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MADRAS LEGISLATIVE COUNCIL DEBATES

OFFICIAL REPORT

Monday, the 20th February 1939

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THE MADRAS LEGISLATIVE COUNCIL.

THIRD SESSION OF THE LEGISLATIVE COUNCIL UNDER THE GOVERNMENT OF INDIA ACT, 1935.

Monday, 20th February 1939.

The House met at 5-30 p.m. in the Banqueting Hall, Government House, Mount Road, Mr. President (THE HON. DR. U. RAMA RAO) in the Chair.

[*Note*.—An asterisk (*) at the commencement of a speech indicates revision by the Member.]

I.—BUDGET FOR THE YEAR 1939-40.

*THE HON. DR. T. S. S. RAJAN:—" Sir, on behalf of the Hon. the Finance Minister, I beg to present the Revised Estimates for the year 1938-39 and the Budget Estimates for 1939-40. The Prime Minister regrets that, owing to his pre-occupation in the other House, he is unable himself to present the estimates in this House.

"Sir, I present to the House the Revised Estimates for the year 1938–1939 and the Budget Estimates for 1939–1940. This is the third time I have the honour of presenting the Budget to this House. From all points of view this is a year of trial for us. It calls for the utmost co-operation, sacrifice, good understanding and patriotism on the part of us all.

The political situation.

"The political situation is more uncertain and disquieting than ever before in many respects. There is no doubt the people as a whole appreciate the solid advantages of a government responsible to themselves, even though such responsibility is limited to the provincial sphere, and I may say without exaggeration, that in spite of all our short-comings of which we are not unaware, the people are not tired of the present Government but are anxious that they should continue to look after the welfare and guard the interests of the people. It should however be remembered in every connexion that we are still carrying on government in the provinces under an irresponsible Centre, and in the shadow of a scheme of All-India Federation which has been rejected not only by the Indian National Congress, but practically by every popular element in the country including the people of the States, and, —may I say, the princes also—which the British Government have not wisely decided as yet to put aside as worthless, taking steps to devise a more satisfactory solution for the problem. This legislature has done its bit to press this advice on the British Government, and, perhaps, we may still hope.

"The inclusion of the States in the scheme of Federation far from being a source of strength as was originally hoped, has become a cause of bitter conflicts and grave anxieties. It is impossible for the governments of the provinces to function with self-respect, if an irresponsible but increasingly active Central Government continues to sit over them in all important matters, unwilling and unable to throw off the force of habit and the conventions of previous practice. I mean no offence to the individuals in office at the Centre who are all worthy and able men.

Seasons.

"In the economic sphere the well-being of a province such as ours, which is almost entirely dependent upon agriculture, is primarily determined by the monsoons and, then, by the level of prices of agricultural products. Prices have not been particularly favourable, while the seasons have been terribly unkind. The Province has been visited by an altogether exceptional series of calamities. The current financial year opened with three districts in the grip of famine. Operations of relief, we had believed, would be closed with the break of the south-west monsoon and with an expenditure of Rs. 6 lakhs, but relief operations had to be continued until October—and until the end of December in the case of the weavers' relief centres—and we had to spend on the whole Rs. 21 lakhs. The total expenditure on famine-relief operations including grants to the District Boards of Anantapur and Kurnool to expand their ordinary programme of public works came to a total of about Rs. 25 lakhs. In addition to this direct expenditure, land revenue had to be remitted or suspended on a liberal scale throughout the areas affected by famine. These remissions came to about Rs. 15 lakhs and, over and above this, collections amounting to Rs. 4 lakhs were suspended. All these concessions were of course necessary and did much to mitigate the distress resulting from the famine, but they all mean drafts on the tax-payers elsewhere.

"The south-west monsoon which broke in June 1938 was fairly satisfactory on the whole, but, then came damage caused by floods in Salem in August, in Kistna and West Godavari in September and in Vizagapatam in October. Towards the end of November a devastating cyclone came upon Kistna, East Godavari and West Godavari districts, causing considerable damage to cattle and valuable crops which were ripe for harvesting or which had been harvested and kept on the threshing floors. Government had to place considerable sums at once at the disposal of the district officers for the relief of distress, in addition to remission of land revenue that has been and will have to be granted on a fairly large scale. On the top of these calamities, the north-east monsoon almost completely failed throughout the whole Province. Not only have crops failed or suffered badly, but there is considerable distress owing to shortage of employment, especially in

Chingleput, Chittoor and Coimbatore districts. Land revenue will have to be remitted over a wide area to an amount which, I fear, may extend to about half a crore of rupees. Test works have been opened in three taluks in the Coimbatore district and it is probable that a further large draft will be made on the famine relief fund during the year under Budget. Arrangements have been made for grants to district boards to enable them to undertake works with a view to providing employment for the people in the areas under distress.

"I might perhaps mention here, in passing, that while the people of this Province have been visited by these successive calamities in their own homeland, our brothers living in Burma have over a period of several months been the victims of riot and disorder, with consequent loss of life and damage to person and property. Many have had to flee the country as a result of the widespread disturbances there, and this Government have spent over half a lakh of rupees in sending these refugees from Burma to their homes in various parts of this Province.

Prices.

"The prices of foodgrains during the first-half of the current financial year were generally somewhat lower than the corresponding prices of the previous year except in the case of rice and cholam during certain months. The failure of the monsoon in our Province may result in a tendency for prices to rise above last year's level, but a rise owing to such a cause can be no solution or help to us. The position in the case of commercial crops is far from encouraging. It is true that jaggery prices have shown a marked improvement, but cotton, groundnut and coconut prices are all about 20 to 30 per cent lower than last year, and pepper is about 10 per cent on the wrong side.

