

*Tuesday,
2nd March, 1915*

ABSTRACT OF THE PROCEEDINGS
OF THE
Council of the Governor General of India,

LAWS AND REGULATIONS

Vol. LIII

April 1914 - March 1915

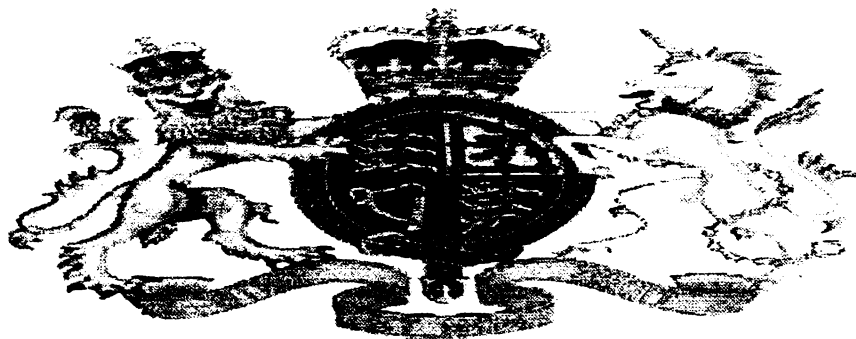
ABSTRACT OF THE PROCEEDINGS
OF
THE COUNCIL OF THE GOVERNOR GENERAL OF INDIA

ASSEMBLED FOR THE PURPOSE OF MAKING

LAWS AND REGULATIONS

1915

VOLUME LIII



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1915



GOVERNMENT OF INDIA.

LEGISLATIVE DEPARTMENT.

PROCEEDINGS OF THE COUNCIL OF THE GOVERNOR GENERAL OF INDIA
ASSEMBLED FOR THE PURPOSE OF MAKING LAWS AND REGULATIONS
UNDER THE PROVISIONS OF THE INDIAN COUNCILS ACTS, 1861 to 1909
(24 & 25 Vict., c. 87, 55 & 56 Vict., c. 14, AND 9 Edw. VII, c. 4).

The Council met at the Council Chamber, Imperial Secretariat, Delhi, on
Tuesday, the 2nd March, 1915.

PRESENT :

His Excellency BARON HARDINGE OF PENSHURST, P.C., G.C.B., G.C.M.G., G.C.V.O.,
G.M.S.I., G.M.I.E., I.S.O., Viceroy and Governor General, *presiding*,
and 45 Members, of whom 37 were Additional Members.

QUESTIONS AND ANSWERS.

The Hon'ble Raja Jai Chand asked :—

1. "(a) Will the Government kindly issue a list specifying the regimental numbers assigned to those Indian soldiers in France and Belgium who are reported to be missing, if no such list has been published by Government in India up to date?"

(b) Will the Government kindly state whether the existing regulations for the grant of pension to widows and children of Indian soldiers killed in the battle-field apply also in the case of those soldiers who are reported to be missing?

(c) If the answer be in the negative, will the Government kindly state whether any proposals have been taken into consideration to make some provision for the maintenance of families of such Indian soldiers?

Indian soldiers reported to be missing in France and Belgium, and grant of pension to their families.

[*Raja Jai Chand; The Commander-in-Chief; Sir [2ND MARCH, 1915.]
Gangadhar Chitnavis; Mr. Clark.*]

(d) If the answer be in the affirmative, will the Government kindly state whether the date from which the soldier is reported missing or any other date will be taken into consideration for the purpose of fixing the maintenance in question?

(e) Will the Government also kindly state if there are any provisions for the grant of maintenance to families of Indian soldiers pensioned for total disablement?

(f) Will the Government also kindly state what is the maximum and minimum disablement pension hitherto allowed to Indian soldiers?"

His Excellency the Commander-in-Chief replied :—

"(a) List of Indian soldiers reported to be missing are sent to depôts for communication to the families concerned. In view of the liability to changes in reports I do not consider it desirable to publish the list suggested by the Hon'ble Raja Jai Chand.

(b), (c) and (d). Under section 136, Chapters VII to XVI, Field Service Regulations, and a special India Army Order issued by me on the 4th December a court of enquiry is held whenever officers and soldiers are reported missing to collect all evidence of the circumstance of each case. Pending the opinion of the Court the pay and allowances and family remittances of officers and soldiers are continued until it is proved that the persons concerned have been taken prisoners through neglect or misconduct, or until such time as it is reasonable to suppose that they are dead. In the latter case, family pensions commence from a date subsequent to that on which the family remittances have been made.

(e) An Indian officer or soldier who is totally disabled receives special pension. The amount varies according to the rank of the pensioner. Government does not provide an additional pension for families during the lifetime of a pensioner himself.

(f) The maximum and minimum disablement pensions are :—

| | |
|---------------------------------|-----------------------------|
| For an Indian Officer | maximum Rs. 140 per mensem. |
| | minimum Rs. 30 per mensem. |
| For a Sepoy | maximum Rs. 15 per mensem. |
| | minimum Rs. 5 per mensem. |

The Hon'ble Sir Gangadhar Chitnavis asked :—

2. "Has the attention of Government been drawn to an article regarding rise of prices of wheat in India in the *Statesman* of 19th February, 1915? Do Government propose to take any steps in the matter of such rise?"

Rise in
price of
wheat.

The Hon'ble Mr. Clark replied :—

"The answer to the first part of the question is in the affirmative.

As regards the second part, I would refer the Hon'ble Member to the press communiqué* of the 26th February, a copy of which has been laid on the table."

* Not printed with these Proceedings.

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[*Sir William Meyer.*]**FINANCIAL STATEMENT FOR 1915-16.****Introductory.****General effects of the War on trade and finance.**

The Hon'ble Sir William Meyer:—"My Lord, I rise to present the Financial Statement for 1915-16. Our procedure will be the same as on previous occasions: that is, there will be no debate today, but from the 8th March onwards time will be allotted for the examination and discussion of the budget proposals. The figures in the Financial Statement will then undergo such amendments as may be required by our later information or suggested by the discussions in Council. The Budget in its final form will be presented on the 22nd March, the usual closing debate taking place on the 25th.

"2. Since I last addressed the Council on financial matters, India has been, and is still, passing through a crisis which has subjected her financial and economic system to a supreme test. It is true that, save for some vivid but happily transient experiences in the autumn, she has not felt the direct impact of war. But she has not been able to escape the consequences of that economic solidarity which binds her closely to the outside world. All her recent development has been on lines of diminished isolation. Her currency system connects her with the money markets of London and the world. She relies for internal development largely upon borrowings in London. Her prosperity is increasingly bound up from year to year with her rapidly growing foreign trade. Her internal financial arrangements, and above all her system of credit, in many respects follow Western models. Finally she is a part of a mighty Empire which is one of the foremost belligerents in this general war. It is inevitable therefore that India should feel the effects of the war from top to bottom of her economic system; they are written large over the Statement which I have to present to the Council today, and are affecting still more deeply the trade and production of the entire country. From the general financial and economic point of view—both to those of us who have studied the working of our fiscal system from the inside, and to Honourable Members here who represent India's agricultural and industrial activities of every kind—the history of the last few months is thus a matter of compelling interest; and I feel that the Council will look to me in the first place for some account of this period of crisis. I propose, then, at the outset to bring together some of the main financial incidents of the last seven months, to narrate how we have got through this difficult period, and then to take up the recital of those facts regarding our revenue and expenditure which in normal conditions it is the first object of this Statement to present.

"3. Before doing this, however, I must premise that, as the Council must have anticipated, the task of preparing revised estimates of our financial position at the end of 1914-15 and a budget for the coming year has been one of very special difficulty. Ordinarily we have a large mass of data of past years to go upon; and, although budgeting must always be to a certain extent what one may term scientific guess-work, we have merely to consider how far the experience gained during the portion of the current year for which figures are available when our forecast is made, and the circumstances prevailing at the time with reference to commercial or agricultural prosperity or depression, the position in regard to railways and so forth, warrant us in departing from the standards of normal development which can be deduced from past actuals. This year we are in an entirely different position. The sudden outbreak of war and the dislocation of trade that has followed it, the vague and unwarranted sense of insecurity which has led, for instance, to large withdrawals from our savings banks, are all (on this scale) totally new features, and it is most difficult to prognosticate how far there will be a recovery and in what specific directions. We have also the fact that nobody knows how long the war will endure, but we must at present budget on the supposition that it will last through 1915-16. All things considered, I have thought it necessary, in framing forecasts, to adopt an attitude of caution. We must not be too pessimistic, but at the same time, with all the surprises that the war and its economic results may yet have

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for us, sanguine estimating is entirely out of place. We are really groping in the dark and can only go as carefully as possible.

"4. When the war came upon us we were fortunately in a very satisfactory financial position. Our total Treasury balances on 1st April in England and India had been found to exceed by about £1½ million the anticipation we had been able to make on the figures available when preparing this year's budget. Our large 5-crore loan had been a brilliant success, thanks largely to the patriotic enterprise of the Bank of Bengal, and the south-west monsoon gave full promise of agricultural prosperity. There was, therefore, reason to anticipate that, had circumstances continued normal, our Imperial surplus for this year would have been larger than the £1½ million which we provided in the budget, being then obliged to estimate cautiously by reason of the agricultural situation in Northern India. Trade, it is true, had been somewhat dull owing to the preceding agricultural depression, to the after-effects of the banking crisis of 1913-14 and to the glut of piece-goods; and the consequent weakness of exchange had made the Secretary of State's council drawings much lower than is usual during the first four months of the official year, a circumstance which proved later on to be a fortunate one for us on this side. But at the end of July there was every reason to anticipate that the trade depression which I have mentioned would clear off and that we should have a really good year.

"Owing to the conditions I have mentioned, our Treasury balances in India were very high, while the amount of gold held by or for the Government in London and in India taken together stood at £23½ million, of which nearly £5 million was in the Gold Standard Reserve and the rest mostly in our Paper Currency balances. In addition, the Secretary of State held in the Gold Standard Reserve, besides the ordinary Reserve investments, a considerable amount in special short-term securities, some of which were about to mature.

"The Presidency Banks, too, were in an exceptionally strong position with regard to their balances, after allowing for the fact that a portion of these consisted of Government deposits.

"5. The first effect of the European war, which began to operate even before Great Britain had actually been drawn in, was a threatened break in exchange. The Government of India took immediate steps to deal with this aspect of the general situation, and were able to make a preliminary reassuring announcement on the 1st August. On the 3rd August we publicly formulated, with the approval of the Secretary of State, the measures which we had decided to adopt. In the first place, we formally undertook to support exchange by all the means in our power. This was a policy which the Royal Commission on Indian Finance and Currency had recommended in their recently published Report: it fell to us to declare our adherence to it at the outset of a crisis of unprecedented magnitude and totally uncertain duration.

"In the second place, we announced our intention, in pursuance of this object, to sell sterling bills on London, or "reverse bills" as they may conveniently be termed, up to a maximum limit of £1 million a week until further notice. This, too, was an innovation on previous policy. In the exchange crisis of 1907 and 1908 the amount sold had usually been £½ million a week, and occasionally £1 million, but the exact amount was settled afresh just before each successive weekly sale. The present was the first occasion on which the Government of India undertook beforehand to maintain sales on an ample scale. Again, to adapt the system still more fully to trade requirements, we combined with the sale of bills the practice of selling telegraphic transfers also, thus providing a guarantee of immediate remittance when required. A few days later, too, we arranged that bills should be payable in London 16 days after the departure of the weekly mail, thus eliminating the uncertainty due to possible delay in the arrival of the bills by mail steamer.

