

1st March, 1922

THE
LEGISLATIVE ASSEMBLY DEBATES
(Official Report)

VOLUME III
PART. I

THIRD SESSION

OF THE

LEGISLATIVE ASSEMBLY, 1922



SIMLA
SUPERINTENDENT, GOVERNMENT CENTRAL PRESS
1922

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LEGISLATIVE ASSEMBLY.

Wednesday, 1st March, 1922.

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

BUDGET FOR 1922-23.

INTRODUCTORY.

The Honourable Sir Malcolm Hailey (Finance Member) : It was my duty last year to place before this Assembly a budget which exhibited a heavy deficit. I had to confront the House, at the very inception of its career, with one of the most difficult problems which can fall to the lot of a representative Assembly. The responsibility was heavy, for the world was watching to see how this, the youngest of Parliaments, would meet a test which might have strained the capacity of many an older institution. But those of us to whom the success of the reformed constitution had become an article of faith had no apprehensions; and we were justified of our confidence. The House took up its burden in a spirit which in the common judgment of every serious critic at once sealed its position among the representative institutions of the world. It would have indeed been a welcome task if I could have come before you to-day with the confident assurance that your courage had met with the success it deserved; if we could have told you that the steps you took last year had rehabilitated our finances and closed the gap between the income and the expenditure of the nation. But Providence has seen otherwise, and this Assembly again has to face the heavy responsibility of dealing with a situation of great financial difficulty. It is no secret that the incomings of the current year have fallen far below our expectations; and as the House has probably already anticipated, the estimates for the coming year disclose a heavy excess of expenditure over revenue.

2. Let me from the first make one point clear. I shall have no such apologies to make as may have to be offered by the Finance Ministers of other countries—regarding increase of expenditure due to causes which could be held to be within our own control or due to our own volition. You will not have cause to complain that we have, in circumstances of exceptional stringency, embarked on fresh avenues of expenditure, or engaged in enterprises which should have been deferred until our finances were in a position to afford them. The details I shall subsequently give you will make this abundantly clear. Our difficulties are due to a falling exchange, to the continued depression in world trade, to reduced returns from our commercial services and increased running expenditure incidental to their maintenance. I can claim—and the figures I present will justify my claim—that the most exacting control has been exercised in preventing any excess over our estimates of standing and established charges, and that every possible avenue of fresh expenditure has been stopped and barred. So much for economy; our critics will however probably go

[Sir Malcolm Hailey.]

further and urge that in all the circumstances it was not enough merely to have stopped fresh expenditure; we should have entered on the more drastic field of retrenchment. I shall return to this subject again; as the House knows, we fully admit the necessity of retrenchment; but I will only say here (and again without fear of challenge) that though retrenchment would improve our position, no measure that we could conceive or could hope to carry through could radically alter the situation in which we find ourselves. I have thought fit to make these points clear from the first. I have to put before the Assembly a position which is full of difficulties for us, for the House and for the country; but I can present it with all the greater confidence and with all the greater frankness, because I am convinced that every fact and figure which I present will only justify and confirm the points I have now made. It is a situation which we have to meet together; the House, I know, will meet it with that high sense of responsibility with which it encountered the situation of 1st March; we may differ in detail as to the exact method of dealing with it; but neither as to the causes which have occasioned it, nor as to the main solution to be applied have I any apprehension of difference or dissent.

3. I come now to the details of our position, and will deal first with the general characteristics of the year. General characteristics of the year. revenue for the present year. What were the circumstances in which we budgeted last March? The trade boom which followed the Armistice had definitely passed away and a heavy reaction had set in; but the future outlook was obscure, and it was impossible to say what precise effect it would have on our revenues. We budgeted in an atmosphere of trade depression, and our estimates allowed for a definite retardation in the normal growth which our revenues might otherwise have been expected to exhibit. But it was not possible to foresee that the depression of trade would reach such abysmal depths, nor that its consequences would react so disastrously on our finances. I will take separately the internal and external factors. As to the former, the effects of the poor monsoon of 1920 continued to show themselves throughout the year 1921. Wheat rose to R6 a maund in January and to the almost unexampled figure of R8½ per maund in December; Rangoon rice increased during the same period from R4 to R6½ a maund. Not only did we have to continue the embargo on the export of wheat, but India became a heavy importer. Labour trouble at the collieries curtailed the raising of coal; we could only maintain the service of our railways by purchases of foreign coal at greatly increased expense and again of course with detrimental effect on our balance of trade. Thirdly, the conditions of the country have been such, partly economic and partly political, that there has been a complete stagnation of the ordinary activities of internal trade. I shall not dwell again now on the unfortunate series of events which led to the locking up of many million pounds' worth of imported goods owing to the inability or the failure of importers to take up their contracts. But whether this was due entirely to economic or partly to political causes, the event was typical of much of the history of internal trade throughout the year. Not even an unusually favourable monsoon in the autumn of 1921 has succeeded in solving a position due to the interaction of these double influences. Such were the internal conditions; I need not dwell at length on the external conditions. The prevailing depression in Russia and Central Europe, aggravated by famine conditions in the former country, continued to deprive India of the

customers on whom in normal years she is wont to rely. How unstable was the basis on which our exports depended is shown by the history of our reviving trade with Germany. Exports to that country which averaged $1\frac{1}{2}$ crores monthly during the period July - September collapsed with the catastrophic fall of the mark in October and had fallen in December to only half a crore. Our exports, which had reached their height with 31 crores in March, 1920, had declined to 18 crores in March, 1921, and reached their lowest point in June of last year with 16 crores. It is true that there was a recovery to 20 crores in December, but on the whole, greatly reduced as has been the scale of our imports, there is a total balance against us of 33 crores for the ten months ending January.

REVENUE AND EXPENDITURE OF 1921-22.

4. Let me proceed at once to give in figures the total result of these unfavourable factors. The budget estimates as finally passed provided for a small surplus of 71 lakhs; the Current year's Revenue. revenue including new taxation being estimated at $1,28\frac{1}{2}$ crores and the expenditure at just over $1,27\frac{1}{2}$ crores. We now estimate that the revenue will be 108 crores, or $20\frac{1}{2}$ crores less. I will take only the principal items. Under *Customs* we expected $37\frac{3}{4}$ crores; we do not now look to realize more than $33\frac{1}{2}$, or a falling off of $4\frac{1}{4}$ crores. But for a heavy revival of the import of sugar in the autumn our total receipts would be even worse; indeed sugar has come to our assistance to the extent of $6\frac{1}{4}$ crores out of the $33\frac{1}{4}$. In *Taxes on Income* we shall probably have to pay some heavy refunds, owing to adjustment of provisional assessments made on last year's profits, and taking receipts and refunds together, the income will fall short by 90 lakhs of the budget figure of $18\frac{1}{2}$ crores. *Salt* will be short by 80 or 90 lakhs of the expected figure of 7 crores, mainly owing to our inability to maintain a full supply of Northern India salt. *Opium* will be short by 70 lakhs on the expected total of 3,73 lakhs; clearly our customers in the Far East anticipate decreased consumption as the result of international action. I come now to our commercial departments. Naturally enough our *Railways* reflect the great stagnation of trade throughout the year, and in addition, the returns of the last few weeks have shown the effect of the recent strike. We expected to get gross receipts of 87 crores and shall have to content ourselves with 83. But the mischief does not end here, for far worse than the decline in gross traffic receipts is the increase in working expenses. Owing to short raisings of coal we have had to pay more for the Indian article, and to supplement the home supply by heavy purchases from abroad, and altogether the total excess of working expenses over the budget figure will be $7\frac{1}{4}$ crores. Allowing further for some falling off in the receipts from the surtax, the total worseness on the railway budget will be no less than 13 crores; and railways, after payment of interest charges, will, for the first time for many years, be working at an actual loss, namely, over $2\frac{1}{2}$ crores. Finally, there are the *Posts and Telegraphs*. The gross revenue is about $1\frac{1}{2}$ crores less than anticipated, of which about 35 lakhs occur in the yield from the new rates approved by the Assembly last year. Here again we have an instance of a large commercial department working at a deficit; the total loss to the general taxpayer on the combined department in the current year will be about 90 lakhs. The combined effect of these items is to produce the falling off of 20 crores to which I have alluded.

[Sir Malcolm Hailey.]

5. Then as to expenditure. As I have said, we expected to spend 1,27½ crores. But we shall have to spend 2 crores more

Current year's Expenditure. on account of the increase in *interest charges* due to the larger proceeds of the rupee loan realized by us this year and the increased borrowings undertaken in London. Under *military expenditure*, it will be remembered that we allowed for 62·20 crores of which 3 crores was attributable to Waziristan and one crore to expenditure on demobilization. During the year, however, operations in Waziristan continued, contrary to our expectations, on the extended scale set up in the concluding months of 1920-21, and altogether our expenditure on operations in that quarter have cost us 6¾ crores. I do not propose to analyse here in detail the remaining figures of military expenditure; they still contain abnormal features, such as, on the one side, arrear claims from the War Office and on the other unexpected recoveries of arrears from the same source. There have also been very heavy increases in the cost of foodstuffs. It will be sufficient to say that on the whole, in spite of the increase due to this factor, and to the heavy excess on Waziristan operations, we have managed by careful control to keep the excess down to 2¾ crores. The total therefore stands at 65 crores against a budget of 62½. No new permanent liability of any considerable amount has been added to the military charges in India with the exception of an enhanced scale of pensions for the families of Indian soldiers and the expansion of the Territorial Force.

6. The increases in civil expenditure have been of minor importance and have for the most part been passed already by the Assembly in the form of supplementary grants. But there remains one head of great importance—the *loss by exchange*. As I explained last year, the head is really one of adjustment. In the case of our commercial departments the difference in exchange between 2s. (the rate at which our accounts are kept) and the actual rate is adjusted under the departmental head concerned, and that accounts for a certain proportion of the excess expenditure under Railways and Posts and Telegraphs. In the case of all other departments this adjustment for exchange is lumped together under the one head Exchange. I need not perhaps go into the circumstances under which we assumed a rate of 1s. 8d. last year; it was an accounts assumption, not a prophecy; but I would remark here that in December, 1920 (when of course our forecast was drawn up), the actual rate was between 1s. 7d. and 1s. 8d. We were twitted at the time with optimism; but I do not remember that our critics were then prepared to back any other figure with conviction. Exchange did indeed during September rise to 1s. 5¾d.; but it was followed by a rapid decline to below the 1s. 4d. level, in sympathy with the sudden fall of the German mark. For the rest, the summary which I have already given of our import and export trade is sufficient to indicate the immediate causes at any rate of the weakness of exchange; it only remains to add that the total cost to us under the head 'Exchange' of its failure to reach the 1s. 8d. figure must be taken at 5¾ crores.

7. Altogether then our expenditure is somewhat over 14½ crores more

Deficit of current and previous years.

than we expected; and the total deficit will amount to no less than 34 crores. If you carry your minds back to the history of the last three years, the House will realize that this is now the fourth deficit in succession. In 1918-19 it

amounted to 6 crores; in 1919-20, mainly due to the Afghan War, the deficit was 24 crores; our final accounts of 1920-21, swollen by many adjustments of arrear expenditure on the Afghan War and the Great War, showed a deficit of 26 crores. Adding the 34 crores to which I have just referred, the total excess of expenditure over revenue in the four years comes to 90 crores. I am not ready to explain to the House the methods by which we have during the past four years provided the money necessary for carrying on the administration, nor to dwell on the implications to be drawn from this continued succession of deficits. I have still to deal with the revenue and expenditure of the coming year.