"This, is the sombre background on which I have to present the Budget for 1939–1940. As I said once before, one must think and act and speak as if one were expecting to continue responsible for all time, though I know that I may be relieved at any moment. We cannot but work with this formula of conduct, however inconsistent it may appear to be.

20th February 1939] [Dr. T. S. S. Rajan].

1937–1938, Accounts.

"As usual I must first set out the final results of the year 1937–1938. When we passed the estimates a year ago, we anticipated a revenue surplus of Rs. 2·69 lakhs for the year ending 31st March 1938. Before the end of the year it became apparent that the actuals would show a considerable improvement as the net result of variations under revenue and expenditure heads. In view of this net betterment, the Government decided to transfer to the Rural Water Supply Fund a sum of Rs. 3 lakhs over and above the amount of Rs. 15 lakhs originally contemplated and to meet from revenue, instead of from the Famine Fund as originally contemplated, a sum of Rs. 5·63 lakhs spent during the year on famine operations, with a view to conserving the Fund for future demands upon it. The improvement continued to the end of the year 1937–1938 which closed with a revenue surplus of Rs. 17·66 lakhs.

"Capital expenditure outside the Revenue Account fell below the Revised Estimate by Rs. 17·89 lakhs. The fall was mostly in respect of electric schemes. Disbursements for loans and advances showed in the net result a fall of Rs. 2·25 lakhs. Fluctuating deposits which can never really be estimated with any approach to certainty were responsible for a net betterment of Rs. 71·60 lakhs. As a result of betterments in the position, the Government invested in March 1938 a sum of Rs. 79·72 lakhs in the Central Government's Treasury Bills of the face value of Rs. 80 lakhs due to mature in May and June 1938. The cumulative effect of these several variations was that our closing cash balance on the 31st March 1938 amounted to Rs. 136·87 lakhs as against Rs. 109·88 lakhs anticipated in the Revised Estimate.

"The only other point which I need mention in connexion with the accounts of 1937–1938 is that, as the House may remember, a loan of Rs. 164·03 lakhs was raised in August 1937 for expenditure during 1937–1938 on specified remunerative objects. The total expenditure actually incurred during the year on these objects was Rs. 165·34 lakhs. The loan funds were thus fully utilized within the year and on the specified objects for which the loan was raised. This is a simple statement of fact, but it is important and conclusive testimony of the soundness of the Government's borrowing policy.

C—2

1938–1939, Revised Estimate—Revenue Account.

"I must now turn to the current year, 1938–1939, which has yet a month and a half to close. I have already referred to the almost complete failure of the north-east monsoon over the greater part of the Province, and to the November cyclone which devastated large areas in Kistna and Godavari districts and the consequent heavy seasonal remissions of land revenue that must be granted, and that nearly half a crore may fall within the current financial year as against Rs. 11½ lakhs provided for in the Budget on the assumption of a normal season. In addition to these remissions, there will be postponement of collection of land revenue from the current year to the next. The result will be a fall in the land revenue receipts in this year by something like Rs. 34 lakhs below anticipation. In spite of all this, after anxious consideration, we decided to make the same general land revenue concessions this year as were granted for the previous fasli. We have directed that these reductions may be given effect to in the last kist uniformly in all districts. Previously the concessions were applied in the last kist in the majority of the districts, but in the case of nine districts the concessions were applied in March, even though March was not the last kist in those districts. The removal of this anomaly gives a budgetary benefit in the current financial year of Rs. 32 lakhs. Future years will not be affected by this as the effect of the change will be carried forward from year to year. This explains why, in spite of the special and unexpected misfortunes of the year, there is little difference between the Budget and the Revised Estimates for land revenue and irrigation for the current financial year, although there is a considerable fall in the current fasli year.

5-45 p.m.

"Since a bad year necessarily shows itself in all directions, there are serious falls below the Budget Estimates in most of the other principal heads of revenue. The shortfall under Provincial Excise apart from prohibition amounts to Rs. 20½ lakhs due to decrease in consumption and fall in rentals; under Stamps the fall is Rs. 19½ lakhs which indicates a great acceleration of the fall in litigation which has been in evidence for some time; Registration is responsible for a fall of Rs. 5½ lakhs due to a decrease in the number of registrations. These three shortages amounting to more than Rs. 45 lakhs would have left us in a big deficit but for the special credit which our general revenues receive this year, and which was not taken into account when the Budget Estimates were prepared, on account of the transfer of a sum of Rs. 42·55 lakhs from the Minor Ports Fund. It would be wrong for Hon'ble Members to imagine that this transfer was designed to fill the gap because the question of this stagnating fund had been taken up for consideration long before there was any indication that there would be any such calamities as overtook us during the current year. The transferred balance has necessarily to be credited to the receipt side of the Revenue Account, and as it so happens this extraordinary item of receipt prevents a deficit on the Revenue Account in the current year which otherwise would have occurred and impinged on the balances.

"The receipts under Motor Vehicles Acts bring us Rs. 26 lakhs more than budgeted for, but this is no advantage, as from the increased receipts compensation is paid to local bodies for the loss of licence fees in respect of these vehicles. There is, thus, a corresponding increase in charges on this account.

"It is unnecessary for me to take the House orally into the details of the variations under other heads of revenue and expenditure in this year's Revenue Account, as they have been fully explained in the Explanatory Memorandum placed before them. The position works out as follows :—

	Budget Estimate, 1938–1939.	Revised Estimate, 1938–1939.	Increase.
	LAKHS. RS.	LAKHS. RS.	LAKHS. RS.
Revenue	15,98·21	16,23·19	24·98
Expenditure on Revenue Account ..	15,98·09	16,20·76	22·67
Surplus ..	0·12	2·43	

1938–1939, Revised Estimate—Capital Account.

