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PROCEEDINGS
OF
THE INDIAN LEGISLATIVE COUNCIL

ASSEMBLED FOR THE PURPOSE OF MAKING

LAWS AND REGULATIONS

VOL. LVIII

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GOVERNMENT OF INDIA.

LEGISLATIVE DEPARTMENT.

PROCEEDINGS OF THE INDIAN LEGISLATIVE COUNCIL ASSEMBLED UNDER THE PROVISIONS OF THE GOVERNMENT OF INDIA ACT, 1915.
(5 & 6 Geo. V, Ch. 61.)

The Council met at the Council Chamber, Imperial Secretariat, Delhi, on Monday, the 1st March, 1920.

PRESENT:

His Excellency BARON CHELMSFORD, P.C., G.M.S.I., G.M.I.E., G.C.M.G., G.C.B.E., Viceroy and Governor General, *presiding*, and 56 Members, of whom 48 were Additional Members.

OATH OF OFFICE.

The Hon'ble Rai Bahadur Kurma Venkata Reddi Nayudu, made the prescribed oath or affirmation of allegiance to the Crown.

QUESTIONS AND ANSWERS.

The Hon'ble Mr. K. V. Rangaswamy Ayyangar asked :— 10-55 A.M.

Employment for discharged Indian Army clerks.

1. "(*a*) Is it a fact that Indians were enlisted as combatants for the Indian Army for service as clerks in Indian regiments and other military offices of the Military Departments, after a course of training for which two schools have been in existence, one at Kamptee (Central Provinces) and the other at Rawalpindi?

(*b*) Do Government propose to advise the Government of the provinces to which they belong to instruct heads of departments definitely that the cases of such clerks should, on their discharge from military service, be considered favourably, and that they should be given clerical appointments commanding fair salaries?

(*c*) Do Government propose to suggest to the Provincial Governments the desirability (1) of throwing open to enlisted clerks discharged from the Military Department admission to Government institutions for training as Police Sub-Inspectors, Prosecuting Sub-Inspectors, and Revenue Inspectors, and (2) of placing the said clerks, after training on probation under Prosecuting Inspectors and Tahsildars for a reasonable time to be fixed by Government within which the candidates should qualify themselves for these posts?

(*d*) Do Government also propose to relax some of the physical and educational qualifications in the case of discharged combatant clerks who may be a little below the standards prescribed for such posts?"

[*His Excellency the Commander-in-Chief; Mr. K. V. Rangaswamy Ayyangar; Sir George Barnes.*] [1ST MARCH, 1920.]

His Excellency the Commander-in-Chief replied :—

"In view of the heavy demands for, and difficulty in, obtaining trained Indian clerks for employment, both regimentally and departmentally, in India, on the frontier and with Overseas Forces, two training schools were instituted in May 1918, one at Kamptee (Central Provinces), and the other at Rawalpindi. The former has since been closed. When trained, the clerks were employed on liberal terms either regimentally, in which case they were enrolled as combatants, or in military non-regimental offices, in which case they were detailed as civilian clerks. As the outturn from the schools did not commence until July 1918, the large majority of the clerks were employed in India, and very few were sent overseas.

The attention of the Hon'ble Member is drawn to Home Department Resolution No. 1099, dated the 8th August 1919, published in the Supplement to the Gazette of India, dated the 23rd *idem*, in which announcements were made of the concessions granted in the matter of civil appointments under Government to those persons who have rendered services in the prosecution of the recent war. Copies of the Resolution were communicated to Local Governments and Administrations, and the Government of India do not intend to issue further instructions on the subject."

The Hon'ble Mr. K. V. Rangaswamy Ayyangar asked :—

Increase of pay of subordinates of the postal and railway mail service staff.

2. "(*a*) Have not Government been receiving numerous petitions from the subordinate Postal and Railway Mail Service staff that their pay should be increased, that the number of working hours should be limited, and that the staff in respective offices should be increased to cope with the increased work ?

(*b*) If so, have Government taken any action to inquire into the grievances and remedy them ?

(*c*) Is it a fact that the responsibilities of the Postal staff are far greater than those of similar clerks employed in the Telegraph Department; while the qualifications of the Postal staff are in no way inferior to that of the Telegraphists, and that on many occasions the postal officials are made to work on main wires ?

(*d*) Is it a fact that Telegraph signal room clerks were granted time-scale pay, with effect from 1st March, 1919, according to local scale telegraphists ? If so, has any such scale of pay been granted to those post office clerks who are of the same educational qualifications and do more responsible work than the above-mentioned telegraph clerks ?

(*e*) Will the Government be pleased to say what attendance is required from postal clerks ? Is it confined to 8 hours daily as in the case of telegraph clerks ? If the attendance is more than 8 hours, is any allowance paid for extra work ? If not, do Government propose to take immediate action to regulate attendance hours of the postal clerks ?

(*f*) Do Government propose to introduce a scheme to amalgamate or equalise the two cadres ?

(*g*) Is it a fact that the Audit Branch of the Postal Department and those who were deputed to field service have been given increase of pay, while the Audit Department have had a considerable increase of staff also ?

(*h*) Is it feasible to empower the new commission sanctioned to inquire into the grievances of the Telegraph Department to inquire also into the disabilities under which the Postal clerks are suffering ?

(*i*) If not, will a new commission be appointed for the purpose ?"

The Hon'ble Sir George Barnes replied :—

"(*a*) Yes.

(*b*) Yes. A general revision of the pay of the subordinate Postal staff up to the grade of Rs. 100 at a cost of about 18 lakhs a year has just been sanctioned by the Secretary of State, while the pay of the Railway Mail Service staff was revised, with effect from 1st March, 1919, at a cost of about Rs. 3,25,000 a year. The question of the introduction of a general time-scale of pay for

[1st March, 1920.] [*Sir George Barnes; Mr. K. V. Rangaswamy Ayyangar; Maharaja Sir Manindra Chandra Nandi.*]

all Post Office and Railway Mail Service subordinates is engaging the attention of the Director-General of Posts and Telegraphs.

(c) It is very difficult to compare the duties of postal clerks engaged in signalling work in combined post and telegraph offices with the duties of telegraphists. It is a fact that selected postal signallers work sometimes on main wires, but, as a rule, they are not capable of dealing with very fast traffic. When postal signallers show a capacity for fast telegraph work they are given the opportunity of transferring to the local scale of telegraphists.

(d) No. The time-scale of pay sanctioned for clerks, class II, working in departmental telegraph offices is Rs. 80 rising to Rs. 130 by increments of Rs. 5, whereas the scale adopted for local scale telegraphists is Rs. 50 rising to Rs. 130.

No time-scale has yet been granted to post office clerks, but the Director-General of Posts and Telegraphs has under consideration a scheme for a time-scale for all Post Office clerks.

(e) The attendance of Post Office clerks is fixed at 8 hours a day as in the case of telegraph clerks. The staff necessary for a post office is calculated on this basis and is revised periodically as work increases or decreases. No allowance is paid to a Post Office clerk for extra work unless it is outside the course of his routine duties.

(f) No. The cadres are quite different. The duties are only similar in certain respects.

(g) The pay of the Postal Accounts Establishment has been increased and the establishment itself has been, though not considerably, strengthened.

No increased rates of permanent pay have been granted to men deputed to field service.

(h) and (i) No."

The Hon'ble Mr. K. V. Rangaswamy Ayyangar asked:—

3. "(a) What steps have been taken by Government to better the pay of the Post Office officials at Delhi owing to increased expenses on account of house rents, etc.? Steps taken by Government to better the pay of Post Office officials at Delhi.

(b) Will Government lay on the table a comparative statement of articles dealt with by the Lahore and Delhi Post Offices, respectively, during the year 1919, and also give the numbers of the clerical staff sanctioned for each office?"

The Hon'ble Sir George Barnes replied:—

"(a) A general revision of the pay of post office clerks up to the grade of Rs. 100 has just been sanctioned and the special conditions of Delhi have been taken into account in fixing the cadre of the postal officials of the Delhi head office. The question of revising the pay of postal clerks on Rs. 100 and above and of the postmen and menials is engaging the attention of the Director-General. It is intended to introduce a time-scale for all classes of the staff.

(b) A comparative* statement showing the various classes of articles posted and also the number of unregistered articles received for delivery at Delhi and Lahore during the calendar year 1919 is laid on the table. It has not been possible within the time allowed to collect statistics relating to money orders, value-payable articles, registered and insured letters and parcels received for delivery during the period in question, nor of unregistered letters posted for delivery. The clerical staff of the Delhi office consists of 59 men and that of the Lahore office of 94."

The Hon'ble Maharaja Sir Manindra Chandra Nandi asked:—

4. "What are Government's present intentions in regard to controlling inter-provincial movements and export of rice, and what arrangements do they propose to make in this behalf in the different provinces, and when?" Control of rice.

* Not included in these Proceedings.

[*Sir Claude Hill; Maharaja Sir Manindra Chandra Nandi.*] [1st March, 1920.]

The Hon'ble Sir Claude Hill replied:—

"As regards export I would refer the Hon'ble Maharaja to the reply that I made to a question on the same subject asked by the Hon'ble Sir G. Chitnavis on the 18th February. The question of inter-provincial control is under discussion with the Committee of this Council on High Prices."

The Hon'ble Maharaja Sir Manindra Chandra Nandi asked:—

Requirements in food grains of the people of the different provinces.

5. "(*a*) With reference to the reply to my question given on the 15th September, 1919, in this Council, admitting the unreliable character of statistical information at the disposal of Government, will Government indicate the methods generally followed by them in computing the normal requirements in food grains of the people of the different provinces, or of India as a whole, or their exportable surplus at any given time?

(*b*) What precautions do Government propose to take for preventing serious inaccuracies in these matters in future?"

The Hon'ble Sir Claude Hill replied:—

"(*a*) Government obtain through Directors of Civil Supplies, who take special steps to keep in touch with the position, estimates of the requirements of the Provinces or of the surplus available for export therefrom, in regard to those articles of food which are still subject to control. No attempt is made to frame a quantitative estimate of the normal food requirements of the people of the different Provinces or of India as a whole.

(*b*) Directors of Civil Supplies have during the past year gained considerable experience in the framing of these estimates, and the Government of India believe that their estimates are sufficiently accurate for practical purposes so far as the present control is concerned. The accepted policy of Government is to remove internal control, as soon as possible, and the need for any such precautions as are suggested by the Hon'ble Maharaja will then, it is hoped, disappear."

The Hon'ble Maharaja Sir Manindra Chandra Nandi asked:—

Food situation in the different provinces.

6. "Are Government in a position to make a detailed statement showing the present food situation in the different provinces, with special reference to the sufficiency or otherwise of the present stocks of food grains for purposes of domestic consumption in the respective provinces, and the course of average prices during each of the last three months as compared with the figures for the corresponding periods in each province, together with the reasons for any increase in the same that may be disclosed thereby?"

The Hon'ble Sir Claude Hill replied:—

"Government will lay all the information in their possession before the Committee on High Prices appointed by this Council, and I shall also be happy to furnish the Hon'ble Maharaja with any information that he requires, if he will let me know precisely what details he wants."

The Hon'ble Maharaja Sir Manindra Chandra Nandi asked:—

Speculation in food grains.

7. "(*a*) Are Government considering the desirability of making a declaration of future policy in dealing with abnormal conditions brought about by speculators in the food situation?

(*b*) Have Government any legislative measure under consideration for dealing with speculation and profiteering in food grains and keeping down prices?"

The Hon'ble Sir Claude Hill replied:—

"(*a*) The question whether any special steps can be taken to prevent speculation in food grains is being considered by the Committee of the Council on High Prices. So far as speculation exists with a view to export Government have already declared their policy of restricting exports of foodstuffs in the press communiqués which were laid on the table on the 18th February in answer to a question by the Hon'ble Sir Gangadhar Chitnavis.

(*b*) The reply is in the negative."

The Hon'ble Mr. G. S. Khaparde asked:—

Prohibition against certain Urdu papers of Delhi entering the Punjab.

8. "(*a*) Did the Government of the Punjab prohibit the transmission of copies of the 'Congress' and 'Watanpurast,' two Urdu papers of Delhi, into the Punjab by orders dated 20th October, 1919 and 25th November, 1919, respectively, and are the said orders still in force?

(*b*) If the reply to (*a*) be in the affirmative, will Government be pleased to state the circumstances under which the said orders were passed? Is it a fact that, though the paper 'Congress' has been in existence for one year, it was never so much as warned, much less held to blame for violent or inflammatory writing, and that the paper 'Watanpurast' had not, at the date of the said order, reached the stage of public circulation?"

The Hon'ble Sir William Vincent replied:—

"(*a*) The answer is in the affirmative. The order against the *Congress* has been withdrawn on the re-appearance of the paper with a new Editor. The *Watanpurast* never reached the stage of publication.

(*b*) The *Congress* was excluded from the Punjab on account of its virulent attacks on His Excellency the Viceroy and Government generally; and as the intention of its promoters in publishing the *Watanpurast* was to substitute it for the *Congress*, and so evade the order of exclusion issued against the *Congress* a similar order was passed against it. The *Congress* started publication on 1st February, 1919. It was not, therefore, in existence one year before the order of exclusion was passed. During that period no warning was conveyed to the Editor, but as the tone of the articles was objectionable, the Chief Commissioner, Delhi, subjected it to precensorship and the Punjab Government followed suit. As stated above the *Watanpurast* never appeared."

The Hon'ble Mr. W. E. Crum asked:—

Railway Bridge over the River Hooghly.

9. "Will Government be pleased to state what action they are taking, or intend to take, with regard to the proposed railway bridge over the river Hooghly in the neighbourhood of Cossipore?"

The Hon'ble Sir Arthur Anderson replied:—

"The part of the river in which the bridge is likely to be located has been surveyed by the Commissioners for the Port of Calcutta, and their report and recommendations are now under review by the Government of Bengal. Essential preliminary borings at the proposed crossing are also being carried out by the Eastern Bengal Railway, and the results are awaited."

The Hon'ble Sir Gangadhar Chitnavis asked:—

Working expenses of railways.

10. "(*a*) Is it a fact that the percentage of working expenses has increased to an abnormal extent on some of the railways, a return upon the capital of which is guaranteed either by the Secretary of State or by the District Boards? If so, to what is this high percentage due?

(*b*) Do Government propose to direct that the periodical Director's Report shall contain a full explanation regarding any rise in working expenses, and any fall in the revenue of the railways subsidised either by the State or District Boards?"

[*Sir Arthur Anderson; Rao Bahadur B. N. Sarma; Sir William Vincent; Mr. W. M. Hailey.*] [1ST MARCH, 1920.]

The Hon'ble Sir Arthur Anderson replied :—

"(*a*) Having regard to the circumstances of the times Government are not aware of any increases which could be called abnormal in the working expenses of lines such as those referred to.

(*b*) The programme of revenue expenditure on such lines is scrutinised by Government before being sanctioned, and any marked discrepancy would require explanation. Government do not propose to issue directions such as those suggested by the Hon'ble Member, but the point raised by him will be brought to the notice of Boards of Directors."

The Hon'ble Rao Bahadur B. N. Sarma asked :—

Revocation of orders against proprietors of printing presses.

11. "Do Government propose to consider the advisability of revoking or securing the revocation of orders issued against proprietors of printing presses and editors and publishers of newspapers requiring them to furnish securities in provinces where it has not been already done?"

The Hon'ble Sir William Vincent replied :—

"The matter is one in which it is for Local Governments to exercise their discretion, and the Government of India do not propose to interfere with that discretion."

The Hon'ble Rao Bahadur B. N. Sarma asked :—

Annual increase in the expenditure under salaries and pensions in certain services.

12. "What is the annual increase in the expenditure under (*a*) salaries, and (*b*) pensions in the several services, Imperial and Provincial, in respect of which orders have been passed by the Secretary of State?"

The Hon'ble Mr. W. M. Hailey replied :—

"(*a*) The approximate cost per annum of the increases of pay sanctioned by the Secretary of State for the several Imperial and Provincial Services is as follows :—

I will give the details in lakhs.

(*i*) Indian Civil Service	56,00,000
(*ii*) Provincial Civil Service	25,00,000
(*iii*) Indian Police Service	13,00,000
(*iv*) Provincial Police Service	1,00,000
(*v*) Indian Medical Service	25,00,000
(*vi*) Indian Forest Service	4,50,000
(*vii*) Indian Educational Service	10,00,000
(*viii*) Provincial Educational Service	6,00,000
(*ix*) P. W. D. Imperial and Provincial Services	26,00,000
(*x*) Railway Department, Imperial Engineers	1,00,000
(*xi*) Geological Survey of India Department	1,00,000
(*xii*) Indian Mines Department	15,000
(*xiii*) Northern India Salt Revenue Department	50,000
(*xiv*) Bengal Pilot Service	20,000

The estimates given above of the cost of the revision of the pay of the Provincial Civil Service and the Provincial Educational Service are no more than very rough approximations, as Local Governments have still to work out their detailed schemes within the maximum limits approved by the Secretary of State.

(*b*) The increase under pensions is estimated roughly at Rs. 3,00,000 per annum."

The Hon'ble Rao Bahadur B. N. Sarma asked :—

Publication of the Medical Services re-organization Committee's report.

13. "Do Government propose to publish the report of the Committee appointed to consider the question of the re-organization of the Indian Medical Services and give this Council an opportunity of discussing the same before final orders are passed thereon?"

[1st March, 1920.] [*His Excellency the Commander-in-Chief; Rao Bahadur B. N. Sarma; Sir Thomas Holland; Khan Sahib Shah Nawaz Bhutto; Sir George Barnes; Mr. N. F. Paton.*]

His Excellency the Commander-in-Chief replied :—

"The Secretary of State has approved the publication of the Report; this will be done as soon as the recommendations of the Army in India Committee on the subject dealt with have been received by the Secretary of State. It is not possible to say at present whether an opportunity can be afforded for discussion in Council of the Report."

The Hon'ble Rao Bahadur B. N. Sarma asked :—

Appointment of conciliation boards or boards of arbitration.

14. "What steps do Government propose to take or to suggest to the Local Governments to take with a view to appoint conciliation boards or boards of arbitration to prevent and settle disputes between labour and capital? Do Government propose to undertake the necessary legislation on the subject?"

The Hon'ble Sir Thomas Holland replied :—

"The Government of India have gathered as much information as possible regarding experience obtained in other countries, and this is now under consideration with a view of consulting Local Governments as to the practicability of devising means in India to prevent and to settle labour disputes. It is not possible, therefore, at present to say whether legislation will be necessary."

The Hon'ble Khan Sahib Shah Nawaz Bhutto asked :—

Opening of the port of Karachi for the P. & O. Mail Steamers.

15. "Do Government contemplate the possibility of opening the port of Karachi for the P. and O. Mail steamers in the near future?"

The Hon'ble Sir George Barnes replied :—

"There is no intention at present of making Karachi a port of arrival and departure for the P. and O. mail steamers."

The Hon'ble Mr. N. F. Paton asked :—

Premium Bonds.

16. "(*a*) Is it a fact that Parliament recently decided against Premium Bonds being issued in England, for the reason that they might *inter alia* primarily result merely in the transference of large investments in Government securities, etc., already made?

(*b*) Was it represented (1) that there are now about 20,000,000 individual holders of British Government securities, as against 343,000 before the war; (2) that £200,000,000 have been invested in War Savings Certificates; and (3) that the deposits in Post Office and Trustee Savings Banks have increased from under £300,000,000 in 1914 to nearly £1,800,000,000 at the end of 1919?

