

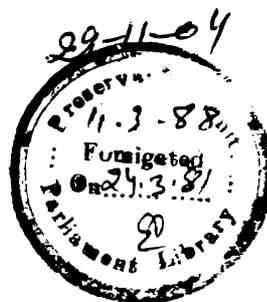
Saturday, 7th March, 1931

THE
COUNCIL OF STATE DEBATES

VOLUME I, 1931

(10th February to 2nd April, 1931)

FIRST SESSION
OF THE
THIRD COUNCIL OF STATE, 1931



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COUNCIL OF STATE.

Saturday, 7th March, 1931.

The Council met in the Council Chamber of the Council House at Eleven of the Clock, the Honourable the President in the Chair.

QUESTIONS AND ANSWERS.

RAILWAY FROM GAYA TO SHAHERGHATY.

76. THE HONOURABLE MR. ABU ABDULLAH SAIYID HUSSAIN IMAM: (a) Has any survey been made for a railway line from Gaya to Shaherghaty ?

(b) If so, what was the result of the survey ?

(c) Do Government propose to construct this line ?

THE HONOURABLE MR. J. A. WOODHEAD: (a) Yes.

(b) and (c). The survey showed that the project if constructed to the 5'6" gauge would not be remunerative as the anticipated return on capital was 1·3 per cent. only. The Government of Bihar and Orissa also did not support the project. It was decided to drop the project as a broad gauge line, but it was thought that it might be worth while reinvestigating it at some future date as a 2'6" gauge feeder line.

STERLING LOANS ISSUED BY THE GOVERNMENT OF INDIA IN 1929 AND 1930.

77. THE HONOURABLE MR. ABU ABDULLAH SAIYID HUSSAIN IMAM: Will Government lay on the table the following statement :

(a) The dates and the amounts of sterling loans issued by the Government of India in 1929 and 1930.

(b) The response, i.e., when the list opened, when it closed, and the amount applied for, in each case.

(c) The rates of interest of the loans.

(d) The redemption yield on the terms offered.

(e) The redemption yield of the last sterling and rupee loans of 1928 on the dates mentioned in (a).

(f) The redemption yield of the loans (a) on the last day of 1929-30.

THE HONOURABLE SIR ARTHUR MOWATERS: Two statements are laid on the table.

Sterling Loans raised in 1929 and 1930.

Year.	Amount.	Date of issue of prospectus.	List when opened.	List when closed.	Amount applied for.	Date of maturity.	Issue price.	Nominal rate of interest per cent.	Redemption yield on the terms offered.	Redemption yield on 31-3-1930.	
										Market quotation ex-dividend.	Yield.
1	2	3	4	5	6	7	8	9	10	11	12
	£				£						
1929	10,000,000	3-1-29	3-1-29	5-1-29	7,677,500	1-6-58 1-6-68	} 91	4½	(a) 5.093 (b) 5.028	} 85½	(a) 5.524 (b) 5.402
1930	6,000,000	9-2-30	10-2-30	10-2-30	38,812,350	15-6-32 15-6-33	} 99	6	(a) 6.478 (b) 6.627	} 101	(a) 5.515 (b) 5.941
1930	7,000,000	20-5-30	20-5-30	20-5-30	19,150,400	15-6-33 15-6-35	} 99	6	(a) 6.371 (b) 6.236	}
1930	12,000,000	15-10-30	15-10-30	15-10-30	37,211,750	15-10-35 15-10-37	} 100	6	6.000

(a) On the basis of the earlier date of maturity.

(b) On the basis of the later date of maturity.

(c) Balance was left for underwriters.

(d) Repayable at 101 per cent. on this date.

Redemption yields of sterling and rupee loans of 1928 on the dates mentioned below.

Loan.	Nominal rate of interest per cent.	Date of maturity.	Redemption yields on							
			3-1-29.		10-2-30.		20-5-30.		15-10-30.	
			Market quotation ex-dividend.	Yield.						
7½ Millions Sterling Loan, 1928-28.	4½	{ 1-6-58 1-6-68 }	(a)	..	80½	{ 5.894 5.747 }	78½	{ 6.090 5.910 }	84½	{ 5.610 5.480 }
4½ per cent. Rupee Loan, 1925-28.	4½	{ 15-9-55 15-9-60 }	94-1-0	{ 4.903 4.872 }	86	{ 5.531 5.446 }	86-14-0	{ 5.453 5.374 }	82-9-0	{ 5.840 5.723 }
4½ per cent. Bonds, 1934.	4½	15-9-34	96-8-0	5.213	94-12-0	5.84	95-2-0	5.778	95-2-0	5.922

(a) Not available.

WEEKLY STATEMENT OF CASH BALANCE AND TRADE DEMANDS OF THE BANK OF ENGLAND AND THE IMPERIAL BANK OF INDIA FOR 1930-31.

78. THE HONOURABLE MR. ABU ABDULLAH SAIYID HUSSAIN IMAM: Will Government lay on the table a weekly statement of cash balance and trade demands of the Bank of England and the Imperial Bank of India for the year 1930-31.

THE HONOURABLE SIR ARTHUR McWATTERS: The weekly "statement of affairs of the Imperial Bank of India" is published in the *Gazette of India* and most important newspapers. The weekly statement of the Bank of England is published in the *Economist* and other English journals.

TELEGRAPH ENGINEERING CLERKS IN THE BIHAR AND ORISSA CIRCLE.

79. THE HONOURABLE BABU JAGADISH CHANDRA BANERJEE: Will Government please state if there is any likelihood of those Telegraph Engineering clerks who have been transferred to the Bihar and Orissa Circle on account of amalgamation being retransferred to their home circle; if not, has any suggestion for granting them any compensation been considered as in the cases of Railway Mail Service officials from Calcutta to Patna or those of the Director General's staff from Calcutta to Delhi?

THE HONOURABLE SIR JOSEPH BHOORE: The question of retransferring the clerks is under the consideration of the Director General. The latter part of the question does not arise at present.

APPOINTMENT OF MR. BHAWANI TO A PERMANENT VACANCY IN THE PATNA TELEGRAPH ENGINEERING DEPARTMENT.

80. THE HONOURABLE BABU JAGADISH CHANDRA BANERJEE: Will Government be pleased to state whether their attention has been drawn to the case of Mr. S. K. Bhawani, mentioned in correspondence published in the *Amrita Bazar Patrika* of the 15th November, 1930; if so, will Government be pleased to state whether Mr. Bhawani has been provided with a post in any permanent vacancy in the Patna Telegraph Engineering Department?

THE HONOURABLE SIR JOSEPH BHOORE: The reply to the first part of the question is in the affirmative. As regards the second part, Government have no information and they do not propose to call for it as the selection of candidates for the posts in question is left entirely to the discretion of the Head of the Circle concerned.

TELEGRAPH ENGINEERING SUPERVISORS.

81. THE HONOURABLE BABU JAGADISH CHANDRA BANERJEE: Owing to the recent recruitment of new Engineering Supervisors, Telegraphs, in each Circle, have the old temporary Engineering Supervisors, who were going to complete their services for permanency, under the old rules, been reverted to the Traffic? If so, have Government considered providing them with any higher post in the Telegraph Engineering Branch, in consideration of their previous temporary services as Telegraph Engineering Supervisors?

THE HONOURABLE SIR JOSEPH BHORE: A few telegraphists were taken temporarily to bridge over the gap between the old and new systems of recruitment for the posts of Engineering Supervisors. Such of these as put in three years' *satisfactory* service as temporary Engineering Supervisors were made permanent. The others have been or will be reverted.

The answer to the second part is in the negative.

**ELECTRICAL SUPERVISORS IN THE TELEGRAPH ENGINEERING DEPARTMENT,
PATNA.**

82. THE HONOURABLE BABU JAGADISH CHANDRA BANERJEE: Were some Electrical Supervisors in the Patna Telegraph Engineering Branch not given an allowance for working as Electrical Supervisors for months-together? If not, why? Does Government propose to provide them with any permanent post in the Telegraph Engineering Branch, in consideration of their serving as Electrical Supervisors?

THE HONOURABLE SIR JOSEPH BHORE: Government have no information nor do they propose to call for it as any individual who has a grievance is at liberty to appeal in the usual manner.

**IMPENDING DUMPING OF WHEAT, OILSEEDS, COTTON, ETC., BY RUSSIA ON
THE INDIAN MARKETS.**

83. THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: Will Government kindly state whether its attention has been drawn to the contents of the book "The Five Year Plan of the Soviet Union" by Mr. G. T. Grinko, published by Messrs. Martin Lawrence, Ltd., London, and what steps, if any, Government contemplates to safeguard the interests of those engaged in agriculture in India against the effects of the impending heavy dumping of wheat, oilseeds, cotton and other produce by Russia on the Indian markets?

THE HONOURABLE MR. J. A. WOODHEAD: Government have not yet seen the publication referred to, but have taken steps to obtain a copy. They have as yet no evidence of dumping on the part of Russia, and the question of taking any action to counter it does not, therefore, arise at present.

**TERMS OF ACQUISITION BY GOVERNMENT OF THE BENGAL AND NORTH
WESTERN RAILWAY.**

84. THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: Will Government kindly state the terms on which it can acquire the Bengal and North-Western Railway on the expiry of its present contract? When does this contract expire? What will be the total cost of such acquisition? Will Government kindly lay a copy of the relevant contract or agreement between the Bengal and North-Western Railway and the Government on the table of this House?

THE HONOURABLE MR. J. A. WOODHEAD: The terms of acquisition are given in detail in the History of Railways, copies of which are in the Library.

The contract expires by the efflux of time on the 31st December, 1981, but the Government have the option of determining it on the 31st December, 1932.

If the contract is allowed to expire by efflux of time the amount payable as purchase price may be estimated at about £2½ millions, but if the option is exercised the estimated purchase price will be about £10½ millions.

Copies of the relevant contracts are in the Library.

INCREASE OF THE EXPORT DUTY ON PETROL.

85. THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Will Government kindly state whether for revenue purposes it contemplates to increase the export duty on petrol exported from India in the year 1931-32 ? If so, to what extent ? If not, why not ?

THE HONOURABLE SIR ARTHUR McWATTERS : If the Honourable Member will refer to the accounts relating to the sea-borne trade of British India, he will find that exports of petrol from India are insignificant. As a matter of fact, exports of petrol, benzine and benzol together did not exceed 488 gallons in 1929-30, and even if a high export duty were levied, the effect on Government revenues would be inappreciable.

PREVENTION OF THE SALE OF ADULTERATED GHEE.

86. THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Will Government kindly lay on the table of this House copies of the correspondence between the Central Government and the various Provincial Governments on the subject-matter of measures regarding the prevention of adulterated ghee (pure ghee adulterated with *vanaspati* or any other article) being sold as pure ghee ?

THE HONOURABLE SIR FRANK NOYCE : Certain correspondence on the subject has already been placed in the Library of the House in reply to part (b) of the Honourable Mr. Surput Sing's question No. 63 in this House on the 10th March, 1930, and I would refer the Honourable Member to it. Copies of subsequent correspondence have also been placed in the Library.

SAVINGS MADE BY THE ARMY ON THE PURCHASE OF FOODSTUFFS, ETC.

87. THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Will Government kindly state what savings the Army Department has so far made this year on the purchase of foodstuffs and other materials owing to heavy fall in prices ?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : It is estimated that during the year 1930-31 the savings will amount to about Rs. 64½ lakhs.

GENERAL DISCUSSION OF THE GENERAL BUDGET.

THE HONOURABLE THE PRESIDENT : The Council will now proceed to the general discussion of the Budget, Part II.

THE HONOURABLE MR. BIJOY KUMAR BASU (Bengal: Nominated Non-Official): Mr. President, I am not at all sure if this year's Budget is a good Budget, but I can frankly and truthfully say that it is an extremely clever Budget. I say, Sir, that it is a clever Budget mainly because I find that the Honourable the Finance Member in his speech delivered in the other House has with uncanny shrewdness anticipated criticisms and taken the wind out of the sails of his critics. In fact, Sir, there is considerably less, of what I may term the budgetary details, but there is a deal of anticipation of likely criticisms and of an adroit defence in advance. As one belonging to the legal profession, I can say that the method adopted by the Honourable the Finance Member is a time-worn game in advocacy. Psychologically considered, it really means, that what would have come with the most crushing force from his critics has been deprived of its full weight and force by this anticipatory defence. I may therefore at the outset state that it is quite possible that a good many of the criticisms that would be made on the floor of this House could be met by the Honourable the Finance Member with the suave reply, "Yes, I have already dealt with that". But, if I may, I for one would at least turn the table on the Finance Member by anticipating that kind of reply and tell him now, "Well, that will not do".

I will, Sir, now like to begin my comments on the Budget by referring to the remarks that I made during the time of the Railway Budget discussion—remarks which, if I may be pardoned for saying so, have proved prophetic. On the 21st February, I said this:

"While the Railways can lay the flattering unction to their souls that they have made their payment, that they have not defaulted, the Finance Member receives actually no cash. His difficulties as regards his own Budget on the revenue side are solved so far as the Railways are concerned, but the ways and means difficulties which have been acute in the past few months will be still more acute in the future."

This, Sir, I said on the 21st February, and on the 28th February, when presenting the Budget in the Assembly, the Finance Member himself said:

"These Railway results have not of course, as yet (owing to the method of calculating the railway contribution), affected our normal revenue, though they have a serious effect on our ways and means position, and they have raised a danger signal for revenue also in the future."

I would therefore, Sir, try to look at the Budget from the standpoint of the ways and means position, a point of view which I admit is somewhat unusual, but that standpoint is of much significance, and this significance is increased a hundredfold by the serious problems confronting the Government to-day in this respect and by the serious and far-reaching repercussions that these problems have on the Indian money market, in regard to exchange, gilt-edge, money rates, etc.

What is the outstanding feature of the ways and means position at the present juncture and what are the outstanding transactions contemplated in the coming year? The present position is this: The Government have a cash balance of about 9½ crores with the Imperial Bank. I should mention here that a convention has grown up whereby the minimum cash balance of the Treasury with the Bank is kept somewhere near about the figure of 7 crores. Therefore this balance is a little above that minimum. This is the position, Sir, at the beginning of this month. Now, we have got to find out if there are any chances of any replenishments through an excess of current revenue over expenditure. As is well known, Sir, January is about the best revenue collecting month. February is also a good revenue month. But with March begins the period when the tax gatherers slacken their efforts.

as if their activities in the past two months entitle them to a good rest, and March is also a month when the Government has to make payments of half-yearly interest on certain Government loans. Therefore, on the whole we may say that the Government should feel satisfied if in the months beginning from March to May they have enough revenue collection to meet the outgoings. Considering, Sir, that there have been heavy imports of sugar and silver, and perhaps kerosene, in the last two months in anticipation of increase in import duties, the customs revenue in this and the next two months may well be on the small side. That being so, it would be hoping against hope to look forward to any relief in the cash position from revenue collections. If this is the position as regards the incomings, what is it in relation to the outgoings? The Treasury Bills maturities for the next few weeks are about $3\frac{1}{2}$ to 4 crores every week. The Government has therefore to make out payments on this scale week after week. As against this, they would not be getting more than $1\frac{1}{2}$ to 2 crores by renewal of bills. I say this after a careful study of the results of the Treasury Bills for the past two months and on an appreciation of the seasonal trends and tendencies in the money market. The Government are now offering about $6\frac{3}{4}$ per cent. interest for their three months' accommodation and even then they cannot be sure of more than $1\frac{1}{2}$ crores or thereabouts. In other words, taking the Treasury Bills position, the Government have to pay out $3\frac{1}{2}$ to 4 crores every week against maturities and they receive only $1\frac{1}{2}$ crores by sale of fresh bills. In the end they are on the wrong side by 2 to $2\frac{1}{2}$ crores every week. Remember that the cash balance in the Bank is very small and that it is barely above the minimum. Remember also that from the current revenue, far from there being any relief, there may be actually some embarrassment. Remember also that the capacity of the Imperial Bank to lend money to the Government is limited, because its own cash balance is small and because also the courses open to the Bank to increase its cash are restricted. In this situation how are the Government going to carry out the ways and means adjustments in the weeks immediately following? The resources are poor, the likelihood of replenishment is equally poor, but the net liability on the Treasury Bills position is large and must be readily met. The gravity of the position in this respect can be realised when I mention that the total short term debt at the present moment—a debt which has to be met almost day by day—is $52\frac{1}{2}$ crores, that the Government have already had to offer such a sky-high rate of interest as $6\frac{3}{4}$ per cent. for their 3 months' bills, and that this rate even has not succeeded in roping in any very considerable amounts. If my analysis of the ways and means problem with which Government are now faced is correct—and I believe it is so—this is a situation which requires immediate tackling and for which drastic remedies are needed and against a recurrence of which every possible measure should be taken. In the face of a situation of this gravity, in the face of these difficulties—and they are very menacing indeed—in the way of Government meeting their commitments, in the face of a colossal short term debt of $52\frac{1}{2}$ crores and with the three months' borrowing rate as high as $6\frac{3}{4}$ per cent., such balancing of the Budget as has been done in the earlier sections of the Budget pales into an insignificant achievement. It will not be possible for me to go into details as regards the budgetary proposals and prospects, especially with reference to how far the hopes now held out will come to be fulfilled. As I stated at the outset, I have sought to lay emphasis on the ways and means aspect of the Budget, and I should therefore content myself with the remark that so far as the General Budget proposals are concerned, an appreciation thereof from the standpoint of the ways and means problem, forces us to the conclusion that we should not fall into the error of facile gratification that the Budget

[Mr. Bijoy Kumar Basu.]

has been balanced. It is only a theoretical balancing, because—and this is a very important consideration—the contribution from the Railways to the general revenues is only a book adjustment. While, therefore, on the one hand, the ways and means difficulties should engage prime, earnest and immediate attention, it must also be ascertained how far the Budget proposals can be made to contribute their share towards the smoothening of the ways and means difficulties. It is true that the Finance Member has been courageous enough to face facts squarely, so far as the question of deterioration in revenue collection is concerned; it is also true that having measured the needs fully he has set about providing for the needs adequately. But one should not shut one's eyes to the possibility of the estimates going awry, and above all to the supreme fact of the railway contribution being illusory. It follows then that, however much those on the Treasury Benches may feel sick at the very mention of the word "retrenchment"; however much one might try to avoid this reference to this much-hated word—no word has been in more frequent use in both Houses—I must add my voice to what has now come to be the din for retrenchment. As I said in my Railway Budget discussion, so I will say now: Do not toy or flirt with retrenchment; go about it seriously; take it up earnestly and do something at once. In this connection, Sir, I might say that to the extent that you apply the axe to the capital and current expenditure, to that extent you will secure relief for your ways and means difficulties, a relief that might well mean the turning point in your crisis.

