

Saturday, 26th February, 1938

THE  
COUNCIL OF STATE DEBATES

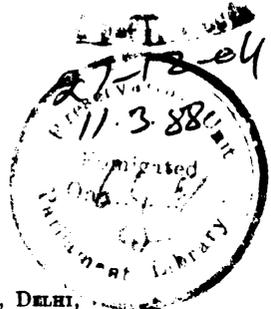
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*(14th February to 8th April, 1938).*

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THIRD SESSION  
OF THE  
FOURTH COUNCIL OF STATE, 1938

*Member designated... 18/4/38*



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# COUNCIL OF STATE.

*Saturday, 26th February, 1938.*

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

## CUTCHI MEMON BILL.

THE HONOURABLE MR. ABDUR RAZZAK HAJEE ABDUS SATTAR (West Bengal : Muhammadan) : Sir, I beg to present the Report of the Select Committee on the Bill to make it obligatory for all the Cutchi Memons to be governed in matters of succession and inheritance by the Muhammadan Law.

## PRESENTATION OF THE GENERAL BUDGET FOR 1938-39.

THE HONOURABLE MR. J. C. NIXON (Finance Secretary) : Sir, framing a budget—and especially the receipt side of it—for the Government of India is seldom a task which one undertakes with confidence and in recent years there have been many internal and external factors to render the process even more difficult.

As usual I have to give some account of three different years :—

- (a) the past year which finished on 31st March last, 1936-37,
- (b) the current year about to end, 1937-38, and
- (c) the year ahead, 1938-39.

In February last I stated that our revised estimates for the year 1936-37 were expected to lead to a deficit of Rs. 197 lakhs, which would be reduced by Rs. 5 lakhs by the collection during the month of March, 1937 of the enhanced duties on silver and sugar. The actual deficit for that year came to Rs. 179 lakhs. The excise duty on sugar amounted to Rs. 29 lakhs more than we anticipated, while there was an increase of Rs. 18 lakhs (net) from the export duty on jute and a similar increase from the duties on motor spirit. But in the other direction, import duties on non-British cotton fabrics fell Rs. 35 lakhs below our figure and silver imports furnished Rs. 12 lakhs less than we had counted on. Currency and Mint produced Rs. 21 lakhs more than we expected but our interest receipts were down by about the same amount. There were other minor variations one way and the other.

The closing months of 1936-37 had exhibited a decided advance in railway receipts and, despite a still further deterioration under imported cotton piece goods and a slowing up of silver imports, a marked general improvement in customs receipts.

The budget for the current year 1937-38, after taking credit for the whole Rs. 184 lakhs of the Revenue Reserve Fund created out of the surplus of the year 1935-36, resulted in a small surplus of Rs. 7 lakhs. The revised estimates

[Mr. J. C. Nixon.]

show an increase of Rs. 390 lakhs on the receipt side and Rs. 323 lakhs on the expenditure side leading to a net improvement of Rs. 68 lakhs. Hence we shall require only Rs. 109 lakhs from the Revenue Reserve Fund and shall carry forward the remaining Rs. 75 lakhs.

The progress in railway returns to which I have alluded continued till the autumn of 1937, after which the gross receipts fell actually below those of the previous year. On the supposition that this decline will be somewhat arrested in the remaining weeks of the present year, we have assumed, as the House now knows, that we shall receive in the current year a contribution of Rs. 283 lakhs from the Railways.

Under Customs and Central Excise duties a net improvement of Rs. 191 lakhs is now anticipated. Motor spirit is expected to produce Rs. 45 lakhs, motor vehicles Rs. 41 lakhs and machinery Rs. 42 lakhs more than the budget figures, and there are smaller increases under a large number of other heads. However, non-British cotton fabrics (owing mainly to the China-Japan war) are expected to be down by Rs. 70 lakhs, while, despite this apparent opportunity, the prices of cotton fabrics of British manufacture still seem to be out of the reach of the Indian consumer, and we are likely to realise Rs. 59 lakhs less than we had reckoned on under this head. Further, the large imports of silver continued to slacken off in the current year and we expect to get Rs. 128 lakhs less in customs duties on that account. These reductions reflect a continuance into the current year of the declines which had already shown themselves towards the end of 1936-37.

