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THE

# LEGISLATIVE ASSEMBLY DEBATES

(Official Report)

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Volume VI, 1936

*(31st August to 14th September, 1936)*

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FOURTH SESSION

OF THE

FIFTH LEGISLATIVE ASSEMBLY,  
1936



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1937

# Legislative Assembly.

## *President :*

THE HONOURABLE SIR ABDUR RAHIM, K.C.S.I., KT.

## *Deputy President :*

MR. AKHIL CHANDRA DUTTA, M.L.A.

## *Panel of Chairmen :*

MR. S. SATYAMURTI, M. L. A.

SIR LESLIE HUDSON, KT., M.L.A.

MR. ABDUL MATIN CHAUDHURY, M.L.A.

MR. M. S. ANEY, M.L.A.

## *Secretary :*

MIAN MUHAMMAD RAFI, BAR.-AT-LAW.

## *Assistant of the Secretary :*

RAI BAHADUR D. DUTT.

## *Marshal :*

CAPTAIN HAJI SARDAR NUR AHMAD KHAN, M.C., I.O.M., I.A.

## *Committee on Petitions :*

MR. AKHIL CHANDRA DUTTA, M.L.A., *Chairman.*

SIR LESLIE HUDSON, KT., M.L.A.

PANDIT NILAKANTHA DAS, M.L.A.

MAULVI SYED MURTUZA SAHIB BAHADUR, M.L.A.

MR. N. M. JOSHI, M.L.A.

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# LEGISLATIVE ASSEMBLY.

*Thursday, 10th September, 1936.*

The Assembly met in the Assembly Chamber at Eleven of the Clock, Mr. President (The Honourable Sir Abdur Rahim) in the Chair.

## QUESTIONS AND ANSWERS.

### EXAMINATION BY AN EXPERT OF THE FINANCIAL POSITION OF THE RAILWAYS.

267. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

- (a) whether they have come to any conclusion as regards the examination by an expert of the financial position of the Railways ;
- (b) whether they have considered the question of the importance of experts from countries other than Britain ; and
- (c) what their conclusion is ?

**The Honourable Sir Muhammad Zafrullah Khan** : I would refer the Honourable Member to the reply I gave to Mr. Ananthasayanam Ayyangar's question No. 84 on the 2nd September, 1936.

**Mr. S. Satyamurti** : Have they since received any kind of recommendation, with regard to the examination of the financial position of the Railways from any authority or Committee ?

**The Honourable Sir Muhammad Zafrullah Khan** : Recommendation from whom ?

**Mr. S. Satyamurti** : From any authority or Committee, with regard to the examination of the financial position of the Railways ?

**The Honourable Sir Muhammad Zafrullah Khan** : It is a very wide question. If the Honourable Member means any kind of suggestion from anywhere, I should require notice.

**Mr. S. Satyamurti** : With reference to the answer to clause (b) of the question, is there any question under consideration by the Honourable Member, as regards the importation of experts from countries other than Britain ?

**The Honourable Sir Muhammad Zafrullah Khan** : The whole question is under consideration, but I have no specific proposal of that kind under consideration just now.

**Mr. S. Satyamurti** : At what stage, does this consideration stand ?

**The Honourable Sir Muhammad Zafrullah Khan** : I do not know how to divide into stages the consideration of a question ; it is still under consideration, and no final decision has been arrived at.

**Mr. S. Satyamurti** : Is it anywhere near the stage of final decision ?

**The Honourable Sir Muhammad Zafrullah Khan** : I hope so.

+268\*.

**APPOINTMENT OF A COMMITTEE TO EXAMINE THE WORKING OF THE OTTAWA TRADE AGREEMENT.**

269. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

(a) whether their attention has been drawn to the question and answer in the House of Commons on the 14th May, 1936 to the effect that the Under Secretary was not in a position to make a statement about the proposal of the Government to appoint a Committee to examine the working of the Ottawa Agreement ; and

(b) whether the Government of India have been consulted ?

**The Honourable Sir Muhammad Zafrullah Khan** : (a) Yes, Sir.

(b) No, Sir.

**Mr. S. Satyamurti** : Was this answer given by the Under-Secretary of State without reference to the Government of India ?

**The Honourable Sir Muhammad Zafrullah Khan** : Yes, the answer was given without any reference to the Government of India. It did not commit the Government of India to any course of action.

**Mr. S. Satyamurti** : Since the answer, has there been any communication or correspondence between the Government of India and His Majesty's Government, with regard to a Committee to examine the working of the Ottawa Agreement ?

**The Honourable Sir Muhammad Zafrullah Khan** : I believe the Committee referred to in that question was the Committee which I proposed the House should set up for examination of these matters, and the question was directed towards eliciting whether, in spite of the decision of this House, the Government of India would set up a Committee. As the Honourable Member is fully aware, there was no such intention, and so no Committee was set up.

**CONSULTATION WITH GOVERNMENTS CONCERNED IN THE OTTAWA TRADE AGREEMENTS *re* THEIR CONTINUATION.**

270. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

(a) whether their attention has been drawn to the question and answer in the House of Commons on the 19th with regard to the invitations to the Governments of the countries concerned in the Ottawa Agreement with a view to continuing those agreements in the same or another form ;

(b) whether they have ascertained from the United Kingdom Government whether they propose to proceed by way of discussions with individual Governments ; and

(c) if so, whether they have been approached ?

**The Honourable Sir Muhammad Zafrullah Khan :** (a) Yes, Sir<sup>M</sup>

(b) No, Sir.

(c) Does not arise.

**Mr. S. Satyamurti :** What does this answer "No" mean? Does it mean that they have ascertained from the United Kingdom Government, whether they propose to proceed by way of discussions with individual Governments, or they have not ascertained?

**The Honourable Sir Muhammad Zafrullah Khan :** The Government of India were not concerned to find out how the United Kingdom Government proposed to proceed with regard to the Dominion Governments in this matter, and therefore they did not try to ascertain anything of the sort.

**Mr. S. Satyamurti :** May I know whether, so far as my friend's information goes, the Government of the United Kingdom have no proposals for dealing with this Ottawa business, apart from dealing with India just now?

**The Honourable Sir Muhammad Zafrullah Khan :** I have no information.

**Mr. S. Satyamurti :** Will he find out whether, in dealing with Great Britain over the Ottawa negotiations, the other Dominions are being consulted, or the matter is being dealt with mainly between the United Kingdom Government and the Government of India?

**The Honourable Sir Muhammad Zafrullah Khan :** Does the Honourable Member mean simultaneously, the United Kingdom Government consulting the Dominion Governments?

**Mr. S. Satyamurti :** I am asking whether in the negotiations between India and the United Kingdom, the Dominions come into the picture at all, and if so, to what extent?

**The Honourable Sir Muhammad Zafrullah Khan :** So far as I am aware, No.

#### DISCUSSION OF THE REPORT OF SIR OTTO NEIMEYER IN THE LEGISLATIVE ASSEMBLY.

271. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

(a) whether they will give a day for the discussion of the Order in Council relating to the Neimeyer report; and

(b) if not, why not?

**The Honourable Sir James Grigg :** (a) No.

(b) I do not think that any useful purpose will be served by such a discussion.

**Mr. S. Satyamurti :** May I know whether my Honourable friend considers that no useful purpose would be served by discussing it, when the Assembly has had no opportunity at all of discussing this Report or the Order in Council?

**The Honourable Sir James Grigg :** I am aware of the circumstances, but Parliament has taken its decision. That is the reason why I say that

no useful purpose will be served by discussing it here ; it will be like flogging a dead horse.

**Mr. S. Satyamurti :** May I know whether the Government has any intention of taking public opinion into account, with regard to the soundness and the workability of these proposals ?

**The Honourable Sir James Grigg :** I don't think public opinion as to the soundness of the proposals at the moment is very relevant. The future course of events will show whether they are sound or not, and unfortunately it is not public opinion, but I who have to cope with that in the immediate future.

**Mr. S. Satyamurti :** May I know if the Government of India are aware that the certificate required by the Government of India Act as to the financial solvency of the Federation is given on the basis of Sir Otto Neimeyer's Report or the Order in Council thereon ?

**The Honourable Sir James Grigg :** That is a question to which I would not like to give an answer off hand, but the immediate purpose of Sir Otto Neimeyer's Report was to see whether provincial autonomy could properly be started, and that is the only respect in which it is relevant in this connection.

**Mr. S. Satyamurti :** May I know, if the Government, therefore, contemplate a further inquiry with regard to the other requisites under the Government of India Act, namely, the financial solvency of the Federation, before it can start ?

**The Honourable Sir James Grigg :** I think, if my memory serves me correctly, the Joint Select Committee and the Government of India Act did not contemplate any further inquiry. It contemplated that Parliament would take its decisions on a recommendation by His Majesty's Government taking all the facts and circumstances into account, but I have no doubt one of the circumstances which will have to be taken into account is the extent to which the estimates on which the Report of Sir Otto Neimeyer's Report is based turn out to be justified.

**Mr. S. Satyamurti :** May I know whether the Government of India expect to be consulted by His Majesty's Government, before they recommend to Parliament, that Federation may start because they are satisfied as to its financial solvency ?

**The Honourable Sir James Grigg :** I should imagine so.

**Mr. S. Satyamurti :** May I know whether they will consult this House or public opinion, as to the soundness of the proposals ?

**The Honourable Sir James Grigg :** I think that is looking too far ahead at present.

**Mr. S. Satyamurti :** When is the Federation expected to come ?

**The Honourable Sir James Grigg :** I have nothing to add to what has already appeared on the subject.

#### **POLICY OF RECRUITMENT TO THE DEHRA DUN INDIAN MILITARY ACADEMY.**

272. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

(a) whether any attempt has been made to improve the policy of recruitment to the Dehra Dun Indian Military Academy ;

(b) if so, what those steps are ; and

(c) if not, when such step will be taken ?

**Mr. G. R. F. Tottenham :** (a), (b) and (c). Government do not admit that the policy stands in need of improvement, so far as the open examination for the Indian Military Academy is concerned, but as the Honourable Member is aware the whole matter is under consideration. In order to provide increased educational facilities for Indian Army cadets, the course at the Kitchener College, Nowgong, has just been extended to two years. After undergoing this course the educational qualifications of Army nominees to the Indian Military Academy should reach a higher standard.

**Mr. S. Satyamurti :** With regard to the recruits outside the army, may I know if the Government of India are satisfied that they are getting the right type of cadets for the Dehra Dun Academy ?

**Mr. G. R. F. Tottenham :** Yes, Sir.

**Mr. S. Satyamurti :** May I know, therefore, this Committee, which is now sitting and which, I think, is going to meet again this Session here, is concerned only with the recruits from the army, and not outside the army ?

**Mr. G. R. F. Tottenham :** The conference which is now sitting is concerned with clearing certain doubts in the minds of Honourable Members as to whether the quality of the candidates for the open examination is good enough or not.

**Mr. S. Satyamurti :** But Government have no such doubts, I suppose ?

**Mr. G. R. F. Tottenham :** Government themselves, as I have already stated, are satisfied with the quality of the cadets recruited through the open examination.

**Mr. S. Satyamurti :** Has this improvement in the quality of cadets from the army been taken in hand ?

**Mr. G. R. F. Tottenham :** Yes, Sir, as I have just explained, we have started this new idea in order to improve the qualifications of those coming from the army.

**Mr. S. Satyamurti :** Is this idea being given effect to ?

**Mr. G. R. F. Tottenham :** It has just been started ; the results of it will not be seen until the first batch of cadets have completed their course, and that will not be possible for another year or so.

**Mr. S. Satyamurti :** What is the general nature of these changes ? I merely want to know what are the general changes made in the training of these army cadets which the Government hope will result in the improvement of their quality ?

**Mr. G. R. F. Tottenham :** I can give the Honourable Member information in detail, if he wishes ; but the general idea is that instead of selecting candidates for the Indian Army cadetships direct from the units, which means selecting candidates on the recommendation of a number of different Commanding Officers, we are going to have a sort of preliminary selection and send the likely candidates to the Nowgong College, and

then after giving them an intensive course there, have an Interview and Selection Board, which will finally select cadets from the number under instruction at the Kitchener College.

# NEW RULES FOR RECRUITMENT TO THE INDIAN CIVIL SERVICE.

273. \*Mr. S. Satyamurti : Will Government be pleased to state :

- (a) whether new rules with regard to the recruitment to the Indian Civil Service by nomination have already been put into effect ;
- (b) if so, the number of candidates to be recruited ;
- (c) whether any minimum qualifications will be prescribed ; and
- (d) if so, what they are ?

The Honourable Sir Henry Craik : (a), (c) and (d). I would refer the Honourable Member to the Press Communiqué issued by the India Office on the 11th May, 1936, a copy of which is in the Library.

(b) Since 1930-31 the deficiency in recruitment has been 79 Europeans and 13 Indians. It is proposed to make up this deficiency gradually and not all in one year.

Mr. S. Satyamurti : What are the minimum qualifications with respect to Indians ?

The Honourable Sir Henry Craik : I am not sure that that has been settled yet.

Mr. S. Satyamurti : May I know whether there are to be any minimum qualifications at all ?

The Honourable Sir Henry Craik : Yes, sure to be.

Mr. S. Satyamurti : May I know whether this Indian shortage will be made up by selection, or by selection *plus* any kind of *viva voce* or any other test ?

The Honourable Sir Henry Craik : I do not think that has been settled yet. I think that is still the subject of correspondence.

Mr. S. Satyamurti : May I know over how many years Government expect to spread this filling up of the shortage in recruitment, both European and Indian ?

The Honourable Sir Henry Craik : The existing shortage ?

Mr. S. Satyamurti : Yes.

The Honourable Sir Henry Craik : Well, that is largely a matter of guess work ; we hope to do so in about four years, possibly less.

Mr. S. Satyamurti : Will Government consider that we ought not to have too many of them at a time and see that they are spread over a fairly large number of years, so that Gresham's law may not operate ?

The Honourable Sir Henry Craik : Will the Honourable Member kindly repeat the question ?

Mr. S. Satyamurti : I am asking whether the Government will bear in mind that this recruitment by selection should be spread over a long number of years, and not be concentrated in one or two years ?

**The Honourable Sir Henry Craik :** No. On the contrary, we want to fill up the shortages as quickly as possible because the shortage is causing the most grave administrative inconvenience.

**Mr. S. Satyamurti :** But do not Government expect to get more by competition ?

**The Honourable Sir Henry Craik :** If we get more by competition we shall take less by selection obviously.

†274\*.

# SIMLA EXODUS.

275. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

(a) whether their attention has been drawn to a message published in the *Hindu* of the 15th May ;

(b) whether there is any proposal to give up Simla exodus altogether ; and

(c) whether there is any proposal of shortening the stay at Simla ?

**The Honourable Sir Henry Craik :** (a) Yes.

(b) and (c). No.

**Mr. S. Satyamurti :** May I know whether that means that there is no proposal at all to give up the Simla exodus ?

**The Honourable Sir Henry Craik :** What I mean is that the matter is not under consideration at present.

**Mr. S. Satyamurti :** Is there any proposal to expand the accommodation in Simla ?

**The Honourable Sir Henry Craik :** Office accommodation ?

**Mr. S. Satyamurti :** Yes.

**The Honourable Sir Henry Craik :** Not that I am aware of.

**Mr. S. Satyamurti :** Is there any proposal to expand the Legislature accommodation in Simla ?

**The Honourable Sir Henry Craik :** That seems to me to be a matter for the new Legislature to decide.

**Mr. S. Satyamurti :** May I take it, therefore, that, till the new Legislature meets and decides the question, there is no proposal to increase either the office or the Legislature accommodation in Simla ?

**The Honourable Sir Henry Craik :** I cannot say for certain about office accommodation, but I do not think that there is any idea of increasing the Legislature accommodation at present.

**Mr. S. Satyamurti :** Have Government taken engineering opinion, and are they satisfied that there is not much scope for expansion of accommodation in Simla now ?

**The Honourable Sir Henry Craik :** As my Honourable colleague (The Honourable Sir Frank Noyce) says, that point is now under investigation.

† This question was not put by the questioner.



**Mr. S. Satyamurti** : For what purpose ? With a view to extending accommodation ?

**The Honourable Sir Henry Craik** : To see whether extended accommodation is likely to be necessary.

**Mr. S. Satyamurti** : Is it consistent with their desire not to extend the accommodation, to investigate whether it is possible to get extended accommodation ?

**Mr. President** (The Honourable Sir Abdur Rahim) : That is all argument. Next question.

#### APPOINTMENT OF TRADE COMMISSIONERS IN FOREIGN COUNTRIES.

276. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

(a) whether they have decided to appoint a Trade Commissioner in East Africa ; and

(b) whether they propose to appoint Trade Commissioners in other countries, especially the United States ?

**The Honourable Sir Muhammad Zafrullah Khan** : (a) Yes.

(b) Yes ; in Japan.

**Mr. S. Satyamurti** : Are they the only two countries, East Africa and Japan ?

**The Honourable Sir Muhammad Zafrullah Khan** : The only countries with regard to which a decision has been taken that Trade Commissioners should be appointed in them.

**Mr. S. Satyamurti** : When are they going to be appointed ?

**The Honourable Sir Muhammad Zafrullah Khan** : Shortly.

**Mr. S. Satyamurti** : Are there any other countries for which the Government are considering the question of appointing Trade Commissioners ?

**The Honourable Sir Muhammad Zafrullah Khan** : Various countries are considered at various times. Suggestions come in and one has to look into them.

**Pandit Lakshmi Kanta Maitra** : Are Indians going to be appointed as Trade Commissioners ?

**The Honourable Sir Muhammad Zafrullah Khan** : I am afraid I cannot say so definitely at present, but it has been pressed upon me repeatedly from various quarters of the House that the desirability of appointing Indians may be kept in view and it shall be kept in view.

#### RELEASE OF MR. SUBHASH CHANDRA BOSE.

277. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

(a) whether their attention has been drawn to the resolution passed by the Committee of the United Provinces Liberal Association, asking for the release of Srijiut Subhash Chandra Bose, published in the *Hindu*, dated the 27th May, 1936 ; and

(b) whether they propose to take any action thereon ?

**The Honourable Sir Henry Craik :** (a) I have seen the Press report regarding the resolution to which the Honourable Member refers.

(b) No.

**Mr. S. Satyamurti :** May I know if even the Liberal Association cannot get a better hearing, at the hands of the Government than the Congress ?

**The Honourable Sir Henry Craik :** That is a matter of argument.

**Mr. S. Satyamurti :** I am simply asking this. There are two associations in this country, the Congress and the Liberal Association. The Congress is considered to be unfriendly, but the Liberal Association is considered to be friendly to Government, and I am simply asking.

**Mr. President (The Honourable Sir Abdur Rahim) :** The Chair does not think that can be allowed. Next question.

COMMUNIQUE ISSUED BY THE ROYAL CONSUL GENERAL FOR ITALY ABOUT THE SUPPLY OF DUM DUM BULLETS TO ETHIOPIAN TROOPS.

278. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

(a) whether their attention has been drawn to a communiqué issued by the Royal Consul-General for Italy in Calcutta that Dum Dum bullets were supplied by Great Britain to Ethiopian troops ;

(b) whether they propose to investigate the matter ; and

(c) if not, why not ?

**Sir Aubrey Metcalfe :** (a) Yes.

(b) No. The allegation concerning the supply of Dum Dum bullets to Ethiopian troops has more than once been officially denied by His Majesty's Government, and the Honourable Member's attention is invited to the statement made by the Secretary of State for Foreign Affairs in the House of Commons on the 18th May, 1936, a copy of which is laid on the table.

(c) Because the allegation has already been investigated and refuted and is in any case not a matter with which the Government of India are concerned.

EXTRACT FROM HOUSE OF COMMONS DEBATES, MAY 18, 1936.

*Mr. Eden's Statement.*

**Mr. Eden :** I am grateful to the House for giving me an opportunity to deal with the allegations, which have been made by the Italian Government and press concerning the supply of "dum-dum" or explosive ammunition to the Abyssinian forces. Although the House will recall that these allegations have more than once been officially denied, certain recent happenings make it necessary for me, in the interests of British industry and of the good name of this country, to make, with the consent of the House, a very full statement.

In order that the whole position may be clearly understood, I must first remind the House that in Abyssinia cartridges of all kinds have long been used by the inhabitants in the same way as currency is used in some countries. Arms and ammunition are, in fact, the dearest possessions of the Abyssinian warrior. Abyssinia is also a country where big game is hunted, and has therefore been visited by numbers of persons interested in that form of sport. These big game hunters have naturally

carried with them supplies of the soft-nosed rifle ammunition which alone possesses the stopping power required to deal effectively with certain species of big game. Ammunition of this type has undoubtedly been left behind by the hunters and has circulated among the natives; other supplies may, long previous to the outbreak of hostilities, have found their way across the frontiers from neighbouring territories where big game is hunted, and this relatively modern sporting ammunition has gone to swell the countless rounds of ammunition of various types circulating throughout the country.

When Abyssinia mobilised to meet the Italian invader, the many thousands of tribesmen who responded brought with them such arms and ammunition as they possessed. Because of the grave shortage of military supplies, it was only possible for the Abyssinian Government to rearm a portion of their levies with modern arms and ammunition. Consequently, in the fighting that has taken place, use may no doubt have been made by the Abyssinian soldiery of all manner of antiquated rifles, shot guns, etc., some of which, if the Italian statements about the injuries received by their troops are accurate, may well have been loaded with soft-nosed cartridges of sporting character, old-fashioned leaden bullets, slugs, or, in fact, anything their owners could find.

I have gone into these details because, in the course of the campaign, it is reported that the Italians have captured, among other cartridges, specimens of soft-nosed ammunition manufactured in the United Kingdom. Allegations were made in Italian quarters that these British-made cartridges had been supplied since the opening of hostilities by British firms to the Abyssinian Government for military purposes; and the Italian Government, in complaining to the League of Nations on the use of illegal ammunition by the Abyssinians, furnished evidence clearly intended to give this impression. As a result, a careful investigation was made by the appropriate authorities of His Majesty's Government, and on the 4th February a communication was addressed to the League of Nations showing the baselessness of the Italian allegations. This communication was circulated to all States members, and was published. It not only showed conclusively that the British-made cartridges illustrated in the Italian evidence had been manufactured in some cases over twenty years ago, but it also mentioned that a telegraphed Abyssinian order for military cartridges which had specified that half of these should be in clips of five had been distorted by the Italian authorities to read "half of which to be clipped."

For a time Italian allegations regarding the supply of dum-dum ammunition from this country died down, only to be revived a few weeks ago. Before proceeding to explain how this came about, I wish to emphasise two points. The first is that, naturally, neither His Majesty's Government, nor British industry, are responsible for the fact that for years past all manner of cartridges have freely circulated from hand to hand in Abyssinia. The second is that, apart from any other consideration, the strict control exercised by His Majesty's Government over all exports of arms and ammunition from this country calls for each and every consignment, even of the smallest size to be covered by an export licence; and no such licence has been granted or would ever be granted in respect of ammunition which was to be exported to a foreign Government for military purposes, and which fell within the prohibitions of the Hague Convention.

On the 12th April, however, the *Messaggero* newspaper in Rome, after repeating old charges already refuted, published photographs of certain soft-nosed cartridges made in this country, and of a letter from the firm of George Bate of Birmingham, addressed on the 19th February last to the Abyssinian Minister in London, accompanied by photographs of packages addressed to the Abyssinian Legation, and marked "Material to be supplied for Abyssinia." It will interest the House to learn how this letter and these packages came into Italian possession.

