

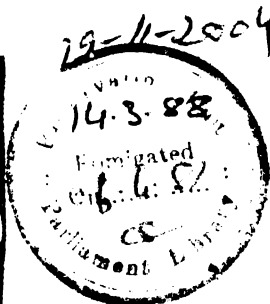
Thursday, 28th February, 1935

THE
COUNCIL OF STATE DEBATES

VOLUME I, 1935

(11th February to 17th April, 1935)

NINTH SESSION
OF THE
THIRD COUNCIL OF STATE, 1935



PUBLISHED BY MANAGER OF PUBLICATIONS, DELHI.
PRINTED BY THE MANAGER, GOVERNMENT OF INDIA PRESS, NEW DELHI.
1935.

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COUNCIL OF STATE.

Thursday, 28th February, 1935.

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

PRESENTATION OF THE GENERAL BUDGET FOR 1935-36.

THE HONOURABLE MR. P. C. FALLENTS (Finance Secretary) : Sir I rise to present the statement of estimated expenditure and revenue of the Governor General in Council for the year 1935-36 in respect of subjects other than Railways. Honourable Members will find a detailed statement of the estimates in the printed papers which will presently be placed in their hands. I shall follow the example of my predecessors in confining myself in this speech to an explanation of their main features.

2. When Sir Alan Parsons presented the current year's estimates to the House a year ago, it was anticipated that the surplus of the year 1933-34, then drawing to a close, would amount to Rs. 1,29 lakhs which, it was decided, should be set apart to meet the expenditure that the Central Government undertook to defray in the Provinces, principally the province of Bihar, in which I was then serving, which had suffered from the earthquake. In the event the surplus has proved to be very much larger than was expected and amounted in fact to 2,72 lakhs.

Amongst the causes which contributed to this unexpectedly large surplus the principal were the payment of large sums of duty on salt cleared before the end of the year by dealers who anticipated a rise of the duty at the beginning of the current year, a rise in customs revenue, and the failure of holders of Government securities to draw interest.

3. The House will remember that the Central Government undertook to assist Bihar by bearing the whole cost of restoring the property and finances of the local bodies involved in the earthquake, and the whole of the cost of the special measures taken by the Local Government for dealing with the sugarcane crop. They also undertook to defray half the cost of restoring the Local Government's own buildings and other public works. It was the intention that this expenditure on Government buildings should be treated as capital expenditure, but it has now been decided to debit it against the surplus. The total of these three items is at present estimated to amount to 1,81 lakhs. There are also certain outstanding liabilities in regard to the loans advanced by the Government of Bihar and Orissa to agriculturists and for the re-building of houses, and we are committed to giving 6 lakhs to Bengal for earthquake restoration. It has therefore been decided to leave 2,10 lakhs for the present in the suspense account and to transfer 62 lakhs from that head to the general balance where it becomes available automatically for debt redemption.

4. I now turn to the current year. When the budget was passed a year ago, it was anticipated that there would be a small revenue surplus of just

[Mr. P. C. Tallents.]

over 10 lakhs. I am glad to say that the event has proved more satisfactory than the anticipation, and that the revenue surplus of the current year is now estimated to amount to 3,27 lakhs. Expenditure has increased beyond the estimate to the extent of 70 lakhs, but this has been more than counterbalanced by an improvement of revenue of no less than 3,87 lakhs. This large increase has occurred almost entirely under the Customs head, under which three items alone account for an improvement of 3,40 lakhs. The import duty on sugar has yielded 1,70 lakhs, that on cotton fabrics 90 lakhs, and that on yarn and textile fabrics other than artificial silk 80 lakhs more than was expected. In the case of sugar the working season of the Indian mills has only recently begun and it is doubtful if we shall realise the excise duty on sugar to the full budgeted figure; we have therefore reduced the revised under the excise head by 32 lakhs. Apparently the switch-over from imported to locally manufactured sugar is not being so quickly effected as was expected last year. We expect that the excise duty on matches will fall short of the budget by 23 lakhs.

5. Under Income-tax the revised estimate for this year is the same as the budget. Under Salt there is a drop of 18 lakhs owing to the heavy clearances at the end of the preceding year to which I have already referred.

6. The Posts and Telegraphs department shows an increased net revenue of just under 28 lakhs, an anticipated deficit of 14 lakhs having been converted into a surplus of the same amount. This figure reflects the general improvement in economic conditions during the year, mostly in increased sales of stamps, and is also partly due to the increased use of telephones and the maintenance of the book packet traffic in spite of the increase in the initial charge made last year. This is the first occasion on which a surplus has been realised by the department since 1926-27, but it must be remembered that even this has only been realised with the assistance of a draft of 27 lakhs on the departmental depreciation fund.