The proceeds from Taxes on Income in 1937-38 are expected to amount to Rs. 15 crores in place of the Rs. 14 crores 30 lakhs budget figure, suggesting that, despite the fall in imports during 1936-37, business on the whole in India was on the upward trend.

We now expect an additional Rs. 10 lakhs from salt duties and an extra Rs. 17 lakhs from Mint receipts—the latter due to an increased absorption of small coin.

In the other direction the effects of section 33 (6) (c) of the Reserve Bank Act, inserted for the purpose of preserving the liquidity of the Bank's sterling assets, have, as a consequence of the low yields on short dated sterling securities been more severe than we had expected and have reduced the surplus profits payable to Government by nearly Rs. 40 lakhs below our anticipations. There is also a reduction of Rs. 9 lakhs under "Payments from Indian States" representing a decision to remit any tribute in excess of 5 per cent. of its total revenue payable by a State to the Central Government. This contention is one of some years' standing and the circumstances of the current year, in which, as I shall describe later, we are relinquishing part of the Income Tax receipts to provinces, render it difficult to resist it any longer irrespective of the Federation issue.

Under Posts and Telegraphs we anticipated a small surplus of Rs. 4 lakhs in 1937-38. Owing partly to the postponement of the Empire Air Mail scheme but still more to increased receipts, especially from telephones and stamps, the accounts of the department as maintained in the past are now expected to show a favourable balance of Rs. 43 lakhs.

I turn to the expenditure side of the revised estimates for 1937-38.

Of the total increase of Rs. 322 lakhs, the defence services account for Rs. 260 lakhs, of which the main item, amounting to Rs. 176 lakhs, is of course

the cost of the Waziristan campaign. Incidentally, the abandonment of the Lahore abattoir is likely to cost the taxpayer of India an unremunerative Rs. 26 lakhs instead of the Rs. 50 lakhs at one time feared. Other substantial items which have contributed to the anticipated excess on defence estimates are :—

- (a) an additional Rs. 10 lakhs allotted in advance for the reconstruction of Quetta ;
- (b) Rs. 10 lakhs to meet rises in prices ;
- (c) Rs. 8 lakhs towards the cost of the re-organisation of the British cavalry and infantry ; and
- (d) Rs. 16 lakhs net representing the cost of various improvements granted by His Majesty's Government in the conditions of British troops in order to stem a falling off in recruitment.

Returning to the civil side of the budget for 1937-38, we have to meet an extra Rs. 72 lakhs under interest, mainly on account of maturing post office cash certificates carrying a comparatively high rate of interest. This is partly due to heavier encashments last year which depleted the special fund created for the purpose by Rs. 36 lakhs more than was anticipated, and partly, to the extent of Rs. 35 lakhs, to an actual increase in certificates presented for encashment this year. Fortunately the certificates maturing in the years ahead carry a lower rate of interest, but on the other hand the special fund is now exhausted.

The only other large variation on the expenditure side of the estimates of 1937-38 to which I need specially refer is Rs. 25 lakhs extra under Tribal Areas connected with the construction of roads in Waziristan following on the military operations. Actually over Rs. 49 lakhs will have been expended on these objects but the balance of the money previously set aside for roads in Tribal Areas was also utilised for this purpose.

There are certain variations in the budget figures for 1937-38 arising out of the various adjustments with provinces effected at the introduction of the new Act. More accurate calculations in the light of later figures show that we shall receive Rs. 18 lakhs less from Burma the earlier and rougher figures indicated. The extra 12½ per cent. of jute duties assigned to provinces, consequent on an increase in the yield of the duties themselves, amount to Rs. 3 lakhs more than the budget figure, while debt adjustments with the provinces are costing about a crore instead of the Rs. 90 lakhs in the budget.