"The object, and, as events have shown, the actual effect of these arrangements was to promote confidence by assuring the banking and commercial public of adequate and continuous facilities for remittance, secured by the whole resources of Government. Incidentally, also, it prevented purely speculative competition for reverse bills and transfers by removing the possible apprehension that Government might at any moment reduce the amount available. Only in the first week following the declaration of this policy did the applications exceed the £1 million limit. Thereafter the volume of weekly tenders was gradually reduced; and after the first demand

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for remittance had thus been met, it rose and fell, within moderate limits, in correspondence with the fluctuating requirements of the time, until eventually the demand sank to a quite small amount, and has latterly disappeared altogether, at any rate for the time being.

"In all we expect, by the end of this year, to have sold bills and transfers to the total extent of about £8½ million. The sums thus received have been credited to the Gold Standard Reserve in India *pari passu* with the Secretary of State's withdrawals from the Reserve in England in order to meet the bills and transfers falling due for payment by him from week to week. The net result has, of course, been a great strengthening of the Gold Standard Reserve on this side.

"Lastly, in the early days of the crisis, we strengthened that Reserve by exchanging £4 million of silver held therein on this side for an equivalent quantity of gold previously held by us in the Paper Currency Reserve.

"6. At the same time as we first notified the selling of reverse bills and transfers, we took steps to restrict the dissipation of our gold in India by laying down that no gold should be issued to any one person or firm to a less extent than £10,000. The object of this was to secure what we thought would be a rough test as between applications for gold for eventual remittance purposes and those which were merely for hoarding or for local requirements. This limitation, however, was defeated by various individuals and firms clubbing together so as to make between them a demand which conformed to our minimum. Between the 1st and the 4th August we had already lost about £1,800,000 of our gold; and on the 5th August, when it was announced that Great Britain was actually at war with Germany, we took the further step, for which we had previously obtained the Secretary of State's approval in anticipation of that contingency, of refusing the issue of gold altogether to private persons.

"We had then a stock of about £10 million of gold on this side in the Paper Currency and Gold Standard Reserves taken together, and that aggregate figure still remains practically unaltered. I may mention here, as regards the local rates of exchange as between sovereigns and rupees, that the Calcutta figures show that a sovereign exchanged for R15-6 instead of the normal R15 by the end of August, and that the rate varied between R15-5 and R15-8 until November. In December, however, it fell steadily and it now fluctuates from R15-1 to R15-3 only.

"7. The next grave difficulty that the outbreak of war brought upon us was in regard to our savings banks deposits and currency notes. The general trade and credit position which the war set up was most serious in Bombay, mainly as a result of the banking and commercial crisis of the preceding year which had been more severe there than elsewhere. There was also considerable uneasiness in the Punjab, which had likewise suffered from the late banking crisis, but it was in Bombay that the difficulties I have mentioned arose in the most acute form. The deposits in our Post Office savings banks amounted in all to somewhat over 23 crores at the beginning of this year and by the 31st of July had risen to 24½ crores, the increase being due mainly to the more liberal conditions announced in paragraph 58 of my speech introducing the last Financial Statement. From the second week of August there was a heavy and excited run by savings banks depositors upon their funds, and in August and September together there was a net withdrawal of about 6 crores (£4 million) of these deposits, due to misguided apprehension in regard to the effects of the war upon the stability of the Government of India, which was every now and then fanned by wild stories of imaginary reverses sustained by our allies or ourselves, and by the untoward incidents connected with the career of the late *Emden*. Since then the drain has materially slackened, but in all we calculate that by the end of this year we shall have lost about £7 million of savings banks deposits which we have had to pay out from our general balances. I may say here that we did what we could to promote confidence by putting the Post Offices in adequate funds and enjoining the prompt payment of all claims; and it is perhaps a welcome indication of the way in which the strength of our financial position is really viewed by our enemies that a number of German prisoners at Ahmednagar have themselves opened accounts with the Government savings banks.

"8. The demand for the encashment of currency notes was most serious in Bombay, and the total abnormal encashment in that Presidency as a result of the crisis has been estimated at about 2½ crores in August and September out of 4½ crores

in respect of India as a whole. Outside Bombay the largest encashment occurred in Burma, and in the Punjab too it was considerably larger than in ordinary years; but in these cases the increase appears to be due as much to the special trade conditions of the year as to uneasiness arising directly from the crisis.

"The Government at once took steps to check any panic by issuing instructions that every endeavour should be made to meet promptly all demands for encashment at district treasuries, whereas ordinarily, it will be remembered, a note is only encashable as of right at a Currency centre. A very large number of notes were cashed in this way in the districts, especially in Bombay and the Punjab, and it may be hoped that when the crisis passes away, the measures we took will have the effect of ensuring a permanent increase in the popularity of currency notes and consequent extension in their use. It must be borne in mind, however, that the very fact that we were obliged to strengthen the cash resources of district treasuries and of the savings banks, besides adding to our deposits with *muffasal* branches of Presidency Banks, imposed an extra strain on our balances by preventing the economy which we usually obtain by their concentration, so far as possible, at the Presidency towns and other important commercial centres.

"The abnormal run on our notes was of relatively short duration. Nevertheless, owing to depressed trade conditions resulting from the war, our net note circulation, excluding the holdings by Reserve Treasuries and by the Presidency Banks at their head offices, remained nearly 7 crores (£4½ million) less at the end of January than on the corresponding date in 1914.

"9. Having regard to the present abnormal trade conditions and to the extraordinary strain on our credit generally, I consider that the position of our paper money calls for full satisfaction. Our notes circulate freely, and apart from very minor temporary local incidents, there has never been any question of their being depreciated as compared with coin. We may also regard with pleasure the present position, in quite exceptional conditions, of our Government paper, as well as of the somewhat analogous securities of our great Municipal Corporations and Port Trusts. Our 3½ per cent. rupee paper was quoted at Rs. 95-14 this time last year, and it now stands at only some Rs. 8½ less—a striking testimony, surely, to the strength and stability of our financial position.

"10. As I have already said, the Secretary of State's council drawings had been relatively small before the war began, and owing to the fall in exchange caused mainly by the dislocation of our export trade, they have been since then, and until quite lately, at a very low level. In all, we estimate that during the current year he will have obtained £6·9 million* by ordinary council bills and telegraphic transfers, against £20 million which we estimated in the Budget as being the extent of his requirements for Ways and Means purposes. In the earlier stages of the crisis he also transferred to his treasury £1 million of the gold held in London on account of the Paper Currency Reserve, an opposite payment to that Reserve being made in India; and he has been helped by gold remittances from India to the extent of about £600,000. Also we have had to spend here, in connection with the war, sums largely in excess of the amount which India contributes as an equivalent of what she would have spent in normal times on the expeditionary forces she has sent in aid of the Home Government. This excess outlay is recoverable from His Majesty's Government, and is periodically realised from them by the Secretary of State. To that extent, he is in the same position as if he had actually drawn money on council bills, as we meet the expenditure and he gets the equivalent.

"Taking his ordinary council drawings together with these other sources of supply, we estimate that in the current year he will, in all, have obtained about £17 million against the Budget estimate of £20 million above referred to.

"The Secretary of State has thus been far more fully financed than might at first have seemed possible in view of the weakness of exchange in the earlier part of the year and the reversal of the remittance current as soon as the war broke out.

"11. I now turn to the effects of the war on the commercial and credit position in India, which of course materially influences our revenue receipts, especially under Customs and Railways. In the first place, internal credit was seriously prejudiced

* Exclusive of £600,000 which he will appropriate to the Gold Standard Reserve from his sales towards the close of the year.

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by the attitude of a large part of the Marwari community, who play such an important rôle in conducting and financing the trade of the country. Speaking generally, instead of conforming to the excellent British maxim of 'business as usual,' they departed to their homes, taking with them as much of their capital as they could readily lay hold of, and thus materially hampering the working of the credit machinery with which they are so intimately connected. As regards the banks, the position of the Presidency Banks was, as I have already said, very strong before the crisis, and in order to promote public confidence the large Government deposits which they already held were further increased at the outset of the war, and have since been kept at as high a level as our resources permitted. We have preferred, in fact, to borrow somewhat more freely from the Gold Standard Reserve—a matter to which I shall refer later—rather than curtail unduly the resources placed at the disposal of trade.

"The bank rate was low when the war commenced, as is usual at that season of the year, being 3 per cent. in Calcutta, 3 per cent. in Bombay, and 4 per cent. in Madras. As a measure of protection, the Bank of Bengal raised its rate to 5 per cent. on the 6th August, and the Bank of Bombay to 4 per cent. on the same day, and to 5 per cent. on the 13th; while later on the rate was increased, at somewhat different dates, to 6 per cent. for all three banks, at which figure it now stands. It is understood that the Indian branches of the Exchange Banks were also in a strong position at the commencement of the crisis.

"As regards other banks, the previous year saw the collapse of a large number of (generally speaking) recklessly managed banking institutions. In the light of subsequent events, however, we may reckon it as fortunate that the disappearance of these banks occurred before the present crisis. Though the want of confidence engendered by their failure tended to accentuate the difficulties in Bombay and the Punjab, the situation would have been far more acute had the banks in question been still in existence and then collapsed as they must have done. As it was, two banks which had been badly shaken by the previous crisis, though they survived it, now fell. One of these, the Punjab Co-operative Bank, established in 1905, was compelled to close its doors on the 14th September. Another, the Bank of Upper India, established as far back as 1862, suspended payment on the 8th October. It is probable, however, that these events had been largely discounted beforehand, for they did not produce any widespread panic.

"12. I now pass on to the direct effects of the war upon our foreign and internal trade and production. As I have previously said, there had already been a period of depression, though we had every reason to assume that, ordinarily, this would presently have passed away. The first result of the war was naturally to stop our considerable trade with Germany and Austria. India's total import trade in private merchandise was in 1913-14 valued at £122 million, and of this £8·4 million (nearly 7 per cent.) was with Germany, and £2·9 million (or 2·3 per cent.) with Austria-Hungary. Of the exports from India, valued in 1913-14 at £166 million, £17·6 million (10·6 per cent.) represented trade with Germany and £6·7 million (4 per cent.) with Austria-Hungary, the chief items being food-grains, raw cotton and jute, and seeds and hides and skins.

"The shutting-off of the export trade to these countries was of course even more serious than the closure of the import trade, both by reason of its greater value and because, while the imports were largely capable of replacement from other sources, the removal of these two customers for exported Indian goods, concurrently with dislocation of trade in other directions, resulted in a reduction in the demand for, and in the price of, certain important commodities, so that in some cases values have been seriously affected as well as volume. Moreover the much higher loss of trade on the export side has, of course, special significance from the point of view of exchange.

"The war has likewise produced a complete stoppage of our trade with Belgium, and a very large diminution of that with France, and here again the principal items of export are those just mentioned. Since November, too, we have been at war with Turkey; but our trade with her is much less important. Its chief item is the export of rice to Turkey-in-Asia.

