

28th February 1930

THE

LEGISLATIVE ASSEMBLY DEBATES

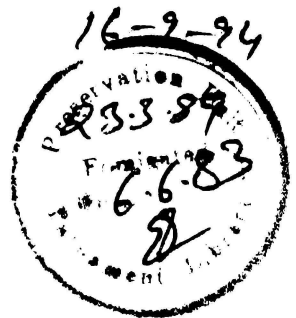
(25th February to 20th March, 1930)

SIXTH SESSION

OF THE

THIRD LEGISLATIVE ASSEMBLY, 1930

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1930

Legislative Assembly.

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THE HONOURABLE MR. V. J. PATEL.

Deputy President :

MAULVI MUHAMMAD YAKUB, M.L.A.

Panel of Chairmen :

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SIR ZULFIQAR ALI KHAN, KT., C.S.I., M.L.A.

Secretary :

MR. S. C. GUPTA, BAR.-AT-LAW.

Assistant of the Secretary :

RAI SAHIB D. DUTT.

Marshal :

CAPTAIN SURAJ SINGH BAHADUR, I.O.M.

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LEGISLATIVE ASSEMBLY.

Friday, 28th February, 1930.

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

ELECTION OF THE STANDING FINANCE COMMITTEE FOR RAILWAYS.

Mr. President: I have to inform the Assembly that the following Members have been elected to serve on the Standing Finance Committee for Railways:

1. Mr. R. S. Sarma,
 2. Mr. E. F. Sykes,
 3. Sardar Gulab Singh,
 4. Mr. M. S. Aney,
 5. Mr. Muhammad Yamin Khan,
 6. Mr. Abdul Qadir Siddiqi,
 7. Khan Bahadur W. M. P. Ghulam Kadir Khan Dakhan,
 8. Mr. A. H. Ghuznavi,
 9. Mr. Fazal Ibrahim Rahimtulla,
 10. Mr. K. C. Neogy, and
 11. Haji Chaudhury Mohammad Ismail Khan.
-

ELECTION OF MEMBERS TO THE GOVERNING BODY OF THE INDIAN RESEARCH FUND ASSOCIATION.

Mr. President: I have also to inform the Assembly that Sir Purshotamdas Thakurdas and Dr. B. S. Moonje have been elected to sit on the Governing Body of the Indian Research Fund Association.

THE BUDGET FOR 1930-31.

INTRODUCTORY.

The Honourable Sir George Schuster (Finance Member): In presenting my budget proposals this year, I intend to depart to some extent from the procedure which has been followed hitherto and to confine my explanations of the past, current and prospective conditions, as far as possible, to a broad descriptive statement, leaving the great mass of detail

[Sir George Schuster.]

of figures to be supplied in the Explanatory Memorandum which will be circulated to Honourable Members together with a copy of my speech. Nevertheless, it is necessary to give a good many figures in order to explain the situation and I am afraid that I have so many important matters to propound that it will not be possible for me to be very brief.

2. Honourable Members will recollect that, in reviewing the position Actual out-turn of 1928-29. last year, I said that the main question for consideration, in deciding our policy was whether the gap caused by the final remission of the provincial contributions in 1927 had been filled, or whether the time had come to recognise that it had not been filled and that it would be necessary to find some new source of revenue. In dealing with the revised estimates for 1928-29, I pointed out that the results for the year had been, or were likely to be, improved by a number of fortuitous circumstances, that is to say, a throwforward of land customs revenue from the preceding year and an abnormal anticipation of salt revenue owing to speculation. I indicated that, had it not been for these fortuitous circumstances, we should have had to anticipate a deficit in 1928-29; and I therefore thought that it was clear that the gap, to which I have referred, had not been filled in that year. Subsequent events have reinforced that conclusion. There was, in fact, a serious deterioration under several headings in the last two months of 1928-29, on top of which came an exceptional item, namely, a heavy drop in the amount which could be credited to revenue from the Gold Standard Reserve, due to the necessity for writing down the securities as a result of the raising of the Bank of England rate to 5½ per cent. in the middle of February last. This last item did not, of course, represent a realised loss and will, in fact, be more than made good by extra receipts in the current year. As a result of these factors, the year 1928-29 actually closed with a deficit of 1.06 lakhs instead of with the surplus of 30 lakhs anticipated in my revised estimates last year. The exceptional items of deterioration to which I have referred, may be regarded as counterbalancing, to some extent, the special favourable items which I mentioned last year, so that, on the whole the results of 1928-29 now appear more nearly in their true colours.

3. What this result has meant to us is that, instead of being able to make an addition of 80 lakhs to the balance of 74 lakhs standing to the credit of the Revenue Reserve Fund, the whole of that balance had to be drawn upon and we were left with an uncovered deficit of 32 lakhs.

REVIEW OF THE YEAR 1929-30.

4. Turning now to the results for the current year 1929-30, though I can see no cause for anything like permanent General conditions. pessimism for the future, there are many things which have increased the difficulties of the present. Failure of rains in some places, excessive rains with serious flood damage in others, combined with political uncertainties which have had an unsettling effect on commerce and industry, have been factors special to India, while, at the same time, India has suffered from the general disturbance to world conditions caused mainly by the unprecedented Stock Exchange speculations in the United States followed by the sudden and sensational

collapse in October. The speculation was accompanied by a huge demand for money to finance Stock Exchange transactions at high rates of interest which attracted a flow of capital from all countries on a scale which has hitherto been unknown. The collapse seems likely to result in a period of business stagnation in America, which has already produced a serious fall in the prices of all commodities. While the effect of these events on monetary conditions in India has been apparent throughout the year under review, the effect of the fall in prices on trade and production is only now beginning to be felt. I propose to revert later to general economic conditions in India. At the present stage, it is only necessary to give a brief review of the actual trade conditions in the first nine months of this year.

5. The visible balance of India's trade, including private imports of treasure, for the nine months ended the 31st December 1929 was 41·62 crores against 39·76 crores in 1928 and 33·07 crores in 1927. Exports of Indian merchandise, however, show a deterioration of about 8½ crores as compared with last year which is accounted for by a large drop under jute yarns and manufactures (8·38 crores), jute raw and waste (2·71 crores), wheat (1·46 crores), barley (1·58 crores) and hides and skins (1·89 crores). Rice exports, on the other hand, have been considerably more encouraging and show an improvement of 2·51 crores, while exports of cotton are also slightly better than last year (·22 crores).

6. Imports of foreign merchandise also show a considerable drop as compared with last year (4·54 crores) which is shared by cotton yarns and manufactures (2·11 crores), other yarns, manufactures and textile fabrics (2 crores), iron and steel and manufactures thereof (1·39 crores). It is satisfactory to note that imports of rice which amounted to 1·49 crores in the first nine months of last year fell to 7 lakhs during the same months of the current year, although imports of wheat increased from 1·75 crores to 3·64 crores.

7. Despite the fact that the fall in the exports is about twice that in imports, the visible balance of trade has actually risen, as net private imports of treasure also fell by 6·38 crores to 18·12 crores which is the lowest figure touched since 1922-23.

8. The unfavourable factors to which I have referred, have, of course, been reflected in our budgetary results, but, on the whole, we have been fortunate in the sense that we have had certain special wind-falls, as a result of which I can anticipate that the accounts for 1929-30 will close without showing a deficit. In the first place, we have found ourselves, as a result of the facts which I have already explained, without any balance to the credit of the Revenue Reserve Fund and, therefore, unable from this source to make good the deficit of 90 lakhs which, as Honourable Members will recollect, I had anticipated for the current year. Apart from this, the results to date indicate, on balance, a deterioration as compared with the budget estimate. While Taxes on Income, Salt and net Opium receipts indicate a probable improvement of 1,12 lakhs, there are deteriorations under Customs (55 lakhs), Miscellaneous payments (52 lakhs), Railways (18 lakhs), Posts and Telegraphs (50 lakhs) and other heads (8 lakhs). I must here mention that the items affecting Interest—that is to say, taking into account outgoings and receipts together—only show a net deterioration of 8 lakhs; but the deterioration would have been considerably

Revised estimates.

[Sir George Schuster.]

larger if we had not had exceptionally large receipts from interest on the Gold Standard Reserve. The high rates of interest prevailing for money during the first nine months of the year, combined with an appreciation in the value of our investments from the low point to which they had, as I have already explained, been written down on the 31st March 1929, have combined to give us an altogether exceptional figure under this heading. Our receipts, in fact, exceeded the budget estimate by 74 lakhs. I shall refer to this matter again.

9. The result from all the figures which I have given, is a net deterioration of 66 lakhs as compared with the deficit averted by a wind-fall. budget estimate, and this, combined with the original deficit of 90 lakhs, which, as explained, cannot be covered, as expected, by a transfer from the Revenue Reserve Fund, brings us to a total deficit of 1.56 lakhs. As against this, however, we can balance a special wind-fall, because we are able to bring into account a large sum held by us at credit of the German Liquidation Account under the Treaty of Versailles, which, as a result of decisions arrived at at the Hague Conference, will now accrue to the Government of India. By a curious coincidence, this amount is 1.56 lakhs and exactly balances the deficit previously disclosed. On this basis, therefore, the year 1929-30 will close with an even balance.

10. I do not, however, wish to give a misleading picture and we must fully realise that several exceptional receipts—
 Gap not fully filled. apart from this special wind-fall—have contributed to the result. I have already alluded to the exceptionally high item for receipts under the heading of interest on the Gold Standard Reserve, and, in addition to this, there are several items which can hardly be regarded as normal. I would refer specially to the sugar import duty on which we anticipate a receipt of 8.35 crores as against the budget estimate of 7 crores, and jute export duty, which at 4.71 crores, is 50 lakhs above what I consider to be a safe and normal figure. Further, the revised estimate for Taxes on Income includes a special wind-fall of 80 lakhs as the net result of certain judgments in the Privy Council. I refer to these matters, because, in any review of the position undertaken for the purpose of considering future policy, it is necessary to eliminate exceptional items of this kind. If, on this basis, we examine the position since the final remission of the provincial contributions, we find that in 1927-28 there was an actual deficit of 2.21 lakhs; in 1928-29 a deficit of 1.06 lakhs; while, for 1929-30, the figures which I have given sufficiently clearly explain the position. These results indicate that, taking into account the unavoidable increase in expenditure, and even making allowances for the present depressed trade conditions, the gap caused by the remission of the provincial contributions has not, on a normal estimate of revenue and expenditure, been fully filled.

PROSPECTS FOR THE YEAR 1930-31.

11. I must now turn to the prospects for the next year—1930-31, so arranging my statement as to indicate, as clearly as I can, the main framework of the problem with which we have to deal. I will start with certain preliminary explanations. First, on a matter of detail, in the figures which I am now going to give to the House, I shall eliminate receipts on

account of the two-anna petrol tax which are off-set by the block grant on the other side to the Road Development Fund. Secondly, in my fore-

Political conditions. I am not taking into account the possible effects on revenue of serious disturbance or the practice of civil disobedience. Even if we could consent to the assumption that the threats of such action will be realised (which, of course, we cannot do), it would be impossible to estimate its effects. Nevertheless, I cannot avoid taking some account of the reaction of the attitude of certain political leaders and parties on business conditions in the country, for, to some extent, that reaction is already an established reality. A serious blow has been given to confidence, both within India and outside it, by the doctrines preached in December last at Lahore and since then throughout the country. In saying this, I refer not only to the threat of repudiation of debts—which I am convinced that no responsible Indians take seriously—but also to the general programme of civil disobedience and the attitude of hostility to the British connection and British interests. It is not for me, in a financial speech, to express views as regards this policy or the ideals which underlie it. I only wish to refer to the inevitable economic results.

12. Translating this view into a practical appreciation of the budgetary prospects for next year, I am forced to the conclusion that, even allowing for a reasonable good monsoon, the prospects of trade cannot be regarded as very bright. World conditions are against us and the chances that business in India can develop favourably in spite of these adverse factors, are very seriously reduced by the blow to confidence in new enterprise which has been given by the conduct to which I have referred.

