29th February 1928

LEGISLATIVE ASSEMBLY DEBATES

(Official Report)

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OF THE

THIRD LEGISLATIVE ASSEMBLY, 1928

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LEGISLATIVE ASSEMBLY.

Wednesday, 29th February, 1928.

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

THE BUDGET FOR 1928-29.

INTRODUCTORY.

The Honourable Sir Basil Blackett (Finance Member): Sir, before last Simla session, long before the Finance Department is usually called upon to make a close forecast of the budget of the succeeding year, questions raised by the report of the Tariff Board on the Cotton Industry necessitated a decision to sacrifice nearly a crore a year of our customs revenue. This decision which added to the risks already taken in framing a budget for 1927-28 which left a gap of about a crore and three-quarters on the wrong side in the prospective figures for 1928-29, has made the period of incubation of the present budget an exceptionally long one. Long preparation is apt to lead to a long budget speech. Moreover, last budget speeches, like speeches on other valedictory occasions, offer temptations to reminiscent prolixity. But, aware of the temptations that beset me in presenting the last budget statement that I shall have the honour of making to this House, I shall endeavour to signalise the occasion by making my speech a short one.

Actual outturn of 1926-27.

2. The revised estimates for 1926-27 published a year ago anticipated a total revenue of 1,29·97 crores and a total expenditure of 1,27·15 crores, leaving a net surplus of 2,82 lakhs. The final figures show a total revenue of 1,31·70 crores and a total expenditure of 1,28·74 crores, leaving a net surplus of 2,96 lakhs. The increased figures on each side of the account arose mainly from the method adopted for bringing railway revenue and expenditure into the account. The only important variation is an excess of 42 lakhs under military expenditure, which has been converted by minor variations under other heads into a small gain of 14 lakhs. In accordance with the proposals I made last year, the entire surplus of 2,96 lakhs has been taken to the Revenue Reserve Fund. The close approximation of the revised estimate to the actual outturn is an encouraging sign of the improvement in our methods of budgetting. The extent of this improvement will be clear from the statement attached to the printed speech which gives the corresponding figures for a period of ten years.

[Sir Basil Blackett.]

REVIEW OF THE YEAR 1927-28.

General conditions.

3. The visible balance of trade, including private imports of treasure, for the ten months ended 31st January, 1928, was in favour of India by 37·24 crores as compared with 27·05 crores a year ago. Both imports and exports of merchandise have increased in value by 8 per cent. Improvement has been increasingly marked during the latter months of the year 1927, and it is a further sign of the inherent soundness of India's trade position that practically all the principal articles of import and export contribute to the increase. Among exports, raw cotton alone shows any appreciable falling off, reflecting the unsatisfactory conditions of the last harvest, but the figures for the present season, so far as they are available, hold out a better promise. I will not occupy the time of the House with figures for individual commodities except to refer to motor vehicles of which the statistics are of peculiar interest in relation to the development of India's road communications. Following the reduction in duty which came into force a year ago, increases of 16 and 35 per cent. respectively have been recorded in the number of motor cars and commercial motor vehicles imported during the first nine months of the year, but owing to lower prices, the yield of our customs duty on these imports has fallen below our expectations. During the last two years, however, prices in general have shown a stability unknown since the outbreak of the war. While more stable world conditions are partly responsible for this result without which there cannot be a healthy basis for the expansion of trade, the figures of India's trade reflect the advantages which have accrued from the stabilisation of the rupee. I always regard railway earnings as an important barometer of trade and the House has already been made aware of the remarkable improvement in the railway figures for 1927-28 which, by enabling important reductions to be made in railway charges, will itself give a new stimulus towards business and agricultural prosperity. In addition, I think I see other clear indications that during the last year Indian commerce has made a steady advance and that the effects of the post-war trade depression are at long last being dissipated. A noticeable feature of the trade returns is the reduction in the net imports of treasure by 6½ crores in the first ten months of the current year.

REVENUE, 1927-28.

Customs.