On the 19th February last an individual styling himself Colonel Pedro Lopes called on the managing director of Messrs. Bate and intimated that he represented the Abyssinian Government. After producing a letter of introduction from the Bank of Egypt, itself a forgery, and after mentioning the possibility of appointing Messrs. George Bate as buying agents to the Abyssinian Government, this person stated that the Abyssinian Legation wished to secure samples of cartridges of British manufacture, which should include dum-dum ammunition. On being told that ammunition in the latter category was not used in civilised warfare, the so-called Colonel Lopes replied that Abyssinia was swarming with leopards, which it was no use shooting with solid bullets. After some further conversation the managing director of Messrs. George

Bate agreed to supply him with certain samples of ammunition, which included thirty rounds of 7.9 mm. soft-nosed sporting cartridges. These were packed in a box, and before this was sealed Lopez asked that something should be enclosed in writing to prove that the cartridges were of British manufacture. As the letter which was prepared did not satisfy his requirements, Lopez dictated there and then a communication from Messrs. Bate to the Abyssinian Minister in London guaranteeing that the samples were of British manufacture. This was enclosed in an envelope and packed with the cartridges inside the box. Lopez then took possession of the parcel, and it was next heard of when the letter which he had just dictated was published in the Italian press. I have ascertained that neither the package nor the letter was ever delivered to the Abyssinian Minister, nor had Lopez been entrusted by the latter with the mission of securing samples of cartridges. I should mention here that Lopez is known to have approached unsuccessfully several other firms in the United Kingdom.

Lopez is well known to the authorities in this country under a number of aliases. At different times he has been known as Burnstein, Henry Lawrence, Singleton, Radbill, etc., and on more than one occasion complaints have been made to the Foreign Office by diplomats accredited to His Majesty's Court concerning the approaches which have been made to them by this individual. In October, 1935, Lopez wrote to the Foreign Office, stating that he thought his services might be of use to His Majesty's Government. In the letter he mentioned that he had already had three conferences with the Italian military attaché at the latter's express invitation. I will not weary the House with a detailed resume of the many contacts and meetings which Lopez is known to have had with representatives of the Italian Embassy. It is only necessary to say that his relations with that Embassy have continued, and that he is known to have had contacts with members of the Italian military attaché's staff within the last three weeks.

His activities in this connexion appeared to His Majesty's Government of so mischievous a nature that it was decided that a friendly warning should be addressed to the Italian Embassy on the subject. This action was taken in the first week of March. The Ambassador was warned orally on my instructions by a high official of the Foreign Office that I was aware of the fact that the Italian Embassy were in touch with a notorious purveyor of false information and forged documents, named Henry Lawrence, Lopez, etc. A description of this individual and of his activities over a number of years was furnished, and, in view of the complaints made by various foreign missions in London, it was suggested that if the Italian Embassy cared to refer to certain of their foreign colleagues, the latter would be able to confirm the foregoing information. It was further stated that it had come to the knowledge of His Majesty's Government that, posing as a purchaser of arms for the Abyssinian Government, Lopez was making enquiries about the alleged supply of dum-dum ammunition from this country, and that he was apparently attempting to persuade the Italian authorities that such ammunition was being exported with official connivance from the United Kingdom. In conclusion, it was suggested that the continued employment of a man of this disreputable type would not be conducive to the maintenance of good relations between Italy and the United Kingdom.

The Ambassador replied that he himself was quite unaware of the existence of the individual in question. He would look into the matter. His Excellency expressed his most grateful thanks for the information, which he regarded as likely to prove of great benefit to Anglo-Italian relations. Subsequent, however, to this warning, Italian propaganda on the subject of the alleged supply of dum-dum ammunition by British firms was revived through the publication in the Italian press of the letter which Lopez had himself dictated to the Secretary of the managing director of Messrs. George Bate and Co. of Birmingham. On the 31st March Lopez, under another alias, namely, Mezler, called upon the Abyssinian Minister. He offered, in return for concessions in that country, to supply the Abyssinian Government with large quantities of arms and ammunition, and he asked for a letter from the Minister authorising Colonel Gustave Mezler to buy these goods, adding that he would be prepared to obtain the necessary permits. He induced the Abyssinian Minister to sign a paper containing a long list of required ammunition. The Minister has stated that among the many items listed he omitted to notice one for 3 million soft-nosed cartridges; and it must be obvious that he did not notice it, for, apart from everything else, he knows that no export licence for the export of these rounds could ever have been obtained from the Board of Trade. Their purchase, therefore, would have

been utterly useless, and, in fact, no application for a licence for any of the munitions in this list was ever made, but the paper signed by the Abyssinian Minister was later published in the *Messaggero*.

It is with the greatest regret that I have felt it necessary, in the course of this explanation to the House, to deal very frankly with what can only be described as an attempt to fabricate evidence that the Abyssinian forces are being supplied with illegal ammunition by interests in this country. That I decided to take this unprecedented step is due to the necessity of protecting the good name, not only of British industry, but of His Majesty's Government. Indeed, I regard it as essential that all the facts should be known, not only here, but also abroad, in order that there should be no misapprehension concerning the very careful steps taken by His Majesty's Government to control, not only the quantity, but the types of arms and munitions exported from the United Kingdom.

I may add that a note which the Italian Government had addressed to the League of Nations a week ago renewing their charges against this country and reproducing the letter from Bate and Co. and the Abyssinian Minister's paper has now been cancelled. Copies of this communication were, however, circulated informally to the foreign delegations in Geneva during the recent meeting of the Council; and it is also on this account, and because of the publicity which has ensued, that I have found it necessary, without any desire to excite controversy or criticism, to make a full statement of all the facts.

*Mr. A. Henderson* : May I ask the Right Honourable gentleman whether the papers in this case will be sent to the Director of Public Prosecutions with a view to the necessary action being taken, and secondly, does not this episode rather prove the suggestion that foreign Embassies are using their diplomatic immunity in order to.....

*Sir Asaheton Pownall* : What is the nationality of the so-called Colonel Lopez ?

*Earl Winterton* : If he is a foreigner, why is he allowed to remain here ?

*Mr. Eden* : He is not a foreigner.

*Sir W. Brass* : Will the Right Honourable gentleman make representations to the Italian Government, and ask them whether they will accept the explanation which he has made in the House this afternoon ?

*Mr. Eden* : I think my statement stands fully for itself. If I may say so, it might well be left as it is.

*Mr. Attlee* : Will the Right Honourable gentleman repeat the answer which he gave to the noble Lord the Member for Horsham (Earl Winterton), which was inaudible on this side of the House, and also give an answer to my Honourable friend the Member for Kingswinford (Mr. A. Henderson) ?

*Mr. Eden* : I had every intention of giving an answer to the Honourable Member for Kingswinford. The facts in my statement which relate to the deception of the Birmingham firm and the consequent publication in the *Messaggero* were carefully considered by the Director of Public Prosecutions, who came to the conclusion that, although a minor contravention of the summary provisions of the Firearms Act, 1920, might have come in question, such facts would not afford a satisfactory basis for a prosecution for an indictable offence. As to nationality, the person concerned is a British subject, although of Polish origin.

*Miss Rathbone* : Will the Right Honourable gentleman consider whether the publication of the report of the Committee of Jurists would not throw light on the mendacity of Italy in regard to Abyssinian atrocities ? Would it not be fair to Abyssinia to have that published ?

*Mr. Johnston* : Will the Right Honourable gentleman not avail himself of the present opportunity to refute the allegation frequently made in the Italian press that the publication of the allegations as to these dum-dum bullets was prohibited in the British press at the instance of His Majesty's Government ?

*Mr. Eden* : Of course there is no word of truth in such an allegation.

*Mr. Johnston* : Why did the Right Honourable gentleman not take previous opportunities of saying that His Majesty's Government had not exercised any pressure upon the British press in this matter ?

**Mr. Eden :** I think the traditions of our country are well enough known to make that unnecessary.

**Mr. Thorne :** Is there no power in this country to expel an inhuman brute like this ?

**Mr. A. Henderson :** The Right Honourable gentleman has not answered my second question. Does he not consider that the military attaché, to whom he referred in his own answer, is unsuitable to carry out his functions in this country ?

**Mr. Eden :** What I have said to the House I have said with regret, in order to make clear the position of His Majesty's Government and the good name of British firms. I hope the House will not draw further deductions from it.

**Mr. E. J. Williams :** May I ask the Right Honourable gentleman whether the recital of this case is not concrete evidence that the private production of arms should be prohibited ?

**Mr. S. Satyamurti :** May I know why Government did not give publicity to this denial of the Secretary of State for Foreign Affairs in the House of Commons, in view of this communiqué having been broadcasted in this country ?

**Sir Aubrey Metcalfe :** The statement made by the Secretary of State was very fully printed in the press in this country, and if anybody had taken the trouble to read it there was no necessity for the Government to do more publicity in the matter.

**Mr. S. Satyamurti :** Do Government accept this position that they do not do any publicity with regard to those matters that are widely published in the press ?

**Sir Aubrey Metcalfe :** It is not necessary for them to do further publicity when the thing has been published in the press. What more publicity can they do ?

**Mr. S. Satyamurti :** May I know whether the Government of India do not do any publicity for any of their acts or intentions, apart from such publicity as they get in the press in the normal course of things ?

**Mr. President (The Honourable Sir Abdur Rahim) :** That is a very general question. Next question, please.

#### ANTI-INDIAN PROPAGANDA ABROAD.

279. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) whether their attention has been drawn to the question and answer in the House of Commons, relating to anti-Indian propaganda abroad ;
- (b) whether the matter has been brought to the notice of the League of Nations ; and
- (c) if not, why not ?

**The Honourable Sir Henry Craik :** (a) I have seen the question and answer to which the Honourable Member refers.

(b) and (c). I would refer the Honourable the Member to the statement which I recently laid on the table in fulfilment of the undertaking given by me on the 16th April last in replying to Mr. Ananthasayanam Ayyangar's question No. 1650.

**Mr. S. Satyamurti :** Has a representation been made to the League of Nations ?

**The Honourable Sir Henry Craik :** That is explained in the statement here.

**Mr. S. Satyamurti :** Has it been made ?

**The Honourable Sir Henry Craik :** It is explained in that statement :

“ It has been agreed that no useful purpose would be served by bringing the matter to the notice of the League. In view of the business before that body, there is no prospect at present of getting this matter considered by it, and, even if this were later found possible, the probability is that considerable time would be taken in evolving a formula for the acceptance of foreign powers which may quite conceivably never prove effective in stopping misrepresentation or the production of films, etc., which offend the sentiments of people of this country. It is not therefore proposed to pursue the matter.”

**Mr. S. Satyamurti :** May I know whether, if Government do not propose to bring it to the notice of the League of Nations, they are considering any other steps by way of directly approaching the Governments concerned, where this anti-Indian propaganda is being carried on ?

**The Honourable Sir Henry Craik :** If the Honourable Member will read the statement that I laid on the table, I have explained there what steps will be taken.

**Mr. S. Satyamurti :** Have Government heard from any Government to whom they have sent communications, protesting against the anti-Indian propaganda ?

**The Honourable Sir Henry Craik :** I cannot say. Those protests will have to be made through diplomatic channels and the replies, if any, will take some time.

**Mr. S. Satyamurti :** Will Government get replies some time or other ?

**The Honourable Sir Henry Craik :** Yes.

**Prof. N. G. Ranga :** Is there any truth or substance in the allegation usually made that as far as America is concerned the anti-Indian propaganda is being carried on with British assistance and connivance ?

**The Honourable Sir Henry Craik :** So far as I am aware, there is no truth whatever in it.

#### MR. BINDER'S ENQUIRY IN ZANZIBAR.

†280. **\*Mr. S. Satyamurti :** I shall only ask for answer to part (c).

**Sir Girja Shankar Bajpai :** (c) The report has not yet been received.

**Mr. S. Satyamurti :** Will the report be placed on the table of the House ?

**Sir Girja Shankar Bajpai :** It all depends. If the report is received in a confidential state and the House is still sitting, I fail to see how it can be placed on the table.

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†280. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) what the latest position is with regard to Mr. Binder's enquiry in Zanzibar ;
- (b) whether they are following the enquiry ; and
- (c) whether the report will be placed before the Assembly for discussion ?

**SIGNING OF ANY INDO-JAPANESE TRADE AGREEMENT IN ENGLAND.**

281. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

- (a) whether their attention has been drawn to a statement by the Consul-General of Japan in India published in the *Indian Express*, dated the 21st May, 1936, regarding signing of any Indo-Japanese trade agreement in England ;
- (b) the reasons why any agreements arrived at here should go to England ; and
- (c) whether agreements cannot be concluded here ?

**The Honourable Sir Muhammad Zafrullah Khan** : (a) Yes Sir.

(b) and (c). The Honourable Member is referred to Sir Joseph Bhore's speech in this House on the Adjournment Motion by Mr. B. Das on the 25th January, 1934.

**Mr. S. Satyamurti** : May I know, in the case of this agreement, whether it will be signed in India or in England ?

**The Honourable Sir Muhammad Zafrullah Khan** : If the Honourable Member will refer to the speech to which I have invited his attention, he will find there the whole constitutional position explained.

**Mr. S. Satyamurti** : May I know whether there has been any change since then, and whether it is now proposed to sign the treaty in India ?

**The Honourable Sir Muhammad Zafrullah Khan** : There has been no change in the constitutional position since then.

**Mr. S. Satyamurti** : Will the Government represent to His Majesty's Government the need and the propriety of signing it in India, and not signing it in England ?

**The Honourable Sir Muhammad Zafrullah Khan** : It is not a question of need or propriety. Under the present arrangements all treaties on behalf of India must be signed by somebody representing His Majesty's Government and therefore it will be useless to make a representation which could not possibly be given effect to.

**Mr. S. Satyamurti** : Will the Government of India ask His Majesty's Government to send down that representative to Delhi, so that the agreement may be signed in Delhi ?

**The Honourable Sir Muhammad Zafrullah Khan** : No, Sir.

**Mr. S. Satyamurti** : Why not ?

**The Honourable Sir Muhammad Zafrullah Khan** : There is no reason why they should.

**Mr. S. Satyamurti** : Is it not undignified for a country like India to send its treaty to be signed 6,000 miles away ?

**The Honourable Sir Muhammad Zafrullah Khan** : If that is the constitutional position, I do not see how India's dignity will be added to or subtracted from by the treaty being signed in London.

**Mr. S. Satyamurti** : Is the constitutional position unchangeable ?

**The Honourable Sir Muhammad Zafrullah Khan** : I hope not. In course of time it may change.



**Mr. N. M. Joshi :** May I know if it is not a fact that the Treaty of Versailles was signed by representatives of India and not by the British Government, that the Treaty of Washington was signed by the representatives of India and that the Locarno Pact was signed by the representatives of India and not by the representatives of the British Government ?

**The Honourable Sir Muhammad Zafrullah Khan :** I presume so.

**Mr. N. M. Joshi :** If that is so, why should not representatives of India be allowed to sign this treaty ?

**The Honourable Sir Muhammad Zafrullah Khan :** This is a treaty between India on the one side and a foreign country on the other. Those were treaties where the representatives of His Majesty's Government were present and along with them in the delegation was included a representative of India.

**Prof. N. G. Ranga :** Is it not a fact that the Governor General in India is the representative of His Majesty ?

**The Honourable Sir Muhammad Zafrullah Khan :** That does not arise.

**Prof. N. G. Ranga :** May I know why he could not sign it ?

**The Honourable Sir Muhammad Zafrullah Khan :** I cannot give information on that point.

**Dr. N. B. Khare :** Has the constitutional position changed after signing the treaty of Versailles ?

**The Honourable Sir Muhammad Zafrullah Khan :** The constitutional position is still the same.

#### RECOMMENDATIONS OF THE COMMITTEE ON CONSERVATION OF COAL.

282. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

(a) whether they propose to consult those vitally interested in the coal industry in order to ascertain from them how far they would be in a position to implement the recommendations of the Committee on conservation of coal ; and

(b) at what stage the conservation remains ?

**The Honourable Sir Frank Noyce :** (a) The Government of India made an official reference to the interests concerned on 17th June last, and I have also had the advantage of informal consultations with the leading organizations. I do not doubt that it will be an important part of the Committee's duties to consider how far any recommendations which appear to them to be desirable can be carried out in practice and that they will take steps to ascertain the views of the organizations concerned on this point.

(b) I presume that the Honourable Member wishes to know the stage reached in the discussions on the conservation question. As I have already stated, the position is that we have consulted the interests concerned and are considering the personnel and terms of reference to the Committee which will examine this question.

**Mr. S. Satyamurti :** Do Government expect to bring up any legislation on this matter?

**The Honourable Sir Frank Noyce :** I really cannot anticipate the recommendations of the committee, but if the Honourable Member wants my own personal view, I should think that legislation will probably be necessary.

#### DEVELOPMENT OF NUTRITIONAL RESEARCH IN INDIA.

283. **\*Mr. S. Satyamurti :** With reference to Mr. R. A. Butler's statement in the House of Commons, regarding the development of nutritional research in this country, will Government be pleased to state :

- (a) the steps that are taken in the country ;
- (b) the extent and nature of the research ; and
- (c) the results thereof ?

**Sir Girja Shankar Bajpai :** (a) to (c). I would refer the Honourable Member to the reply given by me to his question No. 210 in the current Session.

#### CONSERVATION OF COAL.

284. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) whether their attention has been drawn to a leading article in the *Hindu* of the 14th May, 1936 ;
- (b) whether they propose to take steps to see that so valuable a commodity as coal is not wasted and that in national interests it is conserved for the benefit of the nation's industries ; and
- (c) if not, why not ?

**The Honourable Sir Frank Noyce :** (a) and (b). Yes.

(c) Does not arise.

**Mr. S. Satyamurti :** May I take it that this problem referred to in (b) is connected with the inquiry which my Honourable friend contemplated in answer to question No. 282 ?

**The Honourable Sir Frank Noyce :** Yes, it is.

#### ENQUIRY INTO THE WORKING OF THE CLOVE GROWERS' ASSOCIATION IN ZANZIBAR AND RESERVATION OF KENYA HIGHLANDS FOR EUROPEANS.

285. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) whether their attention has been drawn to a leading article in the *Hindu*, dated the 21st May, 1936, regarding the presence of an Indian representative to assist the enquiry that is being conducted in Zanzibar into the working of the Clove Growers' Association ;
- (b) what the position is with regard to the reservation of Highlands for Europeans in Kenya ; and

- (c) whether they will investigate other matters mentioned in the article and do the needful ?

**Sir Girja Shankar Bajpai :** (a) and (c). I would refer the Honourable Member to answers to previous questions on this subject during the Session.

(b) The Honourable Member's attention is invited to the reply given by me on the 1st September, 1936, to part (a) of his starred question No. 42.

**Mr. S. Satyamurti :** Have Government considered, or will they consider that the Highlands in Kenya can never be developed by Europeans alone, and will they represent to His Majesty's Government that, in the interests of the Colony itself, this reservation should be stopped, or at least not extended, and the lands should be thrown open for development by Indians and Natives ?

**Sir Girja Shankar Bajpai :** I must point out to my Honourable friend that the Government of India discussed with His Majesty's Government in 1923 this question that the lands in Kenya cannot be developed by Europeans alone.

#### CONSULTATION OF COMMERCIAL AND INDUSTRIAL OPINIONS AFTER GIVING NOTICE OF TERMINATION OF THE OTTAWA TRADE AGREEMENT.

286. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) whether, after the Resolution of the Assembly, asking them to give notice of termination of the Ottawa Agreement, they have consulted commercial and industrial opinions in the country ;
- (b) if so, what the opinions are ;
- (c) whether they have called for the views of the Local Governments ; and
- (d) if so, what their views are ?

**The Honourable Sir Muhammad Zafrullah Khan :** (a) and (c). Yes.

(b) and (d). Government are not prepared at this stage to disclose the nature of the opinions received.

**Mr. S. Satyamurti :** May I take that it Government have received opinions both from commercial and industrial bodies as well as Local Governments ?

**The Honourable Sir Muhammad Zafrullah Khan :** Yes.

**Mr. S. Satyamurti :** May I know whether they propose to lay it on the table, some time later ?

**The Honourable Sir Muhammad Zafrullah Khan :** I am afraid I cannot give a reply to that question at this stage.

**Mr. S. Satyamurti :** May I know the reason why the opinions of public bodies on a subject of first class importance are not placed on the table of the House ?

**The Honourable Sir Muhammad Zafrullah Khan :** For one thing, it might be prejudicial to the negotiations that are now pending and therefore it would not be desirable to disclose them.

**Prof. N. G. Ranga :** What is the procedure followed in consulting the commercial and industrial opinion in connection with this matter—is it by simply expecting them to write to the Government of India or the Government of India sends any communication to them asking for their opinions.

**The Honourable Sir Muhammad Zafrullah Khan :** The Government of India invited them.

**Prof. N. G. Ranga :** In that case, what steps have the Government of India taken to ascertain the opinion of peasants in this country ?

**The Honourable Sir Muhammad Zafrullah Khan :** Local Governments are expected to send in their opinions in regard to the effect of the agreement on the interests of the peasants in their provinces.

**Prof. N. G. Ranga :** In view of the fact that the Local Governments were not merely expected to send their opinions as to the effect that the termination of this Pact would have or might have, but the Government of India went out of their way to refer the matter to these commercial and industrial organisations in the country, may I know why the Government of India failed to consider the advisability of ascertaining the opinions of peasants' associations in the country ?

**The Honourable Sir Muhammad Zafrullah Khan :** The Honourable Member is in error in assuming that the Local Governments were not expected to express their opinions from the point of view of commercial and industrial interests also.

**Prof. N. G. Ranga :** May I know, Sir.....

**Mr. President (The Honourable Sir Abdur Rahim) :** The Honourable Member cannot argue the point.

*(Cries of " Order, order " from Official Benches.)*

**Prof. N. G. Ranga :** It is not such an easy thing to shout " Order, order ". I am trying to argue the matter with the President.

**Mr. President (The Honourable Sir Abdur Rahim) :** Next question. The Chair cannot allow any more questions.

#### ADEQUATE SUPPLY OF FODDER AND GRAZING GROUNDS FOR CATTLE AND IMPROVEMENT OF LIVESTOCK IN A SCIENTIFIC MANNER.

287. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) whether they propose to address the Local Governments on the question of cattle-breeding and improving livestock in a scientific manner ;
- (b) whether they propose to examine the question of adequate supply of fodder and grazing grounds for cattle ; and
- (c) whether they propose to give facilities to villagers for rearing cattle ?

**Sir Girja Shankar Bajpai :** (a) Provincial Governors have already been addressed on the subject.

(b) and (c). Reference on the subject has already been made to Local Governments and the possibility of further action is being examined.

**Mr. S. Satyamurti :** May I know if Government are aware, in spite of their campaign for stud bulls and other things, that the real reason why the breed of cattle is going down is lack of adequate supply of fodder and of grazing grounds ?

**Sir Girja Shankar Bajpai :** It is because allegations have been made to this effect and there is some substance in them that I have stated in reply to parts (b) and (c) of the question that the Local Governments have been addressed on the subject of improving the fodder supply.

**Mr. S. Satyamurti :** Have the Local Governments been addressed on this specific question, of so administering their forests and forest laws, as to provide an adequate supply of grazing ground for cattle consistently with the conservation of forests ?

**Sir Girja Shankar Bajpai :** In regard to that, I may inform my Honourable friend that the matter has been investigated and there is a difference of opinion as to whether such defects as arise from the grazing system are due to what my Honourable friend would consider to be a limitation of the area or the fact that there is not a scientific use made of such land as is available for purposes of grazing.

**Mr. S. Satyamurti :** Are Government addressing themselves to the question of a more scientific and more economic use of such fodder as is available in this country ?

**Sir Girja Shankar Bajpai :** Well, Sir, I may inform my Honourable friend that only recently we have addressed Local Governments on the subject of agreeing to the appointment of a committee which is to investigate into this matter.

**Mr. S. Satyamurti :** With reference to the answer to clause (c) of the question, may I know whether Government have any proposals by way of addressing Local Governments on this question, and giving reasonable facilities to villagers in rearing cattle of the right type ?

**Sir Girja Shankar Bajpai :** That is really the object of providing stud bulls.

**Mr. S. Satyamurti :** Stud bulls can only "produce" calves : who is going to feed the calves ? Are Government taking any steps to increase the capacity of the people of the villages to keep and maintain these calves produced by these stud bulls ?