13. Adopting this appreciation of the position, my forecast as regards the main headings of revenue would be as follows:

Revenue.

Customs.—I am allowing for a net deterioration, exclusive of the Road Fund receipts, of 1.09 lakhs as compared with the budget estimate of the current year, and of 42 lakhs as compared with the revised estimate. The total estimate for Customs, exclusive of the Road Fund receipts, is thus put at 49.30 crores.

Taxes on Income.—I expect we shall collect 17.30 crores, which is 70 lakhs more than the current year's budget figure, though only 20 lakhs more than the revised estimate.

Salt.—I have assumed a receipt of 7.05 crores which again is 70 lakhs more than the original estimate of the current year. This latter, as explained in my last budget speech, was abnormally low as a result of speculation.

Opium.—Compared with the budget for 1929-30, next year is expected to show a drop of 33 lakhs in receipts as a result of the ten-year programme, and of 7 lakhs in payments—a net diminution of 26 lakhs.

14. The net result is that, so far as the main heads of general revenue are concerned, there will, on the basis of existing taxes, be a net growth of no more than 5 lakhs as compared with the budget estimate of the current year.

15. Turning to departmental transactions, this House is already aware that the contribution from the Railways to general revenues is likely to be less satisfactory than in recent years. The total is estimated at 5.74 crores, as compared

Departmental transactions.

[Sir George Schuster.]

with the budget figure last year of 6.25 crores, showing a net deterioration of 51 lakhs. In *Posts and Telegraphs*, prospects for next year are likewise unsatisfactory. It is necessary to anticipate a deficit of 48 lakhs on the Indian Posts and Telegraphs Department and of 8 lakhs on the Indo-European Telegraph Department. Taking into account the capital expenditure charged to revenue, the net deterioration as compared with the budget estimate of the current year is 48 lakhs.

16. It will be seen, therefore, that, on the results of the two large Commercial Departments of the Government, the Railways and the Posts and Telegraphs Department, we have to anticipate a total deterioration of 99 lakhs as compared with the budget estimate for 1929-30.

17. I will now turn to the main heads of expenditure. In dealing with this, I intend, throughout my remarks, to draw a distinction between normal administrative outgoings and those other heads such as Debt Services, where we have to meet either charges for the service of our loans or make provision for redemption or security. Expenditure of this sort falls in a different category, for the charge for service of the loans is unavoidable, while to provide money for security provisions cannot be criticised as extravagance but is, on the contrary, a thing to be commended as sound and prudent finance.

18. Having drawn the distinction between these two kinds of expenditure, I will turn to examine the former, namely, the whole field of normal administrative expenditure. It is on our action in this field that I expect and, indeed, desire Honourable Members to turn their most critical scrutiny. There is a general demand for retrenchment and economy on the one side, and, on the other there is the persistent and insistent pressure for increased expenditure on particular projects, such as improvement of conditions of service, education, hospitals, and sanitary arrangements, agricultural endowment, police measures, roads, etc., and very often those who press most vehemently for retrenchment in general, are among the strongest supporters of particular proposals for new expenditure. I shall deal later with the general position as regards an economy survey and the possibilities of retrenchment. For my present purpose, I merely wish to give some indication of the total amount of new demands for which, after most careful scrutiny and rigid exclusion of everything that is not necessary, we have thought it essential to provide. In what I have now to say, I shall be comparing the budget estimates for next year with the budget estimates for 1929-30, because it is in this way that I can most clearly present the problem.

19. In the first place, there are the normal increments in rates of pay for the existing staff of Government officials. Now that a time-scale basis has been adopted in practically all Departments, this is an inevitable commitment, and, unfortunately, we have not yet approached anything like the peak figure. It is very difficult to frame an exact statement of the yearly increase due to this cause; but I am satisfied, after careful investigation, that a fairly reasonable estimate of the total increase under this heading, as compared with the budget estimates in the current year, is 25 lakhs.

20. Apart from this, there are a number of new demands of a special nature which are of sufficient interest for me to call the attention of the House to them:

Lakhs.

Census Operations 11

This requires no special explanation. It is expenditure which has regularly to be undertaken every ten years and is not a normal annual charge.

Grant to Aligarh University 5

This grant is made in accordance with the undertaking which has already been given by Government in this Assembly.

Recurrent Grant for Agricultural Research 5

This is the first year in which this grant figures in the budget estimates. This money is to be devoted to special schemes for agricultural research and is additional to the annual expenditure of about 2½ lakhs which is also included, to its full extent, in the budget this year to meet the charges of administrative staff.

Special Fund for financing measures for the encouragement of Sugar Cultivation 10

This is an item to which I have special pleasure in making reference, as it represents a first step in a definite constructive policy by the Central Government, taken up as a sequel to the recommendations of the Agricultural Commission. It is to be hoped that this, combined with other measures included in my budget proposals, will have a definite and far-reaching effect on the agricultural production of India and the material prosperity of cultivators in the sugar-growing districts.

Banking Enquiry 7

This requires no special explanation as the circumstances are familiar to Honourable Members. There was no corresponding provision in the Budget for 1929-30, although I had to ask for a supplementary grant for the current year. I will only take this occasion for saying that I have great hopes that the Banking Enquiry may represent the first chapter in a long story of development of India's resources under the leadership of Indians. Much valuable work has already been achieved and, in time, the country will come to appreciate the work of, and express gratitude to, those on the Provincial and Central Committees who have taken the lead in this work. I do not wish myself now to select any particular names for mention; but I should like to express general satisfaction and gratitude for the whole-hearted co-operation which I have received. My Honourable friend Mr. Kelkar, in the course of his speech in the budget debate last year, told me that the spirit of co-operation was dead. I ventured, on that occasion, to express my disbelief in this dictum, and I am glad to be able to say that my experience during the last twelve months has supported my view. As I have said on many occasions, I do not expect that any striking and spectacular measures can be produced immediately as a result of this Enquiry. But I do hope and I most sincerely believe

[Sir George Schuster.]

Lakhs.

that a strong and steady movement will be started as a result of the interest evoked by the Enquiry and the education of public opinion which the reports will produce. As a result of this Enquiry, we shall have a simultaneous survey of conditions throughout India of a kind which has never before been achieved, and I am certain that this survey will throw into high light the field for work to improve conditions, while, from the recommendations which will be made, we shall get valuable help as to the nature of the work to be undertaken. I have great hopes also that, from the Provincial Committees and from the Central Committee, there may spring up some form of permanent organisation for keeping watch on the field for action, learning lessons from the development which takes place and proposing new measures from time to time as the need for these becomes apparent.

I have been told sometimes that the procedure adopted has been cumbersome and unbusinesslike; but I have been very gratified to find that, as the result of the Enquiry and the interest taken in it have become clear, those who criticised at the beginning have tended to change their view. Possibly, viewed as an act in one of the late chapters in the history of an old and experienced bureaucracy, there may be something of an amateur and unbusinesslike nature in the procedure which we have chosen. But I prefer to regard it not in this light but as an act in the first chapter of a new volume in the history of India's constitutional and social evolution. Doubtless, mistakes have been made and doubtless, much of the work may prove to be of an amateur and inexperienced nature; but, if mistakes have been made, they will be mistakes from which further experience will be gained, and nearly all of those who gain experience on the various committees in this Enquiry will remain in the country and be capable, in their further public service, of giving to the country the value of that experience.

The next special item to which I come is the *Royal Commission on Labour* for which the increase over the budget provision in the current year is 5

This again is a subject well-known to the Assembly, and again it is an enquiry which, one may hope, will produce results of lasting value to the country and of great benefit to the wage-earning classes.

A further item of special interest is a provision for the next instalment in the programme for developing the *Territorial Force* in India of. 5

This grant will provide for a further instalment in the current programme, and will mean, principally, the improvement of training facilities for existing units and the raising of two new urban Companies.

The largest item of special new expenditure to which I now come is that on measures to be taken for the development of *Civil Aviation*, the total of which, including many non-recurring items, amounts to ... 24.5

The policy which has been adopted in this matter is now well-known and the Government's plans have been fully discussed and considered in the Standing Finance Committee. In framing their policy, the Government have endeavoured to meet the wishes of the non-official representatives in this House, and I would only take this occasion to remark that the greater

part of the expenditure which we are now undertaking, particularly that for the provision of ground organisation and meteorological facilities, is really forced on us by our international obligations.

Apart from the above items, I will select for special mention the following:

	Lakhs.
Further instalment of the programme of medical and public health improvements in centrally administered areas	3.5
Broadcasting	2.7
Special repairs to flood damages in the North-West Frontier Province	5
Andamans reclamation (increase in grant made in 1929-30) ...	5
Mechanical extraction of timber in the Andamans	2
Forest conservancy in the North-West Frontier Province ...	1.5
New staff and equipment for the Imperial Department of Agriculture	1.5
Agricultural development in Baluchistan ... ..	.5
Appointment of Indian Trade Commissioners overseas and strengthening of the superior staff of the High Commissioner for India, London ... ..	.5
The total of the above items is roundly	95
To this must be added a sum for miscellaneous new items of ...	26

These, together with the sum of 25 lakhs to which I referred at the beginning as representing the increase on account of increments of pay, bring the total of the new expenditure, for which we have to make provision in the budget, to 1,46

21. I have risked wearying the House in giving these details, because I have been anxious this year to place before Honourable Members a full picture of the problem which we really have to meet, and I have thought that, by analysing and selecting the new items of expenditure, I should enable them to understand the case more clearly than can easily be done by a scrutiny of the very complicated volume in which the Demands for Grants are set out. The items to which I have referred are those in regard to which, as I have said already, the Government's policy as regards economy is chiefly to be tested.

22. I must turn now to those headings of expenditure which fall into the other class, and I would refer chiefly to the Government's debt obligations. I shall first deal with ordinary interest payments.

	Lakhs.
Interest on Ordinary Debt shows an increase of	46

partly as a result of larger treasury bill transactions, and partly because larger provision has been made for the cost of conversion operations.

Interest on Other Obligations, including provision for cash certificates on the basis which has hitherto been adopted, shows an increase of ... 61 of which 15 represents higher rates of interest to be allowed on Provident Fund balances and 21 is accounted for by higher borrowing rates.

[Sir George Schuster.]

23. Interest receipts are put at the same figure as in the budget estimate for the current year, 8.45 crores, and here I would explain that we propose, in future, to adopt a more conservative system as regards the Gold Standard Reserve interest. We propose, in fact, to treat £1,600,000 as the standard figure of revenue. If, in any year, the actual receipts exceed this sum, one-half of the surplus will be added to revenue and one-half will be transferred to an Equalisation Fund, which Fund will be available to be drawn upon to make the receipts up to the standard figure of £1,600,000 in any subsequent year in which they fall below that level. It is, I am glad to say, possible to make a start by putting a balance in this Fund immediately. The actual receipts for 1929-30 are estimated at £2,400,000, and out of this sum it is proposed to make a start by placing £100,000 to the credit of the Equalisation Fund. For the coming year, we estimate the receipts at £1,700,000, so that, acting on the rule which I have stated, we propose to include £1,650,000 in the budget estimates of revenue and to transfer the balance of £50,000 to the Equalisation Fund. I am convinced that this proposal represents a great improvement in our system and is in accord with principles of sound finance. The fluctuations which have occurred in the past have been of so wide a nature as to be embarrassing to the budgetary position and to create a misleading impression as to our general revenues. I need only quote the example of the last two years. For 1928-29 the ultimate figure was £1,243,000, while for 1929-30, as I have already stated, the revised estimates put the receipts at no less than £2,400,000. As I have already explained, the figure which we are now taking gives us the same total of interest receipts as in the Budget for the current year, and, therefore, allowing for the increases in interest payments, the net deterioration under the general head of Interest is 1,07 lakhs.

