

*Saturday,  
1st March, 1913*

ABSTRACT OF THE PROCEEDINGS

OF THE

Council of the Governor General of India,

**LAWS AND REGULATIONS**

Vol. LI

**April 1912 - March 1913**

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OF

THE COUNCIL OF THE GOVERNOR GENERAL OF INDIA

ASSEMBLED FOR THE PURPOSE OF MAKING

LAWS AND REGULATIONS,

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Published by Authority of the Governor General.



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CALCUTTA :

OFFICE OF THE SUPERINTENDENT OF GOVERNMENT PRINTING, INDIA.

1913



GOVERNMENT OF INDIA.  
LEGISLATIVE DEPARTMENT.

PROCEEDINGS OF THE COUNCIL OF THE GOVERNOR GENERAL OF INDIA ASSEMBLED FOR THE PURPOSE OF MAKING LAWS AND REGULATIONS UNDER THE PROVISIONS OF THE INDIAN COUNCILS ACTS, 1861 to 1909  
(24 & 25 Vict., c. 67, 55 & 58 Vict., c. 14, AND 9 Edw. VII, c. 4).

The Council met at the Council Chamber, Imperial Secretariat, Delhi, on Saturday, the 1st March, 1913.

PRESENT:

His Excellency BARON HARDINGE OF PENSHURST, P.C., G.C.B., G.C.M.G., G.C.V.O., G.M.S.I., G.M.L.E., I.S.C., Viceroy and Governor General of India, *presiding*,  
and 47 Members, of whom 40 were Additional Members.

FINANCIAL STATEMENT FOR 1913-14.

**Introductory.**

**The Hon'ble Sir Guy Fleetwood Wilson:** "I rise to present the Financial Statement for 1913-14. For the information of those Members who are new to the Council, I may state briefly the procedure to be followed. To-day there will be no debate, but beginning with the 7th March dates will be allotted for the detailed examination of my proposals and the discussion of any Resolutions that may be moved regarding them. Subsequently I shall have to consider what modifications are necessary, either in the light of our discussions or of later information which may become available. The Budget in its final form will be presented on the 20th and the final debate will begin on 24th March.

"2. This is the fifth occasion on which the duty has fallen on me of reviewing the finances of India, and it is my good fortune that for a third time I am in a position to bear witness to the material well-being of this country. A year ago I framed my estimates on the assumption of a year of normal seasons and trade, and promising as the outlook may be, that is, in my judgment, the most favourable assumption which in the circumstances of India can be made with prudence. In looking back now over a period, the happenings of which it was then my duty to forecast, I shall have to describe a large improvement on our original estimates. The year that is drawing to a close has proved to be one of prosperity and of plenty, the results of which have easily outrun anticipations consistent with the principle of caution which I have suggested as necessary in our financial prognostications. But there is a shadow in the financial sunshine. While contemplating the general prospects a year ago as

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excellent, I said the uncertainties of the opium revenue still hung over us. The difficulties which I had then in mind have since then become acute, and we are faced with a loss of revenue which affects materially our financial arrangements in the coming year.

"3. I propose in the first place to sketch the main features, agricultural and commercial, of the current year. The year opened well, for the winter rains, beginning in January, had been normal and timely, and the only thorn on the harvest rose was the distress in Kathiawar and some parts of Bombay, where famine, due to insufficient rainfall in the preceding year, had been declared. In the hot weather the auguries were unfavourable. A series of disturbances of the cold weather type continued to pass into India, delaying the establishment of the usual hot weather conditions, and in May there was an almost complete absence on the west coast of the irruptions of ocean winds which herald the advance of the monsoon. Thus the rains were late in beginning and were not established fully in the interior until the 10th of July. Their duration also was unusually short. In September they were very fitful, and they retreated from Northern and Central India a fortnight before the usual date. Stated in this way the history of the most important months in the year from the agricultural point of view may seem disappointing. For four weeks however from the time when it spread over Northern India the monsoon continued in abnormal vigour and yielded abundant rain. A beneficial break of ten days followed, and in the end of August and beginning of September the rain bearing currents again spread over India. For India as a whole the rainfall was little below normal, and, what is of more importance it was well distributed, no tract showing a very large deficiency. It is true that in Bengal and the eastern districts of the United Provinces, the early close of the rains was the cause of no little damage, specially to the rice crop and in portions of the Bombay Deccan the want of rain was severely felt. But there is never a monsoon that can be said without reservation to satisfy our ideals. At the end of November a rain bearing depression, which may justly be termed providential, traversed precisely those parts of the country where rain was needed. In the Bombay Presidency famine relief continued till October, and in three districts small numbers of people are still in receipt of gratuitous relief. In the United Provinces scarcity has been experienced in Mirzapur and a part of the Domains of the Maharaja of Benares, but with small exceptions the retrospect agriculturally is satisfactory. For the winter season we may now anticipate an auspicious close. December, January and two weeks in February went by with scarcely a cloud, and we were beginning to despond when the atmospheric conditions changed and the rain was sent to us, welcome all the more because it had been so long delayed.

"4. From the cause, in the seasons, we may turn to the effect in the harvests. The wheat crop of 1911 constituted a record which it would be difficult to equal; but the crop of 1912, if inferior to its predecessor, was in respect both of area and outturn very greatly better than the normal; in the United Provinces, one of the two chief wheat-producing provinces, the outturn indeed exceeded even the harvest of 1911. Rice had also been good; whilst of the other export staples, cotton had on the whole a favourable season; except in parts of the Bombay Presidency and Hyderabad, and its total outturn was estimated at no less than 40 per cent. better than in the preceding year. The area under sugarcane has increased and the outturn is expected to be good; whilst jute has also shown considerable improvement. This year's rice crop has suffered to some extent in parts of Bengal and the United Provinces, but elsewhere the season has been not unfavourable and the outturn, though not up to that of 1911-12, should be considerably above the normal average of preceding years.

"5. From this review of the agricultural reports I proceed to consider in the trade returns a more definite and statistical test of the year's prosperity. The results are striking. The value of our exports, I said last year, had been the highest on record, but the merchandise we have sent abroad between April and December 1912 exceeded in value by  $17\frac{1}{2}$  crores the corresponding exports of 1911. There was a considerable falling off in the case of linseed and raw cotton, but a great trade was done in grain, wheat, rice and barley; the exports of jute increased by 3 crores, and of hides and skins by  $1\frac{1}{2}$  crores. Nor was the improvement only in raw material; there was a very substantial advance in jute fabrics, in cotton twist and yarn and in tea. How the balance of trade was adjusted I shall show later on. At present I am concerned with merchandise, and under this head I note that our imports also in nine

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months have exceeded those of the previous year by 14½ crores. In 1911-12 imports were active in April and May and then eased off in the ensuing four months, as if waiting, I said, upon the monsoon. In 1912-13 the same general tendency is observable; but the activity of April and May was greater and the comparative slackness in the following months less marked than in the preceding year. In the commodities for which we indented on other countries in exchange for our exports, half the increase roughly consisted of textile materials and fabrics generally, and piece-goods in particular; but there have been large increases also of sugar, hardware, machinery, iron and steel and railway plant. Combining both the inward and outward currents of trade, the value of our total seaborne commerce in merchandise during the first nine months of the year amounted to some 296 crores as against 264 crores in the preceding record year. The range of prices has doubtless been high, but I do not know that it is higher than in the preceding year, or consequently that the comparison I have drawn is misleading as an indication of the volume of trade. We know at any rate that railway traffic has been extremely active and on every side there are plain indications of a continuance of the progress and prosperity of the country.

### Revised Estimate of 1912-13.

“6. The effect of the conditions I have outlined is written large across our figures. The Budget for the current year was prepared for a revenue, Imperial and Provincial together, of £79½ millions; according to the latest revision of the estimate we now anticipate that we shall receive £87 millions, an improvement of £7½ millions, of which £5 millions will be secured from Opium and Railways. The aggregate expenditure we think will exceed by only £171,000 that provided in the Budget. Of the net improvement, as will appear even from the figure I have just given for Opium and Railways, the great bulk has accrued in the Imperial account. Out of our revenues however we have distributed large grants to Provinces. After allowing for these grants, the surplus we retain is £3,862,000 as against a surplus anticipated in the Budget of £1,478,000.

