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COUNCIL OF STATE.

Monday, 28th February, 1927.

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

MEMBER SWORN.

THE HONOURABLE SIR S. R. M. ANNAMALAI CHETTIYAR, KT. (Madras: Non-Muhammadan).

QUESTIONS AND ANSWERS.

VACANCIES OF OVERSEERS OR ASSISTANT MANAGERS IN THE GOVERNMENT OF INDIA PRESSES.

110. THE HONOURABLE MR. G. S. KHAPARDE: Will the Government be pleased to state:—

(*a*) whether there are going to be any vacancies of Overseers or Assistant Managers in the Government of India Presses in the near future; and

(*b*) if so, do the Government propose to advertise the vacancies and fill up the posts by open competition in India from amongst European or Indian gentlemen having the requisite technical qualifications?

THE HONOURABLE MR. A. C. MCWATTERS: (*a*) There is likely to be a vacancy in a permanent post of Assistant Manager in April next.

(*b*) No. It should be possible to fill the vacancy by promotion.

INSPECTION OF THE GOVERNMENT OF INDIA PRESSES AT SIMLA AND DELHI BY FACTORY INSPECTORS.

111. THE HONOURABLE MR. G. S. KHAPARDE: (*a*) Will the Government be pleased to state whether the Government of India Presses at Simla and Delhi are treated as Factories?

(*b*) If so, is the limit of working hours and overtime, as laid down by law, observed in those Presses?

(*c*) Is it a fact that, in winter last, a large number of compositors and Lino-operators in the Delhi Press were forced to work for 16 hours and more every day?

(*d*) Is it a fact that these men were refused permission by the Foreman on duty to go out to purchase food and forced to work till midnight and later without having any nourishment?

(e) Are these Presses ever visited by Factory Inspectors; if so, will the Government be pleased to give dates of inspection during the last five years?

THE HONOURABLE MR. A. C. MCWATTERS: (a) Yes.

(b) The law places no limit on the hours during which a factory may work: the limits prescribed for individual workers are generally observed.

(c) No. I understand that on some occasions excessive hours have been worked by a number of press employees in Delhi on account of the urgent press of work resulting from the activity of this Chamber and of the Legislative Assembly, and inquiries will be made with a view to the reduction of overtime as far as possible.

(d) No.

(e) Yes, but the dates of inspection are not on record in the Presses. The Delhi Press was last visited by a Factory Inspector in November 1926.

NAMES AND QUALIFICATIONS OF INDIAN MEMBERS OF EXECUTIVE COUNCILS OF THE DIFFERENT PROVINCIAL GOVERNMENTS FOR THE LAST SEVEN YEARS.

112. THE HONOURABLE MR. MAHMOOD SUHRAWARDY: Will Government be pleased to state the names of the Indian Members of the Executive Councils of the different provincial Governments for the last seven years together with their qualifications?

THE HONOURABLE MR. H. G. HAIG: The names required by the Honourable Member are to be found in works of reference available in the Library. The qualification for a Member of Council is that he is considered the most suitable person for appointment.

THE BUDGET FOR 1927-28.

THE HONOURABLE MR. A. F. L. BRAYNE (Finance Secretary): Sir, I rise to present the Statement of the estimated expenditure and revenue of the Governor General in Council for the year 1927-28 in respect of subjects other than Railways.

In the forefront of a Budget statement it is usual to deal at some length with the recorded experience of the past financial year and thereafter to review the experience of the current year comparing these experiences with the anticipations of the Budget statement made a year ago. This is as it were the preparation of the stage upon which will be presented the theme, so eagerly awaited, of the budget proposals for the year to come. I will endeavour not to dwell too long on these preparations.

Actuals of 1925-26.

2. For the third year in succession the actual results of the past financial year have shown a marked improvement upon the revised estimates. The revised estimate for 1925-26 indicated the probability of a surplus of 130 lakhs. The audited accounts present us with a surplus of 331 lakhs, or 2 crores more than the anticipation. It may be said that this result, however welcome, indicated that our estimates were unduly cautious, but so numerous and varied are the factors which have to be weighed when the revised estimate is prepared that it is hard to avoid the tendency to underestimate revenue and overestimate expenditure; when all is said, the actual variation from the estimated surplus is well under 1 per cent. of our gross revenue or expenditure. Owing to exceptionally high returns in the last two months of

1925-26 the Customs revenue improved by nearly a crore over the revised estimate, while Railways, Posts and Telegraphs and the Military estimates account between them for an improvement of 60 lakhs. The balance of the improvement is distributed without any very marked variation under any particular head.