Sir, I will readily concede that the Honourable the Finance Minister has shown grip in his appreciation of the budgetary position; may I now appeal to him to show grit in the plans and the methods of his ways and means adjustments.

THE HONOURABLE MR. A. HAMID (Burma: General): Sir, when that awful looking comet known as Halley's comet made its appearance on the horizon of Bosphorus, all the good old Ottoman Jews, it is said, stood up, turned their old eyes towards the high heavens and prayed fervently to the Almighty that they might be saved from the comet and the Turks. Let me confess, Sir, in my habitual way of making private confessions, that when I heard Sir Arthur McWatters announce the deficit figures the other day, with my thoughts on the approaching calamity of higher taxes and increased duties, that historic prayer of the ancient Israelites came to my lips. I said, "O God my Lord, save Burma from the deficits of the Central Government and the demands made on her by spoon-fed Tatas". My own view as to the increased burden of taxation is that though my province may not receive any suitable measure of return for its contributions to the Central Government, though its legitimate demands may even be overlooked and pigeon-holed in the great Secretariat here, Burma is expected to acquiesce in every increased taxation presumably on the doctrine of "love thy neighbour". So long as the fidelity of Government was not questioned they were apparently on safe grounds to preach this or other precepts for the purpose of collecting a substantial harvest from Burma. Young Burma is now inspired with the spirit of true nationalism. It has fully and thoroughly conceived the fundamental principle of self-preservation. It now openly questions the sanctity of those precepts which involve the payment of three crores of rupees per annum in order to sustain Burma's "love" for her neighbour. The Honourable Sir Arthur McWatters told us the other day, though in other words, that the great virtue of increased taxation lies in the fact that it amounts to a cut in the salaries of Government servants. To my mind the precise virtue of the

increased taxation and duties is that a number of Government supporters in this House at any rate, will soon be deserting Government and coming on the side of Burma. I must, however, be honest and concede that, as to the general proposition placed before the House by the Honourable Sir Arthur McWatters, it cannot be denied, and I do not deny it myself, that the financial position of the Government is decidedly desperate, and that almost all the known solutions for the propping up of a declining budget are inseparable from the tapping of fresh sources of revenue. I hope I am voicing the right-minded people of Burma in saying that Burma will willingly shoulder the extra burden if it is assured that in the coming year it will receive a remission large enough to enable its Government to proceed with all those important undertakings which had to be suspended for lack of funds. We do not aspire to produce a replica of New Delhi, but for Heaven's sake do not starve our education and our health projects. Young Burma is keen. It is enthusiastic and I may go further and say it is desperate. In order to keep Young Burma in hand, it is the duty of the Central Government to send it a message of hope, that whatever is possible, even though difficult, to comply with, will be done for its sake. By that means alone will the Central Government be able to keep Young Burma in hand. This will tend to make the people desist from adopting those means which have caused so much difficulty and anxiety to the Central Government outside Burma.

THE HONOURABLE MR. H. M. MEHTA (Bombay : Non-Muhammadan) : Sir, as anticipated, the Budget has turned out to be a deficit one. The reasons were obvious. Men with foresight saw as far back as July, 1930, that as things were going on there would be a deficit of more than 14 to 15 crores of rupees. The Gandhi movement really played havoc with the imports of India. That is true. The Government were dependent upon an income of nearly 52 crores of rupees a year by way of import duties. These import duties fell, according to the Honourable the Finance Member, by nearly Rs. 9 crores, out of which cotton piece-goods contributed no less a sum than about Rs. 3½ to 4 crores. On the top of the Gandhi movement, the economic depression all over the world affected India to a very large extent, thus bringing the revenue of the country down to a further extent by about 6 crores less than anticipated by our Honourable the Finance Member, Sir George Schuster. The outcome of all that was, that not only the Government suffered in import duties but they got less revenue by way of income-tax to the tune of Rs. 2½ crores or even more. This big fall shows clearly to everyone how the big offices and the big industrial and commercial concerns of India have suffered. If they had not suffered, there would have been a great amount of income-tax coming into the pockets of the Government. In spite of this knowledge, our Honourable the Finance Member, Sir George Schuster, deems it wise to further augment the import duties to the tune of Rs. 9½ crores. I shall be very happy and indeed be the first man to congratulate the Finance Member if his expectations prove to be true. I am afraid that the increased duties on imported goods, instead of getting those goods into the country in larger quantities, will surely retard them ; not only will they retard them, but the expectation made by the Honourable Member would be upset, because when a certain article is put up to such a great extent that the people cannot afford to buy it they will shirk it, and they will go somewhere else or do without it altogether ; and thus the Honourable Member's calculation will be upset. Then, Sir, coming to the second point, income-tax, I am afraid that the Honourable Sir George Schuster would be even disappointed in that. He will certainly get the extra income from those who are in the Government service, from those who are

[Mr. H. M. Mehta.]

servicing in other business concerns, but certainly he will not get the same amount of income-tax, I am sure, he will get much less income-tax than even what he received last year from the business houses, industrial as well as commercial. One of the biggest trades of India, namely, the jute trade, has suffered terribly; the income has gone down to a very large extent. They are all making losses. Even the jute scripts which were considered a gilt-edged security, have gone down by about 50 per cent. in value. Cotton mills, as Honourable Members know, have suffered to such an extent that it will take years to revive, barring the Ahmedabad Mills, thanks to Mr. Gandhi. Therefore I am very doubtful if the Honourable the Finance Member, Sir George Schuster, will get the revenue that he anticipates, namely, 5 crores more from income-tax. And, Sir, what is after all the Government of India? It is a much bigger office than any other business or commercial office. All the offices, seeing these depressed times, took their employees into their confidence and asked them whether they would have a cut of 15 to 25 per cent. or whether some of the men should be disbanded from those concerns. All put their heads together and the result was that everyone accepted a 15 to 25 per cent. cut; even the house owners made a 25 per cent. reduction in office rents instead of losing the customers altogether. If that can be done in the big offices, why should not the Government of India take those steps and reduce from the top man to the very bottom man and make a reduction of 15 or 20 per cent. so as to balance the Budget? If the Government of India think that they can always borrow and they can always put further taxation on the country, a day might come when they will not be able to borrow and they will not be able to put further taxation and I hope my Honourable friend Sir George Schuster is not heading the country to that end.

THE HONOURABLE RAI BAHADUR LALA JAGDISH PRASAD (United Provinces Northern : Non-Muhammadan): Sir, the Budget has not come to us as a surprise. All round economic depression, the effects of which have been accentuated in the country by the Government's financial policy, had clearly foretold the serious plight of the Indian Budget this year. Instead of the anticipated surplus of 86 lakhs at the end of March, 1931, the Honourable Finance Member now expects a deficit of 13½ crores. World economic conditions have certainly something to do with this state of affairs, but Government cannot be absolved of all responsibility in respect of such difficulties as are, in the words of the Finance Member, "mainly inherent in the present situation in India" and which have resulted in making the condition of the agricultural masses in this country deplorable. The expenditure of the Government of India has gone on increasing from year to year and so the burden of taxation on the poor. It has been submitted times without number that to improve the economic condition of the country, it is necessary that effective steps should be taken to increase the industrial and commercial prosperity of the country and that there should be ruthless and drastic retrenchment in the expenses of the Government; yet the administration in India continues to be the costliest in the world. It has been an old cry that military expenditure in India and the so-called "Home Charges" in England by themselves eat up the major portion of the revenues and substantial reduction should be made in them, but this has remained a cry in the wilderness. Always the bogey of efficiency has stood in the way. Even the very modest retrenchment proposed by the Inchcape Committee in respect of military expenditure has not been effected. The suggested limit of 50 crores has not yet been reached. It has been argued

that to maintain the standard of efficiency there is very little scope for substantial reduction in military expenditure. But when there arose the necessity for modernisation of the Army and extra money was not to be found by any means, the Military Department itself reduced the normal expenditure to help the modernisation. This is only an instance to show that if there is the will the way can be found. With the appreciated exchange and the fall in prices the limit proposed by the Retrenchment Committee should have been reached by now. It has been said that a substantial reduction of no less than 170 lakhs is being made in the next year's Budget in military expenditure, and I welcome that announcement. But the reduction is being partly made dependent on the continuance of low prices for grain and other stores. So, as a matter of fact, no intrinsic economy is being effected. It is a patent fact that substantial reduction could be made in the military expenditure by a rapid Indianisation of the Army. Recruitment of Britishers should have been stopped altogether. The fighting quality of the Indian soldiers has been tested and found inferior to none in theatres of war. So the recruitment for the rank and file could have been limited to Indians alone as India can give any number of men required for this purpose. But, Sir, as His Excellency the Commander-in-Chief has recently made a welcome announcement of policy in this behalf I will not dilate on this point at length but only express the hope that a policy of rapid Indianisation of the army will be followed by the Government of India.

Sir, I also welcome the announcement that the Government propose to appoint a retrenchment committee, but I must say that the committee will, in my opinion, serve no useful purpose if its labours are to result in the dismissal of a few low-salaried peons and clerks, as past experience has shown. In my humble opinion, substantial economy is alone possible if a reduction is brought about in the emoluments of those officers who are drawing fat salaries. And when the salaries were raised some years ago as a result of a rise in prices in the post-war period there is no reason why they should not be reduced now when there has been an enormous fall in prices. We have read of the 10 per cent. reduction in the salaries of the British Ministers, and I do not know why a similar magnanimity should not be shown by our administrators in India.

Then, Sir, the woes of the country are to a certain extent due to the 1s. 6d. ratio which was forced by the Government in the teeth of non-official opposition. At a time like this it was hoped that the Government would revise their ratio and exchange policy but it is a pity that the Government have paid no attention to this matter so far.

As the large deficit anticipated in the coming year is proposed to be financed partly by retrenchment and largely by new taxation, I now turn to the question of the proposed taxation. I must say that the burden of taxation, and more especially the land revenue, sits heavily on the peasants of India, and it is a pity that the Government of India have not seen their way to lighten this burden even in an abnormal year like the present one when a grave crisis is facing the agriculturists. I hold the Government of India responsible in this matter in that the Central Government have reserved to themselves the power of regulating the land revenue policy so much so that the provincial Councils cannot altogether independently decide the problem of revenue settlement. Besides, the agriculturists expected a substantial reduction of railway freight on agricultural produce and the prohibition of the import of foreign wheat into India in these times of agricultural distress, but these hopes have practically remained unfulfilled.

[Rai Bahadur Lala Jagdish Prasad.]

As regards the proposals of taxation, I must say that the surcharge of 5 per cent. on cotton piece-goods would, I hope, not be grudged by any well-wisher of the country as, although meant for revenue purposes, it is expected to help the indigenous cotton mill industry. In the same way, the increase in duty on sugar should be expected to counteract to some extent the competition which the indigenous industry is having to face by reason of India having become a dumping ground for sugar manufacturers in foreign countries like Java and elsewhere. Similarly the duty on the import of foreign liquor will advance the cause of prohibition and needs no criticism. But, Sir, the same thing cannot, I am afraid, be said of other imposts proposed by Government. The higher tax on kerosene will be felt by the poorest people ; the tax on motor spirit is high enough as it is ; and the tax on silver bullion is an act of doubtful policy. The higher income-tax will be a serious new burden on men of fixed incomes which barely meet the present-day cost of living. Moreover, whether the general increase in customs duty will bring in the estimated revenue is problematical. For, it is very doubtful if with the reduced purchasing power of the people they will be able to contribute more to the coffers of Government in the shape of indirect taxes. The bulk of India's population consists of agriculturists who have not the wherewithal to meet in full even their rental and other liabilities. The substantial increase in income-tax will necessarily reduce the purchasing power of the salaried classes and professional and businessmen. Additional taxation to the tune of nearly 19 crores has been levied in the course of two years during a period of exceptional depression, and I must with all respect sound a note of warning against the law of diminishing returns.

THE HONOURABLE MR. M. D. DEVADOSS (Nominated Indian Christians) :
 Sir, I congratulate the Honourable the Finance Member on his very laudable attempt to balance the Budget under very trying circumstances. I do not think any exception could be taken to the various duties which he had proposed to impose. But, Sir, this must be remembered that the revenues of India are not likely to increase very much in the future, and therefore the economic salvation of the Government lies only in drastic retrenchment in all the Departments. I will content myself with referring to two items under this head. Posts and Telegraphs, Sir, are likely to cause a loss of 136 lakhs. They are commercial undertakings, and I do not understand why we should lose so much on Posts and Telegraphs. The postage is already very high. We have lost the 3 pies post-card and half-anna letter postage. And therefore the only way of saving the situation is by increasing the income under the head of Telegraphs or by cutting down the expenditure. We are told, Sir, that there is a committee sitting under the presidency of a distinguished Member of the other House, and I hope that committee will make proper recommendations which will be given effect to.

Then, it is usual to attack the military expenditure as being very heavy. The Budget estimate for the next year is 52 crores 60 lakhs. In the current year the expenditure was 54 crores 30 lakhs. To this must be added 2 crores 5 lakhs paid to the Bombay Government for land said to be taken for military purposes ; that is the land reclaimed at Colaba station. I do not think this amount has been added to this year's Budget of the military expenditure. I also think that the loss on the strategic lines has to be put under the head of military charges for they are not commercial undertakings ; they are constructed and maintained solely for the purpose of defence of this country. If these

two items are added, the expenditure for the present year would amount to 58 crores 35 lakhs. As regards next year, we are thankful to His Excellency the Commander-in-Chief for effecting certain economies. The Budget estimate for the next year is 52,60 lakhs, and the estimated loss on the strategic lines is 1,96 lakhs. The total comes to 54,56 lakhs. As a layman and not a pandit on military affairs I wish to offer only a few remarks. Sir, a large standing army was considered necessary at a time, I suppose about 50 years ago, when there was a fear of the Czarist Russia's designs on India. After 1904, I do not think any person who knows the history of the Russo-Japanese War would have thought that there was any danger from the Russian quarter to our country. But, Sir, when once a state of things is set going, the law of inertia always operates, but what was then considered necessary cannot now be considered to be essential or necessary in the present state of things. Sir, we have the League of Nations, and every country is now attempting to limit its armaments. Recently we have had the naval limitation agreement entered into between Great Britain and Italy which will have, I suppose, a very good effect upon the limitation of naval armaments. We have also to consider that Persia and Afghanistan are now independent countries and therefore it is most unlikely that Soviet Russia would have any chance of giving any trouble to us. This being the position, the question arises whether such a large standing army as we have at present is necessary. It is urged often that the trouble, or the apprehended trouble, on the North-West Frontier is a sufficient ground for a very large standing army. Sir, after coming here, I have had occasion to talk to one or two people who know the country intimately, and they tell me that the tribes on the North-West Frontier give trouble because they have not got the wherewithal to live, that is to say, the country is a very healthy country, but it is a very barren country and they have to get their foodgrains from the lowlands and from the surrounding country, and that is the reason why they make these armed excursions and invasions into the neighbouring countries. If these people could be made to do some useful work, or if they could be provided with foodgrains and other things, they would not give us much trouble. Sir, if this version is correct—and I would ask the authorities to investigate the position—then the strength of the army could be greatly reduced to a size sufficient to meet such of the purposes as would be necessary for the safety of the country. The reduction of the army is not a thing which could be undertaken in a night. It must be a slow process. But meantime there are a number of items of expenditure which could be carefully scrutinised and if possible reduced. I may give one instance. A sum of 3 crores is budgeted under head VII—Transportation, Conservancy, Hot Weather Establishments and Miscellaneous. I consider this item to be a very heavy one and I would ask the authorities to scrutinise it and see whether some saving could not be effected. Sir, if these things could be done, I think we shall have some satisfaction before the end of the year that our Budget is not so very hopeless as some would have us believe.

