

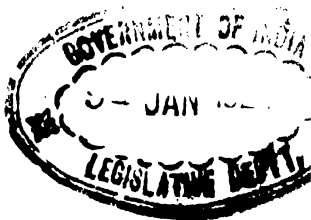
18th July, 1923

THE  
LEGISLATIVE ASSEMBLY DEBATES

(Official Report)

VOL. III

PART VII



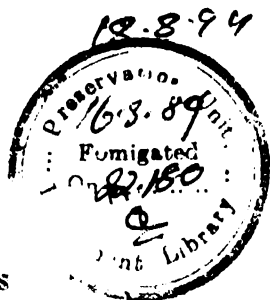
(16th to 28th July, 1923.)

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THIRD SESSION

OF THE

LEGISLATIVE ASSEMBLY, 1923.



SIMLA  
GOVERNMENT CENTRAL-PRESS  
1923

# LEGISLATIVE ASSEMBLY.

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## *The President.*

The Honourable Sir FREDERICK WHYTE, KT.

## *Deputy President.*

Sir JAMSETJEE JEEJEEBHoy, BART., K.C.S.I., M.L.A.

## *Panel of Chairmen.*

Maulvi ABUL KASEM, M.L.A.

Sardar Bahadur GAJJAN SINGH, M.L.A.

Mr. N. M. SAMARTH, M.L.A.

Colonel Sir HENRY STANYON, KT., C.I.E., V.D., M.L.A.

## *Secretary.*

Mr. L. GRAHAM, M.L.A., I.C.S.

## *Assistants of the Secretary.*

Mr. W. T. M. WRIGHT, I.C.S.

Mr. S. C. GUPTA, BAR.-AT-LAW.

Mr. G. H. SPENCE, I.C.S.

## *Marshal.*

• Captain SURAJ SINGH, Bahadur, I.O.M.

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# LEGISLATIVE ASSEMBLY.

Wednesday, 18th July, 1923.

The Assembly met in the Assembly Chamber at Eleven of the Clock, Mr. President in the Chair.

## RESOLUTION RE UNDERTAKING BY FINANCE DEPARTMENT OF LIABILITY FOR LOSSES CONSEQUENT ON ALLIANCE BANK FAILURE.

**Sir P. S. Sivaswamy Aiyer** (Tanjore *cam* Trichinopoly : Non-Muham-madan Rural) : I rise to move the Resolution which stands against my name and which runs in the following terms :

“ This Assembly recommends to the Governor General in Council that he will be pleased to express his disapproval of the action and policy of the Finance Department of the Government of India in undertaking a present or contingent liability to the Imperial Bank for losses consequent upon the failure of the Alliance Bank of Simla.”

My object in moving this Resolution is to invite the House to examine the propriety of the action taken by the Government in the matter of the Alliance Bank of Simla and the policy which underlies that action. I have no intention of discussing the conduct of the Imperial Bank or the question whether the action of the Government is *ultra vires* under the Government of India Act. I will assume for the purpose of this discussion that it was legally competent to the Government to take the steps which they did. Let me also disclaim any intention of attributing any improper motive to the Government. I have no doubt that whether the action taken by the Government was right or wrong, they did not undertake such action with the knowledge that it was wrong. My desire and my purpose is to examine the action and policy of the Government without any bias or prejudice and in the dry light of reason with reference to principles of financial and administrative policy. In my view the fact that the Government of India had on no previous occasion gone to the rescue of banks which failed with heavy liabilities is of no great significance, except in so far as it affords grounds for a presumption in favour of a cautious policy. If on examination of the problem we come to the conclusion that it is the duty of the Government to undertake pecuniary liability in cases like the present, we should not be deterred from expressing our approval of the course adopted by the Government, merely because they failed to discharge such duty on similar occasions in the past.

Before discussing the principles applicable to the case, let me make a brief reference to the facts, as I have been able to gather them. The Alliance Bank had been known to be involved in difficulties for at least a year before its failure. It is said to have been common talk in the City of London. Sometime about August 1922, the Alliance Bank approached the Imperial Bank for help and the latter is believed to have made an

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investigation of the affairs of the Alliance Bank and agreed to lend on the security of its assets a sum of  $2\frac{1}{2}$  or  $3\frac{1}{2}$  crores. On certain dates in the month of August the Alliance Bank deposited the title deeds of all its immovable properties with the Imperial Bank as security for the advances promised. The financial help thus rendered or promised to be rendered by the Imperial Bank to the Alliance Bank was without the intervention of the Government. On the 26th of April 1923, the Government knew that the failure of the Alliance Bank was inevitable, and on the 27th April they authorised the Financial Secretary to write to the Imperial Bank to repay 50 per cent. of the amounts standing at credit of depositors in the Alliance Bank of Simla including current account and savings bank balances in the event of the liquidation of the said bank and provided that liquidation could be arranged subject to the supervision of the Imperial Bank. The letter also conveyed a guarantee by the Government of India to make good to the Imperial Bank of India any loss incurred by the bank in making such payments. The total amount of the liabilities to the depositors is believed to be about  $8\frac{1}{2}$  crores. The letter is not very clear or precise as to the legal nature of the transaction into which the Government of India were entering. Was it meant to be an authorisation to the Bank to pay the proportion of 50 per cent. of the deposits out of the funds of the Government in the hands of the Imperial Bank? Or was it intended to be a contract of guarantee undertaking a liability in the event of the Imperial Bank being unable to recoup themselves for the advance of 50 per cent. from the assets of the Alliance Bank under liquidation? That it was not intended that the Imperial Bank should in the first instance disburse the 50 per cent. out of the funds of the Government is perfectly clear. If such had been the intention, there was no necessity whatever for any guarantee. See also the proviso to clause (a) of part I of the Schedule to the Bank Act. There was no question as to the sufficiency of the Government funds in the hands of the Imperial Bank. It is equally clear that there was no intention on the part of the Government to borrow any moneys from the Imperial Bank, when there were enormous Government balances in the custody of the Imperial Bank. There is not the faintest suggestion of any loan to the Government in this letter and this view is borne out by the affidavit of Sir Robert Aitken filed in the Bombay High Court which makes it clear that the Government undertook to be liable only in the event of the Imperial Bank failing to recover the amounts of the payments from the liquidators. This view is further borne out by the fact that the Imperial Bank debited the advances in their accounts to the Alliance Bank, by the Financial Secretary's letter of the 1st of June 1923, to the Imperial Bank hypothecating the Government balances as security for the fulfilment of the guarantee and by the fact that in his answer of the 3rd of July the Honourable the Finance Minister stated that the Government guaranteed the Imperial Bank against any loss. Strangely enough in his answer of the 5th July to my specific question whether the transaction entered into by the Government was one of loan to the Government or guarantee by the Government, the Finance Minister stated that it was intended as a loan. This view is inconsistent with the one put forward earlier and in no way improves the position of

the Government. If the undertaking of a contingent liability under a contract of guarantee is open to objection, the undertaking of an immediate liability under a contract of borrowing is still more so. I am however quite willing to make a present of either alternative to the Government. The question then that the Assembly has to consider is whether as a matter of financial or administrative policy the Government is justified in undertaking this legal liability present or contingent, to be responsible for the losses arising out of the failure of the Alliance Bank. Let us now proceed to consider the main reasons which were given by the Honourable the Finance Member in his statement of the 3rd July in answer to Mr. Manmohandas Ramji. One reason was that it was necessary to minimise the hardship to the depositors and creditors of the Alliance Bank. Far be it from me to withhold my sympathy from those who have had the misfortune to suffer by the failure of the Alliance Bank. But such sympathy ought not to blind us to the ultimate consequences to the State of the adoption of a policy of relieving the distress of those who may innocently suffer from the failure of Banking, Commercial or Industrial concerns in which they may have invested their moneys. If such sympathy were to be a motive for relief by the State, no logical distinction could be drawn between one concern and another, either with reference to the magnitude or the character of the operations of the concern. The claims of the victims to our sympathy is exactly the same in any case. That the Government may on certain occasions afford charitable relief to its subjects in distress may be conceded. The Government of India are in the habit of affording relief in visitations of famine and the Government in England have adopted measures in relief of the poor, for the payment of old age pensions and for insurance against unemployment. In all these cases relief has been awarded on definite well-considered general principles. But there is no principle upon which you can help one insolvent Bank and refuse to help another. If the Government are justified in going to the rescue of the Alliance Bank, the failure of which is largely suspected to be due to gross mismanagement, it is difficult to conceive of any insolvent bank in whose case they can refuse to afford assistance. Once the principle is recognised, there can be no limit to its applicability and either an appeal to sympathy or political pressure will come into play on behalf of every insolvent Bank. A recognition of such a principle as a ground of action will soon exhaust the resources of the Government, and land it in bankruptcy. It may be said that I am putting extreme and fanciful cases, but I deny that they are extreme or fanciful. It is the best way of testing the soundness of a principle. The actions of Government should be guided by general principles and not by mere rules of thumb, purporting to have reference to the merits of individual cases only. It is well to remember that it is as true in the sphere of administration, as it is in the sphere of judicial administration that hard cases make bad law. That it is impossible to lay down any principles or conditions of general applicability has been admitted by Sir Basil Blackett. I may here refer to the view expressed by one of the ablest Indian Viceroys in connection with the Presidency Banks Bill of 1899. It was observed by Lord Curzon that the Government were under a peculiar responsibility for the Presidency Banks and were bound to enforce special regulations for the protection and security of the balances which the Government had provided.

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The Government could not afford to jeopardise them in the interests of general philanthropy. It may be urged by the Government that they are really running no risk of loss by this transaction of guarantee. If there were no risks at all in this matter, it is not easy to understand why any guarantee by the Government was considered necessary or should have been offered. If there were no risks, the Imperial Bank or the other Banks in India could have themselves gone to the rescue. Whether there is any likelihood of any risk or not in undertaking a liability of this sort is a matter upon which the Government have no machinery for arriving at any satisfactory judgment. But in my view the Government are not justified in exposing the funds in their hands to any present or future risk by the course taken in this particular case or by its possible extension to similar cases.

It has been stated that owing to the limitations on its powers the Imperial Bank is not able to discharge its legitimate functions as a Bankers' Bank or a Central Bank, and that the intervention of Government was therefore necessary, especially in the absence of a spirit of co-operation among the Banks in India. That a Central Bank has responsibilities to other banks and to the public in a time of financial crisis and that it is bound to come to their support, I am prepared to admit. If the existing limitations upon the powers of the Imperial Bank are unduly restrictive, I for one have no objection to the removal of these restrictions, subject however to necessary safeguards for the protection of Government balances. I do not understand why if it was necessary to get rid of the legal restrictions, the powers of the Governor General to make ordinances for emergencies were not utilized. During a crisis in 1899 the Imperial Bank of Russia was temporarily authorised to open credits and accord loans on the pledge of securities which were not guaranteed by the Government but which possessed reasonable safety. This included industrial and other securities which had not been before available for obtaining advances. I should have no objection even to a loan by the Government of its funds to the Imperial Bank to enable it to discharge this important duty, provided that the loan is made on such security as may be necessary to guard against any risk of loss. The transaction in the present case is not a loan by the Government to the Imperial Bank on proper security but a guarantee by the Government which undoubtedly contemplates a contingent liability for the losses of the Alliance Bank and possible appropriation of Government funds in discharge of such liability. The Honourable the Finance Member has told us that there have been cases in England of similar intervention. But as he is unable to give the House any details, we are not in a position to judge of the value of such precedents. He has relied upon the absence of a spirit of co-operation among the Banks in India as a justification for the intervention of the Government. I am not aware of any such want of co-operation, nor is it *prima facie* likely that the British Managers of British Banks in India who have imbibed the instincts and traditions of English Banks would refuse to co-operate in the way that English Banks do. It would be interesting to learn whether any attempts were made to secure the co-operation of the leading Banks in India and, if so, whether they refused to co-operate and for what reasons.

Another reason which was mentioned by the Honourable the Finance Member for the action taken by the Government was that it was necessary in the interests of the financial stability of the country that immediate steps should be taken to restore public confidence to save inconvenience and possible danger to other sound institutions and to avoid any disturbance of the favourable conditions for the flotation of Government loans in the money markets in London and in India. Even for the purposes mentioned, the course which has been actually taken by the Government was not the right course to adopt. But it is difficult to believe in the reality of the picture so luridly painted by Sir Basil Blackett. Apart from the failure of the Alliance Bank there is absolutely no evidence of any conditions even approaching to a financial crisis or likely to cause a financial crisis. I may refer to the dictum of a well known economist that the theory which attributes crises to conditions of credit and banking inverts cause and effect. It puts the cart before the horse. Crises are rather due to the violent disturbance of equilibrium between the demand and production of goods. In any event the failure of the Alliance Bank could not possibly have brought about a general or universal collapse of credit. Under modern conditions of credit a Commercial Bank which is conducted on sound principles is in little danger of failure through bad loans. As pointed out by the economist referred to above "excessive loans to a single individual or corporation or upon security which would be rejected by conservative Bankers have often resulted in the failure of single Banks, but never within the past half century have such failures destroyed confidence in the entire banking system and led to a general withdrawal of deposits." There was therefore no likelihood of the failure of the Alliance Bank affecting the credit of well-managed banks or any persons other than the unfortunate depositors in the Alliance Bank itself. It is also impossible to understand why the loss of confidence in a single Bank should affect the chances of successful flotation of the Government loans. The Honourable the Finance Member evidently thinks that he has saved the general financial situation by the action of the Government. Presumably 50 per cent. of the assets of the Alliance Bank are lost beyond hope of recovery and the depositors' claims are not going to be paid in their entirety. If the loss of 50 per cent. of the Alliance Bank deposits is not going to affect credit in the country, I hesitate to believe that the loss of the remaining 50 per cent. would have shattered public confidence and credit.

I regret to be obliged to come to the conclusion and I hope the House will agree with me that neither on the ground of philanthropy to the depositors, nor in the interests of the financial stability of the country can the action of the Government be justified in committing themselves to a pecuniary liability. It is a strange irony of fate that the minister who played the role of financial censor to the Assembly in March last, and who in the fervour of his orthodoxy described the financial policy of his predecessors as a rake's progress, should have himself embarked upon such an unsound and dangerous policy in the next month.

I must now refer to one episode in connection with the intervention of the Government. I have already referred the House to the Financial Secretary's letter of the 27th of April to the Imperial Bank. It was

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admitted by Sir Basil Blackett that the initiative as to the payment of 50 per cent. originated from the Government of India and was agreed to by the Imperial Bank. Now, mark the terms of Mr. McWatters' letter of the 22nd May to the Indian Merchants' Chamber, Bombay. He states that the action of the Imperial Bank *appears* to the Government of India to have been taken with the object of preventing unnecessary financial disturbance being caused by the failure of the Alliance Bank and to have been in the interests both of the creditors of that Bank and of the general financial stability of the country. It is *understood* that the responsible authorities of the Imperial Bank were satisfied that the available assets of the Alliance Bank of Simla were sufficient if the liquidation were properly conducted to yield a dividend of at least 50 per cent. to the creditors, and this being so, their action in assuming responsibility for the payment of this amount *appears* to have been a public-spirited one which is justified by the Imperial Bank's position as a Central Bank. I can understand the Financial Department keeping the Indian Merchants' Chamber at arms' length and declining to answer at all. But when they did choose to answer, the form of communication adopted was unfortunately devoid of any pretensions to ingenuousness. I cannot close my remarks without extending my most cordial sympathy to the Financial Secretary for the dire straits to which he was reduced by the exigencies of public service.

**Mr. President :** Resolution moved :

'This Assembly recommends to the Governor General in Council that he may be pleased to express his disapproval of the action and policy of the Finance Department of the Government of India in undertaking a present or contingent liability to the Imperial Bank for losses consequent upon the failure of the Alliance Bank of Simla.'

**Captain E. V. Sassoon** (Bombay Millowner's Association : Indian Commerce) : Sir, I think that the debates of this session have shown that it needs no small moral courage to get up in this House and support an attack on the Government, with the unenviable possibility ever before one of seeing the Honourable the Home Member, by his formidable debating skill, tear to shreds and tatters the choicest examples and specimens from one's rhetorical armoury amidst the triumphant cheers of the Government Benches and discreet titters from those portions of this building which you, in your wisdom, Sir, have decreed to be officially invisible to our vision, lest in raising our eyes heavenwards in search of inspiration, we should be blinded by the dazzling glory of the gods and goddesses. But there are moments, Sir, when our faith in the justice of our cause and the sincerity of our convictions enable us to forget that bane of the inexperienced speaker, the slight tremble at the knee and the unaccountable dryness at the back of the throat, and gives us the courage to dash into the arena with the cry '*Ave Frederice morituri te salutant.*' I propose, Sir, in the first place to draw the attention of the House to the conduct of the Government in connection with this failure and the consequences which involve a very great departure from the accepted practice of the Government of India up to the present time. I shall further draw the attention of the House to what has taken place as the result of this conduct and ask the House, by their vote, to agree with my suggestions as to what immediate action should be taken by the Government in the matter. I do not propose

to discuss the question as to whether or not the Government had the necessary powers under the Constitution to take the action it did. The matter is *sub-judice*, and, like my Honourable friend, Sir Sivaswamy Aiyer, I am going to assume for the purposes of argument that the Government have got the necessary power in law. The question we have to consider is,—was the situation such as to warrant interference in a manner which created an important precedent, and was there no other method available which would have met the situation without the use of such extraordinary powers ? The supporters of the Government maintain that the magnitude of the failure of the Alliance Bank removed it from the category of the ordinary commercial failure and rendered the question one of national interest ; further, that only by Government action was a grave commercial crisis averted the consequences of which would have spread ruin in the country and crippled trade to an extent that could not be estimated, besides jeopardising the success of the proposed loan in London. That, I think, is a fair statement of the point of view of the Government. The method taken by the Government to avert this most undesirable state of affairs was to advance through the Imperial Bank the sum of about Rs. 4½ crores on security which, though not such as could be advanced on by the Bank under its charter, was, in the opinion of the authorities of the Bank ample cover for the amount involved. This information was, according to the statement of the Honourable the Finance Member in reply to a question, in the knowledge of the Bank and the Government for some period previous to the suspension of payment and was only acted on when certain negotiations which were taking place in England fell through. And yet it never seemed to occur to the Government that if the security was so ample, it might have been possible to arrange this finance through the usual commercial channels of the country. Remember it was not necessary to find 4½ crores in cash, but 4½ crores worth of security on which the Imperial Bank under its charter could have made the advance. I have not heard of any attempt having been made to approach the representatives of Banks and Financial Houses, other than one in Calcutta, whose articles do not debar them from making advances on the security possessed by the Alliance Bank. Nor have I heard of any of our rich Indian Princes who, it is well known, have large sums to invest every year, having been asked if they would help to finance this proposition. And yet Sir Basil Blackett admits to having been intimately conversant with the difficulties of the Bank even when he was in England, before he came out to India. The Government lacked foresight in not applying to sources of finance in this country with the exception referred to above, and when I make this statement I speak of what I know, at any rate as regards Bombay financial circles.

