

Thursday, 9th March, 1939

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THE
COUNCIL OF STATE DEBATES

VOLUME I, 1939

(23rd January to 18th April, 1939)

FIFTH SESSION

OF THE

FOURTH COUNCIL OF STATE, 1939

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COUNCIL OF STATE.

Thursday, 9th March, 1939.

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

BILLS PASSED BY THE LEGISLATIVE ASSEMBLY LAID ON THE TABLE.

SECRETARY OF THE COUNCIL: Sir, in pursuance of rule 25 of the Indian Legislative Rules, I lay on the table copies of the following Bills which were passed by the Legislative Assembly at its meeting held on the 8th March, 1939, namely :

- A Bill further to amend the Workmen's Compensation Act, 1923, for a certain purpose.
 - A Bill to amend the Cotton Ginning and Pressing Factories Act, 1925 for certain purposes.
-

GENERAL DISCUSSION OF THE GENERAL BUDGET FOR 1939-40.

THE HONOURABLE THE PRESIDENT: Honourable Members, General Discussion will now proceed on Part II of the Budget. I will remind Honourable Members that I do not propose to put a time limit, but I will depend on their good sense to be as brief and concise as possible in discussing the Budget. At 5 P.M. I propose to call the Finance Member if he is here or Mr. Raisman to reply to the debate that has proceeded before and at 5-30 P.M. it is my intention to adjourn the House.

THE HONOURABLE MR. HOSSAIN IMAM (Bihar and Orissa : Muhammadan) : Mr. President, before I commence my remarks on the Budget, permit me to congratulate Mr. Raisman on his impending elevation to the Executive Council. Sir, this honour is all the more remarkable as it has come after a very long time to the I. C. S. who have not been appointed to this post for a long time. As Mr. Raisman belongs to the cadre of my province I also feel much gratified by this honour.

Sir, before I come to the Budget proper, I should like to tell the Honourable Member that his campaign of economy has been carried too far, at least in one respect, *i.e.*, the memorandum which he has given to us is very short. Formerly we used to have a memorandum of 40 to 50 pages ; this time he has confined it to 25 pages.

THE HONOURABLE THE PRESIDENT: Do you measure the value of the memorandum by its length ?

THE HONOURABLE MR. HOSSAIN IMAM: No, Sir ; by the statements contained therein. It used to have a report by the Financial Adviser on the

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Military Accounts ; that has disappeared. It used to have a statement of the debts of the Government of India on 31st March of each year ; that too has disappeared ; and other items of very useful information which used to form part and parcel of the financial memorandum do not find a place. I do not know whom to blame, because formerly it used to be a signed document by the Finance Secretary, but this year it has not been fathered by any one. It is a financial memorandum on the Budget of the Government of India. By whom it is prepared we do not know ; probably by the Department itself.

Sir, now I shall come to the Budget proper and deal with the three years accounts which form the budget papers. I refer first of all to the year 1937-38 for which accounts have been submitted. That year was expected to close with a deficit of Rs. 177 lakhs which was proposed to be made up from the Revenue Reserve Fund. When the Honourable Member presented his revised budget he estimated that it would end with a deficit of Rs. 109 lakhs, but the actual figures show that the deficit is only Rs. 78 lakhs. So far so good. But there is an item hidden in it which is not very proper. I am old-fashioned enough to resent a raid on the Sinking Fund. This figure has been arrived at by reducing the already small provision for reduction and avoidance of debt from Rs. 3 crores to Rs. 252 lakhs ; a raid of Rs. 48 lakhs has been made on the Sinking Fund which is not very proper. The real deficit is more than the revised estimates, but only by manipulation of the figure or by raiding the Sinking Fund, as I may call it, has it been possible for the Government of India to carry forward a greater amount in the Revenue Reserve Fund than they would have been strictly entitled to ; and this fact that a raid on the Sinking Fund has been made is mentioned nowhere either in the speech of the Honourable Member or in the financial memorandum of this year.

THE HONOURABLE MR. A. J. RAISMAN : It is not made.

THE HONOURABLE MR. HOSSAIN IMAM : This is in your memorandum and that is where I got it from. I will give you the reference. It is in statement 13 on page 18. Provision for reduction and avoidance of debt is given as Rs. 252 lakhs.

THE HONOURABLE MR. A. J. RAISMAN : That is not the only way of avoiding debt.

THE HONOURABLE MR. HOSSAIN IMAM : Now, Sir, I come to the year 1938-39. The results are disappointing. The real deficit is not Rs. 265 lakhs as has been pointed out, but is much greater. Firstly, we have not paid Rs. 38 lakhs which is due to the provinces and that has to be added to the account of the current year and that will increase the deficit to Rs. 303 lakhs. Another thing has been shown, is that customs heads are not amenable to any more jugglery. They do not respond to any increases. On the one side you may pile up your taxes on imported goods, but there will be so much of shortfall of the goods imported that they are equalised.

Coming, Sir, to the year 1939-40, I welcome some of the changes which are especially valuable as they come in after 1938-39. Instead of a huge deficit the Honourable Member expects only a deficit of Rs. 50 lakhs which he covers up by an import duty on raw cotton. That item has been subjected to some criticism in another place as well as in the country. I personally welcome it. I regard that as a help to the agriculturist and also as a timely warning that India is an agricultural country which produces more cotton

that is consumable. Unless the mills co-operate and consume a greater quantity of indigenous cotton our excess cotton which does not find any market either in Japan or in England will be glutted.

THE HONOURABLE THE PRESIDENT : But this duty is on long staple cotton only.

THE HONOURABLE MR. HOSSAIN IMAM : That is the only thing imported. They will start consuming more of short staple cotton ; the agriculturist will start growing more long staple cotton. They will be able to command a higher price for their commodity. (*An Honourable Member :* " They are consuming ".) Not enough. If you compare the figures and find out how much of the cotton goods imported from Japan and England have been reduced, you will find that the consumption of Indian cotton has not increased by that percentage in the cotton mills. I am prepared to abide by the figures which you might collect that this consumption has increased *pro rata*. The production of Indian mills has increased mostly from the long staple cotton imported from outside. That is not what the agriculturists demand. They want that their own products should be consumed first. If they make out a case for protection, it is on the basis that the raw material of the country should be consumed first. I would also point out, Sir, that with the certainty of possible reductions in the customs heads, as a direct corollary to the protection policy, it is necessary that excise should become a more and more important head of income. Before 1923 we used to have an excise duty on textile goods manufactured in the mills. It is about time that we introduced again this system with a countervailing duty on customs. With the self-sufficiency programme of the country which I regard as quite healthy, it is necessary that provision should be made that the finances of the Government of India should not be so much dependent on the import of foreign goods. At the present moment, the interests of the Government of India and the people of India clash. The Government of India is well off when there is a greater import of foreign goods because thereby the customs increases but the people suffer because thereby their wealth goes outside the country. So in order to equalise the position, it is necessary that excise should be more and more relied upon by the Government as a stable source of revenue.

Now, Sir, while I am on this point, while I admire the solicitude of the Finance Member for the agriculturists, I cannot fail to register my protest against his step-motherly treatment of the Imperial Council of Agricultural Research. In the year of account and in the budget year, there has been a reduction of Rs. 2,45,000 from the grants made to the Imperial Council of Agricultural Research. At the last meeting, Sir, the Imperial Council submitted a proposal or request to the Government that their grant should be increased. The usual plea of the Government is that they have no funds. But I find, Sir, that in the Budget he has increased his grants to two favourite Departments by Rs. 30 lakhs—Civil Aviation and Broadcasting.

THE HONOURABLE SIR JAMES GRIGG : The Honourable Member is mistaken.

THE HONOURABLE MR. HOSSAIN IMAM : I will give you the figures, Sir. The grant made to the Imperial Council in the last accounts year was Rs. 11.42 lakhs and he has budgeted for a grant of Rs. 8.77 lakhs. While the grant under the head of Aviation has been increased from Rs. 21.45 lakhs to Rs. 39.54 lakhs and the grant to Broadcasting from Rs. 13.93 to Rs. 25.96 lakhs. Thirty lakhs of rupees more can be spent on luxuries but for the

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necessaries of life which are the very life-blood of India, i.e., prosecution of agricultural research—there is no money to be had. And it is some commentary, Sir, that this Department which ought to have demanded more, is presided over by an Indian Member. The Government can spend Rs. 30 lakhs on these luxury departments—I do not deny that they are good departments, that there should be increased expenditure on them—but you have to compare their respective claims and then decide which you will give first. Will you give food first or a motor car first? When a man is starving, does he want a ride or food? That you have to decide and decide quickly. This is the result of the irresponsible nature of this Government, which is ever prepared to listen to those departments which happen to be in their good books. This Broadcasting Department, Sir, is not a philanthropic department. I would have liked, Sir, that, as they do in the Post Office and the Railways, this Department also should take the income in reduction of the expenditure and only that part of the expenditure should be shown in the demand for grant which is not covered by the licence fees. The income from licences should be taken as appropriation in aid and thereby a true picture should be given. I do not grudge, Sir, the expenditure of double this amount if it comes from the consumers' pockets. Then you are utilising a surplus. If there is any increase in the income from broadcasting licences, then with great pleasure you are bound in justice and equity to increase the expenditure, but when the licence fees do not cover the cost, it is necessary that the expenditure on this Department should not be increased at the cost of the essential departments. If there is an excess of money, I would not grudge it, because this is an educative department; it does something to give cheer to those who are in urgent need of it.

Now, Sir, I come to another item, the regrettable decrease in the income under the head of Currency and Mint. This is a head which previous to 1935 used to give us a net saving close upon Rs. 2 lakhs per annum from 1925 onwards. What is the position now? Your net income is less than Rs. 30 lakhs from it. The net income after repaying all the charges under the head of Currency and Mint. That, Sir, is not a healthy state of affairs. The Reserve Bank in nine months' working was able to pay us Rs. 43 lakhs but in 12 months' working on an average it has paid us not more than Rs. 15 lakhs from 1936 to the present year. That also requires important consideration. These matters involve some discussion of policy and therefore I will leave it now and discuss it further at the time of the Finance Bill.

Another item on which I want some information is about the repayment of the 5 per cent. Rupee loan of 1939-44. The market, Sir, is expecting a repayment of this loan at an early date. I see this by having a look at the price to which it has come down. The price of the script indicates that the holders and the market expect its repayment probably in the present year. The Government have made no mention and neither have created the atmosphere which is necessary for the successful flotation of a new loan.

THE HONOURABLE THE PRESIDENT: What sort of atmosphere?

THE HONOURABLE MR. HOSSAIN IMAM: Lower the rate of interest. Discount rate on treasury bills is very high because the Reserve Bank has indulged in a contractive policy in order to maintain the exchange. These are big questions of policy on which I do not wish to touch at the present moment. But these are the preparations which ought to be made in order to facilitate the flotation of a loan at favourable rates of interest.

THE HONOURABLE THE PRESIDENT : Whether you want the money or not ?

THE HONOURABLE MR. HOSSAIN IMAM : We do want the money. The loan matures in 1939. And we have the option of paying at any time from 1939 to 1944. The earlier we pay the greater will be the saving. It involves a saving of about Rs. 50 lakhs a year if it is successfully floated and at the present moment we cannot leave out such a big saving.

THE HONOURABLE THE PRESIDENT : You may depend upon it Sir James Grigg will not lose such an opportunity.

THE HONOURABLE MR. HOSSAIN IMAM : I want an assurance from him, Sir, that he will do it.

On this occasion, Sir, at the risk of repeating the remarks which I made the year before last, I ask him to reconsider his position about Burma payment. I mean that the whole of it should not be credited to revenue, but the element of it which is a capital payment should be credited to the capital head as is done in the case of provincial payments. My authority for this is Sir James Grigg himself; his own action in the case of provinces is different from that in the case of Burma. I appeal to him before he goes to regularise this grave irregularity.

I again draw his attention to the unscientific position which the Finance Department have taken up about the Post Office Cash Certificates. I tried to understand from the Explanatory Memorandum and from the speech of the Honourable the Finance Member what the future policy is going to be. Are they going to live from hand to mouth, and when the certificates mature pay whatever amount is withdrawn ? That is very uncertain. There might be a demand for the whole of the amount falling due or there might be no demand at all. Are we to carry forward these problematic demands and know nothing of the real indebtedness ? The Post Office Cash Certificates are issued on a compound interest basis. On this basis, your capital should increase at the close of each year by the amount of the interest which has accrued. Do you do that ? I have definite information that it is not done. We have a very irregular system of accounting. We add up only when the loan matures. Even the interest remaining in the Cash Certificate Bonus Reserve Fund is among the list of those reserves which carry no interest. It is not in the list of those liabilities on which you pay interest. A further irregularity is that I do not find in the Explanatory Memorandum any mention of the fact that Rs. 1,15 lakhs were paid from the Bonus Reserve Fund during 1937-38 which is found in the Appropriation Accounts. These Accounts say that you paid Rs. 1,15 lakhs from the Bonus Reserve Fund but on page 15 of the Statement you do not mention it. From this Statement, there is a balance of Rs. 1,16 lakhs on that account, but, as a matter of fact, that balance does not exist. I had to look into the Appropriation Accounts to find out whether it really existed or not. I find that it has already been paid, but it has not been noted. The whole system of accounting of Post Office Cash Certificates is based on wrong methods. The correct method was adopted by Sir George Schuster by which the payments are only payments on the accrual basis and any payment for the past should be charged to the capital head. That was a sensible method of accounting, which you can understand and which should be followed in the future if it has not been followed in the past.

When I read in the speech of the Honourable the Finance Member that the defence expenditure is to remain at the former figure of Rs. 45,18 lakhs,

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I felt somewhat disconcerted. Although I do not support, and have always opposed, the excessive expenditure on the Defence head, I felt that as we were receiving Rs. 2,87 lakhs from the British Government, earmarked for a special expenditure that ought to be spent on the items for which it has been given. I was afraid that it might have been taken to reduce expenditure. I am glad, Sir, that under head 5 of the Defence Department Budget, Stores, nearly the whole of this amount is being spent for new services, and the way in which he has arrived at Rs. 45,18 lakhs is by taking a debit for all this expenditure. So, the defence expenditure this year is really up by about Rs. 2 crores from what it is going to be in the current year.

Sir James Grigg has been very fortunate. He came at a time when he found it possible to reduce the interest charges by big slices. He has not taken any credit for it, but I think he deserves great credit and the thanks of the Indian taxpayer for his good policy of conversion by which he has made it possible to save so much. I find that in 1937-38 and in 1939-40 there will be a saving of Rs. 2,53 lakhs under this head. I mentioned at the time of the discussion of the Railway Budget that the credit for the railway contribution was due entirely to the Finance Department and I wish to prove it today. The net interest payments by the Railways after deducting the interest received on their Depreciation Fund was Rs. 29 crores in 1936-37, and in 1939-40 it is going to be only Rs. 26,73 lakhs. So, there is a reduction of net interest payment of Rs. 2,27 lakhs, and this has been made possible by the manipulations of the Finance Department and their contribution is to be only Rs. 2,13 lakhs. The Railway administration is not paying the general taxpayer out of their own profits, but as a result of savings which have been made possible by the efforts of the Finance Department alone. That has been made possible by his conservative policy of loan conversion. That our indebtedness in England has also been substantially reduced is another fact on which we wish to thank Sir James Grigg. I realise that perfection is impossible to be had among men. But there are two points on which we are mutually agreed, namely, his loan operations and his war against the mercantile economics which has found large support in high quarters. The masses have not received much relief in the direct taxes like those on salt or kerosene, but indirectly he has done much and he deserves well of India.

THE HONOURABLE MR. RAMADAS PANTULU (Madras : Non-Muhamadan) : Sir, it is said that this Budget is colourless. I really do not know what colour the budgets of other countries have. But the Budget of the Government of India invariably had a colour and it retains it. That colour is a thick paint of the British imperialist policy of exploitation of this country and I do not see that it has faded to any extent. It has not only the colour but also a very strong odour of that policy intact.

Sir, leaving aside the details and facts to which my friend Mr. Hossain Imam has referred, at the end of Sir James Grigg's financial stewardship of this country Indians are entitled to ask how the British financial and budgetary policy in this country has helped to improve the standard of living of the people of this country, their purchasing power, and how it has helped to reduce unemployment and to promote industrial development. Judged from that standpoint, the budgets of the Government of India have nothing in them for which the people of this country can feel gratitude. In another place Sir James Grigg said, and said rightly, that if he were not the Finance Member but, for instance, the Leader of the Opposition and my friend Rai Bahadur Lala Ram Saran Das was Finance Member, then these defects would

still be there. I entirely agree with him. I am not blaming any particular Finance Member. I do not say Sir James Grigg has not done his best. I am finding fault with the system and with the policy of those who conduct the Government of this country.

THE HONOURABLE THE PRESIDENT : Why not hasten up the Federation and become the Finance Member of the Federal Government ?

THE HONOURABLE MR. RAMADAS PANTULU : Well, we shall wait and see. Therefore, our grievances remain unredressed, and on the principle of redress of grievances before voting of supplies we shall be entitled and justified year after year in criticising the Budget and the Finance Bill from the standpoint of national economy and interests. From that standpoint the Budget is a colourful budget, having on it the thick paint of the British imperialistic policy of exploitation. Having said that, as I have said on other occasions, we are not unmindful of the good points of stewardship of the Finance Members within their limitations. For instance, in the present Budget there are features which are certainly welcome. There is the debt position which is much sounder. The reduction of interest charges to the extent of about Rs. 2 crores is a welcome feature, and there is also the policy pursued by Sir James Grigg in regard to financing of the reforms. That is a thing on which I not only congratulate him but express my gratitude. He has been always sympathetic to the autonomous Provincial Governments, and if the opinion of the Finance Ministers of the provinces were ascertained it would be seen they should have no reason to be discontented with his stewardship. I personally think most of them should feel grateful. These are some of the good features which I cannot without being insincere fail to admit. I also like the feature of the Budget relating to income-tax. While I am not an advocate of undue taxation of the rich, I am an advocate of even distribution of the burden of taxation. I think the slab system has certainly helped the people with lower incomes and has placed not an undue but a legitimate burden upon those whose incomes are higher. Therefore, I also appreciate the adoption of the specimen rates recommended by the Income-tax Inquiry Committee and in reforming the income-tax law and practice of this country to the advantage of the taxpayer.