24. I now come to the subject of the special provision to meet our liability in regard to Post Office Cash Certificates. Honourable Members are so familiar with this subject that I need not go into great detail. The amount which we calculate as likely to be payable next year in respect of bonuses is 1 crore. But this, Honourable Members are well aware, is something much less than the liability which will actually accrue during the year. The total balance remaining in the hands of the Government from receipts from Cash Certificates will amount, at the close of the current year, to 35½ crores, so that the provision of 1 crore represents less than 3 per cent. on this. I have carefully calculated what the full amount of the liability, which will accrue during the next year, will be, and it comes to a figure of 1.88 lakhs. If, therefore, we are to make full provision for this accruing liability, we ought to find another 88 lakhs for the purpose, and it must be remembered that this will only cover the liability accruing during the year and will include no provision for meeting the liability which has already accrued. I have come to the conclusion that this accrued liability must be regarded now as part of the Government's debt and that, having regard to the provision which we make annually for reduction or avoidance of debt, the situation in regard to this is not unsound. But I feel no hesitation in saying that the time has come when

we ought to make full provision for the liability which, in future, will annually accrue. Therefore, I have to provide for this new charge of 88 lakhs.

25. I next come to the provision for reduction or avoidance of debt.

As Honourable Members will recollect, I stated in my budget speech last year, that I proposed to bring this under review in accordance with the arrangements originally fixed and I promised to take representatives of this House into my confidence before making any change. In accordance with this undertaking, I have communicated on two occasions with the leaders of the non-official parties in the House. On the first occasion, I asked whether they had any suggestions to make, and to this request I received no response. On the second occasion, I informed them that, after my own consideration of the matter, I had come to the conclusion that our arrangements in this respect were so closely connected with the arrangements for the Railway Convention that I thought that the two reviews ought to be undertaken concurrently with one another. My reason for this view is shortly as follows.

26. According to the present Convention, the Government receive, in addition to the refund of the actual interest which the Government have themselves to pay on loans raised for Railway purposes, a contribution, which, although it is made up of various elements, may be regarded as a percentage on the capital advanced to the Railways. Looked at in this way, it represents the distribution of even less than $1\frac{1}{2}$ per cent. on the Government debt, which forms the basis of the present provision for reduction or avoidance of debt. In fact, I think it is, on broad lines, correct to regard the one as balancing the other, and we shall arrive at a truer picture of what the Government draw from the Railways if we realise that, in fact, the Government get no profit but apply practically all that they receive, apart from a refund of their own interest payments, for the amortisation of their capital. When, therefore, the contribution falls below a certain figure, the Government, if they made up their accounts on a profit and loss basis, would actually show a net loss on the year. This is not the occasion for me to examine the justice or otherwise of this arrangement, but I think that what I have said is enough to show that the two arrangements are closely inter-connected. I may say that, when I represented this close inter-connection to the leaders of the various parties, the response, so far as I received any, appeared to me to indicate a general agreement with my view that the two Conventions must be considered together. I feel, moreover, most strongly, on general grounds, that this is not the time when, keeping in view our credit in the world, we ought to attempt any substantial diminution in our provision for reduction or avoidance of debt. Anything that savours of a "raid" on a public Sinking Fund is normally,—and, I think, quite rightly,—viewed with disfavour. I hope, therefore, that I shall have general agreement from Honourable Members that it is better to leave this provision substantially untouched and to bring it under review at the time of the general revision of finances including a re-distribution of the sources of revenue as between the Central Government and the Provinces, which must be a sequel to the proposals of the Constitutional revision which will shortly be before us.

[Sir George Schuster.]

27. I have, however, thought it justifiable to introduce two small changes in our present system. In the first place, we are now regularly in receipt of certain annual payments on account of Reparations. These have hitherto been added to the provision for reduction or avoidance of debt. But, on the view which I have taken above, this provision is at present adequate by itself, and I do not think that there is any justification for increasing it by the adventitious addition of Reparation receipts. I feel the more justified in adopting this view for the next year, because I propose next year, for the first time, to make adequate provision for our accruing liability in respect of cash certificates. This means that a receipt of 82 lakhs which would otherwise have been added to the provision for reduction or avoidance of debt will be available for other purposes and I think we may regard it as earmarked against the provision which I am making for the Post Office cash certificates.

28. The second change which I am proposing is of a minor nature. I have found that, in regard to the sterling debt incurred since the 31st March 1923, the rupee equivalent on which the percentage for reduction or avoidance of debt is based, is still reckoned on an exchange rate of 1s. 4d. I am proposing that the conversion should be made at the present statutory rate which is obviously the correct basis. This makes a difference of 12 lakhs. Even allowing for these two changes, the increase in the provision for reduction or avoidance of debt is 27 lakhs, the total amount standing at 6 crores as compared with 5.73 crores included in the budget estimates for 1929-30.

29. I can now recapitulate the position in order to show the problem with which I have to deal in balancing the Budget next year. Comparing our position with that provided for in the budget estimates of 1929-30, I have to provide for the following items of deterioration:

	Lakhs.
Deterioration in the main Commercial Departments, Railways and Posts and Telegraphs	99
Essential new services and demands	1.46
Net addition to interest on dead-weight debt	1.07
Special provision for bonus on Post Office cash certificates	88
Increase in provision for reduction or avoidance of debt	27
To these items must be added the budget deficit of 1929-30	90
<hr/>	
This gives us a total of	5.57
Against which the net improvement on the main revenue heads is only	5
There is thus a total gap to be filled of	5.52

The problem before us is how to fill this gap.

30. In the first place, I must make clear the principles on which I have endeavoured to act this year in dealing with expenditure demands. I have set before myself two guiding rules. The first is that no new administrative expenditure shall be admitted which is not either essential or productive; the second, that whatever new

Restrictions on new expenditure.

expenditure is admitted on these grounds must be balanced by corresponding economies. There must, in fact, be no *net* increase in the normal outgoings of the Government. These rules have been followed in my proposals.

Lakhs

31. In stating my problems, I have shown that the essential additions for new services and demands amount to 1,46

Reductions effected.

and, according to my rule just stated, this must be balanced by corresponding economies. Actually, as a result of the elimination of certain previous non-recurring items and of other variations, there is an economy in the civil estimates, of 62

and, on top of this, I am providing for a reduction of military expenditure of 80

that is to say, the net military grant, apart from expenditure on the Territorial Force, will be reduced from 55 crores to 54.20.

These two reductions together account for 1.42 lakhs against the new expenditure of 1.46 and I have thus been able to comply, within a very narrow margin, with the rule which I had set myself.

32. This is, in broad outline, a true presentation of the picture, though I have, for the sake of brevity, omitted a mass of minor confusing details. I might present the same picture in another way so as to provide Honourable Members with a cross check on my statement. They will find, from an examination of the budget estimates, the following net changes in the main heads of normal outgoings:

Civil Administration	+60
Other Direct Demands on the Revenue	+3
Miscellaneous	+10
Civil Works (other than Road Fund)	-3
Or a total increase of	70
Against which may be put the reduction in Military expenditure of	80

33. I must, at this stage, say a few words on this last item which, I am sure, Honourable Members will view with considerable satisfaction. The actual arrangement which I have been able to make with the Army authorities on this subject requires special explanation. This House will recollect that, in the course of my budget speech last year, I explained that, in order to enable the Army to carry through their plan of re-equipment, a programme had been arranged, providing for a stabilised military budget (exclusive of the expenditure on the Territorial Force) at a net figure of 55 crores for the four years beginning 1928-29 and ending 1981-82. According to this programme, we should have before us two more years at 55 crores, with the prospect of a reduction at the end of that period when the programme of re-equipment is completed. In the budgetary proposals which I am now presenting, we are taking advantage immediately of part of the ultimate reduction. This is made possible because the Army authorities have been able to agree to spread the programme of re-equipment, which remains to be carried out, over a period of three years instead of two. This means that instead of getting 55 crores in each of the next two years, to be followed by a drop in the third year, they are to work on a basis of getting 54.20 crores for each of the next three years, after which a further substantial drop is anticipated.

[Sir George Schuster.]

84. The net result is that, although we are not departing from the original programme of re-equipment, we are distributing the burden in a way which is fairer to the tax-payer of today and we are actually realising now a substantial part of the economy which was ultimately hoped for. I trust that Honourable Members will be gratified by this definite sign that Army expenditure is really to be reduced.

85. I may now turn back to my main problem. The two items of savings to which I have referred amounted to 1,42 lakhs. This reduces the gap of 5,52 lakhs, which I have to find funds to fill, to 4,10 lakhs. This can only be done by finding new sources of revenue and it is to my plan for achieving this purpose that I must now turn.

Budget Proposals.

86. The sum required is substantial and the provision of funds to meet it has been, as Honourable Members will readily recognise, a matter for prolonged and anxious thought. I believe, however, that it can be found by measures which not only will not impose an oppressive burden on any class, but will, in their indirect results, actually stimulate the country's economic development. The measures which I shall propose include changes—reductions as well as increases—in the customs duties affecting rice, cotton piece-goods, kerosene, sugar and silver, supplemented by a small change in the income-tax.

87. I will start with a proposal for reduction of duty. I am proposing—
Reduction in export proposal—a reduction in the export duty on rice
duty on rice. by one-quarter, that is to say, from three annas
 a maund to two annas three pies a maund.

There has been, as the House knows, a world-wide fall in the price of rice and the present time is therefore opportune for giving some help to the cultivator in Burma who has been a sufferer from this fall in prices. My proposal will remove the disparity, which at present exists, between our export duty on rice and that imposed by Siam, one of Burma's principal competitors in the trade. This proposal will cost us 80 lakhs; a larger sacrifice of revenue from this source could not, in present circumstances, be justified. Although Burma which is mainly interested, is far from us, I hope that this plan will commend itself to the House and be regarded both as an act of justice and a step in the right direction. It means, however, that the gap which I have to fill is increased to 4,40 lakhs.

88. I must now explain my proposals for raising the necessary new revenue, and I will make a start with the most
Increase in import difficult question which we have had to con-
duty on cotton piece- sider—the cotton duties. Here two motives
goods. come into play—first, the provision of revenue;

second, assistance to the Indian cotton mill industry. Our line of action must take into account both these motives, and though I, as Finance-Member, am not directly concerned with the second, which properly falls within the province of my Honourable Colleague, the Commerce Member, it has been decided by the Government of India that I should take this opportunity to announce the whole of the Government's proposals.

39. Action taken for the provision of revenue is a straight-forward matter, but the consideration of protective measures raises much more serious difficulties. Let me state, as briefly as I can, how these difficulties have appeared to us.

40. There is, of course, at the outset, the obvious problem of reconciling the interests of producer and consumer. Measures of protection must be so designed as to be effective for their purpose with the minimum interference as regards prices to the consumer.

41. But, apart from this, there are certain special difficulties in the present case. In the first place, the whole question of protection of the cotton industry was investigated by the Tariff Board a comparatively short time ago, but the case which has now been presented on behalf of the mill-owners claims a measure of protection greatly in excess of anything recommended by the Tariff Board. In these circumstances, a further enquiry might reasonably be considered desirable. But, as against this we are told (and it is a fact which we cannot dispute) that the case is urgent, and that, if action is to be effective, it ought not to be delayed.

42. In the second place, the conditions affecting the industry are not identical throughout India. Bombay is at once the most important centre of the cotton mill industry, and the centre more seriously menaced by foreign competition. At other centres, the average profits of the mills are nowhere high in relation to the capital invested in them, but throughout the world the industry is passing through a period of depression, and low profits are not a valid ground for special assistance.

43. In the third place, as was pointed out by the Tariff Board, the increasing competition from the up-country mills is one of the most important factors contributing to the depression in Bombay. Therefore, whatever measure of assistance is accorded to the industry as a whole, it is likely to be ineffective in ensuring permanent recovery to Bombay, unless the industry there seizes the opportunity afforded by that assistance to reorganise itself and increase its efficiency.

44. Moreover, there is another aspect of this question in which the public and the Government are greatly interested. Bombay has been the scene, during the last two years, of a prolonged and exhausting struggle between capital and labour. Without pronouncing judgment on either side or anticipating the views which may be expressed by the Royal Commission on Labour which is now sitting, it is fair to say that there can be no permanent restoration of prosperity to the Bombay industry unless the relations between labour and capital can be improved and all the conditions affecting labour brought up to a higher standard. These two considerations have, in the present case, a special significance, for, Government are being asked to take emergency measures, not to protect an industry in the early stages of its development until it can find its feet, but rather to save an industry (or, more accurately, one important section of it) which is suffering from a special deterioration or atrophy.