"There have also been necessary restrictions in regard to the export of certain articles, dictated in some cases by direct military requirements and in others by the necessity of preventing supplies reaching our enemies through neutral countries.

Hides and skins, jute (raw and manufactured), wool, and wheat are among the articles in respect of which the free course of trade has thus been interfered with.

“13. The dislocation which resulted from the war was not, however, limited to the shutting down or curtailment of particular elements of India's trade, but extended to her sea-borne commerce as a whole, and especially to the export portion. The main difficulties were not only those of finance, which I have already touched on, and which were aggravated by a general disturbance of the world's exchanges, but also a serious shortage of shipping arising primarily from the necessity for taking up vessels for military transport purposes.

“14. The most immediate problems which arose were those connected with jute. Very high prices had been realised for this commodity in the preceding year, and these had actually touched ₹90 per bale of raw jute. With the consequent large sowings in the current year, accompanied by favourable agricultural conditions, a record crop was grown which would in any case have resulted in a very substantial drop in prices. Apart from this, as a consequence (due to the war) of the inability of buyers to take delivery under existing contracts, the jute mills were naturally not prepared to buy largely or except at very low rates. The reluctance of buyers of jute to come into the market at first caused apprehension that the cultivator would decline to sell at the prices offered and would prefer to allow a substantial portion of the crop to remain uncut. This fortunately proved not to be the case, though the price of raw jute necessarily showed a great drop from the record figure obtained in the preceding year, falling as low at one time as ₹31 a bale. The difficulties of the mills were subsequently to some extent removed, as tonnage for the shipment of their goods became more readily available, and this caused some rise in jute prices. But the initial paralysis of the internal trade is clearly indicated by the fact that whereas between August and October 1913 the issue of rupees from the Calcutta Currency Office in connection with the financing of the jute crop, amounted to some 13 crores of rupees, the issue in the corresponding period of 1914 was about 56 lakhs only.

“As regards the ryots, although the sudden change from abnormally high to abnormally low prices has gravely affected, for the time being, the general prosperity and well-being of the jute districts, the winter harvest in these tracts has fortunately been quite fair; and we may well hope that, with the better prospects of the jute trade which now seem probable, there will be economic recovery in the supplying areas.

“15. While Bengal was thus affected in regard to jute, there were also grave difficulties, mainly on the Bombay side, in respect of another great staple—cotton. The position when the war broke out was itself unsatisfactory, since previous over-trading, and the depression caused by the banking crisis of 1913-14, had led to the accumulation of stocks of piece-goods and the lock-up of capital in connection therewith. Then came the war, and with it the cutting off of large markets and a concomitant world-slump in the price of raw cotton, which in India was further threatened by the fact that the incoming crop promised to be a good one. Moreover, traders who ordinarily take a large part in the internal financing of the cotton crop had, as already stated, left for their homes. The position, and its possible consequences both to traders and ryots, naturally excited grave apprehension in Bombay, and towards the close of November the Government of India called a representative conference, over which I had the honour to preside, to consider the situation, and how far it might be feasible and legitimate for Government to intervene. The action taken as the result of that conference has already been made public by a Government *communiqué* and was further explained a few days later in the speech made by Your Excellency in opening the present Legislative Session. It will suffice to say here that we came to the conclusion that the best method by which we could afford financial assistance—one which would, moreover, be also applicable in the case of other branches of trade that might be threatened by similar disturbance—was to facilitate an extension of credit which would assist the holding up of existing stocks where occasion required, without prejudicing the supply of capital required for fresh undertakings. The Presidency Banks undertook to give liberal advances for this purpose, while the Government agreed to place them in funds where necessary by loans of public money, which would not be called up till the special circumstances requiring them had passed away. In order to provide us with the necessary resources for doing this, and also to assist us in meeting our other liabilities in the event of unexpected emergency, we obtained the sanction of the Secretary of State to the temporary

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adoption of a measure which had been recommended by the Royal Commission on Indian Finance and Currency, *viz.*, a further investment of £4 million from the Paper Currency Reserve, which the Government could thus draw upon for these purposes by creating a special loan *ad hoc* when they needed to do so.

"I may observe here, as an instance of the way in which depression in one branch of trade reacts on another, that a decline in prices of commodities such as jute and raw cotton necessarily restricts the purchasing power of the cultivators and their demand for imported commodities, such as piece-goods.

"16. Another staple which has been adversely affected by the war is the ground-nut crop of Madras, which is largely exported to France for the purpose of being made into table oil there. Difficulties were also experienced in connection with tea. After the United Kingdom, India's largest customer for this commodity is Russia, and the disturbance to finance which accompanied the war rendered it impossible at first for the Russian buyers to make their usual purchases. This difficulty was, however, subsequently surmounted, in part, by financial arrangements made between His Majesty's Government and that of Russia which supplied funds in London towards exchange facilities for Russo-British trade.

"17. The Council are also aware that a heavy rise in local prices has compelled us to take drastic measures to restrict the export of wheat, and although this action is, we consider, amply justified in the interests of our own people, it necessarily prejudices our export trade.

"18. I have said enough to show how seriously and how variously our outward and inward trade has been affected by the conditions arising out of the general war. It is too soon yet to hope for any decisive turn of the tide; but the situation has been eased to some extent by the recovered security of Indian waters, and there are welcome indications, too, of increased confidence and trade activity in India itself. In this connection the following figures, which I owe to the department of Statistics, will be of interest. They show month by month since the war began the falling off in trade as compared with 1913-14, and also compare the totals for the first 9 months of the year with those of the corresponding period in each of the two preceding years.

| | IMPORTS. | | | EXPORTS (INDIAN MERCHANDISE). | | |
|---|--------------------|--|-------------------------|-------------------------------|--|-------------------------|
| | 1914 R (lakhs). | Decrease R (lakhs) as compared with 1913. | Percentage decrease. | 1914 R (lakhs). | Decrease R (lakhs) as compared with 1913. | Percentage decrease. |
| August | 12,03 | 3,20 | 20 | 9,63 | 7,61 | 44 |
| September | 7,40 | 9,25 | 56 | 7,56 | 11,91 | 61 |
| October | 12,36 | 4,19 | 25 | 9,97 | 11,71 | 54 |
| November | 11,94 | 4,52 | 27 | 15,80 | 3,24 | 17 |
| December | 10,20 | 4,23 | 29 | 12,80 | 6,03 | 32 |
| Total for five months | 51,83 | 35,99 | 32 | 55,76 | 40,55 | 42 |
| Total for April—December 1914 | 1,09,60 | ... | ... | 1,97,80 | ... | ... |
| Do. 1913 | 1,36,28 | ... | ... | 1,74,45 | ... | ... |
| Do. 1912 | 1,17,13 | ... | ... | 1,74,68 | ... | ... |

"19. I have now concluded my general review of the financial events of the war period up to the present date. We have in truth been much buffeted, but the inherent strength of our financial and economic position has been demonstrated at every turn. Our loans and our paper money stand practically unimpaired in public estimation. An unprecedented drain on our savings banks has been met, and though

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withdrawals still continue they are now on quite a small scale. So far as India is concerned, there has been no crash in exchange such as pessimists sometimes threatened us with in a world-crisis: on the contrary, the measures taken to maintain the stability of the rupee have met with full success. As regards both foreign and internal trade, after some natural bewilderment and dislocation at the outset, readjustment is already taking place, and at no time has it been necessary to give serious consideration to the expedient of a *moratorium*—the panacea found necessary in so many other countries. Above all, while India has steadily faced all her obligations, she has not had to fall back on outside resources for any extraordinary measure of help. She has borrowed of course more freely, but without prejudicing her credit; and, to a large extent, her additional borrowings have been taken from her own reserves. We cannot say what the future has in store for us, but we are entitled, in the light of our recent searching experience, to look forward to it with sober confidence. That confidence is materially strengthened by the agricultural situation, which affords a most welcome contrast to the conditions prevailing when I presented my last Financial Statement. The south-west monsoon and the winter rains have alike been abundant, and we can now look forward to exceptionally bountiful crops.

Changes in forms of account.

“20. I now pass on to the task of laying before Council our estimates of the present and coming years. To enable me to do this, however, I must first explain certain changes which we have adopted, with the approval of the Secretary of State, in Statements A, B and D of the Financial Statement, and which will, I hope, be found to make these more clear.

“In the first place, we have got rid of the confusing accounts expedient described as a ‘transfer through the Land Revenue head.’ At present, as Honourable Members are aware, if the Land Revenue of a province is divided, say, in equal shares between Imperial and Provincial, it is not shown as so divided in our Budget statements and accounts, because any contributions which we may happen to be making to the province are treated as diminishing the Imperial half share and enhancing the Provincial half share, and conversely with any adjustments at the expense of a province in favour of the Government of India. Contributions of the former character are numerous and, in the aggregate, important, especially those which are made under the terms of the Provincial settlements and subsequent allotments in respect of education and sanitation. The method hitherto in force is confusing and, as I have always thought, unscientific. It tends to obscure the real share of Imperial and Provincial Land Revenue according to the settlement and, as brought out in paragraph 23 of my speech last year, it prevents our explaining variations in Land Revenue in the concise way which we can adopt in regard to other heads. There is also the disadvantage that, if new Budget proposals involve further grants to Provincial Governments, the effect of these has to be explained in connection with Land Revenue transactions, whereas they could more conveniently be dealt with by themselves or along with other proposals.

“We are accordingly going to confine the Land Revenue transactions to their proper scope, and to show all the adjustments above referred to under a new head entitled ‘Transfers between Imperial and Provincial Revenues,’ which will be found at the foot of Statement A of the accounts which I am now presenting. All such assignments to Provincial revenues will appear as *deduct* items in the Imperial columns and as *add* entries in the Provincial, the signs being reversed in those relatively infrequent instances in which, for some special reason, a net assignment has to be made from Provincial to Imperial.

“21. Secondly, we have eliminated rupee figures from Statements A and B, and have so made it possible, without adding to their size, to arrange them in a form which brings out at once, for both revenue and expenditure, the two main lines of distinction, *viz.*, (a) the distribution as between India and England, and (b) the distribution as between Imperial and Provincial. I may add that we have not made any change as regards the figures contained in the Financial Secretary’s Explanatory Memorandum, which are primarily expressed in rupee currency.

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" 22. Thirdly, we have somewhat amplified Statement D, which shows the transactions of Provincial Governments, following generally the lines adopted in the appendix to the Financial Secretary's Memorandum explaining the Budget estimates for the current year—*vide* page 262 of the Financial Statement for 1914-15. The information now given in the amended statement will, I hope, be of assistance to Honourable Members who are interested in the course of Provincial finance.

" 23. I have also to draw attention to two further changes which we have made in Statements A and B. The heads of account numbered XXI and 26 used to deal with 'Scientific and other minor Departments' and have hitherto included Agriculture. But in view of the importance of agricultural development and the desirability of readily tracing the progress of outlay thereon, we have now placed agricultural expenditure under a separate head, 26-A, while the other expenditure, hitherto brought together under head 26, now figures under '26-B, Scientific and Miscellaneous Departments.' The same sub-division has been made in the corresponding Receipt head (XXI) of Statement A.