"The Revised Estimate for capital expenditure outside the revenue account shows an increase of Rs. 9·19 lakhs over the Budget Estimate. The main increase is in respect of capital expenditure on electric schemes due partly to certain expenditure which had been expected to be incurred in the previous year but which had been carried over to this year, and partly to more active progress in some of the works. A decrease will be noticed in the capital expenditure on payment of commuted value of pensions. During the last Budget Session I said that the question of the continuance of the system of commutation of pensions would be examined by the Government. After a thorough examination of the question in all its bearings including the best interests of the officers themselves, the Government in December last decided to discontinue the system. The decision however can cover only the case of officers under the rule-making control of the Provincial Government.

1938–1939, Revised Estimate—Loans and Advances.

"The Revised Estimate of disbursements under Loans and Advances falls short of the Budget provision by Rs. 3·97 lakhs. The amount specially provided for loans to agriculturists for the relief of their indebtedness, I am sorry to say, could not be spent as we had hoped. A variety of reasons caused delay. The establishment of Debt Conciliation Boards as well as the formulation of definite instructions as to the lines on which loans should be issued took considerable time. But these have now been done. The doubts raised by the Courts of our Province as to the validity of the Debt Relief Act in relation to promissory-notes and the unwillingness of creditors to come forward to put the cases in Court or to agree to a settlement by consent also operated to put off the utilization of the funds provided. That the Act is *intra vires* in respect of promissory-note debts has been now decided by the Full Bench of the High Court and this together with the establishment of Debt Conciliation Boards will, it is hoped, lead to a proper and speedy utilization of the credit provided by Government. I may here anticipate and inform the House that there will be a provision of Rs. 75 lakhs for this purpose in the coming year. The amount that was available under this head in 1938-1939 was drawn upon for the granting of short-term loans to the Central Land Mortgage Bank for the carrying on of its work effectively. The Land Mortgage Bank will in future instead of issuing debentures piece-meal issue its debentures in successive issues at regular intervals, and will obtain temporary accommodation from the Government, whenever necessary to carry on its business between successive issues. It is expected that during the current year the Bank will take Rs. 38·65 lakhs in this way of which it will repay Rs. 28·40 lakhs before the close of the year.

1938–1939, Long-term borrowings.

"In September 1938 the Government floated a loan of Rs. 1½ crores as against Rs. 175 lakhs contemplated while the Budget was framed. Rupees 40 lakhs was subscribed by Government and the remainder was thrown open to public subscription. Hon'ble Members are aware that a grave international crisis suddenly developed and disclosed itself during the time fixed for subscription for our provincial loan. In spite of that disturbance the credit of our Province came out unscathed. For the Rs. 110 lakhs that we offered, the subscription was Rs. 181·41 lakhs. The total amount finally allotted amounted to Rs. 151·29 lakhs inclusive of Rs. 40 lakhs subscribed by Government. The Government take this occasion to tender their thanks to the Reserve Bank for the efficient arrangements made by them for the success of our loan for a second time. The total amount that we expect to be disbursed in the current year on the objects for which the loan was raised, namely, on remunerative capital expenditure and long-term loans to local bodies and others, is Rs. 220·90 lakhs. The amount by which this figure exceeds the proceeds of the loan will be found from the Government's other resources. I can confidently say that as in the case of the loan of the previous year, the proceeds of this loan also will be fully utilized, and only for the purposes for which the loan was raised.

1938–1939, Short-term borrowings.

"While on this subject I should perhaps remind the House that this year for the first time the Madras Government have assumed complete responsibility for watching their daily cash position and arranging for ways and means. In consequence the Government have had to enter the short-term bill market to borrow funds temporarily to cover the gap between receipts and outgoings, which is a normal feature of the financial position of every Government over the greater part of the year. Treasury Bills with a currency of six months were issued in August last, and three months' Bills in October, November and December, the total amount of the issues being Rs. 190 lakhs. The rates of discount at which the Bills were issued reflected the good credit the Province commands.

1938–1939, Closing cash balance.

"It is estimated that the closing cash balance on the 31st March 1939 will be Rs. 55·10 lakhs against the minimum requirements of about Rs. 53 lakhs for the guaranteed deposit with the Reserve Bank and the minimum cash balances required in our Treasuries and Sub-Treasuries. In addition to the cash balance we hold securities in the Famine Relief Fund, in the Depreciation Reserve Funds of some of our electricity systems, and in the cash balance investment account. The reduction in the Provincial cash balances from Rs. 136·87 lakhs at the beginning of the year to Rs. 55·10 lakhs at its close is due partly to a portion of our closing balance being in the form of securities, and partly to investment in capital expenditure and loans to local bodies and others.

1939–1940, Budget Estimate—Revenue Account.

"Now, Sir, I can proceed to place before the House the Estimates for the coming year 1939–1940. We have reached a stage when our approach to the budgetary problem has to be entirely different from what was the practice with the previous governments of the Province. In former days the revenue expected from the existing sources and the expenditure on standing sanctions based on existing orders and commitments were first estimated and then the difference, invariably a surplus, was utilized for undertaking new commitments or Part II Schemes. This method of approach was both natural and convenient as conditions were static and the general system of taxation and its incidence continued with but little change from year to year. Circumstances have, however, now altered and the Government of the Province has to suit itself to new and very different conditions. It has to follow a policy of easing the burden of taxation on the poorer sections of the community transferring it to shoulders better able to bear it. It becomes, therefore, necessary to abandon the old approach and follow the alternative plan of determining the expenditure which is to be incurred and then devising the means of raising revenue sufficient to meet it. Taxation can then be reduced or increased according as the expenditure found to be necessary is less than or greater than the revenue anticipated from the existing sources. Hon'ble Members are well aware that this is the normal budgetary procedure followed by nearly all present day governments.