#### *Opium Revenue.*

“7. The position in regard to opium is as follows. The trade with China in Indian opium is governed by the agreement of 8th May 1911, the object of which was to assist the suppression of opium smoking in China by cutting off gradually the Indian supply. The trade, it was contemplated, would cease in 1917; but provision was made for its earlier termination on proof of the extinction of production in China of the indigenous drug. The taxation of foreign and native opium was to be equalised. All restrictions on the wholesale trade in our opium were to be withdrawn, but the stipulations of the Treaty were not to derogate from the force of any ordinances then existing, or which the Chinese Government might in future pass to regulate the retail trade or suppress opium smoking. The Manchu Government gave convincing proof of its sincerity and of its ability to enforce anti-opium measures, and several of the Chinese Provinces were under the terms of the Treaty closed to Indian opium. With the revolution there was undoubtedly a recrudescence of poppy cultivation and an unwarranted interference with the trade in Indian opium. Presently however the central Government asserted itself. Not only were Presidential decrees issued enacting the severest penalties against opium cultivation, but it was ordained that opium smoking was to cease entirely by a given date. The campaign against cultivation had extended to a campaign against consumption.

“8. The policy of the Government of India has throughout been correct and simple. We had in our agreement with China a programme of sales from year to year and we have adhered to it. Yet we have had strong inducements to vary our course. The operations of the Chinese authorities would frequently have justified us in denouncing the Treaty or declining to make the further reductions of sales for which the Treaty provided. We were sincerely anxious however to help China towards a great reform. We have not insisted on the letter of the law. None the less we have steadily resisted pressure which from time to time has been brought to bear on us to effect reductions in our sale programme which would have been arbitrary and premature. Applications for the suspension of sales are no new feature in the opium trade. We were familiar with them before any restrictions were placed on exports to China.

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and their object was obviously to confer the advantages of a strict monopoly on those who happened at the time to be in the possession of opium. This we have properly and consistently refused to do. The action of the Republican Government in China, however, created an entirely new situation. It stopped the outlet for Indian opium. As soon as the situation declared itself, I went to Bombay and met the opium merchants, whose frank and forcible presentation of their case I wish to acknowledge. I made myself thoroughly acquainted with the whole outlook. The representations of the merchants were confirmed by the course which events had taken. In Shanghai and Hongkong which are the markets of our opium in China, trade was reported to be at a standstill. There were no sales or deliveries, and in India at the December auction the price of Malwa opium had dropped to Rs. 722 a chest as against Rs. 1,666 obtained in November and Rs. 2,448 in August.

"9. The situation was radically different from any with which we had as yet been called on to deal, and the Government of India took prompt action. With the sanction of the Secretary of State we did four things. The sales of opium for China could not be stopped immediately, as a variation in the programme of the year cannot be made without three months' notice, but we suspended sales from the earliest date which this condition allows. Meanwhile we imposed an upset price which practically resulted in an immediate suspension of such sales. We reduced the quantity of opium to be sold in 1913 for export to non-China markets with the desire to reduce smuggling into China. And lastly, though we had no obligation in the matter, we agreed to buy from the Malwa States the amount of opium by which their exports to China in 1913 may in consequence of this decision fall short of the number of chests which had been assigned to them in our programme.

"10. So much for the past. The Government of India clearly have had to deal with a situation created for them and for which they were not responsible. All that it was in their power to do has been done by them. For the future neither I nor anyone else can prophesy, but we cannot conceal from ourselves that China has set herself a task which experience proves to be one of the greatest difficulty—the enforcement of a morality possibly too advanced for popular acceptance. We have dealt generously with China and we have a claim on her for fair treatment. Her reputation for probity stands high among the nations. The Chinaman's word, it is said, is his bond. The new Republican Government, which has yet to establish its position in its own country and in the world at large, will doubtless be jealous in a peculiar degree of its honour and will be actuated by the same spirit of equity and fair dealing which has characterised the policy of the Government of India.

"11. In the current year the effect of these events on our revenues has been comparatively small. In the case of Malwa opium I may explain that our receipts consist of a share, first of a fixed pass duty, and secondly of the amounts bid at the auctions for the right of export. For the payment of these bids the merchants are allowed three months' grace, so that the proceeds of sale subsequent to December would in any case have been credited in the coming financial year. As far as the current year is concerned, the revenue from sales of certified opium in January-March would not have exceeded £400,000. On the other hand, as I have said, in earlier months prices were exceedingly high, and the results for the year as a whole are accordingly much above the Budget estimate. The improvement in fact under Bengal opium has been £1,198,000 and under Malwa opium £224,000. This portion of our revenues we propose to treat exactly as in previous years. To enable us to deal systematically with our opium windfalls we fixed in advance some time ago a series of standard figures to represent year by year the revenue which we might expect from our diminishing trade under normal conditions; so much was to be treated as current revenue, while the surplus revenue received, if any, was to be specially treated. For the current year the standard figure is £3,600,000. Our actual revenue is likely to be £5,063,000, so that there is an excess of £1,463,000. Of this sum two-thirds will be retained in our surplus for the discharge of temporary sterling debt. The discharge of India Bills, of which £4½ millions were still outstanding at the time of the last Financial Statement, has been completed; but we have to pay off next year £1½ millions railway debentures and meet an instalment of £500,000 for the discharge of short-term bonds. The remaining third, which amounts to about £160,000, we propose to distribute in grants for hostels and universities.

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*Ordinary Revenue.*

"12. Having reviewed the opium position, I pass to a consideration of our ordinary revenue. Excluding opium, the improvement shown on a comparison with the Budget is £6,191,000, the great bulk of which has been contributed by our railways. In making my estimate under this head, I was cautious and it would ill-befit, in my judgment, a Finance Minister in this country to be otherwise; but I think the most irresponsible critic would have hesitated to predict that the development of traffic would prove so enormous as to constitute a crisis in railway management. The gross earnings have been almost £4½ millions above the estimate. The net improvement is less, because, we have had, of course, to distribute more in the shape of surplus profits paid to companies, and because working expenses have naturally increased. Against the £4½ millions growth in earnings however the increase in working expenses has not been more than £600,000. The percentage of working expenses has been brought down to 49·8, which is a lower figure than has been shown for the last five years. The net receipts are £8½ millions better than the Budget. Apart from railways therefore, I have to account for an improvement of £2½ millions. Over a million of this improvement has been secured under the purely Imperial heads of Customs, Mint, Post Office and Telegraph, and Exchange. Under Customs, I find that out of a total increase of £580,000, £368,000 are accounted for under cotton manufactures, manufactured articles and export duties; the first two heads showing the influence of a prosperous year, while under the third the rise in revenue was due to a large demand for rice from other countries, which led to exports not only from Burma but from Bengal. Silver, the imports of which were heavy throughout the year, brought us about £160,000 more than we had anticipated and the revenue derived from sugar was also high. Of a large increase of £320,000 under Mint, the greater part is due to the resumption of rupee coinage, which could not be allowed for in the Budget. Before the profits on coinage are transferred to the Gold Standard Reserve, a charge is made for manufacture, which is credited to the Mint, and the sum thus shown in the current year is £214,000. Finally, so far as these Imperial heads are concerned, the Post Office and Telegraph Department has given us £118,000 more than our forecast, as the result no doubt of active trade and general prosperity, and the same general conditions have credited us with £109,000 under the head of Exchange. Under the shared heads of Stamps and Excise, we have divided with the Provinces an increased revenue of nearly £450,000 and Irrigation receipts also have been better in the aggregate by £142,000.

"13. The description I have given of the improvement in our revenues will have impressed on the Council the fact that much the greater portion of it has accrued in the Imperial account. We do not propose however to retain all that has come to us; we intend to make the provinces partners in our good fortune. The distribution of my surplus has given me much anxious thought. I have a large sum of money to dispose of; we are unlikely to have again, for some time, a margin anything like so large as in the present year, and it is all the more necessary to be careful in the distribution of what is in our hands. I state the principle of our decisions very briefly. There are certain relatively small requirements which we intend to meet; but the bulk of the money will go in grants to secure a steady progress in education and sanitation, an object which has the support of both official and non-official opinion. We propose to make the following distribution of funds:—

- 2½ crores for non-recurring expenditure on education.
- 1½ crores for urban sanitation.
- 30 lakhs to Burma for communications.
- 20 lakhs to Assam for development.
- 1 crore in aid of general provincial resources.

The last mentioned grant will be distributed at the rate of 12 lakhs to each of the larger Provinces, and 8 lakhs each for the smaller Administrations, and will not be earmarked for any one purpose. It will be devoted to such schemes as each Local Government may deem to be most necessary in view of varying and special requirements. Our ability to make these grants secures important advantages. From the Imperial point of view, they are an anticipation of future liabilities. We have these demands; we might in ordinary course meet them over a more extended period; but we may well doubt whether in the next few years we shall have funds available

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for distribution, and we take the opportunity, which fortunately presents itself, of paying our contribution in advance. From the point of view of the Provinces, there is a great gain in stability; they are secured in the prosecution of improvements of the most important kind against the fluctuations of Imperial finance. They are, we are assured, ready for the distribution. The great attention which has been paid in recent years to the needs of sanitation and education has led to a systematic review of requirements and preparation of projects generally. So long as there is uncertainty as to the amount that will be available from year to year, progress must be fitful and uneconomical. But now, when they find themselves secured in the possession of substantial sums, the Provinces will be able to make out and adhere to well-considered programmes of development and the systematic application of funds which will thus be possible will certainly make for economy and efficiency.