45. Although the report of the Fiscal Commission admits that protective measures are justifiable in such circumstances, the Government feel that emergency action, not immediately preceded by a Tariff Board enquiry, ought to be taken only if it can be shown that inaction might inflict grave injury on the national welfare. They feel also that, if such emergency action is taken, a special responsibility far more serious than any that exists when the protection of an infant industry is in question,

[Sir George Schuster.]

rests upon them, as trustees for the public, to take all possible steps to ensure that the assistance given will be utilised to the full. In such cases, it might sometimes be possible to make the adoption of protective measures conditional on effective reorganisation by the industry itself. But here the urgency of the situation creates a special difficulty. If action is to be effective, it must be immediate, and if the Government were to insist on certain steps being taken as a condition precedent to any measures of assistance to the industry, these measures might come too late. Nevertheless, this aspect of the matter cannot be ignored and I shall refer to it again.

46. I think that in these remarks. I have sketched, in broad outline, the main framework of the problem which concerns us.

47. The conclusions which we reached fall under two heads; first, that, in view of the revenue position, a general increase in the revenue duty from 11 per cent. to 15 per cent. was justified, secondly, that while this increase in revenue duty must have an important protective effect, it might be justifiable to supplement it by some special protective measures, provided that, having regard to the special circumstances to which I have called attention, such measures were limited in duration, and also limited to purposes necessary to meet the immediate needs of Bombay. In fact, it would not be justifiable at this juncture, as regards protective measures, to attempt more than to erect a temporary shelter under which the Bombay industry can reorganise itself, and after a reasonable period, for this purpose, it will be necessary to have a Tariff Board enquiry to consider future policy, and, in particular, how the Bombay industry has reacted to the assistance given.

48. I refer again later to the precise significance of this purpose, but, at this stage in my account, I must turn to one aspect of the matter on which I have not yet touched. It is, of course, too well known to need remark that, in all public comments on policy as regards cotton duties, the possible reactions on British interests are always prominently mentioned, and that we as a Government are often suspected of undue solicitude on this account. Having regard to the long and troubled history of the cotton duties in India, and to the public interest in the matter, it has been our desire to put before this House as full and frank a statement as possible. Let me make it clear at the outset that the fiscal autonomy convention is a reality, and that decisions on matters of this kind are left to the Government of India, and it is on this basis that our deliberations have proceeded throughout. But, in the final stages, there has been addressed to us a communication, not by the Secretary of State, but by His Majesty's Government, to reconsider the position.

49. In this message, His Majesty's Government asked us to take into account both the reactions of our proposals in India and their serious effects in England, effects which they felt sure that neither we nor the Legislature would desire to create. To this we replied that, though we were deeply impressed by a message of this nature, we nevertheless felt bound to adhere to our main proposals. We pointed out the following considerations: first, that we needed revenue; secondly, that customs is our chief source of revenue; thirdly, the duty on cotton piece-goods now stood below the level of the general revenue tariff; fourthly, Indian

Message by His Majesty's Government.

industry was suffering from a deep depression and the Bombay mills were approaching a desperate position which might affect the whole future of this important centre of Indian commerce and finance. We recognised and deplored the possibility of serious effects in England, but we stated we felt clearly bound to put Indian's interests first. At the same time, we realised how important it was to India, from the political point of view, to take account of British opinion, and that, quite apart from this, we were of course concerned at this time to avoid unnecessary injury to British interests. We stated that, after careful consideration, we had decided that we could not modify the general application of the 15 per cent. revenue duty, but that we should be prepared to propose to the Assembly that, as regards any additional and temporary protective measures, their application might be limited to non-British goods, and that, in these circumstances, there should be imposed, in addition to the 15 per cent.

Temporary protective revenue duty, a 5 per cent. protective duty measures. with a minimum of 8½ annas per lb. on plain grey goods, against all cotton piece-goods from outside the United Kingdom, this protective duty to be in force for three years only, and an undertaking to be given that we should have its effects examined by the Tariff Board before the end of this period.

50. We explained that, in placing this proposal before the Assembly we should point out that, so far as we are aware, this is the first occasion on which the considered opinion of the Cabinet has been conveyed in this form to the Government of India and that we were impressed by the significance of the precedents so established.

51. We informed His Majesty's Government that it would not be right for us to ask the Assembly to commit themselves to Imperial Preference as a principle, but merely to adopt a particular course which, in our judgment, was consistent with India's interests at a critical juncture when much might depend on India's response to the British Government's appeal. We also stated that we should have to make it plain to the Assembly that, while there were grounds for treating plain grey goods specially, we could not, in any circumstances, agree, for the emergency purpose which we had in view, to an additional protective duty of 5 per cent. on all classes of piece-goods irrespective of country of origin, since the immediate benefit to the Indian producer would be wholly incommensurate with the burden imposed on the Indian consumer. Finally, we made it clear that, in a matter of this kind, after frankly stating our conclusions, we should desire to put our carefully considered views before the Legislative Assembly with whom the final decision must rest.

52. That is how the matter stands, and it is on this basis that our proposals are now put forward. I have thought it right, frankly to put the position before Honourable Members in this way. Indeed, whatever our proposals had been, we could have consented to no other course, for we feel that it is essential, at this transitional stage of the constitution, that there should be full confidence, wherever possible, between the Government and the Legislature. There are certain points with reference to what has passed between ourselves and the British Government, and to the attitude which we adopted, on which I desire to give a further explanation.

[Sir George Schuster.]

53. We felt, in fact, that this method of approach from the British Government had a special significance. It affords striking evidence that the fiscal autonomy convention has become an integral part of the constitution, and that, even when British interests are most profoundly affected by tariff changes in India, the intervention of the British Government is restricted to representation and appeal. Complete freedom was accorded to the Government of India to take the final decision in whatever manner they thought right for India. It appeared to us that, subject to our paramount duty of considering Indian interests first, no Government of India could ignore such an appeal, for, to any statesmanlike view, it must be clear that India must be vitally interested in maintaining a spirit of co-operation with Great Britain. We felt, moreover, on every ground, that no member of any Government of India, be he British or Indian, would desire to introduce measures likely to inflict serious injury on British interests unless such measures were necessary for India's own development.

54. It is, of course, obvious that these proposals will evoke very considerable comment and will be subjected to the closest and most critical scrutiny. This we shall welcome, but I would, at the same time, appeal to all Honourable Members to exercise this scrutiny in a calm and judicial spirit before they pronounce any final judgment. It is for them to consider whether they can accept what I have indicated as the guiding principles underlying our proposals, and whether these proposals do, in fact, meet India's immediate needs, while being, at the same time, calculated to further her interests in the widest sense. It will not suffice to keep in view only those factors which, in ordinary times, might be held decisive, for the times are not ordinary. Within a few months, the representatives of India will meet the representatives of Great Britain to discuss, in the fullest and frankest way, the future of this great country, and much must depend on the spirit in which they meet. I would ask Honourable Members to give full thought to the grave importance of these wider considerations. It is obvious that any gesture of friendship which India can spontaneously and without compulsion make to the British Government in their own present grave industrial troubles, is bound to strike a responsive note. For our part, our conviction is that, if our proposals are examined without prejudice, they will be found to be better adapted to India's needs than any other scheme we could put forward, and I must explain shortly our reasons for thinking so.

55. In the first place, what we are aiming at in our present measures, is not to settle the policy as regards protection of the cotton industry for the distant future. We are concerned only with providing a temporary shelter under which the industry, especially in Bombay, may firmly establish its position in respect of the business for which it is already equipped. Our measures are emergency measures designed to take immediate effect, to give immediate relief, and an immediate stimulus, so that the Bombay industry may reorganise itself and start again with restored health and a new lease of life on its normal course of development.

56. There is therefore no relevancy for our present purpose in contentions that, taking a long view, the Bombay industry requires to organise itself for the manufacture of the finer goods, and that our present proposals

will not help in this direction. Whether such a view is right or not, it could not be translated into the immediate effect which is so necessary. It must, in fact, take many years before the local industry could organise itself to undertake the manufacture of the finer qualities of goods. Incidentally, I may point out that the raising of the import duty from 11 per cent. to 15 per cent. will give very considerable help in this direction; but that is outside the purpose of the emergency measures.

57. Looked at from this point of view, it has appeared to us that our proposals do exactly meet the needs of the case. The imposition, in addition to the increase in the normal duty, of a special additional protective duty against non-British goods, of a 5 per cent. all-round surcharge, combined with the minimum of $8\frac{1}{2}$ annas per lb. on plain grey goods, must operate effectively in just that portion of the field where competition is most severely felt. A study of the statistics makes it abundantly clear that it is not competition from British goods which is now being severely felt, nor has Bombay lost any business recently as a result of such competition.

58. In the second place, I must, on behalf of the Government of India, make it clear that we could not feel justified in imposing for revenue purposes a higher duty than 15 per cent. and that, so far as the protective measures are concerned, it is only if their scope is limited, in the way that we propose, that we could agree to carry them so far. As I pointed out at the outset, we cannot disregard the

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interests of the consumer and it is contrary to all sound principles to impose a protective duty, putting a heavy burden on the consumer, if the benefit to the producer must be small or negligible. For the period covered by the purpose of our emergency measures, the production in India of those classes of goods which form the great bulk of the imports from the United Kingdom, must be very small, and, therefore, an additional 5 per cent. duty on these goods would put a burden on the consumer without a corresponding benefit to the industry which we have in view. On the other hand, on those classes of goods to which the protective duties will apply, internal competition will increasingly tend to restrict any effect on the interests of the consumer. On these grounds, we hold that our proposals combine the maximum benefit to the industry with the minimum burden on the consumer.

59. I need not elaborate the further arguments which have been dealt with in our telegram, but I must, before leaving this part of the subject, emphasise again one vital point which we have made. We do not, and in fact, we could not, ask this Assembly to commit themselves, at this stage, to accepting the principle of Imperial Preference. We ask them to regard this proposal merely as a special measure designed to meet the immediate emergency. It is, acting in this spirit, that we propose that the special protective duties shall be imposed for a period of three years only, and that, at a convenient date before the termination of this period, their effect, and the whole position of the industry, shall be re-examined in a Tariff Board enquiry.

60. Lest it may be argued that such an enquiry should have preceded our proposals, I must explain that we gave our careful consideration to this point and decided that, quite apart from the urgency of the need for

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action, a further investigation by the Tariff Board at the present juncture was not advisable. It is the special duty of the Board to investigate facts and arrive at findings thereon. But owing to the labour disputes of 1928 and 1929, it is more than doubtful whether any material for investigation, beyond that available to the Tariff Board of 1926, exists. Again, conditions in the Bombay mill industry have, since 1926, been examined by the Tariff Board, the Fawcett Committee, and the Pearson Court of Enquiry, while trade conditions have recently been investigated by Mr. Hardy. In these circumstances, we felt that the proper time for a further enquiry by the Tariff Board will come when some progress in reorganisation and rationalisation has been made by the industry in Bombay, and the prospects of ultimate success or failure of the industry can be assessed.