Review of the year 1926-27.

3. The visible balance of trade, including private imports of treasure, was in favour of India at the end of January to the extent of 27 crores as against over 85¾ crores for the same period a year ago, the decrease being mainly explained by the fall in the value of exports of jute and cotton and the general lateness of the season, but there is every reason to expect considerable expansion in exports during the remainder of the year. Generally speaking, the year may be said to have been good for trade except perhaps for the depression in cotton, where a fall in prices, overdue though it was, has temporarily increased the difficulties of the industry, but much may be expected from a combination of increased demand and cheaper production. The position would have been more satisfactory but for the deterrent influences of the coal strike in England and the Civil War in China. The coal strike has, however, resulted in export of coal almost treble in value, and it may be hoped that with improved arrangements some part of the extended market may be retained.

To the effects of a late season was added uncertainty regarding the stability of exchange which vitiated that atmosphere of security without which sound business cannot thrive. The most notable feature in the money market in 1926 was exceptional absence of stringency. The concentration into the first months of 1927 of the seasonal demands, which ordinarily set in from October and special reasons for hesitation in the exchange market have led to a rise in the Bank rate to 7 per cent., a figure usual at this period of the year but not touched between May 1925 and February 1927. But even so, the stringency is less marked than in 1923-24 and 1924-25.

Revenue, 1926-27.

4. In the current year it is anticipated that Customs receipts will exceed the budget estimate of 46·4 crores by 1·3 crores, mainly due to improved receipts from sugar and protective duties. In 1925-26 the receipts from sugar amounted to nearly 6½ crores or nearly double the receipts of 1923-24. In the budget of the current year, Government adopted a conservative figure of 5·7 crores, but the revised estimate exceeds this figure by 1¼ crores. For protective duties the estimate was 2·35 crores; it now appears that the yield will be nearly 50 lakhs more, and thus it appears that protective duties have not only fulfilled their purpose, but have also proved unexpectedly fructuous in revenue.

Taxes on Income.

5. The yield from the taxation of incomes is now anticipated at Rs. 29 lakhs below the estimate of 16·15 crores, but this is almost entirely due to increased refunds in connection with double income-tax relief following upon a deduction in the rate of income-tax in Great Britain.

Salt and Opium.

6. The recent receipts from Salt appear to be affected by the perennial hope of reduction in the duty, and it is deemed wise to reduce the estimate of 6·9 crores by 20 lakhs. On the other hand, we may hope for an improvement in net Opium receipts

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of 86 lakhs. This is due to the fact that Government framed a very cautious estimate of the immediate effect of their policy of reduction of exports of opium as the new arrangements had not then been concluded. Also, on the expenditure side, liabilities are reduced by 48 lakhs in payment to cultivators owing to a scanty crop.

Other heads of Revenue.

7. The Railway contribution of 6·01 crores remains unaltered, and the only important variation under other heads is an unexpected receipt of ·31 lakhs for reparations from Germany. As this relates to a period before April 1926, it is not taken to avoidance of debt under the provisions of the Finance Act of 1926.

Expenditure, 1926-27.

8. The most important variation arises under the Military Estimates. The original figure was 54·88 crores. The revised estimate indicates an excess of 67 lakhs. I may explain that when I framed the original estimate as Financial Adviser, the position as regards requirements of Ordnance supply—which is one of the heaviest items of Army expenditure—was not fully known. The Army had been drawing for a long time on surplus war stores, and it was becoming clear that this reserve could not last much longer. An expert inquiry was instituted by His Excellency the Commander-in-Chief into the present position and future demands of the arsenals, and the result was that it was found necessary to provide an additional grant to meet deficiencies in essential requirements, the greater part being a recurring charge owing to the exhaustion of the surplus. Losses by fire of essential stores at Rawalpindi and Ambala necessitated replacement at considerable cost. On the civil side we have a saving of 82 lakhs on interest on debt owing to the reduction in the rate of interest on new borrowings and a further saving of 18 lakhs in the cost of Civil Administration.

