

27nd February, 1934

THE  
**LEGISLATIVE ASSEMBLY DEBATES**

(Official Report)

Volume II, 1934

*(17th February to 10th March, 1934)*

**SEVENTH SESSION**

OF THE

**FOURTH LEGISLATIVE ASSEMBLY,  
1934**



NEW DELHI  
GOVERNMENT OF INDIA PRESS  
1934.

# Legislative Assembly.

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*Deputy President:*

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

*Panel of Chairmen:*

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

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

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*Assistant of the Secretary:*

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*Marshal:*

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

*Committee on Public Petitions:*

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MR. K. C. NEOGY, M.L.A.

SIR HARI SINGH GOUR, KT., M.L.A.

MR. T. R. PHOOKUN, M.L.A.

MR. MUHAMMAD YAMIN KHAN, C.I.E., M.L.A.

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# LEGISLATIVE ASSEMBLY.

Tuesday, 27th February, 1934.

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The Assembly met in the Assembly Chamber of the Council House at Eleven of the Clock, Mr. President (The Honourable Sir Shanmukham Chetty) in the Chair.

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## THE FACTORIES BILL.

### PRESENTATION OF THE REPORT OF THE SELECT COMMITTEE.

**The Honourable Sir Frank Noyce** (Member for Industries and Labour): Sir, I beg to present the Report of the Select Committee on the Bill to consolidate and amend the law relating to labour in factories. (Applause.)

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### ELECTION OF THE STANDING COMMITTEE FOR THE DEPARTMENT OF EDUCATION, HEALTH AND LANDS.

**Mr. G. S. Bajpai** (Secretary, Department of Education, Health and Lands): Sir, I beg to move:

"That this Assembly do proceed to elect, in such manner as the Honourable the President may direct, three Non-Official Members to serve on the Standing Committee to advise on subjects, other than 'Indians Overseas—Emigration' and 'Haj Pilgrimage' dealt with in the Department of Education, Health and Lands."

**Mr. President** (The Honourable Sir Shanmukham Chetty): Motion moved:

"That this Assembly do proceed to elect, in such manner as the Honourable the President may direct, three Non-Official Members to serve on the Standing Committee to advise on subjects, other than 'Indians Overseas—Emigration' and 'Haj Pilgrimage' dealt with in the Department of Education, Health and Lands."

**Mr. M. Maswood Ahmad** (Patna and Chota Nagpur *cum* Orissa: Muhammadan): May I know how many meetings of this Committee were held last year?

**Mr. G. S. Bajpai**: One meeting last year, Sir.

**Mr. Gaya Prasad Singh** (Muzaffarpur *cum* Champaran: Non-Muhammadan): Why was the one meeting held? Why was that too not done away with altogether?

**Mr. G. S. Bajpai**: The fact is, we think that whenever we have a subject upon which, we feel, we can benefit by the advice of the Committee, we should put it before the Committee.

**Dr. Ziauddin Ahmad** (United Provinces Southern Divisions: Muhammadan Rural): I suppose education is also included within the purview of this Committee, and may I ask whether the question of the appointment of the Advisory Educational Board was laid before this Committee and what was their opinion?

**Mr. G. S. Bajpai**: The answer to the first part of the question is in the affirmative. As regards the second part, I would say that the Committee were in favour of the early establishment of the Advisory Board.

**Mr. Lalchand Navalrai** (Sind: Non-Muhammadan Rural): May I know if it was necessary to call it, because, if there was no necessity to call it at any other time, there was no work for it?

**Mr. G. S. Bajpai**: It is obvious the Committee was called when it was necessary to call it.

**Mr. President** (The Honourable Sir Shanmukham Chetty): The question is:

"That this Assembly do proceed to elect, in such manner as the Honourable the President may direct, three Non-Official Members to serve on the Standing Committee to advise on subjects, other than 'Indians Overseas—Emigration' and 'Haj Pilgrimage' dealt with in the Department of Education, Health and Lands."

The motion was adopted.

**Mr. President** (The Honourable Sir Shanmukham Chetty): I may inform Honourable Members that for the purpose of election of Members to the Standing Committee for the Department of Education, Health and Lands, the Assembly Office will be open to receive nominations up to 12 Noon on Saturday, the 3rd March, and that the election, if necessary, will, as usual, be held in the Secretary's Room on Tuesday, the 6th March, 1934. The election will be conducted in accordance with the principle of proportional representation by means of the single transferable vote.

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## DEMANDS FOR SUPPLEMENTARY GRANTS IN RESPECT OF RAILWAYS.

### AUDIT.

**Mr. P. R. Pau** (Financial Commissioner, Railways): Sir, I beg to move:

"That a supplementary sum not exceeding Rs. 60,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Audit'."

**Mr. President** (The Honourable Sir Shanmukham Chetty): Motion moved:

"That a supplementary sum not exceeding Rs. 50,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Audit'."

**Mr. M. Maswood Ahmad** (Patna and Chota Nagpur *cum* Orissa: Muhammadan): Sir, my Honourable friend wants this Rs. 60,000 to defray charges in connection with Audit. In this connection I would say that they have calculated this figure in this way,—that they expect an increase of Rs. 97,000 in the expenditure upon leave salary. Here, Sir, I would request that if my Honourable friend wants to challenge any figures quoted by me, it would be better if he says that I may give the explanation as to from where I have got these figures, but I think he will accept the statements and figures.

Now, Sir, Rs. 97,000 have been demanded for leave salary, and you will find that the Department expects that they will get Rs. 10,000 less under Emergency Cut; and you will see that it comes to Rs. 98,000. Though in the Explanation, which I find on page 1, there is no mention, but they expect about Rs. 6,000 more expenditure under the heading Other Charges as well, and this Rs. 6,000 appears on page 44 of the Standing Finance Committee Report where it is said that they expected Rs. 2,84,000 at the time of the Budget and now they have revised it to Rs. 2,90,000. These three items make this sum Rs. 1,13,000. Then they expect some saving on account of Mr. Badenoch's proposal. Though the amount has not been mentioned here in the remark as to what amount they expect, but I have calculated that this comes to Rs. 53,000. Thus, under Pay of Officers they expected Rs. 5,16,000, then in the Revised Estimate they brought it down to Rs. 4,54,000, and there they expect a saving of Rs. 62,000; and, then, again, under Pay of Establishment, they expected an expenditure in the Budget of Rs. 8,62,000, and now they expect it to be Rs. 7,96,000; so there will be a saving of Rs. 66,000. Out of this Rs. 1,28,000, *i.e.*, 62,000 plus 66,000. Rs. 75,000 were already expected to be saved, and in this way the more saving which they estimate is about Rs. 53,000. After deducting this from Rs. 1,13,000, the figure comes to Rs. 60,000, and on this principle my Honourable friend has moved this Supplementary Demand. But if you will examine the figures, the figures of Rs. 97,000, which they now estimate to be an excess on the voting side, I think, are not correct. If you will look into the figures in connection with Demands for Grants which were supplied to us by the Department, you will find on page 6 that, in regard to the office of the Director of Railway Audit, on page 4, they have mentioned that under Leave Salary for Pay of Officers, there will be no gain and no loss, because there was no mention of the leave salary in the Budget and no one has gone on leave. Then comes the question of the Pay of Establishment. On that side, they expected Rs. 8,000 in the 1934 Budget time and now they have revised the figures to Rs. 2,000. Thus there will be a saving of Rs. 1,000. Then in the case of the office of the Chief Auditor, Railway Clearing Accounts, here also under Pay of Officers there will be no gain and no loss, because they estimated Rs. 5,000 at the Budget time and now estimate the expenditure to be Rs. 5,000 again. Then comes the question of the Pay of Establishment. Under Leave Salary here they expect an increase of Rs. 9,000, because they expected Rs. 7,000 during the Budget time of 1933-34 and now they expect to spend Rs. 16,000. Then comes the question of the Statutory audit attached to State-managed railways. Here also, under Leave Salary, they expect a saving of Rs. 8,000, because they expected Rs. 16,000 at Budget time, and now they have revised the figures to Rs. 8,000. From the leave salary of establishment they expect Rs. 49,000 more on the voted side. Now, I

[Mr. M. Maswood Ahmad.]

come to the last item, i.e., Accounts, Office of the Government Examiner of Accounts. Here also they expect only Rs. 5,000 more in the leave salary of officers and Rs. 18,000 more in the leave salary of establishment. I hope these figures are correct. If you calculate them in this way, the result will be that they expect a saving of Rs. 3,000 in the Pay of Officers and an increase of Rs. 75,000 in the Pay of Establishment, and the net result is that on the voted side they expect Rs. 72,000 more, but they have mentioned here that they expect Rs. 97,000. I think that these figures are not correct. Sir, this amount of Rs. 97,000 is both for the voted and non-voted sides, because we find an increase of Rs. 25,000 in the leave salary on the non-voted side also. Similarly, the question of emergency cut comes in. In this cut, they have mentioned that they expect a loss of Rs. 10,000, but of this amount also half is on the non-voted side and half on the voted side. So, if you add this amount, it will come to Rs. 72,000 only. Now, by this means you will find that by decreasing the sum of leave salary by Rs. 25,000 and by adding to it Rs. 5,000 from the emergency cut, the amount becomes Rs. 30,000. So, the deficit to the department for the voted side after deducting Rs. 30,000 from these two items remains only Rs. 30,000 in the voted side. Therefore, they must have come before the Assembly for a supplementary demand of Rs. 30,000 only. It will be seen that for the non-voted side they have not got to come before the Assembly. They have admitted this principle on page 2, where they say, that there was a loss of five lakhs of rupees in the demand of revenue, but as Rs. 4,75,000 was for the voted side, they came before the Assembly only for that amount and not for the remaining Rs. 25,000 which was on the non-voted side. This is the first point I wish to raise.

The second point which I want to raise here is that they have said that they have revised the figures for the leave salary by Rs. 95,000, which means that more officers went on leave. When more officers went on leave, more officers came to work in their places. When these new officers came to work, certainly the amount of pay must be more, and when the amount of pay was more, naturally the emergency cut must be more. So, why they have expected the decrease in the emergency cut, I cannot understand. I want some light on this point from the Honourable Member who has moved this motion.

**Dr. Ziauddin Ahmad** (United Provinces Southern Divisions: Muhammadan Rural): Sir, I would like to mention one or two points and would like to be favoured with a reply. In the note attached to this demand, it is said that the excess, that is, the additional charge, which they want is due to more staff going on leave than anticipated, partly on account of the retrenchment carried out during the course of the year. If the effect of the retrenchment is an additional sum of Rs. 60,000 a year, I would rather have no retrenchment at all. By retrenchment I understand that there should be some kind of diminution of the expenditure, but if it leads to an over-expenditure of Rs. 60,000 then I do not call it retrenchment at all. The second thing which my Honourable friend argued was that there might be a temporary increase this year only and that he might probably have a permanent retrenchment later on. I have got before me the figures of the audit. On page 41 of the report of the Standing Finance Committee, we find that in the year 1932-33, the total

estimate was for Rs. 17,71,000, but, because of their promise to diminish the amount, they estimated only Rs. 16,55,000 for the following year. Afterwards, it was revised to Rs. 17,15,000. Now, they want an additional sum of Rs. 60,000 which will make up the total to Rs. 17,75,000. That is to say, the total expenditure in the year 1932-33 was Rs. 17,71,000, and, in the year 1933-34, it will be Rs. 17,75,000, about Rs. 4,000 more. Therefore, though we were promised that there would be a diminution, but we find that by splitting it up into several small parts the sum is actually increased. Though in the first year they budgeted a good deal less, in the revised budget estimates it was increased and in the supplementary demand it is further increased, with the result that there is a net increase of Rs. 4,000 over the budgeted estimate of 1932-33. I am afraid that this kind of promise is exactly of the same type as the promise held out about the separation of finance from audit, where it was anticipated that there would be a kind of diminution in the expenditure, but ultimately it led to the excess. This I do not like and I hope the two points will be explained. The first point is: What is the use of this type of retrenchment which leads to the increase in the expenditure and not diminution in the expenditure? And the second point is that though the expenditure in 1932-33 was Rs. 17,71,000, it was under-estimated this year, but, due to subsequent instalments of increase, the total amount of the demand has been increased by Rs. 4,000 than it was in the previous year.

**Mr. P. B. Rau:** Sir, I am sorry that I could not follow what my Honourable friend, Mr. Maswood Ahmad, was driving at in the long speech he made in which he recapitulated most of the figures given in the annexure to this demand. As a member of the Standing Finance Committee for Railways, I submit that it would have been more convenient if he had raised all these points when the Standing Finance Committee considered this demand. When he considers that the estimates placed before the Committee were wrong, I submit that it would have been, not only in his own interests, but in my interests and the interests of the House as well, that he should have pointed out to me where I had gone wrong in the Committee itself.

**Mr. M. Maswood Ahmad:** May I, Sir, explain my position. Unfortunately I could not attend that meeting, because, due to the business relating to the earthquake, I had to attend a meeting in that connection, and, therefore, I could not attend the meeting of the Standing Finance Committee. So I could not raise this point.

**Mr. P. B. Rau:** The figures that he has quoted, I could recognise from the accounts to a certain extent, but I think he has gone entirely wrong in interpreting them. The explanation given is with regard to the total grant, both voted and non-voted, and taking the grant as a whole, I think he has himself admitted that the excess under leave salary is Rs. 97,000 and the other items are as stated. What he has forgotten is that though part of the excess under leave salaries is under the non-voted head, this part of the excess is counterbalanced by savings in the non-voted head due to the salaries of officers being less than anticipated. I do not know whether I have understood the point of his criticism aright, because, when I was listening to his speech, I could not see the wood for the trees.

[Mr. P. R. Rau.]

Turning now to the two criticisms raised by my Honourable friend, Dr. Ziauddin Ahmad, I think the first criticism that he raised was that he would rather have no retrenchment at all than pay leave salaries to the staff who are retrenched. To that criticism he has himself given a satisfactory explanation, and that is that the effect of retrenchments is a recurring saving in expenditure, while the leave salaries that we paid during the current year are only temporary. The rules for retrenched staff provide that people who have been retrenched should be given all the leave that is due to them, and that connotes that they should be paid the leave salaries that are due to them. The other point that he mentioned was that the figures did not show that the retrenchment had any effect in reducing the expenditure. I believe there was some sort of confusion in the mind of the Honourable Member since he apparently thought that the supplementary grant, that I am now asking the House to vote, is in addition to the figures shown in the revised estimate. It is nothing of the kind. The supplementary grant is for the difference between the revised estimate and the original estimate. If my Honourable friend would look up the figures given in page 41 of the proceedings of the Standing Finance Committee, Vol. 10, No. 6, he will find that the revised estimate is Rs. 56,000 lower than the figures for 1932-33 in spite of the fact that the emergency deduction from pay brought us back Rs. 77,000 lower than last year and in spite of the fact that the leave salaries amounted to about Rs. 40,000 more than last year. Further, I would invite his attention to paragraph 4 of the Memorandum which is printed on page 42 which explains to what extent the original estimate of Mr. Badenoch has been realised. I do not think that I need make any further remarks on the point raised by my Honourable friend, but I would again repeat the offer that the Honourable Member for Railways made to him in the course of the Budget debate that if, in the course of his multifarious occupations, he could find some time to go and see me with regard to these figures, I shall try my best to satisfy him that the figures are accurate.

**Mr. M. Maswood Ahmad:** You have said in the revised estimate that there will be an increase in the expenditure over the pay of officers who are working in the office. What is the reason for that increase?

**Mr. P. R. Rau:** I do not know where my Honourable friend has obtained the information that we are budgeting for an increase in the pay of officers since the budget figure for the pay of officers is Rs. 5,16,000 and the revised estimate is Rs. 4,54,000.

**Mr. President** (The Honourable Sir Shanmukham Chetty): The question is:

"That a supplementary sum not exceeding Rs. 60,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Audit'."

The motion was adopted.

#### WORKING EXPENSES—REPAIRS AND MAINTENANCE AND OPERATION.

**Mr. P. R. Rau:** Sir, I beg to move:

"That a supplementary sum not exceeding Rs. 4,75,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Working Expenses—Repairs and Maintenance and Operation'."

**Mr. President** (The Honourable Sir Shanmukham Chetty): Motion moved:

"That a supplementary sum not exceeding Rs. 4,75,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Working Expenses—Repairs and Maintenance and Operation'."

**Dr. Ziauddin Ahmad**: Sir, I understand that this sum is required for expenditure in connection with the Hardinge Bridge and the repairs in the Jamalpur Workshop. Both these things are absolutely essential, and there is absolutely no desire on the part of any Member to object to this expenditure. But what we do desire to be told is, what would be the total expenditure under the head Hardinge Bridge and also in connection with the repairs to the Jamalpur Workshop. The second thing that I should like to know is from what fund the expenditure would be met. I am strongly of opinion that we ought to pay the entire cost of these two items from the Depreciation Fund which is really used by the Government as a deficit fund, and this, I should say, is a wrong use. The depreciation is really intended to meet such extraordinary expenditure in which we have suffered losses due to earthquakes and floods. To overburden the budget by extraordinary expenditure under this head is not the correct method. This is a point which ought to be made clear that whenever any loss is incurred on account of unforeseen circumstances, such as floods and earthquakes, then the deficit fund is there and the expenditure should be made a charge on this fund. If the deficit fund is not sufficient to meet this particular demand, then Government ought to come to the Legislature and find out by what manner, whether from the revenue or from the loan, this expenditure should be met. Really the first charge is the Depreciation Fund which ought to be done, but the expression "Depreciation Fund" is a misnomer if we see the way in which this fund is being utilised. To charge this thing to capital or revenue is not the correct procedure. We ought to charge it entirely to the Depreciation Fund. We may need this in one year or two years. I do not object to the expenditure, but I object to the expenditure being incurred by any other method except by drawing the money from the Depreciation Fund.

**Mr. M. Maswood Ahmad**: Sir, I want to suggest that I find among the papers that the number of the demand is changed every year. What was formerly demand No. 3 is now demand No. 2, or what was formerly demand No. 5 is now made into some other demand, say, demand No. 4, and in this way it becomes very difficult for us to search for the figures. I spent more than three hours in searching for this demand which is now put under demand No. 6. I do hope that in future my Honourable friend will consider this point that the number of the demand should not be changed every year as it becomes very troublesome for us in consulting the papers. About the Jamalpur Workshop, I will suggest that the Government should spend sufficient money in the repair, because the labourers, who are now out of work, will suffer unless the workshop is made to work in its full strength as early as possible. I hope my Honourable friend will also keep this in mind.

**Mr. P. R. Rau**: Sir, as usual I will take my Honourable friend, Mr. Maswood Ahmad, first, as his objections are the less serious. With regard to the change in the form of the demand, I must again point

[Mr. P. R. Rau.]

out that this had the approval of the Standing Finance Committee for Railways, and when that approval was given, my Honourable friend was also present.

As regards the point raised by my Honourable friend, Dr. Ziauddin Ahmad, I need only refer to the three very elaborate memoranda that were placed before the Standing Finance Committee on these questions. These memoranda contain the fullest information, not only with regard to the estimated expenditure on these calamities that we have at present, but also with regard to the way in which the Government of India propose to meet them. I quite sympathise with my Honourable friend's desire that these abnormal calamities should not be allowed to affect solely the current revenues of the year or two in which they occur, but it is equally, I think, from an accounting point of view, objectionable to charge them to the Depreciation Fund outright since the Depreciation Fund on Indian Railways has been started in order to provide for renewals of assets, the life of which has expired in the ordinary course. Consequently, the Government of India have, after careful consideration, decided that the best plan is to meet the expenditure originally from the Depreciation Fund, but to charge it to revenue in the course of ten years. If the Depreciation Fund is utilised to meet every sort of unexpected expenditure that occurs, it will not be long before it becomes a deficit fund.

**Sir Cowasji Jehangir** (Bombay City: Non-Muhammadan Urban): What happens to it during the ten years that it comes from revenue? Who pays the interest for the ten years?

**Mr. P. R. Rau:** Loans from the Depreciation Fund are not interest-bearing. The way in which the Depreciation Fund is built up at present is not on a sinking fund basis. Interest on balances of the Depreciation Fund is not added to the corpus, but added to the ordinary railway revenues. Consequently, there is no special advantage in charging interest since the interest will accrue to the railway revenues.

**Mr. Gaya Prasad Singh** (Muzaffarpur *cum* Champaran: Non-Muhammadan): Sir, a question was asked whether a part of this expenditure is to be incurred in connection with the repairing of the workshop at Jamalpur. My Honourable friend has given no answer on that point. I should like to know whether there is any truth in the report that the Jamalpur Workshops are going to be transferred elsewhere; if not, what part of the expenditure proposed to be incurred is in connection with the repairs to the Jamalpur Workshop. I should like to have a specific reply if my Honourable friend has no objection.

**Mr. P. R. Rau:** I am able to assure my Honourable friend on that point. There is no present intention, so far as I am aware, of transferring the Jamalpur Workshop to any other place, and, to the best of my recollection, the damage caused to the Jamalpur Workshops which we are providing for is now in the neighbourhood of half a crore.

**Mr. S. O. Mitra** (Chittagong and Rajshahi Divisions: Non-Muhammadan Rural): Sir, I am not a member of the Railway Finance Committee, and I cannot deal with the details. But, as I understand, we cannot on a supplementary grant raise any question of principle and I can only deal with a particular case. As regards these bridges, where

the country has to spend crores of rupees, I think there should be some clear-cut principle, even on the question of spending it from the revenues spread over a number of years. Particularly in connection with this Willingdon Bridge, going through one of the Standing Committee's reports, I find this :

"The breach was enlarged rapidly during the course of the day until it extended over a length equivalent to about one-third of the length of the guide bank, when further damage ceased in the afternoon of the same day. Although no one witnessed the first breach, which occurred in the early hours of the morning, there were a number of witnesses who saw the manner in which the breach and the embayment behind were rapidly enlarged during the course of the day."

It is clear from this elaborate report that from the 16th September they were watching the damage that was done to the bridge. I find that there were none to see at night about this breach that washed about one-third of the guide bank costing a lakh of rupees to the Indian taxpayer. We have found in the case of these bridges that they are built at an enormous cost, but no one looks to the possibility of the river, in course of time, changing its course. There is nothing in these reports to show that attempts would be made to train the river to flow under the bridge, and, after a few years, the question is again raised that now the river is not flowing under the bridge and has taken a new course. It is not a question of a few lakhs only, but in this case a crore and 50 lakhs will be necessary to make the least use of the bridge at Sava. So these matters should be more carefully gone into. The point I particularly raise here is, why was no watch kept at night when the areas of the right guide bank were washed away in the course of the day and night, and why no precautions were taken.

**The Honourable Sir Joseph Bhore** (Member for Commerce and Railways): Sir, I really do not know what there is to reply to my Honourable friend. The only point that I can make is that, if the breach occurred at night, it would be almost impossible to do anything at that time to save the embankment. But I understand that at the earliest possible opportunity thereafter efforts were made . . .

**Mr. S. C. Mitra:** But it continued the whole of next day and I quoted from the report to show that there were many witnesses who saw the breaches being enlarged during the course of the day.

**The Honourable Sir Joseph Bhore:** I do not know the actual details of the case, but I should have said that, with a flood of that magnitude, it would have been naturally impossible to do anything to stem the tide when the flood was in full flow. As regards future operations, my Honourable friend and the House may rest content that the most meticulous care will be taken to satisfy Government that any works that are to be done will be really effective and will be such that they will have the endorsement of the highest engineering skill and experience.

**Mr. President** (The Honourable Sir Shanmukham Chetty): The question is:

"That a supplementary sum not exceeding Rs. 4,75,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Working Expenses—Repairs and Maintenance and Operation.'"

The motion was adopted.

COMPANIES' AND INDIAN STATES' SHARE OF SURPLUS PROFITS AND NET EARNINGS.

**Mr. P. R. Rau:** Sir, I move:

"That a supplementary sum not exceeding Rs. 2,50,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Companies' and Indian States' Share of Surplus Profits and Net Earnings'."

**Mr. President** (The Honourable Sir Shanmukham Chetty): The question is:

"That a supplementary sum not exceeding Rs. 2,50,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Companies' and Indian States' Share of Surplus Profits and Net Earnings'."

The motion was adopted.

OPEN LINE WORKS.

**Mr. P. R. Rau:** Sir, I move:

"That a supplementary sum not exceeding Rs. 1,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Open Line Works'."

**Mr. President** (The Honourable Sir Shanmukham Chetty): Motion moved:

"That a supplementary sum not exceeding Rs. 1,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Open Line Works'."

**Dr. Ziauddin Ahmad:** Sir, in this case I find in the list of the demands that the Hardinge Bridge comes up again. While voting on the previous demand, I thought we had finished with the Hardinge Bridge altogether. But here it comes up again. I do not object to this expenditure, but my point is that it is exceedingly difficult to understand the budget on account of the division of the same expenditure on the same thing under different heads. I raised objection on the discussion of the General Budget about my difficulty in understanding certain items, and those items were perfectly right, and Mr. Rau satisfactorily explained them to me. Here also it is perfectly correct, but the difficulty is that it is impossible for any person to understand this Railway Budget unless a person of the ability of Mr. Rau is there to explain it and a person of my understanding is there to understand it. I wonder whether the Railway Budget can be understood by any person inside or outside the Assembly on account of the manner in which these things have been worked out. I thought in the previous case we had finished with the Hardinge Bridge, but here again it comes up again in some shape or other, and, therefore, it is very desirable that this budget should be framed in the same manner as the General Budget, where everybody knows exactly what the expenditure and income is; but here the expenditure on one item is divided and shown under so many heads and sub-heads that it is very difficult to follow them, unless we have the benefit of an explanation by the Honourable the Financial Commissioner: it is impossible to visualise the whole thing in our minds. Therefore, I think it is desirable that an attempt should be

made to simplify the Railway Budget and also in future to present some kind of a balance sheet so that we can have a true picture of the financial position of our railways. With these observations, I support the demand.

**Mr. Muhammad Azhar Ali** (Lucknow and Fyzabad Divisions: Muhammadan Rural): Sir, the list that has been supplied to us shows such a lengthy column that at first sight one is astonished what demand it would be, but ultimately one comes to know that it is a very small amount that is required—only Rs. 1,000 . . . .

**Mr. President** (The Honourable Sir Shanmukham Chetty): It is a token demand.

**Mr. Muhammad Azhar Ali:** Under these conditions, I simply endorse what my friend, Dr. Ziauddin Ahmad, has just said that the description and delineations of these things should be so clear that one may not be lost in the jungle of all these demands. I tried to find some enlightenment on these subjects from the Railway Finance Committee, but I am sorry that I did not gather much from that; and, therefore, I think that some further light ought to be thrown on this subject by the Member in charge.

**Mr. P. B. Rau:** Sir, I feel very thankful to my Honourable friend for the compliment he has paid to me by bracketting my ability with his understanding. But one of these must have been seriously at fault in this case, because he has apparently not been able to understand these figures. I prefer to believe that it is my ability that is at fault rather than his understanding. On this particular question that he has raised, I may point out that the amount that this House was asked to vote a few minutes ago under the head "Repairs and Maintenance and Operation" is the first instalment of the amount of loan taken from the Depreciation Fund and repayable by Revenue in 10 years. This demand covers the charges that will be originally debited to the Depreciation Fund and repaid from Revenue in 10 years and also the charge debitible to capital in respect of the additional assets that will come into being as a result of the expenditure incurred. I do not think it is necessary for me to say anything more except to say in justice to the engineers who were in charge of the Hardinge Bridge that there is nothing to support the allegation that there was undue delay in dealing with the disaster. I myself raised with our engineering experts the first question that occurs to a layman in this matter, as to why it was not possible for them to detect this menace to the safety of the bridge at an earlier period. But the fact that the action was so rapid that nearly one-third of the protection works was damaged within the course of a few hours shows that it was absolutely impossible for any efforts to stem the tide. It would have been a case of Mrs. Partington defying the Atlantic.

**Mr. President** (The Honourable Sir Shanmukham Chetty): Before the question is put, the Chair would explain to the House that this demand is made under rule 50 of the Legislative Rules which says:

"An estimate shall be presented to the Assembly for a supplementary or additional grant when—

- (i) the amount voted in the Budget of a grant is found to be insufficient for the purposes of the current year, or
- (ii) a need arises during the current year for expenditure for which the vote of the Assembly is necessary upon some new service not contemplated in the Budget for that year:

[Mr. President.]

Provided that, when funds to meet proposed expenditure on a new service can be made available by reappropriation, a demand for the grant of a token sum may be submitted to the vote of the Assembly, and, if the Assembly assents to the demand, funds may be so made available."

It is in accordance with rule 50 that this demand is made for a token sum of Rs. 1,000. It does not mean that the amount of money to be expended on these new works not originally contemplated is going to be only Rs. 1,000: it is going to be very much more.

The question is:

"That a supplementary sum not exceeding Rs. 1,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Open Line Works'."

The motion was adopted.

#### APPROPRIATION FROM DEPRECIATION FUND.

**Mr. P. B. Rau:** Sir, I beg to move:

"That a supplementary sum not exceeding Rs. 9,99,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Appropriation from Depreciation Fund'."

**Mr. President** (The Honourable Sir Shanmukham Chetty): Motion moved:

"That a supplementary sum not exceeding Rs. 9,99,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Appropriation from Depreciation Fund'."

**Mr. M. Maswood Ahmad:** Sir, you will see on page 6 that out of this sum of Rs. 9,99,000, a sum of Rs. 9 lakhs has been proposed to be advanced as temporary loan to two branch line railway companies. At present there are three kinds of these branch line companies: one is for which there is no guarantee from anybody; the second is that for which there is a guarantee from the Government under certain conditions by a fixed return on capital invested by them; and the third is that for which the same kind of guarantee has been given by the local authorities. In this connection, you will find here that out of this Rs. 9 lakhs which are to be given to two branch line companies, one company is the Futwa-Islampur Railway, and about this railway I want to say that they have said that the main cause of the deficit of this railway is that the number of passengers travelling by this railway has decreased. The Financial Commissioner has also admitted that the subsidies and rebates payable by the Government for recent years have been increasing owing to the reduced earnings of such railways as a result of the slump in traffic. But I want to ask, is it a fact that on this particular railway, the Futwa-Islampur Railway, the cause of this reduction in income is the slump in traffic? If that is so, then, what is the reason for this slump in traffic? This railway is in the Patna district, which area I represent here. I know something . . . .

**Sir Muhammad Yakub** (Rohilkund and Kumaon Divisions: Muhammadan Rajal): That is why the deficit has occurred.

**Mr. M. Maswood Ahmad:** I am glad to know, Sir, that my friend, Sir, Muhammad Yakub, contributes to the Government for this section of the East Indian Railway in Moradabad from his daily allowance of the Joint Parliamentary Committee, so that there may not be any deficit to Government.

The main cause of the loss now I want to explain. There are two stations, Futwa and Bakhtiarpur at a distance of about 5 to 20 miles on the E. I. Railway . . . .

**Mr. P. R. Rau:** On a point of order, Sir. May I point out that this demand has nothing to do with the subsidies that are payable to the Futwa-Islampur Railway or to any other railway. It deals with a loan to meet the capital expenditure.

**Mr. M. Maswood Ahmad:** You are giving this loan to the Futwa-Islampur Railway to meet their deficits, and to decrease their expenditure.

**Mr. P. R. Rau:** No, Sir; not at all.

**Mr. M. Maswood Ahmad:** You cannot deny that. You have said so at page 34, and I shall read it for the benefit of the Honourable Member:

"The loan already raised by these Branch Line Companies are generally either in the form of (i) debentures on which interest is payable at a comparatively high rate, which in some cases can be repaid immediately or in the near future; or (ii) cash credits or other temporary advances which can be converted into regular loans at any time".

A little later, you say again:

"In the first case, steps have been taken by Government to endeavour to reduce, wherever possible, the rate of interest payable on loans which the Company have the option to terminate immediately or in the near future."

**Mr. P. R. Rau:** My Honourable friend has proved my case.

**Mr. M. Maswood Ahmad:** If I give wrong interpretation, then how you explain your words? I put it in another form. You want to reduce the interest which that Company is paying, and thereby you want that they should gain something, that you may not be in a position to pay the amount from your pocket, which you have guaranteed to them. Can you deny that? Sir, here I want to point out that the chief reason, why this Company is losing its traffic, is not due to the slump, but the reason is something else. If you change your present policy, there can be no deficit on that railway; on the other hand, there will be no need for this loan to be given to that Company. That is my point, and I think I am perfectly in order. I am pointing out to the Honourable Member a way by which he would be able to reduce the capital expenditure and by which he can gain something, but I am very sorry to find that he has not had even the patience to hear these suggestions from this side of the House. This policy of the Government Members is certainly objectionable, (Applause from the Opposition Benches), because they do not want to hear even suggestions from the representatives of the locality concerned.

Now, Sir, I want to point out that from Bakhtiarpur there is a line which runs to Rajgir and another line from Futwa to Islampur, and these two lines are quite parallel to one another and the distance between them

[Mr. M. Maswood Ahmad.]

is 15 to 20 miles only. Now, what have the Local Government and the Central Government done? They have constructed a first class metalled road parallel to the Futwa-Islampur lines and side by side to the Bakhtiarpur-Rajgir from Bakhtiarpur to Bihar, and on account of this road both the Railway Companies are losing heavily every year. The point was raised as to why they were not allowing motor buses to go by this road, but it was suggested that, as this was a newly constructed road, they could not allow any bus traffic to pass over it; but, I say, you cannot for long prevent the bus traffic on this road, and, when the bus traffic starts, that will again lead to further loss to this railway.

Then, Sir, the question is, what to do now. In this connection, I will point out that there is another trouble; these two lines do not connect at any point. So whenever they require more bogies on the Bakhtiarpur-Rajgir Railway to take passengers to the Rajgir fair, there is always a shortage of carriages on the line; similarly when extra carriages are required on the Futwa-Islampur Railway to take passengers to the Islampur fair, the same difficulty occurs, and sometimes the passengers are taken in goods wagons. Now, my point is, the distance is only about 15 miles. both the railways are under the same management and so if you connect these two lines from Bihar to Ekangar and extend it to Taregna on the E. I. Railway, you will be able to solve the difficulty of shortage of wagons by exchanging carriages mutually from one railway to the other. Further, you will open the area and you will improve the condition of the two existing railways.

Then, Sir, another cause of the deficit is that the timing, especially on the Islampur line, is so bad that nobody likes to travel by that line. One train leaves the station early in the morning at 4 A.M. and another train leaves at about 6 P.M. in the evening, and during the day there is only one train which runs between Hilsa and Futwa. Therefore, most people, who want to travel by this line, prefer to do the journey by bullock carts and buses, with the result that you are losing heavily your income every year. The Patna District Board also passed a resolution, in the year 1928 or 1929, urging that this line should be joined at Ekangar and that the Bihar-Ekangar-Taregna line should be constructed. I would suggest to my Honourable friend that he should read through that resolution and consider the feasibility of giving effect to it. Sir, in these days it is very important that the railway companies should consider these points very seriously and see how they can run the business at a profit and not at a loss.

**Dr. Ziauddin Ahmad:** Sir, I hope Mr. Maswood Ahmad will not accuse me at least for not hearing him patiently. I have been following him very patiently, and I quite appreciate the difficulties mentioned by him in regard to this particular line. I hope these difficulties will be carefully considered by the Honourable Member in charge of Railway. But here, in this particular demand, the question is somewhat difficult. We have already voted under various heads certain expenditure, and we find that there is over-expenditure of about nine lakhs and odd, and where is this money to come from? The suggestion made under this demand is that this money should be taken from the Depreciation or Deficit Fund. It is now our duty to point out from what source the money should be taken in view of the fact that we have already voted for the expenditure. Therefore, the

only source from which the Railway Department can take this money is what they call the Depreciation Fund and what I call the deficit fund. With these words, I have no other alternative but to support the motion.