61. There is one more point left for me to deal with in conclusion. I have already referred to the special duty which the Government feel to be imposed upon them in this case to satisfy themselves that effective use will be made of the assistance given, and that attention should be directed particularly to the improvement of labour conditions. We recognise that the ultimate failure or success of the mill industry in Bombay must depend entirely upon the extent to which the millowners utilise the present opportunity in order to improve their efficiency and labour conditions, and that, if full use is not made of this opportunity, the position of the industry may be no better at the expiry of the period of three years than it is to-day. We have already addressed the Bombay Millowners' Association on this subject and have impressed upon them the urgent necessity of working out schemes which may re-establish the industry on a firm basis. Although it has not been possible for us to lay down the lines on which the reorganisation should proceed, or to prescribe the particular measures which should be taken, we propose, now that our policy has been declared, to enter immediately into consultation with the Government of Bombay on this subject, which is their primary concern. It appears to us right that some method should be devised whereby the force of public opinion may be brought to bear effectively upon the situation. At the same time, it is our desire to give the Association all the assistance in our power in order to ensure that the examination of the various problems may be thorough and adequate, and that it may be carried out with the aid of the best expert advice available whether in India or in other countries. Apart from technical assistance, it seems clear that some drastic financial reorganisation and some rationalisation of the methods of manufacture is necessary if the Bombay industry is to be put on a permanent foundation of prosperity. On this subject I cannot at present say more than this—that we are prepared to examine what is required in this direction and to consider whether any form of Government intervention is possible or appropriate. This aspect of the problem is one of great difficulty and I do not propose to lengthen my speech by enlarging further upon it at this stage.

62. I would add, in conclusion, that, although I have spoken chiefly of Bombay, we have also the other industry of India in view and we particularly hope that the measures which we propose will be of real benefit to the hand-loom industry throughout the country-side.

63. We estimate that the net increase in revenue from our proposals, allowing in full for the protective effect, will be 1.25 lakhs. The proposal to increase the revenue duty will be included in the Finance Bill, while a special Bill will be introduced by my Honourable Colleague, the Commerce Member, containing the protective proposals.

64. My next proposal is to increase the excise duty on kerosene from 1 anna to 1 anna 6 pies per gallon, coupled with a reduction in the import duty from $2\frac{1}{2}$ annas to 2 annas 3 pies. This combined proposal is expected to give us an extra 35 lakhs. At present, there is a difference of $1\frac{1}{2}$ annas per gallon between the excise duty and the import duty on kerosene and the effect of the proposal now made will be to reduce that difference by one-half. In framing our proposals regarding kerosene in this form, we have kept two objects in mind: first and principally, we have desired, simultaneously with getting more revenue, to make a change which should, at the least, ensure that the price of ordinary kerosene to the consumer is not increased, while secondly, we have felt that prudence and justice demanded that we should not make too sudden and drastic a change in the conditions of the indigenous industry, having regard particularly to the position of the smaller companies. Moreover, too drastic a change might hamper further development. In reducing the margin by one-half we have thought that we have gone as far as it would be wise to go, at least as a first step. It means that the marginal duty in favour of the indigenous industry will be reduced from about $18\frac{1}{2}$ per cent. to $9\frac{1}{2}$ per cent.

65. The next proposal which I have to mention is an all-round increase, in the import duty on sugar, of Rs. $1\frac{1}{2}$ per cwt. I am not proposing any change in the existing classification, so that the effect of the proposal will be that sugar of 23 Dutch Standard and above, which at present pays duty at the rate of Rs. $4\frac{1}{2}$ per cwt., will pay duty at Rs. 6 per cwt.; sugar below 23 Dutch Standard but not inferior to 8 Dutch Standard will pay at Rs. $5\frac{1}{2}$ per cwt., instead of at Rs. 4, and sugar below 8 Dutch Standard and sugar candy, which at present pay at 25 per cent. *ad valorem*, will be subject to a composite duty of 25 per cent. *ad valorem plus* Rs. $1\frac{1}{2}$ per cent. The duty on these lower grade sugars has, it is true, little significance for the revenue, since imports are at present very small, but it is desirable to keep a due correspondence between the different grades in order to prevent the substitution of lower for higher grade sugars. Molasses, which is dutiable at 25 per cent. *ad valorem*, will remain subject to duty at that rate and will be treated separately from sugar, since its use is mainly as a raw material for industries and, in fact, a Tariff Board enquiry as regards its treatment as a raw material used in the manufacture of denatured spirit, is already in progress.

66. The increased duty on sugar should yield 1.80 lakhs; but, in estimating its effect upon the consumer it is necessary to bear in mind that the world price of sugar is exceptionally low. The average landed cost of sugar in India from April to December last was no more than Rs. 8.6 per cwt., whereas the average for the previous six years has been Rs. 12.25 per cwt., a difference of about Rs. $3\frac{1}{2}$ as compared with the proposed increase of Rs. $1\frac{1}{2}$. Thus, even the comparatively large increase now proposed should not at present be seriously felt by the consumer.

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Ultimately it may,—and probably must,—have some protective significance; but, for the present, it must be regarded primarily as a revenue-producing measure. I would, however, remind Honourable Members that an increase in the production of sugar is one of the most valuable opportunities available for improving India's agricultural production, and that, with this possibility in view, we are proposing a special grant this year of 10 lakhs (to be continued, if necessary, in subsequent years) for the encouragement of sugar research and sugar production. These two proposals must be considered together, and their possible reactions fully appreciated. It may interest the House to know that duties on sugar, at about the level which we now propose, are in force in most European countries. What we are now proposing amounts to a duty of 9s. per cwt. The present import duty on sugar elsewhere is as follows:

				e.	d.
England	..	..	..	11	8
U. S. A.	..	..	..	10	3
Germany	..	..	..	12	7
France	..	..	..	8	6
Austria	..	..	..	12	0
Australia	..	..	..	9	4

67. I next propose to obtain an additional 70 lakhs by a small change in the rates of income-tax and super-tax. I hope that the House will agree that, when we are seeking new sources of revenue, it should not all be raised by indirect taxation, but that some direct taxation is justified so that the burden may be equitably spread. At the same time, I recognise that this is not a suitable period for imposing any heavy additional burdens which would be felt in industry or commercial enterprise. Our proposal, therefore, is that, on personal incomes of Rs. 15,000 and upward, the income-tax rates shall be raised by 1 pie in the rupee, and a corresponding increase shall be made in the super-tax in all grades, other than the flat rate of super-tax on companies. The additional yield from income-tax is estimated at 56 lakhs and that from super-tax at 14 lakhs. It has been brought to my notice that, owing to certain features of our income-tax system—particularly the deduction of tax at source, an alteration in the rates might, in certain cases, be taken into account twice in the first year when a change in rates is made. I shall see that the necessary steps are taken to avoid this result.

68. In referring to income-tax, I wish to mention some other changes which I hope shortly to bring under consideration. If the normal economic progress of India is maintained during the next twelve months, it ought to be possible for us to enter on next year in a stronger financial position. I hope then to be able to make a start in introducing the principle of allowing business losses incurred in any one year to be carried forward to the next year. I also hope to be able to remove the present double super-tax on companies, so far as that affects genuine trust and finance companies. Both these changes ought to be beneficial to the progress of business enterprise, and it will be my settled purpose so to regulate taxation as to remove, when opportunity offers, any imposts which may be said to have a hampering effect on such enterprise.

69. The total yield of the taxes which I have now mentioned amounts to 4,10 lakhs, so that I am still left with 80 lakhs to find. I consider, however, in the special circumstances now prevailing, that it is on every ground desirable to have some margin of safety, taking into account the uncertain prospects which we have before us, and taking into account also the paramount importance, to which I have already referred, of improving our credit by displaying a strong financial position to the world.

70. It is with this and other objects in mind that I propose to re-introduce the import duty of 4 annas per ounce on silver. I have, however, purposely kept this proposal till the end, for, in putting it before the House, I want to make quite clear certain conditions which will, I think, generally commend themselves to the public.

71. An import duty on silver is a familiar feature in the history of Indian fiscal policy. Prior to 1910, silver bullion and coin other than coin of the Government of India, were included in the general tariff schedule of articles liable to an import duty of 5 per cent. *ad valorem*, and in that year, the rate was raised to 4 annas per ounce. During the war, the import of silver was prohibited, and after the war, in pursuance of the recommendation of the Babington-Smith Committee, the duty was removed at the same time as the prohibition of import. The Committee advocated the removal of duty mainly on account of the strong feeling in India that it was an obstacle to the establishment of a world market for silver in Bombay and placed the Indian consumer of silver at a disadvantage in comparison with the consumer in other countries. I have given full weight to these objections, but circumstances are different today. It is proposed to meet the former objection by allowing a full rebate of the duty on re-export of any silver which has been imported and has paid duty. As to the latter objection, we feel now that there is a strong counterbalancing advantage in taking a step which will have the immediate effect of improving the internal price of a commodity in which the savings of the masses are to a considerable extent invested. The recent fall in the price of silver has, in fact, put an entirely new aspect on the matter.

72. Apart from this, there is another important new factor in the situation, in that the Government, owing to their possession of surplus stocks of silver and the erection of the new refinery at Bombay, have got into the position of being themselves important "producers" of silver. Our proposal, therefore, has the new incidental advantage of providing Government with a protected market for their own produce. Having said as much as this, however, I must say more in order to avoid the creation of any misunderstanding. I feel that it is important that the masses of India, who invest so large an amount of money in silver should realise that silver is only an ordinary commodity, liable to fluctuations in price, just as other commodities are. It has no sacred properties which make it immune from these vicissitudes, and although the Government, in taking these measures, have in mind, as one of the main advantages, an improvement in the internal value of silver, we should, in the long run, be doing a very poor service to the population of India if we allowed it to be supposed that the Government have the power definitely to maintain prices at a particular level. It is far better that the people should generally appreciate the realities of the situation in this respect. At the same time, the Government do recognise the importance of the interests involved owing to the position of silver in India, as, in some

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respects, a store of value and while they must, as holders of a surplus commodity which they desire to sell, reserve freedom of action, I am prepared to assure this Assembly that, in exercising that discretion, the Government will not go to the market unless they are advised that as in the past, the market will not be appreciably affected by their operations.

73. If there is any danger of the world's production of silver exceeding the consuming capacity of all markets, then, of course, there must be a tendency to falling prices. Only the combined action of producers and holders can prevent this. The Government of India, holding as they do surplus stocks, which, in the public interest they consider that they ought to realise, cannot fairly be asked to do more than other producers; but I am prepared, on behalf of the Government of India as important holders or producers, to say that, if the other interests concerned show any desire to consider the possibility of joint action for the regulating of sales in order to meet the world's demand, the Government of India would willingly co-operate. Further than this we cannot in the public interest go, but what I have said amounts to a carefully considered and important proposal, and it is for the other producing interests to consider if they will make any response. In the meanwhile, I think I may say with confidence that, at the present level of prices, the imposition of the duty which we propose is not likely to have any serious effect on the consumption of silver in India.

74. While our reasons for imposing the duty are, as I have explained, of a special nature, I am also prepared to say that special circumstances will govern our intentions as to the disposal of the revenue produced. We must, as I made clear, regard the proceeds primarily, at the present stage, as a reinforcement of the general financial position of the Government; but, if our estimates as regards the other heads of revenue are realised, and there is a surplus resulting from the imposition of the silver duty,

then I am prepared to say that we have a very special purpose in mind for the application of that surplus. We regard this duty, principally in fact, as a measure which will give us a margin of revenue from which we shall be able to make a distribution to provinces after the forthcoming statutory revision to give them the funds which they require for nation-building services. Though it will not be for the Central Government to dictate to the provinces how such contributions should be applied, there will be an opportunity for discussing this matter when the whole distribution of the sources of revenue is considered, and I think I can say with confidence that additional funds are chiefly required by the provinces for such purposes as economic and agricultural development and primary education. If, pending the further allocation of revenue to the provinces which I have in view, any surplus is actually realised, then, of course, any proposal for its expenditure will be submitted to this Assembly.

75. It is on these grounds that I have stated that our proposals in regard to the silver duty must be regarded in a very special light. We propose to include, in our budget figures, a revenue of 1 crore, as a conservative estimate.

76. On this assumption, our budget estimates provide for a surplus of 70 lakhs of revenue over expenditure. As the budget proposals other than those relating to

Final result.

income-tax and super-tax will have effect forthwith, the current year's revenues will also benefit to the extent of 85 lakhs, which amount accordingly appears as a revenue surplus in the revised estimates.

REVIEW OF BUDGET PROPOSALS.

77. It is of course obvious to me that these proposals will be subjected to the most searching scrutiny, and the question which will be asked on all sides is whether there is any justification for imposing so heavy an additional burden of taxation.