#### *Expenditure.*

"14. About the expenditure of the current year I have little to say. I have already mentioned that in the aggregate it is £171,000 more than in the Budget. Provinces have spent £171,000 less than they anticipated, but there is an increase of £342,000 in Imperial charges. The Provincial decrease is accounted for by the inability of Local Governments to spend the full amounts provided. In the Imperial section the important variations are increases of £398,000 under Civil Works and £570,000 under Military services. The rise in Civil Works charges is accounted for by the debit, to the revenue head, of the construction of temporary accommodation for the Government of India at Delhi. In the Military estimates, the additions have been of an obligatory nature; for instance, the increased outlay on food supplies caused by higher prices, the cost of surveys on the North-East Frontier, larger expenditure on the arms traffic operations in the Persian Gulf, and similar items. On the other hand the special allotment made for protective irrigation works outside the Famine Insurance Grant has not been used and there is a large decrease of £480,000 shown under the Education head. This decrease however is nominal. In the Budget a reserve of £528,000 was entered under this head for subsequent distribution. As the distribution has proceeded, grants have been made by assignments diminishing Imperial revenues, and Imperial expenditure has been correspondingly reduced.

#### *Delhi Expenditure.*

"15. I have completed my review of the current year and proceed to an explanation of the Budget for the ensuing year; but before I do so, there is one subject on which I wish to say a few words, and that is Delhi expenditure. In the discussion which took place in the Council last year, I gave an undertaking that this expenditure would be separately and carefully accounted for, and I own to a feeling of surprise and some indignation that suggestions should subsequently have been made, and they have been made, that the Government of India would countenance a departure from the pledge then given. It is evident that all expenditure of whatever kind connected with the transfer of the Imperial capital to Delhi, could not conveniently or properly be brought under a single head in our accounts. There is, for instance, the administrative expenditure of the new Imperial Province which must be accounted for in appropriate sections as on account of police, law and justice, and so on. Again we have to build a new cantonment, the cost of which can with propriety be shown only in the Military Estimates. Similarly if a diversion of a railway line is found necessary, it must be charged to Railways. The cost of our temporary buildings further, as I have already mentioned, we have charged, under the advice of the Comptroller General, to the revenue expenditure head, Civil Works, and not to the new head of capital expenditure which we have opened for the new Imperial City. I make this explanation because I am anxious that there should be no possibility of misconception on the subject, and I would add that, while the expenditure has of necessity been entered under more than one head in the accounts, care has been taken to make it readily available by prescribing that in each case it should be kept apart under a sub-head of its own. I have arranged further, for the convenience of Hon'ble Members, that all the relevant items of expenditure should be brought together in a comprehensive *pro forma* account, and this arrangement will be continued year by year so long as it may be necessary. The form of this account and details regarding it



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will be found in the memorandum by the Financial Secretary, and I need only mention that the cost of temporary Delhi in the current year will probably be just under 50 lakhs. The discussion of the numerous questions of the first importance involved in the inception of a task of such magnitude has delayed the beginning of the permanent city, and the amount charged to the capital head in the current year is only £155,000, which represents for the most part the cost of land acquisition. We shall soon be in a position however to proceed with the work energetically, and Honourable Members will find that a provision of 2 crores has been made in the capital account for this purpose in the ensuing year.

### Budget Estimate for 1913-14.

" 16. I now come to a new page in our financial history and open the Budget for the year 1913-14. It will be clear that in one matter of grave importance our position has been weakened since I had to undertake the same task a year ago. I referred on that occasion to the uncertainties of our opium revenue; but now we are face to face with a calculation of actual loss. As regards our other sources of revenue, I do not propose to depart from the principle, which I consider to be the right one, of cautious estimating. Indeed it might be said that with every year of prosperity the probability of an approaching reversal of fortune, of unfavourable seasons and trade depression, increases, and that the need for caution is greater therefore now than on previous occasions when I have laid my Budget before the Council. At the same time I have no intention whatever of letting my estimates be influenced by vague forebodings. I hold to what I said two years ago, namely, that in Indian budgeting the only reasonable rule of conduct is to assume that a period of prosperity, once it is established, will continue until we have some clear warning of impending change. At present, apart from opium, our prospects are bright, and in making my estimates I have given full weight to this consideration. Proceeding with these principles in my mind, the calculations I have made give for next year a probable revenue in the aggregate, Imperial and Provincial, of £82,322,000. The aggregate expenditure for which provision is made is £83,850,000. There is thus a difference of £1,528,000, which is distributed in this manner; there will according to our anticipations be an Imperial surplus of £1,811,000, but a deficit of £2,839,000 in Provincial Budgets.

#### *Revenue.*

" 17. I proceed to state the salient facts and figures which lead up to these general results, and in the forefront must be put our opium revenue. Circumstanced as we are to-day, it would be out of the question to build on any anticipations of revenue from certified opium in the coming year. I will not despair of a revival in the opium trade which would restore to us in whole or in part the loss which at present faces us; but it would be wrong, as matters stand, to take into account and make available for expenditure any revenue the receipt of which is so problematical. Further the sales of uncertified opium in the present calendar year have been reduced from 13,200 to 9,000 chests. Accordingly all that I can budget for under the opium head is the value of 9,000 chests of uncertified opium at the moderate price of Rs. 1,800 per chest or £1,080,000 plus £305,000 for excise and miscellaneous receipts, or a total of £1,445,000. The decrease, as compared with the probable receipts of the present year, is no less than £3,618,000.

" 18. In the next place, as one of the dominant factors in our Imperial finance, I turn to railways. We are increasing the working expenses next year by £½ million in view of a larger Railway programme, which involves some addition to revenue as well as to capital expenditure, but against this increase on the expenditure side has to be set a decrease of a quarter of a million under payments of surplus profits, which is the result chiefly of the adoption of the financial in place of the calendar year for the distribution. As regards Railway revenue, my estimate is possibly optimistic; it is that the gross receipts in 1913-14 will be £36,754,000 as against the £37,067,000 which we hope to obtain in the current year. In arriving at this estimate I have attempted to hold the balance even between two sets of considerations. No doubt if the present wave of prosperity lifts us a little higher, my estimate will be exceeded. On the other hand the net railway revenue of the current

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year, according to our estimates, will be £2½ millions above the revenue of 1911-12; there was an improvement of £3 millions in 1911-12, as compared with 1910-11; and the figure of 1910-11 was nearly £1½ millions higher than the figure of 1909-10. We may well ask whether the curve is going any higher. When a time of depression comes, there will be a very different tale to tell. In 1907-08 there was a drop of about £½ million, in 1908-09 a drop of £2½ millions. It is easy to be wise after the event, and should fortune once more favour us you may say I was unduly cautious. But I claim to be judged by present prospects, and on the facts I have put before you I am of opinion that no prudent minister would frame an estimate higher than that which I have indicated.

" 19. An item which requires special mention is the abolition of the appropriations at present made from the land cess in certain provinces. The matter is one which I shall have to explain in some detail, but for the moment, dealing with the revenue account I note that the effect will be that the receipts in 1913-14 under provincial rates and contributions from district boards will be £557,000 less than in the current year.

" 20. Apart from Opium and Railways, and the appropriations just mentioned, the improvement in revenue which I anticipate is £105,000. The amount would be larger, but for certain reductions which are forced upon me. I cannot arrange for our capital expenditure without a large reduction of our balances, and the estimate of interest receipts in consequence is diminished by £177,000. Again the Mint receipts go down in my forecast by £291,000 because I cannot repeat the item which appears in the accounts of the current year for seigniorage on coinage of rupees. Under Customs also I am bound to take into consideration the rise in the price of silver as likely to affect imports, and, guided by the experience of years when the price was equally high, I must reduce the estimate of receipts from the duty on silver by £160,000. The exports of rice further in the current year have been very large, and a normal estimate for 1913-14 gives a decrease of £102,000 under export duties. Under other heads however I have raised the estimate of customs receipts by £140,000, which is as much as the advance in revenue in the last two years will justify. In other departments also, I take recent experience as my guide, and I advance the revenue from Post Office and Telegraph by £151,000, from Excise by £243,000 and from Stamps by £186,000. Land Revenue also is likely to give about £155,000 more in the aggregate, in consequence chiefly of better collections in Bombay. The result of these and other less important variations is an improvement of £248,000 in the Provincial account and a deterioration of £143,000 in the Imperial account. But we propose from Imperial revenues to make grants, which I shall presently describe, to Provinces amounting to £1,198,000. This compares with non-recurring grants we are making this year of £4,545,000. Thus to sum up, the Imperial revenue account will be £3,618,000 worse under Opium; £594,000 worse under Railways; and £143,000 worse under other heads; while alienations of revenue will be £3,347,000 less. On the whole there is a deterioration of about one million.