9. The net result of the variations in revenue and expenditure is that we have every reason to anticipate a surplus of 3·10 crores in the current financial year compared with an actual surplus of nearly 3 1/3 crores in 1925-26. This is the fourth surplus in succession.

Revenue 1927-28.

Customs.

10. I now turn to the estimates for the ensuing year 1927-28. It is anticipated that the Customs revenue will bring in 49·15 crores, or 146 lakhs more than the revised estimate of the current year, and this is after allowance for about 40 lakhs less in the revenue from protective duty on steel owing to the effect of the new Bill. Allowance is also made for somewhat reduced imports of sugar and for normal expansion under continued favourable conditions under other heads.

Taxes on Income.

11. We may anticipate slightly more profitable trade as the basis of assessment and also a further yield due to the substitution of tax-subject for tax-free securities. In the result it is hoped to secure 16·5 crores next year under this head, or 65 lakhs over the revised estimate.

Salt and Opium.

12. The original estimate of revenue from Salt duty for 1926-27 was 6·9 crores. Allowing for normal growth in consumption it is proposed to adopt 7 crores for 1927-28. Under the Opium head, it is necessary to allow for a reduction of 10 per

cent. in exports as a result of Government's declared policy but expenditure will also be reduced owing to the smaller area under cultivation. As a result the net revenue is estimated at 2·92 crores as compared with 3·12 in the current year.

13. The net receipts from Railways in 1925-26 were considerably lower than in 1924-25, and therefore the contribution for next year falls to 5·48 crores as compared with 6·01 in the current year. Receipts under all other civil heads of revenue are estimated at 15·7 crores, a reduction of 174 lakhs in the original estimate for 1926-27.

Other heads.

The estimate assumes that we continue to credit to revenue the excess over £40 million in the Gold Standard Reserve and the income from investments of the Paper Currency Reserve pending the establishment of the Reserve Bank. This income is of course diminished in consequence of the reduction of the sterling and Government of India rupee securities in the latter Reserve.

14. The total estimate of revenue for 1927-28 comes to 128·96 crores as compared with a revised estimate of 130·25 crores for the current year. The reduction is partly due to the reduced Army receipts under the new system of accounts which dispenses with cost account or book transaction receipts hitherto shown in the Military Estimates.

Expenditure in 1927-28.

15. The net Military expenditure is estimated at 54·92 crores or practically the same as the original estimate but 68 lakhs less than the revised estimate of the current year. A saving of 64 lakhs is secured by the cessation of gratuities for demobilised officers, but this saving is counterbalanced by increased charges on ordnance supply to which I have already referred and by the necessary expansion of the Air Force and improvement of the barrack accommodation of Indian and British troops. At this point, I would invite the attention of the House to the very real reduction in Military expenditure since 1921-22. In that year, it stood at near 70 crores. In 1923-24, following on Lord Inchcape's inquiry it fell to 56½ crores, and for next year, despite revisions of pay and other improvements mentioned above, the cost of defence is reduced to 54·9 crores.

Military.

I have already referred to the fact that the Army has gradually come to an end of its surplus war stocks, and to maintain its efficiency must now obtain funds for new purchases and manufactures provision for which is included in next year's estimate. If an army of the present authorised strength is to be maintained in a state of full efficiency, it seems probable that the scale of military expenditure has now almost touched its lowest point on the basis of present prices and strictest economy will be necessary to counteract the tendency to increase.

I may add, that next year's estimate includes an addition of 5 lakhs for the new Royal Indian Navy.

16. The principal variation is a saving of nearly 2 crores under the head of "Interest on dead-weight Debt" as compared with 12½ crores in the Budget for the current year.

Civil Expenditure.

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Steady adherance to the programme of making regular provision for the reduction and avoidance of debt and the confining of the new borrowings to productive purposes brings in an annual dividend to the tax-payer in the shape of an increasing saving in interest charges on dead-weight debt. The saving in gross interest charges is even more striking owing to the advantage of lower interest on capital newly invested in productive works of development. This benefit accrues not only to the Railway, Irrigation and Forest Departments, but also to the Provincial Governments, which gain materially from the reduction of interest which they pay on their borrowings, whether from the Provincial Loans Fund or direct from the open market.