"The estimates of ordinary revenue for next year as compared with the Revised Estimate of revenue for the current year stand thus. First of all the biggest variation is of course the decrease of Rs. 42½ lakhs under Ports representing the credit received by general revenues this year by transfer from the Minor Ports Fund balances which cannot be repeated next year. Then apart from the question of the extension of Prohibition, receipts under Excise will fall, it is expected, by Rs. 9½ lakhs by reason of the fact that the reduction of revenue on account of Prohibition in Chittoor and Cuddapah will operate for the full year as against only six months in the current year. Land Revenue may be estimated at an increase of Rs. 16½ lakhs over the current year's results as we may assume that the seasons will be normal in the coming year, and that suspended revenue will be collected. We may also expect that irrigation under some of our systems will continue to expand. In budgeting for land revenue we have estimated for the coming year, allowing for a repetition of the concessions given during the current fasli. The gross receipts from our electric systems show an increase of Rs. 11 lakhs on account of the expansion of the Pykara and Mettur schemes and of the Vizagapatam and Bezwada thermal schemes and the commencement of operation of the Cocanada scheme.

"The estimates of ordinary expenditure for next year take into account the financial effect of administrative economies which the Government are effecting from time to time, but we have to provide for a full year's effect of the Part II Schemes accepted this year. The commitments in Part II schemes of the previous year automatically fall into Part I of the next year. Apart from this, we have to provide under Debt Charges nearly Rs. 10 lakhs more, on account of a full year's interest on the 1938 loan and a half year's interest on such loan as may be raised in 1939, as also an increase in interest charges on Treasury Bills and ways and means advances. These temporary accommodations for 1939–1940 will become necessary more often than in 1938–1939. Moreover a contribution will have to be made from revenue to the Famine Relief Fund next year to the extent of Rs. 5 lakhs as the closing balance in that Fund falls short of Rs. 60 lakhs, and a provision of Rs. 5 lakhs for damage done by cyclone is considered necessary next year as against Rs. 2 lakhs in the current year. Pension charges increase next year by Rs. 5½ lakhs on account of the normal growth of pensions and on account of the provision which has to be made for the equated payment from revenue towards principal and interest on the amount debited to capital in the current year for the payment of the commuted value of pensions. On the other hand, on Stationery and Printing the expenditure next year is expected to be less by Rs. 7½ lakhs owing to the exclusion of the provision for special items, such as the replenishment of stock and printing in connection with elections and the Estates Land Act Committee. The result of these major variations and of numerous other minor variations not mentioned by me now and which have been taken into account in the detailed preparation of the Estimates is that the Part I expenditure for next year is calculated to be in *excess* of the ordinary revenue by Rs. 20 lakhs. We have to tackle the question of bridging this gap.

"But before taking that up, let me complete the picture of the next year's Revenue Account. So far as the expenditure side is concerned many new schemes were examined and proposed in the various departments of Government for consideration in connection with next year's Budget. Almost without exception they are good schemes fully deserving of acceptance if only we had the funds to pay for them. In view, however, of the constricted resources the Government, after the most careful and anxious examination, selected what represents the barest minimum for meeting the most urgent demands and what must be accepted for maintaining our policies intact. The ultimate net cost of the selected schemes will be Rs. 35·50 lakhs, of which Rs. 9·39 lakhs is non-recurring. The net cost in the Budget year comes to Rs. 22·39 lakhs, of which Rs. 6·82 lakhs is non-recurring. This brings the gap between the total expenditure next year debitable to the Revenue Account and the anticipated revenue on the existing basis to the sum of Rs. 42·39 lakhs. 6 p.m.

Prohibition.

"Appendices VI and VII in the Explanatory Memorandum set out the new schemes that have been provided for in the Budget. I should like to say a few words about one of the items, the extension of Prohibition at a cost in the form of reduction of revenue of Rs. 13½ lakhs in 1939–1940 and of Rs. 23 lakhs in a full year. The criticism can be advanced that when we have a gap between expenditure and anticipated revenue on the existing basis to the tune of over Rs. 42 lakhs, it is not the time for extending Prohibition at the cost mentioned. What is this thing called Excise revenue? It is a heavy indirect taxation on the poorest classes; and therefore, the demand that Prohibition should not be extended in order that we might not have an increased gap between revenue and expenditure means, in fact, a demand that the poorest should be taxed through drink rather than that alternative taxation should be devised, the incidence of which would be on classes better able to bear the burden. Interpreted truly in this manner, the illogicality, if not the cruelty, of the criticism is made plain. There is another kind of criticism before which I bow my head, not contradicting but only apologising. It may seem to be but snail-pace advance to go only as far as one district this coming year. My only explanation is the need to preserve financial stability and for the necessary time that is required to build up alternative taxation. To go forward irrespective altogether of financial considerations, however attractive it may be in enunciation, would be to impair the credit of the Government and cause a setback to the movement of Prohibition itself. We have to secure the financial adjustments necessary and we have to consolidate the position at every stage. We have to combine the crusader's spirit with the wisdom of sound management of large responsibilities, unless indeed we would make Prohibition only an excuse for a crisis and an escape from responsibility. The sacrifice of revenue to which the Government has committed itself by the introduction of Prohibition in Salem, Chittoor, Cuddapah and North Arcot will amount in a full year to the sum of no less than two-thirds of a crore. The financial re-adjustment entailed by this big cut in the revenues of the Province is of no mean order.

