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COUNCIL OF STATE.

Tuesday, 28th February, 1939.

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

BILLS PASSED BY THE LEGISLATIVE ASSEMBLY LAID ON THE TABLE.

SECRETARY OF THE COUNCIL : Sir, in pursuance of rule 25 of the Indian Legislative Rules, I lay on the table copies of the following Bills which were passed by the Legislative Assembly at its meeting held on the 27th February, 1939, namely :

A Bill to establish standards of weight throughout British India.

A Bill further to amend the Indian Merchant Shipping Act, 1923, for a certain purpose.

A Bill to amend the Insurance Act, 1938.

A Bill further to amend the law relating to the protection of Inventions and Designs.

PRESENTATION OF THE GENERAL BUDGET FOR 1939-40.

THE HONOURABLE MR. A. J. RAISMAN (Finance Secretary) : Sir, I present the statement of the estimated expenditure and revenue of the Governor General in Council for the year 1939-40 in respect of subjects other than Railways.

2. A budget speech is not easy to follow, for there are so many figures that the impressions received are liable to become confused. It may help Honourable Members if I remind them that I have to answer four main questions :

- (1) How did the actual results of the financial year which closed at the end of last March compare with the expectations formed this time last year ?
- (2) How are Government revenue and expenditure progressing in the current financial year ?
- (3) What do Government expect the revenue and expenditure to be in the coming financial year which will begin on April the 1st next ? and
- (4) What, if any, are the new proposals which Government have to make on the basis of their expectations of revenue and expenditure in the coming financial year ?

[Mr. A. J. Raisman.]

It is of course the answers to the last two questions, which Honourable Members are particularly interested to learn, but since these cannot be given without reference to the earlier background I must, like my predecessors, first render an account of the finances of last year and of the current year.

3. I shall deal quite briefly with the first question, *viz.*, How did the actual results of the financial year which closed at the end of last March compare with the expectations which the Government had made and had laid before the House this time last year? The answer is that the actual figures relating to that year proved to be Rs. 31 lakhs better than we anticipated in the revised estimates. This was due to a reduction of Rs. 9 lakhs in expenditure and an increase of Rs. 22 lakhs in revenue. The amount available in the Revenue Reserve Fund to be carried forward in 1938-39 was thus increased from Rs. 75 lakhs to Rs. 106 lakhs. Against this, however, we have to set off a balance of Rs. 38 lakhs which is due to be paid to the Provinces on account of their share of income-tax for 1937-38. The main variations in revenue were an increase of Rs. 83 lakhs from Taxes on Income and a decrease of Rs. 82 lakhs under Customs. The Rs. 83 lakhs from Taxes on Income included Rs. 43 lakhs of Corporation Tax and most of the remainder of this improvement went to swell the distributable pool and raised the amount to be paid to the Provinces under the Niemeyer Award to the sum of Rs. 163 lakhs as compared with Rs. 125 lakhs which were distributed in March, 1938. The fall in Customs revenue was due to the onset of a rapid decline in the import trade—a decline which became very marked in the course of the first few months of the current financial year.

4. I come now to the second question, *viz.*, How are Government revenue and expenditure progressing in the current financial year as compared with the budget estimates laid before the House this time last year? As regards revenue, the trade recession which set in towards the close of 1937-38 was much sharper than was anticipated, although fortunately it also showed signs of being of comparatively short duration. Although the declining curve flattened out and even moved slightly upward in the later months, there is likely to be a net deterioration of Rs. 292 lakhs in revenue due mainly to a shortfall of Rs. 367 lakhs in Customs receipts as compared with the budget estimates. This shortfall is spread over most of the heads of our import trade and is most noticeable in the case of art silk fabrics and yarn and certain other textile items. The only improvements to be set on the other side are in imports of machinery and raw cotton. The receipts from motor spirit and kerosene, taking Customs and Excise together, though they are also much below the budget estimates, still show an increase over the actuals of the previous year. Under Central Excise Duties we expect an improvement of Rs. 49 lakhs over the budget estimates due mainly to the rapid clearance of sugar. The revised estimate for income-tax shows an improvement of Rs. 79 lakhs, of which Rs. 35 lakhs go to increase the distributable pool of income-tax. As however the Railway surplus for the current year is now estimated to be Rs. 51 lakhs less than the budget figure, the amount payable to the provinces becomes Rs. 112 lakhs as compared with the budget forecast of Rs. 128 lakhs. On the other hand, there is, as I have already mentioned, a carry forward of Rs. 38 lakhs from last year which will raise the total to be distributed to the provinces to Rs. 160 lakhs.

