

balance had increased to 83 crores (£61 million sterling), and that for 1931-32 the balance had been reduced to 34 crores (£25½ million sterling). But the position since the close of the last financial year has got steadily worse. The trade figures for the first three months of the current year, April, May and June, show total exports of merchandise 30 crores (£22½ million sterling) and imports 37 crores (£27¾ million sterling)—an unfavourable balance of 7 crores. Thus, if we continue at this rate for the rest of the year we shall have an unfavourable balance of 28 crores (£21 million sterling) compared with a normal favourable balance both for the pre-war and post-war periods of 70 to 80 crores (£54 million to £61 million sterling). But India as a debtor country needs to maintain a large favourable balance of trade in merchandise. The Government in order to meet its essential obligations has to find about £30 million sterling annually, that is to say 40 crores, while the figures indicate that, as an average, a further margin of 10 crores (£7½ million) at least is required to meet other items in the adjustment of payments on private accounts. Therefore, apart from movements of capital or the country's requirements for the purchase of precious metals, India in order to maintain an even position requires a favourable trade balance of at least 50 crores (£37½ million) annually. In the past, as I have shown, this minimum has in fact been exceeded by 20 to 30 crores; and this margin has been utilized by India for the import of gold and silver, which according to age-long tradition the Indian people buy. Yet we are now faced with a heavy unfavourable balance of trade—a feature which, save only in the totally exceptional disturbances just after the war, India has never experienced before. It will be asked how in these circumstances our exchange rates are being maintained. The answer is that since last September, India, instead of importing gold and silver, has practically stopped buying silver and has been *exporting* gold on a large scale. Actually in six months, October, 1931, to March, 1932, India exported gold to the value of 57 crores, or on the basis of the full gold parity of sterling to the value of about £32 millions. This process is still continuing at the rate of about 4 crores (£3 millions sterling) per month. This is the key factor which must be remembered in assessing the realities of the Indian economic situation. According to the figures for the first three months of this year India is only exporting merchandise at the rate of 120 crores (£90 million sterling) per annum, while she needs, as I have already shown, a favourable trade balance of at least 50 crores (£37½ millions) in order to maintain an even keel. Therefore, if it were not for the export of gold she could only afford to be importing at the rate of 70 crores (£52½ millions) per annum. A reduction of imports to such a figure would create a completely impossible budgetary position. If, on the other hand, imports were not so reduced she would be unable to meet her external obligations except by raising fresh loans, a course of which the dangers and disadvantages are obvious.

In what I have already said I have dealt with the general economic position in the country and with the budgetary and currency position of the Government. But there is another side of the Government's financial activities which has a very important bearing on the general economic position of the country. I refer to the Government's program of capital expenditure on public works generally, but especially on railway construction and irrigation works. The grave budgetary difficulties which I have described combined with the difficulty of maintaining financial and currency stability in the face of the slump in export trade have forced the Government to cut down most drastically the whole of its program of capital expenditure. Financial policy as regards the railways clearly illustrates this. In the three years from 1st April, 1927, to the 31st March, 1930, expenditure on new construction and Open Line works on the railways, including the expenditure from the Depreciation Fund, averaged £31¼ million sterling. For the financial year 1932-33, this expenditure has been reduced to a total of £7¼ million sterling. This reduction in construction work seriously affects the economic position in India. It must also seriously affect the position in England, for a large portion of the railway expenditure would have taken the form of the purchase of locomotives, etc., from England. These figures are no more than an illustration in one important field of the vicious circle of depression into which a country is forced when its Government has to undertake a drastic policy of economy and deflation. As a further detail illustrating this I may quote the fact that, when the program of the development of the Indian iron and steel industry was fixed five years ago, it was worked out on the assumption that the Government requirements of rails from the Tata Iron and Steel Works would amount to 200,000 tons per annum. The