7. Under Interest there is expected to be an improvement of 26 lakhs over the budget, an increase of 94 lakhs in the form of interest on the Gold Standard Reserve being neutralised to the extent of 67 lakhs by the decision to charge the Bahawalpur State no interest this year on the loan of about 12½ crores which it has taken. The greater part of this loan was advanced to the State at the rate of 5½ per cent. The State is finding it impossible to pay interest at the present time, and in view of the reduction of their own borrowing rate Government are now considering the possibility of a revised settlement. There are, however, so many uncertain factors in the situation that it is thought wiser to postpone a permanent settlement for the present, and meanwhile to accept the situation and charge no interest for this year or the next—a fact which will, of course, be borne in mind when the final settlement comes to be made.

8. As regards expenditure, I shall refer only to the increase from 1,26 to 1,69 lakhs under Miscellaneous adjustments between the Central and Provincial Governments. When the budget was presented last year, provision was made for the transfer to the jute growing provinces of half the proceeds of the duty on jute exported. As passed, the budget only provided for the transfer of one-half of two-thirds of the amount of the duty, owing to certain misgivings as to our revenue; but in the discussion on the Match (Excise Duty) Bill Sir George Schuster promised that if the budget turned out better than was expected, the full half would be transferred. That undertaking is now being implemented at a cost of 43 lakhs. The result of these various factors is, as

I have said, to leave us at the end of the year with a surplus very much larger than we anticipated. The surplus is a non-recurring surplus and cannot be used for meeting expenditure of a recurring nature. The proposals of Government for dealing with it are as follows.

9. In the first place, it is proposed to take the opportunity of charging to revenue the cost of the Civil Aviation programme (93 lakhs), and the transfer of the Pusa Institute (36 lakhs), which it had been decided with some misgivings to charge to capital. Whatever benefits might have accrued to the country from these two schemes in the long run, they could hardly be regarded as remunerative in the strict sense of that word.

10. Government's other proposals for dealing with the surplus are as follows:—

- (i) A sum of 1,00 lakhs will be set aside for economic improvements in rural areas. This subject is primarily a provincial one, but during the years of financial embarrassment the Local Governments have found it impossible to provide adequate funds to prosecute schemes of this nature. With nine out of every ten persons in India living in villages and the Provincial Governments still unable to finance schemes for the improvement of life in the villages, the Government of India think that the first claim on their surplus comes from the villages. A part of this sum will be set aside for promoting the co-operative movement. The new Reserve Bank is obliged by Section 54 of the Act to create a special agricultural credit department, and Mr. Darling, an experienced officer of the Punjab, has been touring India in order to report and advise on this matter. He will also report on the present state of the co-operative movement and on receipt of that report, the Government of India will decide how this money which is to be set apart for the promotion of co-operation can be most suitably utilised. As regards the schemes on which the balance of this allotment will be utilised, it is proposed that they should be approved by the Government of India and that they should be such schemes as the Local Governments would not otherwise have been able to undertake in the immediate future. Although the approval of the Central Government will be necessary, the suggestions will of course come from the Provinces.
- (ii) A sum of 40 lakhs will be added to the Government of India's reserve in the Road Development Fund. This reserve is used for financing roads of special importance or in parts of India where assistance is specially needed. The scope for development in this direction is still great, and money prudently invested in improving the system of communications is money well spent. It is the intention that the case of Assam should receive special consideration in connection with this allocation.
- (iii) It is proposed to spend a sum of 25 lakhs on schemes of development in the tribal areas on the North-West Frontier, chiefly on roads. The Government of India are satisfied after very careful consideration that this expenditure is amply justified on financial no less than on political grounds, and that there is no more effective means of ensuring a reduction in the heavy expenditure which it has unfortunately been necessary to incur from time to time on military operations in the tribal areas in the past.

[Mr. P. C. Tallents.]

(iv) Finally, it is proposed to provide 20 lakhs for the development of broadcasting. It is the intention to improve the existing transmitting stations at Calcutta and Bombay and to develop stations at Delhi and Madras. If any Honourable Member has any doubt about the imminence of the development of this new service, I would refer him to the figures of customs duty levied on wireless apparatus. In 1931-32 a sum of just over 1 lakh was realised; in the current year we budgeted for 3 lakhs, and the revised has been increased to 7 lakhs; and next year we are budgeting for 8 lakhs. It is desirable that steps should be taken to satisfy this rapidly increasing demand.