" The second of the two changes above mentioned is the amalgamation of the hitherto separate heads of Post Office and Telegraph, following on the amalgamation of the administration of these two Departments.

Forecast of Financial Conditions in 1914-15 and 1915-16.

Revised Estimate of Revenue and Expenditure for 1914-15.

" 24. The general position, as far as we can now forecast it, is brought out in the following table which compares the current year's Budget and the Revised estimate now put forward.

[In millions of £.]

| | Budget, 1914-15. | | | Revised, 1914-15. | | |
|--------------------------|------------------|-------------|--------|-------------------|-------------|--------|
| | Imperial. | Provincial. | Total. | Imperial. | Provincial. | Total. |
| Revenue | 54·237 | 30·842 | 85·079 | 49·927 | 30·229 | 80·156 |
| Expenditure | 52·981 | 34·048 | 87·029 | 52·669 | 32·446 | 85·115 |
| Surplus + or deficit — . | + 1·256 | —3·206 | —1·950 | —2·742 | —2·217 | —4·959 |

Revenue—Imperial.

" 25. We budgeted this year for a total Imperial revenue of about £54½ million. The Revised estimate shows only about £50 million, or a total decrease of £4½ million, a result which is, speaking generally, entirely attributable to the war, and more especially to the decrease in the two large sources of revenue which have been most severely affected by the consequent dislocation and depression of trade, *viz.*, Railways and Customs.

" 26. The largest decline in revenue is that expected under State Railways. The Budget estimate of gross receipts for the current year, £37·7 million, was taken at practically the same figure as the actuals of 1913-14. In the first four months of the year, *i.e.*, prior to the outbreak of war, the Railway revenue was some £260,000 in advance of the corresponding period of the preceding year; but in the six months following the outbreak of war there has been a decline of £1,490,000. The Railway revenue has also been affected by the fact that the closing months of 1913-14 and the earlier months of 1914-15 were depressed by the crop failures in Northern India and the commercial and banking crisis in the north and west. Having regard to the continued depression of trade, we estimate that the total gross receipts this year will be £35·6 million, or about £2 million less than the Budget.

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“ Under working expenses, on the other hand, there is a reduction, as compared with Budget anticipations, of £73,000 only. With a large and sudden drop in a previously established standard of receipts, it is impossible to effect forthwith a proportionate reduction in working expenses. The railways are equipped to carry a certain amount of traffic and, as much of the expenditure is of a fixed character, there are obvious difficulties in reducing its scale, especially when the decline in traffic is temporary, as we expect it to be on the present occasion. Secondly, a large amount of comparatively unremunerative military traffic has been carried in recent months, a fact which evidently tends to raise the general average of working expenses to gross receipts.

“ Allowing for a small increase in the payment of surplus profits to companies based on the traffic of 1913-14, the actual profits earned in that year being higher than had been anticipated, we take the total decline in net Railway receipts at £2,065,000.

“ 27. Under Customs we now estimate our total revenue at £6,320,000, which is £917,000 less than the Budget anticipation. The most important decreases occur under manufactured articles, sugar, export duty on rice, cotton manufactures, and metals (other than silver) and manufactures thereof, while on the other hand we expect some considerable increase under silver and petroleum.

“ 28. There is also a large fall, amounting to £361,000, in the Interest receipts. About a third of this is due to the depletion of balances in London on which, in normal times, the Secretary of State would have been earning money, pending their eventual employment. The rest of the decrease is nominal and is practically counterbalanced by a like reduction under expenditure. It arises from a technical change in the treatment of advances to, and overdrafts of capital by, the Bengal-Nagpur Railway Company in accordance with the provisions of the new contract with them.

“ 29. Under Opium, there is a loss of £283,000, which is due, in large measure, to the war and the consequent disturbance of foreign trade. This led to a heavy fall in prices, which we had to meet by fixing a substantial upset price (₹1,600 per chest) below which we refused to sell. The result is that out of the 18,200 chests which we originally expected to sell at an average price of ₹1,700 a chest, we now expect that about 1,500 chests will remain unsold, and that the average price realized by the remainder will amount to ₹1,589 only.

“ Stagnation of business, and interference with telegraphic communication entailed by war conditions, also account for a fall of £213,000 in the gross receipts of Posts and Telegraphs.

“ 30. Economic depression has likewise left its mark on other heads, though in their cases the loss is shared with Provincial. Our Excise revenue has naturally fallen much below budget anticipations. The same is true of Stamps; and under Land Revenue too there is a considerable decline, to which other circumstances have also contributed. Scarcity conditions at the outset of the war, and economic depression afterwards, have caused a return of small coin from circulation, with a corresponding diminution of our anticipated profits on coinage. The only head of revenue in which an important betterment on budget anticipations has occurred is Salt; and here, I regret to say, the improvement is almost wholly illusory, as it represents advance payments of duty effected in the expectation of increased salt taxation.

Revenue—Provincial.

“ 31. The aggregate Provincial revenue was estimated in the current year's budget at £30·8 million, and is now taken at £30·2 million. As I have just mentioned in connection with the Imperial figures, there has been a heavy fall under Excise (£266,000), Land Revenue (£255,000) and Stamps (£167,000). The Forest revenue, too, falls short of expectations by £271,000, the decrease occurring mainly in Burma, where war conditions have affected the teak market, and the United Provinces, where a scheme for the supply of railway sleepers has been delayed, with a consequent reduction on both the revenue and expenditure sides. The Irrigation revenue, owing partly to last year's deficient rainfall, has improved.

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Expenditure—Imperial.

“32. We budgeted for a total Imperial expenditure of almost £53 million, which is now reduced to about £52·7 million. Of this decrease, £200,000 under “Interest on capital deposited by companies” follows automatically on the revised procedure in respect of interest charges referred to in paragraph 28. The estimates for Military Services have naturally been much disturbed by the war, but owing to the operation of several counterbalancing factors, the total figures show relatively little divergence from the Budget, a saving being now anticipated of £64,000 in the gross expenditure and of £13,000 in the net. I may also mention incidentally, with reference to paragraph 16 of my speech of last year, that the present estimate provides for the completion of the payment to the Mysore Durbar in respect of the surplus revenues of the Bangalore Assigned Tract.

Expenditure—Provincial.

“33. The aggregate Provincial expenditure was taken in the Budget at £34 million. It is now estimated at £1½ million less, viz., about £32½ million. The principal reductions occur under Education (£738,000), Medical (£352,000) and Civil Works (£380,000), and are due to the Local Governments not having spent in full the grants placed at their disposal for the development of education and sanitation and for other purposes. As I suggested in paragraph 28 of my speech last year, I was a little sceptical then as to their ability to spend all that they hoped; and it may be that some lapse would have occurred in any case. But it is only fair to add that, in view of the present financial situation and after reference to the Secretary of State, we issued orders that expenditure not specifically provided for in the Budget should not, save in very special circumstances, be embarked on this year, so that outlay of this description, which would in ordinary years have been found by reappropriation from items where savings were anticipated, has not been incurred.

General Results—Imperial and Provincial.

“34. I can now sum up the final position of our revenue account for the current year. As I have shown, the greater portion of the loss of revenue resulting from the war has fallen against the Imperial side, Imperial revenues being more dependent on those resources which are specially responsive to trade conditions; and our expected surplus of £1½ million has thus been converted into a deficit of £2¼ million. In the case of the Local Governments the total loss of revenue, though widely diffused, has been much less, and the scope for retrenchment was greater, owing to the specially heavy provision made in this year's budget for new outlay. The Provincial account has thus improved, the deficit, i.e., drafts on provincial balances, being reduced from the total of nearly £3½ million allowed in the Budget estimate to about £2¼ million only. Doubtless those Honourable Members who have followed our Railway and Customs returns since the war broke out will be already fully prepared for some such broad results as those which I have just stated, and I think they will agree with me in not being unduly perturbed at this inevitable outcome of war conditions. On the whole account, that is combining the Imperial and Provincial sides, and taking into account retrenchment of expenditure in relief of loss of revenue, the net deterioration, as compared with our expectations when the budget of the year was framed in peace conditions, is just about £3 million.

Revised Estimate, 1914-15. Ways and Means position.

“35. Next as regards the Ways and Means position. Honourable Members will recollect that our main task in preparing our financial programme for the current year was to find means of financing a railway programme of £12 million, in addition to heavy expenditure, amounting to nearly £3½ million, by Local Governments in excess of the provincial revenues of the year. For these and other less important commitments falling outside the revenue account, we had a satisfactory opening balance to look to, and the promise of a normal surplus in the current year, and of a substantial amount

of new deposits in our savings banks which we hoped would be increased by the more elastic rules referred to in paragraph 58 of my last year's speech. For the rest, we proposed to rely, in the main, on a scale of borrowing which had not hitherto been customary. Until the advent of the war, our anticipations promised, as indicated in paragraph 4 above, to be amply fulfilled. There was thus every prospect of our financing the programme of capital outlay which we had laid down for the current year, and of being left with a helpful margin of funds to assist in meeting the requirements of 1915-16. The whole position has, however, been entirely modified by the war. As already stated, our budgeted Imperial surplus of £1½ million is turned into a deficit of £2½ million, *i.e.*, a total worseness of £4 million. Under Unfunded Debt, the head into which the savings banks transactions referred to in paragraph 7 enter, the net addition to our resources of over £1½ million which we assumed in the budget is turned into a net drain amounting to more than £5 million, that is a further worseness of nearly £7 million. In these two ways alone the war has therefore taken from us nearly £11 million of the resources on which we relied for capital outlay on railways and irrigation, for the construction of Delhi, for the financing of the expenditure of Local Governments from the large balances to their credit, and a variety of other requirements; and we have lost a further sum of somewhat less than £1 million owing to a larger withdrawal from our treasuries of funds deposited therein by local bodies and other parties which are allowed to bank with us.

" 36. This aggregate loss of approximately £12 million was partly counterbalanced, as I have said in paragraph 4, by an improvement of about £1½ million in the opening balance of the current year, while Local Governments have curtailed their drawings on our balances by £1 million. There has also been a lapse of £303,000 on the grant for the construction of New Delhi, to which I shall refer at a later stage, and one of £370,000 in the capital grant for railways. These improvements, however, still left a large gap to be filled, as will be seen from the statement below which shows in a concise form how the situation has been met:—

| [In millions of £.] | | | | | |
|---|---------------------------------|----------------------------------|--|---------------------------------|----------------------------------|
| <i>Outlay.</i> | Budget Estimate, 1914-15. | Revised Estimate, 1914-15. | <i>Assets.</i> | Budget Estimate, 1914-15. | Revised Estimate, 1914-15. |
| (1) Capital outlay on— | | | (1) From balances | 4.9 | 2.8 |
| (a) Railways | 12.0 | 11.6 | (2) Imperial surplus or deficit of 1914-15. | 1.3 | -2.7 |
| (b) Irrigation | 1.2 | 1.2 | (3) Rupee borrowing | 3.3 | 10.6 |
| (c) Delhi | .7 | .4 | (4) Sterling borrowing | 5.9 | 10.9 |
| (2) Repayment of India Bonds, etc. . . | .7 | .6 | (5) Unfunded debt | 1.8 | -5.1 |
| (3) Outlay from Provincial balances . . | 3.2 | 2.2 | (6) Famine insurance allotment and minor items. | .7 | -.2 |
| (4) Local loans account, Imperial and Provincial | .1 | .1 | | | |
| Total | 17.9 | 16.1 | Total | 17.9 | 16.1 |

" 37. Special reference is invited to items (3) and (4) under 'Assets,' which show that our total borrowings at home and in India have amounted to £12½ million more than our budget provided for. This completely covers the shortage of funds which we had to meet, and leaves us, for the time being, as I show directly, with very strong cash balances.