4. The net customs receipts for 1927-28 were put at 48·78 crores. Present indications are that this estimate will be all but realised. There will, however, be rather wide variations under certain of the individual heads. For example, tobacco is now expected to yield 37 lakhs more, mineral oils 38 lakhs more, protective duties on iron and steel 25 lakhs more, and jute as much as 55 lakhs more than estimated, while there will be a deterioration of something like 70 lakhs under cotton piecegoods, and 40 lakhs under matches. On the whole, I think we shall be down by about 10 lakhs. This is very satisfactory when we remember that the estimate allows for the loss of about 45 lakhs due to the abolition of the import duties on mill stores and machinery consequent on decisions taken after the budget was framed. The stopping of the leakage in Kathiawar may be given as an important reason for improvement in our figures.

5. Taxes on Income have proved a disappointment, particularly in Bengal where the original estimate was unduly too high. I have taken the revised estimate at 15·65 crores against the original estimate of 16·95 crores—a deterioration of 1,30 lakhs.

Taxes on Income.

6. Salt revenue is down on the original estimate by 25 lakhs notwithstanding the fact that salt issues have so far been slightly in advance of last year. The system of credit sales accounts for a portion of the decrease, and I expect a better yield next year.

Salt.

7. The net revenue from opium scarcely varies from the original estimate, a slight reduction in the receipts being counterbalanced by a reduction in expenditure.

Opium.

8. The railway contribution, as the House is aware, is now estimated at 6·36 crores as compared with the budget figure of 5·48 crores. The latter estimate assumed that the net surplus would not exceed 3 crores and would therefore go in full to the Railway Reserve Fund. The improvement in railway earnings has the result of making the surplus considerably bigger, and one-third of the excess over 3 crores accrues to general revenues.

Railways.

EXPENDITURE, 1927-28.

9. I put military expenditure at 54·92 crores, the same figure as in the original budget. Savings owing to troops being sent to China and other causes have been or are being used towards financing a programme of expenditure upon modernisation which the Army authorities and the Government of India recognise as urgent but for which adequate provision could not be made in the budget. It is satisfactory to note that no excess is anticipated over the original estimate.

Military.

10. The head Debt Services shows a saving of 17 lakhs owing to an increase in the interest payable by Railways as a result of their having spent 30 crores on new capital works as against 25 crores provided in the budget. There is also an increase in the interest receivable from the Provincial Loans Funds owing to the larger advances made to it.

Debt Services.

11. The only other variation of importance which I need mention is a decrease of 18 lakhs in irrigation expenditure. This is more apparent than real, and represents mainly a transfer from revenue to capital in the North-West Frontier Province.

Other heads.

12. The above variations may be summarised as follows:

Summary.

	(Lakhs of rupees.) Better.	Worse.
Customs	..	10
Taxes on Income	..	1,30
Salt	..	25
Railways (net)	88	..
Debt Services	17	..
Irrigation expenditure	18	..
Other heads	42	..
	1,65	1,65

[Sir Basil Blackett.]

In other words, the revised estimate, like the original budget, exhibits neither a surplus nor a deficit. The latter put revenue and expenditure at 1,25·26 crores, the revenue figure including a special appropriation of 1,72 lakhs from the Revenue Reserve Fund to which the revenue surplus of last year was transferred. The revised estimates point to a total expenditure of 1,27·74 crores, and a total revenue of the same figures including a special appropriation of 1.69 lakhs from the Fund. Exclusive of this last item, the variation in the net result amounts to 3 lakhs only. Here again, we have reason to congratulate ourselves on the success of our budgetting.

WAYS AND MEANS AND PUBLIC DEBT.

Summary.

13. Before giving the figures for next year, I propose to deal with the Ways and Means position. This may be briefly summarised as follows:

	(Crores of rupees.) Revised, 1927-28.	Budget, 1928-29.
Liabilities.		
Railway capital outlay	30·0	28·0
Other capital outlay	2·3	4·4
Provincial Governments' transactions	8·0	7·0
Discharge of debt (net)	25·4	19·1
Miscellaneous (net)	3·0	—·2
	68·7	58·3
Resources.		
Rupee Loan (net)	18·5	32·0
Sterling loan (net)	9·1	..
Postal Cash Certificates and Savings Bank	6·7	6·6
Other unfunded debt	4·9	5·1
Debt redemption	5·2	5·6
Depreciation and Reserve Funds	5·8	6·8
Gain on revaluation of Securities in the Paper Currency Reserve, etc. (net)	7·1	..
Reduction of cash balance	11·4	2·2
	68·7	58·3

Position satisfactory.

