expected to show a loss of 29 lakhs, which is very disappointing considering that a year ago it was expected that a surplus of a few thousands would accrue. The deterioration is mainly accounted for by the facts that the reduction in the rate for foreign telegrams has not been counterbalanced by a corresponding growth in traffic, and that the effect of the numerous revisions of pay and other concessions granted to the staff in recent years has been rather more onerous than we expected. The working of the Indo-European Telegraph Department does not show any appreciable variation on the whole and will involve a loss of about 7½ lakhs.

The net Military expenditure has been taken at 55·10 crores as in the original Budget. The net result of the variations is a betterness of 25 lakhs. We thus expect to close the accounts for 1928-29 with a surplus of 30 lakhs, instead of 5 lakhs previously estimated, and it is proposed that this sum should be credited to the Revenue Reserve Fund, the balance to the credit of which will then stand at 1,04 lakhs.

BUDGET ESTIMATES FOR 1929-30.

I now take the Budget estimates for 1929-30. I must commence my detailed account of these with certain preliminary explanations. For a proper understanding of the present position one must go back to the remission of the provincial contributions which really became effective from the beginning of 1927-28, and one must consider the three years 1927-28, 1928-29 and 1929-30 together.

The picture may be put in this way. As Honourable Members will recollect, the actual result for the year 1926-27 showed a surplus amounting to 2,96 lakhs, and on the strength of this it was decided to remit (provisionally in the first place) the whole of the remaining provincial contributions, amounting to 2,58 lakhs per annum. It was recognised that, if Government gave up this permanent revenue, there might at the outset be a deficit. But the intention was that the surplus of 2,96 lakhs in 1926-27, which was transferred to a special Revenue Reserve Fund, would provide a sufficient sum to bridge the gap until the normal growth of revenue had built up receipts to the requisite level. It was thought that the gap would not continue for more than one year, and that by 1928-29 equilibrium would have been attained. On the actual results of 1928-29 it might be said that this expectation has been fulfilled ; but a close analysis of these figures will show that this is not really the case. In fact, the revenue for 1928-29 has been fortuitously increased at the expense both of 1927-28 and of 1929-30. As I have already explained, it so happened that 40 lakhs of Customs receipts which ought to have come in 1927-28 were actually only received after the close of that year and were thus credited to 1928-29. Further, as I have also already explained, owing to speculation in Salt the revenue from that source for 1928-29 is likely to receive 65 lakhs which properly belongs to the revenue for 1929-30. If therefore the true nature of the results for 1928-29 is revealed, it will be seen that, after eliminating these two exceptional items totalling 1,05 lakhs, the year would have closed not with a surplus of 30 lakhs as our revised estimates show, but with a deficit of 75 lakhs. The gap left by the remission of the provincial contributions had not therefore really been filled in 1928-29, and the question which Government have had to ask themselves in settling policy for the forthcoming year is whether the time has now come to decide that it will not be filled and that it will be necessary to find some new source of revenue. To answer this question it is necessary to take account both of the revenue and expenditure sides, for it would be impossible to say that the gap had been satisfactorily filled if that could only be done at the cost of omitting all items of beneficial expenditure which are really essential if the needs of the country are to be met.

Sir, I do not propose to tantalise the Council but will give at once the answer to this all-important question, the answer upon which the Government of India have decided after very careful consideration. The sum and substance of the position as regards revenue and expenditure which I will soon describe to you in greater detail is that we can make both ends meet this year without recourse to increased taxation and without denying money to any urgent beneficial expenditure, provided that we use the Revenue Reserve Fund; first to correct the artificial disturbance in the normal course of receipts from Salt revenue, and secondly, to meet certain special items of expenditure of a non-recurring nature.

There are several reasons which have weighed with Government in coming to this conclusion.

First, they do not think that it would be justifiable to impose new taxation until it is more clearly demonstrated that there is a permanent need for it. With reasonably favourable conditions some of our normal sources of revenue should be capable of considerable expansion, and it seems right to give the plan, on which the remission of provincial contributions was undertaken, the chance of another year in which to achieve its realisation.

Secondly, before imposing new taxation, the Honourable the Finance Member wishes to have a fuller opportunity of reviewing the expenditure side of the Budget than has been possible in the limited time since he took over office.

