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COUNCIL OF STATE.

Saturday, 28th February, 1925.

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

ELECTIONS OF PANELS FOR STANDING ADVISORY COMMITTEES.

THE HONOURABLE THE PRESIDENT: The elections conducted in this House last Thursday for the purpose of constituting panels for the Standing Advisory Committees attached to the various Departments of the Government of India have resulted as follows:

(1) For the panel of the Standing Advisory Committee in the Home Department there have been elected:

The Honourable Sir Maneckji Dadabhoy,
The Honourable Sir Deva Prasad Sarvadhikary,
The Honourable Dr. Dwarkanath Mitter,
The Honourable Mr. Phiroze C. Sethna,
The Honourable Nawab Sir Amiruddeen Ahmad,
The Honourable Nawab Sir Umar Hayat Khan.

(2) In the Commerce Department:

The Honourable Sir Maneckji Dadabhoy,
The Honourable Mr. J. W. A. Bell,
The Honourable Mr. Phiroze C. Sethna.
The Honourable Sir Arthur Froom,
The Honourable Mr. R. P. Karandikar,
The Honourable Mr. Muhammad Yamin Khan.

(3) In the Department of Education, Health and Lands:

The Honourable Haji Chaudhri Muhammad Ismail Khan,
The Honourable Mr. R. P. Karandikar,
The Honourable Mr. G. A. Natesan,
The Honourable Sir Deva Prasad Sarvadhikary,
The Honourable Saiyid Raza Ali,
The Honourable Nawab Sir Umar Hayat Khan.

(4) In the Department of Industries and Labour:

The Honourable Mr. Phiroze C. Sethna.
The Honourable Sir Deva Prasad Sarvadhikary,
The Honourable Sir Arthur Froom,
The Honourable Mr. Lalubhai Samaldas,
The Honourable Mr. Muhammad Yamin Khan,
The Honourable Lala Ram Saran Das.

THE BUDGET FOR 1925-26.

THE HONOURABLE MR. A. C. MCWATTERS (Finance Secretary): Sir, I rise to present a statement of the estimated expenditure and revenue of the Governor General in Council for the year 1925-26 in respect of subjects other than Railways. The form in which this statement is being presented brings home the reality of the great change in our budget procedure which has been introduced this year, namely, the separation of railway finance. This evening I shall have nothing to say about Railways, of which the House has heard a good deal during the course of the last few days, except in so far as they affect our general position, which they do in two important ways; first of all, in respect of the contribution which the Railways make to general revenues and secondly, in so far as they affect our ways and means and our remittance transactions. But before passing on from this subject I should like to say merely this that the Finance Department welcomes this change as heartily as the Railways, or the public can possibly do.

I shall begin my remarks this evening with a short account of the final results of the year 1923-24 of which we now have the audited figures. They present some features, I think, of unusual interest. A year ago we anticipated that there might be a small deficit of some 37 lakhs on ordinary account, but with the portion of the windfall from the Enemy Ships account which was being credited to revenue that year we expected to end the year with a surplus of 206 lakhs. The actual results of the year have been very much better. On the civil side the net variation is small on the whole, but there have been several very important variations under individual heads. In particular, under salt, we have obtained 1 crore and 31 lakhs more revenue than we expected owing to the great rush which took place to replenish stocks when the duty on salt was reduced to Rs. 1-4-0 a maund in the second edition of the Finance Bill. Under customs and taxes on income, we received considerably less than we expected. But there were appreciable savings in civil expenditure, so that on the civil side there is very little net variation. It is on the military side that very important savings occurred as compared with our revised estimates. The actual amount of these savings is no less than 3½ crores, the final net figure of our military expenditure being 56 crores 23 lakhs. This is a very important—I was going to say error—at any rate variation from our estimates, but I think the House will make due allowance for great difficulty of framing estimates in a year which was the first year in which the Inchcape cuts took effect. It was quite impossible even late in the year to appreciate the full extent of the consequential savings which those cuts made throughout the military budget. I think that this great reduction in the military expenditure as compared with our estimates is at any rate a tribute to the thoroughness and efficiency with which retrenchment was carried on throughout the year in the Army owing to the efforts of His Excellency the Commander-in-Chief.