The net proceeds of the rupee loan in the current year amounted to 18½ crores only, while the total amount of debt redeemed amounted to 25·4 crores. Of this total 21½ crores represented the bonds maturing in 1927 and 1928 which were either converted or redeemed in cash. In our anxiety to guard the interests of the Indian taxpayer and in our desire not to disturb the market in Government securities which were being quoted at rather higher figures than we ourselves thought to be justified, we did not make the terms of our rupee loan as attractive as we possibly should have done, and the fact that it was a short-dated loan seems to have militated against complete success. In the result, we had to tide over temporary difficulties by various expedients. The re-introduction of Treasury Bills in India was in full accordance with our plans, as we deliberately desired to improve the financial facilities of the Indian money market and check seasonal fluctuations in the market for Government securities by this means. We found it necessary, in addition, to resort to external borrowing. first by raising sterling bills to the extent of £5 million in England in July last which have since been repaid and later by the issue of a sterling loan of £7½ million about a month ago. Even so, the net cash receipts from the rupee and sterling loans aggregated only 27½ crores which was only about 2 crores more than the net amount of debt discharged and as much as 13 crores less than the amount required for railway and other capital outlay including that of Provincial Governments. It is no inconsiderable achievement to have financed a capital outlay of this magnitude in a year of rather difficult money conditions, in which our own calculations were upset by the fact that the capital expenditure was 6½ crores in excess of our original anticipations. It is, in my opinion, well worth India's while to persist in the policy of spending money freely on capital development for productive purposes. The railway budget introduced last week, with its big reductions in fares and freights, is evidence of the value of the policy we have been following. Very large sums are now being invested year by year in expansion of railways, in irrigation works, in harbour development and on hydro-electric and other projects. But if this policy is to be continued unchecked, there must be no slackening in the annual savings of the country and these must be made available without stint for loans for capital purposes whether issued by the Central Government, by Provincial Governments or by other authorities. For 1928-29 the capital programme of the railways is being restricted to 24 crores with a special addition of 4 crores for the purchase of the Burma Railways. The Railway Board would have liked a larger allotment, but we felt that this was as much as we could wisely provide in existing circumstances. The aggregate capital expenditure next year, including the drawings of Provincial Governments, is again expected to be in the neighbourhood of 40 crores, while the net amount of debt falling due for discharge will be 19 crores. Allowing for other capital resources available to us, I expect that it should be sufficient to raise a loan of about 32 crores only, of which about 13 crores will represent new money. I see no reason at present to think that the whole of this cannot be raised in India, but much must depend on the monsoon, and the fact that the payment to the Burma Railway Company has to be made in sterling adds to our sterling requirements. Indeed, if we effect the purchase out of money remitted from India, we shall really be paying off four crores of external indebtedness.

14. A year ago, we estimated that we should require to remit £35¼ million to London during 1927-28. Actually, this would have been somewhat higher owing to our inability to carry out the remittance programme in full at the end of 1926-27, so that we started with abnormally low balances in London. In addition, the excess in our capital expenditure was partly incurred outside India. The sterling loan to which I have just referred has made it possible to reduce the net remittance figure to about £30¾ million of which £28½ million is expected to be remitted through the market. For 1928-29 the remittance figure has been put tentatively at £36 million, which will enable us to close the year with a normal balance.

Home remittances.

[Sir Basil Blackett.]

15. I quote, as in previous years, the market prices of Indian Government securities in India which show how India's credit has improved in recent years.

Prices of Government securities.

	Market price on					
	1st February 1923.	1st February 1924.	1st February 1925.	1st February 1926.	1st February 1927.	1st February 1928.
	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.
5 per cent Tax-free loan, 1945-55 . . .	88 4	96 10	97 15	100 12	107 5	106 10
$3\frac{1}{2}$ per cent Indian Government rupee loan . .	57 0	66 0	66 9	70 8	77 7	75 15

The following further figures compare the prices of India stock and other stock in London on certain dates. They show even more clearly than they did last year that the credit of the Government of India now stands considerably higher in the London market in relation to the British Government and other gilt-edged borrowers than it did in 1914. (Applause.)