**Sir Girja Shankar Bajpai :** In so far as it is possible, through the development of grazing to assist the rearing of cattle, as I have already stated, Sir, that point is under examination.

**Mr. S. Satyamurti :** Are Government considering the question of food for men and cattle, because men must live to bring up cattle, and cattle must have something to eat ?

**Sir Girja Shankar Bajpai :** I think my Honourable friend must limit himself either to the feeding of men or to the feeding of cattle in this particular question.

**Mr. S. Satyamurti** : What are cattle wanted for, except for men ? Are Government addressing themselves to the proper feeding for cattle and men, whom cattle is to serve ?

**Sir Girja Shankar Bajpai** : I have already informed my Honourable friend of what Government intend doing in regard to the feeding of cattle. As regards the feeding of men, if I remember correctly, my Honourable friend has a separate question, and I shall be happy to answer that question when it comes up.

† [ . . . . . ]

NEW RULES FOR RECRUITMENT TO THE INDIAN CIVIL SERVICE.

288. **\*Mr. S. Satyamurti** : With reference to the new rules for the recruitment to the Indian Civil Service in Britain by means of nomination, will Government be pleased to state :

- (a) whether they propose to fix any age limit ;
- (b) if so, what ; and
- (c) if not, why not ?

**The Honourable Sir Henry Craik** : I would refer the Honourable Member to the Press Communiqué issued by the India Office on the 11th May, 1936, a copy of which is in the Library.

REPORT OF THE WHEELER COMMITTEE.

289. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

- (a) whether they are consulting the Local Governments on the Wheeler Committee's Report ; and
- (b) if so, what the recommendations of the Local Governments are ?

**The Honourable Sir Henry Craik** : (a) No.

(b) Does not arise.

**Mr. S. Satyamurti** : May I know why Government do not propose to consult Local Governments on this matter ?

**The Honourable Sir Henry Craik** : Because I do not think any necessity arises. The Wheeler Committee itself consulted Local Governments and recorded their views. There is no necessity for any further consultation.

**Mr. S. Satyamurti** : May I know whether, in respect of future recruitment to the Central Secretariat, an expression of the views of Local Governments is not wanted ?

**The Honourable Sir Henry Craik** : Of course it is wanted, but their views are already on record.

**Mr. S. Satyamurti** : May I know whether, before Government make up their minds which of the recommendations of this Committee they are going to accept and which to reject with or without modifications, they would like to have the opinions of the Local Governments ?

† Portions marked [ . . . . . ] were ordered to be expunged by order of the Assembly on the 14th September, 1936.

**The Honourable Sir Henry Craik :** They already have the opinions of the Local Governments.

**Mr. S. Satyamurti :** May I take it that they are going to accept all the recommendations of the Wheeler Committee and therefore they do not propose to invite further views from the Local Governments ?

**The Honourable Sir Henry Craik :** I did not say. All I have said is that the Wheeler Committee itself obtained the views of Local Governments on all the relevant and important points.

#### CONCLUSIONS ARRIVED AT BY THE TRANSPORT ADVISORY COUNCIL.

290. **\*Mr. S. Satyamurti :** Will Government be pleased to state :
- (a) the nature of the agenda for the Transport Advisory Council ;
  - (b) the conclusions arrived at by the Council ; and
  - (c) the action taken or proposed to be taken thereon ?

**The Honourable Sir Frank Noyce :** (a) The Agenda for the second meeting of the Transport Advisory Council held in July last related mainly to :

- (i) the early institution of closer control over motor transport so as to secure the comfort and convenience of the travelling public, place motor transport itself on a healthy basis and avoid or eliminate wasteful competition with railways ; and
- (ii) the tightening up of control over expenditure from the Road Fund with a view to giving priority to schemes that open up areas inadequately served by railways and roads or provide new access to railways.

(b) A copy of the Concise Statement of Policy embodying the various measures recommended by the Council in July last has been placed in the Library.

(c) A Bill to amend the Indian Motor Vehicles Act was debated in this Assembly last week and is being circulated for eliciting public opinion thereon. The Assembly will also be asked to amend the Resolution on Road Development during the present Session.

**Mr. S. Satyamurti :** With reference to the answer to clause (b) of the question, may I request my friend to place a copy of the Concise Statement of Policy on the table of the House, so that Honourable Members may have a copy each ?

**The Honourable Sir Frank Noyce :** I have no objection whatever to that, Sir, but it is rather lengthy.

**Sardar Mangal Singh :** May I know whether the Government of India intend to take the representative of the motor unions on the Advisory Council ?

**The Honourable Sir Frank Noyce :** I have already explained the Government's position very fully on that point in my speech at the close of the discussion on the Motor Vehicles (Amendment) Bill last week and I have nothing to add.

**Mr. S. Satyamurti :** May I know, if on this Transport Advisory Council, the users of the road, apart from the rail-road, were represented ?

**The Honourable Sir Frank Noyce :** They were represented, if I may say so, very ably, by the representatives of the Local Governments.

**Mr. S. Satyamurti :** That is, the Ministers ?

**The Honourable Sir Frank Noyce :** Yes.

**Mr. S. Satyamurti :** May I know whether the owners and users of motor transport, as such, were represented on this Council ?

**The Honourable Sir Frank Noyce :** No, Sir. As explained very fully last week, this Transport Advisory Council is a purely official body.

**Mr. S. Satyamurti :** May I know whether, before Government place their Resolution before this House for discussion, they propose to consult the representatives of the motor transport, either sellers or owners or users ?

**The Honourable Sir Frank Noyce :** No, Sir. As I explained to the House, we already have the views of the Indian Road and Transport Development Association.

#### INVITATION TO THE MEMBERS OF THE LEGISLATIVE ASSEMBLY TO VISIT ANDAMANS.

291. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

(a) whether they propose to invite Members of this House to visit Andamans ; and

(b) if so, whom and when ?

**The Honourable Sir Henry Craik :** (a) Yes.

(b) Sir Yamin Khan and Raizada Hansraj have accepted an invitation to visit the Andamans next month.

**Mr. S. Satyamurti :** What is the purpose of these Honourable Members' visit to the Andamans ?

**The Honourable Sir Henry Craik :** As far as I remember, I stated in reply to a question in this House that I was considering the question of appointing a non-official board of visitors, and when that was found to be impracticable because we could not obtain the personnel for such a board of visitors, in response to a suggestion I was asked if I would agree to some Members of the Assembly visiting the Andamans, and this invitation has been extended in pursuance of that suggestion.

**Mr. S. Satyamurti :** Will the Honourable gentlemen be allowed to meet the prisoners by themselves, to get their impressions of their life in the Andamans, and submit a report to this House ?

**The Honourable Sir Henry Craik :** There is no question of a report to this House.

**Mr. S. Satyamurti :** Will these Honourable Members be allowed to have free talks with the prisoners there, especially political prisoners, so that they may form an independent impression of the life led by these convicts in the Andamans ?



**The Honourable Sir Henry Craik :** The interviews with prisoners will have to be subject to the ordinary rules.

**Mr. S. Satyamurti :** May I know that the ordinary rules contemplate that Sir Yamin Khan and Lala Hans Raj will be followed all the time by Jail Superintendents, and that they cannot have independent talks with these prisoners ?

**The Honourable Sir Henry Craik :** The Honourable Member is now referring to prisoners in the Cellular Jail. They are, of course, a very small proportion of the total number of convicts in the Andamans. So far as I am aware, the Interview Rules allow that authorised visitors may speak to prisoners out of hearing of the prison officers.

**Mr. S. Satyamurti :** Will these be followed in this case also ?

**The Honourable Sir Henry Craik :** The ordinary rules will be followed.

**Mr. M. Asaf Ali :** May I know if Sir Yamin Khan has had any experience of jail life, either as an inmate or otherwise ?

**The Honourable Sir Henry Craik :** That question had better be addressed to the Honourable Member himself.

**Prof. N. G. Ranga :** May I know if the Leaders of different parties were consulted before these two Honourable Members were selected ?

**The Honourable Sir Henry Craik :** No.

**Prof. N. G. Ranga :** Why not ?

**The Honourable Sir Henry Craik :** Because I did not see any necessity for it.

**Mr. C. N. Muthranga Mudaliar :** May I know, Sir, if, besides these two gentlemen, any other non-official who is not a Member of this Assembly is going to visit the Andamans ?

**The Honourable Sir Henry Craik :** No, Sir, not so far as I am aware.

**Pandit Lakshmi Kanta Maitra :** May I know if these two gentlemen will be given full facilities for studying the conditions of prison life in the Andamans ?

**The Honourable Sir Henry Craik :** They will be given full opportunities of observing what is going on, and they will be shown everything that they want to see. We have nothing to conceal from them.

**Mr. Sri Prakasa :** Will facilities be given to these gentlemen to spend some nights and days as prisoners themselves in the Andamans, so that they may know the exact situation ?

**The Honourable Sir Henry Craik :** If they so desire, I will see that that is done. (Laughter.)

**Mr. M. Ananthasayanam Ayyangar :** Will the Honourable Member be pleased to allow my friend, Mr. Mohanlal Saksena, to go at his own expense to the Andamans ?

**Mr. President (The Honourable Sir Abdur Rahim) :** Next question.

FIVE-YEAR PROGRAMME OF BROADCASTING.

292. \*Mr. S. Satyamurti : Will Government be pleased to state :

(a) what their conclusions are with regard to the five-year programme of broadcasting ;

(b) whether they propose to allow leaders to broadcast for political propaganda ; and

(c) if not, why not ?

**The Honourable Sir Frank Noyce :** (a) The attention of the Honourable Member is invited to the reply given by me on the 9th September, 1936, to parts (a) and (b) of Mr. M. Ananthasayanam Ayyangar's starred question No. 223.

(b) No.

(c) The reasons were fully explained by the Honourable Mr. A. G. Clow in the debate in this House on the 25th September, 1935, in connection with the voting of the supplementary demand for expenditure on the development of broadcasting during 1935-36.

**Mr. S. Satyamurti :** With reference to the answer to clause (b) of the question, do Government propose to reconsider the position, in view of what is being done in Great Britain ?

**The Honourable Sir Frank Noyce :** No, Sir. What is being done in Great Britain was taken very fully into consideration before Mr. Clow gave the reply to which I have referred.

**Mr. S. Satyamurti :** Will Government ascertain public opinion in the matter, and see how it reacts to this proposal, before they finally reject it ?

**The Honourable Sir Frank Noyce :** No, Sir.

**Mr. S. Satyamurti :** Why not, Sir ?

**The Honourable Sir Frank Noyce :** Because they consider that the case made out by Mr. Clow in this House last year is unanswerable. I was not here at the time, but, as far as I can gather, it met with the approval of all sections of the House.

**Mr. S. Satyamurti :** Were Local Governments consulted in this matter, and do the Government of India agree with the proposal of the Local Governments not to allow political propaganda by Leaders of Parties ?

**The Honourable Sir Frank Noyce :** No, Sir. To the best of my recollection Local Governments have not been consulted in this matter.

**Mr. S. Satyamurti :** May I narrow down the question, and ask if the Government of India will allow political propaganda at election times ?

**The Honourable Sir Frank Noyce :** I have stated Government's position in this matter. Government do not propose to reconsider it, and I have, therefore, nothing to add.

ARTICLE ENTITLED "ADMINISTRATION OF THE ANDAMANS" PUBLISHED IN  
THE *Madras Mail*.

293. \*Mr. S. Satyamurti : Will Government be pleased to state :

- (a) whether their attention has been drawn to an article entitled "Administration of the Andamans", in the *Madras Mail*, dated the 28th May, 1936 ;
- (b) whether the allegations and facts stated therein are correct ;
- (c) whether they propose to take steps to make Andamans not a financial liability but an asset ; and
- (d) if not, why not ?

The Honourable Sir Henry Craik : (a) and (b). It is not usual to notice the articles of anonymous contributors to newspapers, but I am glad of this opportunity of stating that many of the statements made in this article are incorrect.

(c) and (d). It is not possible at present to run the Andamans Administration at a profit : but the nett cost of it has been greatly reduced in recent years.

Mr. S. Satyamurti : Will Government consider the question of making the loss less and less year after year, and making it at least a self-supporting proposition ?

The Honourable Sir Henry Craik : That is our constant aim, but it depends very much on the possibility of developing the forests, which is the principal asset and that, in turn, depends on the state of the timber market.

ARTICLE ENTITLED "THE NEIMEYER ORDER-IN-COUNCIL" PUBLISHED IN THE  
*Hindu*.

294. \*Mr. S. Satyamurti : Will Government be pleased to state :

- (a) whether their attention has been drawn to a leading article entitled "The Neimeyer Order-in-Council" in the *Hindu*, dated the 28th May, 1936 ;
- (b) whether they have examined all the points contained therein ; and
- (c) what their conclusions thereon are ?

The Honourable Sir James Grigg : I would refer the Honourable Member to my previous answers on this subject.

ARTICLE ENTITLED "SECONDARY EDUCATION IN INDIA" PUBLISHED IN THE  
*Hindu*.

295. \*Mr. S. Satyamurti : Will Government be pleased to state :

- (a) whether their attention has been drawn to a leading article entitled "Secondary Education in India" in the *Hindu*, dated the 12th May, 1936 ;

(b) whether they have examined the suggestions contained therein ;  
and

(c) what their conclusions thereon are ?

**Sir Girja Shankar Bajpai :** (a) Yes.

(b) and (c). The attention of the Honourable Member is invited to the resolution of the Central Advisory Board of Education on unemployment and educational reconstruction, a copy of which I lay on the table. The resolution was forwarded to Local Governments, and with regard to sub-paragraph (6) of the resolution they were asked whether expert advice in organising the scheme of reconstruction recommended by the Board was desired. Practically all Local Governments have asked for such assistance and the Government of India are trying to secure it.

RESOLUTION PASSED AT THE FIRST MEETING OF THE CENTRAL ADVISORY BOARD OF EDUCATION HELD IN NEW DELHI ON DECEMBER 19 AND 20, 1935.

(i) *Unemployment and educational reconstruction.*

(1) While conscious of the great debt which is due to the education hitherto provided in India and of the part played by universities in promoting higher study and research and in training men and women for the service of India, the Board is of opinion that the following considerations, among others, necessitate a new attitude towards educational problems :

- (a) the increasing desire among educationists and others to bring about changes in the educational system in view of the altered conditions of life ;
- (b) the growing volume of unemployment among the educated classes ;
- (c) the emphasis laid on a purely literary form of instruction in schools ;
- (d) the inadvisability of too frequent examinations ;
- (e) the large number of ' over-age ' pupils in the senior classes of high schools ;
- (f) the increasing number of students in universities, who are unable to benefit by university instruction and, in consequence, the difficulty in making satisfactory provision for the better qualified students and for research ;
- (g) the need of developing training of a more practical type than at present and of making provision for such training, especially for those with little or no literary bent, and of adjusting it to the scheme of general education ;
- (h) the advisability of developing a suitable scheme of rural education, by which boys and girls in rural areas shall be given such training as would develop in them a capacity and desire for the work of rural reconstruction ;

(2) The Board is of opinion that radical readjustment of the present system of education in schools should be made in such a way as not only to prepare pupils for professional and university courses, but also to enable them, at the completion of appropriate stages, to be diverted to occupations or to separate vocational institutions.

(3) These stages should be :

- (a) *The primary stage*, which should aim at providing at least a minimum of general education and training and will ensure permanent literacy.
- (b) *The lower secondary stage*, which will provide a self-contained course of general education and will constitute a suitable foundation either for higher education or for specialised practical courses.

in rural areas, the courses at this stage should be attuned to rural requirements.

Some form of manual training at this stage should be provided, which would aim at the development of practical aptitudes, and be made compulsory.

- (c) *The higher secondary stage*, in which would be included institutions with varying length of courses ;
  - (i) preparing students for admission to universities in arts and science ;
  - (ii) for the training of teachers in rural areas ;
  - (iii) for agricultural training ;
  - (iv) for clerical training ; and
  - (v) for training in selected technical subjects which should be chosen in consultation with employers.

Where separate institutions are not possible for the diversified courses, some of them might be incorporated in a higher secondary course of enlarged scope which would permit a choice of alternative groups of subjects and would end in leaving certificates.

(4) At the end of the lower secondary school course there should be the first public examination.

(5) Candidates desirous of joining the subordinate clerical services of Government and of local bodies should pass such qualifying examinations as might be prescribed by proper authority and should not be more than 19 years of age at the date of their examination.

The certificates granted to pupils completing other specialised courses should receive Government recognition.

(6) Expert advice would be of value in organising the scheme of reconstruction outlined above ; and also for suggesting methods of training masters who would assist pupils and parents in the selection, by the pupils, of courses of study with due regard to their aptitudes.

(7) Each province should organise Employment Bureaux for the purpose of advising students and of eliciting support and guidance of employers interested in the problem.

(8) Every local Government should actively explore the possibility of finding new avenues of employment and occupation.

**Mr. S. Satyamurti :** Are Government considering the question of so reforming secondary education as not to make all secondary students tend towards the university, whether they are willing or unwilling and whether they are fit or unfit ?

**Sir Girja Shankar Bajpai :** The main object of the reconstruction is to provide alternatives to university education.

**Mr. S. Satyamurti :** Do Government propose to lay down any All-India policy, leaving it to Local Governments to fill in the details, or do they propose to leave it entirely to Local Governments ?

**Sir Girja Shankar Bajpai :** In so far as a general policy for the whole of India can be laid down, my Honourable friend, when he peruses this resolution, will find that it has been laid down not by way of direction but by way of suggestion to Local Governments.

**Mr. S. Satyamurti :** Are Government considering the question of advising the universities to confine entrance only to Matriculates, and leaving the Government to run the Secondary School Leaving Certificates for purposes other than Matriculation ?

**Sir Girja Shankar Bajpai :** That particular point, namely, the conditions on which admission will be conducted to universities, was

not, as far as I remember, discussed by the Central Advisory Board of Education nor did the very distinguished representatives of the Board suggest that they should be. Ordinarily, their idea was to leave it to the universities to decide that in the light of any scheme of reconstruction of secondary education that may be arrived at as a result of the consultation with these experts.

**Prof. N. G. Ranga :** Have Government considered the advisability of suggesting to the Local Governments to introduce vernacular education in secondary schools and also to introduce, as far as possible, agricultural and other vocational training ?

**Sir Girja Shankar Bajpai :** In so far as the vernacularization part of my Honourable friend's question is concerned, I gather that in most provinces stress is being laid more and more on the use of the vernacular as a medium of instruction in schools. The other part of my Honourable friend's question, namely, to what extent agriculture should be introduced as a subject in the schools for vocational instruction, is a matter which will be examined in consultation with the experts.

CHANGES TO BE INTRODUCED IN THE CENTRAL GOVERNMENT FROM THE  
1ST APRIL, 1937.

296. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) the nature of changes in the Central Government to be introduced from the 1st April, 1937 ;
- (b) what the functions of the Government of India then will be ; and
- (c) what the probable distribution of Government property which used to be held in the name of the King, will be ?

**The Honourable Sir Nripendra Sircar :** (a), (b) and (c). It is impossible in answer to a question to give the full constitutional picture which the Honourable Member appears to desire. For a picture of the structure of the Central Government after the 1st April, I refer the Honourable Member to Part XIII and Schedule IX of the Act. He will find an enumeration of the Legislative functions of the Centre in Parts I and III of Schedule VII. The executive functions of the Centre are described in Part XIII. The distribution of property will be governed by the provisions of sections 172 and 173 of the Act.

I may be allowed to add, Sir, that if I am asked about changes on any specific matters instead of this general question covering the whole situation, I shall try my best to answer them. I am not suggesting formal notice, but communication may be made by letter.

**Mr. S. Satyamurti :** May I know, Sir, if my Honourable friend can answer without notice, what are the intentions of the Government with regard to the interregnum after the 1st of April, 1937, and before the coming into existence of the Federation, whatever the date may be, with regard to the Legislature at the Centre ?

**The Honourable Sir Nripendra Sircar :** I will prefer to get a little time and shall be glad if my Honourable friend will write to me in the matter. I want to consult the Reforms Department before giving an answer.

**Mr. President** (The Honourable Sir Abdur Rahim) : The answer will be given in the House ?

**The Honourable Sir Nripendra Sircar** : Yes, Sir.

#### CAMPAIGN OF FIGHT AGAINST MALARIA SCOURGE.

297. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

(a) whether they are considering any campaign of fight against malaria scourge ; and

(b) if so, what their conclusions are ?

**Sir Girja Shankar Bajpai** : (a) and (b). Anti-malaria operations are a matter for the provinces but the Government of India have recently placed a sum of Rs. 10 lakhs at the disposal of the Indian Research Fund Association to be used mainly for the prevention and treatment of malaria in rural areas. The manner in which this grant may be most usefully expended is at present under enquiry. As regards directly administered areas special anti-malarial measures have been started on an intensive scale in Delhi.

**Mr. S. Satyamurti** : May I know what is the total incidence of deaths by malaria for the latest year for which figures are available ?

**Sir Girja Shankar Bajpai** : I have answered questions on that subject before. It is rather difficult to give figures for deaths from malaria alone because in the system of classification adopted by the great majority of provinces the heading is just "Fever", not necessarily malaria, but I shall try and give such information to my Honourable friend as is readily available in the Report of the Public Health Commissioner.

**Mr. S. Satyamurti** : Will Government consider the advisability of an All-India policy to fight this All-India scourge, and press it on Local Governments ?

**Sir Girja Shankar Bajpai** : Sir, there have been different questions on the subject asked at different times in relation to quinine which is the one item connected with the treatment of malaria over which the Government have any control and I have explained the position of the Government of India in regard to that matter and I do not think that I can add anything now.

**Mr. S. Satyamurti** : Do the Government of India now accept the policy of having a reserve of quinine, as against the possible epidemic of an All-India scourge of this magnitude ?

**Sir Girja Shankar Bajpai** : We have not merely accepted it but we have taken action in the matter. We have now a reserve of quinine to the extent of 1,50,000 lbs. to meet a national emergency.

**Mr. S. Satyamurti** : Are Government satisfied that this is adequate ?

**Sir Girja Shankar Bajpai** : Our experts say that that is adequate.

**Mr. S. Satyamurti** : Will Government take steps to promote the free distribution of quinine to the poor people in the villages who cannot afford to pay even the small price that is charged for it now ?

**Sir Girja Shankar Bajpai :** My Honourable friend is aware that last year the Government of India gave 45,000 lbs. of quinine to the Provinces for free distribution. They cannot do anything more.

**Mr. D. K. Lahiri Chaudhury :** I want to know whether the Government of India are consulting the League of Nations scheme against malaria ?

**Sir Girja Shankar Bajpai :** There is no League of Nations scheme which is universally applicable. The Government of India invited a Commission from the League of Nations some years ago to visit this country and make recommendations and the report of that Commission has been considered by the Government of India as well as by the Local Governments.

**Prof. N. G. Ranga :** Will Government consider the advisability of making an annual grant to Provincial Governments to enable them to fight this malaria scourge for some years to come ?

**Sir Girja Shankar Bajpai :** My Honourable friend, the Finance Member, is pretty certain to point out that that is a matter which must depend upon the financial position of the Government of India, and that we cannot make any commitments at this stage.

**Mr. S. Satyamurti :** Not even for malaria scourge ?

(No answer.)

#### ABSENCE OF A PLATFORM AT THE RANIPET RAILWAY STATION, MADRAS AND SOUTHERN MAHRATTA RAILWAY.

298. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) whether their attention has been drawn to the representations made to the Madras and Southern Mahratta Railway to put up a platform for Ranipet Railway Station ; and
- (b) whether they propose to invite the attention of the Madras and Southern Mahratta Railway authorities to the great inconvenience experienced by the people for want of a platform at the Ranipet Railway Station ?

**The Honourable Sir Muhammad Zafrullah Khan :** (a) Government have no information other than that furnished by the Honourable Member.