" In England, the Secretary of State has raised £7 million by India bills in lieu of obtaining about £4½ million by a permanent issue of stock as provided for in the Budget; and has increased by over £2½ million the borrowings through companies which he originally contemplated. In India, besides raising our five-crore loan before the war broke out, we have taken advantage of a spontaneous offer by His Highness the Maharaja Scindia to place 50 lakhs (£½ million) at our disposal, and for the rest of our borrowings, namely £7 million, have fallen back upon the Gold Standard Reserve, in which we now hold a large and otherwise unemployed sum of money through the sale of reverse bills and telegraphic transfers, to which I have already referred. Our advances from this source at one time reached a maximum of £8 million. Subsequently £1 million has been paid back, and a further repayment could have been made had we only the requirements of the current year in view.

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“38. In any case, however, we have many reasons, in conditions like the present to maintain our balances at a high level. Our resources have to be widely dispersed in order to keep treasuries and savings banks well supplied with funds, so as to meet the claims of depositors or demands for encashment of currency notes, without delay or embarrassment. We desire, too, as I have already said, to avoid as far as possible curtailment of our deposits with the Presidency Banks in view of possible trade conditions. We have also been obliged to spend large sums on account of His Majesty's Government in connection with the expeditionary forces, and war requirements generally, sometime before the outlay could be recovered. Our aggregate cash balances in India and England are consequently now expected to stand at about £21 million on 31st March 1915, as against the budget anticipation of £17½ million and the £16½ million which is usually accepted as our normal requirement. As I shall show later on, the excess of some £4½ million over the latter sum will be fully required next year.

Budget Estimate of Revenue and Expenditure for 1915-16.

“39. I now turn to the Budget figures for 1915-16. The general results are exhibited in the statement below:—

[In millions of £.]

| | Revised, 1914-15. | | | Budget, 1915-16. | | |
|-----------------------|-------------------|-------------|--------|------------------|-------------|--------|
| | Imperial. | Provincial. | Total. | Imperial. | Provincial. | Total. |
| Revenue | 49·927 | 30·220 | 80·156 | 49·655 | 30·692 | 80·347 |
| Expenditure | 52·669 | 32·446 | 85·115 | 52·425 | 31·755 | 84·180 |
| Deficit (—) | —2·742 | —2·217 | —4·959 | —2·770 | —1·063 | —3·833 |

“40. It will be seen that we estimate for a deficit on the Imperial side amounting to about £2·8 million, and that Local Governments are being permitted to draw on their balances to the extent of £1 million. The aggregate excess of expenditure over revenue on the combined Imperial and Provincial account is thus about £3·8 million, against £5 million in the current year. As already stated, our Budget is based on the assumption that war will continue throughout the year, and on this hypothesis, we must allow for a deterioration of revenue extending over twelve months, as compared with the eight months of war conditions experienced in the current year. On the other hand, we may fairly assume that there will be some recovery—of which indeed there are already signs—from the general dislocation of trade which was specially acute in the opening stages of the war; and also, in view of present agricultural prospects, that, apart from the war, the position under such heads as Land Revenue will be better in certain provinces than it has been in the present year. On the whole, therefore, so far as present indications point, we need not anticipate that the eventual general results will differ widely from those of 1914-15.

Revenue—Imperial.

“41. Thus, we budget for a total Imperial revenue of about £49½ million against nearly £50 million taken in the Revised estimate for the current year. The principal further decreases occur under Customs, Salt and Railways, to which heads I shall presently refer more fully. Military receipts too will naturally suffer from the absence of so many troops. On the other hand, according to present prospects, we look, as already stated, for a large improvement under Land Revenue, of which the Imperial share will be £428,000. Under Opium, we expect a betterment of £242,000, in the anticipation of somewhat improved prices. Our transactions will include a certain amount to be sold direct to the Government of the Straits Settlements, on

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terms which have now been settled by agreement for a series of years. There is no other important betterment under the principal heads of revenue, which have continued, up to a late stage of estimating, to show the effects of the depression resulting from the war. But some saving (£138,000) will be obtained on the Imperial side by the absence or diminution of certain assignments to Local Governments which appear in the Revised.

“ 42. Under Salt, the advance payments of duty in anticipation of enhanced taxation, which have inflated the revenue of the current year as explained in paragraph 30, will tend to depress it in 1915-16, and we have taken the Budget at £315,000 less than the Revised estimate.

“ 43. Under Customs, we anticipate a further decline of £377,000. We have, in this case, to allow definitely for the probable effect of the war on our import trade during 12 months in 1915-16, as against 8 months of the current year. The goods available for import into India are likely to be materially less than in the present year, owing to the stoppage of trade with enemy countries throughout 1915-16 and other restrictions, and also to the partial withdrawal of the industrial population in the other belligerent countries either to the fighting line or to the manufacture of stores and materiel for war purposes. The set-back to economic prosperity in India itself must also result in some reduction in the demand for imported commodities. On the other hand, the trade routes, it may be anticipated, will continue to be safe throughout 1915-16, and we may look for an appreciable revival of credit and confidence. We have not, therefore, considered it necessary to write down our revenue very heavily as compared with the Revised, except in the two special cases of silver and cotton manufactures. Under the former sub-head, we expect this year a revenue of close on £1 million. This is abnormally high even under peace conditions, and for the coming year we have assumed a yield of £ $\frac{3}{4}$ million only. Under cotton manufactures, again, we have provided for a decrease of £100,000 owing to the congestion which has prevailed in the market for some time, which will probably be accentuated in present conditions. On the other hand, in the case of the export duty on rice, we have felt able to assume a substantial improvement (£170,000) on this year's revenue. The export of Indian rice to foreign countries has been specially low this year owing partly to the cessation of supplies to enemy countries, and also to the diversion of shipments to India proper in the early months of 1914-15 as a result of the shortage of crops in Northern India. With the present favourable agricultural outlook, we may expect that this latter factor will be no longer operative.

“ 44. Under Railways, we take the net receipts at £260,000 less than the Revised estimate, and the gross receipts at £35·3 million, or £298,000 less. Here, too, the favourable agricultural outlook, and some degree of general trade recovery, may be expected to go far to counterbalance the loss of revenue in the extra four months during which war conditions are assumed to be operative.

“ Working expenses are taken at £19·9 million or £159,000 more than the Revised. As I have already explained, we could not in any case have hoped that the temporary decline of our railway revenue would be accompanied by a proportionate fall in the cost of carrying the reduced traffic. But apart from that, we have found it necessary to make considerable additional provision for the improvement of the equipment of the railway lines, which was represented to us to have fallen somewhat behindhand in recent years, and to have become a pressing requirement.

“ With the reduced traffic, the profits payable to companies will also be less and we have provided £197,000 less on this account, thus arriving at the net reduction given above.

Revenue—Provincial.

“ 45. The aggregate Provincial revenue is estimated at £468,000 more than the Revised. Almost the whole of this improvement is contributed by the Provincial share—£379,000—of the increase under Land Revenue to which I have already referred. Apart from this, we cannot look, under continued war conditions, to any strong recovery from the position which the revenue returns for the later months of the present year have disclosed.

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Expenditure—Imperial.

“46. The total Imperial expenditure for 1915-16 is estimated at about £52·4 million, being £244,000 less than the Revised. Our chief economy occurs under the Military services where we are budgeting for a reduction of £582,000. I shall revert to this branch of expenditure in a separate section of my speech, and need only say here that in the present situation we have thought it incumbent upon us to postpone all military expenditure of an ordinary kind which is not immediately required. We shall be faced with some difficult and pressing problems under this head when the war is over, but the present is not the time and occasion when they can suitably be taken up. Apart from the Military charges, the circumstances of Imperial expenditure do not offer great scope for any drastic reduction of grants. We have, however, curtailed the provision for Imperial Civil Works by some £127,000. We also save automatically (to the extent of £272,000) by the recall of officers from leave. That of course implies an additional charge in India under salaries, but this is chiefly borne by the Provincial Governments. Against these economies, we have to provide an additional £520,000 to meet the interest charges on the borrowing programme which I shall shortly lay before Council; and Opium expenditure shows a considerable increase, arising from the necessity of supplementing our supply of ‘Bengal opium,’ which we obtain from the Gangetic valley, by special purchases in Malwa.

“The relief from Famine expenditure in 1915-16, while it eases our Budget under one head, adds to it under another, as it requires us to make a larger provision under the Famine Insurance Grant for reduction or avoidance of debt.

Expenditure—Provincial.

“47. We estimate this at £31,755,000, or £691,000 less than the Revised and £2,293,000 less than the current year’s Budget. As Honourable Members are aware, the fluctuations in the scale of outlay of the Provincial Governments are at present largely dependent, under the conditions established by the special grants of recent years, on the extent to which it is found possible for them to draw upon their large accumulated balances. When this year’s Budget was framed, we authorised such overdrawals to the extent of £3·2 million, which has come down in the Revised, as I have already explained, to £2·2 million. We propose in the current year to allow Local Governments to draw on their balances to the extent of about £1 million only.

“In present financial circumstances we might *prima facie* have been expected to require Local Governments not to draw on their balances next year at all, *i.e.*, to restrict their total expenditure to the revenue raised within the year. But as I have previously mentioned, Provincial revenues too are being affected by the war, and a restriction such as that suggested would have involved a drastic curtailment of normal standards of expenditure, besides arresting all further immediate development on education and sanitation, and interfering with the *quasi*-commitments into which Local Governments have entered in carrying out a programme of special expenditure on these objects which they had every reason to expect to be able to maintain. We find ourselves obliged therefore to recognise the practical need of some relief in this direction. The curtailment of total outlay which will still be necessary, and in regard to which we have received the most loyal co-operation from Local Governments, has resulted, as is natural, in a large reduction (£1,070,000) in the grants for expenditure on public works. Provision is made, however, for some additional outlay under Land Revenue, Police, and some other heads.

“48. We expect that with this restricted programme the aggregate Provincial balances on the 31st March 1916 will amount to £6·3 million. Of this, £2·5 million may be taken as accruing from special grants, mainly non-recurring, which have been made by the Government of India, mostly for expenditure in connection with education and sanitation.

General Results—Imperial and Provincial.

“49. Reverting to the table in paragraph 39, we estimate that in 1915-16 the total revenue, Imperial and Provincial, will be £80,347,000, and the total expenditure £84,180,000, resulting in an Imperial deficit of £2,770,000 and a Provincial deficit of £1,063,000, the latter to be met by drawing on the balances to the credit of Local Governments.

Ways and Means Estimate for 1915-16.