11. The total of these six items amounts to 3,14 lakhs, which, being deducted from the surplus of 3,27 lakhs, leaves a balance of 13 lakhs. This sum together with the 62 lakhs from the surplus of 1933-34 will be added to the balance and go towards the reduction of debt.

12. So much then for the current year and for the manner in which it is proposed to deal with its surplus. I turn now to a subject which Honourable Members are probably awaiting with a more lively interest, namely, the estimates for the coming year.

13. And first let me refer to the subject, which has recently been much ventilated in the press, of the cut in pay. As the Honourable Finance Member announced the other day, this cut will not be re-imposed next year either on the All-India Services or the Services under the rule-making powers of the Central Government. A very specific undertaking was given and repeated that this would be the first of the emergency measures to be removed when opportunity offered, and Government have felt bound to make that undertaking good. The cost will be 1,08 lakhs in the year, including the cost of the Army and Posts and Telegraphs Department but excluding Railways. Against this must be set increased income-tax receipts from Government servants of 16 lakhs, so that the net increase is 92 lakhs. This accounts for practically the whole of the increase in the expenditure proposed for next year.

14. If no change is made in the scale of taxation now in force, we estimate that the revenue of 1935-36 (excluding of course railway revenue) will amount to 90 crores and 19 lakhs and that, if no increase of any importance apart from the restoration of the pay cut is made in our expenditure, our expenditure will amount to 88 crores and 69 lakhs.

15. I will deal very briefly with the principal heads of revenue and expenditure for next year.

16. Under Customs we anticipate an increase of 4,16 lakhs over the current year's budget and of 75 lakhs over the revised. The prospects of revenue under this head are generally favourable except as regards sugar. It is probable that the switch-over from imported to indigenous sugar which did not occur this year will occur next. We have accordingly allowed for a decrease of 2,00 lakhs as compared with the revised under the head of import duty against which may be set the very much smaller increase of 35 lakhs which we have made under the head of excise.

17. Under Income-tax, apart from certain proposals to which I shall presently refer, the budget is better than the revised by 51 lakhs, 35 of this reflecting the improvement of incomes in the current year, and 16 the restoration of the pay cut next year.

18. For Salt we are taking the same figure as this year's budget which is 18 lakhs better than this year's revised.

19. Under Opium there is a further fall of 10 lakhs below the revised. Our dealings in provision opium will cease altogether in the course of next year.

20. In the Posts and Telegraphs Department we expect next year a net deficit, taking the revenue and expenditure heads together, of 13 lakhs. This is due to the restoration of the pay cut, which in the case of this Department will cost 27 lakhs. The scale of contributions to the depreciation fund has recently been engaging the attention of a committee of experts. No final orders have yet been passed on their recommendations, but Government have, in anticipation, decided to reduce by 10 lakhs the sum that would have to be contributed to the fund next year according to the old formula.

21. Under the head Interest we again waive the amount due from Bahawalpur State. More important, we lose the interest on the securities in the Gold Standard Reserve amounting to about $1\frac{1}{2}$ crores of rupees which is being transferred to the Reserve Bank.

22. The drop of 22 lakhs of revenue under Currency and Mint is primarily due to the transfer to that Bank of the Paper Currency Reserve and the loss of the interest on the securities contained in it. On the other hand, we are taking credit for 50 lakhs as our share of the Bank's profits for next year.

23. On the subject of next year's expenditure I propose to be very brief. The heavy drops under Civil Administration and Extraordinary are due to the inclusion in this year's revised estimates of the projects which I have mentioned as those to which Government propose to allocate the current year's surplus, expenditure which will not be repeated next year. There is a large reduction of 93 lakhs in the interest on Ordinary Debt due principally to successful conversion operations. On the other hand, there is a big increase of 1,04 lakhs under Interest on Other Obligations of which the principal ingredient is an extra 60 lakhs for bonus on Post Office Cash certificates.

24. For the Reduction and Avoidance of Debt we are providing 3 crores as in the current year, which sum we regard as a sufficient provision in the absence of a contribution from the Railways.