There is one matter arising out of the consolidation of the debts of provinces which it will be convenient to refer to at this point. The capital portion of the repayment instalments of debts due to the Government of India is normally taken to "reduction of debt" outside the budget, and really forms an addition to the Rs. 3 crores provided for this purpose within the budget. An unforeseen consequence of allowing the provinces to choose half yearly dates convenient to themselves for repaying their consolidated debts is that the capital element in the initial year 1937-38 will be greater and the interest element smaller than will correspond to a period of a year. We propose to adjust this by making a reduction of Rs. 48 lakhs in the budget provision for 1937-38 for the reduction or avoidance of debt. Honourable Members need not be apprehensive, as I can assure them that this is merely an adjustment and does not mean that a smaller total sum will in fact be devoted to the reduction or avoidance of debt than was intended at the time of framing the budget.

[Mr. J. C. Nixon.]

I now turn to a topic which some will regard as the most important of the year. Most of the provinces and practically all of those who spoke and wrote for them, seemed to regard the Niemeyer formula as meaningless in practice during the first five years of its operation. We ourselves a year ago certainly did not anticipate that it would prove to be operative during the current and first year. As I have already said, we now anticipate a gross return of Rs. 15 crores under Taxes on Income during 1937-38. After deducting from this figure super tax on companies, the taxes collected in centrally administered areas and on salaries paid from central revenues—which belong intrinsically to the Centre—and the cost of collection, what may be called the sharing balance is expected to amount to Rs. 11 crores 55 lakhs. To this figure has to be added the anticipated surplus, Rs. 283 lakhs, of railways. Of the total of Rs. 14 crores 38 lakhs, the Centre is entitled during the first five years to retain Rs. 13 crores, leaving Rs. 138 lakhs of Taxes on Income for distribution to the provinces in 1937-38. The provinces will receive credits before the end of March on the basis of the latest estimates we can at that stage make. Until the recession in railway receipts began to occur, it looked as if the sum to be assigned to the provinces would be greater than Rs. 138 lakhs. However, the eventual amount is not for the Government of India to decide. It will be calculated by the Auditor General when the accounts are complete and any necessary adjustments will be done in 1938-39.

I would like at this stage to recount the additional resources which have been given to provinces from central—or at any rate previously central—revenues in comparatively recent years :—

	Rs. Lakhs.
(a) Cash subventions to Sind, Orissa, Assam and the U. P. in 1937-38 . . . . .	212
(b) Debt cancellations . . . . .	100
(c) Jute duties (1937-38) . . . . .	273
(d) Road fund grants (1937-38) . . . . .	141
(e) Various small grants . . . . .	16
(f) The present devolution of Income Tax . . . . .	138

These total nearly Rs. 9 crores, not to mention the nearly Rs. 10 crores of Meston contributions eventually remitted in favour of the provinces. And in addition to these burdens which the central budget has had to digest, there is the Rs. 2½ crores loss on the separation of Burma.

I shall make one further digression before describing the estimates of the coming year and say something about our ways and means estimates.

The Government of India have not entered the regular borrowing market this year, but next year we have the option of redeeming about Rs. 19 crores of debt carrying 5½ per cent. interest. We have however in the current year, through the agency of the Reserve Bank, done something towards diminishing our external debt obligations (at the same time as we have made a little profit) by purchasing and cancelling over Rs. 2½ crores of Indian sterling terminable securities, and by the issue of rupee paper to the extent of a little over another crore in place of non-terminable Indian sterling securities purchased in England. Further, sterling railway debentures of the value of about 1½ millions sterling have been redeemed this year while we hope to retire a further £4 millions in the coming year.

We also expect to have transferred about 4 millions sterling to the Family Pension Funds Commissioners before the end of the present year leaving a further 6 millions sterling or so to complete the transactions, we hope, by the end of 1938-39. Apart from these transfers also reducing India's external liabilities, they will also save us something in the way of interest.

We issued Rs. 5 crores of treasury bills to the Reserve Bank last April in return for silver rupees under the terms of section 36 (1) of the Reserve Bank Act, and we shall almost certainly be called upon to do the same in 1938-39. Despite these transactions, and the others which I have described in connection with the reduction of our sterling obligations, the amount of treasury bills outstanding at the end of the next year should not be more than about Rs. 40 crores. We expect about Rs. 2½ crores more cash certificates to be presented for payment this year than we counted on last February, and we are assuming that a net Rs. 3½ crores will be retired next year. This is to some extent a natural, and in some senses a not unwelcomed, consequence of the reduction in the rate of interest.