#### *Expenditure.*

" 21. The aggregate expenditure I advance from £79,604,000 in 1912-13 to £83,850,000 in 1913-14. The provinces anticipate that they will spend £3,203,000 more than in the current year, the great bulk of the increase being accounted for under education, sanitation and public works. In the Imperial section there appears an increase of £1,043,000. More than half of this increase is accounted for by the expenditure of £560,000 which we propose to incur for the purchase of Malwa opium. Under Civil Departments we have added £132,000 for so much of the grants which we are making for education and other beneficial objects as we need for Imperial outlay in minor administrations or as a reserve for subsequent distribution. A sum of £109,000 has been allotted for Protective Irrigation works outside the Famine Insurance grant. There is an increased provision of £131,000 under Post Office and Telegraph which is due for the most part to the requirements of wireless stations. The administration of the Province of Delhi will, we think, involve an increased expenditure of £60,000. In view of various urgent projects we have agreed to raise the grant for Imperial Civil works by £189,000, but there is a decrease of £300,000 under temporary buildings for Delhi.

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### Grants to Provinces.

"22. The grants for education, relief of cess and other beneficial services, which I have mentioned, are not the least interesting feature in the Budget. When presenting the Financial Statement last year, I said that as in view of expenditure on the new capital at Delhi we should now have three sections in our annual capital programme instead of two, we might reasonably enlarge the conventional figure of a crore which we have generally endeavoured to secure as our revenue surplus. In spite of the loss of opium revenue I find myself in a position to follow this policy, and I have framed my Budget on the basis of a 2 crore Imperial surplus. In spite of the loss of opium revenue, I find it is possible not only to avoid the imposition of new taxation, not only to maintain the present standard of expenditure but to provide a substantial contribution to meet the ever-growing needs of the country. Those needs are multifarious; some are conspicuous and urgent. Education and Sanitation are twins of a phenomenal development. There is agriculture. There is the question of medical attendance and relief. Last but not least, unless we ignore the political organization of the country, there is the development of local self-government. For these interests, we have made due provision. We allot 1 crore for recurring expenditure on education and sanitation, distributing 85 lakhs to the major provinces, assigning 7 lakhs as Imperial expenditure and retaining a reserve of 8 lakhs. We add 10 lakhs to the provision for agricultural expenditure; we allot 10 lakhs for medical relief,—15½ out of these 20 lakhs being distributed among the major provinces. These grants require no explanation and I would only say that the recurring grant for education supplements and adds to the value of the large non-recurring grant for the same purpose which we are giving in the current year.

"23. Finally we propose to make assignments to Local Governments to enable them to forego the amounts which at present are appropriated for Provincial use from the cess on land. This matter requires explanation. The cess I have mentioned is levied in all Provinces generally at the rate of 5 or 6½ per cent. on annual value. In Bombay, Madras and the Central Provinces the entire proceeds go to Local Boards. In Bengal and Bihar, however, a one-anna cess is divided into two half-anna portions and while one of these, the "road cess," goes to District Boards the other, the "public works cess" is credited to Government. In the Punjab and the North-West Frontier Province, District Boards have to make a contribution of nearly 20 per cent. of the land cess to Provincial revenues for "General services." In the United Provinces also there are large appropriations though they have a different form in the two portions of the Province. In Agra there is a land cess of 5 per cent. of which about a third is taken by the Local Government to cover the cost of rural police; in Oudh the general cess which goes to District Boards is at the rate of 2½ per cent. only of the annual value while a rate of 3 per cent. is levied separately on account of the cost of village police. The Council will remember that last year a resolution was moved by the Hon'ble Mr. Gokhale recommending the appointment of a Committee to enquire into the resources of local bodies. I had to oppose that resolution because the appointment of a Committee did not appear to be necessary or desirable; but I made it plain that the object of the resolution was one with which Government were in accord. The development and encouragement of Local Self-Government is indeed an object as to the desirability of which all are agreed, and it is with this object in view that we desire to increase their resources by abolishing the appropriations which I have mentioned. The consequence however of this abolition will be a loss to Provincial revenues which Local Governments cannot themselves sustain, and I therefore will make them assignments. The manner in which we proceed is as follows. The Local Governments while they take with the one hand appropriations from Local Boards as I have described, with the other hand give them certain subventions. Certain of these subventions, such as those made out of the Imperial grant for primary education will continue to be made to the Boards; others of a general nature which are at present required to provide a sufficient income for certain Boards will be resumed. In Oudh a special adjustment will be necessary; the 3 per cent. village police cess will be abolished and a general cess of 5 per cent. imposed at the same rate as in Agra. Allowing for this modification the net loss to Provinces and consequently the amount we have to make good to them will be in Bengal 25 lakhs, in Bihar 23 lakhs, in the United Provinces 29½ lakhs and in the Punjab 2 lakhs, a total of nearly

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79½ lakhs or £530,000. In deciding on the measure which I have now detailed to the Council we have, I consider, given a very substantial proof of our interest in local self-government. Last year in the debate on the resources of local bodies I mentioned the surprising way in which Mr. Gokhale plants seeds of policy which come to quick maturity, and I likened these to the mango seeds of the Indian juggler which covered for a little time from view astonish us presently with the appearance of trees bearing not only leaves, not only buds and flowers, but a goodly crop of wholesome fruit. If I may vary the figure, I should say that the Government of India have their orchards to the cultivation of which they give their best endeavours. Like all gardens these have their disappointments, their inexplicable failures; but none the less some of the crops are good. The present is a goodly basket, as an Indian gentleman might say "from our own garden;" and it contains something more substantial than a Committee.

### Military Services.

"24. The expenditure for five years is shown in the following table:—

	Gross.					Net.
	Army.	Marine.	Military Works.	Special Defences.	Total.	All Military heads.
	£	£	£	£	£	£
1909-10 . . . . .	18,901,181	461,157	858,342	28,604	20,240,284	19,112,323
1910-11 . . . . .	19,181,780	445,867	900,437	7,987	20,486,071	19,265,042
1911-12 . . . . .	10,536,546	450,728	909,657	4,706	20,901,637	10,568,580
1912-13 (Budget) . . . . .	19,084,700	447,100	860,500	20,200	20,412,500	19,094,500
1912-13 (Revised) . . . . .	19,608,700	476,800	880,600	15,900	20,982,000	10,635,400
1913-14 (Budget) . . . . .	19,555,900	478,300	940,100	24,500	21,007,800	10,646,800

"25. As stated last year, the Military expenditure of 1912-13 as originally estimated was fixed at a figure below that of any year since 1903-04. After the estimates were closed it became essential to place an order in England for a large number of rifles which has led to an additional payment of £155,000 during the current year. The National Insurance Act involved a payment not in the estimate of about £15,000 on account of the British soldiers serving in India. The demand for working parties of troops in connection with the survey operations in progress on the North-East Frontier entailed unforeseen expenditure amounting to £54,000. The Arms Traffic operations proved more costly by £15,000 than was expected. The prices of food and forage have risen, in spite of the favourable harvests of the year, and account for an increase of roundly £174,000. In view of the favourable financial conditions of the year, additional funds to the extent of about £127,000 were also given to place the army transport on a more satisfactory footing; to allow of the commencement of a reserve of fodder; and for advancing works in progress and for the purchase of stores. The aggregate excess expected is £540,900, the bulk of which has arisen from unforeseen demands and the rise in rates of food and forage.

"26. In the coming year there will again be a heavy bill for special services. Provision is made for the continuance of the Arms Traffic operations at a cost of £166,700. The winding up charges connected with the working parties employed on the North-East Frontier are expected to amount to £33,300. On the other hand, the expected retention of Indian troops in China and Persia will continue to effect a saving.

"27. Apart from all this, it has been necessary, in framing the military estimates of 1913-14, to take into account the fact that the temporary economies in ordinary

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expenditure amounting to £101,000, effected in the current year, cannot be repeated next year; and that the National Insurance Act introduces a new annual charge of £21,500. A larger provision of £186,000 for ordinary Home stores has been found necessary, owing to surplus stocks having been largely worked off, higher prices ruling for metals, and to the advance purchases of such stores in 1911-12 not being repeated in the current year.

" 28. The Schedule grant for 1913-14, amounting to £737,700, shows an increase of £217,600 as compared with the figure adopted in the current year, but it includes £119,000 to meet the final payments on account of the extra rifles which had to be ordered this year, and £106,700 for the acquisition of land and the commencement of building operations in connection with the new military cantonment at Delhi. The balance of the grant will be applied mainly to meeting the primary requirements of the army in the matter of guns, bayonets, swords and accoutrements, and to the continuance of building works in progress, notably in the direction of improving the accommodation of Indian troops. Provision is made on a modest scale for the inception of military aviation in India.