"All reports regarding the working of the Prohibition Act show that Prohibition has been effectively enforced. It has stood the trial of a year and a half in Salem district. The obstacles which confronted the authorities and the non-official workers have been successfully negotiated and I should like here to pay a tribute to the zeal and enthusiasm with which officials as well as non-officials have addressed themselves to a difficult and novel task. The officers of Government have done more than merely presenting an attitude of official loyalty and have shown a warmth and a sincerity of purpose worthy of the fullest appreciation in this House. It is indisputable that the standard of living among those who were formerly the drinking classes in the Salem district has been raised, especially in the case of that large section of the population that always leads a precarious existence on the border line of want. Impartial observers have borne testimony to the improvement in the condition of the poorer classes and the satisfactory enforcement of the Act. The people of the province have warmly welcomed Prohibition and would be bitterly disappointed if we do not steadily advance and extend the Law to other districts. The Government regard Prohibition as the greatest single measure for the economic improvement of the masses and the re-adjustment of the tax burden on a fairer basis. It has, therefore, been decided to extend Prohibition to North Arcot from the first of October 1939 and from that date Prohibition will be in force in a compact area of 23,819 square miles. It is only about one-fifth of the total area of the Province but it is not small by any means.

Fresh taxation.

"The budgetary problem for next year then so far as the Revenue Account is concerned is the bridging of this gap of Rs. 42·39 lakhs, the details of which I have given. The Government propose to bring in two taxation measures immediately—one for the levy of a tax upon the sale of petrol and the other upon the sale of electricity. These two measures have been before the public for some time. The jurisdiction of the provincial governments to initiate such taxation was contested before the Federal Court and fortunately for us a decision has been given in favour of the provinces. It is unfortunate and irksome that the processes of Provincial Government have to be carried through channels analogous to private litigation, but we cannot help it. The Government have published the Bills which they will presently introduce in the House for acceptance. We have taken credit for net receipts under these two taxes amounting to Rs. 15·12 lakhs during the course of next year.

"The duty on country spirits was reduced in 1935 by 25 per cent. It has been decided to enhance this duty by Re. 1–8–0 per gallon of 35° under proof, except in four districts where it is considered inadvisable in view of the danger of illicit distillation. The enhancement ordered will still leave the rates of duty below the 1934 level. The estimates of Excise revenue have on this account been raised by Rs. 10 lakhs.

"Thus the gap of Rs. 42·39 lakhs is reduced to Rs. 17·27 lakhs at which it appears in the estimates now before the House. The actual figures as they stand in the Revenue Account are as follows:—

	Revised Estimate, 1938–1939.	Budget Estimate, 1939–1940.
	LAKHS.	LAKHS.
	RS.	RS.
Revenue	16,23·19	16,23·45
Expenditure on Revenue Account ..	16,20·76	16,40·72
	+ 2·43	— 17·27

"It is hardly necessary for me to say that we should not regard a deficit of Rs. 17 lakhs in a particular year as a catastrophe. We had in the year 1937–1938, as I have said already, a realized surplus of Rs. 17 lakhs though we had anticipated a surplus of less than Rs. 3 lakhs. Many Hon'ble Members may not be aware, but I know that some newspapers have been embroidering their scurrility with reference to our borrowing programme in terms which can be explained only by their utter ignorance of State finance and its methods and principles, if, indeed, they are not the outcome of sheer malice. I have already shown conclusively that our borrowing policy is of the soundest standard and our credit of a high order. I trust Hon'ble Members of the House whatever their politics may be, will co-operate in opposing ignorant, short-sighted or malicious attacks on the financial reputation of our Province.

" A surplus above the anticipated figure in 1937–1938 or a deficit of Rs. 17 lakhs in 1939–1940 is not, I said, a catastrophe. All the same we have to look ahead and we cannot be unmindful of the fact that in the year 1940–1941 revenue from Provincial Excise is bound to be lower than in 1939–1940 while expenditure will inevitably increase as the result of the automatic addition of commitments in respect of new schemes of expenditure admitted this year and having to be met next year. The Government, therefore, propose to introduce in the very near future further measures of suitable new taxation which we anticipate will enable us not only to cover the deficit in 1939–1940 in full before the close of the year, but will also enable us to admit more Part II Schemes and to extend Prohibition in the year 1940–1941.

" One of the measures under contemplation is the levy of a vend-tax on tobacco. The taxing of tobacco is no new proposal. It was raised in this Province by the pre-reform Government and discussed at some length in the old Legislative Council, but the then Government eventually decided to drop the matter. They were under no pressing necessity to find additional sources of revenue. The tobacco tax we propose would fall very lightly and on consumers of this luxury, without hurting growers or the trade. In almost all civilized countries in the world tobacco is subject to taxation, and there is no reason why our Province should be one of the very few exceptions.

"The next andm ost important measure for which the assent of the House will soon be sought is the levy of a tax of low incidence on the sale of goods generally, excluding of course goods in respect of which special taxes are separately provided for, such as motor spirit, tobacco and electrical energy. Care will be taken to save small traders from the incidence of the tax by providing that businesses below a limited annual turnover shall be exempt from the tax. Businesses with annual turnover between Rs. 10,000 and Rs. 40,000 will be taxed at consolidated fixed rates to avoid detailed inquisitorial investigation for determining the exact turnover in such cases. Businesses with a turnover in excess of Rs. 40,000 will be taxed at the rate of half per cent on the turnover, that is to say, roughly, one pie in the rupee will be asked to be paid by those traders to the Provincial Government.

"The Government are of the opinion that the general sales tax is the most important of all their new revenue-producing measures and one full of possibilities. Though it is new for India, it is a major source of revenue in many European countries.