	30th April 1914.	30th April 1923.	1st February 1926.	1st February 1927.	31st December 1927.
India 3 per cent loan . .	$75\frac{1}{4}$	$60\frac{1}{4}$	58	$59\frac{5}{8}$	$62\frac{3}{4}$
India $3\frac{1}{2}$ per cent loan . .	$88\frac{1}{2}$	$70\frac{1}{2}$	68	$70\frac{5}{8}$	$72\frac{3}{4}$
Local loans 3 per cent. stock.	87	$69\frac{1}{8}$	$64\frac{1}{4}$	$63\frac{7}{8}$	65
London County Council :—					
$3\frac{1}{2}$ per cent stock . .	97	$79\frac{7}{8}$	73	$74\frac{1}{2}$	$73\frac{1}{2}$
3 per cent stock . .	81	$68\frac{1}{2}$	63	64	$63\frac{3}{4}$

The improvement of India's credit in London was strikingly demonstrated by the success of the recent sterling loan.

Last year I commented on the fact that the disparity between the prices of India $3\frac{1}{2}$ per cent rupee stock and India $3\frac{1}{2}$ per cent sterling stock was leading to very considerable transfers of money from India to London in order to take advantage of the higher yield of the sterling stock. This process has been continuing to a not inconsiderable extent, though checked by the final stabilisation of the rupee on a gold basis. It is significant that the disparity is much less now than it was last year. Nevertheless, the necessity for an external loan was partly due to the effects of this transfer of capital away from India, and if public and private transactions be taken together, I have little doubt that, in spite of the issue of a sterling loan of £$7\frac{1}{2}$ million in 1927-28, the net amount of India's external indebtedness has been considerably decreased and not increased in the course of the last year. It will be seen from the figures which I am about to give of the Government of India's total debt, that the increase during the year in our external indebtedness as a Government, is considerably less than the amount of the sterling loan and that the sterling debt is only £$3\frac{3}{4}$

million more than it was three years ago. During 1927-28 our total indebtedness has increased by 16 crores, while our deadweight debt has decreased by 22 crores.

Debt statistics.

16. The following statement gives the usual figures regarding India's debt, external and internal, productive and unproductive, from 1923 onwards:

Statement showing the Debt of India, outstanding at the close of each financial year.

	31st March 1923.	31st March 1924.	31st March 1925.	31st March 1926.	31st March 1927.	31st March 1928.
		(In crores of rupees.)				
In India :						
Loans	339·83	358·81	370·38	368·29	374·44	372·30
Treasury Bills in the hands of the public	21·59	2·12	..	..	..	9·00
Treasury Bills in the Paper Currency Reserve	49·65	49·65	49·65	49·65	41·47	31·94
Other Obligations—						
Post Office savings Banks	23·20	24·79	25·64	27·23	29·51	31·99
Cash Certificates	3·13	8·42	13·12	20·96	26·68	30·86
Provident Funds, etc.	36·17	39·00	42·39	46·36	51·02	56·09
Total Loans, etc.	411·07	410·58	420·03	417·94	415·91	413·24
Total Other Obligations	62·50	72·21	81·15	94·55	107·21	118·94
Total in India	473·57	482·79	501·18	512·49	523·12	532·18
		(In millions of £.)				
In England :						
Loans	222·92	244·53	263·39	266·35	265·09	272·32
War Contribution	19·71	19·27	18·81	18·32	17·81	17·27
Capital value of liabilities undergoing redemption by way of terminable railway annuities	61·31	60·10	58·84	57·53	56·19	54·79
Provident Funds, etc.	·04	·13	·16	·21	·27	·19
Total in England	303·98	324·03	341·20	342·41	339·36	344·57
		(In crores of rupees.)				
Equivalent at 1*s*. 6*d*. to the Rupee	405·31	432·04	454·93	456·55	452·48	459·43
Total Debt	878·88	914·83	956·11	969·04	975·60	991·61
Productive for Central Government	536·65	557·09	600·05	623·38	654·62	686·54
Productive for Provinces	87·49	97·56	106·43	114·60	120·17	126·34
Total Productive	624·14	654·65	706·48	737·98	774·79	812·88
Unproductive	254·74	260·18	249·63	231·06	200·81	178·73
Total	878·88	914·83	956·11	969·04	975·60	991·61

[Sir Basil Blackett.]