**Mr. P. B. Rau:** I am sorry, Sir, that my Honourable friend from Bihar misunderstood the point of my interruption. It was not from any want of patience or from any want of regard for the words of wisdom which had fallen from his lips that I made the interruption. I shall always be prepared to listen to him with as much patience as I can muster, but at the right time and place.

It was a tragedy, indeed, Sir, that owing to the earthquake in Bihar this memorandum, which was placed before the Standing Finance Committee, had to be discussed at a time when my Honourable friend was away in Patna. It reminds me, Sir, of Browning's lines:

"Never the time and the place and the loved one all together."

I shall be very happy indeed to have all the suggestions that my friend has just made considered very carefully in consultation with the Department of Industries and Labour, since the provision of metalled roads is not a matter entirely within the purview of the Railway Department alone.

I do not think, Sir, that my Honourable friend who spoke next has made any special points that call for a reply.

**Dr. Ziauddin Ahmad:** I have supported you. I do not want a reply.

**Mr. President** (The Honourable Sir Shanmukham Chetty): The question is:

"That a supplementary sum not exceeding Rs. 9,99,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Appropriation from Depreciation Fund'."

The motion was adopted.

#### MISCELLANEOUS EXPENDITURE.

**Mr. P. B. Rau:** Sir, I move:

"That a supplementary sum not exceeding Rs. 1,20,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Miscellaneous Expenditure'."

**Mr. President** (The Honourable Sir Shanmukham Chetty): The question is:

"That a supplementary sum not exceeding Rs. 1,20,000 be granted to the Governor General in Council to defray the charges which will come in course of payment during the year ending the 31st day of March, 1934, in respect of 'Miscellaneous Expenditure'."

The motion was adopted.

#### THE INDIAN NAVY (DISCIPLINE) BILL.

**Mr. G. E. F. Tottenham** (Army Secretary): Sir, I move:

"That the Bill to provide for the application of the Naval Discipline Act to the Indian Navy be referred to a Select Committee consisting of Khan Bahadur H. M. Wilayatullah, Diwan Bahadur A. Ramaswami Mudaliar, Mr. D. K. Lahiri Chaudhory, Mr. B. V. Jadhav, Mr. Gaya Prasad Singh, Mr. Nabakumar Sing Dādhoria, Rao Bahadur M. C. Rajah, Mr. S. G. Jog, Sir Leslie Hudson, Captain Sher Muhammad

[Mr. G. R. F. Tottenham.]

Khan Gakhar, Sir Abdulla-al-Mámün Suhrawardy, Lieut.-Colonel Sir Henry Gidney, and the Mover, and that the number of members whose presence shall be necessary to constitute a meeting of the Committee shall be five."

I am aware that a Bill in much the same terms as that which is now before the House was defeated in this Assembly by the narrow margin of a single vote five years ago. I, therefore, feel that I owe a particular duty to this House to explain as clearly as I can the reasons why we are bringing forward this Bill again and why we have chosen this particular moment to do so. To deal with the last point first, let me explain at once that we are in no hurry and that we are quite prepared to take any steps that Honourable Members may think necessary to ensure that Members of the House and the public at large are fully satisfied as to what this Bill means before we attempt to pass it into law. I would only say at this stage that I think myself there will be no particular reason to circulate the Bill for reasons which I shall attempt to explain in due course.

Now, Sir, the main reason why we are bringing forward this Bill at the present moment is that it is earnestly desired by every officer and by every man of the Royal Indian Marine. I cannot conceal the fact that they were utterly disappointed when the Bill failed to pass five years ago. But I am equally glad that their disappointment in no way affected their zeal. Under the distinguished command of Admiral Sir Humphrey Walwyn, they have been consistently animated by the desire to increase the efficiency of the force as far as possible in the financial stringency through which we have been passing; and their efforts have been remarkably successful. (Hear, hear). The force has improved out of all recognition during the last five years (Hear, hear), and I personally entirely sympathise with the desire of the members of that force that they should receive the only reward for their services which we can give them without incurring any extra expenditure, that is to say, by giving them the improved status that this Bill will confer upon them. In this connection I would just like to read out to the House an extract from a letter written, not by any of our own officers, but by a distinguished officer of the Royal Navy, Admiral Fullerton, when he was commanding the East Indies Squadron a year or two ago. What he said was this:

"I have just finished a period of two days sea exercise followed by three days in harbour with the ships of the Royal Indian Marine under Rear Admiral Sir Humphrey Walwyn, and I am sure you will be interested and glad to hear how well they have done and how we have all been impressed with the smart appearance and the great keenness which has been shown on all sides. If their present rate of development continues, as I feel confident it must, the Royal Indian Marine should form an efficient adjunct to the forces under your command and also of great value to India from the naval point of view in the event of a war."

That was written to His Excellency the Commander-in-Chief.

Apart from this, we are anxious that India should enter upon her new Constitution with a navy as well as an air force and an army of her own. The constitutional position regarding the reservation of defence has received, at any rate in its broad outlines, a considerable measure of agreement, and we think, therefore, that there is nothing to be gained by waiting. At the same time, I may add that it was only after the most careful consideration that we decided to revive this measure and put it again before the House; and I think that a certain number of my Honourable friends opposite will remember that I have been at some pains to ascertain their opinions on the subject before re-introducing the Bill.

Now, Sir, in the first place, I must say a few words about the Bill itself, although I am aware that any objections that may be raised will arise, not from the wording of the clauses of the Bill itself, but from the wording of the amendment to the Government of India Act which took place in 1927 in order to render this legislation possible. The Bill now before the House is a Discipline Bill, pure and simple. It proposes to apply to our force in India the same broad code of discipline which governs the British Navy and also the Dominion Navies, with such modifications as may be suitable for Indian conditions. The British Naval Discipline Act simply lays down offences against discipline, what the offences are and the means of dealing with them by courts-martial and otherwise. The Act itself has stood the test of time. It is known and honoured throughout the world, and I am confident that its provisions, with the modifications that this Bill proposes, will meet with the general acceptance of this House, subject possibly to some minor alterations which may be made if the Bill goes to a Select Committee. But, Sir, as Mr. Jinnah said in 1928 on the previous occasion:

"The issue is not the Discipline Bill; the issue is, 'Do you accept the Bill which was before the Parliament and which was enacted into law in 1927?' If the question was merely the Discipline Bill, it would be easy of solution."

Those were Mr. Jinnah's words. The opposition on the previous occasion was a weighty opposition led by no other than yourself, Sir, in, if I may say so, one of your most effective speeches; and it was based on certain constitutional objections which, in my opinion, it was perfectly justifiable and reasonable to bring forward from the political point of view. The question is whether it was worth while to carry those objections to the extent of defeating the Bill, and I shall endeavour to give my reasons for holding that it was unnecessary to do so and that we may now remedy the mistake that was made in the past.

In order to do this, I must, first of all, give an account of what the Royal Indian Marine is and what the constitutional position is with regard to it at the present moment, and then go on to explain what the Royal Indian Navy will be and what the constitutional position regarding it will be if this Bill is passed into law. Now, my predecessor in 1928 gave a very clear account of what the Royal Indian Marine is, and I assume that all Honourable Members, who are interested in this subject, will have read the whole of the debates on the previous occasion including Mr. Mackworth Young's speech. I need not, therefore, go into very great detail. The main points are that, although the Royal Indian Marine, in one form or another, for the last 300 years, has served, and served with distinction, in all maritime operations, that have taken place in Asiatic waters, yet, for a period of about 50 years, that is, from 1863 to 1913, the Royal Indian Marine was a non-combatant force. Its ships were not armed and its personnel were not trained for war. In 1914, when the Great War broke out, it was given combatant status under the operation of the Indian Marine Service Act of 1884. Section 6 of this Act, and I would invite Honourable Members to listen very carefully to the wording of this section, runs as follows:

"In case a state of war exists between Her Majesty and any foreign power, it shall be lawful for Her Majesty by Proclamation or Order in Council to direct that any vessel belonging to Her Majesty's Indian Marine Service and the men and officers from time to time serving thereon shall be under the command of the senior naval officer of the station where for the time being such ship may be. And while any such vessel is under such command such vessel shall be deemed to all intents a vessel of war of the Royal Navy, and the men and officers from time to time serving in such vessel shall be under such Naval Discipline Act or Acts as may be in force for the time being."

[Mr. G. R. F. Tottenham.]

In other words, His Majesty's Government possess under this section the power to convert the Royal Indian Marine into a combatant force and to use it for Imperial purposes without even asking for the consent of the Government of India. That section has never been repealed. It still represents the law on the subject. I do not mean to imply that His Majesty's Government would ever exercise that power without consulting the Government of India. In fact, I believe there is an understanding now that they would not do so; but the point is that that is the present legal constitutional position.

Then, Sir, the next important point in the history of the case is the conversion of the Royal Indian Marine into a combatant force which took place after the war largely on the advice that Admiral Lord Jellicoe gave to the Government of India. Honourable Members may recollect that a Departmental Committee, presided over by the then Commander-in-Chief, Lord Rawlinson, went into the whole matter of how this conversion was to take place, and the report of this Committee was laid before this House and received, at any rate, its tacit approval, in 1926. Briefly the proposal was that India should maintain a small combatant force consisting of four sloops, two patrol craft vessels and four small mine sweeping trawlers, and this force was to be equipped, trained and armed in the most up to date way in order, in the Committee's words, "to enable India to enter upon the first stage of her naval development and ultimately to undertake her own naval defence". Meanwhile the Government of India Act was to be amended in order to enable the new force to be called a navy and it was left to this Legislature to put the finishing touch by enacting the Discipline Act, without which the force could not be given the dignity and status and title of the Royal Indian Navy.

Now, Sir, the point I wish to make is that all these steps except the last one have already been taken. The ships have been equipped and armed; the personnel have been enrolled and trained; and the Royal Indian Marine is in fact a naval force in all but name. It may interest the House to know a little more about the force itself.

**An Honourable Member:** Who is paying this establishment?

**Mr. G. R. F. Tottenham:** The four sloops that I mentioned just now are small vessels of about 1,300 tons, quite small vessels with a speed of about 17 knots. They are armed with four inch guns and 60 pounder guns. The two patrol craft vessels are smaller, about 700 or 800 tons, but they are also armed, and they are faster than the sloops. The mine sweeping trawlers, that I mentioned, have disappeared as a result of retrenchment. On the other hand, one of our patrol craft vessels, "Baluchi", is now so old as to be unserviceable and she is being replaced at the present moment by a new sloop which is to be called the "Indus" and which is going to cost something over 20 lakhs of rupees. Now, Sir, this substitution of a sloop for a patrol craft vessel will not involve any large expansion of the force, nor will it add appreciably to the cost of the force; but the point that I wish the House to observe in this connection is that changes of this kind can take place without converting the Royal Indian Marine into a Royal Indian Navy. It would be perfectly possible for the Government of India, if they were so minded, to go on expanding the force and to go on spending money on it, whatever it might be called. The expenditure is and has always been, non-votable and if it really were a fact, as has been suggested,

that this force was being brought into existence at the wish of His Majesty's Government to strengthen the British Navy at the cost of the Indian taxpayer, then the answer is that the conversion of the Royal Indian Marine into the Royal Indian Navy would be entirely unnecessary for such a purpose. The fact is that the change is only a change of name. It will not in itself add one single pie to the cost of the force. It will not entail the addition of a single ship or a single gun or a single man. It will not in any way strengthen the British Navy, nor will it in any way facilitate the use of the force for Imperial purposes. On the contrary, as I hope to show shortly, if this Bill is passed into law, the position in this respect will be improved. It may also interest the House to know that before the War, when the Royal Indian Marine was a non-combatant force, its cost amounted to about 68 lakhs of rupees a year. The re-organised combatant force during the last three years or so has cost well under 65 lakhs, that is less than it cost before the War; and I think I can safely assure the House that there will be no large expansion or increase of expenditure on this force unless and until there is a popular demand for it. Personally I think that a demand of that kind is bound to come sooner or later, if India is to undertake her own naval defence.

**Mr. Gaya Prasad Singh** (Muzaffarpur *cum* Champaran: Non-Muhamadan): Was there ever a popular demand for the bringing into existence of this naval force?

**Mr. G. R. F. Tottenham:** That is another matter. If the Honourable Member will let me proceed, I will explain the position to him.

**Mr. S. C. Mitra** (Chittagong and Rajshahi Divisions: Non-Muhammadan Rural): What is the proportion of the Indian personnel?

**Mr. President** (The Honourable Sir Shanmukham Chetty): Let the Honourable Member finish his speech.

**Mr. G. R. F. Tottenham:** As I was saying, I think I can give a guarantee that there will be no large expansion or increase of expenditure on this force unless and until there is a popular demand for it. I would ask the House to remember that the Government of India at present pay for their naval defence, excluding the contribution of £100,000 (or 13 lakhs of rupees), that is paid to His Majesty's Government, about 50 lakhs a year for naval defence. On the other hand, the British Navy costs about 50 million pounds or 70 crores of rupees a year. One single battleship of the Royal Navy cost about nine crores of rupees to build, that is to say, more than what India spends on naval defence in the course of 12 years or so, and one of those large battleships, "Rodney" or "Nelson", carries on board a complement which exceeds the total strength of the Royal Indian Marine, which is at present about 100 officers and 1,200 men, while the actual maintenance of a single one of these big ships costs more than we spend in a whole year on the whole Royal Indian Marine put together. These are large figures and I merely quote them in order to put in its proper perspective what we do spend at present in India on naval defence, to show what a long way India has to go before she can undertake her own naval defence and what an infinitely longer distance would have to be travelled before we could think, even if we were so minded, of bringing into existence a force which would be in excess of Indian requirements and might be used, as has been suggested, for Imperial purposes.

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Now, Sir, I must turn to the position, as it will be, if this Bill is passed into law. The practical result, as I have already attempted to explain, will be negligible. It will merely mean the alteration of the letter "M" into the letter "N,"—the alteration of the word "Marine" into the word "Navy"; but behind that small change lies the magic of the word "Navy" (Hear, hear): and it is almost impossible in my opinion to exaggerate the importance of that word. The increase in prestige will be enormous. The Royal Indian Navy will immediately become the senior service in India as it is in England, instead of taking precedence, as it does at present, after the Army and the Air Force. It will inherit also the naval traditions which have made the British Navy, I may say, the admiration of the world (Hear, hear), and it will place India in this respect on an exact equality with the dominions. Those, Sir, in themselves, I think, are objects which are worth attaining; but I must now also turn to the constitutional aspect. The big change here, as a result of the passage of this Bill, would be the disappearance entirely of that old section of the Indian Marine Service Act of 1884 which I quoted at the beginning of my speech. The Indian Navy will no longer be a force that is legally and constitutionally at the beck and call of His Majesty's Government. It will be an Indian Force, under the control of the Indian Government, to be used primarily for Indian purposes; and if any occasion arises in which that Force is not used for Indian purposes, then the Indian taxpayer will be relieved of its cost. Those, Sir, I think, are also objects which are worth attaining and which constitute a definite improvement on the present position. But I mentioned just now the possibility that circumstances might arise in which the Indian Navy might be used for purposes other than the defence of India,—and here I come to the crux of the opposition on the previous occasion. It was said on that occasion that the Indian Navy was being brought into existence at the dictation of His Majesty's Government for Imperial rather than Indian purposes and it was on that suggestion mainly that the Bill was defeated. Now, I have already shown I hope that, if that was really the intention, the change we now propose would not make the slightest difference. I have also, I hope, shown that there is no danger of our having to meet the charge with respect to the Indian Navy which is sometimes, in fact frequently, levelled with regard to the Army, that is, that we maintain a force in excess of Indian requirements for Imperial purposes. There is no danger of having to meet a charge of that kind with regard to our small Indian Navy. The present and prospective strength of the Indian Navy, so far ahead as we are able to see, is likely to remain well below India's own requirements. But that does not alter the fact that occasions might arise on which the Government of India might wish, in their own interests and in the interests of the Empire, and, I may also say, in the interests of the Royal Indian Navy itself, to lend a ship or two for purposes which do not fall strictly within the definition of the defence of India. The actual work of any navy in peace time cannot be spectacular, and the more real training it gets in war, the better will it be for the efficiency of the force. I do not mean to say that we are ever in the least likely to send our ships in to the Atlantic or on the Mediterranean, or that, save in the most exceptional circumstances, we should ever think of employing the Indian Navy outside Indian waters; but, as I say, an emergency might conceivably arise, as it has arisen in China or somewhere in the eastern waters, where it might be useful to the Empire and of distinct value to the Royal Indian Navy if we could spare

one or two of our ships. Now, the section of the Government of India Act, which provides for this contingency and which proved the rock on which the Bill was wrecked on the previous occasion, reads as follows:

"Any naval forces and vessels which may from time to time be raised and provided by the Governor General in Council shall be employed for the purposes of the government of India alone except that, if the Governor General declares that a state of emergency exists which justifies such action, the Governor General in Council may place at the disposal of the Admiralty all or any of such forces and vessels; and thereupon it shall be lawful for the Admiralty to accept such offer."

**Sir Cawasji Jehangir** (Bombay City: Non-Muhammadan Urban): That was the amendment of 1927?

**Mr. G. R. F. Tottenham:** Yes. Now, I pass over the fact that an almost precisely similar rule at present governs the use of the Army and the Air Force in India, including the Indian Air Force. It may be said that the rule itself is a bad rule and that two wrongs do not make a right, but I think the real point is this. People in India do not object so much to the actual despatch of a particular force in a particular emergency, when and if the need is clearly explained to them, even though that purpose may not be directly connected with the defence of India. What Indian opinion does object to is, firstly, the feeling that we are maintaining a force, at their expense, in excess of purely Indian requirements in order to be able to meet these Imperial needs, and, secondly, that we have the power to send forces abroad, for purposes other than the defence of India, without even consulting them or taking their advice. Now, it is only the second objection that applies in the case of the Navy. As I have attempted to explain, nobody can assert that the Indian Navy is being maintained or will be maintained in excess of Indian requirements, but there is the second point; and I may say at once that we are fully aware of the weight of that objection and of the strength of Indian opinion on this subject and we have been considering very carefully what steps we can possibly take to meet it. There is no getting away from the fact that so long as the constitutional position with regard to defence remains as it is, the last word on the subject must remain with the official Government of today and possibly with the Governor General of tomorrow. At the same time, we are fully alive to the desirability, both I may say in our interests and also in the interests of the tax-payer, of taking the elected representatives of the people into our confidence in these matters to a far larger extent than we have done in the past. (Hear, hear.) With the approval of the Secretary of State, I am, therefore, authorised to announce that it is the intention to consult the Indian Legislature, so far as may be possible, whenever any question arises of lending the Indian Navy to the Admiralty for operations other than in the defence of India. That, Sir, is all that we can do for the moment; but I do hope it will go some way, in fact I hope a considerable way, to satisfy my Honourable friends opposite that we do really appreciate their point of view in this matter and are anxious to go as far as we can to meet it. I can assure them that we intend to carry out that pledge not only in the letter, but in the spirit. (Hear, hear.)

Now, I must turn to the other main objection that was taken to this Bill on the previous occasion. What it comes to, I think, is this. Whatever constitutional objections there may be to the creation of an Indian Navy which, in certain exceptional circumstances, may be used for purposes

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other than the defence of India, those constitutional objections might conceivably be waived if the force was going to be a purely Indian force. But the rate of Indianisation proposed in the officer ranks of the Royal Indian Marine is so meagre that the Bill deserves to be rejected on that ground alone. I think that was what the objection amounted to. Now, here, I think the Government of India have a particularly strong case, and I will endeavour to explain why. Less than two years ago, this House accepted, and accepted with a measure of enthusiasm, an almost precisely similar Bill to regulate the discipline of the Indian Air Force, in spite of the fact that that force would be subject to exactly the same conditions as the Indian Navy in the matter of being lent for purposes other than the defence of India. The justification for that enthusiasm was that the Indian Air Force was going to be an entirely Indian force. I think, therefore, I should be right in assuming that this Bill would be accepted with the same measure of enthusiasm if the Indian Navy was going to be a purely Indian force. The question, therefore, arises why cannot the Indian Navy, just as the Indian Air Force, be composed entirely of Indians? Now, Sir, in the first place, I must point out that the constitution of an Indian Air Force did not mean that the air defence of India was going to be assumed directly and entirely by Indians. The presence of the Royal Air Force will be required for many years to come, not only for the air defence of India, but also to help in training and making the new Indian Air Force efficient. Royal Air Force officers will be lent to the Indian Air Force for some years and it will be a considerable time before even the first Indian squadron is able to stand on its own legs, or, perhaps, I should say, is able to fly on its own wings. And really it is exactly the same with the Indian Navy, except that we have not got in this country a British Naval Force corresponding to the Royal Air Force from which we can borrow officers for the training of Indians. The lower ranks of the Royal Indian Navy are Indians to a man. The question arises merely with regard to the officers. Now, Sir, whatever may be the military traditions of India, it cannot unfortunately be said that India has ever possessed a great navy of her own or that there is any particular class of Indians who show a particular aptitude for the sea-faring life of a naval officer. Flying is a new science and India can start on a level and can compete with other nations in securing proficiency at it; but the command of men-of-war at sea is a very old business; it is a business in which Englishmen have shown a very particular proficiency; and I do submit that India would be making the greatest mistake if she were to reject the help which Englishmen are ready and anxious to give in building up a navy of her own. By all means continue to press us in season and out of season for an increase in the rate of Indianisation. We will do so when we can. But do let this House realise that we cannot stop immediately the recruitment of British Officers for the Indian Navy, and that some years must pass before we can bring into existence a class of young Indians who will be ready and able to take on their own shoulders the naval defence of India's ports and harbours. If so much is admitted, then let us consider what is the first step to be taken to bring into existence such a class of Indians. I submit—and I submit as strongly as I can—that the very first step to be taken is to convert the Royal Indian Marine into the Royal Indian Navy, and I assert that, if this House were to refuse to convert the Royal Indian Marine into the Royal Indian Navy, they would be doing the greatest disservice to the cause of Indianisation. I think that I can substantiate that assertion by quoting our actual experience of the last five years. In those five years, since the previous Bill was

rejected, we have held five open examinations for entry into the Royal Indian Marine. For these five examinations, the total number of applicants has been under 100, and it has only been with great difficulty that we have succeeded in securing our quota of Indian Officers. That is to say, out of the 36 odd vacancies, that have occurred in the last five years, we have just succeeded in obtaining one-third for Indians. We have now two or three Indians actually in the Royal Indian Marine, and there are 10, I think, under training at the present moment.

**Sir Cowasji Jehangir:** Where are they being trained?

**Mr. G. B. F. Tottenham:** They are being trained in various naval institutions in England.

**Sir Cowasji Jehangir:** Then where does the differentiation come in for the Royal Indian Marine? Cannot you make use of the "Dufferin"?

**Mr. G. B. F. Tottenham:** I will mention that later. I was saying that there were at present 10 Indians under training in various naval institutions for the Royal Indian Marine. The engineering training takes a very considerable time. It takes four or five years. The training for executive officers is shorter. But the point I wish to make is that the number and the quality of the candidates who have been appearing at our examinations has progressively deteriorated. The climax was reached in November, 1931, when we advertised an open examination for the Royal Indian Marine, and only four applicants appeared from the whole of India, none of whom succeeded in obtaining anywhere near the qualifying marks. In the next year, 1932, there was some talk about reviving the Indian Navy Bill. I also put through this House a small Bill to provide for a reserve of volunteer officers for the Royal Indian Marine. Interest in the matter was revived, and, for the examination held late in that year, we had 29 applicants, of whom nine succeeded in qualifying and four were selected for vacancies. That was by far the most successful examination that we have ever held. Now, Sir, a straw shows which way the wind blows, and what I have just said indicates that the defeat of the Indian Navy Bill in 1928 did no good whatever to the cause of Indianisation. In fact, it did considerable harm. On the other hand, I believe that the passage of this Bill will stimulate interest in the matter and will help to encourage young men in India of the class that we require to come forward for the Royal Indian Navy. It may be that the number of vacancies per annum is very small, not more than two. But even if we had complete Indianisation—100 per cent Indianisation—the number of vacancies per year would not exceed six. It is possible that we should be well advised to seek other sources of entry besides the open competitive examination, or possibly even confine recruitment to boys from the Mercantile Marine Training Ship, the "Dufferin". We have, I may say, already drawn upon that source and with some success, but the undertaking given by my predecessor was that there would be an open competitive examination for the Royal Indian Marine and we have hesitated to depart from that undertaking hitherto. However, that is entirely a different matter. The point that I wish to make, and the point that I am perfectly sure about myself, is that the conversion of the Royal Indian Marine into the Royal Indian Navy is going to promote the cause of Indianisation and that the failure to convert the Royal Indian Marine into the Royal Indian Navy is going to damage the cause of Indianisation.

[Mr. G. R. F. Tottenham.]

That, I think, is all that I have to say for the moment. I do hope that I have succeeded in convincing Honourable Members that there is no sinister or ulterior motive behind this Bill, and that we are actuated solely by a genuine desire to help India in the matter of starting and organising her own naval defence.

Let me sum it up like this. What do His Majesty's Government stand to gain by the conversion of the Royal Indian Marine into the Royal Indian Navy? Nothing. What does the official Government of India stand to gain by the conversion of the Royal Indian Marine into the Royal Indian Navy? Nothing. What do the Royal Indian Marine themselves stand to gain by the conversion of their force into a Navy? Everything. What does India stand to gain by the conversion of the Royal Indian Marine into a Royal Indian Navy? Again, everything. Sir, I move.

**Mr. President** (The Honourable Sir Shanmukham Chetty): Motion moved:

"That the Bill to provide for the application of the Naval Discipline Act to the Indian Navy be referred to a Select Committee consisting of Khan Bahadur H. M. Wilayatullah, Diwan Bahadur A. Ramaswami Mudaliar, Mr. D. K. Lahiri Chaudhury, Mr. B. V. Jadhav, Mr. Gaya Prasad Singh, Mr. Nabakumar Sing Dudhoria, Rao Bahadur M. C. Rajah, Mr. S. G. Jog, Sir Leslie Hudson, Captain Sher Muhammad Khan Gakhar, Sir Abdulla-al-Mamūn Suhrawardy, Lieut.-Colonel Sir Henry Gidney, and the Mover, and that the number of members whose presence shall be necessary to constitute a meeting of the Committee shall be five."

**Mr. Gaya Prasad Singh:** Sir, we have listened with very great interest to the illuminating speech of my Honourable friend, the Army Secretary. Before offering the few observations I should like to make on this Bill, I will refer to one point to which reference has already been made by my Honourable friend, the Army Secretary. It was, Sir, on the 21st February, 1928, that a Bill, conceived on similar lines, was introduced by the then Army Secretary, Mr. Young, and the rules of business were suspended to allow the motion for the reference of that Bill to a Select Committee to be made on the same day. At that time, the House, led by you, Sir, who made an effective speech, threw out the Bill. How I sincerely wish that on this occasion it would have been possible for you to come down from that Chair and lead this House in the same way you did on that famous occasion. But, Sir, I must say that, even if it were in your power to do so, this House, I am afraid, is not the House which it was when it threw out the Bill in 1928. I should like to refer here very briefly to some of the gentlemen who supported you very ably either by their speeches or with their votes, men like Pandit Motilal Nehru, Pandit Madan Mohan Malaviya, Lala Lajpat Rai, Mr. (now Sir) Muhammad Yakub, Mr. Jinnah, Sir Hari Singh Gour, Mr. Ranga Iyer and others, all of them contributed in bringing about the result which my Honourable friend, the Army Secretary, has deplored today. Among those, who supported the Government, were, as usual, my Honourable friends, Mr. Anwar-ul-Azim, Mr. Ghuznavi and Mr. Yamin Khan. But today I find that my Honourable friend, Mr. Anwar-ul-Azim, has given notice of an amendment for circulation.

**Mr. Muhammad Anwar-ul-Azim** (Chittagong Division: Muhammadan Rural): He has not given.

**Mr. Gaya Prasad Singh:** Anyhow, Sir, I find among the papers circulated to us that there is a notice of amendment by Mr. Anwar-ul-Aziz which reads:

"That the Bill be circulated for the purpose of eliciting opinion thereon by the 31st July, 1934",

which I would be willing to support.

My Honourable friend, the Army Secretary, has referred to the history of the Bill. I do not want to repeat the observations which he has made in this connection, but I will only recapitulate very briefly the steps leading up to the present measure. In 1812, there was in existence, in India, a Naval Force, paid for, maintained and under the control of the East India Company. In 1862, it was decided in England that the Royal Navy should take over the naval defence of India and the Indian Navy was replaced by a non-combatant force. In 1884, an Act of Parliament created the Royal Indian Marine, and, in the first year of the German War, the Royal Indian Marine was incorporated with the Royal Navy for war purposes. After the war was over, the question of reorganisation of the Royal Indian Marine as a combatant force came under discussion, and the question was discussed in 1919 by Admiral Jellicoe who was leading the Expeditionary Force in France. In 1922 and 1924, the question was discussed, and it was then referred to a departmental committee presided over by Lord Rawlinson. In February, 1926, His Excellency the Viceroy announced, in the Council of State, the decision of the Government of India, with the concurrence of the Secretary of State and of the Admiralty, for the establishment of the Royal Indian Navy, and a simultaneous announcement was made in this House by His Excellency the Commander-in-Chief. That, Sir, was the first information, if I remember aright, of the intention of the Government to constitute an Indian Navy for India. In the next year, that is, in 1927, a Bill was passed in Parliament amending section 66 of the Government of India Act which provided for the establishment of the Indian Navy, and this provided that the British Naval Discipline Act might be made applicable to the Indian Navy with such subsequent modifications as might be found suitable. I should like, in the first place, to ask my Honourable friend as to why the Central Legislature was not consulted in all the proceedings that preceded the establishment of the Indian Navy for India? It would be interesting in this connection to refer to the proceedings in Parliament when that Bill was under discussion. On the 7th March, 1927, Mr. Lansbury asked the Under-Secretary of State for India:

"Whether the Legislative Assembly in India has approved of the proposals contained in the Government of India Indian Naval Bill now before this House."

To this question, Earl Winterton, the then Under-Secretary of State for India, replied:

"The publication of the Committee's report, on which the Bill is founded, gave Members of the Assembly an opportunity to initiate a debate on the whole scheme if they desired, but, so far as I am aware, they have not availed themselves of it in the twelve months that have since elapsed. As I stated on the 22nd February, 1926, the Assembly will, in due course, be required to consider consequential legislation."

That, Sir, I submit, refers to the Disciplinary Act which was placed before this House about five years ago.

Mr. Lansbury asked again:

"Would it not be worth while to postpone this Bill until the Legislative Assembly has assented to it?"

[Mr. Gaya Prasad Singh.]

Earl Winterton replied:

"No. As I explained in my answer, consequential legislation, which will follow, on the passage of legislation in this House and in another place, will have to be passed by the Assembly in India, and then will be the time to discuss the matter."

That was how this matter was brought before the Parliament on that occasion. Sir, in this connection, there are one or two questions which may be considered. The first question is, who will pay for this Indian Navy? The second question is, who will officer this Navy? And the third question is, under whose control will this Navy be? With regard to the first question, as regards payment, I need not labour the point. India has got the prescriptive right of footing such little bills as she has been doing for a number of years past.

As regards the next point, i.e., who will compose this Navy, my Honourable friend, the Army Secretary, has already referred to it, and I also find a reference to this in the debate which was held in Parliament on that occasion. Mr. Ammon moved the following Resolution:

"This House, being desirous of expanding the powers of the elected representatives of the Indian people in the control of Indian affairs, cannot assent to the second reading of a Bill for the provision of an Indian navy which fails to place such navy under the control of the Indian Legislative Assembly and has not been submitted to and approved by that Assembly and incidentally involves an increase in Imperial naval forces."

That is, Sir, with regard to control.

As regards the point as to who will compose the personnel, my Honourable friend has said that it will be many years at least before Indians will be able to take control of the Indian Navy. This complaint we have always been hearing from time immemorial that the Indians are unfit to take independent charge of any department of Government. If, after 150 years of British rule in this country, Indians are yet unfit to take charge of any department independently, I say, this places the greatest condemnation upon the character of British rule in India. Sir, Japan, which was nothing more than a geographical spot on the map of Asia, has, within the last 50 years, under her national system of Government, raised herself to the position of a first-class power, while India, under a foreign domination has not been able to take independent charge of any department of public utility in this country. This, I submit, is a great slur not upon the character of Indians, but upon the character of the rule under which we are living. What guarantee is there that if we gave our assent to the creation of this Indian Navy, we should not be treated with regard to the personnel of this force exactly in the same way as we have been treated in the Royal Air Force, or in the Indian Army, or in the Engineering department or in so many other departments from which Indians have been so rigidly excluded? Sir, I will refer to only one observation which was made in Parliament with regard to the matter of control. The Under-Secretary of State on that occasion, to which I have referred, stated as follows:

"It has never been pretended at the present transition stage of the Indian constitution that India through her Assembly has full control over the revenues of India. . . . and except for a very few Indians there is no demand that that control should be given at this moment."

Mark this last sentence, Sir, namely, that Indians do not want control over their own affairs. This is how our position has been depicted by the Under-Secretary of State in Parliament when this Naval Bill was under discussion. Sir, on that occasion, there were Members of Parliament who objected to the summary fashion in which the Bill was going to be made into an Act of Parliament without giving an opportunity to this House from the very process of initiation. This is what Mr. Wheatley said on the occasion of the third reading of the Bill:

"I want to take this opportunity of entering a most emphatic protest against the provisions of this measure. I do not know what case was or could be made out for the Indian navy, but I know that no case can be made out for an Indian navy which is not under the control of the Indian people. What we are asked to do here is simply farcical. We are asked to subscribe to a situation in which there will be an Indian navy which may be taken away by the very people who in certain conceivable circumstances may be India's chief enemy and used by those people while they retain the power, the right, to say who is to pay for the navy during the time it has been used without the consent of the Indian people."

Sir, I will not read any more quotations from the debate which took place in the House of Commons.

My Honourable friend, the Army Secretary, referred to the point as to why this particular moment has been chosen for reviving this Bill. But, from his illuminating speech, I fail to understand what urgency there is in choosing this particular moment for initiating this measure.

**Mr. G. R. F. Tottenham:** I said there was no urgency.

**Mr. Gaya Prasad Singh:** My Honourable friend has admitted that there is no urgency, and this is a very significant reply. The principal reason for choosing this present moment for initiating this Bill is that the Assembly is weak and is possibly on its last legs.

**An Honourable Member:** It is quite strong.

**Mr. Gaya Prasad Singh:** The result of this debate will show whether the Assembly of today is the same as the Assembly of 1928 when it failed to respond to the wishes of Government and threw out the Bill on that occasion. As I said on a former occasion, if Government were to bring forward a measure today that the Members of the Legislative Assembly should be hanged on the topmost bough of the nearest tree, they would still get a majority of this House on their side to earn a posthumous reward.