"Whatever may be the form of taxation that we propose, I know that it will be attacked. While our policy of Prohibition is everywhere lauded and schemes for national development and reconstruction are wanted on all hands involving heavy additional expenditure, every individual proposal for new taxation in place of the tax on the poorest classes, obtained through offering drink to them, is itself made the object of attack from some point or other, because fairly good arguments can be advanced against any conceivable type of taxation. We cannot however maintain our standard of government giving up the victimisation of the drinking classes without agreeing to be taxed in some way or other. The tax on petrol and on electricity will fall on those who are comparatively well-off. The incidence of the general sales tax and the tobacco tax will be light, and the former will be a progressive source of revenue as trade and industries in the Province improve. At present all the big businesses almost completely escape taxation so far as the Province goes. The policy of the Government in getting rid of the drink revenue will increase the spending power of the masses by no less than Rs. 15 crores per annum, the effect of which being a considerable rise in the standard of life of the masses, will automatically lead to an increased demand for consumption goods thereby benefiting the trading classes all round as well as agriculturists. I hope, therefore, that a long and patriotic view will be taken and our proposals given support by all classes.

"It is practicable in India to stop the consumption of intoxicating drinks and narcotic 6-15 p.m. drugs by abolishing the State trade in it and enacting laws for total prohibition. It is practicable in India satisfactorily to enforce Prohibition. There is no difficulty except of finance. The Provinces are asked to govern themselves with slender taxation resources and even these are hedged in by many restrictions. So that, the proper solution of this financial problem on which Prohibition hangs is finally the reduction of Central expenditure and the transfer of more revenue to the Provinces. This is true, but it is not right to proceed from it to the logical corollary that Prohibition must recede from the constructive plane of provincial administration to the status of a mere slogan and focus for the development of a political crisis against the Centre. We cannot be content with this translation from the region of tangible though partial realization to the region of mere political battle, until we reach the time and circumstance favourable for a victory over such a political crisis. Such an attitude does not at any rate content me. Hence we must tax ourselves. The time will arrive when the weight of these burdens that we take up on behalf of the poorest will furnish the justification and the strength for re-adjustment between Centre and Provinces. Any other policy would amount to evasion which we charged previous governments with.

"Another proposal which the Government have in view for early introduction is the levy of a small Provincial tax on Entertainments. The local bodies which now levy such a tax will not be hit, because compensation will be paid to them to cover the loss of revenue caused to them by the provincialization of the tax. No credit has been taken in the present Budget for any revenue anticipated from the Tobacco tax or the General Sales tax or the Entertainment tax. If the Legislature will pass these measures at an early date and all sections of the people assist the Government in tapping thus the resources of the Province, we hope to have even within the year 1939–1940 sufficient additional revenue to cover the deficit of Rs. 17·27 lakhs which appears in the Budget Estimate now presented and something to spare for supplementary grants for Part II Schemes.

"The receipts in 1940–1941 can be estimated to be more than double those of 1939–1940 as a result of these measures while in subsequent years there is likely to be further steady expansion. On the passing of these measures depends the Congress Government's chances to accelerate the nation-building activities as well as to implement their policy of Prohibition and schemes for the uplift of the poorest.

Retrenchment.

"The Government have not lost sight of the quest for administrative economy. Such economies as have already been incorporated have helped the Government to do what they have been able to achieve so far. It should be remembered that every economy effected reduces the scope for further economy. The effect of the revised scales of pay fixed by the Government in 1938 is slow in coming into effect by reason of their being restricted to new entrants and new promotees and by reason of the time-scales fixed before the present Government took charge and protected by the Government of India Act in one way or another. But though the effect of these revised scales of pay is slow and gradual, it is bound to have full operation with every year that passes.

"We have under immediate consideration a very moderate cut to be imposed on the pay above a certain minimum drawn by those members of the services who have not been affected by the 1938 revision of pay, the cut to be of temporary operation in view of the cumulative effect on our finances of the adverse seasonal conditions of the last few years. We have addressed the Secretary of State to take such steps as are necessary for the imposition of the same cut on the pay drawn by members of the services covered by his rule-making powers.

1939–1940, Capital Expenditure.

"The provision for capital expenditure in 1939–1940 for works in progress and new works comes to Rs. 91·34 lakhs as against an anticipated expenditure of Rs. 143·45 lakhs in the current year. Explanations for the variations under the several heads will be found detailed in the Financial Secretary's Memorandum. Of the total amount of Rs. 91·34 lakhs, Rs. 68·73 lakhs represent remunerative expenditure which will be financed from borrowings. The balance of Rs. 22·61 lakhs represents unremunerative expenditure on civil works and a small provision for the commutation of pensions of a few officers who have acquired a right to commute their pensions. The whole of this unremunerative expenditure will be financed from sources other than borrowings.

"I might perhaps be expected to indicate briefly how matters stand as regards our irrigation and electricity capital schemes. As regards the Tungabhadra Project, in order to avoid the delays and difficulties involved in a discussion of the theoretical rights of the States involved, I suggested examination of the feasibility of a partial and joint utilization of the waters of this river. I am glad to say that the Hyderabad Government fell in with this proposal and as a result a conference was held in November last between the representatives of the Madras and Hyderabad Governments and an agreement was reached.

"The detailed investigation of the Lower Bhavani Project has been sanctioned. At the same time, as a result of representations received from ryots and from some hon. Members of the Legislature, the re-investigation of the Upper Bhavani Project which was dropped in 1938 has been ordered along with it. After reports have been received from the Chief Engineer for Irrigation and the Board of Revenue on the several aspects of these intricate questions, and considered by the Government, the Government will decide which of the two schemes should be taken up for execution.