" 29. In respect of the permanent economies mentioned last year, a further saving has been effected by the disbandment of the Deoli and Brinapura cavalry squadrons. The question of army expenditure generally has been under the consideration of the Army in India Committee, presided over by Field-Marshal Lord Nicholson. Their report, which is expected shortly, will deal with the possibility of effecting further economies in military expenditure. The report of the Committee which examined the question of marine expenditure is still under consideration. The final result is an increase of the net military budget by £552,300 as compared with the current year's budget.

### Railways.

" 30. I have already given in the revenue account some of the more important Railway figures. The results of the present year are remarkable. In 1912-13 we expect the return on the capital at charge to be 5.89 per cent. against 4.48 which was the percentage in 1909-10. If we take the railway revenue account as a whole and set the interest charges, the annuities, sinking fund payments and minor debits, such as cost of land and surveys, against the net earnings, we show a surplus of £5,616,000, the highest in the history of our Indian railways.

" 31. What I am now especially concerned with is the railway capital account, and I give therefore the figures of railway capital expenditure during the last five years and compare them with the estimate for next year:—

	1908-09.	1909-10.	1910-11.	1911-12.	1912-13, Revised.	1913-14, Budget.
	£	£	£	£	£	£
Open lines including rolling stock	8,532,741	6,532,441	5,002,843	5,053,300	7,362,800	10,124,600
Lines under construction—						
(a) Started in previous years	1,366,200	1,482,962	2,055,264	2,403,853	2,781,400	1,875,400
(b) Started in current year	146,130	369,291	387,821	452,150	69,900	...
	10,045,071	8,384,694	7,445,928	7,914,393	10,214,100	12,000,000

" 32. The figures to which I invite special attention are these. The expenditure on capital account in the three years 1909-10 to 1911-12 averaged rather less than £8 millions. In the current year we budgeted originally for a railway programme of £9 millions. In the course of the year however we were able to increase the provision to £10½ millions out of an increase in our balances and other improvements. For the coming year I propose to draw somewhat heavily on our ample

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balances and am in consequence able to advance the railway programme for 1913-14 to £12 millions.

"33. This proves, I think, that I am not unsympathetic on the question of railways. I recognise fully their immense significance as an instrument of general progress, their necessity for the development of trade, their growing and indeed momentous importance to the finances of India; but in this, my last Financial Statement, I cannot refrain from a word of warning. In spite of the reckless utterances of obviously interested critics, I continue to deprecate any departure from a policy of the utmost caution in the matter of Railway Finance. It may be that in the future it will be possible to give more scope to private enterprise and increase through its agency the funds available for railway construction, but for the present I have to regard railways as a strictly business proposition. Our responsibility is all the greater now that they have attained a position of supreme importance in our financial system. It is said that the remunerative character of our railways is beyond question, that our railways are the milch cow of the Government of India, and that I am ungrateful. But what is the position? We are paying in the London market very nearly 4 per cent. for what we borrow. I bear in mind that in the current year the railways have paid us 5.89 per cent. But last year the return was 4.99 per cent., in 1910-11 it was 4.66 per cent., in 1909-10 it was 4.48 per cent.; even in good years in the present state of the money market the margin is a narrow one. Let me remind you that so recently as in 1908-09 our railway system was worked at a net loss to the State. I said at that time that we must never allow our railways to become again, even temporarily, a net burden on the general taxpayer. I repeat that assertion. As matters stand we have in our railways a splendid asset. Let us safeguard that asset. Any admission of doubtful schemes, or failure to count in each case the full cost, any disregard of financial considerations will surely lead to deterioration of a most serious character.

"34. I urge that nothing be agreed to in the future which may weaken a position which is essential to the financial prosperity of India and to all the interests which that prosperity serves.

### Irrigation.

"35. The financial position of our great irrigation undertakings may be gathered at a glance from this table which I present and which brings up to date the information given in previous Financial Statements.

Particulars.	1909-10.	1910-11.	1911-12.	1912-13 (Revised).	1913-14 (Budget).
	£	£	£	£	£
<i>Productive Works.</i>					
Capital outlay to end of the year	29,145,119	30,355,971	31,920,338	33,439,738	34,018,738
Direct Receipts	2,240,011	2,256,989	2,319,176	2,541,200	2,542,600
Land Revenue due to Irrigation	1,111,158	1,170,065	1,343,135	1,495,200	1,518,800
<b>TOTAL RECEIPTS</b>	<b>3,360,169</b>	<b>3,427,054</b>	<b>3,662,311</b>	<b>4,036,400</b>	<b>4,061,400</b>
Working Expenses	1,065,481	1,050,404	1,103,180	1,090,700	1,108,400
Interest on debt	980,829	1,004,650	1,059,649	1,152,100	1,207,000
<b>TOTAL WORKING EXPENSES</b>	<b>2,046,310</b>	<b>2,055,054</b>	<b>2,162,829</b>	<b>2,242,800</b>	<b>2,315,400</b>
<b>NET PROFIT</b>	<b>1,313,859</b>	<b>1,371,970</b>	<b>1,500,482</b>	<b>1,793,600</b>	<b>1,746,000</b>

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**Irrigation—contd.**

Particulars.	1900-10.	1910-11.	1911-12.	1912-13 (Revised).	1913-14 (Budget).
	£	£	£	£	£
<i>Protective Works.</i>					
Capital outlay to end of year . . . . .	3,112,121	3,444,204	3,503,816	4,207,040	4,778,046
Direct Receipts . . . . .	58,006	51,001	62,356	64,500	76,000
Land Revenue due to Irrigation . . . . .	0,280	7,040	8,330	10,800	10,900
<b>TOTAL RECEIPTS</b> . . . . .	<b>61,286</b>	<b>58,041</b>	<b>70,686</b>	<b>75,300</b>	<b>87,900</b>
Working Expenses . . . . .	28,730	29,217	41,023	51,000	54,200
Interest on debt . . . . .	97,882	110,730	123,218	136,200	152,800
<b>TOTAL WORKING EXPENSES</b> . . . . .	<b>126,612</b>	<b>139,947</b>	<b>164,241</b>	<b>187,200</b>	<b>207,000</b>
<b>NET LOSS</b> . . . . .	<b>62,316</b>	<b>80,906</b>	<b>94,455</b>	<b>112,500</b>	<b>119,200</b>
<i>Minor Works and Navigation.</i>					
Direct Receipts . . . . .	235,601	228,465	247,054	251,200	254,700
Expenditure . . . . .	839,435	877,728	836,407	671,500	621,800
<b>NET LOSS</b> . . . . .	<b>653,744</b>	<b>649,263</b>	<b>589,353</b>	<b>620,000</b>	<b>606,000</b>

" 36. On the 31st March 1912, 58,584 miles of main and branch canals and distributaries had been constructed, and by the end of the current year a mileage of 50,000 is expected, commanding over 49½ million acres of cultivable land of which probably 23 million acres will actually be irrigated within the year. The net profit according to our anticipations on productive works will be £1,793,300, the net return on capital outlay being 8.81 per cent. or if works still under construction are excluded 10.27 per cent.

" 37. In addition to the canals in operation there are 59 projects which are either under construction, awaiting sanction or being examined by the professional advisers of the Government. Of these six are Minor Works. The Major Works of which 28 are productive and 25 protective, are designed to irrigate nearly 13 million acres at a total capital cost of about £45 millions, the yield anticipated on the productive works being 7.17 per cent.

" 38. Of the projects brought forward from the preceding year, I may first refer to the Punjab triple project. The progress of this great work is stated to be satisfactory. The Upper Chenab Canal was opened for irrigation by His Excellency the Viceroy on the 12th April 1912. The Lower Bari Doab Canal will be ready for opening in April next, and it is expected to open the Upper Jhelum canal by the autumn of 1914. It is hoped that the Upper Swat River canal will be ready by April 1914.

" 39. Two other projects mentioned last year in my Financial Statement, the Sukkur barrage and the Rohri canal, have been submitted for the sanction of the Secretary of State, while progress in the case of the Cauvery Reservoir and Sardar-Ganges-Jumna feeder, which have been very favourably reviewed by the technical advisers of the Government of India, is delayed by the necessity of considering the interests of certain Native States which are affected by these undertakings. During the year the Nira Right Bank canal has also been sanctioned by the Secretary of State at a cost of about 260 lakhs of rupees. It is designed to protect an area of 190,000 acres in the Sholapur district, which above almost all others in India stands in need of protection from drought and famine, and it is the most important project of the protective class which has been undertaken in this country.