(*c*) Have Government considered to what extent, if any, the arguments, which are preventing Premium Bonds in England, have application to India?

(*d*) Will Government be pleased to say—

(*i*) How many individual holders there are in India of Indian Government securities;

(*ii*) How many of these are holders of Post Office War Certificates;

(*iii*) What is the total sum now invested in Post Office War Certificates; and,

(*iv*) What is the total sum now deposited in Government Savings Banks?

(*e*) Having regard to the acting Finance Member's reply in Council to my question on 23rd September last, to the effect that it was probably a fact that very large quantities of silver rupees are being hoarded throughout India, have Government determined on the adoption of any measures calculated to bring into circulation this dormant wealth?

(*f*) Are Government now prepared to consider issues of Premium Bonds with the view that our hoards of idle money may be drawn into circulation and that an opportunity for the investment of savings may be given to persons of small means to whom the existing opportunities afford no attraction?"

The Hon'ble Mr. W. M. Hailey replied:—

"(*a*) The reason mentioned by the Hon'ble Member was certainly put forward by opponents of the motion in the House of Commons on December the 1st last, but a perusal of the report of the debate does not warrant the impression that it was the principal ground on which the House acted in negativing the motion.

(*b*) The figures quoted by the Hon'ble Member do not appear to have been put forward in the debate and Government are unaware whether any such figures were placed before the Select Committee in 1918; but figures somewhat similar to these were quoted in the press at the time.

(*c*) Government have not specifically considered the application to India of the arguments adduced by opponents to the introduction of premium bonds in the United Kingdom.

(*d*) The information desired by the Hon'ble Member in respect of points (*i*) and (*ii*) is not available. As regards (*iii*) the balance invested in Post Office Cash Certificates on the 31st January last was 614 lakhs, and as regards (*iv*) the balance in the Government of India Post Office Savings Bank on the same date was 20 crores and 53 lakhs.

(*e*) The Hon'ble Member is no doubt aware of the steps taken by Government to popularize its loans and thereby encourage the investing habit.

(*f*) The Government of India are at present considering the advisability of allowing an experiment to be made in the issue of premium bonds by local bodies and considering the terms on which such issue can be allowed."

The Hon'ble Rai Sahib Seth Nathmal asked:—

New Arms Act rules.

17. "(*a*) Do the new Arms Act Rules take away from provincial gazetted officers and honorary magistrates the privilege of exemption which they have enjoyed uninterruptedly from the very inception of the Indian Arms Act?

(*b*) Is Government aware that this has caused dissatisfaction among such officers and magistrates?

(*c*) Do Government propose to consider the question of amending the rules further with a view to continue the exemption to these persons?"

The Hon'ble Sir William Vincent replied:—

"(*a*) Yes.

(*b*) Government believe that some dissatisfaction exists, but it has not been brought directly to their notice.

(*c*) The attention of the Hon'ble Member is invited to the Government of India (Home Department) Resolution No. 2125-O, dated the 21st March 1919, in which the new policy in administering the Indian Arms Act is stated. One of the essential features of that policy, which was deliberately adopted after consideration of the opinions of Local Governments and the recommendations of a committee of official and non-official Members of this Council, is the rigid restriction of the number of exempted persons. Provincial gazetted officers and Honorary Magistrates are only two among many classes from which the privilege of exemption has been withdrawn by the application of the new Rules, and Government see no reason for making an exception in their favour."

The Hon'ble Mr. V. J. Patel asked:—

18. "Do Government propose to co-operate with the people of India and help them in securing development in Indian conditions as early as possible, and if so, how?" Development in Indian conditions.

The Hon'ble Sir William Marris replied:—

"Government will always be ready to play their part in promoting the political development of India, but they draw the Honourable Member's attention to the expression of Parliament's opinion in the preamble of the Act to the effect that progress in such matters must depend on the co-operation received from those on whom new opportunities of service will be conferred, and the extent to which it is found that confidence can be reposed in their sense of responsibility."

The Hon'ble Mr. V. J. Patel asked:—

19. "Will Government be pleased to state whether they propose for the information and guidance of the new Legislative Councils and public generally to lay down, in the rules to be made under the new Act, definite principles governing the revision of the list of the Transferred Subjects from time to time within ten years?" Transferred Subjects.

The Hon'ble Sir William Marris replied:—

"The Hon'ble Member has apparently overlooked the preamble to the Government of India Act of 1919, in which the principles he desiderates are set out in the clearest possible manner. In this preamble Parliament has indicated that progress will depend upon the operation of factors at present unknown. Consequently, the Government of India do not propose to attempt to formulate the rate or conditions of the further transfer of subjects in the rules to be made under the Act."

The Hon'ble Mr. V. J. Patel asked:—

20. "(*a*) Is it a fact that the Government of Bombay have not yet given full effect to the local self-government Resolution of the Government of India, in so far as such effect could be given by executive orders, particularly in matters relating to the increase in the number of elected members, election of Presidents and lowering of qualification for votes? Action taken by the Government of Bombay on the Government of India Resolution on Local Self-Government.

(*b*) Is it true that as things stand at present, the lists of voters for the elections of the new Legislative Council will be based on qualifications lower than those for the Municipal and Local Board elections?"

The Hon'ble Sir William Marris replied:—

"(*a*) The question is one which might suitably be asked in the local Legislative Council. The Hon'ble Member is referred to the speech made by His Excellency the President of the Legislative Council of the Governor of Bombay on the 10th December 1919, to paragraph 22 of Resolution No. 8969, dated the 27th October 1919, of the Government of Bombay, and to paragraph 31 of Resolution No. 9448, dated the 11th November, 1919, of the same Government.

(*b*) The qualifications proposed in the case of the Bombay Legislative Council, for classes other than the wage-earners in the city of Bombay, are shown in the Appendices to the Report of the Franchise Committee. Those for rural areas are much lower than the qualifications now in force for elections to Local and District Boards. Those for urban areas also appear to be lower than the qualifications in force for elections to the Presidency Corporation and to the District Municipalities, but as the basis adopted is not identical in the two cases, the Government of India are unable to say what the precise difference is, and would suggest that the Hon'be Member should ask the Bombay Government for this information. As regards wage-earners in the city of Bombay the Hon'ble Member is referred to the answer given to his question on the 20th February."

The Hon'ble Mr. V. J. Patel asked :—

Issue of Press Communique in connection with the Royal Proclamation.

21. "Do Government propose to consider the desirability of issuing a Press Communiqué, for the information and guidance of their officers, that in the new era they will follow strictly the letter and the spirit of the Royal Proclamation in dealing with the people of India?"

The Hon'ble Sir William Vincent replied :—

"The Government have no reason to apprehend that any of their officers will fail to follow the letter and the spirit of the Royal Proclamation in dealing with the people of India. Such a proclamation has an inherent authority and influence which no Government orders can supplement."

The Hon'ble Mr. V. J. Patel :—"I beg to put a supplementary question, my Lord. Does the Government consider the action of Mr. Hamilton, the District Magistrate of Jullundur, in refusing to renew licences under the Arms Act, on the ground that the applicants attended the Indian National Congress, consistent with the letter and spirit of the Royal Proclamation?"

The Hon'ble Sir William Vincent :—"The Government of India have no official information on the point raised by the Hon'ble Member, and it is a matter for interrogation in the local Legislative Council"

FINANCIAL STATEMENT FOR 1920-21.

11-14 A.M.

The Hon'ble Mr. W. M. Hailey :—"In your speech delivered on the opening day of this session, your Lordship referred to the great services which Lord Meston had rendered in the cause of Indian Reforms; I may be permitted here to-day to add an expression of regret that his guiding mind is no longer at the disposal of India at a time when her finances present so many complicated problems; that this Council will no longer have the benefit of that happy gift of lucid exposition, which could render interesting the most complicated questions of finance and seemed able to endow with a spirit of life the dry bones of our statistical tables. That happy gift I cannot pretend to emulate; but I will venture to pay my distinguished predecessor the compliment of attempting to imitate the method adopted by him last year in introducing the Financial Statement. I will not read out to Council the necessarily lengthy Statement which I shall shortly place on the table, but will give as briefly and as clearly as possible the salient features of interest in it.

"I shall deal first with the facts and figures of the financial year now drawing to a close. While for our partner nations in the great War it has been a year of demobilisation, a year in which they have been able to devote their efforts to making a beginning in the reorganisation of their social and industrial forces, we have had troubles of our own which, if small in comparison with what Europe has endured during the last four years, have nevertheless had a dominant influence on our finances. But for the Afghan war and Waziristan campaign, there was nothing in the history of the year which would have been likely to disturb our budget anticipations. Scarcity conditions, resulting from the monsoon failure of 1918, persisted through the earlier months of 1919, and before June famine had been formally declared in twelve British districts and certain Native States. But though the area affected by the scarcity was unusually wide, the maximum number of persons on famine relief was less than one-tenth of the number on relief in 1900. All apprehension of really severe famine conditions was relieved on the arrival of the monsoon. Somewhat late in coming and at first ill-distributed, it declared itself in strength towards the end of July and finally gave a rainfall such as India had not seen for many years past. It is true that, though the monsoon relieved the immediate actual scarcity, it did little to reduce the prevailing and widespread stringency due to high prices, which has caused and is still causing great distress to all classes on fixed wages and fixed incomes. We have witnessed the inevitable reaction in strikes and threatened strikes throughout the country; the temporary provision made in the shape of allowances to lower paid Government servants has already added seriously to our expenditure, and both the Imperial and Provincial Governments have had to include in the figures for the coming year large provision for the revision of their subordinate establishments. But if many of the poorer classes were suffering from the stress of prices, the general economic conditions were undoubtedly favourable to trade. With the gradual improvement in freightage and traffic facilities both imports and exports have increased. There has been a marked improvement in the balance of trade in favour of India. That balance in the first nine months of the year amounted to 64 crores as against 35 in the previous year, and an adverse balance of 5 crores in 1917. A further proof of the growing prosperity, and a clear evidence of the extent to which India has accumulated capital during the war, was afforded by the remarkable growth of company flotations during the year. We may take somewhat divergent views of some aspects of this extensive flotation of capital issues; for the present I only adduce it as encouraging evidence of India's increased interest in the economic use of money and her obvious ability to finance an era of industrial expansion.

"Up to this point, with the exception of the strain caused by the Afghan war and the internal pressure of high prices, the financial history of the year has presented no unusual features. There is, however, another side to the narrative of more peculiar interest to-day, and one with which I know the Council will wish that I should deal in some detail: I mean the history of currency and exchange during the year. We fortunately had no such violent currency crisis as that which Lord Meston described so graphically last year. Though we have used up the great bulk of the bullion secured to us by the Pittman Act, and which saved us from inconvertibility last year, we have now a reasonably strong holding of silver coin. In October it stood at 35 crores, the highest since 1915; it stands to-day at over 28 crores. Strong as our holdings are, we shall not be in calm water till we can be assured of laying our hands on fresh supplies to replenish the gradual process of absorption now taking place—a difficult matter in the present state of the world's markets. We have, therefore, reluctantly been obliged to retain the restrictions on the free encashment of notes at our district treasuries; and to maintain the check on the movement of silver by train. But if the silver position has not caused us any great anxiety, the movement of exchange has been of engrossing interest during the year. Lord Meston explained last year how the rise in exchange followed the breaking away of silver from its pre-war level. That process has continued, and the further changes which have been made in the rates for Council drafts have as before been dictated by the threat of a heavy loss on coinage and the danger to our silver currency caused by the premium on the export of rupees.

"The closing fortnight of the last financial year introduced a new factor into the problem, which has rapidly grown to dominate every other feature. In March last official support of the American exchange with England was withdrawn: the dollar exchange, weighted down by the indebtedness of Europe and the balance of trade against her, commenced to fall; and the American price of silver ceased to be the one dominating factor in determining the rupee sterling exchange. The rate at which India could acquire silver for coinage no longer depended solely on the price of silver in dollars, but was adversely affected by the smaller number of dollars that could be obtained for the pound sterling. Moreover, the rising price of silver itself received a new impetus early in the current year, through the removal in May of control in America. The lower exchange value in America of the pound sterling, and the rapid rise in the price of silver in American currency, necessarily entailed the raising of the exchange value of the rupee, if we were not to see our silver coins smuggled out of the country and our currency notes made inconvertible. In May the rate for Council drafts, which had remained stationary at 1*s.* 6*d.* for over a year, advanced to 1*s.* 8*d.* and this was followed by further rises till in December the rate stood at 2*s.* 4*d.*

"To counteract as far as possible inconvenience to trade from the instability of exchange, Council and sterling drafts have been offered for sale as freely as our resources in India or at home, as the case may be, have permitted. During the first nine months of the year the demand for Councils persisted with varying degrees of urgency, until January when a complete reversal of the position occurred. The Currency Committee had just completed their sittings and their conclusions were awaited. The export trade at the time was not urgently calling for finance, and the uncertainty as to the future led a number of remitters to take advantage of the 2*s.* 4*d.* rate then prevailing. A demand for sterling drafts arose and during January Reverse Councils to the extent of 5¼ million were sold. This recital of the changes which the year 1919 has witnessed in the exchange value of the rupee brings me to a consideration of the new orientation which has recently been given to our policy, with the acceptance by the Secretary of State of the recommendations of the Indian Currency Committee. We have accepted without qualification the Committee's conclusions, which are substantially on the lines which we ourselves recommended in October last. It is possible that the Secretary of State's decisions on certain of the Committee's recommendations may be the subject of discussion or legislation in this Council. For the present, I will merely indicate the two outstanding features of the Committee's recommendations; these are, firstly, the linking of the rupee to gold, and secondly, the adoption of a ratio therefor equivalent to one-tenth of the gold contents of the sovereign.

"On the first point, I think it may fairly be said that there is a strong body of opinion that the Committee's conclusion was inevitable Linked to sterling, the rupee would share with the latter all its fluctuations of fortune. Every rise of prices in sterling-using countries would inevitably, by the mechanical linking of the rupee to the pound, communicate to this country the same shrinkage in the purchasing power of money, and until sterling regained its parity with gold, India would be saddled with an unstable and fluctuating standard of value. We should continue to share with the United Kingdom all the evils of inflated prices. It would be impossible to give any definite gold value to the rupee, or to say what amount of silver a rupee could purchase in America; while restrictions on the movements of the precious metals would have to be continued indefinitely.

"As regards the second point, the actual rate to be adopted for the ratio between the rupee and gold, the matter is more controversial; and fears have been expressed in some quarters that the rate of R10 to the gold content of the sovereign is too high, and may inflict injury upon our export trade. I will only emphasise two considerations, bearing on the choice between a high and a low rate, which seem to me to outweigh all others. The first is that, if the high prices now prevailing in most foreign countries are to be brought into relation with Indian prices on an exchange basis for the rupee at anything approaching the old level of 1*s.* 4*d.*, then the consequences to the people of this country would be little short of disastrous; the present level of internal prices would be stereotyped, or, as is more probable, would advance to heights even now unthought of. The interests of the many millions of consumers in India, whose margin of subsistence is at the best none too large, must come before those of any other class. Secondly, a return to a low exchange would very seriously imperil all chance of maintaining the convertibility of the note issue. If the rupee were linked on to gold at a rate of 15 rupees to the gold content of a sovereign, it would be impossible to maintain our silver currency unless the price of silver in America remained below 92 cents. At 10 rupees to the sovereign we can purchase silver and coin rupees therefrom up to an American price of 138 cents, which is well above the melting point of the currency of almost every other country.

"Unfortunately (and I come now to the fact which will be most prominent in the minds of Council and the public to-day in this connection because the result of the working of these theories is, perhaps, of more interest than the actual theories themselves), at about the time that the Report was published the dollar-sterling exchange, which had already fallen heavily, took a further downward plunge. In these circumstances, the linking of the rupee to gold necessarily caused its exchange value as expressed in sterling to rise by several pence. The demand for reverse Councils became unprecedentedly great and the exchange markets could have absorbed considerably more than the £11 million of reverse Councils which we sold during February. This fact resulted in a considerable divergence between the gold rate at which, following the Currency Committee's policy, we have been selling reverse Councils and the actual market rate. Speculators and profiteers have not been slow to take advantage of the situation. The effect of the heavy remittances made, accompanied by a sudden attempt to realise assets, was sensibly to tighten money. The present situation is one that requires caution in handling, and we have been in continuous communication with the Secretary of State in the matter. The general lines of the legislative measures which with the sanction of the Council we propose to take, have been explained in a public announcement made on February the 23rd. The object of these measures is to provide for the continued sale of reverse Councils with the minimum embarrassment to the market through the withdrawal of funds, and I do not think I need say any more on the subject on the present occasion. But I must add a warning that a prolonged continuance of the present conditions would inevitably react upon our whole ways and means programme for next year, which is now, by reason of its very magnitude, far more dependent than formerly upon Indian money conditions.

"This account of the course of exchange, and of the measures which have now been taken to adjust our policy to the changed conditions of the time, brings me to a matter which is of considerable importance in dealing with our revised estimates and our budget anticipations, and to which I must devote some explanation. Our accounts have throughout the year continued to be kept on a 1*s.* 4*d.* basis and the Secretary of State has decided that, for the purpose of this Financial Statement, the conversion of rupees into sterling and *vice versâ* should be effected at the old level. This results in a number of complications, particularly as regards our capital and remittance transactions, to which I shall refer in due course. In order that the Council may judge of the aspect of our budget on the 2*s.* basis, which the Secretary of State has decided to adopt for all our accounts and statistics with effect from the 1st April next, I have had a separate statement prepared showing the budget estimates of revenue and expenditure for the next year as recast on the new basis. The matter with which I am more immediately concerned is the method by which we propose in the revised and budget estimates to treat our gain by exchange. We estimate that during the current year the net gain, that is, the gain after deducting the loss on rupee coinage and on gold purchases, acquisitions and sales, will amount to R11¾ crores.

"Now it will be at once obvious to Hon'ble Members that in this "gain" there is a great element of artificiality, and that it would not be correct to assume that whenever our accounts show a gain on exchange, this represents a real accretion to our resources, for the so-called gain we obtain every time we transfer a million pounds to the Home Treasury is liable to be turned into a loss if the amount has to be retransferred to India. There are, however, certain of our operations, the exchange gain in respect of which we are entitled to regard as real and permanent. Most of our capital outlay on railways consists of the purchase of machinery and stores in Europe or America. We have decided therefore, in view of the large sums involved, that our capital accounts should properly get the benefit of the higher rate of exchange prevailing. Accordingly, out of our total gains by exchange of R11¾ crores in the current year, R7¼ crores will be credited to the railway, irrigation and Delhi capital accounts.

"There remains, then, R4½ crores to be dealt with, and when considering how this should be treated we are met by another fact of capital importance. The definite abandonment for accounts purposes of the 1*s.* 4*d.*

rate, and the adoption therefor of a rate of 2*s.* to the rupee, will result in our accounts showing, what after all is merely an accomplished fact, a serious capital loss on our sterling holdings, more particularly on those which form the sterling portion of the Paper Currency Reserve. Without entering here into the details on which the calculation is based, I may say that the deficiency in our Paper Currency Reserve, assuming a revaluation on a 2*s.* basis, may ultimately amount to nearly R40 crores.