Thirdly, before imposing new taxation if that should prove necessary, the Finance Member wishes to have adequate opportunity for studying conditions throughout the country so that he may be able to formulate proposals in the light of full knowledge of facts and opinions in such a way as to ensure that whatever is done is done in a way most beneficial to this country's interests.

Having thus told you the general plan of the Budget, I must explain the details of its construction. But before doing this, I must make it clear —in order to avoid any apparent inconsistency—that there is one proposal for new taxation, namely, an increase in the import and excise duties on motor spirit, to give effect to the recommendations of the Indian Road Development Committee. That, however, is quite outside the general scope of the normal budgetary receipts and expenditure.

Revenue.

I will start with the main heads of revenue. Any comparisons which I make will be throughout with the revised estimates for 1928-29.

[Mr. E. Burdon.]

Customs.

Imports of sugar during this year have been abnormally large, and we do not think it safe to take for next year more than 7 crores which we regard as a reasonably normal figure. This means a deterioration of 80 lakhs under this head alone. Further, the land customs figure will also show a reduction of 36 lakhs owing to the disappearance of the special factor which has swollen the revised estimate this year. But we expect appreciable improvements elsewhere, and, on the whole, we have assumed a gain of 40 lakhs.

Taxes on Income.

We have taken the estimate for next year under Income-tax at 16·60 crores—an improvement of only 10 lakhs. Owing to the absence of the specially large refunds, which have mainly led to the deterioration in the current year, the figure might actually have been larger, but we have had to allow for the effect of the industrial strikes, particularly in Bombay and at Jamshedpur, which will make itself felt on the next year's collections.

Salt.

As I have already indicated, the element of speculation, which has brought in a windfall under Salt of 65 lakhs in the current year, will lead to a corresponding reduction in the next, and we have therefore assumed a receipt of 6·35 crores only as compared with 7·65 crores for the current year.

Opium.

As the Council is aware, the revenue from Opium is gradually diminishing as a result of the Government of India's self-denying policy whereby exports of provision opium are to be extinguished not later than 1935. We shall accordingly lose 42 lakhs next year under this head.

Other heads.

The only other item which shows an important variation is that relating to currency receipts, which are expected to go up by 36 lakhs. This, of course, merely means that we get back a portion of the rather high expenditure in the current year under Interest on Debt.

EXPENDITURE.

Debt Services.

I turn next to the expenditure side of the account. The net payments of Interest on Ordinary Debt show a reduction of 1,33 lakhs accounted for mainly by larger recoveries from Commercial Departments and the Provincial Loans Fund in respect of the capital charged or lent to them. On the other hand, there is an increase in the charges for Interest on Other Obligations of 95 lakhs and an increased provision of 34 lakhs under Reduction or Avoidance of Debt. As regards the heading, Interest on Other Obligations, 50 lakhs of the increase represents growth in the provision for bonus on cash certificates. The total provision to cover the bonuses on the discharge of certificates which we anticipate for next year is 1,10 lakhs against a revised estimate of 60 for the current year and an actual payment of 23 lakhs in 1927-28. As Government's liability in regard to these certificates attracted specially keen attention in last year's Budget debates, the position has been explained at some length in the detailed Budget papers in a passage which I feel sure the Honourable Members of Council will read with special interest. At the moment I need only indicate briefly the main features of the situation in regard to the liquidation of this special liability. In the first place, the provision of 1,10 lakhs which I have mentioned, large though it is, still falls something short of meeting our full current liability. On the other hand, there are two mitigating factors in the situation. In the first place, on the basis of our present estimates, we shall have in the Revenue Reserve Fund at the end of next year a sum of 14 lakhs, and we have in mind the possibility that this sum or any other balance that may ultimately be available should be transferred to a Suspense Account against the liability on cash certificates. In addition to this, it must be remembered that the provision for Reduction or Avoidance of Debt includes a sum of 30 lakhs on account of Reparation payments. This in a sense is a later supplement to the original provision for Reduction or Avoidance of Debt which was settled on its own merits without taking into account the possibility of such a windfall. These two factors included, we feel satisfied that, if Government's position is viewed as a whole, fair provision is made for the accrued liability. We are left to consider the further obligation to make some provision to cover the accumulated arrears, and as regards this we think it sufficiently safe that this obligation should be considered together with the general obligation of Government to make provision for the amortisation of their total debt.