THE HONOURABLE MR. P. H. BROWNE (Bengal Chamber of Commerce) : Sir, on behalf of the European non-official Members of this Council, and I hope on behalf of other Members, I should first like to congratulate Sir Arthur McWatters on the extraordinarily lucid speech in which he put forth the Budget position. He appears to be able to go on for—I might almost say—hours without any reference to notes, and including all kinds of intricate figures. He must indeed have a wonderful memory, and it is a great source of satisfaction to us to feel that even the smallest suggestions made in connection with the Budget cannot be lost sight of as they will remain always in his memory. (Applause.)

[Mr. P. H. Browne.]

Sir, the position as disclosed in the Budget is indeed a grave one, and although we of course realise that in the interests of the country the Budget must be balanced, the proposals put forward by the Finance Member, especially those connected with taxes on income, are going to prove a very serious handicap to trade and general development. The Honourable Member for Finance attributes the deficit of 14½ crores to two probable causes—externally, the world economic conditions. We all fully concur that the present economic conditions have accounted for a very large portion of the deficit. Internally he attributes it to political disturbances. Sir, I cannot entirely exonerate the Government under this head. There is undoubtedly a considerable feeling that if a stronger line had been taken when civil disobedience started, we should not have come to the conditions that we have arrived at to-day.

On the expenditure side we have the amount saved by the Military Department of 1,75 lakhs, which is certainly satisfactory. We learn that this is due to a fall in prices, though we hoped there might also be economies due to other retrenchments. But still even a saving due to a fall in prices is satisfactory. With regard to the other expenditure, the Finance Member announces a Retrenchment Committee. Sir, on reading the speech of the Finance Member regarding the Retrenchment Committee I cannot find that any mention is made of the appointment of a Member of this House on that Committee. I trust this is not intended as a slight to this House. We are just as much interested in retrenchment as the other House and I think that, if a Retrenchment Committee is formed, a Member of this House—at least one—should most certainly be on the Committee. At the same time I am strongly in favour of any Retrenchment Committee being kept as small as possible, and so, in order to meet us, it might be necessary to consider a reduction of the number of Members from the other House. Having referred to that point, Sir, I regret to say that I am not at all sanguine that this Retrenchment Committee, if formed, is going to help in any serious reduction in the expenditure of the Government. I understand the Finance Member in another place said that he is satisfied that all economies are being effected and that this Committee is proposed in order to enable the Legislature to satisfy itself that further reductions cannot be made. Regarding the appointment of a Retrenchment Committee I feel that business men with experience of running their own business and having to make a profit or eventually close up are the men to criticise the expenses of Government Departments and I fear that it will be extremely difficult to secure business men who will be able to give up sufficient time to make a success of this Retrenchment Committee. It will take months and months of hard work, and no man with a business, which nowadays requires more than ever his personal attention, will be able to give up the time to it. I would rather suggest for the consideration of Government that every Government office should be instructed to call for proposals of economy from their staffs, down to the clerks and lower grades. Suggestions should be called for by the Superintendents in the first place and, if of a likely nature, placed before the Head of the Department. It is the people actually working in the offices who can most easily see where economies can be effected.

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THE HONOURABLE MR. A. HAMID : I heartily agree with that suggestion.

THE HONOURABLE MR. P. H. BROWNE : Thank you. It is being done in some offices, and of course you get all sorts of strange suggestions, but at the same time you probably get many good ones. When any good suggestions are made, they should be put forward to some central representative of Government so that other offices may obtain the information, and the economies, if found to be practical, can be generally adopted. I notice that the Audit Department of Government costs one crore of rupees. Sir, I almost tremble to suggest it, but I think the Audit Department of Government is a cumbersome machine. I cannot help thinking that reorganisation is possible. It would take a great deal of investigation and a great deal of thought, but instead of the Retrenchment Committee now suggested I personally would far rather see a committee of, say, three qualified accountants to put up proposals to reorganise the general system of Government accounts. They must be good men and they should not be Government accountants. I am of opinion that a more efficient and more economical system could be devised than the one at present in force and I put that proposal to the Finance Member for the consideration of Government.

I now come to the proposals to meet the deficit of 14½ crores. There are heavy increases in the customs schedule, many of which may hit particular interests very hard, and there may be special cases where some relief is desirable. The other proposal, taxes on income, is a terribly heavy one. We are hearing from various quarters of the serious burden which this taxation will place on the community generally. In this connection I see that there was a meeting of the European Association held in Calcutta last night. I have not had time to consider their suggestions, but I would recommend them also to the Finance Member for his consideration. In his speech I notice he said that the particular question, whether any alternative methods of raising revenue can be devised less hampering to the economic life of the country than increased taxes on income, requires very careful consideration ; and I am pleased to see that at the conclusion of his speech he says that various other methods for raising the money are under consideration. Well, Sir, I think every one realised many months ago that there was going to be a very heavy deficit, and I should have preferred to learn that, in addition to starting to investigate other lines, some other lines had been discovered. I find however the plan for new taxation is the simple, one and is confined to the headings " Customs " and " Taxes on Income ", which of course are always ready at hand. In the Finance Member's speech he refers to the question of carrying forward losses in connection with the payment of income-tax and super-tax. My constituents for many years have pressed for this on the ground of equity, and I trust, although the Finance Member sounds rather more reluctant in his remarks this year, that he is not going to let us down on this point. We do feel, Sir, strongly that losses made in one year should be allowed for in the collection of income-tax and super-tax in the following year.

On the question of research I should like to refer to paragraph 73 of the Finance Member's speech. He talks of the possibility of grants for sugar and jute. Well, Sir, as far as jute is concerned, it has already been stated in the other House that Bengal do not want any provision made for this Jute Committee. The question that is worrying Bengal at present is what to do with the jute, not how to produce any more, and there is no necessity in these stringent times for the Finance Minister to bring forward

[Mr. P. H. Browne.]

a subsequent grant to meet the five lakhs cost of the proposed Jute Committee in Bengal. I notice that the encouragement of the sugar industry is likely to come up for a particular grant. I would suggest that rice, a staple product of India, has a stronger claim. There is no doubt that other countries are improving their rice production and I am afraid are going ahead of India and Burma in the rice trade to a certain extent, and I trust the point will not be lost sight of, that research in connection with the production of rice should have every consideration from the Agricultural Research Council.

Now, Sir, the only other point I wish to refer to is the question of the ratio. The Finance Minister quite clearly stated that there could be no reconsideration of the ratio, and in paragraph 14 he pointed out that the present financial position in India is very serious. There is weakened confidence in India as a field of investment, both at home and abroad; there is a decline in the price of Indian securities, and there is a steady drain of capital away from India. This is causing a fall in the value of securities and increased rates for Government loans, and I appeal to all of those, Sir, who have sent capital out of this country, possibly in the hope of bringing it back at a lower rate of exchange, to bring that capital back at once. It is urgently wanted here to assist development and to stabilise financial position which is undoubtedly being steadily weakened by the outflow of capital.

THE HONOURABLE KHAN BAHADUR CHAUDRI MUHAMMAD DIN (East Punjab : Muhammadan) : Sir, the Honourable Sir George Schuster is to be congratulated on the admirable manner in which he has handled and explained the various statistics and on his lucid and clear statement of facts and figures. The world-wide trade depression, the abnormal fall in agricultural prices, the political situation in India, have had their effect on the financial position and the task of the Finance Member has consequently been extremely difficult and anxious during the last 12 months. But it is gratifying to note that in spite of our financial difficulties, the fundamental position is still sound compared with many other countries in the world. I hope that with improvement in the political situation, as the result of recent peace agreements, and with gradual revival of trade, the tide will turn before long, and the financial position will improve. Anyhow a policy of strictest economy will have to be pursued for a long time to come to keep the Budget balanced. "Prosperity's right hand is industry and her left hand is frugality." I am glad that a Retrenchment Committee has been proposed by the Finance Member, but the Committee need not be confined to Members of the Legislative Assembly as proposed. There are non-official Members in this House whose wider experience of financial concerns will be of immense advantage to the Committee. I would suggest that at least two non-official Members should be elected from the Council of State for the Retrenchment Committee.

Sir, one of the regrettable features of the Budget is the lack of provision to help the Indian peasantry. The possibility of a small grant for jute and sugar is a negligible factor in a vast country whose economic activity is mainly directed to the production of primary agricultural products. About two-thirds of the population of India is employed in agriculture. As a result of the great fall in prices of produce, the agriculturists have been reduced to great misery. The cost of production exceeds the price to be got for the

produce in the market and the zemindars find it most difficult to pay the land revenue. One of the largest and wealthiest landholders in Northern India told me the other day that he had to draw a sum of Rs. 20,000 out of his reserve fund to pay the land revenue this year, and that if such conditions continue for another two years he will have exhausted all his savings and would be obliged to offer his land to Government owing to inability to pay the land revenue. In Australia they are taking measures to render financial assistance to the wheat growers. Some such action should be taken in India to relieve the present agricultural distress which if unalleviated would be a source of great trouble. Another disquieting feature of the Budget is the borrowing at high rates of interest. The ready response met by the last Indian loan in England indicates that India is still regarded as a safe investment. The talk of repudiation of India's debts should not frighten our Finance Department. The plan of new taxation to meet the deficit appears to be well thought out and sound. As regards new sources of revenue I know that in some Indian States a system of tobacco monopoly is already in force and they derive a decent income from this source. A similar scheme should be introduced in British India and the income from this source, which according to a rough estimate would amount to half a crore, should be earmarked for starting a scheme for the proper organisation of the marketing of agricultural produce and for other needs of the peasantry.

THE HONOURABLE MR. ABU ABDULLAH SAIYID HUSSAIN IMAM (Bihar and Orissa : Muhammadan) : Sir, speaking on the Budget, I wish to make a personal explanation, that I am not a professional financier, and so I cannot really look at the Budget from the angle of vision of financiers, which I may say is a bit refracted and rarified. I look at it as an ordinary man who knows only that two and two make four. The Budget is no doubt very admirably made out and, as has been pointed out, the Finance Member has tried to silence the critics by forestalling criticism; but still, as there are arguments for, there are arguments against, everything, I do not wish to go much into the details, as constitutionally we are debarred from having any say in the matter of expenses and our position is simply advisory. As such we ought to confine ourselves more to matters of policy than to matters of detail. I have kept this point in view in dealing with the Budget.

The first thing that strikes me as very detrimental to the interests of India is the currency policy, I mean the contraction of currency. The contraction of currency policy is no doubt justifiable up to a certain limit. Contraction in itself is good when it is utilised to bring down the prices to the level of the other countries which control the commodity, but when the prices are falling below the level, then it seems that it should be stopped. And if the fall is not checked by this, then inflation should be made. From the statement that has been made by the Honourable Sir Arthur McWatters in the Explanatory Memorandum it appears that the average fall in prices of the United States, the United Kingdom, Canada, Austria and Japan together comes to 14·5 per cent., whereas the fall in India is 18·3 per cent. The figures are from January up to October for which figures were available in the statement. This shows that there has been more fall in commodity prices in India than in other countries. And in the face of the fact (as the Finance Member has pointed out in paragraph 103), that India is but a minor factor and its prices are subservient to the world prices, or in other words it does not set the pace, rather it follows suit, it seems strange that where we ought to be following suit

[Mr. Abu Abdullah Saiyid Hussain Imam.]

we are leading the way, and not by a small margin ; but a third more than the fall in the rest of the world. Another authority very recently pointed out :

“ A scarcity in the supply of means of payment should never be allowed to stand in the way of the growth of production, even if this should happen to be unusually rapid. If means of payment are not supplied to a sufficient extent, and if therefore the general level of commodity prices is lowered, the rate of progress unnecessarily reduced, and a world-wide economic depression caused, the responsibility must lie in the insufficiency of the supply of means of payment.”

This is what Gustav Cassel says as recently as the 10th of last month. The contraction of currency policy has been followed for a long time. Last year it was 10 crores, this year we have gone in for 34 crores. India would have no grievance if this were justifiable on the grounds of finance only, but we see that it is justifiable only in order to keep up this unnatural 1s. 6d. ratio. It is because we cannot issue sterling Bills as we used to do in former times, it is because you have got to meet your Home charges and other English expenses from sterling borrowings that you have been manipulating the currency here to keep up the exchange. The natural result of contraction of currency is to appreciate it into other currencies. When you deflate a currency you cause the exchange to fall against other countries. Therefore it is more with a view to keep up the exchange, that this deflation has been carried out than for any other reason.

I should like to say a few words about the Ways and Means Budget. The general rule in the Ways and Means Budget has been to give wrong figures. From the figures of 1929 I find that the estimated figure was 48·1 crores while the revised figure was 81·73 crores. In 1930-31 the estimate was 49·35, but the actual figure as revised is 86·9. Instances could be multiplied that it is the custom, and not the exception, that Ways and Means figures are always wrongly given. I would also say that figures of sterling borrowings are never correctly given in the Budget. It will be seen from the speech of the Honourable the Finance Member that the sterling borrowing was nearly double in the year 1929 as well as in 1930-31 from what was stated before in the Budget. We have never been given the correct figures of our requirements, and the borrowings too have been rather abnormally large. Our opening balance on the 1st of April, 1929, was 9·20 (I am quoting from the Budget) whereas we are closing this year, according to the Budget, with a closing balance of 25·76—an increase of 16·56 crores in the cash in hand. These are the policies of Government in the Finance Department that have brought distrust in the mind of India. India thinks that her interests are not as honestly safeguarded as other countries are. With regard to our English balances too the same thing has to be said. Although we have not been able to send out remittances from India we have met all our home charges from the borrowings in England ; very little, if at all, is sent from here. The opening balance there, according to the revised estimate, has increased by 1·52 in the space of one year. There is another aspect of sterling borrowing on which I wish to say something, and that is about the method of borrowing. Sir Arthur McWatters stated in reply to my Resolution that we get an opportunity of scrutinising the Budget figures. The Budget figures are never correct, as I have just pointed out ; the figures are wrongly given, and still it is said that we have got a right of scrutiny. Further, the sterling borrowing has always been hidden from the Ways and Means Budget. Out of 112 crores that have been taken in so far, I think the prediction has not been for more than about 50 or 60 crores. We suffer a great loss by taking sterling loans in view of the fact that we cannot charge any income-tax on that. Our interest on rupee loans is subject to

income-tax whereas all our expenses in England are beyond it. The English Government itself charges income-tax from foreign income, but in India we are debarred because we are a subject country.

I would also point out, Sir, a set of figures which show how far the Reforms have been run at a loss; Reforms have been made a guise to increase our expenses normally. I would point out that, in the first place, the Customs income was about 10 and odd crores in 1913-14, it went up to 20·8 in 1919, the year after the war. In the year 1921-22—the first year of Reforms—our income from Customs was 34·41. Now in the Budget figures it is 54·47. In other words, there is an increase of 540 per cent. from 1913-14 (the last pre-war year) and an increase of 60 per cent. from the time that the Reforms have been introduced. The incidence of taxation of customs duty was something like 8 annas before the war, and at the time of the Reforms it was Rs. 1-4-0. Now it falls about Rs. 2-4-0 per capita of the population. We are paying for Reforms, so to say, with our blood.