In view of the very large surplus which was expected, Government have made two important accounts changes which, while reducing the amount of the surplus, will be for the benefit of future revenues. The first of these relates to the discount on the rupee loan floated in July 1923. That loan was floated at a discount and it was originally intended that the discount which amounted to 82 lakhs, should be spread over a number of years. We have now, in view of the surplus, taken the whole of the discount against revenue in the year 1923-24. The second accounts change is even more important. It relates to the Persian debt. The Persian debt represents advances and loans which were made by the Government of India to the Persian Government during the war and immediately afterwards, amounting in all to 341 lakhs. This expenditure was for the most part shared with His Majesty's Government, and in India this amount was placed in suspense. We have now decided to clear that suspense account altogether in the year 1923-24. I should explain that *vis-à-vis* Persia our claims to recover the money are in no way affected and negotiations are in fact now in progress for the recovery of this amount. But we are now putting ourselves in the same position as the British Government who from the beginning adopted the salutary procedure of charging this expenditure against revenue in the year in which it was incurred. We are also following the advice of our own Public Accounts Committee who commented on the undesirability of leaving such large items for long periods in suspense and in fact commented on this particular item of the Persian debt. After these two important accounts changes have been made we are left in the year 1923-24 with an actual surplus of 239 lakhs.

I now turn to the current year. It is not necessary, I think, to say very much about general trade conditions. There has been a gradual and welcome improvement in trade during the year. We have had the benefit of still another good monsoon and we have been helped by the very high prices which have prevailed in Europe for a number of our staple products, particularly jute, tea and wheat. The cotton mill industry in Bombay is perhaps the only important industry which so far has not responded to the general improvement. Some measure of the improvement in trade can be gathered, I think, from a study of our trade returns. Taking the 10 months ending with January last, exports of merchandise from India have amounted to Rs. 297½ crores. This is 24 crores more than in the same period of last year and 60 crores more than in the preceding year. Imports at the same time have also increased and the net balance of merchandise in favour of India during these ten months is 103½ crores, which is exactly the same as the corresponding figure for the ten months of last year. On the other hand, there have been very large net imports of gold and silver which in these ten months have amounted to no less than 61½ crores. But even taking account of these, the balance of trade in favour of India is 42 crores.

This improvement in trade conditions is naturally reflected in our revised estimates for the year. But in the current year there are a number of important disturbing factors, and rather than give the House a mere list of figures, I propose to take each of these important factors in turn and show the effect which they have had upon our estimates. The first is Exchange. We budgeted for an average rate of 1*s*. 4¾*d*. but we expect to get an average rate of 1*s*. 5½*d*. The saving in exchange in our revised estimates will be 215 lakhs, excluding Railways but including 70 lakhs of savings in military expenditure. The amount of the saving is due not only to the difference between the two rates which I have quoted, but to the fact that our sterling expenditure was also reduced in amount. The second important factor which affects our estimates is the separation of Railway finance. We budgeted a year ago for 458 lakhs of return from Railways, but in the convention which was established with the consent of the Legislature in September last certain increases were made in the contribution which Railways should give to general revenues, with the result that we shall obtain in the current year 106 lakhs more than we budgeted for,

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the contribution being, as the House knows, 564 lakhs. The third important factor is again the savings in military expenditure. We expect in the current year that our net military expenditure will be 56,33 lakhs, that is nearly 4 lakhs less than what we budgeted for. The actual figure is 3,92 lakhs. I think that on this occasion we can claim to have placed our revised estimates very close to the actuals, and in doing so we have been very much helped by the fact that we have had before us the actual figures for the preceding year.