As Honourable Members are aware, the existing debt redemption scheme was described in the Finance Department's Resolution of the 9th of December, 1924 and in paragraph 33 of Sir Basil Blackett's Budget speech of the 28th of February, 1925. This scheme is to be in force to the end of the year 1929-30, and will accordingly have to be reviewed before the estimates for the following year are framed. It has, therefore, been thought justifiable and indeed fairer to the Legislature and to the country that the means to amortise the accrued obligation in respect of cash certificates should be considered together with the general debt redemption scheme and that we should not decide now upon earlier expedients.

Civil Administration.

To continue my analysis of expenditure, the group head Civil Administration shows a large increase of 1,18 lakhs and this is a feature of our estimates on the constituents of which I wish to lay some emphasis. The head includes a number of items of a non-recurring nature, and I have already explained that it is certain of these measures which can justifiably be met from a draft on the Revenue Reserve Fund.

First, we have to find 29 lakhs for India House in London which is expected to be completed next year so that this liability will not appear again.

Again, we are providing 16·4 lakhs for agricultural research, of which only 1·4 lakhs represent normal recurrent expenditure, and 15 lakhs represent the initial grant towards a total Endowment Fund of 25 lakhs. We hope to be able to provide the remaining 10 lakhs in 1930-31. But in the event of new financial difficulties it might be possible to postpone this payment, and, in any case, these are final disbursements which will not recur. As Honourable Members are aware, the Agricultural Commission recommended an initial Endowment Fund of 50 lakhs, but, instead, the Government of India propose to create an Endowment Fund of 25 lakhs and to supplement this with an additional voted grant of 5 lakhs each year. Normal recurrent charges on account of agricultural research staff are estimated to amount to 2·25 lakhs, so that when the full scheme is going, the normal recurring charge will be 7·25 lakhs as against the provision of 16·4 lakhs made in 1929-30.

[Mr. E. Burdon.]

The next item for special consideration is 20 lakhs for new expenditure on Civil Aviation. This again represents very largely initial expenditure of a non-recurring nature on setting up essential ground organisation. But I must warn the Council that, if a policy of Government encouragement of civil aviation is to be actively carried out, there will be further recurring charges. The exact amount of these cannot be estimated until the amount of the subsidies required is known. The main point, however, which I wish to make at present is that the present programme includes nothing of this kind except the estimated subsidy for six months for an overland service from Karachi to Delhi, and Government retain complete liberty of decision as regards further extensions. Our financial commitments, therefore, at the moment are still under control, and a substantial part of the item of 20 lakhs now provided for need not necessarily be recurring.

The head with which I am now dealing also includes grants for general beneficial expenditure, such as, 5 lakhs for the additional grant to the Benares Hindu University; 2 lakhs for the Bose Research Institute; 4 lakhs for reclamation operations in the Andaman Islands, and 1¾ lakhs for special grants to the Pasteur Institute of India.

All these items to which I have referred are special items and they account for no less than 78 lakhs. It is relevant to mention that elsewhere in the estimates there are still other items of expenditure of a beneficial character, *e.g.*, 6 lakhs for general measures for the improvement of the conditions of life in Old Delhi and 8½ lakhs for irrigation and other development projects in the North-West Frontier Province, Baluchistan and other Minor Administrations. The future efforts of Government in directions of this kind must, of course, depend on the financial position, but I think Honourable Members of this Council will agree that to provide for expenditure of this character is a very important duty devolving upon the Government and the Legislature, and that, if we fail to do so, the public administration could justly be characterised as negligent and sterile.

Departmental transactions require only a brief mention. The contribution payable by the Railways to general revenues will be 6·25 crores, inclusive of 13 lakhs on account of the one-third share of the excess over 3 crores of the amount available for transfer to the Railway Reserve Fund. The total contribution is 79 lakhs more than the revised estimate for the current year.