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"40. Of the projects under consideration which have not previously been mentioned the most important are the Kistna reservoir in Madras, the extension of the Gokak canal in Bombay, the Sutlej Valley canals and the Jumna dam project in the Punjab. The Kistna project contemplates the construction of a dam at a cost of 8½ crores to hold up a reservoir with a gross capacity of 163,586 million cubic feet of water. The work if constructed will be the largest of its kind in the world exceeding in magnitude the Assuan dam on the Nile which, as now enlarged, has a gross capacity of 81,224 cubic feet. The Gokak canal extension, which is classed as protective, is to cost nearly 2 crores. The Sutlej Valley project aims at the utilization of the surplus supply of the Sutlej and Beas rivers and it will besides improving the water supply of the several inundation canals now dependent on the Sutlej, extend the benefits of irrigation into the great desert south of the river. It will probably cost 9 crores, while the Jumna dam project, the estimate of which is over 5 crores, provides for the construction of a dam at Koch in the Nahar State to ensure a fuller supply to areas commanded but insufficiently watered by the Western Jumna canal and extend the irrigation from that canal to some precarious tracts in the Umballa and Karnal districts.

### Provincial Finance.

"41. On the subject of Provincial Finance it is fortunately necessary for me to say but little. Two years ago I described in detail the scheme of permanent financial settlements, which we believe secures for both parties to the contract important advantages. In presenting my last Financial Statement I said that the scheme could not have had a better start than the year 1911-12 had given it. Now another year of prosperity has strengthened the position of the Provinces as well as our own. It is not so long ago that the Provincial authorities took a most gloomy view of their financial prospects. I remember well the spirited attack which was made on the Government of India on the subject of the Punjab settlements, and no year passes in which we do not hear the patriotic pleadings of the Hon'ble Pandit Madan Mohan Malaviya and others on behalf of the United Provinces. To all such representations I may have been held to be unsympathetic, but especially in India time brings the answer. The financial position of the Punjab and the United Provinces is very different now from their position even two or three years ago, and in general the Provinces have built up such substantial balances and have a margin between revenue and expenditure so adequate that they are not only well-to-do for the present but are well protected for the future. I must deal however in some detail with the case of the two Provinces, Assam and Burma, to which it is proposed to give special grants. Financially the conditions in these two Provinces are different. Assam at present has only a temporary settlement and in another two years it will be necessary to revise the terms of our agreement on a more permanent basis. Burma already has its permanent contract, and I am satisfied that the contract is essentially a sound one, for it secures to the Province a substantial growth of revenue which will presently supply it with ample funds for its requirements. At the moment, however, it cannot be denied that the province is in poor circumstances and that in spite of the exercise of due economy it finds a difficulty in squaring resources with requirements. But from another point of view there is a strong resemblance between the conditions in these two Provinces. The equipment of both, in the matter more particularly of communications, is far behind that of the rest of India, and their development is a matter for serious consideration. The question is no doubt what rate of progress is desirable, for ultimately both Provinces will find a sufficiency for their requirements in their own resources. But it is clear that unless we come to the assistance of Burma, progress in that Province will be injuriously delayed. The case of Assam is somewhat different because it was given a substantial grant with which to start its existing settlement; but here again it was recognised that the Province might spend this grant during the period of settlement and it would in the usual course be given a second grant at the beginning of the permanent settlement, the terms of which will shortly have to be considered. The reasons for the grants we propose will now be evident. By making these grants we assist the earlier development of Provinces which are extremely backward. We anticipate in the case of Assam a liability which might come on us when unfavourable seasons might make it difficult for us to meet it. And since the improvement of



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communications must make for an improvement of revenue in which the Imperial Government have a share, it may be added that these grants are in the nature of an investment in the business of the firm by the senior partner, namely the Government of India.

### Ways and Means.

" 42. I have now finished with the Revenue account, the account that is to say that is concerned with the money credited to us as a final receipt and the expenditure which we have agreed should be charged against such receipts, and I turn to the question of our Ways and Means.

" 43. In the current year our programme provided for capital expenditure of nearly £11½ millions, of which £9 millions were for railways, £1,416,000 for irrigation, and £1,333,000 for Imperial Delhi. We had to meet railway debentures which fell due to the extent of nearly £1½ millions, and the ordinary drawings of India bonds of £½ a million, and we arranged to repay the whole of the outstanding India bills of £4½ millions. The great bulk of these obligations and requirements we proposed to meet by drawing on our balances; but we decided to raise a loan of 3 crores (£2 millions) in India and another of £3 millions in England, and we hoped to obtain £1,810,000 through railway companies apart from the money which they were to raise for the discharge of debentures. In the last item we have been disappointed, for the capital raised by railway companies has been only £495,000. In other respects our assets have increased very greatly above our anticipations. The greater part of the improvement has taken place in the revenue account with which I have already dealt in detail. This improvement shows itself first in the rise of the Imperial surplus from £1,478,000 to £3,862,000, and secondly in the banking account of the Provinces. Originally we had to estimate for a large net withdrawal by provinces; but they have not been able to work up fully to the scale of expenditure for which they had made provision in the Budget. Their own revenues have been better, and they have received large grants from us, the result of all these changes being that the aggregate provincial account shows now instead of a withdrawal of £1,558,000, a deposit of £4,019,000. On the debit side of our transactions, the most interesting item is the discharge of our India bills. This has now been carried through in accordance with the programme, and it is a matter of very great satisfaction to me that our account has been entirely cleared of these liabilities; our position has by these liquidations been greatly strengthened against the possibility of financial troubles in the future. The capital expenditure on Delhi, as I have already noticed, has been small. On the other hand, canals have taken a little more money than we provided for them in the Budget, and we have been able in the course of the year to make the substantial addition of £1½ millions to the railway programme.

" 44. In 1913-14 we repeat the provision of £1,333,000 for the new city at Delhi, and we increase the irrigation allotment to £1,467,000. The most prominent feature of the year is however the raising of the provision for the railway programme to no less than £12 millions. The total capital outlay is estimated at £14,800,000. The only other important debits will be, first, the discharge of debt amounting to £1,869,000, chiefly on account of railway debentures which fall due in the course of the year and of the repayment of another £½ million India bonds; secondly the deficit which is estimated at £2,839,000 in the provincial account. Altogether we have to find about £19½ millions and this we propose to do mainly by utilising our balances. We propose to work to a closing balance of about £17 millions, and on that basis we think we can find £11 millions out of balances. Our revenue surplus will give us £1½ millions. We propose to raise a loan of 3 crores (£2 millions) in India. The Secretary of State will not himself issue any sterling loan, but it is hoped that the capital raised by railway companies will give us £3 millions. We depend to the extent of £1½ millions on our unfunded debt transactions, mainly Savings Banks, which we think will result in a net receipt of that amount, and we draw as usual on the grant for the redemption or avoidance of debt. The distribution of the closing balance at which we aim is that we should hold £12,429,000 in India and £4,442,000 in the Home Treasury. To work to these results after providing for the year's requirements, we estimate that the Secretary of State will sell Council Bills and Telegraphic Transfers on us to the extent of £21,200,000; but in addition he will as usual sell additional bills

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on India so far as our resources may permit if there is a sufficient demand for them. It will be understood that all my announcements about loans and drawings are subject to the usual reservations; the Secretary of State and the Government of India retaining full discretion to vary the amounts I have mentioned, in any way and to any extent that may be thought advisable.

### Exchange, Currency and Gold Coining.

"45. From this survey of our Ways and Means I pass to the adjoining territory of Exchange and Currency where there is some interesting ground to be traversed. I shall first sketch the general conditions of the year which are relevant to this subject. I shall describe a resumption of our rupee coinage, and I shall then pass to a consideration of two important steps in the development of our currency policy.

#### *Exchange.*

"46. From the description of trade conditions which I gave at the beginning of my speech it will be at once surmised that there has been no exchange difficulty in the current year. Taking the value of merchandise dealt with on private account the value of Indian exports between April and December 1912 exceeded the value of imports by 61½ crores, the excess being about 2½ crores greater than in the previous year. The outstanding feature of the year is that since the 1st of April last the rate of exchange has never fallen below par, and this is a new thing in our experience. In 1909-10 a rate below 16 pence continued for the first six months of the year. In 1910-11 it lasted from the middle of May to the middle of August. In 1911-12 it held only for two weeks in June and this year it has disappeared. I do not wish to make too much of this feature; but while I remember that there was little employment for money last rains and my friends the bankers will point to the high rates of interest that have recently prevailed, I think a tendency is shown in the facts I have stated, as well as in our figures of rupee absorption and in the traffic returns of railways, to a diminution in the duration and intensity of the slack season and a more even distribution of trade throughout the year which would be very welcome.