In our revised estimates we are assuming that savings bank deposits will increase this year by about Rs. 4½ crores instead of the Rs. 8 crores entered in the budget, while next year we assume that the increase will be Rs. 5 crores.

I am now able to come to the estimates for the year 1938-39 immediately before us. I shall be able to mention only the larger and more important elements and figures. There are many other relatively small variations, one way or the other, entering into the aggregate figures.

There are, as I have already suggested, special difficulties at the present time in estimating the likely receipts next year under the important heads, customs and central excise duties. In America conspicuously, and in Britain to a less extent, the indexes of trade activity are less favourable at the moment than they were six months ago. The recession in the earnings of Indian Railways provides a pointer to general trading conditions in India which cannot be overlooked. The latest customs returns themselves show that the earlier strength of import business is not being fully sustained. The Indian cotton grower, certainly at the moment, has less to spend than he recently had. In the long run, imports are paid for by exports. The year 1936-37 was a good year for Indian exports and this is reflected, with the usual lag, in our increased import duties during 1937-38. But 1937-38 has not been so favourable a year for exports, and the likelihood is that our customs returns in 1938-39 will be affected. Also, around the beginning of the current year there was a marked rise in price levels, while the more recent tendency is downward. As most of our customs duties are on an *ad valorem* basis, this factor also is likely to lead to lower customs revenue. On the other hand some of the items in our customs schedule are less dependent on general trade conditions and, for instance, we anticipate in 1938-39 a continuing increase of revenue from motor spirit.

However it would be foolish to ignore the trend disclosed by the latest returns although it is perhaps not necessary to take a pessimistic view of the future. Taking, as far as we are able, all these factors item by item into account, we estimate our revenue next year from Customs and Central Excise duties at Rs. 60 lakhs below the revised estimates of the current year. But when Honourable Members come to study their budget papers they will notice that the difference appears to be only Rs. 10 lakhs. This apparent discrepancy is due to two accounting changes. In the first place, the share of the match duty paid to Indian States was formerly deducted in the accounts from the revenue

[Mr. J. C. Nixon.]

side. It has now been decided that it is more correct to show the proceeds gross and to exhibit the amount to be paid to the States—Rs. 32 lakhs in 1938-39—as expenditure. Another change results from a decision to bring the Defence Services into line with the general practice of Government and not to remit, as formerly, the duty payable on the petrol and kerosene used by those services. This adds a sum of Rs. 18 lakhs to both the revenue and expenditure sides of the budget.

As for Taxes on Income, the House is aware that it is the intention of Government to introduce an amending Bill this session. The increased revenue expected thereby will of course not accrue before the year 1939-40. But in view of the trade activity during the main part of the current year, and of the various administrative measures which we are taking and are about to take, we are budgeting for an improvement of Rs. 25 lakhs in 1938-39 over the revised figures of the present year. If this estimate is fulfilled, and if the expectations of a surplus of Rs. 256 lakhs in the Railway Department are realised, the amount of Income Tax to be distributed to the provinces next year will be Rs. 128 lakhs.

May I at this stage remind Honourable Members that practically the whole of any increased yield from Taxes on Income resulting from the amending Act will for the first two or three years accrue almost entirely to the provinces and thereafter one half of the benefit. And I hope I may anticipate that the House will bear prominently in mind the interests of provincial revenues in deciding the attitude they will adopt towards that measure.

Burma's payment on account of Indian pensions will be about Rs. 5 lakhs less in 1938-39 than in the current year, while Burma will, under the monetary agreement between the two countries, be due to receive in 1938-39 about Rs. 6½ lakhs on account of the profits on subsidiary coinage earned in 1937-38 and of the profits of the Reserve Bank for 1937. In the other direction there is an increase of about Rs. 8 lakhs under the interest head.