17. Under the heads of Civil Expenditure, there are no very important variations, but I shall refer at a later stage to special provision which is being made next year for the inauguration of a five-year programme for the improvement of education in the territories under the immediate control of the Government of India. There is also provision of Rs. 8 lakhs for beginning the erection of an India House in London.

Posts and Telegraphs.

18. In the current year it was estimated that the Indian Posts and Telegraphs Department would show in its accounts a loss of 10 lakhs on the working of the year. The revised estimate shows a slight improvement and the loss should be only 7 lakhs. In 1927-28 it is expected that the gross receipts of the Department will be 10·8 crores, while working expenses, together with the interests charged on the capital of the Department, amount to a figure in excess over revenue of only three-quarters of a lakh. The working expenses, I may add, include special provision of over 12 lakhs for the improvement of the pay and allowances of certain sections of the subordinate staff, whose grievances have been under examination.

The Indian Post and Telegraph Department is now regarded as an organisation working on commercial lines and paying interest on the capital locked up in its activities. It aims at the supply of postal and telegraph facilities to the public to the fullest extent compatible with the fundamental principle that such a service department must not be a burden upon the general tax-payer. In normal conditions, therefore, the gross reveuue should suffice to cover the working expenses and the payment of interest on capital. As trade improves, it may be hoped that the Department will eventually be able to show some substantial profit, but for the present it is clear that no important reduction is possible in the existing rates for telegrams and postal articles save at the cost of a subsidy from the general tax-payer towards the working expenses of the Department.

19. I have now reviewed the salient features of the revenue and expenditure of the coming financial year. In the final result as against a revenue of 128·96 crores, the expenditure of the year is reckoned at 125·26 crores and we may thus confidently expect a surplus of 3·7 crores in the ensuing year, or just about one lakh for each day of the year. The House will recollect that the actual surplus of the past year was 3·31 crores and the surplus of the current year is also expected to prove slightly over three crores. Before I proceed to disclose the budget proposals as regards taxation and the disposal of the surplus, I would detain the House for a little space on the very important subject of ways and means and the public debt.

20. The position may be briefly summarised as follows:—

	Revised, 1926-27.	Budget, 1927-28.
	(Crores of rupees.)	
Liabilities.		
Railway capital outlay	27	25
Other Capital Outlay (Delhi Posts and Telegraphs, etc.)	2	2·2
Transactions of Provincial Governments	8·9	6·4
Discharge of debt (net)	37	20·5
	74·9	54·1
Resources.		
Rupee Loan (net)	26	27
Postal Cash Certificates	6·1	5·4
Other unfunded debt (including Postal Savings Bank)	6·6	6·2
Debt redemption	5·1	5·2
Depreciation and Reserve Funds	6·1	2·7
Exchange	10·4	—·5
Miscellaneous	4·4	—2·2
Reduction of cash balance	10·2	10·3
	74·9	54·1

21. When the House comes to study these figures at leisure, they will, I am sure, admit that the position is most satisfactory. It will be observed that in the current year the net amount of the new loan was less than the outlay on Railway capital expenditure and considerably less than the total figure of productive capital outlay. In 1926-27, Government borrowed 26 crores but will have discharged debt to the extent of 37 crores including over 8 crores of Treasury Bills in the Paper Currency Reserve. Next year Government expect to discharge about 18 crores of debt in India while the provisional figure for the rupee loan in the open market is 27 crores. Government hope in 1927-28 to finance its capital programme of some 27 crores on productive enterprises in 1927-28 while the market will be asked for less than Rs. 10 crores of new money. In these circumstances, Government have every reason to hope that this sum, together with the requirements to replace maturing debt, including possibly some debt maturing after 1927, will be forthcoming on favourable terms.

22. As the House is aware, no new sterling loan has been issued since May 1923 and the Budget of 1927-28 includes no provision for any external loans. Since the last sterling loan was taken in 1923-24, Government have spent outside India a total of £36 million including over £26 million for capital outlay and £10 million on reduction of sterling debt without resort to external borrowing. Next year Government expect to incur nearly £11½ million on capital account and reduction of sterling debt, so that if sterling borrowing is avoided next year, they will have met in that short period

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since 1923-24 some £48 million of capital disbursements outside India without exceeding internal resources.