As regards civil administration—the spending department of Government which is the pet-child—this has increased enormously too. We were spending 7·96 in the year 1920, after the war. It increased to 9·40 with the introduction of the Reforms in 1921-22; and now it stands at 13·16. In the year of grace 1931-32 what do we find in other countries. In England we find that the civil administration expenses are going down year by year. In 1923-24 I find that £317 million were spent on civil administration whereas in the year 1929-30, for which I was able to get figures, it was £223 million—a reduction of about 30 per cent. in the actual expenses. This is the condition of the country that has got the administrative responsibility to itself; but in India we find that the inertia of irresponsibility has attacked everybody. The contraction that has been going on has gone so far that our income from the Currency Department was 3·32 for the year 1921-22. Now on account of the deflation and contraction of currency it is less than 2½ per cent. of what it was at the introduction of the Reforms; it is now ·08 crores. What is strange is that whereas we are being called on to pay enormous rates of interest—6½, I find from the Honourable the Finance Member's Speech, paragraph 27—that our income from the Gold Standard Reserve is going to deteriorate to the extent of 54 lakhs. Whereas everywhere we are being asked to pay more, when it comes to the question of our own income from investments, our investments are so very badly made by those who are responsible for it that it is actually falling. And yet it is said that the Finance Department is working the Indian Government in the interest of Indians and not in the interest of the Britishers. I wish to point out an *anomaly*. Our export and import trade is being killed. Between the years 1925 and 1929 I find that our exports have fallen by 63 crores and our imports by 55 crores, a total loss of about 118 crores. As regards income-tax, here you have a horse that bears the greatest burden. It is a beast of burden and you think you can increase its load by any amount you like. The income-tax has been increased from five to nine pies. The Honourable the Finance Minister has taken out from the waste-paper basket the Taxation Enquiry Committee's Report and has followed it, without admitting his indebtedness to it. The nine pies limit was recommended by Sir Charles Todhunter's Committee. They recommended also the fixation of the super-tax limit at Rs. 30,000. These two things have been taken out from the Taxation Enquiry Committee. But the Government have disregarded the verdict of that Committee so far as sugar is concerned. The Taxation Enquiry Committee said that the increase of taxation on sugar has shifted the burden of taxation from the middle classes to the poor people of the country. Therefore they recommended that instead of being increased, it should be

[Mr. Abu Abdullah Saiyid Hussain Imam.]

decreased. But what advice is to the advantage of the Finance Department is always accepted, and when the advice is to reduce the income, it is always disregarded. As regards income-tax, I wish to say that in the beginning of the year 1921-22, when the Reforms were introduced, the income from income-tax was 18·74 crores, with the rate ranging from 5 pies to 16 pies in the rupee and 4 annas as the maximum of super-tax. The trade has so far deteriorated and been ruined that with 9 pies as the lower limit and 26 pies as the higher limit, and with the super-tax raised to 6 annas and 3 pies, still we do not hope to have the same income as we had in 1921-22. Our rates of income-tax and the general incidence of taxation have gone up by nearly 65 per cent. and yet our income is less than what it was in 1921-22. This shows how far our trade has suffered. We are being ruined. Agriculture, which is the main source of income of the whole of the country, is deteriorating. The condition in the villages is really miserable. Still the Government has got the hardihood, I should say, to impose additional taxation. The real remedy does not lie in small retrenchments. The policy must be changed. The policy of the English Government in India—what they call in economics as increasing the standard of living—that has been responsible for all our ills. The Indians have not got the income of the European countries to afford to spend the same amount. Ours is a poor country, and our show should be run according to our income and not according to the income of other countries. This is the basic mistake that was made by the Government and the country. Not only the Government but our Legislatures also are responsible for this. They increased the rates of pay everywhere and they have followed the precedent of the Western countries without regard to our income. It is here that the initial mistake was made. Indian expenses must be brought down to the level of India's income, and no amount of retrenchment will effect this unless you change the real policy.

Now, Sir, I wish to say a few words about the Army.

THE HONOURABLE THE PRESIDENT: Order, order. I hope the Honourable Member will be able to conclude his remarks shortly. I would point out that, though a self-confessed layman, he has considerably exceeded the time occupied hitherto by any other Member.

THE HONOURABLE MR. ABU ABDULLAH SAIYID HUSSAIN IMAM: I would take only two minutes, Sir.

About the Army I wish to say only one word to the great credit of the Government of India when it was irresponsible to the Legislature. I would read out the despatch. I have got to say nothing more. The despatch in question is dated 8th February, 1878, and it lays down that the Army charges should not be decided :

“ By mere rules of arithmetic but on broad and statesmanlike lines of public policy which shall fairly adjust the claims of England to the capacity of India, so that the people of India should not have reason to feel that they were being treated by Great Britain with want of justice or generosity.”

That is the spirit which ought to actuate the English War Office in its dealing with capitulation and transportation charges. The introduction of the short service system has done much to increase the cost of the Army in India.

THE HONOURABLE SIR MANECKJI DADABHOY (Central Provinces : Nominated Non-Official) : Sir, even the most stalwart opponent of this

Budget cannot help offering deep sympathy to Sir George Schuster in the difficult and unenviable position in which he has been placed this year. A Budget which shows a loss of over 13½ crores in the current year and a prospective deficit of 18 crores cannot be contemplated with equanimity. In a speech of great lucidity the Finance Member has fully explained the genesis or the main causes which have led during the last 12 months to this great deterioration in the revenues of the Government of India. With regard to that genesis I fully concur. It has been partially due to world causes and the heavy fall in prices and partially due to the fall in the purchasing power of the country and in a great measure due to the civil disobedience movement which has worked ruination and brought disaster and distress to this country.

THE HONOURABLE NAWAB KHWAJA HABIBULLAH (Bengal: Nominated Non-Official): That has ceased to exist now.

THE HONOURABLE SIR MANECKJI DADABHOY: Happily, that has now ceased and we shall therefore not cry over the split milk. We shall now try to consider what is the best method of rehabilitating our resources and bringing a proper equilibrium in this year's financial statement. I am very pleased that in a year of such distress—I may say this is an absolutely unprecedented year—the Government of India have shown their earnestness and their sincerity by making efforts to reduce the expenditure of the Government of India. Had it not been for this action I should have felt very little sympathy for the proposals of the Government of India this year. But fortunately they have started the year with praiseworthy efforts towards economy, a reduction in expenditure to the tune of 273 lakhs, of which nearly 175 lakhs have been in the direction of the reduction of military expenditure. Year after year I have heard it announced in this Council of State by the Commander-in-Chief that it was impossible to reduce any further the military expenditure. In 1928 a stabilised budget of military expenditure to the tune of 55 crores annually was settled for a period of four years. Last year, which was a very lean year, when this Council pressed for the reduction of expenditure, His Excellency Sir William Birdwood stated that it was not possible but this year it is a matter for gratification that even such an obdurate Department as the Military Department has come to realise the difficulties under which we are suffering, and has shown its earnestness in the matter by making a substantial reduction. Our thanks are due to His Excellency the Commander-in-Chief. I do hope, Sir, that military expenditure will eventually be reduced to 50 crores, a figure which was settled and vigorously recommended by the Inchaape Committee. That Committee in 1920 insisted on military expenditure being reduced to 50 crores of rupees. I have heard a great deal said in this Council against effecting such drastic reduction, but I feel certain that if a little more earnestness is put into their efforts by the Military Department, and tactful pressure is also put upon them by Sir George Schuster, that Department will eventually come down to the figure of the Inchaape Committee with the continuous and steady fall in the price of foodstuffs and military equipments.

Another matter of satisfaction is that Sir George Schuster has earnestly cut down the civil expenditure to the tune of 98 lakhs of rupees. I must with gratitude acknowledge his action in this direction. At the same time I must state that I am not quite satisfied with the volume of reduction. The pruning knife ought to have been applied more ruthlessly in many civil departments of Government, and if the statement made by my Honourable friend Mr. Browne this morning that the Finance Member in the other House has stated that it is impossible to make further economies is true, then I

[Sir Maneckji Dadabhoy.]

must state that I am terribly disappointed. I think that in the matter of a cut in salaries, which he explained with much care and clarity, his remarks are open to some criticism. Sir George Schuster has stated that it is not possible to make any further cuts in the salaries of employees in civil departments in a great hurry. He has pointed out also that the total expenditure under this head, both provincial and central, is 57 crores, of which only 16 crores is the expenditure incurred by the Government of India, and even if it is possible to make a 10 per cent. cut throughout the Government of India and the provinces it would only yield a saving of 160 lakhs and he thinks that that will not make a revolutionary change in the finances of Government. I am of opinion that it is not the small amount of money but the policy underlying such action which is of consequence. It would be a great incentive and help to others if the Government of India took a lead in the matter and courageously went in for a policy of 10 per cent. reduction throughout the entire cadre of the services. It would be a good lead to business people generally to carry out a similar reduction in wages. I think the salvation of this country depends only on scrupulous economy and reduction in the wages in this country. Considering that the prices of commodities have considerably fallen and considering all the other economic factors, I think it is now necessary for India to go in boldly for a policy of wholesale retrenchment. In this connection, Sir George Schuster has referred to the proposed appointment of the Retrenchment Committee. Personally I feel that very little good will result from the work of this Committee. I must ask Sir George Schuster: Is a Retrenchment Committee absolutely necessary? Did we not have a Retrenchment Committee presided over by one of the most able of businessmen, Lord Inchcape, and otherwise composed of the very best men? Their report was published in 1923. May I ask, Sir, has the Government of India carried out all the recommendations made in that report? Not a bit of it. The Government of India have still before them a most careful and able report of that Retrenchment Committee, which went into every department of civil and military expenditure and made several cogent and substantial recommendations. Those recommendations have not been carried out as yet. If the object of this proposed Retrenchment Committee is to placate the Legislative Assembly and reconcile them to the imposition of new heavy taxation it is another matter.

(At this stage the Honourable the President vacated the Chair, which was taken by the Honourable Mr. K. B. Harper.)

But if the real aim and object of the Government of India is to obtain substantial help and assistance from this new Committee, I am constrained to state that the Government of India will be terribly disappointed. Another danger, which has not been probably realised by the Finance Member, is this. There may be the trouble of overlapping recommendations, or recommendations may be made which may conflict with those previously made. I therefore think, Sir, it is not advisable to appoint a Retrenchment Committee. I am also not satisfied about the proposed constitution of that Committee. My friend Mr. Browne has only inadequately referred to that and he has insisted that there should be one Member of this Council on it. I shall not dilate on that point at any length. I have no desire to be a member of that Committee, but at the same time I must state that the Government of India during the last five years have consistently ignored the Council of State, and I can cite instance after instance in which this Council, which has always lent support to Government and which has been its main prop has been ignored in the past, and as long as

I maintain my seat in this Council I shall always fight for the dignity, the traditions and the premier position of this House for the consideration of Government. Sir, another matter is, as I understand the present composition of the Assembly—they are very estimable men, I speak without any disparagement of the great men there—but most of them are not business men and they are hardly likely to help in the solution of these important retrenchment problems.

Sir, as regards the general nature of the proposed taxation, I must confess that it is a very very difficult proposition, and yet I must acknowledge the great ability and the vision and foresight with which Sir George Schuster has performed his duty. I would acknowledge readily that the measure of taxation is evenly distributed. It is not applied to one class or one race of people. It is administered with evenness of justice and with a great measure of forethought. But I must at the same time state that some of the taxes which have been sought to be imposed are likely to cause a great deal of hardship, and if I give my support to the Finance Bill which will come on shortly for discussion, I will do so because I feel that we are passing through most terrible times and that this heavy deficit has not been the seeking of the Government of India; it has been brought about by various factors and causes which they could not have contemplated or foreseen, and that it is the patriotic duty of every loyal citizen to support the Government in this state of trial and difficulty. It is that conviction alone, Sir, that will enable me to give my support to this high and oppressive taxation this year.

I have no time at my disposal to deal critically with many forms of additional taxation, but I congratulate Sir George Schuster on having increased the general revenue customs duties under certain heads from 15 to 20 per cent. I have been fighting for many years in this Council that the proper and surest way of obtaining revenue for the Government of India is by the enhancement of customs duties. Indirect taxation is relatively very lightly felt, whatever may be the volume of taxation, and in India the general level of revenue duties is distinctly low. If you compared the customs duties in India with other countries of Europe, India will compare most favourably, and I am therefore glad that the enhancement has now been recommended. However, I must declare my disappointment and regret that the duty on kerosene oil has been enhanced. Last year that duty was heavily raised. This year for the second time within a period of 12 months that duty is seriously raised. Very few people know—not of the great towns, but of the distant villages—how in millions and millions of hamlets the daily worker retires in the dull evening of his life with a dim *chirag* burning in his house, which gives him very poor consolation. I therefore do request my friend Sir George Schuster that if he can get that revenue elsewhere, he should do his very best to remove the additional taxation on kerosene oil and replace it by some other less oppressive form of taxation. In this connection I may also state that Sir George Schuster has readily admitted that some of this new taxation must permanently continue unless it is substituted by other forms of taxation. I may inform him at once that for this purpose the Taxation Inquiry Committee was appointed long ago in 1924 and they have suggested numerous methods of evenly distributed systems of taxation. The Government of India have shelved the report of the Taxation Inquiry Committee. It was not even allowed to be discussed in this House and the Government of India have failed to adopt any measures in connection with the numerous recommendations of that body which would help to distribute the present taxation more evenly and equitably and which would reduce the severity of the existing forms of taxation. I do hope that an early opportunity will be taken by Government to

[Sir Maneckji Dadabhoy.]

go into this matter. My friend in his speech has also indicated that an inquiry will be made in the matter of tobacco, in the matter of matches and in the matter of death duties. I do not think for a moment that this country will ever agree to the imposition of death duties ; it would cause a revolution in the ordinary joint coparcenary life of Hindus in this country. I do not propose to refer to that matter at present. But as regards tobacco, matches and other sources of revenue, I think there will be a great scope for Government to move in those directions. As regards the sugar duties, I understood there was some opposition here, but I am convinced that this is not going to affect seriously the interests of even the poorer classes. There has been this year an abundant sugar crop in Java. The price of sugar has this year come down, and further it will be absolutely necessary to give some measure of protection to our struggling sugar industry. I therefore entirely support my friend Sir George Schuster's recommendation in this connection.

I shall only refer now to one other matter as I have no time to go into other questions, and that is the question of income-tax and the carrying forward of previous year's losses. As regards the income-tax, the general revenue is to be freshly augmented to the extent of 5 crores. In the last few years, both income-tax and super-tax have grown tremendously and beyond the capacity to bear them, both in this country and in England. The proposed rate of taxation will very nearly reach the extent and severity of British taxation. I quite agree with the remarks made by Mr. Browne and one or two other Honourable Members that the Government will ultimately be confronted with the law of perishing returns. That is a position which must ultimately arrive and which the Government could not possibly avoid. Even last year there was a deficit of over Rs. 2 crores ; Government collected Rs. 2 crores less than they expected to recover, and I shall be very gratified and I will congratulate my Honourable friend Sir George Schuster if he will be in a position to collect that colossal amount. All the same I entertain serious misgivings. But if I give my support and sanction to that measure of heavy additional taxation it is on account of the distinct assurance given by Sir George Schuster in his speech that it need not be necessarily permanent, and he will endeavour to make the burden less oppressive before long. However, I must point out that it will not be possible for him to collect the revenue ; it will handicap all trades and industries in this country, it will handicap all business houses, etc.

1 P.M.

(At this stage the Honourable Mr. K. B. Harper vacated the Chair, which was resumed by the Honourable the President.)

As regards the carrying forward of losses, I am very sorry to note that my friend Sir George Schuster has adopted a somewhat disappointing attitude this year. Probably this colossal loss of this year has damped his ardour, and he has imposed two conditions : One is that subject to the revenue forthcoming the proposition may be entertained and the other is that he has invited an expression of public opinion on the matter. As regards the first condition I am prepared to accept it, because nobody would think of asking that the loss should be allowed to be carried forward in a year like this. He has also stated that if Government go in for redressing three or four years' losses it will amount to a huge loss of revenue. I urge that is not the way of viewing a question like that. If justice demands, if the principle is right that the previous year's losses must be taken into consideration, no amount of loss in the fiscal revenue, no amount of deficit ought to prevent Government from meting out justice to a class of people who are the principal pillars of support to this country. My friend Sir George Schuster said he will consult

the country. There is no such necessity to consult the country. The country has been consulted, and has given its definite opinion. I would like to refer to a passage from the Report of the Indian Taxation Enquiry Committee. It seems to them that the substantial justice of the claim to be permitted to set off cannot be denied. But they recognise the necessity, in Indian conditions, for a strict limitation of the concession and for hedging it round with conditions. Their proposal is that a loss sustained in any one year should be allowed to be set-off against the profits in the next subsequent year only subject to the condition that any assessee who claims to have made loss must prove the fact by producing accounts as soon as possible after the close of the year in which the loss has occurred. That is the situation, every country in the world has recognised this just and equitable principle—England has recognised it—and I do hope that when the economic position improves in this country, my friend Sir George Schuster will see his way to do this bare act of justice.