78. Before this question is put, I would ask Honourable Members to pause and consider carefully what item of taxation in my proposals does not offer at least some indirect advantages. I venture to say that, with perhaps the sole exception of the income-tax proposals, such advantages will be found. But that is not by itself a sufficient answer, and it is necessary to examine the position further, and attempt to frame some interpretation of the symptoms of the present financial conditions. For, if the short-fall of revenue is merely the result of temporary combination of abnormal circumstances, then one must hesitate to impose the full corresponding burden of permanent taxation, and it might be justifiable to adopt temporary expedients. If, on the other hand, there is a permanent and unavoidable shortage of revenue, then the position must be tackled boldly in order to establish, before it is too late, a sound foundation.

Is present condition permanent?

79. In order to judge whether the present condition is permanent or not, there are two main aspects to be examined, that is to say, one must ask, on the one hand, whether the expenditure required this year is abnormally high and capable, either now or in future years, of reduction, and, on the other hand, whether the revenue anticipated is below the normal expectation owing to special circumstances which are unlikely to be repeated.

80. As to expenditure, I have already drawn the distinction between actual administrative outgoings on the one hand, and, on the other, such items as interest on debt and those provisions which do not represent actual outgoings in cash, but which are required, on principles of sound finance, as reserves against established or accruing liabilities. I will deal first with administrative expenditure. In regard to this I have, during the past year, in accordance with an undertaking which I gave to the Assembly in my last budget speech, conducted in the Finance Department a close scrutiny and survey of the growth of expenditure during the past five years. Reports have been prepared for each Department and these have been circulated to members of the Standing Finance Committee. A good deal remains to be done in the way of completing the details of this Enquiry, but I have gone far enough to come to the conclusion that, for various reasons, we cannot count on being able to find any substantial margin for reduction in the cost of the civil administration of the Central Government. In fact, with all the new services and heads which are being pressed for consideration, it is only by the exercise of the most rigid control that we shall be able to keep the growth of expenditure within bounds. The possibility, therefore, of cutting down administrative expenditure, does not, in my opinion, afford any substantial ground for postponing the imposition of taxation to meet

Provisional conclusion.

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the present deficit. But by accepting this conclusion, I do not imply that the search for possibilities of reducing our present scale of expenditure must be abandoned. It has, in fact, been decided by Government—and the proposal has recently been reported by me to the Standing Finance Committee—to appoint an officer on special duty to continue the examination in further detail. It is, in my opinion,

Further investigation, necessary to carry out a very close detailed investigation of the causes which have led in the past, and are still leading, to a steady increase in expenditure. Those Members of this Assembly who have sat with me on the Standing Finance Committee are fully aware of the difficulties in this matter. Applications are made in a particular case for improvement of conditions of pay in particular offices. A good case is made out and the improvement, involving perhaps by itself only a moderate increase in expenditure, is approved. But one move leads to another and it is inevitably found that other sections of Government staff, claiming to be working in similar conditions, again press that a similar improvement shall be accorded to them. These claims are difficult to resist, and, moreover, it must be remembered that the control does not lie entirely in the hands of the Central Government. It often happens that a particular claim is pressed in order to afford to members of some branch of a Central Government Department, conditions equally favourable with those prevailing for men in the service of the Provincial Governments working under similar conditions and in the same place. But the time has come for a comprehensive review of the whole situation, so that we may ascertain what claims on these grounds are likely to be pressed in future and that we may, if possible, fix, in consultation with the Local Governments, certain uniform principles from which there can be no departure. Apart from such special cases, the Government have become committed in the past years, to time-scale systems of pay, the full effects of which were not perhaps appreciated at the time when they were granted. These put upon us definite and unavoidable commitments, and I have already indicated that the normal rate of increase under this heading amounts to something like 25 lakhs per annum.

81. It is important that we should know where we stand in this matter and also when it is likely that the peak of this increase will be reached and what the figure of Government expenditure at that point will be. It is this kind of question which justifies the special appointment to which I have referred, for, the time is coming when, as part of the constitutional reforms which we shall have to consider, it will be necessary to re-arrange the distribution of heads of revenue between the Central Government and the Provincial Governments. When that time comes, it is essential that we should be able to assess, with some accuracy, what our own future commitments are likely to be.

82. These remarks cover one kind of growth in expenditure. But I shall be asked whether, even admitting that Possibilities of re'ter- ch- ment. this kind of growth is inevitable, it is not possible to make large cuts in the number of appointments and in the amount of the personnel employed. This, indeed, is a subject which will come within the purview of the special examination which we propose. But I should be deceiving this Assembly if I were to hold out any expectation of large economies in this direction. I doubt whether it is adequately realised to what an extent the gradual development of the present form of constitution is placing increased work on the shoulders of the officials

of the Central Government, and I do not think it is an exaggeration to say that there is not a single Department of the Government of India in which those occupying the higher appointments are not at present overworked. Indeed, I think it far more likely that, as representative institutions grow and sessions of the Legislative Assembly become longer, it will be necessary to divide up some of the existing Departments and create new appointments for their representation in this Assembly.

83. I may, however, again be asked whether there is not a possibility of a different form of economy in the shape of elimination of certain services. At the time of the last big retrenchment movement, certain accessory services were largely cut down, particularly Scientific Departments and such minor departments as the Statistical Branch. My reply to such a question would again be that, unfortunately, it is only too likely that the move will be in the other direction. We are, in fact, at present faced with the need for meeting the demands of a large number of new services. Honourable Members are only too familiar with some of these. The development of agricultural research, for example, is an entirely new demand, as also is that of civil aviation. The former is one which may be fruitful of great benefit to the country; the latter is necessary unless India is to lose her place among the civilised nations of the world. Moreover, it brings in its train other needs such as the development of meteorology and wireless organisation. Again, if we look back on the cuts that were made during the last retrenchment campaign, I think it will be generally admitted, as proved by experience, that, in some respects at least, the economy has not been worth the sacrifice. In advancing this opinion, I have particularly in mind the Statistical Branch; and there, as some Honourable Members know, we have, in response to a far-seeing demand which has been pressed by various influential Members of this House, started on a course which will, I hope, provide those statistics for the gauging of the country's economic conditions which it so badly needs. Public opinion generally seems to be awakening to the desire that the Government of India should adopt a far more active and constructive economic policy than it has followed in the past, and that, in many matters, the Central Government should take upon themselves the responsibility of giving a lead and assistance to the Provincial Governments. This is a desire with which I most heartily sympathise, and it would, in my opinion, be false economy to resist it.

84. Lastly, I would impress on Honourable Members one consideration which has been brought before me very vividly in the course of my work in the Finance Department. The Central Government are directly responsible for the administration of certain areas, and I am afraid that one cannot resist the conclusion that the standard of services provided for in those areas, has, in many respects, been allowed to fall behind that prevailing in the neighbouring areas under Provincial Administrations. This is not a state of affairs which the Central Government can view with equanimity, and I feel convinced that there are considerable arrears to be made up in this direction.

85. For all these reasons, I have myself regretfully come to the conclusion, which I have already stated, namely, that, however energetically and ruthlessly the search for economies is carried out,—and I shall myself welcome any measures for the conduct of such a search,—there is not room for any *substantial* reduction in the civil expenditure of the Central Government.

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86. If I turn now to those other kinds of expenditure to which I have referred, namely, those measures for the support of sound financial principles and the provision of adequate reserves against our obligations, I could not honestly put before this Assembly proposals less adequate than those which I have framed. It is, in my view, of vital importance that, at this stage in India's constitutional development, when we stand at the threshold of a new constitutional advance, nothing should be done which would suggest to the outside world that India's credit will be less carefully preserved in the future than in the past. India must be above suspicion in this respect, and in the end, I am convinced that this will prove sound economy and, by improving the country's credit, help materially to reduce the burden of interest which it will have to pay.

87. If I turn now to the revenue side of the picture,—the second of the two aspects which need examination,—it may be said that the estimates which I have presented, do imply, first, the expectation of a set-back in the tax revenue, or, rather a halt in the normal rate of its growth as evidenced in the results of the last seven years, and, secondly, a very decided worsening in the position of the Commercial Departments of the Railways and Posts and Telegraphs. I am prepared to admit that it is quite arguable that, on the revenue side, the picture which I am presenting, is abnormal and likely to be improved in future years. But, for many reasons, I feel sure that it will be unwise to allow such an argument to prevent the introduction of new taxes sufficient to meet the situation as I have to present it today.

88. I have many reasons for this conclusion, some of which I may state shortly as follows. In the first place, some of our present sources of revenue are likely to disappear, and, in the case of others, reductions may become desirable. The following special cases may be quoted: As regards opium, we are already committed to the disappearance of this revenue after 1985, and it is essential to find new sources of revenue to replace it. As regards the export duty on rice, I have already indicated in my proposals for this year that this, at its present level, may be a burden on the proper economic life of the country and further reductions may become desirable. It is possible that economic conditions may alter the justification for other forms of export duties as, for example, on jute; while, as regards income-tax, if again we put first the need for removing burdens which hamper the economic development of the country, I should myself welcome the opportunity of being able to introduce certain changes, as, for example, the introduction of provisions for allowing trading losses to be carried forward beyond the year in which they have occurred and the abolition of double super-tax on holding companies. Again, new needs for expenditure are constantly likely to press upon us and I have already referred to some of the new services which are now being developed.

89. Yet another consideration is this. We have, in my opinion, been working, in the past three years, with a dangerously low margin. In a country like India, subject to great risks of loss of revenue from failure of rains or from floods, it is desirable to have some margin of revenue over expenditure from which a reserve can be built up in reasonably good years. Memories are short,

and although the last two monsoons have, in places, been unfavourable, it is many years since India has suffered from a real failure of the monsoon.

90. The last consideration to which I have to call attention, is one which bears most weight in my own mind. We have got to prepare for the probability—indeed, I think I may say, the certainty—that the next stage in constitutional development will need provision of more money

Needs of the provinces. for the provinces and that, in some form or other, the Central Government must be prepared to relinquish part of its own sources of revenue. After all, it is in the hands of the Provincial Governments that the real nation-building services lie, and the two great needs for India are agricultural development and, as a necessary condition of its success, the increase of a really effective form of primary education. Of all the tasks, the responsibility for which my present office lays upon me, that which I take most seriously is the duty of finding revenue in order that those provinces, which are at present handicapped by financial difficulties, may make a great start forward in developing the services which the country really needs. I believe that, in the new taxes which I have proposed, I have opened the way, if things go well, without putting any burden on the economic life of the country or subjecting to hardship any particular class, to create a margin which will enable us, as soon as the constitutional reforms are settled, to give a fair measure of assistance to the Provincial Governments in the next chapter of their history.

WAYS AND MEANS.

91. I will now turn to a review of the ways and means position for the current year and the next, a summary of which is given below in the usual form:—

Summary.

(In crores of rupees.)

	Revised, 1929-30.	Budget, 1930-31.
<i>Liabilities.</i>		
Railway capital outlay (construction)	24.15	16.75
Purchase of Railways	7.06	..
Other capital outlay	1.93	3.97
Provincial transactions	9.47	7.93
Discharge of permanent debt (net)	25.36	18.84
Contraction against treasury bills	6.86	..
Contraction against silver	2.94	..
Other transactions	3.96	1.86
Total	81.73	49.35
<i>Resources.</i>		
Revenue surplus	35	70
Rupee loan (net)	35.47	23.30
Sterling loan (net)	7.92	..
Treasury bills with public	20.00	—4.00
India Bills	8.00	..
Post Office cash certificates and savings bank	5.94	6.20
Other unfunded debt	8.10	3.16
Appropriation for reduction, etc., of debt	5.85	5.90
Depreciation and Reserve Funds	.99	5.27
Reduction of cash balances	—10.89	8.62
Total	81.73	49.35

[Sir George Schuster.]