"I wish to emphasize very strongly that the making up of this deficiency is not a matter which can be postponed indefinitely, or can be regarded as of theoretical rather than of practical importance. Quite apart from any question as to our legal responsibilities under the Paper Currency Act, the circulation of our currency notes rests ultimately upon public confidence, and we cannot contemplate with equanimity a position in which the amount of the securities held in the Reserve is patently insufficient to cover the circulation. The importance of adopting speedy measures to supply this deficiency is obvious; it is equally obvious that this object should have the first call upon the gain by exchange, seeing that they are both due to one and the same cause. After consultation with the Secretary of State, we have decided to earmark the residue of the current year's exchange gain, amounting to R4½ crores, for meeting this deficiency.

"I have now finished with the greater part of the technical matter and I can come to an account of our actual incomings and outgoings.

"I will first deal with the ordinary heads of revenue and expenditure. In framing his estimate of revenue for the current year, Lord Meston was faced with a very obscure situation; but he took an optimistic view; and events have justified his optimism. Both Railways and Customs show a response to the improved economic conditions of the year; and income-tax has also exceeded our budget expectations. The net result will be that our Imperial revenue will be R1,35½ crores against an estimated total of 1,29½ crores. Our ordinary heads of expenditure (excluding for the moment the Military Services) will show a nearly corresponding excess. Taking the whole ordinary expenditure (excluding Military) the total will amount to R69 crores against an anticipated total of R64 crores: and the position as between revenue and expenditure is a great tribute to the accuracy of the estimates prepared last year by Lord Meston and Mr. Howard. It is when we come to take count of the figures of Military expenditure that the result assumes an aspect entirely contrary to their anticipations. They expected a surplus of £600,000; I have to announce a deficit of £14½ million. The Budget provided for a total Military expenditure of £41¼ million, which included £8¾ million representing the current year's instalment of the additional war contribution. In respect of this last item we will actually pay only £1½ million; on the other hand, the Afghan war and the Frontier operations are estimated to have cost us £14¾ million, while the ordinary military expenditure shows an excess of £8½ million, the net result being an excess of no less than £15¾ million. That is a result for which, I know, the Council will to some extent be prepared, but which nevertheless requires some justification.

"In presenting the Military estimates for the current year, it was assumed that the year 1919-20 would be one of demobilisation. Unfortunately, as the Council are well aware, this anticipation has not been realised. We were compelled not only to postpone the disbandment of considerable bodies of additional troops which were raised in India in 1918, but also to adopt every expedient which economises human life at the expense of mechanical contrivances and which makes life more comfortable on field service. High prices ruled everywhere and these affected not only the cost of material but the cost of our Indian recruits, including followers. But the expenditure was unavoidable; when it is a question of war, purely financial considerations must necessarily give way. So much for our direct expenditure on the Frontier operations; but apart from this the general military expenditure in the current year is as I have said estimated to exceed the specific provision in the budget by £8½ million. The occurrence of this excess expenditure, in addition to the direct liabilities of the Frontier operations, has engaged our anxious attention for some time past, and in November last, a Sub-Committee of the Executive Council was appointed to investigate the causes contributing to the excess demand. In the result, while steps were taken to enforce every practicable economy, extra expenditure to the amount now stated has been found to be inevitable. The detailed figures will be found in the Financial Statement; the excess is explained partly by the cost of the war gratuities and by the increase in the pay of personnel; partly the execution of items, ahead of programme, which, though adjustable for accounting reasons against the ordinary estimates, are more or less directly attributable to the Afghan war. In short, regrettable as the excess of ordinary military expenditure may have been, it was obligatory, and much of it is of a kind which will be of permanent value.

"So much for the details of revenue and expenditure, leading up to our deficit of £14½ million. But the financial history of the current year is not yet quite complete, for I must refer briefly to the manner in which we have financed ourselves during the year, a question dealt with in that portion of our budget known as the Ways and Means section. I do not think I need enter into great detail here. One fact I may state by way of preface. We now no longer suffer from the difficulties which caused so much embarrassment to Sir William Meyer and Lord Meston, by the fact that so much of our cash balances were locked up in London. It has now become possible for the Secretary of State to retransfer his surplus balances to us by means of remittances of gold; and the difficulties of the future are likely to arise not from the *locale* of our resources but from their amount. Neglecting for the present the Secretary of State's transactions, we have had to provide finance in India for 130 crores. Allowing for receipts of gold and from reverse Council Bills, amounting together to 80 crores, we have had to find 50 crores by other means. It is the method by which this sum has been provided which will interest the Council. Our rupee loan realised 21¼ crores. We made no attempt on this occasion to repeat the special propaganda associated with the two war loans; we had in 1917 and 1918 dipped heavily into the pockets of the investing public; and in the present year we had, competing with us, a very large number of new Company issues. The result of our loan therefore is, as I think the Council will agree, of hopeful augury for the future.

"Leaving on one side, as of minor account, the figures of cash certificates and savings bank deposits, I come to a source of finance which has become of increasing importance—if occasionally also of some anxiety to us—our Treasury Bills. Lord Meston entertained the hope of being able, during the course of 1919-20, to reduce our treasury bill outstandings by about R32 crores. These hopes were defeated by the large outgoings due to the Afghan war and the frontier operations, which had to be financed mainly by fresh sales of bills; the extent to which this was necessary will be gathered from the fact that at one period in October our outstandings had grown from 49½ crores on April 1st to no less than 68 crores. In September our treasury position was one of particular difficulty and, I know, was viewed with anxiety by Mr. Howard. There were heavy maturities of bills to meet, and very high military issues, while the Secretary of State was drawing on us for Councils at the rate of about a crore a week. The proceeds of the loan were speedily exhausted, and our balances remained so low that all possible sources of assistance had to be exploited. In the first place, as in the preceding year, the Presidency Banks were able to come to our help, and, all told, their advances to us amounted to 18¾ crores. Secondly, we were obliged to obtain from the Council legal authority to increase our fiduciary issue of notes by 20 crores.

"In December (a month in which little revenue is collected and when our treasury balances are at the best of times always low) we had no less than 26½ crores of treasury bill maturities to meet. During December it seemed from day to day that we should have to fall back on our increased powers of note issue, but events happily took a more favourable turn; we were not driven to that final extremity, and we managed to turn the corner till, at the beginning of January, our revenue began to come in. Since then our position has been one of comparative ease; and we anticipate that we shall be able to reduce our treasury bill outstandings by the end of the year to the figure at which they stood at the beginning of April last, while the whole of the ways and means advances will have been repaid to the Presidency Banks.

"But we have been sailing very near the wind, and the moral is obvious. Anything approaching 50 crores of treasury bill outstandings, to say nothing of the 68 crores reached in October last, is a dangerous amount of floating debt for India to carry. We must do all in our power to reduce our floating debt to more manageable proportions. In so far as this is not effected by funding in our long term loans, we must aim at utilising any surplus, arising from our ordinary revenues, to strengthen our ways and means position and to make us less dependent on the particular form of finance with which I have been dealing.

"So much for the history of the year that is ending; I now turn to the budget for the coming year. I do not propose to trouble the Council with many details of our anticipations under the various heads of revenue and expenditure. Broadly speaking, these are based upon the belief that there will be no set-back in general prosperity and that our revenues will continue to show that same expansion which has been exhibited in the current year.

"As regard Customs we are budgeting for R25½ crores, representing an increase of over R3 crores on the expected revenue of the current year. Under Railways we have taken an increase of R4 crores over the R80 crores budgeted for the current year. As regards the gains from exchange, I will confess at once that it is difficult to frame a reliable estimate of what this figure is likely to be next year; on the best estimate we are able to frame, our total gain during the year will amount to about R30¾ crores. Of this amount R12¾ crores will be credited to our capital accounts; we propose to earmark R12 crores towards meeting the deficiency in the Paper Currency Reserve, leaving R6 crores to be credited to our revenue account.

"If these anticipations be realised, our total Imperial revenue will be £92¼ million (R1,88¾ crores). The estimate assumes the discontinuance of the Excess Profits Duty which was imposed as a temporary measure in March last.

"On the expenditure side, there is little to bring to the notice of Council. Altogether our expenditure under the ordinary heads is expected in the aggregate to exceed that of the current year by £3 millions. The most important item, however, if of course our military expenditure. We are entering a total figure of £40 million, as against £41½ million in the current year's budget and the £57 million which we are expecting will actually be incurred; but I would ask the Council to bear in mind that whereas out of our figure of £41½ million last year only £32½ million was meant to be available for the effective service of the army, our figure for next year gives £38½ million as so available. The question of military expenditure for the coming year has caused us no less anxious consideration than that of the excess expenditure during the year drawing to a close. The matter is being specially examined by the Sub-Committee of His Excellency the Viceroy's Council, to which reference has already been made, and the problem with which they have to deal is one of unusual difficulty. But I may say at once that, if India is to maintain in an efficient state an army of the strength required for the adequate defence of her frontiers, the cost of the military services will in future be much in excess of the sum which we have been accustomed to allot in our budget for this purpose. We obviously cannot revert to the pre-war standard of equipment, since it would be neither right nor humane to deny to our soldiers the advantage which an improved equipment ensures, and the new equipment is extremely expensive both in initial cost and cost of maintenance. I can give the Council a guarantee that the very full data collected by the Army authorities have been exhaustively scrutinised; every feasible economy has been effected, and the provision of £40 million is the least which can safely be inserted in the Budget.

"I have given the major details both of revenue and expenditure; and I now come to the net result; and it is the net result which will after all have most interest for the Council this morning. The net result is that we anticipate a total expenditure of £90½ million resulting in a surplus of £2 million. This is somewhat higher than that for which we usually budget, but if I have carried the Council with me in the remarks I made just now regarding the grave necessity for keeping down our floating debt, it will appreciate our reason for going somewhat beyond the usual figure. But what the Council will also desire to know most, is whether we hope to attain this surplus without increased taxation; and I will not keep them in suspense on the subject.

"In only one direction do we propose to modify our present scale of taxes. The present super-tax on the undivided profits of companies and firms has been the subject of considerable criticism in the past. In the speech which he made last year on the Excess Profits Duty Bill Lord Meston gave on behalf of Government an undertaking that the question of so readjusting our taxation on incomes as to meet these objections would be considered as soon as the excess profits duty ceased to be levied. That time has now arrived. On the best estimate we have been able to frame we conclude that, if we relieve the undivided profits of companies and firms of the super-tax at present imposed, which runs up to 3 annas in the rupee, we shall lose about R1,76 lakhs. We therefore propose to replace this by a new form of super-tax, which will be assessed at the flat rate of 1 anna in the rupee upon the total income of each company in excess of R50,000. The new super-tax on companies is estimated to bring us in about R44 lakhs more than we lose. We should have been glad of course to have utilised this surplus in regrading the lower stages of the ordinary income-tax in order to relieve the poorer taxpayer and to make the stages more symmetrical. But we have felt it unsafe to do so at present in view of the necessity, to which I have already referred, of making provision for meeting our temporary debt and short term liabilities

"I have one more explanation to give in connection with the estimates of revenue and expenditure, and it is an important one. Both in our revised estimates and our budget for the coming year provision has been made for the payment of certain portions of India's further contribution towards the cost of the war offered to His Majesty's Government in pursuance of the Resolution passed in this Council in September 1918. These entries have been made only provisionally, since the Resolution contained a reservation that the offer of this further contribution should be subject to the conditions and safeguards indicated in Sir William Meyer's speech. Those conditions were that the payment would be reconsidered in the event of two contingencies occurring,—firstly, our having to fight on our own frontiers and to incur large expenditure in that connection, and secondly, our being faced with serious financial burdens in other respects such as a famine or great currency crisis. The Council will probably agree with me that the second contingency has not arisen. But the expenditure of about £15 million involved by the Afghan war and frontier operations of 1919 clearly makes the first condition operative. Whether we should stand on that condition, or should agree to waive it, wholly or in part, is a matter which must be left to the verdict of the non-official Members of the Council. There are considerations of weight on both sides. I will not attempt to balance these here, but in order to provide Honourable Members with the material necessary for forming an opinion on the merits of the case, I have appended to the Financial Statement a special note on the subject, in which I have endeavoured to state impartially the financial aspects of the case.

"I will now deal with the demands which we anticipate will fall on our cash resources during the coming year. The most important item is our capital outlay on railways, irrigation and Delhi. We hope to continue the progressive railway policy initiated last year and are budgeting for a railway capital expenditure of £18 million in England and 4½ crores in India as compared with the £18 million in England and *nil* in India budgeted for the current year. For irrigation we are budgeting for £680,000, which is all that the Public Works Department can spend until some of the large new projects now begun or under contemplation reach a more developed stage. For Delhi we are entering £800,000, which is however reduced to £736,000, by a credit for gain on exchange. Another very important item is the entry of £13 million for discharge of debt. From 1920 onwards our various series of War Bonds, issued in 1917 and 1918, will mature, and for some years their repayment will make a severe call on our resources; on August 15th next we have to find over 19 crores for this purpose.

"Next, we hope to apply 9 crores in making up the deficiency in the Paper Currency Reserve; and finally, we have to meet heavy drawings by the provinces on their balances amounting to over 5½ crores, largely required to finance increases in the pay of subordinate establishments. Altogether, then, we have to meet liabilities amounting to £38½ million. This is a heavy liability, and our power to incur the capital outlay proposed will depend to a large extent on the measure to which we can count on obtaining money through our rupee loan. We assume, for the present, that the Indian public will be prepared to take up our loan with something of the freedom shown in the current year and have felt justified in taking a figure of 15 crores. Should we be disappointed in this, we shall be obliged, however reluctantly, to curtail our capital programme. With the remainder of the details making up the total of £38½ millions I need not now trouble Council.

"I have now summarised the revenue and expenditure and the ways and means forecasts for the coming year; and I can conclude a narrative which I am afraid must have already proved too long for the patience of many here. But before I do so, I must allude to one financial consideration of engrossing interest to most members of this Council. I promised a week ago a statement regarding the extent of the finances which will be at the disposal of the reformed governments under the new classification of accounts. The Joint Report of 1918 anticipated an Imperial deficit of 13½ crores, that deficit being made up by contributions from the provinces. This would have left the provinces in the aggregate with a net surplus of about 2 crores. After considering the effect of the present budget as arranged on a 2 shilling basis, we now feel justified in assuming for the present a reduction of the Imperial deficit to 6 crores, and we have provisionally indicated this figure to Lord Meston's Committee on Financial Relations as the basis of their inquiry into the apportionment of contributions. We have further indicated that we propose to assume the liability for extinguishing these contributions within a measurable time. The result will be that, adopting the figures of the provincial budgets for next year, as at present known to us, the Local Governments will be 11 crores a year better off than under the present division of revenues between the Government of India and themselves.

"Let me now add a few words as to our general position, in the present and immediate future. It would indeed have been a grateful task had I been able, in presenting to the Council the revised estimates of the present year, to exhibit a result more in keeping with the anticipations expressed by Lord Meston on the 1st March last year. But if the Afghan war has involved us in a heavy deficit, the picture is not entirely devoid of brighter features. Our revenue has more than fulfilled the expectations formed last March; our silver reserves stand reasonably high; and we have managed to finance ourselves up to the present without utilising the power taken last September to increase the fiduciary note issue. For the coming year we take, and experience shows that we are justified in taking, an optimistic view of the growth of our major revenue heads. Our estimate of expenditure is of course dominated by the high figure which we have been obliged to insert on the Military account, but we hope to finance the increased demands on our resources, both civil and military, without any additional burden to the country other than that involved in the rearrangement of the super-tax to which I have already alluded. On the capital side we contemplate a liberal railway programme; and we look forward to meeting the repayment of the 19 crores of War Bonds which fall due in August next. Let me again emphasise the fact that this programme can only be realised if India gives a liberal response to our rupee loan in the coming year.

"As for the future, the revenues of India are steadily and surely expanding; and their expansion affords a guarantee, in my opinion, of their adequacy to meet such problems of development as immediately confront the administration of the country. Our pre-occupations lie rather in the provision of ways and means to meet our capital liabilities. Our outstanding liabilities are not light; we are still carrying nearly 50 crores of Treasury Bills; and between 1921 and 1928 we have to meet 72 crores of short term securities. Meanwhile, our railways will not cease to demand fresh provision of capital money and we have heavy irrigation projects in view. The solution of the problems of the future depends therefore on the growing accumulation of capital wealth in India, and the interest which the Indian money market evinces in our loan issues. We had evidence during the war of what India could invest under the inspiration of patriotic motives; the response to our last year's issue afforded a proof that business India accepted our loan as a sound and profitable security. With such proofs before us, and in the belief that the social and material development of the country will carry with it an increased sense of responsibility for the economic use of its expanding resources, we need not hesitate to look on the future with a full measure of confidence and trust."

Narrative of the Finance Member

INTRODUCING THE

FINANCIAL STATEMENT FOR 1920-21.

Introductory.

"The procedure for dealing in Council with the Financial Statement will be the same as in the past two years. A general debate upon it will take place on the 8th instant; the detailed discussion will follow, ending on the 13th and I hope that the Budget will be presented in its final form on the 22nd. In this narrative describing the financial events of the current year, and our proposals for the next year, I cannot do better than follow the general sequence and arrangement adopted by my distinguished predecessor. A full explanation of the details of revenue and expenditure under the various heads will be found in the Secretary's Memorandum which will as usual be laid before Hon'ble Members.

SECTION I.—THE YEAR 1919-20.

A.—General characteristics.

"2. In dealing with the financial year 1918-19 Lord Meston pointed out that the year fell into two sharply divided periods, and described the change which came over business and financial conditions generally on the sudden collapse of the German resistance in November 1918. The financial year with which we have now to deal has witnessed the conclusion of the major peace negotiations, the ratification of the peace treaties with Germany and Austria, and the inauguration of that great conception, the League of Nations, on the success or failure of which so much of the future of civilisation depends. But, while the other partner nations of our Empire have been able to demobilise their armies, and to make some beginning on the uphill task of repairing the industrial and economic havoc caused by four years of war, here in India, though happily spared from many of the consequences which the war has brought to the nations of Europe, we have nevertheless had to face troubles peculiarly our own. The peace, which for a generation has existed on our borders, has been broken; and the armies of India returned home from France, Mesopotamia and Palestine only to find laid upon them the further task of defending the soil of India from a threatened invasion from Afghanistan. That peril averted, they have had to face a prolonged campaign, and in the most arduous conditions, in reducing the Mahsud and Wazir tribes. Nor need I add that the effect of these operations is written large over the financial history of the year, and has roughly disturbed the anticipations which Lord Meston felt justified in making. General character of the year 1919-20.

"3. But for this, my task to-day would have been limited to recording the history of a year, not indeed uneventful, but of fair harvests, of growing revenues, and, save for the continuance of high prices, of general prosperity. It fell to Lord Meston to record the failure of the 1918 monsoon, with the resulting scarcity which, although happily less intense than had been known on many previous The 1919 monsoon.

occasions of drought, nevertheless affected an unusually wide area. This year we are fortunately able to look back on a monsoon such as India has not enjoyed for many years past. It was, it is true, late in declaring itself. The Arabian Sea current appeared in the Peninsula at about the normal date, while the Bay current arrived in Northern India about a week before the usual time. But up to the middle of July, both currents were fitful and were deflected to an unusual extent to the Central Provinces and the adjoining districts to the east; north-western India accordingly suffered, and in that part of the country, as those who followed the movements of our troops on the frontier know only too well, intense hot weather conditions prevailed. By the end of the second week in July, however, the monsoon began to penetrate into Northern India and before the end of the month had spread over practically the whole area. Throughout August, it was well above its average strength, and although it weakened considerably in September, it returned at the end of the month with a force which caused great destruction of life and property in Eastern Bengal. It was somewhat fitful in October, but gave good rain in November and December. Altogether the total monsoon rainfall of the year was 9 per cent. in excess of the normal.