The prospects of the Indian Posts and Telegraphs Department for next year are more hopeful than is indicated by the revised estimates for 1928-29. Now that the outstanding necessities of the staff in the matter of pay and general conditions of service have been met, we are free from anxiety on one very important account. With a moderate improvement in the revenues of the Department, it is expected to work at a loss of not more than 8 lakhs, which is mainly attributable to certain unremunerative but inevitable activities of the Department consisting for the most part of wireless facilities provided primarily in the interests of the general administration of the country, and to meet India's international obligations in connection with shipping. So far as it has been possible to ascertain the cost of these services, I think it may be taken at about 10 lakhs. In the circumstances, it is clear that, if we are to make any serious attempt to maintain the principle that the Department should be self-supporting, a reduction in postal or telegraphic rates is at present out of the question. The Indo-European Telegraph Department is expected to show a loss of 5¾ lakhs against a loss of about 7½ lakhs in the current year. The loss in working the two departments together will thus be about 22 lakhs less than in 1928-29.

Lastly, I have to inform this House of the position as regards Military expenditure. Apart from the grant of 10 lakhs to covert the Shea Committee measures in connection with the Territorial Force, the net demand is 55 crores. Honourable Members will not be surprised to see this figure, as it was indicated by Sir Basil Blackett in introducing the Budget last year that there was no prospect of reduction for some time to come. The general situation which Government had to face in connection with the Army was also explained at length in a statement and in a memorandum laid on the table of the Legislative Assembly by the Army Secretary on the 5th of September last. Accordingly, a further exhaustive examination of the details of this question is not necessary on the present occasion. Honourable Members will, however, be interested to see the full exposition of the general situation in regard to Army Finance, its present limitations and future prospects which will be found in the Budget papers. I will touch briefly on the points of main importance which are there brought out. The crux of the whole matter is to be found in the necessity for undertaking the programme for the modernisation of Army equipment described in the statement of the 5th September, to which I have already referred. This programme included the expansion of the Air Force by two squadrons and a provision for the modernisation of the equipment of that Force in India; also a provision for measures in connection with anti-aircraft and anti-gas regulations and for the mechanisation of transport and of fighting units together with the completion of reserves. The total cost of the full programme was estimated at 10 crores, made up of 8 crores for the specific measures defined above and 2 crores to cover subsidiary requirements not yet exactly defined.

The formulation of these needs created a difficult problem as to how financial provision could be made to meet them. The Government decided that the Military Budget could not in any case be allowed to exceed the figure of 55 crores and that the special expenditure required must be found within the limits of that sum. Certain automatic savings were in sight, principally those due to the reduction in the pay of British troops, amounting altogether to a saving of more than one crore; and over and above these savings, the Army authorities undertook to carry out a special economy campaign in order to secure the additional money that was required.

Accordingly, a plan was devised which provides that if the Army Budget is maintained at a figure of 55 crores for four years—starting with the year 1928-29—then, apart from any abnormal or unforeseen circumstances, the necessary special expenditure will be found within the limits of this sum. As it is impossible to forecast exactly the rate at which the new equipment will be provided, and as it is important to avoid fluctuations in the Military Budget from year to year, it is proposed to adopt the procedure of transferring to a Suspense Account any sum within the limit of 55 crores not spent in any particular year, on the understanding that this Suspense Account can be drawn upon in subsequent years.

Provided that a close check is kept throughout by the Finance Department on all expenditure, it may be claimed that there are considerable advantages in an arrangement on these lines, for it has the effect of removing all inducement to the Army authorities to incur hasty expenditure before the end of a financial year in order to avoid the lapse of grants. A further advantageous result which, according to my imformation, the experience of the working of the arrangement since last summer may be anticipated to

[Mr. E. Burdon.]

produce is that we may count upon real co-operation between the Army authorities and the Finance Department in the search for all possible economies, for the Army authorities know that the completion of the programme of re-equipment is dependent on the discovery of such economies.

In order to show how the arrangement is materialising, I may state that for the current year, 1928-29, the expenditure on normal standing charges of the Army will be 53½ crores, which leaves approximately 1½ crores to be spent towards the carrying out of the special programme. It is further estimated for 1929-30 that the ordinary maintenance charges in the Army will amount to 52·94 crores, leaving a margin of 2·06 crores for expenditure on the special programme.

The normal cost of the standing military charges is thus being steadily cut down and carefully isolated in order that, when the four years' programme of re-equipment is completed, that is to say, after the year 1931-32, there may be some definite basis for dispositions to ensure that, in the absence of some unforeseen mischance. the total Military Budget may be substantially reduced.