Failures unfortunately frequently take place, not only in this country but all over the civilized world, and creditors and depositors have generally to wait for their money for considerable periods, until the liquidator realises and distributes the assets, and during that period some of these creditors and depositors find themselves obliged to take temporary loans from their banks on which they have to pay interest. I wish to know what magic there is in the name of the Alliance Bank that their depositors and creditors should be more favoured. Why should the Government use

[Captain E. V. Sassoon.]

its influence to remit this interest at the expense of the shareholders of a commercial concern who in the normal way of business would be entitled under their charter to use for their own profit surplus Government funds lying with them ? And in this connection an interesting answer was elicited from the Honourable the Finance Member yesterday, for it is not probable that during the time of this liquidation, which is likely to last, some people say from a year to two years, that the Government will always be having 4½ crores lying idle and if the amount at the bank becomes less than 4½ crores, obviously as that is the bank security, the Government will have, as the Honourable the Finance Member said yesterday, to make up this amount either by borrowing from the bank on which it would have to pay interest or by selling treasury bills on which it would have to pay interest, so that even if there is no loss on the capital, there will be a charge on Government funds for interest. (*The Honourable Sir Basil Blakett* : "No.") If not, I must assume that the Government are in the habit of always keeping 4½ crores, on which they pay interest, lying idle, which, I think, is very bad business. It may be that Government felt sympathy for those Government servants who had deposited their savings with the Alliance Bank, Government servants ranging we are officially told from a Member of Council down to the more humble shorthand typist and clerk. Why then did not the Government come frankly forward and subject to the subsequent approval of the Legislature advance the required amounts directly out of Government funds ? There is some kind of precedent, I believe, in the action of the British Government in regard to the failure of McGrigors Bank, though even then the confirming Act only relieved those officers who had sustained losses through the Government action of paying their remuneration through their bank. But what possible precedent is there for affording this relief to other creditors and depositors ? The amount involved if we only take Government servants' deposits would not, I take it, reach a very considerable figure. The balance did amount to crores. Those, Sir, are my reasons for supporting the Resolution. I fully realise that circumstances may arise when Government must strain its prerogative as was the case in England after the outbreak of the war. But I do not see those circumstances in the case under review. I think the Government acted with good intentions no doubt, but with a deplorable lack of foresight. The precedent that has been created is one that I do not like ; it is that Government funds may be used to help private concerns when and as the Government thinks fit. The fact that in this case Government servants were directly interested and might not be so in another case when help could not be given owing to the unsatisfactory nature of the assets makes the precedent even more undesirable. For the Government's own sake let it leave such matters to be dealt with by commercial methods. By all means put the Imperial Bank in a position to come to the help of such concerns by making their rules less stringent under certain conditions, but do not let the Government risk public funds.

Now, Sir, let me review the subsequent events. It has been at last admitted by Government that in this matter the Imperial Bank has been merely acting as its agents. So the Government is as responsible for the actions of the Bank in this connection as it would be of the actions of its



servants in any other connection, and the responsibility for such actions, whether good or bad, must rest with the Government ; for, it will hardly be denied that the Government have the right of varying its instructions to its agents as might have been found necessary ; and I take it from the date before the failure when those agents were appointed to the present time, the Government has been informed of all important events connected with the Alliance Bank as and when they occurred. Now, Sir, we have been told that the Government instructed its agents to carry out the liquidation of the assets of the bank and allow the creditors to appoint a liquidator of their choice as long as he was approved of by the agents of the bank. When the present liquidator was appointed, a considerable number of the creditors asked that an Indian of unchallenged reputation, one whom the agents of the Government publicly stated they approved of, might be associated with the European liquidator already appointed. One would have thought that the Government of India, always declaring as it does, its ardent desire to associate Indians as far as possible and wherever possible in every branch of its activities, would have welcomed this suggestion in view of the fact that Mr. S. B. Billimoria, the gentleman concerned, was one of the auditors of its agents, the Imperial Bank, and admittedly one of the most able accountants and liquidators in the country. I repeat that one would have thought that the Government would have jumped at this opportunity of satisfying Indian aspirations without in any way sacrificing efficiency. But what did its agents do ? They began by saying that this was a matter purely for the creditors to decide, and could only be decided at a creditors meeting. I venture to suggest that if the Government agents had said that in view of the benefits they were affording depositors, they invited agreement to the association of this Indian gentleman there would not have been any opposition to the appointment. What actually happened is that the agents of the Government did everything they could to prevent the adoption of a joint liquidator. I am assured that not only was a list of creditors refused, but that the list in the possession of Government agents was used to canvas proxies against the appointment of Mr. Billimoria. The House will appreciate the likelihood of such a motion going through when the creditors are told that the Imperial Bank which is paying out the 50 per cent. of the deposits is opposed to it. Even then, out of 3,500 proxies, 2,000 were lodged in favour of the Government agents and 1,500 in favour of the appointment of Mr. Billimoria.

**The Honourable Sir Basil Blackett** (Finance Member) : What is the value of the votes ?

**Captain E. V. Sassoon** : Proxies those were. What was the obvious result ? The studied refusal to allow Indian participation in this liquidation, supported as it was by the Imperial Bank, engendered the suspicion that there was something to hide, and that the bank was endeavouring to hide it. Rumours were flying round that guilty parties were being shielded to uphold British prestige and it even began to be whispered that the Government was concerned in the matter and was endeavouring to get things hushed up because of the close personal connection there had been in the past between the Members of the Board of the Alliance Bank and Government servants in Simla. And this, I will remind the House, was

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before the announcement that the Government had any direct interest in the matter. I criticise the Government severely for not having instructed its agents to press for the appointment of an Indian liquidator directly it realised that there was considerable support in favour of such an appointment. Now, let me say, here and now, that I do not wish in any way to disparage the present liquidator : I am convinced that he and his firm will not only efficiently but conscientiously carry out their duties and that they will bring to the attention of the proper.....

**Mr. President :** I would ask the Honourable gentleman not to pursue that line. I am not satisfied that the appointment of the liquidator falls within the terms of the motion. If, as I understand, the appointment of the liquidator lies with shareholders of the Alliance Bank, then the Honourable gentleman is not in order.

**Captain E. V. Sassoon :** I submit, Sir, with great respect that the fact that the Government of India, through its agents, are large creditors, brings the matter under the power of the Government of India.

**The Honourable Mr. A. C. Chatterjee** (Industries Member) : Creditors of the Alliance Bank ?

**Captain E. V. Sassoon :** The Imperial Bank are large creditors of the Alliance Bank and are acting as agents of the Government of India in this matter.....

**Mr. President :** It is entirely a question of fact who appoints the liquidator. If the Honourable gentleman can satisfy me that the Governor General in Council plays any definite and official part in the appointment of a liquidator, then he is in order. I pulled him up because an amendment has been sent in which raises this question and as there appears to be some doubt as to the exact position in which the liquidator stands in relation to the Government of India, I have to consider whether it is in order. I am not concerned here with the Imperial Bank or the Alliance Bank, but with the *locus standi* of the Governor General in Council.

**Captain E. V. Sassoon :** My point is this, the liquidator is appointed by the majority of the creditors.

**Sir Jamsetjee Jejeebhoy** (Bombay City : Non-Muhammadian Urban) : No, no, shareholders also.

**Captain E. V. Sassoon :** I think creditors as well.

**Sir Deva Prasad Sarvadhikary** (Calcutta : Non-Muhammadian Urban) : Shareholders appointed and creditors confirmed it.

**Captain E. V. Sassoon :** The Government of India, through their admitted agents the Imperial Bank, are not only the largest creditor, but will shortly be the only creditor, as most of the creditors' rights will have been assigned to them. In that way they are directly connected. They can call a meeting through their agents and by their votes.....

**The Honourable Sir Malcolm Hailey** (Home Member) : Is Government a shareholder ?

**Captain E. V. Sassoon :** I hope you will, at any rate, allow me to point out that, in whatever I have said, I am not casting any reflections on the present liquidator. I was going on to say that I am quite convinced that the present liquidator will bring to the attention of the proper authorities any delinquencies or discrepancies they can discover, and will not slur them over or ignore them so as to shield a guilty party ; but what should have been foreseen was that the refusal to allow an Indian liquidator to be associated with him was bound to cause widespread suspicion, however unjustified. (*The Honourable Mr. A. C. Chatterjee :* " Why ? ") Personally I cannot see what objection there was to the participation....

**Mr. President :** Before I allow the Honourable gentleman to proceed further, I must be more satisfied that the Governor General in Council is primarily connected with this matter. The Honourable Member knows that Resolutions must be recommendations to the Governor General in Council, an amendment must be within the scope of the Resolution. I am not satisfied that the Governor General in Council is primarily concerned in the matter.

**Captain E. V. Sassoon :** Of course, as I said, my point is that the Governor General in Council can, through his Agent, as through his servants, give certain instructions in the same way as a private firm could, and to that extent he is concerned....

**The Honourable Sir Basil Blackett :** I would point out that it is quite impossible for the Government or the Governor General in Council to give directions either to the creditors or the shareholders of the Alliance Bank with whom the appointment of a liquidator rests. I hope, however, that when the time comes, you will allow me to reply to some of the irrelevant arguments that have been used.

**Mr. President :** As long as the matter remains in doubt on this question of fact I cannot give a ruling on it. The Honourable Member will observe that I made my first statement on condition, and I am not satisfied yet on the question of fact

**Sir Jamsetjee Jejeebhoy :** May I say no one had access to the list of creditors to get the proxies for or against Mr. Billimoria ?

**Captain E. V. Sassoon :** May I take it that you are giving me the benefit of the doubt ?

**Mr. President :** You had better wait and see.

**Captain E. V. Sassoon :** I have heard it said that the present firm of liquidators refuses to be associated with anybody else in this liquidation, whether European or Indian. Is that a reason why Government, being as it is, is the largest creditor ?

**The Honourable Sir Malcolm Hailey :** How is it a creditor ?

**Captain E. V. Sassoon :** Certain Members of this Assembly seem to doubt my statement when I say it is a creditor. Any depositor who has taken his 50 per cent. may remember the letter he wrote to the Imperial Bank by which he assigns all his rights to the Imperial Bank who are acting in this case as the Agents. Therefore I maintain that as everything

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was assigned to the Imperial Bank, and therefore assigned to the Government of India. Therefore the Government of India are the main, and will probably be the only creditor in the end.

**Lieut.-Colonel H. A. J. Gidney** (Nominated : Anglo-Indians) : Will you read that out for the information of the House ?

**Captain E. V. Sassoon** : I believe the Honourable Member himself has been a depositor. I regret he has not read the statement he signed ; I will read it :

“ Dear Sirs, I have this day received from the Imperial Bank of India a sum of.....rupees. I hereby request and authorise you to pay to the Imperial Bank of India all dividends and moneys payable from time to time to me out of the assets of the Alliance Bank as and when they may become due up to the said amount, and until the same is repaid. I hereby declare that I have not assigned, charged, or otherwise dealt with any claim against the Alliance Bank of Simla to or in favour of any person.”

The ordinary letter of assignment which the Bank has to take so as to have security. I say, Sir, that, if the Government, in the position of the main creditor, considers that there should be an Indian participation, should they fold their hands and give in because the liquidator objects ? Supposing the present liquidators refuse to recede from the position they have taken up and threaten to resign, is it suggested that this is the only firm in India which is capable of carrying out this liquidation, or is it maintained that a question of the dignity of a private individual or firm is to take precedence over the public interest ? But I repeat, I fully sympathise with the firm in question. I think through no fault of their own, they find themselves in a very awkward position. They have said, I understand from the beginning, that they would only carry out this liquidation single-handed. Instead of pointing out that a situation might arise when Indian participation might become necessary, the agents of the Government agreed to these terms. The result now is that if public opinion is to be appeased, the present liquidators will either have to resign, or withdraw the conditions originally laid down. I hope they will see their way to do the latter. I think they would be doing a public spirited act in the true sense of the phrase if they could see their way to do so.

Now, Sir, let us turn to another aspect of the situation of which there will be no doubt.....

**Mr. President** : I must draw the Honourable Member's attention to the clock.

**Captain E. V. Sassoon** : During all these alarms and excursions one of the principal members of the drama was modestly hiding in the background. In every possible manner the Government endeavoured to divest itself of every connection with the matter, and the letter to the Indian Merchants' Chamber, which has been characterised by the acting Chief Justice of Bombay, as not easily reconcilable with the facts, helped to mislead the public. The Honourable the Finance Member, in reply to a question, defended that letter, pointing out that it only stated that the action of the Imperial Bank was public spirited and that he approved of that sentiment.....

**The Honourable Sir Basil Blackett :** Will the Honourable Member read my answer and not make a travesty of it ?

**Captain E. V. Sassoon :** " The letter in question did not describe the action of the Imperial Bank as spontaneous but as public-spirited, as I think it was." I take it, therefore, that the Honourable Member is agreed that it was public-spirited, which is all that I am saying. I would ask the Honourable the Finance Member whether, had he been a member of the public reading that telegram, he would have been wrong in assuming that the Imperial Bank had made the advance on its own risk and responsibility or whether he would have read the telegram as clearly indicating that the Imperial Bank was merely acting as the servants of the Government on their instructions and were relieved of all liability. I shall be interested to hear the answer of the Honourable Member to that question. Can it be wondered at that the faith of the country in the Government, which had already been very rudely shaken, has suffered an additional shock by this example of Government action ?

I take it that the Government thought it had some sort of justification in sending this grossly misleading letter and that some national advantage would ensue, but I cannot help being reminded of a remark that was made by Mr. Lloyd George when he referred to Mr. Bonar Law as being " honest to the verge of simplicity." I have seen it stated in the press that the Conservative Party attribute their victory at the last general election to these six words. I would point out that the people of India are no less lovers of the truth than are the people of Great Britain and with the greatest respect I would suggest that the Government of India in its future announcements should keep that phrase in mind, and I venture to predict that it will then find in the faith and trust of the country something which will more than make up for any slight temporary advantage that it might have hoped to gain.

I trust, however, that I shall have the House unanimously with me when I state it as my whole-hearted conviction that there is no Member of the Government Benches who in the slightest degree desires to shield anyone concerned in the affairs of the Alliance Bank.

The House will remember that in an answer given to an Honourable Member, the Honourable the Finance Member stated that the Government would take action on any facts that might be brought to its notice by the liquidator or otherwise. And, after reading his reply, Sir Basil Blackett made a spontaneous remark to the effect that he hoped that such facts would be forthcoming. The remark was quite spontaneous, otherwise I feel sure he would have added the words " if any " after " facts."

And now, Sir, I ask your indulgence and the indulgence of the House to be allowed to digress from the actual business before the House for a moment so as to make a personal statement. That I should choose this occasion is because, doubtless due to an oversight which will be rectified at the revision of the constitution, the important constituency which I have the honour to represent will have no direct representation in the next Assembly. I shall, therefore, not be here and I desire to take advantage of the fact that I now have, probably for the last time, the ear of the House.

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The House has, I am sure, listened with great appreciation to the very frank and straightforward, if perhaps belated, statements that have been made by the Honourable the Finance Member during this session, as well as the most sympathetic speech he made on the occasion of Dr. Nand Lal's Resolution to restrict the powers of the Governor General. These statements have made me, at any rate, revise the opinion I formed during the Delhi session as to a certain lack of sympathy on the Honourable Member's part with the aspirations of the non-official Members of this House. The views of a humble back-bencher can, I know, afford but the slightest passing interest to the Olympians of the Treasury Benches and the occurrence has most probably long since slipped the Honourable Member's memory, but, as I made a reference to the matter in the course of debate, I feel I must, in justice not only to the Honourable Member, who I trust will not consider that I am wasting the time of the House on a matter which to him must appear of the most trivial importance, but also to my conscience, inform the House that I cannot reconcile the opinion I hold to-day of the Honourable Member's attitude with the one I held last March. There can only be two solutions to this riddle. One is that there has been a change in the Honourable Member's ; the other, which is the solution I favour, is that I was entirely wrong in my judgment of the Honourable Member's attitude. Sir, I am one of those who, when they hold an opinion, hold it very strongly, perhaps even stubbornly, but there is an advantage in a weakness of that kind ; and that is, that when we retract a statement, as I do now, it is not mere lip service but sincere conviction.

I thank the House for its indulgence in allowing me to interpellate this entirely personal matter. To resume.....

**Mr. President :** I must ask the Honourable Member to bring his remarks to a close.

**Captain E. V. Sassoon :** Well, Sir, I have not got much more to say. I regret that I have trespassed on the patience of this House. I hope they will excuse it, because this is in the nature of being my swan-song.

I take it that the difference of opinion I have with the Government is that it proposes to wait till the facts, if any, justifying a prosecution are brought to its notice, whereas I hold that a more active part should be taken to elicit these facts. I, therefore, suggest that the Government, through its agents, are practically the only creditor, and that they should call for and press for the appointment of some acceptable Indian accountant who would have the right to follow in detail the course of the liquidation not with a view to interfering with the realisation and disposal of the assets but with the sole object of bringing to light any irregularity or misfeasance that might justify the prosecution of those at fault. If not, may I suggest that the Government will support, or ask its agents to support, any application to the court that might be made to wind up the affairs of the bank. If the Government will follow either of the suggested lines of action, which I have put forward, and thus take the lead instead of hanging back and waiting for facts to materialise, I think it will do much to dispel the cloud of suspicion which, like some noisome miasma, is spreading over this vast continent.

**Sir Jamsetjee Jejeebhoy :** Mr. President, I rise to oppose the Resolution which has been moved by my Honourable friend, Sir Sivaswamy Aiyer and I will touch upon some of the points which he has taken up.

He first of all questioned the advisability of the action taken by Government in guaranteeing the Imperial Bank in the payment of 50 per cent. to the depositors and creditors of the Bank. In this connection, Sir, I can do nothing better than quote from a paragraph which appeared in the *Times of India* dated the 5th July.

It runs as follows :

" If we presume that the Alliance Bank had closed its doors without being able to make any further announcement than that it had suspended business, almost certainly public confidence would have been shaken. Among commercial circles there were at the time unpleasant rumours about more than one bank alleged to be in difficulties. Even those banks which could present the white flower of a blameless life could not have escaped at least the backwash of the possible panic. Depositors would have made haste to withdraw their deposits. To meet these withdrawals banks might have had to call up uncalled capital and would certainly have had to call in, at short notice, all outstanding loans. In such cases the appetite grows with what it feeds on and the mania for withdrawing deposits would have developed beyond reason and the general atmosphere of distrust would have thickened. Commercial firms confronted with the necessity of repaying loans before they had been able to realise on their current transactions could have had no resource for raising the necessary money. If their own bank is recalling loans, they must go to another and, at a time of crisis when it is obligatory on all banks to keep their cash position strong, it is hardly likely that traders would be able to secure the necessary accommodation. Failures

of firms would grow more common daily, and the process of a real and disastrous financial collapse could only be stopped by the intervention of Government. As Government could, in a matter like this, work only through its bankers, it follows that the Imperial Bank would have been called upon, in any case, to play a part and the part which it would in such circumstances play might involve the country in a certain amount of loss, since Government credit would have to be pledged in support of commercial and banking institutions. The picture we have given is not overdrawn nor is it fanciful. One has only to study the history of financial crises in the capitals of the West to see how easily rumour and one important failure induce panic and loss of that faith on which complex modern business is conducted, leading in turn to a whole series of crashes. It cannot be doubted that, confronted with the possibility of a crisis developing upon one failure, Government and the Imperial Bank took the right course in stepping in when they did and averting from the start all possibility of unpleasant consequences to the financial and business world."

Well, Sir, the Honourable Mover went further and said he had doubts in his mind whether if the action taken by the Government was not taken, there would have been disaster in the country. Let me assure him, Sir, that I know of at least 3 banks that have failed since the Alliance Bank shut its doors, namely—(*Sir Deva Prasad Sarvadhikary* : " In spite of the action of the Government ? ")—the Amritsar National Bank, the Standard Bank of India and the Oudh Bank, Lucknow. (*Mr. S. C. Shahani* : " Have they been supported ? ") The Honourable Mover also said that no such action was taken at the time when other Indian Banks failed. The reason for that is very easy to find.

**Sir P. S. Sivaswamy Aiyer :** I did not say that.

**Sir Jamsetjee Jejeebhoy :** However, that is one of the arguments that have been brought forward and the reason why Government did not come to the rescue of the banks at the time of their failures in the Punjab in 1913 is very easy to find. It is because the amalgamation of

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these three Presidency Banks came into being in January 1921. Since then, Government have been in a position to have at its back enormous resources and knowing in this case that the Alliance Bank had some tangible assets to the amount of 50 per cent. at least of its liabilities, it took no risk at all in guaranteeing that payment. (A Voice : "Under what law ?")

Well, Sir, the question has been asked from the back Benches "Under what law ?" I think the Honourable Mover himself said that he would not refer to the law, and that he would take it for granted that the Government had the right and the Imperial Bank had the power to make the payments. (Mr. N. M. Samarth : "Because the matter is *sub judice*!") (Dr. H. S. Gour : "Under what law has the Government got the right ?")