“50. This brings me to the question of the financing of our requirements in the second year of war. I will first give the main figures in millions of pounds, and then explain what they imply:—

| <i>Outlay.</i> | <i>Assets.</i> |
|---|---|
| Imperial deficit 2·8 | From balances 4·5 |
| Provincial deficit 1·0 | Rupee borrowing 3·0 |
| Capital outlay— | Sterling borrowing 6·5 |
| Railways 8·0 | Famine Insurance and miscellaneous items 4 |
| Irrigation 1·1 | Total 14·4 |
| Delhi 3 | |
| — 9·4 | |
| Discharge of debt 1·0 | |
| Unfunded debt 2 | |
| — 14·4 | |
| Total 14·4 | |
| <i>Add—Discharge of temporary debt raised in 1914-15 14·0</i> | <i>Add—Renewal of temporary debt raised in 1914-15 14·0</i> |
| Grand total 28·4 | Grand total 28·4 |

“51. We have to find funds from which to meet the Imperial deficit of the coming year and the expenditure by Local Governments in excess of the revenue which they expect to raise in the same period. £1 million of debt, mainly in connection with the purchase of the Indian Midland Railway some years ago, is also due for discharge. By way of precaution, too, we are assuming the possibility of a withdrawal of £1 million more of savings banks deposits during the coming year. This counts as a liability against Unfunded Debt. We still get, however, as in normal years, some credits under this head, more particularly the substantial deposits annually paid into the State Provident funds, so that there is a considerable set-off to the withdrawals from the savings banks for which this estimate makes provision. There remains the head of Capital outlay, under which alone it is optional to us to curtail our commitments. We are very reluctant to do this in the case of Irrigation, and are accordingly providing the entire amount (£1,100,000) which our Public Works advisers consider they can spend. In the case of Railways, however, it is inevitable that some considerable reduction should be made, and in any case, even if funds had been available, it is unlikely that, in the present circumstances of manufacturing establishments at home, anything like the £12 million provided in the current year could again be spent. We have accordingly taken the next year's programme at £8 million. In considering the adequacy of this figure—and I regard it myself as the outside sum which it would be justifiable to provide under present conditions—it must also be remembered that, as stated in paragraph 44, a specially large provision has been made, on the revenue side, for closely connected expenditure on the equipment of our present lines. In the case of Delhi, we have made a very large reduction, confining the next year's grant, as I shall explain in a later section, to a working minimum.

“52. The total of these liabilities comes to about £14½ million. In addition, as the statement shows, we have to include, as pending obligations requiring to be dealt with in connection with the coming year's financial programme, the discharge of the £7 million of India bills which the Secretary of State has raised in the current year, and the repayment of our loan of the same amount from the Gold Standard Reserve. Our total obligations are thus raised to some £28½ million.

“53. The first of the resources on which we can draw as against these requirements is afforded by the large cash balances with which we shall close the current year. As I have already said, owing to the loans taken from the Gold Standard Reserve, we expect these to stand on 31st March next at about £21 million. Ordinarily we regard £16½ million as a sufficient amount to hold in our treasuries in India and at home at the close of a financial year; and we thus have about £4½ million which can be regarded as available towards meeting our liabilities generally and still leave a little margin over the normal closing balances. We shall also set aside from revenue, under

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the Famine Insurance Grant head, close on half a million for reduction or avoidance of debt, thus raising our assets to about £5 million. Even so, we are left, however, with some £9½ million still to find, and have also the £14 million of temporary debt still to consider. The question now is, how is this shortage to be dealt with?

No additional taxation.

“54. The first method of adding to our resources which would naturally suggest itself—one, indeed, which we have very seriously considered—is to follow the lead of the mother country and impose special taxation; and I have no doubt that the majority of the members of this Council have been asking themselves for some time past what line we shall take on this question. Those who have followed my remarks on the revenue position will, however, have already had their anxiety relieved. We do not propose on this occasion to raise any money by increased taxation. We should not hesitate to do so to meet a deficiency in revenue which promised to be of a more or less abiding character. But the present circumstances are altogether peculiar. We know that, ordinarily, we can count on surpluses. India too has a very small unproductive debt; and, with trade conditions depressed, and the present abnormal rise in food prices in a large part of the country, we have come to the conclusion that we ought not to add to existing taxation unless it is absolutely necessary. We hold that this necessity has not yet arisen, since the deficits of the current and coming years are, as already stated, entirely the product of special and temporary circumstances; while, as regards ways and means, we see our way, in spite of these deficits, to financing all outlay immediately necessary. We have to bear in mind, too, in dealing with an essential point of policy like this, the possibility that an improvement of conditions, whether by the conclusion of peace or otherwise, may, after all, take place sooner than we are yet entitled to assume. When this occurs, we shall, I have no doubt, rapidly regain at any rate a large portion of the savings banks deposits which have been withdrawn from us, and may hope for improvement in other directions as well.

Borrowing programme for 1915-16.

“55. I return, then—the taxation alternative being rejected—to the question of how we are to finance the needs of the coming year. In the first place, we propose to continue the loan of £7 million from the Gold Standard Reserve and leave it still outstanding on the 31st March 1916. As I have already said, the money we shall thus employ would otherwise lie inert and the proposed transaction makes no difference to our actual stock of gold or our freedom to use it in supporting exchange. It merely requires the transfer from the Gold Standard to the Paper Currency Reserve of a certain amount of the gold we should otherwise hold in the former, since the gold thus added to the Paper Currency Reserve will enable the transfer therefrom of a corresponding quantity of rupees in aid of our Treasury balances.

“The Secretary of State also intends to renew in 1915-16 the £7 million of India bills which he has raised this year. This disposes of the temporary debt for the time being, but still leaves us the original £9½ million to find.

“56. We propose to obtain £3 million (4½ crores) of this amount in India. We shall of course raise this by a public loan if, when the time comes, this is found to be feasible. We raised R5 crores in the current year and with great success; but that was before the war, and I fully recognise that the circumstances are now entirely different. I must therefore in any case reserve the consideration of the time and the best method of borrowing in India next year, including, that is, the terms to be offered and the character of the loan. I recognise too that the circumstances prevalent in July, when we usually float our loans, may prove to be so unpropitious that we may find it desirable to have recourse to other methods for raising either a part or the whole of this amount: for example, one alternative open to us might be to increase our borrowing from the Gold Standard Reserve.

“57.—In addition to the funds which we thus find in India, it is the Secretary of State's intention to raise £6½ million by fresh borrowing in England, either direct or through the agency of companies working State lines. I should add, however, as regards this, what I have already made clear as regards rupee borrowing, that this announcement is subject to the usual reservation that the amount may be varied later on if circumstances should render this advisable.

"58. To sum up this examination of a complicated and difficult position, I may briefly state that we propose a reduced but still considerable Railway programme, a full standard of expenditure on Irrigation, and a minimum outlay on Delhi; while to meet our capital outlay and revenue deficits and our other various requirements, we contemplate renewing the temporary loans raised in the current year, and finding a further £9½ million by additional borrowings, whether permanent or temporary, in England or in India. We thus put ourselves in a position to finance all requirements with which, as far as we can at present see, we are likely to be confronted in the coming year, while at the same time providing for the maintenance of an adequate closing balance.

"59. I have not taken into account in the above calculations the £4 million up to which the Secretary of State has permitted us to reduce the cash holdings of the Paper Currency Reserve. This money will be primarily held available for loans to banks for the encouragement of credit and trade, without reducing our Treasury balances beyond what is prudent, while if there is any remainder it ought to be treated as a special reserve against unforeseen contingencies. In a year in which there may be so many surprises, it is most desirable to have a reserve of this character.

Remarks on certain special heads.

"60. I now furnish some supplementary information in regard to certain special and important heads.

A.—Military Services.

"61. The table below shows the gross and net expenditure on Military Services for the coming year and the four years preceding :—

| | Gross. | | | | | NET, i.e., DEDUCT- ING RECEIPTS. |
|-----------------------------|------------|---------|--------------------|----------------------|------------|--|
| | Army. | Marina. | Military Works. | Special Defences. | Total. | All Military heads. |
| | £ | £ | £ | £ | £ | £ |
| 1911-12 | 19,536,546 | 450,728 | 909,657 | 4,706 | 20,901,637 | 19,558,580 |
| 1912-13 | 19,576,526 | 479,928 | 887,379 | 9,267 | 20,953,100 | 19,565,466 |
| 1913-14 | 19,789,239 | 512,845 | 947,297 | 16,384 | 21,265,765 | 19,696,113 |
| 1914-15 (Budget) | 20,305,800 | 504,900 | 1,022,400 | 33,000 | 21,866,100 | 20,500,000 |
| 1914-15 (Revised) | 20,277,200 | 484,700 | 1,017,000 | 23,500 | 21,802,400 | 20,486,700 |
| 1915-16 (Budget) | 19,631,100 | 623,500 | 744,300 | 21,100 | 21,220,300 | 20,000,000 |

"62. The net expenditure in the current year is expected to fall below the Budget provision framed in March last by £13,000 only, due to an anticipated decrease of £64,000 in expenditure, partly counterbalanced by a fall of £51,000 in receipts. The war has necessarily affected the Military estimates of the year in a very considerable degree. On the one hand it has led to some temporary savings in charges as a consequence of exchanges and re-arrangements of troops, of the partial suspension of the Arms Traffic operations in the Persian Gulf, and of the usual trooping service, and also with reference to diminished supply of stores from Europe. *Per contra*, extra expenditure had to be incurred for the protection of India and in connection with the internment of citizens of hostile countries; the prices of food supplies throughout the year show an increase; and the receipts from payment-issues of clothing, provisions, etc., have fallen below the normal standard.

"63. For the coming year the net Military expenditure has been fixed at £20 million, or £487,000 lower than the Revised, and £500,000 less than the Budget provision of the present year. In consequence of the war, expenditure is being restricted to what is considered essential for the maintenance of efficiency and the protection of the country, while a further fall in receipts must be anticipated and has been taken into account. Provision has been made for a continuance of work

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on certain Royal Indian Marine vessels now on order, for the improvement of the accommodation of Indian combatants and non-combatants, and for progress with the new cantonment of Delhi. A considerable amount of expenditure usually incurred on trooping and the prevention of gun running on our borders temporarily disappears. The trend of food prices, however, continues upward, and this has been provided for by a 5 per cent. increase on the Budget provision of 1914-15 on this account.

“64. The figures given above do not include very considerable expenditure which is being undertaken on behalf of the Imperial Government, in the matter of the supply of munitions of war and other stores to the forces of the Empire engaged in active operations, since such outlay is made good to us by His Majesty's Government.

“They do, however, include—and I desire to lay special emphasis on this fact—the sums which, under arrangements with His Majesty's Government, initiated by a Resolution brought forward in this Council last autumn, India contributes towards the cost of the war, that is the portion of the total expenditure incurred on the expeditionary forces despatched from this country which she would have had to defray had they remained in India under peace conditions. These arrangements, I may remind the Council, have received constitutional ratification by Resolutions passed in both Houses of Parliament. Your Excellency, speaking in this Council on the 8th September last, mentioned that, on a rough estimate, these arrangements would cost India about £1 million during the current year. That estimate, however, was framed with reference to the expeditionary force we originally sent to Europe. The scale and the directions in which troops from India have since been utilised for the operations which the armies of the King-Emperor are carrying on against his enemies in various parts of the world have since been greatly enlarged; and we now anticipate, though the complicated calculations involved are still subject to further examination, that India's contribution towards the cost of the troops she has furnished will amount to £1·9 million during the current year, and to £4·8 million in 1915-16, on the assumption, which has governed our estimates throughout, that the war will continue to the end of March 1916.