92. The gross proceeds of the rupee loan in the current year amounted to about 85½ crores of which 22½ crores represented conversion of bonds maturing from 1930

to 1932. This substantial reduction in the amount of the loans maturing in the near future has considerably improved the position for next three years, but the actual cash received in subscription to the loan was 18½ crores only, i.e., 4½ crores less than the total new loan provided for in the budget. As I anticipated at this time last year, it was necessary to resort to external borrowing on a considerable scale. Sterling bills for £6

millions in each case were issued in London in May and December. The former issue matured in February and in order to place ourselves in funds to meet them, short-term bonds for £6 millions were issued early in February. The total net amount of funds raised during the year in England has thus amounted to about £12 millions. I must deal briefly with the conditions in which the issue of the short-term bonds was undertaken and the reasons underlying Government's action. Honourable Members will have been fully aware from the general review of the Government's policy as regards capital expenditure and borrowing which I gave in my budget speech last year, that I had arrived at the conclusion that external borrowing would be necessary. I then explained how and why, in future, it would be necessary that the rate of capital expenditure should be more nearly balanced than had been the case in the past five years by the increase of our capital resources in the form of fixed loans. It was therefore desirable, in any case, to raise a sterling loan as early as possible after the summer. Conditions, however, were then very unfavourable owing to the position in New York and the existence of a bank rate of 6½ per cent. in London and we thought that we should gain by waiting for cheaper money rates. When the New York boom collapsed, the anticipated easing of money commenced, but, by that time, political anxieties had begun to dominate the position in the London market for Indian securities. I need not give a long account of these events which must be still fresh in the minds of all Honourable Members. I need only say that the nervousness of London investors was intensified by the attitude adopted at the Congress meeting at Lahore in December. Therefore, while our anticipations that money conditions would become more favourable were realised the adverse effects of political reactions counter-balanced the advantage obtained. The facts, however, had to be faced, and as during the year Government had to meet the greater portion of the £5½ millions for the purchase of the Southern Punjab Railway and about £7½ millions for other railway capital expenditure, we felt that, in spite of the unfavourable conditions, we should not be justified in financing this capital expenditure entirely by temporary borrowing in the form of India bills. We considered, indeed, that some more permanent borrowing was, according to sound financial principles, essential.

93. In saying this, I wish to emphasise that our power to issue bills in the London market is in the nature of a reserve which ought to be kept available to meet temporary shortages of sterling resources. Prudent finance demands that this reserve power should be utilised as little as possible for financing permanent capital expenditure. By the issue of two-year bonds with the option of extension for a third year, we have obtained accommodation for a period sufficient to allow for the passing

of the present political uncertainty and have, at the same time, avoided the burden to the Indian taxpayer, of floating a long-term loan in particularly unfavourable conditions; conditions which, I hope, will prove to be of a temporary nature. In the meanwhile, I am glad to say that the success of this operation, even though the terms were onerous, had a very good effect on our credit in London.

94. The combined amount of the above borrowings corresponds roughly with the budget forecast, but owing to events which it was impossible to foresee, it was necessary to supplement our resources by large issues of treasury bills in India. In the first place, contraction of the currency to the extent of 6.86 crores against cancellation of rupee treasury bills and 2.94 crores against silver withdrawn for sale depleted our resources by nearly 10 crores.

95. Without entering into a long exposition, I wish to explain briefly, and in very elementary terms, the real significance of these currency operations. There is much misunderstanding on these subjects, which is fostered by the peculiar position of the Government of India and the combination of roles which they have to play. In the first place, it is Government themselves who have to do the work and, therefore, as happens in all countries, they are blamed for every untoward occurrence—as some of the Honourable Members opposite would soon find out if—as they hope, and as I often wish they could,—they were to change places with us. But apart from this common experience, the Government are not only the currency authority but are themselves the chief operators in the remittance market. When there are difficulties as regards exchange, which would be expressed in other countries by a tendency to export gold, that is expressed in India by difficulties for the Government to effect remittance, and when we take action to protect the currency position, which in other countries would be regarded as quite normal, it is represented here as artificial manipulation of exchange by Government in order to meet their own remittance needs. That appearance induces an unduly hostile type of criticism.

96. Then again, let us consider the internal currency position. If, as has happened in the current year, prices fall and the country requires less currency, and if, on top of that, large quantities of redundant silver currency are returned from hoards, the currency authority must meet the situation by cancelling currency. Otherwise, an inflated condition exists, internal prices would keep unduly high in relation to external prices, and internal rates for money unduly low. The result would be that the natural flow of exports, which is necessary to maintain the country's balance of trade, would be restricted and a very unhealthy situation dangerous to stability of currency would be set up. When currency becomes redundant and has to be cancelled, the profits of the currency authority diminish, for, all issues of currency, whether it be silver currency the bullion value of which is less than its face value, or notes for which the authority merely has to bear the cost of printing, bring profits; and the less the amount of currency outstanding, the less the profit. But when we as a Government, in our functions as currency authority, have to cancel currency and thus submit to a corresponding loss of profit, we are accused of pursuing a policy ruinous to the country's interests because we appear as borrowing money at interest in the form of treasury bills and then destroying it by contraction. In actual fact, however, the loss thus incurred only represents a loss

[Sir George Schuster.]

of the profit which we would have made if the country had needed the extra supplies of currency.

97. Some of our critics, however, will say that we have carried this process unnecessarily far and that, in contracting currency, we have not only incurred this loss ourselves but have starved the commercial world in its needs for currency. Of this, as I have, on recent occasions, frequently explained, there is no evidence. Actually, since the beginning of the last busy season, say, from the 1st December, 1928, to the 30th November, 1929, the net contraction was 15.89 crores and the net reduction of notes in circulation was only 2.48 crores. The reason for this small effect of our operation on the note issue is that very large quantities of rupees have been returned. When rupees are returned, notes are automatically issued against them, and if these rupees have come not from active circulation but from hoards, a corresponding inflation would, in fact, have taken place. These have been the actual facts this year, and the proof of the pudding lies in the eating. In spite of the contraction of currency, all the evidence shows that the currency needs of the country have been fully met so far as it was healthy to do so. In support of this contention, I need merely point to the fact that the Imperial Bank's cash, which is the real index of the adequacy of the currency, is considerably higher than it was at this time last year, although no expansion of the currency has been effected this busy season. This shows clearly that the contraction of the currency has not been excessive.

98. While this necessary contraction of 10 crores to which I have referred, counterbalanced part of our borrowings, other factors have contributed further to worsen our ways and means position. The chief cause has come from the Railways. As a result of the falling off in railway receipts and the increase of working expenses, the Railway Reserve Fund will have to be drawn upon to the extent of 86 lakhs to meet the contribution to general revenues, whereas an addition of 3.26 lakhs to the Reserve Fund was provided for in the Budget, while the addition to the Depreciation Fund is now expected to be one crore less than was anticipated. As against this, it was possible to effect a saving of 2.82 lakhs in railway capital expenditure, but, even allowing for this, there is a deterioration of nearly 3 crores under Railways. Borrowings by the Provinces are now expected to exceed the Budget by about 2½ crores, and, in view of the heavy disbursements in April in London and in India the closing balance will stand at a figure 9 crores higher than provided for in the budget estimate. For these reasons, the revised estimate provides for an increase from 4 crores to 24 crores in the amount of treasury bills outstanding with the public, of which I would remark again that 9 crores is represented by increased treasury balances.

99. In my last budget speech, I dealt at length with the railway capital expenditure and envisaged the possibility of a drastic reduction in 1930-31 in order that the credit of the Government might not be over-strained. The purpose thus indicated has been fulfilled, and as the House knows, we are allowing 16½ crores only for railway capital expenditure, i.e., 7.4 crores less than the revised estimate for the current year. It must be noted that the real reduction in new railway capital expenditure sanctioned is actually larger

than these figures indicate, as 2.85 crores of the programme for 1980-81 really form part of the sanctioned programme for 1979-80. Allowing for this, the programmes for the two years compare as follows:

	Crores.
1979-80	26.50
1980-81	14.40
	<hr/>
Reduction	12.10
	<hr/>

This comparison brings out more clearly the drastic nature of the curtailment effected.

100. With this provision for railway capital expenditure, our borrowing programme for 1980-81 is, so far as new money is concerned, a very modest one. So far as sterling operations are concerned, I assume that the £6 million India Bills falling due in December will be renewed; but, if conditions are favourable, this floating debt will be funded. As regards India, I estimate that a loan of 28½ crores will be required, of which 7.4 crores only will be new money and the remainder, namely, 16.1 crores will be utilised for redeeming outstanding loans, principally 1930 Bonds. This provides for reducing the amount of outstanding treasury bills from 24 crores at the close of the current year to 20 crores at the close of the next. I anticipate no difficulty in carrying out this programme without disturbing the market for Government securities, and, if conditions improve, it may be possible, to fund a larger amount of the floating debt than I have assumed in my present calculations. On looking back on these proposals, I feel justified in saying that provided only that political disturbances do not upset either conditions in India or confidence in England, our borrowing programme is of such a nature that we could confidently look forward to a general appreciation in Government securities.

101. A year ago, it was estimated that we should require to remit £55½ millions to London in 1979-80. Throughout the year the exchange position has been difficult. India, like most other countries in the world, was affected adversely by the high money rates consequent upon the attraction of funds to New York to finance the speculative boom on the Stock Exchange and by the fall in prices and general trade depression which followed the collapse of this boom. In addition, the uncertain political outlook has led to the export of capital on a considerable scale. As a result, our power to effect remittances to London has been temporarily curtailed and we now estimate that the total remittance through the market in the current year will amount to £19 millions only. This will suffice, with the help of the sterling borrowings referred to above and the transfer of £9½ millions already effected through the Paper Currency Reserve, to enable the Secretary of State to close the year with a balance of £6.8 millions. Assuming that the £6 million India bills falling due in December 1980 will be removed, the amount required to be remitted to London next year is estimated to be about £31.8 millions. This figure includes £3.8 millions for capital expenditure on railways as compared with £7.5 millions in the current year and £2.4 millions for repayment of debt (capital portion of railway annuities, etc.)

[Sir George Schuster.]

102. I should, of course, make it clear that the entire ways and means programme outlined above can only be considered as tentative and subject to modification in the light of the actual circumstances of the time.

103. Following the practice of previous years, I quote the market prices of certain typical rupee securities of the Government of India:

Market price on the 20th February.

1923.	1924.	1925.	1926.	1927.	1928.	1929.	1930.
Rs. A.	Rs. A.	Rs. A.	Rs. A.	Rs. A.	Rs. A.	Rs. A.	Rs. A.

5 per cent. tax-free loan,

1915-55 ..	80	8	97	12	97	15	101	4	107	2	106	11	103	15	100	0
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3½ per cent. loan

..	58	0	65	14	66	9	71	6	77	7	76	1	72	6	64	1
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104. The fall in prices since last year may be ascribed to a number of causes. Some would no doubt attribute chief importance to the magnitude of the Government's own needs. I explained this aspect of the situation very fully in my speech last year. It is clear now, in retrospect, that from 1925 to the beginning of 1928, the full effects of the capital expenditure programme launched by the Government were not felt. Such expenditure as was incurred was met very largely from reserves, while the expenditure itself had not got fully under weigh. When once expenditure got going at the full rate, and had to be met not from reserves but by fresh borrowing, it was obvious that the price of Government securities must come down from the high peak to which they had climbed. I gave a clear indication of this in my speech last year and also explained that, while I felt it necessary to curtail capital expenditure, it would not be possible to give effect to this at once without great economic loss, because so much work was already in progress and commitments such as the purchase of the Southern Punjab Railway had already been undertaken. I made it quite clear, however, that it was my intention to put on the brake as soon as possible, and, in the meanwhile, I endeavoured to settle the terms of our rupee loan last year on such a basis that it would represent a rock-bottom price from which a steady appreciation might be expected as a result of the curtailment of future borrowings. I think we may at least congratulate ourselves on the fact that, in spite of all the unfavourable developments which have since occurred, last year's rupee loan only stands about one point below the issue price. If it had not been for two unfavourable factors over which we had no control, I am certain that last year's loan would now be standing at a handsome premium.