Then, Sir, little has been made of the difficulty which Government would have encountered in floating its loan. The loan was to have been kept open till the 24th July, but within a week or ten days, the whole of it was subscribed. That shows that the action taken by Government was a wise one and restored public confidence. (Voices : "No, no.")

Besides, Sir, I do not understand why Honourable Members should object in this Assembly to Government coming to the rescue of the commerce and industry at the time of financial crises or impending financial crises when it involves no loss at all to the tax-payer.

Captain Sassoon has made a point that Indian Princes and financial magnates ought to have been given an opportunity of guaranteeing this instead of the Government doing it. My experience of financial magnates at any rate is that they are not the unselfish body of men that sometimes they are made out to be, and they are always ready to pluck a pigeon whenever they find one close at hand.

Sir P. S. Sivaswamy Aiyer : That is also public spirited, I think.

Sir Jamsetjee Jejeebhoy : Certainly not. In conclusion, Sir, there is only one point and that is that I join with Captain Sassoon in asking Government to give an assurance to the public. It has been given once but in a matter of this kind, that is not quite enough. I think it ought to be given repeatedly that Government will not be a party to shielding any wrong-doer but will bring him to justice wherever they may find him.

Lieut.-Colonel H. A. J. Gidney : Regarding my amendment I assume, Sir, that you have made up your mind about the liquidator question being relevant to the Resolution ?

Mr. President : If the Honourable Member wishes to move his amendment, I must call the other Honourable Members first. His amendment is subsidiary.

Dr. H. S. Gour (Nagpur Division : Non-Muhammadan) : Sir, when I heard my friend Sir Jamsetjee Jejeebhoy expounding the law and enunciating its propriety, I was wondering to myself whether he was speaking on behalf of Government or his constituency, because I feel certain that if his constituency were here listening to him, they are not likely



to have seconded his thoughts. The whole country feels, and feels strongly, that Government on this occasion has done an act which to describe it in mild language is highly regrettable. Why, Sir? We fought tooth and nail against the Budget and wished to balance it by reducing expenditure. Over the head of this Assembly the Honourable the Finance Member advised the Governor General to certify the salt tax.

**The Honourable Sir Basil Blackett** : I protest against that statement.

**Dr. H. S. Gour** : Against the advice of this Assembly, I repeat, the salt tax was certified. Before the ink on the certificate was dry the Government pledges its credit to the extent of 4½ or it may be 5 crores of rupees to back a purely private concern and to stand security without scrutiny,.....

**The Honourable Sir Basil Blackett** : No.

**Dr. H. S. Gour** : And further I venture to submit with the contingency which might involve the country in further taxation. I say, Sir, if the Alliance Bank are not able to meet their liabilities, the Government of India are bound to make good to the extent of 50 per cent. of the Bank's deposits which they have guaranteed. As Captain Sassoon has rightly pointed out, where is that money to come from? Have the Government got any store elsewhere except to tax the people of this country and raise the money necessary for financing the Alliance Bank through the Imperial Bank? That is the first point.

The second point is, the Government says, and Sir Jamsetjee Jejeebhoy repeats it on behalf of Government, that it is the duty of the Government to assist in commercial concerns. I submit a more dangerous statement than that is inconceivable.

**Sir Jamsetjee Jejeebhoy** : I did not say that.

**The Honourable Sir Basil Blackett** : It was not made.

**Dr. H. S. Gour** : The statement was that it is the duty of Government to assist commerce and industries. (*Sir Jamsetjee Jejeebhoy* : "At the time of financial crisis.") At the time of financial crisis. The statement is far more dangerous than I ever thought it would be. I shall explain it. If it is once promulgated that the guarantee of Government is at the back of commerce and industries in this country, I beg to ask what would be the limit of their liability and the extent of the taxpayer's liability towards the Government. What distinction can you make between the Alliance Bank and a purely commercial or industrial undertaking? There is no distinction in principle. There is no distinction on economic grounds. (*The Honourable Sir Basil Blackett* : "Only in fact.") Take for instance a highly speculative venture, such as, the Madras firm which failed some years back and the history of which could not have been forgotten. Take for instance a large miscellaneous commercial firm dealing in coal, or jute, or managing properties of other people, which falls involving shareholders and depositors and debenture holders in large losses. Are Government prepared to finance these concerns on the principle they enunciate, that

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because the industries of the country, because the economic life of the people would greatly be disturbed, therefore they were entitled to use our money for the purpose of finding 50 per cent. of the money paid to the depositors? I ask, is this a principle which the Honourable the Finance Member prepared to enunciate? If he is, I should invite him with due respect to show me a single passage in any book on economics, to show me a single precedent, in support of his view. I submit the action of the Government of India on this occasion was unprecedented and let us hope that after this Resolution is carried no future Finance Member will emulate the example set by the present Finance Member.

Now, Sir, it has been said that 50 per cent. of the depositors' money in the Alliance Bank is secured, and that is a statement which has been made from the non-official benches by the apologist for Government, my friend, the Deputy President of this House. Now, Sir, I should like to know upon what data that statement is made. Was any inquiry made by the Government of India, were the securities examined, was any scrutiny made....

**The Honourable Sir Basil Blackett :** The answer to all those questions is in the affirmative.

**Dr. H. S. Gour :** The Honourable the Finance Member says, yes. He answers all those questions in the affirmative. I venture to ask him who made the inquiry, and is there any record of that inquiry which you can place at the disposal of this House?

**The Honourable Sir Basil Blackett :** I have just placed it at their disposal.

**Dr. H. S. Gour :** Is there any report of the inquiry made by the Government of India which heralded the orders passed by the Government of India in the Finance Department that it would stand guarantee to the extent of 50 per cent. if the Imperial Bank were to pay out the money? Now, Sir, that is a point upon which I should like the Honourable the Finance Member to enlighten this House. I have no doubt about his statement that an inquiry was made, but I should like to have a copy of the report of the inquiring officer for my own satisfaction. That, of course, will be regarded as confidential. Then, Sir, we pass on to the next point. That point is : I interpellated the Honourable the Finance Member and the House will remember my question and the answer that was given. I said that at the time when the Indian Merchants' Chamber and Bureau asked the Government of India whether they had not undertaken that liability to the extent of 50 per cent. and authorised the payment of that amount by the Imperial Bank, Mr. McWatters wrote to the Indian Merchants' Chamber and Bureau that it was an action entirely on the part of the Imperial Bank. The Chief Justice's remarks and the subsequent replies given by the Honourable the Finance Member make it now abundantly clear that the Imperial Bank was merely an instrument and they were acting entirely and solely on the responsibility of the Government of India. Now, in that view I asked the Honourable Member whether it was not a clear case of terminological inexactitude,

The Honourable Member said it was not. (*The Honourable Sir Basil Blackett* : "That was not his answer.") The answer was that it was terminologically exact. If that is the answer, if the meaning of the Honourable the Finance Member was not what I have interpreted him to mean, I should still like to know how he can reconcile the letter written by Mr. McWatters with the subsequently proved facts, because it reflects not only upon the credit of the Government of India but upon their morality, in hoodwinking the public into a belief that they were not responsible for this action taken by the Imperial Bank when we now know that the Imperial Bank was not responsible and was merely acting as the agent of the Central Government. On these grounds I support the Resolution.

**The Honourable Sir Basil Blackett** : I should like, first of all, to make a few remarks on the form of the Resolution :

"This Assembly recommends to the Governor General in Council that he will be pleased to express his disapproval of the action and policy of the Finance Department of the Government of India....."

I know not which to admire most, the ingenuity of the mover who gets over the difficulty of recommending to the Governor General in Council that he will be pleased to express his disapproval of the action and policy of the Governor General in Council, or the compliment that is paid to the Finance Department in suggesting that it and it alone is responsible for the benefit that has been secured to India by this action and policy. I need not perhaps assure the House that the Governor General in Council takes action and not the Finance Department in a matter of this sort, and much as I should like to claim full credit for what has been done I must share it with the Governor General in Council.

**Dr. H. S. Gour** : May I ask if the Honourable Member can assure this House that the Indian Members of the Executive Council were previously consulted ?

**The Honourable Sir Basil Blackett** : I think the Honourable Member's question is entirely improper, and the Honourable Member knows that it is improper. An assurance of that sort is the last thing that ought to be asked and I think it is the last thing that Indian Members of the Executive Council would like to have asked. (*The Honourable Mr. A. C. Chatterjee* : "Hear, hear.")

However, I will proceed to defend the motion, but I really think that before it is carried it would be in the interests of ordinary correctness that an amendment should be moved to substitute the words "Governor General in Council" for the words "the Finance Department." (*An Honourable Member* : "Move it yourself.")

Now, Sir, this question has unfortunately become complicated by a cloud of suspicion.

I am glad to say that, with the exception of some rather vitriolic and poisonous remarks from a quarter from which I should not have expected them, that atmosphere of suspicion has not been introduced into the House to-day. The atmosphere of suspicion in which this whole question has been discussed in some parts of the press, coupled with the fact that certain questions are still *sub judice*, adds a little difficulty to the discussion. Some of the motives attributed and the allegations that are

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"allegated" against the Government in this matter would be worthy of the demon King Ravana. I think they can best be answered by a statement of the facts. What are the facts? They have been partly stated by Sir Sivaswamy Aiyer in moving this motion but I think it would be desirable that I should state them in little more fulness. The history leading up to this failure goes back over two years at least. A year ago or nearly a year ago it was hoped that that danger had been entirely averted by a rearrangement of the directorate of the Alliance Bank. At that time an arrangement was made between the Alliance Bank and the Imperial Bank (with which the Government had no concern) under which certain powers of borrowing were obtained by the Alliance Bank in order to deal with the withdrawal of deposits that was inevitable in the circumstances. For some time it looked as if that action had been successful but unfortunately the good name of the bank had been irretrievably blown upon and in the early months of 1923 the continual drain on deposits made it evident that the bank would not be able to maintain itself without help from elsewhere. Repeated efforts were made,—they had been made for some time, but they were made again at the beginning of this year—by the Alliance Bank to find shelter under the wing of some bigger brother, some bank at home or here, but they all failed: and they failed because nobody cared to take the risk of the difference that was suspected to exist on the wrong side between the assets of the bank and its liabilities. It was suggested that the Government should give a guarantee covering the possibility of loss owing to the assets proving eventually insufficient to meet the liabilities of the bank. On that condition the bank could have been taken over by some other bank and nursed round with a very good hope of eventual recovery. But the Government held that it was not their duty or not right that they should give a guarantee of that sort, although there was reason to believe or at any rate the hope that such action might have prevented the closing of the bank altogether and give it an opportunity to be nursed round into solvency. The Government however declined to do that. It was still hoped that the negotiations that were going on might succeed but they eventually failed and it became absolutely certain that the bank must close. Now, what was the position? In spite of the warnings, people were quite unprepared for the closing of the bank. The day before it closed the bank's shares were quoted and selling at 110 on the Calcutta Stock Exchange. There were something over 8 crores of deposits. What would have been the effect throughout India if the announcement of failure had been made and no announcement made as to the payment to depositors of any portion of their deposits? As it was, what did happen? I have got here some cuttings from various papers. The first is from *Swarajya* of Madras:

"Although this part of the country has remained almost wholly unaffected by the crash of the Alliance Bank, in Northern India particularly in Calcutta and other cities of importance it was followed by something in the nature of a panic. We are told there was a run on almost every bank, foreign and Indian, at Calcutta soon after the news of the failure reached the place and the Tata Industrial Bank to speak of only one had to meet demands for withdrawal to the extent of 25 lakhs in one particular day. That there was such wholesale lack of confidence exhibited by bank constituents in general is not difficult to account for."

And then the article goes off into other matters. The same sort of reports came from everywhere. As a matter of fact for more than a week, it was extremely doubtful whether the panic would not become a serious one, not, I would point out, because there was any other important bank in the condition of the Alliance Bank, that is, whose assets were not amply sufficient to meet its liabilities but because if a panic starts those assets are not and cannot be liquid up to 100 per cent. of the liabilities. Now, the moment such a panic starts the extent to which it can spread is, in Dr. Gour's words, indiscriminate. It may spread right through India. Just let us think what that means. There are 250 crores of deposits including the post office savings banks in the banks of India. Does anybody suppose that there are 250 millions of liquid assets immediately available to pay every depositor at the same moment? Obviously banking is conducted to the great benefit of humanity on the assumption that every depositor will not want the whole of his deposits in cash at the same identical moment. But when a panic begins that is exactly what happens. Every depositor wants his deposits at the same identical moment. I do not think it really needs labouring. There were runs on banks everywhere and for a week or ten days it was very doubtful whether this panic had been averted. Can it be suggested that the action of the Government in arranging for the payment of 50 per cent. of their deposits to the Alliance Bank depositors forthwith was not material and indeed crucial in warding off all panic? Instead of being absolutely without ready money and without any knowledge as to whether any of their deposits with the Alliance Bank were ever going to be worth anything, the depositors of the Alliance Bank knew that they could get 50 per cent. and that they could get some of it forthwith if needed by going to another Bank on the strength of the promise of the Imperial Bank. They were not left without money and they were not left in doubt as to whether the whole of their assets had disappeared. Now, it is from the depositors of the Alliance Bank that the panic would naturally start. They were the ones who were first hit.

It was by relieving the fears of the people primarily concerned, the depositors of the Alliance Bank, that the action taken was effective in preventing the spreading of the panic. I saw a paragraph in a Madras paper the other day which said :

“When the Alliance Bank became insolvent, it is only the clientele of that Bank which should suffer the loss sustained thereby and not those who have no connection whatever with it.”

It went on to say that it is monstrous that the tax-payers' balances should be risked in helping depositors of the Alliance Bank. In the first place, the tax-payers' deposits were not really risked; I will come to that later; and they were not risked in order to help the depositors in the Alliance Bank; they were risked, if they were risked, to prevent the damage which had been retrievably suffered by the creditors of the Alliance Bank spreading right through India and damaging innocent people all over India, damaging Banks which were otherwise perfectly solvent, putting industry into great difficulties, and,—a very material point from the point of view of Government,—upsetting the whole of the bright hopes in regard to Government finance which had been recently

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considerably strengthened by the outturn of the Budget. The guarantee which the Government gave was not a gift of the tax-payers' money for the benefit of the creditors of a private concern ; it was not even risking such a gift, though it had to take the form of promising that the assets of the Government were available in the event—very improbable and in fact almost certainly not likely to mature—of the assets of the Bank being insufficient to pay 50 per cent. The guarantee was given, as I say, not for the benefit of depositors or for the benefit of a private concern, but to prevent disastrous consequences to banking throughout India ; and it was by allaying the panic of the Alliance Bank depositors that the panic in the minds of others was staved off. I have already in answer to questions stressed the importance from the point of view of the Government of India's interest, the interests of the tax-payers of India, of not upsetting the conditions of the money market at that moment. It is quite certain that if the Government had not intervened at the end of April, the consequences in India would have been such that it would have been quite impossible to issue the loan of 20 millions Sterling which was issued in May on favourable terms in London. We should have missed a very favourable opportunity for raising money which is absolutely essential for the railway programme, for the development of industries, transportation and other industrial interests of India. And we should have missed the opportunity of raising that money in May if the Alliance Bank failure had led to a severe panic. If we had missed that we should have missed a golden opportunity. We came in in London almost exactly at the best moment. Since that date the bank rate in London has gone up from 3 to 4 per cent. The price of gilt-edged securities generally has gone down; and even supposing we could have raised a loan of the same amount now, there would certainly have been a loss of at least a crore of rupees to the Indian tax-payer. As the result we should have had to issue that loan at considerably less than the figure of 90 at which it was issued. The amount raised by the loan by incurring the same amount of nominal indebtedness would have been considerably less, by a figure which I confidently state at not less than a crore. So much then for the interests of the Indian tax-payer.

I have spoken hitherto all through of the Government coming to the rescue of the situation. I now come to the manner of the Government's intervention. With the exception of Captain Sassoon who made an apology at the end for misreading my character for which I thank him and in view of which I will only say that his speech to-day has not improved the opinion which I had previously formed of his taste—with the exception of Captain Sassoon, no one I think has questioned the motives of the Government of India in taking this action. The mover of the Resolution definitely stated that he did not want to discuss the question whether or not this action was *intra vires* of the Government of India as that matter may be regarded as *sub-judice*. All I will say about it is that no one was more surprised than the Government of India when anybody questioned whether or not it was within their powers, and that they are advised that it is within their powers.

I come to the manner of the Government's intervention. Government believed, and I think they were right in believing, that it was in the general interests of Indian Banking that the Imperial Bank of India should come forward in this crisis. In most countries that is the natural duty of the Central Bank in consultation with other Banks. When a big failure threatening the stability of the banking system or the credit system of the country appears on the horizon, the Central Bank takes such action as it can to improve the situation, and it is only in very exceptional circumstances that action by the Government of the State is even suggested. The problem was, as I have said, to avert the feeling of panic which the failure of the Alliance Bank was in the opinion of the Government likely to create. Now the Government came to the conclusion that that panic would be very much more quickly and more surely averted if a banking institution announced its willingness to guarantee that 50 per cent. of the deposits would be paid out, than if it appeared that the Government like a *deus ex-machina* had come forward with the tax-payers' money to shower it as a gift upon the creditors of a particular private institution.

Obviously, action through the Central Bank has very much quicker and more certain results than a statement that the Government have rushed to the rescue of a dangerous situation. The whole of the case in regard to this question of the Government's intervention being concealed has been based on a letter written by the Secretary in the Finance Department to the Indian Merchants' Chamber and Bureau. It is asked, why did the Government write that letter? Now I am willing to admit that the action of the Government in writing that letter is, in my opinion, the weakest, in fact the only weak, part of the Government's case. (Hear, hear.) I believe it is the only weak part in the Government's case. I will ask you this question, however. What right had the Indian Merchants' Chamber and Bureau to send the telegram to which that was a reply? (*An Honourable Member* : "Why was a reply given at all?") A telegram was sent from the Indian Merchants' Chamber and Bureau and immediately published in the press asking questions the reply to which was known to some at least of the questioners, the questioners also knowing that the Government did not think that it was in the interests of India at that time that the full facts should be disclosed. I have already explained that the Government were of opinion that action would be better taken through the central Bank than overtly by the Government itself; and so long as there was still a risk of panic and so long as the matter had not been fully cleared up, the Government did not desire to disclose their full part in the matter. Government had every intention of doing so afterwards, but they did not see why their hands should be forced to disclose the facts prematurely. While I say that, I admit at once that that is the weakest, and the only weak, part in the Government's case. I am prepared to admit that there is this weakness. The Honourable Member, however, did not base his objection to the action and policy of the Government on any particular incident in this matter. His objection is an objection of principle. I remember hearing the story of a man who had taken an oath that he would not have a bath for a year, and he saw a gentleman in dire straits in a river just about to drown, and he jumped in and saved him—and he

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was very severely punished by his Church for breaking his oath. Now, the principle that Sir Sivaswamy Aiyer puts forward is that, whatever the circumstances, however great the benefit that may be secured by the people of India as a whole, in *no* circumstances should the Government of India intervene to stop a banking panic. (*Sir P. S. Sivaswamy Aiyer* : "I pointed out alternatives.") I entirely agree with him that intervention by the Government is undesirable if avoidable, and ought to be limited as strictly as possible. It ought only to take place if there is *no* other alternative, and if the circumstances are such that the interests of the country as a whole justify the action of the Government in using the credit of the Government to guarantee the situation. I think that Sir Sivaswamy Aiyer went further and used the words 'risking the tax-payer's money.' I prefer to use the words 'using the credit of the Government'—because that is what has happened in this case. There is a very great difference between giving a guarantee where you know that there is a deficiency, and using your credit to enable a payment to be made in respect of assets which are amply sufficient. The time for claiming that the tax-payer's money has been wasted will perhaps be when a vote comes before this House to make good the loss which the Government has incurred in this matter. I would be prepared to make a good many prophesies as to the date after the Greek Kalends when that will arrive. What happened in this case was that the Government credit was used because somebody's credit was needed to save the situation. There was no real risk of the tax-payer's money. (*An Honourable Member* : "No loss of interest?") No loss of interest. (*Dr. H. S. Gour* : "What is it based on but the tax-payer's money?") The Government credit may be used without risking the tax-payer's money. (*Dr. H. S. Gour* : "It is based on the tax-payer's money.") It is asked whether we were certain—in this uncertain world, nobody can be certain of anything. It may be that Dr. Gour himself will introduce a vote, a demand for a grant in this matter some years hence. All sorts of uncertainties and possibilities exist! But I am confident that no one who has had access to the facts and figures in this matter will doubt that the risk taken by the Government in giving this guarantee was so infinitesimal as not to be worthy of being taken into account at all. (*Mr. W. M. Hussanally* : "Then why were those facts kept secret?") The liquidator of the Alliance Bank will no doubt in due course produce the full facts—I do not know what facts are being kept secret. I agree with the principle that Government intervention should be limited to such cases as are absolutely essential, and I go further. I think that one of the lessons, as I have said, of this crisis is that the Imperial Bank ought to be in a position to come to the help of a situation of this sort. If the Imperial Bank had had the power, if its powers had not been limited to lending on a very strictly limited kind of security, it would have been able in this case to come forward and say, 'the security of the Alliance Bank is, we are convinced, so ample that we are justified in making an immediate advance—it is so ample that we feel justified in paying forthwith, advancing forthwith, 50 per cent. of the amounts standing to the credit of depositors and other creditors in order to prevent this situation from developing in a disastrous way for India.' It has not



got that power, and it is because it has not got that power that the Government's credit had to be pledged in order to give it that power. I hope that another advantage, indirect advantage, that may come out of this unfortunate failure will be an improvement in the general strength of the banking system of India and in its habits of co-operation. In this connection I should like to say that if the result of the amalgamation of the Central Bank and the Tata Industrial Bank, which is now under discussion, is to create a Bank, a new consolidated Bank, which is stronger and more able to help Indian industry and to take its part in Indian finance than the two Banks in separation, that will be at any rate some good that will have come out of evil.