"47. The balance of trade in our favour, I have said, in nine months has been 61½ crores. I need not attempt to explain how the whole difference has been equated; but I can account at once for 56½ crores, for in the settlement of our claims on other countries we imported 12 crores in gold and silver bullion, 18½ crores in sovereigns and accepted 26½ crores in Council Bills. The sovereigns, I need hardly say, are not imported necessarily for use as coin, but in order to obtain currency in any form that is desired and they are largely turned into rupees. The absorption of gold, it is true, has continued to increase; in the first six months of 1912-13 it was a million pounds more than in the first six months of 1911-12. But that is only one element in the situation. The financing of the wheat trade which I have said was unusually active took two crores of rupees more from us than in the previous year. Jute, so far as currency is concerned, was a record crop, for the demands on our Calcutta Office in four months amounted to 12 crores of rupees, a sum exceeding even the previous record of 1906 and far above the requirements of any intermediate year. This leads me to the question of the coinage of rupees. We have not added to the rupees in circulation for the last five years. In November 1907 when coinage stopped we had 28 crores of rupees in hand. Then came the scarcity and the commercial crisis of 1907 and 1908 during which instead of an absorption there was a return of rupees from circulation. By September 1909 we had in our possession no less than 48 crores. Since then there has been a steady absorption. It has proceeded at a rate considerably slower than many anticipated though much as I personally expected, but it has gone on year after year and at the end of last April we had no more than 15 crores in hand. It was certain that in the next few months rupees would return; but it was equally certain that the resumption of coinage could not be avoided. The Secretary of State accordingly began to purchase silver in May last. Since then he has purchased £7,060,000 worth. This silver has yielded 15½ crores of rupees. 10½ crores passed into our ordinary balances in substitution for the gold used in the purchase, while the remainder, less cost of manufacture representing the profit on coinage, has been credited to the Gold Standard Reserve.

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*Currency.*

"48. Having cleared the way by this sketch of the year's history, I can proceed to a fuller discussion of the important currency developments which I mentioned, the first relating to the Gold Standard Reserve and the second to the coinage of gold in India. The first has to do with exchange and the requirements of international trade, the second with our internal currency. That there is a nexus between the two cases is clear, but as regards the nature and extent of this nexus widely different opinions are held. We are familiar with the view that a gold standard is impossible without a gold currency. On the other side it is suggested that the currency in the hands of the people is not to any great extent available when coin has to be sent out of the country in settlement of foreign demands. There is also strong opinion in favour of the view that the support which at times becomes necessary not only in this country but elsewhere against an unfavourable balance of trade can best be found not in the currency in circulation but in strong reserves. I do not intend to enter on a discussion of these rival creeds. I would merely like to say that here in India we have made a great experiment in currency, that the experiment has been successful, and that we are satisfied with our system as at present developed. I recognise however that we must always be ready to strengthen and adjust it as the need arises, and that in carrying out such re-enforcements and adjustments we must attend to experience as well as theory and bear in mind that the conditions in India may in certain particulars be special and stand in need of exceptional treatment. This is the principle which should guide us in considering both the matters which I now lay before the Council. I take first the question of the Gold Standard Reserve. That Reserve has already reached the large figure of £22 millions including £4 millions held in rupees in India. But we have never forgotten that in the troubles of 1907-09 we lost in little more than a year no less than £15 millions sterling, and though we have generally other gold resources on which we could draw, I have always been anxious that the Reserve which is specially earmarked for the support of exchange should be strengthened. I have at the same time felt that it would be an advantage if a larger proportion of this Reserve were held in liquid gold instead of in securities. On these points we have had I think the unanimous support of Indian opinion, but the Secretary of State has not always seen eye to eye with us, and the Council may remember that a year ago I was not sanguine that we should succeed in converting him to our view. We have however succeeded. The Secretary of State has agreed to raise the sterling assets of the Gold Standard Reserve in London to £25 millions and to hold £5 millions of this amount in gold and his decision is gratifying to me as strengthening our defences against the fall in exchange of which there is always a danger in times of adverse trade conditions.

"49. On the second development which I have to describe, I fear we cannot hope for the same unanimity of opinion. Yet I feel certain that the two despatches on the subject, which I shall lay, will be read with satisfaction by many both in this Council and outside it.

*Gold Coining.*

"50. In regard to the coinage of gold I may say that the initial selection of any one coin would not in fact definitely exclude another, for while recommending to the Secretary of State the coinage of sovereigns, the Government of India referred to the future possibility, should it be considered advisable, of introducing some other smaller coin such as a ten-rupee piece. The sovereign introduces questions of control which as between ourselves and the Royal Mint are difficult of solution. For this or for any other reason, the final decision may be, to begin with, a special Indian coin, but the experience we should gain in coining an Indian piece may show that it would be worth our while to undertake the additional trouble and expense which would be involved in the coining of sovereigns.

"51. On the general question, as I have said, there is much difference of opinion. There are those who seem to regard an institution of a gold mint as a cardinal point in currency policy and expect from it sudden and surprising results. Some are indifferent, regarding a gold mint merely as unnecessary, because they say we already get as much gold coin as we need from abroad, while there are others whose attitude is one of mistrust and condemnation, because they suspect that the establishment of a gold mint implies a radical change in the currency policy of the Government, or because they

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fear what is called the drain of gold to India. The first to my mind exaggerate the importance of the scheme and are unduly sanguine in forecasting its results. The last, I am confident, are unduly apprehensive.

"52. The view taken by the Government of India is a very simple and I think obvious one, and it involves no departure whatever from our currency policy. We have no idea of converting our currency into gold. We are not going to buy gold bars in order to coin them. We cannot force a currency on the people, nor do we wish to do so. All we proposed is that if anyone who has gold wishes to have it coined he should be able to do so. The position is that in this country both gold and silver are established as legal tender currency. But while we can turn silver into coin, we have not so far been able to coin gold. The argument that, in point of fact, we can get by importation as much gold as we can use, is true but it is incomplete. For one thing India itself produces an amount of gold which is not inconsiderable. At present this goes to London, and it may continue to do so, but it is reasonable and it may prove economical that facilities should be given for coining it in this country if at any time the producers find their advantage in that alternative. Again there is a large quantity of gold bullion in the country. Assuming that the necessity arises of converting it into coin, why should it have to be sent 7,000 miles for the purpose? Or who is to say that it may not on occasion be more profitable or convenient to import and coin gold bullion rather than to import sovereigns? On questions of this kind I strongly deprecate an *a priori* judgment. How any facilities for coining bullion which we give can increase the flow of gold to India I am unable to see. In one form or another India will get precisely the amount of gold which she wants and which she is able to pay for. It may be urged that the use of gold as currency at any rate is for this country a superfluity. But what does this argument assume? It assumes that for India not gold but some other form of currency is the best. On the other hand some authorities assume that a gold currency is always preferable. I make neither assumption. I leave it to the people to decide what suits them best, and all I say is that if they find they prefer gold they are just as much entitled to it as any other people in the world. Now when we are considering Indian currency we can no longer, as was the case not many years ago, think only of rupees. Out of the total additions to the currency in the three years ending March 1912 amounting to 65 crores, rupees accounted for only 28 crores. The habits of the people in fact are changing. The last Currency Report of the Comptroller General shows clearly that gold has to an increasing extent established itself in ordinary circulation, while the expansion of our note issues gives evidence of a desire for a handier currency than silver and a readiness to use a higher unit than the rupee. While therefore we do not pretend to know to what extent the facilities for coining gold will be used, we think that there are substantial facts to support the sentiment which has frequently been expressed in this country in favour of our having a gold mint of our own. And even without such support I make bold to say that sentiment is not a thing to be disregarded. The sentiment I mean is not that of any particular race, class or community. India is a great country, not only by reason of past achievements in the highest fields of thought, not only by reason of her enormous population and vast area, but because of her rapidly increasing importance in the world of commerce. I confess I think it is sometimes forgotten how big India is, and her growth in the matters with which I am more particularly concerned outstrips our ordinary conceptions of it. We are all united in this common bond that we are fellow citizens of one great Empire, and the sentiment I have in mind is the sentiment that should be common to all the people of a great and growing country. This mint, you may say, of which we are talking is a little thing. But if there is a feeling that India after all is entitled to its own mints and that those mints should be empowered to turn out any coins that India requires, can anyone say that the feeling is in any sense unreasonable? I cannot of course anticipate the decision that may be reached regarding the denomination of the coin which we should issue, but personally I say that the sentiment which favours a special Indian coin is to me easily intelligible. And I hope that our mints will continue to be Indian in the sense of being free from external control. Our mints may not be the best in the world, but I know of none better. The work they turn out is a credit to the Indian Government, and in saying so, I rely not on my own judgment but on the judgment of experts in Europe who have given me their opinions. This battle of the mints has now lasted for fifteen years. I do not for a moment say

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that throughout this period the issues have remained the same. The combatants have frequently changed their positions. The composition of the opposing forces has varied, as parties which at one time found themselves in one camp, transferred their allegiance presently to the other. But on the whole, India has fought for a gold mint all these years, and personally I am glad that at a time when my association with the government of this great country draws to a close, the question is being brought to an issue.