The revised remittance programme for the current year is £27½ million both on capital and revenue account and Government expect that the amount required next year will be £35½ million.

23. The credit of India as reflected in the market price of Indian Government securities has again improved, and the market price of 5 per cent. tax-free loan 1945-55 has increased from Rs. 88 annas 4 on 1st February 1923 to Rs. 107 annas 5 on 1st February 1927. In the similar period the 3½ per cent. Indian Government rupee loan has risen from Rs. 57 to Rs. 77 annas 7. Comparison with the prices of India stock and other stocks in London supports the conclusion which was drawn in last year's budget statement that the credit of the Government of India stands considerably higher in the London market in relation to British Government and other gilt-edged borrowers than it did in 1914 or 1923 or indeed in 1926. While the prices of British Government and other securities have actually gone down during 1926, those of India stock have appreciated. One result has been that very considerable transfers of money from India to London have been made in view of the fact that Indian 3½ per cent. rupee stock has been quoted at a figure appreciably higher than the price in London of India 3½ per cent. sterling stock. This process is not without its temporary inconveniences, for one cause of comparative weakness of exchange in the current year has been the transfer of capital attracted from India to London by reason of the higher rates prevailing there for the greater part of the year; but there is another and a favourable side to the process in that the efforts of Government to reduce India's sterling debt have been supplemented by transactions on the part of individual Indian investors in buying back some part of her sterling loans and transferring them to Indian hands.

Debt.

24. The position as regards our debt is one of abiding and continuing strength. On the basis of a rupee at 1*s*. 6*d*. gold, the total debt on 31st March last stood at 969 crores. On 31st March 1927, it will stand at 975½ crores, but sterling debt will have decreased from 456½ to 452½ crores. The productive portion of the debt will have increased from 737·9 crores to 773·8 crores, but the unproductive portion shows a welcome reduction by nearly 30 crores to 201·7 crores. The effect of this satisfactory position on expenditure and on the rate of interest at which Government borrow in India is considerable. Mainly as a result of the settled policy of making regular provision for the reduction and avoidance of debt Government were able to borrow in 1926 at 4·69 per cent. subject to income-tax as compared with 6 per cent. tax-free in 1922, while the interest charge in 1927-28 for dead-weight debt is about 5½ crores less than in 1923-24. This saving is considerably larger than the total amount which is at present set aside annually for reduction or avoidance of debt.

Budget proposals.

25. We have now reached a point in the journey, which I hope has not been barren of interest, at which we can emerge upon the promised land of new budget proposals for which the House has been waiting. I would therefore bring again before the House the salient point that the expected surplus in the ensuing year is 3·70 crores based on the existing level of taxation. So long as 5·45 crores of Provincial contributions apart from Bengal's 63 lakhs are still undischarged and so long as Government adhere to their declared intention

of reduction and final extinction at the earliest possible date of these contributions, they cannot divert any part of their surplus towards reduction of taxation. To do so could only mean a postponement of the happy time when the Provinces will stand free of all tribute to the Central Government. I hope that the House will agree that the general policy as regards taxation ought to be directed first towards a more equitable distribution of the incidence and towards the abolition of taxes which are obnoxious in principle. In this respect, Government have received much valuable assistance from the labours of the Taxation Enquiry Committee whose Report has been under consideration during the year. When finances permit and when the Central Government breathes in a freer atmosphere of relief from the obsession of Provincial contributions, they can then direct their aim to the gradual reduction of taxation with regard solely to the position of the Central Administration. For 1927-28 they can do no more than effect minor changes which will not materially affect the surplus of revenue over expenditure.

26. I will briefly summarise the proposals in this respect. It is proposed that the export duty on tea and on hides should be abolished, that the import duty on motor cars, etc., should be reduced from 30 to 20 per cent. *ad valorem* and the duty on tyres from 30 to 15 per cent. The stamp duty on cheques and other bills of exchange payable on demand will also disappear, and the import duty of 15 per cent. on rubber stumps and seeds will be abandoned. On the other side, it is proposed to raise the import duty on unmanufactured tobacco from Re. 1 to Rs. 1-8-0 per pound and to assess the profits of tea companies at 50 per cent. of their total net income subject to certain conditions instead of the percentage of 25 per cent. of profits which is at present in force. The net result of these changes will be an immediate reduction of 51 lakhs under Customs which will be counterbalanced by an increase of 45 lakhs under Taxes on Income. The net loss of 6 lakhs will reduce the surplus of 370 lakhs to 364 lakhs.