I join issue therefore with the Mover in his attempt to lay down as an absolute principle that you should swear that you will never jump in to the river and save somebody. That is what the Government had to do in this case, and I think I have amply made it clear, first of all that the Government are running no risks, secondly that their intervention was fully justified by results and thirdly I am prepared to say that I think the Government would have been very deservedly criticised if they had not taken the action they did.

I must unfortunately refer again to the weapons of suspicion and the cross currents and the unjustified attributions of motive which not in this House but elsewhere have been flung indiscriminately against the Government. All sorts of motives seem to have been actuating the Government in the opinion of this and that writer in the less responsible press, none of which ever entered the Government's head. In the ordinary course this was a matter arising in the Bengal circle. A bank of Simla with its head-quarters at Calcutta; it was a Bengal matter. The Imperial Bank was asked to undertake the supervision of the liquidation as part of the arrangement by which the Government secured that the pledging of the credit of the tax-payer should not cost the tax-payer money. As a matter of fact all but a very small proportion of the creditors or the clientele of the Alliance Bank is in Bengal or the Punjab. The Bombay interests are negligible. The bank in ordinary course appointed as the liquidator a firm—one of the two firms—whose turn it happened to be to undertake the Imperial Bank business, one of the two firms in Calcutta which normally do audit and liquidation work for the Imperial Bank. That was the perfectly normal course and it never occurred to anybody that any question could arise. But that firm happened to be a European firm. There is nothing against them. Captain Sassoon himself has said that there is nothing against them, though he thought it right to drag in suspicions of unworthy motives into this matter. There is nothing against this firm; they are very eminent in their profession; there is no reason to suppose that they will not do their work thoroughly well. They have been appointed by the people who are responsible for appointing them, namely, the shareholders with the approval of the creditors of the Alliance Bank and they are doing the work on terms which will be for the benefit of the creditors of the Alliance Bank. It is suggested just because they happen to be European and there is another very fine firm of auditors who have made a great name for themselves, Billimoria and Company, who are the Bombay auditors of the Imperial Bank and who would have taken this business in the ordinary

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course if it had arisen in Bombay, it is suggested that it was racial feeling that caused the Government (who have nothing to do with it) to get this firm appointed and that we ought immediately either to get them to resign and replace them by the firm of Billimoria and Company or join Messrs. Billimoria and Company with them or have the liquidation under the orders of Court. Well, now, the cost of liquidation under the orders of Court would be reckoned in lakhs, while liquidation by the present method will be reckoned in thousands of rupees. It would be at the expense of the creditors of the Alliance Bank, and although, as I have said, the margin is ample, if it was so expensive as to eat up that margin, it would eventually be at the expense of the tax-payer of this country because of the guarantee of the Government. Why should you have a very expensive liquidation when it is being done very well and cheaply in accordance with the wishes of the shareholders and creditors, except a small minority whose action is not taken in the interests of the creditors? Then, it is suggested why not join Messrs. Billimoria and Company with the Calcutta liquidators? I am not altogether in order, Sir, I believe because the Government's position is at most the position of a friendly adviser in regard to the appointment of a firm of liquidators. The objection to that is again that it is not in the interests of the creditors of the Alliance Bank that you should duplicate the liquidation at the expense of the Alliance Bank, and I do not think anyone can suggest that it is to their interest to make an arrangement by which two separate firms of liquidators not working in partnership—because they cannot work in partnership—they would have to be appointed jointly and severally—should be engaged in conducting the same liquidation. And what ground is there, except this entirely irrelevant suggestion of racial feeling, what ground is there for altering your auditor? Supposing this had been an Indian auditor, as it would have been in the case of a Bombay failure, what would have been said if anybody had come forward and said 'We cannot trust this Indian firm to do justice, we must appoint a European firm to work with them'? The thing is absolutely irrelevant and I should not have referred to it had it not been for the fact that it was unnecessarily drawn in by Captain Sassoon. That is not the only racial question that has been imported from outside into this matter. On the top of this racial question imported without rhyme or reason, comes in a suggestion that the Government intervened in this matter because the Bank was a European bank and would not have intervened if it had been an Indian bank. In that connection the facts and something more regarding the banking crisis of 1913 are referred to. Now, I am not competent to enter into the history of the banking crisis in 1913 in India. That crisis was very unfortunate and it put back the clock of Indian banking for some considerable time. One of the objects of the creation of the Imperial Bank was in order that there might be a bank which could intervene in a way that was not possible in 1913 when the presidency banks were separate. I have got quite a lot of material on this subject. I do not know how far the House wishes me to pursue it. In his evidence before the Chamberlain Commission on Indian Finance and Currency, Sir Bernard Hunter, now one of the Managing Governors of the Imperial Bank, pointed out that when the firm of

Arbuthnot and Company failed, in 1906 I think it was, the Bank of Madras could not help partly because they were precluded from borrowing from another presidency bank without specific security. The presidency banks did their best to quell incipient panic but their position was not strong enough. They were too scattered and they were separate.

**Rao Bahadur T. Rangachariar** (Madras City : Non-Muhammadan Urban) : What about Government then ?

**The Honourable Sir Basil Blackett** : The Government was in the same difficulty. It had not an agent through whom it could work.

The first that the Government heard of a failure in those cases was the fact that the Bank had closed its doors and the thing was over. The object of intervention, as in this case, was to prevent a panic by making an announcement of what could be done to relieve the situation simultaneously with the closing of the bank. As I say it is a thing that the Imperial Bank could have done without question if it had the legal power. The Presidency Banks could not do it because they could not take the risks. Their assets were too scattered ; they were not big enough. It was one of the definite purposes of the establishment of the Imperial Bank of India, a matter referred to again and again in the discussions on the Bill for establishing the Imperial Bank of India, that if there was a panic, it would look into the affairs of each of these banks and advance money when they were in difficulties with the support of all the resources of Government at its back in case of necessity. Perhaps I may continue this point a little further. I came across the other day, in a book written in the beginning of 1913, before the bank failures to which I have referred by my friend Mr. Keynes, some rather interesting passages :

" At the present time," he writes : *this was in 1913*, " the arguments in favour of a State Bank in India are very strong, far stronger than they were in 1867 or 1898. The Government have taken over so many of the functions of a Central Bank that they cannot wisely neglect the rest. The absence of a Central Bank makes it difficult for the Government to use its cash balances to the best advantage. The absence of a Central Bank leads to a general lack of direction in the banking policy of the country. It is no one's business to look into the matter as a whole, to know the position of the markets or to enforce prudence when it is needed. There is a multiple reserve system in theory, but hardly an adequate one. And another danger exists that every one is reckoning in the crisis upon everybody else. The absence of the advice and the experience which the officers of a State Bank would possess is a source of weakness to the Government itself. The Government have taken over," *I repeat this phrase*, " so many of the functions of a Central Bank, that they cannot wisely neglect the rest."

That phrase applies exactly to-day. /

An attempt has been made since that date to get over some of those difficulties by establishing the Imperial Bank of India, but as this crisis has shown, the powers of the Imperial Bank are insufficient and there was still a divorce in fact between the resources of the Government and the resources of the central bank. What really happened in this case was that the credit of the Government, based on its reserves, came to the support of the market as a whole and prevented the panic which would otherwise have occurred. Now there is one other accusation with which I must deal before I sit down. I have seen it actually in the press—I do not think it could really be believed, but it is an accusation that is made

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on the theory that any stick is good enough to beat Government with—(Sir Deva Prasad Sarvadhikary : “The Finance Department”)—the Finance Department in particular, as Sir Deva Prasad Sarvadhikary says. It is said that the action of the Government was taken in order to shield a particular European individual from justice. Does anybody here believe that accusation? (A Voice : “Many people believe it,” and others “No.”) The Government’s record, even in financial matters, is not so bad. In the Arbuthnot case I think some one was brought to justice. Mr. Church has recently been extradited in order to be brought before an Indian court because there is a case against him. The last thing in the world which any European in this country wants to do is to shield another European from justice. He is I think more likely to be anxious to bring him forward in order to avoid a blow to what is I think called his *izzat*. The Government, as they have been asked to do so, formally state that they have no desire whatsoever to shield any criminal or any criminals in this matter from justice. They are most anxious that all the facts on which any action against any individual could be based shall be brought to light as quickly as possible. They have every belief that those facts will be brought to light, if they exist, in the course of the liquidation as soon as the liquidators are left free to get to their work and look into the accounts of the Alliance Bank. I am not aware whether or not there is a case for prosecution of any individual, and until that is known, obviously it is not possible to take any action, but the Government will not hesitate, at the earliest possible moment, if there are any facts on which they can go, to take action with all the vigour in their power to bring to justice anybody who, in connection with this affair, may have incurred any criminal liability. On that particular matter I may perhaps just mention that there is a committee of inquiry appointed by the creditors, on which Mr. Billimoria sits, with access to all the facts. The Government is perfectly willing, the liquidators and the Imperial Bank are perfectly willing and anxious that anybody who really desires to go into the matter and who is concerned in this matter, shall have access to all documents that are relevant. That offer has been made to those who have been pressing for it, and there is no kind of justification for any suggestion that full access is not being given and will not be given to anybody who is concerned in order to secure that the full facts, if there are any, as regards criminal liability in this matter shall come to light.

**Rao Bahadur T. Rangachariar :** May I ask, are the Government themselves calling for an *ad interim* report on this matter?

**The Honourable Sir Basil Blackett :** The Government are in close touch with the Imperial Bank and with the liquidators who are engaged on this matter. The Government have not, to my knowledge, called for anything that might be called an *ad interim* report, but they will be informed the moment there are any facts to go on without calling for them.

**Mr. N. M. Samarth (Bombay : Nominated Non-Official) :** May I ask if Government have ascertained whether all the books of the Alliance Bank are intact with the liquidators, or whether any books are missing?

**The Honourable Sir Basil Blackett :** I am afraid I am not able to answer that question because it is the first time I have heard of the question as to whether the books are intact or not. That is a matter which the liquidators would at once bring to the notice of Government as a suspicious matter, if it was true. I am afraid that I have got a hostile House. (*Cries of "No."*) I certainly had when I started.

The Government acted in this matter because it thought that it had to act in the interests of India and in the interests of its own finance. The Government knew it was going to be criticised. I admit that I was not quite prepared for all the fiery darts of Apollyon and all the suspicions and all the attributions of motives, but I was prepared for some of them. But the Government acted in this matter because it thought it was in the interests of India : not the interests of any particular bank, not to shield any particular individual from justice, not because, as it has been suggested,—I was very sorry to hear the suggestion—not because some of the depositors were Government servants. The Government acted because it thought that the interests of India required that some action of this sort should be taken. The Government saw no alternative method of action. I do not think that to have called in Captain Sassoon and to have asked him to do it on commission would have helped. And, obviously, this is not the sort of case that you can make public by calling people from Madras, Karachi, Bombay, Calcutta, to ask what you should do when a bank which you think is going to fail fails. Obviously, you have to act quietly and quickly. I entirely agree with the Mover that it is not desirable that the Government should have to intervene in such cases. I entirely disagree with him when he tries to lay down the principle that the Government should never intervene. But I think I have shown that in this case, first of all, it is almost inconceivable that there will be any loss but what the Government did was to bring the credit of the Government to bear to stabilise the situation and secondly that the action of the Government in intervening was justified and amply justified. The taxpayer is going to get full value in spite of the fact that he did not take any risk and I confidently appeal to the House, therefore, to see that this motion which amounts to a vote of censure on the Governor General in Council shall be negatived, and I hope that the House will declare that the action which the Government took was taken rightly for the good of India and for the benefit of the tax-payer of India. (*Applause.*)

**Mr. S. K. Barodawalla** (Bombay City : Muhammadan Urban) : Sir, on the face of the facts that we have heard from the Honourable the Finance Member and the assurance given by the Finance Member, I may say, Sir, that the Mover ought to withdraw his motion. I would suggest that the Honourable House on behalf of the people of India take the assurance from the Government that in case of any circumstances arising of the similar nature in regard to Indian Banks the Government will come to their rescue. I take it, Sir, from the speech that I have heard from the Honourable the Finance Member that Government will. (*Mr. N. M. Samarth :* "Oh, no.") If they have done so in this case, why should they not come to the rescue of other banks of standing, which really support the industries and commerce of the country ? I think, Sir, in my honest opinion, I am not here to shield the Government. I am one of those in Bombay who know something of commerce, industry and

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finance. I think the Government have done well by interfering in the matter as they have saved many banking institutions from a great crisis. When I came first to the House, Sir, it was in my mind to support the motion. I wanted to speak against the Government, Sir. But what I have heard and the assurance that I have got have satisfied me that what we want has been done. And if only Government will state that they will come to the rescue of other banks under similar circumstances, I think the motion ought to be withdrawn. However, in view of the assurance of the Honourable the Finance Member that action would be taken against all those who would be found guilty in the Alliance Bank affair, that all shareholders and other interested parties would have access to and right of inspecting the documents and books relating to the Alliance Bank, and that the Government will not shield anybody, I think it is only fair that the Honourable the Mover should withdraw his Resolution, because if we find that Government are going back upon their assurance and are trying to shield anybody or camouflage the affair in any way, Honourable Members of this House will have ample opportunity to place all the facts again before this House. I therefore appeal to the House not to be hostile to the Honourable the Finance Member after what has fallen from him. Forgive and forget, Sir. What is done is done.

**Sir Deva Prasad Sarvadhikary :** Sir, he who begins with appreciation and acknowledgment of his own weakness gains in strength and the Honourable the Finance Member has already begun to reap as he has sown. Ravana, the demon king, whom I am glad to hear my friend is beginning to study, but against whose methods and ideals I would strongly warn him, did not cultivate this philosophy. He made many a righteous resolve but never carried them out for he knew not when he was weak. The Finance Member knows or says that at least in one point he is weak and by his admission he has already begun to score.

I shall try and make a small, a very small contribution to that victory of his and having done so, we shall part company. I believe, Sir, we at all events in Northern India, where the stakes were large, that whatever the feeling in Southern India and the Bombay side may be, —I believe, so far as Northern India is concerned where the Alliance Bank has many ramifications Government action, right or wrong, certainly contributed to the alleviation of panic, panic that might have grown large and led to untoward circumstances. The sigh of relief at the prospect of even half a loaf was notable but there is the question of the wrong way of doing what may be absolutely right. I have been looking forward to some answer in the course of Sir Basil Blackett's long speech—an answer to the point that was raised by Sir Sivaswamy Aiyer. If the Government really believed that there was no risk in what was being done and that the Imperial Bank of India would be prepared to do what it did, if the Act permitted it to do, what was there to prevent a small ordinance rectifying the defect for the time being, for which none from the north or the south, from Karachi or Madras or Bombay or Calcutta would have been needed to come to advise the Government.

**The Honourable Sir Malcolm Hailey :** The guarantee would only last for six months in that case,

**Sir Deva Prasad Sarvadhikary :** My friend has anticipated me. The thing would have been made public by then. The need of secrecy and even of matters being kept confidential would have passed within six months and regular legislative supplementary could have followed. Ordinances last no more than six months, answers the Government side ; that is the statutory period, and within it the Government of India could have achieved anything more that was needed. Ordinances have been passed against which people have protested and yet they have come and lasted their period six months and other legislative measures have been enacted for the purpose of continuing the work for which these Ordinances had been passed. That is the Government answer to the question, Sir, for which I was waiting with some anxiety. That is the only answer we have, as the result of visible consultation here and now between the Honourable the Leader of the House and the Law Officer of the Government of India and Sir Basil Blackett. I say that is no answer. All that has happened—at least most of what has happened in the way of rousing criticisms and creating suspicions would have been obviated by the straight and business like course of enabling the Imperial Bank by ordinance to take up the matter as a normal banking proposition.

Sir, I do not agree that, when a suitable occasion arises, the Government should not and shall not do all it can to stave off panic. You cannot lay down definite and fixed policies either about floods or famines or about financial breakdowns, particularly in regard to breakdowns that are engineered and brought about, of which there is strong suspicion in this case. It is however all a question of ways and means—of methods. That is what we are considering, at least as I read the Resolution. What about that ? I have not heard one word of assurance amongst the many assurances that the Government has given—and we welcome them—that steps will be taken with regard to the improvement in our Companies Act and banking institutions which will make such events as we deplore impossible. Such an assurance has been asked for in the course of questions that have been put, and I was looking forward to some assurance in that direction.

**The Honourable Sir Basil Blackett :** If I did not give one, Sir, it was only an oversight. I did not know that I was asked for such an assurance. But the House may rest assured that every effort will be made by the Government to learn the lessons of the weaknesses either of Company Law or of the law of banking in this country which this case may have to teach and to bring before the Assembly measures for improving these.

**Sir Deva Prasad Sarvadhikary :** I am glad to hear that, and if I have been able to get that assurance I am really glad. Sir, my friend pleads oversight. This has been a matter of discussion in the press, I believe, and on the shareholders' and creditors' platform and have been the subject of questions here.

**The Honourable Sir Basil Blackett :** I thought I had given an assurance.

**Sir Deva Prasad Sarvadhikary :** That assurance, I welcome.

Well, Sir, my friend has been reticent, and I believe discreet, in not referring at length to the troubles of 1913 when a very serious banking crisis arose. I do not want to go very much in detail into that. The complaint in the country was, and still is, that the action taken—I shall not

[Sir Deva Prasad Sarvadhikary.]

say by the Government, but by many high Government officers—was exactly and absolutely contrary to that which has now been taken, and if the helping hand from any direction had been extended to those who were struggling in that crisis, it would have been averted and the rebuilding of the People's Bank would have been possible. Sir, I am not quite sure that some of the unrest that has been going on in the Punjab did not begin to date from that date. The organiser and promoter of that admirable organisation found his way into gaol and was about to receive worse penalties. Now he is one of the Ministers of the Provincial Government.