Sir, before I come to some details of the Budget, I would like to say one thing. Laymen like me find it very difficult to navigate the sea of finance. We are between two rocks. There is the Finance Member in whose special pleading the vested interests of British capitalism are reflected. There are also the people like the Federation of Indian Chambers in whose memoranda the views of vested interests of capitalism in this country are reflected. I am like the mariner of old in the Straits of Messina, between the Scylla of Sir James Grigg and the Charybdis of the Federation of Indian Chambers. Sir, I will illustrate my point. Take the Federation's assertion that the deficit was created by deliberate underestimating of certain sources of revenue, particularly the sugar revenue from both excise and customs and the revenue from income-tax. I am not quite in agreement with this view of the Federation. They have indulged in speculative reasoning. They estimate the production of sugar in the financial year 1939-40 at 750,000 tons, and because normally over one million tons are consumed annually they assume that at least 150,000 tons will be imported to cover the shortage of internal production and therefore the excise will yield Rs. 3 crores and the import duty about Rs. 2½ crores. I think their figures are hypothetical. In the last three or four years from 1936 to 1939 we have had only an income from import duty on sugar of about Rs. 20 lakhs, and now they want us to estimate it at about

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Rs. 270 lakhs for 1939-40. I think they themselves are overestimating the customs duty on sugar and without any data for their contention. Similarly, with regard to income-tax. They are very sure that the increase will not be Rs. 79 lakhs as forecast by the Finance Member but that it will produce over Rs. 150 lakhs more by way of additional income-tax. I am very sceptical about it, seeing the way in which things are proceeding in the provinces, how all trades and professions are being taxed and with prohibition being introduced in cities like Bombay. That means a loss of Rs. 30 lakhs on imported liquor and also a loss on income-tax because of the dwindling of the incomes of those who trade in foreign liquor. Taking all these factors into consideration I think that the Federation of Indian Chambers has not given a helpful lead to the Members of the Central Legislature by the memorandum they have circulated. Therefore, it is not really an underestimate of the revenues or an overestimate of expenditure that has resulted in a deficit. In my opinion, the deficits are due to the failure of the Government of India to effect adequate and proper retrenchment in their expenditure and keep it level with the revenue. Here the special pleading of the Finance Department has got to be steered clear of. Sir James Grigg says that the percentage of expenditure on defence in this country is low compared with the percentage of expenditure in other countries. He says it is 12½ per cent., if I remember aright, in England, and only 3 to 4 per cent. in this country. But that is a very fallacious way of looking at it. If a man's entire income is Rs. 8, to say that a cut of one rupee only means a cut of 12½ per cent. is very different from the case of a man whose income is 8 millions and a cut of one million is made in that. The hardship on the former is infinitely greater. So other countries with huge national incomes and wealth can afford to spend large sums on defence. But India is a poor country, whose national wealth even on Sir James Grigg's estimate, does not exceed Rs. 1,600 crores. I wish he had given us the percentages of defence expenditure to revenue. And India cannot afford to spend more than Rs. 50 crores on defence. It represents over 50 per cent. of the annual tax income of the country. Therefore, he is also going in for special pleading. Again, we do not believe that all the retrenchment possible has been effected even in civil estimates. He has told us that in the civil estimates an economy of Rs. 118 lakhs has been effected. But we all, who are in public life, know how such economies are effected. It is always the poor man's income or salary which is touched, while those who are drawing fat salaries of thousands of rupees are not touched. We are not unfamiliar with the cheese-paring policy effected through small retrenchments to the disadvantage of the ill-paid and over-worked lower grades of the services. I will mention one particular instance which may be in the recollection of my friend Sir David Devadoss. Some years ago the Government of Madras proposed to the High Court to examine the possibilities of retrenching some expenditure in the High Court. I think that after elaborate inquiry they came to the conclusion that about Rs. 6,000 a month could be saved by curtailing the salaries of some of the subordinate officials in the High Court and by dispensing with the services of some. The amount expected to be saved was Rs. 6,000 a month or Rs. 72,000 per annum. Rumour had it, and there was free talk in the Bar Association at that time, that the then Officiating Chief Justice, who now adorns the place of the Speaker in the other place, suggested that instead of saving Rs. 6,000 by cutting down the salaries of the poor people—there were 12 Judges in the High Court—if each Judge would only take Rs. 3,500 instead of Rs. 4,000 then twelve times Rs. 500 would give the sum of Rs. 6,000. He suggested that the Judges

might take Rs. 3,500 instead of cutting down the salaries of the poor people. I am told that every body was for dropping the proposal and not for any retrenchment and a report was sent to the Government that no retrenchment was possible. The Chief Justice's proposal was either to cut down the Judges' salaries or to leave the salaries of the poor people as they are ; the latter alternative naturally found favour with the Judges. If I am wrong Sir David Devadoss who was one of the Judges at that time will correct me, but I think I am right. Sir, it is only an illustration. When the Government of India or the Provincial Governments are in search of methods for saving expenditure, it is always the poor man and not the man who gets a fat salary that is affected by these methods.

Sir, I will not accept either the Federation's reasoning or Sir James Grigg's reasoning in regard to the Budget. As I said, our troubles are due entirely to the wrong policy pursued by the Government of India. Sir, one of the most contentious items in the Budget is the tax on raw cotton. With regard to this, my views are somewhat different from those expressed hitherto by others. Supposing, as a matter of fact, India can grow the special variety of imported raw cotton by making an effort to be self-sufficient in regard to the supply of long staple cotton, is that any reason why the facilities for importing raw cotton from foreign countries which are now available should be curtailed by the imposition of an additional duty on raw material ? I assume that by strenuous exertions, expenditure of more money and perseverance, India in course of time will be able to grow raw cotton which it now imports from other countries. In my opinion that is not a reason to justify the additional tax on raw cotton.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : The soil is unsuitable for finer cotton.

THE HONOURABLE MR. RAMADAS PANTULU : The Federation of Indian Chambers of Commerce has said that after 14 years of strenuous exertion and expenditure of nearly Rs. 1 crore it has not been possible to improve the cultivation of cotton or to produce long staple cotton. I accept that statement as correct. Supposing we do not take it as a correct statement, even then my contention is that both economically and financially it is wrong policy to say that a country should not import even a portion of its raw materials and should aim at being wholly self-sufficient in regard to its supply of raw materials.

THE HONOURABLE MR. HOSSAIN IMAM : That is the first basis of protection.

THE HONOURABLE MR. RAMADAS PANTULU : That is not the basis.

THE HONOURABLE MR. HOSSAIN IMAM : That was the point laid down by the Commission.

THE HONOURABLE MR. RAMADAS PANTULU : I may be wrong. My view is this. What we have hitherto been objecting to is making India the exporter of raw materials and the importer of manufactured goods. That is a policy which is inimical to the interests of the country. Nobody with a sound financial knowledge and to whose opinion I will give any weight has ever advocated that India should not import raw materials and export more of manufactured goods. With all respect to my friend Mr. Hossain Imam I cannot agree to his statement that at any time the policy of discriminating

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protection ruled out import of raw material for manufacture here. So far as I am aware it has never been advocated by any financier or any economist in this country.

THE HONOURABLE MR. HOSSAIN IMAM : When your own raw material rots ?

THE HONOURABLE MR. RAMADAS PANTULU : It is a question of the raw material of the kind which we want. Is long staple cotton of the imported variety rotting ? If it is profitable and advantageous to the textile industry of this country to import long staple cotton, which is grown in Egypt, the Soudan, Kenya and East African countries, and it is not more profitable to grow it in this country I unhesitatingly advocate the import of that raw material to this country in the interests of the textile industry in this country. That is my view of economics and finance and I stand by it. Assuming that there is scope for encouraging the production of long staple cotton of the kind now imported into this country, even then I say it is not right for the Government of India in the interests of the country to double the tax on import of the cotton to this country to the prejudice of the textile industry. Here again I do not wish to enter into details of the effect of increase in the duty. I am between the two rocks, Scylla and Charybdis, because the Indian Federation says that this aggregate import duty of one anna per lb. will amount to an addition of 20 per cent. to the cost of cotton, 14 per cent. to the cost of yarn and 8 per cent. to the cost of piecegoods, and Sir James Grigg in the other place said that it only amounts to an addition of 3 per cent. to the cost of the cloth. According to the Federation it works out to 8 per cent. Whether he is right or the Federation is right, I cannot say.

THE HONOURABLE MR. G. S. MOTILAL : The Federation is right.

THE HONOURABLE MR. RAMADAS PANTULU : On that I could not express an opinion. The most important reason, Sir, why I object to the imposition of this tax is that I hate all import duties on plant and machinery as well as raw material which is used for manufacturing process in this country. I hate all tax on such raw materials as would prejudice the industries of this country. On this main ground I object to it.

I also think that the time chosen for this new impost is not a happy one. The Indo-British trade agreement is in the making and rightly or wrongly people are inclined to think that the Finance Member has by the back door given a preference to the British textile industry which they would not perhaps have got through the Indo-British trade agreement. I am not in a position to say that he deliberately did it. Probably the exigencies of finance may be the only motive which actuated him ; I personally have no reason to disbelieve him. But I say that the time chosen by him is extremely unhappy because in the course of this month before the financial year finishes we are expecting an announcement of the terms of the Indo-British trade agreement. This proposal to tax cotton means some protection to the British industry. Whether it is 3 per cent. more or 8 per cent. more is a matter of detail. The cost of Indian cloth is going to be increased to some extent, by 3 per cent. according to Sir James Grigg and by 8 per cent. according to the Federation. In any case the competitive capacity of the Indian textile mills would to that extent be curtailed. Unfortunately, the policy of the British Government has been all along while serving the interests of Lancashire, they are also

putting India at the mercy of other countries like Japan. Their shipping policy, their textile policy, their fiscal policies generally while aiming at giving some advantage to England, have also given to other exploiting countries some advantage and India has been placed at the mercy not only of Lancashire but of Japan and other countries. I consider this a very unhappy moment for him to select this particular taxation.

Sir, with regard to the other item of taxation, namely, the khandsari sugar, coming from Madras I am not affected by it because we are not making khandsari sugar at all. But, Sir, the implications of this tax are briefly this, that hitherto only when khandsari sugar was manufactured in factories where more than 20 persons were employed did they have to pay an excise duty of one rupee per hundredweight? Now, it has been reduced to 8 annas per cwt. but now everybody who manufactures khandsari sugar will be affected and Sir James Grigg has said in his Budget speech that the production of khandsari sugar was somewhere between one lakh and two lakh tons a year. Therefore, if it is Rs. 10 per ton it means that an excise duty of Rs. 10 to Rs. 20 lakhs will be levied from khandsari sugar. Sir, it is said that this tax will not affect the small agriculturists because they do not employ mechanical power, and that therefore the cottage industry aspect of it is not touched by this new taxation. I am afraid I am unable to accept that position because cottage industries in this country in future will be pursued not only with manual labour but also with the usual small mechanical processes. Every Provincial Government has been endeavouring to supply electricity on the grid system and attempting to make power available for cottage industries in the countryside. If that is so, these industries will be affected if electric power is utilised in future. Therefore, by cottage industry is to be understood not only the old type of industry carried on with the hands but also with the use of small scale mechanical power. Therefore, Sir, I think that this is also not a desirable tax and on the whole it will affect the agriculturist who pursues the cottage industry of manufacturing khandsari sugar.

Sir, before I close I would like to say only one word with regard to the need for co-ordination between the Provincial Governments and the Central Government with regard to taxation. I am becoming somewhat apprehensive in regard to the policy pursued by the Provincial Governments in regard to taxation. After all, the Provincial Governments and the Central Government are putting their hands into the same pockets (*An Honourable Member* : "And putting it deep"!) and the capacity of the people to pay taxes is limited. At present, both the centre and the provinces are multiplying their taxes and the only man who pays is after all the consumer. Therefore, I agree with the suggestion put forward by the Leader of the European Group in the other House that there should be greater co-ordination between the Provincial and the Central Governments with regard to taxation. Already the infection of the United Provinces, proposal for an employment tax has been spreading to other provinces. I think Bihar has already taken it up and I don't know that my own Premier will fail to take it up very soon. I rejoice that the Provincial Governments, in order to pursue their development schemes, are now in a position to exploit their own tax resources, but they must I think come together with the Finance Member of the Government of India and between them they should see that they do not tax the poor man too much. As an Honourable Member said the other day in the other House, indirect taxation in this country is increasing. The consumer is paying already for protecting industries. Therefore, there ought to be co-ordination in regard to further taxation between the centre and the provinces.

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Sir, with these words I close. While there is nothing surprising in the Budget and in the present circumstances, national and international, nothing better could have been done, I wish the Finance Member had not increased the tax on raw cotton.

THE HONOURABLE SIR A. P. PATRO (Nominated Non-Official): Sir, half knowledge is said to be very dangerous—(*An Honourable Member*: “Quarter knowledge is worse”!)—and my Honourable friend reminds me that quarter knowledge is much worse. So I do not propose to carry out a post mortem examination of the budget figures in the past three years though it has been the custom from time immemorial in this country to give a statement of fact with regard to the previous financial condition of things in the Budget. But there is one criticism which has been made here today—that the Budget under estimates revenue and over estimates expenditure. That is a statement said to have been made in a pamphlet which has been widely circulated to all Members and referred to by the Honourable Member.

THE HONOURABLE THE PRESIDENT: There is nothing new in it; that charge is usually made.

THE HONOURABLE SIR A. P. PATRO: But the expert knowledge which is reflected in that pamphlet shows clearly that this half knowledge is very dangerous in matters of finance and economics. The controversy that we have just witnessed between the two Honourable Members who preceded me with regard to the policy of finance and economics also is an illustration of the proverb I quoted that half knowledge is a dangerous thing. (*An Honourable Member*: “No, no! Doctors disagree”!) Therefore, Sir, I do not propose to enter into a post mortem examination of all the past years but only to make a few general observations or impressions which have formed in my mind as a layman. Sir, I find there are four great features in this Budget which have elicited the admiration and appreciation of all those who have read the Budget carefully. The first is the admirable manner in which the deficit of the current year was covered by strict economy and an increase in the income and corporation taxes. (*An Honourable Member*: “An economy of Rs. 17 lakhs”.) I don't want to be disturbed by any “half-knowledge” advocate! The second feature is the absence of any new taxation except the duty on cotton imported. The third feature is the maintenance of the normal defence estimate subject to extraordinary circumstances. The fourth is the continuation of the provincial contributions. These are features which reflect great credit on the financial ability and foresight of the Honourable the Finance Member and his Secretary.

Sir, there was much idle speculation about the Budget. I read various things in the newspapers,—that there would be large deficits which would necessitate the imposition of fresh burdens on the country and that, in view of the extraordinary circumstances elsewhere, the defence budget must be augmented. Happily, these financial speculations and imaginations were dispelled by the financial sagacity and the practical wisdom of the Finance Member. The uncertain economic conditions in India and outside and the trade depression were faced with a sense of economic reality. The skilful manner in which the fall in customs revenue and the increased defence charges during the current year were tided over merit our high appreciation.

From the gloomy and frightful pictures of provincial budgets, presided over by Nationalists, with heavy and crushing taxation in all directions, where (five in some provinces and six in others) new taxes have been imposed in order to balance the budget without corresponding benefit to the taxpayer, we turn with much relief to the Central Budget. It is no small gratification to have a sound budget in the centre. The finances of the Government of India are now placed on a firm basis during these eventful years—the last five years. The slab system of income-tax is expected to bring in a revenue of Rs. 76 lakhs this year, a system which gives relief to many individual assesses and poorer classes. Nevertheless, the Budget, Sir, indicates a deficit of Rs. 50 lakhs which is made up by increasing the import duty on raw cotton. This is said to be for the benefit of the cultivator and to encourage him to produce long staple cotton. As an agriculturist I do feel that this is a boon conferred upon the cultivator of cotton. Much controversy has been raised by capitalists and millowners, which may be justified from their point of view, but from the point of view of the general public and of the cultivators, it is really a great boon to them. (*An Honourable Member*: “Very”!) Sir, this is a very great boon to them. They know where the shoe pinches, not you, who sit here as a capitalist or has the mind of a capitalist and begin to air your views here in the Legislature and in the newspapers; but if you go to the ploughman and see his suffering, you will see that even this little addition will be a great benefit to him. I am not alone in this view. I have the support of the Chairman of the Tiruppur Cotton Market Committee. As you all know, Tiruppur is a great centre for cotton growing in Coimbatore. Now, the Tiruppur Cotton Committee have appreciated the step taken by the Finance Member and have stated that it is a great blessing that there will be this increased duty on imported cotton. As I said, I quite appreciate the agitation that is set up by millowners that it will hit them in certain ways. But the difficulty is: Where is the other alternative source to cover the Budget without further taxation? No other alternative to cover this deficit has been shown, and in its absence, the step that has been taken is the right one. The absence of any fresh taxation is one of the most creditable features of the Budget.

The other aspect is that there is no increase in the Defence Budget. During the current year the deficit in customs revenue was made up by drastic savings in the civil estimates and strict economy of expenditure. Everything was cut to the bone. Only those items that would bring in any revenue to the country have been allowed. Otherwise, everything has been cut to the bone. It may be good economy and good finance from the point of view of the Budget, but from the point of view of the general taxpayer it is very disappointing because no new scheme could be inaugurated and no progress could be made except perhaps in small matters.