ESTIMATE OF 1922-23.

I.—Revenue.

8. I do not know if there is anyone here who would feel entitled to speak with confidence of the assumptions we should make in estimating for budget purposes the character of the year on which we are about to enter. For myself

I can only indicate the main factors which have guided us. We have had a favourable monsoon and good winter rains; this in itself should bring down the price of food grains and help to rectify the balance of trade. On the other hand, the bazaar trade still has before it all the difficulties involved in the liquidation of the import contracts entered into two years ago, and the spectre of unrest looms before the trader paralysing industry and benumbing enterprise. As for the outside world, the relative strength of India's position is of course largely due to her share of the world's staple requirements. It is true that overseas stocks of Indian goods are still large, but they have been much reduced during the course of the past year, and foreign consumers have been forced to come to India to a considerable extent for their immediate necessities. Her raw jute and jute manufactures, though the period of boom has definitely passed, should still hold their own; tea and cotton have indeed recovered to an extent that we could hardly have anticipated last year. The total exports of India during December, 1921, were higher than those of any month since September, 1920. Although, therefore, stocks of India's commodities in India are high, the signs are not unfavourable. It is probable that the historian of the future, with a clearer perspective, will look on the year 1921 as the logical sequel to 1920. The latter year experienced the full force of the reaction from the feverish and unhealthy trade activity which followed the Armistice. This reaction showed itself in a collapse of the world's purchasing power, an unparalleled slump in prices and congestion of unsold and unsaleable stocks. In 1921 we had the beginning of the painful process of re-adjustment. We have already made some advance in that process, and the conditions of India are such that (if she can only maintain internal peace) she may reasonably expect to take an early share in the revival of trade.

9. I admit that the factors are obscure in many directions of great importance and they certainly do not encourage optimism. But on the whole we seem justified in framing our budget estimates on the assumption that there will be some slight improvement over the trade conditions which have existed during the current year. I will take the main heads in detail. Under *Customs*, we assume that the imports of piecegoods will be somewhat

* Estimates of revenue for next year.

[Sir Malcolm Hailey.]

better than those of the current year, and also that, as a result of the withdrawal of the restrictions on the export of Burma rice, the revenue from that export duty will now become normal. We have also assumed a moderate improvement in the exports of jute; on the other hand, we cannot expect that the imports of sugar will be on anything like the scale of the current year, though we have felt justified in taking an estimate of $4\frac{1}{4}$ crores as against the $6\frac{3}{4}$ crores likely to be received from that source this year. On the whole, we are assuming a net Customs revenue of 36·42 crores, nearly 3 crores in excess of the revenue which we are likely to collect in the current year. Then as regards *Taxes on Income*, we expect an increase in the net demand in most provinces with the exception of Bengal, but on the other hand the figures of the present year have been swollen by large arrear collections, and in the net, allowing for refunds in respect of collections on provisional assessments, we are assuming a total revenue of 19·87 crores, which is about a crore less than our probable revenue in the current year. Under *Salt* we have adopted an estimate of slightly over 7 crores, practically the same as that of the current year's budget. Our receipts from the sale of *Opium* are now mainly derived from the direct supplies we make to foreign and Colonial Governments on the contracts now in force, and, except when new contracts are entered into, do not vary very much from year to year; our revenue from the auction sales is, however, steadily dwindling and we do not expect more than half a crore from this source, making a total revenue, inclusive of the revenue from excise opium, of approximately 3 crores. This is about 60 lakhs less than the current year's budget and about the same as the revenue we expect to get in the current year.

10. In attempting to frame an estimate of net receipts from *railways* we are met with two difficulties. In the first place *Railway revenue.* it is difficult to say what will be the exact yield from the new goods rates which will be brought into force from April the 1st next, replacing the present surtax. It is also difficult to say what the working expenses will amount to, as the coal market is in an abnormal state and a substantial increase or decrease in the cost of fuel will vitally affect the total. For *gross traffic receipts* we assume that the new goods rates will not yield less than 6 crores, and we think that an allowance of between 4 and 5 crores for normal growth in revenue is as much as can be justified. We think therefore that a fair estimate of gross receipts next year will be 93½ crores. For *working expenses* we have taken the high figure of 68½ crores on the assumption that fuel charges will remain high, and after making as much provision as possible for the replacements and renewals which, as everyone knows, are so badly needed on all our railways. On these estimates, the *net receipts* next year will work out to 24½ crores; after allowing for interest and other indirect charges which will amount to 26 crores, the railways will be working at a loss of over 1 crore. This is not the proper occasion for me to embark upon any discussion of the question how far the administration of our railways should, in any particular year, be carried on with the object of producing a profit to the general taxpayer. It is a matter regarding which one side of the question, and one side only, has been put forward with considerable force in the report of Sir William Acworth's Committee. The House is aware that the proposal made by that Committee to effect a complete separation between the railway and the general budget was duly considered by a committee composed of members of the two Houses of the Legislature, whose

report was published last December. That committee decided that, whatever might be the theoretical merits of this question, practical considerations alone made it impossible to effect any such separation for the present. On one point, however, there can, I imagine, be no room for diversity of opinion, namely, that the railways must pay their own way.

Contemplated increase in passenger fares. For this reason we propose to take measures to increase the traffic receipts. The estimates which I have just given already take account of a substantial increase in goods rates in substitution of the existing surtax. The only remaining course, therefore, is to effect a material increase in passenger fares. An increase averaging about 25 per cent. will, we estimate, produce an extra 6 crores of revenue. This will of course more than make up the estimated loss on next year's working, but we shall have to continue for many years heavy expenditure, debitable to the revenue account, on replacements and renewals, while our enlarged programme of capital expenditure will involve a cumulative increase of interest charges for some years to come; we therefore consider that we are justified in providing for some margin.

11. The remaining important head on the revenue side is *Posts and Telegraphs*. I must first of all explain what we have done as regards the separation of capital expenditure from expenditure charged to revenue. The House will remember that this question was examined last March on the initiative of Mr. Samarth, when it was decided to transfer approximately 1 crore from revenue to capital as representing expenditure which was intrinsically of a capital nature. That transfer was made more or less summarily; it was obviously desirable to keep on the right side and not to debit to loan funds expenditure which was really of the nature of running expenses and would only have to be written back to revenue. We have subsequently made a more careful examination of the various items of expenditure, and as a result we have felt justified, in the revised estimates for the current year, in debiting to capital a total amount of 1,28 lakhs. For the ensuing year, of the total estimated expenditure of 11½ crores we find that we can justifiably take 1,45 lakhs to capital provisionally, pending of course the reconstitution of the post and telegraph accounts as a result of the investigation which has just been completed by the expert accountants who have been engaged on that work. With this division as between capital and revenue, we estimate that the expenditure chargeable to the revenue account next year will exceed the receipts by about 96 lakhs, after allowing for the debit of interest on the capital charge. This figure, however, does not include the cost of pensions on the one hand and on the other credits for certain concessional services rendered by the department to Indian States or foreign Governments. If we make adjustments on account of these items, there will be a further credit due to the department of about 17 lakhs, and, allowing for this, it may be said that during the current year the department has been working at a loss of about 90 lakhs, and that next year it will be working at a loss of about 80 lakhs. This has a very definite bearing on certain proposals that I shall shortly mention.

Loss on the postal department.

12. This closes my review of revenue for the coming year. Including the increase on passenger rates, it should amount to 1,16½ crores; without that increase, it would come to 1,10½ crores as against a revised estimate of 1,08 crores for the current year. I come now to the expenditure side.

Actual revenue expected.

[Sir Malcolm Hailey.]

II.—Expenditure.

13. The first point I have to emphasise is that, as was the case a year ago, the demands of the various departments for the inclusion of items of new expenditure have been enormously curtailed; in effect, we have made provision for no new expenditure which cannot be demonstrated to be of imperative necessity or likely to be immediately remunerative. Such items of new expenditure as have passed through the meshes of the Finance Department's net have further had to undergo the fire of the Standing Finance Committee's scrutiny before being embodied in the detailed estimates which are about to be placed in Honourable Members' hands. One head where the effect of this policy has been particularly marked is *Civil Works*. The figure entered is 166 lakhs, and I must point out that this is only just sufficient to cover maintenance, repairs and establishment charges and the carrying on of works already in progress, and that it makes practically no provision at all for new construction. I do not think I need refer to the details of the estimates entered for *interest on debt*, *sinking funds*, and so forth, for such charges may be regarded as obligatory. Honourable Members will notice in the detailed estimates a special expenditure of 60 lakhs under *political charges*; this is a tentative provision for a scheme for the better solution of political troubles on the frontier. It has not yet crystallised into a form which admits of the exhibition of full details. For the rest, the variations in civil expenditure are not large. There will be a saving from the cessation of *census operations*, counterbalanced by certain additions to *income-tax* establishments, and a provision of 16 lakhs for various schemes of improvement at the *salt* sources in Northern India which are of imperative necessity for the safeguarding of our salt revenue. Apart from the extra political charges and the other variations, which I have just referred to, the civil heads show a small increase on the probable expenditure in the current year.

14. As regards *exchange*, I may say at once that I see no indications, in the present conditions and outlook of our foreign trade, which would justify our assuming an average rate of exchange higher than 1s. 4d. during next year, and accordingly that is the figure upon which these estimates are based. In mentioning that estimated average rate I must again impress on the House that I am attempting no sort of prophecy regarding the future course of exchange, nor should anything that I say be taken as an indication of policy. It is of course unavoidable, for the purpose of the budget programme, to make some sort of assumption, however rough, as to the level at which exchange is likely to stand, taking the coming year as a whole. I have, as I have said, assumed for budget purposes a rate of 1s. 4d. The debit that will be necessary in our accounts, which are still maintained on a 2s. basis, will on this assumption be about 15½ crores, of which 10 crores will appear under the head 'Exchange', the remaining 5½ crores being debited in the estimates of the commercial departments.

15. Finally, before I come to the military estimates, I must point out that we have made no provision for any reduction in the present contributions payable to us by the Provincial Governments, the amount of which, after allowing for the waiving of the Bengal contribution, is 9.20 lakhs. The House is aware that several provinces, notably Madras, the

United Provinces and the Punjab, have pressed us strongly for some reduction next year in the amount of their contributions. It is also a matter of common knowledge that many of the provinces are finding it difficult, if not impossible, to cover their expenditure, and have had to ask their Legislatures to sanction various schemes of new taxation in order to help balance their budgets. I shall have something more to say regarding the position of the provinces before I sit down. For the present, I will only say that we have not provided for any reduction for the simple reason that, with the certainty of a deficit staring us in the face, it was quite impracticable to do so. But I need hardly say that the progressive reduction and extinction of these contributions must be regarded as a first charge upon any betterness that the financial position of the Central Government may show in future years.