I now intend to deal at somewhat greater length with the figures of the Posts and Telegraphs Department. The postponed Empire Air Mail Scheme will be in operation in 1938-39 and is expected to add Rs. 11 lakhs net to the cost of the Department. But there are two other elements which will affect the accounts of 1938-39. The Public Accounts Committee last year correctly recommended that the amounts provided for the commutation of pensions (which constitute as regularly recurring an item as any other pensionary charge) should be met directly from current revenues and not in the first instance from capital. This is particularly pertinent in regard to departments like the Posts and Telegraphs and Railways which purport to maintain their accounts on commercial patterns, as otherwise they will not be meeting their full current liabilities. It has therefore been decided to make the change in these two departments, which will increase the charges of the Posts and Telegraphs Department by Rs. 18½ lakhs next year. It would have been more appropriate had the Posts and Telegraphs Department undertaken this liability at the time of their deciding to disburse their pensionary charges direct instead of by way of a contribution. The second matter bears on an outstanding liability of the Posts and Telegraphs Department amounting to Rs. 204 lakhs representing accumulated losses on press telegrams. Telegraph administrations in practically all, if not all, parts of the world have to bear this charge.

It has now been decided that the Posts and Telegraphs Department shall extinguish a half of this liability out of the unnecessarily high balance in the Renewals Fund, which repayment will be treated in the civil accounts as a capital receipt.

Another portion will be liquidated by part of the surplus of the current year, and the rest will be discharged by annual payments. The present cost to the department, including loss of interest on the Renewals Fund, will be Rs. 13½ lakhs a year.

With these changes, the accounts will very much more accurately represent the true financial position of that department than in the past, and, after making these provisions, the receipts and expenditure of the Posts and Telegraphs Department during 1938-39 are expected roughly to balance. I may mention also at this point that we are introducing from 1938-39 a change in the manner of providing the capital for what is proving a very remunerative expansion of Telephone services.

I will at this stage dispose of various comparatively minor elements on the expenditure side of the budget for 1938-39 before dealing with Defence Estimate.

Under Interest, owing to various causes operating one way and the other, there will be a decrease of about Rs. 22 lakhs as compared with the revised estimates for the present year. A sum of Rs. 32 lakhs payable to States as their share of the match excise will, as I have explained previously, appear for the first time as expenditure with a corresponding increase on the revenue side. There is expected to be a larger allocation to the Road Fund by Rs. 29 lakh, an automatic consequence of an anticipated increase in the consumption of motor spirit. The payments to the States of Cochin and Travancore under the Cochin Port agreement are expected to increase by Rs. 16 lakhs following the increase in Customs collections. Disbursements against the earmarked portion of the sugar excise will be about Rs. 10 lakhs heavier in 1938-39 than in this year. There will be a considerable reduction of course in the provision for roads in Waziristan, but this is partly offset by the amount provided for the first substantial start on civil reconstruction in Quetta. It has been necessary to provide about Rs. 18 lakhs more for the expanding Civil Aviation and Broadcasting Departments, to add Rs. 5 lakhs on account of the scientific departments, increase by Rs. 12 lakhs the allotment to the Stationery and Printing Department, to provide for such new items as the Federal Court, and to furnish a sum of the order of Rs. 10 lakhs extra for strengthening the revenue producing departments. Taking all these elements and the minor changes into consideration the civil expenditure estimates are expected to be Rs. 124 lakhs higher than the corresponding current year's revised figure.

I now come to Defence Estimates for 1938-39 for which we are providing Rs. 45 crores 18 lakhs. This is Rs. 204 lakhs below the revised estimate for the current year, but it is Rs. 56 lakhs above the budget figure. Eighteen lakhs of this, as I have observed previously, is on account of petrol and kerosene and is accompanied by an increase on the revenue side. This leaves an increase of Rs. 38 lakhs. But owing to shortage of British troops in India there is expected to be a reduction of expenditure under the ordinary heads, after meeting the cost of improved conditions of service of which I have already spoken, of about Rs. 90 lakhs in 1938-39. Hence there is really a sum of Rs. 128 lakhs to account for.

[Mr. J. C. Nixon.]

I must again make a break in my narrative to speak of two recent arrangements with His Majesty's Government in regard to Defence Expenditure in India. It has been arranged that we shall in future retain the sum of about Rs. 17 lakhs a year which we used to pay in one form or another to His Majesty's Government as a sort of Navy contribution, and devote it specifically to the development of the Royal Indian Navy. It is a condition of this arrangement that we shall continue to maintain a sea-going fleet of not less than six vessels to co-operate with the British Navy in the defence of India's shores and in addition that we shall continue our responsibility for the local naval defence of India's ports.