The revenue estimate for the next year is Rs. 82·70 lakhs while the expenditure is Rs. 82·65 lakhs, thus leaving a surplus of Rs. 5 lakhs. The reasons for the fluctuations of revenue and expenditure, which were argued with some force and reason by the Honourable Mr. Hossain Imam, have already been explained in the speeches of the Honourable the Finance Member and the Honourable the Finance Secretary. The fluctuations are, for instance, connected with Broadcasting. A criticism has been offered that Government are indulging in too much expenditure on Broadcasting. On the other hand, my own view is that sufficient organisation is not present in the Central Government to disabuse the many misrepresentations that have been made by particular parties in the country. It is very necessary for Government or

[Sir A. P. Patro.]

For those who are interested in maintaining the constitutional form of government in this country that more money should be spent and a better organisation should be set up with a view to see that the services rendered by the Government is properly explained to the people in general. The absence of such propaganda certainly leads to very many inconvenient positions in the Government.

Sir, there are two tests laid down by writers on Finance. The fundamental principle in a sound budget is whether any legitimate source of revenue was thrown away or neglected and is there any expenditure undesirable or unprofitable to the country. My own view is that the Budget examined by a layman, stands these two tests. It has always been open to comment that the provision for defence expenditure takes a very large proportion of the revenue, Rs. 45 crores out of Rs. 82 crores, leaving only Rs. 37 crores for civil expenditure. The Explanatory Memorandum, Statement XVIII, gives an analysis of Defence Service receipts and expenditure. Not one of the items could be characterised as unnecessary, though it may be useful to investigate the means of effecting economy if possible. But, so far as Statement XVIII goes, it cannot at all be found fault with. The disturbing factors in Europe and the approach of Japan to Hainan and the threatening situation both in the West and in the East necessitate the strengthening of the defence force and reforming the Indian Army up to modern standards.

The fourth feature of the Budget is the utter silence on the extraordinary provision with regard to emergency circumstances that may arise. Egypt has been making vast expenditure on the military equipment to modernise the army and the air force and we hope that the Chatfield Committee will not only propose reforming the defence force but will at the same time enable us to obtain from the British exchequer a proper contribution for that expenditure. We read the other day in the speech of the Under Secretary of State in the House of Commons that according to some interim decisions they would increase the annual contribution that is made—it is £2 million at present; but this would be increased by an increase in the annual grant for India and Burma to make a capital grant for equipment and to modernise the Indian and also for equipment of the Royal Air Force squadrons. For this purpose the British exchequer is prepared to pay a higher contribution than at present. In another report we find that this would necessarily increase the contribution by £3,751,000 in addition. But how this will stand finally in course of time it is not possible to say at present. There is one aspect of defence which we have to keep in view, that at present the Legislatures have no control over the expenditure. This right is bound to come in course of time. For that reason we cannot follow the disastrous course of rejecting the Budget. The maintenance of efficient and well-equipped modernised forces is necessary, when India obtains the goal of independence along with other parts of the British Commonwealth of Nations. This being necessary now and hereafter it is extremely unwise to criticise the defence forces at present.

Sir, the inauguration of provincial autonomy has brought in its train many indirect financial difficulties. The Neimeyer award necessitated that the surplus in the Railway Budget and the revenue from the income-tax exceeding a certain sum the balance available should be distributed to the provinces. In addition to this there is the rural development contribution and the Road Fund. The Honourable the Finance Member has always been solicitous of the financial well-being of the Provincial Governments and that they should be placed on a sound financial basis and not fail on the rock of

finance, whatever other causes of failure may be. In the new provinces six new taxes were raised in addition to the crushing burdens imposed last year. The taxes I need not narrate. People are being ground down in the daily work till nothing more could be raised. They are crushing burdens which are not for the material benefit of the provinces nor for economic advancement of the people. They have not proved to be so though challenged often. It is merely for the sake of fulfilling political promises and programmes. It is after all a will-o'-the-wisp. For the sake of fulfilling political promises and programmes the peoples of these provinces have been burdened with these taxes. Look at this picture and that. The excise revenue is voluntarily thrown away. If the process is pursued there is no doubt that it will endanger the stability of the finances of the Governments, and not only that, other disastrous consequences will follow. Again, encouragement for hand-spinning and hand-weaving is a desirable thing by way of supporting small cottage industry, but the entire responsibility for carrying it out is placed by the Provincial Governments in the All-India Spinners Association and village societies which are merely appendages of the Congress, a political party. This is unfair and unsound, that this contribution should be devoted to party funds and party propaganda. This is disturbing the minds of a large section of the people. It is not the occasion for me to go into the wages which they pay to the weavers in the different centres. That must wait for another occasion. These factors should not be lost sight of in the distribution of the provincial contributions from the central budget.

In the financial picture presented to us there is no reference to tariffs. It is perhaps in consequence of the Indo-British and Indo-Burma agreements not having been completed, nor the tariff duties and valuations in respect of paper, sugar, sericulture and textiles which must be under the consideration of Government. These questions have a great bearing on budget calculations. The duties on textiles and sugar are due to expire on 31st March. Whether the Protective Duties Act will be extended and another Tariff Board will be formed is not known. The public mind is exercised over these industrial problems.

As I have said, the main feature of the Budget are four in number, and these reflect great credit on the financial ability and foresight of the Honourable the Finance Member in the Budget he has presented to us.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS (Punjab : Non-Muhammadan) : Before I begin my observations on the Budget I would like to congratulate our Honourable colleague Mr. Raisman on his elevation to the Finance Membership. He is the second I.C.S. officer who has been fortunate enough to get that appointment and we wish him every success and popularity in his new job. Sir, I also thank the Government for the appointment of the Honourable Mr. Lal as Deputy Secretary to the Government of India in the Legislative Department. I congratulate them because hitherto this appointment has been held by an I. C. S. officer and now the Government has seen that even that post can be given to a gifted P.C.S. officer.

Although it has been observed in the other place that some of us are dictated to by an Indian central commercial and industrial body, I must say, Sir, that that body is a competent body representative of Indian commercial and industrial interests in India, and so it is not right and fair to call that body an unrepresentative or incompetent body.

The Honourable the Finance Member has developed the habit of underestimating the revenues. I find so in the case of the revenue and excise from sugar.

[Rai Bahadur Lala Ram Saran Das.]

The estimate of those who know this business well and who are in the trade is that the excise income from sugar will be about Rs. 5·77 crores, which the Finance Member has only estimated at Rs. 4·20 crores. Sir, next year when the Budget is presented to us we shall be in a position to say whether the estimate of the central industrial representative body is correct or wrong. Sir, the sugar trade expects that the production of sugar this year will not exceed 7½ lakhs of tons and the import from Java and other countries of sugar will not be less than 1½ lakhs of tons. I take these figures because I know what is the average annual consumption as well as production of sugar in India and my figures are based on that. The second underestimate is with respect of income-tax and super-tax. No account seems to have been made of the changes recently effected in the body of the Income-tax Act, and from the proposals embodied in the Finance Bill. For instance, the assessment of foreign income on accrual basis, trusts, section 23A and section 44D and discretion given to income-tax officers to treat unregistered firms as registered firms, etc. The estimate of increased yield is expected to be about Rs. 2 crores from income-tax and super-tax. This increase is arrived at after taking into consideration the relief in respect of individual income-tax on an estimated increase of Rs. 40 lakhs from income-tax and an estimated increase of Rs. 170 lakhs from the yield of super-tax. In case these items had been rightly estimated, there would not have been a deficit and I have no doubt that the figures which I have quoted will turn out to be true when the actual budget figures comes before us next year.

Then, Sir, I come to the point of doubling the import duty on raw cotton. I am one of those persons who have taken a keen interest in growing of long staple cotton in the Punjab. In the Punjab perhaps I was the first person to introduce the growing of long staple cotton on my estates and I tried all sorts of Egyptians, Americans, and other cotton seeds. My own experience is that as far as results went Egyptian cottons counts (sackles of Egypt) it was good enough to spin seventies; in the year following its seeds deteriorated and the quality of cotton was not good enough even to spin fifties. In the third year the seeds and the produce was not capable to spin even good forties. The result was that the cultivation of long staple Egyptian cotton had to be given up because the yield per acre was so poor and its quality grew worse every year. Then, Sir, I fell back to trying American cottons and the cotton which is now called 4F succeeded and the result was that the Punjab now produces a great deal of this quality. The Punjab Agricultural Department is exerting its best to develop the growing of long staple cotton. A variety which we call 289F was the first long staple cotton that we produced in the Punjab, but I must say that we cannot produce any longer staple cotton than 289F. N. T. 43 and L. S. S. have been recently introduced in the Punjab, but they also are not so fine as to give us counts over forties warp. Although my friend the Honourable Sir A. P. Patro has observed that it will be of great benefit to the agriculturist to me it seems that Sir A. P. Patro has no experience at all of growing such cotton in his own lands.

THE HONOURABLE SIR A. P. PATRO : It will encourage us.

AN HONOURABLE MEMBER : That is half knowledge !

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : I should say no knowledge !

THE HONOURABLE SIR A. P. PATRO : It is not so. I myself raise cotton in my land. I have experience of it and others are merely vakils and pleaders who do not know anything !

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : I am sorry that Sir A. P. Patro has made an evasive sort of speech. I want to inquire from him whether he is growing fine staple cotton in his own lands or not ? My inquiry is only confined to long staple cotton.

THE HONOURABLE THE PRESIDENT : What is the cause of failure ? You do not replenish the soil by fertilisers, etc.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Sir, in my experiments I was very greatly helped by the Punjab Government and by agricultural experts, who did their very best to put in the best manure to meet the deficiency of the soil, but the soil is such that we cannot get as good a cotton as even the low quality of Egyptain. Sir, it is no use arguing as experiments proved this to be impossible. Sir A. P. Patro also referred to Tiruppur cotton. I know, Sir, that Tiruppur and Cambodia are one of the best cottons grown in India but even that cotton is not as good as even the inferior sackles of Egypt.

THE HONOURABLE THE PRESIDENT : What about the Sukkur Barrage?

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Sir, my information is that the cotton produced there is not very much better than the Punjab American cotton.

THE HONOURABLE SIR A. P. PATRO : You want a higher price for the Punjab cotton ?

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Punjab Americans are now finding a great market in India, but all the same I must say that they cannot spin 32s for warp yarn. Sir, experiments in Sind and in the Punjab have shown that the soil is not fit to grow any better variety of longer staple cottons. So, Sir, it is simply a bogey to say that by this additional duty of half an anna per lb. the agriculturist will benefit. I know, Sir, that it is a fact that since the doubling of the duty was announced, there is a certain rise in the price of cotton, not only of long staple cotton but even of low staples. No speaker has tried to prove that the Indian agriculturist is going to benefit by this additional duty on cotton. I agree with my many friends in holding that this doubling of duty is a bounty particularly to Lancashire and Japan by the back door.

Sir, I find from the import figures of machinery that Government has derived a very good revenue, *viz.*, Rs. 2,46,000. I have taken the figure from Statement 2 of the Customs Revenue, page 4. Sir, it is not right to go on overtaxing an industry which gives you a big revenue. The imports of yarn and textile fabrics is likely to yield a sum of Rs. 9,00,000. That, I think, is underestimated, because this additional duty on imported cotton will result in heavy increases of the imports from foreign countries, particularly Lancashire and Japan. The duty from cotton fabrics of British manufacture and cotton manufactures of other than British manufacture is also under estimated because this duty will also lead to increase of those imports. It would have been fair, Sir, for the Finance Member to levy a comparative increase of import duty on piecegoods and yarn. I find, Sir, that, in addition to the piecegoods a great quantity of yarn is being imported from foreign countries and there is

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a difference between the duties, the importation of yarn and piecegoods, the effect of the low import duty on yarn, the Indian cotton industry is suffering.

Then, Sir, I will refer to the question of the Ottawa pact. The attitude now adopted by the Finance Member is in marked contrast to the reply given by His Majesty's Delegation at Ottawa when the Indian Delegation was informed unequivocally that the question of imposing any import duty on non-Empire cotton could not even be entertained as it would affect the interest of their textile industry. If His Majesty's Government could not afford to impose such a duty in favour of Empire-grown cotton it is only in a subject country like India that such a proposition could be introduced by the Finance Member.

There is one aspect of the imposition of this duty which, a few days before a statement is made by the Government of India in the Assembly regarding the Indo-British trade negotiations, must be mentioned here. With this deliberate bounty to the United Kingdom and other imports of piecegoods into India, the question of any further concessions to Lancashire appears to the Committee to be completely cut out. When the Ottawa pact was demanded to be denounced by the Assembly, a suspicion was expressed that certain political parties were dead opposed to a trade treaty with the United Kingdom. All these parties have kept their patience during more than two years and a half when the Government of India have been examining the possibilities of an Indo-British trade treaty with the help of non-official advisers. Just on the eve of a statement from Government in this connection, it is the Finance Member of the Government of India who has lost patience and hastened to get a veritable bounty for imports of Lancashire piecegoods into India. If this were not the motive, the additional imposition of half an anna per pound would have been coupled with an increase in the import duty on the relative piecegoods and yarns. But a few weeks before Government could put before the Assembly their recommendations in connection with the Indo-British trade treaty, a deliberate effort has been made to prejudice the issue by putting an unjustified further impost on the Indian textile industry.

The Committee of the Federation of Indian Chambers has the same view as I have. Sir, there is even time now for the Honourable the Finance Member to see his way to increasing the import duty on foreign piecegoods and yarn.

I now come, Sir, to the military expenditure. From what I see in the papers before me, Sir, that the military expenditure this year increased by over a crore of rupees. Sir, we have got a standing army in India such as does not exist any where else in the world. Indianisation has snail pace. Our defence expenditure has gone up very heavily since after the war. There is discontent among the people for the reasons which I gave on the floor of the House the other day. I simply want to repeat them again so that I may be able to impress upon His Excellency the Commander-in-Chief the necessity of removing those grievances and thus avoiding taking more legislative and punitive measures and also making a saving. Sir, I said that the necessity of enforcing recruitment and of punishing those who did not join their ranks immediately on demand is simply due to the fact that the treatment extended to Indians in India and abroad is far from being satisfactory. In the other place yesterday, an Adjournment Motion was carried as regards the position of Indians in Kenya. Sir, the Indians overseas are in great difficulties in certain matters. Even as far as their religious obligations are concerned, they are deprived to observe them. I am thankful to the Honourable the Education Member who is in charge of Emigration that he was good enough some time

back to indicate his desire to appoint an Indian Agent in the West Indies and in other places where Indians exist in good numbers. The Sanatan Dharm Pratinidhi Sabha of the Punjab, of which I have the privilege to be the President, sent abroad a great worker in Dr. Purusram Sharma who visited British Guiana, French Guiana, Trinidad, and other places far away from India where Indians exist. I say "exist" because their condition is far from being satisfactory. Dr. Purusram from his personal experience told us that in Trinidad the Indians form one-third of the total population. In British Guiana they are 40 per cent. and in Dutch Guiana they are 33 per cent. The Hindus there are not allowed to cremate their dead, which is obligatory upon them from the religious point of view. Luckily, when Dr. Purusram was in Trinidad he approached the Dominion Governor, Sir Hubert Young. Sir Hubert Young was probably born in India as his father, Sir Mackworth Young, used to be the Governor of my Province (Punjab). From what I understood from Dr. Purusram, he passed orders that the bodies of Hindus be allowed to be cremated. I do not know how far those orders have been carried out but we expect that in case his successor agrees with him perhaps one of the grievances of Hindus in the West Indies will be removed.

Then, Sir, another grouse is the Marriage Registration Act. Every marriage has to be registered, whether it is a Hindu or Muhammadan or any other marriage. Indians protested and the Dominion Governor was good enough to appoint a committee to report on their hardship in which Dr. Purusram was also taken as a member. Dr. Purusram along with others did put in a report to the Dominion Governor and I do not know what will be the fate of that recommendation. The position is that 88 per cent. of the Indians now in Trinidad are said to be illegitimate, and that is because their mother's marriage was not registered as they on religious grounds refused to register the marriage. The result is that they are declared illegitimate and I do not know what will be the fate of their sons and daughters in matters of succession.

THE HONOURABLE SIR DAVID DEVADOSS : What is the harm in registering a marriage ?

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : My dear Sir Devadoss, I will give you the reason. Whenever we have any religious command, nobody is to question or to argue this.

THE HONOURABLE SIR DAVID DEVADOSS : There is no religion in that. Marriages can be registered, births can be registered and deaths can be registered.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : That may be your view. However, Sir, I hope that the Government of India will be good enough to appoint Indian Agents in these colonies as soon as possible in order to remove the grievance of East Indians who have settled there.

I would draw the attention of His Excellency the Commander-in-Chief to the segregation of Indian officers in the way in which it is being done now. People realise that the formation of the Indian Division is for confining Indian officers holding Indian commissions to its component regiments. Why should they not be allowed to serve in other regiments along with King's Commissioned officers ? That segregation is deeply resented by us, including those who are in the segregation. Sir, people hold that this is the result of the statement

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which I made in this House some time back that a Professor in a certain Military College in England observed, while addressing students : " If you join the College in bigger numbers and on your success let me assure you that in India you will never be put under command of Indians". If this statement is wrong, I hope His Excellency the Commander-in-Chief will put me right.

I find there is a fall of Rs. 367 lakhs in customs receipts. That shows that the country is poor and the effects of the economic depression have not yet disappeared. I would therefore beseech the Government not to increase the taxation so that there may be some revival of prosperity in India which will naturally result in more imports and swell up revenue.

As regards the purchase of stores, I must congratulate His Excellency the Commander-in-Chief on the measure he has adopted for manufacturing, particularly ordnance stores in India for military use. I hope His Excellency will be able to pursue this policy further so that India be made self-contained as far as the supply of stores to the Indian defence force is concerned.