In the five years since the 31st March, 1923, when the era of deficits came to an end, the aggregate debt has increased by 1,13 crores, the productive debt has increased by as much as 1,89 crores, and the unproductive portion has been reduced by 76 crores. (Applause.) By the end of 1928-29 we hope to have just about liquidated the debt due to the five years of revenue deficits from 1918-19 to 1922-23, and if the recent rate of progress is continued, our unproductive debt should vanish altogether in about twelve years' time.

BUDGET ESTIMATE FOR 1928-29.

Revenue.

Customs.

17. I now turn to the budget estimates for next year, 1928-29. Net customs revenue at 50·18 crores is expected to bring in 1,55 lakhs more than the revised estimate of the current year. Sugar, allowing for the effect of the establishment of the land customs line at Viramgam, should bring in about 40 lakhs more; motor cars and cycles which, in point of revenue though not in point of numbers, proved somewhat disappointing after last year's reduction of duty, should bring in about 26 lakhs more; cotton piecegoods have been disappointing in the current year, but should show an improvement in 1928-29 which I put at 30 lakhs. On the other hand, I have had to allow for the full effect of the loss of revenue resulting from the abolition of the import duty on mill stores and machinery which was only partially felt in the current year. This in itself means a further loss of 40 lakhs.

Taxes on Income.

18. I have assumed that next year's receipts under the head of Taxes on Income will fully reflect the prosperity which the jute trade is enjoying in the current year, as is evidenced by the revised estimate of the export duty on jute; also that we shall obtain a full year's revenue under the altered method of assessment of tea companies. Allowing for these two factors, we are, I think, justified in taking the net total for next year at 17 crores which is 1,35 lakhs more than the revised estimate for the current year, but only 5 lakhs more than the original budget.

Salt.

19. Under the head Salt I have repeated the current year's budget figure of 7 crores. This is 25 lakhs more than the revised estimate which, as I have said, does not represent the full duty upon the actual issues of 1927-28.

Opium.

20. The result of our policy of gradual reduction and eventual extinction of opium exports is to reduce gross opium revenue by 32 lakhs next year, but there will be a saving of 7 lakhs in expenditure, so that the net sacrifice under this head will be 25 lakhs.

Railways.

21. The contribution from Railways to general revenues for next year will, under the convention, be based on the results of the working of the year 1926-27, and yield only 5·23 crores. This will be reinforced by the addition of 25 lakhs representing one-third of the surplus over 3 crores assumed in the railway budget. Even so, we shall be getting 88 lakhs less than is anticipated in the revised estimates for 1927-28.

22. I have allowed for the reduction of $10\frac{1}{2}$ lakhs in the subsidy due from Mysore, which was recently sanctioned. For the moment, I assume that we shall be receiving from the Provinces the entire amount of the contributions which have not been finally extinguished, namely, 2,58 lakhs, inclusive of 54 lakhs from Bengal.

Other heads.

Expenditure.

23. The following table exhibits the figures of net military expenditure for each year since 1921-22:

tary expenditure.

	(Crores of rupees.)
1921-22	69·81
1922-23	65·27
1923-24	56·23
1924-25	55·63
1925-26	56·00
1926-27	55·97
1927-28 (revised estimate)	54·92
1928-29 (budget estimate)	55·10

In 1928-29 military expenditure has been taken at 55·10 crores of which 10 lakhs represents a new provision for expanding the Territorial Force. Excluding this special provision, the figure is 8 lakhs more than the one for the current year. I warned the House a year ago that there was no immediate prospect, after the big reductions since 1921-22, of further substantial savings in military expenditure. The Government have given very special consideration to the matter during the current year and we have come to the conclusion that the figure proposed for next year cannot be reduced if India is to make a reasonable provision for her defence in modern conditions.

24. Under the head Debt Services, we have a saving, as compared with the revised estimate for 1927-28, of 67 lakhs. I should, however, draw the attention of the House to the fact that the budget estimate includes two abnormal items, namely, one of 81 lakhs for the premium on the $5\frac{1}{2}$ per cent. Bonds issued in 1918 and maturing in 1928 at 105 and an increased charge of 25 lakhs for bonus on Cash Certificates. Both these charges are in the nature of deferred interest. But for these special items, the savings would have been as much as 1,73 lakhs. I have drawn attention in previous years to the way in which our steady pursuit of the policy of making regular provision for the reduction or avoidance of debt and confining new borrowings to productive purposes is bringing in an annual dividend to the taxpayer. The charge for interest on deadweight debt in the year 1923-24 amounted to 15·97 crores, while in 1928-29 it will be only 9·51 crores—a decrease of 6·46 crores. The increase in the provision for reduction or avoidance of debt during the same period is 1·78 crores, while the aggregate provision on this account next year is 5·40 crores. In other words, the saving in the interest on deadweight debt in the five years is more than three-and-a-half times the

Debt Services.