Agricultural conditions.

"4. The failure of the 1918 monsoon, and the widespread epidemic of the autumn, had their effect on the spring harvest of 1919, and scarcity conditions continued till late in the summer. In 1918 famine had been recognized as prevailing in certain parts of the country; the early months of 1919 saw famine declared in four districts in the Bombay Presidency, three districts in Bihar and Orissa, three districts in the Central Provinces, one district in each of the Bengal and Madras Presidencies, three districts in Hyderabad, and in certain parts of Central India and Rajputana. The number of persons on relief of all kinds rose to a maximum in June of 589,535. This figure is less than one-tenth of the maximum number on relief in 1900, although the failure of the monsoon of 1918 was certainly no less widespread than that of 1899. Scarcity of fodder continued during the greater part of the year in the United Provinces, the Punjab, Bombay, Rajputana and Bengal, and the special concession rates for its carriage by rail remained in force in the affected tracts during this period. Apart from large grants for distribution in affected areas in the shape of agricultural loans and advances, a sum of R1,00,000 was given to the Punjab Branch of the Imperial Indian Relief Fund to assist the opening of cheap grain shops in that Province, and grants in relief of local distress aggregating R7,30,500 were made to various provinces by the Indian People's Famine Trust. As the monsoon declared itself conditions improved rapidly towards the end of the year, and at its conclusion all relief operations had practically ceased. Fortunately, the gradual cessation of famine conditions was not accompanied by any general recrudescence of the epidemic of influenza which ravaged India in the autumn of 1918. In certain cities sporadic outbreaks occurred, but they were confined to specific localities, and the epidemic had none of that devastating effect on the rural economy of the country which marked its course in 1918.

High prices.

"5. I wish it were possible for me to record that the monsoon of 1919 had resulted in a marked reduction in the high prices which have brought so much distress upon the labouring classes and those with fixed incomes. The autumn harvest was good, yet the price of millets, which form the staple food of the people in many parts of India, remained abnormally high; while in spite of the prospect of a good wheat crop, and of the fact that exports are rigorously restricted, the price of wheat is still in the neighbourhood of 6 seers to the rupee. The Council is already aware of the remedial measures which we have taken in this respect, and which from time to time have been described by my Hon'ble Colleagues in the Revenue and Commerce Departments. I will only offer three brief reflections upon this subject, at once the most difficult and the most anxious of the problems which we have now to face. The first consideration is an obvious one—the effect upon the public expenditure. The burden of high prices has been felt in a special degree by the large number of low-paid Government servants, and both the Central and Provincial Governments, in common with other employers of labour, have been obliged to give large increases of pay, either in the form of allowances or of a general revision of emoluments. The process of revising the pay of our establishments still continues and will be responsible for a heavy increase of expenditure in the coming year. Secondly, it must be remembered, as was pointed out by the Hon'ble Mr. Mant in the interesting debate on prices which we had at the September session, that after a serious failure of the monsoon it generally takes several years of good harvests before prices approach their former level. Thirdly, and most important of all, there are factors in existence, external to this country, which have operated and are still operating to keep prices high, and it is questionable whether, even if there had been no failure of the monsoon in 1918, the prices of many commodities would not have risen almost to their present height. I refer to the enormous increase in world prices, which is the most striking economic effect of the great war, and has been caused, partly by the inflation of credit and consequent depreciation of money in the belligerent countries, and partly by the decrease in productive output resulting from the war. I need not weary the Council with what, after all, are only economic truisms. It is sufficient to say that, unless India were shut off from all commercial intercourse with foreign countries, prices here must have been affected by the enormous enhancement experienced in the rest of the world. Sooner or later, it was inevitable that the general decrease in the purchasing power of money elsewhere should react upon the purchasing power of the rupee. I shall return to this subject later when discussing the recently published recommendations of the Indian Exchange and Currency Committee, whose report bears witness to the high importance which they attached to the necessity for mitigating for the people of India the economic evils which have fallen upon most of the nations of Europe.

"6. General trade conditions have been somewhat unsettled. The upward tendency of exchange during the whole of the year induced caution among merchants engaged in foreign trade, while the shortage of tonnage during the first half was, generally speaking, adverse to business. The net result, however, has been a well-marked increase in the value of imports and exports of private merchandise, although it is of course necessary to remember that a steady rise in prices of commodities imported and exported frequently obscures an actual falling off in the volume of trade. The total value of imports during the first nine months of the year showed an increase of over R16 crores, or 13 per cent., as compared with the corresponding period of 1918, and the total exports, including re-exports, increased by R53 crores, or 28 per cent. The balance of trade, so far as is shown by the statistics of merchandise, treasure, Council Bills and similar remittances was R64,20 lakhs in favour of India as against R55,03 lakhs in 1918, while in the same period of 1917, the balance was against India to the extent of R5,00 lakhs. In imports, the principal increases in the first nine months of the financial year were in sugar, iron and steel, mineral oils, machinery and millworks, railway plant and rolling stock, all of which show a rise of over R2 crores in value. A heavy decrease occurred in the import from April to December of cotton manufactures, amounting to nearly R11 crores. This may be partly explained by difficulties in the export of goods from Lancashire and partly by reduction in demand arising from the height of prices. Conditions have however altered in the last few months, which have witnessed a very marked revival. In the export trade, there has been an increase in the shipment of all staple articles, with the exception of rice and wheat which have been rigidly controlled in view of the shortage of foodstuffs in India. The increase of exports has been particularly marked in the case of raw and manufactured cotton, hides and skins, both raw and tanned, raw jute, oilseeds and tea. The tonnage available for India's trade increased gradually throughout the year. The first indication that the available tonnage was sufficient to cope with the cargoes that offered occurred about October last. During the nine months April to December 1919, the net tonnage of vessels entering ports in British India with cargoes from foreign countries and British possessions amounted to 3,032,440 tons, as against 2,730,937 tons during the corresponding period in 1918, and the tonnage cleared during the same period amounted to 4,373,975 tons, as against 3,734,651. Freight rates, which had dropped as a result of the Armistice, steadied at the opening of the year and rose gradually until December, since when they have been somewhat easier. **Trade and Commerce.**

"7. During the year it has been found possible to free trade of a number of the restrictions imposed during the war; and in July and August last all special restrictions on trade with ex-enemy countries were removed. All restrictions on the export of hides and skins, raw jute, oils and oilseeds and a number of other articles have also been removed. On the other hand, it has been found necessary, owing to the general shortage of foodstuffs, to prohibit the export of a number of food-grains from India. **Restrictions on trade.**

Company promotion.

"8. An outstanding feature of the year has been the continuance and expansion of company-promotions. During the eight months April to November 1919, 535 new companies, with an aggregate authorised capital of nearly ₨166½ crores, were registered in British India and Mysore. The number of companies floated during the corresponding period of the previous year amounted only to 158, with an authorised capital of about ₨6¾ crores. Widely different views have been expressed regarding this remarkable increase in company flotations. Many people regard it as evidence of our financial strength and of hopeful augury for a great industrial expansion. Others of more cautious temperament are inclined to shake their heads at what they would describe as the prevalent investment mania and predict a severe reaction, accompanied by financial crises, crashes in the share markets and widespread loss. There is, I think, room for both optimism and caution. The war has indicated numerous directions in which India can profitably extend her industrial activity. Our industries generally have made large profits during the last four years and so long as war conditions continued, there was little outlet for their investment; while the difficulty of obtaining new machinery or expert labour made it practically impossible either to start new or to extend enterprises. It is only natural therefore that the conclusion of the war should have been followed by an extension of capital issues, and most people will agree that the readiness with which these have been subscribed affords encouraging evidence of India's ability to finance an era of industrial expansion. There is of course another side to the picture, although I would deprecate this side being given undue prominence. As in the case of all such booms, there is always the danger that, along with a large number of thoroughly sound and well managed concerns, others are brought into existence which are of doubtful soundness. That is inevitable; and sooner or later there will no doubt be what Americans call a "shake-out"; it would require a greater power of prophecy than I can pretend to command to estimate its direction or extent; but there is at present no evidence to show that it is likely to be such as to embarrass the banks or to shake credit generally. Another disturbing sign is the tendency to inflate the shares of perfectly sound and well managed companies to an extent which is not justified by their dividend-earning capacity. In part of course, this is justifiable by the increase in the actual capital value of the plant, which could not now be replaced at pre-war prices; for the rest, it is a speculative movement the adjustment of which need not necessarily involve any widespread crisis. It is not a sound or productive process; but its net result is a transfer of money rather than a destruction of capital.

B.—Currency and Exchange.

Absorption of rupees.

"9. I now turn to those particular problems with which it is my special function to deal. We fortunately have not to record a currency crisis such as that graphically described by Lord Meston last year. In 1918-19 the total absorption of silver coin by the public amounted to no less than ₨45 crores; in the current year the absorption up to the middle of February has been about ₨22 crores. September last was the first month for two years during which, taking the whole of India together, there was not an actual outgoing of rupees. The Madras and Rangoon currency circles alone have shown an aggregate net return up to date, but there has been a marked curtailment in the absorption in the Lahore and Bombay circles. I hesitate to draw the conclusion that this result indicates an approach to saturation, though we may regard with satisfaction this substantial slackening in India's demand for silver, coupled as it has been with a very decided diminution in the discount at which currency notes have circulated in the districts. As a result of the lower absorption, our stocks of rupees steadily increased, until at the end of October they reached their maximum of ₨35½ crores, the highest since 1915. Here, again, it would be premature to argue that this decreased absorption indicates that we have turned the corner and that our currency troubles are over. The increase in our stocks of rupees has been due to the fact that the output of the mints was at last able to overtake the issues. This has been effected, however, at the expense of using up a great deal of our stock of bullion. As the Council knows, in 1918 we were only saved from inconvertibility by the passing of the Pittman Act, which enabled us to procure 200 million ounces of silver from the United States. The last consignment of that silver arrived in India last summer, and until we can see before us the prospect of a regular replenishment of our stocks of silver, whenever necessary, the position will not be safe. It is out of the question therefore to contemplate at present any return to the free and unrestricted issue of rupees at district treasuries throughout the country. That is a conclusion which no one will regret more than Government. Sir William Meyer had done much to extend the facilities for the encashment of our notes; the maintenance and increase of those facilities is a cardinal principle of our currency policy: and nothing but the practical impossibility of obtaining ready supplies of silver in the present condition of the world's markets would justify our maintaining the existing restrictions.

"10. While, however, there has been nothing sensational to record regarding the currency events of the year, exchange presents a different story. The history of Indian exchange and the establishment of the gold exchange standard, subsequent to the closing of the mints, has always had a fascination for economic writers and students. It seems likely that, when future text-books are written or present ones are brought up to date, the year 1919 will, like 1893, stand out as marking the close of one well-defined period and the commencement of another. At this time last year the rate for Council drafts stood at 1*s*. 6*d*. per rupee for immediate telegraphic transfers. The era of a stable exchange had, temporarily at least, passed away, but the rise of exchange in its earlier stages gave little indication of the rapidity with which exchange was to soar away from its old standards during the year. Lord Meston explained last year how the rise in exchange followed the breaking away of silver from its pre-war level. That process has continued, and the further changes which have been made in the rates for Council drafts have as before been dictated by the threat of a heavy loss on coinage and the danger to our silver currency caused by the premium on the export of rupees. Rise in exchange during 1919.

"11. The closing fortnight of the last financial year introduced a new factor into the problem, which few people, and certainly not we in India, had had reason to foresee, and which has rapidly grown to dominate every other feature. On March the 21st, 1919, official support of the American exchange with England, originally introduced as a war measure, was withdrawn, and the dollar exchange, weighted down by the indebtedness of Europe and the balance of trade against her, commenced to fall. England had ceased to be a free gold market and the pound sterling no longer fetched in exchange the 4 dollars and 86 cents which represent the equivalent of the gold sovereign. From 486 the dollar sterling exchange dropped to a level of about 450 at the end of June, and then steadily declined in succeeding months until now it stands in the neighbourhood of 340. The American price of silver ceased therefore to be the one dominating factor in determining the rupee sterling exchange. The rate at which India could acquire silver for coinage no longer depended solely on the price of silver in dollars, but was adversely affected by the smaller number of dollars that could be obtained for the pound sterling. Moreover, the rising price of silver itself received a new impetus early in the current year, through the removal in May of control in America. The price of silver, which then stood in the neighbourhood of 101 cents per fine ounce, at once rose by some 10 cents and, stimulated by the firm and long drawn demand of China, continued to rise until it passed the melting point of the dollar and stands now at about 130. The lower exchange value in America of the pound sterling, and the rapid rise in the price of silver in American currency, necessarily entailed the raising of the exchange value of the rupee, if we were not to see our silver coins smuggled out of the country and our currency notes made inconvertible. In May the rate for Council drafts, which had remained stationary at 1*s*. 6*d*. for over a year, advanced to 1*s*. 8*d*. and this was followed by further rises of 2*d*. each in August, September, November and December till the rate stood at 2*s*. 4*d*. Depreciation of sterling. Rise in price of silver.

"12. These briefly are the causes leading to the changes made in the rates for Council drafts up to the time of the issue of the Currency Committee's report. I will turn for a moment to the effects these changes have had upon trade. The rate for Council drafts necessarily has a considerable determining influence on the rates at which export and import transactions are financed. The purchase of Councils enable the Exchange Banks to transfer back to India the funds which otherwise would accumulate in England owing to the heavy excess in normal years of exports over imports. An alternative method of so transferring funds is afforded by the import of gold and silver. During the greater part of the current year the embargo Effect on Exchange markets.

on the import of silver has remained in force. The import of gold has, however, been permitted, subject to acquisition by Government at rates notified from time to time, which were ultimately based on the rates adopted for Council drafts; and since June last, when the embargo on the export of gold from America was removed, the banks have to some extent availed themselves of this method of putting themselves in funds in India. But, whether funds are transferred by the purchase of Council drafts or by the import of gold, the rate at which money can be laid down in India, and consequently the rate at which export bills can be bought and outward remittances sold, has been largely governed by the rate for Council drafts. The variations in these rates, and speculation as to further probable variations, have accordingly introduced an element of instability into exchange which has at times hampered the freedom of business operations. Banks were naturally shy both of remitting to London, by the purchase of export bills in excess of their sales of sterling, funds which they might have to re-transfer to India at a higher rate of exchange, and also, on the other hand, of drawing on their balances in London, by their sales of sterling in excess of their purchases, to an extent which might necessitate their remitting funds home at a loss, should exchange fall. Throughout the year therefore their policy has been largely that of the "even keel"; when indications seemed to point to a rise in the Council rate, they were bad buyers of export bills, and when the opposite condition held, bad sellers of sterling.

"13. To counteract as far as possible inconvenience to trade on this account, Council and sterling drafts have been offered for sale as freely as our resources in India or at home, as the case may be, have permitted. In April last the sale of Council drafts, which had for some months been suspended, was re-introduced to meet the demand arising from the fact that the export bills calling for finance were more than could be covered by the demand for outward remittance. During the first nine months of the year the demand for Councils persisted with varying degrees of urgency. In general, throughout the year a rise in exchange tempted out remittances and checked bills, thus reducing the demand for Councils, until the gradual decline of the dollar sterling exchange and the rise in the price of silver (suggesting that a further raising of the rate for Councils was due) had the reverse effect, and made the demand for Councils more insistent. This see-saw motion continued until January when a complete reversal of the position occurred. The Currency Committee had just completed their sittings and their conclusions were awaited. The export trade at the time was not urgently calling for finance, and the uncertainty as to the future led a number of remitters to take advantage of the *2s. 4d.* rate then prevailing. A demand for sterling drafts arose and during January Reverse Councils to the extent of £5·4 million were sold.

The Currency Committee's Report.

"14. The above recital of the great changes which the year 1919 has witnessed in the exchange value of the rupee brings me to a consideration of the new orientation which has recently been given to our policy, with the acceptance by the Secretary of State of the recommendations of the Indian Currency Committee. The Committee's report, and the announcement of policy made by the Secretary of State thereon, have been in the hands of the public for the past month. I shall not attempt here any repetition or paraphrase of that portion of the Report which describes with admirable lucidity the issues involved in the problem before the Committee or the considerations which led them to formulate their recommendations. The Government of India have accepted without qualification the Committee's conclusions, which are substantially on the lines which we ourselves recommended in October last, after considering the events of the preceding few months. It is possible that the Secretary of State's decisions on certain of the Committee's recommendations may be the subject of discussion or legislation in this Council. For the present, I will merely indicate the two outstanding features of the Committee's recommendations and suggest to the Council a few brief reflections thereon. These are, firstly, the linking of the rupee to gold, and, secondly, the adoption of a ratio therefor equivalent to one-tenth of the gold contents of the sovereign.

Fixation of rupee in relation to gold.

"15. On the first point, I think it may fairly be said that there is a strong body of opinion that the Committee's conclusion was inevitable. The Indian currency system has hitherto been based on the axiom that the unit of British currency, namely, the pound sterling, could at all times purchase the amount of gold contained in the sovereign. But the unfortunate divergence between the pound sterling and the amount of gold contained in the sovereign, which became so marked during last summer and has subsequently still further increased, gave rise to a set of conditions which, in the opinion of most people, has rendered it imperative to give to the rupee some foundation less shifting than the sterling to which it had hitherto been linked. Otherwise, by inexorable natural laws, results of serious consequence to this country might ensue. Linked to sterling, the rupee would share with the latter all its fluctuations of fortune. Every rise of prices in sterling-using countries would inevitably, by the mechanical linking of the rupee to the pound, communicate to this country the same shrinkage in the purchasing power of money, and until sterling regained its parity with gold, India would be saddled with an unstable and fluctuating standard of value. We should continue to share with the United Kingdom all the evils of inflated prices. It would be impossible to give any definite gold value to the rupee, or to say what amount of silver a rupee could purchase in America; while restrictions on the movements of the precious metals would have to be continued indefinitely. There is no policy that is without its disadvantages, and it must of course be admitted that the result of linking the rupee to gold is that the rupee-sterling exchange must fluctuate in the same manner as does the dollar-sterling exchange; it cannot be denied that this introduces an uncertain element into that large portion of the trade of India which is with sterling-using countries. Nevertheless, we have to look to the interests of the country as a whole rather than to those of the smaller, though highly important, section which is engaged in foreign trade; and we think that there can be no doubt that the economic interests of India's huge population will be better served by giving the rupee an absolute stability in gold—the ultimate standard of value—than by assigning to it a stability relative to a standard which is itself markedly unstable.

"16. As regards the actual rate to be adopted for the ratio between the rupee and gold, fears have been expressed in some quarters that the rate of R10 to the gold content of the sovereign is too high, and may inflict injury upon our export trade. I will not repeat here the reasons, given in the Committee's Report, which decided them not to yield to the influence of such fears. I will only emphasise two considerations, bearing on the choice between a high and a low rate, which seem to me to outweigh all others. The first is that, if the high prices now prevailing in most foreign countries are to be brought into relation with Indian prices on an exchange basis for the rupee at anything approaching the old level of 1*s*. 4*d*. then the consequences to the people of this country would be little short of disastrous; the present level of internal prices would be stereotyped, or, as is more probable, would advance to heights even now unthought of. The interests of the many millions of consumers in India, whose margin of subsistence is at the best none too large, must come before those of any other class. Secondly, a return to a low exchange would very seriously imperil all chance of maintaining the convertibility of the note issue. If the rupee were linked on to gold at a rate of 15 rupees to the gold content of a sovereign, it would be impossible to maintain our silver currency unless the price of silver in America remained below 92 cents; if the rate were 12 rupees to the sovereign, the corresponding silver parity would be 115 cents. At 10 rupees to the sovereign we can purchase silver and coin rupees therefrom up to an American price of 138 cents, which is well above the melting point of the currency of almost every other country. I need not point the obvious moral of this important fact. Only one alternative has been suggested for staving off inconvertibility—the debasement of the rupee or the issue of a debased two rupee piece. In all the press comments on the Committee's report I have seen nowhere any support of a proposition fraught with such obvious political and economic dangers.