**The Honourable Sir Basil Blackett :** He has got a better goal.

**Sir Deva Prasad Sarvadhikary :** And he deserved it—every inch of it. The liquidator was enabled to pay, not sixteen annas in the rupee, but strange to say, nineteen annas in the rupee, and there was a balance left over. Nineteen annas in the rupee is somewhat of a romance to the Government of India, which however can bring out Rs 4½ lakhs reserve unsued (*A Voice* : “Rs. 4½ crores”) I beg your pardon. Rs. 4½ crores. It was a slip of the tongue, for ordinarily we do not talk in crores. Well, Sir, that lesson should be in our mind when we have to deal with a repetition of these things. At the present moment, we have been told that the three small banks that came to grief on account of the breakdown of the Alliance Bank did not receive Government assistance because they were small. (*A Voice* : “Did they apply for it?”) What is the procedure for such application and what is the limitation about smallness? And where is the line to be drawn? I recognise the danger of direct Government action and intervention in these matters. Reference has been made by the Honourable Sir Basil Blackett to the amalgamation of banking interests in Western India, from which good results are expected. It is hoped that our banking institutions will be placed on a proper and sound footing, not only in the interests of people needing ordinary banking facility, but in the interests of trade, industry and commerce and of the Government itself. I cordially share those views and I hope that in the undertakings which I am sure will be forthcoming as a result of this breakdown, Government assistance will also be forthcoming. We need a range of good sound Banks for the people whose needs the Imperial Bank cannot, at least does not, supply. Let this range of Banks now come. I do not agree with Sir Sivaswamy Aiyer that all help should be withheld for all time and under all circumstances in critical times. But the *modus operandi* should be well understood and above criticism. We are only anxious that everything should be done straight and square and in the right way and I say it is possible for Government to do this if only enough pains be taken and forethought ensured. They had long to think about it. The Honourable Sir Basil Blackett has said that he knew all about it before he came out and the question has been under the consideration of the Government for some time and it must have formed the subject of correspondence with the Secretary of State and with the Law officers and financial advisers of the Government here and in England. Therefore, they could have easily taken the step that Sir Sivaswamy Aiyer has drawn attention to. I suggest,



they could have done this by authorising the Imperial Bank legally to do that for which it was brought into existence. We have had the statement that as a result largely of what happened in 1913 and as a result of the necessities of the commercial world, following it the Imperial Bank system came expressly to cope with a crisis, such as we are discussing. If the Imperial Bank is not able without direct Government guarantee and without Government unusual authority to do what it has done, I say that the Act is defective and the whole system is defective and the sooner that is put right, the better. The *Deus ex machina* of the Government of India should not have to be invoked wherever and whenever these crises arise and big and small troubles ought to be looked into by the Imperial Bank in a business way and as bare banking propositions. The big brother, as the Imperial Central Bank has been just described, ought not to distinguish and differentiate.

Sir, reference has been made by Sir Jamsetjee Jejeebhoy and others who ought to know what is in the Bombay atmosphere—I forget really who it was that made the reference ; probably it was not Sir Jamsetjee ; somebody referred to it—that the Princes of India who have unused hoards had not been given opportunities of coming to the rescue of the bank.

**Sir Jamsetjee Jejeebhoy :** I did not say that.

**Sir Deva Prasad Sarvadhikary :** I beg my Honourable friend's pardon. (*A Voice :* " Captain Sassoon said that.") Sir Basil Blackett has imported many a thing into the consideration of this question which he himself said were not quite orderly, but were disorderly. That disorderliness had however its value for he has contributed to orderliness by such disorderliness and given useful information to those who want to understand the rights of the question. I take this opportunity of referring to a phase of the question in connection with the Indian Princes mentioned in the course of the debate. As a matter of fact, we know that an Indian Prince did much to help this bank and the connected institutions, and what is he now getting in return ? Abuse—suspicion that he it is that has been engineering the proceedings in Bombay against the Alliance Bank. I have very good reasons to believe, Sir, and I want to say that publicly, that this is as bad a defamation as has ever been uttered against an Indian Prince in regard to which the Indian Princes Protection Act has not given him any protection. Our Princes are now seeing the unwisdom of hoarding their wealth. They are coming to the assistance of business propositions and banking institutions, and when they do that, I think they require assistance and encouragement and protection. Judging by the way in which this particular Prince has been abused in all quarters, because he unfortunately happens to have incurred serious loss in the connected transactions, there will not be much encouragement for them to help in future.

Sir, I do not propose to take up the time of the House at length. I believe the feeling is very strong that drastic steps should be taken by which the methods that have been pursued by those responsible for the crisis should be prevented in the future. If this debate and this Resolution have achieved that purpose, a great purpose will have been served.

• (*Honourable Members :* " Let the question be now put. ")

**Mr. President :** The question is that the question be now put.

**Dr. Nand Lal :** (West Punjab : Non-Muhammadan) : The Punjab is very much aggrieved and she has not had an opportunity of expressing her views in respect of the Resolution under debate now.

**Mr. President :** Order, order.

The motion was adopted.

**Sir P. S. Sivaswamy Aiyer :** Sir, I wish that my Honourable friends who followed me in this debate had striven to keep the issue clear of minor questions and a number of side issues. My object was to present one short simple issue to the House for decision and that was whether the action of the Government in intervening in the way in which they have done on this particular occasion were right and whether the policy which it implied was wise. Upon neither of these points am I satisfied with the explanation that has been offered by the Honourable the Finance Member.

The reasons given are these. He asked what would have been said if simultaneously with the announcement of the closing of the doors no announcement had been made of any chance of payment of the deposits. Now, the answer is simple. We in India have long been accustomed to bank doors being closed without any announcement of relief. (*The Honourable Sir Basil Blackett :* "Of this size ?") It would have caused no unusual shock. (*A Voice :* "Question"). We have always been accustomed to hear of bank failures (*A Voice :* "No, no") without any announcement of any relief. (*The Honourable Sir Basil Blackett :* "9 crores of deposit ?") Now, it is said that the action of the Government has saved the depositors from the fear of total loss. It has not saved them from the fear of losing 50 per cent. of their deposits. I do not know whether the probability of a partial loss has partially or to any extent affected the public credit which the Honourable the Finance Member flatters himself he has succeeded in maintaining. He said that credit in the London market would have suffered, and that with regard to the floatation of the Indian loan there might have been a loss of a crore. I can only see the assertion of the Honourable the Finance Member in support of it. Of course, assertions of men in high places carry great weight, but I am afraid that the assertion is no demonstration whatever of the fact that by the action they took they were able to maintain the credit of the Indian Government in the London market which would otherwise have suffered. Now, let us see how it could have suffered. What is the process ? The Honourable the Finance Member has not condescended to explain to us the process by which the credit of either the Government or of people desirous of investing in the London Money Market would have been affected. I concede that the people who had deposited monies in the Alliance Bank would have been affected, but surely the London Money Market does not consist only of depositors in the Alliance Bank of Simla. Surely, there are thousands of people in the London Money Market who could have put in their monies into this Government loan and who would not have been affected in the least by the fact that the Alliance Bank has failed. Then, Sir, with regard to the particular form of action taken, the Honourable the Finance Member said that the object was to avert a panic and that the quickest mode of averting a panic was to take action through the Imperial Bank. Now, if it

was necessary to take action through the Imperial Bank, why could not Government have passed an Ordinance enabling the Imperial Bank, in the way that the Russian Bank was authorised, to deal in securities in which they could not have dealt owing to the limitations in the Act. The reply suggested is that an Ordinance would have effect only for six months. But within those six months considerable efforts could have been made and considerable progress could have been made with regard to the liquidation, and at the end of the period it would have been open to the Government to come to the Legislature if necessary to pass a law enabling the Imperial Bank to deal in securities in which it could not have dealt before. Now, Sir, I find that the Members of Government have very successfully cultivated the qualifications of good advocacy. That, at any rate, is one of the good results of the reforms. One of the qualifications of a successful advocate is to divert attention from the real issue by dwelling upon unessentials. Now, there were two questions, definite questions, which I put to the Government. One was with regard to this mode of empowering the Imperial Bank by an Ordinance. To that, at first no answer was vouchsafed, but subsequently an answer has been put forward that an Ordinance would last only for six months. The other question was whether the Government made any attempt at all to invite the co-operation of the leading banks in India. No answer has been vouchsafed to that question either. Then, it was said that the Government did not wish to disclose their hand before the panic had been fully averted. I think the panic would have been still more successfully averted, if there was any danger of a panic at all, if Government had come before the curtain and appeared on the stage from the very beginning. (*The Honourable Sir Basil Blackett* : " Question.")

With regard to the reasons with which the Honourable the Finance Member summed up his reply—first, that there was no risk, second, that the action was justified by the results, and thirdly, that if they had not taken action, they would have been criticised,—I venture to submit to the House that none of these answers can be taken to have been fully established. It is said that there is no risk. That remains to be seen. The principle for which I am contending is that the interests of the finances of India are far too serious to be trifled or played with by any action of this sort. My Honourable friend agrees with me that it is undesirable that the Government should intervene and that the occasions for such intervention should be limited. The point of difference between us is whether the Government is at all justified—I would not say, in intervening, but intervening by pledging its own liability, by pledging the public funds. I submit that the Government are not justified and whether there is any risk or not of loss is a matter which will have to be decided only after the liquidation is closed. But the fact that they do run a risk, that they do contemplate liability for loss is, I submit, sufficient to justify us in disapproving of the action of Government. Then, it is said it is justified by the results. As to that, all that can be said is that it is the old fallacy of *post hoc ergo propter hoc*. Government took certain action. It does not follow in the least that the results which are said to have followed are due to that action, or that there would have been a general panic which could not have been otherwise averted, or that the

[Sir P. S. Sivaswamy Aiyer.]

successful floatation of the loan, whether in the London market or in India, was due to the steps that the Government took. Well, Sir, it is said that the Government would have been criticised very severely. I am not aware that the Government has been criticised in the past before and I do not know that the Government would have been criticised on this occasion. (*A Voice* : "1913.") Whether it would have been criticised or not, the real question for us to consider is whether the Government was pursuing a right policy in undertaking this liability, a liability of an undefined extent which may possibly go into crores or may possibly not materialise at all. It may be a matter of some crores, it may be a matter of nothing, but what I say is, it is a most perilous policy and one which ought not to have been embarked upon by Government. (*A Voice* : "Question.")

One other result which is likely to be incurred by this policy of Government, by this offer of readiness and willingness to help on similar occasions in the future is one with regard to which we have already had some proof in the speeches that have been made. The Government have been invited to come forward on similar occasions with regard to other banking concerns and I do not know why they should stop short of giving relief only to banking concerns. There are commercial concerns and industrial concerns of great magnitude in the country which may, for aught we know, come to grief, not on account of avoidable misfortune, as is supposed to have happened in the present case, but otherwise. If any action of the Government can offer a premium to bad management of banks, I think this offer of help is sure to set a premium on bad or improvident management, because whether the failure of the bank is due to bad management or not, the persons who suffer by the policy of the banks are entitled to sympathy all the same. In fact the man who suffers through the fraudulent management of a bank is perhaps even more entitled to sympathy than the man who suffers from the failure of a bank which has come to grief without any fraud. It is a policy which, as I have said, is fraught with danger and it is only upon that ground of principle that I have ventured to bring forward this proposition and to criticise the action of the Government. I hope the House will support the Resolution.

**The Honourable Sir Basil Blackett** : The House has already listened to me far longer than it desired and I have addressed it longer than I like. So I do not propose to offer any very lengthy reply to the last speaker's last speech. As far as I could see, he added nothing to the points which he had raised before. He re-asserted some of the assertions that he made before and he denied some of my assertions. Well, Sir, if you are going to have a panic and you do not know how big it is going to be, you can, if you like, decide that you are not going to avert it, until you know how big it is going to be. You will then certainly know how big it is, but the knowledge may be unpleasant. But if you are going to have a panic and you take action to prevent it, you do not know how big it would have been, had you not taken action to avert it. I do not think that the bare statement that because you do not know how big the panic is going to be, therefore you should not intervene to prevent the panic is one that can hold water. Obviously

if you successfully intervene to prevent a disaster your critics can say the disaster would not have happened if you had not intervened and unfortunately for yourself you cannot come back and see how your critics would have liked the disaster. I have already answered Captain Sassoon's suggestion of a different method of intervention. Sir Sivaswamy Aiyer has suggested that we should have intervened with a Government Ordinance. I am free to confess that I never heard any such suggestion till to-day : but it would not have served our purpose. For one thing, it would have meant direct Government intervention in the first instance. Now, I have already said that I do not think that was desirable. Secondly, I do not think that in the time at our disposal we should have been able to make sure about drawing up an Ordinance which would have given us exactly the powers that we required, and thirdly, it would not have made any difference, because Sir Sivaswamy's point is that we ought not to have done it at all. Sir Sivaswamy has just appealed to the House and his whole point was that we should not have intervened and that it is dangerous and that the action of the Government is wrong in principle.

**Sir P. S. Sivaswamy Aiyer :** In pledging their resources.

**The Honourable Sir Basil Blackett :** In pledging the resources of the tax payer. Well, I can only say that I disagree with him on the ground I have already set forth. I do not think that you should take a vow to avoid getting into water, which will bind you not to save a man from drowning. I would just like to quote a passage to which my attention has been drawn in the proceedings in regard to the Imperial Bank Bill. The Honourable Pandit Malaviya was speaking. Referring to the 1913 troubles, he said :

“ I think it is due to those banks that asked for assistance to inform the Council that every single one of these banks has paid fully 16 annas in the rupee of the deposits which they had at the time they closed their business and I am certain that it has now been demonstrated beyond dispute that if there was a Government bank which could look into the affairs of each of these banks and advance money to those who were in a sound condition, a great calamity which overtook many of those who had their shares in these banks could have been and would have been averted.”

This is what has been done in this Alliance Bank case. A great financial panic has been averted by putting the Imperial Bank into a position without risking the tax-payers' money to save the situation. The situation has been saved and I do again appeal to the House to vote against this motion and not vote that whenever in future, which God forbid, there is a danger or the Government shall not intervene, if necessary.

**Mr. President :** Resolution moved :

“ This Assembly recommends to the Governor General in Council that he will be pleased to express his disapproval of the action and policy of the Finance Department of the Government of India in undertaking a present or contingent liability to the Imperial Bank for losses consequent upon the failure of the Alliance Bank of Simla.”

[Mr. President.]

The question is that that Resolution be adopted.  
The Assembly divided.

AYES—48.

Abdul Majid, Sheikh.  
Abdul Quadir, Maulvi.  
Abdul Rahman, Munshi.  
Abdulla, Mr. S. M.  
Abul Kasem, Maulvi.  
Agarwala, Lala Girdharilal.  
Aguihotri, Mr. K. B. L.  
Ahsan Khan, Mr. M.  
Aiyer, Sir P. S. Sivaswamy.  
Akram Hussain, Prince A. M. M.  
Asad Ali, Mir.  
Asjad-ul-lah, Maulvi Miyan.  
Ayyangar, Mr. K. S. B.  
Ayyar, Mr. T. V. Seshagiri.  
Bugde, Mr. K. G.  
Basu, Mr. J. N.  
Bhargava, Pandit J. L.  
Das, Babu B. S.  
Faiyaz Khan, Mr. M.  
Gour, Dr. H. S.  
Gulab Singh, Sardar.  
Hussanally, Mr. W. M.  
Ibrahim Ali Khan, Colonel Nawab Mohd.

Jathar, Mr. B. H. B.  
Joahi, Mr. N. M.  
Lakshmi Narayana Lal, Mr.  
Latthe, Mr. A. B.  
Majumdar, Mr. J. N.  
Man Singh, Bhai.  
Mudaliar, Mr. S.  
Mukherjee, Mr. T. P.  
Nabi Hadi, Mr. S. M.  
Nag, Mr. G. C.  
Nand Lal, Dr.  
Neogy, Mr. K. C.  
Pyari Lal, Mr.  
Ramayya Pantulu, Mr. J.  
Rangachariar, Mr. T.  
Reddi, Mr. M. K.  
Samartha, Mr. N. M.  
Sarvadhikary, Sir Deva Prasad.  
Sassoon, Captain E. V.  
Shahani, Mr. S. C.  
Sinha, Babu L. P.  
Srinivasa Rao, Mr. P. V.  
Subrahmanayam, Mr. C. S.  
Venkatapatiraju, Mr. B.

Vishindas, Mr. H.

NOES—39.

Abdul Hamid Khan Khudadad Khan, Mr.  
Abdul Rahim Khan, Mr.  
Ahmed, Mr. K.  
Amjad Ali, Maulvi.  
Ansonge, Mr. E. C.  
Ayyangar, Mr. R. Narasimha.  
Bardwell, Mr. H. B.  
Barnes, Mr. H. C.  
Barodawalla, Mr. S. K.  
Barua, Mr. D. C.  
Blackett, Sir Basil.  
Bray, Mr. Denys.  
Bridge, Mr. G.  
Burdon, Mr. E.  
Butler, Mr. M. S. D.  
Calvert, Mr. H.  
Chatarji, Mr. P. C.  
Chatterjee, Mr. A. C.  
Clarke, Mr. G. R.

Dalal, Sardar B. A.  
Faridoonji, Mr. B.  
Gebbie, Mr. F. St. J.  
Gidney, Lieut.-Colonel H. A. J.  
Graham, Mr. L.  
Gwynne, Mr. C. W.  
Haigh, Mr. P. B.  
Hailey, the Honourable Sir Malcolm.  
Holme, Mr. H. E.  
Innes, the Honourable Mr. C. A.  
Jejeebhoy, Sir Jamsetjee.  
Mitter, Mr. K. N.  
Muhammad Hussain, Mr. T.  
Mukherjee, Mr. J. N.  
Percival, Mr. P. E.  
Richey, Mr. J. A.  
Sim, Mr. G. G.  
Singh, Mr. S. N.  
Stanyon, Colonel Sir Henry.  
Ujagar Singh, Baba Bedi.

The motion was adopted.

The Assembly then adjourned for Lunch till Three of the Clock.

The Assembly re-assembled after Lunch at Three of the Clock,  
Mr. President in the Chair.

### THE CANTONMENTS BILL.

**Mr. E. Burdon** (Army Secretary) : Sir, I lay on the table the Report of the Select Committee on the Bill to consolidate and amend the law relating to the administration of cantonments.

## RESOLUTION *RE* THE CONFERMENT OF FURTHER REFORMS.

**Dr. H. S. Gour** (Nagpur Division : Non-Muhammadan) : Sir, I beg to move the following Resolution :

" With reference to the Secretary of State's Despatch on the subject of further Reforms, this Assembly recommends to the Governor General in Council to be so pleased as to move the Secretary of State to carry out his suggestion contained in his Despatch on the subject of further Reforms possible under the existing constitution."

Honourable Members will see that when Mr. Montagu came out to this country, after hearing all the evidence the two learned authors of the Montagu-Chelmsford Report concurred in formulating their views the outstanding features of which, so far as my Resolution is concerned, were set out in two paragraphs of their Report from which I read the following extracts. Relating to the Secretary of State's control the authors of the Report say in paragraph 260 :

" Our idea is that as the popular element of the Government acquires experience and learns to discharge its duties efficiently, further powers should be entrusted to it. The process in fact will be one of adding to the transferred subjects and of taking from the reserved ones, until such time as with the entire disappearance of the reserved subjects the need for an official element in the Government or for procedure by grand committee vanishes, and thus the goal of complete responsibility is attained in the provinces. What we have to do is at once to encourage and to regulate this process." That is the reference to the transferred subjects. Then with reference to the relaxation of the control of the Secretary of State over the Government of India, in paragraph 268, we find them writing the following words :

" Granting, therefore, that Parliament's understanding of the larger Indian questions and its responsibility for policy ought to be increased, there is no real inconsistency in saying that we should ask it simultaneously to agree to relax the Secretary of State's control in details. We consider that the Secretary of State's previous sanction to decisions taken in India should be required in fewer cases than in the past, and that in some matters it will suffice in future if he asserts his control by means of a veto if necessary."