27. I will next deal shortly with each of these proposals.

(*a*) The *export duty on hides* has been condemned by the Taxation Enquiry Committee as wrong in principle and dangerous in its effects. The industry is at present in a depressed condition and for some years the only justification for retaining the duty has been based on revenue grounds. On the other hand, the duty on skins, though open to the same objection, is more productive and much less harmful to the trade and Government do not feel that they are in a position this year to propose its reduction or abolition. The immediate abolition of the duty on hides will involve a loss of 9 lakhs of revenue.

(*b*) The *export duty on tea* brings in 50 lakhs a year, but for the reasons which I have already given, Government cannot contemplate a loss in revenue of this magnitude without some countervailing increase elsewhere. Happily they are able to effect this counterbalance by a measure which will afford the additional revenue from the tea industry itself, while it will actually distribute the incidence of taxation in a more equitable manner.

At present the tea companies are charged income-tax on only 25 per cent. of their profits, the remaining 75 per cent. being accounted as profits from agriculture and so untaxable. This proportion was arrived at some years ago on very imperfect data and has since been under investigation for some time. On the better data now available it is evident

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that the non-agricultural portion of the profits ought to be assessed at 50 per cent. at the very least and this, it is proposed to do, with the proviso that where there is a market for green tea and non-agricultural profits can be exactly ascertained, income-tax should be assessed on the actual total of such profits. Government expect to obtain an additional Rs. 45 lakhs from this change in the proportion and 50 lakhs for 1928-29.

(c) The next proposal is one which Government have reason to believe will be universally popular, that is a *reduction in the import duty on motor cars* from 30 to 20 per cent. and in tyres to 15 per cent. Allowing for the stimulus to imports which this duty should give, the loss should not exceed 10 lakhs. The reduction is in accordance with the views of the Taxation Enquiry Committee which had in mind the desirability of encouraging the development of motor transport in India in every possible way. And if Provincial Governments take the opportunity of increasing local taxation of users of motor cars in order to spend more money on road communications. who shall say them nay.

(d) The removal of rubber stumps and seeds to the free import list is proposed, as the present duty is found to hamper an adolescent industry in Burma and the Government of Burma have made a special representation to the Government of India. The loss of revenue is inconsiderable.

(e) I now pass to the abolition of the duty of one anna on cheques and bills of exchange payable on demand. This measure follows the recommendations of the Currency Commission and has received support from many other quarters with the object of stimulating the development of the banking habit in India. For the present, it is not proposed to touch the stamp duty on other bills of exchange which would involve a heavy loss of revenue amounting to 25 lakhs. This question will be further considered. The abolition now proposed will have effect from 1st July in order to allow banks time to make necessary preparations. The loss next year will be about 5 lakhs. It will fall temporarily on Provincial Governments, but it is not material and Government do not propose to compensate the provinces in view of the substantial measures of relief in other directions which I will shortly describe to the House and also because it is hoped that in a year's time a new distribution of stamp revenue under central and provincial heads, coupled with a revision of the Devolution Rules regarding income-tax, will make good any loss on this account.

(f) Lastly, *raising of the import duty on unmanufactured tobacco* is a measure which is entirely justified as a means of making up the loss from the adjustments to which I have just referred. The statistics of the Indian cigarette industry prove that it has reached a very strong position. The increased duty is not likely to affect the industry to any material extent while it will afford some additional protection to Indian grown tobacco. The increased revenue is expected to be 18 lakhs.

Final proposals.

28. The disposal of the surplus of 3·64 crores is now for consideration. Government have every reason to expect that it will be a recurring surplus having regard to all liabilities which can be foreseen including the inauguration of the Reserve Bank and to the natural growth of the revenues and further reductions in interest and other charges. This being so, I am sure that the House will agree that the proper course must be to devote the surplus to the permanent reduction by 3½ crores of the Provincial contributions, the distribution being

made strictly in accordance with the Devolution Rules. Bengal is still entitled to remission of her contribution in 1927-28: otherwise, she would have been entitled to a share in the permanent remission of 3½ crores to the extent of 9 lakhs.