Sir, my Honourable friend then refers to the earnest desire of the officers of the Royal Indian Marine that they should obtain the dignity and status which this Bill seeks to confer upon them. Sir, I have nothing but the highest praise for the officers of the Indian Marine or of the Indian Navy which might come into existence, but this is a case which is to be looked at entirely from the point of principle as to whether this House would be justified in passing a measure like this on the present occasion or not. If this House refuses to give its assent, it should not be taken in any way as conveying any sort of slur upon the capacity and ability of those officers now serving. My Honourable friend also referred to the existing constitutional position under which it is quite open to His Majesty to convert the Indian Marine into a combatant force and to commandeer the services of the Indian Navy in times of war and other emergencies with the consent of the Governor General. I do not know whether it was . . . . .

**Mr. G. R. F. Tottenham:** The present law is that they can commandeer the Royal Indian Marine without the consent of the Governor General.

**Mr. Gaya Prasad Singh:** Do I understand my Honourable friend to say that, when this Bill is passed, they will not be able to commandeer the services of the force without the consent of the Governor General?

**Mr. G. R. F. Tottenham:** The position is that, under the Government of India Act, if this Bill is passed, His Majesty's Government will not have any control over the Royal Indian Navy without the consent of the Government of India.

**Mr. Gaya Prasad Singh:** May I know if a position like this exists in any of the dominions? Is it open to His Majesty's Government to commandeer the forces of any of the dominions, say, Canada or Australia or South Africa, without the consent, not of the Governor General, but of the Legislatures existing in those countries? I should like to be specifically referred to them in the reply of the Honourable Member.

The construction of the Singapore Naval base is significant; and, taken together with the time chosen by the Government in  
 P.M. reviving this Bill, it seems possible that a situation might develop in the Far East for which provision has to be made. War clouds are already rolling on the horizon, and it is quite conceivable that a world conflagration may arise and I have a shrewd suspicion that at the moment why this Bill has been chosen is to provide for such a contingency. If, as my Honourable friend says, there is no particular urgency in the matter, I would earnestly beseech him and the Government not to take advantage of the weakness of the opposition on the present occasion, but to allow this Bill to stand over for one or two years more till the constitutional changes take place . . . . .

**Sir Leslie Hudson** (Bombay: European): . . . or until the conflagration is over!

**Mr. Gaya Prasad Singh:** My Honourable friend, the Leader of the European Group, for whom I have great respect, has let the cat out of the bag when he says "until the conflagration is over" . . . . .

**Sir Leslie Hudson:** That is what you said.

**Mr. Gaya Prasad Singh:** Does he really mean to say that my suspicion is correct? If there is no fear of any conflagration, if it is not the intention of the Government in bringing forward this motion to provide this force for participating in whatever possible conflagration there might be in the near future, why are Government so anxious to put this Bill on the Statute-book at the present moment? . . . . .

**Mr. G. R. F. Tottenham:** Can the Honourable Member explain to me how he imagines the Royal Indian Navy will be able to participate in a conflagration in a way in which the Royal Indian Marine could not? That is the point? If there was a conflagration, the Royal Indian Marine would be just as much use as the Royal Indian Navy.

**Mr. Gaya Prasad Singh:** My Honourable friend says that the Royal Indian Marine could be utilised even now without this Bill. May I know why this Discipline Act is sought to be passed if it cannot provide for the discipline of the Royal Indian Marine in times of war and in times of peace? This Bill seems to be superfluous if my Honourable friend's contention is correct. If it does not add one inch to the position which the Royal Indian Marine occupies, I think there is no reason for enacting this measure at least at the present moment.

My Honourable friend has also referred to the fact that the naval force has already been called into existence; and by this Bill we are only providing a measure of discipline for that Navy. This is just the point of our complaint. By whose order has this force been called into existence?

Why were we not taken into confidence when the Royal Indian Navy was called into existence and the Indian Marine was converted into a combatant force? My Honourable friend also gave an assurance that no expansion of this Navy will take place without a popular demand. I should like to ask, what popular demand existed in this country for the creation of this Navy five years back or even at the present moment. What was the source of information in the possession of the Government to indicate that it was in response to an intense popular demand that His Majesty's Government in England took all the steps behind the back of the Indian people, behind the back of the Central Legislature, and then confront us with an accomplished fact.

Another assurance which has been given by my Honourable friend is that, in times of emergency, when the services of the Navy have to be commandeered for Imperial purposes, this Legislature will be consulted so far as possible. This expression "so far as possible" . . . . .

**Mr. G. R. F. Tottenham:** I may explain that I only meant that an emergency might arise when the Legislative Assembly was not in Session: that was the possibility I was referring to.

**Mr. Gaya Prasad Singh:** When it is necessary to give protection, say, to the Tata industry, which, after all, is a small thing, an emergency Session of the Assembly was called; but when a big emergency, a world conflagration, arises, I do not understand what difficulty there is in calling a Session of the Central Legislature to decide this point. Things must have been moving for some time: it is not all at once that war breaks out and it is not all at once that the services of the Indian Navy will be necessary. After all, what is the strength of the Indian Navy for which my friend is proposing to bring a Discipline Act into existence? How many sloops will there be? How far will it be effective in stemming the tide of a world war, I fail to see. Further, my Honourable friend says that the position of this Navy will be exactly the same as the position of the Indian Air Force which was passed by this Assembly a couple of years back. There is one point of difference between the two. In the Indian Air Force, we have laid down that the personnel will be entirely Indian or of Indian origin—I do not remember the exact language used on that occasion.....

**Sir Hari Singh Gour** (Central Provinces Hindi Divisions: Non-Muhammadan): Yes; of Asiatic domicile.

**Mr. Gaya Prasad Singh:** I forget the exact wording; but my main point is that the personnel of the Air Force was strictly confined to the people of India, while in this Royal Navy for which we are now providing, the

[Mr. Gaya Prasad Singh.]

position of an Indian will be not more than one in three, if I remember aright, that is, one in three of the Officers, who are to be taken every year, will be an Indian. What was said on that occasion? It was said that, in deciding the personnel, one Indian would be taken out of three if such an Indian could be found suitable.

I will refer, Sir, to the Report of Lord Rawlinson's Committee in which it is stated thus:

"With the proposed initial strength of the force, recruitment of executive officers will be required at the rate of about three a year."

Then, further on, they say:

"One vacancy in three should always be definitely reserved for an Indian if a suitable candidate is available."

This is all that they have promised in regard to the so-called Indianisation of this Indian Navy. This is the point of difference . . . .

**Sir Cowasji Jehangir:** Where do they say that?

**Mr. Gaya Prasad Singh:** It is given in the Report of Lord Rawlinson's Committee, and, for the benefit of my Honourable friend, I shall again read out that portion:

"One vacancy in three should always be definitely reserved for an Indian if a suitable candidate is available."

So one vacancy every year is all that is meant by this Indianisation of the Indian Navy, or two out of six as it is proposed on the present occasion.

Then, Sir, Lord Rawlinson's Committee further say:

"One appointment every year should be reserved for an Indian either from Dehra Dun or an English public school."

Further on, they say:

"As the age of study at Dehra Dun is 12 to 18, it is likely that several years will elapse before any Indian cadets enter the Navy from that institution."

Sir, the debate which took place in the House of Commons on the occasion, to which I have referred, was really very interesting. It throws a flood of light on many points under discussion on that occasion. Lieut.-Commander Kenworthy said in the House of Commons as follows:

"I wish to refer to the present Officers of the Royal Indian Marine. These officers have done their course at Whale Island and on His Majesty's ship 'Vernon' for the study of naval subjects, gunnery and torpedo. There is quite a respectable Officers' list in the Royal Indian Marine. There are nine Post-Captains—one is the Director—25 Commanders, 21 Lieutenant-Commanders, 29 Lieutenants and nine Midshipmen on the Officers' list. In addition, there is an Engineer-Captain, nine Engineer-Commanders, 25 Engineer-Lieutenant-Commanders, and 11 Boatswains, all of them Britishers, and there is not one of Indian birth in the whole of that list' . . .

**Mr. G. E. F. Tottenham:** There are now 12.

**Mr. Gaya Prasad Singh:** I am glad to find, Sir, that there are now 12 out of . . . ?

**Mr. G. E. F. Tottenham:** Out of about a hundred.

**Mr. Gaya Prasad Singh:** This, Sir, is the pace of Indianisation to which my friend refers with evident pride and satisfaction. Sir, the creation of this Naval Force will mean a non-votable item on the Budget . . . .

**Mr. G. E. F. Tottenham:** It is non-votable now.

**Mr. Gaya Prasad Singh:** It is non-votable without our consent. So far as we are concerned, we refuse to give sanction to the change in the status, in the dignity and position of the force which was formerly known as the Royal Indian Marine and which is now sought to be known as the Royal Navy . . . .

**Mr. President** (The Honourable Sir Shanmukham Chetty): Order, order. The Honourable Member may continue his speech after Lunch.

**Mr. Gaya Prasad Singh:** I will finish my speech in two minutes.

**Mr. President** (The Honourable Sir Shanmukham Chetty): The Honourable Member may have five minutes.

**Mr. Gaya Prasad Singh:** Thank you, Sir. I will finish my speech in two minutes. These are some of the observations which I should like to make in connection with this Bill. I will only conclude my observations by appealing to the Government not to be in a hurry to pass this measure on the present occasion, because it might give rise to an impression, which may be absolutely unfounded, that the Government are taking advantage of the present position of the Opposition in this House and that they are rushing through a measure which, as has been admitted by my Honourable friend, the Army Secretary, is not an urgent measure and which can well wait for a couple of years or so till the new Constitution comes into being, or at least until public opinion has been consulted.

**Sir Abdur Rahim** (Calcutta and Suburbs: Muhammadan Urban): I want to say something on this Bill.

**Sir Cowasji Jehangir:** I also want to say a few words on this.

**Mr. President** (The Honourable Sir Shanmukham Chetty): He can speak after Lunch.

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

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The Assembly re-assembled after Lunch at a Quarter Past Two of the Clock, Mr. President (The Honourable Sir Shanmukham Chetty) in the Chair.

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**Sir Abdur Rahim:** Sir, the Honourable the Army Secretary,—I am sorry he is not here,—in his peroration, said that this Bill meant nothing

[Sir Abdur Rahim.]

to Britain or to British Government or to British navy, but that it meant everything to the Royal Indian Marine and everything to India. But, Sir, in the course of his speech he had said, and I took it down as he went on, that the Bill only wanted to effect a change in the name. That is what he said, and, so far as I read the Bill, its real intention seems to be to change the name with the exception perhaps of a few subsidiary provisions. If that is the real intention of the Bill,—to change the name of the Royal Indian Marine into Indian Navy,—I should like to know if that is what he meant by saying that this is everything for India.

**An Honourable Member:** He is not here.

**Sir Abdur Rahim:** Perhaps my question will be communicated to him. I do think that the Government of India and the British Government often are under the impression that we are very much attracted by names. For instance, the phrase "responsible government" has acquired a great attraction for us, but it is thought that we do not care to investigate what really lies behind the name. If that is all what the Honourable the Army Secretary meant, I will tell him that with some of us at least on this side of the House a proposition like that cannot carry any weight whatever. We do not want a mere change of name. If that was all that was needed, surely it could be effected by mere executive procedure. The name of the Royal Indian Marine might be changed into Indian Navy and a short Bill might be passed saying that, wherever the phrase "Royal Indian Marine" occurred, we ought to read it and understand it as meaning the Indian Navy. Sir, we heard with great attention the speech of the Honourable the Army Secretary. He apparently considered this Bill as a matter of very great importance. His last words conclusively show that, but what is the real importance and significance of the Bill he has not revealed to us. It is a great pity that he should not be here, because I wanted to ask at this stage a few questions. First of all, I should like to know whether the clauses relating to discipline, which, he said at one stage, was the sole object of the Bill, are new, that is to say, did the Royal Indian Marine have no Act for enforcing discipline? That cannot be. I think, therefore, that that cannot be either the object of this Bill. Now, Sir, the Honourable Member wanted apparently to make out—he did not say so in so many words, and certainly there is no provision in the Bill to that effect—that this Bill was laying the foundation for an Indian Navy properly and effectively so-called. If he had said that, he would have obtained considerable support, I might say, unanimous support from this side of the House. He has made it quite clear that at present there are no Indian Officers in the Royal Indian Marine. I think four Indians have been selected and are undergoing training. We are not told what is the total personnel of Officers of the Royal Indian Marine. But apparently the four men that have been selected will not count for very much. We have had an Indian Army, goodness knows for how long, and even now we are very far from that army being Indianised, that is, the Officer personnel of the Indian Army. If the four selected candidates undergoing training are the nucleus of an Indian Navy, we should like to know, in somewhat clearer terms, what is the pace of Indianisation the Department is going to adopt. We have not been told that. And that is not within the object of this Bill.

Then, the Honourable Member suggested that in the future the control of the Indian Navy or the Royal Indian Marine, as it is at present, would be vested in the Government of India. I should like him to tell us definitely on behalf of the Government, in which I include His Majesty's Government, that it is the desire of His Majesty's Government to vest the control of the Indian Navy in the Indian Government, the Federal Government, supposing we are going to have a Federal Government in the near future. He has not given us any assurance on that point either. He has told us that the expenditure on the Royal Indian Marine is not subject to vote, and that is the state of things which is going to continue under the new Constitution. I am very glad to see that the Honourable the Army Secretary is here now.

**Mr. G. R. F. Tottenham:** Sir, I apologise to the House for being late. I can only say I am very sorry. I thought that the time was half past two and not a quarter past two.

**Sir Abdur Rahim:** I am perfectly sure that the Honourable Member did not mean any discourtesy to this side of the House.

Then the question was raised, and I should like to know from him if it is correct that the Indian Navy or the Royal Indian Marine will not be utilised for purposes other than of purely Indian defence, without the consent of the Legislature or the Government of India. I would ask the House to bear in mind that there is a vast difference between consulting this Legislature and acting on the advice of this Legislature. We know, under the future Constitution, there will be no more Governor General in Council. There will be Governor General in his discretion and there will be a Government of India, but no Governor General in Council. This Bill throughout speaks of the Governor General in Council. We do not know what is going to be the position under the new Constitution. There are the White Paper proposals, but the whole matter is under investigation by the Joint Parliamentary Select Committee. They have not yet reported, and then, when they have reported, their report will be submitted to the examination of both Houses of Parliament, and if the Bill, as reported upon and recommended by the Joint Parliamentary Select Committee, is passed by both Houses of Parliament, then and then alone we shall have the new Constitution. What the nature of that new Constitution will be, no one knows. I should like the Army Secretary to tell us if he has any instructions on the point whether the Indian Navy will be under the control of the Government as distinguished from the Governor General in his discretion. So far as the Army is concerned, he knows that the proposal of the White Paper is to remove the whole subject from the Government of India. It will be administered by the Governor General with the help of an adviser and the Commander-in-Chief directly under the responsibility of the British Parliament. That is the proposal of the White Paper. Is it suggested by the Honourable Member that the Indian Navy will be placed in a different position? Now, I think he told us that the Secretary of State had instructed the Government of India that the Legislature would be consulted, if the Indian Navy was to be utilised for purposes other than for purely Indian defence. I believe I have correctly stated the position which has been put before the House by the Honourable Member. If that is so, that is a very different thing from saying that the Indian Navy, as it exists at present or as it will develop afterwards, will be utilised by the British Admiralty for Imperial purposes

[Sir Abdur Rahim.]

only with the consent of the future Government of India and of the Indian Legislature. That is a subject which is dealt with very briefly in the White Paper proposals, but, so far as I could gather in London, no definite policy has been laid down yet with respect to that matter either, and I think it is due to us that the Honourable Member should enlighten the House on this point also. He has told us that this Bill does not involve any extra expenditure, and he is perfectly right so far one can judge from its provisions. Now that he is here, in his place, I would like to ask him, in view of what he stated in the course of his speech that what this Bill means is that the name of the Royal Indian Marine will be changed into that of Indian Navy whether that was all that the Bill intended to effect. He said at the end of his speech that this Bill means everything for India and it means nothing to Britain. I ask him whether he meant that the change of name has so much significance to this country. Is that all? That is the point, I hope, he will deal with. If he says that besides changing the name, it has some other significance, will he be prepared to take this House into his confidence? Is it in any way connected with the question of disarmament or any trouble that may arise in the East? Surely without disclosing any political secret, he might give us some idea whether this Bill is connected with such momentous questions, and, if so, in what way. He has dilated a great deal on the point that the British Navy cost a vast amount, while the Indian Marine costs very little in comparison. We are fully aware of that. If he was proposing to create an Indian Navy, properly speaking, under our control, manned mainly by our men, under the direction, for some time to come, of British officers, we could very well appreciate that position and we should be very glad indeed to give support to it. But that is not the scope or intention of this Bill. He has told us that he is not in a hurry with this Bill. Well, that shows that no emergency exists with reference to which this measure would be of any assistance to the Government of India or to His Majesty's Government. If that be so, we should like to know why should not the Government wait till we had the new Constitution Act. Nobody knows what the new Act is going to be, and why try to anticipate events about which the Honourable the Army Secretary also knows nothing.

Sir, one Honourable Member suggests that they know everything. I doubt that. I have been to London, and for seven months I heard considerable discussions of the White Paper and very searching discussions indeed and the impression I gathered was that everything was not smooth sailing from any point of view, and nobody knew exactly what the future was going to be. I am certain that so far as His Majesty's Government in Great Britain is concerned, they know their own mind. Certainly the Secretary of State knows. His very full exposition of the proposals in the White Paper made it quite clear what they wanted, how far they were prepared to go and how far they were not prepared to go. But there is a democratic Government in Great Britain; a party Government, and the last impression I brought away from that country was that the future of the Constitution for India could not be said to be at all certain, that is to say, what exact form the Constitution would take. Sir, if there is no hurry, why this measure should be pushed through this House? I ask, why should not the Government wait a sufficient time and bring before us a properly considered measure—with something tangible, not merely a change of name, but something which will give a promise to

this country of a future Navy, an Indian Navy, a Royal Indian Navy? Why not wait till you know exactly the constitutional position, till you know exactly what is going to happen with regard to the control of the Indian forces generally, and then bring forward your Bill? Sir, so far as I have heard the Honourable the Army Secretary, he did not give us any good reason why he could not wait till the new Constitution came into force.

Let us see how this present Bill has been drafted. I have gone through every clause of this Bill. We have not before us the Naval Discipline Act of the British Parliament.

**Mr. G. B. F. Tottenham:** May I say that copies of the Naval Discipline Act were circulated to Honourable Members when the Bill was introduced. I do not know whether the Honourable Member still has his copy.

**Sir Abdur Rahim:** I am very glad to hear that. I was not here at the time and I did not receive a copy. The Bill amends certain, what I would call more or less minor, provisions of that Act as regards discipline. For instance, there are certain sentences which are enforced in the British Courts in a particular way, while similar sentences are enforced in Indian Courts in a somewhat different manner. Then, our Courts are also constituted somewhat differently from the British Courts. Now, that is really the scope of this Bill so far as its provisions are concerned besides the change of name.

Now, I should like to know also what is the Government's position in respect of another matter. This is a drafting point, but it is an important point, and, as a lawyer, I should like to bring it before the House. The Naval Discipline Act consists of a large number of provisions of an important character, and if we are going to have an Indian Navy even in name, on paper, then why not have a self-contained Act? What is the good of saying—"instead of this, read that", throughout a big Act, an important Act like that? Sir, this is the point. I suppose somebody or other will have to administer the Act, and surely it would be much more easy for him to know what is in the Act as a whole, what are the principal provisions of the Act, how they inter-relate, how a certain provision is to be interpreted with reference to other provisions of the Act if he had the entire Act before him. Instead of that, what we have in this Bill is really most bewildering: at every point you have got to turn to the sections of another Act and to substitute certain words for other words. You won't have the whole law before you. So I suggest, on that account also, it would be advisable that Government should not hurry with this Bill, but bring in a Bill—an entire self-contained Indian Navy Bill.

So far as I am concerned, Sir, I am a great believer in the discipline which is enforced in the British forces—and I believe—and everyone who knows anything about the subject, I daresay, believes—that the British Navy is one of the most efficient fighting forces in the world, if not the most efficient force in the whole world. (Hear, hear.) Therefore, I should not have the slightest objection to enforcing in India that discipline, that rigorous discipline which is enforced in the British Navy. On the question of merits, therefore, there will be no difficulty whatever, though, as regards the form of legislation, I do see objection to this Bill. Sir, I am very conscious that we in India, in every walk of life, require much greater discipline than is to be found in this country. In every walk of life, I have

[Sir Abdur Rahim.]

found in Europe, and especially in Britain with which country I am much more familiar than any other country of Europe, there is an amount of discipline which makes the social life, the Governmental life, the departmental life run smoothly and efficiently, and which is very much lacking, at any rate does not exist to anything like the same extent in our country. (Hear, hear.) Therefore, if it be the desire of the Government that they will enforce the same amount of discipline, the same nature of discipline as is enforced in the British Navy, I think Government will find very little opposition from this side of the House. (Hear, hear.) On the other hand, I think they will find very full support from us. But I do suggest—and I would ask the Honourable the Law Member, the Leader of the House, to consider carefully whether it would not be better and whether it would not give a better picture to the country of what the naval forces of India are and how they are administered if we had a self-contained Act reproducing, if you like, all the provisions of the English Act. That would be far better than a Bill like this which says—"instead of these words, put in such and such words in such and such places".

Then, Sir, lastly, I do suggest, as there is no particular reason why this Bill should be pushed through this House very soon, that Indian opinion should be consulted, properly consulted, and this Bill should, therefore, be circulated for eliciting public opinion thereon. If it merely be the change of name that is intended, that, of course, would not create any difficulty, but I do not think, having heard the speech of the Honourable Member in charge of the Bill, that that could be the sole object of this Bill. He made an important speech with an air of considerable seriousness, and I do think that there is something important and significant in this Bill, and what I feel is that my Honourable friend did not make clear what that significance is. At any rate, it is due to the public of this country that they should have the Bill and consider its provisions and make whatever suggestions they can in order that a real Indian Navy may be established in this country.

If you will allow me, Sir, I should like to move the motion that stands in the names of Mr. B. Das and Mr. S. C. Mitra . . . .

**Mr. President** (The Honourable Sir Shanmukham Chetty): It would perhaps be in order if either Mr. Das or Mr. Mitra moves it. Mr. B. Das.

**Mr. B. Das** (Orissa Division: Non-Muhammadan): Sir, I move:

"That the Bill be circulated for the purpose of eliciting opinion thereon by the 31st July, 1934."

Sir, I am glad my amendment has already the full support of my esteemed friend, the Leader of the Opposition. I did not give notice of a motion like this, because already it was tabled by the representative of a sea-faring people, by my Honourable friend, Mr. Anwar-ul-Azim, who hails from Chittagong. Although I come from another sea-faring tract, Orissa, I felt that the credit of such a motion ought to go to the representative of Chittagong, because the people of Chittagong had been sea pirates and sea farers from ages and had controlled the maritime activities in the Bay of Bengal for thousands and thousands of years. When a similar debate took place in 1928 to which my Honourable friend, Mr. Gaya Prasad Singh, has already referred and which was initiated by you in that admirable manner which very few of us can imitate at present, I had the privilege

to take part in it. I then suggested that there was no use of that Bill. It was 1928 and the Simon Commission was not then in sight. So I said that we had better wait till the new Constitution. I said:

"Let us see the full implication of the defence control of India, and if India should have an Indian Navy, then let those who will work the new Constitution look after it."

My Honourable friend, the Leader of the Opposition, has already pointed out that one does not know really what would be the position of the Army and the Navy under the new Constitution. If a unanimous opposition was put forward by the representatives of this House in 1928, it was due to the suspicion that army control might not be transferred to the Legislature of India as it was thought by the then leaders of the country. At that time Pandit Motilal Nehru was alive, and although there was a difference of opinion—Pandit Motilal Nehru was not then a Member of the Assembly—there was no difference of opinion on the merits of the question. India wanted full control of the Army including the Navy. Since then, various plots have been hatched in different Round Table Conferences, and even the Joint Parliamentary Committee had sat and is going to report soon. Some of my friends in this House also represented us in those Conferences. The Percy Committee recommended that the Army should cost 46 crores when Burma gets separated, and this 46 crores should be controlled by an Army Councillor. The Army Secretary also referred to the Army Councillor and I take this opportunity to congratulate him on his masterly statement of the whole case today. He has done justice to the Opposition side as far as he could sitting as he is on the Government Bench there. He did justice to us except that he did not explain those underlying points on which we laid stress on that occasion and on which we are going to lay stress now and on which my Honourable friend, the Leader of the Opposition, has already laid stress. We now know the future constitutional position. The Army Councillor will be under the Governor General, and not under the Governor General in Council. In 1928, we talked of "the Governor General in Council", and there was no idea of the "Governor General"; there was no White Paper and there was no discretionary powers of the Governor General. So, Sir, while at heart I support the main points advanced by Mr. Gaya Prasad Singh and Sir Abdur Rahim, I think it would be the best thing if the Government of India in the Federal Legislature bring forward such a proposal. I know that, if my motion is accepted and if the Bill is circulated, even the very British administrators in the different Provinces will raise objection to this. Sir, I have a grouse against the Government and it has already been stated by the Leader of the Opposition. If the Government want us to have an Indian Navy, let them bring out a comprehensive scheme. But they do not do that. They want simply to bring this disciplinary measure as if the Indian Marine is not under proper discipline today under the British Commanders and the Admirals that administer the Indian Marine and as if theft and various other offences narrated in the Bill, such as sodomy, thefts, felony, etc., are committed every day. Then, Sir, it is said that there will be better control and better morale if we create an Indian Navy. We know what it is going to mean. It will only mean this that, under the guise of an Indian Navy, whatever money will be required the Government will force us to supply it. Then, my Honourable friend, the Army Secretary, will make a speech saying that this House approved of this Indian Navy scheme, and, therefore, it must sanction an expenditure of Rs. 10 crores. They would not leave it to the Federal Constitution and see whether the Federal Constitution will be able to finance it or not.

[Mr. B. Das.]

There is one point, Sir, which I wish to refute strongly which fell from the lips of the Army Secretary. He said that India and Indians had no seafaring mind. Unfortunately, the Army Secretary, hailing as he does from the Presidency of Madras, had no opportunity to read the old history of the East India Company or to read of the maritime activities of the various people of India. But even in the Madras Presidency, the Calicut side and the Coromandal coast possessed mercantile ships which won the admiration of the Western merchants that traded with India in the seventeenth and the eighteenth centuries. I am now talking of the eighteenth century, and if my Honourable friend, Mr. Thampan, will only wait for a few minutes, he will know what India had and how the policy of the different administrators of the Government of India have completely killed the ship-building and the maritime instincts of the people of India. I would just quote one passage from a Frenchman, F. Baltazar Solvyns, who, in his book, *Les Hindous*, in 1811, wrote as follows:

"In ancient times the Indians excelled in the art of constructing vessels, and the present Hindus can in this respect still offer models to Europe—so much so that the English, attentive to everything which relates to naval architecture, have borrowed from the Hindus many improvements which they have adopted with success to their own shipping. . . The Indian vessels unite elegance and utility, and are models of patience and fine workmanship."

When my Honourable friends from the European Group, who are the natural heirs to the throne of the East India Company, will rise and speak, they will also agree with me that the East India Company built most of their ships in the Indian harbour, in the port of Calcutta.

**An Honourable Member:** And Bombay too.

**Mr. B. Das:** Yes, that is so. I will come to Bombay presently, and I know this also that there have been no greater pirates than the people of Bombay. Lord Wellesley, the Governor General of India, was able, in 1800, to thus testify to the growth and possibilities of Calcutta as a shipping centre:

"The port of Calcutta contains about 10,000 tons of shipping, built in India, of a description calculated for the conveyance of cargoes. From the quantity of private tonnage now at command in the port of Calcutta, from the state of perfection which the art of shipbuilding has already attained in Bengal (promising a still more rapid progress and supported by abundant and increasing supply of timber), it is certain that this port will always be able to furnish tonnage to whatever extent may be required for conveying to the Port of London the trade of the private British merchants of Bengal."

I hope my Honourable friend, Mr. Morgan, who has already benefited much by this is listening to what I am saying.

**Mr. G. Morgan (Bengal: European):** I am listening very attentively.

**Mr. B. Das:** I will now give the House something about shipbuilding. Mr. Radha Kumud Mookerjee, in his book on Indian Shipping, says:

"The greatest building years were 1801, 1813 and 1876 when 10,079, 10,376, and 8,198 tons respectively were put in. The Indian Navy, which was thus created and built up by the efforts of the East India Company, took an active part in the first and second Burmese wars and the first China war. A great deal of its service was performed outside local Indian waters, in the Persian Gulf, in the Red Sea, and on the shores of East Africa. It also protected and facilitated the trading operations of Indian merchants with distant ports."

I take pains to bring out these facts before the House, because it pained me to listen that we had no maritime or naval instincts. After 1811, when the steam power and the steam engine was designed, both America and England experimented in steamers and the local patriotism of the East India Company and those who used to administer India on their behalf and also the Government of India were responsible for killing the trade of India and also in the stoppage of the construction of sailing boats and steamships in India. A few minutes ago, one Honourable friend asked if Orissa was not a maritime country. I submit that we Oriyas were entirely a maritime nation. The Europeans and Indians, who have visited and seen the mighty and glorious architecture of Orissa as found in the monuments and temples that are still in Orissa, will testify to the greatness of the Oriyas as a maritime nation. Those who have visited Java and

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seen its huge temple, the Borobander Temple, or those who have visited Cambodia and seen the huge Hindu temples, that are still there today under the French administration and protection, would realise that those temples in those far off places were built by the Oriyas who were a maritime people and who used to carry on trade between Orissa and Java, Cambodia and Sumatra and also with my Honourable friend Mr. Thampan's territory, Malabar and Calicut, about which I told yesterday my Honourable friend, the Commerce Member, that the trade had been stopped by the rates policy of the B. N. Railway and the M. and S. M. Railway. I wish also to take my Honourable friend, the Army Secretary, —as he will be the future Naval Secretary—I wish to take him to the India of the past and also of the future. In Calcutta and in the Port of Calicut, sailing boats were being manufactured. They were named as *Pinnace* or *Yacht* and these were built in Calcutta. Mr. Mookerjee in his book on Indian Shipping says:

"The vessels from the Ganges were called *Schooners*, which were very well fitted out and 'able to make a voyage to Europe' their pilots being 'very Skilful'. The *Bangles* were the largest Indian boats, some of them carrying four thousand or five thousand maunds of rice. *Brigs* were ships that came from the coast of Coromandel and Malabar, bringing to Calcutta the produce of those countries."

Today, under the British administration, nothing is left to me but my past glory. I feel that the time will come when, if Britain will be honest and just to India, India would get a chance again to have her own naval dock-yards where steamers and ships could be built as in days gone-by.

**Mr. N. M. Joshi** (Nominated Non-Official): When will that be?

**Mr. B. Das:** When will that be, asks a Round-Tabler and a Member of the Joint Committee. May I ask, what has he secured for me at those Conferences which he attended? Has he secured for me the right to control an Indian Navy? The Honourable Member has secured no rights for me. As far as I understand, in the future constitution, subjects relating to the Army are excluded from the purview of the Legislature. Today my objection to this Bill is that India cannot bear any additional financial burden. I cannot ask the Indian tax-payer to pay more and more taxes in order to create an Indian Navy. I agree entirely with the Leader of the Opposition that the Indian Navy will be used by the British War Office against Asiatic countries, because the Kellog Pact and some other Pacts today want the British Government to reduce their expenditure on armaments for which Sir John Simon and Mr. Arthur Henderson had been perambulating all over Europe and they cannot do anything on the question of reduction of armaments; and yet the British people are very wise. They have got their Indian Empire. They want India to be the nursing ground

[Mr. B. Das.]

of the British Army and the British Navy, so that, under this guise of the defence of India, at a moment's notice, India will be able to produce army and navy which can go to the rescue and safety of the British Empire. Why not be honest with us? If you are friends with us, we will also be friends with you. After the Federation, I will be the first man to vote ten crores of rupees for an Indian Navy, if only that Navy will be controlled by the Indian Legislature, and not by the Governor General who is controlled by the Secretary of State, six thousand miles away, who again receives his orders from the War Office, from the secret Army Council. That is our suspicion. When, after circulation of this Bill, my Honourable friend, the Army Secretary, satisfies us and takes us into his confidence that these natural suspicions of the Indians will be satisfied and even met, then it may be that the Bill will receive our sanction and the Indian Naval Bill will receive the approval of this Legislature.

**Mr. President** (The Honourable Sir Shanmukham Chetty): Amendment moved:

"That the Bill be circulated for the purpose of eliciting opinion thereon by the 31st July, 1934."

**Mr. F. E. James** (Madras: European): Sir, I think the whole House will agree that my gallant and Honourable friend, Rear Admiral B. Das, has established a claim that Orissa should be a maritime Province. (Laughter.) I would, of course, remind him of the maritime history of the Tamil nation many, many years ago, whose enterprise took Indian ships into the far east and blazed the trail for a most important trade route between India and China. And one finds even to this day traces in the Dutch East Indies of settlements with Tamil names and of families whose forbears first migrated from the great Tamil country of the south. So that Mr. Das's claim for Orissa is not a claim that is not shared by other Provinces.

Now, Sir, as far as this Bill is concerned, as I understand it, it is merely the final stage in a series of stages which are designed to create an Indian Navy in the sense that the Australian Navy and the Canadian Navies were created by similar stages. We had, first of all, the Government of India (Indian Navy) Amendment Bill which amended section 66 of the Government of India Act, and we are now being asked to confer upon our naval forces here combatant status so that the Royal Indian Marine will become one of the navies of the Empire. I believe,—I am not quite sure, but perhaps my Honourable friend, Mr. Tottenham, will correct me if I am wrong,—I believe that one of the symbolic results of that status will be that the Indian Navy ships will be allowed to fly a white ensign on the stern with the flag of India in the bows. That is a high privilege, because it means that this force does receive a very definite status of its own which is far higher than the status at present enjoyed by it. And I think there was great force in Mr. Tottenham's suggestion, that, if nothing else resulted from this Bill, for the time being at any rate there was justification for it if it resulted in giving to the Officers and men of the present forces a status which their worth and their work have thoroughly deserved. Sir, this Bill also seeks to apply to those services the common Naval Discipline Act of the Empire.

The Honourable the Leader of the Opposition suggested that it would be far better if the Bill were a self-contained Bill and if it were in the form of an Indian Navy Discipline Act. That is a matter for draftsmen

and should be threshed out in the Select Committee. But, speaking personally, I think there is a good deal of force in that suggestion.

Sir, it is interesting to observe the development in regard to the naval forces of the dominions. I find that the most enthusiastic of all the dominions in regard to naval forces has been Australia which has a fleet, now seriously diminished, completely under Australian control even in times of war, unless the Australian Government decides to transfer its services to the British Navy and the Admiralty. Unfortunately the stress of economic circumstances has resulted in a diminution of that fleet, and there is a growing tendency even in Australia today to be content with the defence which the mother-country can supply. In New Zealand, the naval forces are in a sense a branch of the British Navy. In peace, they are under their own control, but immediately war breaks out, automatically they come under the control of the British Admiralty and form part of the British Navy. The Royal Canadian Navy is under Canadian control, but there, again, the early enthusiasm for the formation of a Dominion Navy has largely evaporated with the result that today there are only two destroyers, and four mine sweepers. In South Africa, the experience is interesting, because South Africa has been one of the dominions which has gone furthest in the expression of its own self-governing instincts than any other dominion; and we find that there is no South African Navy. They are content to have a South African division of the Royal Naval Volunteer Reserve under the Commander-in-Chief of the African station. They have two mine sweeping trawlers and one surveying sloop and the result of that is, of course, that that small force forms an integral part of the British Navy in times of both peace and war and is subject to Admiralty control. I mention these points, Sir, because the experience of the dominions is interesting at a time when India is contemplating her own naval force. I think if one looks far into the future that one would come to the conclusion that probably India, after manning and equipping with her own citizens a small naval force, will be content on all major occasions with the defence of the mother-country.