Now these are the two outstanding features to which I wish to invite the attention of the House,—the relaxation of the control of the Secretary of State over the Government of India, and the framing of rules for the transfer of subjects from the reserved to the ministers' department. Now when this Report was published it was given out that the Government of India were in full accord with the recommendations of that Report, and the subsequent debate in the House of Commons will show that so far as regards these two subjects, we find a specific provision inserted in the Government of India Act. I invite the attention of the House to three sections : sections 19A, 96B (2) and 45A (d) of the Government of India Act. Honourable Members will find that section 19A lays down—it was clause 33 in the draft Bill—that " the Secretary of State may, notwithstanding anything in that Act, by rule regulate and restrict the exercise of the powers of superintendence, direction and control, vested in the Secretary of State and the Secretary of State in Council by this Act, or otherwise, in such manner as may appear necessary or expedient in order to give effect to the purposes of the Government of India Act, 1919."

Then, we have section 96B (2) :

" The Secretary of State in Council may make rules for regulating the classification of the civil services in India, the methods of their recruitment, their conditions of service, pay and allowances, and discipline and conduct. Such rules may, to such

[Dr. H. S. Gour.]

extent and in respect of such matters as may be prescribed, delegate the power of making rules to the Governor General in Council or to Local Governments, or authorise the Indian legislature or local legislatures to make laws regulating the public services."

So far as these sections are concerned, section 19A empowers the Secretary of State to relax his power of superintendence, direction and control over the Government of India in the manner therein provided. And the next section which I have read, section 96B (2), enables the Secretary of State to empower the Governor General in Council to make rules regulating the public services. Then, we have a third section, section 45A (a), which lays down that provision may be made by rules under this Act for various things, amongst them :

"For the transfer from among the provincial subjects of subjects (in this Act referred to as 'transferred subjects') to the administration of the governor acting with ministers appointed under this Act."

These are the three matters upon which the Secretary of State and the Government of India are empowered to make rules. It is laid down in the supplementary provisions to this Act that wherever rules are to be made (section 129A), the rules may be made by the Governor General with the sanction of the Secretary of State in Council and the Secretary of State may also direct that any rules to which this section applies shall be laid in draft before both Houses of Parliament. Now, these are, therefore, the provisions of the Government of India Act that have not yet been exploited. We asked the Honourable the Home Member the other day a question as to why it was not so, why they did not exploit the Act, and the reply of the Honourable the Home Member to my question is as follows :

"I have been unable to trace in the despatch the reference to further reforms stated to be possible to which the Honourable Member alludes. It is possible under the section quoted to make rules under the Act for the transfer of subjects but no change in the original rules has been made. The Honourable Member's attention is invited to the recommendation of the Joint Committee that no change of substance in the constitution including the lists of reserved and transferred subjects should be made in the ten years preceding the appointment of the statutory commission."

I take it, Sir, that that will be the line of reply of the Honourable the Home Member. He takes his stand upon this statutory commission. Now, upon this statutory commission, there has been a good deal of misunderstanding. I should like to clear it. I do not know whether I shall succeed, but I shall make an attempt. It has often been said in the press and from the platform that the statutory commission contemplated by the Government of India Act could not be formed before the expiration of ten years. That is exactly the question that was agitated in the House of Commons where Mr. Montagu was asked "Are you going to wait for ten years before any further step in reforms would be thought of?" And Mr. Montagu replied from his place as the Secretary of State in the following words : He said that the ten years was the maximum and on the expiration of ten years the Secretary of State was bound to issue a commission, but it did not prevent the issue of a commission within a shorter time and he pointed out that there might be circumstances in which a commission might be issued in a shorter time. Now, Honourable Members will remember that in September of 1921 my friend Mr. Majumdar brought forward a Resolu-



tion in this House to the effect that the time had come when the Government of India should move the Secretary of State to grant further reforms to this country. I shall not now advert to the controversial question as to whether the Resolution ultimately adopted by this House was the Resolution of Rai Bahadur Jadu Nath Majumdar or that proposed and drafted by the Government. Suffice it to say that a Resolution approving in substance Mr. Majumdar's contention was unanimously accepted by this House, and that Resolution was forwarded to the Secretary of State. After about a year, the Secretary of State penned his reply to the Resolution of this House; and I should like Honourable Members to remember that the Resolution which was accepted by this House unanimously was for the appointment of the statutory commission before the expiration of ten years, the object being (*A Voice*: "No") the re-examination of the whole question before ten years. This was the Resolution that was accepted by this House. In other words, the Resolution referred to the grant of further reforms by a re-examination of the whole question as contemplated in section 84A of the Government of India Act. The Right Honourable the Secretary of State in his reply to the Resolution of this House, communicated to this House by the Honourable the Home Member, gave two reasons for not being able to accede to the request of this Assembly. The first reason was that sufficient time had not expired and Parliament would not be in a mood to amend the Government of India Act. The second reason and the more important reason—in fact it is the first reason—given in paragraphs 2 and 3 of the Secretary of State's Despatch was that "you have not exploited the Act, the provisions of which are elastic and which afford room for further expansion within the existing constitution".

Let me quote to the Honourable Members the exact words of the Right Honourable the Secretary of State's despatch. He said :

"No such attempt was made, and the arguments used in support of the motion consequently lose some of their cogencies in my view for these reasons. In the first place, they assume that progress is impossible under the existing constitution and can be achieved only by further amendment of the Government of India Act. This assumption I believe to be fundamentally erroneous. The outstanding feature of the change made by the Act of 1919 was that it provided British India with a progressive constitution in place of an inelastic system of Government, and that consequently there is room within the structure of that constitution for the Legislatures to develop and establish for themselves a position in conformity with the spirit of the Act."

Now, Sir, I stand here to ask the Government of India to do what is suggested in this paragraph, namely, to establish liberal conventions, and make use of the rule-making power which exists within the structure of the constitution for the purpose of developing the Legislature and to establish for themselves a position in conformity with the spirit of the Act. (*The Honourable Sir Malcolm Hailey*: "Themselves?") Now, Sir, if you will turn to the Government of India Act, you will find that the contention of the Secretary of State is perfectly sound. He says, you have only worked the outer shell of it, you have not reached the core. Explore it, exploit it, and you will find that the constitution that has been provided is elastic and expansive. When you have developed that constitution and utilised it, and if you afterwards come to Parliament, we shall then ask the House of Commons to amend the Government of India Act.

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That is his argument. Well, Sir, I should have expected that a much more reasonable course to adopt would have been for the Secretary of State to say, 'I am not prepared now to advise Government to amend the Government of India Act, but at the same time I accede to the request of the Assembly so far as I am able to without amendment of the Government of India Act. I can make rules; the Act enables me.' (I have given the Honourable Members the section.) 'And I therefore propose to use my rule-making powers for the purpose of relaxing my own supervision, direction and control over the Government of India, and I will direct the Government of India to transfer to the charge of the Ministers subjects which are now managed by the reserved departments.' He has not done so. It was I think out of sheer forgetfulness, and it is for this House to remind the Secretary of State that he has suggested the course which is possible under the Government of India Act and we ask him to adopt it. Now, Sir, I do not think that my Resolution is of a controversial character. I have pointed out that in the Montagu-Chelmsford Report the elastic constitution to which I have referred was very clearly set out. The distinguished authors of this Report made it abundantly clear that during the period which must elapse between the inauguration of the Reforms and the examination by the Statutory Commission some further progress can only be made in the manner stated in the three sections to which I have referred. During the debates in the House of Commons when the Reform Act was under discussion Mr. Montagu was asked as to why these rules were not framed and appended to the Bill. It was suggested that these rules might be framed so as to make a whole job of it. The reply given was that it would delay the passage of the Bill; that Mr. Montagu had, in consultation with the authorities, already drafted some rules; that they could be subsequently added, but that if they were added then and there, or placed alongside of the Act as an integral part thereof, it would delay the passage of the Bill. For these reasons the rules which appear to have been framed, or at any rate were in contemplation, were not appended to the Bill. Now we ask if the Secretary of State should frame rules, as is suggested in the Montagu-Chelmsford Report, and as was suggested in the House of Commons during the passage of the Reform Bill, and as indeed has been suggested in reply to Mr. Majumdar's Resolution by the present incumbent of that high office, what objection, indeed, could there be to the framing of these rules? The Honourable the Home Member, in reply to my question, says that it was contemplated by the Act that the whole question should be examined after the expiration of 10 years. I think I have made it abundantly clear to the Honourable Members that that certainly was not the intention of the Act; and the fallacy of my Honourable friend's argument will be combated when I refer to the following facts. Mr. Montagu and Sir Malcolm Hailey here and the other occupants of the Government Bench have repeated times out of number that this is a transitory Act. On one occasion Mr. Montagu said: "I cannot reiterate too often that the basis of this whole policy is of a transitional nature. You want to get on to something else at the earliest possible moment." Now, Sir, that the whole of this Government of India Act, 1919, is a transitory Act, intended to last and having the life of ten years, admits of no doubt. Now, Sir, I say that provision is made in this transi-

tory Act, the life of which is fixed at 10 years, for the making of rules and for the expansion of the constitution. I ask any member of the Bar, my learned friends here, what was the intention, what was the spirit of the Act, if it was not that during the interval these powers were to be exercised and these rules framed. If that was not the intention of the Act, are we to assume these provisions as to the making of rules and the delegation of powers were to remain a dead letter and for ten years, until the whole Act is scrapped and a new Act is enacted, these powers, which were given to the Government of India and the Secretary of State, were never to be exercised ? I submit that the fact that we find provision in this Act for the exercise of these powers shows clearly and conclusively that they were to be exercised during this time and therefore to say that after the Statutory Commission an experience of ten years was necessary before further progress in Indian reforms should be possible, is no answer to the question that I have raised—is no answer to the suggestion, the recommendation made in the Montagu-Chelmsford Report, to the pledge given in the House of Commons and to the assurance conveyed in Lord Peel's despatch from which I have quoted. My friend, the Honourable the Home Member, sees no suggestion in the Secretary of State's despatch. Well, Sir, I join issue with him. If that passage is not a suggestion that further expansion is possible under the existing constitution—a statement of truism, which could only have been made if he was prepared to expand the constitution within the terms of the existing Government of India Act, then, I submit, what was his object in saying : I cannot ask the Government to change the Act because you can get something more than you have got under the present Act—look at your Act and you will find there something very much to your advantage there. That is what the Secretary of State tells us in that despatch. Well, Sir, I don't stake my case either upon the statement contained in the Montagu-Chelmsford Report or upon the debate in the House of Commons or upon the despatch of the Secretary of State. I am not asking anybody to fulfil his pledge or promise. I take my stand upon the Parliamentary Statute which lays down that rules shall be framed....

**The Honourable Sir Malcolm Hailey** (Home Member) : “ Shall be framed ” ?

**Dr. H. S. Gour** : That rules may be framed.....

**Rai J. N. Majumdar Bahadur** (Presidency Division : Non-Muham-madan Rural) : “ May ” sometimes means “ shall.”

**The Honourable Sir Malcolm Hailey** : Not where I am concerned.

**Dr. H. S. Gour** : That rules may be framed under sections 19A, 96-B (2) and 45-A of the Government of India Act.

Now, Sir, I ask what reason is there for not framing these rules ? The Government of India were a party to the Resolution accepted by this House by its unanimous vote. They did not dissent from it. They did not protest against it. They forwarded it to the Secretary of State for his consideration. The Secretary of State's reply has been quoted to you,

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I think it was up to the Government of India to immediately remind the Secretary of State and say to him,—what is the good of your saying expansion is possible : try it, make the rules and send them on to us, and give these people as much as you can give under the existing Government of India Act. I submit that was the plain duty of the Government of India. They have forgotten to do it, and I think my Resolution should act as a reminder to them that these powers which the Act contemplates and which will become nugatory after ten years when the Act is repealed and which were intended to be exercised now within the period of probation must be exercised and put into execution. Now, Sir, having said this, I might have sat down, but I wish to point out one more thing. In asking this House to support my Resolution I am helping the Government of India against themselves. It has been repeatedly pointed out and it is a fact which any casual observer will see that upon matters of minutiae and minute details, the Government of India have to refer to the Secretary of State for final orders. Mr. Montagu points out in his Report and it is a fact which has been admitted in the House of Commons, that, after the Reforms Act, the Secretary of State should only interfere upon matters of broad and general policy, but, that in all other matters the Government of India should be supreme and be able to decide for itself questions of policy and administration, subject, of course, to the right of veto by the Secretary of State. In asking, Sir, for the framing of rules contemplated by the Government of India Act, I am therefore installing the Government of India in a position of greater independence than they enjoy at present. And we feel that, if the Government of India are more independent, we shall be able to influence the Government of India much more than we are able to do at the present moment. As regards the provinces, I think it is now admitted that, so far as the transferred subjects are concerned, the Ministers have worked admirably and to the satisfaction of the heads of provinces. The reforms contemplated that more subjects should be transferred to the Ministers as times progress. Surely, Sir, after three years of reform, it should be necessary for the Governor General in Council to transfer some more subjects to the Ministers in the provinces and generally to frame rules on the lines I have indicated. I submit, Sir, I am liberalising the constitution not merely for the benefit of the Members of this House or of the provinces, but I feel, Sir, that I am advocating the cause of the Government of India. Therefore, I hope Members of the Government of India will support this Resolution—a Resolution which, as I have said, is moved alike in the interests of the Members of this House as of the supreme executive Government. Sir, I move it.

**Rai J. N. Majumdar Bahadur :** Sir, it has been well said that the child that cries most gets the most milk. Sir, in this House we have not cried most nor cried loudly. We only cried about two or three years ago once, but we have not been crying since then. Had we continued to cry for further advance, we would have got more milk than we have got. It has been laid down in the Bible :

“ Knock and it shall be opened unto thee. Seek and thou shalt find.”

Real and hard knocking is wanted in order to open the door. Therefore, I am glad that my friend, the Honourable Dr. Gour, has brought this subject up again to the forefront. Of course, his motion is on a lower level than mine was. He does not want to amend the Act. He only wishes to liberalise it, and to frame rules under the Act, within its four corners in order to give further powers to the Legislative Councils as well as to this House. Let us take, Sir, the provincial Councils. In the provincial Councils, we have certain transferred subjects. What are they? Education, sanitation, public works and so on; i.e., the Departments which they call "nation-building Departments." But these Departments, "nation-building Departments" have got no money wherewith to save the nation or to strengthen it. Every time they require money, either for education or for sanitation, they go with their begging bowl to the Finance Minister. "Sir, let us have money." "No money. I require it for law and order, for safety and tranquillity, for police, and all such subjects. Therefore there is no money. If you want more money, you must raise more taxes." The Minister will say, Sir, "But that will be very unpopular." "Well, then, your Department must be retrenched." In Bengal, the Retrenchment Committee that was formed has no control over "untouchable" subjects. They have no control over the Civil Services, no control over the Police. But they can control Education and Sanitation. And many officers, poor schoolmasters, are going to be abolished—poor professors and schoolmasters! That is the result of the Reforms.

The constitution as it stands at present provides in every province for at least two Indian Members, who are in charge not of "transferred" subjects but of "reserved" subjects. So, you may consider that even Indians are capable of taking charge of reserved subjects. There is the Maharaja of Burdwan; there is my friend, Sir Abdur Rahim in Bengal and so on in other provinces. There are thus Indian Members who are in charge of departments which have not been "transferred" but which are considered "reserved." What is the object of this Resolution? It is to transfer more subjects from the list of what is called reserved subjects to transferred subjects. There is no question of inefficiency. There is no question that there are not men capable of taking charge of these departments. They are already doing these duties of administering the reserved subjects. These duties were already being discharged very satisfactorily, even before the Reforms Act came into operation, by Indian Members of the Executive Council. Where is the difficulty of transferring the subjects? My Honourable friend the Home Member is taking note of everything that I am saying with the object of rising hereafter and crushing me.

**The Honourable Sir Malcolm Hailey :** No, Sir. Of educating myself.

**Rai J. N. Majumdar Bahadur :** What I submit is that on this question at least I expect a very sympathetic response from my Honourable friend. Why? Because not only in the interests of India but in the interests of England, in the interests of the British Empire, you cannot go on as you are going. You have already left your old moorings. You are going to the opposite bank, and you cannot go on in this slow way lest some storm, some unforeseen event, may overturn your boat in the middle of the river. So, please hasten this transitional period as early as you can, because you

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do not know what may happen. Many things may happen in these days. Sir, I am one of those who have been a great admirer of British character and of British constitution, and I have always lent my support for the last 45 years of my public life to what is truly British in character, and I say with the greatest earnestness that I am capable of that, you cannot rest where you are. You must advance, and if you do not advance, Heaven knows what troubles you may have in store for you, I do not know. I am not holding out any threat. But I say with the greatest respect to the Government and with the greatest diffidence at the same time that the constitution as it is cannot rest where it is. It must make progress, or you will have a retrograde motion. Take, for instance, the difficulty of allocation of revenues now between "transferred" subjects and what is called "reserved" subjects. There is a great difficulty. There is no peace; there can be no peace between a Minister and a Member when a Minister does not get any money for his subjects and the entire money is taken for the reserved subjects. The place of the Minister is not a very happy one. We have got one instance at least in which two Ministers of a certain Provincial Council found themselves compelled to resign. What does that mean? (*A Voice* : "U. P."). I know that. There is no need of labouring it. Don't you think that I am as ignorant as that. That shows that the present constitution is not working all right. There is a provision which the Governor adopts when it suits him that he should act in consultation with the Ministers. But the Ministers have no voice. Where is the harm in taking the Ministers into the confidence just as much as the Executive Council Members are taken into confidence? There are Indian Members. They have not acted in violation of the constitution, nor have they betrayed the trust that has been reposed in them. Similarly, where is the harm of increasing four more Ministers in the Provincial Councils and giving them the same powers which the present Members possess? There is no difficulty. But there is one difficulty. If election is resorted, then there will be two less European Members. That is the difficulty. I say it is a real difficulty, because, as they say, "Possession is nine points in law." They will say : "we are already there, and we do not wish to go away. We must sit here as long as we can". That is human nature. I do not object to it. Sometimes we commit the great mistake of thinking that all these Europeans are angels, just as Pope Gregory once said that the Angles were angels. At other times, we commit the greatest mistake of calling them so many devils. But they are neither angels nor devils. They are human beings like ourselves, some of them very good, some of them indifferent, some of them very bad, some of them better than ourselves.