I have concluded now, Sir. All I desire to say, Sir, is that despite a great many disappointments I have nothing but admiration for this Budget, for the manner in which the duties have been fairly and evenly laid. We must all make a sacrifice, bear, suffer, and carry the burden, and as far as I am concerned, in these difficult times, I am prepared to carry a share of that burden on my shoulders, and I hope this Council as business people and practical men will not give any serious opposition to the Finance Bill.

THE HONOURABLE SIR DINSHAW WACHA (Bombay : Nominated Non-Official) : Sir, after a brief spell of prosperity for four years Indian finances have again been overtaken by a heavy deficit of 13 crores. But, Sir, I would ask Honourable Members, especially those who are new to this House, to remember that only 8 years ago there was a colossal deficit of something like 99½ crores, chiefly in consequence of the aftermath of the War. But such was the elasticity of the Government of India as far as its resources then went that even that deficit they were able to meet. And I am quite sure that as far as the present deficit is concerned means will be soon found whereby the Budget may be balanced in the future. It should be remembered that deficits more or less have been the characteristic of Indian finance—not to-day, not yesterday, but for the last 50 years! Somehow or other it seems that Dame Fortune, a fickle goddess as you know, has been unfavourable to the Government of India, so far as her finances are concerned. The number of years during which we have had some surplus are few, but the number of years of deficits have been many. There was a time, in olden times, when there was diminution of opium and revenue receipts ; at another time there was war, pestilence and famine, disturbing the balance and bringing in deficit ; another time it happened that low exchange and expeditions to the frontier proved more or less burdensome and even abortive, and even at a later date there was the dismal dirge of "Gamble in rain". Thus things have been going on for the last 50 years in matters of finance. And, so far as my knowledge of Indian financial history extends, I am not at all surprised at our present deficit, having regard to two broad facts which have been brought out by the Honourable the Finance Member in his speech, namely, the great unprecedented fall in the price of commodities all the world over ; and, secondly, and chiefly, the disturbance and commotion in this country itself which has contributed to the loss of revenue from which it has suffered. That being so, I hope that every Member who has read the speech of the Honourable the Finance Member carefully would congratulate him on the very sagacious and prudent way in which he has presented the

[Sir Dinshaw Wacha.]

Budget. It may be that critics may criticise his speech. There are critics and critics; there are critics who are constructive and there are critics who are destructive. In my experience, I have found that there is more of destructive criticism than of constructive criticism in the Legislatures. Indeed, the former is more the rule than anything else. But hearty co-operation and suggestions of a really sound and practical character for improving the financial position are, I regret to say, absent. That, I consider, is really a great deficiency on the part of all those who take a share in the discussion of many a topic in the Legislature. The fact is this: that as far as finances are concerned there are hardly Indian Members enough, well informed and grounded in the first principles of finance in either House to co-operate with the Government. The primary requisite for them is to know the history of finances of this country for a pretty long period, if they are to speak and criticise usefully the finances of a particular year. This lack of grounding is a great drawback. However, Sir, people are, of course, growing more democratic but hardly in the right spirit. Whether democracy will ever bring in a better situation of Indian finances than that which has prevailed in the time of autocratic Government is a question which, to my mind at least, is problematical. More and more expenditure will be the future of that democracy. It will in my opinion lead to larger or gaping deficits. However, leaving alone that question, I come to the subject proper of this Budget. Of course, it is a Budget of deficit. But the Finance Member has ably shown how in the future reasonable additional revenue should be found to stem the tide of deficits. Our resources presently being very inelastic, he has shown the way whereby in the future we may have larger resources to meet the larger demands which will undoubtedly arise. If you attentively read paragraph 60 and onward of his speech, you will be able to see through and through that this Budget is not only a Budget for the current year, but it is a Budget in which there are prospective changes proposed which are certain to prove helpful and useful to his successors in the Department of Finance. We must considerably improve the sources of our finances and I heartily congratulate the Honourable Sir George Schuster on his courage in showing the ways and means to achieve that object. The condition now prevailing cannot be changed at once. But if we go on patiently supplementing such resources and if we heartily co-operate with the Government of India and persistently make efforts to put Indian finances on a broader and sounder footing, then I think the days of deficits in the future will be rare.

Now, Sir, there are two changes in taxation. They are with regard to the customs duty and the income-tax. I take the income-tax first. Very many gentlemen here, including my friends the Honourable Mr. Mehta and the Honourable Mr. Browne, have already referred to the very great burden of taxation that is being imposed upon commerce and industries by the proposed enhanced income-tax. I admit that it is a great hardship; but it cannot be helped. Very many people say that the Government of India, by this change, and by increasing the yield of the income-tax on all sides, are killing the goose that lays the golden eggs. That is to say, commerce and industry bring all the wealth from which income-tax is obtained. If the Government want to kill that goose, what will happen? Well, Sir, I hesitate not to say that the Government will do well to refrain from killing this golden goose. Let them follow the sound advice and suggestions offered so that the Finance Member may be able to fatten the goose so that it may lay a larger number of golden eggs. I admit that as far as the small income-tax payers are

concerned, it will be a great hardship on them, and I do appeal to the Finance Minister and say that as far as incomes from Rs. 2,000 to Rs. 5,000 are concerned, the proposed increase of 4 pies which is equivalent to 80 per cent., should be greatly *reduced*. It is too much for people getting Rs. 100 to Rs. 150 a month, with the cost of living still sufficiently high to maintain themselves. I do hope that the Finance Minister may be able to see his way to reconsider that part of the taxation. As regards the other taxes, the Finance Minister has himself adopted the old but most sound principle of taxation of Adam Smith, "tax according to the ability of the tax-payer". Sir George has followed it. The average of the whole system of the proposed increase as to the higher grades no doubt is 2 or 3 or 5 pies. There is no need to disturb it. I do admit that there is a hardship, but of course, at certain times, sacrifices have to be made; and this is a time when we must make sacrifices if we are to improve our financial position in the future.

Then, Sir, coming to the method of meeting the deficit. Retrenchment Committees are very good in their own way. But my experience of these Retrenchment Committees which have been appointed now and again by the Government of India for the last 50 years is that they are more or less fruitless. They do next to nothing. The Elliott Committee, the Inchcape Committee and half a dozen other Committees have been appointed in the past. What solid achievement has resulted? The Retrenchment Committees propose and the Government disposes. There is a kind of Sisyphean labour going on for the last 50 years. Retrenchments may be made to-day; perhaps economies may be made for another year or two; but thereafter expenditure grows, aye, at a faster speed to neutralise the economies! What are we to do? Therefore it is of no use complaining about this constantly growing expenditure. There was a critical time when the Elliott Committee was appointed. It toured the whole country from place to place....

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: What year?

THE HONOURABLE SIR DINSHAW WACHA: I think it must be in 1880 or 1881.

THE HONOURABLE MAJOR NAWAB SIR MAHOMED AKBAR KHAN: Prehistoric times. (Laughter.)

THE HONOURABLE SIR DINSHAW WACHA: Aye, but don't laugh. You people may laugh, but the man who laughs last laughs best. The Elliott Committee went about and they did make retrenchments of a sort but with no permanent results. The Inchcape Committee also made retrenchments. What is the result to-day? That is not "prehistoric", is it? Therefore, I say that Retrenchment Committees may do something, but not much, particularly with regard to military expenditure. Now, I must say without being deemed egotistic, that I was the first in 1885, when the first Congress was held in Bombay, to speak elaborately on this question of the then existing large military expenditure. I pointed out that the whole root cause of the large military expenditure in India was the vicious and ruinous amalgamation scheme of 1859. This amalgamation scheme was instituted for the purpose of amalgamating the Queen's troops and the Indian troops. In 1859 many of the experts in the Houses of Parliament vigorously protested against that scheme as most burdensome for India but to no purpose. The Act was passed and is still in force, and it is this Act which is working so much.

[Sir Dinshaw Wacha.]

against us as far as the military expenditure is concerned. Those who have read the old report of the Indian Finance Committee which sat from 1873 to 1874 and learned therefrom what Professor Fawcett said in the House of Commons is true even to-day. He asserted that it is a partnership between England and India. India is poor. England is rich. But by a curious irony of fate the two partners are made to share all the expenses. Parliament decreed, namely, that India and England should bear all the expenses arising from the amalgamation scheme. Fawcett said:—Suppose there was a gentleman very rich, who kept the house, and took in a partner whose income was negligible—nothing to compare with that of the rich man. Suppose that the joint expenditure incurred came to £1,000. The rich partner could afford to pay his £500, but the poor partner could not afford to pay even £50; and yet the apparent inequality is allowed to continue to this day. That is the position of India. This amalgamation scheme, this mischievous scheme, is the root cause of all this onerous military expenditure, and unless the amalgamation scheme is repealed or modified no improvement need ever be expected. The Government of India have themselves appealed times out of number to the Government at home, say, from the time of Lord Ripon, but to no purpose! The Government of India is absolutely helpless. More than half a dozen Committees of the India Office were appointed from time to time. On one of these Committees, Lord Northbrooke, a Viceroy, who had great experience of the burdensome character of the military expenditure, presided. What was the result? The War Office fought and fought and every time a Committee was appointed the War Office was triumphant! It has triumphed for the last 100 years and it will go on triumphing and foisting an inequitable burden on India unless you have got the strength to get this amalgamation Act repealed or modified. Last time, when I brought a Resolution in this Council in 1925 on this question of repeal, I spoke at great length on this subject, and my friend, the late Lord Rawlinson, turned it down for certain reasons which I could not controvert. He asked me afterwards to meet him in order to explain that he could do nothing, and that he was helpless. He said he was bound down by that Act. They could do many things if the amalgamation scheme was repealed and a modified scheme suitable to the present conditions of India was adopted. Since then I have despaired of any material reduction, at any rate so long as the War Office is allowed to continue its rapacity. The Government of India are powerless before that oligarchy. There are the records of the Government of India, and their despatches to the Secretary of State on the subject which those who run could read. They have persistently insisted on this expenditure being reduced, but it cannot be reduced. They are all helpless. It is the War Office which is the dominating factor. That is the reason why this military expenditure is so great.

Having said so much about this burning topic I now come to the customs duty. So long as customs duties are raised for revenue purposes they are all right. Nobody can complain. But since India has got what is called "fiscal autonomy", owing to the recommendations of the Fiscal Commission, what has happened? They are all crying aloud for protection, protection for everything, protection for cotton, protection for steel, protection even for gold thread and so on!! But nobody seems to understand, not even the Tariff Board, what are the many *unseen* evil consequences of protection at present and in the future. These high tariffs and protective duties are mischievous and are an unbearable burden on any society. A great Professor, Professor Taussig, a distinguished economist, has said, by all means have reasonable tariffs and protective duties for *infant industries*, to support them in their initial

stages. But having supported them for five or ten or fifteen years, when they are able to stand on their own legs without state crutches, such protective duties should cease. What is presently happening is that we are continuing protection on certain industries when none should be allowed. All protective duties have a tendency to become in time *monopolies*, and you know what monopolies are. They mean putting money into the pockets of the powerful who are for their own class interests. The Government of India is not supposed to support any class interests; all interests are equal. If that be the case then all these protective duties should go. Instead more and more protection is being given. Where it used to be 5 per cent., it is now 10, 15 or 20 and 30. You may say what you like about other countries being protectionists of which the United States is the chief. But even the United States, a powerful and rich country, is grievously suffering from the effects of a high protective tariff. There are many now in the American Senate and House of Representatives who are protesting against high protective duties. Therefore, I say that protection in the long run is always mischievous and most prejudicial to the interests of the ultimate consumer. And who is the final consumer? It is the masses, the poor who live from hand to mouth. Those are the people who suffer. In the long run, it may be in 50 or it may be in 100 years, the evil consequences of such duties will be realised in order to be universally condemned. Please remember that Nemesis will overtake such protection at last. Revolutions are taking place to-day in Russia and elsewhere—revolutions of the oppressed and *tariff-ridden* masses against centuries of mischievous exploitation. I believe that Honourable Members will have cause to remember what I now say. There is a little parody on this craze of protection. "From Himalayas' icy mountains to Comorin's coral strand", they cry "protection, protection, protection", till every village and hamlet and *taluka* cries "protection". Very well, if India wants to be protected in that way, by all means have it. But that will never bring prosperity. But be sure that in the long run India will be ruined. You will remember my words. I may die to-morrow, but what I say to you is the truth. I am a convinced free-trader. I have said and do not hesitate to say that if the India of the future is to be prosperous it is better to make it a *free trading country* as it once was for some years after Lord Cromer had established it. India prospered and prospered magnificently during that period. I believe that if the future Government of India worked on those lines, standing for free trade and the open door for everybody to come in, India will gain strength enough to fight the world and to build up her own prosperity on a permanent basis. It is the only economic solution. It is of no use indulging in denunciation and destructive criticism. What is wanted to-day is hearty co-operation with prudent statesmanship. Co-operation will work a miracle; destructive criticism only leads to nothing. So far I can see here very little of constructive criticism. Nothing practical has been suggested which will induce the Finance Minister to alter his Budget? I doubt it. It may be that it is thrown out in the other place. But that will not improve the financial position at all. Let us therefore put our heads together and see how far we may improve the Budget if not for this year, say, for the next. We are supplied with a most useful memorandum prepared by Sir W. Layton which the Round Table Conference Committee on finance would do wisely and well to utilise for the purpose. Of course, there are certain suggestions which, I fear, are not practical.

To conclude. I think, Sir, that Sir George Schuster has done a real service to India by preparing the road to future improvement. Honourable Members, I take it, have carefully studied also his monograph on the silver duty.

[Sir Dinshaw Wacha.]

They would, I feel sure, approve of the policy the Government have hitherto pursued in regard to it. There are people in the United States who want to put money into their own pockets and let all the rest starve. That is not the policy of the Government of India who look to the interests of the masses. I must congratulate Sir George Schuster on the courage he has displayed in denouncing the United States and for the sound policy he has laid down in that monograph. I think, Sir, that every Honourable Member of this House will eventually congratulate Sir George Schuster on the very able and sagacious financial statement he has framed. (Applause.)

THE HONOURABLE DIWAN BAHADUR G. NARAYANASWAMI CHETTI (Madras : Non-Muhammadan) : Sir, I shall not take much time. I congratulate the Finance Member on the excellent exposition of the Central Government's Budget which he presented to both the Houses the other day. I cannot but agree with him as to the causes of the present depression in trade. He has rightly mentioned that internal trade has suffered on account of political disturbances. Anyhow it is permissible to hope that better times are ahead of us and that the prosperity of India will steadily increase. There are however one or two things which I do not agree with in the Budget proposals. As regards the increase in income-tax, that will badly hit the petty traders, and it will also affect the middle classes. Then, Sir, take the case of people who are getting their income from landed properties and some trade. They are paying taxes on their properties, and they have to pay also income-tax on the rentals received. We do not know what to do, but still the Finance Member comes here and says, " We are going to raise the income-tax of people getting Rs. 10,000 and lower ". So far as the super-tax is concerned, I do not object to it, and I know that it will affect people who are drawing large salaries ; and they will be able to contribute without much difficulty. The other question on which I agree with my Honourable friend Sir Maneckji Dadabhoy is about the tax on kerosene. This will affect the poor classes. I wish very much that at this time Government should not in any way hurt the feelings of the poorer classes. It is necessary for every small cottage and every small house to have kerosene every day and I hope that those poor men will not feel that just on the eve of the great reform that we are going to have they have to be taxed a little more. I hope the Finance Member will be able to find some means to adjust this.

Then, Sir, coming to the question of retrenchment, I entirely agree with the various speakers that it would come to nothing. I have had the experience of working on such committees—not in any central committee but in a smaller sphere—and I found that nothing could be done really. It will take a good deal of the time of the members, to retrench. They have got to study and prepare, but nothing will come out in the end. Therefore I would only say that Government will not be wise in asking this Council and the Assembly to elect members to the Retrenchment Committee. After all, they may not have time ; you must have business men with a good deal of experience, but even then I fear that it will not be possible to do anything in the direction of economy. Let Government have a conference of provincial Finance Members and consider the abolition of certain appointments. Those things may be done. So far as the proposed Retrenchment Committee is concerned, I think nothing will come out in that direction.

Sir, coming to the military expenditure, I do not think I will be able to add anything more to what our revered friend Sir Dinshaw Wacha has

said. Therefore it would be impertinent on my part to say anything, except that I know that His Excellency the Commander-in-Chief is doing a great deal in that direction, but we only hope that he will do something more in the way of retrenching the expenditure. I have been hearing this question of military expenditure since my school days, and I do not know when this will be solved, but I hope the time is not far away. As I said, it will be highly impertinent to talk on this very old question—it will not be proper for me to go into it as I feel I am not competent to do so.