Now, Sir, one or two objections have been mentioned in regard to the passing of this particular Bill at this moment. There are, of course, the constitutional objections which were so well stated a few years ago by a most brilliant Member on the floor of this House, one Mr. R. K. Shanmukham Chetty. And I shall not repeat those arguments, but I merely say that, if force is to be given to the constitutional position, those arguments carry almost as much force today as they did in those days. Then there is the argument of the possible fear of complications in the far east or the near east and that this Bill is designed in some way or other to strengthen the British naval forces in view of that contingency. I think that argument can be disposed of by one simple question. If there was anything in that argument, would the British Government be prepared at this time actually to surrender what control it has over the naval forces of India today? That is what this Bill means. At the present moment the British Government can at any time commandeer the services of the Royal Indian Marine,—that is the legal position,—whereas, once this Bill goes through, that cannot be done without the sanction of the Governor General in Council; and, presumably, as the Governor General in Council even today is responsive, if not responsible, to the Legislature, the Legislature would be consulted. In fact, the Army Secretary has explained to us that the Secretary of State has already given that undertaking.

[Mr. F. E. James.]

There are two other points that have been made. One is that a Bill of this nature, which puts the coping stone on the constitution of an Indian Navy, is of little value owing to the terms under which Indianisation is to proceed. Now, Sir, I understand that the total officer forces of the Marine is roughly about a hundred, and, therefore, the actual number of recruits required each year is bound to be very small on the present establishment. The Honourable the Army Secretary has told us that recruitment is to take place, as to Indianisation, at the rate of one to two; and that, as a matter of actual fact, there has been great difficulty in the past in securing people of the requisite ability and temperament for this kind of post. I should like to ask the Honourable the Army Secretary whether, if Indians do find themselves available or able to pass the examination, which is only a very small part of the real test, and are also able to satisfy the training authorities and prove by their experience at sea that they are suitable, is that mechanical limit absolutely fixed, like the law of the Medes and the Persians? I realise the difficulties and that the rate of Indianisation in the Indian Navy of the future as laid down at present is even greater than it is in the Army. But I do also realise the force of Indian feeling on this particular matter, and I would like to ask the Honourable the Army Secretary whether that is a mechanical limit which cannot be changed if circumstances change in the direction of proving that there are Indians who are able and fitted for these posts of responsibility.

A motion has been moved to circulate this Bill for public opinion. I am frankly sceptical of the value of the public opinion which we shall receive, not because there are not people who are qualified to give that opinion, but because of the form in which the Bill is sent out. It is no use asking merely for an opinion on this particular Bill, because it is very largely a technical matter—it deals with disciplinary subjects, and ordinary opinion on these matters would be of little avail. But if the reference goes out in the broader sense and accompanying the Bill there is a very detailed statement as to the history of this whole development, and, I would also suggest in addition, a statement as to similar development in other parts of the Empire, then I think that some opinions might be received which will be of value; and if these suggestions are agreed to by the Army Secretary, we should not oppose circulation.

**Sir Oowasji Jehangir:** Mr. President, I would first like to congratulate the Army Secretary on one of the most lucid speeches heard from the Government Benches. Not only was it lucid, but, in my humble opinion, he gave us a very fair statement of his case, putting not only his point of view before us, but putting the point of view of this side of the House as he understood it from his reading of the previous debate.

You, Sir, we have heard and we have seen, were one of those on this side of the House who opposed this measure and were instrumental with others in throwing it out. Today, if you had not had the great privilege of sitting in the Chair, you might have been here, Sir, to support us in our desire to see this Bill circulated; but I venture to suggest, not knowing your mind, or having had any discussion with you, that you, Sir, would not have been a party to throw out the Bill, because circumstances have changed: much water has flown under the bridge since that debate. So far as I can understand, the reasons for having thrown out this measure, I admit that they appear to have been good and sound in

1928. In 1928, the Assembly had before them an amendment of the **Government of India Act of 1927**, which gave power to the Governor General in Council to make whatever use he chose of that navy in peace and in war without consulting this House or without consulting public opinion in this country; and on that ground alone perhaps, Mr. President, you and your friends were justified in rejecting this Bill. But since then we have had occasion to discuss the future constitution with regard to the defence of this country. It was prominently brought up during the three Round Table Conferences and it is no secret that those discussions did not give the Indian delegation the satisfaction that they desired. Still it opened their eyes to the position today and the likely position in the future.

So far as I can understand the Army Secretary, this so-called Navy of ours is going to be lumped together with the Army, and whatever fate the Army will suffer from our point of view—*i.e.*, whatever may be the constitution with regard to the Army—that constitution will apply to the Navy. If the Army is going to be under the Governor General at his discretion in the future, the Navy is going to be the same. My Honourable friend, Mr. James, gave just now an exposition of the constitutional position. I am afraid I cannot agree with him. He said that today the British Government could commandeer, whatever few ships we had, in time of war without the consent of the Government of India. True, that is the constitutional position. What is the constitutional position going to be in the future? Just the same; for the Navy is going to be under the Governor General at his discretion, that is, under the Secretary of State, and, therefore, they can legally commandeer it in the future just as much as they can today. That is the constitutional position, and whether you pass this Bill or you do not, there is going to be no change in the constitutional position with regard to the Navy. There is certainly going to be no constitutional change with regard to the Navy as compared to the Act of 1884, because the Navy like the Army is going to be under the Governor General and the Governor General alone, and not under the Federal Government, but the Governor General at his discretion. But let us admit that one great concession has been made at the three Round Table Conferences: that was an admission by the Secretary of State that he would not allow the Indian Army to be used by the Governor General for purposes other than the defence of India without the approval of the Legislature. I deliberately use the word "approval" and not the word "consult", because I have a very vivid recollection of the discussion that took place. The point was raised that the Legislature might not be in Sessions when the Army might suddenly be required. The answer was that the Federal Government would then act at their discretion subject to, or in anticipation of, the approval of this House, and, therefore, Sir, so far as my recollection goes, the undertaking given by the Secretary of State with regard to the Army was that it would certainly be used in any part of the world for the defence of India without the sanction of this House, but if it was to be used in any part of the world for any purpose other than the defence of India, the approval of this House would be obtained, and if there was not sufficient time to obtain that approval, it would be used with the concurrence of the Federal Government, subject, of course, to the approval of this House to be obtained later on. That is my understanding of the undertaking given by the Secretary of State, and I would ask my Honourable friend to tell us whether, when he conveyed a message to this House this morning from the Secretary of State, that message was of a character that I have tried to explain,

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that is to say, that the Navy would not be used for purposes other than the defence of India without the approval of this House? There is a great difference, as my Honourable friend, our Leader, said, between "consult" and "approval", and I would like that point made perfectly clear.

Then, Sir, the next important issue is the speed of Indianisation. We note that at present it is one to two in the recruitment for the Royal Indian Marine, and I was really very surprised to hear from my friend that even that recruitment was found difficult. Sir, I cannot help feeling that this recruitment for the Royal Indian Marine has not been properly advertised. I had the temerity to interject and ask him why we could not make use of the "Dufferin"? Surely that is a good training ground; surely, the young men are of the proper age. He did tell us that they had used the "Dufferin". But why not make use of it more extensively for recruiting youths that you may require for the Royal Navy of the future? Why, Sir? Between the time he spoke and the time I returned to this House,—that is, merely during the time I had for lunch, I got one recruit for him,—and surely if I could obtain one recruit during the time of lunch, he could find two or three during the whole year. I feel, Sir, that this question of difficulty of recruiting suitable boys is not a solid defence. If you want boys of 14 to be supermen before you recruit them, you are not going to get them in any part of the world, but if you want young Indians, just as good material as you can get in any part of the world,—the younger the better,—you can get them in this country just as well as you can get in any other country if you will only keep your eyes open, your ears open and allow your tongues to wag a little more. Sir, if you keep these appointments secret,—so much so that,—let me admit my ignorance,—I did not know till this morning that you were recruiting for the Royal Indian Marine,—let me tell that frankly,—that if I, a Member of the Assembly, living in the City of Bombay, was ignorant of that fact, how much more will other parents, ready to send their boys into the Navy, be ignorant of the fact that their sons have a chance of getting into one of the great defence forces of this country?

Sir, I do desire to draw attention of the Government to a point that has been brought up in this debate. Government were asked "you now come up to us to change the Royal Indian Marine into the Royal Indian Navy, but when you made the Royal Indian Marine a combatant force, did you so much as ask us,—'if you please'?" Now, such arguments are going to be brought up against this Government time and again in the future,—time and again let me say,—because in the past you had acted as if you were the only masters in India, there was no such thing as an Assembly, there was no such thing as a European Group even to consult, there was no such thing as public opinion, whether it be Indian or European; in the past you considered yourselves masters and acted as masters would in their own household with their servants. You are going to be reminded of that over and over again in the future whenever you come and ask for amendments or improvements; for, irresponsible as we are,—and for the Army we are going to continue to be irresponsible,—we will tell you that you did this of your own accord without even asking us, "if you please." . .

**Sir Lancelot Graham** (Secretary, Legislative Department): Is the Honourable Member addressing the Chair?

**Sir Cowasji Jehangir:** Well, my friend suddenly realised the rules of debate. Sometimes in the House of Commons it is very common to address the opposite benches, as I have been addressing you. If my friend does not like it, let him get up and reply, but let him not raise this sort of point of order.

I say "You" to the Government Benches,—when you did it in the past, remember, Mr. President, that the point will be brought up again and again, and it will be specially brought up in departments where this side of the House is to be kept irresponsible,—it is nothing to be surprised at at all,—it is nothing about which you can complain; you may think that there is irresponsibility on this side, you may consider that we do not do justice to a question when you bring it before us or that we don't consider it on its merits,—but when you have done everything in the past, and you simply ask this side of the House to put its sign of approval to a measure, do not be surprised if this side of the House turns round and says: "You are responsible for the baby; you are responsible for the infant; we are not going to be responsible for the child until you give us the control over the child in regard to its education, maintenance and everything else". Sir, I fully realise the necessity of this Bill. The necessity of the Bill is the question of prestige, it is a question of sentiment. The Royal Indian Marine has not got the position of the Royal Navy. You will find officers of the Royal Indian Marine attaching to their names the letters R. I. M., but they want the privilege of fixing the letters R. N. (Royal Navy) to their names, and, if this Bill is passed, whether they be Indians or Europeans, they will be members of the senior fighting force of England. That is what they want, and that is what they are most anxious to get. I have not the slightest hesitation in conceding that to them if it was in my humble power,—but I have no power,—let them have that privilege, let them be called Members of the Royal Navy,—I have no objection. But these constitutional questions do arise, and I would put it to my Honourable friend, the Army Secretary, from another point of view.

The Army is a well established fighting force in this country. The Navy is merely a baby compared to the Army in India. Would it not be in the interests of all concerned to give this House, to give the Federal Government a little more power, a little more responsibility for the Navy than you can afford to give with regard to the Army? Would it not interest this country in their Navy much more if you give them and their Federal Government a little more responsibility, and allow them to vote the money for the Navy? I venture to suggest that if this House in the future was given the power to vote the monies for the new Navy, and if Government came up and asked for Rs. two or three crores—they are asking for Rs. 60 lakhs now—the House would say most probably, take Rs. two or three crores and give us a better Navy. It is quite possible, that may be the position. This matter was never discussed at the Round Table Conferences. It was all lumped together in the question of defence. The Army was so predominant in our minds that we never thought of the Royal Indian Marine. I venture to suggest that several of us would have put this point of view before His Majesty's Government. You can well afford to give this side of the House more privileges, more powers, more responsibility with regard to this little Navy rather than tinker or meddle with the Army. I would ask my Honourable friend to ask his Government to consider it from that point of view and to tell us what he thinks and

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his Government think when this Bill comes back before this Honourable House with the opinions of the country. I would again mention for the information of my Honourable friends that this is a very safe line of advance in responsibility in the fighting forces. I can understand the hesitation of His Majesty's Government, of the Benches opposite, or even many of the Honourable Members behind me hesitating to take any responsibility for the Army on our shoulders immediately. I can understand that, but, with regard to the Navy, the matter is a very different thing. This Bill is going for circulation and I do not mean to keep you any longer. I welcome this Bill. I welcome whatever opportunities my countrymen get to defend themselves, to learn the art of defence. Even if it be one in three, I welcome it knowing very well that, within a very few years, it will be two in three, and in a few more years, it will be three in three. It is bound to come, nothing can stop it. But the longer we delay in taking the one, the longer will be the delay in getting the three. That has been my view both on the Army and on the Air Force.

Now, there is just one more point,—what is the exact difference between the Air Force and the Navy. In the Air Force Bill, it was provided that all the Officers shall be Indians. Of course, you have not got the Indians, but I understand that the Officers will be lent by the Royal Air Force. While, here, in this Navy Bill they will not be lent, but they will be directly recruited in England for this Indian Navy. I think that there is scope for amendment here. Perhaps the Army Secretary will devote a little more attention to this matter and see whether the new Bill cannot be brought more into line with the Air Force Act. I personally think that a great deal can be done in that direction which will satisfy this side of the House and will really make for a number of years no material change. You will borrow from the Royal Navy certain Officers for the Royal Indian Navy, you will not recruit them while Indians you will recruit. It may be impractical: I am not by any means an expert, I am purely an ignoramus on this question. But I see some line of advance in this direction, and I would put it to the Army Secretary, and especially to the public, who are to express an opinion, to express an opinion from that point of view. Sir, I have done.

**Major Nawab Ahmad Nawaz Khan** (Nominated Non-Official): There are two questions involved in this discussion; one is the motion for reference of the Bill to a Select Committee and the other is the amendment to circulate this Bill for eliciting public opinions. Its usefulness and other questions can be discussed later on. As a rule, I am always in favour of circulation of Bills for public opinion.

**An Honourable Member:** Don't make this an exception.

**Major Nawab Ahmad Nawaz Khan:** I oppose amendments for circulation where I see no advantage or usefulness would be achieved by circulation. The Bill is of such a nature that, if we send it for circulation, it will serve no useful purpose. Honourable Members here have to decide whether they should, by a majority, accept or reject the Bill on its merits, and this can be achieved if the Bill is referred to a Select Committee and comes back to this House. So, to save the time of the House, I think it is better if the Bill is referred to a Select Committee, and, when it comes back, Honourable Members will have full time to speak on the merits or demerits of the Bill, and by a majority of the votes the fate of the Bill

can be decided. With these remarks, I support the motion for reference of the Bill to a Select Committee, and oppose the motion for circulation.

**Mr. S. G. Jog** (Berar Representative): I am very thankful to the Chair for the opportunity that it has given to me. The other Parties have taken part in this debate, and, so far as the Nationalist Party is concerned, as this is a question which we must approach from a nationalist point of view, as a Whip of the Nationalist Party, I must stand and give expression to my views in the matter.

**An Honourable Member:** What about the Leader?

**Mr. S. G. Jog:** The Leader will follow. (Laughter.) I look at this question from an entirely different point of view. I look at it as a question which involves a matter of great and far reaching importance. I do not agree with the Army Secretary that it is a Bill of mere formality which can be introduced and passed in one and the same sitting without sending the Bill for public opinion.

The Honourable Member, who just spoke before me, said that, as a rule, in the case of all essential and important Bills, public opinion should be ascertained. But I see no reason why in this particular Bill he should make an exception and ask for going into the Select Committee at once. My friend has not probably understood the implications of the measure before the House and its far reaching effects. Last time, in July, when we met in a Committee, a Committee which was known as the War Pensions Committee, my friend, the Army Secretary, at the close of those discussions, gave out to us that he would soon introduce a Bill, known as the Navy Discipline Bill, and he asked us to carefully consider the question and to give our support if we could to that Bill. I have taken some pains to read the literature on the point. At the same time, the Army Secretary knows that when this Bill was introduced last time, it evoked a lot of criticism and the Bill was thrown out by one vote. I assure him that we in this side of the House will not probably evince the same mentality which the Swarajists evinced in those days and we will carefully examine the Bill and will discuss the Bill on its merits. As Nationalists, if we find that there is an improvement in this Bill and it takes us a stage forward, we will lend our support to it. I find from the statement which the Army Secretary has made that there is certainly an improvement on the old Bill. I should like to look at the Bill from a dispassionate point of view and not go into the old history of the case. There is one charge against the Government so far as this Bill is concerned. Government are probably smarting under the defeat which they had in the year 1928, because, in spite of great efforts, they lost the Bill by one vote. Some people may say that the House is weak. I do not at all think that the House is weak, but Government are open to the charge that they might take advantage of what people think and like to rush through this Bill by making this motion for Select Committee. This is not the time when Government should rush through the Bill, but they should see that it goes for ascertaining public opinion.

The question of the Navy is one of national importance. We Indians must certainly have our own Navy. Not only must we have our own Navy, but our ambition is that we should create our own Navy. It should be a Navy not merely in name, but it should be Indian both in name and

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spirit. Since the War, I presume that your angle of vision has undergone a considerable change. We also look at the question from the point of view of national defence. We Indians must have our own Army. We must be able to control our own Army. So also we must have a Navy of our own. We must have a predominance of Indian element. But, after the War, what have you done? I will just express the point of view put forward by my friend, Sir Cowasji Jehangir. We were never consulted. You appointed a Departmental Committee under the chairmanship of Lord Rawlinson, and, without consulting this House or even taking any Non-Official Member into confidence, you came to certain conclusions. You reported the matter to Parliament. Legislation was taken in Parliament. All these things were done without consulting us on the point although the question was of vital and material importance to India's aspirations. You know all these things. You yourself created the child and you are now coming forward for the christening ceremony of the child. We are not here only for the christening ceremony of the child which you have created.

As regards the question of Indianisation, we will have to see whether the big name of Navy which you want to give is a real thing or a sort of toy. We will have to carefully examine what the provisions will be so far as Indianisation is concerned. It is not necessary to go into the history of the question. In that case I will have to take you more than 2,000 years back. We had a Navy of our own then, but times have changed. All those things have gone. We must look at these things from a reorganisation point of view, and India's aspirations must be fulfilled. I have got with me a book which gives a history of the whole case. Every one of us on this side of the House will have to be proud, because the question of the Navy is a question of Empire defence. Whether you wish it or not, willingly or unwillingly, we have become a part of the Empire, and the responsibility for the defence of the Empire rests on us as much as the British elements. We are prepared to shoulder the responsibility and the financial burden, but we must also see that it is a navy which we can call our own. I do not want to tire out the House by reading a long extract, but I will read a small portion from a book which will show you how the question stands. This is a book written by one Hector C. Bywater called "Navies and Nations", in which I am glad to find that India is given a small portion. He says:

"India has for many years past maintained a fleet of armed transports and patrol vessels, constituting the Royal Indian Marine. Besides paying about £350,000 a year for the upkeep of this fleet, which has little or no military value, she contributes £100,000 annually towards the maintenance of an East Indies Squadron of the British Navy. In February 1926, however, an important change in the character of the Indian sea service was foreshadowed in the following terms: 'Subject to the necessary legislation, it has been decided to reconstruct the Royal Indian Marine as a combatant force, to enable India to enter upon the first stage of her naval development, and ultimately to undertake her own naval defence. Subject to His Majesty's approval, the service will be known as the Royal Indian Navy and will fly the White Ensign. (I am told that the White Ensign is flying even now) In addition to the functions hitherto discharged by the Marine, the new Navy is to undertake the training of personnel for service in war and the organisation of naval defences at ports which are under the control of the Indian Government. It is to consist at first of four sloops, two patrol craft, four trawlers, two survey ships, and one depot ship. Indians are eligible for Commissions. (However poor it may be, let us consider it a good beginning for the present.) In time to come, the Royal Indian Navy may represent no insignificant factor in the defence of the Empire. The geographical position of India herself is such as to invest any local naval force with unusual strategic value. In time of war,

the control of the Indian Ocean would be essential to the safety of Imperial communications, while the defence of India's extensive coast line, with its numerous and wealthy ports, alone would justify the upkeep of an adequate local squadron. Politically, too, the creation of the Royal Indian Navy is a wise move, for as Professor Rushbrook Williams observed in his survey of *India in 1924-25*, 'the national aspirations of the educated classes, as voiced in the Legislative Assembly, are tending steadily towards the formulation of a policy which will secure for India a future upon the seas'."

(Hear, hear.)

That is a very significant paragraph, Sir. It gives us our aspirations. We have rendered you very valuable services during the War, we have justified your confidence in us, we have justified the trust reposed in us, and it is now for you . . .

**Mr. President** (The Honourable Sir Shanmukham Chetty): The Honourable Member must address the Chair.

**Mr. S. G. Jog:** . . . and it is now for you to take a bold step in the matter, and not to come forward in a miserly fashion, to come forward with a better and a bold scheme which will satisfy the aspirations of my countrymen. Sir, I look forward to this measure which is a move in the right direction, howsoever small it may be. Later on, no doubt it will develop, but, at the same time, I would like to see that public opinion is ascertained in the matter, and, instead of rushing through the Bill, just to avoid the charge which some have detected, let us see what the public opinion in the matter is. With these few observations, I support the motion for circulation.

**Mr. G. R. F. Tottenham:** Sir, I am gratified that this Bill has met, in principle, with a considerable amount of support from Honourable Members opposite. At the same time I cannot help being somewhat disappointed, personally, that from the speeches of certain Honourable Members there still appears to be an ineradicable suspicion as to our objects and intentions in bringing forward this Bill. Both the Leader of the Opposition and also my friend, Mr. Gaya Prasad Singh, could not really believe that we were bringing it forward merely in order to change the name of the Royal Indian Marine into the Royal Indian Navy and for no other purpose. And yet, Sir, I have been asked for explanations, further explanations as to our real reasons for bringing forward this Bill, and I can honestly lay my hand on my heart and say that there are no other reasons, and, therefore, it is impossible for me to give any further explanation. The fact is, as my Honourable friend, Sir Cowasji Jehangir, rightly recognised, the Bill is merely intended to increase the prestige and the status of our force in India; and I maintain that we can do that in the most effective way by altering its title from "Royal Indian Marine" to "Royal Indian Navy". Now, it is perfectly true that the Royal Indian Marine at present is regulated and governed by some sort of code of discipline and it would be possible for us to continue that position. I presume it would also be possible for us to introduce in this House a measure to bring into existence an Indian Navy—a self-contained measure, as the Leader of the Opposition suggested—but the result of that would be that we should not increase the prestige and the status of the force in the same way as we should by this measure. It would not give them that connection with the Royal Navy which is really

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needed to increase the prestige and the status of the force in the way that we desire. That, Sir, is all I have to say on that aspect of the matter.

Then, a great deal was said about the constitutional position—about what was going to happen in the future with regard to the reservation of defence. What was the necessity of rushing this Bill through now; would it not be better to wait and see what the position was going to be, and so

on? Well, as I have explained, the Government are in no 4 P.M. hurry about this matter, and I may say at once that I shall be prepared to accept the motion for circulation; but I should just like to say a few words on this point. It seems to me that all the arguments that Honourable Members have produced in favour of delay in this matter, before making up their minds whether to have an Indian Navy or not, might have applied with exactly equal force to the measure that we brought forward some years ago constituting the Indian Air Force. There was then no suspicion in Honourable Members' minds that we were going to use the Indian Air Force for the defence of Singapore, or that we were going to increase expenditure upon it out of all proportion, or that we were going to spend the tax-payer's money without getting their consent. Sir, it is perfectly obvious from what has fallen from various Honourable Members' lips today that these objections from the constitutional point of view and the desire to know what is going to happen in the future have really no very solid foundation. The real objection is that this Indian Navy is not going to be a completely and entirely Indian force. If it was to be an entirely Indian force, I do not think we should have heard one word about these constitutional objections. Sir, I did my best to explain why it was that we had to continue, or why we thought it was necessary to continue, a measure of British recruitment to the Indian Navy for a period of years. I then said that the House would be at liberty to press us in season and out of season for an increase in the measure of Indianisation and that we should give an increase as soon as we were prepared to do so. I should like to expand a little what I said on that subject, especially in view of what my Honourable friend, Mr. James, said when he asked whether that limit of one-third Indians was laid down for all time. Of course that is not so. The limit of 33½ per cent is by no means laid down as a limit which we cannot under any circumstances exceed. The point is that we have, in the past, experienced considerable difficulty in getting recruits. I know my friend, Sir Qwasji Jehangir, can hardly believe that. He says that he has secured a recruit since we broke up for lunch, and he seemed to think that we were not taking proper steps in the matter. I would explain in that connection that the advertisements for the Royal Indian Marine examinations, which are held by the Public Service Commission, are issued in exactly the same way as the advertisements for the examinations for the Indian Civil Service or for the Army. Now, for the Civil Service we do get a very large number of recruits coming forward, and for the Army we get a very large number of recruits coming forward. The examinations for the Marine are held in exactly the same way and under the same arrangements, but for the Marine we simply do not get any appreciable number of people coming forward.

**Sir Qwasji Jehangir:** What is the age of recruitment?

**Mr. G. R. F. Tottenham:** About 18 to 20.

**Si. Abdur Rahim:** Are the conditions of service also advertised at the same time?

**Mr. G. R. F. Tottenham:** Yes, Sir. The full conditions of service are advertised and all information is available to the public.

**Dr. Ziauddin Ahmad** (United Provinces Southern Divisions: Muhamadan Rural): Is it not a fact that you occasionally recruit only one person from the whole of India, and the number of vacancies seldom increase beyond two or three, and, then, out of these few seats one is reserved for the "Dufferin" cadets, and that that is the reason that you do not get many applicants?

**Mr. G. R. F. Tottenham:** It may be that there are a very small number of vacancies, and that may be one reason why people do not come forward. With reference to what my friend, Sir Cowasji Jehangir, has said about recruiting from the "Dufferin", I have made it clear that we should in many ways prefer to accept the "Dufferin" as our source of recruitment to the Royal Indian Marine, were it not for the fact that we had given the public undertaking that there must be an open competition. But in that connection I would point out that it would be impossible for us to take recruits from the "Dufferin" without in some way altering the curriculum of the boys in the "Dufferin". The boys we have taken from the "Dufferin" have had to undergo some special coaching in an army or marine class in order to fit themselves for this examination.

**Sir Cowasji Jehangir:** Is there any special course necessary before an applicant can sit for this examination? And if that is so, what facilities have been given to secure the necessary knowledge?

**Mr. G. R. F. Tottenham:** The curriculum for the examination is published, and it is an ordinary curriculum which the educational institutions of the country can provide. It is merely that in the "Dufferin" the boys are trained in a particular way and they are not taught some of the subjects which are required for the Indian Marine. That is all.

Then, Sir, the Leader of the Opposition referred to what I said this morning about consulting the Legislature in the event of lending the Indian Navy for purposes other than the defence of India and he wished, I think, to know what the position was going to be under the new Constitution in that respect. Also my friend, Sir Cowasji Jehangir, referred to what he said was a statement by the Secretary of State. I do not quite know in what connection the statement was made, nor have I been able to trace it.

**Diwan Bahadur A. Ramaswami Mudaliar** (Madras City: Non-Muhamadan Urban): I can give the reference if the Honourable Member wants it. It was made at the Session of the Third Round Table Conference. He said that the decision of the Federal Government and the Federal Legislature would be taken on the question of utilising the army for non-Indian defence. He clearly said that some way would be found by which the

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decision of the Federal Executive and the Federal Legislature would be taken before the army could be used for purposes other than the Indian defence.

**Mr. G. R. F. Tottenham:** That is a news to me: I had not seen that.

**Diwan Bahadur A. Ramaswami Mudaliar:** I will give the actual words of the Secretary of State. He said:

"More difficult questions arose in cases where Indian troops might be employed for purposes other than directly Indian purposes. Now, in those cases I can say to him I would prefer not to be precise as to the exact method. I myself feel sure that a means will be found to leave the decision in some manner to the Federal Ministry and to the Federal Legislature."

**Sir Cowasji Jehangir:** I may inform the Honourable the Army Secretary that the point was raised as to what would happen if the Legislature was not in Sessions, and the Secretary of State said that in that eventuality the decision might be taken by the Federal Government subject to the subsequent approval of the Legislature.

**Mr. G. R. F. Tottenham:** I understand, in any case, that this statement by Sir Samuel Hoare was a mere expression of opinion in the course of discussion. He did not actually make a promise that it would be put in the Constitution. I would have some difficulty in understanding how it could be laid down in the Constitution Act that the approval of the Legislature was to be secured to the use of troops in circumstances of this nature so long as the general constitutional position was that the defence services were to be a reserved subject. The two attitudes would seem to be inconsistent with each other.

**Sir Cowasji Jehangir:** They are not inconsistent. We are talking of troops being used for purposes other than the defence of India. Only in that case would the Federal Government or the Legislature come in. This provision, however, would not apply in all those cases in which the troops were used for the defence of India in India or out of India.

**Mr. G. R. F. Tottenham:** It is not only defence that is going to be a reserved subject, but also, I understand, foreign relations, which include inter-imperial relations. I do not understand how a decision by the Legislature would be consistent with the reservation of these subjects under the new Constitution. However, I am probably proceeding outside my own province in discussing these matters. All I can say is that the announcement which I made this morning that it was the intention to consult the Legislature, whenever possible, about the use of the Navy for purposes other than the defence of India would naturally be improved to certain extent by the position under the new Constitution. At the present moment, the authority to decide is the Governor General in Council and the authority to be consulted is the Legislature. The Legislature is in Session only for a certain length of time, and it may, therefore, be necessary to take a decision without the advice of the Legislature. In future, the authority to decide will presumably be the Governor General and the authority to

be consulted will presumably be the Federal Government. The Federal Government will always be in existence, and I think my Honourable friend, Sir Cowasji Jehangir, has rather under-estimated the responsiveness of the authorities responsible for defence to Indian opinion in a matter of this kind. I have no doubt that if it was enjoined that the Governor General should in future consult the Federal Ministers in a matter of this kind, he would naturally do so, and, not only would he do so, but he would also be very largely guided by their advice. But I cannot see how it would be possible to lay down in the Constitution Act that the decision in these matters should rest with the elected Legislature of the country, so long as these subjects are reserved, that is to say, are reserved from the control of the Legislature.

**Sir Cowasji Jehangir:** We could only quote the words of the Secretary of State at the Third Round Table Conference.

**Mr. G. R. F. Tottenham:** My Honourable friend, Sir Cowasji Jehangir, made several other interesting suggestions as to the possibility of dealing with the Navy as a separate issue apart from the Army. He made the suggestion that naval expenditure might be made votable and subject to the control of the Legislature, while army expenditure need not. I am sure that he will not expect me to give an answer at the present moment. The gist of the whole matter, as I said before, lies in the question whether the Indian Navy is to be a purely Indian force or whether for a limited period it has to be partially British and partially Indian. Although, as I said before, the extent of Indianisation at the present moment is only one-third, there is no reason why that ratio should remain for ever. What I do say is that so long as the Royal Indian Marine remains the Royal Indian Marine, I personally can see very little chance of extending Indianisation simply because the Royal Indian Marine is a force which does not attract young Indians of a suitable type. If the Royal Indian Marine were converted into the Royal Indian Navy, I personally believe that it *would* attract young Indians of the right class in much greater numbers and I believe we should find it far easier to extend the rate of Indianisation in consequence.

As regards the question of circulation, I have already explained that the Government of India are not in a great hurry about this matter. We cannot pretend that there is any great urgency about it. I do, however, share the doubts expressed by my Honourable friend, Mr. James, as to the usefulness of circulating this Bill for public opinion, because I do not think that the authorities to whom we shall circulate it will really add very much to our knowledge of the subject. Also I cannot accept the suggestion which was made by my Honourable friend, Mr. Gaya Prasad Singh, that this Assembly which was competent, and fully competent, to revise the opinion of its predecessor as to the Reserve Bank is not in a position to revise its opinion about the Indian Navy. However, in view of the feeling that has been expressed in favour of circulation, I shall have no objection to accepting the amendment.

**Mr. President** (The Honourable Sir Shanmukham Chetty): The question is:

"That the Bill be circulated for the purpose of eliciting opinion thereon by the 31st July, 1934."

The motion was adopted.

The Assembly then adjourned till Five of the Clock.

The Assembly re-assembled at Five of the Clock, Mr. President (The Honourable Sir Shanmukham Chetty) in the Chair.

## THE BUDGET FOR 1934-35.

(The Honourable Sir George Schuster, on rising to present the Budget, was greeted with prolonged Cheers.)

**The Honourable Sir George Schuster** (Finance Member): Once more a year has passed, and it falls to me to give an account of India's financial administration and to present proposals for the coming year.

2. This is the last occasion on which I shall do so and for this reason it seems appropriate to take stock of the course of financial affairs during the past few years and to present the proposals for the current year in relation to a somewhat wider background than usual. I propose to do this not merely because this year marks the last chapter in the story of a particular Finance Member, but also because I have certain proposals to make this year which can only be properly understood in this wider setting.

3. I need hardly take time in describing the painfully well known features of what has happened to the world since the end of 1929, when we entered into the severest period of economic disturbance and depression which our modern system has experienced, and during which all countries have been faced with almost insoluble difficulties and tasks of readjustment as regards their public finance. I will only deal briefly with a few salient facts. As a measure of India's difficulties I may remind the House that whereas in the 10 years ending March 31, 1930, the value of India's exports and re-exports of merchandise averaged just under 326 crores, in 1930-31 that fell to just under 226 crores, in 1931-32 to about 160 crores, and in 1932-33 to 135½. Imports of merchandise though they did not fall quite in the same proportion as exports, owing to the well known fact that private gold exports gave India a supplementary purchasing power, nevertheless fell very steeply from an average of 242 crores for the ten years ending March 31, 1930 to 163 crores in 1930-31, 125 crores in 1931-32, and 132 crores in 1932-33. In view of the extent to which we rely on customs import duties for revenue, the effects of this enormous drop must be obvious. At the same time our other main source of tax revenue—*income tax*—was heavily cut into. I may give one simple index of this fall. Taking the head of income assessable as "profits", the annual profits of companies and registered firms in India which averaged over 53 crores in the eight years ending March 31, 1930 fell to under 29 crores in 1932-33. Simultaneously with this crumbling of the foundations of our tax revenue, there has been a heavy drop in non-tax revenue; and I would invite the attention of those interested in this matter to the analytical tables published at the beginning of the Finance Secretary's Memorandum. Non-tax revenue, which in 1923-24 was Rs. 30½ crores, had fallen in 1929-30 to Rs. 19½ crores and for 1934-35 is down to Rs. 5½ crores. This has of course put a heavy strain on tax revenue. Lastly, we have had at the same time to face serious losses of customs import duties for reasons other than the economic depression, namely, as a result of the operation of protective policies, especially as regards cotton piece-goods and sugar.

4. The story of how these developments were reflected in India's public finances has been told from year to year in my budget speeches. At the outset

revenue was falling away too rapidly for us to keep pace with the situation, and in 1930-31 and 1931-32 we incurred deficits which were larger than the amount set aside each year for the reduction of debt. In the middle of the latter year, however, we took drastic emergency measures by way of retrenchment, cuts in pay, and taxation, the objective of which was that the position should be so restored by March 31, 1933 as not only to produce equilibrium for the future, but to create a soundly balanced position for the two years 1931-32 and 1932-33 combined. These steps, as I recorded in my budget speech last year, fully succeeded in their object, and I may briefly remind the House of the figures as now shown in the final accounts.