I will not take more time of the Council but will say before I resume my seat that the military expenditure ought to be reduced at least by the amount that is spent on the maintenance of British troops in India. India is the greatest asset of the British Empire. It finds employment for thousands of Britishers on high salaries unknown elsewhere in the world. Therefore, because the British Army is the army of occupation in India, its expenditure should be borne by the British Exchequer in addition to the Indian naval defence expenditure. The British Government had undertaken the protection and defence of the Indian coast for several centuries past and the same should continue.

THE HONOURABLE MR. R. H. PARKER (Bombay Chamber of Commerce) : Sir, I would like to join the Honourable the Finance Member in the first place in his appreciation of the foundations laid by his predecessor, Sir George Schuster, and I can add to that, what he cannot add, a very high appreciation of what he has done also. Not only is our present position due to the foresight and sagacity of these two Finance Members but I regard a lot as due to the sagacity of His Majesty's Government also. They have shown a very determined attitude, and certainly, if they had not shown a very determined attitude, I think India would not be borrowing at 6 per cent. It would be borrow at 10 per cent. instead of 3 per cent.

I cannot understand the Honourable Mr. Pantulu's attitude. He talks about exploitation but he has not given one single instance, as far as I can see, of exploitation of any kind.

THE HONOURABLE MR. RAMADAS PANTULU : If I were to do it, I would want a whole day for it.

THE HONOURABLE MR. R. H. PARKER : I am afraid one cannot be spared. I find it difficult to reconcile the Honourable the Finance Member's general policy of sound finance with a point which I mentioned and I have mentioned it on several previous occasions in connection with the Railway accounts. I make no apology for returning to it. The Honourable the Finance Member probably really understands it or he has not time to look into it. But if he does not understand it, then he ought to leave it to me. If he understands it, then he ought to put it right. As I told him the other day when

replacing an asset costing Rs. 1 lakh by an asset costing Rs. 1½ lakhs, he is giving away capital as if it were a profit of Rs. 50,000 out of the whole transaction. That is not a very sensible thing to do. Perhaps, Honourable Members might like to know what the effect of my method would be. There would be very little change in any one particular year. Your capital at charge would be up by Rs. 1,25 lakhs, your depreciation would be up by Rs. 1,25 lakhs, that is, the amount in the fund would be up by that amount. Your interest would be up by somewhere in the region of Rs. 5 lakhs, but that would be counterbalanced by the interest on the higher amount in the Depreciation Fund. Your contribution to the Depreciation Fund would be higher by about Rs. 2 lakhs in the first year, but it is worse than it sounds in the next year—X+2 in the next year, X+4 in the following year, X+6 in the succeeding year, and so on. It is a more important error than it appears to be on the surface.

I want to make one or two references to the question of diminishing returns from customs duties. Taking the case of the tax on motor transport as one of the most important of them, in the accounts for 1937-38, the receipts were Rs. 1,68 lakhs. In the Budget for 1938-39 they were estimated at Rs. 1,70 lakhs. In the revised budget, they have been reduced to Rs. 1,25 lakhs and in the Budget for 1939-40, they are shown at the same figure. I regard a reduction from Rs. 1,70 lakhs to Rs. 1,25 lakhs within a period of one year as very serious and I think you must admit that you have got your diminishing return, and that you are taxing them too highly. The import duties on motor spirit tell much the same tale. The Budget for 1938-39 was Rs. 5,80 lakhs which has now been revised to Rs. 5,10 lakhs while the Budget for next year is Rs. 5,42 lakhs. The total taxation on motor transport is extremely high. It pays a total of some Rs. 10 crores per annum. The expenditure on roads is roughly Rs. 6 crores. And of that total revenue of Rs. 10 crores the Central Government receives Rs. 8 crores, out of which Rs. 6½ crores are taken to general revenues and Rs. 1½ crores, representing the surcharge on petrol excise, is allocated to the Road Fund. When I remind Honourable Members that a 13-cwt. bus, costing the small sum of Rs. 3,500, has to pay annually a sum of Rs. 1,320 in Bengal, where the taxation is lightest, and Rs. 2,716 in Madras, Mr. Pantulu's presidency where taxation is heaviest, they will realise that taxation is for the motor transport industry a very serious item of cost. In Bombay City taxation amounts to no less than 43 per cent. of the running costs of a motor car. If the wages of a driver are included in the running costs the percentage comes down to about 35.

Then I come to one rather tragic note. I do not know whether Honourable Members got the shock I did the other day when I opened the newspaper and read, "Post and Telegraphs Department. Complete collapse". I looked to see what had happened to Sir Thomas Stewart's and Mr. Bewoor's department and I found they had lost a hockey match! (Laughter.) I suppose they were not in the team, but I am advised that if my heart had given way under pressure of the shock my executors would have had a claim against the newspaper!

Then I come to this question of new taxation. Sir A. P. Patro says there is no new taxation except the cotton duty. I hope he will think so when he gets his assessment for income-tax and super-tax. But I do want to deal shortly with this customs duty on cotton. Bombay is predominantly affected by it and is extremely unhappy about it, and they go so far as to tell you that it would be far sounder to leave a deficit of Rs. 50 lakhs in the Budget than to put this new tax on Bombay. And I must say that the cotton mills have had a very hard time. There are some legislative or quasi-legislative proposals or actual enactments which have resulted or will result in wages being

[Mr. R. H. Parker.]

increased by 10 per cent.—there is a sales tax of $6\frac{1}{2}$ per cent.—the pending Bombay budget provides for taxes on property which the millowners say will cost somewhere in the region of Rs. 7 lakhs ; and altogether they have been very hard hit. The Finance Member says that the new duty will amount to 3 per cent. of the cost of production.

THE HONOURABLE SIR JAMES GRIGG : For those mills using entirely imported cotton.

THE HONOURABLE MR. R. H. PARKER : Well, I actually had a rather higher figure, but I am not an expert and the Finance Member is. But even 3 per cent. in a case like that is a very important item and I would have much preferred to see him choose some other tax. I think it was the Honourable Mr. Pantulu, or perhaps the Honourable the Leader of the Opposition, Mr. Ram Saran Das, who suggested that Lancashire were being favoured. Well, I must say that for my part I am content to leave the question of whether Lancashire is being favoured or not to the Honourable Sir Zafrullah Khan. I think he is very capable of looking after India's interests in that connection. And somebody referred to there having been a lot of idle speculation in connection with this year's Budget. I believe there has been a lot of speculation of another kind, not very idle but very profitable. Then somebody else suggested that Japan would gain. I suppose in an indirect sense they may but after all there is a quota to control that.

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

The Council re-assembled after Lunch at Half Past Two of the Clock, the Honourable the President in the Chair.

THE HONOURABLE RAI BAHADUR SRI NARAIN MAHTHA (Bihar : Non-Muhammadian) : Mr. President, the Budget for 1939-40 in its essential features, like its predecessors, is top-heavy in character, burdensome to the general taxpayer and step-motherly to the task of building up the nation economically. But I am prepared to concede that it is in some details pleasanter than the budgets of previous years. I would like, however, to refer to some aspects of the Budget and also to some of its deficiencies.

The chief deficiency of the Government of India budget is inherent in the constitution under which the administration of the country is carried on. If you will look, Sir, on page 16 of the " Explanatory Memorandum on the Budget of the Governor General in Council for 1939-40 "—a booklet which has been given to us along with the other Budget papers, you will see, Sir, at a glance the measure of irresponsibility and hollowness of the present position. The statement furnished at the page referred to by me gives an abstract showing the Distribution of Expenditure between voted and non-voted heads. This statement (although it includes the working expenses of the Railways, Posts and Telegraphs and Irrigation Departments) reveals most glaringly the present state of our tutelage and the very meagre and limited extent to which the Budget is subject to the vote of the Central Legislature, which, however, principally or perhaps exclusively, means the Central Legislative Assembly. And even in that limited sphere the vote of the Assembly is not absolute and final. It is subject to the veto of the Governor General.

The statement to which I have referred above shows that out of the total expenditure, only Rs. 98 crores and 22 lakhs are voted and Rs. 109 crores and 25 lakhs are non-voted expenditure. This works up to a percentage of 47·3 of voted expenditure as compared to the total expenditure. On the top of this, it cannot for a moment be forgotten that the whole Budget is framed by an Executive which is not responsible to the Legislature. The task of our reviewing the Budget, therefore, is rendered nugatory and unreal in actual effect, except for the purpose of bringing on official record what we think about it.

In introducing one of his earliest Budgets in the Legislative Assembly, the Honourable the Finance Member, who has this year introduced his last Budget, had said that his main task in that year and the succeeding years was to make possible the introduction of the new constitution on an even keel. Judging from his own standards and from the strictly financial point of view, the ushering in of a substantial part of the new constitution has taken place without any grave financial unbalancing. I would like, however, in this connection to take the opportunity of saying that whereas the Finance Member may have played his part without materially disturbing the current equations and proportions of the Budget, it now remains for the Government as a whole to work up to a reconciliation with the political parties in India and so to bring their pressure to bear on the authorities in England as to get the Federal Constitution amended in such a manner as to make it acceptable to a politically conscious India—to make the Federation worthy of England to grant and India to accept. The present, Sir, is also an opportune moment to make a move in this direction because the British Parliament is going to amend the Government of India Act in some respects. I hope, Sir, that the Government of India will respond to Indian political opinion and make a move in this direction, which is bound to be appreciated by the whole country.

The next point that I would like to dwell upon is the necessity of lowering the heavy burden of administration and defence of the country on the revenues of the Central Government. The present burden is such that only a very inadequate surplus is left for being devoted to the nation-building departments or for being made available to the provinces whose needs are far greater than their resources can bear. That a great deal is possible to do in this direction will, I hope, not be disputed. The burden of taxes on the people of India has increased by over Rs. 75 crores since 1914, without much reference to the taxable capacity of the people. The tragedy has now been heightened by some of the Provincial Governments adding to the burden very considerably and almost in a vindictive mood. It was very refreshing indeed, Sir, to find the Leader of the Congress Party in this House giving a timely warning to Government that co-ordination in the matter of taxation is necessary between the centre and the provinces. The imposition of new items of taxation in the provinces has been varied and heavy. In Bihar the rates of court-fee stamps have been raised, entertainment and agricultural income-tax has been imposed, and while the Central Government is already taxing sugar, the Bihar Government have taxed sugarcane brought to mill-head. Whereas the duties of the Central Government cannot be under estimated with regard to maintaining a check on unbridled taxation and sometimes overlapping taxation in the provinces, greater is the need for making less costly the machinery of government. I admit that the economy drive of the Finance Member has resulted in considerable savings, but one is forced to accuse the Government of merely tinkering with this very vital problem of economising the cost of administration and defence. I am not an advocate of losing in efficiency what we save in money, but I am an advocate of so co-ordinating the various departments of Government and

[Rai Bahadur Sri Narain Mahtha.]

introducing such changes in the services as would make them less costly and more Indian.

As an illustration, Sir, I shall make a reference to the defence budget. Though, the defence budget has been reduced by Rs. 1 crore, expenditure on defence has actually increased by Rs. 1 crore and 85 lakhs in the year under review as against the revised budget of the current year. This has been made possible by increased contribution from the British exchequer. I do not advocate that India should have a weak defence. I do not advocate that Indian military power should be so lowered as to invite attacks from aggressive nations. What I want is that the expenditure should be reduced to a level which would be compatible with India's present economic position without, at the same time, weakening the defence of the country. This, Sir, is clearly possible to do, if this Government did what a truly Indian Government would and should do, and that is by replacing British by Indian troops. The expenditure would certainly go down considerably as a British soldier costs about four times more than an Indian soldier. Besides this question of cost, there is another very important difficulty with regard to the maintenance of British troops. In the United Kingdom, at peace time, units are maintained at an establishment smaller than that required for war. The deficiency on mobilization required to complete units to their war establishment are made good by means of reservists. In India the position with regard to British troops has got to be different. Reservists of British personnel do not exist here and reinforcements must be obtained from the United Kingdom. It is obvious that the process of recalling reservists to the colours, equipping and despatching them to India must taken time. British units in India must, therefore, be self-contained, and consequently the peace establishment generally exceeds the war establishment. When a Resolution was moved year before last by the Honourable Pandit Hirday Nath Kunzru requesting Government to replace British by Indian troops, I had the occasion to deal with the question of the comparative efficiency of the British and Indian soldier and I showed it on the authority of Government statements and reports that the Indian soldier was the more suited for Indian conditions and requirements. I do, therefore, want to urge over again the Government to take up a bold policy in this matter which will satisfy Indian manhood and put the Government in a much better position financially. Since the Incheape Committee in 1923, when some really substantial step was taken towards retrenchment and reduction of British forces, nothing has been done in recent years. It is time, therefore, that something substantial be done in this direction. I hope that Government in considering the Report of the Chatfield Committee, which is a sealed document for us, will give due consideration to this all-important question.

A budget is only an estimate of probable income and likely expenditure. The figures it contains are bound to be approximate. The Honourable the Finance Member, speaking in another place, yesterday strongly refuted the charge that there has been any tendency to under estimate revenues. I think what he said about import duty and excise from sugar was fairly weighty, but I am afraid that his defence of the anticipation, as made in the Budget, from taxes on income was poor. In view of the new Income-tax Act and the rates mentioned in the Finance Bill, his estimate is certainly low. If this income alone had been less pessimistically estimated, the new taxes would not have been necessary. Surely a good part of the receipts from income-tax goes to the provinces, but the share of the Government of India should in my opinion have been sufficient to cover the deficit.

I would reserve my remarks regarding the proposals contained in the Finance Bill until we have the Finance Bill before us. I think that will be a more suitable stage to examine them in detail. I would in the meantime only say that the additional duty on imported cotton has made the industry of the country apprehensive and I would wish Government to consider if it would not be a fair step to lay an additional imposition on the corresponding piecegoods and yarn imported from abroad.

Before I conclude, Sir, I would like to say a word about the working of the Sugar Excise Act. The Bihar Planters' Association which is now practically amalgamated with the Bihar Landholders' Association, of which for some districts of North Bihar I happen to be the President, have complained to me of a certain hardship to which some millers are subjected. Under the terms of the Act, excise duty is payable when sugar leaves "mill premises". Last year, perhaps for the first time, excise authorities refused to accept the godowns of the mills near railway stations "as mill premises" and the mills were compelled to pay duty on all sugar in those godowns. I think the Act intended that duty should be paid on sugar when it is sent out for sale and not when it was lying in the godown. The mills that are situated at long distances from railway stations have to keep godowns near railway stations as carting is difficult during the monsoons, particularly in North Bihar, and large urgent orders cannot be executed unless sugar is stored near railway stations, I shall be glad, Sir, if Government will look into this matter and relieve the millers from this hardship which the Act, I think, did not intend to subject them to.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU (United Provinces Northern : Non-Muhammadan) : Mr. President, it is a gloomy Budget which the Finance Member has presented to us, but its gloom only reflects the depressing economic conditions prevailing in the country. Two years ago indulging in one of those pugilistic performances which apparently delight him in connection with the Budget, he asserted that the course of the import and export trade and the amount of the trade balance were such as to indicate that the rupee was under-valued. I hope that the course of trade during the last two years has convinced him of the wrongness of the position that he took up then.

THE HONOURABLE SIR JAMES GRIGG : Not at all.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : The Honourable Member evidently is not prepared to be convinced even by facts. His own predilections are dearer to him than the testimony of facts. Well, if he indulges in giving more prominence to his beliefs than to facts in the important positions which I am sure he will occupy when he goes back to England, I feel certain that he will receive the commendation that he deserves from his superior officers.

Sir, we are glad to learn from the Budget that the Government, owing to the deterioration in our financial position, tried to reduce our civil expenditure. The Honourable the Finance Member has told us that the revised estimates show a net reduction of Rs. 94 lakhs as compared with our budget estimates. I wish that we had been told how this reduction had been brought about. We should like to know what are the superior posts, if any, that have been abolished. We should like to know in what other manner the axe has fallen not merely on the low paid services but upon those who occupied higher positions. Secondly, we should like to know to what extent departments which we might regard as productive have been affected by the retrenchment recently

[Pandit Hirday Nath Kunzru.]

brought about. I am referring to the scientific departments under the control of the Government of India. In 1931-32, when expenditure was reduced, these departments suffered heavily. They have barely recovered from the effects of the ill-judged retrenchments that were made in their allotments six or seven years ago. I should therefore like to know what the present position is, what opportunities have still been left to them to develop their activities which are of considerable importance to the country from an economic point of view.

Sir, it is a matter of regret to us all that the economic position in the country should give cause for anxiety but every cloud has its silver lining and in the present case the deterioration in our financial position has brought us advantages in its train in connection with our army and military expenditure. In the first place, His Majesty's Government have at last recognised, so to say, publicly and officially that India is no longer able to bear any increase in its defence expenditure. The Finance Member has told us that the improvement made in the conditions of service of British military personnel owing to the decisions taken by His Majesty's Government during the course of the year would amount to about Rs. 115 lakhs. Mr. Nixon told us also this time last year that certain improvements that had been made then had cost the Indian exchequer about Rs. 16 lakhs. The total increase thus amounts, roughly speaking, to about Rs. 1,30 lakhs. It was impossible for India to bear this burden. His Majesty's Government have therefore had to give us a subvention of half a million pounds, which amounts to about Rs. 66 lakhs and at the same time to withdraw four infantry battalions. The saving to us this year would be about Rs. 16 lakhs, but I take it that as the expenditure of a British battalion is about Rs. 19½ lakhs, there will be a saving of nearly Rs. 75 lakhs in the next year. We thus see that the action taken by His Majesty's Government results in a saving of about Rs. 1,40 lakhs, which is a little more than was needed to balance the increase in our expenditure owing to the improved conditions of service for British personnel. There is one other item, however, which has not been mentioned by the Finance Member in his speech, nor has the Finance Secretary referred to it. Unfortunately, as my Honourable friend Mr. Hossain Imam said earlier in the day, the Explanatory Memorandum which used to contain brief notes on military expenditure and reviews of the current year's and past year's expenditure has now become so jejune as to be almost valueless. There is no one place in which you can take in at a glance important features concerning the year that has closed or the current year, or military expenditure. I make the same complaint with regard to the review of railway accounts by the Financial Commissioner for Railways, which too has been converted from a somewhat human document into a bare collection of tables. The matter to which I want to refer is the withdrawal of a cavalry regiment. We were told last year that owing to the programme of mechanisation it had been decided that one cavalry regiment should be withdrawn. I see from the defence estimates that a regiment has been withdrawn. That ought to result in a saving of about Rs. 17½ lakhs or Rs. 18 lakhs. There is no reference to that and I should like to know whether that saving would accrue to us or whether it is intended to use it in connection with the mechanisation programme.