There is another matter to which I have to refer. Coming from the Presidency I represent, it is my duty to bring up the question of salt manufacture in Madras. Those unfortunate men who manufacture salt have not the privileges and conveniences which the other agriculturists get in the way of advances from Government during bad years. For the last three years the manufacture of salt has been very poor. Many salt pan owners have not been able to repay the loans taken and they cannot even carry out the little improvements that are necessary; and I am sorry to say that under the Salt Act if they do not manufacture for two years, their pans would be resumed by Government without payment of compensation. I am glad to say that I had an interview with the Central Board of Revenue the other day and they have passed certain orders recently cancelling the resumption by the authorities in Madras. That is a matter, Sir, in which I would like the Finance Member to interest himself, in order to improve the lot of these poor salt manufacturers in the Presidency of Madras, which I have the honour to represent in this Council.

I have nothing more to say except to congratulate the Honourable the Finance Member on the Budget in difficult times. I hope that very soon the heads of departments will be able to retrench effectively in their various departments. I do not believe in cutting the pay of these high officers. Already they are going to pay by way of income and super-tax. In that way we shall be able to get something, but I do not think we will get much from business men, even though they may have a successful year.

The Council then adjourned for Lunch till Twenty-five Minutes to Three of the Clock.

The Council re-assembled after Lunch at Twenty-five Minutes to Three of the Clock, the Honourable the President in the Chair.

THE HONOURABLE MAJOR NAWAB SIR MAHOMED AKBAR KHAN (North-West Frontier Province : Nominated Non-Official) : Sir, I regret to say at the outset of my speech that the current year's Budget is the gloomiest since 1921-22. We find deficits everywhere. There is a deficit in the Central Government, there are deficits in the provinces, there are deficits everywhere; and future prospects are even more gloomy. We hear, Sir, that we are getting Reforms in the very near future that would result in increase of expenditure, for there are to be some new provinces, with new establishments, and the provincial Councils are to be increased in size. When we find, Sir, that a further taxation amounting to 14 crores 82 lakhs is proposed to balance the current Budget, the introduction of the Reforms is likely to necessitate more taxation. But, Sir, taxation is supposed to be usually meant for constructive work and for the benefit of the country. Here, even taxes which were imposed on us after the Reforms of 1919, were not beneficially employed.

[Major Nawab Sir Mahomed Akbar Khan.]

Sir Walter Layton estimated that about 40 to 50 crores will be required for the expansion of the functions of the Government, in the coming constitutional changes. These 40 to 50 crores were to be obtained by increase of taxation, till 1940. He further suggested that by taxing incomes from foreign sources, by lowering the exemption limit, and steepening up the gradation, the Government could get 4 crores; provincial surcharges on income-tax would further yield 2½ crores, and at the end of 10 years, 2 crores. Now, Sir, this estimate was considered by the Government of India Despatch as optimistic, and yet the Honourable the Finance Member offers to raise 5 crores 7 lakhs from income-tax in 1931-32, and *not* in 1940 as was suggested by Sir Walter Layton. Besides all that, Sir, the Finance Member has still taxation on foreign incomes in reserve.

Again, Sir, Sir Walter Layton recommended, that the custom duty on liquor should be reduced to the standard rate of luxury goods, *i.e.*, 30 per cent.; also that the provinces should be given the right of imposing further duties on foreign liquor in the form of excise. Although, Sir, as an orthodox Muslim I should welcome the prohibitive duties in order to make India dry, yet, as there are lots of other people besides me, and as revenue is a matter which has a future as well as a present, I suppose, undue straining would hardly be advantageous to us in the end. But, Sir, the Honourable the Finance Member exhausts this source by increasing the duty on beer by 60 per cent. and on wine and spirits by 30 to 40 per cent. That means, Sir, that all avenues of further taxation which could be employed for the maintenance of the new Government, and incumbent charges, are more or less blocked. It follows that for the coming years the Government will be run at a deficit and severe crises may result therefrom.

Secondly, Sir, I want to say a few words about the advisability or otherwise of increasing the tariff rate. I may here refer again to Sir Walter Layton's studied and expert opinion about the same. He says on page 222, Volume II of the Simon Report :

"The standard rate of duty of India's tariff, *viz.*, 15 per cent. with 30 per cent. on luxury goods is already too high for a mainly agricultural country, and in some cases, rates are put so high as to be prohibitive. It is possible, he further says, that in a number of cases duties are already at or beyond the point of maximum yield and that more revenue might be obtained from a general lowering of rates."

That this was not a vain remark can be borne out by what Gladstone experienced when in a favourable year he lowered the tariff rate and found a surplus at the end of the year. Next year he lowered the rates again and found a still greater surplus. Lowering of rates, Sir, encourages trade and thus proves more wholesome and provides better opportunities and facilities for Government revenue.

The Honourable the Finance Member, Sir, proposes to raise the duty on sugar. Although the Taxation Enquiry Committee considered it as burdening the general population, yet, taken as a protective measure and as a source of income to the Government, it is a valuable head. Agriculturist India had three paying crops till very recently. Wheat has ceased to be a paying crop at present. If foreign competition succeeds in killing the sugar-cane crop too, the agriculturists will have only cotton left as a mainstay. I am sorry to say that in the North-West Frontier Province, on account of climatic conditions, they cannot have even the cotton crop. It is therefore highly desirable that the agriculturist should be encouraged so that he may compete on an equal footing with the Java producer. Moreover, Sir, as I have been

opposing the steepening of the income-tax and super-tax, I suggest that in order to compensate for the loss resulting from non-increase of income-tax and super-tax, a duty of Rs. 2-8-0 per cwt. should be imposed on imports of sugar instead of Rs. 1-4-0. The possible objection, Sir, that this duty would affect the consumer sorely, is met by the fact that 80 per cent. of the population are agriculturists, that is, producers. Moreover, if this industry dies out, the agriculturist will be crippled financially, and will be unable to pay the usual revenue. It will thereby affect the Government income permanently. Therefore, Sir, the agriculturists needs protection for his very existence.

The Honourable the Finance Member in paragraph 8 of his Budget speech points out that the fundamental cause of the depression is the divergence between the movements of prices of India's exported articles and imported articles. Is it not likely, Sir, and even certain that the raising of the customs wall will make matters worse for the general population by making the divergence still greater? For to-day, Sir, the agriculturist is getting lower prices for his goods than he has had for many years, and if he were not to get a corresponding fall in the prices of manufactured goods, imported as well as home goods, he would be hit very hard indeed. And this raising of customs, Sir, will in no way contribute to the fall of the prices of manufactured goods. If anything it will aggravate the cause of poverty.

Thirdly, Sir, there is the currency question. It is a matter which I do not lay much claim to know thoroughly much less speak about dogmatically; but, Sir, when the Honourable the Finance Member says in paragraphs 101—104 of his speech, in defence of his currency policy that it was necessary, in order to maintain stability of exchange whatever the level at which the ratio has been fixed, even a layman may ask, Why stabilize exchange at all when world prices are falling and falling sharply. Is it not a fact, Sir, that we allowed a rise in exchange when world prices were soaring and thus in a measure escaped the inflation of the world outside? Why cannot we do the same now, when the reverse is the case?

Fourthly, Sir, I would like to say something about the burden of taxation since the War.

(a) The additional taxes imposed during the War, *vide* the Budget of the years 1916-17 and 1917-18, go on as ever.

(b) More taxation was imposed in 1921-22 and 1922-23 to the amount of 48 crores 17 lakhs, to cover the deficits of the lean years of 1918—1922. This taxation for the most part still remains.

(c) When the exchange rate was raised to 1s. 6d. the Government gained in the matter of interest on foreign liabilities, etc., 5 or 6 crores of rupees. This amount has brought no relief to the tax-payer, nor has it been of any general advantage.

(d) Sir Basil Blackett in his Budget speech for 1925-26 said:

“The level of taxation is here much above the pre-war figure.”

Sir Arthur McWatters during his evidence before the Currency Commission was asked the question:

“You think that taxation is undesirably high?”

He replied:

“I do.”

[Major Nawab Sir Mahomed Akbar Khan.]

(e) Again, Sir, hopes were held out by Sir Basil Blackett but nothing has so far been done to put into effect the policy announced by him. In paragraph 37 of his Budget speech of 1927-28, he says :

“ Our general policy as regards taxation ought to be directed first towards a more equitable distribution of its incidence, so far as that may be attainable, with due regard to the other canons of taxation, and the abolition of those imposts which are obnoxious in principle, such as some of the export duties. And that when our finances permit, we should aim at a gradual reduction of taxation to a level, which will give some relief to the tax-payer and leave a larger margin available for the Provincial Government's needs.”

These hopes, Sir, which he expected his friend and successor the present Finance Member would help to realise, unfortunately for India, ended in the deficit of 75 lakhs for 1929-30. Additional taxation was resorted to in the year 1930-31, yet the revised estimates show a deficit of 13 crores 56 lakhs. It is proposed that further taxes should be levied to the amount of 14 crores 32 lakhs while a net deficit of 17 crores 24 lakhs is expected for 1931-32. It appears from all this, Sir, that the horrors of peace taxation are greater than the horrors of war taxation.

(f) Again, Sir, to meet the deficits of the various provinces additional grants have been made, and yet only a very small amount has been spared for beneficent departments.

We are then given to understand, Sir, that the present unfavourable balance has a parallel in the world-wide depression and deficits in Government expenses of other countries. The British Government in England is said, Sir, to be running at a huge disadvantage. But, Sir, we should not forget that after the deficits of the years of war and subsequent years of heavy depression, when taxation was raised generally, the English Budget has been showing a distinct surplus. The *Economist* in its Budget Supplement of April 5, 1930—I have got it in my hands—says :

“ The years since the war fall into three distinct periods : the three years from 1919 to 1921, the following three years from 1922 to 1924 and the five years of Mr. Churchill's Chancellorship. During 1919—1921, the nation was engaged in recovering its financial equilibrium, and the Budgets of 1920 and 1921 balanced as a result of the heavy taxation imposed in 1920 provide the measure of our success. The years 1922 to 1924 constitute the period of relief. The relief granted by the Treasury during these three halcyon years averaged no less than £50 millions annually.”

Even in the years of Mr. Churchill's stewardship though the revenues had dwindled mainly in consequence of the coal dispute and its aftermath, yet the remissions of taxes averaged 4 million pounds annually. It cannot be denied, Sir, that the present Labour Government is running at a loss but, Sir, it is due, besides the trade depression, to the passage of social laws calculated to ameliorate the poorer classes. I am afraid, Sir, we find no such causes explaining the heavy deficits of our Budgets.

Lastly, Sir, in the matter of taxation, I may be permitted another word. India is an agricultural country. That is, the wealth or poverty of the people mainly depends on the prices of their agricultural produce. When the prices experience a general fall, does it not mean, Sir, that it adds of itself an increasing and real burden to the people paying the existing taxation? Taking it another way, Sir, it may be shown that the tax revenue from principal heads in 1921-22 was 64.77 crores, and the Calcutta Index Number of Prices was 178, whereas the tax revenue from principal heads in 1930-31 is 73.49 (according to revised estimates), when the Calcutta Index Number of Prices

was 101 in December, 1930. Measured in terms of the rupees of 1921-22, the taxation of the Central Government in 1930-31 is equal to $\frac{(73.5 \times 178)}{101}$, 129.5 crores, that is, it shows an increase of 99.8 per cent. since 1921-22. The figure of 1931-32, in the same way, would mean 152 crores, i.e., an increase of 134 per cent. Besides all this, Sir, the burden of public and private borrowing is increasing apace.

Therefore, Sir, I place a few of my humble suggestions before the House that an all comprehensive Retrenchment Committee be appointed which should consist of representatives of all departments. It should be able numerically to appoint under it Sub-Committees for different purposes. For example, the military expenditure requires reasonable retrenchment in the matter of supplies which have become very cheap these years. And then it should have among its members enough expert economists so that there should be at least one economist on each of the Sub-Committees.

Moreover, Sir, the increase in tariff rates should always be studied from the standpoint of the tax-payer, as he is the person who has to bear the burden in the end. Again, Sir, the stiffening of the income-tax and super-tax, although to the casual eye seems ordinary, is yet most oppressive in its effect. The rates have been nearly doubled to say the least.

And then, Sir, the Reforms. If we have to face a stunning and impoverishing loss in their introduction, it would hardly be wise to accept them in the form they are being given. Lastly, Sir, I resume my seat with the words that such a disappointing Budget, which is extortionate in its demands and deadening in its effect, has never been presented in this House before.

*THE HONOURABLE SARDAR SAHEB SULEMAN CASSUM HAJI MITHA (Bombay Presidency : Muhammadan) : Mr. President, I wish to offer a few remarks on the Budget for the year 1931-32 from the standpoint of a commercial man. I have read with

3 P.M.

careful and sympathetic attention the statement of the Honourable the Finance Member in regard to retrenchment, proposed taxation and his views on exchange and currency. I hasten to offer my hearty thanks for his proposals for retrenchment and the appointment of a Retrenchment Committee. With regard to his remarks on the subject of exchange, I wish only to say that the present ratio of 18*d.* has inflicted great hardship on the Indian commercial community and has destroyed its prosperity. It has ruined the agricultural population. With reference to the reversion of the ratio to 16*d.* I can only say that Indians cannot afford to make the sacrifices which are required to stabilize the rupee at 18*d.*

I now wish to say a few words in regard to the proposed taxation. That it is not satisfactory goes without saying. But I do not blame the Honourable the Finance Member for it. The fault lies in the faulty system of the present costly administration which is hopelessly out of date. If that system had been revised in time, India would not have found itself in its present plight of bankruptcy.

It is my humble opinion that the new taxation will not lessen but will aggravate the present political discontent, and it is the duty of the Government to allay the prevailing unrest. India has been reduced to such a critical economic condition that its people are not able to bear the slightest additional

*Translation of the speech delivered by the Honourable Member.

[Sardar Saheb Suleman Cassum Haji Mitha.]

burden of taxation in any form or shape. Two causes are assigned by the Finance Member for the present condition : (i) the world depression in trade and (ii) the political unrest. It is natural that the world depression should affect Indian trade. But I emphatically say that our misfortune and the ruinous condition of trade and the severest condition in which we find ourselves entangled must be attributed to the administrative and military policy pursued by the Government. 80 per cent. of the Indian population is composed of agriculturists. They do not get the value of the produce which they send to foreign countries. Indian agriculturists find themselves in a sad predicament owing to the exchange policy which the Government have carried through in the teeth of popular opposition. The purchasing power of the agriculturists has been reduced. In consequence of the heavy increase in expenditure after the War, the country has been reduced to poverty. Unemployment and starvation have increased. Its industries have been crippled and for the last several years the commercial people have been carrying on their business at a loss. These factors have given an impetus to the political movement in India. I can say from my own extensive experience of commercial life that these political movements have been strengthened by the starvation that has overtaken the people. I cannot subscribe to the opinion that the people have been misled by the incitement of Mr. Gandhi and other political leaders. If there were enough food, enough employment, enough wages and enough means for trade and commerce, then, I dare say, the present critical condition in the country would not have arisen, poverty and starvation are directly responsible to a great extent for the present serious and deplorable crisis. Even now, if there is any improvement in commerce and trade, peace would reign in the country. The poverty of the country is increasing and unless Government adopts suitable remedies for its removal, there will be no peace worth the name in the country. Granted that the political movement is, to some extent, responsible for adversely affecting the trade, yet it behoves us carefully to consider what are the causes—political and economic—which give strength and success to the political movement. Not only that, but statesmanship requires that Government should do its best to remove the political unrest and bring about peace and contentment throughout the country. In my opinion Government themselves lend great support to the political movement by levying additional taxation. If the capacity of the people to pay taxes is exhausted, it will have a greatly adverse effect on the agriculture, art and industry of the country, and that will deal a serious blow to its prosperity. I most respectfully beg to draw the attention of the Government with all the earnestness at my command that the condition of the people has been so much worsened that it is no longer able to bear the additional or even the existing taxation. Owing to the increase in income-tax and super-tax, merchants will find it impossible to get any return on their investments and capital. This will involve drastic reduction in staff which will add to the army of the unemployed and they will participate more and more in the political movement, thus giving further rise to political unrest in India. What the Government have seriously to consider is whether the new taxation will not make the position more dangerous. There must be a substantial reduction in the expenditure that has been increased after the War, such as the rise in officers' salaries, allowances and pensions which have risen during the last 10 or 15 years. They should be brought to the pre-war level. The increases were given owing to the rise in prices. I can say from my personal experience that now these prices have in many cases come down to pre-war level, or even less than that in some cases. I therefore submit that the salaries, allowances and pensions should

be brought down to those levels prevailing before the War. In many countries in Europe including Italy, Germany, Austria and even in England itself, this factor is borne in mind and the Government of those countries have made substantial reductions in the pay and allowances of their officers. India is poorer than many countries of Europe yet the salaries of officers obtaining in this country are higher than those prevailing in European countries. This is a time when Government officers themselves should come forward and tell the Government of their own accord that they are prepared to accept a cut in their salaries until such times as the Government finances improve. If this is done it will have the magic effect of allaying the unrest in India. It will make easy the task of officers and people will learn to look at them with an eye of respect. If the Government desire, they can make substantial reductions on the lines suggested by me and can thus save the country from the burden of taxation and the consequent distress entailed thereby.