The factors that I have mentioned so far have been favourable ones. On the other side there are several unfavourable factors. In the first place, from salt we shall obtain 131 lakhs less than our budget figure for the reason which I have already mentioned, namely, the rush to replenish stocks in the month of March, 1924. Under the head taxes on income, I am afraid that we budgeted somewhat optimistically and we now expect to receive 1,74 lakhs less than our Budget estimate. In respect of opium, again, there have been disturbing factors in consequence of the international discussions which have centred round this subject in recent months and which have naturally affected our sales for export. We expect that the gross receipts from opium will be less by 65 lakhs. I think that as opium questions are exciting interest at the present time, the House would like to know how much we actually depend upon this opium revenue. The net revenue from opium received by the Central Government in the 3 preceding years has been 1,62 lakhs and in the current year we expect to receive 1,31 lakhs only, so that the total amount, although appreciable, is but a small percentage of our total revenues. Another important factor which we have to face this year is the increased expenditure for bounties under the Steel Protection Act and the bounties which were more recently agreed to by the Legislative Assembly. These amount to 62 lakhs in the course of the current year. We also have to meet the recommendations of the Lee Commission which will cost 25 lakhs in the current year, 5 lakhs of this being under the Railway head and 2 lakhs under Posts and Telegraphs.

I come last of all to Customs. The gross receipts from Customs have naturally benefited from the improvement in trade, and we expect to receive no less than 2,72 lakhs more in gross Custom revenue. On the other hand, we have to meet one very important item of refund amounting to 280 lakhs which is due to the fact that the decision of the Privy Council in the question which I mentioned last year of stores imported by Company Railways working State lines has gone against us. These Company Railways are therefore entitled to receive a refund of the customs duty which they actually paid from the date on which their liability to duty was contested before the courts up to the date on which the Sea Customs Act was altered to make Government stores liable to customs duty. I think it is important to explain to the House exactly how this refund affects us financially. From the ways and means point of view it affects us very little. Out of these 280 lakhs 155 lakhs represent stores on capital account and this refund merely goes to reduce the capital expenditure on Railways. 125 lakhs represent revenue stores and this goes to reduce the working expenses of the Railways. The only amount which represents actual outgoing in cash is about 15 lakhs, which is the share of surplus profits paid to the shareholders in the company lines. So far as our revenue position is concerned we shall get from the Railways as part of the contribution a sum of 37 lakhs because we are entitled to one-third of the amount available for transfer to the railway reserves if that amount exceeds 3 crores. We have also kept in suspense from last year a portion of the windfall from the enemy ships account. It was specially kept in suspense in order to meet this contingent liability. The amount available for that purpose is 255 lakhs, so that on the revenue side we are completely covered. The net result of these various factors is that we estimate in the current year that instead of the small surplus of 18 lakhs for which we budgeted, we shall close with a surplus of approximately Rs. 4 crores—the actual figure is Rs. 399·58 lakhs,—which, the House will observe, approximate very closely to the savings which we expect under military expenditure, all the other factors practically cancelling out.

Before I turn to the Budget figures I should like to mention one or two points in connection with the form of the Budget which may be of interest to the House. I need not refer again to the question of the separation of the railway finance, but the House will be interested to know that in the Budget we are showing the Post and Telegraph accounts in a commercialised form for the first time. This is a new innovation and cannot pretend to be absolutely in its final form, but it is sufficiently complete I think to give an approximate idea of the working of the Department. The basis of the change is that the Department will receive credit for services which it renders outside the sphere of its normal activities, for instance, for the issue and payment of Cash Certificates, for managing the Post Office Savings Bank, for collecting customs duty on postal parcels and so on. On the other hand, it will accept a debit for the interest on its capital account; it will have to set aside a proper amount for depreciation of its assets, and it will have to accept the liability for pensions of the Department on a proper actuarial basis. The result in the current year is that the Department appears to be working at a small loss of Rs. 283,000 and in the budget year, if I may anticipate the budget figures, that loss is reduced to a purely nominal one of Rs. 60,000. The account of the Department as presented endeavours to distinguish between the three main branches, the Postal Department, the Telegraph Department and the Telephones. In the coming year we anticipate that the Postal Department will be working at a profit of Rs. 29 lakhs, the Telegraph Department at a loss of Rs. 26 lakhs, and the Telephones at a loss of Rs. 4 lakhs. The difference between these Departments is mainly due to the fact that the Telegraph Department has to bear a much larger charge for interest in view of its larger capital.