25. The net provision for Defence expenditure next year amounts to 44 crores and 98 lakhs. In 1929-30 the net expenditure on Defence amounted to 55 crores and 10 lakhs; it then started to fall progressively till it reached 44 crores and 35 lakhs in this year's revised. Next year's increase is primarily due to the restoration of the pay cut which accounts for 53 of the 63 lakhs. During the years of ruthless retrenchment many necessary replacements were postponed, and the time has come when in the interests of economy some of these charges can be postponed no longer. A sum of 67 lakhs in all is being provided next year for this purpose, which has been made possible within the budgeted figure by close budgeting and economies in other directions.

26. The sum total of next year's expenditure amounts, as I have already stated, to 88 crores and 69 lakhs which, being deducted from 90 crores and 10 lakhs, the sum total of the revenue, leaves an available margin of 1,50 lakhs. I have now to explain to the House how Government propose to deal with this surplus.

27. Government have recognised that after the removal of the pay cut the first relief to be afforded is the removal of the surcharge on the income-tax and super-tax. The removal of the whole of the surcharges on the super-tax and income-tax would cost 3,34 lakhs in a year, and the removal of the tax on the smaller incomes below Rs. 2,000 a year would cost another 75 lakhs.

[Mr. P. C. Tallents.]

The surcharge and the tax on small incomes clearly therefore cannot be abolished at one stroke. Government propose to reduce the surcharge and the tax on small incomes next year by one-third at a cost of 1,36 lakhs. The relief is not so much as Government would have wished to give, but it is all that can be afforded.

28. Government also propose to give relief in one other direction. The export trade in skins has been reduced this year to a little more than half of what it was during the corresponding period of the year before. Government think it desirable to sacrifice the 8 lakhs of revenue which they might have expected to receive from the export duty on skins during 1935-36 in order to safeguard India's export trade in this article. The budget therefore provides that this export duty will be abolished.

29. It is also proposed to reduce the export duty on silver from 5 to 2 annas an ounce. A great deal of silver is at present being smuggled into this country; by the proposed reduction we do not anticipate any loss of revenue and the budget therefore is not affected one way or the other. But we do hope that it will stop smuggling in the interests of honest business.

30. The budget provides that the additional import duty on salt will be retained. It is the intention of Government that this tax should be retained during 1935-36 and that the proceeds should be distributed as at present. But Government desire to make it clear that they would be prepared to remove this duty at once if there was a clear indication of the desire of the Legislature that this should be done.

31. This year we issued no sterling loans, but two rupee loans, one of 3½ per cent. loan 1947-50, and the second of 3 per cent. bonds 1941. Together these loans produced 35 crores and 80 lakhs. With the proceeds of these loans 32 crores and 42 lakhs of permanent debt bearing higher rates of interest were replaced. In the course of the year treasury bills issued to the public will be reduced by 11 crores, and the net result of the year's operations is that the unremunerative debt will be reduced by 1½ crores.

32. Exchange has been strong, thanks principally to the continued export of gold which has fallen little below the figure of the previous year. £39 millions sterling will have been remitted to the Secretary of State, of which £13·4 millions will be used to strengthen our external reserves against the note issue.

33. I have now completed my survey of the main features of the estimates for 1935-36. It has not been possible in framing the budget for the year to assume that it will be a year of unalloyed prosperity. It is true that we may now reasonably claim to have passed the lowest point of our fortunes. Such indications of reviving trade as traffic and customs returns clearly show that this is so and there is every reason to hope that, as soon as world conditions permit, India will be one of the first countries to feel the benefits of the return of prosperity. In these circumstances, it has not been possible to make any sweeping reduction of the burden of the emergency taxation, but we have taken such steps as we could, consistently with a balanced budget, to alleviate those burdens, dealing with them in the order to which the Government of India already stood committed. There is nothing dramatic or unexpected about this budget. The policy which has been followed in framing it has been the sound policy—the policy that has resulted in the credit of India standing as high as it stands today.

34. There is one other point to which I wish to refer before I conclude my speech. The introduction of the new constitution, if the Government of India Bill is passed into law, will cost money. Apart from the creation of enlarged legislatures and new federal institutions, there are other commitments to be met such as the subventions to deficit Provinces and the separation of Burma. All these will involve inroads into Central revenues which must be faced and provided for—no easy task— before we can look forward to a securely balanced Central budget.

35. I have trespassed for a long time on the patience of the House but I have now finished. I can only express the hope that what I have said will help Honourable Members to understand the papers placed in their hands and persuade them to give the proposals of Government their approval and support. (Applause.)

The Council then adjourned till Eleven of the Clock on Saturday, the 2nd March, 1935.