No one can fail to regret that these ultimate savings cannot be appropriated earlier to other purposes. It will, however, at least be something of an achievement if an important programme for modernising the equipment of the Army costing about 10 crores can be carried through in 4 years without an increase in the previous standard of military expenditure. Moreover, it can be definitely stated that, when the programme is completed, the country will have a more efficient force at a smaller cost. I need only add that, while the special programme is in course of execution, there will be no change in the existing system of financial control. Actually during the current cold weather an Additional Financial Adviser, a civilian officer trained in the Finance Department, was appointed to assist in the economy campaign. He has made extensive tours of inspection and the knowledge thus acquired should be of great value in the future in strengthening, in a practical manner, the means of financial control.

SUMMARY.

The more important variations from the revised estimates may now be summarised as follows :

The improvements as compared with the revised estimate for 1928-29 total 177 lakhs and the deficiencies total 297 lakhs—a net deficiency of 120 lakhs. In other words, instead of the surplus of 30 lakhs, which the revised estimates show for the current year, we shall have to make up a balance of 90 lakhs in 1929-30 from other sources : and, as I have already indicated, Government have thought it justifiable to provide the necessary balance from the Revenue Reserve Fund, and to defer any question of imposing new taxation. The Revenue Reserve Fund, as already explained, is expected to stand at 1,04 lakhs on the 31st March, 1929, so that, by providing from this source the sum of 90 lakhs which is required to balance the Budget for 1929-30, there will still remain a balance of 14 lakhs left in the Fund at the close of that year.

NEW TAXATION.

I have so far dealt with the normal content of the Budget and have left one particular proposal till the end. The Finance Bill, it will be seen, contains a provision, necessitated by the recommendations of the Indian Road Development Committee, for the increase, from 4 to 6 annas per gallon, of the import and excise duties on motor spirit. The additional revenue expected to be realised on this account is 6 lakhs in the current year and 83 lakhs in the next. These amounts have accordingly to be added to the estimates of Customs revenue which I have already mentioned to the House. But there will also be a corresponding addition to the charges under the Civil Works head, representing block grants of the same amounts, which will be credited to a Road Development Fund, from which disbursements will be made from time to time to Provincial Governments and others on the general lines recommended by the Committee. This of course is a measure of taxation which is designed not for the advantage of the general revenues of the Central Government but for a specific purpose which has been unanimously recommended by the Committee, and which I have no doubt will be welcomed by this House. The Committee, as I might remind Honourable Members, was appointed in consequence of a Resolution moved in this Council. It consisted of 14 Members of the two Chambers including representatives of all parties and of the Government. The Committee submitted unanimous recommendations which appear to be generally acceptable, and which are charged with far-reaching possibilities of future development.

Final Result.

The main figures of the Budget, after allowing for the transfers to and from the Revenue Reserve Fund and for the additional taxation and its disposal just referred to, stand as follows :—

	(In crores of rupees.)	
	Revised.	*Budget.*
Revenue	1,31·20	1,34·06
Expenditure	1,31·20	1,34·06

Ways and Means.

I will now give the House a brief account of the leading features of the Ways and Means operations of the current and ensuing years. The revised estimate for the current year is as follows :

Liabilities.	*(In crores of rupees.) Revised, 1928-29.*
Railway capital outlay (construction)	26·0
Purchase of Railways	4·0
Other capital outlay	1·7
Provincial Governments' transactions	12·1
Discharge of public debt (net)	19·9
Other transactions (net)	·4
Total	64·1

[Mr. E. Burdon.]

Resources.	*(In crores of rupees.)* *Revised, 1928-29.*
Rupee Loan (net)	33·8
Sterling Loan (net)	12·1
Postal cash certificates and savings bank	3·7
Other unfunded debt	4·9
Debt redemption	5·6
Depreciation and Reserve funds	6·3
Reduction of cash balances	—2·3
Total	64·1

In this revised estimate the following are the main items of interest. The opening balance, taking India and England together, turned out to be 4 crores less than estimated a year ago. This was because actual issues of Treasury Bills in March last were 1½ crores less and Railway capital expenditure was 2½ crores more than contemplated. The position during the year has also worked out worse than was anticipated. First, Railway capital expenditure again threatened substantially to exceed the original estimate, and, in spite of restraints applied in August last, is likely to amount to 26 crores instead of 24 crores as estimated ; secondly, the net receipts from cash certificates have latterly shown signs of falling off ; lastly, the climatic conditions referred to at the outset of my speech have resulted in considerably larger drawings by certain Provinces. All these factors combined made it necessary to strengthen the position temporarily by the issue of sterling bills in August for £6 millions and eventually, for reasons which are fully analysed in the detailed Budget papers, to provide for a more permanent reinforcement by the issue of a 4½ per cent. loan in January last in London for £10 millions at 91. The proceeds of this loan will be directly used to pay off the £ 6 million sterling bills and to meet the purchase price for the Burma Railways.