5. I turn now to the expenditure of the current year 1938-39. We have first to record an estimated increase under Defence Services of Rs. 100 lakhs over the budget estimate of Rs. 45.18 crores. This additional crore is the net

result of increases amounting to Rs. 216 lakhs and reductions amounting to Rs. 116 lakhs. The main items of increase are :

	Rs.
Improved conditions of service for British Military personnel consequent on decisions taken by His Majesty's Government	115 lakhs
Waziristan operations	45 "
Increased requirements of Ordnance services	32 "

The decreases are as follows :

Abandonment of the scheme for the conversion of four British battalions into Machine Gun units	48 "
Slowing down of the programme of mechanisation of British Cavalry units and of other re-organisation measures	26 "
Withdrawal of four British battalions	14 "

In the civil estimates we expect a decrease of Rs. 118 lakhs due to the economy campaign which was undertaken as soon as it became clear that there would be a heavy shortfall of revenue. We became aware of this unfavourable probability early in the year and immediately abandoned new schemes of expenditure and issued orders that no fresh expenditure should be undertaken unless it was absolutely inescapable or definitely remunerative. As the year advanced and the revenue prospects still deteriorated a special committee of Secretaries presided over by the Home Member was set up to examine the details of expenditure and to propose further economies. Officiating promotions and new recruitment were restricted. Grants for travelling allowance and contingencies were cut by 10 per cent. and all possible economies which did not involve the retrenchment of permanent staff or the cessation of valuable activities were enforced. These measures yielded total savings amounting to Rs. 118 lakhs. Of this a part related to the Posts and Telegraphs Department and went to balance the decrease in the receipts of that Department.

6. The remainder of the reduction in expenditure is due to a net diminution of Rs. 22 lakhs under the Interest head. During the present year there has been a reduction in the volume of Post Office Cash Certificates presented for payment and also in the interest which has accrued on those certificates. There has also been a saving in the interest on Postal Savings Bank deposits due to the reduction in the rate of interest last December from 2 per cent. to $1\frac{1}{2}$ per cent. Against these reductions we have to set an increase in the discount on treasury bills on which higher rates of interest are now current.

7. The estimated result of the present year's figures is thus a shortfall of Rs. 292 lakhs in revenue and a betterment of Rs. 18 lakhs in expenditure, so that instead of the anticipated surplus of Rs. 9 lakhs we are faced with a deficit of Rs. 265 lakhs. If the budget had contained no provision for reduction or avoidance of debt this deficit would have meant an increase in our indebtedness, but since there is a provision of Rs. 3 crores for reduction of debt the net result will be that there will be no appreciable debt repayment in the current year. At the same time I would remind Honourable Members that a sum of Rs. 102 lakhs was paid to general revenues on the 1st April, 1938 out of the balance in the Renewals Reserve Fund of the Posts and Telegraphs Department and this has been taken to reduction of debt outside the revenue account. Had it been shown in reduction of our current deficit, the amount of that deficit would have been exhibited at Rs. 163 lakhs only.

8. Having answered the first and second questions, I now come to the third, viz., What do Government expect the revenue and expenditure to be in the coming financial year which will begin on April the 1st next? Again

[Mr. A. J. Raisman.]