105. What, then, are these factors? There has been, first, the wave of dear money which swept over the world culminating in a 6½ per cent. bank rate in England, which made it necessary to tighten money rates in India in order to protect our currency position. And, secondly, there has come upon us a new difficulty in the fall of our sterling securities due to the fears felt in London as to the future

political stability of India. I have already said that I believe these fears to be entirely unjustified, but their results are unfortunately realities which we have to face. Any fall in our sterling securities creates serious difficulties which must re-act on the local situation. Either of these two last factors would have upset the rupee security market quite apart from our own borrowing operations.

106. Honourable Members will ask: "What of the future?" And I must answer this question in relation to each of the three factors which I have mentioned. As to the first, our own demands on the market, I have already given a clear answer. We only expect to ask the public to give us about 7.4 crores of new money next year. If we had only to consider our domestic monetary conditions, I would say with confidence that our troubles were over and that we could anticipate a steadily rising market in our Government securities.

107. As to the second factor, the rates for money prevailing in the world, we can again look with confidence to the future. I need only say that, in my view, everything points to a period of cheaper money for some time to come.

108. As to the third factor, I am afraid I can speak with much less certainty. What we have to expect from the operation of this factor depends mainly upon the action of the leaders of public opinion in this country, as represented by Honourable Members of this Assembly and those outside. If there is clear evidence that such leaders are facing their responsibilities and are determined to oppose all revolutionary movements and to co-operate in a course of peaceful and orderly evolution, disclaiming those threats of unconstitutional action and repudiation of debt which we have so recently heard, then I am quite certain that the outside world will regain confidence in India and that we shall advance once more to our former high level of credit. But, if a contrary course is taken, then, it will be impossible to avoid unfavourable reactions on India's economic development. There must be a lack of that confidence which is so necessary to the initiation of new enterprises, and it is almost certain that a flow of capital from India will continue. Speaking on behalf of the Government, we have done all in our power to create a strong and healthy financial position, and I think what I have already said has demonstrated the effectiveness of our action in this direction. If the insidious lack of confidence continues to sap our foundations, we shall, as a Government, do our best to protect them and shall not hesitate to take strong financial measures for that purpose. But this will mean that our energies and resources will have to be devoted to defence rather than to constructive new enterprise and that the hopeful prospect of an all-round recovery, which would bring prosperity in so many directions and for which, so far as lies in our power, we have created all the necessary conditions, will be unattainable. The future in this respect lies in the hands of leaders of non-official opinion in India. The responsibility rests with them and not with the Government.

109. I do not propose to lengthen my present remarks by going into further detail now regarding figures of India's debt. Among the papers which will be circulated will be found a statement prepared in the same form as was introduced last year, with explanatory notes.

[Sir George Schuster.]

GENERAL REVIEW OF THE ECONOMIC SITUATION.

110. Before I conclude, I must make a few short observations on the general economic situation. I was taken to task, in the course of the budget debates last year, for devoting insufficient attention to the general position of the masses of the country; but I must point out that my main task in a budget speech is to explain particular financial proposals and it is impossible for me to cover the whole work of Government. Moreover, it must be remembered that the main field for work in nation-building services comes within the sphere of the Provincial Governments and I cannot roam at large over this field without exceeding my own functions. Nevertheless, the effect on the general well-being of the country must be at the root of all our financial policy and I think that, if my proposals this year are carefully and impartially studied, it will be found that this has been throughout their main purpose and intention. I am afraid the time is now short and my remarks on this part of the subject must be very brief. I have dealt recently with various aspects of the situation in a speech to the Federation of Indian Chambers and I trust that Honourable Members will do me the honour of reading this speech. It is very obvious at present that India is

Wave of depression. suffering from a general wave of depression. It is also obvious that, apart from this special depression, there is great room for improvement in the standard of living of the masses of the country and of general economic production. It is necessary to make a clear distinction between these two conditions. The first is temporary and not special to India. It is mainly produced by causes over which the Government have no control. The second is one which demands the constant and urgent attention of all the forces of society, public and private alike. As to the first, I hope, in the course of the debate, to have an opportunity more fully to express my views. I only wish to emphasise at present that I think that the depth of the depression is exaggerated in comparison with the very special period through which the country passed in the years 1924-25 and 1925-26. If we examine the trend of economic events in India since the end of the War, we find that the volume of imports and exports has, on the whole, shown a steady progression with two exceptional periods, first, as regards imports in 1920-21 and, secondly, as regards exports in 1924-25 and 1925-26. As regards prices, while the prices of imports have tended steadily to decline, those of exports, for various world causes, tended

Fall in prices. to rise during the period from 1921 to 1924. Since then, world prices for Indian imports and exports have steadily declined. The point of time at which the general rise in the prices of India's exports culminated coincided with an exceptional period for the volume of agricultural production, and this produced, in the two special years 1924-25 and 1925-26, to which I have referred, an exceptional peak of prosperity. Public opinion as to the course of Indian trade and general conditions, tends, I think, at present, to be framed too much with reference to this special period, and though I do not wish to minimise the effects of the present depression. I think that, if our view is cast back along a longer period of India's history, we shall find that the present conditions are not, in comparison, so black as they are sometimes painted and that the general economic course of the country has been one of steady advance. The cause of the continued fall in world prices for India's chief imports and

exports since 1925-26 is somewhat obscure. It would appear to be world-wide, as, on the basis of 100 for 1926, the Index numbers of general prices in the United Kingdom, the United States and India are 92·2, 96·8 and 95·3 respectively for 1929. While a fall has thus taken place in all the three areas that for India lies between those for the United Kingdom and the United States. This world-wide fall in prices has been put down by some to general over-production, both of raw materials and industrial products, throughout the world. It is known that large scale mass production has been developing throughout the world during the last few years and that tropical and sub-tropical areas have extended their output of raw materials. There are others who would give, as a further reason for the general world-wide fall in prices, the insufficient production of gold for the general requirements of the world as a whole.

111. Unfortunately, the fall did not end with 1929. Conditions in America, to which I have already referred above, have led to a large recession in business activity all over the world. The immediate out-look is uncertain.

The out-look.

Manufacturers and dealers are using up their stock of raw materials and refusing to enter into fresh commitments until they see how far this recession is likely to go. The result is that the fall in the prices of primary products, which was a feature of the year 1929, has been accelerated. India has been particularly hard hit by this world development. Since the 1st January the price of cotton has fallen by about 15 per cent. and the price of wheat by about 12 per cent. while the prices of other staple products such as jute and rice show no signs of recovery from the low level which they reached during the year 1929. It would be rash to attempt to say when the tide will turn, but there are signs in America that the trade recession will not be so severe as was anticipated, and it looks as if prices are now so low that the world will soon begin to take more interest in the products of India and be prepared to enter into commitments for the future. There is reason to hope, therefore, that a recovery from the present economic depression will not be long delayed.

112. Whatever the reasons for the fall and whatever the future prospects, it is clear that the condition of the agricultural classes of India must be seriously affected, and it may be that, in order to maintain their position,

Lines of policy.

they have to part with an undue proportion of their own production. Measures of immediate relief are difficult, but the main lines of the policy which should be pursued seem clear. In the first place, and above everything, it is necessary to stimulate and improve the agricultural production of the country and, as a supplement to this, to put the poorer agricultural classes into a position in which they can retain a greater proportion of their own produce for their own subsistence. In the second place, it is desirable to encourage industrial development provided that this can be done in conjunction with, and as a supplement to, the agricultural life of the country. In the third place—and this is a minor matter but still one of very great importance—the whole country urgently needs the provision of better methods for the study of its own economic conditions than are at present available.

113. I venture to say that, if the significance of all the proposals to which I have referred in this speech, is examined, it will be found that steps are being taken in all these directions. I shall hope to enlarge

[Sir George Schuster.]

further on this subject in the later stages of the debate, and not encroach further upon the time available this evening.

Conclusion.

114. Before concluding, I should like to emphasise again what I regard as the main features of my budget proposals.

budget.

First, all additional expenditure on normal increments and new services, including the large agricultural grants and such important new services as civil aviation, is being balanced by economies,—mainly on military expenditure.

Secondly, principles of financial soundness are being doubly reinforced. No financial weak spots are being left as regards debt redemption and the Cush Certificate liability, while I have provided for a margin of safety in case events next year prove unfavourable. We can thus face the most stringent scrutiny of financial critics with confidence.

Thirdly, we are making a substantial start towards a constructive economic policy and opening the way for beneficial expenditure. If the year proceeds without abnormal disturbances to trade or civil security, we shall have money at our disposal to increase our resources for these purposes, and having prepared these foundations, the Central Government next year ought to be in a position either to initiate important schemes themselves or to provide additional revenue for the Provincial Governments to give them the power for a more generous effort to this end.

Fourthly, although substantial new revenue is to be raised, the measures which I have proposed are so designed as to reduce restrictions on economic action and to lighten, rather than increase, the burden on the poorest classes. This is directly the case as regards the reduction of the rice export duty and of the import duty on kerosene, while all except one of the other measures ought to have indirect beneficial effects. I have, moreover, indicated various directions in which, with the normal proceeds of our new resources, I hope to remove certain hampering impediments to the business activities of the country.

Fifthly, we have, in our proposals affecting cotton, made a determined effort to remedy a special malady from which the industrial life of the country is suffering, and by restoring health to one important centre, to improve the general condition of the country.

Sixthly, we have made a determined effort, by a proper control of capital expenditure, to give a chance for recuperation of the country's credit, so that, with strength restored, a healthy growth, proportioned to our resources, may be once more resumed.

115. I would ask Honourable Members to give all these points impartial consideration and to read into my proposals their future promise no less than their present performance.

116. I may possibly be criticised for seeking to raise more revenue than appears to be immediately needed for actual outgoings, but I hope that what I have said will have convinced at least a majority of this Assembly, first, of the paramount importance of creating reserves to strengthen our resources and credit at this present critical juncture in India's history, and, secondly, for preparing the way for a more generous allocation, to the Provinces, of sources of revenue for nation-building services. It has often been said that the Reforms introduced after 1919 have failed to achieve their full effect owing to lack of adequate funds in the hands of the Provincial Governments. I am desirous of doing all in my power to prepare for better success in the next step.

117. Of one thing I feel certain—that, whether my particular proposals are popular or not, and whether or not they are open to criticism in detail, the main purpose which I have in mind is the right purpose, and that the future will prove the truth of this contention. A Finance Member has to suffer the slings and arrows of criticism for his immediate actions, and, perhaps in very rare cases, to receive some meed of praise if Providence brings good times in his tenure of office. But his own efforts should really be judged by their more lasting results, and I can hope with confidence that, if my present proposals are accepted, my successor, from whatever quarter he may come, will, in the future, look back to me with gratitude for having proposed these drastic measures at this stage. For the present, it is my purpose, as, I hope, it will also be that of this Assembly, to make clear to all concerned that, whatever political clouds may be hanging over us, or whatever political changes may be in store, it will ever be the determination of the Government of India to keep Indian finance firmly secured on an unshakable foundation. (Applause.)

THE INDIAN FINANCE BILL.

The Honourable Sir George Schuster (Finance Member): Sir, I move for leave to introduce the Indian Finance Bill, 1930.

The motion was adopted.

The Honourable Sir George Schuster: Sir, I introduce the Bill.

THE COTTON TEXTILE INDUSTRY (PROTECTION) BILL.

The Honourable Sir George Rainy (Member for Commerce and Railways): Sir, I move for leave to introduce a Bill further to amend the Indian Tariff Act, 1894, and to amend the Indian Tariff (Cotton Yarn Amendment) Act, 1927.

Mr. K. V. Rangaswami Ayyangar (Madras: Landholders): Sir, we have not got the Bill before us.

Mr. President: It is not necessary. The question is:

"That leave be given to introduce a Bill further to amend the Indian Tariff Act, 1894, and to amend the Indian Tariff (Cotton Yarn Amendment) Act, 1927."

The motion was adopted.

The Honourable Sir George Rainy: Sir, I introduce the Bill.

The Assembly then adjourned till Eleven of the Clock on Tuesday, the 4th March, 1930.