In other respects events have followed the course anticipated. The Rupee loan issue in July was successfully launched in the form of a 4½ per cent. 1955-60 loan and 4½ per cent. 1934 Bonds, which brought in 9·06 crores (nominal) and 25·98 crores (nominal), respectively, or a net total of 33·8 crores.

The current year has thus provided an illustration of the need for increased borrowing, if a heavy programme of capital expenditure is to be continued. There are, however, certain special points to which attention should be called.

First, the capital expenditure included 4 crores for the purchase of the Burma Railways which may be regarded in a sense as an artificial addition to normal needs ; *secondly*, even for this year with its larger sterling and rupee loans, the net amount borrowed from the public in India and England together in the form of loans and Treasury Bills, after allowing for discharges and conversions, has only been 26 crores as against an aggregate capital outlay of just under 44 crores for the Central Government's capital expenditure and drawings by provinces. The Treasury Bills outstanding with the public which, according to the Budget estimates of the current year, should have stood at 9 crores, are now expected to be reduced to 6·95 crores at the close of the current year, and the Honourable the Finance Member has it in contemplation further to reduce the outstandings of Treasury Bills so that these do not remain a permanent feature in the local money market conditions. On the whole, it may, I think, fairly be claimed that Government, in spite of difficulties, find themselves at the close of the current year in a stronger position than they held at the beginning.

For 1929-30 the Ways and Means estimates are as follow :

(In crores of rupees.)

Liabilities.	*Budget, 1929-30.*
Railway capital outlay (construction)	26·5
Purchase of Railways	7·0
Other capital outlay	2·1
Provincial Governments' transactions	7·2
Discharge of Public debt (net)	3·9
Other transactions (net)	1·4
Total	48·1

(In crores of rupees.)

Resources.	*Budget, 1929-30.*
Rupee Loan (net)	18·0
Sterling Loan (net)	7·0
Postal cash certificates and savings bank	5·3
Other unfunded debt	4·9
Debt redemption	6·0
Depreciation and Reserve funds	5·8
Reduction of cash balances	1·1
Total	48·1

As the Council will realise from factors which have already been indicated, the adoption of this programme means that we take upon ourselves no light task : and we have had to consider very seriously whether it is practicable in present conditions to continue capital outlay on the scale to which we have become accustomed in the recent past : Railway expenditure has been outrunning the provision made for it. On the other hand, the capital resources by which we supplement the proceeds of our public loans have shown signs of diminishing. As a result of a very thorough examination of the position, however, it was found that any immediate and drastic reduction of the capital programme of the Railways would be very undesirable. A programme of railway development, once it has got under way, cannot suddenly be interrupted without great waste ; one commitment leads to another. New branch lines bring more traffic, and this means that trunk

[Mr. E. Burdon.]

lines have to be strengthened. Heavier trains must be drawn, which means relaying with heavier rails, rebuilding or strengthening bridges, purchasing heavier locomotives. The heavier locomotives bring the need for remodelling or rebuilding repair shops. And so it goes on. If the programme is not carried to completion, the economic value of much of the work in the first stages is lost.

Apart from this, I am sure this Council will agree that at a time when the general state of industry and trade in the country is at least somewhat below par, public expenditure on work which gives a great deal of local employment should not be suddenly and drastically cut down.

In the end we have provided, as has been indicated in the figures which I have already given, for a capital expenditure of 26½ crores on the Railways—a substantial sum—but the real feature in the programme is this: that the bulk of the money is to finance the execution of current work and that new commitments have been reduced to a minimum. There could thus, if necessary, be a substantial curtailment in 1930-31 and measures have been adopted to ensure that the allotment for 1929-30 will not be overspent. It is essential that the actual progress of expenditure should be under firm and certain control. The result as far as concerns the Ways and Means position is that, allowing for a reduction in Public Debt of just under 4 crores—in Treasury Bills and sterling obligations—we shall require to raise a total new loan of 18 crores.