The actual result for 1932-33 is that after providing 6,84 lakhs for Reduction of Debt there was a surplus of 1,55 lakhs, so that without taking into account Reduction of Debt the excess of receipts over outgoings was 8,39 lakhs. As in 1931-32 the corresponding figure had been a deficiency of 4,86 lakhs, the net result is that over the two years combined we not only paid our way so far as budgetary income and expenditure is concerned, but in addition provided a sum of 3,53 lakhs for Reduction of Debt.

5. *Current year, 1933-34.*—How then are we faring in the current year? Our revised estimates show that, leaving out of account the Reduction of Debt provision, we shall have a surplus of 4,29 lakhs. In the budget estimates we had hoped for a surplus of 25 lakhs after providing 6,88 lakhs for Reduction of Debt, so that the net result is 2,84 lakhs less favourable than our estimates. This deterioration is accounted for by a drop of 5,04 lakhs on revenue, partly balanced by a saving of 2,20 lakhs on expenditure. The full figures are as follows :

| —   | Budget,<br>1933-34. | Revised,<br>1933-34. |
|---|---------------------|----------------------|
| Total Revenue .   | 124,35              | 119,31               |
| <i>Expenditure (exclusive of Reduction<br/>of Debt)</i> . . . . . | 117,22              | 115,02               |
| Balance   | +7,13               | +4,29                |
| <i>Provision for Reduction of Debt</i> .                          | 6,88                |                      |
| Final balance . . . . .   | +25                 |                      |

6. The explanation of the falling off of revenue is simple, and in some respects not so unsatisfactory as the figures themselves would appear to indicate. The chief differences which I need deal with in this general account are a deficiency on the estimates of 4,38 lakhs under Customs and 93 lakhs under Income Tax. As regards Customs, last year I made it quite clear that it was impossible in the entirely abnormal conditions then prevailing to find any reliable basis for forecasting customs receipts, and I therefore framed my estimates on the assumption that the conditions of the previous year as regards exports and imports of merchandise would be repeated, subject to allowance of a drop of about 1 crore in import duties to cover decreases in sugar import duty due to the growth of Indian production and in the cotton piece-goods duty where the figures for 1932-33 had to be regarded as abnormal. The results have proved that we did not allow enough for these changes. The effects of the development of the sugar industry in India have been felt more rapidly than we anticipated, and we now expect to be 1,10 lakhs short of our estimates on sugar while as regards cotton piece-goods and other textiles it is now clear that the receipts for 1932-33 were entirely abnormal, and we estimate that the duties on the whole range of textile

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fabrics and yarn will be 2,67 lakhs less than the budget estimate and 3,63 lakhs less than the actuals for 1932-33.\*

Apart from the shortfall under these two heads, which account for the greater part of the drop, there has been a slight falling off under a number of other heads.

There is some consolation to be drawn from these results. The falling off in imports of sugar and textiles at least means that Indian producers have had a greater share in the home market, while as regards the general falling off in imports this has been balanced by a substantial increase in exports and a satisfactory feature is that as a result of these changes India is moving back towards her normal favourable balance of trade in merchandise and is thus diminishing her reliance on gold exports in order to maintain an even keel. The position in this respect is interesting and significant. Last year in the 9 months to December exports of merchandise (including re-exports) amounted to 99 crores and imports of merchandise to 102 crores, thus showing an adverse balance of 3 crores. For the same period this year exports have been 111 crores and imports 85 crores thus showing a favourable balance of 26 crores, and an increase in exports of 12 crores combined with a decline in imports of 17 crores.

7. Turning to the other decreases in revenue, I have mentioned income tax where we expect to fall short of our estimates by 93 lakhs, and all one can say about this is that it is unhappily an illustration of the depth of the general depression.

8. As to the other heads of revenue, I need not comment at length. Net receipts from Opium are up by 24 lakhs (gross 39) owing to exports of provision opium being larger than anticipated.

\* The course of revenue receipts over the last few years under this important head is interesting as brought out in the following summary :

*Summary of receipts from Customs import duties on textile fabrics and yarn.*

(In lakhs of rupees.)

| Number of article in Customs Revenue Statement. |  | 1928-29, | 1929-30, | 1930-31, | 1931-32, | 1932-33. | Budget, 1933-34 | Revised, 1933-34. | Budget, 1934-35. |
|---|--|----------|----------|----------|----------|----------|-----------------|-------------------|------------------|
|   |  |          |          |          |          |          |                 |                   |                  |
| 16  | Artificial silk yarn and thread.   | 10       | 7        | 7        | 11       | 17       | 20              | 14                | 15               |
| 17  | Cotton yarn and thread.  | 46       | 45       | 30       | 37       | 55       | 48              | 40                | 45               |
| 17A   | Artificial silk piece-goods (other than tents)   | ...      | ...      | ...      | ...      | ...      | 90              | 70                | 70               |
| 18  | Silk and artificial silk mixtures.   | 8        | 8        | 5        | 18       | 48       | 45              | 42                | 42               |
| 20  | Yarn and textile fabrics not liable to preferential rates of duty.                     | 1,75     | 1,59     | 99       | 1,11     | 1,36     | 95              | 75                | 1,00             |
| 32  | Silk piece-goods and manufactures of silk and artificial silk not otherwise specified. | 88       | 79       | 50       | 1,07     | 2,55     | 1,60            | 1,20              | 1,20             |
| 42-45   | Cotton piece-goods .   | 6,04     | 5,84     | 3,73     | 3,71     | 6,53     | 6,10            | 4,40              | 4,25             |
|   | Total of all the above items.  | 9,21     | 8,82     | 5,64     | 6,55     | 11,64    | 10,68           | 8,01              | 8,17             |
| 53  | Haberdashery and millinery .   | ...      | ...      | ...      | ...      | ...      | 25              | 15                | 15               |
|   | GRAND TOTAL .  | ...      | ...      | ...      | ...      | ...      | 10,93           | 8,16              | 8,32             |

Interest and Currency and Mint receipts are down by 23 lakhs and 51 lakhs respectively due to the lower rates of interest prevailing—the latter of course being balanced by a reduction in interest paid. As against this we have had a windfall under the head of Extraordinary Receipts of 33 lakhs due to the repayment of a pre-war debt by the Persian Government.

The position as regards revenue may be summarised as follows :

*Summary of main differences between Revised Estimates, 1933-34 and Budget Estimates.*

|                                      | + Better,<br>— Worse. |      |
|--------------------------------------|-----------------------|------|
|                                      | +                     | —    |
| Customs . . . . .                    | ..                    | 4,38 |
| Taxes on Income . . . . .            | ..                    | 93   |
| Salt . . . . .                       | ..                    | 20   |
| Opium receipts (gross) . . . . .     | 39                    | ..   |
| Interest receipts . . . . .          | ..                    | 23   |
| Currency and Mint receipts . . . . . | ..                    | 51   |
| Other heads . . . . .                | 82                    | ..   |
|                                      | 1,21                  | 6,25 |
|                                      | —5,04                 |      |

9. *Expenditure, 1933-34.*—As regards expenditure, I need not say much at this stage. The saving over our budget estimates of 2,20 lakhs is due mainly to two causes, first the receipt of 1,78 lakhs on account of the payments from His Majesty's Government towards the Defence budget following the Capitation Tribunal award, and secondly the non-payment of 88 lakhs interest on war debt for which we had provided in the budget.

10. I shall have more to say on the significance of those various changes at a later stage. For the moment, before I come to my proposals for next year, I want to turn to a review of the effects of our policy during the past three years, that is to say, since the real crisis began.

As to the budgetary position, the figures which I have already given amount to this, that during these three years we shall have met all our current expenditure out of revenue and realised a total surplus balance of nearly Rs. 8 crores which had gone to swell our balances and reduce our debt (3,53 lakhs on 1931-32 and 1932-33 combined and 4,29 lakhs in 1933-34).

The figures may be conveniently summarised as follows :

|  | Rs. Crores.  |              |                                   |
|--|--------------|--------------|-----------------------------------|
|  | 1931-32.     | 1932-33.     | 1933-34<br>(Revised<br>Estimate.) |
| Revenue . . . . .  | 121·64       | 126·40       | 119·31                            |
| Expenditure (exclusive of Debt<br>Reduction provision) . . . . . | 126·50       | 118·01       | 115·02                            |
| <b>Balance</b> . . . . .   | <b>—4·86</b> | <b>+8·39</b> | <b>+4·29</b>                      |

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11. This soundness in our budgetary policy has enabled us to effect a striking improvement in our general position. When the crisis of September 1931 came upon us we were in a very vulnerable condition for two reasons, first, our external currency reserves were unduly low, and secondly, we had a dangerous load of floating and short term debt hanging over us. As to currency reserves, the gold and sterling securities (and I shall take gold at the old parity throughout this comparison) in the Paper Currency and Gold Standard Reserves amounted on September 21, 1931 to 57·82 crores against a note issue of 146 crores, or a proportion of 40 per cent. On March 31, 1934, we estimate that the position will be gold and sterling securities 106 crores, note issue 178 crores, percentage 60 per cent. There has thus been an increase in the value of our external reserves since the crisis began of 48·17 crores (leaving out of account the potential profit on gold which at present amounts to a hidden reserve of 27 crores).

12. Now let us consider the floating and short term debt position. At the end of September, 1931, our total debt maturing within five years was :

|  | Crores. |
|--|---------|
|  | Rs.     |
| (i) Rupee Treasury Bills (with the public and in the Paper Currency Reserve) . . . . . | 80·78   |
| (ii) Rupee Loans . . . . .   | 165·77  |
| (iii) Sterling Loans . . . . .   | 90·00   |
|  | <hr/>   |
| Total Rs.  | 336·55  |

of which there was due to mature in 12 months

|                              | Crores. |
|------------------------------|---------|
|                              | Rs.     |
| (i) above . . . . .          | 80·78   |
| out of (iii) above . . . . . | 20·00   |
|                              | <hr/>   |
| Total Rs.                    | 100·78  |

As compared with this the position on March 31, 1934, will be as follows :

|  | Crores. |
|--|---------|
|  | Rs.     |
| (i) Rupee Treasury Bills (with the public and in the Paper Currency Reserve) . . . . . | 47·75   |
| (ii) Rupee Loans . . . . .   | 79·21   |
| (iii) Sterling Loans . . . . .   | 39·00   |
|  | <hr/>   |
| Total Rs.  | 165·96  |

of which there will be due to mature within twelve months :

|                      |       |
|----------------------|-------|
| (i) above . . . . .  | 47·75 |
| (ii) above . . . . . | 13·00 |
|                      | <hr/> |
| Total Rs.            | 60·75 |

The net result is that the near maturities will have been reduced by 170·59 crores, out of which immediate liabilities will have been reduced by 40 crores.

13. In order to complete the picture as regards debt and our capital position generally and to bring out the improvement which has been effected in the last three years, it is also necessary to consider the reduction of interest charges.

The position in this respect is complicated and it is difficult to give a simple comparison to show the effects of our recent conversion operations and the improvement of our credit, for there are various complicating factors to take into account. There is the actual direct saving of interest on conversion operations, the effects of which are not fully revealed in our own budget because our policy is to give a proportionate part of the benefit to the Railways, the Provincial Governments, etc., on whose behalf we have raised our loans.

Then of course there is a substantial saving due not to loan conversion operations in the strict sense, but to the cheaper rates for Treasury Bills which have been produced by our policy. As against this some of the very changes which have made our position stronger, the funding of floating debt and the increasing of Treasury balances and sterling currency reserves, actually cost us money in increased interest charges or loss of interest receipts, for naturally we have to pay higher rates on permanent loans than on Treasury Bills, while we cannot earn the same rate on balances held in London as we have to pay on Treasury Bills in India.

Again, as a factor which has offset some of the benefit gained, there is an automatic increase in the rates debitable to the budget on Post Office Cash Certificates next year to which I will refer again.

Lastly, I must mention that in comparing one year with another just now one must take into account the war debt payments. It so happens however that in the comparison which I am about to make between 1931-32 and 1934-35 the provision for war loan payments was almost exactly the same (56 lakhs in 1931-32 and 58 lakhs in 1934-35).

Subject to these remarks I can give the following figures, indicating the improvement effected since 1931-32 :

|  | Crores. |
|--|---------|
|  | Rs.     |
| The net interest charges in the Central Budget in 1931-32 were . . . . .   | 12·83   |
| for 1934-35 we estimate them at . . . . .  | 10·34   |
|  | <hr/>   |
| so that there is a direct saving of . . . . .  | 2·49    |
| In addition to this we have given a saving on interest to the Railways as a result of our lower borrowing rates of . . . . . | 1·36    |
| to the Provinces of . . . . .  | ·34     |
| and to the Posts and Telegraphs Department of . . . . .  | ·03     |
|  | <hr/>   |
| Total . . . . .  | 4·22    |
|  | <hr/>   |

The total saving, therefore, to the Central Government, the Railways, Posts and Telegraphs and Provinces is 4,22 lakhs. But in order to complete the comparison we must also take into account the cost of strengthening our

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position by funding floating debt and holding larger balances. I estimate that if we reverted to the 1931 position as regards balances and amount of debt represented by Treasury Bills, we should now have to pay 99 lakhs per annum less than we are actually allowing for.

It is fair then to say that the results of our loan policy during the last three years represents a net improvement all round of about  $5\frac{1}{2}$  crores per annum.

14. I have given the foregoing review of the position as regards the public debt, credit and currency reserves for a special reason, and I will mention this at once, for it is necessary to do so at this stage in my speech in order to explain how we propose to deal with the current year's accounts, and what is our plan for next year. We have come to the conclusion after weighing most carefully all the issues, that we have so strengthened our general financial position that in these times of special difficulty it is not necessary to strain the tax revenue in order to maintain our provision for Reduction and Avoidance of Debt at the full level fixed by the present convention. I would remind Honourable Members that this convention was settled in 1924 and laid down that in respect of all debt incurred up to March 31, 1923, a fixed sum of Rs. 4 crores should be set aside, and that on all debt incurred thereafter (other than debt for advances to the Provinces which make their own provision for repayment) a sum of  $1\frac{1}{2}$  per cent. should be provided. This scheme has meant that the budgetary provision for reduction of debt has increased from 3,78 lakhs in 1924-25 to 6,89 lakhs in the current year. Now although the provision has automatically grown to this onerous degree since 1929 the actual debt position has become sounder and the net burden lighter. While gross figures of the Government's indebtedness have increased, the value of the productive assets held against that debt have increased by more than the same amount. On March 31, 1924, the total indebtedness of the Government of India was 919 crores, on March 31, 1934, the corresponding figure will be about 1,212 crores, an increase of 293 crores. But in the same period the interest-bearing assets of the Government will have increased by 314 crores, namely, from 664 to 978. And at the same time the net annual burden of interest has been substantially reduced. In the year 1924-25 the net charge to the budget for Interest on Debt (that is to say, interest paid less interest received) was just under 15 crores, while for next year the net charge will be less than  $10\frac{1}{2}$  crores. It is necessary to explain these facts in order that the position may be fully appreciated. The burden of the debt reduction provision has become especially heavy in recent years for the following reasons. The main portion of our debt represents advances to the Railways. So long as the Railways were paying to the Government a general contribution over and above the interest due from them, that represented something which could be fairly set off against the debt reduction provision. But when the Government are receiving no contribution, and when at the same time the Railways are, through their depreciation fund, maintaining their capital assets at their full value, one must ask whether it is reasonable or even advantageous to make the attempt to raise tax revenue sufficient to meet the full provision.

15. It is impossible for me in a speech which has to cover so many matters to deal fully with all the considerations which are relevant to a discussion of these questions. The practical point which will interest the House is that we have come to the conclusion that it will be adequate if for the present we maintain our annual provision for the Reduction and Avoidance of Debt at 3 crores. I deliberately avoid any commitment as to what the permanent basis for the future should be, or for how long this proposed provisional arrangement should continue. There are a number of possible ways in which

the situation can be treated. For example, it might be provided that advances made to the Railways and Commercial Departments of the Government of India should always be made on terms which cover not only the interest charges which the Government of India itself has to incur, but also a proper provision for amortisation. That is the arrangement which we already have with loans to the Provincial Governments and to the Indian States. If that were done the present scheme for a Railway contribution might be taken into account as covering the amortisation of Railway debt. If the matter is looked at in this way and the amortisation of Railway debt is regarded as suspended until there is some recovery from the present abnormal depression, it will I think be generally recognised that a provision of 3 crores annually against the uncovered debt of the Government of India which amounts only to about 200 crores is a very substantial sum. We propose that the change which I have described should apply to the current year 1933-34 as well as to next year 1934-35. This means that after providing 3 crores for Debt Reduction, the accounts for 1933-34 will, on our present estimates, close with a surplus of Rs. 1,29 lakhs. This sum we propose to set aside as a special fund to cover relief measures in respect of earthquake damage as to which I shall have more to say later.

16. *Next year, 1934-35.*—I must now turn to the prospects for 1934-35. Estimation of revenue, and especially customs revenue, is again very difficult because entirely abnormal conditions still continue. As a preface to my estimates I must say a few words about the conditions affecting agriculture which of course represent the most important factor influencing India's financial position. I cannot deal with them at length, but I shall circulate with the budget papers, or shortly after, a note on the agricultural position and a review by the Director-General of Commercial Intelligence and Statistics on India's Foreign trade. These will I hope furnish a useful background to my account of the financial position. Speaking quite generally one may say that on the whole (with certain local exceptions owing either to excessive rain or recently to frost) agricultural conditions have been favourable and crop yields satisfactory. Recently there has come upon one part of India a special disaster, in the earthquake in Bihar, but although this has had local consequences of a terrible nature, it will not appreciably affect the economic position of India as a whole. In the agricultural season which is now current or just completed there have been marked increases in the production of India's main money crops—jute, cotton, oilseeds and sugarcane—and, so far as export crops are concerned, the increased quantities seem to be finding a market.

In all these respects therefore conditions have been such as warrant normal prosperity, and the only trouble has been the low level of prices. Here there is at least a sign of improvement in that the disparity between the prices of primary agricultural products and of manufactured goods has during 1933 got definitely smaller,\* while since the beginning of 1934 there has been a tendency towards rising prices and improved demand, notably in cotton. One therefore feels justified on all this evidence in entertaining some expectation of slightly better times next year. In confirmation of this there is on the whole a more optimistic feeling in the main business centres than was the case last year, while the recent steady increase in the goods traffic receipts on the railways and the improvement in our export trade figures to which I have already referred are encouraging signs.

\* Taking the Calcutta wholesale price index numbers, and comparing the figures for December 1933 with December 1932, there has been a rise of 5.8 per cent. in the index figure for *exported* articles and a drop of 2.6 per cent. for *imported* articles.

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On the whole we feel justified in anticipating a very moderate recovery in certain heads of customs import duties over the revised figures for the current year, while we have also allowed for an improvement of 20 lakhs in the jute export duty. We have also to take into account that the immediate effect of the proposals contained in the Textile Tariff Bill introduced this session by my honourable colleague, Sir Joseph Bhore, will probably be an increase in receipts, and that a similar result will follow from his Tariff Bill introduced at the end of last session, the purpose of which was to alter a number of *ad valorem* to specific rates of duty.

17. On the other hand there are certain important items in regard to which special factors will be operative and will produce a loss of customs revenue.

*Sugar.*—The most important single item is sugar, in the case of which the very rapid development of local manufacture, to which I have already referred and to which I shall refer again, seems to be leading towards the early extermination of imports on a substantial scale. Indeed it is no exaggeration to say that the success of our protective policy for sugar is the main cause of our budgetary difficulties. In 1930-31 we raised over 10½ crores from sugar. Even in 1932-33 we got nearly 7 crores. In the current year we budgeted for 6,10 lakhs and we actually expect to receive no more than 5,00 lakhs, while for next year we cannot count on more than 2,05 lakhs. Indeed we should normally only have allowed for 1,80 lakhs next year (or an import of about 100,000 tons) but as a result of the earthquake in Bihar the operation of seven factories may be altogether stopped or seriously curtailed and on this account we have increased our estimate of imports. Even so this item accounts for a loss of 2,95 lakhs as compared with the revised estimates for 1933-34 and of 4,05 lakhs as compared with the budget estimate.

*Land Customs.*—Closely connected with this is the item of Land Customs which has hitherto mainly represented duty on sugar imports over the Viramgam line. In this case our revised estimate for 1933-34 at 1 crore is 30 lakhs higher than the budget, the increase being mainly due to the receipt of a large payment of arrears. For next year we are only budgeting for 35 lakhs owing to declining sugar imports so that under this head there is a loss of 65 lakhs as compared with the revised estimate for 1933-34.

*Machinery.*—Then we must be prepared for a substantial drop in the machinery import duty. We expect to get 1,32 lakhs from this in the current year, or 17 lakhs more than our budget estimate; but these high receipts are due to the exceptionally large imports of sugar machinery. We cannot count on their continuance and we have reduced next year's estimate to 1 crore which means a drop of 32 lakhs on the revised estimates of the current year.

*Cigarettes.*—Another item which I will select for special mention, because I have some proposals to make about it later, is manufactured tobacco. Here the operation of our duties as a result of recent changes and surcharges has given a protective stimulus to the local manufacture of a class of cigarette which was hitherto imported. We budgeted for 50 lakhs in the current year, but on our revised estimates expect to get only 28 and on this we have to allow for a further loss of 8 lakhs next year unless a change is made.

18. The special items which I have selected for mention account for a loss in import duties next year of 4,00 lakhs as compared with the revised estimates for the current year. On all the other customs items combined we are budgeting for a net increase of 1,75 lakhs, so that the net deterioration under customs as compared with the revised estimates for the current year is 2,25 lakhs.

19. The following is a summary of the changes in our estimates including those specially mentioned above :

|   | Budget,<br>1933-34. | Revised,<br>1933-34. | Budget,<br>1934-35. |
|---|---------------------|----------------------|---------------------|
| Tobacco-manufactured . . . . .  | 50                  | 28                   | 20                  |
| Cotton, raw . . . . .   | 62                  | 35                   | 45                  |
| Silver . . . . .  | 25                  | 1                    | 1                   |
| Artificial silk piece-goods . . . . .   | 90                  | 70                   | 70                  |
| Machinery . . . . .   | 1,15                | 1,32                 | 1,00                |
| Articles of food and drink . . . . .  | 56                  | 36                   | 40                  |
| Yarn and textile fabrics not liable to preferential rates of duty . . . . .                         | 95                  | 75                   | 1,00                |
| All other articles wholly or mainly manufactured not liable to preferential rates of duty . . . . . | 1,80                | 1,32                 | 1,42                |
| Miscellaneous . . . . .   | 34                  | 55                   | 55                  |
| Silk piece-goods and manufactures of silk or artificial silk not otherwise specified . . . . .      | 1,60                | 1,20                 | 1,20                |
| Iron and Steel . . . . .  | 1,10                | 85                   | 70                  |
| Sugar . . . . .   | 6,10                | 5,00                 | 2,05                |
| Cotton piece-goods . . . . .  | 6,10                | 4,40                 | 4,25                |
| Metals other than iron and steel . . . . .  | 90                  | 62                   | 62                  |
| All other articles wholly or mainly manufactured liable to preferential rates of duty . . . . .     | 2,35                | 2,08                 | 2,20                |
| Other articles . . . . .  | 89                  | 1,15                 | 1,20                |
| Export duty on Jute . . . . .   | 3,00                | 3,60                 | 3,80                |
| Land Customs . . . . .  | 70                  | 1,00                 | 35                  |
| Import and Excise duty on motor spirit . . . . .  | 4,30                | 4,75                 | 4,80                |
| Do. kerosene . . . . .  | 4,20                | 4,05                 | 4,20                |
| All other items . . . . .   | 14,22               | 13,97                | 14,92               |
|   | <hr/>               | <hr/>                | <hr/>               |
|   | 52,53               | 48,31                | 46,02               |
| Refunds . . . . .   | 1,28                | 1,44                 | 1,40                |
|   | <hr/>               | <hr/>                | <hr/>               |
| Net . . . . .   | 51,25               | 46,87                | 44,62               |

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#### OTHER HEADS OF REVENUE.

20. The changes in other heads of Revenue do not call for any detailed comment. We are allowing for a slight recovery of 12 lakhs in Taxes on Income to a total of 17½ crores, and we should have put this 25 lakhs higher if it had not been for the losses which must be anticipated from the earthquake. We are also allowing for an increase of 18 lakhs on salt and for a drop in the gross receipts from Opium of 64 lakhs. The declining revenue from the latter item owing to the policy adopted in 1925 has been another cause of budgetary difficulties. Altogether the total drop to be allowed for in Revenue as compared with the Revised estimates for the current year is 2,74 lakhs, which is more than accounted for by the loss on sugar.

#### EXPENDITURE.

21. So far as concerns expenditure, we are still searching for further economies, and have rigidly maintained our rule that no new item of expenditure shall be admitted unless it is absolutely obligatory or unless it is likely to be economically productive. We have also, as I have already announced, decided that the 5 per cent. cut in pay ought to be retained for another year. As a result there is a very satisfactory reduction of 2,12 lakhs in the Budget provision for next year as compared with the Budget for the current year, and of 2,90 lakhs as compared with the actuals for last year (1932-33) for, while expenditure on Civil Administration has been kept practically unchanged in spite of the normal increments in pay, there is a substantial saving on interest charges due to conversion schemes and the improvement in Government credit, while the military contribution from His Majesty's Government means a big reduction in the Army Budget.

The last mentioned reduction was effective in the current year also, and is therefore not reflected in a comparison between the Revised estimate for 1933-34 and the Budget estimate for 1934-35. The latter shows expenditure kept at almost exactly the same level as the present, but in appreciating the significance of this result it must be borne in mind that the Revised estimate for 1933-34 includes no provision for war debt interest, while we are providing 58 lakhs for this in the 1934-35 Budget. There are also other factors under the head of interest payments which unfavourably affect next year's Budget of which I must give fuller explanation. In the meanwhile the very satisfactory trend of reduction in expenditure over the past years is brought out in the following figures (which are as usual explained in greater detail in the Finance Secretary's memorandum).

| Expenditure.  | 1930-31 | 1931-32 | 1932-33 | 1933-34 | 1933-34  | 1934-35 |
|---------------|---------|---------|---------|---------|----------|---------|
|               | Actual. | Actual. | Actual. | Budget. | Revised. | Budget. |
| Gross . . . . | 1,30,03 | 1,26,50 | 1,18,00 | 1,17,22 | 1,15,02  | 1,15,10 |
| Net . . . . . | 93,20   | 88,78   | 80,59   | 79,21   | 76,59    | 76,61   |

(i.e., taking net figures for Interest and Defence).

22. The following items call for special comment :

(a) *Civil Administration*.—Taking the main administrative heads of Civil Administration, Civil Works and 'Other direct demands' which last item covers the cost of the Tax collecting departments (other than Opium), there is a net decrease in expenditure as compared with the estimates of the current year of 3 lakhs in spite of the fact that the normal increments of pay account

for about 12 lakhs, and that certain special new items have had to be included, (amounting to about 7 lakhs), such as increased expenditure in connection with Civil Aviation (1½ lakhs), improvement of Broadcasting Service (1 lakh), additional grant to Imperial Council of Agricultural Research (1 lakh).

(b) *Defence (Net)*—

|                           | Crores. |
|---------------------------|---------|
| Budget, 1933-34 . . . . . | 46·20   |
| Revised, 1933-34. . . . . | 44·42   |
| Budget, 1934-35 . . . . . | 44·38   |

The demand under the Defence head stands for next year at 44·38 crores. This is 4 lakhs less than the Revised estimates for the current year and 1,82 lakhs better than the Budget estimate. The latter big reduction is of course due to the payment now made by His Majesty's Government as a result of the finding of the Capitation Tribunal, to which I have already referred. The House is fully informed as to the facts in this case, and I need not add further explanations, but I wish to take this occasion to review the course of military expenditure during the period of my office as Finance Member. The salient fact is that the total demand has been reduced by no less than 10·72 crores, from 55·10 crores in 1929-30 to the present figure of 44·38 crores. This is a remarkable reduction and I venture to think that if I had prophesied its achievement in 1929, my prophecy would have been greeted either with incredulity or, among those who gave credence to it, with extreme satisfaction. In the debates at that time the great demand was always that we should get Defence expenditure down to the so-called Incheape figure of 50 crores. Yet now we are nearly six crores below that.

In 1929 we were working under the plan which was known as a Contract Budget for the Defence Estimates. I may remind the Hon'ble Members of the circumstances in which that plan was started. In 1927-28 the Government of India had to face the fact that owing largely to the Incheape retrenchments the equipment of the Defence Forces had fallen, and was continuing to fall, below modern standards, and that an outlay of 10 crores in the next few years was required to put matters right. On the other hand the financial situation was such that an increase of the Defence budget could not be contemplated. The remedy adopted was to stabilise the budget figure for four years at the existing level of 55·1 crores and to allow the Army authorities to retain and apply towards the re-equipment programme any savings which they could effect—either the automatic savings which were then in sight as a result of a decision of His Majesty's Government in 1925 to reduce the pay of British soldiers for new recruits, or savings from a special economy campaign which they then undertook to launch. They were in short to have a total allotment of 220·4 crores over four years and were expected to find 10 crores out of that for re-equipment. The deterioration in the financial position as a result of the economic depression which began at the end of 1929 soon however made it necessary to reduce the contract grant. The full amount was provided for two years only and then in 1930-31 it was reduced to 54·30 crores and in 1931-32 to 51·76 crores. On top of these reductions came the Retrenchment campaign and in the next two years the grant came down first to 46·74 crores and then to 46·20 crores. The net result is that in the four years, destined for the original contract, the sum allotted fell short of the original plan by about 4 crores, while since then the grant has been reduced to the bare level

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of standing charges. Nevertheless the greater part of the re-equipment programme has been accomplished with the result that the sum required to complete the programme now amounts only to just over 2 crores.

In addition to this I must mention that in each of the past four years substantial expenditure amounting in all to over 2 crores has had to be met on unforeseen military operations on the Frontier or in aid of the Civil Power. The most notable items are the Khajuri operations in 1930-31, the suppression of the Burma rebellion in 1931-32, the establishment of the additional garrison in Bengal in 1932-33 and the Mohmand-Bajaur operations in 1933-34. Such expenditure was of course not provided for in a budget framed to meet only standing charges and ordinarily it would have had to be met by supplementary grants from general revenues. It so happened, however, that in each of these years there were unforeseen savings, notably those due to the continued low level of prices, to balance this unforeseen expenditure, and with this help His Excellency the Commander-in-Chief was able to meet the whole of this expenditure without any supplementary grant.

I have said that the Defence budget for 1934-35 is no less than 10½ crores below the expenditure of 1928-29. Towards this result certain factors have contributed, which are, wholly or partially, outside the control of the military authorities in India. Thus in round figures, one crore of the reduction is due to the fall in prices, one crore to the effects of the 1925 revision of pay of British soldiers, two crores to the recent contribution by His Majesty's Government towards Indian Defence expenditure and half a crore to the general emergency pay cut. But after allowance has been made for these factors there remains to the credit of the military authorities a solid reduction of over 6 crores. This has been secured partly by the postponement of the re-equipment and building programme, partly by reduction of stocks of stores and partly by real permanent retrenchments and economies.

I take this opportunity of repeating once more my grateful appreciation of the manner in which His Excellency the Commander-in-Chief and all ranks of the Defence Forces have come to the aid of Government in meeting the financial emergency. While doing this it is also fair that I should make it clear that the position of the army authorities is that the budget figure of 44.38 crores cannot be regarded as representing as yet a new permanent level of Defence expenditure, but is an emergency budget which barely covers the obligatory charges of maintenance. They point out that if the general price level should rise, Defence expenditure will automatically rise as it has automatically fallen; that the restoration of the emergency pay cut, when it comes, will mean a further increase; that the curtailment of building and other programmes means the accumulation of commitments which cannot be postponed indefinitely; that current expenditure on stores must rise when retrenchment surpluses have been eaten down; and that during the next few years there will be inevitable extra expenditure on duplicate establishments in the earlier stages of Indianisation. Further possibilities of economies are still being urgently sought for, but the Army authorities have made it clear that such possibilities of savings as they now have in view will not go far to meet the possible increases to which I have referred. These are difficulties which must be appreciated. His Excellency the Commander-in-Chief has undertaken that he will not relax his search for economies, and I am confident that my successor will be able to count on receiving, as I have always done, the fullest possible support in meeting any situation that may arise.

(c) *Interest on Debt—**Summary of position—*

|                                       | Lakhs.   |
|---------------------------------------|----------|
| <b>Interest on Ordinary Debt—</b>     |          |
| Budget, 1933-34 . . . . .             | 1,16.06  |
| Revised, 1933-34 . . . . .            | — .27    |
| Budget, 1934-35 . . . . .             | — .98    |
| <b>Interest on Other Obligations—</b> |          |
| Budget, 1933-34 . . . . .             | 9,62.73  |
| Revised, 1933-34 . . . . .            | 9,66.25  |
| Budget, 1934-35 . . . . .             | 10,34.53 |

The next item on which I wish to say something is Interest on Debt. As Honourable Members who study our budget papers know, interest is divided into two separate heads—"Interest on Ordinary Debt" and "Interest on Other Obligations," the former covering our ordinary securities and Treasury bills, and the latter amounts held on account of Post Office Cash Certificates, Post Office Savings Bank accounts, Provident Fund balances, and balances held for the Provinces, and on account of Depreciation and Reserve Funds of the Commercial Departments.

*Interest on Ordinary Debt.*—It is a notable fact that the net figure for 1934-35 under Interest on Ordinary Debt is less than nothing—in fact a surplus balance of about 1 lakh. This is a reduction of 1,17 lakhs on the budget for 1933-34, though it is actually about the same as for the revised estimates. The comparison is complicated by the position as regards war debt payments. In the budget for 1933-34 we provided 88 lakhs against this liability, but as no payment was made this amount was saved, and, as I have already explained, is the main reason for the saving on the revised estimates. As regards 1934-35, His Majesty's Government has already agreed to the postponement of the instalment due in June 1934, but we have made provision for the second half year's instalment, and we have also assumed that the outstanding arrears, excluding the amount in suspense, will be capitalised and the total discharged by equated payments ending 1952 to cover principal and interest. On this basis we are making provision for 58 lakhs in the 1934-35 budget. Excluding these War Debt provisions the comparison between 1933-34 and 1934-35 works out as follows:

|                           |                                |
|---------------------------|--------------------------------|
| 1933-34 Budget . . . . .  | 28 lakhs.                      |
| 1933-34 Revised . . . . . | Nil.                           |
| 1934-35 Budget . . . . .  | —59 lakhs (i.e., net surplus). |

There is thus really an improvement of 87 lakhs on the budget for 1933-34 and of 59 lakhs on the Revised.

*Interest on Other Obligations.*—Under Interest on Other Obligations there is an increase in the budget provision for 1934-35 of 72 lakhs over the budget for 1933-34 and 68 lakhs over the Revised estimate. This is accounted for by an extra charge of 50 lakhs in respect of bonus on Post Office Cash Certificates, while the balance represents mainly interest on the increased amount of Post Office Savings Bank deposits.