Another point to which I might refer in this connection is that we were told last year that the mechanisation of eight British units had been decided upon by His Majesty's Government. This was to cost Rs. 215 lakhs of which Rs. 80 lakhs was to be provided by His Majesty's Government. I see in the first place now that the scheme for the conversion of four British battalions

into machine gun units has been abandoned and that the Indian exchequer has been asked to provide much less than was anticipated in February last year. We were then told that the probable expenditure on mechanisation which would have to be met by the Indian Budget during the course of this year would be about Rs. 85 lakhs. But this has now been considerably reduced, and in addition to this, we have a capital grant of £2,150,000 for the mechanisation of British and Indian units. I should like to have some information on this point. To what extent is mechanisation to be proceeded with and what portion of the capital grant given by His Majesty's Government will be utilised for the mechanisation of Indian units? What would be the effect of this mechanisation, when it has been carried out, on our military expenditure? We were told last year that mechanisation of the British units would result in a decrease in expenditure. But, as I pointed out then, that decrease was really due to the proposed withdrawal of a cavalry regiment which has now been carried out. Now, the British units may be reduced in number and withdrawn to England in order that the expenditure on the British force here may not increase beyond what it is now. But the Indian units cannot be sent anywhere. What then do Government propose to do? Has this subject been thought out? If so, we should like to know the ultimate result of the process of mechanisation in so far as the burden on the Indian exchequer is concerned and its effect on the strength of the Indian Army.

Sir, when I pleaded some time back with His Excellency the Commander-in-Chief for the replacement of British by Indian units, he told us that nothing could be done beyond the small reduction of British forces provided for in this slow scheme of Indianisation. The financial stringency with which we are faced has, however, compelled His Majesty's Government to do what we would never have been able to persuade them to do. I suggest that this process should go further and that means should be devised of continuously replacing British by Indian troops. When I say this, I am not in any way oblivious of the international position or even of the position in the Far East. I recognise the changes that are taking place all over the world and the pace at which military expenditure is rising in every country. But it must be recognised that these countries are spending large sums of money on their armies for the preservation of their national existence, and in the second place they have placed their defence arrangements on a national basis.

3 P. M. When we are therefore asked to bear the present level of military expenditure, even granting that it is not large compared with the standards followed in other countries, we have a right to ask Government to place our defence arrangements too on a national basis. It is not enough merely to utilise the man power of this country in certain limited ways. It is also necessary to expand the opportunities for its development and at the same time to mobilise the moral resources of the nation.

Sir, there is another subject connected with our defence which I consider necessary to deal with before I pass on to other things. Waziristan has cost us large sums of money during the last two years. The special expenditure on it amounted to Rs. 176 lakhs in 1937-38 and the roads in tribal areas cost us another Rs. 25 lakhs, that is, about Rs. 2 crores leaving out the Rs. 24 lakhs spent on tribal roads out of the money previously set apart for it. In the current year the Waziristan operations have cost us about Rs. 45 lakhs. We have thus spent nearly Rs. 2½ crores on Waziristan. Where are we now as a result of the operations that have been carried out and the large expenditure in which we have been involved?

THE HONOURABLE LT.-COL. SIR HISSAMUDDIN RAHADUR : What do you propose to do about it ?

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : What do I propose to do ? I should like to ask His Excellency the Commander-in-Chief as to what he proposes to do. As the person responsible for our defence arrangements he cannot merely come and say to us : " You must give me all the money that I ask for ". If he comes and asks for money he must be prepared to answer as to the manner in which that money has been utilised and the extent to which the expenditure ensures us against disturbances of the kind that we have had during the last two years. I should like to know what is the policy of the Government with regard to it and what are the prospects in store for us in this connection?

Sir, the Honourable the Finance Member told us two years ago that we were losing a great deal of revenue owing to the defects in our administrative machinery. He proposed to look into it in order that our existing resources might be made the best of. Now I see from a resolution recently published that a special pool of officers is going to be created in connection with the Finance and Commerce Departments. It will consist of about 80 to 85 officers, about 30 to 35 of these will be or about 30 to 35 of the posts included in the pool will be held by men belonging to the I.C.S. Now I should not like to discuss again the Report of the Wheeler Committee which was debated here about a year and a half ago, but I do want to know what part the Indian members of the I. C. S. may be expected to play in this connection? What opportunities of employment will be given to them in the pool? Will they be chosen in such a way that they may not all be, so to say, at the bottom of the list of I. C. S. officers and that some of them may in the course of a few years hope to occupy the top positions included in Class A?

Sir, faced with a deficit the Honourable the Finance Member has proposed a tax on raw cotton and has referred in this connection to the excise duty on sugar, which he says has justified his forecast and belied the anticipations of those who feared that it might lead to a reduction in the price of sugarcane. Sir, if one considers the position impartially I think one would come to the conclusion that the present position of the sugar industry is not due to the excise duty imposed by Government in order as they said to check competition between sound and unsound concerns, but to the efforts made by the United Provinces and Bihar Governments to centralise the marketing arrangements.

THE HONOURABLE MR. HOSSAIN IMAM : At the cost of the consumer.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : Well, that question ought to be put to the Finance Member who thinks that his excise duty has succeeded. Obviously if the cultivator was not to pay the cost of the excise duty, it was the consumer who had to meet it.

THE HONOURABLE MR. HOSSAIN IMAM : Not the manufacturer ?

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : Well, the Tariff Board decided that the manufacturer should have a certain profit. I am not in favour of the existing high rates, not in the least. If any efforts can be made to check profiteering I should be delighted indeed. But that has got nothing to do with the excise duty on sugar. (*An Honourable Member :* " It has something to do with the customs duty ".) Well, so far as the customs

duty is concerned, its level has not been raised during the last few years. It is what it was before. It could not therefore have directly contributed to this increase in the price of sugar.

Now, Sir, we have been told that this tax on cotton would lead to an increase in the growth of long staples, and I find that some Honourable Members have supported the duty on that ground. They think that the agriculturist would benefit by this duty. Now, if the tax on raw cotton is really intended to develop the production of the varieties that are imported from abroad, I should like to know whether the experience of the Cotton Committee in the past has been taken into account in this respect? Secondly, if it has been found that experiments can still be carried on in order to bring about that result, we should like to know if any scheme has been devised in concert either with the Cotton Committee or the Imperial Agricultural Council for this purpose? Thirdly, since the interests of the agriculturists have been trotted out in this connection, I should like to know whether it is intended that the duty should be permanent? Speaking in the Legislative Assembly yesterday the Honourable Member objected to some suggestions that were made on the ground that after all the increase in revenue from them would only be temporary. Now—

THE HONOURABLE SIR JAMES GRIGG : I said nothing of the sort.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : That is the report of the Honourable Member's speech in today's papers.

THE HONOURABLE SIR JAMES GRIGG : I said nothing of the sort.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : I leave that out of account because that is not germane to my argument at all. It is enough for me to point out that the Honourable Member said in the course of his Budget speech that this duty levied *primarily* for financial purposes would *incidentally* benefit the grower of long staples or encourage the production of long staples. Now, if it is meant really to encourage the growth of such varieties, it can do so only when it is made permanent. Is it intended that the duty should be permanent? If so, the question naturally arises whether Government by the further pursuit of the policy of protection which they have condemned again and again want to make our economic system, so to say, a closed one. Sir, I personally agree with those who have regretted the imposition of this tax. It is a tax on the raw material of one of our most important industries. Secondly, it is unfortunate that it should have been imposed before the Indo-British negotiations were completed. This may have no result on those negotiations, but it ought to have been apparent to Government that action of the kind that they have now taken would inevitably rouse suspicions in view of the delay, the unconscionable delay, that has taken place in the negotiation of a new trade pact. I admit that there is a deficit. I am not prepared to say that the calculations made with regard to the increased yield from imported sugar would be fulfilled in the current year. Although the production of sugar in India is estimated to be only about 800,000 tons in 1938-39 the amount of sugar so far imported is only about 8,500 tons. In view of this we have to be cautious and very cautious. But it may be asked if this is the situation, how is the Government of India to meet the deficit? I will not refer to what they did in 1937-38 for then they did not utilise the Sinking Fund for revenue purposes at all. In fact, they withdrew money from it only temporarily. But so far as the current year is concerned, they have met their deficit by practically wiping out the provision made for the reduction or avoidance of debt. If the

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worst comes to the worst, I should personally think that we might wait and leave the deficit uncovered, for the present, even taking the risk of having to reduce the provision to be applied for the reduction of debt ultimately. If we wait for a while the Indo-British negotiations would have been concluded and we would be in a better position to judge of the course of raw cotton imports. This I think would in every way be preferable to the course followed by Government. Sir, I do not wish to be dogmatic on this point. I have not questioned any of the estimates made by the Finance Department. I have assumed that the deficit which they are trying to make up for is a real one; yet I cannot support their action in imposing a duty on raw cotton. Notwithstanding the disadvantages attendant on the course that I have suggested, I venture to think that it would have been better in the interests of all concerned than the one that has been adopted by Government.

THE HONOURABLE MR. H. G. STOKES (Bengal Chamber of Commerce) : First, Sir, I would like to congratulate the Finance Member that in this his final budget there is no departure from the policy of financial orthodoxy which has characterised his previous budgets. The Honourable Sir James Grigg in another place has paid a graceful tribute to his predecessor whose sound policy he very modestly claims to have followed. I consider it a great achievement, Sir, that during five years of great difficulty he has not only been able to present each year a balanced budget but that by and large he has been able to reduce the load of taxation. When England went off the gold standard in 1931 we saw clearly the value of good credit. We see it now in our own case, as the Honourable the Finance Member has pointed out, in our enhanced credit and in the remarkable savings in interests which have been found possible.

The most striking feature of the year now closing to me has been the fall in customs receipts. The Honourable Mr. Raisman, if I remember, said that he considered the general level of revenue duties to be now at the maximum consistent with the highest yield. I suggest, Sir, that that view is optimistic. During the past year trade certainly has fallen away but I do not consider that so far as India is concerned the recession has been unduly severe. There has been no slump, yet we have this catastrophic fall in imports. I suggest that this goes to prove that the general level of our import duties is dangerously high. Apart too from the loss of revenue, we should, I think, remember that a fall in our imports means a loss to us of bargaining power in disposing of our exports. Totalitarian ideas are very prevalent in India today. They are insidiously attractive but extremely dangerous so long as we depend for our prosperity upon our neighbours. In international trade we are now largely back to the days of barter. If you want to sell jute or rice or rubber to Germany or let us say gunnies to Turkey, you can only do so provided these countries can sell you something in return. A drastic reduction in our imports is desirable only if we do not as a result suffer a curtailment of the exports which are this country's income.

Turning to the Finance Member's proposals for 1939-40, the changes proposed in the method of levying excise duty on khandsari sugar seem both equitable and sound from the point of view of revenue. Evasion will be stopped and those who have not sought to escape liability will benefit from the lower rate of excise. The scale of income-tax rates proposed is, I think, what most of us expected—or should I say feared? While giving the promised relief to the smaller incomes, the rate presses hardly on the larger. Most of these incomes in India are, I think, derived from trade or commerce and I suggest that this

increased taxation *plus* the numerous exactions which most Provincial Governments appear to be devising cannot but result to the detriment of commercial development. There is little incentive to embark on a new venture when you have to take 100 per cent. of the risk but must hand over in taxation a large slice of any profit that may accrue.

The tax on imported cotton now to be doubled has the advantage of providing just the amount needed to balance the Budget. It will not, I consider, increase the production in India of long stapled cotton. The several ventures started with this object have proved disastrous in the extreme for their promoters and the increased cost of their raw material must handicap mills who spin the higher counts of yarn. The deficit to be made up is not large—Rs. 50 lakhs only—and I wish that the Honourable the Finance Member could have seen his way to be less conservative in his estimates of receipts from other sources and so have avoided this additional levy. I have heard it said, for instance, that his estimate of receipts from the sugar duty is low by as much as one crore. But we must, I think, presume that the Finance Department are the best judges in these matter and if the only alternative is to risk a deficiency at the year's end, then I think this tax should not be opposed.

In conclusion, Sir, I trust that the economy measures initiated last April will be continued throughout the coming year. I do not agree with my friend Sir Muhammad Yakub that war is inevitable, that if it does not come in 1939 it will come in 1940. In fact, I should say that the position is definitely more hopeful than it was. But the uncertainty remains and a policy of rigid economy is to my mind the only justifiable policy.

THE HONOURABLE MR. M. N. DALAL (Bombay : Non-Muhammadan) : Mr. President, Sir, on a Budget so void of sensational proposals as this last performance of the Honourable Sir James Grigg, it is obviously difficult to say whether one should congratulate or condole with Sir James who has had the financial destinies of India in his charge for the last five years. According to the ancient wisdom of him who said, "Happy are the peoples who have no history", one would be inclined to compliment Sir James and his colleagues in managing the finances of India in a manner, which, at least in this last effort of our present Finance Minister, offers no great target for attack. For, speaking generally, and confining oneself for the moment to this Budget, one must admit that it might have been worse; and, inasmuch as it is not so bad, it is a matter of comfort to the taxpayers of India. This is, however, not to say that there is no room for criticism or complaint. The financial stewardship of Sir James, as revealed even in the Budget now before the Council, gives India the most substantial grounds for complaint and uneasiness.

I do not know if Sir James has been deliberate, or is unconsciously recording the spirit of anxiety which broods over the world due to the unsettled political atmosphere everywhere. Let me here point out the heavy hand of trade depression, which is visible so clearly in the financial accounts and estimates presented to us. The most important head of revenue of Customs this year shows a deficit of Rs. 367 lakhs which Sir James can scarcely arrest by the alteration in the scale or range of duties charged on imports and exports of merchandise in and from India. We must, indeed, take the entire field of indirect taxation, customs and excise together, to be able to pronounce a fair judgment on the financial situation. The Indian customs tariff is today a combination of what may be called productive and protective duties, each of which shows a decline, for its own special reasons.

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Productive duties, for example, decline because economic depression, which is chronic in this country, shows no sign of lifting. Luxury goods like motor cars and petroleum; cinema films, silk fabrics, all must show a steady fall while people's trade and industry languish as they do today. On the other hand, *protective duties* also record a decline, because the industries sought to be protected by means of such duties, sugar, matches, cotton goods, etc., are beginning to take root in the country, and consequently, foreign imports of competing produce are being steadily reduced. That must necessarily involve a corresponding reduction in the customs duties on imports of such products. In this year's budget, customs shows a steady decline of Rs. 367 lakhs from the expected figure, and Sir James and those in charge of the financial affairs of the country may naturally feel alarmed. But, the welcome implications of such a development is a matter for felicitation by us. For, when Sir James mentions, in his review of the customs revenue, the increase of machinery to the extent of Rs. 21 lakhs and decline of the imports of manufactured goods, it should be understood that to the extent that new machinery and capital goods are flowing into the country, India is steadily building up her own industries which have been almost criminally neglected in the last half century or more; and the same is obvious from the progressive decline of foreign manufactures imported into India. The improvement in the economic condition of the country at large, deducible unavoidably from such a growth of local industry, may not be apparent to Sir James and those who think with him, though even to these financiers the improvement in the receipts under the income-tax cannot but be a pointer in that direction.

The financial policy of our Government, Sir, has called forth in the past, and quite rightly in my opinion, violent criticism from Indian economists and businessmen. Their steady refusal to consider any suggestion for revising the rupee-sterling ratio, which has been fixed at a disproportionately and unduly high level for narrow reasons of finance; and which succeeds in strangulating Indian industry, agriculture and trade, is but one of a dozen examples that could be cited of the fundamental prejudice, not to say hostility, with which our Finance Department has approached its task. That all over the world, the most powerful and richest countries, Britain and the United States leading the van, have not disdained the use of manipulating the exchange ratio of their own currencies to protect their local producer in the face of a most ruthless and unscrupulous competition in international trade, is to them no argument that India, essentially a weak country, more a debtor than a creditor in the world markets, should follow suit. That this ratio, artificially maintained, and involving an unprecedented drain of gold from India ever since the credit balance of international payments began to go against India, results only in a concealed protection or preference to British goods in Indian markets. This, Sir, is to the Finance Member either not visible, or is a matter for felicitation, which in one who is paid by the taxpayer of India to be their trustee and steward, is rank ingratitude, not to say worse. That Britain herself, in the face of world depression, was the first to devalue her currency, and depreciate sterling deliberately, is also a precedent, that India should copy this admirable example of every leading European country.

Britain and France, the United States or Nazi Germany, have not even the excuse that India has of grinding poverty and exploitation, which makes it more than ever necessary for her to use every precaution and safeguard to maintain her own industry in her own country and obtain for her producers in the international markets as reasonable a position as possible.