Rate adopted.

"17. Unfortunately, at about the time that the Currency Committee's Report was published and the announcement made of the Secretary of State's acceptance of the main principles underlying the Committee's recommendations, the dollar-sterling exchange, which had already fallen heavily, took a further downward plunge. In these circumstances, the linking of the rupee to gold necessarily caused its exchange value as expressed in sterling to rise by several pence. The much greater amount of sterling that could be purchased by a given number of rupees naturally provided a great incentive to people, with accumulated funds in India, to remit these to England. The demand for reverse Councils became unprecedentedly great and the exchange markets could have absorbed considerably more than the £11 million of reverse

Further depreciation of sterling and rush for remittance to London.

Councils which we sold during February. This fact resulted in a considerable divergence between the gold rate at which, following the Currency Committee's policy, we have been selling reverse Councils and the actual market rate. Speculators and profiteers have not been slow to take advantage of the situation. The effect of the heavy remittances made, accompanied by a sudden attempt to realise assets, was sensibly to tighten money. I ought to point out to the Council that such monetary stringency as has existed has not been due to any withdrawal by Government of funds from the market, since the proceeds of our sales of reverse Councils have up to date remained in the balances of the Presidency Banks. At the same time a word of caution is called for. The extent to which the Secretary of State's ordinary cash balances can be drawn on to meet reverse Council payments necessarily has a limit, and for the time being that limit has been reached. Further sales will be effected through the medium of the Paper Currency Reserve, but this process would, in the absence of special measures, ordinarily involve some locking up of funds withdrawn from the market. Inflation of currency and credit, as most belligerent countries are now finding to their cost, brings serious consequences in its train, but the evils of an unduly rapid deflation may quite easily be no less serious. The present situation is one that requires caution in handling, and we have been in continuous communication with the Secretary of State in the matter. The general lines of the legislative measures which with the sanction of this Council we propose to take, have been explained in a public announcement made on February the 23rd. The object of these measures is to provide for the continued sale of reverse Councils with the minimum embarrassment to the market through the withdrawal of funds, and I do not think I need say any more on the subject on the present occasion, except to give a warning that a prolonged continuance of the present conditions would inevitably react upon our whole ways and means programme for next year, which, as the Council will gather when I come to speak of our financial operations in the current year, is now, by reason of its very magnitude, far more dependent than formerly upon Indian money conditions.

C.—Gain by Exchange.

Retention of accounts on 1*s.* 4*d.* basis.

"18. The foregoing account of the course of exchange, and of the measures which have now been taken to adjust our policy to the changed conditions of the time, brings me to a matter which is of considerable importance in dealing with our revised estimates and our budget anticipations, and to which I must devote some explanation, if my subsequent remarks regarding the estimates are to be intelligible. Lord Meston mentioned last year the large credit from gain by exchange which arose from the fact that our accounts were still prepared on the basis of 1*s.* 4*d.* to the rupee. That was at a time when the actual exchange rate was no more than 1*s.* 6*d.* Our accounts have throughout the year continued to be kept on a 1*s.* 4*d.* basis and the Secretary of State has decided that, for the purpose of this Financial Statement, the conversion of rupees into sterling and *vice versâ* should be effected at the old level. This results in a number of complications, particularly as regards our capital and remittance transactions, to which I shall refer in due course. There is, however, this advantage in still retaining the 1*s.* 4*d.* basis for the purpose of our revised estimates, namely, that it is possible to compare the actual results with the anticipations made last year. In order that the Council may judge of the aspect of our budget on the 2*s.* basis, which the Secretary of State has decided to adopt for all our accounts and statistics with effect from the 1st April next, I have had a separate statement prepared (Appendix I) showing the budget estimates of revenue and expenditure for the next year as recast on the new basis.

Treatment of gains exchange.

"19. The matter with which I am more immediately concerned is the method by which we propose in the revised and budget estimates to treat our gain by exchange. We estimate that during the current year the gross gain, without taking account of certain deductions which I will explain presently, will amount to no less than R22½ crores, as compared with R13¾ crores realised in 1918-19. Two months ago indeed it looked as if the figure would be very much higher, but the large sales of reverse Councils which have been and are being made have considerably reduced the total anticipated for the year.

"From the gross gain of R22¼ crores have to be deducted certain losses which arise from the same causes that have contributed to the higher exchange value of the rupee, *viz.*, a loss of 4½ crores on rupee coinage and another of 6½ crores on gold purchases, acquisition and sales, the latter arising from the premium over sterling parity at which the Secretary of State's purchases of gold have been made. After making these deductions, the exchange gain in the current year will stand at 11¾ crores.

"20. The first question that arises about these gains is how they actually accrue, what they actually consist of, and how far they represent a real windfall which we can devote to such objects as we think desirable. Putting the matter very broadly, the gain arises over our remittance transactions, and its unprecedented amount at the present time is due to the fact that we are still keeping our accounts on a basis which is now out of accordance with actual facts. This will be clear from a simple example. Every time that the Secretary of State draws on us, through his sales of Council Bills, to the extent of a million pounds, our accounts shew that we have paid out in India R150 lakhs, although, in point of fact, with the rupee-sterling exchange at, say, 2*s.* 8*d.*, we have actually paid out only R75 lakhs; the remaining R75 lakhs accordingly appears in our accounts as gain by exchange. *Per contra*, when we are selling reverse Councils, our accounts will show a credit of R150 lakhs for every million sterling we have sold, whereas the actual payments made to us by the purchasers of the reverse drafts only amount to R75 lakhs, the difference being debited as loss on exchange. In a similar way a gain or loss, as the case may be, accrues on every other transaction which effects a transfer of funds from or to India, such as the expenditure which we incur in India on behalf of His Majesty's Government and is repaid to us in London, on which there is a gain, or the issue of sterling money orders on London, on which our accounts will show a loss.

"21. It will be obvious therefore to Hon'ble Members that in these "gains" there is a great element of artificiality, and that it would not be correct to assume that whenever our accounts show a gain on exchange, this represents a real accretion to our resources, for the so-called gain we obtain every time we transfer a million pounds to the Home Treasury is liable to be turned into a loss if the amount has to be retransferred to India. In illustration of this statement, I need only point to our experience in the last two months. Up to the end of December, the Secretary of State sold £29 million of Council Bills on India, on which we realised a gain of 11½ crores; during January and February, we expect to have sold £16½ million of reverse Councils on which we will incur a loss of 12 crores. There are, however, certain of our operations, the exchange gain in respect of which we are entitled to regard as real and permanent. Most of our capital outlay on railways consists of the purchase of machinery and stores in Europe or America. For every million pounds expended on such purchases the actual cost to the Indian taxpayer is now very considerably less than previously, and it would clearly not be right to charge the capital accounts of our railways with amounts which are fictitiously inflated, and have not actually been spent thereon. We have decided therefore, in view of the large sums involved, that our capital accounts should properly get the benefit of the higher rate of exchange prevailing. Accordingly, out of our total gains by exchange of R11¾ crores, in the current year R7¼ crores will be credited to the railway, irrigation and Delhi capital accounts.

Gains from exchange on capital outlay.

"22. There remains, then, R4½ crores to be dealt with, and when considering how this should be treated we are met by another fact of capital importance. The definite abandonment for accounts purposes of the 1*s.* 4*d.* rate, and the adoption therefor of a rate of 2*s.* to the rupee, will result in our accounts showing, what after all is merely an accomplished fact, a serious capital loss on our sterling holdings, more particularly on those which form the sterling portion of the Paper Currency Reserve. We hold in our Paper Currency Reserve British securities, mostly consisting of British Treasury Bills, to the value of about £55 million. Up to the present, in the shifting exchange conditions and general uncertainty of the past year, and pending the completion of the Currency Committee's enquiry, our paper currency accounts have remained on a 1*s.* 4*d.* basis and have continued to show these sterling securities as representing 82½ crores of rupees, whereas, when valued on a 2*s.* basis, they are

Deficiency in Paper Currency Reserve.

only worth R55 crores and the loss thereon will therefore be 27½ crores. We expect however that if the demand for reverse Councils continues, £18 million of securities will have been withdrawn by the Secretary of State before the close of this year for meeting reverse drafts, leaving still a holding of £42 million of sterling securities in the Reserve, the loss on revaluation of which will amount to 21 crores. There will also be in due course a substantial loss in respect of the gold held in the Reserve, seeing that this is at present held at the rate of R15 to the sovereign and will in future be held at the rate of R10. Altogether, the deficiency in our Paper Currency Reserve, assuming a revaluation on a 2*s*. basis, may ultimately amount to nearly R40 crores.

Importance of making up this deficiency.

"23. I wish to emphasize very strongly that the making up of this deficiency is not a matter which can be postponed indefinitely, or can be regarded as of theoretical rather than of practical importance. Quite apart from any question as to our legal responsibilities under the Paper Currency Act, the circulation of our currency notes rests ultimately upon public confidence, and we cannot contemplate with equanimity a position in which the amount of the securities held in the Reserve is patently insufficient to cover the circulation. Nor is this by any means entirely a matter of sentiment. These sterling securities consist, as I have said, mainly of British Treasury Bills, which are continually maturing and being renewed. It is on these that the Secretary of State, when he is once more able to resume purchases of silver, or has to meet from the Currency Reserve his purchases of gold or his payments of reverse Councils, will have to depend, and it is clear therefore that any serious deficiency in the amount of securities forming part of the Currency Reserve must be a matter of great concern when looked at from the point of view of the available backing to our currency notes. Ultimately the home portion of our Paper Currency Reserve must be brought back to India in the form of gold or silver, or utilised, through the medium of reverse Councils, to retire notes in India. Whenever that is done, the capital loss at once becomes apparent, since the sterling part of the Reserve turns into fewer rupees than the amount at which it is held in the accounts.

"24. The importance of adopting speedy measures to supply this deficiency is obvious; it is equally obvious that this object should have the first call upon the gain by exchange, seeing that they are both due to one and the same cause. After consultation with the Secretary of State, we have decided to appropriate the residue of the current year's exchange gain, amounting to R4½ crores, for meeting this deficiency, and we are accordingly opening a suspense head in our accounts to which this amount will be credited. For next year, as I shall mention later, we may reasonably expect a higher exchange gain seeing that the rupee sterling exchange will probably stand at a much higher average than in the current year; we estimate the residue of the gain, after credit to the capital account, at 18 crores, of which we allocate 6 crores to revenue and 12 crores to suspense for application in due course to meeting the deficiency referred to above. I need not remind the Council that as soon as this deficiency in our Currency Reserve has been made up, our revenues will obtain the full benefit of the very substantial savings in our annual home charges resulting from the higher level of exchange. Such savings may not improbably amount to R11 or 12 crores a year, and it is solely because of this prospective accrual to our revenues that, as I shall mention later, we have felt justified, not only in making a very large reduction in the amount of the contribution to be taken from the provinces under the Reforms Scheme, but in contemplating its entire extinction within a measurable time.

D.—Revised Estimates of Revenue and Expenditure, 1919-20.

"25. I have now cleared the way for the consideration of our actual incomings and outgoings. The Council will realise of course, from what I have said, that when I speak of a revenue or expenditure of so many millions, rupees have been converted into sterling at the old ratio of R15=£1, though whenever I can do so without inaccuracy, that is, whenever the figures relate to revenue or expenditure raised or incurred wholly in India, I shall speak only of rupees. I might further explain that I do not propose to discuss the details of the revenue and expenditure of the provinces which, as Lord Meston pointed out, are now-a-days more properly the subject of discussion and criticism in the provincial

Councils, and I shall accordingly confine my remarks to the revenue and expenditure of the Central Government.

"26. I will first deal with the ordinary heads of revenue and expenditure. In framing his estimate of revenue for the current year Lord Meston was faced with a very obscure situation, since it was impossible to forecast the rate at which our main heads of revenue would recover from the traffic and other restrictions consequent on the war. He took, however, an optimistic view. Many must have felt that he had been somewhat sanguine in anticipating a Customs revenue of R20 crores in 1919-20 against a revised estimate of R18½ crores in 1918-19, and a gross traffic receipt from Railways of R80 crores, which was no less than R3½ crores in excess of that anticipated in the revised estimates for the previous year. But events have justified his optimism. At one time it looked as though the revenue from both Customs and Railways would fall materially short of anticipations; railway receipts in particular showed a distinct set-back, mainly on the North-Western Railway as a result of the Punjab disturbances. During the last few months, however, there has been a remarkable recovery, so much so that we now expect that the gross traffic receipts will fall short of the estimate of R80 crores by only R75 lakhs; and this small decrease in estimated receipts is more than counterbalanced by a reduction in working expenses, due to the fact that the home stores issued for expenditure on revenue account have been less than anticipated owing to slow arrivals and have also cost less in consequence of the rise in exchange. The result on the balance is that the net railway receipts will be about R45 lakhs over the estimate. We expect a much larger increase under Customs; the estimate of R20 crores will be actually exceeded by R2½ crores. There is likely to be an increase in respect of all the more important tariff heads, particularly the import duties on piece-goods and petroleum, and the export duty on jute, the only head which shows any material falling off from the figure taken in the Budget being sugar. The new export duty on hides is anticipated to bring in just under R1 crore. Railways. Customs.

"In regard to direct taxation, we now expect that the ordinary income-tax will bring us in R1,59 lakhs more than the budget figure, and the Excess Profits Duty just over the budget estimate of R9 crores, of which however R62 lakhs will actually be collected in 1920-21. Income Tax.

"The heads which at present we share with the provinces show smaller variation; we estimate that Stamps will bring Imperial revenues R85 lakhs and Excise about R42 lakhs more than we expected. Stamps and Excise.

"The budget estimate anticipated a receipt of R1½ crores under exchange, but as I have already stated, it is now proposed to credit under a suspense head the net gain in the current year estimated at R4½ crores. Exchange.

"27. The net result will be that our Imperial revenue will be R1,35½ crores against an estimated total of R1,29½ crores. Our ordinary heads of expenditure (excluding for the moment the Military Services) will show a nearly corresponding excess, the largest increases occurring under interest charges on debt and refunds and drawbacks. On the other hand, Famine Relief, for which a provision of R1,62 lakhs was made, has fortunately cost us 64 lakhs less. Taking the whole ordinary expenditure (excluding Military) the total will amount to R60 crores against an anticipated total of R64½ crores: and the position as between revenue and expenditure is a great tribute to the accuracy of the estimates prepared last year by Lord Meston and Mr. Howard. It is when we come to take count of the figures of Military expenditure that the result assumes an aspect entirely contrary to their anticipations. They expected a surplus of about £600,000; I have to announce a deficit of £14½ million. I shall subsequently devote a special section of this narrative to the revised and budget estimates for Military expenditure, and I need only mention here the broad results as regards the current year. The budget provided for a total expenditure of £41¼ million, made up of £32½ million for ordinary expenditure and £8¾ million representing the current year's instalment of the additional war contribution. In respect of this last item we will actually pay only £1⅓ million, so that there is a saving on this account of £7¼ million. On the other hand, the Afghan war and the frontier operations are estimated to have cost us £14¾ million, while the ordinary military expenditure shows an excess of £8¼ million, the net result being an excess of no less than £15·8 million. Military expenditure.

Provincial Revenues.

"28. All that I need say as regards the provincial estimates is that the provinces, taking them all together, had budgeted for a deficit of nearly R3 crores. In the result, the total provincial revenues are likely to coincide almost exactly with the provincial expenditure. The provinces have had to incur very large additional charges in the shape of allowances or increases of pay to their establishments to meet the present high scale of prices, but this has been more than counterbalanced by the continued growth in their revenues.

E.—Ways and Means, 1919-20.

Removal of previous difficulty due to locale of resources.

"29. The Financial Statements of the last few years brought out clearly the problems which we had then to face in order to find money for our disbursements in India, and both Sir William Meyer and Lord Meston explained the great difficulties caused, not so much by the shortness of our total cash resources, as by the fact that much of these were locked up in London. We had accordingly the result that, although at certain times the Secretary of State held very high resources at home, we in India were hard put to it to find the funds necessary to meet not only our own outgoings and the Secretary of State's Council drawings, but also the very heavy disbursements which we had to make during the war on behalf of His Majesty's Government, and for which we received payment in London. As Hon'ble Members know, we were forced, in order to keep our Indian treasuries in funds, to make successive increases in the fiduciary portion of the Currency Reserve and from time to time to finance ourselves by taking large advances from the Presidency Banks and by raising large sums by the issue of Indian treasury bills. With the cessation of military operations in Europe and the gradual removal of war restrictions, it has now become possible for the Secretary of State to re-transfer his surplus balances to us by means of remittances of gold, and that particular aspect of our difficulties which arose from the lock up of our resources in England is I think now at an end. The difficulties of the future are likely to arise, as I shall show when dealing with our ways and means outlook for next year, not from the *locale* of our balances, but from their total amount.

Liabilities and assets in England and India combined.

"30. I will first explain briefly the liabilities we have had to meet and the resources from which we have met them, taking our sterling and rupee resources combined; and for this purpose of course our various remittance transactions, which represent a transference of our cash balances from India to England or from England to India (such as Councils and reverse Councils) will cancel each other. The following statement shows our liabilities and assets in a condensed form :—

Liabilities.		(£ million.)	*Assets.*	(£ million.)
Capital outlay—			Reduction of cash balances	4·3
Railways	10·2		Rupee loan	14·2
Irrigation	·3		Net receipts from Treasury Bills	·2
Delhi	·3		Withdrawal from Special Reserve	6·9
	——	10·8	Silver paid for in last year brought to account in current year	11·2
Discharge of debt (including Railway debentures)		2·0	Net gain on exchange and gold operations held in suspense for meeting deficiency in Paper Currency Reserve	3·0
Imperial and Provincial loans		·9	Miscellaneous items	—·2
Payment of balance of war loan proceeds to Home Government in reduction of £100 million contribution		8·8		
Imperial deficit		14·4		
Refund to War Office of amount recovered in excess in previous year		3·0		
		39·9		39·9

I will discuss the more important of the above items very shortly when I come to speak of our financial operations in India; I need here, in connection with our combined position, only point out that our total cash balances, in India and

England together, were £26 million at the beginning of the year, and we expect to close the year with balances of £21½ million. The Council will observe that the special reserve of £20 million, which we had built up during the war when our balances were locked up in London, is expected by the end of this year to have been completely used up, £7 million having been used in the current year and £13 million in 1918-19.