(b) I am prepared to send a copy of the question to the Railway Administration if the Honourable Member so desires, but would point out that the Railway Administration, assisted by the Local Advisory Committee, is in the best position to judge of the relative importance of the various stations requiring platforms.

**Mr. S. Satyamurti :** In view of the parlous state of railway finance and the need for attracting third class passengers, will the Government of India be good enough to consider the suggestions more favourably, and press upon the railway administration to provide these amenities ?

**The Honourable Sir Muhammad Zafrullah Khan :** The Government of India will not take upon themselves the responsibility of declaring which stations require platforms in advance of other stations.



The Government can only send down the suggestion to the Agent for his consideration and I have no doubt that the Agent will spend such funds as he may have for this purpose to the best advantage by selecting stations which require most urgently to be provided with platforms.

**Mr. S. Satyamurti :** May I take it that the Government of India have no part or lot in this matter, and that they do not lay down general conditions or anything like that ?

**The Honourable Sir Muhammad Zafrullah Khan :** Government cannot be expected to lay down general conditions with regard to the provision of platforms at each individual station.

#### LOANS TAKEN BY THE INDIAN STATES FROM THE BRITISH GOVERNMENT.

299. **\*Mr. S. Satyamurti :** Will Government be pleased to state :

- (a) the exact amount of loans which the Indian States had taken from the British Government ;
- (b) the amount of loan taken by the Bahawalpur State from the British Government ;
- (c) whether these debts are being regularly re-paid ; and
- (d) what steps they are taking to recover the money ?

**The Honourable Sir James Grigg :** Before answering this question I just want to mention that I notice a reference to 'British Government', I assume the Honourable Member means the Government of India.

**Mr. S. Satyamurti :** I did not notice that myself. I made a mistake, naturally because they are identical. I meant only the Government of India.

**The Honourable Sir James Grigg :** (a) The amount outstanding on the 31st March, 1935, was about 13 crores.

(b) About 12 crores.

(c) and (d). Repayments are being made regularly according to the terms prescribed by Government.

**Mr. S. Satyamurti :** May I know why these loans are given by the Government of India to Indian States ?

**The Honourable Sir James Grigg :** That question would require a long answer. It depends upon the circumstances of each individual case. In the case of the Bahawalpur loan, it was lent to them to enable them to participate in the Sutlej Valley Irrigation project.

**Mr. S. Satyamurti :** Is it part of the policy of the Government of India to advance loans to Indian States ?

**The Honourable Sir James Grigg :** I cannot describe it as a policy. But Indian States do borrow from the Government of India for various purposes. Whether the Government of India lends or not depends upon the purpose for which the loan is required and upon the security that is available for the loan.

**Mr. S. Satyamurti :** May I know how the Government of India manage to raise large sums of money from the poor tax-payers of British India, and advance the moneys as loans to the Indian States ?

**The Honourable Sir James Grigg :** These loans are not advanced out of the taxes, but out of the super-abundance of the rich investors of British India.

**Mr. S. Satyamurti :** That is to say by raising Government loans ?

**The Honourable Sir James Grigg :** Yes, Sir.

**Mr. S. Satyamurti :** Who ultimately pays for these loans ? The poor tax-payers of British India ?

**The Honourable Sir James Grigg :** Not unless there are defaults.

**Mr. S. Satyamurti :** How long has this loan been pending with the Bahawalpur State ? Twelve years ?

**The Honourable Sir James Grigg :** I do not know the exact period, but it is quite a long time.

**Mr. S. Satyamurti :** How much interest has been collected on this loan ?

**The Honourable Sir James Grigg :** I cannot answer that without notice.

**Mr. S. Satyamurti :** What is the rate of interest ?

**The Honourable Sir James Grigg :** The rate of interest varied with each instalment of the loan that was advanced.

**Mr. S. Satyamurti :** What is the maximum rate and what is the minimum rate ?

**The Honourable Sir James Grigg :** The maximum rate of interest was something over six per cent. to the best of my recollection.

**Mr. S. Satyamurti :** How much has been paid towards the capital ?

**The Honourable Sir James Grigg :** I shall want notice of that. As a matter of fact the terms of repayment provide for a series of annuities in which no attempt has been made to distinguish between interest and capital. It is sufficient to pay off the capital debt within a certain term of years.

**Mr. S. Satyamurti :** May I take it, therefore, that the interest up-to-date has been written off ?

**The Honourable Sir James Grigg :** You may not.

**Mr. S. Satyamurti :** What is the rate of interest now being paid ?

**The Honourable Sir James Grigg :** There is no particular rate of interest because payment is made by a series of annuities.

**Mr. S. Satyamurti :** Will Government take proper steps, hereafter to safeguard the payment of interest on any loans that may be advanced to Indian States ?

**The Honourable Sir James Grigg :** While I cannot pledge my successors, I am bound to say that I shall be very chary about making advances to that extent again.

**Seth Govind Das** : What is the minimum rate of interest on which these loans are advanced ?

**The Honourable Sir James Grigg** : I cannot say without notice.

**Mr. N. V. Gadgil** : What is the security for this loan ?

**The Honourable Sir James Grigg** : The revenues from the Sutlej Valley project in so far as it is situate in Bahawalpur State.

**Prof. N. G. Ranga** : What was the security for the loan advanced to the Alwar State ?

**The Honourable Sir James Grigg** : I want notice of that. But I imagine the revenues of the Alwar State.

**Mr. Sri Prakasa** : In view of the fact that the Bharatpur State repudiated many of the debts taken by them, how are Government assuring themselves that the debts incurred by other States will not also be similarly repudiated ?

**The Honourable Sir James Grigg** : As far as I remember, an Administrator was put in charge of the Bharatpur State.

**Pandit Lakshmi Kanta Maitra** : Have any such loans been advanced in recent years to Indian States ?

**The Honourable Sir James Grigg** : One or two.

**Mr. S. Satyamurti** : Since the Honourable Member became the Finance Member of the Government of India ?

**The Honourable Sir James Grigg** : Yes ; one.

**Mr. S. Satyamurti** : Why ?

**The Honourable Sir James Grigg** : I want notice.

#### STEPS TAKEN TO IMPROVE THE PLIGHT OF HANDLOOM WEAVERS.

300. **\*Mr. S. Satyamurti** : Will Government be pleased to state :

(a) whether they have taken any steps to improve the plight of the handloom weavers ; and

(b) if not, why not ?

**The Honourable Sir Frank Noyce** : (a) The Government of India are making grants amounting to Rs. 5 lakhs a year for a period of five years to Local Governments for the development of the handloom industry. The money is being spent by Local Governments on various approved schemes. Particulars will be found in Bulletins of Indian Industries and Labour, Nos. 52 and 56, copies of which are in the Library of the House.

(b) Does not arise.

**Mr. S. Satyamurti** : Are Government considering any steps, by way of friendly and gentle pressure upon the Indian mills, so that they may leave a certain portion of the market, free for the consumption of the products of handloom weavers ?

**The Honourable Sir Frank Noyce** : No, Sir. I understand that conversations of that kind took place between certain Honourable

Members of this House and the representatives of the mill industry which have proved infructuous.

**Mr. S. Satyamurti :** Do Government realise that, in certain parts of the Madras Presidency to my knowledge and in certain other parts of India, the plight of handloom weavers is very wretched, and will Government take some steps to improve their lot ?

**The Honourable Sir Frank Noyce :** I have explained the steps that the Government of India have already taken. If the Honourable Member will put forward any other suggestions, I should be glad to consider them.

**Mr. S. Satyamurti :** Apart from that, will Government consider the possibility of organizing the sales of handloom products, as also finding a bigger market for their products ?

**The Honourable Sir Frank Noyce :** That is exactly what the grant is being spent upon. That is exactly what the Local Governments are doing with it.

**Mr. S. Satyamurti :** Will Government consider the advisability of readjusting their protection policy in such a manner, as to give the minimum necessary protection to handloom weavers who deserve it even better than the rich capitalists ?

**The Honourable Sir Muhammad Zafrullah Khan :** Protection against whom ?

**Mr. S. Satyamurti :** Against first of all the Japanese *ghadas*, which are really most in competition with the handloom products, and secondly against mill products of a certain count ?

**The Honourable Sir Muhammad Zafrullah Khan :** So far as Japanese products are concerned, the Honourable Member is aware that negotiations are now going on with the Japanese Government for a fresh protocol and the question naturally will form part of those negotiations. So far as internal competition is concerned, I am not aware that there are any provisions under which Government can give the handloom weavers any protection against internal competition.

**Mr. S. Satyamurti :** Have Government examined this question of giving protection against internal competition to the extent necessary ?

**The Honourable Sir Muhammad Zafrullah Khan :** On several occasions, it has been brought to our notice.

**Prof. N. G. Ranga :** In view of the fact that the conversations which some of us representing the handloom weavers had with the representatives of the mill industry have proved infructuous, will the Government of India be pleased to use their good offices and bring across a common table the representatives of these two interests and try to effect some arrangement between these two sections in the hope that the handloom weavers may have to suffer less than they are doing at present ?

**The Honourable Sir Muhammad Zafrullah Khan :** That really is not asking for information.

## MOTIONS FOR ADJOURNMENT.

### MURDER OF MAIL GUARD GOLAM SATTAR ON A CALCUTTA SIRAJGANJ TRAIN BETWEEN RANAGHAT AND CHUADANGA.

**Mr. President** (The Honourable Sir Abdur Rahim) : I have received notice of a motion of adjournment from Mr. Lahiri Chaudhury who wants to discuss a definite matter of urgent public importance, namely, the brutal murder of mail guard Golam Sattar working E-47 section Calcutta Sirajganj train on the 7th night between Ranaghat and Chuadanga. Is that a matter of public importance for which the Government of India are responsible ?

12 NOON.

**Mr. D. K. Lahiri Chaudhury** (Bengal : Landholders) : Yes, Sir. Both the Railways and the Postal Departments are under the control of the Government of India, and I certainly make them responsible. This is not the only case of murder that has occurred in Bengal. There have been a number of murders in the mail vans. I am closely associated with the Postal Union and I can say that up till now the Government of India have taken no steps to protect these men who work at night in the mail vans. It is high time for them to take action.

**Mr. President** (The Honourable Sir Abdur Rahim) : This is clearly not a matter which is covered by the rules and it is, therefore, disallowed.

### EXTENSION BY THE GOVERNMENT OF BENGAL OF THE PROVISIONS OF CHAPTERS II AND III OF THE BENGAL PUBLIC SECURITY ACT, 1932, TO THE TOWN OF CALCUTTA AND THE DISTRICTS OF 24-PARGANAS AND HOWRAH.

**Mr. President** (The Honourable Sir Abdur Rahim) : The next notice is from Mr. Mohan Lal Saksena who wants to move the adjournment of the business of the House for the purpose of discussing a definite matter of urgent public importance, namely, extension by the Bengal Government of the provisions of Chapters II and III of the Bengal Public Security Act, 1932, to the town of Calcutta and the Districts of 24-Parganas and Howrah. This Act confers on the Commissioner of Police, Calcutta, and the District Magistrate certain powers which they do not at present possess. Is there any objection to this motion ?

**The Honourable Sir Nripendra Sircar** (Leader of the House) : Yes, Sir. This matter was notified in the Calcutta Gazette of the 3rd September last, and I have got the Gazette here with me. Then, it was widely discussed in the press, and I have got some of them here. The *Amrita Bazar Patrika* of the 4th September contains a very long article referring to this Gazette notification and mentioning its objects and contents. This paper reached Simla on the 6th September. Then, in the *Hindustan Times* of September 4, we had a paragraph on this subject. The headline is :

“ Public Security, Bengal Act enforced in Calcutta and Suburbs ” :

“ A notification in today's Gazette announces that certain important sections of the Bengal Public Security Act, 1932, will be enforced in Calcutta and suburbs and the district of 24-Parganas with effect from September 3.”

So I submit that the Honourable Member should have given notice on the very next day.

**Mr. Mohan Lal Saksena** (Lucknow Division : Non-Muhammadan Rural) : Sir, the communiqué was published in the *Hindustan Times* yesterday only. The Calcutta Gazette published it on the 3rd September and the *Hindustan Times* had a paragraph on the 4th September.

**Mr. President** (The Honourable Sir Abdur Rahim) : Why was not notice given immediately afterwards ? That is the argument.

**Mr. Mohan Lal Saksena** : In the *Hindustan Times* of the 4th, there was only a paragraph, but it did not contain the full information. You have ruled, Sir, that on adjournment motions we must give certain definite particulars, and those particulars were not available till yesterday. As a matter of fact, I had received a telegram also, but that also did not contain the full particulars.

**The Honourable Sir Nripendra Sircar** : The article in the *Amrita Bazar Patrika* gives the whole text of the notification with the date and everything.

**Mr. N. V. Gadgil** (Bombay Central Division : Non-Muhammadan Rural) : When was that received here ?

**The Honourable Sir Nripendra Sircar** : That paper was here on the 6th. I remember reading it three or four days ago.

**Mr. Mohan Lal Saksena** : The details we got only yesterday, and, immediately after that, I gave notice.

**Mr. S. Satyamurti** (Madras City : Non-Muhammadan Urban) : Sir, you have ruled, and if I may say very respectfully, quite rightly, that we cannot move an adjournment motion, without satisfying ourselves as to the details of the subject-matter of the motion. My friend received a telegram and consulted me about it, but there were no details and the communiqué also was not received here until yesterday when it came out in the *Hindustan Times*, which is the paper which we all get here and read. I want you to look at it humanly, and not expect us to read all the newspapers in the world, and thus rule out an adjournment motion. It is not as if we want to take you after a long time. It is only a question of a few hours.

**Mr. President** (The Honourable Sir Abdur Rahim) : It is a matter of seven days, and the practice is quite clear.

**The Honourable Sir Nripendra Sircar** : The copy of the *Amrita Bazar Patrika* came here on the 6th.

**Mr. S. Satyamurti** : But that did not contain the communiqué itself. Your ruling was, Sir, that we must not rush to the House, as soon as an article happens to be published in some newspaper or other. This article in the *Patrika* no doubt refers to the Government communiqué, but it does not give the actual extension of the Act, as it is given here. We want to make out a case against Government, and we must know what the exact provisions of the notification are. Moreover, we thought that, as we had adjournment motions practically every day, we can move it now, as there can be only one on each day.

**Mr. President** (The Honourable Sir Abdur Rahim) : I cannot start a new practice now.

**Mr. S. Satyamurti** : The practice is that, as soon as we get definite news, we should come before the House. It is a very important matter and it ought not to be ruled out on a plea like this. After all I am surprised at Government objecting to this.

**Mr. President** (The Honourable Sir Abdur Rahim) : If it were a question of a day or two, I would not mind, but here there has been much more delay, and I must, therefore, rule that it is not an urgent matter according to the accepted interpretation of the rule. The motion is, therefore, disallowed.

#### SITUATION IN PALESTINE.

**Mr. President** (The Honourable Sir Abdur Rahim) : I have also received notice of a motion of adjournment from Maulvi Syed Murtuza Sahib who wishes to discuss a definite matter of urgent public importance, namely, the omission of the Government of India to bring to the notice of His Majesty's Government the strong Indian feeling about the situation in Palestine which has resulted in the declaration of martial law and the despatch of fresh troops to Palestine. Is there any objection to this motion?

**The Honourable Sir Nripendra Sircar** : Yes, Sir. The notice complains of omission on the part of the Government of India. As a matter of fact, there has been no omission.

**Mr. S. Satyamurti** : That is going into the merits.

**The Honourable Sir Nripendra Sircar** : But he must make out some grounds.

**Mr. President** (The Honourable Sir Abdur Rahim) : It means a declaration, I think.

**The Honourable Sir Nripendra Sircar** : There has been no declaration of martial law : on the other hand, the communiqué states that it is hoped that there will be no declaration of martial law.

**Mr. S. Satyamurti** : That is a matter of fact, which we can discuss when the motion comes on.

**The Honourable Sir Nripendra Sircar** : I submit that a course of conduct like omission is not a definite matter within the rules.....

**Mr. Ram Narayan Singh** (Chota Nagpur Division : Non-Muhamadan) : Why not?

**The Honourable Sir Nripendra Sircar** : If I may address the Chair without interruption from my Honourable friend : when he gets into the Chair, I shall answer why : at present I ignore him. If the question is, when did our failure take place, at what date, this has been going on for weeks and months. If it is a question on merits, then, Sir, at all times we have got to keep the British Government informed, that is on the merits : but this attitude of negation which is continuing for months, why does it become suddenly urgent and a specific matter of importance today? I submit, Sir, that this ought to be disallowed.

**Mr. President** (The Honourable Sir Abdur Rahim) : Has the Honourable Member got to say anything on the point of order?

**Maulvi Syed Murtuza Sahib Bahadur** (South Madras : Muhammadan) : Sir, a declaration has already been made : military officers have been sent and a whole division is to be despatched to Palestine : and if such an important matter cannot be discussed now, the result would be injurious.

**Mr. President** (The Honourable Sir Abdur Rahim) : Has the Honourable Member got to say anything in reply to the point of order taken by the Leader of the House ?

**Some Honourable Members** : He has not followed it at all ! !

**Maulvi Syed Murtuza Sahib Bahadur** : We wish to condemn the failure on the part of the Government in not having communicated the intense feeling in India against the attitude taken by the British Government regarding the Palestine question.

**Mr. President** (The Honourable Sir Abdur Rahim) : Is there any proof that martial law has been declared ?

**Maulvi Syed Murtuza Sahib Bahadur** : It has appeared in the press.

**Mr. President** (The Honourable Sir Abdur Rahim) : Government deny that.

**Maulvi Syed Murtuza Sahib Bahadur** : It was declared on the 8th, and we got the information just yesterday.

**Mr. President** (The Honourable Sir Abdur Rahim) : Have you got anything to show that martial law has been declared ?

**Mr. M. A. Jinnah** (Bombay City : Muhammadan Urban) : As far as I understand, some newspapers have said that His Majesty's Government have issued a communiqué threatening to declare martial law, and troops have already been despatched to Palestine.

**Mr. President** (The Honourable Sir Abdur Rahim) : What has the Honourable Member to say as regards the " omission of the Government of India " ? Is that a definite and urgent matter within the rules ?

**Mr. M. A. Jinnah** : I am not in charge of this motion : I only made a statement of fact as it has appeared in the newspapers.

**Mr. President** (The Honourable Sir Abdur Rahim) : I want to know if the Honourable Member wishes to say anything about it.

**Mr. S. Satyamurti** : An act of omission is defined in the Indian Penal Code : an omission may be an offence, as much as an act.

**Mr. President** (The Honourable Sir Abdur Rahim) : There can be no doubt that this is a matter of public importance : but the question I have been asked to consider by the Leader of the House on the point of order is whether the alleged omission of the Government of India to bring to the notice of His Majesty's Government the feeling regarding the situation in Palestine is a definite and urgent matter : and the further point that has been raised on behalf of the Government is, there has been no declaration of martial law, and in fact what the communiqué of the British Government says is that it is to be hoped that there will be no necessity to declare martial law in Palestine. As regards the first question, I am unable to hold in the facts of the case that it is a definite urgent matter which the Government should be called upon to answer. As



[Mr. President:] regards the second point, I take it that there has been no declaration of martial law yet ; and on these two grounds the motion fails. I, therefore, hold that the motion is out of order.

### THE INDIAN COMPANIES (AMENDMENT) BILL—*contd.*

**Mr. President** (The Honourable Sir Abdur Rahim) : The House will now resume discussion on the Bill further to amend the Indian Companies Act, 1913, for certain purposes, as reported by the Select Committee.

**Babu Baijnath Bajoria** (Marwari Association : Indian Commerce) : Sir, last evening, when the House adjourned, I was discussing the previous suggestion of my friend, Prof. Ranga—I am sorry I do not see him in his seat just now—that travelling allowance should be given to every shareholder to attend meetings of the company. I would have gladly accepted this proposal of my Honourable friend, as it would have enabled me to travel throughout the length and breadth of this country at companies' cost, by buying a few shares in companies situated in Madras, Bombay, Lahore, Karachi and Calcutta. But I may tell my Honourable friend that there could not be an easier method of driving a nail into the coffin of the company than if my Honourable friend's suggestions were to be accepted. So I shall leave this suggestion to my Honourable friend alone. Indeed the whole tenor of his speech yesterday was not to speak about the promotion and development of industry in this country, but to apply the principles of Communism and Socialism in our industries. I am dead against Communism and Socialism, terrorism or any other "isms" being introduced in our industries.....

**Mr. S. Satyamurti** (Madras City : Non-Muhammadan Urban) : And Marwarism !

**Babu Baijnath Bajoria** : We are already having the evils of these "isms" in our country as a whole, and I would like that these evils should be eradicated from the body politic of our country. I must apologise for having drifted a bit from my point. I was dealing with the fact that the shareholders should take interest in the affairs of the company. Shareholders are suffering from certain disadvantages : they are not united : they are not concerted in their activities : they do not have the intelligence possessed by the directors and the managing agents. When their interests clash with the interests of the managing agents, certainly it becomes a very unequal contest. Shareholders are completely at the mercy of the managing agents : they have to remain satisfied with whatever dividends are paid to them on their investments. The managing agents, on the other hand, take the lion's share of the profits and give the shareholders only the crumbs. With your kind permission, Sir, I will read how the dividends have been distributed in the last 12 years in one company. It is a well-known company in Calcutta, named Keshoram Cotton Mills. It had 60 lakhs of ordinary share capital, and 20 lakhs of preference capital. The company was in such a bad plight that out of 60 lakhs of the ordinary capital, 45 lakhs had to be wiped off in a reduction of capital scheme. During these 12 years, from 1924 to 1936, the ordinary shareholders have got dividends of only Rs. 4,12,500, and the preference shareholders have got

only Rs. 14,50,000 and some dividends are still due to the preference shareholders. The total amounts distributed by way of dividends came to Rs. 18,62,500, whereas the Managing Agents have got Rs. 15,32,828 during these years. Sir, another thing is this. Though this Company has been for several years and still is in such a bad way, the managing agents have doubled their commission from 1 per cent. to 2 per cent. on gross sales. This is one example. Now, I shall give the House another example and that relates to the Birla Jute Manufacturing Co. Here again, Sir, you will find that the ordinary share capital and the preference share capital altogether comes to about 48 lakhs. Here the dividends which have been distributed between the shareholders, preference and ordinary, have come to Rs. 43,75,000, in spite of the fact that the Jute Mills have done very well during the past ten years, though they have not done so well during the last 2 or 3 years, but before that, the jute mills had done very well, and the managing agents got Rs. 29,36,000 during this period. My idea in giving these figures to the House is to show how disproportionate is the distribution of profits between the shareholders and the managing agents. Sir, we have to bear all these facts in mind when we frame this legislation, and I think it is our primary duty as legislators to protect the interests of the shareholders first and foremost, because, after all, it is their capital which is at stake in the company.

My Honourable friend, Mr. Sri Prakasa, said that there are two classes of managing agents, firstly, those who promote a company only for their own benefit, and, secondly, those who promote a company only for the benefit of the community and the country. I would like to point out, Sir, that most of the managing agents who promote companies have both these objects in view, namely, to serve themselves and to serve the society and the country....

**Mr. Sri Prakasa** (Allahabad and Jhansi Divisions : Non-Muhammadan Rural) : I don't deny that.

**Babu Baijnath Bajoria** : Thank you. But, Sir, there is another class of managing agents who promote companies with ulterior motives to secure personal gains and to dupe the public. Unfortunately, there have recently sprung up many mushroom companies started with such base motives, and it is to check the formation and growth of such mushroom companies that we are here to enact this piece of legislation.