The most important matter on which I wish to invite the attention of the Government is that considering the poverty of this country, military expenditure is greatly in excess of its resources and in order to make up the deficit in the present Budget, the Government should make much more drastic retrenchments than those indicated by the Honourable the Finance Member in his Budget speech. If that is done the Government would be able to draw popular support in its favour. I am aware that Government will reply to this suggestion of mine to the effect that looking at it from the point of view of the military authorities, this is not possible. My reply to them is this. The income of Indians is less than that of the people of any European country and the military expenditure is so much out of proportion to the average income of Indians that they are ground down under the crushing military burden. The great preparations which the military authorities are making at a heavy expenditure to meet a possible attack of a foreign enemy have made Indians so poor that in case of any real war, India's resources and ultimately of the people at large will be so exhausted that they will make easier the inroad of the enemy into India. I do not mean to say that we should not spend money on our defence, but I do say this that we should not carry it to such an extent that it may impoverish the country and its resources, so that when the time comes, it may not find itself exhausted. If military expenditure is reduced it will allay unrest and promote loyalty in the country. And in the event of any foreign enemy attacking us, the whole country will rise in a body in self-defence, and will be prepared to offer every possible sacrifice in men and money to preserve the integrity and honour of their beloved Motherland. If the Government policy will create discontent, then even the most formidable army will not be of any avail in times of danger. Great danger lies this way, and I beseech the Government to bestow on this their fullest and most earnest consideration. I am strongly of opinion that we should all co-operate with Government in the laudable object of making economy in every direction and the Members of both the august Houses of the Central Legislature should be prepared and willing to give up their allowances, and they should be prepared to serve the country in a real spirit of service at a sacrifice of their time and money. This will produce a great moral effect on the country. The relief that will be secured in this way will not perhaps be great but its moral effect will be tremendously great. The noble example that will be set in this way will be a great asset in fighting the unrest in the country. If the Members of this Honourable House and the Assembly will be prepared to make these sacrifices for some time, at least, until the country is restored to its normal condition, it will produce a desirable effect on the Members of the provincial Councils. I am further of opinion that since the Montague-Chelmsford

[Sardar Sahab Suleman Cassum Haji Mitha.]

Reforms the number of Ministers and Secretaries and their staff have greatly increased, and the common complaint which may or may not be well founded is that there are "more men and less work". If this is so there should be retrenchment and reduction all round. In my opinion this is one of the sovereign remedies for lightening the burden of administration and relieving the burden of taxation which already hits the people hard. It is a duty of the Government to prevent the country by all possible measures from going downhill on the road to economic crack and ruin. Other countries in the world are fast advancing. It is the duty of the Government to keep India in the forefront of civilised nations and to navigate safely its political barque. At a time when people do not get even one meal and go almost half-naked the Government and the people should not do anything for which we will all have to repent. After weighing every word that I am speaking and after a mature consideration of my full responsibility, I say this in all seriousness that if you will go on piling up taxation, you will invite and hasten Bolshevism in India. It is therefore the sacred duty of the Government to listen to the popular voice of reason and conduct the administration in accordance with the popular view. If the people are convinced that the Government are doing everything in the interests and for the benefit of the people, the response of the people to the Government's demands will be prompt and effective and they will be prepared, out of all loyalty, to lay down their lives for the honour and prestige of the Government and their beloved Mother.

With these words I resume my seat.

THE HONOURABLE RAJA LAXMANRAO BHONSLE (Central Provinces : General) : Sir, I am very grateful that an opportunity has been given to me to take part in this important debate on the Budget. It is a duty, Sir, I owe to those who have sent me here that I should, on their behalf, express the views and sentiments which I know they would expect me to address to this House. Before I proceed further, I would like to request this House that, being quite new here, you will extend to me your indulgence while I detain the House for a few minutes.

The Railway Budget, Sir, with its gloomy picture of losses and heavy inroads upon reserves had to a certain extent prepared us, for a general deficit Budget. The actual magnitude of the deficit was of course not known then, but we all knew that it must be heavy. The only anxiety was, as to how the gap was to be filled up. We now know, and perhaps some of us at least are happy to know, that nearly nine and a half crores, out of the total net deficit of fourteen and a half crores, are proposed to be raised by means of indirect taxation and tariff duties. The higher tariff on wines and beer will please the prohibitionist and the five per cent. surcharge on cotton piece-goods, should go to make the cotton mill-owners more kindly disposed towards the increases in income-tax and super-tax, which, whatever might be said in their defence, are bound to create strong opposition amongst the industrialist and capitalist classes of all sorts. We all know, Sir, how the exchange controversy fed the flame of popular discontent, and contributed to make the Civil Disobedience movement more intensive than it might otherwise have been. I am afraid this rise in the income-tax rate, just at this time, would, in addition to being a heavy burden on our industry, prove an additional weapon in the armoury of those who may feel disposed to stir up trouble. Even assuming the necessity of this new impost for budgetary purposes, the policy of it may well be questioned. Sir, the root of the trouble is the excessive costliness of

the present administration, both civil and military. There is a view held universally amongst Indians at least of all schools of political thought that the country cannot afford the present scale of expenditure, that while nation-building services are starved even as matters stand at present, money is being spent upon objects which can at least well afford to wait the advent of better days of national prosperity. But it is useless, I know, to blame the Finance Member for the scale of expenditure he has to provide under existing circumstances. Policy determines expenditure and he alone cannot singly change it. Matters have reached such a stage in India, amongst all classes of people, that unless the whole situation, as regards policy as well as the methods of administration, is reviewed from the Indian point of view, and by persons whom Indians can instinctively trust, people will not have confidence that everything that is possible is being attempted or done. Fortunately the revision of the constitution that will now be undertaken may be expected to provide for this being done. It is a matter for deep gratitude, Sir, that the peace negotiations that were going on at the Viceroy's House have been successful. There were moments when a feeling of despair almost had come over us. But our thanks are due to both His Excellency Lord Irwin and Mahatma Gandhi that the efforts made have attained fruition. With the Congress now participating in the future work of the Round Table Conference, we may well hope that the incubus of the Civil Disobedience movement, under the deep shadow of which the Budget that we are now discussing was framed, will be lifted.

I referred, Sir, to the costliness of the present scale of military expenditure. In this connection, I would like to refer to the controversy which arose in the time of Lord Kitchener, about recruitment being confined mainly to the border tribes of the North. The late Mr. Gokhale took a leading part in it. The policy then was gradually to abandon all the then sources of recruitment to the army, seemingly on grounds of economy, but really because it was considered dangerous in times of internal trouble, to find men in the army who might perhaps sympathise with their countrymen in their national aspirations. The present costliness of the army is the result of the policy of distrust, on which the whole of its organisation seems to be based. Speaking for my province as well as for the Maratha people, whom I may claim to represent, I may say, Sir, that the policy of distrust is uneconomical, suicidal and wrong. Those who carried their victories far to the North and the South in the olden days are still capable of sustaining the peace and security of the country, both within and without, if the existing material in men is handled in the manner it ought to be. I do not know what proportion of recruits to the regular army in all arms is now furnished by the Marathas; but I know they would, as a class, furnish a very valuable fighting material, by no means less efficient but not so costly as the present one is. For lack of suitable careers in the army the Marathas are being steadily demoralized. It is well worth inquiring, Sir, what economies can be effected by substituting costly outside agencies by reliable and equally efficient indigenous agency in the reorganization of the army. The Marathas and the Hindustanis, Sir, are, neither in physique, nor in endurance and courage, inferior to any other people. They have both served the Moghal Emperors and their Viceroys in the Deccan and fought with them. What they did in the past they are equally capable of doing in the present, if adequate facilities for training in the modern methods of warfare and defence are given to them. I make these remarks both on grounds of economy, which is our greatest need at present, and patriotism also. The need of the hour is to take such measures as would restore to us our national self-respect. If that is not done quickly, there is sure to be trouble, both for England and India.

[Raja Laxmanrao Bhonsle]

I come now to the consideration of how the Budget is going to affect the agriculturist classes. They will have to pay more now for their kerosene, sugar, petrol and cloth. For lack of internal means of transport, agriculturists depend upon the lorry service, wherever it is available, to a very large extent. The increase in the price of petrol would affect this passenger traffic amongst agriculturists adversely. And this is done at a time when prices of agricultural produce have fallen. Tenants are finding it hard to pay their rents, malguzars are finding it hard to pay land revenue, the improvement in the banking system and agricultural finance is yet left to the future. The outlook is very gloomy indeed. Speaking for the agriculturist and industrial classes of my province, I may say with confidence this much, that they will all feel that there was not a single redeeming feature for them in this Budget. The price of produce is, over wide areas, not enough to cover the cost of cultivation ; and the rate of interest that the agriculturist has to pay has brought him to the end of his tether. If adequate steps are not taken, and at once, to bring in cheap money to meet his needs, the future is full of grave danger. The prospect of taxation on tobacco, the poor man's only luxury, and the threat of death duties in the near future only add to the existing gloom in the sphere of national finance.

THE HONOURABLE BABU JAGADISH CHANDRA BANERJEE (East Bengal : Non-Muhammadan) : Sir, I do not want to take up the time of the House by reiterating the various complaints that have already been made with regard to the proposed new taxation as well as to the military expenditure. The only point that I wish to refer to is the Retrenchment Committee proposed by the Honourable the Finance Member. At the outset I would like to remark that any committee composed of the Members of the Legislatures would be of very little help or use. I would prefer the Honourable the Finance Member to propose a Committee of experts—be they officials or non-officials, I do not mind—to go into the matter of retrenchment with all the knowledge and inside information that they are expected to have on the subject and then bring up their report expeditiously before the two Houses of the Legislature for the purpose of an impartial examination, and, if thought proper, for its adoption. If this committee does its work properly with an eye to real economy, I see no reason why their report should not have the desired effect and support from both Houses of the Legislature.

THE HONOURABLE THE PRESIDENT : If I call the Honourable Member from Lahore at this hour, I would ask him to bear in mind that the Council is anxious to hear the Honourable the Finance Member.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS (Punjab : Non-Muhammadan) : I am obliged to you, Sir, for giving me an opportunity to speak though very briefly on the Budget. Sir, I sympathize with the Honourable the Finance Member on his having to face a deficit Budget of 14½ crores this year. He attributes this deficit to two causes—one the political situation and the other the trade depression. Sir, as far as the political situation is concerned, since the Budget was presented to this House on the 28th February, a very happy change has taken place in the political situation. Two gentlemen of very high character and personality have come to an understanding which, I am sure, will put an end to the unrest, suffering and financial chaos which the country has been passing through these years. I must congratulate His Excellency the Viceroy and his Government on the one

hand and Mahatma Gandhi and the Congress Working Committee on this happy termination of the negotiations. Great credit for this negotiation is due to Sir Tej Bahadur Sapru, the Right Honourable Srinivasa Sastri, Mr. Jayakar and His Highness the Maharaja of Bikaner and to the British Cabinet in England. This betterment in the political situation in India will, I am sure, modify the Budget forecasts of the Finance Minister also ; the deficit that the Government expects for next year may not happily be realised and the drastic steps proposed by the Finance Minister may not be necessary.

As regards the economic situation, Sir, I think no proper step has so far been taken for its solution. On the other hand, what we find is that the burden of taxation on the people has been increased, particularly at a period when they are unable to bear any further taxation. What their economic condition is now has been realised by the Government quite well. The capital of the masses has been continuously on the decrease. In India the capital of the masses is generally in silver, and I am sorry to find that silver has now touched Rs. 40 per hundred tolas. This proposed increase in the duty on silver will not bring any ultimate relief to the poor because as soon as this increase is removed, the poor people will be worse off. As far as the trade is concerned, the increase in income-tax and the other taxes will greatly tell upon them. This is the time, Sir, when every encouragement ought to be given to trade and industry and by that way to foster the prosperity of the country. It is the depression in trade and agriculture and the high rate of interest that has brought about this miserable result and unless encouragement to trade and industry is given, prosperous times will be put back further and further. For the economic distress, Sir, I blame firstly the 1s. 6d. exchange ratio. This artificial exchange ratio has been a great curse to India, and the sooner the old rate of 1s. 4d. is restored the better. Even the Currency Commission and its President, Mr. Hilton Young, was of opinion that whenever the 1s. 6d. ratio is adopted by the Government of India, the land revenue ought to be decreased by 15 per cent. forthwith. I am sorry, Sir, that the landholders were given no such relief ; although the Currency Commission did strongly recommend that proposal, the Government totally ignored it.

Unemployment on a large scale is also one of the main reasons which has added to the Indian unrest. Many provinces have thought out schemes to solve the unemployment question, but so far no measure has been translated into practice, and unemployment is daily increasing.

Now, Sir, I come to the Military Budget. In that connection, a lot has been already spoken. I only want to add that although there has been this year a reduction of Rs. 64½ lakhs in the price of army foodstuffs, as His Excellency the Commander-in-Chief told us to-day, that amount has not been taken into consideration when axeing the military expenditure. I find from the Honourable the Finance Secretary's Memorandum that this cut in the military expenditure is due to the items put forward on page 31. I need not go in detail into that because the time allowed to me is short. But, Sir, why has this not been taken into consideration, and why has further reduction to this extent of 64½ lakhs not been made ? I hope, Sir, the Honourable the Finance Minister will kindly explain. So far as my information goes, the adjustment of war accounts has not yet been made and we do not know what has been the net result therefrom. What we understood, whether rightly or wrongly, was that India was to get a big refund of money from the War Office in this connection, but so far we have heard nothing about it. I hope the Honourable the Finance Member will kindly say whether the adjustments

[Lala Ram Saran Das]

have been made and what has been the net result or saving to India on that account.

Then, Sir, as regards the military expenditure the Retrenchment Committee that was presided over by Lord Inchcape recommended that the military expenditure ought to be brought down to 50 crores per annum when the prices of material and foodstuffs fall. That period has now come. But there has not been sufficient axeing in cutting down the military expenditure. I agree with my Honourable friend Sir Maneckji Dadabhoy that these Retrenchment Committees and other Committees are appointed only to pacify temporarily the sentiment of the Legislature. When their reports are submitted, either they are shelved or they are ignored or they are partially accepted. I do not know how far the scope of the Retrenchment Committee that is now proposed will be. I would like to know from the Honourable the Finance Minister whether its activities will also be extended to the Military Department and to the other services in all other departments, or whether they will be only confined to the sum spent on the civil administration, which is only 23 crores out of the total expenditure. I hope, Sir, that in case the Government has decided to appoint this Retrenchment Committee its recommendations will not fall overboard, but will receive the best and prompt consideration.

As regards the income-tax, Sir, I can only say that this new increase in income-tax is heavy and unwarranted and that the Finance Member must look to some other avenues like that of tobacco or something else to meet his deficit. The income-tax and super-tax are already very high and cannot be borne by the people who are affected by them. I must also say that in the assessment of income-tax, one should be allowed to carry forward the business losses to the next year and set them against the profits of that year. This is very important because it means that when the people suffer heavy losses in one year, those heavy losses will not be allowed for in the coming year. What a hardship that is! That is unjust and wrong and I hope the Honourable the Finance Member will be equitable and just in meeting this demand. Some time back a representation was made to the Central Board of Revenue as regards the assessment of profits while assessing income-tax on contracts which extend for several years. The Board of Revenue was pleased to issue instructions that at the expiry of these contracts the accounts be adjusted and that the necessary refund of over-charges, if any, of income-tax be given. But I am sorry to find that when translating this into practice Income-tax Officers consider that the orders were confined only to the income-tax and not to the super-tax. In these days, when there has been such heavy increase in income-tax and super-tax, such misunderstanding should be removed, forthwith. I hope that the Finance Department will see that this is put right.

With these remarks, Sir, I resume my seat.