[Sir Basil Blackett.]

increase in the provision for debt redemption and over a crore more than the actual provision on this account in 1928-29.

Beneficial Services.

25. The expenditure on Civil Administration next year is expected to be 41 lakhs more than the revised estimate for 1927-28. A portion of this is represented by annual increments, etc., but, although the increase is less than half a crore, a perusal of the proceedings of the Standing Finance Committee and of the Demands for Grants will show that we have not been niggardly in providing increased amounts for beneficial services. I would draw the attention of the House to the larger grant to the Indian Research Fund Association, to the new items of expenditure in the demand for Agriculture and to the scholarships to Indian artists for study and training in Europe. On the commercial, but none the less beneficial, side of our activities, the House will observe with interest the new or increased provision made for certain items of expenditure, particularly those relating to irrigation in Waziristan and Baluchistan, forests in the Andamans, the Trade Mission and the extension of the rupee purchase policy. We have also a number of new items relating to the development of Civil Aviation in pursuance of the policy accepted by the House a year ago. The expenditure on the five-year education programme, to which I referred in my budget speech last year, is of course continuing and progressive, but we have not been in a position this time to provide for any similar new programmes within the limited means now at our disposal.

Posts and Telegraphs.

26. The Indian Posts and Telegraphs Department, which was expected to work a year ago at a small loss of Rs. 76,000, is now expected to show in 1927-28 a net loss of about 4½ lakhs. There has been a considerable increase in the gross receipts of the department, but this has been rather more than counterbalanced by an increase in working expenses. The increased loss has been brought about mainly by the fact that an additional sum of 8 lakhs has had to be provided to enable the book value of a large volume of surplus, obsolete and over-valued stores to be written down to their current values. The department is, however, expected to show a small profit of Rs. 23,000 next year after making a provision of over 14 lakhs for additional expenditure on new measures of improvement of the conditions of service of the lower-paid staff. This provision represents yet another instalment of the scheme of improvement of the conditions of service of the establishments in question which, as I informed the House last year, has been under the personal investigation of my Honourable Colleague, Sir Bhupendra Mitra. (Applause.) When the details of this scheme were placed before the Standing Finance Committee a couple of months ago, special reference was made to the desire so often expressed in this House that the question of reducing postal and telegraph charges should be pursued. As was then pointed out, such reductions would involve a far greater loss than the present finances of the department would justify. I am not sure myself whether it will ever be possible to run the department without a subsidy from the taxpayer at much less than the present postal rates, regard being had to the index number of the cost of living to-day and the consequent increase in the wages bill. In any case, priority must be given to the staff. The Indo-European Telegraph Department, which was expected to show a loss of 3 lakhs in the current year, exhibits

no appreciable change, though for 1928-29 the figure of loss will be somewhat larger, namely, 7½ lakhs. The earnings of the department are affected by the competition of the radio system of communications between India and England. It is suffering just as the cable companies are suffering.

Budget surplus.

27. The aggregate revenue of 1928-29 is put at 1,32·23 crores and the expenditure at 1,29·60 crores. At this stage, therefore, we have a surplus of 2,63 lakhs. The main variations from the revised estimate for the current year may be summarised as follows:

	(Lakhs of rupees.) Better.	Worse.
Customs	1,55	..
Taxes on Income	1,35	..
Salt	25	..
Opium (net)		25
Railways	..	38
Provincial contributions	2,58	..
Revenue Reserve Fund	..	1,69
Debt Services	67	..
Civil Administration	..	41
Military Services	..	18
Other heads	..	36
	6,40	3,77
Net	2,63	