Sir, I now come to the question of the duty of the Directors of a Company. It is the duty of the Directors to control and guide the managing agents in the general management of the company. In matters of general policy and broad finance, it is the Directors who should be supreme, but unfortunately the present day Directors are merely puppets in the hands of the managing agents as they owe their position as Directors to the managing agents. Sir, it is absolutely necessary that we must have a Board of Directors which shall not be unduly under the influence of the managing agents and which shall be in a position to dictate to the managing agents at least on questions of general policy and questions of broad finance. Sir, it is not uncommon that we see in the Articles of Association of Companies such rules and regulations provided so that the powers of the Directors are reduced absolutely to zero. We must provide against these things. I shall make some suggestions about the formation of a Board of Directors. In my opinion, Sir, there should be at least

[Babu Baijnath Bajoria.]

three Directors in every public company, whether incorporated before or after the commencement of this Act, and at least half of the Directors should be elected by the shareholders in a general meeting of the company. In the Bill before us, only a minimum of one-third is provided, but I want it to be raised to half.

Then, Sir, it is said that we have provided only the minimum of one-third. The shareholder may elect two-thirds, if there are no special Directors appointed on the Board. I say that if special Directors have to be elected as at present from among the debenture holders or nominees of local bodies, there is nothing to prevent the Directorate being expanded from 3 to 5 or so.

Again, Sir, it is not quite clear to me as drafted in the Bill whether the managing agents, apart from their power to nominate one-third of the Directors on the Board, will also have a right to vote in the elections for the balance of two-thirds of the Directors in the general meeting of a company. I should like this position to be made clear.

Then, Sir, I come to the system of the election of Directors in general meetings. Much has been said in this House on this matter. I support wholeheartedly the proposal that the system of election of Directors in general meetings must be by the method of proportional representation by means of the single transferable vote. It has been said by my Honourable friend, Mr. Sen, that this system will not work. With due respect to him, I beg to differ from him. I don't see why this system should not work. Some of my friends have asked me what this system is, and I shall explain it briefly. At present by the system of direct election to the Directorate, if fifty-one per cent. shareholders combine, then they can prevent the remaining 49 per cent. from sending any representative on the Board of Directors. I think this is most inequitable and unjust to those large minorities of shareholders. Under the system of proportional representation if five Directors have to be elected in a Board, then any Director who commands the confidence of 20 per cent. of the shareholders will get a chance of being elected to the Directorate. So under this system of election the majority of the shareholders will be satisfied.

Then, it was stated, Sir, that this system is a very complicated one. No doubt, it is much more complicated than the direct system of election, but that is no reason why this system should not be adopted. Sir, I suggest that in order to ensure the success of this system of proportional representation, there should be election of Directors every three years, and so far as the provisions of rotation of Directors relating to the Directors appointed in a general meeting are concerned, they should be deleted, otherwise the number of Directors to be elected each time will be so small that this system will surely fail. Therefore, I suggest that the Directors at general meetings should be elected every three years on the basis of proportional representation. This will ensure continuity of policy which has been one of the main features of this rotation system.

Then, it was said that it might be that all the Directors would have to go. I think such a contingency would not arise except on very rare occasions, and that too when the company is so badly managed that all the Directors deserve to be sent out.

Then, Sir, my friend, Mr. Sami Venkatachalam Chetty, said yesterday that there should be provincial representation on the Board of Directors. As I have said before, I do not want provincialism, communalism or any other ism.....

**Dr. Ziauddin Ahmad** (United Provinces Southern Divisions : Muhammadan Rural) : Not even rheumatism !

**Babu Baijnath Bajoria** : Rheumatism will paralyse industry and the company.

**Mr. Sri Prakasa** : Capitalism !

**Babu Baijnath Bajoria** : Without capital, there cannot be any industry.

**An Honourable Member** : We do not want the capitalist ; we want the capital.

**Babu Baijnath Bajoria** : Then I come to another thing. This is about speculation by directors in shares of the company of which they are directors. It is common knowledge that several unscrupulous directors take advantage of their position as directors and deal in shares to their benefit at the expense of others. Being on the board of directors they have got special knowledge of the affairs of the company, especially when the time for declaration of dividends come. You all know that the declaration of dividend is decided by the board of directors and is not made public at that time. The public know about the rate of dividend when the general meeting is held a few weeks after. During this interval much mischief is being done by the directors. I regret no provision has been made in this Bill to check this evil. I have given notice of an amendment, if not to check, at least to act as a deterrent on this practice and I will speak at length on this when my amendment comes to be discussed before this House.

I now come to the clauses which deal with managing agents. In section 87-A it has been provided that compensation will be paid to the managing agents if their contract is terminated before it is due. In spite of the assurance of my Honourable friend, the Leader of the House, that under this clause the managing agents cannot expect to get anything, I am sure that if my Honourable friend, the Leader of the House, is briefed on behalf of the managing agents to secure compensation for them under this clause, he will argue most eloquently and succeed also in getting compensation. With this Damocles's sword hanging over their head, I am sure that very few companies will run the risk of terminating the contract of managing agents. The whole idea of this Bill is that the contract of the managing agents should be terminated after 20 years and then it shall be optional with the shareholders to renew the contract or not. I think this compensation clause should be deleted. Provision has been added in sub-section (e) of section 87-B and sub-section (1) of section 87-C. that the first appointment of the managing agents and the remuneration of the first managing agents shall be excluded from the purview of these sections if the terms of appointment and the terms of their remuneration are mentioned in the prospectus. We all know that these terms both of appointment and of remuneration are as a general rule set out in the prospectus and are also published, but I ask my Honourable friend, the Leader of the House, to take into consideration

[Babu Baijnath Bajoria.]

the fact as to how many shareholders or prospective shareholders read those prospectuses. I will say a negligible fraction. I think these provisos will nullify the object of these sections and so they should be deleted.

There is one other thing which I want to say. That is about the manipulation of voting rights by the managing agents by the creation of different classes of shares, such as, deferred shares, founder shares, management shares, and the like. By these methods they reserve to themselves, either directly or through their nominees, the absolute voting power and control of the company and render the voting rights of the ordinary shareholders a practically nil. As I have got an amendment on this point also, I won't dilate on that at length now. A glaring instance has come into notice in Calcutta in the case of a big jute mill. I think something must be done to see that the shareholders, and especially the ordinary shareholders, get voting rights in the company proportionate to the capital invested by them.

I now come to the auditors. My Honourable friend, Mr. Sen, may be satisfied that the auditors are discharging their duties most efficiently and that there is nothing to be said against them and no provision is required. But I for one am not satisfied. I know that it is to the auditors that we as shareholders look for a detailed examination and scrutiny of the accounts of the company. You cannot expect the directors to go into the minor details of the accounts and it is to the auditors that we look for this purpose. The auditors are the watch dogs of the company, and if for some reason or other they fail to discharge their duties properly, no amount of legislation I say in other respects will improve the affairs of the company. I regret that under the present practice the auditors feel that they have amply discharged their duties if they simply tally the books of account with the vouchers. They do not question, I do not think they have got the power to question, the propriety of the expenditure. If the voucher says, Rs. 50,000 has been paid to so and so, they have to take it that it has been paid for good reason and they cannot question even if the payment may be a bogus one.

**The Honourable Sir Nripendra Sircar** (Law Member) : It will help me to answer this part of my Honourable friend's case if he will kindly inform me if he knows of any case or cases where the auditor has falsely audited. I do not want general charges. If he can give me a couple of instances I shall be obliged.

**Babu Baijnath Bajoria** : I think in the Bengal National Bank case the auditor was found to be guilty of professional misconduct and it was a big firm of European auditors, and the auditor was sentenced to a long term of imprisonment by the Court.

**The Honourable Sir Nripendra Sircar** : Let me inform my Honourable friend that I appeared for the prosecution in that case and got that sentence of imprisonment, but there was nothing wrong with the audit.

**Babu Baijnath Bajoria** : Was he not convicted and sentenced to a long term of imprisonment ?

**The Honourable Sir Nripendra Sircar** : Yes, but there was nothing wrong with his audit.

**Mr. Sri Prakasa :** Was he sent to prison simply because my Honourable friend was the prosecutor ? (Laughter.)

**The Honourable Sir Nripendra Sircar :** One of the reasons. (Laughter.)

**Babu Baijnath Bajoria :** The auditors at present perform only formal scrutiny. The substance may be wrong, but if the form is correct the auditors feel that they have done their duty. Now I will ask this question. There have been so many companies which the auditors have audited, and may I ask how many formal complaints have been made by the auditors against the companies ? When the company comes to grief, then and then only do the shareholders find out that things have been going wrong. Prevention is better than cure, and at that stage the company is already doomed, nothing can be done, and the shareholders' money is already lost. If the auditors had done their work properly and informed the shareholders, then something might have been done to protect and save the company. Whether the auditors are doing their work properly or not is another question, but I submit there should be a check on the work of the auditors. What check is provided here ? Supposing I am entrusted with a certain job and if I do not perform that job properly there must be some check over me. Otherwise, if there is no check over me, how can you expect that I shall perform my duties efficiently ? If I have no fear, then I will do it as I like.

**The Honourable Sir Nripendra Sircar :** Who will check the checker ?

**An Honourable Member :** Another checker will check !

**Mr. N. M. Joshi (Nominated Non-Official) :** The Government !

**Babu Baijnath Bajoria :** The main reason why the auditors are afraid of doing their duty properly is that they owe their appointment to the favour of the managing agents. I know that technically the auditors are appointed with the sanction of the general meeting of the company but that is merely a technical thing. It is the managing agents to all intents and purposes who appoint the auditors and it is they, if they like, who can remove them.

**Mr. M. S. Aney (Berar Representative) :** May I ask the Honourable Member whether he can even now give any instance where auditors have failed to do their duty ?

**Babu Baijnath Bajoria :** I have already given.

**Mr. M. S. Aney :** The Law Member has given some explanation.

**Babu Baijnath Bajoria :** No explanation has been given.

**Mr. S. Satyamurti :** Read Lokanathan's book.

**The Honourable Sir Nripendra Sircar :** Auditors have brought out defects in the working of companies hundreds of times. Under the present law, the companies need not publish them. We now make it compulsory for these reports to be published and my friend can take it from me that the auditors have brought out defects hundreds of times.

**Babu Baijnath Bajoria :** In this Bill, I am glad that loans to managing agents, directors and auditors have been wiped out. This will go a long way to check the evils of the present practice. I am also glad that a

[Babu Baijnath Bajoria.]

profit and loss account has been made compulsory. It has been made compulsory that the profit and loss account will be shown along with the balance sheet of the company, though in many cases the profit and loss accounts are shown even now. I am also glad that it has been provided that the account of the subsidiary company will be circulated to the shareholders of the holding company. There is one other point and that is about the valuation of the stocks and investments in balance sheets. At the present moment these valuations are made according to the whims and mercy of the managing agents and they value it at cost or at market value or under cost or under market value or whatever they like. There must be some system in it. It must be either cost or market value, preferably whichever is less and they must not value their stocks and investments at anything except at cost or market value. Sir, my main object in pointing out some of the defects which exist in the present Bill is only with the intention that they may be remedied. I want that the industries of our country should prosper and that companies may prosper, but at the same time we want that there should be restrictions and control over managing agents, directors and auditors, so that they may not abuse their position. I am wholeheartedly in support of this Bill and we are very much grateful to the Honourable the Law Member for the trouble which he has taken in framing this Bill and I think he has done a real service to the country in promoting this measure. There is one thing which I have forgotten. The Honourable the Law Member said the other day that rich Marwaris have a habit of dying at convenient times. I think that is only a humorous remark. I know that the Honourable the Law Member has got plenty of humour and I won't mind it if this remark was not intended to cast any aspersion....

**The Honourable Sir Nripendra Sircar :** I can assure my Honourable friend that no aspersion was meant.

**Babu Baijnath Bajoria :** I am glad. I would not say anything on that. The Honourable the Law Member will bear with me that I did not object to the provision of clause 82 made in the Select Committee. It was my sense of business integrity and honesty that induced me to accept that provision even though it encroached upon our Mitakshara Law. There are one or two sections in this Act which affect us, the Hindus. I am sorry that I could not make the Select Committee agree with my views. That is first about section 4 in clause 3. This section provides that if there are more than 10 persons who want to do banking business or if there are more than 20 persons who want to do any other business, they must form themselves into a private company and if this provision is not complied with, the offence is made penal and the parties will be fined Rs. 1,000 and they will also be subject to a civil liability. The Honourable the Law Member knows very well that there are innumerable Hindu firms—partnership firms, joint family partnership firms—which have got more than 20 members. It is a common practice amongst us Indians for four or five families to join together and do business. Under the present clause, we shall be prohibited from doing business until we have formed a joint stock company. We know that to form a private company means that we shall have to keep our accounts in English. We shall have to appoint an accountant and shall have to abide by so many rules and regulations under the Company's Act that it is impossible for an illiterate



man, the ordinary businessman, who does not know English to comply with all these requisitions. It shall be an undue and unnecessary hardship on us and I request my Honourable friend the Leader of the House to save us from this hardship. I have given amendments to this effect. I shall deal with them later on. Then, again, about the transfer of shares, some difficulties have also been experienced by us. We do not take letters of administration on the death of a member of a family. Why should, for the purpose of transference of shares, we be foisted with the onus of taking letters of administration? The production of a succession certificate ought to be enough. With these few words, I wholeheartedly support the Bill and shall be glad to see it placed on the Statute-book.

**Sir Leslie Hudson** (Bombay : European) : Sir, I do not propose to detain the House over a lengthy survey of the Bill as it has emerged from the Select Committee. I heartily agree that it is a very much better Bill than the one that was originally placed before the House but there are some clauses on which we are still not in agreement and which we should like to see altered. My Honourable friends, Mr. Ayyangar, Dr. Ziauddin, and, I think, Prof. Ranga, propounded some rather startling theories of commercial economics which really are so Utopian in their conception that I cannot see how they can be practicable in the present order of things. Nor do I think that the revolution which was mentioned by my Honourable friend, Pandit Govind Ballabh Pant, is likely to bring that about. For my part, I prefer evolution to revolution. (Hear, hear.) Revolution implies, especially just now, a particularly sanguinary state of affairs and would bring in its train the wholesale destruction of institutions and practices which have been built up by years of experience; but, if I may, I should like to pay a tribute to my Honourable friend, Pandit Govind Ballabh Pant, on the constructive speech in which he criticized the measure before us. None of us want to perpetuate the instances which have been quoted in this House where managing agents have manipulated contracts for raw materials and other supplies for their own benefit, to the detriment of the company for which they have had the management, but the restricted clauses which it is sought to include in the Bill to deal with such contracts are of such a nature that they will defeat a part at any rate of their object. It may and often does happen that managing agents are the best and the most economical channel through which such contracts and such purchases can be made. As my Honourable friend, Mr. Susil Sen, mentioned in his speech—on which I should like to congratulate him as being a very fair and unbiassed statement—the Bill is intended to restrict, but not to strangle. As an example of the danger of undue restriction, I would, however, draw the attention of the House to the effect of clause 87 A (2), to which many amendments have been tabled, to limit drastically the tenure of managing agents' contracts. I am aware that the Honourable the Law Member has said that he will be dealing fully with the whole question of managing agents and I do not want to infringe upon his line of action. From our point of view we shall deal with that when we come to the stage of the relevant amendments. I would only utter a note of warning as to what would be likely to happen if the tenure of existing managing agents were terminated in two or five or ten years, as some Honourable Members would like to see effected. Companies which have for years past been nursed and financed by their managing agents would find that their managing agents would, for their own protection, have to



[Sir Leslie Hudson.]

call in the monies advanced by them—and very considerable sums in many cases—with the obvious result that those companies would find their resources so restricted as to leave them faced with disaster. And, Sir, this is not a cry of “Wolf”—it is the bare and unpleasant fact. In addition to the losses which would occur to thousands of shareholders who have for years past relied on the financial strength and reputation of their managing agents, it would also result in a very serious restriction of trade in every direction.

Another instance is the inclusion of regulation 107 of Table A as a compulsory part of every company's articles. This regulation, as the House well knows, illustrates what items should be included in a company's profit and loss account. We consider that it is not possible to lay down a hard and fast rule and to standardize the form of profit and loss account applicable to each of the many classes of company which exist in this country. Similar conditions cannot exist for every class of company and the inclusion of this regulation is going to prove an unnecessary hardship. We are not in any way desirous of precluding the disclosure of the company's position to the shareholders, should they by a resolution express their desire in that direction, but a compulsory disclosure, we maintain, may be most detrimental to the interests of the shareholders themselves, in that information of importance to their competitors may thereby be made public.

Other danger points in the amendments which have been sent in are not difficult to find. I would specially point to the words “directly or indirectly” which find a place in several important amendments. It has not been easy in the Select Committee to find definitions for several terms used in the Bill. But I am at a loss entirely to see how those words “directly or indirectly” are going to be interpreted.

There are other points, Sir, which we wish to raise when we come to the discussion of the clauses of the Bill. We have had some difficulty in finding ourselves in agreement with certain of the clauses in the banking section which we hope we may be able to improve by amendments which we shall move. Amongst the amendments which we shall be moving are some which are questions of principle with us, and there are others which, while possibly of less importance, will, we think, improve the Bill by removing doubts in the language employed or which will prevent positions of impracticability arising. When one sits down after the conclusion of a Select Committee on an important matter such as this Bill is, points are bound to occur where decisions reached in the Select Committee are found to have contingent results which were not observed at the time. This will very likely be the case after the Bill has been passed into law and I hope the Honourable the Law Member will assure us, in his reply to this debate, that if errors and omissions are found in the practical working of the Bill, Government will give the House the earliest possible opportunity of correcting them.

There is just one point in the speech of my Honourable friend, Mr. Sri Prakasa, which I should like to refer to. He alluded to the first joint stock company of India and its first managing agent, Mr. Robert Clive. I think another of his colleagues would be only too willing to produce an Indian version of that celebrated film “Clive of India” if he would get the assistance of Mr. Sri Prakasa in the leading role and we shall enjoy

the scene where our friend would be issuing his edicts in one-clause Bills. (Laughter.) Sir, it should I think be a pleasure for all of us to debate a measure like this on which we are not likely to be divided on ordinary party lines ; and so far as my Group is concerned, I can assure the House that our whole endeavour will be to produce a Bill which will give a fair deal to the shareholders, to the directors and to the managing agents, and that, I believe, is the intention of both sides of the House.

In conclusion, Sir, I would like to pay a tribute to the work that has been done in connection with this Bill by my Honourable friend, Mr. Susil Sen, and the Honourable the Law Member. (Loud Applause.) Mr. Sen's report is an eminently able document and his frank confession yesterday on one point that on examination of further evidence he had changed his view is an illustration of his desire to be fair to all the interests concerned. (Hear, hear.) My Honourable friend, the Honourable the Law Member, outstanding lawyer as he is, was of the greatest assistance to us all in the Select Committee : and if, with the help of this House, we are able to place on the Statute-book a measure which contains a much-needed reform of the company law of the present day, which will profit the shareholder without restricting trade or hampering industrial development, his name will be remembered with gratitude by all sections of the community. (Loud Applause.)

**Dr. B. D. Dalal** (Nominated Non-Official) : Mr. President, in supporting the motion moved by the Honourable the Law Member to take into consideration the Bill further to amend the Indian Companies Act of 1913, as reported by the Select Committee, I desire to refer to some of the general considerations and salient features of the Bill.

In the first place, I heartily congratulate the Honourable the Law Member on bringing forward this Bill. I think the general reform of Company law has been long overdue. I am sure that this is a Bill which the House will welcome as a practical and substantial contribution to commercial law ; and I hope that the House will agree that we owe a real debt of gratitude to the Honourable the Law Member, who has been indefatigable over this Bill in order to bring company legislation in India up-to-date and to minimise the risk of frauds, malpractices, and abuses in company management. The Honourable the Law Member has carefully weighed the advantages and disadvantages of action and has sought to find the happy mean. In every case where there is a recognised evil against which the public ought to be protected, such protection has been afforded in the Bill ; and in preparing this Bill the Honourable the Law Member has constantly kept in view one great consideration and it is that while the abuses must be stopped, nothing should be done to stop legitimate and good business from finding full play so that the trade and commerce may be brought to the country.

Sir, this Bill will set up a standard of honesty and a standard of conduct, which will enable the investing public to judge fairly easily whether a company may be regarded as a respectable company or not. Encouragement of the investment habit is a most desirable thing in India, because it will tend to discourage the holding of wealth in inert forms. If we are to have money for industries in India, it is essential that there should be in the mind of any intending investor the sense of security in the investment.

[Dr. R. D. Dalal.]

Sir, this Bill contains a large number of provisions from the English Companies Act of 1929, and also further provisions directed particularly at the managing agency system. The managing agency system has rendered great services to industry and commerce in India; but to prevent abuses certain safeguards have been found to be absolutely necessary, and provisions have been inserted in the Bill accordingly. Honest and conscientious managing agents have nothing to fear from this Bill. On the contrary, they are likely to benefit, because these safeguards will inspire confidence amongst the investing public and will also eliminate competition of a most undesirable character. This Bill gives ample protection to the old and existing agencies, and it places strict restrictions on unsound flotation of new companies. This Bill gives ample powers to the Board of Directors to exercise proper supervision over the managing agents. It also gives the shareholders greater control, and it also provides for proper disclosures in the prospectuses and balance-sheets.

Now, Sir; I shall just say one word as regards the remuneration of managing agents. A commission on production is generally admitted to be most unsound. A mill or a factory or a mine may turn out products at, above or below the market price, but the managing agent will keep working in order that his remuneration may be maintained undiminished. A commission on sales is equally open to objection. The sales may be effected at a profit or at a loss yet the remuneration of the managing agent is secure. But the most satisfactory method of remunerating managing agents was first introduced by that great Parsi industrialist, the late Mr. Jamsedji Nasarwanji Tata. That method is a fixed percentage on net annual profits, at the same time providing for a minimum amount of remuneration in case the figure of remuneration on net profits is lower than the minimum fixed. Many first class companies have already adopted this method of remuneration, and under this Act this method of remuneration becomes compulsory. In the existing companies where this method of remuneration obtains, attempts are sometimes made to secure larger remuneration by artfully defining the phrase 'net profits'; and under that definition legitimate charges against profits, such as depreciation, are excluded while subsidies and bounties are included. But under this Act the term 'net profits' is legally defined. So, in future the amount of remuneration of the managing agents will be calculated on that basis.

Sir, to my mind, an arresting feature of the Bill is the provision it makes for regulating the working of what are known as parent companies and subsidiary companies. This branch of company organisation is comparatively recent. A large company forms a number of smaller companies, and purchases 50 per cent. or more of their capital. The large company is called parent company and the smaller companies are known as subsidiary companies. The English Act of 1929 provides legislation for this branch of company organisation, and in the light of the experience obtained in Great Britain since the passing of the Act of 1929, this Bill goes a step further and provides that along with the balance-sheet of the parent company the last audited balance-sheets and profit and loss accounts of the subsidiaries also should be published and circulated amongst the shareholders of the parent company. This enables the shareholders to appreciate the financial position of the companies in which their money is

invested. This subsidiary system is open to grave abuses, and provisions have been inserted in the Bill to prevent or check abuses.

Sir, a remarkable provision introduced by the Select Committee allows a Registered Accountant to style himself as Chartered Accountant; India. This piece of legislation, if enacted, would legalise a virtual fraud on the public; and it would be tantamount to an expropriation of the rights of legitimate professional chartered accountants, who have had to obtain a high degree of qualification at considerable expense after five years' study in order to earn that designation.

Now, Sir, I shall touch upon a very important point and that is in respect of the multiplicity of directorships held by one man. I think it would be extraordinarily unwise to lay down that a man should only be a director of a fixed number of companies. In no walk of life are men of great ability too common today, and I think it would be a most unfortunate thing at a time when we want industry to develop, at a time when we want to get industries rationalised, at a time when we want driving power and experience of able men in such developments. I think we could not do a more futile thing than to lay down that a man can only be a director of a fixed number of companies. I am strongly of the opinion that we should not do any thing to fetter the elasticity with which businesses ought to function.