**Mr. N. M. Samarth** (Bombay : Nominated Non-official) : Better than bad.

**Rai J. N. Majumdar Bahadur** : Better than ourselves. Perhaps, if we had got an Empire like what the British people have got here in India, we might have behaved worse than they have been. That is human nature. They must obey the good old rule, the simple plan, "let him keep who can." But I tell them in their own self-interest that if they lose something by giving up these two posts, they will gain infinitely more in other directions. When we go to pay our respects to a big Prince or Raja

or Nawab—it is an old custom—we make a little present, *nazar*, and in return for that, we get many presents of cloth, etc., infinitely more valuable. On one occasion I presented one gold Mohur to the Maharaja of Nepal in 1885, and many times that gold Mohur was returned to me as a present. By giving these two posts, I think the confidence that will be created, the love that will be created in the minds of the people of India, will pay you infinitely more than that, and make the connection of the British and the Indian permanent, or if not permanent, at least it will make it last for ages to come. But at this time you can all feel that the atmosphere is not very congenial. There is distrust in the minds of the Englishmen that if these Indians are given more power, if the army is reduced, they will at once send them (Englishmen) off bag and baggage. (Laughter.) That is the lurking suspicion in their minds. Laugh you may, but I have spoken the whole truth and nothing but the truth. There is this lurking suspicion. And why should they not have this? They have taken this land. They have spent millions of money here. They have sunk millions of money in tea plantations, coffee plantations, in mining concerns, in import and export business in shipbuilding and hundreds of other concerns. Why should they give up all this all of a sudden? Who will do it? If we had got an European country in our possession, we would not have done it. Therefore, one thing that is necessary for us is to create confidence in the minds of the British public and convince them that we do not mean to sever our connection with them, that we shall continue to be very faithful friends and allies—we gave ample testimony of our loyalty and attachment and friendliness during the great European war—and we should convince them that we shall be prepared to do the same in future. I cannot conceive, and I consider it impossible that Great Britain can continue to be as prosperous as it is if India is able to sever her connection with her. Fanev, Sir, the condition of Spain and Portugal, how great they were at one time, and how with the loss of South American possessions, which made them a great Power, they became a second class, third class, and even a fourth class Power in Europe. Can you conceive of a prosperous and great Great Britain without India attached to her? I cannot. Again, I cannot conceive that India with her numerous races and creeds can ever get what is called independence or autonomy without the help of the British Power, not to speak with the British Power arrayed against her. Therefore, it is in the self-interest of both the countries that they should unite together and work for the common good, not only for their own but for the common good of the whole world, because England, the greatest modern civilised country in the world, joined with India, the oldest civilised country, can really do some service to the whole world. I might say—Great Britain, but by naming England alone I do not mean any dishonour either to the Welshmen, or to the Scotsmen or even to the Irishmen that may be here, I bring them all under one name, Englishman. Scotsmen and Welshmen, if there are any here, are proud of being their colleagues, and they have like ourselves identified themselves with the English. Of course, the Scotsmen have lost their liberty, and so have the Welshmen. (A Voice: “Question.”) I say they have no national language, no national literature and no national creed, and they have merged themselves into what is called the British nation and they are proud of being in the British nation. We are also proud of being British citizens. *Civis Romanus sum*, that word

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used to be carried wherever a Roman citizen went. In my young days when I was a radical politician (*A Voice* : "What are you now ?") (*Mr. N. M. Samarth* : "Firebrand")—a firebrand I was in my young days—I was told by one of my English friends occupying a high position—I may say without any breach of confidence now, Sir Charles Aitchison—may his spirit rest in peace—formerly Lieutenant Governor of the Punjab—he said, "Well, you should be proud of being a British citizen." I say, I am still proud of being a British citizen, but as soon as I start from my house and go across the seas to any country, it may be Uganda, it may be Kenya, or it may be the Fiji Islands, I feel myself a helot and not a British subject, and I forget that I am a British subject. And naturally so. Why should it not be so ? Because those people of other countries, our colonial friends—I hope there are not any colonials here—our colonial friends cannot be expected to respect us, when we are not respected in our own homes even. One colonial gentleman, years ago, paid a visit to my humble cottage in the town of Jessore. He had been touring all over India for twelve months, and then at the end of 12 months it struck him that he had not seen any Indian gentleman and therefore before he left the shores of India he must see some Indian gentlemen. He had a friend in a local Missionary gentleman who also came from Australia, and that friend took him and introduced him to me as an Australian gentleman who had come to cultivate the acquaintance of an Indian. I said, "Many thanks for your coming here." "Why should you thank me ?" I said, "You who do not allow us to tread your soil, have condescended to-day to pay a visit to an Indian. I must thank you for that." His face grew short. He told me, "Don't you think that it is our doing. It is not our legislation. It is the Labour Legislation. We are never a party to it." Now, just consider. Why should Colonials think too much of us ? Have we got any real power ? Our ancestors have lived here for millions and millions of years, and we are here. You are here by accident. You came here as traders and you are now our rulers. Well, I do not wish to quarrel with you. Give us some of the privileges that you enjoy, and we are quite satisfied. Keep some for yourselves, because I say that is human nature. I do not ask you to be altogether disinterested. Keep some of the best posts reserved for yourselves, but at the same time, show us by your conduct that you have some consideration for us also. We Indians also have got flesh, muscle, nerve and everything and feel like you. On one occasion Sir Edward Norman Baker sent for me at Darjeeling when there was that great *golmal* in Bengal and asked my advice as to what to do to meet the situation then. The situation was one of bomb firing and assassinating Englishmen. I said, "Sir, you are an intelligent man. Don't you understand what is the reason of all this ?" He said, "I know, but I wish to have your opinion." I said, "Suppose a few Indians went as traders and merchants to England and then taking advantage of the mutual dissensions of the country made themselves rulers of the land and then made a rule that no Englishman would be able to enter the civil service of his country without coming to Calcutta and passing a stiff examination in Sanskrit or Bengali and so on, will you take it lying down ?" "No, certainly not. We shall be up in arms." "Sir, human nature is always the same everywhere." "Then", he asked me, "why don't you join



them ? " I said, " My hairs are grey. I have some brain, these people have not. I find that I cannot cope with you. You are organised, you are united, you possess a large army and good arms, whereas we do not. We are disorganised. We are Hindus and Mussalmans first, and then among Hindus where are hundreds of sects, we have so many languages, so many, provinces mutually jealous of each other, and if you found in united you would have either gone away long ago from here or lived in peace with us." Therefore, I say to my countrymen as well as Englishmen that it ought to be the aim of every Indian and every Englishman to cultivate mutual toleration and mutual love. Human nature always yields to what is called kindness. As Lord Buddha has said, hatred is never killed by hatred. It is love that kills hatred. If you love me you shall have my love in return. If you hate me I shall be nowhere with you, non-co-operation is the inevitable result. They speak of non-co-operation with disgust. I sometimes wonder why there should be non-co-operation at all in this country. Are not our rulers responsible for that non-co-operation ? Much is expected of him to whom much is given. You are our leaders, you are our elder brothers, as I should say, and you ought to teach us ; teach us self-sacrifice, mutual concession and mutual toleration. Why should Mahatma Gandhi, who served as a menial, as a stretcher bearer in the Transvaal and Zulu wars, why should such a loyal man, all of a sudden, turn a non-co-operator and a deadly enemy of the present system of British Government ? Is there any reason ? You may find fault with Mahatma Gandhi. I do not agree with him, and I do not worship at the same shrine with him. At the same time, I ask you most pertinently—I ask you to consider how it is that you have turned this loyal man into a disloyal citizen and sedition preacher. Should that be your policy ? No. Your constitution therefore requires some amendments, some changes with the progress of time. The other day my Honourable friend the Foreign Secretary was speaking about Mahendra Pratap Singh. He was a zamindar, loyal himself and the son of a loyal man and he turned a rebel. My friend Lala Girdharilal Agarwala gave him a good certificate. He said that he had many good impulses, that he was fond of education and was a charitable man and all that. I certainly condemn his action as severely as any one here in having turned against His Majesty. But I ask in all seriousness, why should this loyal zamindar's son turn a rebel at a great sacrifice ? If a Bolshevik asked me to turn disloyal, I shall not listen to him unless my interest lies therein. Therefore when the educated people of this country find that they cannot get anything out of you, when they return empty handed after going to you with begging bowls, they get disaffected. In our Hindu households, there is a custom that we should give something to those who come begging and that they should never return empty handed. I would advise you to adopt that Hindu practice. When we come with begging bowls, give us something, if you cannot fill our bowls, at least give something, *mushti bhika* as we call it,—a handful of rice. And this handful of rice, when given every day, every month, will in time grow into something tangible, something which will give us nourishment. I submit this Resolution by my friend Dr. Gour is a very modest one. My Honourable friend the Home Member is always in sympathy with us but owing to the official crust about him he cannot always show his sympathy. He has however got a good heart. I have not been able to be a regular attendant

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of this Assembly owing to my illness, but whenever I have come into contact with him I have known him to say something while he means something else. Sir, that is the greatest qualification for diplomacy, as they say, in England. Nobody will be able to fill those high posts unless he can conceal his thoughts. But it is necessary that the people should be outspoken. The despatch of Lord Peel which has been quoted just now does not surprise me at all. I feel that we have not been able to create confidence in the minds of the British people,—confidence such as will persuade them to part with power, because as I said before they are always suspicious that the weapons may be turned against themselves.

**Colonel Sir Henry Stanyon** (United Provinces : European) : Is it only on one side ?

**Rai J. N. Majumdar Bahadur** : There is also distrust of Englishmen in us. We feel, personally I have perfect faith in British word and character, many of us feel that the English are not true to their words. I was reading the other day the speech of Lord Courtney in the House of Lords during the Minto-Morley Reforms. He considered that many Indians still thought Englishmen untouchable and so on. Many people in this country do not believe that the English people have got a bright side to their character, that they always yield to pressure, that they make compromises when they find that the circumstances are against them, and then only they behave like good boys. They point to the treaties of Versailles, Lausanne, Mudiana and Iraq. So, I say create mutual confidence. At the same time let us set our house in order. Let the Hindus and Mussalmans be united. Let the Hindus be united among themselves. Enter the Territorial Force in larger numbers and train yourselves in arms in order to defend your country. Let there be two sorts of weapons in your armoury. Unless you are backed by physical force, nobody will listen to you. That is the history of the world from the earliest time up to this. Nobody gets anything for the mere asking of it. The Vedas have declared in a loud voice—one strong man makes a hundred wise men tremble. Let there be several hundreds of Rishis, Munis, philosophers and sages saying their prayers, chanting Vedic mantras and discussing philosophical questions on the banks of the Ganges. One strong man comes with a sword in his hand and all these hundreds of men are nowhere. The sword prevails. Therefore you must have physical strength. Not only physical strength but also moral strength, the strength that comes from character, from education and unity. All these must be acquired. The Englishman must know first that you are his friend and that you are united and that you have also physical force behind you. Then they will yield lest there be separation. Self-interest requires that the two countries should pull together, should live, move and have their being in the British Commonwealth. If that is the desire, the consummation to be devoutly wished for, then create confidence in our rulers. I have confidence in Sir Malcolm Hailey and I am sure to-day he will respond to what I have said. These rules were made not to be applied after ten years but in the course of the ten years. Otherwise these rules have no justification at all. They would not have found a place in the Statute Book, if they were meant to be applied at the expiration of ten years. I say, these rules are there, take advantage

of the rules if you are really sympathetic. If you really want to give us anything, then frame rules, which you can without amending the Act,—within the four corners of the Act. Send them to the Secretary of State in Council. Let the Secretary of State put them to the Houses of Parliament who are the ultimate arbiters of our destiny. They will surely decide in our favour, if a strong recommendation goes from the Governor General in Council and I know that all the members of the Executive Council, together with their Secretaries, are in sympathy with our aspirations for early autonomy as far as possible.

**Mr. S. C. Shahani :** Sir, have you dispensed with a time-limit ?

**Mr. President :** Dr. Nand Lal.

**Dr. Nand Lal (West Punjab : Non-Muhammadan) :** Sir, with due deference to the ability and experience of my learned friend Rai Bahadur Jadu Nath Majumdar, I am afraid he has gone a little bit off the track. We have to discuss only with reference to the interpretation of certain provisions in this Act, and my reading of those provisions induces me to come to this conclusion that the Government of India Act, 1919, is an elastic one ; and I must admire the Imperial Parliament, namely, the framers of these provisions, that they anticipated the legitimate political aspirations of Indians. They contemplated that the Indians, able, learned, capable as they are, are sure to raise their voice that they may be given further reforms sooner than the apparent period which the Government of India Act, 1919, provides. Now, Sir, I must say that our Government of India is very modest. They know that there is a clear provision, and in consequence and in pursuance of that clear and definite provision, they can frame the rules and submit them for the consideration of the mother of Parliaments, I mean to say, the Imperial Parliament of England. To support my argument, I shall simply invite your attention, Sir, to the very provision which substantiates my contention ; I mean to say section 96B (2) :

“ The Secretary of State in Council may make rules for regulating the classification of the civil services in India, the methods of their recruitment, their conditions of service, pay and allowances, and discipline and conduct. Such rules may, to such extent and in respect of such matters as may be prescribed, delegate the power of making rules to the Governor General in Council or to local governments or authorise the Indian legislature or local legislatures to make laws regulating the public services.”

Sir, am I wrong when I say that our Government of India is a little modest ? They are competent to frame the rules for further reforms and to submit them for the consideration of the Imperial Parliament. It is, as we know, open to the Secretary of State to authorise the Indian Legislature or a local legislature to make laws regulating the public services. Now, Sir, what does this Resolution contemplate ? This Resolution, if my reading of it is correct, is a gentle reminder to the Government of England and to the Secretary of State purporting to submit that it is not necessary ; there is no need for amending the Act ; the very provision of the Act gives full competency to the Secretary of State as well as to the Governor General in Council to frame rules which may give us further reforms. Now, Sir, there is another provision which is very clear in its terms, so far as the transfer of subjects is concerned. I may refer to section 45A (1) clause (d) of the same Act. The provision runs :

“ For the transfer from among the provincial subjects of subjects (in this Act referred to as ‘ transferred subjects ’) to the administration of the governor acting

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with ministers appointed under this Act and for the allocation of revenues or moneys for the purpose of such administration."

Could there be better testimony than this provision, Sir? Does it not give full power? It gives full power, and the former part of the section, namely 45A (1), is clearer than this. It runs thus:

"Provision may be made by rules under this Act."

Therefore, the only deduction which we can make and the inference which we can draw from these provisions is this; that further reforms could be given earlier and in addition to those already given. At this juncture I may submit that I remember that in the debate which was raised on the occasion of passing this Government of India Act, 1919, one of the Honourable Members in the House of Commons meant to say that "we cannot make hard and fast rules; it is not only possible but very probable that Indians, on account of their political aspirations may demand earlier further reforms."

From that debate also we stand fortified and our contention seems to be very well substantiated, when we raise this point before this Assembly that further reforms could be given without making an amendment in the Government of India Act. Then, Sir, you remember the other day we were discussing the provisions of section 19A. Now that section speaks for itself and gives a clear clue to this that the Secretary of State may withhold his interference in certain affairs and matters incorporated in that section. It reads thus, Sir:

"The Secretary of State in Council may notwithstanding anything in this Act by rule regulate and restrict the exercise of the powers of superintendence, direction and control vested in the Secretary of State and the Secretary of State in Council by this Act or otherwise in such manner as may appear necessary or expedient in order to give effect to the purposes of the Government of India Act, 1919."

Now what are those purposes? The purposes are those which have been embodied in the sections to which I alluded a few minutes back.

Therefore, Sir, it is concluded and I think it is an unanswerable argument that within the four corners of this Government of India Act of 1919, namely, within the contemplation of the Act, we are fully competent and justified to say that further reforms were meant to be and may be given to us earlier, and the fear of the Secretary of State or the Government of India that this Government of India Act of 1919, the period of which is fixed at 10 years, cannot be amended, I may very respectfully submit, is beside the mark. The very provisions speak in unmistakable terms that further reforms could be given earlier, namely, rules could be framed and submitted for the consideration of the Imperial Parliament. With these few remarks, I whole-heartedly support this Resolution which has been very ably moved. I do not think it is necessary for me to make references to the various relevant quotations and to the Despatch of the Secretary of State; they have already been referred to by the Honourable Mover of this Resolution. With these few remarks, I repeat that I support this Resolution whole-heartedly.

Mr. President: Resolution moved:

"With reference to the Secretary of State's Despatch on the subject of further Reforms this Assembly recommends to the Governor General in Council to be so pleased

as to move the Secretary of State to carry out his suggestion contained in his Despatch on the subject of further Reforms possible under the existing constitution."

The question is that that Resolution be adopted. As many as are of that opinion, will say "Aye." (*Voices : "Aye."*)

(The Honourable Sir Malcolm Hailey rose to speak.)

**Dr. Nand Lal :** I rise to a point of order. Has the Honourable the Home Member right to say anything in connection with the Resolution when the question has been put to the House ?

**Mr. President :** Sir Malcolm Hailey.

**The Honourable Sir Malcolm Hailey :** I am sorry that Dr. Nand Lal who has not himself, I think, been neglectful of his opportunities of addressing the House, should imagine that the House can suitably vote on a Resolution of this nature without listening to what Government Benches have to say on the subject. My difficulty in considering the Resolution may be best explained by reference to a conversation which I had with Dr. Gour this morning and which I know he will not mind my repeating. He asked me if I was going to oppose his Resolution. I said that my first effort was to understand it. For you will note that his Resolution proposes that we should recommend to the Secretary of State to take the action contemplated in his Despatch ; for my part, I was unable to see that that Despatch referred to any action that was to be taken by the Secretary of State. I need not read the words of the Despatch again. Lord Peel definitely denies the proposition that progress can only be achieved by further amendment of the Government of India Act, and proceeds to say that India has now been provided with a progressive constitution and that consequently there is room within the structure of that constitution for the Legislatures to develop and establish for themselves a position in conformity with the spirit of the Act. Is then the action which is contemplated to be that of the Legislature or is it to be taken by the Secretary of State ? On the face of it, it appeared to me that the Resolution called upon the Secretary of State to comply with an undertaking that he had never made. Dr. Gour has spoken of the assurance contained in the Despatch ; I myself have been unable to see any such assurance contained in it. He has asked the Government of India to do what was contemplated in the Despatch ; but was it not the clear intention of the Secretary of State in this despatch that the Legislatures and not the Government of India should proceed to make good the position due to them under the constitution ? But the subsequent debate has enlightened us further on the intentions of the Mover. He refers us to three sections of the Act, and contends that progress can be made by utilisation of these sections. Indeed, he goes further, and claims that the Act would be nullified if these sections were not utilized. His argument on this point is somewhat curious. He says that Mr. Montagu has on more than one occasion declared that the Act is transitory. Now, if the Act itself is to last only 10 years, and will be exhausted at the end of that period, and if we do not utilise these particular provisions within the ten years, then we are obviously defeating the intentions of the framers of the Act. Their use is not optional but obligatory. That argument, Sir, is based in my opinion on a false premise, and I cannot admit its implication. The

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premise was that the Act is transitory ; if I am right, that is in itself a misquotation. What Mr. Montagu has always said is that the constitution is transitory ; as far as I know, he has not said that the Act itself is transitory and that it must necessarily be replaced and its provisions exhausted at the end of ten years ; so that any implication that the Act itself obliges the Secretary of State to use these provisions within ten years, naturally falls to the ground. '

But, let me take the three provisions to which he referred, and I hope that in this instance I shall not come under the accusation which Mr. Majumdar levied against me, of saying something and meaning something else. However valuable the power to say one thing and mean another may be as a qualification for diplomacy, I should prefer that on this occasion not to be misunderstood, for apparently what we have said on this subject in the past has been subjected to a good deal of misunderstanding—I mean our attitude on the subject of Mr. Majumdar's own Resolution.

**Mr. T. V. Seshagiri Ayyar** (Madras : Nominated Non-Official) : There is no misunderstanding.

**The Honourable Sir Malcolm Hailey** : I knew that if I threw that bait a fish would rise to take it. The House must not think that I am going into that subject again. I will only point out that it is not correct to say that the House unanimously agreed that the constitution should be modified within ten years ; I will not at the moment question the unanimity of the House on that occasion, but must remind the House that the amendment to the Resolution merely stated a conviction that the whole subject should be re-examined with a view to its revision, a somewhat different matter.....