"31. As regards the operations at the home treasury in London, it is sufficient for me to say that, excluding the Gold Standard Reserve, the Secretary of State started the year with an ordinary cash balance of £8·7 million, together with £6·9 million in the special reserve. We expect that at the end of the year his ordinary balance will have been reduced to £7½ million and that the special reserve will, as I have said, have been entirely used up. The outgoings which he has had to meet have amounted to about £113½ million, inclusive of £32 million paid for gold purchased for shipment to India and £24¾ million for payment of reverse Councils sold in India. These he has met by drawing Councils to the extent of £31¼ million, by his large recoveries from the War Office of £61 million in respect of payments made by us in rupees on their behalf, by using £8 million from his cash balances and the special reserve, and by disposing of investments in British Treasury Bills made on behalf of the Paper Currency Reserve during the war period to the extent of £13 million. His operations are shown very briefly as follows :—

(In millions of £.)

Liabilities.		*Assets.*	
Net expenditure chargeable to revenue	23·3	Reduction of cash balances	1·2
Capital outlay	12·9	Withdrawal from special reserve	6·9
Payments for silver	0·9	Transfer to Home treasury from investments on behalf of Paper Currency Reserve	13·1
" gold	32·1	Recoveries from War Office	61·0
Payment of war loan proceeds to Home Government	8·8	Council Bills	31·2
Sterling transfers on London	24·7		
Miscellaneous items	4·7		
	113·4		113·4

"32. For ourselves the main interest naturally lies in the position in India, *i.e.* the various calls on our rupee resources and the various financial operations in which we have been engaged in order to keep ourselves in funds. The nature of these transactions will be apparent from the following summary which shows the actual rupee transactions in India after eliminating adjustments for exchange as far as possible :—

(In crores of rupees.)

Liabilities.		*Assets.*	
Recoverable war expenditure	67·3	Reduction of cash balances	5·0
Council Bills	34·5	Credits from silver purchased by the Secretary of State	22·7
Transfers to Currency against withdrawals by the Secretary of State of British Treasury bills held in Reserve	19·7	Credits from gold purchased by the Secretary of State	38·8
Net discharge of Cash Certificates	2·3	Sterling drafts on London	18·4
Capital outlay	5·1	Excess of revenue over expenditure	13·6
Discharge of debt	·2	Proceeds of rupee loan	21·3
Imperial and Provincial loans	1·3	Net receipts from treasury bills	·3
		Savings Bank, etc., deposits	3·6
		Miscellaneous deposit and remittance transactions	6·7
	130·4		130·4

It will be seen that the amount of funds which we have had to find during the year has been R 130 crores, of which 67 crores represent expenditure on behalf of the Home Government incurred in India and repaid at home, 34½ crores were for payment of the Secretary of State's Council drawings and 19¾ crores for transfers to the Currency Reserve in India against withdrawals of British treasury bills from the Reserve by the Secretary of State in order to enable him to meet our sales of reverse Councils. One way in which these liabilities have been financed has been by remittances of gold and silver, amounting to 61½ crores, which the Secretary of State has sent to India, while R18½ crores will have been received by us in payment for reverse Councils. To the extent of 80 crores, therefore, our needs in India have been met by drawings against our home balances. I now turn to the means adopted to provide the further 50 crores required.

F.—Government's Financial Operations.

"33. The financial operations undertaken by us in India illustrate at once the strength which the Indian money markets have attained, and the difficulty of the problems which we have had, and shall have, to face. Foremost among these operations was the rupee loan. In our estimates framed last year, we provided for the raising of a loan in India of R15 crores. During July and August we opened for subscription a 5 per cent. income-tax free loan, without limit of amount and repayable in 1945-55. The receipts amounted to R21½ crores, of which R61½ lakhs were received through the Post Office, while over R2 crores of the total amount was tendered in the form of War Bonds which we had agreed to accept in payment for the loan. We made no attempt on this occasion to repeat the special propaganda associated with the two war loans; we had in 1917 and 1918 dipped heavily into the pockets of the investing public; and in the present year we had, competing with us, a very large number of new Company issues. The result of our loan therefore, exceeding as it did the forecast which Lord Meston felt justified in framing this time last year, is of hopeful augury for the future.

Rupee loan.

"34. These figures do not include Cash Certificates. In the absence of any special loan propaganda this form of investment has not received a stimulus similar to that administered in 1918-19 by the Second Indian War Loan. Against the net payment of R69 lakhs last year, we estimate a net payment of about R235 lakhs in the current year. The monthly figure for new investments, which during the earlier months of the year stood at from 8 to 9 lakhs, may now be taken at about 6 lakhs, but that for withdrawals has shown a progressive fall during the year and we may now hope to count on these being on a smaller scale. The number of weak holders has been reduced, and investors have a greater inducement to hold their certificates, in order to reap the benefit of the gradually improving interest earned as a certificate approaches maturity.

Cash Certificates.

"In the last three months of the previous financial year there had been a very marked increase in the net deposits in the Post Office savings banks. This improvement continued until the end of November last, since when there has been some excess of withdrawals over deposits, possibly due to European depositors taking advantage of the high rate of exchange to remit their deposits home. We anticipate that on the balance the net deposits during the year will amount to R1,70 lakhs, the same as last year, against the R2½ crore budget estimate for this year.

Savings Banks deposits.

"35. Lord Meston entertained the hope of being able, during the course of 1919-20, to reduce our treasury bill outstandings by about R22 crores. These hopes were defeated by the large outgoings due to the Afghan war and the frontier operations, which had to be financed mainly by fresh sales of bills; the extent to which this was necessary will be gathered from the fact that at one period in October our outstandings had grown from 49½ crores on April 1st to no less than 68 crores. During April, May and June our sales had been slightly in excess of the discharges, and during July and August, while the 5 per cent. loan was open to subscription, they were of course discontinued, so that by the end of August our outstandings had been reduced to about 44 crores. In September, however, our treasury position was one of very considerable difficulty. There were heavy maturities of bills to meet, and very high military issues, while the Secretary of State was drawing on us for Councils at the rate of about a crore a week. In consequence, the receipts

Treasury Bills.

from the loan were used up soon after it had closed, and at the beginning of September we were obliged to re-introduce the sale of treasury bills and to give what, considering the time of the year, were very tempting rates. Even so, our balances remained so low that all possible sources of assistance had to be exploited. In the first place, as in the preceding year, the Presidency Banks were able to come to our help, and, all told, their advances amounted to 18½ crores. Secondly, we were obliged to obtain from the Council legal authority to increase our fiduciary issue of notes by 20 crores. This method of keeping ourselves in funds was admittedly undesirable, but there seemed every likelihood that we should have to resort to it.

"36. Altogether, throughout the first nine months of the year, the treasury position was a difficult one, and from August onwards of continual anxiety. Our payments of Council Bills during those nine months amounted to 30 crores, and the net military expenditure to over 96 crores. The treasury bills sold in excess of those discharged came to about 5 crores only, and the result of our being forced to issue 3 months' Bills in September at favourable rates was that in December (a month in which little revenue is collected and when our treasury balances are at the best of times always low) we had no less than 26½ crores of treasury bill maturities to meet. During December it seemed from day to day that we should have to fall back on our increased powers of note issue, but events happily took a more favourable turn, and with the help of large shipments of gold made to us by the Secretary of State, we managed to turn the corner till, at the beginning of January, our revenue began to come in. Since then our position has been one of comparative ease; and we anticipate that we shall be able to reduce our treasury bill outstandings by the end of the year to the figure at which they stood at the beginning of April last, while the whole of the ways and means advances will have been repaid to the Presidency Banks. Difficulty of keeping Treasuries in funds.

"37. But we have been sailing very near the wind, and the moral is obvious. Anything approaching 50 crores of treasury bill outstandings, to say nothing of the 68 crores reached in October last, is a dangerous amount of floating debt for India to carry. We have learnt much during the war; in particular we have learnt to finance ourselves in ways that previously would have been thought impossible. But the experience of the last two years has taught us that we must not count on being able throughout the year to keep "floating" an amount of treasury bills so large as has been outstanding during the current year. The slightest tightness in the money markets results in our maturities running off without being replaced by fresh sales, and we have lived continually under the apprehension that we may at any time have to inflate the currency by increasing the fiduciary issue of notes in order to repay our treasury bill maturities. It is imperative, therefore, that we should now do all in our power to reduce our floating debt to more manageable proportions. In so far as this is not effected by funding in our long term loans, we must aim at utilising any surplus, arising from our ordinary revenues, to strengthen our ways and means position and to make us less dependent on the particular form of finance with which I have been dealing. I desire to apply the same remarks to the large ways and means advances which we have from time to time been obliged to take from the Presidency Banks. The financing of public expenditure by means of bank advances is, when made use of to any large extent, no less to be deprecated than a large amount of floating debt, seeing that it is represented merely by an entry in the Banks' books and is therefore in effect a direct inflation of credit. And we have a particular responsibility as regards these ways and means advances, since, unless promptly repaid, they handicap the Presidency Banks' ability to meet demands for money from the business public at a time of busy trade; we have in consequence to be prepared to repay these rapidly whenever a strong demand for money arises, as has been the case during the last few weeks. Lord Meston on March 1st last warned Council of the necessity for regularising our position in respect of our floating debt and temporary advances; the events of the year have justified that warning; and if we are to be in a position to finance the more rapid development of the country, both moral and material, and to meet the many calls on our resources to which the quickening pulse of the nation will give rise, we must endeavour to safeguard ourselves against a recurrence of the embarrassments which I have described. Necessity for reducing floating debt.

SECTION II.—THE YEAR 1920-21.

A.—Budget Estimates of Revenue and Expenditure.

Budget anticipations.

"38. This is the last occasion on which the budget will be framed on the existing division of revenue and expenditure between the Central and the Provincial Governments. The inauguration of the Reforms Scheme involves the abolition of the present divided heads of revenue and expenditure; and under the new financial arrangements the revenue and expenditure pertaining to each particular subject of administration will follow the administrative division. I shall deal subsequently with the broad effect which the new arrangements will have on the respective resources of the Government of India and the provinces. Meanwhile, our budget anticipations are of some importance as affording the latest available information on the manner in which the new arrangements will affect the finances of the Central and Provincial Governments. I do not propose to trouble the Council with many details of our anticipations under the various heads of revenue and expenditure. Broadly speaking, these are based upon the belief that there will be no set back in general prosperity and that our revenues will continue to show that same expansion which has been exhibited in the current year.

Customs.

"39. *Customs.*—I have already mentioned that during the current year we expect to realise a total Customs revenue of about R22⅓ crores. We may reasonably expect that next year freight difficulties will have largely disappeared; on the other hand, we cannot expect that the producing power of European countries will reach anything like the pre-war level, and we can hardly count on that heavy inrush of commodities which might otherwise be expected with the full return of peace conditions. Nevertheless, there seems no reason to anticipate that the steady growth shown in our Customs returns of the current year will not continue, and we are consequently budgeting for R25½ crores, representing an increase of over R3 crores on the expected revenue of the current year. This figure assumes no change in our Customs tariff other than the recently announced abolition of the import duty on silver.

Railways.

"*Railways.*—Under Railways we are budgeting for a continuance of that steady growth in traffic receipts which has been so marked for some years, and we have taken an increase of R4 crores over the R80 crores budgeted for the current year. On the other hand, we anticipate a considerable rise in working expenses in order to continue the renewals and replacements necessitated by the forced neglect during the war, and altogether we expect that the net receipts will be R34 crores or the same as in the current year.

Exchange.

"*Exchange.*—I have already explained the complications arising from the large credit which we get in our accounts from gains by exchange. I will confess at once that it is difficult to frame a reliable estimate of what this figure is likely to be next year. No one can predict the extent to which the pound sterling may depreciate or appreciate during the next twelve months, and it is impossible to say what variations may take place in the rupee sterling exchange which, under the policy recently inaugurated, must rise or fall according as the pound sterling falls or recovers in terms of gold. And apart from the question of the actual rate, it is equally impossible to forecast the actual volume of our remittance transactions in either direction. From the remarks I have already made on this matter earlier in this narrative, it will be clear that a few millions more or less of Councils or reverse Councils will make a very large difference in the total of the so-called gain. We have assumed that the average rate for the rupee sterling exchange will not be below 2*s.* 6*d.*; on the best estimate we are able to frame, our total gain during the year will amount to about R30¾ crores. Of this amount R12¾ crores will, for the reason which I have already given, be credited to our Railway, Irrigation and Delhi capital accounts. We propose to earmark R12 crores (as against R4½ crores in the current year) towards meeting the deficiency in the Paper Currency Reserve, leaving R6 crores to be credited to our revenue account.

"If these anticipations be realised, our total Imperial revenue will be £92½ million (R1,38⅞ crores). The estimate assumes the discontinuance of the Excess Profits Duty which was imposed as a temporary measure in March last.

"40. On the expenditure side, the only marked variations which we anticipate under the ordinary heads are—(1) An increase of over £1½ million over the current year's expenditure on *Posts and Telegraphs*, due to the inclusion of large provisions for increases of pay to subordinates and for outlay on stores. (2) Payments of *civil furlough* and *superannuation* allowances are expected to rise by £¾ million. (3) Under the '*Miscellaneous*' head there is an increase of about £¼ million representing the provision which we have entered for expenditure in connection with the visit of His Royal Highness the Prince of Wales; and (4) Under *Public Works* there is an increase of £318,000 due to the necessity for a somewhat heavier programme of works as the result of enforced economy during the war period. Set off against these are savings of—(1) £263,000 which we anticipate under *Interest* due to a reduction in our liability to the Home Government in respect of the £100 million contribution, and (2) of £275,000 under *Political* mainly in respect of special political expenditure incurred in Persia. Altogether, our expenditure under the ordinary heads is expected in the aggregate to exceed that of the current year by £3 million. The most important item, however, is of course our military expenditure. This I am dealing with separately, and merely mention here that we are entering a total figure of £40 million, as against £41¼ million in the current year's budget and the £57 million which we are expecting will actually be incurred. The net result is that we anticipate a total expenditure of £90½ million (R1,35¾ crores), resulting in a surplus of £2 million. This is somewhat higher than that for which we usually budget, but if I have carried the Council with me in the remarks I made just now regarding the grave necessity for keeping down our floating debt, it will appreciate our reason for going somewhat beyond the usual figure. And I hope that I shall make this still further apparent when I come to deal with the heavy ways and means liabilities which lie before us. Expenditure.

"41. During the war we were obliged to ask the provinces not to draw on their balances and to keep their expenditure strictly within the income of the year. This restriction was relaxed for the current year, and the provinces were allowed to budget for deficits aggregating nearly R3 crores, although as I have already mentioned, their revenues have on the whole actually been equal to their expenditure. For next year, although budgeting for revenues materially larger than those of the present year, they anticipate drawing on their balances to the extent of no less than R5¾ crores. A great part of these deficits is accounted for by large schemes of non-recurring expenditure which were necessarily held up during the war, but there is also a striking increase in the budgeted recurring expenditure, due to the very large revisions of the pay of subordinate establishments necessitated by the present scale of prices. Provincial Budgets.

"42. We hope to attain the results outlined in the preceding forecast without any substantial addition to our Imperial taxation. In only one direction do we propose to modify our present scale of taxes. The present super-tax on the undivided profits of companies and firms has been the subject of considerable criticism on grounds of principle. It is urged that the tax is an incentive to companies to distribute more in dividends than is justified by their real financial position, and penalises those concerns which desire to strengthen their reserves. We have been told that Government would have done better to have levied a tax at a moderate rate on the whole income of companies, instead of applying the ordinary super-tax to companies' undivided profits. In the speech which he made last year on the Excess Profits Duty Bill Lord Meston gave on behalf of Government an undertaking that the question of so readjusting our taxation on incomes as to meet these objections would be considered as soon as the excess profits duty ceased to be levied. That time has now arrived. On the best estimate we have been able to frame we conclude that, if we relieve the undivided profits of companies and firms of the super-tax at present imposed, which runs up to 3 annas in the rupee, we shall lose about R1,76 lakhs. We propose to replace this by a new form of super-tax, similar to the "corporation" or "companies" tax levied in certain other countries, which will be assessed at the flat rate of 1 anna in the rupee upon the total income of each company in excess of R50,000. This will, of course, like the present super-tax, be in addition to the ordinary income-tax, and there will be no refunds. The present super-tax on individuals will remain as at present. The new super-tax on companies is estimated to bring us in about R2,20 lakhs a year, *i.e.*, R44 lakhs more than we lose. We should have been glad to have utilised this surplus in regrading the lower Alterations in super-tax.

stages of the ordinary income-tax in order to relieve the poorer taxpayer and to make the stages more symmetrical. But we have felt it unsafe to do so at present in view of the necessity, to which I have referred, of making provision for meeting our temporary debt and short term liabilities. We shall in any case have relieved industry of the present burden of the Excess Profits duty, and this is as far as we are justified in going at present.

India's further contribution to the war.

"43. I have one more explanation to give in connection with the estimates of revenue and expenditure, and it is an important one. The Council will notice, from the detailed information given in a later section that, in both our revised and budget estimates of military expenditure, provision has been made for the payment of certain portions of India's further contribution towards the cost of the war offered to His Majesty's Government in pursuance of the Resolution passed in this Council in September 1918. I would explain that these entries have been made provisionally; their retention will depend on the view which the Council takes as to India's liability in this matter. The Resolution contained a reservation that the offer of this further contribution should be subject to the conditions and safeguards indicated in Sir William Meyer's speech. Those conditions were that the payment would be reconsidered in the event of two contingencies occurring,—firstly, our having to fight on our own frontiers and to incur large expenditure in that connection, and secondly, our being faced with serious financial burdens in other respects, such as a famine or a great currency crisis. The Council will probably agree with me that the second contingency has not arisen. It cannot be said that there has been a grave currency crisis since the Resolution was passed. It is true that there was a serious failure of the monsoon in 1918, but the account which I have given of our revenue and expenditure during the current year will have shown that any loss which we have sustained on this account has been counterbalanced by our prosperity in other directions. But the expenditure of about £15 million involved by the Afghan war and frontier operations of 1919 clearly makes the first condition operative. Whether we should stand on that condition, or should agree to waive it, wholly or in part, is a matter which must be left to the verdict of the non-official Members of the Council. There are considerations of weight on both sides. I will not attempt to balance these here, but in order to provide Hon'ble Members with the facts regarding the amount of the additional contribution and with other material necessary for forming an opinion on the merits of the case, I have appended to this Financial Statement a note on the subject (Appendix II); in that note I have not attempted to draw any conclusions, but have merely endeavoured to set forth what appear to me to be the financial issues involved. Should the Council decide to withdraw, either wholly or partially, from the offer made to His Majesty's Government in September 1918, the necessary corrections will be made in the estimates before the Budget is finally presented.

B.—Ways and Means, 1920-21.

"44. I will now deal with the demands which we anticipate will fall on our cash resources during the coming year. The most important item is our capital outlay on railways, irrigation and Delhi. We hope to continue the progressive policy initiated last year in the matter of developing our great and profitable railway estate, and are budgeting for a railway capital expenditure of £18 million in England and 4½ crores in India as compared with the £18 million in England and *nil* in India budgeted for the current year. For irrigation we are budgeting for £580,000, which is all that the Public Works Department can spend until some of the large new projects now begun or under contemplation reach a more developed stage. For Delhi we are entering £800,000, which is however reduced to £736,000 by a credit for gain by exchange. I shall give a further explanation shortly of our capital programme under these three heads. Meanwhile, I must draw attention to the fact that we have here one of those awkward complications which arise from the conversion of rupees into sterling at 1*s.* 4*d.* In the statutory statements appended hereto the figure for railways totals £11·6 million only, in spite of the fact that we anticipate an outlay in England alone of nearly £18 million. This is one of those anomalies which are inevitable with the figures prepared on a basis which is now obsolete, the reason being, as I have already explained when dealing with the

Capital outlay.

treatment of the gain by exchange, that the capital account has to receive a credit which in the case of Railways amounts to nearly 10 crores. When the rupee and sterling figures are then combined upon a 1*s.* 4*d.* basis, the result is £14·6 million. The best way of comparing the railway capital budgets for the current and next years is to say that, while the former was calculated to cost the Indian tax payer 24 crores, the latter will cost him about 19 crores at the rate of exchange of 2*s.* 6*d.* the rupee.