So far as the army expenditure is concerned, I think it has been so thoroughly discussed by several Honourable Members before me that I think I had better leave it out entirely except to say something about the separation of Burma. About two years ago, when Burma was separated, the control of the army was handed over to Burma, and even if the expenditure of the army in Burma to defend the Eastern Frontier of India come to about one-tenth of the total defence expenditure of India we should have a relief of about Rs. 4 to Rs. 5 crores. Again, 10 years ago, the army expenditure was Rs. 55 or Rs. 56 crores and today it is Rs. 45 crores. How does that compare with the purchasing power of money today? Ten years ago prices were about 25 per cent. higher on an average so that Rs. 45 crores of today is really equal to Rs. 56½ crores of 1929. In my opinion, Sir, Britain should bear more than half the share of the cost of India's defence. Instead, she makes only miserable doles, and that too because she imposes, without reference to India's interests or requirements, changes in equipment and personnel, which give rise to far more burdens upon India counterbalancing the advantage of the contribution that Britain makes for particular purposes.

In his Budget speech, the Honourable the Finance Member takes credit for the retrenchment in strength which has been effected by the withdrawal of certain units from India, and drawing to a certain extent on military Sinking Funds. These may have resulted in some economies; but, I venture to submit, the increases resulting from the additions to the pay and pension charges, effected by the British War Office also without any reference to India or Indian needs and standards, will have greater repercussions in India.

There is yet another consideration, Sir, which I must mention to show how hollow is the claim of those who would suggest that we have effected all possible economies in this section of our national budget. We spend every year enormous sums on military stores, ordnance and munitions of all sorts, and almost all of these are of foreign—British—imports. If all this money had been spent on the production of such material in this country, it would have at least provided employment for a considerable amount of Indian capital and labour. When countries like Britain or the United States of America spend lavishly on armaments, the result is only a transfer of wealth from one set of individuals to another in the same country. For us, on the other hand, almost every rupee spent on military and naval or air force stores and material is sent out of the country; and the main-portion of what is spent on personnel does not benefit the children of the soil. Military expenditure is thus doubly injurious to the national economy of this country inasmuch as not only is it disproportionately heavy but it does not even develop the country's industry, nor provide employment for local capital and labour. Modern industry is so closely connected with preparation for national defence; or putting it correctly, effective preparations for a country's warlike defence is so closely connected by that country's state of industrial advance that unless industrialisation has advanced proportionately, there can be no hope of real economy or benefit, however high the scale at which outlay is maintained on this account.

These, Sir, are perennial features of Indian finance which the present Government cannot remedy radically.

Coming to the Budget for 1939-40, it shows a deficit of Rs. 50 lakhs. We are told that the deficit would have been as formidable as it was in 1938-39, Rs. 2.65 crores net, were it not for the economies effected by a Committee of Government Secretaries presided over by the Honourable the Home Member. We would have liked to see those recommendations, and consider the economies they suggest in detail. Judging from the railway experience, especially as

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revealed by the Reports of the Pope and the Wedgwood Committees, we cannot help fearing that there is a far more considerable field for such economies than our Government either knows of, or would like to admit. Besides, these economies, as the Finance Member says, do not seem to have been effected for permanence. If so, they would hardly be more than temporary relief, which would soon be swallowed up by the irresistible tendencies of such a Government as ours to be expensive.

Sir, I am also apprehensive of the soundness of the budgetary position, as revealed by the statement before this House. I doubt if we would be justified in regarding that trade revival has really returned. Judging from the latest railway returns in India, there is no sign of such revival so far as Indian traffic is concerned. As regards customs, this year's receipt shows serious variations, and the condition of foreign or local trade does not show any cause for optimism.

The remarks of the Honourable the Finance Member regarding the position created by the desire of the Provincial Governments to impose their own excise duties on articles of the commonest consumption give ground for furious thinking. The provinces have their own programme of nation-building and they must, therefore, have adequate resources; and those resources are crippled from the start by the withdrawal of the income-tax except for a small proportion from the provincial purse. Provinces, therefore, have no alternative but to tax such products, as would make up for their needs. On the other hand, the remarks of the Chief Justice of India, referred to by Sir James in his Budget speech, also occasion serious anxiety. The organisation of Indian provincial as well as central finance is no easy matter; and it will be still more complicated when the States accede to the Federation, if they ever do. Under these conditions, the revenue position, taken as a whole, is anything but satisfactory; and Sir James' last effort in financial stewardship does nothing to alleviate the anxiety which he himself has created.

The actual taxation proposed by the Finance Member to meet the estimated deficit for 1939-40 has been received with very mixed feelings by the Indian public. It must be recognised that the recent reforms in the law relating to income-tax would bring much needed relief to the lower range of such taxpayers which no right-thinking citizen can refuse to welcome. And Sir James is entitled to his meed of credit for effecting this reform. The changes in rates, as well as the range, of that tax will also go a long way substantially to improve the yield, for which I offer my compliments to Sir James. But I wish I could say the same thing regarding his proposal to double the import duty on long-staple foreign cotton, which Indian mills are consuming in such increasing quantities and which thereby improve the product of those mills. This measure is bound to act, as has already been mentioned by several Honourable Members, as a preference to Lancashire and Japanese goods in the Indian market since those goods have not to bear any such reciprocal extra burden on the raw material of their industry—

THE HONOURABLE THE PRESIDENT: May I point out that you have already taken nearly 25 minutes? There are other speakers.

THE HONOURABLE MR. M. N. DALAL: I shall only take two more minutes, Sir.

It is bad finance, and worse economics, Sir, to impose duties on such an essential of local industry. Besides, even if one seeks a consolation in the

possibility of increased cultivation of the long staple cotton in India one must question if the Indian agriculturist would benefit to the same extent that the Indian industrialist would lose.

The deficit of Rs. 50 lakhs, I personally believe, is more or less on an imaginary basis, because, even this year we expected a surplus of Rs. 9 lakhs and we came to a deficit of Rs. 2·65 crores. If only those who are to succeed Sir James would give a more sympathetic consideration to the grievances of India like reduction in the rupee ratio, and the drain of gold from India, the defence expenditure, the conditions the country has asked for in respect of trade agreements, etc., not only would the inherent strength of the financial position of this country improve considerably, but progressive improvement will be reflected in the general economic strength of the people of India.

THE HONOURABLE MR. P. N. SAPRU (United Provinces Southern : Non-Muhammadan): Mr. President, I think the Honourable the Finance Secretary, in the very lucid statement he made the other day, concluded his speech in a fine note. I have not his exact words before me, but I think I am right in saying that what he said was this, that political reconciliation was essential if there was to be any serious endeavour to improve the standard of life in this country—

THE HONOURABLE MR. R. H. PARKER : In any country—

THE HONOURABLE MR. P. N. SAPRU : Or for the matter of that, any country. We do not know how the political situation, both internal and international—it is dark at the moment—will develop and I do not think I should be justified in dwelling on it in this debate. But I should like to say that it requires wise, sympathetic and careful handling and if we can get somehow political appeasement in this country I think we can face the future with cautious optimism. I say cautious optimism because balanced budgets based on conservatively drawn estimates—and I am not criticising the conservative character of the estimates—cannot provide a permanent or radical cure for our problems. The problem of problems for us all, both British and Indian, is to provide avenues of employment and means of livelihood for an alarmingly increasing population which is no longer content to tolerate the poverty and misery that was its lot. I know that miracles cannot be wrought overnight and that a problem that we have inherited from the past cannot be solved in the twinkling of an eye. But I do think that an effort has to be made if this country is to be saved from chaos and disaster to tackle in a serious manner the problems which increasing population and the depression from which we have not yet completely emerged have created for us. I therefore welcome the plea that was earnestly put forward by the Honourable Mr. Raisman for political reconciliation, as I regard it as a *sine qua non* of all economic progress. If you will permit me to say so, Sir, I hope that Lord Linlithgow's sympathetic and immediate intervention in Rajkot in saving the life of India's greatest man indicates a change for the better in the outlook of our British friends.

The Budget is a deficit budget. The causes responsible for this budgetary deficit have been explained by the Finance Secretary and I do not wish to dilate on them. I am personally inclined to agree with the view of the Honourable Mr. Pantulu that the Finance Member has not been over cautious in estimating the

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Budget. I am not inclined to think that the deficit is an artificially created deficit. I find that the yield from imported sugar was Rs. 20 lakhs in 1938-39 and that the yield from the excise duty on sugar was Rs. 400 lakhs, that is to say, the total yield from sugar last year was Rs. 4·20 crores. That was also more or less the position in the year before and that is what the Finance Member says will be the position according to him in the current year. I think the Finance Member is right in thinking that the yield from the revenue from sugar will not be as high as the Federation of Chambers of Commerce think it will be.

I also think that the Finance Member's calculations in regard to the receipts from income-tax are right. I should like to say that so far as these income-tax proposals are concerned I am in entire agreement with them. I think the Finance Member has implemented the spirit of the undertaking that he gave, that is, Appendix II is going to be the basis of the new income-tax system. I think the slab system will give relief to the smaller income-tax payers and I think it is but right that those who can afford to pay should pay higher. But in considering whether the tax will yield a higher revenue or not we have to take into consideration several factors. The professions are in a depressed condition. Provincial taxation has hit some of the professions hard. Our excise revenues are going down. Prohibition is going to cost provinces a lot. You will have less revenue receipts from liquor, and so far as hotel managers, restaurant keepers and those who thrive on the liquor trade are concerned, they are going to be hit hard, and all that is going to affect our income-tax receipts. I know of course that religious trusts are going to be included ; I know that the joint family is going to be treated as other individuals. But even after making allowance for all these changes in the income-tax, I do not think that our receipts will be as high as the Chambers of Commerce think they will be. And therefore I am not prepared to criticise the Finance Secretary for the conservative nature of his estimates.

Now, Sir, I shall indicate my view in regard to the one great matter of controversy in this debate, and that is the tax on raw cotton. So far as this tax is concerned I do not know exactly what the total cost will be so far as the industry is concerned, whether it will increase production costs by 3 per cent. or more than that figure. That is a debatable question and I do not wish to go into that at all. But looking at the question from the point of view of principle I think it is wrong to tax the raw material of a national industry. I think the taxation of raw materials is theoretically, academically and scientifically wrong and unsound. Whether the cotton grower in this country will gain by the imposition of this tax or not is a problematic matter. The Honourable Rai Bahadur Lala Ram Saran Das, who is a cotton grower himself, thinks that the cultivator will not benefit, that long staple cotton cannot be grown in India, and that this duty will not increase the growth of staple cotton in India. You have to depend for staple cotton upon East Africa, Kenya and Egypt. But what you are going to do is to tax raw material necessary for an essential industry. Now that I think is in principle wrong and I adopt all the arguments which were used by the Honourable Mr. Ramadas Pantulu in opposing the lowering of the duty on raw cotton. Then, Sir, there is also a political aspect of the question which I will not ignore from this House. The Indo-British trade negotiations have not been concluded yet. And the proposal which has been put forward by the Honourable the Finance Member is open to the construction that it is in effect an indirect bounty to Lancashire. Well, that is not the way to get an Indo-British treaty

ratified by the Legislature. If you create the feeling that even before the negotiations have been concluded you are going to give Lancashire an indirect bounty, you are not going to get support for that Indo-British treaty from the Legislature. You will prejudice by an action of that character the atmosphere in which the Indo-British treaty will be discussed by the House. I could understand your giving preference to Lancashire as part of a bargain with Lancashire, but here you are making a sort of present. That is one construction which can be put upon this proposal.

THE HONOURABLE THE PRESIDENT : No one has yet suggested how the gap of Rs. 50 lakhs should be filled up.

THE HONOURABLE MR. P. N. SAPRU : The gap of Rs. 50 lakhs ? We do not happen to occupy the chair of the Finance Member. If we were sitting on the Treasury Benches, probably we would have been able to devise some method of filling the gap. As a matter of fact the suggestion was made by the Honourable Mr. Kunzru to leave the deficit uncovered and draw upon the Sinking Fund if necessary in order to meet the deficit.

THE HONOURABLE THE PRESIDENT : Is that a sound policy to leave the Budget unbalanced ?

THE HONOURABLE MR. P. N. SAPRU : Sound policies have not always been followed by Finance Members when it did not suit them to follow sound policies.

Now, there are other items on which I should like to say a few words. I find that there are certain items which require a little explanation. I note that the grant for scientific departments and nation-building departments has as a matter of fact been reduced this year. At page 10 of the Memorandum you will find that under the head " Other Scientific Departments " the grant is going to be Rs. 2.75 lakhs. The grant for the previous year was Rs. 2.79 lakhs. There is a reduction of Rs. 4,000. Then under the head " Education " also there is a reduction. The grant last year was Rs. 6.77 and this year it is going to be Rs. 6.59. Then I come to " Agriculture ". It was Rs. 34.20 last year and this year it is going to be Rs. 29.62. The Imperial Council of Agricultural Research got Rs. 8.91 lakhs last year ; it will only get Rs. 8.77 lakhs this year. Then, so far as the scheme for the improvement of agricultural marketing is concerned, it was given Rs. 4.89 lakhs last year ; this year it is going to get only Rs. 4.49. Then, the Imperial Institute of Sugar Technology does not get any grant as far as I can see. The grant for " Aviation " and " Broadcasting " has been increased and I find from page 12 that provision of Rs. 6 lakhs has been made in the Budget towards the share capital of the Indian Trans-Continental Airways. I should like to know something about this Trans-Continental Airways. Is there any Indian on the Directorate of this Indian Trans-Continental Airways ?

THE HONOURABLE SIR JAMES GRIGG : Yes.

THE HONOURABLE MR. P. N. SAPRU : What is the Indian share capital ?

THE HONOURABLE SIR JAMES GRIGG : 49 per cent.

THE HONOURABLE MR. P. N. SAPRU : Then, also, I note that provision has been made this year for the salaries of newly created Secretaries of the

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Governor General (Public) and Defence Co-ordination. Our grievances in regard to this matter is that so far as Indians are concerned, they are nowhere to be found in these newly created posts of Secretaries. All the big jobs have gone to the European members of the services. Then I find that the grant to the Ecclesiastical Department is going to be increased—I have never been able to see the justification for an Ecclesiastical Department in a country which is predominantly non-Christian. Not that I am anti-Christian, but the fact of the matter is that we are all Hindus or Muslims in this country—I have never been able to see the justification for the Ecclesiastical Department in this country—I find that the grant for the Ecclesiastical Department is going to be increased from Rs. 30·63 lakhs to Rs. 31·28 this year. Then payments to the Crown Representative are also going to be increased from Rs. 1,25·52 to Rs. 1,32·67. I find that there is going to be increased expenditure so far as Baluchistan is concerned.

THE HONOURABLE SIR JAMES GRIGG : The increased payments to the Crown Representative are going to Provincial Governments. If the Honourable Member will look at the top of page 13 of the Memorandum, he will find it.

THE HONOURABLE MR. P. N. SAPRU : That is due to the cost of the railway police debitable to the Crown Representative's budget. Thank you very much.

And there is going to be increased expenditure on account of Baluchistan, from Rs. 56·66 it is going to be Rs. 64·14 lakhs. What is the reason for this increased expenditure in Baluchistan? Is it due to some military reasons? If it is due to some military reasons, then it should have been shown under the Military Budget.

Now, Sir, I should like just to say one word about retrenchment. I note, Sir, that the Honourable the Finance Member said about retrenchment :

"As the trade recession deepened and our customs revenue declined still further, a special Committee of Secretaries, presided over by the Home Member, was set up to examine expenditure in detail and to propose further economies in the sanctioned grants. As an emergency measure orders were issued restricting officiating promotions and the recruitment of outsiders. Grants for travelling allowance and contingencies were cut down by 10 per cent. and all possible economies that did not involve the retrenchment of permanent staff or the cessation of valuable activities on the part of Government institutions were enforced. As the result of these measures savings amounting to Rs. 1,18 lakhs were achieved."

I should like to have some more light thrown on these savings. Were any of the superior posts abolished? Were officiating promotions to superior posts also stopped? Or did this retrenchment only affect the poorer staff? If it only affected the poorer staff, then I should be very sorry indeed. All my sympathies are with the poor staff, for I would not have retrenchment at the cost of the poor people. It is the wrong way of effecting retrenchment.

Then, Sir, I should like to endorse the plea of the Leader of the Congress Party for a more co-ordinated financial policy among all the Provincial Governments and the Government of India. The taxpayer has now to bear the burden of provincial taxation. He has to bear the burden of Imperial or Indian taxation. There is need for co-ordination of efforts. Sir, provincial revenues sometimes impinge upon central revenues. We have got to look at the question from the point of view of the future also. I think Sir James Grigg made a reference to the decisions of the Federal Court in regard to the excise on petrol

and we have got now a new tax in our province, the employment tax—(*An Honourable Member* : “ In Madras also ”)—which is going to finance prohibition. Now Federation has created these difficult problems and therefore there is need for greater co-operation among the various financial governments in India. We have today not only one Sir James Grigg but 11 Sir James Griggs in the provinces, and if we include Sir James Grigg himself, there are 12 Sir James Griggs ! And I think, Sir, there is need for greater co-operation among all the Finance Members and it might be useful to have a conference of Finance Members to discuss this question of a co-ordinated financial policy.

THE HONOURABLE THE PRESIDENT : Won't you co-operate with me and close your address ?

THE HONOURABLE MR. P. N. SAPRU : These, Sir, are all the remarks I have to make on the Budget.

THE HONOURABLE MR. G. S. MOTILAL (Bombay : Non-Muhammadan) : Sir, an Honourable Member who spoke earlier in the day said that the survey that he was making of the Budget was a post-mortem examination. For my part, Sir, I should like to characterise it as a post-natal examination of the financial baby produced about a week ago by Sir James Grigg in the other House and reported in this House by his Deputy, who, I am afraid, after Sir James Grigg leaves us, will desert this Council to produce another baby in the other House next year.