16. I now take the final and heaviest figure, namely, Military expenditure.

The established charges we estimate at 59.70 crores against 58.20 in the current year's Budget, Waziristan charges at 2.13 against 3.00, and demobilisation expenditure at .35 against 1.00; the total is therefore 62.18 crores or approximately the same as in the Budget for the current year. The increase in established charges does not represent any addition to the strength of the post-war Army as already laid down, except in the case of the Territorial Force, and is largely due to an item which lies entirely outside our own control, namely, the great increase in prices of provisions and other consumable stores. These are estimated to cost nearly 2 crores more than in the current year. Apart from the outlay necessary for the expansion of the Territorial Force and from a relatively small sum of money for the revision of the pay of certain classes of Indian personnel in Army services whose remuneration has not yet been brought up to the standard obtaining in other quarters, no new demands for military outlay have been admitted. Not only so, but it would have been impossible to keep the established charges down to the figure I have given had we not effected retrenchment in a number of directions, notably in Military Works, the purchase of new equipment, and the strength of the reserve, and further by taking credit for an anticipated shortage of British troops. As regards Waziristan, I fear that the figure can be regarded as tentative only, for it is always difficult to forecast the exact effect of military operations of this nature. These operations may, as in the present year, lead again to an excess in the military budget. The 35 lakhs on demobilisation expenditure represents the sum which the Secretary of State has estimated will be required in 1922-23 for the payment of India's share of the compensatory gratuities to officers of the Indian Army who have been found surplus to strength owing to reduction of establishment.

17. The net result of these figures is that we expect an expenditure of

Resultant deficit. 1,42½ crores against a revenue, on the basis of existing taxation and including the provincial contributions of 9.20 lakhs, which will amount to 1,10½ crores, i.e., a deficit of 31½ crores, which would be reduced to 25½ crores by the contemplated increase in passenger fares mentioned by me.

Problem of how to meet the deficit.

18. I now come to the hardest part of my task to-day, namely, to discuss what measures should be taken to meet the grave problem presented by an estimated deficit next year of about 31½ crores. It is obvious that there are, in theory, three courses which

Three possible courses.

[Sir Malcolm Hailey.]

can be adopted, either separately or in combination. First, we can budget for a deficit, either the whole or part of the above amount; second, we can attempt to reduce our expenditure; and third, we can take steps to increase our revenues. The problem is so grave, and the issue at stake so large, being nothing less than the solvency of the country, that I make no apology for examining in some detail each of these three courses.

Would it be desirable, or would it even be possible, to leave the whole or the major part of this deficit uncovered? Now, so far as I have been able to ascertain, on one occasion only in the past has the Government of this country deliberately budgeted for a deficit. This was in 1915-16, the first budget of the war, when Sir William Meyer budgeted for a deficit of about 4

crores. In introducing that budget, Sir William Meyer carefully explained the reasons which had led him to adopt that course. He emphasised that the Government would not think of proposing to budget for a deficit if the deficiency in revenue promised to be of a more or less abiding character. That, however, he held, was not the case on that occasion; it was then too early in the war to be sure that the excess of expenditure over revenue was anything more than temporary, and unless and until it could be shown that the gap between revenue and expenditure was likely to last for some time, it would not be justifiable to impose increased taxation, especially as the Government's cash balances could at that time be relied on to produce the necessary finance. For the rest, so far as my researches go, the Government of India have always endeavoured to meet the expenditure of each year from the revenues of that year, and although on occasions their estimates have been disturbed and deficits have actually accrued, they have, except on the one occasion mentioned above, never deliberately contemplated that their expenditure should exceed their revenues. I do not think that there can be any doubt that this policy, consistently followed in good years and bad, when the outlook was fair and when it was gloomy, had much to do with the sound financial position in which India found herself at the beginning of the war, and with the excellence of the credit of the State both within the country and abroad.

19. Now, in considering the extent, if any, to which we should be justified in leaving this estimated deficit uncovered, there are two points of vital importance to which I must invite the careful attention of the House. In the first place, it is necessary to examine briefly the real nature of the current and next year's deficits. Can it be said that the present emergency is similar to that which Sir William Meyer had to face in preparing his budget for 1915-16? I hold that the answer to this must be in the negative. I do not think that it is possible to take up the position that these deficits are due to transient causes, that we can look for better times ahead, and that we should consequently be justified in leaving things as they are, in the hope that before long our revenues will once more have equalled our expenditure. I must say frankly that I see very little prospect of any such equilibrium being attained within a measurable period. In saying this I do not mean to imply that either the probable deficit of 34 crores in the current year or the estimated deficit of 31½ crores next year is necessarily to be taken as a measure of the permanent gap between our expenditure and our revenues. I assume that, with the

liquidation of our frontier commitments, that portion of our military charges which are classified as 'abnormal' will disappear. I also assume that our revenues would respond to any substantial revival in trade, when the day of that revival dawns, as assuredly dawn it must. But after making every possible assumption of this nature, I do not think it can be said that, if things are left as they are, equilibrium will be attainable within a measurable time. It has, moreover, to be remembered that we have a certain loss of revenue in front of us, in respect of the gradual abolition of the provincial contributions. I have not overlooked the fact that the stabilisation of the rupee at 2s. would relieve our revenues to the extent of about 15 crores a year, but the House is in as good a position as I am to judge whether we should be justified in placing any reliance on this consummation. The problem, as I fear we must envisage it, is thus not one of carrying on until we have turned the corner, for the turning is nowhere visible.

20. Secondly, it is necessary to examine briefly what a succession of deficits really means, and what are the results which it leads to. I will not

How the deficits have been financed.

embark on any theoretical discussion of financial ethics, but confine myself to actual facts. Including the deficit of the current year, during the past four years our expenditure (in using the word 'expenditure' I mean of course expenditure debitable to revenue, and not capital expenditure on such objects as Railways and Irrigation) has exceeded our revenue by a total amount of 90 crores. Where did this money come from? The short answer is that we have been living on credit. About 37 crores have been obtained by the issue of fiduciary currency notes, namely, notes the only backing of which are our own I.O.U's. A further 47 crores will have been found by incurring floating debt in the shape of treasury bills, while the remaining 6 crores will have been taken from the proceeds of our regular annual borrowings. Our Treasury bills consist of short term bills (mostly for 3, 6 or 9 months) which we have so far managed to renew on maturity. But it is an open fact we have only succeeded in doing this by virtue of the recent stagnation of trade and consequent plethora of bank money; it is very doubtful if on any real revival of trade we should be able to keep 'floating' an amount of treasury bills on anything like the present scale. A treasury bill outstanding in the neighbourhood of 60, or even of 40, crores is, as I have more than once pointed out, a matter for great anxiety, seeing that at any time, with the appearance of other demands upon the discount market, such as a revival of trade or an acute monetary position, our sales might not cover our maturities, and we should then have no alternative, if we were not to dishonour our bills, but to make a further large fiduciary issue of currency notes. During the past month or two we have, in fact, had a preliminary warning as to the insecurity of our position; a sudden tightening of money in Bombay led for a time to distinct embarrassment; in spite of our giving very much more favourable terms for our treasury bills we found great difficulty in meeting our requirements, and were obliged as a temporary measure to re-issue a substantial amount of currency notes which we had cancelled during the preceding months. And of course the dependence of Government upon the money market, to supply it on credit with funds to meet the gap between incomings and outgoings, itself reacts strongly upon the supply of money available for trade, thus setting up a vicious circle. To escape from that circle is one of the most pressing problems before us.

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21. What then is the inevitable conclusion to which these considerations lead? Putting aside all theoretical considerations of principle and of sound financial policy, the financing of a further deficit next year of an amount anything like the 31½ crores estimated is simply not a practicable proposition.

Not practicable to continue financing deficits on the present scale. I should be much mistaken if we have not already reached the limit of safety. To attempt to increase our floating debt beyond the figure at which it is likely to stand on April 1st next would be to invite not only grave monetary stringency, but possibly even a severe crisis. To raid the Gold Standard Reserve, which has been built up for an entirely different purpose, would be merely putting off the evil day, and would be an expedient which could be adopted only as a last resort and even then purely as a temporary measure. To rely on the proceeds of our annual rupee or sterling loans to finance our deficits would, as I shall show later in my speech, be equally impracticable, seeing that we shall fully need the whole of these for financing our existing capital liabilities and productive expenditure on our railways. The inevitable result, in short, of any attempt to finance a deficit of this size would, in my opinion, be to force us to large issues of unbacked currency notes, and I am sure the House will agree with me that the effect of such inflation upon the general level of prices in this country, and upon our general credit, would be very serious. My conclusion then is, and I state it with perfect confidence, that the problem before us is one that cannot be shelved or left to look after itself. It is a problem which has to be faced, and it is my duty to ask this House and the country, whatever their opinion may be of the particular proposals that we are making, to join with us in facing it.

22. How far can we reduce the deficit by cutting down our expenditure?

(2) Reduction in expenditure. I have already indicated the difficulties which we have encountered in regard to our largest spending department, the Army. I have told the House that as regards the civil departments we have cut out all new expenditure which cannot be proved to be of imperative necessity. I do not claim that further reductions are impossible; as the House knows, we are committed to an inquiry into the steps necessary to effect retrenchment, even if that results in curtailing departmental activities. We have agreed to accede to the desire of the Assembly for the appointment of a Committee of retrenchment, and an announcement will shortly be made on the subject. But the field of civil expenditure over which that inquiry can range is small; it does not extend to more than 20 crores; and though retrenchment may, and no doubt will, be effected, it could have but a minor effect in restoring the balance. In any case, a Finance Member must frame his budget not on what he hopes may be effected in the future, but on the basis of the expenditure now actually being incurred.

23. I have sometimes heard it asked why we cannot simplify to some

Possibility of transferring expenditure from revenue to capital.

extent our financial problem by taking to capital certain of the expenditure which is at present debitable to revenue. Why, it is urged, should the present generation have to pay for expenditure on public works or other objects, which have a permanent or semi-permanent life, such as civil buildings, roads and bridges on the frontier, new barracks, etc., or again

on stores and material used in our commercial departments, such as the Posts and Telegraphs? This contention is to a large extent met by the facts that the present estimates make practically no provision at all for new civil buildings, that the construction of Delhi and capital expenditure on railways are already met from capital funds, and that we are already providing for the debit to loan funds of expenditure on stores and material for our Telegraphs. It is, however, quite unnecessary to discuss this question at any length, for, in point of fact, whatever may be the division in our accounts as between capital and revenue, we are unfortunately already meeting a large proportion of our annual expenditure from borrowed funds. The figures which I have already given show that we have been doing this on a very large scale, far in excess of what by any stretch of reasoning could be described as real capital expenditure. To reduce our revenue deficit by a mere stroke of the pen would not in any way affect or cover up the actual position.