The other arrangement with His Majesty's Government was announced last November, and I need only remind the House that towards the sum of about Rs. 2 crores which will be spent in mechanising British cavalry and infantry in India, His Majesty's Government has agreed to contribute Rs. 80 lakhs over three years, of which sum Rs. 27 lakhs will be received in 1938-39. Incidentally, the change when completed will reduce the maintenance charges of these units by about Rs. 16 lakhs a year.

Hence I must add Rs. 27 lakhs to the Rs. 128 lakhs which I previously mentioned, leading to a total increase of Rs. 155 lakhs to explain.

A part of this, to the extent of about Rs. 70 lakhs, represents an increase in what are called standing charges, of which the most important elements are Rs. 21 lakhs under Ordnance Services and the restoration of cuts amounting to about Rs. 24 lakhs made last year in the sinking funds provided for the Royal Indian Navy vessels and for mechanical transport vehicles. The balance of Rs. 85 lakhs will be devoted to the mechanisation scheme. However, even this does not complete the account of our defence expenditure for next year. We intend to appropriate an unearmarked balance of Rs. 35 lakhs in the Defence Reserve Fund, and to supplement this to the extent of Rs. 45 lakhs by drawing temporarily on other earmarked portions of the Reserve Fund which are not immediately required. Among the objects on which these additional resources will be spent are measures for coast defence, the construction of a factory in order to render India self-sufficient in the supply of high explosives, and the mechanisation of certain Indian units of the Army.

Last year, I voiced some of the fears of His Excellency the Commander-in-Chief as regards the serious inadequacy of the provision for the Defence purposes of India, and the House is not unaware of Government's belief that the level of Defence expenditure in recent years has been maintained only by a dangerous curtailment of defence services, many of which could at the best be regarded only as postponements. In the face of the world situation of today and of the enhanced expenditure on armaments in practically all countries, it must have been borne in upon Honourable Members that an increase in the Defence estimates of India was inevitable. In the circumstances of the moment it might be regarded as a matter for congratulation that the actual increase is, comparatively speaking, so modest and can be to this extent achieved without serious budgetary consequences.

I am in a position now to bring together the total figures for 1938-39. Apart from the Revenue Reserve Fund, but taking into account the anticipated distribution in both years of income tax to provinces the revenue side of the budget is expected to be Rs. 37 lakhs less than in the current year. Under Defence Rs. 204 lakhs less are being provided than in the revised estimates of the current year, but other expenditure is estimated to be up by Rs. 224 lakhs.

The net decrease on the expenditure side is therefore Rs. 80 lakhs. Hence taking into account the Rs. 75 lakhs from the Revenue Reserve Fund we get :—

	Rs. Crores.	Rs. Lakhs.
Revenue . . . . .	85	92
Expenditure . . . . .	85	83
Surplus . . . . .	..	9

This, one must confess, is a very different picture from the somewhat roseate estimates which have been indulged in by some of the newspapers. But in extenuation of their optimism it has to be acknowledged that they have not access to such recent returns as Government have, while we ourselves, had we been so venturesome as to have made predictions at an earlier part of the year, might have anticipated a better final result. But the fact has to be faced that, despite the taxation measures of last year, we have not yet, by something between a half and three-quarters of a crore, achieved budgetary equilibrium. It is evident that if we are to continue to fulfil our obligations to the provinces under the Niemeyer Order-in-Council the greatest care will need to be exercised in conserving central resources. Although differences of opinion naturally enough arose during the recent informal conference of Finance Ministers, the friendly exchange of views did prove, we believe, an acceptance of the essential unit of British India and the need for mutual understanding. And the Government of India believe that their proper contribution at the moment to the success of provincial autonomy is to endeavour to maintain the efficiency of the services for which they have been made responsible, and to ensure their meeting the various other obligations, largely to the provinces, imposed on them by or under the new Act.

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The Council then adjourned till Eleven of the Clock on Wednesday, the 2nd March, 1938.

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