Sir, this is the fourth and last year of Sir James Grigg's stewardship of Indian finances. (*An Honourable Member* : “ Fifth .”) We were used for a long time to having a rather illuminating survey of the economic situation and problems of the country from his predecessors. We have been looking to him year after year for a similar striking survey from a person of Sir James Grigg's ability but we have been disappointed every year ; and this year too, we had fondly hoped we would not be left in that position but there has been no improvement. (*An Honourable Member* : “ Let us have an Adjournment Motion ”!) I do not know whether that would be allowed. Sir, the only remark which Sir James Grigg addressed on that question was that he would not go into the past. The future is more important. We agree with him that the future is more important but a survey of the past is also a guide to the future. We very much wish that Sir James Grigg had assessed the past, and as he has not done it so far, let him, before he leaves the shores of India, make use of the opportunities—more opportunities in the other House than in this House—that awaits him.

Now, Sir, there has been some difference of opinion as to the correctness of the revenue figures arrived at by Sir James. Before I discuss it I might say that the two outstanding features of the Budget that strike me are first, that the customs revenue is estimated in the next year to be Rs. 3,67 lakhs less than it was estimated to accrue in the outgoing year. And the second is that the defence expenditure has gone up by Rs. 3 crores or more. Now, how has this disparity of the Budget been made up—with this increase in the expenditure on the one hand and decrease in the revenue on the other ? The important sources of central revenue, as we all know, are first the customs and second the income-tax. I know only Rs. 13 crores of it are left to the Central Government and any excess receipt over and above that figure goes to the provinces. And from the corporation tax about Rs. 2 crores are estimated for the next year to come. Then we have another source of income—I am speaking of the large sources—and that is the excise, which includes sugar duty and duty on

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matches and so on. Salt is another large item of about Rs. 8 crores. Excise duty is a source which has been an expanding source, while customs has been varying depending upon various factors. We have also the protective duties and it has been the complaint of Sir James Grigg that that source is shrinking. Sir, in so far as it is contracting, I think he would agree with me that it is fulfilling its purpose. The purpose of a protective duty is that goods be produced in the country itself so that the goods which come from outside will cease to come as more and more protected goods are produced in the country itself. A diminishing return from such goods is a natural corollary. We find that some economies have been effected and I am prepared to acknowledge that in balancing the Budget the Honourable the Finance Member has not merely put on additional taxation but has also effected some economies and I hope he and his successor will stick to it and go the whole hog in this direction. The normal growth of expenditure and of taxation is a feature which is inseparable from any budget. In our Budget also we have this phenomenon and unless our revenues expand to the same extent, either there would be new taxation which would put additional burdens on the people, or the expenditure will have to be curtailed. I feel that a great deal more is necessary to be done in the retrenchment of civil expenditure. We have been pressing and we shall continue to press for reduction of the defence expenditure also. We have pointed out on more than one occasion how it can be reduced. Our demand has made some impression, and though Government members are not free to express that opinion, the very fact that a grant has been made and Sir James Grigg has expressed the hope that further grants will come from His Majesty's Government as the result of the Chatfield Committee's Report go to prove that the soundness of our claim has made an impression upon them. I hope it will not be an isolated grant. Our defence expenditure this year, although it appears to be about Rs. 50 crores, is in fact not less than Rs. 54 crores. The two grants of £2½ million and half a million pounds, which make a total of £3 million, and equal Rs. 4 crores, have come to the help of the Finance Member and, therefore, our expenditure today may appear to be Rs. 50 crores. In fact, the expenditure has increased and some of these increases have been made without consulting the Indian Legislature. Orders were received from the War Office and the scales of pay were revised of the British personnel, and the burden has got to be borne by India. Sir, the Legislature cannot go on year after year accepting this position. A very thorough inquiry has got to be made and I hope that when Sir James Grigg goes home, he will press the cause of India and get substantial justice done to India in this matter. It is not Rs. 3 crores or Rs. 4 crores or Rs. 5 crores that will satisfy us. We are not asking for any doles. We want justice. This morning we read in the papers that Mr. Hore-Belisha said that British garrisons have been stationed in India at a very convenient centre for use in other parts of the Empire. India is admittedly used as a British barrack in Indian waters, and the entire burden for the British soldiers should be borne by His Majesty's Government if they are to stay here by arrangement with India.

Speaking of the budget estimates now, I know it is always possible to say that the revenue has been overestimated or underestimated. I feel that Sir James Grigg has based his Budget for the next year, and his revised figures for this year on the receipts of the last 10 months. He did that last year also. This is my guess. But whether such figures should be taken as a safe guide for the next year is a point for consideration. In one year the imports may be more and in the next year they may be less. There would be variations. For instance, if we take artificial silk yarn and thread, the figure of revenue in

1937-38 was Rs. 62,92,000, and the budget estimate for the current year was Rs. 65 lakhs. But in this year, only Rs. 39 lakhs are provided, that is, about Rs. 26 lakhs less. This figure of Rs. 39 lakhs corresponds to the figure of receipts in the last 10 months. When in the previous year the revenue was Rs. 62 lakhs, I do not think that you should assume that in the next year it will not come up to the same level. The import of artificial piecegoods is falling because there is a heavy protective duty. But this artificial silk thread is not made in India. There is no mill yet which makes it and it has got to be imported for making that kind of fabric. If it is to be imported, although in this year a lesser quantity has been imported, is it sound to assume that the same smaller quantity will be imported next year also? It may not be as large, but it may not be as small either. Take the next item, "Yarns and textile fabrics, others". From Rs. 1,31 lakhs they have come down to Rs. 90 lakhs. After all, a budget is an estimate, a speculation. But it cannot be taken that in these items, which are not produced in India, the receipts will decline to such an extent year after year.

I do not suggest that Sir James Grigg has underestimated the sugar duty because he wanted to impose an import duty on cotton. This has become more or less—and I think it is bound to become—a cotton budget. But I do feel that the probability of a large increase in revenue from sugar has escaped his attention. The excise duty from the Indian-made sugar will come to about Rs. 4 crores as he estimates. I know he takes the two figures of excise and Import duties together. But he can take that figure safely to be Rs. 3 crores so far as the excise duty is concerned. It has been a growing source of revenue. No doubt this year the production of sugar is less and we will have to import some sugar if we are to satisfy even some part of our normal requirements. If we take ten lakhs tons of sugar as the normal requirement of consumption in India, which has been the figure during the last five years, then we have to import something like three lakhs tons more of sugar. But if you import only one and a half lakhs or even one lakh, it will give you a revenue of Rs. 1,85 lakhs. Even if 25,000 more tons of sugar is imported it will give him Rs. 46 lakhs. But even if such a conservative estimate does not materialise, is there real good reason for taxing the import of cotton? Some of my friends who preceded me said that this duty will help the growth of long staple cotton in India. That is not the purpose of Sir James himself. If you read his speech you will see he said in effect :

"I want some money and revenue; my purpose is to raise that money and this is the source from which I want to raise it".

And he said perhaps as an afterthought that it may help the grower. That was an argument he threw out to members who want to support him to make use of it. Now, if you take the position of Indian cotton you will see the Indian mills are really the best friends of the cotton cultivator.

THE HONOURABLE SIR JAMES GRIGG : That is why they are importing 700,000 bales of foreign cotton.

THE HONOURABLE MR. G. S. MOTILAL : If you look at the annual report of the Indian Central Cotton Committee presided over by Sir Bryce Burt, at page 87, I think, you will see that out of about 50 lakhs of bales of cotton produced in India, about 30 lakhs of bales are used by the Indian mills, while 606,000 bales of foreign cotton have been used by them. I am speaking of the cotton year which begins in September and ends in August, 1938. The actual figures are 2,993,000 bales taken from the Indian Central Cotton Committee's Report. While seven lakhs of bales of foreign cotton have come to India, that

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does not mean that the mills have used all those bales. That is the total import figure, and how many of those have been received and used by the mills is contained in this publication from which I have quoted.

The point is that it is the Indian mills who are the best friends of the cotton grower in India. And now in regard to long staple cotton, what India requires is an export market for her short staple cotton. Looking to the figures again of the use of the long staple cotton in India, we find that the Indian mills have used no less than 11½ lakhs of bales, the actual figure being 1,146,000 bales. Now, if we look at the figures of the export of cotton we will find that 625,000 Bengals have been exported and Oomras 740,000 bales. So far as Sind-American is concerned only 294,000 bales have been exported. This is in the long staple cotton list but is not actually long staple cotton, being of unspecified variety, that is, it is short staple cotton. So almost all long staple cotton that is produced in India is being used in India, and this duty which is now being imposed will make it difficult for Indian mills to use even the local long staple cotton because this long staple cotton requires to be mixed with African cotton, which is of a superior quality. This fact is lost sight of by those who plead in Sir James's vein. So far as Indian cotton is concerned it has got to be mixed with the imported long staple cotton and then only can it be used for medium and fewer counts.

Now, Sir, I do not know whether the advantage will go to Lancashire or to Japan, but had there not been a quota the advantage would have gone most assuredly to Japan. But there is a quota.

THE HONOURABLE SIR JAMES GRIGG : Which they cannot fill.

THE HONOURABLE MR. G. S. MOTILAL : They cannot fill it because of the war in which they are engaged in China today. In spite of this they have been making their exports to India. As long as they are not able to take advantage of the new duty, the advantage will undoubtedly go to Lancashire. The duty on yarn is 5 per cent. and that amounts to less than one anna. But this one anna on raw cotton amounts really to more than one anna, because there are impurities which when removed will make the duty at least one and a quarter anna. The result will be that the Indian mills who are using this imported cotton and employing a number of people will not be able to compete and there will be consequent unemployment. I am sure Sir James Grigg's object is not to handicap if not to help the Indian industry. If that object is to be fulfilled and if he wanted to raise additional revenue he should have looked elsewhere. The question might be asked, I do not know whether pertinently or not, what is the other source you would suggest? Well, Sir, it is not so difficult to suggest other sources, but, as we know, four economists have five opinions, and five Finance Members have six, and in such a situation it is always possible to say that this is better than that. But ultimately it is the man who has the responsibility and the power whose opinion prevails. Therefore I am not going to suggest from what other source he can raise the money but I am sure that it was not beyond the ingenuity and capacity of Sir James to look up some other source of revenue if it was necessary. (*An Honourable Member* : "But you don't think it is necessary for Members to make constructive proposals"?) Constructive proposals, yes, when there is a constructive spirit to receive them. To a responsible Government one would certainly make such proposals. I am afraid no useful purpose will be served by my making an alternative proposal to this Government here. Let the Finance

Member tell me today that he is going to take off this duty and I will make a constructive suggestion, which will be acceptable to the country.

THE HONOURABLE SIR JAMES GRIGG : It is pretty safe to say that.

THE HONOURABLE MR. G. S. MOTILAL : If you do not do that, then making constructive suggestions would be like turning water into the sands.

There are other items on which I should like to touch. Sir James Grigg says that khandsari sugar has escaped taxation.

THE HONOURABLE THE PRESIDENT : Please be as brief as possible ; you have already taken 24 minutes.

THE HONOURABLE MR. G. S. MOTILAL : Well, in that event, he is entitled to bring a measure which will tax khandsari sugar. If we impose a duty then we cannot make any complaint against its being collected fully.

Now, Sir, with regard to the income-tax law which was amended during the last few months, it was expected to bring some large revenue. How much it will bring is not so much my concern, because any excess in the income-tax revenue—

THE HONOURABLE THE PRESIDENT : Don't you think you can argue it better when the Finance Bill is before you ? The Schedules will give the details.

THE HONOURABLE MR. G. S. MOTILAL : I will not take much time, Sir. What I say, Sir, is that the Finance Member has followed the Tables given in the Inquiry Committee's Report. But in one important respect he has departed from the recommendations of the Inquiry Committee. The Inquiry Committee said that so far as Hindu joint families are concerned, they have a case for some relief. If there is one married member in the family the table should apply as if the income is divided by two ; that is, it should be halved for the purpose of the tax. He has departed from this recommendation and I do not know why he has done it.

In bringing my remarks to a close, all that I have to say is that Sir James Grigg is in an unenviable position. He has to serve two masters and he has to please both. It is a very difficult task, very difficult role to perform. I wish him well, Sir, when he leaves the shores of India.

THE HONOURABLE MR. V. V. KALIKAR (Central Provinces : General) : Sir, I will not take much time of the House, because I know I have the misfortune of making my speech at the fag end of the day. I am not one of those who think that the picture that has been presented to us in this year's Budget is a gloomy one, because during the last seven or eight years when the time of presenting the budget comes, people in India pass anxious times thinking that they would be burdened more by further taxation, and, fortunately for my friends of the Congress and unfortunately for us, Sir, we have got some experience of having been further burdened by fresh taxations in the provinces. Whether the taxation is from a responsible Government or an irresponsible Government is no consolation to the taxpayer who is already heavily taxed. There is some capacity to pay tax, and looking at it from that point of view, except the import duty on cotton, this year's Budget of Sir James Grigg is free from that defect.

Much has been said about the import duty and some of my Honourable colleagues have come to the conclusion that this import duty may help to grow

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long staple cotton in India. I, for my part, as an agriculturist, having made experiments on a very small scale—not on a large scale—for three years, can tell the House that I have failed in that attempt and I have come to the conclusion that in spite of sufficient manure and all possible precautions, Indian soil is incapable of growing on a large scale this sort of cotton. Apart from it, to a layman like me, it appears that there will be some increase in the cost of production of mill cloth and the premier industry of India is likely to be hit by this duty. I need not state for the information of the House because my Honourable colleagues know, that on account of provincial legislation, and central legislation, the burden on the textile industry has been increased and is increasing day by day. Labour legislation has cost them much, because they have to pay higher wages, and in addition to this, if this duty is imposed, there is likely to be an increase in the cost of production and they will lose their capacity to compete with foreign goods, especially with Japan and Lancashire goods, in the Indian market. Therefore, Sir, to a layman like myself, this duty does not appeal much. Sir, you suggested that Honourable Members on this side of the House must make some constructive suggestions for wiping out the deficit. Though it is not our duty to make constructive suggestions, because the present Government is not responsible, still this side of the House has made constructive suggestions at various times ; but those constructive suggestions did not appeal to the Government in power or were treated with scant courtesy. Some years ago they inflicted a cut on salaries and I think if they had recourse to that remedy of having a 5 per cent. cut on high salaries, I think the Government of India would have been able to get Rs. 50 lakhs of revenue.

THE HONOURABLE THE PRESIDENT : Don't you know that the Government of India Act gives protection to certain services and they cannot do it ?

THE HONOURABLE MR. V. V. KALIKAR : The Government of India could have easily recommended to the British Government to amend the Government of India Act and could have recourse to it if they really wanted to adopt that measure.

THE HONOURABLE THE PRESIDENT : Before the Act was passed by Parliament. Now Government can not do anything.

THE HONOURABLE MR. V. V. KALIKAR : Now the Act is going to be altered. We hear that there are going to be certain changes in the Act and if the Government of India really thought that it was necessary they could have done it.

Sir, it is stated that the economic measures taken by the Government on the civil side have been successful to some extent. But I am sorry to state that they have not been able to use their pruning knife with regard to the defence expenditure of India. Sir, it may be said that, when all other countries are spending more on rearmament, it is a matter of satisfaction that the expenditure on the Defence Department of India has been kept at the same level. We, Sir, made a serious suggestion—not only people like us who are called armchair politicians, but even the two Indian members of the Garran Tribunal gave a verdict, but that verdict has been rejected and rejected without giving any grounds. Sir, I may just cite a case of wasteful expenditure that has been incurred in this Department. In the majority of military stations, separate hospitals are maintained for British and Indian troops and the expenditure that is incurred over this item is Rs. 1,38,42,000. The Retrenchment Committee of 1931 reported that in most of the hospitals the accommodation was

in excess of the daily average number of patients. I fail to understand, Sir, why these separate hospitals are maintained, why these hospitals are not amalgamated and the superfluous staff done away with. We also find, Sir, that in military dairies, clothing factories, bakeries, and other military services, highly paid officers, such as colonels, are engaged. Sir, if really the Finance Department is very careful—and I have no doubt that they are careful so far as the civil side is concerned, but then they are not careful in devising economic measures to curtail the expenditure of the Defence Department or they have no power to curtail the expenditure on the Defence Department—they can effect economy in the Defence Department. If suggestions based on these facts are carried out, I have no doubt that the Government would not find themselves in the position of being faced with a deficit budget and the necessity for increased taxation.

Sir, I submit that hopes were held out during Sir George Schuster's tenure that the surcharge would be removed, but that has not been done. Instead of that we find that with the help of my Congress friends—I do not blame the Government of India in this matter for doing anything wrong—the Income tax Bill which has been piloted successfully in the Central Legislature will go a great way to impose further taxation on industries. I would like, therefore, Sir, that my Congress friends should not be in the least apprehensive of any more taxation that their Provincial Governments or the Central Government impose on the taxpayer. It is we who have to complain because some of us did not and could not agree to the changes that were made in the Bill. I therefore submit, Sir, that the Government of India should look to the needs of the general taxpayer and adopt such measures of economy, whether in the civil department or the Defence Department, to decrease the burden of taxation instead of increasing it.

THE HONOURABLE SIR JAMES GRIGG (Finance Member) : Sir, perhaps the House will allow me to dispose first of some of the less general points which have been raised by Honourable Members and then come to the general features of the debate afterwards.

First of all, may I take some of Mr. Hossain Imam's points. He was good enough to say nice things about the general financial policy pursued during the last five years and to approve both of the orthodoxy of our policy in the management of the debt and of my anti-mercantilist opinions. However, he said that there were two small blemishes on the general orthodoxy of this policy, one of which related to savings certificates and the other to the treatment of the Burma annuity. As regards savings certificates, he asked what the basis of provision in the Budget was, whether it was on the accrual basis or on the encashment basis. Well, at the moment, although the general provision has been reduced considerably, we are still providing not on the basis of the bonus accruing but on the basis of the bonus on certificates presented for encashment. But if it ever came to a period when the borrowings or savings certificates were rising, I have no doubt that we should revert to the practice which obtained two or three years ago and provide on the basis of the larger of the two amounts, encashments or accruals. If encashments give the larger figure we are in fact paying off bonuses which accrued in the earlier years and were not provided for. If the accrual basis is the larger, we are providing a reserve fund against future encashments. And I do not think he can therefore claim that there is any unorthodoxy in our policy in that matter.