"45. Another very important item is the entry of £12·9 million for discharge of debt. From 1920 onwards our various series of War Bonds, issued in 1917 and 1918, will mature, and for some years their repayment will make a severe call on our resources; on August 15th next we have to find over 19 crores for this purpose. I may mention that we are doing what we can to work out such administrative measures as will enable the holders of these War Bonds, many of whom are quite small people living in remote towns and villages, to get repayment with the minimum of formality and inconvenience to themselves, and for this purpose the Securities Bill now before the Council will, when passed into law, be of great assistance in enabling us to waive many of the formalities necessitated under the existing law. Repayment of War Bonds.

"46. I have already mentioned that in the current and next year we are placing in suspense 4½ and 12 crores, respectively, towards meeting the deficiency in the Paper Currency Reserve. These amounts are, of course, for the time being held in our general balances, but we hope during the course of next year actually to apply 9 crores or £6 million in making up that deficiency. Making up of deficiency in Paper Currency Reserve.

"Finally, we have to meet heavy drawings by the provinces on their balances amounting to over 5¼ crores. Altogether, then, we have to meet liabilities amounting to £38·6 million.

"47. These are heavy liabilities, and our ability to incur the capital outlay proposed will depend to a large extent on the measure to which we can count on obtaining money through our rupee loan. We assume, however, that the Indian money market and the investing public generally will be prepared to take up our loan with something of the freedom shown in the current year. Should this not prove to be the case, we shall be obliged, however reluctantly, to curtail our capital programme. I now turn to the steps by which we propose to meet the liability of £38·6 million. We have, to start with, an anticipated Imperial surplus of £2 million, while we propose to reduce our cash balances during the course of the year by £3·2 million. Next, we assume a loan of 15 crores or £10 million. We hope to receive credits, in respect of stores charged to the War Stores Suspense account, to the extent of £7 million, and to recover £2·7 million from the War Office in respect of cash balances in Mesopotamia which will be transferred to the new administration of that country. As already stated, we hope to obtain a credit of £8 million from exchange gain, and the balance of our requirements will be found from Savings Bank deposits and other miscellaneous transactions. These transactions are summarised in the statement below:— Assets.

Liabilities.		(In millions of £)	*Assets.*	(In millions of £)
Provincial deficit		3·8	Reduction of cash balances	3·2
			Imperial surplus	2·0
Capital outlay:—			Rupee loan	10·0
Railways	14·6*		Savings Bank, etc., deposits and cash certificates	2·1
Irrigation	0·6			
Delhi	0·7		Net gain on exchange and gold operations held in suspense for meeting deficiency in Paper Currency Reserve	8·0
		15·9		
Discharge of debt		12·9	Credits for issues of Stores charged to Suspense Account	7·0
Appropriation for deficiency in Paper Currency Reserve		6·0	Recovery from War Office in respect of cash balances in Mesopotamia to be transferred to new Administration	2·7
		38·6	Miscellaneous items, (appropriation from Famine Insurance grant for reduction of debt, deposits, etc.)	3·6
				38·6

*Made up of:

Indian outlay	4,61 lakhs.
Adjustment for exchange	3,74 „
Home outlay	£1[illegible],38,000

"48. I have already tried to explain the difficulty of making a reliable estimate of our probable remittance transactions between England and India during the coming year, and I do not think, therefore, that it will serve any useful purpose for me to go into any details here as to the probable ways and means positions in England and India separately. All I will mention is that we expect that the Secretary of State's disbursements will amount to about £46 million, and that he will be able to meet these from the recoveries which he will make from the War Office in respect of payments made by us in India on their behalf and by selling Council Bills for £8½ million.

SECTION III.—NOTES ON CERTAIN SPECIAL HEADS.

A.—Military Services.

Financial results of the year.

"49. The net military expenditure (*i.e.*, deducting receipts) was £44¼ million in 1918-19. The budget estimate for 1919-20 was £41,195,000. This figure included a provision for the payment to His Majesty's Government of an additional war contribution of £8,695,000. In the Revised estimate a sum of £1,541,700 has been included provisionally on account of this additional war contribution, the amount being made up as follows :—£246,700 for the effective charges of the additional body of Indian troops, being the equivalent at £1=R15 of an instalment of £500,000 of the special contribution ; £995,000 for war pensionary charges of Indian troops and their British officers; £300,000 for war pensionary charges of British troops. The grounds for the reduction of the contribution for effective charges to a payment on account of £500,000 are explained in paragraph 6 of the Appendix dealing with this special contribution. Omitting these special payments, the net expenditure in 1919-20 is now expected to amount to £55,475,000 against a Budget estimate of £32,500,000. The increase over the Budget estimate thus amounts to £22,975,000. The Budget, however, also included a reserve of £871,000 under the Army head to meet unforeseen expenditure. The excess over the specific provision is therefore £23,846,000. Of this, £14,736,000 represents the cost of the operations against Afghanistan and the tribes on the North-West Frontier.

Nature of the war expenditure in the current year.

"50. In presenting the military estimates for the current year, it was assumed that the year 1919-20 would be one of demobilisation. Unfortunately, as the Council are well aware, this anticipation has not been realised. The details of the campaigns on our frontier are known to the Council and I need not dilate on them, other than to emphasise the fact that the crisis arose at a time when the resources of India, both in men and material, had been sorely taxed by the Great War. Owing partly to deficiencies due to this cause and partly to the insistence, by present day public opinion, on a higher standard of efficiency in the military organisation, and of comfort for the fighting personnel, expenditure on a scale hitherto unprecedented in India had to be undertaken immediately. We were compelled not only to postpone the disbandment of considerable bodies of additional troops which were raised in India in 1918, but also to adopt every expedient which economises human life at the expense of mechanical contrivances and which makes life more comfortable on field service. Our total bill of £14¾ million includes special rations and special clothing for the effective personnel of the army; special hospital equipment and diet; the provision of ice plants, electric fans and lights, mobile water filtration plants, and pure water-supply; the provision of huts for troops where in previous campaigns tents sufficed; the provision of mechanical transport and their workshops, motor ambulance convoys, additional animal transport required to carry the special war material entailed by modern requirements; the construction of roads, in localities where construction is specially expensive; the provision of ambulance trains and special rolling stock for troop movements; the survey and construction of special railways; the installation of ropeways; the provision of lethal munitions of modern character, heavy guns, machine guns approximating to the scale adopted in the Western theatres of war, armoured motor batteries, aeroplanes and their fighting equipment; improved equipment for defences involving heavy expenditure on barbed wire and defensive posts. The cost of all this has been higher than it might otherwise have been. We were at the end of 5 years of war; high prices ruled everywhere and these affected not only the cost of material but the cost of our Indian recruits, including followers. But the expenditure was unavoidable; when it is a question of war, purely financial considerations must necessarily give way.

"51. Apart from special war contributions and the cost of the operations on the Frontier, the expenditure in the current year is estimated to exceed the specific provision in the budget by £9,110,000. The occurrence of this excess expenditure, in addition to the direct liabilities of the Frontier operations, has engaged our anxious attention for some time past, and in November last a Sub-Committee of the Executive Council was appointed to investigate the causes contributing to the excess demand. In the result, while steps were taken to enforce every practicable economy, extra expenditure to the amount now stated has been found to be inevitable. It is due in the main to two well-defined causes. Firstly, a very large proportion, amounting to over 7 crores of rupees, consists of items which can best be described as residuary obligations arising out of the great war. Secondly, the operations on the North-West Frontier reacted directly or indirectly on the ordinary heads of expenditure. The clearest example of the former category is an item of £2,800,000, which is required to pay the war gratuity admissible under the Royal Warrant to our permanent complement of regular British officers and soldiers for service in India during the period of the war. This represents an element in the contribution which we make to His Majesty's Government under the arrangement whereby we undertook to bear the cost of the normal garrison in India. It is a non-recurring charge, the liability for which was not known at the time of the preparation of the budget for 1919-20. The gratuity payable to our Indian soldiers for their service overseas in the great war has been provided for, but it does not appear in the present account, since the cost is chargeable to His Majesty's Government. Then, again, we had to face an all round increase in the pay of the personnel of the army. The process was initiated by His Majesty's Government at home with effect from 1st July 1919, and we, as a necessary consequence, have conceded a similar increase in the pay and furlough pay of British officers and soldiers serving in India. The cost of this will amount to about £2 million inclusive of medical services and miscellaneous British personnel. As a corollary to this, we have found it necessary to continue the grant to Indian troops of the increase of pay represented by the six-monthly bonus sanctioned in 1918. For the present, the increase is a temporary measure, which will require to be reconsidered in the light of the proposals which may be put forward by the Army in India Committee for the future organisation of our Indian Army. So long as the six-monthly bonus was paid for the specific purpose for which it was first granted, namely, the stimulation of recruitment for overseas forces, its cost was chargeable to His Majesty's Government, but its continuance in the circumstances which I have stated will now involve an expenditure of £270,000 from Indian revenues. We have also granted rewards consisting of cash grants and grants of land to Indian officers and men who have rendered distinguished service during the war, and have sanctioned increases of pay to various Indian establishments including followers. The cost of these measures will amount to £130,000. We have also had to meet obligations entailed by the higher standard of military equipment necessitated by the experience gained during the great war. We have added permanently to our establishment 6 Ford Van companies, together with workshops for repairing motor vehicles. It has been necessary to provide more animal transport units, and to make certain additions to the cadre of the Supply and Transport Corps, consequential on the grant of free rations to Indian troops and the development of transport services, and in the Army Veterinary Services and other administrative establishments. These various undertakings are estimated to cost about £460,000. Food charges account for an increase of £550,000 owing to continued high prices; the cost of the Aden Operations will exceed the budget estimates by £110,000; the expenditure on certain services, *e.g.*, Port defences, Coastal patrol service, etc., by £150,000; the railway charges for military traffic and the hire of bullock transport by £280,000; and the expenditure on the purchase of stores in India for the Royal Air Force and for mechanical transport by £70,000. An additional sum of £[illegible]00,000 will also have to be paid to the War Office in respect of the non-effective charges of British troops serving in India, partly owing to a rise in the rates of pensions and partly in connection with the settlement of certain claims which the War Office has against us on account

Excess of ordinary military expenditure.

War gratuity.

Increases of pay.

Rewards.

Improvement of equipment.

of the ordinary charges of British troops with previous Indian service whose ordinary pensions did not mature owing to death or disability in the Great War.

"52. The expenditure on Military Works will exceed the budget estimates by £1,315,300. The excess consists very largely of items which, though adjustable for accounting reasons against the ordinary estimates, are more or less directly attributable to the Afghan war. Thus, the increase of Air Force establishment involved the provision of buildings for the accommodation of the extra personnel and for housing the valuable equipment which an Air Force requires. The works will, however, be of permanent utility and accordingly it would not be correct to charge their cost to the operations. The same is the case with the expenditure on Frontier roads (£180,000) and mechanical transport workshops (£133,000). Apart from this quasi-war expenditure, we have been compelled to provide accommodation on an enhanced scale for families of British units arriving from England at a cost of £140,000. This measure has been taken under the direct advice of His Majesty's Government. At the same time considerable expenditure has been incurred on reconstructing and improving the lines of Indian troops and on providing the buildings necessitated by the provision by Government of free rations for Indian troops.

Budget, 1920-21. "53. The budget provision for next year has been taken at £40 million. Out of this sum £1·45 million has been provisionally earmarked for payment of instalments of the additional contribution to His Majesty's Government, namely, £·25 million being the equivalent at R15=£1 of a second instalment of £·5 million for effective charges and £1·2 million for non-effective charges and the balance of £38·55 million will be available for the services of the army. The detailed grants working up to this figure have not yet been definitely settled, the reason for this being that the disturbed conditions which still prevail in India and the Middle East have rendered it equally impossible to obtain any clear assessment of our normal military liabilities in the future or to guarantee immediate reduction to any peace standard it may be decided to adopt. This matter also is being specially examined by the Sub-Committee of His Excellency the Viceroy's Council, to which reference has previously been made, and the problem with which they have to deal is one of unusual difficulty. But I may say at once that, if India is to maintain in an efficient state an army of the strength required for the adequate defence of her frontiers, the cost of the military services will in future be much in excess of the sum which we have been accustomed to allot in our budget for this purpose. In dealing with the revised estimates I have mentioned a number of the new permanent liabilities which have been brought upon us by the European war and the only point which I desire once more to emphasise is that we obviously cannot revert to the pre-war standard of equipment, since it would be neither right nor humane to deny to our soldiers the advantage which an improved equipment ensures: and the new equipment of which aeroplanes, improved artillery and mechanical transport may be taken as the most conspicuous examples, is extremely expensive both in initial cost and cost of maintenance. It is recognised, on the other hand, that the extended employment of up-to-date weapons and war material generally should render feasible certain reductions of personnel and every possible economy of this kind is being carefully studied. The object in view will be the possession of an army of the minimum strength compatible with safety, but fully mobile and equipped with all the requisites of war, well paid, well housed, and well clothed. But much still remains to be done to establish our army on this basis and in the ensuing year our expenditure will be specially high owing to the fact that we must incur a certain amount of initial outlay on the purchase of new equipment of various kinds, on the construction of hospitals and barracks and other important military requirements. Initial outlay of this character will so far as possible be spread over more than one year, but the extent of this process is limited by certain vital considerations, and it will be clear that until we can feel greater confidence in regard to possible dangers threatening us from the Middle East, our military expenditure will necessarily represent more than the cost of the army we hope to maintain in settled peace conditions. The very full data collected by the Army authorities have been exhaustively scrutinised; every feasible economy has been effected, and the provision of £40 million is the least which can safely be inserted in the budget. And I must warn the Council that if the operations on the frontier should continue into the ensuing year, even the provision now proposed will not suffice.

B.—Railways (Capital Outlay).

"54. The Railway Capital expenditure on State-owned lines included within the Railway Programme, including both open lines and lines under construction, amounted to £1,978,700 in 1916-17, £2,529,300 in 1917-18 and £4,154,500 in 1918-19. In the Budget for the current year provision was made for £17·7 millions which, owing to failure of English supplies, it has not been possible to utilise fully. The latest estimate of expenditure is placed at £14·5 millions, which will be reduced to £10,211,000 by gains on exchange.

"55. I have already mentioned that next year it is proposed to raise the provision to £18 millions for home and 4½ crores for Indian expenditure. The major portion of this sum will be devoted to works of improvement on existing lines and especially to provision of traffic facilities to enable railways to meet the increased demand on their resources which has followed the revival of trade. It is also hoped to make a beginning in replacement of the lines which it was necessary to dismantle during the war, and a sum of £212,000 has been allotted for this purpose. Progress in this respect is, however, directly dependent on the supply of materials, unfortunately still limited. In view of the pressing necessities of open lines it is not possible to provide at present for any considerable amount of new construction, but a sum of £630,000 has been allotted to enable a start to be made on some of the more urgent projects held in abeyance during the war.

"56. Detailed figures showing the Capital outlay on all State lines up to the end of each year from 1916-17, and the net return obtained after deducting working expenses and interest charges will be found in the Secretary's memorandum. The return on railway capital (excluding interest charges) was estimated in the current year's Budget at 5·51 per cent. We now estimate it at 5·08 per cent. in consequence of the small increase in net railway earnings resulting from the gain by exchange creditable to the railway revenue account. For next year we put it at 5·51 per cent. The charges for interest in the current and ensuing years work out to 3·82 and 3·85 per cent. respectively on the capital outlay, so that the final net profit on railways is 1·86 and 1·66 per cent. respectively. These interest charges include certain annuity and sinking fund payments which really go towards the discharge of debt.

C.—Irrigation (Capital Outlay).

"57. Details regarding the financial position of our great irrigation undertakings will be given in the Secretary's memorandum, which will bring up to date the information given in connection with previous Financial Statements. The percentage of net profit on productive works was 6·08 in 1918-19, and is calculated at 7 in 1919-20. In the coming year we calculate it as 7·17.

"58. The total length of main and branch canals and distributaries of State irrigation works of all classes in operation during the year 1918-19 was 66,120 miles which was 644 miles greater than the mileage in operation in 1917-18. It is expected that an additional length of 425 miles will have come into operation before the close of the year 1919-20. The total culturable area commanded by these canals amounted to nearly 52 million acres of which nearly 25 million acres were irrigated in 1918-19, and it is anticipated that during the current year the canal irrigated area will aggregate 26¾ million acres. During 1918-19 no new works of any importance were opened for irrigation. Irrigation on the Punjab triple canal system, *i.e.*, the Upper Jhelum, Upper Chenab and Lower Bari Doab canals has developed satisfactorily. The area irrigated during the current year is estimated at 1·7 million acres which is 363,000 acres in excess of that irrigated in 1918-19. The total irrigable area contemplated in the project estimate is 1¾ million acres, and it will thus be seen that this acreage has practically been attained. Besides the canals actually in operation, there are 35 schemes which are either under construction, awaiting sanction or being examined by the technical experts. It is estimated that if all schemes under consideration or projected are eventually carried out, they will extend the benefits of canal irrigation to an additional area of about 10 million acres; their estimated cost amounts approximately to £40 millions sterling, from which a return of about 7 per cent. is anticipated.

[*Mr. W. M. Hailey.*] [1st March, 1920.]

"59. Progress of work on canals under construction has been maintained satisfactorily, though it has been limited by shortage of officers, large numbers of whom were absent on military duty and have only recently returned. It is anticipated that the new permanent headworks of the Ganges Canal will be completed during the ensuing year. Of the more important schemes, that for the Sarda Kichha Feeder has received the sanction of the Secretary of State, and the local Government is now making arrangements for the execution of the work. A modified project for the Sarda canal for Oudh, of which the Sarda Kichha Feeder forms a part, is under preparation by the local Government. The Grand Trunk canal project in Bengal which is designed to connect Calcutta with Eastern Bengal and Assam has recently been submitted to the Secretary of State for sanction. It is proposed to finance this work, which is estimated to cost R3,09 lakhs, from capital funds. A detailed project for the irrigation of the Sind Sagar Doab is now under consideration; as now designed, the scheme will provide for an annual irrigation of about 2 million acres; the total cost of the project is estimated at 9,28 lakhs and the net revenue, after deducting working expenses, is estimated at R91½ lakhs a year. This scheme, if carried out, will bring prosperity to a desert tract with a very low rainfall, and it is believed that it will at the same time bring in a return of nearly 10 per cent. to the State. Of the other large schemes described last year as under investigation, those for the Sukkur barrage and the Bhakra dam are still under investigation and projects are being framed by the Governments of Bombay and the Punjab. The Sutlej Valley project referred to last year has moved a stage forward; the scheme was discussed by representatives of all parties concerned in December last, and a detailed project is now being prepared.

D.—New Delhi.