28. I do not doubt that the House will share the satisfaction of the Government at this surplus, which is all the more gratifying when we remember that considerable risks were taken a year ago in the original budget, and that, on top of those risks, we agreed during last summer to sacrifice nearly a crore a year of customs revenue for the sake of assisting the Cotton Industry. Before, however, considering what to do with the surplus, I must draw attention to the accumulated liability in respect of the bonus on Cash Certificates. These certificates were first introduced in India in 1917 in connection with the first Indian War Loan and were designed to attract the small investor. They have been very popular and have done great service in promoting savings in India. Cash Certificates of the nominal value of no less than 40 crores will be outstanding on 31st March 1928. Unlike our regular annual rupee loans, they are always "on tap"; and they can be encashed at any time though they come to full maturity only after 5 years. Their capital value is not subject to depreciation, and the actual amount payable on encashment is on a progressive scale so fixed that the investor gets a growing return for his money after the first twelve months; consequently, the longer he keeps his certificates, the greater is the inducement to keep them till maturity. But this accrued bonus is paid along with the capital value only at the time of encashment, whenever that may

Liability for bonus on Cash Certificates.

[Sir Basil Blackett.]

be, and not half-yearly as in the case of our ordinary loans. All these factors combine to make it impossible to forecast precisely the amount of bonus that may have to be paid in any year, while there is the additional practical difficulty that the actual payments in a year are generally less than the accrued liability, and the accrued liability is constantly growing in amount. In the case of the ordinary debt, we can know exactly what we have to pay and provide for such payments from revenue accordingly. In the case of Cash Certificates, on the other hand, we have so far been providing out of revenue only for actual payments in the year and not for the accrued liability. I estimate that this accrued but undischarged liability for bonus was about 3¾ crores on the 1st October 1927 and will stand at about 5½ crores on the 1st October 1928. Following past practice, which is of course fully defensible in view of the fact that, in the main, our budget is a cash budget in which provision is normally made only for actual receipts and disbursements during the financial year to which it relates, and having regard to our revenue position generally, I have not been able to include, in the forecast for next year, anything more than the amount of the present estimate of actual payments of bonus, namely, 50 lakhs. Even this figure is 25 lakhs more than is required in 1927-28, but there remains a large balance which we may, theoretically, be called upon to pay at any moment and for which we have made no provision: and as soon as the revenue position permits it, we shall have to consider setting aside considerable sums from revenue in a separate fund in order to enable us to meet the full liability when we are called upon to do so. The liability is becoming too large for us to be content to leave the full burden to fall on later years, when a sudden increase may seriously disturb the equilibrium of the budget.

Surplus recurrent.

29. I do not think, however, that this liability need deter us from utilising the surplus disclosed in the budget as a recurrent surplus. In 1929-30 the special item of 81 lakhs for premium on bonds referred to by me earlier in my speech will disappear and substantial savings may be expected to accrue in future, as they have done in the past, under interest on deadweight debt. In 1929-30 also, we stand to gain considerably from the increased net earnings of our railways in 1927-28. The advent of a bad monsoon or other unforeseen circumstances would no doubt disturb the position, but, on the other hand, our revenue from taxes on income should show some improvement from year to year. The same is true of our customs revenue subject to the proviso that there are good reasons for regarding the present figure of 15 per cent. for our general revenue tariff as unduly high, and it would undoubtedly be in the interests of the trade and industry of the country to reduce it, as soon as financial considerations permit, to a level at which it will compare less disadvantageously with the figure at which the revenue tariff of most of the advanced countries of the world is fixed. I do not, however, think that any reduction is possible in the present budget.

Complete and final remission of Provincial contributions.

30. We have another and a prior claimant to our surplus. Last year we remitted the entire amount of the outstanding Provincial contributions, and although a portion of this, namely, 2·58 lakhs, was stated to be definitely temporary, I do not think that either the Assembly or the Government of

India would care to face the storm of protest which would greet us from the Provinces if the final extinction of the Provincial contributions, which we have undertaken to remit at the earliest possible moment, were not effected now and preference were given to remission of Central taxation or even to new expenditure. The Government of India accordingly propose that 2,58 lakhs of our surplus shall be utilised for such extinction, leaving a small surplus of 5 lakhs in the budget.

CONCLUSION.