The £5¼ million sterling to be found for the purchase of the Southern Punjab Railway is an additional liability, and as this represents merely the conversion of a sterling obligation which is already in existence, it is proposed that this should be met by a sterling loan.

I need say no more at the moment as regards Ways and Means. I wish, however, to invite the special attention of Honourable Members to the fuller statement on our borrowing policy which will be found in the printed papers.

As regards remittances to the Home Treasury, a few observations will suffice. A year ago it was estimated that we should require to remit £36 million to London in 1928-29. Imports of sovereigns from South Africa, which were presented at our Currency Offices between the 15th November, 1928, and the 15th January, 1929, amounted to about £1·8 million, and, apart from this, imports of treasure have, on the whole, been on a somewhat larger scale than during last year. This has affected our power to remit the full amount by means of sterling purchases in the open market. The raising of a sterling loan in January, which I have already referred to, has reduced the amount which must be remitted in the current year to £29¼ million, of which up to date we have succeeded in remitting nearly £27 million. On the assumption that the sterling payment for the Southern Punjab Railway will be made by means of a sterling loan next year, the amount required to be remitted to London in order to enable the Secretary of State to close with a normal working balance is now estimated at £35¼ million.

Sir, this concludes the information which it is my privilege to communicate to the Council regarding our current budgetary dispositions. But, perhaps, before I sit down, I may be permitted to add a few general reflections of my own. Last year, on the corresponding occasion, I described the Budget of 1928-29 as a commonplace Budget, of which the most reassuring feature was that it represented stability in, at any rate, the financial sphere.

To-day, I again present a Budget with no sensational ingredients ; we are in a sense still marking time. To this I make one reservation which, to my mind, is of very great importance. We are not in every respect marking time—we are actually advancing in the sense that the Budget for 1929-30, if it is accepted, will, without increasing taxation, enable us to devote considerable sums of money to expenditure on measures relating to a fairly wide range of vital departments of the national life of the country. Some of these measures promote beneficent activities for the prosecution of which Government with the support of public opinion are themselves responsible. Others provide for the encouragement of enlightened private enterprise, working also for the good of the general community.

Again, I emphasised last year that the result is almost certain to be misleading if we concentrate our gaze upon the Budget of a single year. On this occasion also, I would ask the Honourable Members of this Council to take a more extensive view. If one looks back over the past six years, one cannot fail to be struck by the great inherent strength exhibited in India's financial history for that period. On the side of Capital expenditure, the productive assets of the country have been very largely increased in proportion to the loan liabilities involved. A broad survey of the revenue position is also encouraging. When we think of the revenue which has been sacrified by the Central Government in the past six years in order to give greater latitude to the Provinces, to secure some economic advantage for India, or to co-operate in high international policy—nearly 10 crores of provincial contributions given up. and in taxation 1¼ crores on Cotton Excise, 85 lakhs on machinery duties, 1¼ crores on Opium, to mention only the more important cases—and when we see how other sources of revenue have moved towards filling the gap, I think we may be justified in feeling some confidence as to the future. I, for one, cannot believe that even the resources on which we at present depend—apart altogether from other resources which might be called into play—have reached their limit of productivity. If, for the moment, we appear to stand still, it is in the main because we feel reasonably confident and because we wish to lay sound plans and await the favourable moment for a judicious and certain advance.

Finally, I think the Honourable Members of this Council will be very ready to recognise the evident care and solicitude for Indian interests which the Honourable Sir George Schuster has brought to bear upon the preparation of his first Indian Budget, and I am sure that he may count upon their whole-hearted assistance in pursuing the aims which he has set before him.

STATEMENT OF BUSINESS.

THE HONOURABLE KHAN BAHADUR SIR MUHAMMAD HABIBULLAH (Leader of the House) : Sir, as Honourable Members are aware, on Monday, the 4th March, the Council will meet to transact non-official business. As there is no official business on Tuesday, the 5th, and Thursday, the 7th, there will be no meetings on those days. On Wednesday, the 6th, there will be the general discussion of the Budget.

The Council then adjourned till Eleven of the Clock on Monday, the 4th March, 1929.