“65. The figures just given do not, however, represent the full measure of India's offering towards the expenses of the war. The Indian Princes who have placed their Imperial Service Troops at our disposal in connection with the expeditionary forces are also bearing the normal charges which would fall upon them in peace time, only the additional or war charges being met by His Majesty's Government. Further, some of the Princes have also made generous pecuniary contributions towards the general cost of the war; and I may make special mention here of the fact that His Highness the Maharaja of Mysore, as indicated in Your Excellency's speech to this Council on the 8th September, has given Rs50 lakhs (£333,000) in this way, while His Highness the Nizam of Hyderabad has made a contribution of Rs60 lakhs (£400,000). Other similar contributions bring such aggregate donations to £768,000, of which we expect that £480,000 will be paid in the current year, and the balance in 1915-16. Though these loyal and spontaneous contributions are, in the first instance, paid in to us, we have no intention of deriving any benefit therefrom. They will be passed on to His Majesty's Government by an equivalent deduction in the charges we should otherwise have to make against the— in connection with special war expenditure.

B.—Famine Relief.

“66. Speaking at this time last year, I said that actual famine conditions in the United Provinces were then confined to four districts and that scarcity had been declared in seven others. To the scarcity districts two were subsequently added, but the afflicted area has fortunately been much less than we at one time feared, and, although the calamity has been a severe one, special measures were only found necessary in an area of about 20,000 square miles with a population of nearly 7½ millions.

“The number on relief of all kinds reached a maximum of 219,000 at the end of May, but with the advent of the monsoon the number fell rapidly and operations were finally closed down in October. The March rains and a good monsoon helped matters, but, apart from this, distress was confined within comparatively narrow limits not only by the manner in which relief was distributed, by fodder concessions, by liberal *takavi*, and by the suspension and remission of revenue; but also, we are

told by Sir James Meston, by the remarkable capacity which the people themselves have shewn in facing their troubles without direct measures of famine relief. This he ascribes not merely to a succession of excellent seasons, but to a widespread confidence, based on experience, that Government will come to their aid when real necessity arises, and to a stronger power of resistance, due to something more than purely temporary causes, among nearly all classes of the people.

"I need not refer to the affected areas in other parts of India, as nowhere was distress anything like so widespread or severe as in the United Provinces.

"67. The Budget estimates for the current year provided for an outlay of £299,000 on famine relief, mainly in the United Provinces: the probable expenditure is still estimated at £290,000 of which £106,000 will be borne by Provincial revenues and the balance of £184,000 will fall on Imperial. Agricultural prospects in the areas which were affected by famine are now very satisfactory, and as the estimates for next year are as usual framed on the assumption of a normal monsoon, no outlay on relief is anticipated in that year apart from some small expenditure (about £7,000) in adjustment of this year's accounts.

"68. I explained in paragraph 41 of my speech introducing the last Financial Statement that the amount available from the Famine Insurance Grant of £1 million for the reduction or avoidance of debt, after providing for an expenditure of £500,000 on protective works, varies with the actual outlay on famine relief in each year. The amount available for that purpose is estimated at £210,000 in the current year and £493,000 in the next, of which £15,000 and £328,000 respectively, will be charged in the Imperial section.

"69. In paragraph 42 of the same speech, I referred to the system of Provincial famine credits, and in a debate in this Council on the 7th March 1914, I promised that I would consider the possibility of modification in the application of this as between the various Provinces. I have fulfilled that promise and, as the result of the investigation made, we have put suggestions to the Local Governments for the simplification of what is now a very complicated system. After full consideration of their replies we shall decide on the precise action which may be necessary and refer the matter to the Secretary of State.

C.—Expenditure from Special Grants, Education, Medical, etc.

"70. I went into this matter fully last year, and on the present occasion I need only give a table similar to that exhibited in paragraph 46 of my last year's speech:—

[In thousands of £]

| | TOTAL GRANTS GIVEN (1911-12 TO 1915-16). | | TOTAL EXPENDITURE INCURRED* (1911-12 TO 1915-16). | BALANCE EXPECTED TO BE AVAILABLE ON 1ST APRIL 1916. |
|---|---|----------------|---|---|
| | Recurring. | Non-recurring. | Non-recurring. | Non-recurring. |
| (1) Education | 763 | 3,166 | 2,078 | 1,088 |
| (2) Sanitation | 245 | 1,723 | 1,112 | 611 |
| (3) Medical relief, etc. | ... | 58 | 53 | 5 |
| (4) Agriculture, etc. | ... | 177 | 166 | 11 |
| (5) Grants for other special purposes | ... | 1,545 | 1,416 | 129 |
| (6) Grants for general purposes—(Discretionary grants) | ... | 667 | 88 | 279 |
| TOTAL | 1,008 | 7,336 | 5,213 | 2,123 |
| Add—Savings on recurring grants during foregoing period (about) | | | | 395 |
| Total amount expected to be available from special grants on the 1st April 1916 | | | | 2,518 |

* Non-recurring figures only are given, as the recurring grants are treated as having been fully worked up to, any savings obtained from those grants in particular years being added at the foot of the statement.

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“The large balance still in hand is in considerable measure due to the fact that, as already stated, we have found it necessary, in existing circumstances, to debar Local Governments from drawing on their balances with us during the coming year beyond an aggregate amount of about £1 million.

D.—Financial position of the Provinces.

“71. The new form of Statement D, to which I have already referred in paragraph 22, exhibits the general financial condition of the Provinces so fully that I need not make any explanatory comment. But it is desirable to say, with reference to the concluding remarks in paragraph 49 of my last year's speech, that we have decided, with the concurrence of the Local Governments concerned, to extend for the present the temporary financial settlements with Bengal, Bihar and Orissa and Assam, which would normally have been put on a permanent basis from the 1st April next. The reason is, of course, that the present time is not an opportune one for dealing with permanent settlements, which can be much more safely framed when the Government of India are in a normal financial condition.

“72. We have, however, made a modification in the Burma settlement. I mentioned in paragraph 24 of my last year's speech that we had under consideration a proposal to make some addition to the resources of the Burma Government, and that we had in the meantime given them a non-recurring grant of £100,000. We have now decided, with the approval of the Secretary of State, to make this grant a recurring one, since it was found, on careful examination of the calculations upon which the existing financial settlement with Burma was concluded, that the method adopted was not so favourable to the Local Government as was the case in the permanent settlements concluded about the same time with other provinces. Our present grant is to afford redress in this respect and, as I indicated last year, implies no departure from the general principles upon which our permanent settlements with the provinces are based.

“73. Lastly, I may say that we have effected an arrangement with the Punjab Government by which that Government hands over to us a crore of rupees from its very large balances (which have been obtained in great measure by non-recurring receipts from the sale of Government lands) in exchange for a fixed assignment of ₹3½ lakhs per annum. It will be realised, of course, that, as the Provincial balances form part of our general resources, this arrangement does not put an additional crore of rupees into our pockets, but merely saves us from being drawn on to that extent at some subsequent date.

E.—Railways (Capital Outlay).

“74. The following statement gives the figures of railway capital expenditure on State-owned lines included within the Railway programme for the coming year and the four years preceding:—

| | 1911-12. | 1912-13. | 1913-14. | 1914-15 (Revised). | 1915-16 (Budget). |
|------------------------------------|-----------|-----------|------------|-----------------------|----------------------|
| | £ | £ | £ | £ | £ |
| Open lines including rolling stock | 5,058,390 | 7,134,200 | 10,303,100 | 10,372,700 | 6,947,000 |
| Lines under construction— | | | | | |
| (a) Started in previous years | 2,403,853 | 2,658,700 | 1,871,500 | 1,259,700 | 719,700 |
| (b) Started in current year | 452,150 | 103,200 | 131,700 | ... | 333,300 |
| | 7,914,393 | 9,896,100 | 12,306,300 | 11,632,400 | 8,000,000 |

“As I have already explained, the financial position necessarily requires a material curtailment of the Railway programme for 1915-16 as compared with the figures reached in the three preceding years. The greater part of the money included within the reduced programme is as usual devoted to the improvement of open lines and rolling stock.

“75. As regards railways under construction, the Lower Ganges Bridge, which has for the past few years made so heavy a call upon our resources, will be opened

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for traffic in a few days, and the outlay required for its final completion is very small. The Itarsi-Nagpur Railway is not yet completed, and we propose to spend £333,000 on this important project in order that, if possible, it may be opened to public traffic before the close of the next financial year. The only other important lines still under construction are the Burdwan-Howrah Chord, and the scheme for an overhead connection of the Great Indian Peninsula Railway in Bombay with its Harbour branch. These are both equivalent to works of open line improvement, since they are primarily designed for the relief of traffic on existing routes, and we propose to allot funds which will permit of a full rate of progress being maintained throughout the year.

“ We have also reserved funds for several new projects. Among these, the Vishnupur-Santragachi Chord is, like the Burdwan-Howrah, primarily intended for the relief of the existing lines between the coal-fields and Calcutta. The Dholka-Dhanduka Railway, again, is a project for which we made provision in our programme of the current year, but the commencement of which had for unavoidable reasons to be deferred. Provision is also made for the last section of the Southern Shan States Railway. The construction of this important pioneer line has been completed up to the plateau which divides the Inle valley from the rest of Burma, and it was at one time proposed that the construction of the remaining section, between the plateau and the Inle lake, should be temporarily deferred. It has been represented, however, that the further development of the Southern Shan States will be seriously hampered if this extension is not carried out at once, and the matter is now being taken up.

“ 76. We are thus still able to provide for an appreciable amount of railway extension at the cost of Imperial funds; while the progress of construction by the agency of private enterprise and District Boards, though retarded by the war, will not by any means be stopped. Last year I informed the Council that in 1913-14 seven different undertakings, with an intended mileage of 292, had been sanctioned for construction, either under branch line terms or as feeder lines financed by District Boards in Madras, and, but for the war, there would doubtless, as I anticipated then, have been at least as good progress this year, for in its first six months branch line companies had been successfully floated for the construction of 172 miles of railway. Since then, in spite of the war, the capital required for three branch lines of railway, involving a mileage of 62, has been successfully raised, while several District Board projects are likely to mature in the near future.