There is one other matter affecting the form of the Budget which I should mention, and that is, the first year in which we are showing a provision for redemption and avoidance of debt in accordance with the scheme which was outlined in this House last September. The House will remember that that scheme contemplated a basic figure of Rs. 4 crores and in addition a one-eightieth part of the debt incurred since the 31st March, 1923. The actual amount which appears under this head will be Rs. 478 lakhs, the increase being due in part to the fact that we have taken over Rs. $18\frac{1}{2}$ millions of the East Indian Railway debenture stock when that railway became a State railway. There is also under this head an item of Rs. 24 lakhs which represents the customs duty on capital stores of State Railways. The House will remember that Government decided to set aside from revenue an amount equivalent to the customs duty on imported capital stores of State Railways in order to avoid the inflation of revenue at the expense of capital.

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I am now in a position to come to the Budget figures. First of all, I take the expenditure side and the question of exchange. As always Government refuse to prophesy, but they find it necessary to take some figure at which to convert our sterling expenditure into rupees. Exchange has for the last half of this year been approximately steady at 1*s*. 6*d*., and for the purpose of the Budget we are taking that figure. I will return later on to this point in connection with the question whether our surplus, if we have one, is a real and recurring surplus or not. The second item is military expenditure. We are taking in the Budget a net figure of Rs. 56 crores 25 lakhs which is exactly 4 crores less than that which was taken in the Budget of last year. The House will no doubt have noticed the close approximation between the figures of military expenditure in the three years, that is, the actuals for 1923-24, the figures for the revised estimate of the current year and the figures for the budget year. In all the three cases they are approximately Rs. 56¼ crores, but in making a comparison between these three years it is important to remember that in the first of these years an amount of more than 3 crores was saved by consumption of stores without replacement. There was a small saving of the same kind of Rs. 110 lakhs in the current year and in the next year there is still an item of Rs. 70 lakhs which represents consumption of stores. Also in the Budget year we have an item of Rs. 171 lakhs for payment on account of demobilised officers. This is a crore more than we provided in the previous year, and, with the exception of a very small sum, we hope that this will close this particular liability. I think possibly the best method of envisaging the actual cost of the Army is to take the military expenditure excluding all abnormal items. The figure will then be Rs. 55 crores, and in connection with the Budget we should also remember that this includes certain new items which have not appeared in previous military budgets. The first is the amount of the customs duty on military stores which amounts to Rs. 27 lakhs. The second is that the Army will for the first time be paying the cost of their stationery and printing which will amount to Rs. 13 lakhs, and the third is the revision of pay and the extension of the passage concessions to army officers which accounts for Rs. 45 lakhs. These figures are included in the figure of Rs. 55 crores which I have just given. On the civil side there are only two items of expenditure which I need mention. The first is that in respect of Opium we expect our expenditure to be less by Rs. 58 lakhs than in the current year because our stocks of opium are now large and we have been reducing the area of cultivation and also have been able to reduce the price paid for raw opium. The second is under the head Interest where our expenses will be less by 97 lakhs. This is due to the fact that the share payable by the Railways and by the Provincial Governments will be larger.

Turning to the revenue side, I think that our revenue estimates have been framed on a conservative basis. Under Customs we have taken a figure of Rs. 121 lakhs less than what we anticipate to receive in the current year. We cannot expect to get such a big return from sugar or possibly from piece-goods and certainly not from the protective duties on iron and steel. Under Taxes on Income we have taken a figure which is Rs. 88 lakhs higher than the figure anticipated in the current year but still Rs. 87 lakhs less than the figure which we took in the Budget last year. Under Salt we budget for a normal year, Rs. 695 lakhs. From the railway contribution we shall get Rs. 40 lakhs less than last year, the railway contribution next year being Rs. 524 lakhs. We are continuing the provision by which the interest on the Paper Currency Reserve and the excess of the Gold Standard Reserve of over 40 millions is being taken to revenue.