taking revenue first, our total estimates of revenue for 1939-40 amount to Rs. 82.15 crores as compared with Rs. 83 crores in the revised estimates for the current year. In framing these estimates we have naturally had to take a view of the probable course of trade in the forthcoming year and we have come to the conclusion that, apart from a few variations, it would be unsafe for use to assume that the results of that year will be substantially different from those of the current year. It is true that since last June there has been an arrest of the previous rapid decline and there have been various signs to indicate that the depression is on normal expectations unlikely to be unduly prolonged. On the other hand the international political situation continues to be a source of anxious uncertainty and it would be imprudent to base our calculations on optimism and to assume any marked improvement over the present level of our revenue returns. The estimate for Customs provides therefore for an increase of only Rs. 35 lakhs over the revised estimate for 1938-39, although owing to an accounting change affecting both sides of the budget there is an apparent small decrease. We have assumed that items such as motor spirit and machinery will continue to show increasing yields but that on the other hand there will be further reductions in the revenue from art silk fabrics and yarn and other imported textiles. For the rest the estimates follow closely the revised estimates for the current year. The same is true of the estimates for Central Excise Duties, the main element of which is the figure of Rs. 400 lakhs from the duty on sugar. We regard this figure as well as the figure of Rs. 20 lakhs for import duty which has been included in the Customs estimates as nominal; it is only the total figure of Rs. 420 lakhs to which we attach real importance. The indications are that the production of factory sugar in those parts of two crushing seasons which fall within the financial year may be a good deal below the normal outturn of recent years. The shortage will be made up partly by an increase in *khandsari* production and partly perhaps by imports of sugar. To the extent that *khandsari* production fills the gap we shall lose in comparison with normal revenue but the revenue from a comparatively limited quantity of imports would compensate us for this loss. We must also reckon that the total consumption of refined sugar is bound to be affected adversely by the high level of prices. We have, therefore, taken the total revenue from sugar at Rs. 420 lakhs but the distribution of this figure between the two heads of Customs and Excise is immaterial and has been made in a merely nominal way. I should perhaps inform the House at this stage that we intend to introduce a change in regard to the levy of excise duty on *khandsari* sugar. Owing to the definition of a "factory" in the Sugar Excise Duty Act, 1934, the liability of duty is easily evaded by the common practice of splitting up the process of manufacture and having the different processes performed in separate premises in each of which less than 20 persons are employed. The result is that only an insignificant fraction of the *khandsari* sugar produced with the aid of mechanical power makes any contribution to the revenue. This is inequitable to other sugar producers and has been the cause of numerous complaints. We intend to rectify this anomaly in a way which will impose no extra burden on the small agriculturist who does not employ mechanical power in any of the processes of sugar production. We propose at the same time to reduce the rate of excise duty on *khandsari* sugar from Re. 1 to annas eight per cwt. The estimated effect of this change is an increase of approximately Rs. 5½ lakhs which is included in the general estimate of revenue from sugar.

9. I come now to the estimates for Taxes on Income. Here we had first to allow for the decline in trade, the effect of which has been taken at Rs. 81

lakhs. On the other hand we propose the adoption of the slab system with the scale of rates shown in Appendix II of the Income Tax Enquiry Report of 1936. This is expected to result in a net gain of Rs. 76 lakhs. Actually the income-tax paid by the large majority of individual assesseees will be reduced and this would produce a large decrease of Rs. 93 lakhs, but this decrease is more than counterbalanced by increases of Rs. 117 lakhs in super-tax from individuals and of Rs. 52 lakhs in income-tax and super-tax from companies. Furthermore, the legislative changes contained in the Income-Tax Amendment Bill together with the abolition of the exemption of leave pay are expected to produce another Rs. 50 lakhs. The combined effect of all these changes is an increase of Rs. 131 lakhs, and a net improvement of Rs. 50 lakhs over the revised estimates for 1938-39. When the estimated Railway contribution has been taken into account the provincial share of income-tax is estimated at Rs. 178 lakhs which is Rs. 66 lakhs more than the revised estimates for the current year.

10. There is little to say about Posts and Telegraphs. The decline in revenue which had occurred as a result of trade conditions has been balanced by equivalent reductions in expenditure in the current year and we expect a similar result in 1939-40. The estimated figures are :

	Rs.
Revenue .	11,64 lakhs.
Expenditure	11,63 lakhs.

11. I must now deal with the expenditure of 1939-40, and here the total estimated figure is Rs. 82,65 lakhs or Rs. 300 lakhs less than the revised estimates for the current year. This striking reduction is accounted for by decreases of Rs. 173 lakhs under Interest and Rs. 100 lakhs under Defence and also by the fact that provision is made for the continuance during next year of the special economies which have been enforced this year.

12. The total provision for the Defence Services is Rs. 45.18 crores which is the same as the budget figure for the current year but is Rs. 100 lakhs less than the revised estimates. Honourable Members have frequently been reminded in the budgets of recent years that the sums which it has been found possible to allocate to the Defence Services have borne little relationship to military exigencies or to the facts of the international situation. The budget estimate for 1939-40 provides merely for standing charges and commitments. It has only been possible to keep the estimates down to this figure by allowing for (1) the receipt of the addition of £500,000 to the Garran contribution which was announced on the 13th September last, (2) the transfer to the Imperial establishment of four British battalions, one Cavalry regiment and five Tank companies and (3) by drawing on Military Sinking Funds to the extent of Rs. 49 lakhs for purposes other than those for which they were meant. The budget estimate also allows for the receipt of £2,150,000, being the first part of the capital grant of £5,000,000 which was also announced by the Finance Member on the 13th September, 1938. For the rest we must hope that the decisions of His Majesty's Government on the Report of Lord Chatfield's Committee will result in further substantial sums being made available to bring India's defence forces up to modern standards and the needs of the present situation.