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As regards the Burma annuity, in which he repeats the accusation which he made last year, that the capital portion of the annuity ought to be used for debt reduction outside our Budget and not credited to revenue, he is correct. I pleaded guilty to a certain diminution of orthodoxy in that respect last year and I think I said to him that I had hoped to present in that respect a fairly orthodox budget but that declining revenue which set in at the end of the year prevented our doing so. Well, this year we have got to provide a certain amount of new taxation to meet a small deficit, and though I do not agree with Honourable Members who say that I should have left the whole deficit uncovered, I do not think I am orthodox enough or strict enough to desire to increase the deficit by the amount of the capital portion of the Burma annuity and so have to raise an increased amount of fresh taxation. My Honourable friend Mr. Pantulu talked a great deal about Scylla and Charybdis. I too have had my Scylla and Charybdis and I claim that I have got through the gap quite successfully.

Then, Sir, two or three Members raised the question of my step-motherly treatment of the development departments. They were a little inconsistent about this because they said I had given too much to some departments such as Broadcasting and Civil Aviation and had not given enough to another development department—the Imperial Council of Agricultural Research. Mr. Hossain Imam pointed to what he conceived to be a reduction of Rs. 2 lakhs odd in the grant to the Imperial Council of Agricultural Research and to an increase of Rs. 30 lakhs in the grants for Aviation and Broadcasting. But, unfortunately, Homer nodded or rather nodded too soon because he was comparing the figures for 1937-38 with those for 1939-40. He skipped a year. If he looks at the Budget figure for 1938-39, which is the proper basis for comparison, he will find that the Imperial Council of Agricultural Research shows a small reduction of about one-third of a lakh, and that Aviation has gone up by something under Rs. 7 lakhs and Broadcasting by something under Rs. 4 lakhs. So, his Rs. 30 lakhs comes to something in the neighbourhood of Rs. 10 lakhs and his Rs. 2 lakhs comes to Rs. 30,000. To take Civil Aviation and Broadcasting first, the increase in Civil Aviation is almost entirely accounted for by the necessity for providing for the increase of capital on account of the participation of India in the Empire Air Mail scheme. It is an investment which we hope will be a remunerative one and it is a non-recurrent increase and the amount provided should fall to something like the normal figure next year. In the matter of Broadcasting, two new stations have been built in the current year and they were not to come into operation until next year. So it is absolutely inevitable that we should have to provide the money for the running of those stations. It is a developing service and for every new station opened, there will have to be an increase in the annual maintenance grant. Part of this increase too is fictitious because as one Honourable Member pointed out, we provide the gross expenditure and do not deduct the extra revenue from licences and from the receipts on account of the *Indian Listener*. I am told that Rs. 1 lakh of this increase is due to the *Indian Listener* and is counterbalanced by a corresponding increase in the receipts. I have no doubt also that our increase in the receipts from licences and fees will grow so that the increases in Broadcasting and Aviation are not mere wanton extravagances. They are the inevitable result of decisions of policy taken several years ago. In the matter of the Imperial Council of Agricultural Research, this grant shown here, to which the Honourable Member referred, does not represent the whole of the expenditure on Agriculture.

The reduction from two years ago, which he refers to, represents the cessation of two special grants which were made then, and if he comes to this question of special grants, I would plead no, there is no question of pleading; I am not in the least apologetic; I would say that I have done more in the way of special grants to Agriculture than any of my predecessors. There have been Rs. 30 or Rs. 40 lakhs of special grants given to the Imperial Council of Agricultural Research the unspent part of which are still in the coffers of that Department and available for agricultural research, and the only way in which we can avoid shewing a decrease sometimes is by making these special grants bigger and bigger until the grant becomes infinity. So, I repudiate with some warmth this concerted attack on me of step-motherly treatment in the matter of grants to Agriculture. I am now talking merely about grants to this particular Imperial Council of Agricultural Research and leaving out of account the grants given for other forms of rural development.

I would like to mention in passing, Sir, I admit not disinterestedly, one of the remarks made by Mr. Pantulu, and I mention it because a Member of his Party in the other House accused me of having no regard for the needs of provinces and of being completely indisposed to co-operate with them in financial matters. I am very glad to get unexpected testimony from Mr. Pantulu who said that not only was it his opinion that I have been sympathetic and helpful to the provinces but that that was the opinion of a good many of the Provincial Ministers. I am very glad to hear it. Certainly it has been my main object of endeavour for the last three years to start the provinces off on their autonomous way with as good chances of solvency as can humanly be designed. What will happen in the end, goodness knows. But I am glad to note that there is no question but that the Government of India in general and myself in particular have done the best they can for the provinces, at any rate at the start. As regards the question of co-operation generally in such matters as the concurrent sphere of taxation I cannot go into that in any detail, particularly as it would involve disclosing what happened at the last session of the Conference of Finance Ministers. But I may say that if and when the proceedings of that Conference are disclosed, it will be seen that the situation which has arisen in consequence of this concurrent jurisdiction was foreseen by the Government of India and that proposals were made for meeting it, and I think it will be found that in spite of the judgment of the Federal Court, the proposals we made then are about the only possible proposals for dealing with the situation which is now disclosed, and that they are still feasible even though the Federal Court have given a judgment which was a surprise at any rate to me. I thought the merits of the law were the other way. But the proposal I made when I thought the law was that way is equally valid today as the only satisfactory solution of this problem of concurrent fiscal jurisdiction.

I think it was Mr. Pantulu who suggested that we made a mistake in dropping the Conference of Finance Ministers. If it was not, I apologise. But some Honourable Member did. There is no question of that being dropped as a deliberate act of policy or design at all. It was dropped simply because with the pre-occupations of the Income-tax Bill, it was physically impossible to hold a Conference before my departure, and if the Honourable Member, whoever it was, addresses his adjuration to my successor, I have no doubt he will not have to adjure him very violently.

I now come to the point raised by Mr. Pantulu about the proposal for revising the excise on khandsari sugar. He said that this was in fact the equivalent of a new tax and that it was damaging to a cottage industry. I

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assure the Honourable Member that we are only carrying out the intentions of the original Sugar Excise Duty Act. Nobody then could have foreseen when the provision defined a factory as an undertaking which employed not less than 20 persons that a collection of separate premises carrying on the different processes of the manufacture of sugar would be set up in a row, that there would be as many as 19 employed in each separate building and that as each of these separate buildings was not a factory the whole undertaking was not a factory. It is a clear abuse of the intentions of the original Act. Personally I think that there is no question of injuring a cottage industry. It is no more a cottage industry than the ordinary sugar mill is. It is a largish scale undertaking carrying on manufacture on modern methods with the help of power, and on the whole I think the sugar mills might more fitly complain that not only ought we to have altered the definition of "factory" but we ought not to have reduced the duty. There too I shall be content to have steered fairly well in the middle between Scylla and Charybdis.

Then, Sir, Mr. Parker belaboured me again for my heretical views over the Railway Depreciation Fund. He says I am unorthodox and I say, on

5 P.M. the contrary, I am ultra orthodox. His contention is that the allocation to a depreciation fund ought to be made on the basis of the precisely calculated lives of the assets and representing an exact allotment for that purpose. I say that modern accountancy theory provides empirically on the basis of the amount which will over a period of years renew your wasting assets at the modern cost and not the original cost. And I am afraid that there is no getting away from it, between those two views there is an unpassable gulf; and not only an unpassable gulf, but the argument never gets contact. If my view as to what is the proper principle of providing for depreciation and renewals is right, then his view must be wrong. On the other hand, if his view is right, mine must be wrong. And that is the stage at which the controversy has reached and at which it looks like remaining.

Then, Sir, a number of Members advocated the view that the deficit should be left to look after itself. I hope I won't be misunderstood if I refer to Mr. Kunzru as Micawber, who said that you should wait for something to turn up. If you have a deficit and you leave it long enough it will vanish away. I rather fancy he will have plenty of opportunities in the next few years of observing the way that deficits vanish away, and I shall too but from a much greater distance, and I suspect that he will change his views about the efficacy of the Micawber-like policy in that matter.

Now, I come to the main points which have been raised on the Budget. First of all there is the accusation of under estimating. When the accusation was made it was made on the general ground put forward by the Federation of Indian Chambers of Commerce and Industry. But in this House the accusation was made with less confidence and with less frequency, and in fact I would say quite definitely that the balance of opinion was the other way here. Pandit Kunzru talked about it as a gloomy budget, which does not look like under estimating. But I must say that after the way in which some of the Congress Members in the Assembly spoke, I welcome the surprising reinforcement of Mr. Pantulu and I am most grateful for it. It strengthens my view that the estimates are not too pessimistic if he concurs with me rather than with the Federation of Indian Chambers of Commerce and Industry. Then also I got the reinforcement of his friend on his right, who disagreed with the

Federation. On that, Sir, I might briefly refer, not to the argument I used in another place yesterday but to the general result of that argument. I pointed out that I thought that in any case the estimate of the imports of sugar given by the Federation was ludicrously high. They assumed 150,000 tons. Let us assume, on the basis of 8 lakhs of tons for indigenous production, an import of 50,000 tons. It is anyhow quite clear, with the present high price of sugar, that nothing like the whole amount of the shortage is going to be made up by imports. That seems to me indubitable and elementary common sense. If you assume that 50,000 tons are imported, then the estimates in the budget are rather too optimistic and not pessimistic. And if you assume that 100,000 tons will be imported, then the estimates are pessimistic to the extent of about Rs. 60 lakhs, and that Rs. 60 lakhs is a non-recurring windfall which will only occur in the one year. But I went on to point out, if one had been estimating absolutely up to date and presenting the budget yesterday in the light of the figures of the day before, one would have to make certain alterations which go the other way. For example, we made no provisions for the effects on our revenue of the prohibition experiment in the City of Bombay, and on my calculation that will cost us Rs. 30 lakhs in the coming financial year and Rs. 45 lakhs in a full year. Then if I were estimating today I would estimate for a decrease in the import of Lancashire piecegoods of Rs. 25 lakhs. The estimates were made a month ago and we now find that the import of Lancashire goods is continuing to fall. Then it is possible that the Waziristan expenditure will go on into the next financial year and that there should be some extra provision on that account. Altogether I will be very relieved, and I think my successor will be quite happy, if at the end of the financial year the estimates turn out to be approximately correct and not too optimistic. In any case there was pressure in the other House and from some Members here was that if there is any margin on the budget the first call on it should be the restoration of some of the beneficent schemes which have been cut out in the last two years. I have tried to state faithfully and briefly to the House the conflicting considerations which arise, and on the whole I think Mr. Pantulu was right in steering his boat nearer to the Grigg Scylla than to the Federation Charybdis.

Then, Sir, I come to the question of raw cotton. Here I have got valuable support from Mr. Hossain Imam and Sir A. P. Patro, but I am afraid I have got to record a very bad backsliding on the part of that fine old agriculturist Rai Bahadur Lala Ram Saran Das! With regard to long staple cotton he said that it was no good growing the Egyptian variety and that we had better stick to the varieties of American cotton which are grown in the Punjab. Well, I must say I do not see any reason from the history of the growth of American cotton in the Punjab to be so depressed about Egyptian cotton. So far as my records go, in 1928-29 there were produced in India all told only 195,000 bales of American cotton, and in 1936-37 there were produced 1,196,000 bales. Well, if that quite staggering growth in the production of American cotton can happen, it seems to me much too early to be so dogmatic about the impossibility of growing Egyptian cotton. Then, Sir in addition to the backsliding of the representative of agriculture from the Punjab, Mr. Ramadas Pantulu and Mr. Sapru also opposed the duty on the ground of its being contrary to the doctrines of the old school of the liberal economists. I am bound to confess that not only is this the best argument which has been used yet, but it is the one most likely to appeal to myself. I am certainly not going to attempt to rebut this argument as a general proposition. But I have two extenuations, one of which is somewhat academic

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and the other of which is very important. The first extenuation is that one of the conditions prescribed for the grant of protection to a manufacturing industry in India is that there should be available in the country an abundant supply of raw materials. An industry which has very heavy protection and which gets its materials from abroad seems to me should be disqualified for the grant of protection. The second extenuation which I regard as the final and valid one is the ground of financial necessity, or, if you like to put it so, needs must when the devil drives, and I would like to say here with all the emphasis that I possess that the devil is not Lancashire but financial necessity. On this raw cotton duty I do not want to repeat the arguments I used in the Assembly, because in point of fact I see now that I was dragged aside from the safe ground of financial necessity on to the ground of merits such as who was damaged by it and so on. I ought to have seen that all taxation must damage somebody and that if the tax does have the incidental effect of helping the cotton grower, that incidental effect must be at the expense of somebody else and that is clearly at the expense of the mill-owning industry. On that I would like actually to read the text of my Budget speech to Pandit Kunzru ; he did not represent it quite accurately.

" I shall no doubt be told that by this measure I am indulging in my usual vendetta against indigenous industry ".

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : On a point of explanation, Sir. I was referring to the Honourable Member's speech in the Assembly yesterday, which has been reported in the papers today and not to what he said in the budget statement.

THE HONOURABLE SIR JAMES GRIGG : I think the Honourable Member must be mistaken, if I may say so, with respect, because the question of defending the duty on the ground that it would do something to promote the growth of cotton was referred to in my first speech ; but in any case that represents my considered view and I would like to read it.

" I shall no doubt be told that by this measure I am indulging in my usual vendetta against indigenous industries ".

In that matter at any rate I was a correct prophet.

" I might with a good deal more justice retort that perhaps the increased duty would do something to promote the growth of the longer staples of cotton in India and this is no contemptible objective when we remember that Indian mills are importing over 700,000 bales of these varieties a year ".

Now comes the operative part :

" However I take neither the blame nor the credit for either of these objectives. My design is simply to balance the Budget by the least burdensome means open to me and that I claim to be doing ".

Let us fasten on to the words " least burdensome ". I am credibly informed that the effect of the duty in the case of mills which use nothing but imported cotton is the equivalent in retail price of one pie per yard of cloth and that the average burden on the whole industry must be something like from a third to a fifth of a pie per yard. Moreover, the scale of profits in the mill industry in recent years has been very substantial. The Bombay Textile Inquiry Committee recommended an increase of wages which purported only to have

mulcted them of half of the uncovenanted profits from the lag in the fall of cloth prices over the fall in raw cotton prices.

THE HONOURABLE MR. G. S. MOTILAL : Does it apply now ?

THE HONOURABLE SIR JAMES GRIGG : The Honourable Member purports to know all about the cotton industry and if prices of cotton cloth are falling, then to that extent the remaining half of that profit is available to take the burden.

I come back to the revenue argument and I give Honourable Members a few figures. Four years ago we got from the import duty on cotton piece-goods from Lancashire Rs. 2,87 lakhs. In the revised estimates of this year and in the budget estimate for 1939-40 we have put in a figure of Rs. 1,00 lakhs, and, as I have just told the House, certainly the second figure of Rs. 1,00 lakhs ought to be reduced to Rs. 75 lakhs. It has been said that we ought to put a countervailing duty on to imported cloth and yarn. If that countervailing addition goes on, it will only accelerate the rate of decline in the imports of Lancashire goods and instead of gaining revenue I shall lose it. Incidentally, these figures rebut the argument which has been made by the Federation, and repeated in an attenuated form by some Members in this House, that this expedient is a device, a deliberate device, in order to do a good turn to Lancashire, and that as usual the Government of India are doing their best to help Lancashire. I would like to be allowed to repeat what I said in the Assembly yesterday that in the middle of the last decade Lancashire was sending to India very nearly 3,000 million yards of cotton piecegoods. In the current year the figure will be something of the order of 200 million yards. Do you think that if the Government of India and His Majesty's Government were animated only by the desire to help Lancashire at all costs they would do it as inefficiently and as badly as that ? The thing is absurd on the face of it and I hope we shall hear no more about a deliberate attempt to help Lancashire.

Finally, Sir, I come to the question of military expenditure, and if Honourable Members will forgive me I shall have to be a little perfunctory about that, because all the facts are not yet available. Mr. Kunzru asked a certain number of questions, a large number of questions, about the future of the mechanisation programme, about the future of various other programmes. All these questions depend for their answer on the final upshot of the Chatfield Report and that depends on decisions to be taken by His Majesty's Government. Beyond that it is impossible to give any answers to his questions. But I can tell the House this, that the Chatfield Report may, and very likely will, make a radical transformation in our military problem in India or in the solution of the military problem in India for the reason which I hinted at in my Budget speech and into which I will not go further ; but until that transformation has taken place, it is idle to answer questions the answers to which will be out of date even before they are given. I will end up on the subject of military expenditure by repeating the figures which I gave yesterday as to the relation to national income of defence expenditure in various countries. I know that the circumstances of the countries are not parallel and that in a poor country like India there is less margin available after the minimum level of subsistence has been provided for for expenditure on anything ; but even with all reserves the figures are sufficiently impressive. On a generous calculation, India spends 3 or 4 per cent. of her national income on defence. The United Kingdom has announced that next year she will be spending 12½ per cent. According to some calculations, given I think in the *Economic*

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Journal of about two months ago, Germany is at present spending 25 per cent. of her national income, and I don't mean the national budget but the whole income of the country. Well, if Honourable Members think that in spending 3 or 4 per cent. of her national income on her defence, poor as she is, India is making a disproportionate effort, well, I commend these figures to their serious notice.

Sir, I am much obliged to the House for giving me a patient hearing. I would like to repeat what I have said before, and express the pleasure it gives me to attend in the calm and refined air of this Upper Chamber. (Applause.)

The Council then adjourned till Eleven of the Clock on Monday, the 13th March, 1939.