The position as regards bonus on Post Office Cash certificates requires some explanation. I may remind the House that until 1930 the budgetary provision made had only covered the bonus paid out on the certificates actually encashed each year. This of course was totally inadequate to cover the accruing liability, especially as a substantial portion of the certificates

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was being renewed on maturity and not encashed. As a result of this practice a heavy liability which ought to have been met out of the annual budgets had accrued and, as I said in my budget speech in 1930, represented an addition to the public debt. In spite of the budgetary stringency which had already made itself felt in 1930, we decided that the practice ought not to continue and we introduced a new practice of providing each year for the actually accruing liability. As a result a fund of 2,59 lakhs has been built up since 1930 against bonuses which have accrued and not been paid, though of course this does not cover the arrears which had accrued before 1930. The provision introduced in 1930 represents a recognition of the accruing liability, but, as according to the terms on which most of the series of certificates were issued, the rate of interest mounts rather steeply in the later years of the currency of the certificates, it may happen that when a particular series is approaching maturity the budgetary provision has to be increased irrespective of the amount of debt outstanding. This feature affects our provision for next year, for although the mean amount outstanding for next year is only put at 6½ crores above that for the current year, the provision for bonuses has had to be increased by 50 lakhs. We have recently revised the terms of issue for these certificates and provided for a lower rate of interest. The benefit of this will be felt some years hence, but in the next year or two the allowance for bonuses will represent an increasing percentage on the amounts outstanding. We have recently been considering a scheme for tackling the whole question and rearranging the position so as to guard against heavy liabilities in respect of the arrears accumulated before 1930 falling upon a particular budget in the future.

Another important item going to make up the total of the liability under the head of Interest on Other Obligations is interest on provident funds. Our present arrangement for fixing the rate of interest in this case is to take the average rate paid by Government on its loans raised during the preceding 5 years. The result is that for next year the rate payable is 5½ per cent, because it is still largely affected by the high borrowing rates of two or three years ago. The benefit of the lower rates now prevailing will be gradually felt from now onwards, so that there is a prospect here in future years of quite a substantial saving accruing to the budget.

In fact both under this head and under the head of Post Office Cash Certificates the benefit of the recent improvement in our credit will be deferred till future years. In the meanwhile, however, for the reasons explained, we have to face increases.

I might sum up the result by saying that as regards Interest charges, including both Interest on Ordinary Debt and Interest on Other Obligations, we have to provide next year 45 lakhs less than was allowed for in the budget of 1933-34, but 68 lakhs more than we are allowing in the revised estimates, and that as against the latter increase we are providing 58 lakhs more on War Debt and 50 lakhs more on Post Office Cash Certificates.

(d) *Pensions*.—The only other item of direct expenditure in regard to which I must mention a change in the budget as compared, with the revised estimates is an increased charge of 11 lakhs on Pensions.

(e) *Commercial Departments*.—I need not refer specially to the Railway results for these have already been fully discussed by the House, and in present circumstances do not affect our budget; but as regards Posts and Telegraphs it is satisfactory to be able to record a substantial reduction in the

net loss, though this is due not to improvement in traffic but to the continued efforts on the part of those in charge to achieve economy in administration. In this case the revised estimates for the current year anticipate a reduction of the net deficiency of 5 lakhs and a further improvement of 38 lakhs next year.

23. *Summary of position.*—The complete figures for net expenditure may be summarised as follows ;

*Revenue.*

|                                    | 1                   | 2                    | 3                   | Difference<br>between 3<br>and 1<br>Better+<br>Worse—. | Difference<br>between 3<br>and 2.<br>Better+<br>Worse—. |
|------------------------------------|---------------------|----------------------|---------------------|--|---|
|                                    | Budget,<br>1933-34. | Revised,<br>1933-34. | Budget,<br>1934-35. |  |   |
| 1. Customs . . . . .               | 51,25               | 46,87                | 44,62               | —6,63  | —2,25   |
| 2. Taxes on Income . . . . .       | 18,06               | 17,13                | 17,25               | —81  | +12   |
| 3. Salt . . . . .                  | 8,75                | 8,55                 | 8,73                | —2   | +18   |
| 4. Opium . . . . .                 | 1,20                | 1,59                 | 95                  | —25  | —64   |
| 5. Other principal heads . . . . . | 1,90                | 1,86                 | 1,82                | —8   | —4  |
| 6. Interest . . . . .              | 1,82                | 1,59                 | 1,86                | +4   | +27   |
| 7. Civil Administration . . . . .  | 83                  | 78                   | 78                  | —5   | ..  |
| 8. Currency . . . . .              | 1,39                | 77                   | 88                  | —51  | +11   |
| 9. Mint . . . . .                  | 36                  | 46                   | 39                  | +3   | —7  |
| 10. Civil Works . . . . .          | 21                  | 24                   | 24                  | +3   | ..  |
| 11. Miscellaneous . . . . .        | 57                  | 68                   | 56                  | —1   | —12   |
| 12. Extraordinary . . . . .        | ..                  | 36                   | ..                  | ..   | —36   |
| <b>Total Revenue</b> . . . . .     | <b>86,34</b>        | <b>80,88</b>         | <b>78,08</b>        | <b>—8,26</b>   | <b>—2,80</b>  |

*Expenditure.*

|  | 1                   | 2                    | 3                   | Difference<br>between 3<br>and 1<br>Better+<br>Worse—. | Difference<br>between 3<br>and 2<br>Better+<br>Worse—. |
|--|---------------------|----------------------|---------------------|--|--|
|  | Budget,<br>1933-34. | Revised,<br>1933-34. | Budget,<br>1934-35. |  |  |
| 1. Opium . . . . .   | 57                  | 71                   | 42                  | +15  | +29  |
| 2. Other direct demands . . . . .  | 3,61                | 3,58                 | 3,60                | +1   | —2   |
| 3. Irrigation (net) . . . . .  | 5                   | 4                    | 6                   | —1   | —2   |
| 4. Posts and Telegraphs (net) . . . . .  | 61                  | 56                   | 18                  | +43  | +38  |
| 5. Interest on ordinary debt: net . . . . .  | 1,16                | ..                   | —1                  | +1,17  | +1   |
| 6. Interest on other obligations . . . . .   | 9,63                | 9,60                 | 10,35               | —72  | —09  |
| 7. Civil Administration . . . . .  | 9,59                | 9,58                 | 9,59                | ..   | —1   |
| 8. Currency and Mint . . . . .   | 64                  | 61                   | 66                  | —2   | —5   |
| 9. Civil Works . . . . .   | 1,94                | 2,07                 | 2,02                | —8   | +5   |
| 10. Miscellaneous . . . . .  | 4,12                | 4,26                 | 4,32                | —20  | —6   |
| 11. Defence (net) . . . . .  | 46,20               | 44,42                | 44,38               | +1,82  | +4   |
| 12. Miscellaneous adjustments . . . . .  | 1,00                | 1,00                 | 1,01                | —1   | —1   |
| 13. Extraordinary . . . . .  | 9                   | 10                   | 3                   | +6   | +7   |
| <b>Total expenditure (excluding<br/>Provision for Reduction and<br/>Avoidance of Debt)</b> . . . . . | <b>79,21</b>        | <b>76,59</b>         | <b>76,61</b>        | <b>+2,60</b>   | <b>—2</b>  |
| <b>Reduction and Avoidance of Debt</b> . . . . .   | <b>6,88</b>         | <b>3,00</b>          | <b>3,00</b>         | <b>+3,88</b>   | <b>..</b>  |
| <b>Total Expenditure</b> . . . . .   | <b>86,09</b>        | <b>79,59</b>         | <b>79,61</b>        | <b>+6,48</b>   | <b>—2</b>  |
| <b>Total Revenue less Expenditure</b> . . . . .  | <b>+25</b>          | <b>+1,29</b>         | <b>—1,53</b>        | <b>—1,78</b>   | <b>—2,82</b>   |

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24. *Final Summary.*—Summing up the salient points I may state the position on the basis of which I have to frame proposals for next year as follows. We expect to close the current year, after providing 3 crores for Debt Redemption, with a surplus of 1,29 lakhs which we propose to transfer to a special fund for Earthquake relief measures. For next year, basing my comparison on the net figures of Revenue and Expenditure, our position will be 2,82 lakhs worse, that is to say, 2,80 lakhs worse as regards revenue, (which is more than accounted for by the falling off in sugar import duties, the other differences offsetting each other), and as regards expenditure 2 lakhs worse. In order therefore to provide an even balance for 1934-35 it is necessary to find means of improving the position to the extent of 1,53 lakhs.

*Proposals for 1934-35.*

25. The task before us however is not solely one of devising measures to find this sum. It is necessary also to review the working of the general emergency plan which was introduced in September 1931. That plan was strictly an emergency plan designed to restore equilibrium over a limited period, namely, up to March 31, 1933. For this limited purpose it proved quite remarkably successful, and the surcharges imposed did, over that limited period, produce something like the revenue which was expected. But the general plan was not intended as a permanent one, and in some respects it may be open to criticism if it is permanently retained. An obvious ground for general criticism is that there is no justification for maintaining surcharges on protective duties which have been carefully calculated to give the requisite measure of protection, while it is also possible that in the case of certain items the situation created by high surcharges on what was already a high level of revenue duties may be such as to produce diminishing returns or to have an undesirable protective effect in the case of articles not eligible for protection. On the occasion of the last budget, *i.e.*, when we had to consider what we ought to do after the originally contemplated date of March 31, 1933, was reached, the view which I took was that it was legitimate to extend the emergency plan without alteration for another year in the hope that the signs of improvement which were then apparent would materialise into a general recovery assisted by the outcome of the World Economic Conference. That hope has not been fulfilled. The Conference failed to produce any result, except to reveal the difficulties of attaining any concerted international action, while the unprecedented experiment in the United States of America has thrown a new factor of uncertainty into the whole position as regards international trade and finance. Whatever the outcome of that may be, one can only base present plans on a continuance of a level of trade and prices such as unfortunately now exists, which means that our plan of taxation as a whole must continue at the present so-called emergency level. That being the case, it is necessary to go carefully over all the items and consider whether there are any special cases where the continuance of the Emergency surcharges for this extended period is having adverse effects, especially so far as revenue is concerned.

26. On grounds of principle the first obvious step would, as I have already indicated, be to remove the surcharges on the protective duties. As to these the position is as follows :—

(a) *Textiles.*—The position as regards the whole range of textiles is being dealt with in the bill introduced by my honourable colleague, the Commerce Member. It is a complicated position, and the changes which have been made during the past two years have made it extremely difficult to compare

results or estimates of revenue under the various heads which are affected. As, however, my honourable colleague will be able more appropriately to explain all the aspects of this matter when his Tariff Bill is before the House, I will not attempt to deal with it now.

(b) *Iron and Steel*.—In the case of iron and steel, as the Tariff Board is actually now engaged in examining this industry we have decided to leave the position unchanged pending the completion of their review.

(c) *Paper*.—As regards paper, the protective duty has been producing quite satisfactory revenue returns, and, purely on revenue grounds, I have not had to propose a change.

(d) *Sugar*.—I come now to a specially difficult case—the case of sugar. I have already had occasion to comment on the tremendous loss of revenue which has occurred under the head of sugar import duties. The import duty which in 1930-31 produced over 10 crores is reduced in our next budget estimates to little more than 2 crores, and as, according to the estimates of production of new factories by the Sugar Technologist, the total production of Indian factories in 1935 is likely to be equal to the present level of India's consumption of white sugar, we must be prepared for losses of revenue still further under this head. The House is well aware that at present there is a surcharge of Re. 1-13-0 per cwt. on the protective duty of Rs. 7-4-0. The surcharge, although its effect combined with the import duty on machinery which gave us a substantial revenue from sugar machinery, may have helped our budget during the period set for the emergency programme, that is to say, up to March 31 1933, has led to a very rapid expansion of sugar factories in India. In my budget speech last year I referred to this matter and gave a clear warning to those engaged in the sugar industry that they could not count on a continuance of the existing abnormal level of protection. What has happened since then, has appeared to us to make it necessary to terminate the present situation. On the one hand it does not appear that in all cases the actual grower of sugarcane is getting the full advantage which he was intended to receive from our policy. On the other hand in many cases large profits are being made by sugar manufacturing companies, and the attraction of these profits is so great and factories are being set up so rapidly, that there is a real danger of over-production on a scale which may lead to very serious reactions both on the manufacturing industry and on the cane growers who rely on it. There are thus three main points involved.

First, the danger of continuing a stimulus which is in excess of what Government decided to be necessary as a measure of protection ;

Secondly, the need to ensure that the agricultural producer gets his full measure of benefit out of the policy of protection ; and

Thirdly, the replacement of the revenue losses which represents the cost to the general public of India of giving protection to a limited number of manufacturers.

After careful consideration of all these points we have decided to propose a dual policy ; on the one hand the imposition of an excise duty on factory produced sugar, and on the other hand the introduction of legislation by the Central Government which will enable the Provincial Governments to apply schemes for enforcing a minimum price for cane to be paid by the factory to the grower. As I have already stated, the present duty of Rs. 9-1-0 per cwt.

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is Re. 1-13-0 above the basic duty of Rs. 7-4-0 recommended by the Tariff Board. In their report, however, the Tariff Board recommended that there should be power for Government to increase the measure of protection by 8 annas per cwt. when Java sugar was being imported at a price less than Rs. 4 per maund to Calcutta. We propose to assume that the conditions justifying this extra margin of protection are likely to continue in existence for the present, and therefore to leave a protective margin of Rs. 7-12-0 per cwt. and to impose an excise duty of Re. 1-5-0 per cwt. We assume that this will yield Rs. 1,47 lakhs, and out of this we propose to set aside an amount equivalent to 1 anna per cwt., representing about 7 lakhs, as a fund to be distributed among the Provinces where white sugar is produced for the purpose of assisting the organisation and operation of co-operative societies among the cane growers so as to help them in securing fair prices, or for other purposes directed to the same end.

It is only after very carefully weighing all the issues that we have decided to propose an excise duty, for we recognise that it may be criticised as likely to have an adverse effect on the cultivators of sugar cane throughout the country, and that, in the present conditions which are particularly difficult for the agricultural masses, is a result which we could not contemplate with equanimity.\* We trust however that, as a result of the legislation which we propose to introduce, the immediate position of the cultivators will be protected, while taking a view of the more distant future we have been compelled to the conclusion that if the present conditions are allowed to continue there is a danger of over-production which might in the long run bring disaster to the interests of cultivators and manufacturers alike. We believe that the measure of protection which will remain is sufficient to allow all reasonably well organised factories a fair margin of profit after paying a fair price to the cultivator, and here again we feel that in the long run the industry will enjoy a more healthy life and growth if this change is made now than if the present excessive duty is allowed to continue. I may mention that we had arrived at our decision in this matter just before the occurrence of the earthquake in Bihar which, as is well known, has affected an important sugar growing area. We consider, however, that this does not afford adequate ground for altering our whole plan, though we shall be prepared to consider special measures for the assistance of this particular area. I shall be referring to this again in a later passage of my speech.

Lastly, from the point of view of the general tax-paying public of India, who are neither sugar manufacturers nor cane growers, we feel that it is fair that some steps should be taken to preserve revenue from this source. This case of sugar is an illustration of the great cost of protection to the country, and it is essential that the public should realise that if the development of local industries is to be obtained at this cost, then the public services of the country cannot be maintained unless other methods of indirect taxation to replace such loss of customs revenue are adopted.

Before leaving this subject I may inform the House that the proposal for a Sugar Excise duty is not included in the Finance Bill, but in a separate bill, which I shall introduce as soon as possible.

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\* It is important in this connection to appreciate that the sugar refining industry only absorbs a fraction of the sugar cane which is grown in India. Actually in 1932-33 it is estimated that out of a total of about 48½ million tons of cane produced in India only 4½ million tons was taken by factories producing refined sugar. Of the balance about 5½ million tons was taken by khandasari factories leaving 38½ million tons for other purposes.

27. *Surcharges on Revenue duties.*—Apart from the protective duties there is the question whether the surcharges on other items are having adverse effects, either in the sense that the high level of duty is discouraging consumption to an extent great enough to produce an actual loss of revenue, or in the sense that local manufactures which have not been adjudged to be suitable for protection are being stimulated at the cost of loss of import duty revenue.

(a) *Manufactured Tobacco.*—One notable instance of adverse effects is occurring as the result of the high level of duties on cigarettes. The cigarette made wholly or mainly of Indian leaf has always enjoyed the shelter of a somewhat heavy revenue duty on the imported commodity, and it is not to that class of cigarette that I now refer. My remarks relate to a very important trade that exists in this country in a type of cigarettes which, even when made in India, are made exclusively, or almost exclusively, from imported tobacco, and experience indicates that we have not adjusted properly the relation between the import duty on raw leaf and the import duty on the finished article. Under our present tariff, as modified by the two surcharges, the duty on cigarettes works out at something like double the duty on the tobacco used in making similar cigarettes in India; and the result has been to divert the manufacture of the great majority of the leading brands of cigarettes to factories in India belonging to the same interests as previously imported these brands from abroad. Such an industrial development has never made a claim—and I do not think it could make a good claim—that it satisfies the principles of discriminatory protection and should therefore receive abnormal encouragement from the tariff. We have now decided to fix the relation between the duty on cigarettes and the duty on raw tobacco on a more rational basis, and we have considerable hopes that, while not depriving the interests concerned of reasonable assistance, it will bring back the class of cigarette concerned into the field of open competition between the imported and locally made article, and result, without detriment to the interests of the consumer, in some increase of revenue from import duties. We propose to take for cigarettes a specific duty roughly corresponding to the identical amount that would have been paid on the quantity of leaf contained in the cigarettes and to add to this specific duty the normal revenue duty of 25 per cent *ad valorem*, thus leaving the local industry with no more than the benefit which is enjoyed by every non-protected industry engaged in the manufacture of goods which are subject to our present normal revenue duty of 25 per cent. The details are as follows.

At present what I may call the basic rate of duty on cigarettes is Rs. 10-10 per thousand, while there are smaller classes which are assessed at Rs. 15 and Rs. 8-8 per thousand, the division between these classes being dependent upon values. The present rate of duty on raw tobacco is Rs. 2 per lb. standard and Re. 1-8 preferential. (Imports entitled to the benefit of preferential duty are negligible). The revised rates that we propose are :

On raw tobacco : Rs. 2-6-0 per lb. standard and Re. 1-14-0 per lb. preferential.

On cigarettes : Rs. 5-15-0 per thousand *plus* 25 per cent. *ad valorem*.

A duty of Rs. 5-15-0 per thousand on cigarettes is the equivalent of Rs. 2-6-0 per lb. on raw tobacco, because the leaf content of the kinds of cigarettes with which we are mainly concerned is about 2½ lbs. per thousand cigarettes. One of the considerations that has weighed with us in selecting the new method of adding the specific and *ad valorem* duties together rather than fixing different rates of specific duty for goods of different value has been the serious inconvenience that has been caused, ever since the latter method

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was adopted, by the fact that it blocked out entirely from the possibility of competition certain ranges of value, since an increase of one anna in value would bring an increase of duty of several rupees. The new rates may somewhat increase the duty on the most expensive brands, but this may be regarded as a luxury article which can stand the increase. For the greater part of the class which is assessed now at Rs. 10-10-0 per thousand, the duty will be reduced. The amount of this reduction will be equivalent roughly to the removal of the second surcharge. It is to this effect that we look to bring a revival of imports. Our calculation is that the combined effect of the slight increase in the duty on raw tobacco and a reduction in the duty on the finished article will be, after allowing for some decline in imports of raw leaf, to increase by about 30 lakhs the very reduced revenue which we must otherwise anticipate.

(b) *Silver*.—The next item which appears to us to call for special consideration is silver. The present basic duty both excise and import is 6 annas per ounce which, with the surcharge of 25 per cent., gives a total of 7½ annas per ounce. At present the imports of silver have for all practical purposes ceased, so that against our budget estimate for the current year of 25 lakhs we only expect to receive 1 lakh, and there is no reason, if the present duty continues, to anticipate more next year. The decline in the import of silver is of course primarily due to the lack of purchasing power in the country which has turned India into an exporter of gold instead of an importer to the extent of many crores per annum of gold and silver. Therefore in present conditions the existence of this high duty can hardly be regarded as having any appreciable effect on the normal trade, though it is probably encouraging some smuggling, and it is certainly attracting movements of silver through any gaps which exist in our land customs regime. Last year I mentioned that we were taking steps to deal with this on the Burma frontier, and further steps in respect of other places are now under consideration. While this is an undesirable condition we think that the time has come on general grounds to take account of the fact that if India's purchasing power for silver were to revive the existence of a duty at the present level would not only provide an increased incentive to smuggling, but would also act as a serious obstacle to legitimate trade. Moreover we must also take into account our general policy in this matter. The part which the Indian delegates played in bringing about the silver agreement at the World Economic Conference, which has already been ratified by the Indian Legislature, must be regarded as indicating our desire to co-operate with other countries and especially with the United States of America in measures designed to improve its price. Although we must reserve our liberty to impose a duty on silver for revenue purposes, we must on the other hand recognise that a duty which is so high as to operate as a serious impediment to trade may also be unprofitable from the revenue point of view. Therefore, both as a measure of co-operation with the United States of America and other countries interested in silver, and also for the purpose of improving the prospects of our own revenue, we think the time has come to make a reduction in the silver duties.

The only consideration which can weigh with us on the other side is the effect of any such reduction on local prices. There can be no doubt that the existence of our duty throughout the last few years has done something to protect the internal price of a commodity which is an important store of value to the poorest classes. We do not wish to disturb this position, but as the facts are to-day we think we can lower the duty without risk of doing so. Taking the prices of silver which have been ruling recently in London (about 19½d. to 20½d. per standard ounce), the prices in Bombay have been ruling

round about Rs. 55 per 100 tolas as against 19½*d.* per ounce in London. On the basis of a London price of 19½*d.* we calculate that the parity price in Bombay allowing for import duty and other charges, ought to be Rs. 61-11-9 per hundred tolas, so that it looks as if the Bombay prices have been keeping at a level at least Rs. 6-11-9 per 100 tolas below the full parity. The duty of 7½ annas per ounce is equivalent to Rs. 17-9-3 per 100 tolas. It appears therefore that we might reduce the duty by one-third, *i.e.*, by 2½ annas per ounce without thereby necessarily affecting the Bombay price at all, for it would still be somewhat below the London parity.

On these considerations we propose to reduce the duty by 2½ annas to 5 annas per ounce. In order to avoid confusion in the market we propose to give immediate effect to this reduction by notification.

We think it fair to anticipate a small import of silver as a result of this reduction, bringing up the receipts from 1 lakh to 5 lakhs. This therefore means an increase of 4 lakhs on our estimates.

28. *Other items.*—A careful scrutiny of the surcharges on the remaining items in the Tariff Schedule has not revealed any other clear case for making a change on the ground that a reduction in the duties would mean an increase of revenue or indeed would not involve a definite risk of loss of revenue. As the need for revenue continues as urgent as ever we propose to leave the other surcharges unaltered. This however only covers the revenue side of the matter, and there are, as I have already indicated, other possible reactions from the continued existence of these high duties which we cannot ignore. We propose during the coming year to examine this situation carefully from all points of view. In the meanwhile I must make it clear that the fact that these surcharges will now be in force for a second year since the date fixed for the original emergency programme must not be taken to imply that they should be regarded as having become permanently embodied into our tariff system. This remark applies not only to those articles on which the surcharges remain in force by virtue of separate legislation superimposed on the basic tariff schedule, but also to some of those duties where the surcharge and basic duties have been consolidated in recently passed or pending legislation, such as the Act to give effect to the Ottawa preferences or the two Tariff measures which are being dealt with in this Session. An important case to which these considerations apply is the 25 per cent *ad valorem* duty on British cotton piece-goods as to which my Honourable Colleague the Commerce Member will explain the exact position when he proceeds with the textile Tariff Bill which is already before the House.

29. Honourable Members will recollect that last year in the course of the discussion of the Finance Bill there was some criticism made of the existing arrangement under which the actual rate of duty leviable could only be ascertained by reference to several different Acts; and we appreciated the justice of this criticism. However defensible the surcharge form may have been when there was ground to hope that the surcharges would soon be remitted, what I have already said implies an admission that such a justification has now disappeared, especially as the result of the various independent Tariff measures to which I have already referred has been to consolidate the charges in respect of a large number of items. We had hoped to be able to put through a consolidating measure at the beginning of this Session, so that by the time that the Finance Bill was presented, any proposals affecting the tariff would be intelligible without reference to more than one Act. Unfortunately, this has proved impossible not only because of the pressure of other legislative business but also because it would have created almost insuperable difficulties in draftsmanship if we had had a consolidating measure

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before the Legislature simultaneously with two important Tariff Amendment Bills, which between them involved the amendment of no less than 31 items in the Tariff, besides adding 39 new items. We regret this result, and I can assure the House that it is our intention to introduce a consolidating measure at the earliest possible opportunity. I might perhaps add that so far as daily practice is concerned, Customs officers and the public are already in possession of a consolidated tariff compiled by the Director General of Commercial Intelligence and Statistics and sold for a few annas under the title "Indian Customs Tariff."

30. *Export duty on hides.*—I have dealt so far with the position as regards import duties, but I have also a proposal to make in the case of one of the export duties, namely, the abolition of the export duty on raw hides (not skins). We feel that in this case a portion of our export trade is possibly in real danger and that the removal of the export duty may help to avert this danger. Though the immediate loss of revenue from the duty is put at 5 lakhs, we take the view that its removal may help to encourage the export trade, and therefore to provide greater purchasing power for imports on which import duties at a higher rate will be collected, so that the indirect effects of this proposal may actually be an increase in revenue.

We consider that there is a very special case for the abolition of this particular duty. The export trade in raw hides is at present in a very depressed condition. Statistics of imports of raw hides into Hamburg show that whereas imports of hides from sources other than India have fallen off by 6 to 7 per cent. between 1931 and 1932, they are still above the 1912 level. On the other hand imports of Indian hides have fallen by over 30 per cent. between 1931 and 1932 and are now less than a quarter of what they were in pre-war days. The very significant decrease in Indian exports cannot therefore altogether be accounted for by a general decrease in world demand but must also represent to a considerable extent definite loss of trade in competition with other sources of supply. During the first half of 1933 there was some improvement in shipments to Germany, but the improvement has not been maintained and since September there has been a serious deterioration in the position even as compared with 1932-33. The duty has been retained hitherto as a purely revenue measure. But the revenue involved is now no more than a problematical 5 lakhs and we feel that there is little justification for its retention, even for revenue purposes, at a time when the export trade is in danger of extinction. What I have said applies only to raw hides; so far as the exports of skins is concerned these have shown an encouraging increase in the current year, and we do not feel that there is any strong case here for the removal of the duty.

31. *Postage and telegraph rates.*—There is one other case in which we think the time has come to make a tentative experiment in reducing charges in the hope of improving the economic position. I refer to Postage and Telegraph charges. I have already mentioned how the financial position of the Posts and Telegraphs Department is, as a result of strenuous efforts, moving towards equilibrium, with the result that the deficiency, after meeting full charges for interest on capital next year is to be reduced to under 14½ lakhs. But this improvement is the result of economy in administration and we cannot view with equanimity the general decline in the volume of business. In the case of telegraph charges in particular it seems clear that with the growing competition provided by telephone and air mail facilities the telegraph business may be permanently damaged unless something is done to cheapen the facilities offered. Similar considerations, though not so clearly, apply to Postage rates. Government have therefore decided to test out the

possibility of improving the financial prospects of the Department without impairing the revenue position by a reorganisation of the rates so as to make them more attractive to the users of the Department's services and to exploit the turn in the economic tide.

The changes proposed are as follows :

I. *Postal*.—(a) In the postal tariff we propose to lower the initial weight of inland letters from  $2\frac{1}{2}$  tolas to  $\frac{1}{2}$  a tola coupled with a reduction in the charge from  $1\frac{1}{4}$  anna to one anna. (Applause.) For heavier letters the charges will continue to be  $1\frac{1}{4}$  anna for letters not exceeding  $2\frac{1}{2}$  tolas, with additional  $1\frac{1}{4}$  anna for successive weights of  $2\frac{1}{2}$  tolas or fractions. This change introduces a lighter unit of weight and will undoubtedly benefit the poor citizens and the business community. Allowing for a recovery of 10 per cent in traffic we estimate that in the first year this reduction will involve a loss in revenue of 27 lakhs, but we have good reasons to hope that in the second year this loss will practically disappear, and that thereafter there will be a gradually increasing net gain.

(b) As a second change in postal charges we propose the remission of the extra pie per five pice embossed envelope which was imposed in 1931 to recover the cost of manufacturing the envelope. This is more of the nature of an administrative reform considered necessary on general grounds than a regrading of the rate, but it is again a reform which will benefit the ordinary citizen. We estimate a loss of revenue of two and a half lakhs from this change.

(c) Thirdly, as regards Postal rates, we propose a small change in a contrary direction, namely, that the initial charge on inland book packets not exceeding 5 tolas in weight should be raised from 6 to 9 pies. The book packet method of transmission is undoubtedly being abused, and a change is urgently necessary to stop the diversion, with consequent loss of revenue, that is occurring of post card traffic to the book packet category. We estimate a gain of a little over 5 lakhs in revenue from this change.

II. *Telegrams*.—The last change which we propose is as regards Telegrams. Instead of having, as at present, a minimum charge for ordinary telegrams of 12 annas with a surcharge of one anna for a message of 12 words, we propose to introduce a minimum charge for a telegram of 8 words of 9 annas, (Applause) while that for an express telegram of the same length will be one rupee and two annas. For each additional word in the two classes of telegrams the additional charge will be one and two annas respectively. We estimate a loss during the first year of 3 lakhs from this change, but here also, as in the case of the postal rates, we hope that in the second year this loss will disappear, while without making this change we consider that there is a prospect of a continuous decline in telegraph receipts.

These proposals will thus involve a total net loss of about 27·50 lakhs in the first year. In present circumstances we should not have felt justified in proposing changes involving an immediate loss of revenue except for reasons which I shall now explain. In the first place, we believe that traffic both in letters and telegrams will increase in consequence, and that due to the existence of a considerable amount of idle capacity both of equipment and personnel, the increase in traffic can be handled without appreciable increase in expenditure. Secondly, we have in view, as I have already explained in an earlier passage, the definite possibility of further economies which, even if the anticipated improvement in traffic after the first year does not materialise, ought to be sufficient to offset the loss of revenue. Lastly, we think it justifiable to adopt an expedient which will obviate any loss from these changes being debited to the Budget next year. Since the organisation of the accounts on commercial lines, the annual allocation for

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depreciation has been very much higher than the amount annually spent on renewals so that the balance to the credit of the depreciation fund has been mounting rapidly. We propose to review this provision next year and pending this review, having regard to the large balance in the fund we consider it justifiable during 1934-35 to reduce the contribution to the Depreciation Fund from 36·06 lakhs required under existing rules to 8·72 lakhs being the amount required for actual renewal and reconstruction of assets. This will save 27·34 which is about equal to the net amount required for the reorganisation of the rates.

This reduction of the depreciation contribution is avowedly a temporary expedient that cannot be repeated. Consequently, the reorganisation of the rates must also be regarded, truly and literally, as an experiment designed to test out the responsiveness of traffic to rates. If traffic does not respond sufficiently or if economies sufficient to bridge the gap between revenue and expenditure cannot be found, both Government and this House will have definitely to face the necessity for increasing the rates to such an extent as may be necessary.

It is regretted that Government cannot contemplate making a similar experiment in the matter of the inland postcard rate. The loss involved in reducing it to half an anna is estimated at 56 lakhs after making due allowance for increase in traffic, and there are no economies in sight which could be expected to cover a loss of this magnitude in the near future. If the experiment now being launched in the matter of the letter and telegram rates does not belie expectations, and if the anticipated economies become available, then the reduction of the post-card rate will no doubt receive the consideration that its importance deserves. The re-organisation of the letter rate should in any case hasten the day when such action can be contemplated because it will enable the department to absorb the dead weight of idle capacity which is directly or indirectly responsible for the loss.

32. *Summary of Taxation Proposals in the preceding paragraphs.*—The proposals which I have mentioned, namely, Sugar Excise net revenue 1,40 lakhs, Tobacco duties 30 lakhs, Silver 4 lakhs, less the loss of 5 lakhs on the abolition of the export duty on raw hides, should produce a net improvement in revenue of 1,69 lakhs, which will cover the deficiency of 1,53 lakhs and leave us with a small surplus of 16 lakhs.

This would complete my plan so far as the Central budget is concerned, but I have one other important proposal to put forward which can be independently considered.

33. *Proposal for Financial Assistance to Bengal, etc.*—While our own financial position has been maintained in the sound manner which I have described, we have to recognise that the financial position in India is not merely a question of the Central Government budget, but that Provincial finances also closely concern us. Not only does the Central Government at present act as the banker to the Provinces, holding their balances and providing funds to meet their capital expenditure and deficits, but we have also in these days to consider our policy with some regard to the various proposals for Federal finance which are such an important part of the constitutional plan. I am not suggesting that we can in any way anticipate the new constitutional proposals, the form of which is still subject to consideration by the British Parliament, nor that we can attempt to take upon our shoulders the responsibility for dealing with the problems of Provincial Governments. There is however one case which has stood out in all the enquiries and proposals as requiring some special action, and that is the case of Bengal. The need for some special help to

Bengal has been recognised in the White Paper, and the Government of India is also prepared to accept a similar conclusion. At the same time if any action is to be taken, it is right that something should be done without delay, because Bengal has been since 1930 incurring deficits at the rate of about 2 crores per annum, and its debt on this account is piling up to figures which may become really unmanageable. If we are prepared to take account of this, and ask the Central Legislature to support us in raising funds to help Bengal, we can also fairly claim to be satisfied that the Bengal Government and Legislature are doing all that is possible to help themselves. Everything which I have to propose is subject to this condition.

34. After these preliminary remarks I will come straight to the plan which we have to put forward. We propose to ask the Legislature to sanction the imposition of an excise duty on Matches and then, if we can strengthen our resources in this way, to approve our handing over half the jute export duty to the jute-producing provinces, which of course means chiefly Bengal (Cheers), but will also include to a smaller extent Bihar and Orissa and Assam.

35. Honourable Members will at once appreciate how a proposal of this kind fits in with the general outlook on the position described in my introductory remarks. Let me make one or two points to illustrate this. In the first place it appears to us quite clear that, whatever the form of the new Constitution may be, India in the future will need to take advantage of all possible sources of indirect taxation. An excise duty on matches is and has always been recognised as an obvious expedient. It would therefore be in every way advantageous to have this measure in operation as far as possible in advance of the new constitution.

In the second place the proposal to hand over at least half the jute export duty to Bengal and to other jute producing Provinces is included in the White Paper plan and this affords us some basis for our present proposal, although I must again make it quite clear that the whole of these proposals must be regarded as purely of a provisional nature to deal with the immediate situation and as in no way creating a permanent arrangement which could be regarded as anticipating the final decision of Parliament in this matter.

36. I must now explain more precisely the exact nature and effect of these proposals. In the first place, according to our estimates, half the export duty on jute next year will amount to 1,90 lakhs. After allowing for a small sum of 1 lakh to cover cost of collection, the balance of 1,89 lakhs if divided in proportion to the average rate of production over the past 5 years would give about 1,67 lakhs to Bengal, about 12½ lakhs to Bihar and Orissa, and about 9½ lakhs to Assam. As far as the match excise is concerned we propose to impose this at the rate of Rs. 2-4-0 per gross of boxes on matches made in British India. The collection of the tax is in the first instance to be in the hands of Local Governments working as agents for the Government of India, but the separate bill which I shall introduce on this subject has been so drafted as to render it possible to make other arrangements at a later stage if experience shows this to be desirable.