I think the Bill, which is now before this House, is a step in the right direction and is a real advance in company law administration. It is a real attempt to keep the business of the country clean and good, and to maintain our credit, which is a matter of prime importance to trade and commerce of the country. (Hear, hear.) This Bill is regarded as a Bill of more or less technical character. That is true, yet this is a Bill which affects the industrial and commercial life of the country. It must be realised that much business of the country is done through public companies, and the amount of money which is invested in public companies and put into business is colossal. The number of new companies registered every year is fast increasing. The commercial success of the country depends upon the way in which these companies are conducted. It is true that many companies are honestly and conscientiously managed, but unfortunately the exceptions to the rule are larger than we should like to see—hence the urgent and imperative necessity for this Bill; and I am confident that this Act, if placed upon the Statute-book, will promote the commercial prosperity and integrity of the country. (Applause.)

The Assembly then adjourned for Lunch till Half Past Two of the Clock.

The Assembly re-assembled after Lunch at Half Past Two of the Clock, Mr. Deputy President (Mr. Akhil Chandra Datta) in the Chair.

Mr. N. M. Joshi : Sir, I propose to occupy the attention of the House only for a very short time. At the outset, I would like to enter a protest against the failure of Government to help the Members of the Assembly in studying this complicated measure. Sir, after my arrival at Simla, I received a heap of papers. If you know the number of pages that were handed over to us, you will easily find how difficult it was for Members even to read them all, much less to study them closely.

[Mr. N. M. Joshi.]

I would suggest to the Government of India that as they generally supply members of the Select Committee with an analysis and summary of the opinions received on the Bills, they should not deny the same privilege to the Members of the Assembly who do not have the advantage of being members of the Select Committee. I am not quite sure whether the members of the Select Committee on this Bill were supplied with an analysis and summary of the opinions.

**The Honourable Sir Nripendra Sircar :** No, they got no summary.

**Mr. N. M. Joshi :** But I know that it is generally the practice of the Government of India to supply an analysis of the opinions received on the Bills to the members of the Select Committee. If they were not supplied to the members of the Select Committee, I suggest to the Government of India to follow the usual practice on all occasions. It is difficult to read all the opinions and to analyse into various sections on which the opinions are expressed. I would also suggest to the Government of India in a Bill of this kind to help the Members in studying the clauses by printing the original Bill and the original clauses along with the amendments proposed to the clauses. If a Bill is a small one, we do not expect the Government of India to help us in studying that measure, but, in the case of a complicated measure of this kind, Members will be very grateful to the Government of India if they would help them in some way in studying the various clauses of the Bill.

Sir, as regards the Bill itself, I must admit that the present Bill, as it was introduced in the Legislature, was an improvement upon the original Companies Act. If we study the report of the Select Committee and the amendments made by the Select Committee, I cannot say that most of the amendments made by the Select Committee are an improvement on the Bill from the point of view of either the investors or the public. On this occasion, Sir, I do not propose to deal with the various clauses of the Bill. I shall deal with certain general principles and the foundations upon which the commercial and industrial organisation of this country is based. While doing so I shall try my very best to avoid incurring the displeasure of my Honourable friend, Mr. Bajoria, or my Honourable friend, Sir Leslie Hudson, by not entering into problems like communism or revolution or even utopia. I shall try to deal with practical proposals. I hope my Honourable friends will also find them practical as I find them. In the first place, a company is brought into existence when an individual or a few individuals find it difficult to raise the capital necessary for carrying on a certain business or an industry. A company is an organisation intended for that purpose. It is a co-operative effort, and as it involves the principle of co-operation, I consider that it is a sound effort. Unfortunately the method which has been used in bringing about co-operation between various individuals in order to secure the capital and form an organisation is a wrong one. The main feature of the companies which are established under the present company law not only in India but in various countries is that only those people who invest money in a business or in an industry control that business and that industry. Sir, it does not require any long argument to convince any one that for the

success of a trade, business or industry it is not enough that the investors should pool together their financial resources and raise a certain amount of capital. For the success of a business, besides capital, you require people who will utilise the services of that business or of that industry, people whom my Honourable friend, Professor Ranga, called consumers. Then, Sir, for the success of a business or an industry you require a large number of employees who have no hand in the management of that business or that industry. Besides those people who require the services of that business or industry and the employees of that industry, the general public is very much interested in any trade and industry which is carried on a large scale in any country. When a business or industry or a company is registered under the present company law, care is generally taken to protect the interests of those people who invest their money in that business or in that industry. Hardly anything is done to protect the interests of those people who utilise the services of that business and of those who are employed in carrying on the work of that business. The interest of the public too is equally neglected. Sir, this is my first and fundamental criticism of the original Companies Act and the Bill which is placed before the Legislature for consideration this afternoon.

The companies which are formed under the present legislation are formed of investors. The ownership of the business is in the hands of those people who invest the money. The control is generally shared between the directors elected by the investors of money and another set of people called managing agents. I feel that if the Honourable the Leader of the House was to introduce a right measure for regulating the business of companies in India, he should have included some clauses by which the interests of the consumers, the interests of the employees and the interests of the public in general were safeguarded. The proposals which I am making are not so Utopian as some members might feel and believe. I know there are insurance companies which give representation on their board of directors not only to those people who invest money but who take out policies from that insurance company. It is the representation of those people who utilise the services of that business and of that trade. So the proposal of giving some representation to those people who utilise the service of a trade is not a Utopian one. Similarly, the proposal to give representation to the employees of that trade or business or industry is not a Utopian one. There are several concerns established in America which give representation to the employees employed by a particular trade, business or industry. Similarly, the representation of the public through the Government is not a Utopian proposal. That is done now in the case of certain public concerns even in India. I, therefore, hoped that when the Government of India had proposed a Bill for safeguarding various interests involved in the trade and industry of this country, they would have introduced some clauses by which these interests which I have mentioned would have been safeguarded.

Then, I would like to say a word about the distribution of the board of directors proposed under this Bill. I fail to understand why the managing agents should have any directors on the board of management. To the extent to which the managing agents are shareholders they get representation on the board of directors;

[Mr. N. M. Joshi.]

but beyond that I cannot understand what interest the managing agents have in that concern. Even if the object of the Government of India was to protect the interests only of the investors, they should have given larger representation to the investors and not given any representation to the managing agents. The present Bill has reserved one-third of the number of directors to certain interests which are not mentioned....

**The Honourable Sir Nripendra Sircar :** That is not so.

**Mr. N. M. Joshi :** I am sorry if I have made a mistake in that respect. I thought that if a certain proportion of directors is not definitely assigned to any interest, I would like the Legislative Assembly during the consideration stage to allot a certain number of seats in the board of directors to the employees and the consumers of that trade or business.

Then, I would like to make a few remarks about the way in which the directors are elected. I feel that if a business or a company is to be conducted on democratic lines the proper method of electing the directors is to give one man one vote, even if that representation is restricted to those people who invest money. That is the principle of democracy. It may be said that those people who invest more money have got larger interest in that concern or that they take greater risk. I do not agree with that view. A man may take one share in a company worth, say, Rs. 100. Another man may take shares worth Rs. 1,000 : but to a man who takes one share worth Rs. 100, those Rs. 100 may be worth much more, may involve much greater risk than the Rs. 1,000 invested by another man who possesses property worth several lakhs or crores. I therefore feel that it is wrong to base your representation upon the amount of money invested by the shareholders in any concern. The best thing in my judgment would be to give one vote to one shareholder. Even if my proposal is not accepted as being too radical or too revolutionary or being too Utopian, I suggest that the Bill should lay down at least some maximum limit beyond which no shareholder should have larger votes. The voting strength of a shareholder should be limited. That principle is not a Utopian one. That principle has been accepted by the Government of India in the Reserve Bank Act.....

**The Honourable Sir Nripendra Sircar :** No.

**Mr. N. M. Joshi :** Yes. In any case it is a proposal which should meet with the approval of this Legislature. I would like to support the proposal made by my Honourable friend, the Deputy Leader of the Congress Party, that the election should be made by proportional representation. My Honourable friend, Dr. Ziauddin Ahmad, made a proposal for reserving a certain portion of the directorate to the smaller investors. I suggest to him to support the proposal which I have made namely, that those people who invest larger amounts of money should not be allowed to vote according to the amount of money invested by them ; but the voting strength of each individual should be limited to some maximum figure.



I would now like to say a few words about the managing agency system. The managing agent is generally a man who takes part in floating a company. He is a promoter of that company or of that business. Generally speaking, as a promoter he is paid for all the trouble he takes. I feel that the fact that he takes part in promoting a business or in floating a company should not give him any more interest in that company or business beyond the fee he is paid for the flotation of that company. Mr. Deputy President, I am one of those who feel that the managing agency system has not done much good either to the trade or to the industries of this country. I found from the speeches of various Honourable Members that they have bestowed high praise on the managing agency system as they seem to think that that system has been responsible largely for developing the trade and industries of this country. Mr. Deputy President, it is very difficult to prove what the condition of the trade and industries of this country would have been if the managing agency system had not existed here. But let us remember this, that the managing agency system does not exist in any other part of the world.

**An Honourable Member :** Nowhere do you find it.

**Mr. N. M. Joshi :** The other countries in the world have developed their trade and industries without the managing agency system, and if this managing system had not come into vogue in our country, perhaps we too might have developed our trade and industries to the same extent to which other countries have without this managing agency system. Therefore, it is wrong to say that the present condition of the trade and industries of this country is due to the managing agency system. There is a proposal, Mr. Deputy President, that managing agents who have got an interminable contract with a company should be given compensation when that contract is terminated. I fail to understand, Sir, the justification for this proposal. One can understand that a managing agent who floats a company and who was elected by the shareholders to manage the business of that company may have capacity and knowledge to manage that business and that industry, but nobody can say that simply because a man possessed capacity and knowledge to manage an industry, his sons, his heirs and successors will possess the same capacity.....

**Sir H. P. Mody** (Bombay Millowners' Association : Indian Commerce) : It is in their blood.

**Mr. N. M. Joshi :** I, therefore, feel, Mr. Deputy President, that an interminable contract for the right of a managing agency is a contract which is against public policy and public interests, and if a contract which is against public policy and public interests is broken, I am sure nobody will say that any compensation is due. The managing agents should thank their stars that they are not to be dealt with more severely for making contracts which are against public policy and public interests.

Mr. Deputy President, after having dealt with the question of the managing agency system, I would like to say a few words on some other points involved in this question. The first suggestion I would like to make to the Government of India is that they should make adequate provision to safeguard the interests of a company regarding



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the minimum subscription of the capital required for carrying on a business or industry properly. I know there is some proposal made in this Bill, but I feel that that proposal is not adequate. Supposing the carrying of a business requires a capital of 50 lakhs, and a company is floated with a capital of only 25 lakhs, it is but right that the Government should intervene and prevent such a company being floated in the interests of the general public and of those people who would invest money in it. We know that if a business is likely to require a capital of 50 lakhs, and if a company is floated to carry on that business with a capital of 25 lakhs, that business will not be conducted properly. That company will soon come to ruin. It is therefore necessary that the Government should reserve to itself the power to prohibit a company being floated when they find that the capital put down in the prospectus as being necessary for that business is not adequate to carry on the purposes of that business.....

**Pandit Lakshmi Kanta Maitra** (Presidency Division : Non-Muhammadan Rural) : Who will judge that ?

**Mr. N. M. Joshi** : Government will judge that.

**The Honourable Sir Nripendra Sircar** : Mr. Joshi has great faith in Government ?

**Mr. N. M. Joshi** : Well, Sir, I have faith in Government, but the Government have no confidence in themselves, and it is our misfortune. Then, Sir, I would like the Government of India to strengthen the provisions regarding the power of the directors and the managing agents to make use of the funds in the company for their personal interests....

**Sir H. P. Mody** : Rubbish.

**Mr. N. M. Joshi** : The provision made in this Bill is a very weak one. I would like the Legislature and the Government of India to make adequate provision to prevent the directors, their partners, their relatives not only from taking loans from the company, but taking any advantage of their position in that company.....

**Sir Cowasji Jehangir** (Bombay City : Non-Muhammadan Urban) : Also their employees.

**Mr. N. M. Joshi** : Then, Sir, I would like the Government of India to make a provision in this Bill for restricting the dividends which are distributed to the shareholders when a company makes large profits. It is absolutely necessary in the interests of the investors in the interests of the public in general, that there should be a restriction on the dividends distributed to the shareholders in a particular year. We have seen, Sir, how some industrial undertakings have gone to ruin on account of the fact that when they made huge profits they did not keep anything in the reserve fund but squandered away the profits by paying huge dividends. To give huge dividends is not to the interest of the shareholders themselves.

Then, Sir, the Government of India should also prohibit the practice of giving bonus shares to the shareholders when a company makes more than ordinary profits. The practice of giving bonus shares by which the company becomes over-subscribed and the capital is watered

is harmful, and several industrial undertakings have come to grief on account of this practice.

Then, Sir, I would like the Government of India and the Legislature to make provision for the protection of the interests of the employees engaged in a business or industry. I have already suggested that the employees of a company or a business should have representation on the Board of Directors. I would now suggest that besides this, the Legislature should give some more protection to the employees of a business or industry by laying down conditions for this purpose in the Articles of Association or by compelling a company or an industry to take out a licence on particular conditions regarding the life and work of those employees. Well, Sir, only recently the Assembly discussed the Motor Vehicles Bill, and in that Bill the Government themselves have provided that a licence is necessary, and one of the conditions upon which a licence is given is that the number of hours of the employees should be restricted. If that can be done in the case of the motor transport business, I do not know why that cannot be done in the case of other companies. I therefore hope that the Legislature and the Government of India would insert some clause for the protection of employees of the companies which are registered under the Indian company law. Then I would like to support my Honourable friend, Prof. Ranga, in the demand which he made for inserting some provision in this Bill for avoiding the danger of a private monopoly when a cartel or a merger is brought into existence in such a way that the interests of the public will be endangered. Mr. Deputy President, the industry and commerce in this country have now reached such a stage of development that these mergers will become more and more frequent. We have already got a cement merger. People are talking of a sugar merger, we have also heard of the steel merger. These mergers under the present capitalist system are bound to come but they being a danger to the consumers must be avoided, in any case, measures should be taken to see that they will cease to be a danger to the consumers. Provisions of this kind are not unknown in the history of legislation on this subject in the world. I would therefore like the Legislature to introduce some clauses by which the danger which the country is bound to meet with from the mergers may be avoided. Then I would like some provision in this Bill in connection with what are called public utility services. These public utility services enjoy certain privileges and they are businesses and industries upon which the welfare of the community depends. Therefore the business of the public utility concerns should be under greater public control. Unfortunately, the Government of India in this Bill make no distinction between an ordinary company and a public utility company. There is legislation on the Indian Statute-book for treating the employees of a public utility company differently. The employees of a public utility company are at a disadvantage inasmuch as they are not allowed to go on strike without notice. If, Sir, the employees of a public utility concern are placed at a disadvantage by legislation, why should not the Government of India put special restrictions upon the public utility companies for the protection of the interests of the public? Then, Sir, I would like the Government of India to make some provision for the inspection of the companies which are registered under the Indian Companies Act. We may pass

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a company law and we may improve it, but unless there is some machinery for the inspection of the working of these companies the interests of the investors and of the public will not be safeguarded. The men who conduct the affairs of these companies are very clever. They know how to get round the law and they will get round the law. I would therefore suggest to the Government of India that they should not be content with merely passing this law, but they should make some provision to create a body of inspectors who will inspect the affairs of these companies and report to the Government of India for such action as they may deem fit. Before I sit down I would like to make one remark about the audit of these companies. Several speakers have spoken pointing out the necessity for independent audit. I would suggest that if the audit is to be really independent it should be an audit conducted by the Government Audit Department. It may be said that I have more confidence in the Audit Department of the Government of India than the Government of India themselves have in them. But, on the whole, considering the independence shown by the private auditors, chartered or registered, and the independence of the Government Audit Department, I am justified in stating that the audit by the Government Audit Department will be much more independent and will be much more satisfactory than the audit by any private body of auditors, registered or chartered. I would like the Government of India, therefore, to hand over the business of auditing the companies in India registered under the Companies Act to the Government Audit Department.

**Sir P. H. Mody :** What about trade union accounts ?

**Mr. N. M. Joshi :** The trade union accounts are audited by auditors and the Government, being friends of labour, some of the Local Governments give the services of their auditors free to the trade unions. The Government of India are very watchful as regards the affairs of the trade unions in this country. I do not now wish to speak any more, but before I sit down, I would like to say that. If the public control over the commerce and industry of this country is increased and tightened, it will do no harm at all to the trade or industry of this country. On the other hand, I have absolutely no doubt in my mind that if the public control is increased and strengthened the commerce and industry of this country will greatly prosper. Sir, I have done.

**Rai Bahadur Seth Bhagchand Soni (Ajmer-Merwara : General) :** Sir, the warm welcome with which the present Indian Companies Act (Amendment) Bill is received by all classes of Indian commercial community is an ample testimony of the fact that a long felt demand has been satisfied by this Bill. The Government and the Honourable the Law Member deserve the highest congratulations for bringing out this Bill, which exhaustively overhauls the company law and meets the demands of all classes of commercial bodies. It is hoped that when this Bill is passed into law it will mark a new era in the development of joint stock business in this country.

Firstly, Sir, I am happy to note that special care has been taken in this Bill to check the growth of mushroom companies. The flotation of mushroom companies has been a great evil and has seriously

destroyed the confidence of the people in joint stock concerns in most parts of the country. It is a matter of common knowledge that crores of rupees have been lost by the unwary and credulous investors by subscribing to the shares of such concerns which have been floated during the last several years. Several loopholes and defects in the law attracted many unscrupulous promoters to launch concerns with big names and colossal authorised capital and the public had no control or check over such ventures. Sir, the Shareholders' Association of Bombay must be credited for their bold attitude and useful propaganda in bringing to light several cases in which the Directors and Managing Agents have acted in utter disregard of the shareholders' interest. Under these conditions, the introduction of this measure in this Bill will go a long way in creating confidence of the investing public in the new concerns. The second important feature in the Bill is the recognition of the Managing Agency System. Divergent views have been expressed by different classes regarding the Managing Agency System. Unfortunately the Managing Agency System has been blamed too much and condemned for evil practices and mismanagement. There is nothing inherently wrong in the management of the Companies by the Managing Agents if the Managing Agents perform their duties with scrupulous care and honesty and best of intentions. The system cannot be condemned entirely. There is a need for reforming this system and making it amenable to public criticism and popular check. The Managing Agency System has functioned in this country as a very great factor for fostering the development of almost all the industries and has been discharging some very necessary functions in the industrial development of the country. It has been entirely due to this system that necessary capital, experience and enterprise have been available for the successful working of many big industries such as cotton, jute, etc. It would be really very unfortunate if the managing agency system would be abolished. It is gratifying therefore that the indispensability of the managing agency system has been recognised. The Bill provides to restrict the life of the managing agency system to twenty years and to fix their remuneration on the basis of fixed percentage of profits. These two changes will of course satisfy the opponents of the managing agency system when other checks and restrictions are considered along them.

Sir, the other bright feature of the proposed amending Bill is the giving of increased rights and privileges to the shareholders. It is recognised that the present position of the shareholders is very unsatisfactory and under these conditions the shareholders cannot have an effective control on the management of the companies or can have their grievances redressed. In some of the companies the shareholders have felt that they are not considered as owners of the company but they are marked out as undesirable outsiders. Any protests or objections raised by them regarding the affairs of the company are never heard and it is no surprise that such a state of things engenders strong prejudice against the managing agents. But I am, Sir, sure that this could not have happened if the shareholders would have taken a keen interest in the affairs of industries. They are also no less responsible for their neglect of duty. Some of the provisions made in this Bill for giving the shareholders many facilities for enforcing their rights and for obtaining all reasonable information regarding the affairs

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of the company will serve a better guarantee for sound management of the companies. Sir, it is believed that providing of these facilities to the shareholders and giving them opportunities to take more interest in the affairs of the company will banish all misgivings and doubts which the shareholders have so long felt in making their voice effective. In this connection I may also express my apprehension that in giving all such rights to the shareholders there is danger that irresponsible and hostile shareholders may create unnecessary troubles sometimes. There is therefore a need to protect and safeguard the companies against such reckless shareholders.

The Bill has included some provisions regarding the banking companies. In the very near future, Sir, a comprehensive banking legislation will have to be proposed as only some aspects of banking business have been touched in this Bill. The importance and function of banking concern do not seem to have been fully considered by the Select Committee and it would have been desirable if a comprehensive Bill for the management of the banking concern had been proposed. The Bill before us has laid down some special provisions for exercising a statutory control on the management and the constitution of the bank. The proposed section 277-E and subsequent sections raise many complicated and difficult questions upon which I hope to have more to say when the time comes. The provision of minimum working capital is indeed very satisfactory and it will check the flotation of banking companies with small capital. It also serves as a guarantee to the depositors and customers of the bank.

Sir, I do not wish to go in much details into the different clauses of this Bill at present as this House will have ample opportunity of discussing the Bill clause by clause when various amendments will be moved at different stages by the Honourable Members of this House. I whole-heartedly support the general principles of the Bill and shall be glad to see it passed into law. With these few remarks, Sir, I resume my seat.

**Mr. Mathuradas Vissanji** (Indian Merchants' Chamber and Bureau : Indian Commerce) : Mr. Deputy President, this action of the Government to amend the Company Law has not come up too soon. The attention of the Government was drawn to the necessity of bringing about a change in the present company law by my Chamber as far back as 1914. Since then other commercial bodies also have taken up the demand, and latterly even the Federation of Indian Chambers of Commerce and Industry have also voiced their opinion on the same lines. Our present Law Member as Leader of the House saw the necessity of doing something in that direction and appointed Mr. Sen to review the position and make a report with his recommendations. That was done by him, and since then the procedure followed is well known to the Honourable Members here. The result was that the Bill was placed on the table of the House last Session, and a Select Committee was appointed for considering it in detail. The Bill has been gone through by the Select Committee very carefully. I should say and I should also like to mention that in the imperfect world in which we are living it cannot be expected that the results of the committee would be the best and most suitable to

everybody concerned. At the same time I must say that the Committee with the materials before it has done its best to look to the interests of all concerned, and brought out the necessary changes and recommendations for the House to consider at present. Mr. Sen has already explained the necessary changes that were brought about and I am not going to repeat them again today. But the attention of the House for the most part has been centered round the much abused managing agency system, and I will have to say a few words about that. Although there are many things to be said for and against the managing agency system, one has only to look at it from the practical point of view. One may not like it, but one has got to move with the times he is in, and, considering that, I say that the managing agency system has done a lot of service in the past. At the same time it has been abused by a few exceptions that must not be made a target for that very reason. We know as a matter of fact that this system of ours is mainly to be found in this country, but the counterpart of it to a certain extent is prevalent also in America, though not in the same form. In Japan such businesses and concerns are managed by the directors who are well-paid to look after them. There are also Trusts which look after the industries, but we must not forget the conditions prevailing there. Japan for instance is a country which is managed by its own nationals. In Germany you will find that the Banks are also taking part in the management of such spheres of industry and commerce to a considerable extent, while the Government also have got some share in it. They have got their representatives on the directorate of such concerns, and besides that, where things have got to be looked at more in detail and more carefully sub-committees are appointed and it is thus that such concerns are being managed. The responsibilities are divided like that but these conditions are prevailing in countries managed by their own nationals ; and unless that sort of position comes to prevail in our country, so that the bankers as well as the Government should look after and conduct the concerns for which we are legislating today, we cannot expect to do away entirely with the managing agency system that prevails here, and which has brought about the development of industry and commerce to the extent that we find today.

The Select Committee, really speaking, have taken into account all these considerations, and the broad view that it has taken is certainly in favour of the continuance of the managing agency system with proper safeguards in a form as best as it could possibly prescribe under the circumstances. Of course, particular interests will always try to pull the strings to their best advantage, but still one has always to bear in mind that while it is strengthening its hold, it has got to see that it does not strangle the commerce and industry of the country. From that point of view the recommendations of the Select Committee deserve to be generally accepted.