There remains one item which I wish to explain and that is in connection with Post and Telegraph stores. Hitherto our practice has been that Post and Telegraph stores at the time of purchase are paid for from revenue and placed in a suspense head which is cleared when the stores are actually issued either for revenue or capital purposes, a corresponding credit being taken to revenue. This procedure which has obvious disadvantages is being revised under the advice of the Auditor General, and in future the Post and Telegraph stores will be kept outside our revenue account altogether. We shall however have on the 31st March next Post and Telegraph stores in stock to the amount of one crore, 24 lakhs and these stores have been already paid for and debited to revenue with the result that in the current year when these stores come into use revenue must receive a credit. The House will realise that this is a non-recurrent credit and that in future years we shall not get this credit or in fact get any credit at all. Similarly under Opium there is a small non-recurrent credit in the present budget owing to a change in procedure by which Provincial Governments will pay us for the stocks of opium held in treasuries on the 31st March next, and will in future pay for opium at the time of receipt instead of as at present at the time of issue to the public. These two items of 124 lakhs and 20 lakhs are therefore clearly non-recurrent.

Taking then our budget figures as a whole we anticipate a surplus of 324 lakhs. I will turn in a minute to the question how far that surplus is a real and recurrent surplus or not and will say a few words now about ways and means.

This time last year we anticipated that we should be able to meet our various liabilities without raising any sterling loan and without floating any more treasury bills and should be able to limit our rupee borrowings to a figure not exceeding 20 crores. The actual liabilities during the year have been a good deal less than anticipated mainly on account of the smaller capital requirements of the Railways. We have also received more from Post Office Cash Certificates since we have made no change in the rates. The result is that while we have borrowed in India 7 crores less than was anticipated in the Budget we still end the year with very high balances, although these balances will be 5 crores less than a year ago. So far as our remittances are concerned we have had very satisfactory conditions and we anticipate that by the end of March, we shall have remitted to England £42 millions. We have actually remitted up to date £40 millions, of which £33 millions have been remitted by the new procedure of purchasing sterling in India. Of this sum £6 millions have been placed in the Paper Currency Reserve in England with the object of issuing additional currency out here in order to relieve the tension in the money market.

As regards next year our liabilities include 3½ crores of maturing 1925 bonds, 23 crores for capital expenditure of railways which is the maximum sum that we think the Railways can spend, 14 crores for drawings of the Provincial Governments, a crore and a half for New Delhi and a sum of £2½ millions for the Great Indian Peninsula Railway guaranteed stock

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which will be discharged when the Railway is taken over by the State next year. As I have said our balances are high and we anticipate further good receipts from Post Office Cash Certificates and from various other items. We hope we shall be able to avoid sterling borrowing this year also and that we shall be able to limit our rupee loan to a sum not exceeding 12 crores. As the House knows we have important liabilities in the near future for maturing debt and it is possible, though it is too early to make any definite announcement at the moment, that we shall be issuing something in the nature of a conversion loan.

I now return to the surplus of 324 lakhs and the question how far it is a real and recurrent surplus or not. In the first place there are certain items which are definitely non-recurring, the 124 lakhs of Post and Telegraph stores, the 20 lakhs of credits under Opium, the 70 lakhs due to consumption of military stores and a further item of 13 lakhs which is expected from the enemy ships account next year, and which should finally close that account. All these items are non-recurrent items of receipt. There is also one non-recurrent item of expenditure, namely, the 171 lakhs in the military budget for payments to demobilised officers. If these items are set off against each other we are left with a net surplus of 268 lakhs. The House will now ask about exchange. I think in considering this it is important to remember that in future the sterling expenditure of the Railways does not directly affect us, and therefore the effect of alterations in exchange on our revenue position is a good deal less than it was in the days before separation. Actually next year, taking the net sterling expenditure which affects our revenue account at £16 millions, every change of one farthing in the average rate of exchange will mean 32 lakhs. It is also necessary to remember that we can now count on a certain and increasing contribution from the Railways, that we have in our budget an adequate figure for redemption and avoidance of debt; we look forward in the near future to a very appreciable increase in our receipts from income-tax as we have not yet had the benefit of a really good year, the income-tax assessment being of course based on the results of the preceding year. Also we look forward to further reductions in military expenditure. Taking all these factors into account Government are of opinion that the amount of surplus which can be considered as available for distribution is 2½ crores. Now as regards the claimants for this amount, Government's opinion is equally definite that the first claimants should be the Provincial Governments. There are other second preference shareholders, if I may say so, but the first preference shareholders are the Provincial Governments and Government's proposal is that this 2½ crores should be distributed to Provincial Governments in accordance with the Devolution Rules, under which Madras will receive a remission of 126 lakhs of their contribution, the Punjab 61 lakhs, the United Provinces 56 lakhs and Burma 7 lakhs. I might mention at the same time that we propose to make an alteration in the present procedure by which we give Local Governments an assignment to compensate them for the duty on imported Government stores. This was a purely temporary arrangement and an unsatisfactory one. Since so long as these assignments are given it is impossible to carry out fully our object in assessing Government stores to customs duty, which was to enable Indian stores to compete fairly with imported stores. Government therefore propose that in the case of those