24. If I have carried the House with me so far, I have established two propositions. The first is a two-fold one, namely, that the country cannot, if it has any regard for its credit or any thought for its future solvency, take refuge in the simple course of leaving the whole or even the greater

(3) Increase of revenue. part of this deficit uncovered, and further, that, quite apart from such considerations, it would not be a practicable proposition to do so, even if we tried. Secondly, however successful our efforts may be in reducing our expenditure, and imperative though it is that we should make the attempt, it is out of the question to expect any relief from this source to be on such a substantial scale as materially to reduce the excess of expenditure over revenues. I submit, therefore, that there is no escape from the conclusion that it is imperative to take every possible step to increase our revenues. We can do this in two ways: firstly, by ensuring that our commercial departments shall at any rate not be a burden upon the taxpayer, and shall if possible yield a profit; secondly, by increasing taxation. As regards the first method, I have already indicated that we propose to increase the railway receipts to the extent of about 6 crores by an increase in passenger fares. There remains the Post and Telegraph department. It is not possible to increase the telegraph charges, which are already on the high side, and indeed that branch of the department more than pays its way. We are, however, as I have already shown, losing heavily on the combined Post and Telegraph Department. Last year we invited the

legislature to agree to certain measures for increasing our postal receipts. The most important of these, namely, the doubling of the postcard rate and the raising of the minimum charge for inland letters from half an anna to one anna, were not accepted. The increases agreed to were by comparison of minor value, and are only expected to produce 35 lakhs in the current year. Honourable Members will recollect the circumstances which led, by a compromise, to the adoption of a nine pie rate for letters exceeding half a tola in weight. I understand that the increased revenue from this source has been very small, not more than 10 lakhs; it has also led to many administrative difficulties in the matter of weighing letters and collecting over-charges, so much so that I am told that the collection of over-charges is not worth the revenue obtained, and altogether the inconvenience that has been caused to the public has not been commensurate with the gain to the exchequer. We shall now ask the Legislature to reconsider the position which it took up last

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year. I admit now, as I admitted then, the enormous advantage to a country of a cheap postal service nor do I underestimate in any way the strong sentimental attachment that must exist to the pice postcard. My reply to such considerations, now as then, is financial necessity; with the enormous increase in the cost of working that has occurred in recent years the country cannot afford to maintain a postal service at the present cheap rates. We propose therefore to raise to half an anna the quarter anna postcard, and, secondly, to abolish the half anna and 9 pie rates for letters, making the charges in future one anna for letters not exceeding $2\frac{1}{2}$ tolas in weight, and one anna for every additional $2\frac{1}{2}$ tolas. We estimate that the increased revenue obtainable from these measures will be 1,60 lakhs. I may point out that, even after these changes, we shall still on the whole have the cheapest postal service in the world.

These two measures, namely, the increase in railway passenger fares and the increase in postal rates, will represent a total increased revenue of 7,60 lakhs, reducing our estimated deficit from 31 crores 76 lakhs to 24 crores 16 lakhs. I now turn to the further measures which we consider that the financial position of the country renders imperative.

Proposals for additional taxation.

25. The problem of how to raise a large amount of additional revenue through increased taxation, with the minimum of hardship to the taxpayer and the minimum of disturbance to trade and commerce has, I need hardly say, been the subject of anxious consideration for some time. The burden which the country is now invited to shoulder is a heavy one; we have done our best to distribute it as equitably as possible and to see that all classes of the community shall contribute, each according to its capacity. When additional revenues are required, the first head to which one's thought naturally turns is Customs. Here, we are at once

Customs.

confronted with the fact that a Fiscal Commission is now sitting, and if the needs of our revenues were not so urgent, we should have preferred to await the conclusion of that Commission's deliberations before proposing any further alteration of the tariff. Any such postponement is, however, impossible. Whatever opinions may be held on the various important issues that the Fiscal Commission is now considering and whatever decision may be ultimately arrived at on its report, there is no escaping the conclusion that the pressure of financial necessity must in any case inevitably involve the raising of our customs duties, purely for revenue-producing purposes, irrespective of what the effect may be in the case of any particular tariff head in the direction of protection,

No pre-judging of
Fiscal Commission's Re-
port.

Imperial preference, or free trade. In framing our proposals, we have, however, endeavoured to preserve to the greatest possible extent the general character of the present tariff and the general relation *inter se* of the various duties; in other words, we have endeavoured to limit our proposals in such a way as not to involve any important change of principle in the existing fiscal arrangements.

26. (i) The vast majority of customs duties necessarily fall upon the consumer, and the general character of the proposals which I am about to mention is, therefore, that of a tax on consumption. We propose to raise to 15 per

Details of customs
proposals.

cent. the import duty on all articles now assessed to 11 per cent. But since one of the most important articles, both of import and of consumption, is piece-goods, we propose that the consumption of piece-goods in this country should be taxed by a further 4 per cent.; that is to say, we would raise the cotton excise duty from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent. The combined effect of these two measures is estimated to bring in an increased revenue of 5.45 lakhs. We have not, of course, overlooked the contentious history of the cotton excise duty, but after the account that I have given this morning of our financial necessities, and after what I have just said regarding the raising of the general *ad valorem* duty, I do not think that even the most malignant of our critics can accuse us of raising the cotton excise duty for the purpose of counterbalancing the import duty on foreign manufactures.

(ii) The present import duty on machinery, iron and steel, and railway material, is only $2\frac{1}{2}$ per cent. We propose to raise this to 10 per cent., yielding an extra revenue of 4.05 lakhs.

(iii) We consider that the trade in foreign sugar can, and should, bear an increase of duty, and we propose to raise the present import duty from 15 to 25 per cent., yielding an extra revenue of 2 crores.

(iv) We propose to raise the specific duty of 12 annas per gross boxes of matches to Rs 1-8 per gross boxes, yielding an estimated additional revenue of 95 lakhs.

(v) We propose to impose an excise duty of 1 anna per gallon on kerosene produced in India, with a corresponding increase in the duty on imported petroleum, namely, from $1\frac{1}{2}$ annas to $2\frac{1}{2}$ annas per gallon, the extra revenue from which measures will be 90 lakhs.

(vi) Last March we joined many Honourable Members in resisting in this House a proposal to remove yarn from the free list. We feel that the arguments then used must now yield to our financial necessities, and we propose to ask the House to agree to an import duty of 5 per cent. on imported yarn, yielding a revenue of half a crore.

(vii) The imports of articles which are assessed at the highest rate of tariff, namely, 20 per cent., have, during the greater part of this year, been very disappointing. I do not think, however, that this decrease can fairly be attributed to the new duty imposed last March, but rather to the very excessive imports, and consequent over-stocking, of the previous year. More recently, the imports of these articles have sensibly increased. We consider that the rate of duty can now be increased from 20 to 30 per cent., yielding an extra revenue of 75 lakhs.

(viii) As regards alcoholic liquors, the customs returns show that any attempt to increase the import duty on wines would almost certainly result in an actual loss of revenue, but as regards ale and beer, liqueurs and spirits, although we should have preferred to have waited another year before raising the duties further, we cannot afford to neglect any possible increase of revenue in the coming year, however small. Moreover, when we are proposing heavy additional taxation, affecting many necessities of life, we think it is all the more imperative to take from alcohol the maximum revenue possible. We accordingly propose an increase of approximately 20 per cent. in the duties on all alcoholic liquors, except wines, yielding an extra revenue of 30 lakhs.

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The actual increases proposed are as follows :

	Present rate of duty.	Proposed rate.
Ale, beer, porter, cider and other fermented liquors, per gallon.	6½ annas.	8 annas.
Perfumed spirits, per gallon . . .	Rs. 30 0 0	Rs. 36 0 0
Liqueurs, untested per gallon . . .	Rs. 25 0 0	Rs. 30 0 0
Liqueurs, tested, per proof gallon . . .	Rs. 18 12 0	Rs. 21 14 0
All other spirits, per proof gallon . . .	Rs. 18 12 0	Rs. 21 14 0
No change is proposed in the duty on denatured spirits.		

As regards tobacco, we do not think that for the present, having regard to the great decrease in consumption, any further increase in duty is possible without actual detriment to the revenue.

The total increased revenue obtainable next year from the increases in customs, which I have now mentioned, is estimated at 14.90 lakhs. Full details will be found in the Schedule to the Finance Bill which I shall ask your permission, Sir, to introduce this morning. The extra revenue during the current month is likely to be 80 lakhs.

27. These measures will still leave an uncovered deficit of about 9½ crores. We feel it necessary to make a further call on the payers of income-tax and super-tax. We do not propose, however, to effect any alteration in the rate of tax payable by persons whose incomes do not exceed Rs30,000 a year. Indeed an increase in those rates, even by a substantial amount, would not be likely to produce any large increase in revenue, seeing that most of our income-tax revenue comes from assessments made at the highest rate. We propose to raise the rate on incomes between Rs30,000 and Rs40,000 from 14 to 15 pies, and on incomes above Rs40,000 from 16 to 18 pies. As regards super-tax, we propose to re-grade the higher rates, working up in the manner shown in the Schedule to the Finance Bill to the highest rate of 6 annas as against the existing highest rate of 4 annas. The combined effect of these two measures is estimated to produce an extra revenue of 2½ crores.

28. Finally, we consider that the present emergency is such that there is now no alternative but to increase the salt duty, which has always been regarded as our ultimate reserve. We propose to increase the duty from Rs1-4 to Rs2-8 a maund. The present consumption of salt in India works out at about 6 seers per head of population. The increase of Rs1-4 per maund will, therefore, represent 3 annas per head per annum, or, let us say, 12 annas per annum for each household of four. It cannot surely be maintained that this will be felt appreciably by even the poorest classes. The extra revenue is estimated at 5 crores a year, but in the first year, owing to the existence of the credit system of sales is not likely to exceed 4.30 lakhs. As in the case of the increased Customs duties, the increase in the salt duty will come into force from to-day, and the extra revenue in the current month is estimated at 20 lakhs.

29. The total extra revenue obtainable from the measures which I have mentioned to-day is estimated at slightly over 29 crores next year and at 1 crore in the current year. The uncovered deficit will therefore be 2½ crores, together with the indeterminate liability to which I have already alluded in regard to Waziristan. Financial considerations by themselves would involve the imposition of a further taxation of at least 3 crores in order that we might fully establish equilibrium. After very careful consideration, however, we do not feel justified in asking the legislature to agree to the imposition of additional taxation beyond that which I have already mentioned. But the existence of any uncovered deficit is in present circumstances, a matter for anxiety; and we can only hope that by a combination of strict economy in every direction, together with an expansion of our revenues by a steady revival in trade, we shall before long arrive at a position of equilibrium, for I must warn the House that unless equilibrium between revenue and expenditure is arrived at in the near future, the financial position and credit of this country will inevitably suffer a rapid deterioration.

Ways and Means.

30. I have had a good deal to say to the House this morning regarding the state of the ordinary revenues of the country and the expenditure which is debitable to our revenue account. I must now turn to that part of our financial administration generally known as 'Ways and Means.' I know that some people are inclined to fight a little shy of ways and means matters because of the technicalities which are inseparable from the subject. But on this occasion I must invite Honourable Members to give their particular

Effect on Ways and Means of revenue deficits.

attention to the main facts regarding our ways and means operations in the current and coming years, for there is this year more than the usual connection between our revenue and our ways and means accounts. In the days of many of my more fortunate predecessors the existence of substantial revenue surpluses was frequently relied on to supply funds for financing our capital liabilities. There was much to be said for that cautious and conservative policy, which aimed at limiting strictly the amount of our borrowing and thus undoubtedly helped to place India's financial credit in the high position which it occupied. There was however something to be said on the other side, and there must be many here who remember Mr. Gokhale's trenchant criticisms of continued large surpluses which should, he contended, have been devoted primarily to the relief of taxation. During more recent years, however, we have unfortunately seen the other side of the picture, and I have already portrayed something of the difficulties which my Department has encountered in finding the actual cash to finance a series of revenue deficits. Indeed, it is because we are now obviously approaching the end of our resources as regards financing deficits that we have felt obliged, quite apart from all other considerations, to ask the House to agree to drastic measures in order to attempt to bridge the gulf between our revenue and our expenditure. I have shown that during the past four years we have had to find resources amounting to no less than 90 crores in respect of revenue deficits, including no less than 34 crores in the current year. In speaking of next year's deficit, I have already emphasised the grave dangers involved by our attempting to continue to live on our credit in order to meet current expenditure. The facts and figures which I shall now give the House will show how this liability has handicapped us in our ways and means operations, has forced us to borrow large sums at high

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rates of interest, and has prevented us from reducing the dangerously high amount of our floating debt.

31. I will first give the House a brief description of the other capital liabilities, besides this deficit, that we have had to meet, and of those which

Summary of operations we expect to have to finance during the coming in current and next years. year.