Coming to the achievements that the managing agency system has made in the past, my Honourable friend, Mr. Sen, yesterday gave us to understand that the Honourable the Law Member was going to give us the balance sheet of it. Sir, I do not therefore like to go into those items in the present situation.

Sir, there is one more thing I would like to mention here. A suggestion was made yesterday for the elimination of the proviso to

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clause 42 and 87-B,—that is, to say the contract entered into by the managing agent with the company should not be disturbed as provided in the foregoing clause till the maturity of that contract. Well, a suggestion has been made to drop it. I will therefore cite an instance where that proviso is absolutely necessary for the sake of the facilitation of the flotation of companies. Supposing a man investigates a certain proposal, he spends money and energy upon it, and after a time he is satisfied that the flotation will prove successful; and he comes out with a prospectus whereunder, ordinarily, as provided in the company law, he gets a certain remuneration. After issuing the prospectus, some people with acute brains, as are not wanting in this country, find that there is a good opportunity to remove the original promoters from the managing agency, and thus take advantage of what is contained in the flotation. If the proviso is removed, surely they can go on buying shares and collect the necessary votes for bringing about the situation that they want in that concern. If that proviso is removed, harm will be done to that man who has already put in his money, energies and everything on the flotation of the concern, and he would thus be practically robbed of the fruits of his labours by the elimination of that proviso. It is therefore that this proviso is most essential to safeguard the man who takes really good pains and sinks his money in a concern before flotation.

Another point that I would bring to the notice of the House is the banking clause. The banking clauses required in the company law have been changed or improved to meet the situation, but that will not solve the problem of the Banking Act that is necessary for the country as a whole. I would here request the Government to consider that position and try to bring about the enactment of a Banking Act as early as they can possibly do.

The next point of importance is about the appointment and rotation of directors generally. A good deal has been mentioned about it and I think even there proper safeguards have been made by which the directors can much improve the solid work they want to do, and if they abuse that provision they can very well be brought to book for their own action. On the whole, I will not say that the Bill as it has emerged from the Select Committee is the best, but it is certainly the most practicable that could be achieved in a Select Committee after taking into consideration all the interests concerned. With these few remarks, Sir, I commend the Bill for the consideration of the House.

**The Honourable Sir Nripendra Sircar :** Sir, I indicated in my opening speech that if there was going to be any debate on the principles or on the major issues of the Bill, I will try to reply to them. It is not my desire to reply to the very numerous points which have been raised, but to confine myself to some of the more important ones. I am sure, the House expects that after all that has been said about the managing agency system, a reply is wanted from Government for justifying the measures which they have proposed in this Bill. Listening to those arguments in this House, I have not the slightest doubt in my mind that a section of this House—I hope, Sir, it is a small section—is obsessed with certain pre-conceived notions which, one can suspect, is the result of the very intensive and persistent propaganda which has been carried on for



a couple of years. I must not be misunderstood. When I use the word "propaganda", I mean no offence. On the other hand, I acknowledge publicly that I have received the greatest assistance from the Bombay Shareholders Association. They have displayed untiring energy; they have spared neither time nor trouble and whenever an information had been asked for, their representatives had been willing to come up all the way from Bombay to Simla to supply us with information. I feel grateful for what they have done. But, after all that has been said and done, I would ask this House to remember and to realise that these pamphlets, booklets and rather big books, the constant writing in the press in India and in England, are what may be called the drain inspector's reports—because they are one-sided. They are very useful, they draw attention to the black spots, to the dangerous zones and they draw attention of the Legislature to the remedy which ought to be applied. But the great danger of this class of literature is, as we all know, that, although nothing untrue is said there or, at any rate, nothing substantially untrue, the unwary reader is likely to come to the conclusion that the whole prospect before him consists of drains only and there are no open and pure places. That is likely to be the result of this kind of propaganda and, judging by the result which has been achieved, I have not the slightest doubt that that has been done. I am insinuating nothing against the Bombay Shareholders Association because I am not charging them with having intentionally or deliberately misled the public. I do nothing of the kind, as indeed they have done great service. But I do press this House to consider whether they are not likely to be misled if they concentrate their attention on the abuses which undoubtedly exist and pay no attention to the other side of the story and refuse to look at the other side of the picture. If, therefore, I have got to present the other side of the picture before this House, it is not because I am oblivious of the abuses. If we had been oblivious, we would not have provided so many measures for removing them. But it is necessary in a matter of this importance that this House should come to a dispassionate judgment after being in possession of all facts not only as regards the abuses but as regards the uses of the managing agency system.

[At this stage, Mr. President (The Honourable Sir Abdur Rahim) resumed the Chair.]

Sir, the first question which comes to the mind of any inquirer is : what is the origin of this managing agency system ? If it is an evil, why is it a necessary evil which cannot be removed ? Although it is very well known, I think it will do no harm if this House is reminded of the reasons for the existence and for the flourishing of this managing agency system. Sir, the difficulty in India is the difficulty of finding industrial capital. I have no desire to quote from a large number of books, but those who are interested to look into the matter further will find ample evidence before the Industrial Commission. They are scattered all over Volumes V, II and III. The next thing which was pointed out by this Commission, as also by the Banking Enquiry Committee, was that there was a tendency in this country to invest in real property. Evidence was led on this point, the result is embodied in the report of the Industrial Commission, paragraph 282, and the evidence will be found in Volume III, page 260, and further confirmation will be found in the Central Banking Inquiry Committee's report, pages 432-33. We start, therefore,



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with two things. Industrial capital is not easy to attract and there is the tendency to invest in real property. The third cause is that there is a preference for investment in Government securities, in municipal and port trust loans as compared to industrial activities. This will be found, again, in the reports to which I have referred. But more than any of these three causes, the cause which is responsible for the continuance of the managing agency system is the prevailing banking system in India, and I think the attention of the House should be drawn to some of the facts relating to it. It will be found that Sir Purshotamdas Thakurdas, when he gave his evidence, said this—I am quoting his exact words :

“ It is well known that banks are unwilling to advance money on the assets of a liability company unless the same is backed by the personal security of the managing agent. No practical banker in India will be prepared to depart from this practice.”

We pause for one moment—the fact established is that banks will not lend money to the company on the company's signature alone for they insist that they will have the signature of the managing agent. That is where the managing agent comes in. That is why these companies cannot go on without a managing agent who has sufficient credit with banks. My Honourable friend, Mr. Ananthasayanam Ayyangar, read certain passages from a book on this subject, I mean the subject of managing agency by Mr. Lokanathan. He cited that book as if the author was in favour of the abolition of the managing agency system, although the author tries to be as fair as possible to both sides, although he stresses the abuses of the managing agency system, yet his conclusion is that it is impossible to think of removing the managing agency system for many a year to come. Now, Sir, on the question of banking and what is done by the banks I may refer to the same book at pages 228-229 :

“ It would be hasty to conclude that the system of managing agents must go and a different system of financing should be adopted. For one thing this system is too deep rooted in the country to disappear merely because of the desire of some critics that it should. An institution which has slowly evolved as a result of certain economic circumstances cannot suddenly vanish until the conditions that gave rise to it themselves alter. Whatever may be the view one takes of the need for changing the existing method of industrial financing of managing agents, the fact remains that for a long time yet, it will continue to prevail and will only change in some of its details. One has to stress this aspect a little, because, in recent years, criticism of the managing agents perfectly legitimate in itself has often led to absolutely impracticable proposals of reform. No new institution can be suddenly and newly created to take the place of an existing agency, and the only possible line of reform is readaptation and readjustment to changed economic and social conditions. This readjustment can be the more easily brought about if certain measures are undertaken. We have seen how the banking system in India has been working on too conservative lines, and has not merely insisted upon the guaranteeing of the loans and advances by the managing agents, but has based its credits more on the reputation and worth of the agents than on the financial position of the mill companies under their management. This has led to a vicious circle which should be broken.” (Hear, hear.)

I shall read two more passages from the same book. On page 223, the author says :

“ When managing agents lend funds to the companies, the interest that is charged is generally one to two per cent. above the bank rate. But this is not universal. In the cotton industry there have been several instances where large funds have been placed at the disposal of industrial concerns at six per cent. at a time when money could not be had at anything less than eight per cent.”

Sir, these facts have to be remembered in considering what reform is possible, because nobody wants abolition of the system. I will give you further concrete instances, not from this book, but from outside information of how it has been happening, if not daily, at least very frequently; how managing agents have advanced lakhs and lakhs of rupees at rates of interest lower than what may be called the bazaar rate, and even in many cases suffered losses unable to recover them, after their struggle, after their sincere effort to save the company as long as is humanly possible. I now read from page 223 of the same book, from the foot note :

" Indian Tariff Board : Cotton Industry, 1927, Volume 4, page 87 : A certain firm of managing agents made Rs. 9,000 in four years by way of commission, but had to undertake financing to the extent of one crore of rupees, 70 lakhs of which was its own money lent to the company at six per cent."

The last quotation that I wish to give from this book is from page 141 :

" What is significant in India is that the lack of an efficient banking system threw the whole burden of industrial finance on a limited class of entrepreneurs (namely, the managing agents) who were unwilling to pioneer new enterprises unless the chances of high profit were bright."

We remember four conditions so far. The most important condition is that you cannot attract industrial capital for running your companies. As to the author's point of view, I will not give more quotations from this book, but he states that it is idle to think of removing the managing agency system so long as the banking system has not improved, so long as the mentality of the people of the country has not changed by their regarding industrial investments as more attractive than investments in real property and investments in Government securities. These are the reasons why the managing agent comes in. I think the House will have no difficulty in realising the essential difference in the position between that of a managing director and of the managing agent. What is a managing director? A managing director is a person who after all is a servant of the company, remunerated by a salary or possibly a salary plus a commission. It is not his business to find finance, it is not his business to give guarantee to the banks, it is not his business to take the risk of lakhs of rupees which may be lost altogether if the company comes to grief. If the managing agent has acquired a dominant position which he undoubtedly has, that is by reason of the facts which I am stating before the House. How has in fact money been found for such of the industries as are flourishing or existing in India? What is the history of Ahmedabad? Where did the money come from? The supply of finances—I think I have already said that in my opening speech,—came through the credit of the managing agent. The capital was very often, if not in all cases, a part of what was required for the block and for the working capital. But the money has come because the managing agent of Ahmedabad carries the confidence of the public and he can get lakhs of rupees as deposit for long term. If Mr. Joshi's requisition had been carried out, that is to say, not to start a mill unless the entire 50 lakhs required for block and working capital have been raised,—(assuming that to be the figure),—by sale of shares, Ahmedabad today would have been free from the smokes of the chimneys of their mills. There would not have been one in existence. There is enough material to trace the history of every single mill in Ahmedabad and I have got the material here. There may be one exception but every one

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of them has been started with what would be legitimately called on grossly undercapitalised conditions. But still here they are. As I said the other day the business has increased four times in short time. When I come to the dividends which they have paid it will be seen that though the managing agents have been swindlers and cheats and out-throats, which I do not insinuate is the fact, the shareholders have done very well indeed, more than they could expect. They have received more than ample return for their investments.

Now, Sir, the next point to consider is that supposing, as the fact is, banks are not willing to lend money on the assets of these limited companies, what are the other methods by which finance can be raised for companies? The two obvious methods are the issue of preference shares and the issue of debentures. There again, Sir, if you come to preference shares the history of industrial movement and development in India will show that apart from the jute industry in Bengal, the preference shares have not succeeded in attracting capital, with the some exceptions as in Bombay of Messrs. Tata's. The figures are very significant when you compare them with the English figures. In England out of 100 the ordinary capital is 47, preference, 33 and debenture, 20. In India I have got only the figures for 1928,—I am sorry I have not got any later figures,—in India the figure is 16 per cent. ; that is to say, 16 per cent. of the capital was raised by preference shares, and when one remembers that the bulk of it is contributed by the jute preference shares in Bengal the conclusion is inevitable, as the facts and figures also bear out, that preference shares have not succeeded in raising any substantial amount of capital in India, outside the Jute industry in Bengal. When we come to debentures the story is more dismal. I think I have said that out of 100 the capital represented by debentures is 20 in England ; here it is only 9. And it is felt that the issue of debentures involves a loss of credit, whatever little the company has with the banks. Debentures therefore are not popular ; they are not effective in securing finance. Sir, these figures here would be astounding to a man who is accustomed to the conditions in England. If I give you one figure,—this is to date 1st October 1930,—for the 56 Ahmedabad mills the amount lent by the managing agents was 264 lakhs, lent by the banks, 4 lakhs, deposits with the managing agents, 426 lakhs, and the whole share capital is 340 lakhs, debentures, 8 lakhs. The result is a matter of mathematics. I speak with some hesitation in the presence of Dr. Ziauddin, but I believe it means that 63 per cent. of the money was procured from the managing agents and the share capital was only 32 per cent. ; while in Bombay it is slightly higher, about 49 per cent. Sir, I remind you of one more statement of Sir Purshottamdas Thakurdas. He was referring to Bombay but it applies with much greater force to Bengal, as I shall show when I come to the tea and the jute industry. What he said was this :

“ Many more cotton mills would have gone into liquidation but for the capacity of managing agents to bear losses themselves and their willingness and ability to finance in critical times.”

When I come to Bengal and all other provinces, I shall show, not by making general statements, but from concrete instances, how in times of stress and strain industries have been saved from collapse, simply because, when banks were unwilling to advance a single copper coin, the managing

agents had to bear and could bear the risk of very large financial commitments, a good portion of which they ultimately lost.

Then, Sir, another point which has got to be remembered and which is of great importance is this, that when large initial resources are wanted and when the industry is one which requires careful nursing, where possibly for the first 7 or 8 or 10 years no profits are earned (and it may so happen at the end of 7 or 8 or 10 years that there may be a period of slump which lasts for a few years),—in those conditions there are very few companies in India which on the strength of their share capital can stop liquidation. They have got to turn to the managing agent for finance and as to how they have done it I hope to give some instances to this House. In this connection, as relevant to this debate, I will read again from Mr. Lokanathan's book at page 224 :

"Managing agents in another direction have fulfilled a very essential and highly important function which, in the existing commercial and financial mechanism of the country, could not be performed by any one else. The managing agents have been the bulwark preventing the industrial concern from collapsing in times of industrial depression."

I am reading from the very book which my Honourable friend, Mr. Ananthasayanam Ayyangar, read as a book showing the evils of the managing agency system which indeed it does bring out :

"This aspect of the matter has not been sufficiently recognised in assessing the value of the financial services rendered to industry by managing agents, and while it is possible to exaggerate it it is equally necessary to note its significance in the industrial development of India. When the tea industry of India passed through difficult times in 1920-21, and again in 1927-28, it was the financial strength of the managing agents that saved them from collapse and liquidation. The continual losses of the industry dissuaded the banks from renewing the advances, and had the industry had no other agency to fall back on, many of the concerns would almost certainly have had to close down. The same thing happened in the jute and coal-mining industry and in the cotton industry. In the years when the Bombay cotton industry was in a critical condition, many more mills would have gone into liquidation than those that actually closed down but for the capacity of the agents to bear the losses themselves and their willingness or ability to finance at those times."

Which also is the evidence, as I read, of Sir Purshottamdas Thakurdas :

"In the existing state of banking organisation it was hardly surprising that banks were unwilling to lock up their funds in the cotton industry, and the managing agents carried the burden as well as they could. . . . Managing agents have every inducement to persevere and to continue financing, inspired by the knowledge and the hope that recovery may be a matter of time. But the crisis lasted sufficiently long to inflict serious damage on the industries and only the ability of the managing agents and their independence of banking credit enabled them to survive."

Now, Sir, another factor which has got to be remembered is this :  
 4 P.M. that in India persons of experience and ability in industry are not unlimited. Unfortunately even up to the present time they are very few, and outside these people who are managing agents or associated with managing agents it is difficult to find suitable men with suitable experience and ability and with suitable capacity for raising finance, who could run the companies. I believe an ideal board of directors of an ideal company will be one with myself as chairman and Prof. Ranga and Dr. Ziauddin as the other directors. I could attend to the law cases. . . .

And Honourable Member : And not Sir Mody and Sir Cowasji Jehangir ?

**The Honourable Sir Nripendra Sircar :** No, no : they are merely business men—I ignore them : as I was saying, I could attend to the law cases : Prof. Ranga will see to it that whatever profits are made, they go to the labourers, and Dr. Ziauddin will solve the most intricate problems about stress and strain of machinery (Laughter) : provided, we apply our mathematical talents, with the help of Dr. Ziauddin it will be easy to convert imaginary profits, to substantial profits, on paper.

I was about to read another passage from Mr. Lokanathan, where he says—and I read this as part of my argument :

“ While it is perfectly true that a reorganisation and adaptation of the system to changed industrial conditions in India may promote efficiency, it should not be forgotten that in so far as Indian industrial organisation depends for the ultimate success upon the capacity and integrity of the entrepreneurs, it will have to rely for a long time to come upon the very same persons who are now directly or indirectly associated with the several managing agency firms. In one way or another, they represent the quintessence of industrial ability and experience available in the country and whatever be the form of industrial control that is devised, they will undoubtedly remain the captains of industry.”

Remove the managing agency system and you will get no money for your companies and these much-abused people will manage somehow to go on, though not with the amount of success which they have now achieved. In this book it has been said that because the managing agents have got to take financial risk, they sometimes—indeed often—have got to suffer heavy losses. A general statement like that leaves no impression on the mind when we read 250 pages of a book supplied by the Bombay Shareholders Association where we find instances given, taken down with great care as they ought to be, (I am not complaining) of incidents where a managing agent has gone wrong. There is a complete silence about the other side of the picture, that is to say, where they have behaved in quite a different way.....

**Dr. Ziauddin Ahmad :** Only by the grace of the Commerce Member by imposing heavy duty.

**The Honourable Sir Nripendra Sircar :** Dr. Ziauddin wanted to say something ; but my powers of hearing are not sufficiently acute—I could not hear what he meant ; but I am told he has said something with which the Honourable the Finance Member agrees.....

**Mr. S. Satyamurti :** Obviously !

**The Honourable Sir Nripendra Sircar :** ..... and in the strength of that I am also agreeing although I have not heard what he has said. (Laughter.)

Now, Sir, I will give certain instances. As I said in my opening speech, this will be rather tiresome and boring work ; and I cannot accept my Honourable friend, Dr. Khare's idea of putting some ginger and pepper in it because this is a dry mass of facts.....

**Dr. N. B. Khare (Nagpur Division : Non-Muhammadan) :** You have already done it, and you are doing it even now.

**The Honourable Sir Nripendra Sircar :** That is not my idea of ginger. I will go on as rapidly as I can. I will not mention the name of the managing agents although they can be easily found out, but I will

mention the names of the companies—I do not want to give an unnecessary booming to particular managing agents if I can avoid it. I will take the Sutikdih Coal Company. It went into liquidation on the 13th August, 1928 : the managing agents had unsecured advances to the extent of nearly Rs. 4 lakhs : after the creditors had been paid, they recovered Rs. 118,000, and they lost Rs. 247,000. They have been trying during these past number of years to keep things going : they have been increasing the financial risk which they had been taking, and supplying money. In the end the result was that they lost Rs. 247,000. A managing director would never have bothered about it : he would have closed down as soon as the banks refused to lend them any further money.....

**Mr. Sri Prakasa :** Were the managing agents in that case drawing any salary all this time, and if so, what was that amount ?

**The Honourable Sir Nripendra Sircar :** I infer that my Honourable friend, Mr. Sri Prakasa, by his question admits that he has not studied these matters at all. The managing agents gave up very large amounts, lakhs and lakhs of rupees, to which I shall draw your attention : facts which can be proved from printed publications, authorised publications, and not from any secret information which I have obtained.

**Dr. Ziauddin Ahmad :** May I just say this, that Mr. Sri Prakasa asked him if the managing agents received any salaries during this time : will you please give that figure, and not only how much they spent ? We should also know how much they earned.

**The Honourable Sir Nripendra Sircar :** Supposing I could have given the figure—at present I cannot give him the amount which the agent earned—but supposing I did, what would have happened ?

**Pandit Govind Ballabh Pant (Rohilkund and Kumaon Divisions : Non-Muhammadan Rural) :** He would have added the amounts !

**The Honourable Sir Nripendra Sircar :** He would have added them : well, he may be saved that trouble.....

(Interruption by Dr. Ziauddin Ahmad.)

If Dr. Ziauddin, who wishes to abolish the managing agency system without knowing any facts connected with it, has the desire to learn, I am sure he will be able to pick it up in a couple of months' time.

Now, coming to No. 2, the Britannia Engineering Company : it had a series of disastrous years : the advances due to the managing agent were to the tune of Rs. 10 lakhs. In addition they had to guarantee to the bank Rs. 1½ lakhs : shares which were worth nominally Rs. 10 had come down to Rs. 1-8-0, and the loss to the managing agents was Rs. 5 lakhs. I will take the Gopalichuk Company ; the present managing agents whom I would not name came in 1927 : at that time there were outsiders who were holding debentures, a certain portion was due to the banks and to other creditors the amount due from the company to the managing agent was to the tune of Rs. 6 lakhs. The Reports and the balance sheets of the company will show that they have given up their managing agency allowances during all these years ; from the year 1927 onwards they have taken nothing ; and that is not a characteristic of the managing agency of the Britannia

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Engineering Company only. That has been happening every year in the Ahmedabad Mills, as also in Bengal and Bombay and I shall have the opportunity of telling the House what is the amount of commission given up by them which they had earned, because the mills were badly off. The position of this managing agency firm was that they had to receive 8 lakhs; they had not charged any managing agency allowance; from 1927 onwards they are struggling, and if the company ever proves successful, they may recover some of their dues but we can quite understand what financial risks they have undertaken.

Now, Sir, I will take you to the Russa Engineering Works. The managing agency advanced Rs. 6,90,000 to the company without any security whatsoever. The company went into liquidation; they could not save it. They were agents of some motor companies; I need not go into the history of the matter. The company failed; the managing agents tried their level best for years to keep their head above water; they did not succeed, owing to trade conditions and the whole of the 7 lakhs which was advanced without any security was lost.

Then, Sir, we come to the Kumardhubi Engineering Works, Limited. The managing agents from time to time, as the balance sheets will show, had to lend to the concern up to the tune of 22½ lakhs, because without this finance they could not carry on, and money could not be obtained otherwise. In addition, the Banks called upon them to guarantee the overdraft which they had to. And here, in answer to my Honourable friend, Mr. Sri Prakasa, I may tell him that they had given up out of the principal, 6 lakhs of rupees, out of interest and commission another 6½ lakhs, and so 12½ lakhs were given up by them. They had not only charged no managing agency allowance, but as they had to keep an office establishment, they did not charge for it which came to nearly 5 lakhs of rupees, and all this went out of the pockets of the managing agents, and no charge was made to the company.

I now come to the Indian Tanneries. It was started during the war. It had to be heavily financed by the managing agents. It went into liquidation, because, Honourable Members will remember, there was a slump after the war. They lost 26½ lakhs of rupees, and all throughout they had been bearing the establishment charges out of their own pockets; here there is no question of profit, but there is a distinct loss of 26½ lakhs.

I will now come to another Tea Company, the Redbank Tea Company. When the company went into liquidation, all the creditors were paid in full by the managing agents, but they themselves lost to the tune of Rs. 1,97,000, or roughly 2 lakhs. This company had been nursed by the managing agents for nearly 8 years. It could not be turned into a success, and their total loss, remembering that the share held by them were worth nothing, was nearly 5 lakhs.