"53. The Council will appreciate that all I have said in regard to exchange, currency, and the coining of gold is subject to a reservation. I refer of course to the statement made in the House of Commons by the Prime Minister. Mr. Asquith has stated that in the opinion of the Home Government the time has come for an enquiry into (*inter alia*) questions of currency and finance relating to India by an expert body and preferably by a Royal Commission. I myself believe that our system of currency and finance in India rests on a sufficiently solid foundation. I recognise however that it is the subject of many misunderstandings and of much misconception. A Commission of inquiry will clear the air and by increasing knowledge, it will diminish criticism. I believe that it will be educative rather than destructive. Holding this belief, I await with confidence the result of its deliberations on the currency conditions which I have described and which will now have to be submitted to its judgment.

### Retrospect.

"54. This is my last year of office, and it is permissible that I should review the administration of the Department the control of which I am about to surrender.

"55. When I assumed charge towards the end of 1908, the country, after a decade of remarkable prosperity, had just passed through a period of distressful scarcity. The relapse was one of a kind to which, by reason of its climatic conditions, India has always been subject; but on this occasion its severity was accentuated by a financial stress that dislocated the world's greatest markets. The gravity of the situation is explained in a word when I say that the year 1908-09 ended not with an anticipated surplus but with a deficit of no less than £3½ millions. From an agricultural point of view, the next year was favourable; but trade was slow in reviving and, as I said when I presented my second Financial Statement, the air of hopefulness, which pervaded the country as soon as a good monsoon had assured the agricultural position, was slow in penetrating the Finance Department. I remember well the difficulties which we encountered that year, the necessity we were under of explaining the situation to the large spending Departments and Local Governments, and calling on them to exercise all possible economies in view of our diminished resources, and their loyal response. In addition, when I came to sum up the experiences of the year and forecast the requirements of the next, I found myself faced with a great drop in opium revenue and the necessity of revising at considerable cost our settlement with Eastern Bengal and Assam, and I was forced to propose additional taxation. In 1910-11 the situation changed. Prosperity returned. Our revenues increased. We were able to expand those activities of Government which depend on money resources.

"56. In this brief review I have mentioned the increase of taxation which took place in 1910-11. I do not wish to rake up the ashes of an old controversy, but I can scarcely pass the subject by. Whatever may be said about it, I am unrepentant. I hold this, indeed I regard as *res judicata*, that the taxation was justified on any reasonable forecast of immediate requirements at the time when it was imposed. I say that its absolute necessity might have been demonstrated at any moment during the last three years if what has now happened in our opium trade had happened previously. But there are other and more general considerations. If we had merely to provide for existing charges, the position would be simple; whenever revenue rose above expenditure, the excess would be cut off by a reduction in the scale of taxation. But India is not a developed country. It is not a country in which any one can accept the current equipment and the current scale of expenditure as sufficient. I am not suggesting taxation up to the hilt; but in view of urgent and legitimate demands I hold that the real question is not whether we could not have done without further taxation but whether the further taxation has in fact been burdensome. Some of our critics seem at times to forget that development has to be paid for. I claim to have established without hardship a broader basis of taxation which has been and will continue to be of benefit to the country.

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"57. A point I touch on is economy. Simple though this subject be, it seems to be open to misconception. On the one hand, it has been felt that I have been unnecessarily severe in effecting economies, whilst on the other hand, I have been criticised for assenting to a large increase in expenditure. What I mean by economy is neither the hasty reduction of expenditure in a crisis, nor the opposition to new expenditure without regard to its character or object. What I mean by economy is spending your money on good objects and getting your money's worth for what you spend. This object I have kept in view through good report and through bad report, or rather perhaps I should say through good and bad seasons without distinction, and I claim to have been successful in its attainment.

"58. As relevant to this subject I mention the department of audit. That department is one with which, through a long experience, I have been familiar, and I know its value. I have endeavoured in this country to demonstrate my belief in it. I have every reason to think that the position of the Comptroller and Auditor General will be substantially improved, that he will be relieved of other financial duties and will be able to devote his whole time to the development of our audit system. I look for a new spirit in the Audit department, a spirit which will bring about a recognition of its true relationship to the Executive, which will ensure hearty co-operation in the work of Government.

"59. A more general question is raised when we co-relate the expenditure we charge to revenue and our capital expenditure. There is no doubt a competition between these two classes, a competition which Mr. Gokhale has brought out clearly enough in more than one Resolution. But the principles which guide us in determining the allotments to be made for the various heads of revenue expenditure must equally guide us when we come to the distribution as between revenue and capital expenditure of an accrued surplus. There are enthusiasts for education and enthusiasts for railways. The Government of India have to hold the balance between them and endure the disparagement of both. I have always been opposed to any hard and fast rule. The distribution must be determined on a consideration of requirements at the time of allotments. There is another consideration. It is a mistake to regard our revenue and capital accounts as watertight compartments; there is always a movement from one to the other. In good years the revenue account supplies the capital; that has lately been the ordinary position. But the movement has sometimes been reversed, and if in the last year or two we have been using our surplus partly to pay off temporary debt, it must not be forgotten that that temporary debt was raised in part to make good a revenue deficit. The outstanding difficulty in Indian finance is its liability to extreme vicissitudes. The true use of surplus money in good years is to be found in the reduction and avoidance of debt. That is not a picturesque policy, but it is the only sound one. Now from this point of view what have we done in recent years? At Home our borrowings have been small. That may be the result of necessity rather than of choice; but in India where the market has been improving instead of deteriorating my loans have been studiously moderate. In 1909 I raised 2½ crores; in 1910, 1½ crores; in 1911, 2 crores; in 1912, 3 crores. The net result of my loan transactions, taking into account discharge of debt, is striking. In the following figures I include both direct borrowings by the Secretary of State and capital raised through Railway Companies.

In 1909-10	there was a net addition of	£13 millions;
In 1910-11	" " "	of £6½ millions;
In 1911-12	" " "	of £1½ millions;
and In 1912-13	" a net decrease of	£1 million.

Meanwhile the legitimate demands for non-recurring expenditure—the only demand which could be met from accrued surpluses—of our different departments, more particularly of education and sanitation, have been generously met. A reasonable railway and irrigation programme of capital expenditure has been maintained and while this has been effected, I have at the same time strengthened our position against the possibility of financial troubles by a restriction of borrowings. My restraint in the past will be an asset for my successors in the future.

"60. I turn to another element of strength. By the end of 1909 there was practically no gold left in the Government reserves in this country. Since then by the ordinary

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operations of trade gold has flowed in, till we now hold £19,500,000 in our currency reserve in India. In the same reserve at Home we have £7,300,000; in the Gold Standard Reserve we have £18 millions in gold assets, and we hope, in consequence of the Secretary of State's recent decision, to have eventually £25 millions. At any rate at the moment we have altogether £45 millions in gold and gold securities and that is a bulwark of enormous strength against a fall in exchange. Our currency system seems to be sound. In our English way we have adapted it from time to time to meet requirements as they arose. The result I do not claim is perfect; but we may be satisfied with a scheme if it is practical. It has the approval of economic experts. It has been taken as an exemplar in other countries, and it has the confidence of our business men. If I have to take the responsibility when things go amiss, I am surely entitled to claim a little credit for success. The Indian believes in the efficacy of good intentions. I have meant well by India, and it means much to me in presenting my fifth Budget that I can honestly say that should financial trouble come on her, India is prepared to meet it.—*L' India farà da se.*

### Conclusion.

"61. A Financial Statement, the forerunner of the Budget, has to-day been presented, for the first time, in Delhi; restored to her pride of place as India's Imperial city. Through centuries Kings of every race have fought to win or keep her: the blood of men and the tears of women have been freely shed to cement the Empires over which her owners have held sway. But I prefer to think of Delhi, not as the prize of conquest, or the home of conquerors, but as the capital of a contented empire, the abode of peace and prosperity, of wise and prudent councils. Such I hope she may ever be.

Glorious though she has been, may Delhi rise to glories still greater; the glories—to quote the words of the Viceroy's speech which it devolved on me to read to you in the Diwan-i-Am—of "the peace, happiness and contentment of the millions over whom the King-Emperor exercises sway, the trust and confidence which England has been able to repose on their loyalty, the generous share which she had been able to give to the sons of India in sharing her councils and in shaping the destiny of this great and wonderful country."

It rests largely with you and your successors in this Council to bring our hopes to fruition.

This is my last Budget, and this day practically ends my career in India.

I shall sever my connection with India with profound sorrow; but I rejoice exceedingly that I shall leave her loyal and prosperous."

The Council adjourned to Wednesday, the 5th March, 1913.

W. H. VINCENT,

*Secretary to the Government of India,  
Legislative Department.*

DELHI,

*The 1st March, 1913.*