The further reduction of the Provincial contributions to the extent of 3½ crores will leave only 195 lakhs unremitted, excluding Bengal. Yet there are many and forceful reasons why a clean sweep should be made of these contributions which stand in the way of provincial autonomy and development. More especially convincing is the appeal from Bombay which would obtain relief from the 350 lakhs to the extent of only 19 lakhs out of her contribution of 56 lakhs. Bombay is faced with a heavy deficit in the current year and with the prospect of a further heavy deficit of 51 lakhs in the ensuing year if the provincial contribution is still to be levied. Various causes will no doubt be assigned for the present misfortunes of Bombay, but whatever they may be, we cannot but in fairness recognise that the existing Devolution Rule 15, which was intended to give provinces a share of the proceeds of the income-tax, has miserably failed of its purpose in the case of Bombay and Bengal which it was designed to benefit and this because the year which was selected as the criterion happened to be one which in the event was unfavourable. Bengal has already got compensation by reason of the remission of her contribution since 1922-23 a gift of over 3 crores in the aggregate, but Bombay has received only one special non-recurring reduction of 22 lakhs in 1925-26. In these circumstances, the Government of India are convinced that a very special effort must be made in 1927-28 on behalf of Bombay, but they are equally convinced that any relief can only be given in strict accordance with the Devolution Rules. Otherwise that relief could only be given at the ultimate expense of other provinces. Some way must be found and the Government of India propose to find it by having recourse to the realised surplus of 1926-27. This is estimated at 3·10 crores. It has been decided that the best solution of the problem will be to use part of this surplus to remit the whole of the Provincial contributions in 1927-28. Only by this means can Government meet Bombay's undoubted claims in full measure without infringing the rights of other provinces. The latter on the contrary will also obtain additional and welcome relief by the remission of their remaining contributions in toto for 1927-28. Even the little province of Coorg will obtain relief to the extent of Rs. 12,000 which is her special contribution.

29. The following are the shares of the recurring remission of 350 lakhs and of the non-recurring remission of 258 lakhs (including Bengal):

	Recurring.	Non-recurring.
Madras	116	49
Bombay	19	37
Bengal	9	54
United Provinces	99	52
Punjab	60	26
Burma	31	19
Central Provinces	8	14
Assam	8	7
	3,50	2,58

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30. These measures will exhaust the estimated surplus in 1927-28 and will mean that the surplus of the current year will be drawn upon to the extent of 181 lakhs. While the needs of Bombay are met so far as her budget position for 1927-28 is concerned, she still has some further expectations in view of the operation of the Devolution Rule in the past. It is therefore proposed that a further sum of Rs. 28 lakhs out of the remaining surplus of 129 lakhs for the current year should be devoted to relieving Bombay of half her contribution for the current year also on condition that her budget for 1927-28 shows a balance on the right side.

31. After these transactions, the estimated surplus for 1926-27 will still show a balance of just over a crore of rupees. I have already briefly referred to a possible temporary difficulty in the future in connection with the inauguration of the Reserve Bank and the Gold Bullion Standard, and it is undesirable that there should be a special call on the tax-payer or a dislocation of normal budget arrangements to meet this temporary demand. Therefore, Government propose to set aside in reserve the remainder of the realised surplus of the current year either to relieve the budgets of 1928-29 and 1929-30 of the temporary charges incidental to the new currency system or to strengthen the reserves to be handed over to the new Bank as cover for the note issue or for both purposes as circumstances require.

The procedure which is proposed is the opening of a special Deposit account to which will be paid the whole of the realised surplus for 1926-27. In the estimated receipts for 1927-28 will be included a transfer from this Reserve Account equivalent to the amount required to balance revenue and expenditure in 1927-28, on present estimates Rs. 1·81 crores. The amount finally credited will be just such sum as may ultimately prove necessary to bridge the final gaps between expenditure and ordinary revenue of the year. In order to effect this Government propose to present in another place a supplementary estimate to cover the transfer to the special reserve of the surplus of 1926-27.