13. I have already mentioned the striking decrease of expenditure under the head of Interest. This saving is mainly accounted for by a decrease of Rs. 160 lakhs in the amount payable as bonus on Post Office Cash Certificates.

[Mr. A. J. Raisman.]

We are now reaping the advantage of the policy adopted five years ago when the rate of interest on these certificates began to be substantially reduced. By careful management of the public debt and by a strict adherence to a policy of sound finance over a number of years the Government of India have succeeded in reducing their annual liabilities in respect of debt to a scale which may well be the envy of many other countries in the world today. I need not emphasize the close relation between this highly satisfactory position and the credit which India enjoys in the money market.

14. In regard to the remaining heads of expenditure I need only say that they have been kept at the level of the reduced amounts shown in the revised estimates by the prolongation of the economy measures brought into operation in the current year. I am now in a position to state the total figures for 1939-40 which are as follows :—

	Rs.
Estimated revenue	82.15 crores.
Estimated expenditure	82.65 crores.
Prospective deficit	50 lakhs.

15. Before I proceed to answer the fourth question, I will say a few words about loan operations and about our sterling remittance programme. During the current year the Government of India made a combined cash and conversion issue of 3 per cent. 1963-65 stock at 98. This produced Rs. 26.31 lakhs, of which Rs. 19.51 lakhs represented conversions of the 5½ per cent. loan 1938-40 and of the 5 per cent. loan 1939-44. The unconverted part of the 5½ per cent. 1938-40 loan has since been notified for discharge and next year we shall have the option of redeeming the remainder of the 5 per cent. 1939-44 loan, the outstanding balance of which is a little over Rs. 20 crores. As regards sterling debt, we are during the present year discharging a further £3 millions of sterling Railway Debentures and we also expect to complete the transfer of the remaining liabilities in respect of sterling family pensions which amount to £6 million. These further repayments of sterling debt will bring the total amount repatriated since 1935 to something over Rs. 60 crores. Next year our requirements of sterling for remittance are estimated at rather less than £27 millions as compared with £33 millions in the current year, £37 millions in 1937-38 and £41 millions in 1936-37. With this substantial reduction in the programme the question of remittance should present no difficulty.

16. I have now to answer the fourth question, which may be restated simply :—How is it proposed to deal with the prospective deficit of Rs. 50 lakhs? The problem is not an easy one. The yield of increased income-tax goes mainly to the Provinces. Under Customs the revenue duties are already very high, while the protective duties yield a declining return. In the field of Excise duties, i.e., indirect taxes on goods of domestic production, we are faced with the fact that new provincial taxation will, as the result of the recent judgment of the Federal Court, now be operative—a situation which calls for delicate handling in the interests both of the Centre and the Provinces. In these circumstances we have decided to have recourse to an increase in one of the few Customs duties which still yields a growing return, namely, the import duty on raw cotton. It is proposed to raise this from six pies per lb. to one anna per lb. The object is merely to raise the additional revenue necessary to balance the budget, and the extra yield is estimated at Rs. 55 lakhs a

year, which converts the prospective deficit into a surplus of Rs. 5 lakhs. It may be observed incidentally that the imports of foreign cotton are now at the rate of over 700,000 bales a year, and although the varieties imported are very largely of longer staple than those produced in India, it is not improbable that the enhanced tax, though imposed for revenue purposes, will tend to encourage the Indian production of longer staple cotton.

17. In conclusion, Sir, I can only give expression to the thought that is dominant in all our minds, that the overwhelming factor in all calculations today is the possibility of reconciling conflicting forces both internally and externally and achieving a stable basis for peaceful development. Without such a basis there can be no assured prosperity, whilst with it there will be opened up, for India as for the rest of the world, a boundless prospect of constructive progress. (Applause.)

The Budget papers were distributed to Honourable Members.

The Council then adjourned till Eleven of the Clock on Tuesday, the 7th March, 1939.