Local Governments which are receiving a remission of their contribution this assignment will no longer be given. The total amount of these assignments is only 20 lakhs for all the nine provinces, of which ⅔rds is payable to Bombay who are not at the moment affected. For the other provinces the amount in each case is very small. I shall now be asked what about Bengal. As the House knows the Bengal contribution of 63 lakhs becomes due automatically next year. I should also say that in the figures which I have given to the House of our surplus the Bengal contribution has not been included as a receipt. Government after considering the special claims of Bengal are of opinion that it is fair that the Bengal contribution should continue to be remitted for a further period of three years before Bengal is brought into line with the other provinces. As regards procedure Government propose that after the Finance Bill has been considered and passed these proposals for the reduction of contributions and for the continued remission of the contribution of Bengal should be put before the Legislative Assembly in the form of a Resolution.

That, Sir, practically concludes what I have to say this evening. The statements and connected papers, the Finance Secretary's memorandum explaining the various heads of the estimates and the Honourable Finance Member's budget speech which he is now making elsewhere, will be circulated to all Honourable Members in a few minutes, and also a copy of the Finance Bill, which will be introduced to-day in the other House. As the House may surmise the Finance Bill this year is not of a sensational character. There are no proposals for increase in taxation. There are, on the other hand, proposals for reduction in taxation in three small items which are similar to those which were included in the original Finance Bill last year, but which was subsequently dropped in the second edition of the Finance Bill. These proposals are, first of all, the removal of the import duty on grain and pulse, secondly, the reduction from 15 per cent. to 2½ per cent. of the import duty on certain articles mainly used in power looms, such as reeds, healds and bobins, and, thirdly, the reduction of the petrol excise from 6 annas to 4 annas per gallon coupled with the reduction of the import duty at the same time to 4 annas.

I hope that the House will regard this budget as not unsatisfactory. We have in front of us very heavy commitments in the coming years from our ways and means point of view in respect of maturing debt and in respect of the large amounts of capital which both the Central and Provincial Governments will have to raise for the proper development of the country, and I think that the existence of these obligations enforces the necessity for adequate provision in our budget for redemption and avoidance of debt. As I said a year ago we hoped that the corner had been definitely turned. I think now that we may say that we are actually advancing on the broad road that leads to social progress. The Local Governments, or at any rate some of them, will now have an opportunity of developing those services, such as the fastening of industries, agriculture, education and public health which not only create wealth but spread enlightenment. The Central Government has fewer opportunities in this way but, so far as our powers go, we have endeavoured to include in this budget a number of items of beneficial expenditure. We have, for instance, restored 3 lakhs out of the grant of 5 lakhs for the Indian Research Fund, which was cut out under the recommendations of the Inchcape

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Committee. We have made extra provision for the Islamia and other Colleges in the North-West Frontier Province. We have increased our grant to the Forest Research Institute at Dehra Dun, to the Agricultural Institute at Pusa, and to the sugar cane breeding station at Coimbatore. I think that this House, which always takes a special interest in the development of activities of this kind, will receive this news with welcome. (Applause.)

The Council then adjourned till Eleven of the Clock on Monday, the 2nd March, 1925.