**Mr. N. M. Samarth** : Within ten years. /

**The Honourable Sir Malcolm Hailey** : Yes, within ten years ; but its re-examination with a view to revision.

**Rai J. N. Majumdar Bahadur** : Let us have that only.

**The Honourable Sir Malcolm Hailey** : I will not say it is impossible ; but that will be something quite different from what Dr. Gour claimed the Assembly had voted. Now for the three sections. Section 19A provides that the Secretary of State in Council may make rules for regulating and restricting the exercise of his powers of superintendence and control. Now, I have frequently been asked questions why no such rules have been made, other than the existing rules which restrict his control in respect of transferred subjects, and it may be well that I should supply a more definite answer than I can give in reply to a question. What is the process of making rules under 19A ? There are two processes by which advance can be achieved in the direction of waiving control. First of all there is the process of convention, to which Sir Sivaswamy Aiyer referred yesterday. Secondly, there is the process which can be achieved by the making of rules under 19A and the like. But mark the constitutional implications of these two processes. While under a convention of non-interference,

the statutory control of the Secretary of State, and therefore of Parliament, still remains (though it may be in abeyance), the effect of making rules, under 19A differs in this, that it is a statutory divestment of control. What is the theory of our constitution, or indeed of any constitution ? The theory of every constitution which is not explicitly autocratic, is that the executive must remain under the control of some legislature. Now whatever some of our critics may say about us and about the character of our administration, however autocratic it may be in intention and in spirit, in point of constitutional form it has not that character, for the reason that our executive is under the control of the British Parliament. In other words, it is under the control of a Legislature. Under what circumstances then can Parliament divest itself of that control ? Obviously only in circumstances under which the executive would come under the control of some other Legislature. Therefore, if Parliament is to be asked to divest itself of control over any particular subject, it seems to me that it can only do so when we have responsible Government within the Central Government, that is, when certain subjects are transferred to the control of the Indian Legislature. We should then have a process exactly parallel to that which has been followed in Provincial Governments. There you have certain subjects transferred ; that is, they are under the control of the Legislature, in so far that their administration is in the hands of Ministers who are responsible to the Legislature. It was in recognition of this fact that Parliament was able to divest itself of control over those particular subjects.

**Dr. Nand Lal :** I think this is begging the question. What the Honourable Member is saying is a vicious circle.

**The Honourable Sir Malcolm Hailey :** A vicious circle may be extraordinarily undesirable ; I was not aware that it was also a point of order. Then, if I may continue my point, the proper time for the Secretary of State to divest himself of statutory control over any particular subject in the Central Administration is when that subject is itself transferred to the control of the Indian Legislature. I maintain therefore that, if we are to be correct in the maintenance of constitutional form, the Secretary of State should not divest himself of authority under section 19A until we have made that change in our constitution as a consequence of which certain subjects can be handed over to the control of the Indian Legislature ; in other words until they are administered by Ministers. . . . .

**Mr. N. M. Samarth :** I am sorry to disturb the Honourable the Leader of the House, but may I point to the wording of section 19A, which says that the rules are to be made 'as may appear to be necessary or expedient in order to give effect to the purposes of the Government of India Act, 1919.' And the next clause says : Before any rules are made in this connection relating to subjects other than transferred subjects, the rules proposed to be made shall be laid in draft before Parliament. Therefore there are two classes of rules, which refer to transferred subjects, and these other rules referred to in this section which are to be made only with a view to divest the Secretary of State of the powers of direction, control and supervision which he exercises over the Government of India. (*Dr. H. S. Gour :* "Under the Government of India Act.")

**The Honourable Sir Malcolm Hailey :** That does not in any way alter my point. His question refers to the process under which these rules will be referred to Parliament. I cannot see how my point is affected, because I do not see that the Act itself does any more than to refer to the conditions under which certain rules are made.

**Mr. N. M. Samarth :** My point is not answered.

**The Honourable Sir Malcolm Hailey :** I am sorry if the Honourable Member considers that my interpretation of the Act is incorrect.

**Mr. N. M. Samarth :** With due deference, I think so.

**The Honourable Sir Malcolm Hailey :** He will not, I think, deny that the constitutional position that I have put in this particular respect is correct, namely, that if any Legislature, and of course the Secretary of State is only the agent of a Legislature, is to divest itself of control, then in correct constitutional theory it should only divest itself of such control when the executive is placed under the control of another Legislature. Otherwise we should have a constitutional anomaly. Then we have section 96-B, the power to make rules regulating the public services. But even if rules were made under 96-B, that would not necessarily amount to any substantial increase of the powers of the Legislature.

“ He may delegate the power of making rules to the Governor General in Council or to Local Governments, or authorise the Indian Legislature or local legislatures to make rules regulating the public services.”

Now, desirable as it may be that such rules should be made, clearly the Act gives the Secretary of State power to authorise the Governor General in Council himself to make such rules, or Local Governments, and that is not in itself necessarily therefore an extension of the powers of the Legislature. (*Mr. N. M. Samarth :* “ Or the Indian Legislature ”.) Or the Indian Legislature ; but the matter is optional. Since it is optional, I think I am correct in saying that it is not necessarily an expansion of the power.....

**Sir Deva Prasad Sarvadhikary :** We are asking that the option should be exercised.

**Rai J. N. Majumdar Bahadur :** That the rules should be made authorising the Indian Legislature.

**The Honourable Sir Malcolm Hailey :** My point is that it is not essential that they should increase the power of the Indian Legislature. Then we have section 45 by which existing transfers of Provincial subjects can be extended. Dr. Gour rightly anticipated that I should rely on the report of the Joint Parliamentary Committee, in so far as it suggested that no increase in the number of transferred subjects should take place within the statutory period. I myself have seen nothing which would convince me that more subjects are now ready for transfer, especially if they are to be transferred on the somewhat peculiar grounds put forward



by Mr. Majumdar. He was under the impression that the only objection to transfer was that the process would provide for more Indian Ministers and thereby reduce the number of Members of the Executive Council. But the process of transfer goes far beyond the change in the identity of persons who administer these subjects. It involves handing them over to the control of the Legislature itself, and, if it is true, as Dr. Gour says, that after the experience of three years, you can effect that change, than I say we have not as yet seen anything which would convince us of the truth of his assertion.

But of what was the Secretary of State undoubtedly thinking of when he made that reference in his despatch? He was undoubtedly thinking of the growth of power of the Legislature itself. That power can be increased either in the face of the Imperial Government at Home or it can be increased in the face of your own executive here; finally it can be increased in perhaps the most substantial way of all, by establishing its influence and power in this country. As regards the Legislature at Home, you have already one acknowledged convention in regard to your fiscal relations. You have again, as is shown not only by the issue of the rules under 19-A but by Lord Lytton's statement in the House of Lords on the debate arising out of what is known as the Speaker's decision in the Commons, an acknowledged understanding that there is to be no interference with provincial Legislatures in regard to their transferred subjects. In regard to your own executive, you have already made advances which perhaps are more apparent to us than they are to the Legislature itself. For it is perhaps the defender of a position who is in the best position to recognize the progress of the invader; tenacious as he must be of every point, conscious that every inch yielded weakens his power to protect the remainder, he is far more keenly alive to the position. The invader, impatient of delay, with his eyes fixed only on the extent of the territory still to be conquered, is slow to appreciate the full measure of his success. It is perhaps not the moment or the occasion when I should enter at length on this aspect of the question, for it would involve a review of all that we have been through together in the last three years. But, speaking as a Member of an Executive Government, I can give my testimony, though in the very briefest form. Take the effect of the Committees appointed by this Legislature; I doubt if it is realized here how much the Standing Finance Committee has affected the work of every branch of the central administration: nor is it realized how much influence will shortly come to be wielded by the Public Accounts Committee. Nearly every department has now its Standing Advisory Committee; perhaps the most conspicuous and influential is the Railway Advisory Committee. Then again, I do not think that our critics fully estimate the extent to which the Executive has been affected by the fact that on every important question in which we contemplate legislative action, Members of the Legislature form part of the Committees which consider these questions. I need perhaps only refer to such Committees as the Fiscal Committee, the Racial Distinctions Committee, the Arms Committee, the Frontier Committee, the Repressive Laws Committee; indeed, so numerous during the last three years have been important

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Committees of that nature, that for the moment I find myself in a difficulty in enumerating them.

**Rai J. N. Majumdar Bahadur** : We are glad of that.

**Mr. N. M. Samarth** : The Railway Finance Committee.

**The Honourable Sir Malcolm Hailey** : I see the House acknowledges my point and is prepared itself to supplement it. That is in the legislative sphere. But there has been an equal influence of this Legislature in the administrative sphere. Now, I hardly think that the Legislature has yet seen what is the effect on an Executive which has hitherto always conducted its own work in its own way, responsible, if I may so put it, mainly to its own conscience, and certainly not obliged at every turn to reveal its workings and its intentions to the public, of coming under the obligation to expose its inner consciousness continually to the public gaze. Every Member of the administration will bear me out in this, that the influence of the Legislature tends to colour every view we hold on administrative matters. I will not elaborate this, for I promised to be brief; but I must remind you that I premised that there was yet a third line of advance which was obviously in the mind of the Secretary of State : that is, that the Legislature should consolidate its position in the country by actual legislative achievement—and that perhaps forms the most solid basis of advance of all. There again, this is not the occasion for me to review the whole of the achievements of this Assembly. But I say without fear of contradiction that, whatever subject you approach, whether the interests of labour, whether the interests of commerce, or the interests of law and justice, this Legislature has already standing to its credit achievements which will go down in history as sound, solid, and substantial. That, in my opinion, is what the Secretary of State had in mind when he spoke of advancement. In my opinion, he did not contemplate in this despatch any formal divestment of authority on the part of the Secretary of State. On that question we must hold to the position, that we are not yet prepared for definite changes in the constitution. Holding to that position, I do not accept what Dr. Gour has said. I do not say that we, any more than you, are content to remain indefinitely where we are, but my point is that we are not standing still, that we are advancing within the constitution and that there is no case for the present of any formal divestment of powers on the part of the Secretary of State.

**Rao Bahadur T. Rangachariar** (Madras City : Non-Muhammadan Urban) : Sir, it will not do for me on an important occasion like this to take the compliments so generously bestowed on this Assembly by the Honourable the Home Member on the solid achievements of this Assembly. We refuse to take those compliments, Sir. It is true we have striven our best on our part to give responsive co-operation to the Executive Government in carrying out the reforms in the spirit in which we understood they were intended. But, Sir, it is a response which did not provoke a response on the other side. We idly believed that the Executive Government were willing to respond to our co-operation. Sir, that belief has been belied in more respects than one. It is true

we have succeeded in making some changes here and there, but when matters of substance really came up, the Executive Government faced us, no doubt in happy words, with a stern negative. Complimentary epithets have been showered upon us and like fools we felt flattered by those compliments. We have been befooled in this matter. Matters of substance have been really ignored, and therefore, Sir, I read the Honourable the Home Member's speech to-day as another attempt on his part to mislead us from the straight path of our duty.

(At this stage Sir Jamsetjee Jejeebhoy took the Chair.)

What, Sir, to put it in plain words, is the meaning of the Honourable the Home Member's speech? Sir, it has been a lawyer's quibble on his part to construe this section and that section and say, "Could it have meant this? Could it have meant that?" He referred to section 19-A and said "Could it have been meant that without transferring the power to the Imperial Legislature, the Act contemplated delegating the powers of the Secretary of State to the Government of India." I say it was deliberately intended that the powers of this distant Secretary of State should be transferred to the Government of India, although the Government of India may not be responsible to the Indian Legislature on the spot. For, the Government here are alive to the feelings of the people here, they come in daily contact with the real life of the people here, whereas their responsibility to a distant Parliament seven thousand miles away, composed of Members who do not contribute a pie to the taxation of this country—what is the meaning of that responsibility? Their ignorance is colossal; their interest in the affairs of this country is negligible, and that responsibility is no responsibility at all. Whereas, here, the Government of India at least could be controlled by questions, by interpellations, by Resolutions, by vote on the Budget and in various other ways, and we can bring them to their senses. But we cannot bring Parliament to their senses. They are unapproachable to us. The Secretary of State—is he really in touch with the feelings of the people of this country? Look at the way in which he depicted the situation in this country in regard to the enhancement of the salt duty. Did he really grasp the situation? Was he right in supposing that the people of this country were not feeling the imposition of this burden on them? Was he right in saying that it was an agitation engineered by the legislators here? What they want is revolution. They do not believe in this agitation of us moderates. We moderates are no good at agitation. It does not appeal to the Englishman. What appeals to the Englishman is noise, breaking up of windows, and breaking perhaps of heads. Then only he will awaken to the situation. That is the lesson, I am afraid, we are learning by our 3 years' experience. Moderate proposals are made that within the Act itself certain rules are contemplated which would expand the powers of the Government of India, which would expand the powers of the local Legislature, which would expand the powers of the Local Government. Now, what is the objection to embarking upon an investigation and passing all these rules under the three sections referred to already? The plain meaning of the Honourable the Home Member's speech is "Well, we are not going to do anything. The law may have clothed us with this power; we may be able to do it within

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the ten years ; but we are not going to do it." That is how I read the Honourable the Home Member's speech. What is the good of these empty compliments to us ? If we really are so good as you say we are, have we not justified ourselves in asking you to make this advance under the existing constitution ? Why don't you do it ? You say, " No, I am not going to do it." I don't know whether it is the views of the Government of India which are expressed to-day or whether they are views which are dictated from London. Whatever the truth may be, Sir, the dissatisfaction and the discontent already we have under the existing Act are bound to grow worse and worse. Let the Government take warning that even those of us who believed in the Act, who believed in responsive co-operation, are gradually losing faith in the Government, and I therefore, Sir, ask the House in all seriousness to approve of this Resolution.

**Mr. S. C. Shahani** (Sind Jagirdars and Zamindars : Landholders) : Sir, I join my voice to the voice that has been so ably raised by my Honourable friend Mr. Rangachariar. He has returned after a long time to the Assembly. We have been missing his voice. I am so glad that he has supported the Resolution that has been proposed by Dr. Gour. It has been very interesting to me to listen to the speech of the Honourable the Home Member. It was no small pleasure to watch his struggle to put an interpretation upon the Despatch of the Secretary of State which might suit the attitude that he has throughout assumed in the matter of further reforms in the Assembly. According to him, we should not have further reforms of any kind without the amendment of the Act after ten years ; and he wants on that account to belittle the suggestion that has been made to us by the Secretary of State in his despatch. Any one who has read the despatch can come to the conclusion—and only one conclusion—that some further advance is possible under the Act. It is, I suppose, the Home Member alone who can interpret the Despatch in the manner in which he has done. It is, I think, distinctly advisable on the part of Government to change their attitude. It is true that we are not sufficiently strong just at present. It is true, that just at this time, we may safely be not heeded. But I could assure you that this attitude of the Government will leave a very bad impression upon the mind of the people of India. It is true that in the Central Government we cannot have any transferred subjects until the Act is amended. We might wait for that. But several other changes might be made, for instance, the change that when the Government of India is in substantial agreement with the Legislature the Secretary of State should be prevented from interfering. Then in the provincial Governments more subjects may be transferred to the Ministers, and the Executive Councilors may make room for Ministers responsible to the voice of the people. Now, these reforms, it is implied by the Secretary of State in his Despatch, could be made under the Act under which the present Government of the country is carried on. And yet, it is denied, and in explicit terms, by the Honourable the Home Member that this power will ever be permissible under the Act. I would make once again a formal request to the Honourable the Home Member to change his attitude in the matter of

reforms and to give different advice to those who are presiding over the Executive Government at this time. This attitude on the part of the Government will impress the people badly, and as has been rightly remarked by my Honourable friend Mr. Rangachariar, may lead to bad results.

(Several Honourable Members : " Let the question be put.")

**Mr. Deputy President:** The question is that the question be now put.

The motion was adopted.

**Dr. H. S. Gour :** I shall be very brief in replying to the Honourable the Home Member, particularly in view of the fact that I cannot bring myself to believe that the Honourable the Home Member was giving vent to his true thoughts. I cannot believe that he could have so misread the plain provisions of section 19-A as to suggest, as indeed he has suggested, that the exercise of any rule-making power under that section is contingent upon the transfer of responsibility to the Legislative Assembly. Surely, when this Act was passed—this Reform Act of 1919—it contained, as the Honourable Member will see, only 47 sections, and it provides a transitory constitution. The fact that it finds a place in the larger Government of India Act does not take away from the fact that the provisions of this Reform Act are transitory and those sections relating to rules exist in this transitory Act. The whole of this Act will be repealed after ten years. The larger Act dealing with the powers of the Government of India and the rest is not a part of the Reform Act, though the Reform Act has been worked into the larger Act laying down the constitution of the Government of India generally. Therefore, I submit, it is a faulty argument. When you find these rule-making sections inserted in the transitory provision, they were not intended to be a dead letter, and consequently, I submit that no argument that we have listened to, no argument that the Honourable the Home Member has addressed to this House, can for a moment take away from the effect of the argument used by Members on this side of the House that you are bound to use the authority that has been given to you for the purpose of making rules under these sections, and we invite you to do so. What is the reply of the Honourable the Home Member ? As Mr. Rangachariar has bluntly pointed out, the reply is, we won't. I submit it is now for this House to decide whether they will accept the " we won't " of the Government of India or force their hands by a vote which must be recorded in favour of the Resolution. I hope that every vote in this House will be in the emphatic term that we demand of the Government of India to exercise the power conferred upon them by the Act and which would be to the mutual advantage of the Government of India and the Members of this House. Sir, I feel confident that this Resolution will receive the support which it deserves.

**Mr. Deputy President :** The question is ;

- " With reference to the Secretary of State's Despatch on the subject of further Reforms this Assembly recommends to the Governor General in Council to be so pleased as to move the Secretary of State to carry out his suggestion contained in his Despatch on the subject of further Reforms possible under the existing constitution. " 1

The Assembly divided :

AYES—43.

Abdul Hamid Khan Khudadad Khan,  
Mr.  
Abdul Majid, Sheikh.  
Abdulla, Mr. S. M.  
Agarwala, Lala Girdharilal.  
Agnihotri, Mr. K. B. L.  
Ahmed, Mr. K.  
Ahsan Khan, Mr. M.  
Aiyer, Sir P. S. Sivaswamy.  
Asad Ali, Mir.  
Asjad-ul-lah, Maulvi Miyan.  
Ayyangar, Mr. K. S. R.  
Ayyar, Mr. T. V. Seshagiri.  
Bagde, Mr. K. G.  
Barodawalla, Mr. S. K.  
Barua, Mr. D. C.  
Basu, Mr. J. N.  
Bhargava, Pandit J. L.  
Gour, Dr. H. S.  
Gulab Singh, Sardar.  
Jatkar, Mr. B. H. B.  
Joshi, Mr. N. M.

Lakshmi Narayan Lal, Mr.  
Latthe, Mr. A. B.  
Majumdar, Mr. J. N.  
Mun Singh, Bhai.  
Mudaliar, Mr. S.  
Mukherjee, Mr. J. N.  
Mukherjee, Mr. T. P.  
Nag, Mr. G. C.  
Nand Lal, Dr.  
Neogy, Mr. K. C.  
Ramayya Pantulu, Mr. J.  
Rangachariar, Mr. T.  
Reddi, Mr. M. K.  
Samarth, Mr. N. M.  
Sarvadhikary, Sir Deva Prasad.  
Shuhani, Mr. S. C.  
Sinha, Babu L. P.  
Sohan Lal, Mr. Bakshi.  
Srinivasa Rao, Mr. P. V.  
Subrahmanayam, Mr. C. S.  
Venkatapatiraju, Mr. B.  
Vishindas, Mr. H.

NOES—30.

Abdul Quadir, Maulvi.  
Akram Hussain, Prince A. M. M.  
Ansonge, Mr. E. C.  
Ayyangar, Mr. R. Narasimha.  
Bardswell, Mr. H. R.  
Barnes, Mr. H. C.  
Blackett, Sir Basil.  
Bray, Mr. Denys.  
Bridge, Mr. G.  
Burdon, Mr. E.  
Butler, Mr. M. S. D.  
Calvert, Mr. H.  
Chatarji, Mr. P. C.  
Chatterjee, Mr. A. C.  
Clarke, Mr. G. R.

Faridoonji, Mr. R.  
Gebbie, Mr. F. St. J.  
Graham, Mr. L.  
Gwynne, Mr. C. W.  
Haigh, Mr. P. B.  
Hailey, the Honourable Sir Malcolm.  
Holme, Mr. H. E.  
Innes, the Honourable Mr. C. A.  
Mitter, Mr. K. N.  
Nabi Hadi, Mr. S. M.  
Percival, Mr. P. E.  
Richey, Mr. J. A.  
Sim, Mr. G. G.  
Singh, Mr. S. N.  
Stanyon, Colonel Sir Henry.

The motion was adopted.

The Assembly then adjourned till Eleven of the Clock on Thursday, the 19th July, 1923.