[In crores of Rs.]

1921-22.	Budget for 1922-23.
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Liabilities.

(i) Drawings of and loans to Provincial Govern- ments	12.2	9.8
(ii) Railway capital outlay	23.0	30.0
(iii) Delhi and Telegraph capital outlay	2.7	3.5
(iv) Discharge of debt	19.2	7.9
(v) Revenue deficit	33.0	2.7
(vi) Net discharge of Treasury bills issued to the public	4.0
	<hr/> 90.1	<hr/> 57.9

Met as follows :

(a) Rupee loan	49.2	25.0
(b) Sterling loan (converted at 1s. 4d.)	23.0	26.4
(c) Increase in Treasury bills issued to the public	2.8	...
(d) Credit from exchange	5.7	1.7
(e) Arrear recoveries from Mesopotamian Govern- ment	8.0	...
(f) Reduction of cash balances	2.1	1.1
(g) Net receipts from Savings Bank deposits and Cash Certificates	2.3	3.1
(h) Other items	- 3.0	.6
	<hr/> 90.1	<hr/> 57.9

32. This shows we have had to meet liabilities of 90 crores in the current year, and that more than one-third thereof has been due to the revenue deficit. The Provincial Governments too have had their difficulties and have had to rely to a large extent (no less than 12½ crores) on us to finance their deficits and capital expenditure either by actually borrowing from us or by drawing on what is left of their balances with the Central Government. Altogether then, the financing of deficits, Central and Provincial combined, will account for over 45 crores, or more than half the total capital liabilities of the year. For the rest, 19½ crores is represented by the discharge of our War Bonds, and the remainder by capital outlay on Railways, Delhi, and Telegraphs. In order to meet these large

liabilities we have had, in the first place, sundry assets and receipts, amounting to 15 crores, which I need not specify individually. To meet the remainder we have had to raise rupee and sterling loans to an extent considerably greater than we had budgeted for. It will be seen that in India and London combined we have raised no less than 72½ crores of rupees in new loans. That of course is a very large sum to raise, and we have only been able to do so partly because of the stagnation of trade in this country, which made Government securities almost the only available means of investment, and partly because of distinctly favourable conditions in the London money market. Finally, as a result of our heavy liabilities to finance deficits, we have been quite unable to effect any reduction in our floating debt; on the contrary, there will, we anticipate, be an increase of about 2½ crores in the amount of treasury bills outstanding with the public at the end of the year.

33. As regards next year, we hope that if the House will second our efforts to increase our ordinary revenues we shall not have such a large sum to find in order to finance revenue deficits, though, apart from the Central Government's deficit of 2½ crores, we have been warned that we may have to find nearly 10 crores, in the shape either of advances to Provincial Governments to enable them to carry on, or of drawings on their balances by such Provinces as will have any balances left. We have to find nearly 8 crores for the repayment of 1922 War Bonds, some 1½ crores in respect of capital outlay on the Telegraph Department and 2 crores for expenditure on the new capital at Delhi, for this House has already decided that, if only in the interests of economy, it is desirable that this work should be completed as soon as possible, and 2 crores is the total amount which the engineers expect to be able to spend in the year. We are also budgeting for a reduction of 4 crores in the outstandings of treasury bills with the public; I have already said sufficient on this matter to indicate the imperative necessity of our not allowing our floating debt to remain at the present dangerously high level. There remains only the provision of 30 crores for capital expenditure on Railways, as against 23 crores that we expect to spend in the current year. My Honourable Colleague in charge

Railway capital expenditure.

of the Railway Department will, I understand, bring before the House in the current Session the recommendations made by the Committee of the two Houses of the Legislature which met in December last to consider the question of our Railway capital programme. I will not anticipate here the discussion which will no doubt then take place. All I will say is that, great as are the liabilities thrown upon our ways and means resources in other directions, it would, in my opinion, be a short-sighted policy, and detrimental to the trade and prosperity of the country, if we hesitated to take all possible steps to restore our railway lines to the condition demanded by the travelling public and the country's trade. This 30 crores will be practically all devoted to the improvement of existing lines; there is no provision for any new construction, except a small amount, under 2 crores, for the completion of new lines already in progress.

34. Apart from certain miscellaneous receipts, such as savings banks deposits, we must rely entirely upon our borrowings in order to finance this

liability. For the purpose of these estimates we have entered a rupee borrowing of Rs. 25 crores and a sterling borrowing of £17½ millions, the latter figure being inclusive of about £2

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millions which will be realised next year out of the sterling loan of £10 millions floated in December last. We thus anticipate next year a total borrowing of 51½ crores, though we do not of course bind ourselves to distribute our borrowings as between India and England in the particular proportion I have mentioned; this must depend upon market conditions during the year. As the House is probably aware, it is by no means certain that the recent favourable conditions as regards sterling borrowing may continue throughout next year. Hitherto, Indian sterling stock has occupied a very high place among what are known as gilt-edged securities. For the first time for very many years, Indian securities recently had a sudden, but fortunately only temporary, set back in popularity owing to apprehensions felt in the United Kingdom regarding the internal situation in this country. Brief as was the period of depression, the incident nevertheless carries its own warning, and I feel that it would be unsafe to count on a total borrowing, in rupees and sterling combined, larger than that for which we have taken credit. As regards rupee borrowing, there are, moreover, two considerations to be borne in mind. In the first place, we must remember that any appreciable revival in trade must inevitably lead to other channels of investment for those people who during the past two years have subscribed to our loans. Secondly, several of the Provincial Governments will themselves be entering the market, one of them at all events to a very substantial extent. Altogether, if we

Unsafe to rely on larger borrowings.

look ahead for the next few years, we have to remember that our essential capital liabilities, namely, the provision of an adequate railway programme and the repayment of our short-term bonds, represent a total sum which will strain our borrowing capacity to the utmost, and every serious thinker will, I, believe, agree that to rely to any substantial extent on our annual borrowings to finance large revenue deficits and to provide us with funds for carrying on the ordinary day-to-day administration is out of the question.

35. So far I have dealt with our ways and means position taking our balances in India and England together. It is now necessary, however, that

Problem of keeping the Secretary of State in funds.

I should give some explanation of the position at our Home Treasury, for, as the House will see, this is likely to have an important bearing upon our general currency and exchange arrangements. In normal times the usual procedure for keeping the Home Treasury in funds is for the Secretary of State to sell Council Bills upon India. No Council Bills have, however, been sold since 1919, the reason being that there has been no trade demand for them, while the Secretary of State has been able to keep himself in funds by recoveries made by him from the Home Government in respect of expenditure incurred by us on their behalf in India and Mesopotamia, this operating, in effect, as a remittance from us to the Secretary of State. In one financial year, namely, 1918-19, our recoveries from the Home Government were no less than £92 millions. Since then, owing to the closing down of the Mesopotamian operations and the gradual disbandment of the additional troops that had been raised during the war for service overseas, these recoveries, have greatly diminished, and during the current year we only expect the Secretary of State to recover about £25 millions, while during next year we do not expect that he will recover more than £9½ millions. His total liabilities, including the ordinary Home charges, together with about £18½ millions on account of purchases in Europe of railway material and stock, are expected to amount to about £52½

millions. There is, therefore, a substantial deficit in his resources. How is that to be supplied? I have already mentioned that he hopes to obtain about £17½ millions from sterling borrowings. Assuming that he will succeed in raising this large amount, there will still remain a gap of £18 millions, which will have to be covered by a transfer of funds from India to England. Now,

there are only two possible ways of making this remittance; the Secretary of State must draw on us, either through the sterling reserves or by the sale of Council Bills. It is necessary that I say a few words about each of these methods of remitting funds to him.

36. As regards the former, namely, the transfer of our sterling reserves from England to India, there will be in England at the beginning of the financial year about £5½ millions of the Paper Currency Reserve and £40 millions in the Gold Standard Reserve. Both of these are held mainly in the form of British

(1) By transfer of Treasury Bills, which are readily convertible into sterling reserves to India. cash. The Secretary of State can, therefore, to the extent of his requirements, draw on those reserves, provided of course (and the House will soon see that the proviso is an important one) that we earmark

Which will necessitate the necessary funds in India for credit to those corresponding deflation in reserves, the net result being a transfer of the reserves from England to India. In the case of the Paper

• Currency Reserve we should at this end cancel notes to an amount equivalent to the British Treasury Bills sold out by him, thus reducing the circulation to that extent. In the case of the Gold Standard Reserve we should have to earmark funds for credit to that reserve in India; we propose to do this by earmarking gold, i.e., we should transfer gold from the Paper Currency Reserve, which contains £24 millions, in sovereigns and gold bullion, to the Gold Standard Reserve. But here again, in order to be able to make this transfer, we should of course have to make equivalent payments to the Currency Reserve, and thus cancel notes to the necessary extent. So, whether the Secretary of State draws through the Paper Currency Reserve or through the Gold Standard Reserve, the net result is a cancellation of notes in this country. That is the operation generally known as 'deflation', and I use the word for the reason that this is the actual effect of such drawings, and not because we consider that

• circumstances justify a policy of deflation on its own merits. But when one looks at this matter practically, the question at once arises, whether we could in fact effect cancellation to the necessary extent. I must point out, moreover, that deflation in order to put the Secretary of State in funds does not represent the whole of the cancellation necessary, seeing that under the Paper Currency Act we are bound to apply the interest on our Paper Currency Reserve investments to the cancellation of notes issued against our *ad hoc* securities in India, and further, we have also undertaken to apply to the same purpose any excess in the Gold Standard Reserve over and above the figure of £40 millions. The deflation in respect of these two items will amount next year to about 6 crores and, when added to the deflation necessary on our present estimates to put the Secretary of State in funds, represent a total

• Danger of attempting too much deflation. sum of 33 crores. I have only to mention this amount for the House to judge of the practicability of cancelling 33 crores of notes out of a total circulation of about 1,70 crores. I need not elaborate this point, for it is one which all bankers and financiers, and indeed most business men, will at once appreciate. Every crore of notes cancelled by us means a withdrawal of a

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crore of notes from the money markets, with a proportionate tightening of money. By cancelling notes at judiciously chosen opportunities we hope to be able to provide some portion of the Secretary of State's requirements in the coming year in this manner; and of course deflation, if carried out with caution and with due regard to the legitimate needs of trade, has, as the economists tell us, valuable effect in reducing the general level of internal prices. But, as recent experience in other countries has shown, there is an obvious limit to which we can or should go in this direction, and we recognise fully the responsibility on us not to go too far, or to produce such a sudden or rapid stringency as might lead to a dangerously acute position.

37. If the House has followed me in my remarks regarding the possibilities of deflation, it will be clear to the extent to which our deflation falls short of

(2) By sale of Council Bills. the amount which we at present estimate as necessary to keep the Secretary of State in funds, it will be necessary for him to sell Council Bills. We have

not entered any figure in the estimates for a remittance through Council Bills, and have for the present shown the whole remittance as effected through the sterling reserves, but of course we hold ourselves free, should circumstances require and the state of the exchange market permit, to make remittances by Councils. Further, the facts and figures which I have given to the House must dispose of any apprehension that the business community in India may still feel as regards the Secretary of State's unlimited powers to force up exchange to the two shilling level.

The finances of the Provinces.