"60. The outlay for the year 1919-20 under this head, after allowing for a credit of R1 lakh for gain by exchange, is expected to amount to R50 lakhs as compared with a budget grant of R45 lakhs, an additional sum of 6 lakhs having been allotted in order to push on with the preparation for next year's work. It was pointed out last year that the recurring expenses of the present make-shifts were adding appreciably to the cost of the New Capital of India. Fortunately it is now possible to contemplate a programme which will enable the main buildings in the New City to be completed by the end of 1924, and in pursuance of this programme the grant for 1920-21 has been fixed at R1,10 lakhs, after allowing for a credit of R10 lakhs for gain by exchange. Sir E. Lutyens and Mr. H. Baker came out from England towards the end of 1919 and have been busy in connection with the scheme. Among the more prominent projects on which they have been employed are the chambers for the new Legislative Councils, the Medical Research Institute, the War Museum and the proposed memorial arch to the soldiers of the Indian Army who fell in the Great War.

Conclusion.

Reform finance; the Imperial deficit.

"61. As I have said before, this is the last occasion on which we shall present a budget based on the combined accounts of the Provincial and Central Governments, and next year will see the introduction to the new Legislative Assembly of a purely Imperial budget. We are now engaged in working out the many changes in rule which will be required in order to give the provinces the financial independence which the new order of things demands. If the supervision of finance and the control of expenditure by the Central Government have seemed at times to have been unduly rigid, too careful of the established rule and canon, I would ask our critics to cast their memory back to the days, not so long past, when our resources were inelastic, when a single season's scarcity could produce a financial crisis, when Indian capital came forth with reluctance to support our loans. We have succeeded to days of gradually swelling revenues, of somewhat easier ways and means; but I think that the Standing Committees of the new Councils and their new Finance Members will do well if they exercise their powers with something of the caution which has marked our expenditure control of the past. There is no truer canon of finance than the old axiom, sanctified by the experience of ages, *magnum vectigal est parsimonia.* The extent of the finances which will be at the disposal of the reformed governments is, I know, a subject of live interest to this Council. The Joint Report of 1918 anticipated an Imperial deficit of 13½ crores, that deficit being made up by contributions from the provinces. This would have left the provinces in the aggregate with a net surplus of about 2 crores. We have reconsidered the position in the light of the probable gains from exchange, and have done so in only one spirit, the genuine desire to reduce the contributions to the lowest possible figure consistent with safeguarding the requirements of the country as a whole. There is no question of Government of India finance against provincial finance; the provinces are no less interested than is the Central Government in the maintenance of our great Imperial services; the Central Government is equally concerned that provincial reform and provincial development should not be strangled by inadequate finance. After considering the effect of the present budget as arranged on a 2 shilling basis, we think that we are justified in assuming for the present a reduction of the Imperial deficit to 6 crores, and we have provisionally indicated this figure to Lord Meston's Committee on Financial Relations as the basis of their inquiry into the apportionment of contributions. We have further indicated that we propose to assume the liability for extinguishing these contributions within a measurable time. The result will be that, adopting the figures of the provincial budgets for next year, as at present known to us, the Local Governments will be 11 crores a year better off than under the present division of revenues between the Government of India and themselves.

"62. It would indeed have been a grateful task had I been able, in presenting to the Council the revised estimates of the present year, to exhibit a result more in keeping with the anticipations expressed by Lord Meston on the 1st March last year. He looked forward to a moderate surplus, and to the extinction of some 22 crores of temporary debt. The Afghan war has involved us in a heavy deficit, and our Treasury Bill liability shows no reduction on the figure outstanding at the beginning of the year. But the picture is not entirely devoid of brighter features. Our revenue has more than fulfilled the expectations formed last March; our silver reserves stand reasonably high; and we have managed to finance ourselves up to the present without utilising the power taken last September to increase the fiduciary note issue. For the coming year we take, and experience shows that we are justified in taking, an optimistic view of the growth of our major revenue heads. Our expenditure will be swollen by the provision which we have had to make for the revision of establishments due to the continued prevalence of high prices; but the dominant feature on the expenditure side of our budget is the high figure which we have been obliged to insert on the Military account. I have already explained at length the circumstances under which we have made this provision. I do not desire to base it on any defined threat or menace from the Middle East; but no one cognisant of the facts can be free from apprehension of the consequences which may ensue to the peace of India from the sinister movements now on foot in that quarter; and it would be little short of criminal if, in the circumstances, we failed to provide during the coming year the finance essential to keep our Army up to the necessary standard of efficiency. The sum we have provided is, I am persuaded, the bare minimum required. But apart from the special requirements of the coming year, I would again remind the Council that modern armies, with their demands for latter day equipment, for mechanical contrivances and technical establishments, are bound to be more expensive than the armies of the pre-war era. It is unnecessary to quote European analogies; but the Council will be interested to know that Japan has made a provision for its military expenditure in 1920 which is more than three times that of 1918. We hope, however, to finance these increased demands on our resources, both civil and military, without any additional burden to the country other than that involved in the rearrangement of the super-tax to which I have already alluded. On the capital side we contemplate a railway programme which will, we hope, satisfy those who are interested in the development of this great asset that we are not failing in our duty to repair the deficiencies of the years of war; and we look forward to meeting the first of the heavy liabilities involved by our short-term loans, namely, the repayment of the 19 crores of War Bonds which fall due in August next. As I have already reminded the Council this programme can only be realised if India gives a liberal response to our rupee loan in the coming year.

Summary; The current year.

The year 1920-21.

Future liabilities. "63. As for the future, the revenues of India are steadily and surely expanding; and their expansion affords a guarantee of their adequacy to meet such problems of development as immediately confront the administration of the country. Our pre-occupations lie rather in the provision of ways and means to meet our capital liabilities. The provinces will be drawing on their accumulated balances; and they will before long be asking for a share in the Imperial loans, or raising loans themselves. Our outstanding liabilities are not light. We have to meet twenty-five crores of war bonds in 1921, eleven crores in 1922, over two in 1923, and our terminable loan of five crores also falls due in that year. We have a breathing space in 1924; but in 1925 we have further payments to make of four crores and in 1928 we have to face a heavy maturity of twenty-five crores. Meanwhile, our railways will not cease to demand fresh provision of capital money, and we have heavy irrigation projects in view. The solution of the problems of the future depends therefore on the growing accumulation of capital wealth in India, and the interest which the Indian money market evinces in our loan issues. We had evidence during the war of what India could invest under the inspiration of patriotic motives; the response to our last year's issue afforded a proof that business India accepted our loan as a sound and profitable security. With such proofs before us, and in the belief that the social and material development of the country will carry with it an increased sense of responsibility for the economic use of its expanding resources, we need not hesitate to look on the future with a full measure of confidence and trust."

INDIAN INCOME-TAX (AMENDMENT) BILL.

11-50 A.M. **The Hon'ble Mr. W. M. Hailey**:—"I beg, my Lord, for leave to introduce a Bill further to amend the Indian Income-tax Act, 1918.

"It is a matter, I think, on which I need detain the Council for a short time only. The Statement of Objects and Reasons very clearly explains the nature of the Bill; its nature really is that of amending the Act only. Two of the sections refer purely to matters of definition; and one section is a remedying section. It is designed to remedy the anomaly which occurs under the existing Act, when an assessee with an income just in excess of one of the stages in Schedule I and, therefore, liable to pay income-tax at a higher rate than if his income were just below that stage, finds himself, after the payment of the tax, worse off than he would have been had his total income been below that stage. The provision included in this clause is adapted from the English Law.

"We also propose to repeal certain sections; the most important of these is the existing provision to the effect that any salary not exceeding five hundred rupees per mensem received by any member of His Majesty's Forces or of His Majesty's Indian Forces, as the pay of an appointment which is ordinarily reserved exclusively for members of those Forces, should be relieved from taxation. The concession has always appeared anomalous, and now that the rates of pay have been generally enhanced, its retention seems undesirable.

"That, my Lord, is the purport of the Bill, and I seek only at this stage for leave to introduce it. I shall subsequently ask that it may be published and this will give Members of Council a full opportunity for studying it before I bring in a motion that it should be referred to a Select Committee."

The motion was put and agreed to.

The Hon'ble Mr. W. M. Hailey:—"My Lord, I introduce the Bill, and beg for leave to move that the Bill, together with the Statement of Objects and Reasons relating thereto, be published in the Gazette of India in English."

The motion was put and agreed to.

SUPER-TAX BILL.

The Hon'ble Mr. W. M. Hailey :—"My Lord, I beg to move for leave to introduce a Bill to amend the law relating to the Super-Tax Act, 1917. I have already in the course of my Financial Statement explained the reasons for the introduction of this Bill. The taxation it seeks to introduce is in the nature of a companies or corporation tax such as is in force in other parts of the world, and its object is to secure the imposition of a flat rate of one anna in the rupee on the income of companies over Rs. 50,000, in place of the existing super-tax on undivided profits. Here again, my Lord, I merely seek for leave to introduce the Bill, and subsequently I shall ask that it shall be published in the Gazette of India. 11-54 A.M.

"I shall not seek at this stage for any further action on the part of the Council, since it is right that it should have full opportunity to study the Bill before I move that it should be brought before a Select Committee."

The motion was put and agreed to.

The Hon'ble Mr. W. M. Hailey :—"My Lord, I now beg to introduce the Bill, and to move that the Bill, together with the Statement of Objects and Reasons relating thereto, be published in the Gazette of India in English."

The motion was put and agreed to.

PRESIDENCY-TOWNS INSOLVENCY (AMENDMENT) BILL.

The Hon'ble Sir George Lowndes :—"My Lord, I beg to move for leave to introduce a Bill further to amend the Presidency-towns Insolvency Act, 1909. This Bill is supplementary to the Provincial Insolvency Act, which was passed by the Council the other day. It merely seeks to add to the Presidency-towns Insolvency Act the disqualifying provision which we inserted in the Provincial Insolvency Act by one of the last sections." 11-58 A.M.

The motion was put and agreed to.

The Hon'ble Sir George Lowndes :—"My Lord, I beg to introduce the Bill and to move that the Bill, together with the Statement of Objects and Reasons relating thereto, be published in the Gazette of India in English."

The motion was put and agreed to.

IMPERIAL BANK OF INDIA BILL.

The Hon'ble Mr. W. M. Hailey :—"My Lord, I beg to move for leave to introduce a Bill to constitute an Imperial Bank of India and for other purposes. 12 A.M.

"This Bill provides for the amalgamation of the three Presidency Banks of Bengal, Madras and Bombay under the name of the Imperial Bank of India. On this motion, I do not propose to detain the Council at any length. There will be an opportunity for fuller discussion on the second reading [illegible] week, when I shall move that the Bill be referred to a Select Committee, and when I shall explain the details rather more fully. I do not think that we should to-day proceed to the next stage of the Bill, since Hon'ble Members have so far had no opportunity of studying its provisions. The Council will not however, I hope, think that this has been due to any wish to push this Bill through with insufficient consideration. The scheme for the amalgamation of the Presidency Banks was mentioned to the Council by Mr. Howard in the interesting debate which we had last September on the question of a State Bank. Subsequently, the actual scheme was embodied in circular letters from the Directors of the three Banks to their shareholders, and was published in all the newspapers. Finally, a lengthy despatch from the Government of India to the Secretary of State, setting forth very fully the main lines of the scheme, and the reasons which led Government to welcome it as promising to be of great importance to the interests of the country, was published in February, and copies were sent to each Hon'ble Member.

"The Bill itself merely gives effect to the scheme as so published. Its drafting, however, has been a somewhat difficult matter, in view of the large number of small, though very technical, details which have had to be provided for, and it has unfortunately not been possible to get the Bill ready for circulation earlier.

"I do not, therefore, ask the Council to-day to commit itself to any unqualified acceptance of the terms of the Bill. When the time comes for me to ask the Council to agree to its reference to a Select Committee, Hon'ble Members will have had time to study its provisions, and to form an opinion as to the way in which the Bill seeks to give effect to the main principles of the scheme already published. We have designedly appended a very full Statement of Objects and Reasons, in order to explain clearly to Hon'ble Members exactly what the Bill seeks to effect. All I will do on the present occasion is to emphasise one or two of the most important features of this scheme.

"The scheme does not merely represent an ordinary banking amalgamation. It has an important aspect in that connection; but if it stopped there, it would be little more than what in England would be called a 'private' Bill. But it seeks to go further. It will increase the resources of the three Banks by handing over the whole of our balances to them; and seeks in return to make use of the amalgamated institution as a means of furthering the banking development of which this country stands so much in need. The Bank will have a definite obligation to open 100 new branches in five years. It is on this account, and not merely because it is a bank amalgamation, that the Bill has aroused considerable public interest, and in some quarters criticism. I am far from regretting that the public has evinced so much interest in the scheme; for I feel strongly that the more this matter in our Bill is ventilated, the more likely is it to meet with the acceptance of all those who are anxious to see a real beginning made to remedy what is admittedly one of the great defects from which India is now suffering. We set forth the position clearly in our Despatch of the 25th June, 1919. In that Despatch the Government of India described the urgent necessity for an increase in banking facilities, if the proper development and progress of this country is to be secured. It stated that, in their opinion, an indispensable preliminary to any widespread growth in banking was the establishment of a strong Central Bank, in intimate relation with Government, and with a large number of branches throughout the country. If the Council will allow me, I will read the following extract from the Government of India's Despatch to the Secretary of State dealing with this matter:—

'We doubt if, in the present conditions in which there are three separate Banks working independently, any further substantial increase in the number of branches is to be looked for, owing mainly to considerations of territorial limits and of profit and loss. The Presidency Banks have now undertaken, as part of the present amalgamation scheme, to establish 100 new branches within five years, and we have every reason to hope that the progressive policy thus initiated will be continued, until at least in every district, and eventually at every town of importance, a branch of the Imperial Bank is established. We do not claim that this widespread extension of branches will work a sudden miracle, or will immediately prove itself the long sought talisman to charm the wealth of India from its hoards. We do not look for rapid or dramatic results. But a beginning must be made, and we think that the mere appearance in a district of a bank which conducts Government's Treasury and Public Debt business, as to whose stability there can be no question, and from which local traders and dealers in produce can obtain advances on reasonable terms, must in due course inevitably have an appreciable effect upon the local mental attitude towards banking in general, and in course of time we shall expect to see the new branches of the Imperial Bank attract a large amount of deposits from the general public in such localities.'

"That is one important aspect of the case, to which I wish to invite the attention of Hon'ble Members; the opportunity for the extension of banking facilities which this amalgamation offers. I have now to turn to another one, which will, I think, be equally in the minds of Hon'ble Members. It need hardly be said that if a Bank of this sort is to be a success, if it is to play its full part in the development of the country, it must have its roots in the soil; an exotic will never bear the fruit which we look for. One of the principal reasons why banking on modern lines has not made greater progress in India is because, with a few notable exceptions, the only trained bankers available have been Europeans. I am glad to say that more recently Indians have been taking to banking in greater numbers, more particularly on the Bombay side. I could name more than one striking example of conspicuous success on that side of India; the name of Mr. Pochkhanawala has already been brought before this Council by Mr. Howard. Nevertheless, progress on the whole has so far been slow, and we ourselves look to the Imperial Bank as likely to stimulate very considerably the training and employment of Indians as bankers. Let me again read an extract from what the Government of India said on this matter in their Despatch to the Secretary of State :—

'For such development, moreover, and equal necessity is a sufficient supply of men trained in modern methods of banking. The mere staffing of a large number of new branches of the amalgamated bank will necessarily involve the training and employment of Indian agency to a very much greater extent than at present, and the demand for and training of such men by the Imperial Bank should have a valuable influence in stimulating their supply for other banking institutions, just as the requirements of our Public Works Department have undoubtedly stimulated the growth of the engineering profession in India.'

"Our hope, therefore, is that the new Bank will grow up to be a really national institution. I feel that I must here repudiate, in the strongest possible terms, suggestions that have been made in some quarters that the object of the scheme is to preserve a European monopoly. We look to the new Bank to have a wide and beneficent sphere of influence; and any scheme of constitution which gave it a definite racial colour, whether European or Indian, would inevitably doom it to failure. A purely European concern, however successful its operations might be in the seaports and larger cities, could never be successful in carrying banking facilities over the extended area which we contemplate as the field of operations for the new Bank. On the other hand, an institution under purely Indian management would not, I believe, command for many years to come a sufficient supply of expert banking knowledge to enable it to take that position in the economy of the country which we wish to see the new Bank occupy. This is pre-eminently one of those matters which urgently call for co-operation between Europeans and Indians, and if, as I hope and believe, that co-operation will be forthcoming, the Imperial Bank should prove a most useful factor in promoting the economic interests of the country.

"These remarks bring me to the third point; also a point which has attracted the attention of the public—the question of control. The controlling body of the Bank, that is the Governors, will consist of the presidents, vice-presidents and secretaries of the three Banks, with two managing Governors appointed by the governing body. These are the representatives of the shareholders. In addition, we propose to place on the governing body an official, the Controller of Currency, who will represent primarily Government interests and will have certain well defined powers in this respect. We have been told by certain critics that if the governing body is limited to the constitution I have described, this institution will have what the writers are pleased to call an entirely European character. I must delay the Council while I examine this objection. In one of the constituent Banks—the Bank of Bombay—Indian shareholders are already in a majority, and three out of the six Directors of that Bank are Indians, one of whom, besides being one of the leaders of industry in this country, is a prominent member of this Council. I am again glad to hear that the Bank of Madras has recently invited an Indian gentleman to join its directorate. The Council will, I think, agree that it is not for Government to dictate to the shareholders whom they should or should not elect as directors, and I can see no justification for any attempt to legislate in the direction of compelling the shareholders to exercise their choice in favour of members of one class of the community rather than another. But we desire to see the new Bank start under the most favourable auspices. We desire that there should remain no doubt or suspicion, justifiable or otherwise, that the interests of the general taxpayer, who will contribute a considerable portion of the Bank's resources in the shape of Government balances, are not sufficiently represented. While, therefore, we do not intend any dictation to the shareholders regarding their own representatives on the governing body, we have decided to take power in the Bill for the Governor General in Council to nominate two additional members to the governing body of the Bank. These members will be non-officials; they will be nominated for a year, but can be re-nominated; and the provision will, as I hope the Council will agree, amply meet the desire that the interests of the general taxpayer will be sufficiently represented.

"There remains a final point to bring before the Council. It is again a point in which the proposals have been criticised; and I think it right to bring any point of criticism before Council at the earliest opportunity It has been urged that we should not seek, as we do seek, to exclude the Imperial Bank from taking part in ordinary exchange operations. It is a point of detail rather than principle; but I can dispose of it without delaying the Council. The Banks themselves, who are mainly concerned, have acquiesced in this proposal; they have done so for the reason that they now hold in many cases the balances of the Exchange Banks, and they could not expect those Banks to leave their balances with them if they were rivals in the matter of exchange operations.

"I have now, my Lord, explained the main lines of the Bill; and have, I hope, met in advance some of the criticisms which have been levied at the proposals and which will no doubt be in the minds of many members here to-day. It remains for me now only to put the motion, and I do so believing that the majority of members of this Council will agree that this measure, a long deferred measure, will not only meet a standing want in the country, is not only sound in principle, but is conceived on lines which will prove of real benefit to India."

The motion was put and agreed to.

The Hon'ble Mr. W. M. Hailey:—"My Lord, I now beg to introduce the Bill and to move that the Bill, together with the statement of Objects and Reasons relating thereto, be published in the Gazette of India in English."

The motion was put and agreed to.

The Council adjourned till Wednesday, the 3rd March, 1920 at 11 o'clock.

DELHI:	A. P. MUDDIMAN,
The 10th March, 1920.	*Secretary to the Government of India, Legislative Department.*