32. I must, however, emphasise most clearly the fact that the non-recurrent remissions of the provincial contributions must be regarded as definitely temporary so that if a recurring surplus is not available a year hence to enable Government to make this remission a permanent feature, it will be necessary either to restore the temporarily remitted contributions in whole or in part or else to propose fresh taxation. Thus though Government formally protect the future by making part of the remission for one year only, they are taking the risk that if the monsoon of 1927 is specially unfavourable they will be faced with difficulty. There is a further possible criticism that the realised surplus of 1926-27 is being diverted from its proper application to the reduction and avoidance of debt, but the answer is effective. A succession of realised surpluses has enabled Government to outdistance the programme of debt redemption in the last few years while the fixed programme remains unmodified and for this is already provided 512 lakhs in 1927-28. Government can therefore with a clear conscience make the cencession proposed to secure those advantages for India economic and social and the stimulus to the successful working of the Reforms which will flow from the release to the provinces

of 545 lakhs for expenditure on the nation-building services which all true friends of India and of the Reforms have so deeply at heart. Further, for the first time since the Reforms the Central Budget will be free of assistance from the provincial tax-payer and free from an incubus which has strained mutual relations and hampered development on all sides.

33. I can hear the question put: While the Government of India have the interests of the Provincial Governments at heart, do they actually propose to neglect those areas for the administration of which they are directly responsible because their claims are uttered with a still small voice? In dealing with the expenditure of 1927-28 I have already alluded briefly to the inauguration of a scheme of educational development which will be spread over five years in the frontier provinces and other administrations under the Central Government. This connotes additional non-recurring expenditure of nearly 30 lakhs in the five years and additional recurring expenditure rising from 4 lakhs in 1927-28 to 10¼ lakhs in 1931-32. The total additional sum provided for next year and included before the surplus was arrived at is Rs. 12 lakhs. Similar schemes for sanitation and other services are under preparation but are not yet ready. It is undoubtedly the case that development in these areas was cramped by necessarily drastic measures of retrenchment and by the pressure of the claims of the major provinces, but the time is now at hand when the Government of India can hope to meet the most pressing claims of their own citizens to a definite share in the funds that may be available for nation-building activities.

34. Thus, Sir, I conclude the Budget Statement for 1927-28, a statement which is bright with promise and which should still further develop and consolidate the sound position of India's credit internally and externally alike. It is a statement which, as the House will have realised, is based on the assumption that there will be no departure from the established exchange rate of 1*s*. 6*d*. per rupee. As the House will desire to know what effect a reduction of the rate of exchange from 1*s*. 6*d*. to 1*s*. 4*d*. would have on the Budget, I have circulated a statement showing in some detail what that effect would be, having regard to the many difficult and varied considerations which must enter into the calculations. The conclusion arrived at, on the assumption that during 1927-28 it will be unnecessary to compensate any Government employee in any way for a reduction of about 11 per cent. in their real wages, is that the reduction of the ratio to 1*s*. 4*d*. would result in a worsening of the position by over 5½ crores.

It is no part of my duty to-day on behalf of Government to make any suggestions as to how the resulting deficit of over 1½ crores should be covered. The ratio controversy will be discussed on its merits next week, and it will be time enough, when that controversy has been settled, to consider any reactions of the decision upon the budget which I have laid before the House to-day. But if Government are correct in their contention that an arbitrary reduction in the exchange value of the rupee will bring no permanent benefit whatever to India, but will, on the contrary, involve immediate and heavy sacrifice and loss, then surely the large sacrifice involved in the dislocation of this budget, though not necessarily the most serious of the sacrifices which would be incurred, is a relevant and important consideration which it would have been folly to ignore or obscure.

[Mr. A. F. L. Brayne.]

35. With these words, Sir, I conclude what has been to me the great fortune and the esteemed privilege of presenting the first budget statement in this new and spacious abode of the Council of State. I sincerely trust that the proposals will meet with the approval of this Honourable House and that they will prove to be a happy augury for the long succession of budgets which these walls will hear pronounced in the years to come.

THE HONOURABLE THE PRESIDENT: I have to communicate to the Council an Order of His Excellency the Governor General. It runs as follows:

"*In pursuance of the provisions of sub-section (3) of section 67A of the Government of India Act, I hereby direct that the heads of expenditure specified in that sub-section shall be open to discussion by the Council of State when the Budget is under consideration.*

Sd. IRWIN.

21-1-27.

Governor General."

The Council then adjourned till Eleven of the Clock on Tuesday, the 1st March, 1927,

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