38. Now that the Provincial Governments have almost complete financial autonomy, it would ordinarily be unnecessary for me to make any reference to their financial operations. What I have already said, however, regarding the

Exhaustion of provincial balances. difficulties in which the provinces now find themselves, and their effect upon our general ways and means operations, makes it desirable that I

should make a few observations on the all-India position. A few facts will suffice to show the general position in the provinces. At the beginning of the current year the total provincial balances were 16.16 crores, while at the end of next year the aggregate balances are expected to be only 5½ crores, even after allowing both for the various loans which several Provincial Governments have raised or will have raised, during the two years, and also for the proceeds of extra taxation which several provinces are imposing for their own purposes. Further, there is not a single province which, according to our present information, is not budgeting for a deficit next year. I am not in a position to give full figures, because several provincial budgets have not yet been presented, but the House may take it as reasonably correct when I say that, taking the provinces as a whole, their expenditure next year (omitting of course expenditure of a capital nature which will be defrayed from loan funds) will exceed their revenues by an amount of about 8 crores. Several of the provinces will, by the end of the current year, have already exhausted the balances which we keep for them as their bankers, and at least one of the major provinces will have to take a substantial advance from us

merely in order to carry on. The position of the Central Government's own

Problem an all-India finances, as I have endeavoured to explain to the House this morning, shows that there can be no question

of our attempting to reduce the provincial contributions of 9½ crores in the immediate future. To do so would merely increase our

own uncovered deficit, and the net result would be exactly the same whichever course we adopted, for, whether the all-India deficit be regarded as completely Central, or partly Central and partly Provincial, it will have to be financed mainly on the credit of the Central Government. The problem, therefore,

is really an all-India one. The great difficulties in which most of the provinces find themselves have led in many cases to requests in non-official quarters that

what is known as the Meston Settlement should be revised. I am not quite sure how far such requests are put forward with the object of obtaining a

different distribution of the total contributions between the provinces, or merely represent requests for the acceleration of the abolition of the contributions.

I must, however, point out that any attempt to wipe the Meston Settlement off the slate might have a very different result from what is

sometimes anticipated. Lord Meston's Committee worked on our assumption that the deficit of the Central Government at the initiation of the Reforms,

to be made good from contributions from the Provinces, would be 9,83 lakhs. Now, that figure was arrived at upon various assumptions, two of which

were of great importance. The first was the two shilling rate of exchange; the second, a military budget of 43 crores. The non-realisation of the first assumption

means, on the present figures of our Home charges, a difference to us of no less than 15½ crores a year. As

for the military budget, although the strength of the Army is not greater (it is indeed somewhat less) than the

pre-war strength, the cost is some 20 crores higher than the 43 crores we assumed. I would ask, therefore, those who desire to see that settlement upset,

to consider whether an impartial committee, now arriving in India to effect a new settlement, might not take a very different view as to the amount of the

contributions necessary from the provinces in order to enable the Central Government to discharge its fundamental duty of securing the country's

defence, maintaining internal peace, and the service of the national debt.

39. Knowing, however, the difficulties which each Local Government has to face, we consider that the time has come when it is desirable for us

to discuss the whole position with them, in order that we may exchange ideas and learn something of each other's difficulties. We propose, therefore,

as soon as convenient, to invite the financial officials of each Local Government to a conference, in order to discuss the general position as regards the

contributions, and at the same time to take the opportunity of examining the problems which each province has to face in the matter of financing capital

outlay on irrigation and other schemes for which the provinces are now responsible.

Conclusion.

40. And now, Sir, I can conclude my task. For us, for the Provincial Governments, for the country at large the year has been a difficult and

disappointing one; nor is there yet any clear promise of an early lifting of the clouds which veil the horizon of our finances. We can only address

ourselves with what determination we can command to the task of finding a solution for the urgent problems which immediately confront us. One fact,

I think stands out in prominence; the overwhelming importance to India's

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trade and exchange of world factors over which we have no control. Any attempt to devise remedies as if India were a separate entity, divorced from world conditions, would be doomed to failure. A second fact is also clear that the world at large, and we also with other countries, have underestimated the period of convalescence necessary for recovery from the maladies of the war. I need not labour the point, for wherever you look, whether towards Central Europe, or to the United Kingdom, or even to America, it is now clear that the problems are so stupendous that recovery cannot be other than slow. But the conclusion seems to me equally clear. If our troubles are due to world causes, we must move in line with the best thinkers of the outside world in seeking the remedy; and the one solution which they can indicate for the difficulties in which State finance now everywhere finds itself, is the deliberate attempt at any cost and at any inconvenience to make revenue meet expenditure. India's financial credit has stood high with the world in the past; if she is to maintain this, and if she is to make good, what is of equal importance, her political credit with the world, she cannot afford to falter in applying the obvious and inevitable remedy which the situation demands.

MESSAGE FROM THE COUNCIL OF STATE.

Mr. President: A Message has been received from the Secretary of the 12 noon. Council of State.

Secretary of the Assembly: Sir, the Message received from the Council of State runs as follows :

'I am directed to inform you that the Council of State has, at its meeting of the 28th February, 1922, agreed, without any amendment, to the following Bills which were passed by the Legislative Assembly :

The Bill to amend the law relating to Emigration, and

The Bill to establish and incorporate a unitary teaching and residential University at Delhi.'

THE DELHI UNIVERSITY BILL.

Mr. H. Sharp (Education Secretary) : Sir, with your permission, I would like to do what I had no time to do the other evening when it was very late, and that is to acknowledge the assistance which Government has derived, in the passing of the Delhi University Bill, from the Assembly and from the Joint Committee. I have seen the passage through the Indian Legislature of five University Bills. These Bills always contain slightly contentious matters; but I can say that the discussion was never more reasonable, and never conducted in a more amicable manner than on the occasion of this Bill. (Hear, hear.) My Honourable friend from Bengal opposite did not get quite all that he wished to get out of it, but I congratulate him on his achievement and I also congratulate the Assembly.

THE INDIAN FINANCE BILL.

The Honourable Sir Malcolm Hailey (Finance Member) : With your permission, Sir, I beg leave :

'To introduce a Bill in the nature of our Annual Finance Bill, the exact title of which will

be 'A Bill to enhance the duty on salt manufactured in, or imported by land into, certain parts of British India, further to amend the Indian Tariff Act, 1894, the Cotton Duties Act, 1896, and the Indian Post Office Act, 1898, to impose an excise duty on kerosene, to fix rates of income-tax and to abolish the freight tax.'

The motion was adopted.

The Honourable Sir Malcolm Hailey : Sir, I beg to introduce the Bill.

THE POLICE (INCITEMENT TO DISAFFECTION) BILL.

The Honourable Sir William Vincent (Home Member) : Sir, I move :

'That the Bill to provide a penalty for spreading disaffection among the police and for kindred offences, be taken into consideration.'

I explained the object of this Bill, when I introduced it, or rather its two objects, for Honourable Members who have read the Bill will see that its objects are two-fold, namely, to prevent the spread of disaffection amongst members of the police force, and to prevent attempts to induce them to withhold their services or to commit breaches of discipline. I have received a number of amendments to the Bill, all of them indicating that certain modifications in the measure are necessary in the opinion of individual Members of this Assembly, but I have received no indication that the principle of the Bill is objected to. Indeed, two amendments have been proposed to refer the Bill to a Select Committee indicating that the principle is accepted and, in view of the number of amendments to the Bill that are down on the list, and also of the desirability of examining it in greater detail—a course of action which is only possible in Select Committee—I am quite prepared to accept either of these motions. The Committee—proposed by my friend, Mr. Subrahmanayam, seems to be larger and to include very nearly all the Members that are put down in the Committee proposed by Dr. Gour.

Sir, when I last spoke about this Bill, I explained that it is based entirely on the principles of an English Act, and I submit to the Assembly that the danger of disaffection among the police is more acute and more real in this country than in England. Indeed, Honourable Members must be aware that some of these efforts have been partially successful in some provinces or I ought to say in some parts of provinces. I daresay also that many Members have noticed that in a recent decision of the Congress special arrangements were made for the provision of funds to support those who leave Government service, and we interpret that as an indication that further efforts will be made to seduce our police officers and, indeed, our soldiers from their duty for one of the obstacles that has hitherto stood in the way of this item in the non-co-operation programme has been the fact that adequate funds to pay the men who leave service were not available. I need not point out to the Assembly that the security of this country depends very largely on the police, and that they are the first line of defence. It is not for me on this occasion to praise their work, though, indeed, it has often been worthy of great praise. (Hear, hear.) They have faced attack, abuse, boycott, intimidation and, on many occasions, violence and murder, and I hope the House will realise the difficulties under which they work. This Bill is not however, intended to penalise that subtle intimidation and boycott, which it is very difficult indeed to prevent, but to stop those open attempts to spread

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disaffection among a force which is the guardian of the public tranquillity in this country.

I notice that one Honourable Member has drawn attention in an amendment to the question of whether it is intended by this Bill to interfere with what are called police associations. Well, if he will refer to the English Police Act, he will see that special provision is made in that Act for the protection of such associations, and it is far from our intention to interfere at all with legitimate activities of such bodies. I can assure the Honourable Member who has given notice of that amendment that this matter will be carefully considered in Select Committee. But I want to make one point quite clear, and that is that it is not with reference to these associations that we thought it necessary to introduce this Bill, but because of the deliberate attempts that are now made to sow disaffection and disloyalty amongst one of the most valuable services in India.

Rao Bahadur C. S. Subrahmanayam (Madras ceded districts and Chittoor : Non-Muhammadan Rural) : Sir, I may say at the outset, not only on behalf of myself but on behalf of a good many Members of this Assembly, that we are all at one with the Government in endeavouring to maintain law and order. We all recognise that the loyalty, the efficiency and the whole-hearted discharge of their duties by the police is most essential to the safety of the country or, at any rate, to the safety of the people who have any property in it, worth mentioning. Therefore, it is at the outset quite necessary to dispel any doubts which any one might have in his mind that we are out to weaken the authority of Government in maintaining law and order. I may be pardoned if I say that, but I do so because there is an idea in some minds that, if we criticise any of these punitive measures or any of these penal laws that are put before the Assembly, we are doing something to weaken authority. Far, far, be that from our minds. What we try to bring to the notice of Government is that we are more familiar with certain strata of society, with certain strata of officers who administer the law, and we daily see the difficulties, the inconveniences, which these laws subject the people to in this country. Now, in regard to this law, as in regard to any other law of this character two essentials are necessary. It must be effective to attain the objects aimed at and it must also be easily workable, that is, it must be workable without endangering or imperilling the safety and the liberty of the ordinary people in the country.