"Electrical development continues to make rapid progress. Some idea of the stage already reached can be obtained from the fact that the gross receipts which we expect to realize from our electric schemes during the year 1939–1940 come to a total of

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Rs. 53·38 lakhs. The output of power from the Pykara system has expanded to such an extent that the station has been working at its full capacity and has had to be given relief by the transfer to Mettur of the Tiruppur load and a portion of the Coimbatore load. The Mukurti dam and a number of important extensions to the system have been completed. The work on the erection of the third penstock line and the installation of the additional generating set is almost complete, and it is expected that one of the two units will be in commission next June. Load surveys in connexion with the extension of Pykara power to the West Coast, including Calicut and Cannanore, have been made, and a scheme is under preparation. The third generating unit in the Mettur power-house has been put into service. In order to develop the rural areas, distribution schemes in the districts of Coimbatore, Salem, Trichinopoly, North Arcot and Chingleput costing about Rs. 15 lakhs have either been completed or are in active progress. Work on the Papanasam scheme is progressing, although the progress this year has not been so good as was hoped for. The erection of the thermal plant at Vizagapatam was completed early last year and Government supply is now given to the Vizagapatam licensee and the Harbour authorities. The supply has also been extended to Anakapalle, Garbham Mines and Kodur mines, and Bobbili. The Bimlipatam and Vizianagram distribution works are under erection. The Bezwada thermal scheme was unfortunately held up to some extent on account of delay in the receipt of steel work from overseas firms. The Vizagapatam and the Bezwada schemes are both expected to be in full operation in April next. The Cocanada thermal scheme which was sanctioned in March 1938 is expected to be completed in the course of next year. It is proposed to generate and distribute power next year in Madanapalle, Tadpatri and Nandyal. From this brief survey it will be apparent that electrical development is proceeding apace in all parts of the Province.

1939–1940, Loans and Advances.

"The total provision made in the Budget for next year for the grant of loans to local bodies, agriculturists, co-operative banks and societies and others is Rs. 219·49 lakhs, of which a sum of Rs. 75 lakhs is for short-term loans to the Central Land Mortgage Bank for purposes which I have already explained. Nearly 90 per cent of these short-term loans will be repaid by the Bank within the year. The balance of provision for long-term loans is thus Rs. 144·49 lakhs, of which a sum of Rs. 75 lakhs is for the grant of loans to agriculturists for the relief of indebtedness to be disbursed directly by Government on scaled down debts. It is anticipated that full advantage will be taken of this provision next year.

1939–1940, Ways and Means.

"It is necessary for me now to refer briefly to the ways and means position for next year. It is the policy of the Government to economize as far as possible in our cash balances and to restrict fresh borrowings in any year to the minimum amount necessary to ensure an adequate closing cash balance at the end of the year. Thus the loans raised by this Government up to date have been materially lower than the Government would have been justified in borrowing having regard to the amount of their remunerative capital expenditure and of the long-term interest bearing loans granted by them. Seasonal fluctuations, and in particular the progressive lag of revenue behind expenditure which is a normal feature of our financial system over the greater part of the year, are met by the issue of treasury bills supplemented by the borrowing of ways and means advances from the Reserve Bank. The arrangements have worked well so far and are conducive to the maximum of economy. It is accordingly proposed to continue the same policy next year. Our opening cash balance on the 1st April 1939 is estimated at Rs. 55·10 lakhs, which gives a free cash balance of only two to three lakhs of rupees. After allowing for all probable debits and credits under the capital, debt, deposit and remittance heads we will be able to manage next year with a total net borrowing of Rs. 150 lakhs if, as we contemplate, the revenue deficit of Rs. 17·27 lakhs is fully covered before the close of the year by the proceeds of our new taxation measures. This sum, it should be noted is well within the total anticipated remunerative capital expenditure and interest bearing loans which together make up Rs. 213·22 lakhs. Whether the sum should be obtained by the issue of a long or medium term loan, or by a net issue of treasury bills, or partly by one method and partly by the other, will be decided in consideration of market conditions and in consultation with the Government of India and the Reserve Bank during the year. For purposes of our Budget Estimates we have assumed an addition of Rs. $1\frac{1}{2}$ crores to our permanent debt. Since for the reasons already stated by me the estimates do not provide for the covering of the revenue deficit of Rs. 17·27 lakhs, the closing cash balance as per estimates is only Rs. 43·77 lakhs (excluding the value of securities held in the Famine Relief Fund and on the Depreciation and Special Reserve Funds of our electric systems) which is no doubt less than the amount of Rs. 52 lakhs necessary for providing our guaranteed deposit in the Reserve Bank and the cash in our treasuries. This however is for Budget purposes only. On the basis of the assumptions underlying the Budget Estimates the total issues of treasury bills during the year will amount to Rs. 5 crores, the whole of which will be discharged during the year.

Conclusion. "I have completed, Sir, my survey of the financial proposals for next year. My sincere acknowledgments should be tendered to the Finance officials for the heavy and arduous work they have gone through to enable me to present the estimates as programmed. I am sure every one in the House who has ever cared to go even a little into the details of this kind of work, will join me in tendering congratulations and thanks to these officers, and particularly to Mr. Jones who is presently leaving us to strengthen the Central Secretariat with his admirable industry, ability and experience the benefit of which I cannot refrain from saying I am sorry that the Province has to lose (hear, hear).

"A report of the work of the present Government up to the latter half of 1938 has been published in pamphlet form by the Party which I have the honour to represent; and, there have been regular monthly press communiqués issued by the Ministry of Public Information, so that the general public is kept fully supplied with information as to our aims and our achievements. Programmes for the development of protected water-supply in rural areas have been drawn up for most districts, and we are now in a position to go ahead with the execution of these works more rapidly than has hitherto been possible, and Budget provision has been made accordingly. Increased provision has also been made for subsidized rural dispensaries for the third consecutive year. We hope to take action in bringing the provisions of the Madras Public Health Bill into effective operation. Assistance is being afforded in increasing measure to cottage and village industries under the provisions of the Madras State Aid to Industries Act as amended by this Government.