37. In imposing this duty at the present stage there are two complications of which we have to take account. In the first place it is essential to make arrangements with the Indian States, as the manufacture of matches can be easily shifted, and it would be impossible to work it effectively unless the working of the scheme applied to India as a whole. The great majority of the States in India have signified their willingness to enter into an agreement under which every State in which matches are made, or in which they may in future be made will recover a corresponding tax, paying the

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proceeds into a common pool along with the proceeds of the British-Indian tax ; and the amounts of this pool will be divided on an estimated consumption basis between British India and all the States that have entered into this agreement. The bill will include power to prohibit imports and this power is to be used against matches produced in any State that does not come into the agreement. It will of course be open to every State to come into the agreement even if it has no manufacture of matches at present and in that case it will get a share of the duty on a population basis. This proposed agreement with the States is merely intended to cover a provisional period pending the introduction of Federation. We cannot prejudice the position of retaining an excise duty on matches as a Federal tax, and we must safeguard the Indian Government of the future against any arrangement made now being held to weaken the position that the Federal Government under the new constitution will retain the whole of the proceeds of the match excise.

The second complication to which I have referred is that with the consent of the Government of India the Government of Burma had already two or three years ago imposed a consumption duty at the rate of 12 annas per gross of boxes on matches manufactured in, or imported into, Burma. This duty cannot be allowed to continue side by side with the proposed excise duty, and the Burma Government Act imposing the consumption duty is to be repealed. We do not, however, think it fair that the Burma Government should thus be deprived of the proceeds of a tax which they had been allowed to levy, and as the estimated proceeds from the tax at present amount to 18 lakhs per annum, we propose as a part of our general plan that this sum should be returned to the Burma Government. We estimate that in a full year the total proceeds of this excise duty for the whole of India will be 3 crores. Out of this on the population basis about 70 lakhs will be distributable among the States, leaving 2,30 lakhs for British India. It will not however be possible to introduce the scheme so as to recover more than 11 months revenue during the first year, so that the net revenue for British India according to our budget estimates for next year will be only about 2,10 lakhs. After deducting 18 lakhs for Burma this leaves a balance of 1,92 lakhs which is only 3 lakhs more than 1,89 lakhs to be distributed on account of half the jute export duty. If this 3 lakhs is retained by the Central Government the surplus of 16 lakhs to which I referred in an earlier passage will be increased to 19 lakhs.

38. There are just two practical features in our proposals that I wish to mention. The customs duties on matches are to be revised so as to comprise rates maintaining the existing measure of protection for the Indian industry over and above the new excise duty. The proposal for imposing this match excise duty is not included in the Finance Bill, but in a separate bill which I shall introduce at the earliest opportunity. The bill will provide for no concession in favour of the so-called "cottage industry", which really means nothing more than the dipping in chemical mixtures of splints made in factories and the pasting of paper wrappers and of strips carrying other chemical mixtures on boxes made from veneers made in factories. Any such concession would make evasion of the duty and an artificial attack on the position of regular match factories materially easy; and we are justified in allowing this consideration to prevail by the fact that the Tariff Board, in paragraph 134 of their Report regarding the grant of protection to the Match Industry definitely advised against any special measures which would have the effect of encouraging match making as a "cottage industry" because it was not suitable for such operations both on economic grounds and because of the dangerously inflammable nature of the materials used.

The case is different with the sugar excise, where we have to consider an important long established industry outside power-factories, and where the risk of evasion is in any case less because the proposed rate, relatively to value, is much less onerous than that proposed for matches. With sugar again the danger of an unnatural transfer of production to the States is also much less. On both these points, we propose, with the sugar excise, to do what we could not do with matches and to follow the precedent of the cotton excise ; that is to say, the sugar duty will be confined to factory produce, and States which produce sugar in factories will merely be invited to impose an equal duty, for their own benefit, on production in their own territories.

39. I must add a few words as to the significance in relation to Bengal of the proposal to render it possible to surrender part of the jute export duty. I have already stated that it is necessary to stipulate, and indeed we feel sure that we shall be supported in this view by the Legislature and particularly by those members who represent other Provinces, that if this special assistance, out of what are under the present constitution Central funds, is to be given, it is fair that we should satisfy ourselves that the Government of Bengal is taking every possible measure on its own account to restore financial equilibrium. On the other hand the present proposal is, as I have already stated in several connections, only intended as a provisional proposal. It is not intended to be a permanent commitment, nor do we intend to take the line that it is to be regarded as a full and final settlement of the Bengal Government's financial position. Further enquiries will have to be made before any such settlement could be reached, nor can it be reached until the constitutional plan is determined by the British Parliament. There are several difficult points involved, amongst which I must mention the treatment of the debt which has already accrued against Bengal as a result of budget deficits which have been incurred since 1930. This debt on their present estimates would at the end of the next financial year amount to something approaching 7 crores. As regards the other Provinces which will receive assistance, the position in their respect is just as provisional as in respect of Bengal. I may say however that we in the Government of India are prepared to recognise that there may be some special claim for assistance in the case of Assam, while as regards Bihar and Orissa, at least in present circumstances, I do not think that any Member of this House will grudge them this small windfall.

40. *Plan for dealing with Earthquake damage.*—This brings me to the last important item in our financial proposals for this year—our plan for helping to finance the measures rendered necessary by the recent earthquake. I have already mentioned one feature in this plan, namely that we propose to transfer our estimated surplus of 1,29 lakhs in the current year (or whatever the final amount of that surplus may be) to a special fund which will be utilised in assisting the Provinces, chiefly of course Bihar, which have suffered from the recent earthquake.

41. The problem of reconstruction with which the Government of Bihar and Orissa is confronted can conveniently be treated under four main heads.

(a) *Reconstruction of Provincial Government buildings, etc.*—There is first the reconstruction of Government property, chiefly buildings, though there has been some damage to canals. On such rough estimates as it has yet been possible to prepare, the cost of repairing this damage may be put at about 1 crore. Our proposal is that the Government of India should, as capital expenditure on its own account, provide half the cost of reconstructing

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and repairing their damaged property, and should make a loan to the Provincial Government of the remaining half through the Provincial Loans Fund.

(b) *Financial help to local Authorities.*—Secondly, there is the very extensive damage to the property of local bodies in Bihar, their roads and bridges, their schools, hospitals and dispensaries and so on, including the damage to what are known as aided schools, established through the benevolence of private individuals. A very rough estimate of the cost of repairing the damage is a rather over one crore. The resources at the disposal of these local bodies are entirely inadequate to cope with a disaster of this magnitude. Such help as they may be able to render will necessarily be very restricted. It would not be possible to assist them by means of loans requiring repayment, even if interest charges were made very low or remitted altogether, without crippling their activities for the future. In short, as they have lost for the time being the main sources of their income, it will be necessary to place them in funds with which to carry out their normal responsibilities until their income has recovered. For all these purposes we propose to make a free grant from central resources, that is to say, from the special fund already mentioned which is to be formed out of this year's surplus. It may not be possible to undertake and complete all the necessary rebuilding before the end of 1934-35 since it may not be until after the next monsoon that accurate knowledge will be available of the extent to which the drainage of the country has altered and foundations for buildings and bridges are secure. We are therefore providing in next year's estimates for expenditure of only 75 lakhs on this account, but I can assure the House that if it is found that more than this can be advantageously spent we shall have no hesitation in providing the additional sum required.

(c) *Assistance to private individuals.*—Thirdly, there is the question of assisting private individuals to rebuild their houses and shops. To many of the poorest sufferers from the earthquake their small dwellings and shops must have been their sole asset; they have no cash which they can use, or credit which they can pledge, for restoring them, and it would be useless in most cases to proffer them assistance by means of loans on however favourable terms. It seems to us that this part of the problem must primarily be dealt with by means of free grants, and that these grants are eminently an object on which the Viceroy's and other Relief Funds should be expended, so far as they are not needed for immediate relief. The field is a very wide one but I am confident that the public, both here and in Great Britain, will respond most generously now that they know the magnitude of the need.

There is, however, another very wide class who, though they have not lost their all through the earthquake and would not be fit or even willing recipients of charity, are urgently in need of assistance to rebuild their house property, and to whom this assistance can most suitably be afforded by means of loans. We have been very actively discussing with the Government of Bihar and Orissa the plan for the grant of such loans and I had hoped to be in a position today to announce at any rate the main outlines of the scheme, but there are still some points to be settled. If it is in any way possible, I will give further information to the House at a later stage of our budget discussions. At the moment all I can say is that we have every intention of making available to the Provincial Government, on terms that will not be onerous to them, or to those who are ultimately to receive the advances, whatever sum may be found to be needed for this purpose. I will not at present venture to give an estimate of what that sum may be.

(d) *Agricultural problems.*—Fourthly, there is the agricultural problem. It is known that there has been damage to agricultural land over wide areas in the north of Bihar due to the deposit of sand. The extent and severity of this damage, what measures can be taken to rectify it, and what the cost of those measures will be, cannot be known until a fairly detailed survey of the affected area has been made, and at present the flooded condition of a great part of the area makes such a survey difficult, though the Provincial Government have already taken steps to initiate it. I cannot therefore at the moment say in exactly what form our assistance will be given. All I can say is that we consider that the balance held by the Provincial Government in their Famine Relief Fund can be properly regarded as available for this purpose, and beyond that we propose to assure the Provincial Government of our financial support in any further action that may subsequently be decided upon.

42. I have dealt so far with the problems of permanent reconstruction. The principal necessities for immediate relief have been and are being met, energetically by the Provincial Government out of money which has been made available from the Viceroy's and other relief funds; but there is one way in which we propose to contribute towards immediate relief from central revenues. Seven of the sugar factories in North Bihar have been destroyed and two more have been very seriously damaged, with the result that cane growers in this area have been deprived of a market for about fifteen million maunds of cane. It is hoped to make arrangements for transferring the bulk of this cane with the necessary expedition to factories in the south of Bihar or the east of the United Provinces, and the Railways concerned are prepared to carry it at very low concessionary rates of freight. But some portion at any rate of the cane cannot be dealt with in this way, and the Provincial Government are therefore providing country mills and other equipment in order to convert it into gur. We have informed them that we are prepared to bear the whole cost of this measure from central revenues; it will probably not exceed 5 lakhs.

43. I may sum up our proposals and their effect on our financial estimates as follows. We are undertaking to bear the whole cost of restoring the property and finances of the local bodies, which we put for the present at something over a crore, and the whole cost of the special measures for dealing with the cane crop, which we put at about five lakhs. We propose to meet this expenditure from the special fund to which this year's surplus, now estimated at 1,29 lakhs, will be transferred; and we expect to spend 75 lakhs from this fund up to the end of 1934-35. We are also undertaking to bear half the cost of restoring the Provincial Government's own buildings and other public works; this, on present estimates, we expect to cost us about fifty lakhs, which we mean to provide from funds raised on loan, and have allowed for in next year's ways and means estimates.

In addition we are undertaking the liability for the cost of any measures of assistance to agriculturists that may be decided upon, to the extent that it cannot be met from the Provincial Government's Famine Relief Fund, and we are undertaking to advance whatever capital may be required for financing rebuilding advances to those persons whose position does not warrant assistance in the form of charitable grants, on terms which will lay no undue burden on the persons concerned or on the Provincial Government. I cannot as yet indicate what the final cost, if any, of these loan measures will be to Central revenues, or how we shall propose to meet it. For the present, so far as the ways and means position is concerned, we are assuming in our estimates a capital outlay of two and three quarter crores on loan measures.

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and on the capital grant for restoration of the Provincial Government's property next year ; so that with the 75 lakhs provided from the special fund, our estimates include three and a half crores for relief in one way or another in Bihar. If more is needed before the end of 1934-35, it will be provided. We trust that these proposals will be regarded not only as adequate, but generous. The fact that we can make them without serious embarrassment is an illustration of the value of maintaining a sound financial policy.

44. *Ways and Means*.—As indicated in an earlier passage of my speech we have succeeded in maintaining throughout the year the improvement in our credit both in England and in India, with the result that we have again been able to fund a much larger amount of our loan commitments than what I indicated in my budget speech last year. We have also been able to remit more than we anticipated, thereby further strengthening our currency reserves.

45. I will deal first with the latter. Honourable Members will realise that there is always a difficulty in presenting in the budget speech an accurate forecast of the total remittances, not only because it has to be based on estimates worked out some weeks earlier, but also because the budget is introduced at a time of the year when seasonal activities in remittance are at their height and transactions may be running into millions a week. The difficulty has been increased in the current year by the developments in the last few weeks in the currency policy of the United States of America. One side of that policy has been still further to increase the dollar price of gold. This has been followed by a similar increase in its sterling price, with the result that gold exports have again been stimulated from India. Simultaneously, there has been in the last month some rise in the price of our export commodities, the price of cotton in particular having risen materially in Bombay, and this has further strengthened exchange. Thus though our estimates are based on the assumption that in the current year we will be able to purchase £37·46 millions, that figure may be materially exceeded. We have also assumed that no expansion or contraction of currency will be required during the current year. On these assumptions we will be able to continue the process hitherto followed this year of utilising the whole of the surplus of our remittances to England in strengthening our external currency reserves. The actual process has been the addition of sterling securities to the Gold Standard Reserve which has enabled us to transfer gold from that to the Paper Currency Reserve and against that cancel *ad hoc* securities. On these estimates we should be able in the current year to replace rupee securities with external assets in the Paper Currency Reserve to the extent of 17,73 lakhs, which means that we should close the year with our note issue covered by external assets to the extent of about 60 per cent. if gold is taken at its statutory value, or of 75 per cent. if it is valued at its present market price.

46. *Loans*.—In my last budget speech I estimated that we could effect a further reduction of 8 crores in our outstanding of treasury bills ; that on the assumption that we converted 30 crores of our outstanding loans, we would only require to borrow 4 crores in India ; and that in order to repay the £7 million loan we should require to raise only £6 millions or 8 crores in London. I pointed out, however, that these figures were merely illustrative, and that our policy must, as always, be regulated by the necessity of seizing every opportunity of consolidating and improving our credit position. In fact we have been able very considerably to improve upon the estimate. As I have already stated, we expect by the end of the year to have replaced 17,73 lakhs of treasury bills in the Paper Currency Reserve by sterling securities. On the

other hand our increased sterling remittance, which naturally meant that we had to raise rupees to pay for it, has resulted in our increasing instead of decreasing the amount of treasury bills held by the public in India. Instead of a reduction of 8 crores we contemplate an increase of 3,91 lakhs to 30 crores. We consider this a reasonable amount, which, so far from being embarrassing, is rather a convenience both to us and to the market—to us because we are able to borrow in this way at a very much cheaper rate than on funded loans, and to the market because they have now made the Government treasury bill a part of their financial machinery. The market has come to rely upon this as a convenient method for the investment of short-term money, and a floating stock of about 30 crores is by no means excessive for its requirements at a time like this.

47. The revenue benefit to Government from maintaining a reasonable volume of treasury bills is not merely due to the lower interest rate but also to the fact that this makes it possible to economise materially in our cash balances, by enabling us to avoid seasonal fluctuations which are inevitable if we have to depend entirely on our revenue receipts or on regular loans floated periodically for large amounts. In pursuance of this policy we have supplemented treasury bills by borrowing of ways and means advances from the Imperial Bank throughout the year. In accordance with our usual practice, which is to use these ways and means advances merely to assist the money market by a voiding too rapid fluctuations in our treasury bills issues, we are budgeting for the entire extinction of the ways and means advances outstanding at the close of the year.

48. *Discharge of permanent debt.*—The details of the permanent debt discharged in India and in England during the current year are given below :

INDIA (in lakhs of rupees).

|  |       |
|--|-------|
| 4 per cent. 1916-17 . . . . .          | 9,86  |
| 4½ per cent. 1934 . . . . .            | 12,98 |
| 5 per cent. Bonds 1933 . . . . .       | 4,22  |
| 5 per cent. War Loan 1929-47 . . . . . | 4,02  |
| 6 per cent. Bonds 1933-36 . . . . .    | 8,89  |
| Other loans . . . . .                  | 2,57  |
|  | 42,54 |
|  | ----- |

ENGLAND (millions of pound sterling).

|                               |       |
|-------------------------------|-------|
| 6 per cent. 1933-35 . . . . . | 2·62  |
| 6 per cent. 1933-34 . . . . . | 9·96  |
| Other loans . . . . .         | 1·58  |
|                               | 14·16 |
|                               | ----- |

In India we discharged 42,54 lakhs including the balance of the 5 per cent. 1929-47 loan and approximately 10 crores of the 4 per cent. conversion loan 1916-17. In England we paid off the balance of the 6 per cent. Bonds 1933-35 and also paid off in their entirety the 10 millions 6 per cent. Bonds 1933-34. As against these repayments we floated one loan in India and two in England. The loan floated in India was the 3½ per cent. 1947-50 which brought us in 30,82 lakhs, while in England we floated two loans—the 4 per

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cent. stock 1948-53 for 11·7 millions and 3½ per cent. stock 1954-59 for £10 millions—of the latter we realised 6·85 millions during the current year and we will receive the balance of 2·85 in the year for which we are budgeting.

49. Our general programme has again been helped by exceptionally large receipts from Post Office Cash Certificates and Savings Bank deposits. Though we reduced the rate of interest on the latter from 3 to 2½ per cent. in the summer, and though we effected a further reduction in the rate on the former, the amount which we received in this way came to 16,90 lakhs as against the budget estimate of 8,40. The recent figures of receipts less withdrawals under these two heads are remarkable.

(In crores of rupees)

| Year.             | Total. | P. O. Cash Certificates. | P. O. Savings Bank deposits. |
|-------------------|--------|--------------------------|------------------------------|
| 1928-29 . . . . . | 3·42   | 1·60                     | 1·82                         |
| 1929-30 . . . . . | 5·34   | 2·70                     | 2·64                         |
| 1930-31 . . . . . | 3·33   | 3·43                     | —·10                         |
| 1931-32 . . . . . | 7·32   | 6·15                     | 1·17                         |
| 1932-33 . . . . . | 16·26  | 11·06                    | 5·20                         |
| 1933-34 . . . . . | 16·90  | 7·80                     | 9·10                         |

They indicate that a large amount of funds is available for investment, possibly partly the proceeds of private gold realisations.

In another part of my speech I have invited attention to certain problems connected with the increase in the outstandings under the head of Post Office Cash Certificates.

50. *Capital Expenditure, Railways.*—Railway capital outlay for the current year is again less than the budget, amounting to 45 lakhs as compared with the budget estimate of 3,30 lakhs. The net effect on the ways and means position of the Railways is 2,55 lakhs more favourable. 7,78 lakhs had to be withdrawn from the Depreciation Fund balance to make up full interest charges, 6 crores for ordinary expenditure on renewals and 9 lakhs for loans to branch line companies, and as the credits to the Fund were 13,60 the net result in 1933-34 was a reduction of 27 lakhs, as against an addition of 3 lakhs anticipated in the budget, leaving a balance at the end of the year 11,79 lakhs as against 12,06 on the 1st April 1933.

51. *Provincial drawings.*—Provincial drawings for the current year were slightly less than those estimated in the budget, i.e., 4 crores as against 4·37. To a certain extent this is due to the reduction in the rates of interest charged to provincial Governments on their borrowings from the Provincial Loans Fund made possible by our successful conversion operations. Unfortunately, though the position in the provinces as a whole was better than anticipated, others, particularly Bengal, afford particular problems which I have dealt with elsewhere.

52. *Next Year, 1934-35.*—I am dealing, in a later passage of my speech, more generally with our policy of capital expenditure and the possibility of its extension. For the purposes of our estimates, however, we have proceeded on the same lines as last year, though a less rigid policy is being followed by the Railways. We are budgeting for 4,68 lakhs as Railway capita

outlay. We are also allowing 6.25 to the provinces as compared with 4 crores during the current year. 2.75 lakhs of this will represent our estimate for the capital funds required in the course of next year for expenditure on the restoration of earthquake damage.

53. *Borrowing programme, 1934-35.*—With this low capital programme we are obviously in a very strong position. We have already dealt with all the loans the maturity dates of which afford us an opportunity of converting them. The only securities actually maturing for repayment next year are the 4½ per cent. Bonds of which 12.98 lakhs have already been converted during the current year, leaving a balance of 13.00. In England there is nothing. If we allow for receipts of 11.50 lakhs from the Post Office Cash Certificates and Savings Bank deposits as against 16.90 during the current year, this will mean that after taking into account the 2.85 million balance of the 3½ per cent. sterling loan which has still to be paid up, we will not require to float any regular loan either in India or in England. I must, however, in this connection make the usual reservation. These figures merely indicate our obligatory position. We have two large loans which we have the option to repay in London in 1935 and 1936 amounting to £29 millions or nearly 40 crores. We have also the 4 per cent. loan 1934-37 in India amounting to 19.54 lakhs, the 5 per cent. 1935 Bonds amounting to 11.43 and the 6½ per cent. Treasury Bonds also payable in that year amounting to slightly over 16 crores which it may be possible to convert if conditions are favourable. In addition, even though we have now reached a very strong position as regards our sterling reserves, we must neglect no opportunity of further fortifying them if conditions are favourable. This may entail the further replacement of rupee Treasury bills in the Paper Currency Reserve by sterling securities and a corresponding increase in our borrowings from the public.

As regards Treasury Bills held by the public, we consider that no reduction in their outstanding below 30 crores should be budgeted for next year for the reasons which I have already indicated. In present circumstances we consider this a convenient and reasonable figure.

54. *Home charges.*—In the early part of the year exchange was very steady, enabling us to effect substantial remittances. In the third quarter of October to December there was a falling off owing partly to the seasonal demand for money being later than usual, and partly to a temporary falling off in the exports of gold coinciding with speculation on the occasion of the discussion of the currency clauses in the Reserve Bank Bill. The passing of that Bill through the Assembly, however, coupled with the increase in the price of gold and of cotton to which I have already alluded, has changed the aspect in the last month, and we are now buying sterling on a large scale. As already explained, we have, for budgetary purposes, shown a figure of £37.46 millions of which we had already received up to February 20th over £36 millions as against our budget estimate for the whole year of £21 millions. We have, as I said, devoted the balance to a further strengthening of our currency reserves. In addition, we received 3.81 millions from the sale of silver. For next year we estimate that we will have to purchase 26.7 millions to fit in with the programme indicated above.

55. The position which I have thus explained is summarised in the following table, but if the actual figure of sterling purchases is higher than the present estimate the excess will, unless it is used to expand currency, be shown in the accounts as an increase in the outstanding of treasury bills held by the public in India with a corresponding reduction of the outstanding of treasury bills in the Paper Currency Reserve.

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*Ways and Means Statement.*

(In lakhs of rupees.)

|   | Budget, 1933-34. |          |        | Revised, 1933-34. |          |         | Budget, 1934-35. |          |        |
|---|------------------|----------|--------|-------------------|----------|---------|------------------|----------|--------|
|   | India.           | England. | Total. | India.            | England. | Total.  | India.           | England. | Total. |
|   | 1                | 2        | 3      | 4                 | 5        | 6       | 7                | 8        | 9      |
| Opening Balance .   | 11,73            | 17,85    | 29,58  | 14,59             | 13,19    | 27,78   | 13,44            | 7,10     | 20,54  |
| Excess of Revenue over Expenditure.   | 35,82            | -35,57   | 25     | 32,56             | -32,56   | ..      | 32,96            | -32,77   | 19     |
| New Loan . . . . .  | 12,00            | 8,00     | 20,00  | 30,32             | 24,73    | 55,55   | ..               | 3,80     | 3,80   |
| Post Office Cash Certificate (Net).   | 5,00             | ..       | 5,00   | 7,80              | ..       | 7,80    | 5,50             | ..       | 5,50   |
| Post Office Savings Bank Deposits (Net).                                    | 3,40             | ..       | 3,40   | 0,10              | ..       | 0,10    | 6,00             | ..       | 6,00   |
| Other Unfunded Debt (Net).  | 4,80             | 16       | 4,96   | 5,40              | 16       | 5,55    | 5,99             | 17       | 6,16   |
| Discount Sinking Fund.  | 75               | ..       | 75     | -1,13             | ..       | -1,13   | 89               | ..       | 89     |
| Reduction or Avoidance of Debt.   | 6,88             | ..       | 6,88   | 3,00              | ..       | 3,00    | 3,00             | ..       | 3,00   |
| Railway Depreciation Fund.  | 3                | ..       | 3      | -27               | ..       | -27     | -35              | ..       | -35    |
| Posts and Telegraphs Depreciation Fund.                                     | 39               | ..       | 39     | 36                | ..       | 36      | ..               | ..       | ..     |
| Defence Reserve Fund.   | -62              | ..       | -62    | 9                 | ..       | 9       | -50              | ..       | -50    |
| Cash Balance Investment Account.  | ..               | ..       | ..     | 46                | ..       | 46      | ..               | ..       | ..     |
| Cash Certificate Bonus Fund.  | 1,35             | ..       | 1,35   | 70                | ..       | 70      | 1,10             | ..       | 1,10   |
| Other Deposits and Advances (Net).  | -48              | -1       | -49    | -1,27             | 81       | -46     | 1,31             | -3       | 1,28   |
| TOTAL . . . . .   | 69,32            | -27,42   | 41,90  | 87,62             | -6,87    | 80,75   | 56,90            | -23,83   | 27,07  |
| GRAND TOTAL . . . . .   | 81,05            | -9,57    | 71,48  | 1,02,21           | 6,32     | 1,08,53 | 69,34            | -21,73   | 47,61  |
| Capital Outlay—   |                  |          |        |                   |          |         |                  |          |        |
| Railways . . . . .  | 2,00             | 1,30     | 3,30   | -75               | 1,20     | 45      | 2,96             | 1,72     | 4,68   |
| Posts and Telegraphs.   | 16               | ..       | 16     | 16                | ..       | 16      | 40               | ..       | 40     |
| Civil . . . . .   | 46               | 1        | 47     | 53                | 1        | 54      | 53               | 1        | 54     |
| Commutation of Pensions.  | 61               | ..       | 61     | 55                | ..       | 55      | 49               | ..       | 49     |
| Gratuities to retrenched personnel.   | -1               | ..       | -1     | 3                 | ..       | 3       | -3               | ..       | -3     |
| Discharge of Permanent Debt.  | 23,96            | 3,14     | 27,10  | 42,54             | 18,88    | 61,42   | 13,24            | 3,00     | 16,24  |
| Discharge of Treasury Bills—  |                  |          |        |                   |          |         |                  |          |        |
| Public (Net) . . . . .  | 3,00             | ..       | 3,00   | -3,21             | ..       | -3,21   | ..               | ..       | ..     |
| P. C. R. (Net) . . . . .  | ..               | ..       | ..     | 17,73             | ..       | 17,73   | ..               | ..       | ..     |
| Sinking Fund Investment Account.  | ..               | ..       | ..     | -1,46             | ..       | -1,46   | ..               | ..       | ..     |
| Gain or loss on sale, etc., of assets of the Paper Currency Reserve.        | ..               | ..       | ..     | 7,89              | ..       | 7,89    | 5                | ..       | 5      |
| Loans to public (Net) . . . . .   | -19              | ..       | -19    | 28                | ..       | 28      | 1,49             | ..       | 1,49   |
| Sale of silver (Remittance Account).  | 50               | -50      | ..     | 5,08              | -5,08    | ..      | ..               | ..       | ..     |
| Iraq drawings . . . . .   | 80               | -80      | ..     | 76                | -76      | ..      | 73               | -73      | ..     |
| Home Remittances . . . . .  | 28,00            | -28,00   | ..     | 50,00             | -50,00   | ..      | 35,00            | -35,00   | ..     |
| Transfers through the Gold Standard Reserve and the Paper Currency Reserve. | -50              | 50       | ..     | -31,75            | 31,75    | ..      | ..               | ..       | ..     |
| Provincial requirements.  | 1,15             | 3,22     | 4,37   | 78                | 3,22     | 4,00    | 3,09             | 3,16     | 6,25   |
| TOTAL . . . . .   | 69,33            | -16,13   | 53,20  | 88,77             | -78      | 87,99   | 52,55            | -22,44   | 30,41  |
| Closing Balance . . . . .   | 11,12            | 6,56     | 17,68  | 13,44             | 7,10     | 20,54   | 10,49            | 6,71     | 17,20  |
| GRAND TOTAL . . . . .   | 81,05            | -9,57    | 71,48  | 1,02,21           | 6,32     | 1,08,53 | 69,34            | -21,73   | 47,61  |

*Economic prospects.*

56. My speech has been mainly concerned—as a Budget speech must be—with the public finances of India, and the measures which I have described or proposed have been concerned with the object of maintaining public finances in a sound condition.

57. But in order to form a proper judgment on the public financial policy of a particular country it is necessary to cast one's vision wider, and to take account not only of the relations between that country and the rest of the world, but also of the reactions of its financial policy on the general well-being of its people. We must, in short, recognise on the one hand that financial policy is only a means to an end—the general prosperity of the country—and on the other hand that no country can today shape its destiny independently of the rest of the world. The former consideration is very present in the minds of our critics; the latter often tends to be forgotten. I wish to say something on both.

58. It has been a charge frequently made in this Assembly against the Government of India—and I have little doubt that it will be a charge repeated in the present Budget debates—that we have thought too much of theoretical financial principles, and too little of the conditions of the country; or again that when other governments have set themselves to constructive economic planning, we have drifted and done nothing. I should be the first to admit that there is room for honest difference of opinion on these matters, and the only aspect of such charges which I should resent is that we have been drifting in the matter. Whatever we have done has been done as a matter of deliberate policy decided after much thought. If one looks round the world to-day, it is quite clear that among the various countries there are different schools of thought. The recent crisis has created such irrational reactions that old theories of financial principles are being in many places questioned. It is an interesting study to analyse the budgetary policies of various countries and the effects which these have had. Thus one finds certain countries that are deliberately incurring heavy budget deficits either as an inflationary measure designed to create employment or because they do not feel that the economic condition of the country can stand further taxation. There are other countries which consciously incurred deficits during the first years of the crisis, in accordance with what one may describe as a 'fat and lean years' principle, but which now, after having experienced the adverse influence of continuing deficits on Government credit, are making strong efforts to restore a balanced budget. Lastly there are the countries which have never departed from their observance of the old fashioned principles of sound finance. This has been generally characteristic of the countries comprised within the British Empire, and among them India has been a notable example.

59. Now there are two observations which I have to make on this comparison. The first is that whatever the difference in policy between various countries, increases of taxation and drastic retrenchment, including cuts in Government officials' pay, have been practically universal features; so that in no country is the picture a rosy one. My second observation is much more important. Whereas those countries which have preserved a balanced position know where they are and have faced their troubles as they have arisen, those that are piling up deficits and public debt are evading their difficulties and postponing them till the future. They are

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relieving the taxpayers of to-day in the hope that the taxpayers of to-morrow will be able to bear the burden, for one thing is certain that the burden has ultimately to be borne in some form or other by the people of the country. Even if a Government repudiates its liabilities the people of the country have to bear the burden, and in that case it is those who have trusted the government and lent it money and not the general body of taxpayers that must pay. Now it is obviously impossible for me at the close of a long Budget speech to attempt a full examination of all the issues that are involved in this subject. I will only state that we firmly believe that the best policy for India has been to preserve the traditions of sound finance and that by doing so we are helping to create the safest conditions in which her traders and manufacturers can do their business. We believe that it is better to face economic troubles when they come and that revenue and expenditure should be adjusted to meet the need rather than that the need should be hidden and disguised. We believe that that is the best course for the present and still more with a view to the future. And in this latter respect I would remind the House that we who are carrying on the Government of India to-day, have a special responsibility, for we expect to be succeeded in the near future by an Indian Government under the new Constitution. It would have been a poor service to India on our part to shirk our troubles and leave their accumulated weight to handicap the first years of the new Government.

60. I believe that the country as a whole supports us in our adherence to these principles and certainly the attitude of this Assembly in the past 3 years—which I gratefully acknowledge—encourages us in this belief. But to any who may entertain doubts in the matter I recommend a careful study of what is happening in other countries. We are often advised, for example, to look to Japan as a model, and indeed we recognise that we have much to learn from that remarkable nation. But I wonder if there is a single member of this House who would wish us to follow their financial policy. According to recent press telegrams in order to make up the deficit on the current year, it has been decided to raise 881 million yen by loans. That means the equivalent of nearly 120 crores of rupees at par, and even at the present rate of exchange about 70 crores. Last year they had a deficit covered by loans of over 1,000 million yen. Would India like to face accretions to her public debt on this scale?

61. But assuming that we have public support in this respect, there is the further charge that we have done nothing in the way of a constructive economic plan to offset the effects of the present depression. As to this, before discussing the possibilities of an economic plan, let me repeat once more that we believe that the maintenance of a sound position as regards public finance and currency is the contribution which a Government ought primarily to make towards economic recovery, for, unless the country is prepared to support the Government in a complete control of economic activities in supersession of private enterprise, its primary duty is to create conditions in which private enterprise can operate with security. We hope by our own financial policy to be able to preserve conditions of cheap money which will in themselves be an encouragement to commercial and industrial enterprise. We hope also thereby to preserve stability of currency without which international trade cannot flourish. And lastly we hope to be able thereby to sustain our power to finance capital expenditure on sound projects by the various Government authorities in India, as to which I shall have more to say later. It is important to bear these overriding considerations in mind, when the question

of a so-called economic plan is brought up. As to this, in the past Honourable Members used to ask us to look to Russia as a model. To-day the example generally quoted is that of the United States. Now though the methods in both cases are very different, there is this similarity that in each case it has been proved necessary to create departments of Government exercising large powers of control over every phase of industrial, commercial and agricultural activity of the country. The machinery of the Government of India is not adapted to such a purpose, nor do I believe for a moment that the country would tolerate such a measure of control. But quite apart from that the real practical question is—has any necessity for such drastic measures arisen in India? I doubt whether many people in India appreciate how serious the situation was in the United States of America. President Roosevelt's plan has been accepted because of the desperate need which existed for drastic action. The whole machinery of banking and industry was in danger of breaking down. Since 1929 more than 6,000 banks had failed involving deposits of five thousand million dollars—many more were carrying on and are still carrying on on a restricted basis. From 1929 to the spring of 1933 the numbers employed in factories fell by a half, the total wages by two-thirds and the wage per employee by 30 per cent. In March 1933, 21 million persons out of a total population of 120 million were living on public relief—many more were unemployed and living on savings and charity. And that was the state of affairs after the previous government had made desperate attempts and pledged hundreds of million dollars of public credit to stem the fall in prices and produce a so-called economic plan. In India we have no situation comparable to this.

62. But even if there is no occasion in India for such drastic measures, it certainly does not follow that Government should not have a definite policy, or that its duty is not at every point to assist the economic well-being of the country. We have had such a policy. Our position has had its special difficulties in other ways, for we have had to take into account not only the economic but the constitutional position. As I have already shown when the crisis first came upon us, our credit was severely strained and the debt position was such as to give cause for anxiety. This was the result partly of past commitments, partly of the fall in our export trade, and partly of constitutional uncertainty which affected the confidence of many investors in Government of India securities and holders of property in India. It was the first task of Government to safeguard and restore the position as regards credit and revenue resources, not only for the ordinary and obvious reasons, but also for special reasons connected with the constitutional position such as the setting up of a Reserve Bank. We may surely claim that the improvements which I have already described represent a substantial achievement in this direction. But that of course is not the whole of our task. While the position thus created must be preserved, we must also consider whether on the foundations thus strengthened we can construct an economic policy to improve conditions in India.