THE HONOURABLE SIR GEORGE SCHUSTER (Finance Member): Sir, I always feel that it is a great privilege to me to be able to come to this House and get the advice, assistance and criticism of the elder statesmen. Their words are perhaps fewer than those employed by speakers in another place. Their speeches average perhaps one-half of the length that we are accustomed to elsewhere, but their words if fewer are weighty, and I have listened with great appreciation and, I trust, with some improvement for my own ideas on the situation, to the debate which we have had to-day. The fact that the speeches are rather shorter makes my task in replying somewhat more difficult,

because the number of speakers has been very large, and I trust that Honourable Members will not feel in any way that I have neglected what they have said if I do not refer in detail to every speech which has been made. I wish to confine my remarks to-day almost entirely to the main issue and not to be led into discussions of detail. But I might perhaps at the outset pick up two or three special points of detail which seem to me to have attracted special attention and to have figured in practically all the speeches. As regards the taxation proposals, I think I may say that there are two features which have been generally selected for the chief attack. One was the tax on kerosene and the other was the taxes on income, with particular reference to the added burden on the poorer classes, the lower grades. Now, as regards the kerosene tax, that has been objected to as a burden which falls very heavily on the poorest classes. We certainly thought very carefully whether we should include this proposal having regard to that particular consideration. But I think if Honourable Members will study the facts they will be able to satisfy themselves that this particular proposal is not going to constitute a really serious burden on the poorest classes. I have tried to see in relation to all these taxes how exactly they would affect the various classes of the population, and it is interesting to consider what is the poor man's budget and how these various taxes do affect the poor man. There is a certain amount of information available on this subject. Most of the up-to-date reports deal with urban conditions, and I think it will be generally agreed that as far as the industrial wage-earner in an urban district is concerned, his position has improved very considerably in the last 12 months, if his wages have remained the same, owing to the considerable fall in the cost of the necessaries of life. I think Honourable Members would have no difficulty in satisfying themselves—if they went into the analysis of a poor man's budget in the *Bombay Labour Gazette* or publications of that kind, and consider the factor which the cost of articles like kerosene, sugar and clothes bear in the poor man's budget—I think they would satisfy themselves that nothing which we are doing in the way of increased taxation this year is going to offset the advantage which those people have gained owing to the fall in prices. I am much more concerned with the position of the agriculturist, who undoubtedly has suffered most severely owing to that fall in prices which has benefited the industrial worker. But if we consider kerosene, the best study I think of this matter for the purpose of ascertaining how the poor agriculturist spends his money is given in a book which was published some time ago. It is a most admirable book, "The Economic Life of a Bengal District", by Mr. Jack. It is one of the best studies that has ever been published. Well, he has gone into the budget of a great number of families, and taking the case of the family of a cultivator who lives in comparative comfort, out of his total expenditure of £16 13s. 4d. per annum, the amount he would spend on kerosene at the prices then prevailing was 2s. 8d., that is, .8 per cent. of his total expenditure. Taking the prices of kerosene then prevailing, that amount would purchase for a family of five 3.7 gallons of kerosene, and if you take the total consumption of kerosene in India and divide the total consumption by the population of India I think 3.7 gallons for that type of family can be verified as being about a correct figure. On the other hand, the cultivator who is living in extreme indigence, taking his total expenditure as £6 13s. 4d., his expenditure on kerosene would be 1s. 4d., that is to say, about 1.85 gallons per annum. Now, if you take the first case, the man who is living in comparative comfort and who is consuming for himself and his family 3.7 gallons per annum, it is an easy calculation that if you put up the price by 9 pies, that is, three-fourths of an anna, and he is consuming, say, 4 gallons per annum, you would be putting up his cost by about 3 annas a

[Sir George Schuster.]

year ; and for the poorest man you would be putting up his expenditure by about $1\frac{1}{2}$ annas per annum. Now, although of course every pie counts to these poor people, I do not think that can be represented as an intolerable burden. But what is an interesting comparison is to go on from that and to consider what the effect of an extra 5 per cent. on cotton piece-goods would be to these poorest men. Now, there again working on the same data, the total consumption per head being about 16·4 yards for a family of 5, the annual consumption would be 82 yards. And that leads one to the conclusion that for a family of that kind the annual expenditure on piece-goods would be about Rs. 21 $\frac{1}{2}$, so that an additional 5 per cent. on that would mean an addition to that family budget of Re. 0-14-3, very nearly Re. 1. That compares with about 3 annas for the increased cost on kerosene. Now, I have just quoted those figures because it is interesting to see how these things work in the public mind. The increase of 5 per cent. in the import duty on cotton piece-goods is accepted quite readily although it means an increase in annual expenditure of Re. 1 to the poor man, as compared with an increase of expenditure of only 3 annas in the case of the kerosene duty, which is selected for the most violent attack. We have got to face facts and we cannot get away from it, that all these duties do indirectly mean some damage to the poor man ; but in its present mood the country is quite willing to face an increase in the price of cotton piece-goods, which really hits the poor man much harder than the increase in the kerosene price which, as I say, practically makes no difference to him at all. Now, all that is of course quite natural, but it leads us to one lesson, and that is that if the increased protection which is being given through these revenue duties to the Indian manufacturers in this country is used merely to put up prices and is not used to stimulate internal competition and improve the general industry of India without raising prices, if that is all that is going to happen, it is not going to be to the benefit of the country. It is up to the public of this country to see that the Indian industry does not develop into a sort of monopoly, as was mentioned by one speaker this morning, working behind a high and ever-increasing tariff wall, to the benefit of a few capitalists and to the detriment of the country as a whole. I think I may be permitted just to make that remark and to draw that lesson from the type of criticism that one has listened to this morning.

Then, as regards income-tax, I fully realise that we are asking all classes to bear an increased sacrifice this year. I think if Honourable Members will study the figures which were published giving calculations of exactly what the increase is, I think they will come to the conclusion that although it is unfortunate, although it is a sacrifice, it is not an unbearable sacrifice in any case. A man on Rs. 2,000 has to pay an extra sum per annum of about Rs. 40, a man on Rs. 5,000 an extra sum per annum of about Rs. 130, a man on Rs. 10,000 an extra sum per annum of Rs. 260. I do not think those are killing impositions. But at the same time, as I have said, I think it is very undesirable to have to pay income-tax up to those levels, and I want to make one point clear to which I referred in my budget speech and to which I referred again in replying to the general debate in the other House yesterday evening. We do regard these income-tax proposals rather in the nature of stop gap proposals. They represent a simple measure which we can bring into effect this year, but I certainly in proposing them hope that they will not be a permanent feature in the Government's armoury of taxation and that it will be possible somehow or other in the course of this year to devise other methods for raising that particular amount of revenue or at any rate for raising a part of it.

Well, Sir, having dealt with those two or three special points, I come back to the main issue, which is this, that we are faced with an extremely difficult situation, a large gap to fill, which we can only fill on the one hand by reducing our normal expenditure and on the other hand by raising new revenue. That is a situation from which I cannot escape ; it is a situation which means that my budget must be a bad and unpopular budget. That, as I say, I cannot escape and that sort of statement I must listen to and I must acknowledge that if I sat on the opposite benches I should be making just the same sort of statement myself. The question which I do have to ask myself is whether in the face of that situation I could have done any better than I have done. Is there any way in which the immediate measures of retrenchment could have been increased ? Are there any other ways in which new sources of revenue could have been tapped ? Now, I do not propose to deal at length with the proposals for taxation. There will be other opportunities for Honourable Members to debate those proposals and I think beyond what I have already said in dealing with these two or three special points which I mentioned, it is not necessary for me to go into any argument about the proposals for taxation. But perhaps I might say one thing, and that applies both to my proposals for taxation and to what I have to say on the question of retrenchment, and that is that just at the present moment we are carrying on our work in circumstances of great difficulty. We are at a transitional stage in the constitution. There are a great many things that we could do if we stood on more stable ground ; there are a great many things that we hope we shall be able to do if a federal constitution in India is established, but as things are, we have in a sense to mark time and we have in a sense to be content with what I have called stop gap proposals. Honourable Members, if they have read my budget speech, will have seen as regards the taxation proposals and as regards the possible steps which I have indicated might be taken in the future, I referred to such measures as the establishment of a tobacco monopoly or the introduction of some better means for taxing the consumption of tobacco, and the setting up of an excise duty on matches. Now, in both those respects, our position will be very much easier if we have advanced to the stage of an all-India federal constitution ; and, until we reach that stage, certainly as regards matches, I do not myself see any way of satisfactorily introducing measures which will give us the real amount of revenue that we ought to be able to get from that source. That is what I meant when I said that we are in difficulties now owing to the transitional state of affairs in which we stand.

Now, I must turn to this question of retrenchment. In dealing with what I call the main subject, I must express a special word of gratitude to my old friend Sir Dinshaw Wacha for his speech, and there is one particular feature in his speech to which I wish to call attention and to which I listened with great appreciation. He is able to throw his vision back over a very long period in the past, and by doing so, he is able to see the present position perhaps in better perspective than some of us do, and he was able I think to relieve some of the pessimism to which we have listened to-day by his references to what had happened in the past. I think that is wise, I think that is very necessary. We are at least to some extent going through that process of ebb and flow through which industrial life does go, and, as I said in my budget speech, I think it is safe to prophesy that though we are at the bottom of the ebb now, or near it, the tide certainly will turn again. I do not think that the whole adverse factors which we have to face to-day will be with us permanently. But while I make that reflection I think that there are certain factors about the present situation which distinguish it from anything through which the country has been before. I think, in the first place, that we have got now

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to readjust our economic standards. I think that India for the first time now is feeling severely the drop back from the unnatural atmosphere of the war period and the post-war boom—we have to drop back to normal conditions as regards prices, but abnormal conditions, established largely during the war, as regards expenditure still remain. I think these circumstances mean that we have got to face now some sort of permanent readjustment, and that no mere turn of the tide is going to carry us quite high enough again. That is one factor in the situation. The other—which is quite unique—is that India now stands before this great constitutional change, and, as I ventured to say the other day, I think the economic results of that change—the financial results—have got to be faced now. Government have been criticised for being one of the most costly Governments of the world. I have ventured to say that anybody who would compare the cost of Government in India, taking into account all the factors, the size of the country, the population and all the rest of it, any one who took the trouble to do that would be able to satisfy himself that on the whole India in the past has been cheaply governed. But I am afraid that some of the advantages which the Government has had in the past will not prevail in the future ; that, with the extension of democratic institutions, the work of the Central Government and of the Provincial Governments will increase. It is absolutely inevitable that more offices will be created and more officers will be employed. And unless that fact is faced and some change is made in the scale of remuneration, I myself do not believe that India will be able to carry on as any one who wishes her well would desire to see. Therefore, for both these reasons I think now we have got to stop back and make a review of the situation. That being the position, what can the present Government do ? That raises the question of retrenchment. Now, when you consider retrenchment, you will see that it falls mainly into two different classes. There is, first of all, what I call day-to-day retrenchment—the taking of steps which will eliminate all sources of waste and increase efficiency at every point in the executive work of Government ; that is one kind. And the other kind is the taking of measures which will restrict the whole activities of Government—the cutting out of certain services and the regulation of the scales of pay throughout the Government. Well, now, the first kind of retrenchment is, of course, one which every Government can take and it represents an activity which should be part of the daily work of Government. The second kind involves questions of policy, and there again I want to make a distinction. The kinds of policy involved may again be classified under two heads. On the one hand, you have questions of policy which involve no constitutional issues. You may decide to cut out altogether certain services which, as I say, do not affect the constitutional issue at all. I mentioned the other day, as an example, that you could cut out a new service like civil aviation, or you could say, “ We are not going to spend money on agricultural research ”. Those are all questions of policy that have no constitutional significance. On the other hand, there are other questions of policy which have a distinct constitutional significance and which we cannot tackle now independently of the constitutional issues. Certainly, the whole question of the rates of pay for the services has a constitutional significance. When I mentioned in the Legislative Assembly the other day the proposal that we should hold a conference early this summer at Simla with the Provincial Governments to consider the rates of pay in the future for the services, I was met by the criticism from the other side that the present Government is only holding office for a limited tenure ; that the present Government is shortly to be replaced by a Federal Government for India—a responsible Government. And I was

asked, "By what right can you with your limited tenure decide what should be the future rates of pay for the services for which you will not be responsible?" Well, that was quite a pertinent question, but it does illustrate the limitations under which we are working to-day. My answer to it was: "I quite agree we cannot settle those questions finally now, but we can do a great deal of preparatory work for studying those questions, and it is our duty, I think, to do that work."

Well, now, having made that classification of the kinds of retrenchment that can be carried out, I want to ask Honourable Members to consider what are the best steps which we could take to deal with the subject. We made a proposal that there should be appointed a retrenchment committee. My idea in making that proposal was that that committee would help the Government in reviewing the ordinary administrative machine, would help the Government in ascertaining whether there was any waste which could be checked—mainly, therefore, to deal with what I described as the first kind of retrenchment. But I think that committee could also help in relation to the other enquiries, and I took pains in my budget speech to show exactly how I thought that committee would fit in with the other work which had to be done. The reception which that proposal has received is somewhat interesting. The general note of criticism in the other House was, "Retrenchment is your responsibility, not ours. It is for you, the Government, to find out means of retrenchment. We want (as one speaker said) a little more retrenchment and a little less committee." Well, perhaps that is an intelligible line to take, but I do not think it is a very helpful line, and it certainly represents a misunderstanding of the proposal which I had made. On the other hand, from the criticism which we have received elsewhere and from the remarks to which I have listened in this House, I think I may take it that opinion generally does not desire to have a retrenchment committee appointed merely representative of the Legislative Assembly. I leave out of account for the moment the question of the Legislative Assembly or the Council of State. I must apologise to Honourable Members of this House for having left out the Council of State in making that proposal, and certainly—if I may here make an interjection—if anything is done now I go so far as to say that that particular aspect of the proposal will be reconsidered. But I think I may conclude that there will be no general demand for a committee of that kind, that if anything is wanted—I only express this view provisionally and I hope that I shall get further expression later on—but expressing my provisional view I think it is this, that the general feeling is that if anything is done it will be better that there should be some sort of expert committee which the Government itself should set up and possibly nominate one or two outsiders with business experience to work with them and to bring a new vision into the field. Well, if that turns out to be the general desire I can assure this House that Government will proceed in that way.

I ventured to say—but it is a remark which has been slightly misunderstood—I ventured to say in speaking yesterday evening that I myself would hold out no great hope of substantial economies being discovered resulting from that sort of investigation. My Honourable friend Sir Maneckji Dadabhoy said that he hoped that I did not mean that. Well, I should like to explain what I did mean. My meaning was this, that although I daresay some minor economies might be discovered—it may be possible to tighten up the screw of efficiency and get rid of a certain number of officials, it may be possible, but I am doubtful even of that—but what I really am certain about is that apart from big changes of policy you cannot out of the Central Government get any measure of economy which is going to have a major effect on the situation

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to-day. After all, we are speaking on the scale of tens of crores. If one took the most extreme possible figure that one could conceive, it might be possible to cut down the Central Government expenditure in the range of about a crore or so. After all we can only deal with that part of the Budget which we can control, mainly the heads of Civil Administration and Civil Works—which only amount to about 16 crores. We have already cut about 98 lakhs off that and I think Honourable Members will agree with me that it is hardly likely that without endangering the efficiency of the whole machine you could go very much further than that. That is what I mean and I have made that remark in order to indicate that if you are going to make a substantial effect on the situation, you have got to go further than that. That brings one to the consideration of the whole question of policy. Of course, the general attack is on military expenditure. It is possible, I suppose, that by a change in policy, there may be reductions under that head. That is a subject on which I can obviously say nothing now. I only want to say this, that when just at the present moment, the Budget of this present Government is attacked, I do want to ask Honourable Members to appreciate that questions of vital policy are involved, and that at the present stage of the constitutional discussions, it is quite absurd to suggest that I could possibly have come to the House with a proposal for reduction of say 4 or 5 crores in the military budget this year. And the same applies to other big questions of policy. Now this brings me to the kernel of what I want to say to this House to-night. Do let us face facts. We have got to deal with the present situation. India has got to be carried over this very difficult transition period. My budget proposals are intended to carry us over one of these difficult transition years. I do not like the proposals. I have already said so. But I challenge any Honourable Member here to devise any proposals which would be better devised for dealing with the present situation. I am particularly grateful to my Honourable friend who sits next to me here, Sir Maneckji Dadabhoy, for he after all is one of those, I imagine, who will bear most heavily on his own shoulders the burden which we are imposing, and he has with great directness expressed the view that in all the circumstances, much as he dislikes it, this Budget represents the only sort of proposals which any Government with a full sense of its responsibility could have put forward. I ask Honourable Members to consider it in that spirit. I ask them to trust us on our side, so far as we can, to do our best in the coming year to open ways for taking a broader vision of the future and for financial measures by which expenditure can in the future be reduced. But I ask them to realise that we alone cannot tackle that problem, that we require some assistance from public opinion, and therefore, I would end on the note which I tried to make the key note of what I said in introducing my Budget, and that is, that in the period that lies before us, what this Government requires is co-operation from the responsible members of the Indian public and particularly from the leaders of the commercial community. (Applause.)

The Council then adjourned till Eleven of the Clock on Monday, the 9th March, 1931.