Now, in regard to this measure, no doubt the Honourable the Home Member said that it is intended to attack open attempts made to seduce the police. We are all agreed about that. If this Act can by its terms be made applicable to open attempts or to any general attempt or to any combined attempt to wean the police from the proper discharge of their duties, we shall all, I think, unanimously support it. But do the terms of the Bill as it stands limit its operation to open attempts only? That is the danger underlying this Act which is now before us. No doubt, the operative section is taken out of the English Act. We are told in the Statement of Objects and Reasons that the Bill has been framed on the lines of section 3 of the English Police Act of 1919. Now, a perusal of the English Act will show the object with which that Act was enacted. It was at a time when there were trade unions and police unions, and the trade unions were negotiating with the police unions

in order to get these police unions under their control and thereby practically paralyse the civil administration of the country. In this state of affairs, the police were practically advised to form unions but unions under a certain amount of Government control; and after allowing them to form these unions, they were prohibited from having any dealings with other unions. That is to say, they wanted to segregate the police unions, and then, as a corollary to that position, they also made it an offence for other people to interfere with the police unions. The punishment provided for people interfering with police unions formed a corollary to the main provision made to regulate the formation of police unions and their segregation from contamination by other unions. Now this operative section of the Act has been taken out of its setting and presented to us. Well, that is the main objection and the danger that we see in this Act. After all, what does this Bill aim at? It aims at keeping the police steady and straight in the discharge of their duties by preventing other people from persuading members of the force to become disloyal. Now, it must strike any one that the most effective way of keeping the police to their duty is to make them contented, by choosing the right men for the force and keeping them under proper discipline and thereby making them a disciplined loyal force. But any amount of legislation of this sort to prevent outside people talking to them or preaching disloyalty to them is not likely to attain the end which is sought to be reached by this law. Therefore, those of us who have put forward amendments and others fear that in the working of the Act there might be great danger. Now a plain question has been asked. What is there to prevent an ordinary individual who talks to a couple of policemen and on hearing some complaint from them says: 'Why don't you resign? You will make more in another walk of life and I advise you not to continue in the police;—a conversation like that might come within this section. A man might reasonably, with no intention of creating disloyalty, tell a policeman, or a couple of them or half a dozen of them: 'The police service does not seem to be very remunerative: in private service you are paid better and will have greater liberty'; and this advice must come within the section, which says:

'whoever causes disaffection amongst the members of a police force.'

'Disaffection' is a well-known word. It has been held to mean lack of affection, want of affection. (*Honourable Members*: 'No, no.') It has been said that anything leading to a want of affection might be disaffection. If you find one Judge saying that, you will find more Magistrates saying that in the future.

Another matter connected with this Act is this. A policeman now under the Police Act is entitled to resign on two months' notice, and, if he does not give that notice and commits breaches of discipline, the punishment provided for him is about three months' imprisonment. But a man who asks him to give up serving in the force will get two years under this Act. I do not know the reason for this disparity in punishment between the principal offender and the instigator. Therefore, all that I say at present is that, while no doubt in some modified attenuated form a Bill like this might be agreed to, in its present form, without material changes, I think it is a very dangerous measure, and, in order that there may be no mistake about it, I have put forward the amendment, lifting simply the clause in the English Police Act that is, my amendment No. 13. As the Honourable the

[Rao Bahadur C. S. Subrahmanayam.]

Home Member has said that a Select Committee consisting of the larger number will be appointed, I move :

‘ That a Select Committee consisting of the following Members be appointed to consider and report on the Bill :

The Honourable the Law Member,
The Honourable the Home Member,
Dr. H. S. Gour,
Bhai Man Singh,
Mr. Pyari Lal,
Mr. J. Chaudhuri,
Munshi Iswar Saran,
Mr. W. M. Hussanally,
Mr. F. McCarthy,

and myself.’

The Honourable Sir William Vincent : Sir, may I suggest to the Honourable Member that he might add two more Members, Mr. Keith and Mr. Kabraji, both of whom have experience of police work? I have ascertained that they are willing to act.

Rao Bahadur C. S. Subrahmanayam : I agree.

Mr. President : The question is :

‘ That the names of Mr. W. J. Keith and Mr. J. K. N. Kabraji be added to serve on the Select Committee.’

The motion was adopted.

Dr. H. S. Gour (Nagpur Division : Non-Muhammadian) : Sir, when I gave notice of my amendment, it was in consultation with my friend, Mr. Subrahmanayam, and it was only inadvertently that the names which he has subsequently added were omitted from my list. I am glad, therefore, to withdraw my own amendment and to support the amendment of my friend who has just spoken. I should, however, like to make one or two alterations. Mr. Wali Muhammad Hussanally is not here and, if the Police Bill Committee has to sit immediately, I would suggest the name of a Muhammadian Member, either in addition to or in substitution of Mr. Wali Muhammad Hussanally, namely, Mr. Chaudhri Shahab-ud-Din. I have taken his consent and I hope the Honourable the Home Member will have no objection. . . .

The Honourable Sir William Vincent : Certainly ; we should accept the proposal at once.

Dr. H. S. Gour : I therefore beg to move formally that Chaudhri Shahab-ud-Din's name be added to the Select Committee.

Now, so far as this Police Bill is concerned, our task has been made very much lighter by the statement of the Honourable the Home Member. As he is aware, the tenor of our amendments leaves no doubt that we, on this side of the House, are quite willing to co-operate with the Government in suppressing any movement intended to seduce either the military or the police forces of the Crown in this country. At the same time, speaking for Members on this side of the House, I desire to make it plain that, in enacting

the law, two main principles must be kept in view; the first one is that the law that we enact must be intelligible, and therefore such as is not likely to be abused in practice, and the second thing is, it must not be too wide and must not go beyond the actual necessity of the case. When this Police Bill was originally introduced, I find that the operative clause (clause 3 of the Bill) was almost bodily lifted out of the English Police Bill of 1919. But the circumstances which attended the enactment of the English Statute of 1919 were entirely overlooked. I have no doubt that the Government are aware of the very instructive discussion that took place in the House of Commons and which is reported in Volume 118 of Hansard, page 795. It was there pointed out by the Secretary of State for the Home Department that the Bill was necessitated by an actual disaffection threatened by the police. A very large number of policemen were threatening to go on strike and they had grievance which were unredressed. The Secretary of State thought that these policemen had been got at by the Internationals, and that they were making overtures to join the general trade unions who were trying to amalgamate with the police unions. The object, therefore, was two-fold, one to help the policemen in ameliorating their own conditions to preserve their police unions and the other to keep out the Internationals who were trying to seduce them; and it was with that object that the English Police Bill was drawn up. Now, I deprecate any legislation in this country where the penal provisions in an English Statute are bodily taken out and proposed to be placed on the Indian Statute-Book and all the attendant circumstances forgotten and the other beneficent provisions of that Statute are lost sight of. This is an instance of that kind of legislation. The honourable the Home Member has now assured us that there is no intention on the part of Government to quash or otherwise disband the police associations formed for the purpose of helping the police officers and the policemen. We have also been told that the object merely is to prevent the seduction of the members of the police force by terrorists and others. If that is the object, we are in entire sympathy. But may I also invite the Government to remember that individual members of the police may have a grievance. They may desire to better their own condition and their friends and relatives may advise them to do so. The Bill as originally drafted and presented to the House would penalise any advice however *bonâ fide*, given by friends and relations to individual members of the police force for their own betterment. Further, it is a cardinal principle of law that there can be no crime without what is known to the lawyer as the *means rea*, the criminal intention. In this clause 3 we find the following :

'Whoever causes or attempts to cause or does any act calculated to cause'.

This includes any act however benevolently it might have been done and however unintentionally it might have been performed. And then we have :

'or induces or attempts to induce or does any act calculated to induce any member of the police force to withhold his service or to commit breaches of discipline'

shall be punished in the manner described there. I submit that the very cardinal principle upon which the criminal jurisprudence of this country is based was entirely lost sight of in drafting this provision. We shall be told that this is copied from the English Police Bill. Now, I ask, Sir, this Bill was passed in England in 1919, nearly two or three years ago. Has there been a single case? Was this Bill ever put into service? I venture to think, not; it was an emergency legislation intended to

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defeat and thwart the impending strike on the part of the police and intended further to prevent any insurrection amongst the members of the Metropolitan Police which was imminent ; I submit that that caused the enactment of this legislation in England. The Honourable the Home Member has not even insinuated, much less said, that there is such a contingency at present in this country. The contingency, if any at all, is fortunately and happily a remote one, and we are making here a provision against a possibility. I, therefore, submit that the language of the section has to be entirely recast and placed in line with the other penal enactments of this country. I have no doubt that these are considerations which may weigh with the Select Committee to which the Bill is now to be consigned. But I make these observations for the purpose of showing why notices of so many amendments and motions were given by the Members of the House. When they read this section, they found they were face to face with this difficulty ; they found that, when compared with the English Act, this was a verbatim or almost verbatim reproduction of one isolated section of the English Police Act without the other sections which are an integral part of the scheme formulated in the English Statute.

One more word, Sir, and I have done. The Honourable the Home Member needs no assurance from Members on this side of the House that he will have the utmost support from the private Members of this House that is commensurate with the due discharge of their duties as trustees and custodians of peoples' liberties. They have their duty to the public as well as to the Government, and my Honourable friend, Mr. Subrahmanayam, has not struck a warning too soon. Well, he has warned the Members of the Government not to think, merely because Members on this side of the House criticise their measures or their actions, that they do so in a spirit of hostility to the Government. They feel that, unless the two sides of the question are thrashed out, it is impossible for them to do their duty, as it will be impossible for the Government to do theirs. If I speak, Sir, supporting the amendment as well as the reasons given by my friend, Mr. Subrahmanayam, it is from the sense of duty which I feel to my own fellow Members that a new spirit should pervade the Members of this Government who must understand that any criticism that comes from this side of the House is the criticism of a friend, at times a candid friend, and not necessarily of a person, to use the language of Mr. Justice Strachey, ' who is guilty of disaffection because in him there is an absence of affection '.

Mr. President : The question is :

' That the name of Chaudhri Shahab-ud-Din be added to serve on the Select Committee.'

The Honourable Sir William Vincent : I think the Honourable Member wishes to substitute the name of Chaudhri Shahab-ud-Din.

Mr. President : Does the Honourable Member wish to add the name of Chaudhri Shahab-ud-Din or substitute it in place of Mr. Wali Mahomed Hussanally ?

Dr. H. S. Gour : I wish to add it, Sir.

The motion was adopted.

The Honourable Sir William Vincent: Sir, in the first place, I want in my reply to make one point quite clear, that we on the Government Benches do not complain in the least of criticism, and it was far from my intention even to suggest this in my opening speech. I welcome criticism from all sides of the House, nor indeed have I ever been backward, as the Members can testify, in expressing my appreciation of the assistance and co-operation which I have consistently received from the comments of non-official Members. I desire, therefore, emphatically to dispel any idea that I object to criticism from Members, and indeed, searching my mind as to what I said in my opening, I cannot think that there is anything that justified the suggestion. Nor do I complain at all of the number of amendments proposed. It is obvious that it is from suggestion of this kind that improvements in legislation develop, and we have lately in Select Committees derived very great benefit from suggestions of non-official Members. The object we all have in view is, as was said by the Honourable Mr. Subrahmanayam, the same, namely, that the law should be effective, should not be liable to be abused and that it should be easily workable. I tried to take down the exact words used by him. At the same time, I do not think that the Bill as drafted is open to all the objections which have been put forward by Dr. Gour. I do not think, for instance, that it could touch any person who, from honest reasons, recommended a police constable to resign his office in order to better himself. If it is open to that interpretation, well, Sir, we shall have the benefit of Dr. Gour's assistance, I hope, on the Select Committee, and he will be able to put the matter right. Again, when it is said that the whole Bill is wrongly based on a wrong principle, that it is merely lifted out of the English Acts, and that it omits all reference to criminal intention, then I think some answer is called for from Government. As to *mens rea* or intention, surely that is a principle of the law which applies equally in England and here, the words which we have used in the Bill are exactly those which are used in the English Statute. Now, the House of Commons whether it passes emergency legislation or not, is singularly careful about preserving the liberty of the subject and the principles of criminal law and yet the same words are used. Sir, the English Act was passed because attempts were made by certain associations to get at and seduce English police from their duty. Dr. Gour says it is because they were got at by the Internationalists—I think that was the term he used. Now, are we in a very different position here? Is there not an agency very closely allied to a Bolshevik agency which is now getting at our police in India with more or less effect? Is it not the duty of the Government to ask the assistance of the Legislature in combating that evil? Sir, I am quite sure from the speeches that have been made on this occasion that as in the past the Government will receive the co-operation of this Assembly and that, while they do not neglect the clear duty of protecting the liberty of the subject and preventing so far as they can any possibility of abuse of the law, the Members of this Assembly will give the Government assistance in protecting the police from seditious influences.