31. Sir, I have now given to the House all the secrets of the budget of 1928-29. It is not a spectacular budget. After the budget of 1927-28 and the railway budget for 1928-29, with its large reductions in passenger fares and in freights, it might almost be called an anti-climax. It imposes no new taxation and though it allows for reductions in the customs tariff to the tune of nearly a crore, these reductions were announced six months ago. What this budget does is to provide a surplus, in spite of the reduction in the customs tariff, sufficient finally to extinguish the Provincial contributions. I think it is a budget which both the Government and the country can view with pleasure. We have consolidated the ground won last year and can now establish our friends and allies, the Provincial Governments, firmly and finally in the trenches which we won for them a year ago, but which have hitherto been debatable ground. The Provinces have now no further fears of a counter-attack. They can proceed to carry out the great task allotted to them in the governance of India, with the knowledge that no part of the revenues at their disposal will be diverted to the Central Government's purse. The Central Government too has reached a new vantage ground, from which it can begin to survey the country ahead. In opening my first Indian budget, the budget for 1923-24, I voiced some of what I called in the language of Mr. Punch my "first depressions." The only cause for depression that I see to-day in the matter of India's finances is personal. I have to say good-bye to the officials of the Finance Department to whose invaluable and devoted assistance during 5¼ very strenuous years I desire to pay a very sincere tribute, and I cannot myself hope to take a share in solving any of the many interesting financial problems still remaining to be dealt with. Intrinsically, the financial position of the Government of India seems to me to be sound and prosperous. From 1929-30 onwards, it will be the privilege of this House and of my friend and successor, Sir George Schuster, whose acceptance of the post is a matter of great personal satisfaction to me, to find no outside claimant to the recurring surpluses which I hope it will be their good fortune to enjoy in the coming years, and they will be free to turn their minds on the one hand to new directions in which money can be usefully laid out for India's advancement, and on the other hand to the re-adjustment of the burden of taxation and to those reductions of taxation, so welcome to tax-gatherer and taxpayer alike which, apart from some minor cases and with the one big exception of the Cotton Excise Duty, have been beyond our reach in my term of office. I cannot more fittingly close my statement than with the prayer that no storm from without or from within may descend upon India to disturb the bright prospects of financial well-being to which she seems to-day to be justified in looking forward.

Statement comparing the actual Revenue and Expenditure of the Central Government (Imperial Revenue and Expenditure before the Reforms) with the Revised Estimates for each year from 1917-18 to 1926-27.

(*See* paragraph 2 of the speech.)

[In thousands of Rupees.]

—	Revised Estimate.			Actuals.		
	Revenue.	Expenditure.	Surplus(+) Deficit(—).	Revenue.	Expenditure.	Surplus(+) Deficit(—).
1917-18	1,14,84,48	1,06,27,74	+8,56,74	1,18,70,58	1,06,57,52	+12,13,06
1918-19	1,27,94,65	1,34,79,88	—6,85,23	1,30,40,66	1,36,13,72	—5,73,06
1919-20	1,44,07,56	1,59,18,67	—15,11,11	1,37,13,98	1,60,79,27	—23,65,29
1920-21	1,35,10,35	1,48,03,61	—12,93,26	1,35,63,32	1,61,64,17	—26,00,85
1921-22	1,13,15,32	1,41,94,52	—28,79,20	1,15,21,50	1,42,86,52	—27,65,02
1922-23	1,20,70,17	1,37,95,52	—17,25,35	1,24,41,29	1,36,43,05	—15,01,76
1923-24	1,31,96,04	1,29,89,97	+2,06,07	1,33,16,63	1,30,77,63	+2,39,00
1924-25	1,34,82,26	1,30,82,68	+3,99,58	1,38,03,92	1,32,35,66	+5,68,26
1925-26	1,31,35,25	1,30,04,87	+1,30,38	1,33,32,98	1,30,01,80	+3,31,18
1926-27	1,29,97,48	1,27,15,44	+2,82,04*	1,31,70,00	1,28,74,37	+2,95,63†

* Estimated transfer to the Revenue Reserve Fund.

† Actually transferred to the Fund.

THE INDIAN FINANCE BILL.

The Honourable Sir Basil Blackett (Finance Member): Sir, I move for leave to introduce the Indian Finance Bill, 1928.

The motion was adopted.

The Honourable Sir Basil Blackett: Sir, I introduce the Bill.

The Assembly then adjourned till Eleven of the Clock on Thursday, the 1st March, 1928.