63. That has had the constant attention of Government, not merely as an emergency measure in the present crisis, and it is worth while to attempt some review of the results. In the first place it is fair to claim that as a result of Government's industrial policy, this period of world depression, when, to take only one instance, the steel production in the United States fell at one time to 10 per cent. of its capacity, has actually been a period of industrial expansion in India. Speaking in a recent debate in the Assembly, I gave some illustrations of this from the main industries. Taking the index figure of

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industrial activity in the year 1928 as 100, I pointed out that as regards textiles for the first ten months of 1933, while the United Kingdom, the United States of America and France all showed falls ranging up to 25 per cent., India showed in the same period an increase of 41 per cent., as compared with an increase of 34 per cent. in Japan. Also taking steel production as another illustration, while the United States in 1933 showed a reduction of 54 per cent. and France and the United Kingdom reductions of 30 and 20 per cent. respectively, India showed an increase of 75 per cent. as compared with an increase of 55 per cent. in Japan.

64. At the same time other industries have been growing remarkably. The sugar industry is a case in point. By 1935 it is estimated that we shall produce in India the whole of the white sugar which used to be imported from Java, and indeed, as I have already said, there is now a danger of this process going too fast and too far. Let me quote yet another interesting example. The consumption of cement in India has increased from 387,932 tons in 1924 (Indian production 263,746 tons, imports 124,186 tons) to 689,515 tons in 1933 (Indian production 625,860 tons, imports 63,655 tons). At the same time there is no doubt that in the last two years, partly aided by the high level of our revenue duties, there has been a general and marked development of minor industries in India. The Indian Stores Department, which is constantly encouraging this development, though its work does not receive the recognition which it deserves, can give interesting illustrations of this. Thus they report that marked developments are now going on in Indian industries manufacturing a wide range of articles such as electric lamps, and all kinds of electrical appliances, rubber tyres, water-softening plant, cooking stoves, asbestos cement products, paints and enamels—to mention only a few instances, while in recent years there have been well-known developments in the Indian manufacture of railway rolling stock, bridge work and heavy structures in the case of which India is now able to manufacture all her requirements. Apart from these actual developments many new projects for the establishment of important factories are now under consideration.

65. Now all this is in accord with a policy deliberately adopted by Government—the essential idea being that, if the standard of living is to be raised for the increasing population of India, industrial employment must be expanded to supplement the agricultural opportunities of the country.

But, it will be said, “industrial development is only a small thing for India compared with the conditions of the agricultural masses. Their well-being is of overwhelming importance and they are being reduced to dire straits by the present low level of prices.” If by such criticisms it is meant that the Government of India has ignored agricultural development, that charge surely will not stand examination, for the irrigation projects of India have been an example to the world, and are on a scale which makes projects in other countries shrink into insignificance. But if it is meant that the very magnitude of these projects, and the increase which they have brought about in productive capacity, set up a need for Government to give guidance as to the utilisation of that capacity and the disposal of the products, or again if it is meant that industrial development may react unfavourably on agriculture if it restricts unduly India’s purchases of manufactured goods from other countries on which she has relied as customers for her own agricultural exports, or lastly if it is meant that the recent fall in prices has

given rise to other problems of special difficulty in regard to the agricultural masses, then such criticisms point to matters which deserve serious consideration. They certainly have been receiving that consideration from Government.

66. The question of the present condition of the agricultural masses of India has been so much discussed that I do not wish to enlarge upon it at great length. Yet there is so much confused thought about it that I must say something.

There is one thing on which all sides would agree, and that is that the paramount need is to raise the level of prices of agricultural commodities; and starting from this position there are many who argue that we should restore prosperity to India if we raised the level of rupee prices by the mere dodge of reducing the value of the rupee. We cannot believe that this would achieve its object. It would, of course, if the prices of all goods responded, reduce the burden of the fixed money charges which the cultivators have to pay—taxes, interest and rent. But it would do nothing to solve what is really one of the main maladjustments to-day, namely, that the prices of primary agricultural products have fallen much more than the prices of the things which the agricultural producer has to buy. Nor could the mere raising of rupee prices do anything to stimulate the demand for Indian produce in foreign markets, and this export demand, although it is only a percentage of the whole, represents the margin which makes all the difference to India's prosperity. Moreover a great danger lies in the reaction which might come from such a course; for if, for example, the rupee prices for a product like jute were raised by a depreciation of the rupee, there might be a great stimulation of the cultivation of jute; but there would be no increase in what our export markets could absorb. This might lead to a serious crisis. One cannot dodge the realities of the situation in this way. There are some illuminating remarks on the effects of monetary manipulation and the depreciation of the dollar on agricultural interests in the annual report of the United States Ministry for Agriculture issued last December:

"It raises the prices of export of speculative commodities, such as wheat, cotton, and corn, much more than it does the prices of milk, hogs, beef, cattle, poultry, and other non-speculative commodities sold mainly in the domestic market. Moreover, it also raises the prices of the things the farmers buy. . . . By itself monetary action does nothing to change a maladjusted situation for the better. Indeed, it may tend to prevent a favourable change by temporarily hiding the need. Inflation is not a cure-all. . . . There are certain fundamental factors which must be handled otherwise. To control these factors in the world of to-day, with its multitude of trade barriers, requires for the time a production control which is obnoxious to every class in our society."

67. It is a remarkable fact and one that is not generally appreciated that in India so far we have not had to resort to any production control of this kind, and yet our exportable products have somehow or other throughout the crisis found a market in the outside world. We have no dangerous accumulations of unsaleable stocks and we have escaped so far some of the worst problems which have afflicted other agricultural countries.

Moreover an examination of the figures of India's main agricultural exports shows that the quantities of these have kept up remarkably well as compared with the high average of the years 1920 to 1930, and that on the whole the year 1933 shows a definite improvement over 1932. It shows also India's adaptability, for there have been striking increases in the

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quantities exported of certain articles such as groundnuts, linseed and oilcake which have partially balanced falls in more important articles like cotton. (See summary table below.)\*

68. If we want to approach this matter in a practical way, there are three main problems to consider :

First, how to deal with the increase in the real burden of the fixed money payments of the agriculturist due to the fall in prices and the accumulation of debt which is resulting therefrom ;

Secondly, how to increase the internal demand for India's agricultural produce ;

Thirdly, how to improve the external demand.

69. As to the first, there have been many alleviating factors which have resulted in the avoidance, so far, of any really urgent crisis. The various Provincial Governments have made substantial remissions in land revenue

\*Summary of India's main agricultural exports comparing figures for 1933 with average of 10 years 1920-30. (Figures for 1932 are shown in brackets.)

|  | Quantity.                        |               |             | Value.                           |                   |             |
|--|----------------------------------|---------------|-------------|----------------------------------|-------------------|-------------|
|  | Average of 10 years ending 1930. | 1933.         | Percentage. | Average of 10 years ending 1930. | 1933.             | Percentage. |
|  |                                  |               |             | Rs. (lakhs.)                     | Rs. (lakhs.)      |             |
| 1. Jute (Raw and manufactured.) Tons (000)     | 1,499                            | 1,407 (1,176) | 94 (78)     | 72,84                            | 32,37 (31,49)     | 44 (43)     |
| 2. Cotton, raw Tons (000)                      | 616                              | 466 (286)     | 76 (46)     | 69,09                            | 25,74 (16,03)     | 37 (23)     |
| 3. Tea . . . lbs. (million).                   | 346                              | 324 (368)     | 94 (106)    | 27,06                            | 19,04 (16,59)     | 70 (62)     |
| 4. Rice (not in husk) Tons (000)               | 2,067                            | 1,829 (2,076) | 88 (100)    | 36,98                            | 11,42 (17,16)     | 31 (46)     |
| 5. Hides and skins (raw and tanned) Tons (000) | 70                               | 56 (42)       | 80 (60)     | 13,95                            | 9,13 (7,76)       | 65 (56)     |
| 6. Groundnuts Tons (000)                       | 448                              | 586 (472)     | 131 (106)   | 11,21                            | 7,78 (8,11)       | 69 (72)     |
| 7. Linseed . Tons (000)                        | 257                              | 347 (77)      | 135 (30)    | 6,21                             | 4,22 (97)         | 68 (16)     |
| 8. Oilcakes . Tons (000)                       | 213                              | 290 (293)     | 136 (138)   | 2,37                             | 1,78 (2,06)       | 75 (87)     |
| 9. Wool, raw lbs. (million).                   | 45                               | 49 (31)       | 109 (69)    | 3,89                             | 1,74 (1,43)       | 45 (37)     |
| 10. Lac . . cwt. (000)                         | 539                              | 565 (438)     | 105 (81)    | 7,37                             | 1,60 (1,40)       | 22 (19)     |
| 11. Coffee . . cwt. (000)                      | 217                              | 174 (171)     | 80 (79)     | 1,68                             | 1,02 (1,08)       | 61 (64)     |
| Total of above 11 items.                       |                                  |               |             | 2,52,65                          | 1,15,84 (1,04,08) | 46 (40)     |
| Grand Total of all Exports .                   |                                  |               |             | 3,12,59                          | 1,44,01 (1,34,76) | 46 (43)     |

and water rates. Landlords have not pressed for their full rents. India's ancient money-lending system has proved elastic and generally speaking demands for repayment of debts have not been pressed. As a result the great mass of agriculturists have had enough to eat and a sufficient margin in cash not only to pay taxes at the reduced level but also to maintain at a fairly reasonable level their purchases of necessities. The figures for the consumption of the main necessities of the poor, salt, kerosene and cotton piece-goods demonstrate that in broad outline this is the position.

In my budget speech of last year I gave some figures showing how the consumption of these articles in 1932 compared with the average consumption during the 10 years of post-war prosperity 1920-30. Even allowing for the increase of population, the figures were remarkable when considered in relation to the fall in prices of agricultural products. The figures for 1933 show that the consumption is still maintained at a high level though there is a slight decrease from 1932. Taking the figures of local production *plus* imports as representing roughly the level of consumption, then for 1933 the figures for cotton piece-goods work out at 11 per cent. higher than the 1920-30 average, for salt at 4 per cent. lower and for kerosene at 8 per cent. lower.

The following table brings out the figures :

*Indian production plus imports.*

(Figures for 1932 in brackets).

|                                 | Quantity.                        |              |             | Value.                           |               |             |
|---------------------------------|----------------------------------|--------------|-------------|----------------------------------|---------------|-------------|
|                                 | Average of 10 years ending 1930. | 1933.        | Percentage. | Average of 10 years ending 1930. | 1933.         | Percentage. |
|                                 |                                  |              |             | Rs. (lakhs.)                     | Rs. (lakhs.)  |             |
| Cotton piece-goods— yds.        | 3,677                            | 3,759        | 102         | 131,72                           | 84,62         | 64          |
| Mill-made. (millions)           |                                  | (4,327)      | (118)       |                                  | (99,40)       | (76)        |
| Hand-loom . . . "               | 1,246                            | 1,700        | 136         | 44,85                            | 37,40         | 83          |
|                                 |                                  | (1,500)      | (120)       |                                  | (34,46)       | (77)        |
| <b>Total Cotton piece-goods</b> | <b>4,923</b>                     | <b>5,459</b> | <b>111</b>  | <b>176,57</b>                    | <b>122,02</b> | <b>69</b>   |
|                                 |                                  | (5,827)      | (118)       |                                  | (133,86)      | (76)        |
| Kerosine oil . . . Gal.         | 232                              | 213          | 92          | 17,73                            | 13,20         | 74          |
| (million).                      |                                  | (235)        | (101)       |                                  | (16,27)       | (92)        |
| Salt . . . Tons                 | 1,965                            | 1,884        | 96          | 12,74                            | 10,54         | 82          |
| (000)                           |                                  | (1,954)      | (99)        |                                  | (10,98)       | (86)        |
| <b>Total</b>                    |                                  |              |             | <b>207,04</b>                    | <b>145,76</b> | <b>70</b>   |
|                                 |                                  |              |             |                                  | (161,11)      | (77)        |

70. But the fact that we have survived without disaster so far does not mean that serious problems are not being set up. It is a question of how long the present state of affairs can continue. Undoubtedly in the early stages of the depression savings in cash and other forms were drawn upon, and this cannot last for ever. Moreover the accumulation of arrears of rent and interest may lead to a serious situation. We have throughout watched

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this situation carefully in close consultation with Provincial Governments, and we have now with the cordial approval of these Governments arranged to have a conference early in April at which we can together review the whole situation and consider this problem of indebtedness together with all possible lines of concerted action to improve the general economic situation. The problem of indebtedness is one of immense difficulty and has many reactions, and I may say that our present view is that a solution is not likely to be found by any heroic attempts to equip India in the midst of this crisis with some entirely new credit system different to that which has grown up as a result of centuries of experience. It needs sympathetic but cautious handling and the co-operation of all concerned.

71. Turning from this I come to what I have stated as the second problem, namely, how to increase India's internal purchasing power for agricultural produce. The development of India's own industries is one method which, as I have shown, has been for a long time followed and which has gone much further than most people realise; but we must never forget that this has another side to it, and that if we produce what other countries used to sell to us, their purchasing power for our exports will diminish, *unless* we can raise the general standard of living in India and provide an increased market capable not only of absorbing the products of Indian industries, but also of continuing the use of imported commodities. This opens out an interesting and intensely important field of work, and it is a field in which industrialists themselves ought to take an active part and not shift all the burden on to Government. In other countries the producing industries are alive to the need of themselves developing the demand for their own produce. An interesting example of this is the recent development of the canning industry in the United Kingdom. This development was promoted mainly by the tin plate manufacturers, and has, in the short space of two or three years, resulted not only in the use of some hundreds of thousands of tons of steel in the form of tin plate, but has brought great benefits to the fruit and vegetable growers and to the fishing industry by providing new profitable openings for their products.

Possibly there is no opening in exactly the same field on this scale in India, but this incident affords an example which might furnish ideas in other directions. I venture to think that much is to be gained by co-operation between Indian and British manufacturers in this matter. The British organisations have much experience and might help with ideas for developing Indian markets, and if by a joint effort a greater consumptive demand—say for iron and steel products or electrical plant—can be developed in India so that there is room for both Indian and British industries to find an increasing market, the benefit to India would be immense; for India would benefit in three ways, first by increasing her own industrial market, secondly by improving the standard of living of her people, and thirdly by finding an increased market for her agricultural exports in the United Kingdom in exchange for the United Kingdom imports into India. That much can be done in India by well planned propaganda designed to increase the demand for a particular product is shown by the striking figures which I have already given of the development of the Indian cement industry. Let us from this Legislature appeal to the Indian industrialists to adopt an active and broad-minded attitude in this matter. If Government can encourage any developments in this direction their support will wholeheartedly be given.

72. Turning again to action for increasing India's internal purchasing power, which Government on its own initiative can take, there is one method which has often been mentioned in this House, that of stimulating

purchasing power by undertaking expenditure on public works and other projects. This method is obviously worthy of consideration, but if it is to do good it must be governed by certain essential conditions. It must be directed mainly to purposes which will directly or indirectly increase the economic strength of the country, and it must not be employed beyond what the credit and resources of the country will stand—for such expenditure means raising loans and paying interest upon them. This means that the extent of the possible application of this method is limited, and therefore that it should be applied at the time when it can have the maximum effect. It is like a medicine which will be most effective if it is given to the patient just at the moment when it will help him to turn the corner. It is quite possible that the proper time has come when we may utilise this method with beneficial results. On the one hand there are signs that the weakening processes of increasing economic depression have been checked and that there is a tendency towards recovery which with a slight stimulus might really take a hold on the situation. On the other hand we have so strengthened our credit position that we can look forward to being able to raise money without straining our credit and on easy terms. For all these reasons we have been diligently exploring possibilities. As my Honourable Colleague, Sir Joseph Blore, announced in introducing the Railway Budget, we have this year made quite a substantially increased allotment for works expenditure on the railways, and as a matter of Financial policy we have informed the railways that we can now encourage sound projects of capital expenditure. We have also as another step in this direction reopened the Delhi Capital project and have a programme for buildings amounting to about 1 crore on hand. We are offering generous assistance to Bihar and Orissa for their earthquake rebuilding programme. We have removed the ban on capital expenditure in the Provinces and have pressed them to consider road construction and other development programmes for which we are prepared to offer facilities at the lowest possible rates of interest. The Provincial Governments have naturally shown caution in taking up these ideas for they are having a hard struggle to maintain equilibrium, and do not wish to mortgage their future by heavy loan charges. In any case this is a line of policy in which the main initiative must be taken by the Provincial Governments and it is one which we propose to explore fully with them at the forthcoming conference, to which I have just referred.

73. I come lastly to the possibilities of improving our position in export markets. This is the most difficult problem of all, for the factors lie so largely beyond our control, but nevertheless a good deal has been done. As everyone knows, one of the worst features of the present depression is the drying up of international trade. Causes and effects are inextricably mixed together, but the fact remains that all countries in order to protect their own position have had recourse to increasing economic nationalism supported by tariff barriers and exchange restrictions. In these circumstances the world's trade is becoming increasingly subject to artificial regulation, and no country can hope to maintain its position without an active and carefully thought out policy. I would classify the possibilities under three heads. In the first place it is possible for groups of nations to get together and by agreement preserve a favourable regime for mutual trading with one another, which will be effective to the extent that their needs are complementary. There is only one important group which has made a start on these lines, and India is fortunate to be a member of it. I refer of course to the British Commonwealth of Nations and the Ottawa agreement. Already that has helped us and its beneficial effects are apparent in several cases. I cannot attempt

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in this speech any detailed examination of those effects, on which the Commerce Department has promised to furnish a full report later in the year. But I may call the attention of the House to certain striking facts, such as the increases during 1933 in our exports of linseed and rice,\* and the great value of our exports of tea,† to the United Kingdom, all of which are largely dependent on our preferences in that market. But perhaps the most impressive illustration of the increasing value of the United Kingdom market to India is to be obtained from the general trade figures.‡ Whereas the value of India's exports to all other countries, expressed as a percentage of their average value for the 10 years 1920 to 1930, amounted in 1932 to 40 per cent. and in 1933 to 41 per cent., the same percentage figure for the value of exports to the United Kingdom was 53 per cent. in 1932 and increased to 62 per cent. in 1933. Or, to illustrate the increase in another form, I may point out that during the 10 years 1920 to 1930 the United Kingdom took 22½ per cent of India's exports, while in 1933 she took over 30 per cent. Obviously therefore the prosperity of the United Kingdom and favourable trade arrangements with her are of immense importance to India.

I believe that the arrangement started by the Ottawa agreement is capable of much wider extension, and that the members of the British group of nations—India in particular—ought to be constantly engaged in a scientific study of the position, exploring new opportunities for mutual exchange. It would surely be advantageous if all these nations could co-operate in some permanent organisation for the furtherance of this purpose. But if India is to obtain benefit in this way it needs a broadminded outlook, for as I have already pointed out no country can hope to sell more to others unless it is ready to buy more from them. The efforts now being made by the Lancashire interests to increase their power to absorb Indian cotton is of welcome significance as a sign of British appreciation of this truth. It seems to me that there are encouraging signs of a growing recognition of the same truth in India. The better relations set up as a result of the recent delegation from Lancashire, and the agreement concluded by the Millowners Association, under the courageous leadership of my honourable friend Mr. Mody are likely to prove of incalculable value (Cheers), while I am one of those who believe that those Indians who represented India at Ottawa, and who supported the agreement in this Assembly have done a lasting good to their country, and especially to the agricultural masses.

The second possible line of policy is in the form of bilateral agreements which on broad lines arrange for an exchange of goods between two countries leaving individual traders to work out the actual operations. An example of this is the recently concluded agreement with Japan which has secured the market for a large part of our exportable surplus of cotton.

Thirdly there remains the field of ordinary trade unaffected by special agreements. In the reduced field left for this we may be certain that competition will become ever fiercer, for even when a country has a monopoly of a particular article, such as India has of jute, there are substitutes to be taken into account. One of the most urgent tasks for the future is to ensure the

\* Exports of rice to the United Kingdom in 1933 were 275,000 tons as compared with 138,000 tons in 1932 and an average of 42,000 tons in the 3 years 1927-29.

Exports of linseed to the United Kingdom were 107,600 tons in 1933 as compared with 10,900 tons in 1932 and an average of 54,000 tons in the three years 1927-29. (See table in Appendix II).

† Indian exports of tea to the United Kingdom amounted in value to 16.68 crores out of total exports of 19.04 crores.

‡ See table in Appendix III.

position of India's products in world markets by improving their quality and grading. We recognise that Government has a responsibility in this matter, and we have just taken an initial step in deciding to bring out a first-class marketing expert, who will start by undertaking *ad hoc* enquiries as to certain of our important crops, and who may then advise as to the setting up of a permanent and larger organisation.

74. Now in working on all the three main lines which I have mentioned it is essential that Government should be able to give scientific study to the problems and have accurate statistical knowledge as to its own position. We have made several changes lately in our organisation in order to facilitate this. We have for some time had an economic sub-committee of Council, and we have recently set up a central bureau for Economic Intelligence and statistics at Government headquarters, which provides the permanent expert organisation for the Economic sub-committee. Further developments on these lines will depend on the recommendations to be made by the two economic experts from England—Professor Bowley and Mr. Robertson—who are now examining the position in consultation with three Indian economists.

75. The sum and substance of what I have said is this. Great opportunities have been created in India for agricultural and industrial expansion, and that has been proceeding even in recent years. The economic machinery has worked steadily without breakdown even through these years of unexampled difficulty. The worst that can be said is that it has worked at an unduly small margin of profit and that there may be an aftermath of special problems arising out of the changes in the relations between money and goods. What is needed now is carefully directed action to deal with these special problems, combined with planning to take the fullest advantage of India's potentialities of production, and in doing this we must recognise that India cannot thrive alone or independently of the prosperity of other countries. That should be our purpose rather than the construction of entirely new machinery or the imposition of Government control on every sphere of economic activity, and I would again remind Honourable Members that this control and a very drastic restriction of agricultural production is an essential feature of the price-raising methods included in plans like that of the United States. That Government fully recognises the needs which I have stated and is taking action for dealing with them will, I hope, be apparent from what I have said.

The appreciation which I have given seems to be a fair one on the basis of all that has happened hitherto; but no responsible man could be rash enough to claim that in these disturbed times he could foresee all that may happen in the future. New troubles may come upon the world or upon India and with them perhaps the need for new policies and more daring experiments. Let us hope that that need may not arise.

76. I have dwelt at rather great length on a subject which some might consider to be outside the scope of a budget speech, but the finances of a country are only a reflection of its economic position and I make no apology for trying to relate my account of the former to a wider setting.

Before closing, however, I must revert shortly to the actual Budget proposals. I trust that Honourable Members will give these proposals calm and fair consideration on their merits. I fully recognise that any suggestion of new taxation in present circumstances cannot be very welcome. Nevertheless I trust that further reflection will encourage the view that in all the circumstances these proposals are right and in the interests of the country. They represent a definite plan framed with an eye to the future, and with the idea not only of maintaining equilibrium for the Central Government

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but of laying, in advance of the new constitution, the foundations for a financial position in which the Provincial Governments, in whose hands lies the responsibility for fostering the so-called nation-building services, may have some possibility of expanding revenue. If this is to be done it is absolutely necessary to broaden the basis of indirect taxation, and this necessity becomes all the greater if industries are to be developed in India thereby reducing her foreign trade and the receipts from customs duties. The story of sugar is an instructive one as an illustration of the cost of protection to the general taxpayer and consumer. The public may consider the result worth the cost, but the cost has to be met. It is in the light of these considerations that the new excise duty proposals should be viewed. On the other hand, while these new measures of taxation have seemed to us to be right, we have also attempted to make a start in the relaxation of burdens in cases where such relaxation might be expected to prove economically beneficial. We have not been able to afford large experiments in this direction, but the abolition of the export duty on hides and the proposals for the reduction of charges on telegrams and postage of letters are experiments which will enable us to test the situation, and possibly if they prove successful, in the near future, to undertake further measures in this direction.

In proposing a reduction in the Debt Avoidance provision we have looked on that as a margin of strength on which in the present exceptional circumstances it is legitimate to draw. Hitherto the revenue estimates have been on such an uncertain basis, and there have been so many unrealised possibilities of deterioration in our position (the potential loss on sugar import duties, for example) that it seemed wise to maintain the full provision partly as a margin of reserve against these contingencies. And indeed it has so proved. Now, however, these contingencies have to a great extent been faced as realities, and in general we may feel that as regards our Revenue estimates we are on a much more solid foundation than at any time since the crisis began. I will not be so rash as to prophesy for the future or to use words which might be quoted against my successor. But this I may say—that in our proposals we are providing fairly for all the needs that can be foreseen, that we seem to have touched bottom, and that if the tendencies which have recently been apparent continue, there is a good hope that there will be a margin next year, large enough not merely for the restoration of the cuts in pay, but for the relaxation of other burdens. But neither India, nor any other country, is yet 'out of the wood' and a cautious outlook is still necessary.

I know that many Honourable Members feel that an immediate relaxation of these burdens might itself stimulate recovery, but our own view has been that we are not yet in a position to take risks in this direction and that any premature weakening of the financial structure might jeopardise the sound position that has been created and produce a collapse which would react on all who are engaged in economic activities in the country. In the meanwhile, as I have made clear, we are searching for all possible opportunities for taking advantage of our strong credit position to encourage recovery in other ways. Finally, taking a wider view, I should like to repeat what I have so often said—that India's financial position in its strength challenges comparison with that of any country in the world, and that in these times of increasing economic nationalism there is no country that has brighter prospects or greater potentialities for economic advance than India with her own vast market, and with her place in the British Commonwealth of Nations. (Loud and Prolonged Applause.)

## Appendices to Budget Speech, 1934-35.

## APPENDIX I.

## SHORT SURVEY OF AGRICULTURAL POSITION AT THE BEGINNING OF 1934.

The monsoon of 1933 started about ten days earlier than usual and was unusually continuous and prolonged in most parts of the country. The monsoon proper withdrew on the 27th September but showers were general in Northern India until nearly the end of October. The total rainfall was substantially above the average in a large part of the country and normal or nearly normal elsewhere except for a small area (East Central India) where it was in defect. As might be expected, damage to summer crops by excessive rain was more common than shortage of rain. The cotton crop was seriously damaged by late rain in the Central Provinces and Berar and also in the United Provinces and Juar (the great millet) was damaged by excessive rain in several provinces. The rice crop was generally good. Local damage was caused by floods in several provinces. The sowing of winter crops was somewhat delayed by the continuance of the rains but sowing conditions were favourable. An increase of 8 per cent. in the area under winter oilseeds and of 7 per cent. in the area sown with wheat has been reported. Crop prospects now depend to a considerable extent on the weather during February and March. Reports indicate that so far the winter rainfall has not been sufficient. In Gujerat, tobacco and cotton have been damaged by abnormal cold weather, whilst frost damage to gram has occurred in parts of Central India and the Central Provinces and to winter crops generally in some parts of the Punjab.

*Jute.*—The area sown with jute in 1933 was reported to be 2,491,000 acres, an increase of 16 per cent. on 1932. Production was estimated at 7,933,000 bales as compared to 7,097,000 bales in 1932 an increase of 12 per cent. on the *revised* estimate for the previous year. Exports of jute for the period July 1933 to 20th January 1934 were 765,000 bales better than the previous year indicating that the slightly larger crop is finding a market. Prices at the end of January were a trifle better than this time last year but much below those of June 1933.

*Cotton.*—The 1932-33 crop turned out considerably better than expectations, the quantity baled and received loose in mills having totalled 4,730,000 bales. Adding the conventional figure of 750,000 bales for non-industrial consumption, this indicated a total crop of 5,480,000 bales as compared to a forecast of 4,516,000 bales. It is now clear that the standard yield on which the provincial forecasts are based requires to be raised in several provinces—a not unnatural sequel to the systematic introduction of improved varieties which has been going on for a number of years. The final estimate of the area under cotton in 1933-34 is not yet available—sowings in South India being incomplete at the time of the third forecast in December—but the area reported is 2 million acres (9 per cent.) above the corresponding estimate for 1932-33 and the production was estimated to be about 400,000 bales greater. The estimated increase is fully borne out by the returns of cotton baled to date which further indicate a good crop both in the Punjab and in Sind. The cotton export year runs from 1st September to 31st August and exports from the 1932-33 crop amounting to 2,790,000 bales were satisfactory, having regard to the size of the crop. Bombay stocks of unsold cotton on August 31st, 1933, were normal at 441,930 bales and stocks elsewhere were at a similar level. The Japanese boycott on Indian cotton extended roughly from July 1933 to December 1933 being lifted at the beginning of January 1934. As active shipping of the new crop usually commences at the beginning of December, exports to date during the current cotton year are below normal but the disparity is disappearing total exports for the season having reached 585,665 bales up to the end of January as compared to 774,547 in 1932-33. The Indo-Japanese trade agreement virtually ensures the export of 1½ million bales of cotton annually to Japan during its currency.

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*Oilseeds.*—The final forecast of the *groundnut* crop will not be issued until the last week in February but the second forecast showed an increase of 9 per cent. (670,000 acres) in the area as compared to that reported at the same time last year which was the highest on record. This crop is now the most important item of the oilseeds export trade. Exports during 1933 totalled 586,000 tons an improvement of 115,000 tons on 1932 but were less than 1931 when exports totalled 710,000 tons—the improvement is encouraging as competition with other competing oilseeds like soybean is very keen. The area under *sesamum*, the next most important of the summer oilseed crops, in 1933-34 was 6 million acres—a nominal increase on 1932-33—the improvement of that year (7 per cent.) thus being maintained. The estimated yield at 509,000 tons is 4 per cent. below that of 1932-33. This crop is mainly crushed in India but exports in 1933, amounted to 17,000 tons an increase of 3,000 tons on 1932 and 13,000 tons on 1931.

*Linseed.*—The total area under this crop will not be known until about the middle of March but the January forecast shows a small increase of one per cent. on last year's corresponding estimate. The recovery from the low level of 1929-30 is thus being maintained, indeed there have been increases in all important areas except the United Provinces where weather conditions may have been largely responsible for the fall in area. No quantitative estimate of production is available; it is known that the crop started well but there has recently been local frost damage. Exports of linseed during 1933 were most satisfactory, the total being 332,000 tons during the period April—December as compared to 57,000 in 1932 and 100,000 tons in 1931 and 244,000 tons in 1930.

*Mustard and rape seed.*—The first forecast for the area under these oilseeds shows an increase of 8 per cent. 238,000 acres on the corresponding estimate of last year: the final area will not be known until March. Exports of rapeseed 7,400 tons during 1933 were below those of 1932 (131,000 tons) but better than 1931 (40,000 tons)—exports to the United Kingdom were again better than in the preceding year.

The area under sugarcane in India in 1933-34, (*i.e.*, for the crop now being crushed) is reported to be 3,305,000 acres, a decrease of  $\frac{1}{4}$  per cent. on last year but the yield is estimated to be 5,067,000 tons *expressed in terms of gur* (jaggery) an increase of 8 per cent. on last year. Full details have not yet been received but from the detailed United Provinces report which covers 1,702,000 acres, it is clear that the increase in production is due to the further spread of improved varieties which in the United Provinces now cover 1,275,000 acres, or 75 per cent. of the total area in that province, with a yield per acre 60 per cent. higher than the old varieties replaced. It is estimated that in season 1933-34 some 586,000 tons of sugar will be produced in modern factories in India as compared to 381,000 tons in 1932-33.

## APPENDIX II.

EXPORTS TO THE U. K. OF CERTAIN ARTICLES OF TRADE LIABLE TO PREFERENTIAL TREATMENT IN THAT COUNTRY.

|                                  | Average of 3 years 1927 to 1929. | Quantity.    |              |              | Average of 3 years 1927 to 1929. | Value.       |              |              |              |              |
|----------------------------------|----------------------------------|--------------|--------------|--------------|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                  |                                  | 1930.        | 1931.        | 1932.        |                                  | 1933.        | 1930.        | 1931.        | 1932.        | 1933.        |
|                                  |                                  | Rs. (lakhs). | Rs. (lakhs). | Rs. (lakhs). |                                  | Rs. (lakhs). |
| Coffee . . . Cwt. (000)          | 58.1                             | 98.8         | 48.8         | 53.0         | 48.1                             | 75.6         | 29.6         | 33.8         | 31.0         |              |
| Rice not in husk . . . Ton (000) | 42.0                             | 59.0         | 42.6         | 138.7        | 274.9                            | 68.9         | 31.2         | 104.5        | 154.6        |              |
| Hides . . . "                    | 2.9                              | 2.6          | 2.8          | 3.4          | 5.7                              | 44           | 38           | 53           | 90.3         |              |
| Leather . . . "                  | 19.6                             | 17.9         | 14.4         | 14.6         | 16.7                             | 620          | 493          | 471          | 467.6        |              |
| Lead, pig . . . Cwt. (000)       | 719                              | 1094         | 932          | 909          | 10,44.0                          | 166          | 123          | 117          | 119.7        |              |
| Oilcakes* . . . Ton (000)        | 99.4                             | 110.5        | 112.9        | 93.7         | 140.0                            | 100          | 78           | 65           | 81.9         |              |
| Paraffin wax . . . "             | 15.8                             | 11.0         | 15.3         | 11.6         | 11.7                             | 55           | 69           | 53           | 50.5         |              |
| Groundnuts . . . "               | 40.9                             | 40.7         | 78.8         | 40.6         | 24.8                             | 74           | 106          | 75           | 35.3         |              |
| Linseed . . . "                  | 54.1                             | 58.9         | 14.1         | 10.9         | 107.6                            | 127          | 17           | 13           | 124.3        |              |
| Tea† . . . Lb. (mill.)           | 310.5                            | 300.4        | 290.5        | 320.0        | 279.1                            | 24.49        | 17.34        | 14.61        | 16.68, 1†    |              |
| Jute bags . . . No. (mill.)      | 47.4                             | 44.2         | 42.5         | 49.6         | 42.7                             | 204          | 101          | 119          | 93.8         |              |
| Jute cloth . . . Yd. (mill.)     | 38.8                             | 46.1         | 58.3         | 54.6         | 50.6                             | 76           | 66           | 62           | 55.0         |              |

\* Excluding castor, coconut and rape and sesamum cakes for which U. K. share is not given in the monthly S. B. T. A.

† Excluding green tea.

‡ Rise in price due to restriction scheme.

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## APPENDIX III.

## EXPORTS FROM INDIA.

|   | Average<br>of<br>10 years<br>ending<br>1930. | 1932.  | 1933.  | Percentage of 10<br>years' average. |       |
|---|--|--------|--------|-------------------------------------|-------|
|   |  |        |        | 1932.                               | 1933. |
|   | In lakhs of rupees.                          |        |        |                                     |       |
| (1) Value of total exports to<br>all countries . . . . .                                    | 312,59                                       | 134,76 | 144,08 | 43%                                 | 46%   |
| (2) Value of total exports to<br>all countries <i>excluding</i><br>United Kingdom . . . . . | 242,13                                       | 97,22  | 100,51 | 40%                                 | 41%   |
| (3) Value of total exports to<br>United Kingdom . . . . .                                   | 70,46  | 37,54  | 43,57  | 53%                                 | 62%   |

## THE INDIAN FINANCE BILL.

**The Honourable Sir George Schuster** (Finance Member): Sir, I move for leave to introduce the Indian Finance Bill, 1934.

**Mr. President** (The Honourable Sir Shanmukham Chetty): The question is:

"That leave be given to introduce the Indian Finance Bill, 1934."

The motion was adopted.

**The Honourable Sir George Schuster:** I introduce the Bill.

The Assembly then adjourned till Eleven of the Clock on Friday, the 2nd March, 1934.