I shall omit some of the other instances and tell the House whether we have taken an imaginary figure of 20 years or whether a genuine figure has been taken based on experience, and but for a long term agency no managing agent would take risks of this kind. Why should he? He knows that if things go wrong, possibly he will never recover his money, and that is the reason why a short term managing agency is not

practicable. Under an ideal system we may have no managing agency system, but under the present conditions if a company is to be worked by Directors, and if the company is not to be actually started until the whole of the working capital is raised, the shares of the company are sold, there will be very few industrial companies. These ideal conditions may come after a century or so,—I do not know,—but at any rate they are not coming in a hurry. However, Sir, until those ideal conditions come into existence, we have to legislate having regard to the realities of the situation in India, and not on any abstract ideals which were placed before us by theorists. I am not looking at you, Dr. Ziauddin. (Laughter.)

**Dr. Ziauddin Ahmad :** But I am looking at you all right.

**The Honourable Sir Nripendra Sircar :** Now, Sir, I will give the House two more instances, because one has something to do with Public Utility companies. One of the Tea Companies in Assam, the Manipore Tea Company was totally destroyed by floods in 1929. The garden was replanted. The managing agents went on suffering losses up to the year 1934, and they had just made a small profit in 1935. All this time where was the money coming from? Where were the shareholders? Where were the men who espouse the cause of labour? The money had to be found from the pockets of the managing agents.

Then, Sir, I will give one more instance, and I shall have done with instances. Let us look at the Electricity Supply Companies. These companies at Bhagalpur, Muzaffarpore, Cuttack, Mirzapur and Mangalore are financed by one managing agent. They were incorporated between 1926 and 1930. It is not necessary to go into the details of each. The advances made by the managing agents and their guarantees come up to nearly 12 lakhs of rupees. This is one of the forms of industry which requires, at least in this country, a pretty large number of years before it comes profitable. These companies,—I do not know if I can yet call them successful, or very successful,—these companies have struggled through for years in the hope of achieving success, and these have been kept up by the money of the managing agents. Now, during all these years,—I did not want to go into details,—but in deference to my friend, Mr. Sri Prakasa, I would like to inform him that the managing agents, in respect of these 4 companies, gave up half, half, half and one-third of their commission during the last four years, and one can easily realise that all these companies would have gone into liquidation but for the financial help rendered by the managing agents. And again, in answer to my friend, I would like to give him another instance,—I have got dozens of them, in my possession,—if you take the Paper Pulp Company,—I am now talking of giving up the managing agency charges,—the Paper Pulp Company was started in 1919. For the first nine years it suffered heavy losses, and the profit and loss account after the first nine years showed a debit of nearly 16 lakhs. The advances made by the managing agents fluctuated between 15 to 25 lakhs, and there has been no managing agency charge made from the beginning, that is, from 1919 up to 1929, but in 1929 they took a portion of the charges to which they were legitimately entitled under the terms of their managing agency.

Sir, I propose now to come to the industries in Bengal. Some idea of the success or otherwise of industries in Bengal can be gathered from two facts which I am going to mention presently. Again, I shall not mention



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the names of the managing agents. Managing Agent A has a large number of companies under his control. He has been managing them from 1918 to 1935. The capital of these companies came to nearly 5 crores and 58 lakhs. Some idea of the size of the industrial ventures can be obtained from the fact that the paid up capital is over five and half crores. Upon this capital, during the 17 years from 1918—1935 tax free dividends were paid to the extent in round figures of Rs. 18 crores, bonus shares—I am told by my Honourable friend, Mr. Joshi, that bonus share is a horrible thing and that it should not be touched with a pair of tongs, but if I were a shareholder I would welcome bonus shares—bonus shares were issued to the extent of Rs. 23 lakhs, cash bonuses distributed, Rs. 1½ crores. Managing Agent No. 2—I won't give you the name.....

**Pandit Lakshmi Kanta Maitra :** These are European companies ?

**The Honourable Sir Nripendra Sircar :** Does that make any difference ? I will answer that in a minute, Yes. But one of the companies whose record is equally good and whose figures are equally large, has an English name, it is Messrs. Martin and Company, but really its senior partner was an Indian and there are other Indian partners. I am talking of Messrs. Martin and Company. During the time that there was slump in the trade, I know from first hand information from the late Sir Rajendra Nath Mukherjee that over Rs. 50 lakhs had been advanced by Messrs. Martin and Company to the different tea gardens in Assam and elsewhere. The position was extremely perilous. No bank would advance a single farthing to any of these gardens having regard to the condition of the industry and here were the managing agents going on, striving their hardest to keep the companies going, and ultimately although they could not make profit for years they have been saved from liquidation and they are still going on. But my Honourable friend, Pandit Lakshmi Kanta Maitra, is quite right in thinking that managing agents Nos. 1 and 2 are British.

**Pandit Govind Ballabh Pant :** For Bengal use A and B, and not 1 and 2.

**The Honourable Sir Nripendra Sircar :** I said managing agent No. 2, but out of deference to my Honourable friend, Pandit Govind Ballabh Pant, I shall now call him managing agent B.

**Pandit Govind Ballabh Pant :** Leave that to the Honourable the Home Member, Public Enemy No. 1, Public Enemy No. 2, and you restrict yourself to A and B. (Laughter.)

**The Honourable Sir Nripendra Sircar :** I am sure that my Honourable friend, Sir H. P. Mody, will say Public Benefactor No. 1 and Public Benefactor No. 2. (Laughter.) Managing agent B runs 31 different companies. The paid up capital of these companies is nearly 31⅓ crores. The market value of the shares today, if they are calculated from any of the financial papers, is over Rs. 7½ crores. They have distributed tax free dividends to the extent of Rs. 12½ crores, and not a single creditor has ever lost any money so far as these companies are concerned. Now, Sir, my Honourable friend asked me about the British managing agents. May I also give him certain figures about the Ahmedabad mills ? I may tell my Honourable friends that these figures for Ahmedabad, and in fact, every matter relevant to Ahmedabad are very easy to find now from a directory

which has been published by one Mr. Navalrai. He sent free copies to every one of us, but, of course, that was with a view to urging that the managing agency system is rotten, and the figures quoted in his publication may therefore be relied upon as not being friendly concoctions to support the managing agency system.

**Mr. M. A. Jinnah** (Bombay City : Muhammadan Urban) : May I ask the Honourable Member whether it is open to any Honourable Member now at this stage of the Bill to move that the managing agency system should be abolished ? It seems to me the Bill had gone to a Select Committee and that Committee have made their report, and one of the basic principles of the Bill is that the managing agency is accepted. The only question is how it should be improved or how the evils should be cured. Is it necessary for us to discuss the question whether the managing agency system should be abolished straightaway ?

**The Honourable Sir Nripendra Sircar** : As this is not a point of order, all I will say is this that I am not discussing it from the point of view that the managing agency system should not be abolished. But I have got to justify why they have been given 20 years, why they have not been directed to be shot at sight. I have got to explain how long the nursing has got to be done by the managing agents, and what is the amount of risk they take and so on, and it is with a view to show that to proceed further than what we have done in the Bill will be an expropriation which is not justified by the necessities of the case and which will not be fair to the existing managing agents in spite of the abuses which in some cases have been proved. That is the point of view from which I am addressing this House and not with a view to arguing the question of abolition. I think I told the House,—of course, these interruptions are not welcome at all—I was telling the House the reasons why we are giving managing agents 20 years, how we are trying to justify it. After that, I went on reading out some figures. I do not see what justification there is for suggesting that I am now urging the issue as to whether the managing agency should be abolished or not. I think I was talking of Ahmedabad although this unnecessary interruption rather takes me out of my line—my Honourable friends will find from the book to which I referred, at page 204, that in 1933—I am giving the figures of one year and not of all the years—they gave up out of Rs. 41 lakhs of commission earned, I mean, by all the managing agents in that year, in 1933,—out of Rs. 41 lakhs they gave up Rs. 15 lakhs. Some did not give up, or rather a few did not give up, others gave up very negligible proportions, but as against that, there were mills which gave up the whole of their commission for a series of years.

Then, the next matter to which I would draw the attention of the House is about the 20 years which is proposed to be given by the Bill to the existing and new managing agents,—I am not talking of abolition but of the 20 years which is proposed to be given to the existing managing agents. May I remind the House of the opinions which have been received ? I have made a careful analysis of the hundred odd opinions which have been received and I will give the result of my summary. If I have made an occasional mistake, my Honourable friends will pardon me, but I have taken care to see that this is not wrong. The position is this. Out of these over 100 opinions which we have received, I believe it is 175 or something—we find that there are 21 opinions, mostly from Chambers of Commerce, and particularly from Indian mercantile interests,

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which want more than 20 years, either 25 years, and I believe in one case the Federated Chamber want 30 years. Those are 21. Now, these are 21 and those who want shorter periods I shall give them to you in a minute. They are four in number. I give you rapidly names of associations and persons who are not satisfied with 20 but want 25. They are the Federation of the Baroda State Mills, the Maharashtra Chamber, the Bengal Chamber of Commerce, Dr. K. M. Malaviya, the Upper India Chamber of Commerce. The Ahmedabad Mill Owners Association, the Indian Merchants Chamber, the Millowners Association of Bombay, the Government of Bengal, the Chittagong Chamber of Commerce, the Federation of Indian Chambers, Northern Indian Chamber of Commerce, the Burma Chamber of Commerce, the Government of Burma and the Burma Indian Chamber of Commerce, the Marwari Chamber of Commerce, and the Bombay Shroffs' Association. They want little more than 20 years. The four who want shorter periods are the Registrar of Companies, Sind. He suggests five years. The Registrar of U. P. suggests 10 years, although his opinion does not agree with either the Chambers of Commerce or Indian opinion there or with the Local Government. He, however, suggests 10 years. Then, Sir, to be absolutely exhaustive, one Mr. S. B. Pandya an auditor says that seven years should be given. Then, the Registrar of Bengal and the Bombay Shareholders are the last. That accounts for about 25.

**An Honourable Member :** What do the Bombay shareholders want ?

**The Honourable Sir Nripendra Sircar :** That is a long story. The three stages are zero, then one or two. Then it is 5. I speak subject to correction. The opinions are altogether 130. Of this, 105 are satisfied, because they made no comments on the period. There are some of course who do not deal with managing agents, for example, the Lloyds' Bank. I am omitting them as they are few. It is only to give the House a rough idea. 105 are satisfied with 20 years. 21 want longer periods and four including Sind and Mr. Pandya ask for shorter periods.

**Pandit Govind Ballabh Pant :** 105 are silent ?

**The Honourable Sir Nripendra Sircar :** They are silent on the question of the period. They are not silent, not all of them, on the question of the managing agency. For instance, some of them deal with remuneration or about dismissal and so on but they are silent about the period. Now, Sir, it may be said after all most of them are merchants. What about the shareholders. Bombay is opposed, as I have said. There are only two other associations of shareholders. One is the Northern India Shareholders. The other is the Calcutta shareholders. They do not object to 20 years. The Bombay Shareholders Association alone among the opinions received from shareholders ask for shorter period.

**Mr. M. S. Aney :** Do they support it ?

**The Honourable Sir Nripendra Sircar :** As I explained to my friend, Pandit Pant, they do not make any comments on the question of the period but they do make comments on other matters relating to the managing agency, for instance, remuneration, removal and so on. They make no comments or criticisms on our proposal of 20 years. I have given you the names of the commercial bodies who want more than 20 years. The other

commercial bodies which are content, as they do not make any adverse criticism on our suggestion for 20 years, are, I proceed very rapidly, the Bangalore Trade Association, the Karachi Chamber of Commerce, the Karachi Indian Merchants Association, the Cochin Native Joint Stock Ltd., the Southern India Chamber of Commerce, the Punjab Chamber of Commerce, the Bombay Exchange Banks Association, the Bengal Mahajan Sabha, the Muslim Chamber of Commerce, the Trades Association of Madras, the Bengal National Chamber of Commerce, the Madras Chamber of Commerce, the Mysore Chamber of Commerce, the Indian Tea Planters Association, the Native Share and Stock Brokers Association, Bombay, the Merchants' Chamber U. P. and the Burma Planters Association. I am right in saying, without being guilty of exaggeration, that really the support is overwhelming in favour of our proposal for 20 years.

**Mr. Sri Prakasa :** What do the managing agents themselves want after all the losses they have suffered ?

**Sir H. P. Mody :** Perpetual tenure.

**The Honourable Sir Nripendra Sircar :** Mr. Jinnah is absolutely wrong there. They do not want perpetual tenure. They ask for 20 years.

**Mr. M. A. Jinnah :** I must protest against what my Honourable friend said, I did not say a word.

**Sir H. P. Mody :** I said it.

**The Honourable Sir Nripendra Sircar :** I am very sorry. Now, Sir, the Bombay Chamber of Commerce are satisfied with 20 years. They do not want more. The Bengal Chamber of Commerce takes that view but the Indian Merchants Chamber, the Federated Chambers and the Indian Mercantile interests, most of them want 25, with the exception, I believe, of the Federated Chambers and another who ask for 30. That is the position.

**Mr. Sri Prakasa :** What do the managing agents themselves say ?

**The Honourable Sir Nripendra Sircar :** There is no association of managing agents.

**Mr. Sri Prakasa :** They might have submitted their opinion.

**The Honourable Sir Nripendra Sircar :** They might have but they have not.

**Mr. M. A. Jinnah :** May I take it that the Government have not tried to ascertain what the managing agents, who are vitally concerned, would like to have.

**The Honourable Sir Nripendra Sircar :** For the obvious reason that they were very ably represented on the advisory committee which had its sittings for ten days at Delhi.

**Mr. M. A. Jinnah :** Then you have ascertained their opinion and they are content with 20 years.

**The Honourable Sir Nripendra Sircar :** That is partly true, partly untrue.

**Mr. M. A. Jinnah :** Which is the untrue part of it?

**The Honourable Sir Nripendra Sircar :** I am coming to that. If the Honourable Member thinks that he will prevent me from going on with my speech with these interruptions, he is very much mistaken. It will take a little longer time.

**Mr. M. A. Jinnah :** I am not used to that sort of practice.

**The Honourable Sir Nripendra Sircar :** I am not giving way. I do not think my friend has any right to speak, now. What they wanted was this. They wanted 25 years, but, subject to this, that, at the end of 20 years, the shareholders will have the right to get rid of the managing agents by a Resolution. So they really wanted 25 years subject to dismissal after 20 years if a Resolution was passed—20 years certain and five years dependent on the good wishes of the shareholders. That is what they wanted but that is not what was accepted by the Bill. What was accepted by the Bill will be found in the provisions which are before you.

Now, I want to say one word about the position of the Government in the matter of the existing managing agents. So far as the existing managing agents are concerned our position is that it is quite true that we have not relied absolutely on what is called the sanctity of contract, and that as a matter of fact the abuses which have been proved justify our going to a certain extent to propose legislation which is expropriatory, depriving people of their vested rights under agreements—so that we made no fetish of sanctity of contract. On the other hand, we take the view that the sanctity of contract is not to be brushed aside as has been done for instance by the Bombay Shareholders Association. Who say, "what is blatantly spoken of as the sanctity of contracts". We cannot take that extreme view. After all, we cannot be expected to take the view that the moment we find a contract, it is the business of Government to destroy it. We are not prepared to go an inch beyond the proved necessities of the case where it involves the taking away of people's rights under contracts. Sir, opinions are bound to differ. There are no chemical balances by means of which you can exactly weigh rival considerations. But having given the best consideration to that fact for a pretty long time, the proposal which we have made, viz., that twenty years should be given to the existing managing agents, as also to the new represents the limit to which the Government are prepared to go in this matter ; that is to say, we are not prepared to accept a lesser period for the existing managing agents. Sir, the further reasons, put very succinctly, are these, that the fact that the managing agent has continued for a certain number of years, let us say that he is continuing for ten years or twenty years—I am thinking of the amendment which was suggested by my Honourable friend, Pandit Govind Ballabh Pant,—I say that that indicates nothing. After all, the idea is that if he was in possession for twenty years, he must have sufficiently fattened by that time to make room for strangers, I say the facts do not justify that conclusion. I have given some instances, and, if necessary, when the clauses are discussed, I will give more, to show that it is possible, and it has happened, that managing agents in possession for the last fifteen or twenty years have really got nothing or, having suffered, it is only during recent years that they have turned the corner. Why should such a man be turned out in favour of a stranger to whom we are willing to give twenty years ?

**Mr. M. A. Jinnah :** There is a fresh agreement. A 4 15

**The Honourable Sir Nripendra Sircar :** I do not mind the interruption. The other argument which is advanced is—what have they got to fear ? If they are good men, they are bound to be reappointed. Sir, I am unable to accept this contention and for this reason. Experience has shown that when the managing agents can be removed—which situation very often arises on account of the financial weakness of the managing agent,—that is the time when an attempt is made by speculators to corner shares, and to get rid of the managing agent to capture the profits which would be due to him. If I may put it in the language of Mr. Lokanathan at page 228 of his book, “Industrial Organization in India” :

“ Few persons have understood the significance of the cornering activity on the Bombay Stock Exchange and its disastrous consequences. Since the management of a cotton mill company is in the hands of agents who at the start control a majority of shares, any weakness in their position leads to a speculative activity on the part of a small group of persons who want to drive them away and get control of the company in their hands by becoming holders of a majority of shares and to earn the agency commission..... A body of speculative capitalists are always ready to take the initiative at the first touch of adversity and it is the existence of this element that supplies the key to the cornerings of cotton mill shares in Bombay.”

Now, Sir, I shall be told, well, there is no question of financial weakness here. The managing agent is going out because the statute orders him to go out. But what I want this House to dispassionately consider is this. It is not the circumstances of his going out, but it is the fact that he will go out that induces speculators to behave in the way which has been described. This canvassing, this cornering of shares, all this take place,—why ? Because, if I can turn out the other man, I will get the managing agency. Therefore, I am not impressed, so far as I am concerned, by the argument, “oh, if he is a good man, he has nothing to fear”. That is not what happens in the business world, judging by past experience. Statutory termination at the end of less than twenty years will create the same situation as that described in this book and create it too soon. Then, Sir, our next contention is that the equities in favour of the existing managing agents are certainly stronger and higher than in the case of the new ones. They are the people whose rights we are confiscating by Statute. They have the right to go on, and we are preventing that by Statute and I say there is no reason whatsoever why they should be treated more rigorously than the new managing agents. Another argument which has been advanced is—and this was advanced in a letter which I received a week ago—“well, if you continue the old managing agents for twenty years, you allow them to earn commission on a wrong basis, on an undesirable basis, for instance, a commission on production”. Now, Sir, a commission on production, I am willing to agree, is an undesirable provision. There, again, I do not want to tire this House out, but I state these facts after looking into it with a certain amount of care. It would appear that of the 77 mills in Ahmedabad—I have only got figures up to 1933—only 28 are entitled to a commission on production. The rest are not. Of the twenty-eight again, (you can trace the history of each one year by year from the books which have been published), nineteen have given up sometimes the whole, sometimes a half and sometimes a substantial portion of the managing agency year after year. The fact remains, therefore, abuse may be suspected in the case of nine mills out of 78. I do not say that nine mills which are not accounted for are guilty of any abuse, I do not charge anybody with anything—but the possibility of abuse is limited to nine out of

[Sir Nripendra Sircar.]

78 mills is the point to bear in mind. If there was any substance in the contention that this undesirable system has led to production simply because the managing agent wanted to inflate the commission due to him by an increase of production, it is absolutely incompatible, and irreconcilable with the fact that year after year they have been giving up a very large portion of the commissions earned on this basis.

Then, Sir, one must not lose all sense of proportion. After all, Ahmedabad may be a great place but the paid up capital of the Ahmedabad mills—talking of the year 1933—is only  $4\frac{1}{2}$  crores, whereas the paid up capital of all the British Indian companies is in the region of 300 crores. So, Ahmedabad represents only  $4\frac{1}{2}$  crores out of 300 crores. Out of that  $4\frac{1}{2}$  crores, as I have shown, if there has been any abuse of the production commission, it is possible only in 9 out of 78 cases. Further, in the long documents which we have been asked to read and in the pamphlets which have been issued, it has been impressed upon us, what is obviously correct, that this is an undesirable system, (a fact with which I entirely agree), but no instance has been given and I am waiting to hear instances being given by others in this House, of managing agents having unnecessarily produced goods for increasing their commission. It has not been shown that in a particular case the managing agent had been going on producing goods simply for increasing his commission. No trouble had been spared in making out the case of abuses prevalent under the managing agency system. But I have not found any tangible case apart from the contention that the situation is not a desirable one. The question is why the small fraction of  $4\frac{1}{2}$  crores out of total of 300 crores, is assumed to be capable of earning unconscionable profits for 20 or 25 years—why if they may be suspected of going on with abusing the commission system? Why should the overwhelming majority of managing agents to whom these considerations do not apply, why should they be hit? For the sake of one person, are you going to hit the remaining 199? Are they to be expropriated because a very minute fraction are capable *ex-hypothesi* of making more money than they ought to by misusing this system? I venture to submit that from the evidence received so far there is, really no case for inducing us to change the conclusion at which we have arrived.

Now, Sir, I will briefly refer to some of the speeches which have been made. My Honourable friend, Mr. Ananthasayanam Ayyangar, wants a Board of Control. Now, as a Member of Government I have really been very much flattered by the suggestions which have been made from time to time by some of the Honourable Members. They have said: "Do not trust the managing agents; do not trust the directors because they are all cheats; do not trust the shareholders because they are all fools; but trust the Government to do the right."

**An Honourable Member :** Not the present Government.

**The Honourable Sir Nripendra Sircar :** There may be non-official representatives but the Government's finger will be there right enough. You want a Board of Control, you want the executive really to have power to make or mar the industrial concerns. I would have thought that a non-official would have shunned this idea of undue Government interference.

**Mr. Sri Prakasa :** We want a better Government also.

**The Honourable Sir Nripendra Sircar :** We are legislating for the present Government. When the better Government arrives, there may be no laws. (Laughter.) Now, Sir, Mr. Avinashilingam Chettiar made a suggestion which, I venture to submit, required serious consideration. The House will remember that he made certain criticisms, into which I need not go in great detail. I refer to the section which relates to the removal of a director after conviction in Court. The point which he made was that there was no necessity for finding of fraud against him followed by conviction in Court and that to be followed by a resolution. All that is unnecessary, is my Honourable friend's contention. Thinking over that, a solution seems to me to be probable which I would beg my friends on the opposite side to seriously consider. It is this. I find that under the law the managing agent is liable to be removed for pecuniary misconduct, whether it is a case of embezzlement or theft or cheating or misappropriation or fraud. He is equally removable in case of negligence in business or conduct calculated to injure the employer's business. He is also removable for incompetence or permanent disability. Now, what I am driving at is this. Under the common law the position of the company is, indeed, very strong. The company need not go to Court ; it need not get anybody convicted. The company decides that this man is guilty of misconduct or is guilty of fraud or it has been proved that he is a criminal and so on and proceeds to dismiss him. Then, no further ceremony is wanted. The other man has got to go to the Court and sue for damages for wrongful dismissal. But Honourable Members may inquire : if that is so, why does it not happen ? That is because in many articles—I will not say in all articles—there are special provisions. For instance, there may be a provision that he is not to be removed unless he has been convicted of cheating or that he has been found guilty, by Court, of fraud. Then there are special articles in some cases to the effect that in case of conviction in Court or in case of proof of fraud and negligence, there should be a meeting of which 12 months notice should be given individually to every shareholder and four-fifths of the members must be present at the meeting. There are such provisions in some companies. That has been avoided in the English Act by their introducing section 152 which makes all such stipulations void. What I want my friends to think over is—and there is plenty of time yet—whether we cannot proceed on those lines. That is to say, let the managing agent or officer remain subject to removal under the law of the land on all these grounds but take away the protection which is afforded to them by these very peculiar and special articles in many of the managing agency agreements and in the articles of companies. I am quite willing to pursue that line and see whether that is an improvement on what we have done.

**Mr. President** (The Honourable Sir Abdur Rahim) : Would the Honourable Member like to stop at this stage ?

**The Honourable Sir Nripendra Sircar :** As you please, Sir.

The Assembly then adjourned till Eleven of the Clock on Friday, the 11th September, 1936.