Mr. K. B. L. Agnihotri (Central Provinces Hindi Divisions : Non-Muhammadan) : Sir, it is with some regret that I rise to oppose the motion as put by the Honourable Sir William Vincent. Sir, I concede the principle underlying the Bill. I concede also that it is the duty of the master, in his own self-interest, to prevent strangers from tampering with the fidelity or faithfulness of his servants. This is also the right of every citizen, and the same should extend to the Government. The Government like a citizen has to protect its

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interests and naturally it should be allowed such rights also. But we have also to see as to whether such a protection is necessary in the case of Government and as to what would be the effect of giving such rights to the mighty and all powerful Government, the officers of which are too prompt to use powers and do not stand in need of any legal sanction to their acts, the officers of which can choke off criticism of their own action and high-handedness in the name of law and order, get more often patted than censured for their wrongful and illegal acts, their criminal acts are covered by the gloss of law and order, and are often regarded by the paternal Government only as an error of judgment and the blame for their action is generally thrown on the head of innocent victims. The master and his servants often get panicky and use weapons which are not ordinarily wanted. Under these circumstances, I think the proposal to give such a power to such a master or Government will be a real menace to the public. Could it be said that such a mighty master of all-powerful and resourceful servants stands in need of such feeble and weak protection as is demanded in this Bill?

Sir, the Bill as introduced raises serious issues and is not so innocent and innocuous as it seems on paper. It will give rise to serious consequences and should not be allowed to be put on the Statute-Book. You cannot keep this Bill on the Statute-Book without placing in the hands of the police a veritable handle of oppression for being used against any person, of whatsoever eminence he be, if he dares to say a word against any police action. You cannot keep this on the Statute-Book without giving another weapon of tyranny into the hands of the executive officers of the Government. Any criticism of the action of the executive officers of the Government would in all likelihood be regarded as calculated to cause disaffection among the loyal police force and would bring him within the clutches of this law. By passing this Bill, you raise the status of any ordinary policeman to that of the State. The first part of clause 3 of the Bill is more or less the same as the sedition section of the Penal Code, —I mean section 124-A. This law will be used against the speakers and the innocent public more widely than section 124-A and no kind assurances as given by the Home Member will avail in practice. For a prosecution under this law no sanction of the Local Government or no special magistrates will be necessary. Please consider what assurances were given when that section of the Penal Code was brought on the Statute-Book and what safeguards were provided against its operation, against *bona fide* criticism, etc. How that section has been used for all these long years, and how the actions taken under that section have been felt by the public could very well be gauged by some of the Resolutions of which notice has been given by some of my Honourable friends. Now, by enacting this law, you are going to clothe the ordinary policeman with the status of His Majesty or the Government established by law.

I would have had no objection to giving such powers to the police if by their past action, behaviour, and protestations they had imbibed any confidence in us or if they could be credited with having done the right thing invariably. They have very often misbehaved under the influence of the power they possess. Sir, I oppose this motion in the interest of the Government, in the interest of the police, and in the interest of the public at large.

The passing of this Bill at present will make the people much more suspicious of the good intentions of the Government; even the police might

get suspicious of the intentions of the Government. The Police Associations and Unions may be described by the over-zealous superior officers as likely to create disaffection among the more contented and law-abiding portions of the police force. I admit, Sir, that the Honourable the Home Member has stated that Police Associations will not be covered by this Act, but so far it is only an assurance and not binding on others. But as the preservation of law and order gives an excuse for high-handed action on the part of certain police people, similarly it is just possible that this Act may be used against the Associations under the garb of protection to other police men. The promiscuous use—as is reasonably apprehended—of this Act by the police to satisfy their own spite against a speaker or agitator would lead to much resentment, discontent and obstinacy among the public, and the situation will become further complicated. The relations of the public with the Government are likely to grow worse and become more strained. Much of the excitement and agitation in the country is due to the wrong and tactless actions of the police. Such an amount of discontent in the masses would not have been possible against the Government had the police kept scrupulously within their rights and had not practised the high-handedness or aggression which is so often met with in their actions.

This Bill is not necessary, Sir, in the interests of the police themselves; so much so that a demand for better treatment at the hands of the Government or of their officers will be treated as an act likely to cause disaffection among the other sections of the police. This will lessen their opportunities for bettering their own conditions. The actions and demands of their associations under this proposed law are more likely to be judged and treated in the same way as the actions and demands of well-known *bona fide* political associations are judged and treated under the law of sedition. It will as now be said that such a course is adopted solely for the benefit and protection of law-abiding persons. It will more often result in the breach of the law and in repressing the very law-abiding persons whom it is intended to protect.

It is not in the interests of the public that such an Act should be placed on the Statute-Book. It will be an additional weapon against them in the hands of unscrupulous, vindictive and spiteful policemen. We are well aware, how the 'sedition' sections of the Indian Penal Code are employed. We are well aware, how freely they make use of section 332 and section 353 of the Indian Penal Code against persons who have the audacity to challenge their action. They still resort to extortion and abuse of various sections of the Penal Code and the Criminal Procedure Code for objects for which they were not intended. We are well aware, how false cases are concocted by the police and how innocent persons are made to suffer to satisfy the spite and revenge of the police. Many of the members of this noble force have not hesitated to bring false charges against innocent persons of offences involving even capital punishment or transportation for life. Even the honour and safety of the Members of this House may not be safe in the hands of the police as any criticism of the police action in this House may make them also liable under this law. Sir, I know of a case in which a Member of this House, a Member from the United Provinces, was falsely accused of certain offences. The Honourable Member was attending the sessions of this House while the Police of his place reported to higher authorities against him but, it was subsequently found out that the report was false and the gentleman was not there at all—no doubt the police and the executive officers of the district concerned apologised to that Member.

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later. But that is apart from the question. The point is that the people have no scruples or hesitation to do things which are not fair and proper and which do not fall within the rightful scope of their duties. Being human, they often lose their composure and make false accusations against persons who are not their favourites-- instead of being protectors of the poor, they have often become their oppressors.

Sir, this Bill will result in much discontent and agitation. I, therefore, submit that such an Act should not be brought on to the Statute-Book. Moreover, Sir, it has already been pointed by the Honourable Dr. Gour and Mr. Subrahmanayam that in England the reason for putting in this clause in the Police Act of that country was quite different. The conditions are not the same here. Discontent is not as intense among the police in this country as it was found to be in England at the time of the English Bill of 1919. The police here are not so dissatisfied and discontented as they were in England. My humble suggestion is that, if there be any fear on the part of Government as to any disaffection and discontent among the rank and file of the police which cause them to leave service, the only proper remedy is to make them contented by raising their status and pay and ameliorating their conditions of life, and no amount of inducement and persuasion from agitators would tempt them to leave their duties. Under these circumstances, I pray that this Bill should not be allowed to be placed on the Statute-Book and should not be taken into consideration at all. The law which is likely to harass the innocent more than the guilty could not be regarded as a good law.

Mr. J.-P. Cotelingam (Madras: Nominated Indian Christian): Sir, I should have thought that the assurance given by Dr. Gour on behalf of the Assembly, which he described as the trustee and custodian of the peoples' liberty, was sufficient guarantee against the alarmist view taken by the Honourable Mr. Agnihotri. The situation that has arisen makes it very necessary that a Bill of this nature should go forward. The Honourable Dr. Gour is a member of the Select Committee, and, if Mr. Agnihotri has any misgiving about the working of the Bill, he has been assured that, when it emerges from the Select Committee, it will have the necessary safeguards.

Mr. B. S. Kamat (Bombay Central Division: Non-Muhammadan Rural): Sir, while whole-heartedly supporting this Bill, there are just one or two points of minor importance to which I think I should draw the attention of the members of the Select Committee as well as of the Honourable the Home Member. The amendment of my friend, Mr. Subrahmanayam, is designed to save Police Unions from the operation of the Act. The language of the English Act, section 1, is slightly wider in application. What is necessary, from my point of view, is to introduce a section which will protect, not only those who are members of unions established to advance the welfare of the force, but even outside *bona fide* helpers of the unions. For instance, it might be necessary for certain Police unions to invoke the assistance of outside workers in their own interest, say, for instance, of the members of the Servants of India Society, who might be asked to inform the police how to form their union. It is necessary to protect *bona fide* workers of this kind who come to help the Police Unions.

The second point is one to which my friend, Dr. Gour, has already referred, and that is that, when an individual member of the police force who

belongs to a Union tries to secure the advice of outsiders, acting of course *bona fide*, they should also be protected even in helping an individual. That could be achieved if the English section is copied more literally than my friend, Mr. Subrahmanayam, has done. It says :

‘ Nothing therein contained shall effect any action which enables the members of the Police Union’

The word ‘ enables,’ I believe, gives a larger protection even to those who help with advice and suggestions members of the force who desire to form Police Unions. The word ‘ enables’ should, therefore, be introduced by the Select Committee

Mr. President : The original question was :

‘ That the Bill to provide a penalty for spreading disaffection among the police and for kindred offences, be taken into consideration ;’

Since which an amendment has been moved :

‘ That the Bill be referred to a Select Committee consisting of :

The Honourable the Law Member.

The Honourable the Home Member.

Dr. H. S. Gour.

Bhai Man Singh.

Mr. Pyari Lal.

Mr. J. Chaudhuri.

Munshi Iswar Saran.

Mr. W. M. Hussanally.

Mr. F. McCarthy.

Mr. W. J. Keith.

Mr. J. K. N. Kabraji.

Chaudhri Shahab-ud-Din, and

Rao Bahadur C. S. Subrahmanayam.’

The question is :

‘ That the Bill be referred to that Select Committee.’

The motion was adopted.

THE PRESS LAW REPEAL AND AMENDMENT BILL.

The Honourable Sir William Vincent (Home Member) : Sir, I present the report of the Select Committee on the Bill to repeal the Indian Press Act, 1910, and the Newspapers (Incitement of Offences) Act, 1908, and to make certain provisions in regard to the liability of editors of newspapers and to facilitate the registration of printers and publishers and to provide for seizure and disposal of certain documents.

1 P.M.

MESSAGES FROM THE COUNCIL OF STATE.

Secretary of the Assembly : I have received two Messages from the Secretary of the Council of State. The first Message is as follows :

' I am directed to inform you that the Council of State has, at its meeting of the 1st March, agreed without any amendments to the following Bills which were passed by the Legislative Assembly :

(i) *A Bill further to amend the Provincial Small Cause Courts Act, 1887, and the Code of Civil Procedure, 1908, in order to provide for the award of costs by way of compensation in respect of false or vexatious claims or defences in civil suits or proceedings.*

(ii) *A Bill further to amend the Indian Limitation Act, 1908.'*

The second Message runs as follows :

' I am directed to inform you that the Council of State has, at its meeting of the 1st March, adopted the following motion, namely :

' That this Council do agree to the Bill to consolidate and amend the law relating to Income-tax and Super-tax as further amended by the Legislative Assembly.'

The Assembly then adjourned till Eleven of the Clock on Thursday. the 2nd March, 1922.