"The Government have published a comprehensive volume that records all that has been done as regards industrial disputes. I claim that we have done remarkably well and are grateful to the spirit of reasonableness on the part of managements that has enabled us to achieve what we have achieved. There has been a silent but effective revolution and the position of the workers is miles ahead of what it was before we took up office. Their Unions and their right of collective bargaining have been recognized without all those disputations over formulas and conditions of recognition that marked the previous history of this element in the labour movement. The gain is placed on the sure foundation of an accepted fact and not on the elusive phraseology of a declaration of rights.

"But for a certain amount of thoughtlessness and confusion of principles and the propaganda and wrong leadership of some men, whose love of a class revolution for its own sake makes them blind to the starvation and misery of actual human beings, the situation could be described as very satisfactory. Our large industries are still young. The transition from slogans to certain forms of dangerous violence which will surely kill all industry long before a class revolution can ever be conceivably brought about, and before the State and its resources are strong enough to bridge over the gap between capital and labour, is what some of these good and patriotic young men whose strenuous endeavour and continuous contact maintain their influence over industrial labour, do not realize. Forcible occupation of the workshop and the physical seizure of access to machinery and the blocking of doorways and passages, as soon as any cause for protest arises, are forms of disorder and violence that are a mockery of the methods of non-violence or of peaceful picketing or non-co-operation which are associated with the name of the great leader, the magic of whose name it is that gives to the working classes and their movement the strength and prestige they now command in our country. Bringing about a situation whereby the authorities of the State are compelled to use force and inflict punishments far out of proportion to the original mischief, and thereby rousing public attention and commiseration will not succeed except very temporarily, and must tend ultimately to harden people's hearts and to put the clock of progress back and even lead to a total reversal of direction. But signs are not wanting that these aberrations will soon disappear, being fundamentally opposed to the genius and culture of our people and more and more of the leaders are realizing the need for a truer form of non-violent tactics as being ultimately the most effective and the necessity, at least as things stand at present, for fostering a feeling of security and confidence in the minds of industrialists and the general public.

6-30 p.m. "Programmes for the improvement of village communications are under preparation in all District Board areas, and provision has been made in the Budget to enable a number of such works to be taken up for execution next year. The reduction of the huge volume of agricultural indebtedness has begun. We have every confidence that it will continue at an accelerating rate. During the six months ending with August 1938 debts amounting to Rs. 76·10 lakhs were scaled down by Courts to Rs. 40·46 lakhs, apart from such scaling down by agreement as may have been done between the debtors and creditors without resort to Courts. Ninety-two Debt Conciliation Boards have now been established, one for each revenue division, in order to enable debtors to have their debts scaled down by these Boards. As I have already stated, we have made a provision of Rs. 75 lakhs in the Budget for the grant by Government of loans to agriculturists for the relief of indebtedness, and we are assisting the Land Mortgage Bank organization in a number of ways to make its contribution to the solution of this great problem. There is now no district without a land mortgage bank. In spite of our financial difficulties, next year's Budget shows a considerably increased provision for expenditure on the uplift of classes doomed by stubborn custom to an ex-communicated life. We have decided to exempt Harijan students altogether from the payment of fees in Government Arts and Professional Colleges, and applicants from the scheduled classes who have passed the Intermediate examination or have taken a University degree have been exempted from the payment of the fees prescribed for application for selection to any of the public services for a period of three years from January 1939. We have exempted Harijan candidates who have progressed in University studies from restrictions as to age for admission into Government service. More than all, we hope to break the segregational custom itself in an effective manner.

"I hope I have said enough to explain the essential features of the Budget for next year which I now have the honour to place before the House for acceptance. I ask hon'ble Members to pause for a moment and consider how our present resources compare with the revenues on which budgets were prepared just before we took up office. We were faced for the first time by a shortage of nearly three-quarters of a crore by reason of the Land Revenue concessions; we have been subjected to a visitation of cyclone and famine which apart from what it meant to the people themselves has meant to the Government a direct reduction of land revenue to the extent of half a crore; the progressive sacrifice of drink revenue has now reached the total of two-thirds of a crore; the revenues under other heads have suffered diminution by another quarter of a crore. These several reductions amount in all to more than Rupees two crores of provincial revenue. Our losses total up to a sum considerably bigger than the entire land revenue of Bihar or the entire Excise Revenue of the United Provinces or of Bengal. I have no doubt this brief recapitulation will enable hon'ble Members to appreciate the difficulties of our task. I do not suppose that any Budget will secure universal approbation. Sacrifice is not pleasant and changes in the existing order of things inevitably arouse controversy. But I do hope that the Budget I have presented will be approved by the House." (Cheers.)

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* Mr. PRESIDENT:—" Hon. Members are aware that it is usual for a large number of members to take part in the general discussion of the Budget which commences on the 23rd February. Though sub-rule (3) of rule 125 gives me power to prescribe a time-limit for speeches, I do not propose to exercise it, as I have no doubt that it is not the intention of Hon. Members to make unduly long speeches and thereby prevent other Hon. Members from taking part in the discussion. If, however, I feel, in the course of the discussion, that a time-limit is necessary, I shall exercise my power under the sub-rule quoted above. May I also suggest that, as far as possible, the reading of manuscript speeches should be avoided? "

The House then adjourned to meet again at 11 a.m. on Thursday, the 23rd February 1939.

II.—PAPERS LAID ON THE TABLE OF THE HOUSE.

* 1. *G.O. No. 3135, Development, dated 19th December 1938, amending rule 11 of the Madras Commercial Crops Markets (Election) Rules.*

* 2. *G.O. No. 27, Development, dated 5th January 1939, confirming the amendment to clause (h) to sub-rule (4) of rule XXII of the rules issued under the Madras Co-operative Societies Act, 1932.*

* Circulated by post.