“ 77. The following figures show the capital outlay on all State lines up to the end of each year from 1911-12 and the net return obtained after deducting working expenses and interest charges:—

[In thousands of £]

| | 1911-12. | 1912-13. | 1913-14. | 1914-15. | 1915-16. |
|---|----------|----------|----------|----------|----------|
| Capital at charge at end of each year . | 331,247 | 340,103 | 351,302 | 361,756 | 368,513 |
| Net working profit from railways excluding interest charges. | 15,813 | 17,272 | 17,616 | 15,102 | 14,774 |
| Percentage of net working profit to capital outlay. | 4.77 | 5.08 | 5.01 | 4.18 | 4.01 |
| Net working profit from railways after meeting interest charges. | 3,788 | 4,803 | 4,700 | 1,914 | 1,179 |
| Percentage to capital outlay of net profits after meeting interest charges. | 1.14 | 1.41 | 1.36 | .53 | .32 |

“ 78. I have amplified the statement, as compared with the information given last year, so as to discriminate the profits obtained before meeting interest charges from those finally arrived at by the inclusion of the interest burden. I may explain too that the capital outlay now shown represents the amount which it has actually cost Government to acquire and construct its railways, including the portion of the liability in connection with purchased lines which remains to be discharged by the

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operation of annuity and sinking fund payments. In the case of purchased railways, it has hitherto been the practice to show in the capital outlay the capital issued by the companies before purchase instead of the sums which it has cost Government to acquire the lines. The latter figures are what we are concerned with in working out the profit we obtain from State outlay, and I have substituted them for the capital issued by the companies in arriving at the figures shown in the foregoing table. I have also deferred to an occasional criticism of our figures by deducting debt which has been extinguished by the operation of annuity and sinking fund payments.

"79. The final net profit on railways was estimated in the current year's budget at 1.14 per cent. of the capital on the method then adopted, and would have been 1.08 per cent. on the altered basis above explained. We now estimate it at only 0.53 per cent. this year and 0.32 next, the result, of course, of the falling off in net railway earnings which I have already dealt with in my review of the revenue estimates. It must, however, be remembered that, as I said last year, the foregoing figures include some capital outlay on protective railways, and also that, in accordance with the instructions of the Secretary of State, the interest charges include certain annuity and sinking fund payments which really go to the discharge of debt.

F.—Irrigation (Capital outlay).

"80. The financial position of our great irrigation undertakings may be gathered from the following table, which brings up to date the information given in previous Financial Statements. The figures are in thousands of pounds.

| Particulars. | 1911-12. | 1912-13. | 1913-14. | 1914-15. (Revised.) | 1915-16. (Budget.) |
|--|----------|----------|----------|------------------------|-----------------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| <i>Productive Works.</i> | | | | | |
| Capital outlay to end of each year | 31,929 | 33,347 | 34,645 | 35,823 | 36,931 |
| Total receipts, including land revenue due to irrigation | 3,662 | 4,065 | 4,338 | 4,339 | 4,397 |
| Total expenses, including interest on debt | 2,163 | 2,263 | 2,306 | 2,391 | 2,438 |
| Net profit | 1,499 | 1,802 | 2,032 | 1,948 | 1,959 |
| Percentage of net profit to capital outlay | 4.70 | 5.40 | 5.87 | 5.44 | 5.30 |
| <i>Protective Works.</i> | | | | | |
| Capital outlay to end of each year | 3,804 | 4,205 | 4,796 | 5,354 | 5,840 |
| Total receipts, including land revenue due to irrigation | 71 | 81 | 112 | 102 | 115 |
| Total expenses, including interest on debt | 165 | 188 | 213 | 239 | 257 |
| Net loss | 94 | 107 | 101 | 137 | 142 |
| Percentage of net loss to capital outlay | 2.43 | 2.55 | 2.10 | 2.56 | 2.43 |
| <i>Minor Works and Navigation.</i> | | | | | |
| Direct receipts | 247 | 266 | 263 | 273 | 283 |
| Expenditure | 856 | 842 | 914 | 1,021 | 949 |
| Net loss | 589 | 576 | 651 | 748 | 666 |

"81. Taking productive, protective and minor works together, on the 31st March last, 61,864 miles of main and branch canals and distributaries had been constructed which will, it is expected, be increased to 62,901 miles by the end of the current year. They commanded an area of more than 50 million acres of culturable land, of which more than 24 millions were irrigated in 1913-14, and an almost equal area during the current financial year.

"82. In addition to the canals in use, there are 41 major projects which are either under construction, awaiting sanction, or being examined by the professional advisers of Government. Of these, 20 are productive and 21 protective; they are designed to irrigate about 9½ million acres at an aggregate cost exceeding £39 million.

"83. No new works of any magnitude were sanctioned during the current year, but a large project of the protective class, known as the Gokak extension scheme, is awaiting the orders of the Secretary of State. This work is estimated to cost about £1.3 million. It will irrigate some 132,000 acres in parts of the Belgaum and Bijapur districts of the Bombay Presidency, including Kolhapur and certain adjacent native states.

"84. None of the large projects mentioned in paragraph 73 of my speech last year have progressed to a stage at which they can be put up for sanction. The Sukkur Barrage scheme is undergoing fresh investigation, and the questions involved in the Cauvery scheme are not yet fully settled. The Kistna, Sarda, and Sutlej Valley projects are being investigated by the Local Governments concerned, while the Koch dam scheme is now before the Government of India.

"85. The Triple Canal project in the Punjab is the most important work at present under construction. Of the three canals constituting this great work, the Upper Chenab and Lower Bari Doab, although not yet finished, are actually in use and are serving considerable areas of *kharif* crops. Extensive *rabi* irrigation will not be possible until a sufficiency of water becomes available in the cold weather, through the opening of the Upper Jhelum canal, the third link in the chain. This canal was expected to be in operation last autumn, but owing to damage to the head works caused by an unfortunate flood which occurred early in 1914, it has been necessary to postpone its opening till October 1915.

"Arrangements are now in progress for colonising the extensive waste land commanded by the Lower Bari Doab canal, and already some auction sales have taken place. In the North-West Frontier Province the Upper Swat canal was opened for irrigation in April 1914, and in the Central Provinces the Mahanadi canal has begun supply for irrigation. While numerous tank works exist in this province, this is the first canal system to be constructed there. Good progress has also been made on the Wainganga canal and the Tendula reservoir.

"86. In the United Provinces, progress is being made with the construction of permanent head works for the Ganges canal at Hardwar, a measure which will greatly increase the efficiency of that system.

In the Bombay Deccan, two important protective works, the Pravara and Godavari canals, are nearing completion, while the Tribeni canal in Bihar and Orissa has been completed.

G.—Delhi expenditure.

"87. The expenditure under the capital head, "51—Initial expenditure on the new Capital," during the current year will, according to present expectations, amount to £363,000 as compared with the budget provision of £666,000. As I said last year, the exact degree of progress to be expected in work immediately connected with the intended buildings could not be settled with any precision until the project estimate had been fully considered and eventually sanctioned. If the somewhat conjectural budget estimate has thus proved to be unduly sanguine, the cause is to be found mainly in the care which has been exercised in considering the various main projects before expenditure was incurred. Thus, in the case of the irrigation scheme for the new city, it was decided to consider several alternative methods of solving the problem before setting work in hand, and the allotment for irrigation works thus remained unutilised. Similarly, work cannot safely be commenced on the larger sanitary projects, such as water supply and sewerage, until the detailed plans and estimates have been prepared and sanctioned, and much of the time of the Delhi Committee's staff has been occupied in work of this kind. Moreover, in

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view of the outbreak of war, we have welcomed a slower rate of progress than was originally contemplated. The lapse which has occurred is a useful addition to our general resources, and the avoidance of large commitments in the current year has facilitated the curtailment of the grant in 1915-16, to which I shall shortly refer.

"88. As regards work done in the current year, the preliminary task of preparing the site by filling up depressions and removing excrescences has been vigorously prosecuted, and is now well on towards completion. Nearly a third of the works expenditure has been absorbed in this and other preliminary work. More than a third, again, was incurred on the purchase and erection of the machinery and plant required for construction purposes, and the scheme for the supply of electric power for these purposes is now completed and in operation, while some 28 miles of construction light railway have been laid. The Committee have also completed construction roads on the alignment of the future permanent roads. Work has been started on the foundations and basements of the Secretariat, and 6 houses for gazetted officers and over 200 for clerks are already in course of erection. There has also been some small expenditure on the acquisition of further land.

"In the special circumstances of the present time, we have thought it desirable to reduce the grant for the coming year to a minimum. The Budget accordingly includes a provision of £267,000 only, which will suffice to carry on, in some degree, the work already in progress, and so obviate the deterioration of material and the disbanding of establishments.

"89. In accordance with the undertaking given by the Government of India on previous occasions, a *pro forma* account of expenditure on Delhi and the Delhi province is published in an appendix to the Financial Secretary's memorandum, together with a prefatory note explaining its scope and the relation between it and our regular accounts. As Honourable Members will see from the prefatory note, the form in which the Delhi accounts are now published was approved by the Comptroller General before its submission to the Secretary of State, who has telegraphed his general acceptance of the proposals put to him in this connection.

Cash Balances, Secretary of State's Council Drawings and Exchange.

"90. I have dealt with these matters in a previous portion of my speech and need only remind the Council of the following facts:—

"(1) We budgeted this year for an aggregate closing cash balance of £17½ million, *viz.*, £12·4 million in India and £4·9 million in England. We now expect the total balance to be a little over £21 million, *viz.*, £13·8 million in India and £7·4 million in England.

"(2) We estimate that the coming year will close with a practically normal cash balance of about £16½ million, *viz.*, about £12½ million in India and about £4 million in England.

"(3) The Secretary of State's drawings were estimated in the current year's Budget at £20 million. For reasons already explained, it is now estimated that he will only have drawn £6·9* million against Treasury balances, while on the other hand we shall have sold £8·7 million of reverse bills and telegraphic transfers. The Secretary of State will, however, have obtained further resources amounting to £8·7 million by recovery from the War Office of sums expended in India on behalf of His Majesty's Government, besides a sum of £1·6 million by transfer from the Paper Currency Reserve in London and by gold remittances.

"91. Postulating the continuance of war conditions, we estimate for the present that the amount up to which the Secretary of State will require to draw in the coming year will be £7·7 million only, since he will also be able to finance himself to the extent of £8·4 million by recoveries from the War Office of the character mentioned above, and the Home charges will be less than usual owing to the reduced Railway programme. As usual these announcements are merely provisional, and full discretion is retained to vary the amounts in such a manner as may be found advisable.

"92. The average rate of exchange during the present year, calculated on the Secretary of State's drawings, is taken at 16·017 pence per rupee.

* Besides £600,000 on account of the Gold Standard Reserve—*vide* footnote to paragraph 10 *supra*.

Currency and Coinage.

"93. I have dealt so fully with questions of exchange and currency in the earlier part of my speech that I need not now dwell on the subject at any length. I must, however, refer to the final Report of the Royal Commission on Indian Finance and Currency, which had not been received at the time I presented the Financial Statement of the current year. We have welcomed it as a pronouncement of the highest interest and value, and as affording ample vindication of the general policy of the Government of India in matters of finance and currency in past years. I do not enlarge on the particular recommendations made as they are still *sub judice*. Last summer we referred them for the opinions of Local Governments and representative commercial institutions, but meanwhile war broke out, and, acting upon a suggestion which some of the authorities consulted themselves put to us, we told them that the expression of their views might be deferred until normal conditions had been restored, so that both they and we might bring to bear upon these questions the valuable practical experience which would meanwhile have been gained from the present crisis. Provisionally, however, and without prejudice to the final settlement, we have adopted two of the Commission's proposals by replacing the silver previously held in the Gold Standard Reserve in India by gold, and by taking power to increase the fiduciary portion of the Paper Currency Reserve by £4 million.

"We have also, as I have already said, given a public and unqualified assurance of our determination to support exchange by all the means in our power, thus adopting a third and very important recommendation with an emphasis that gives it definite finality.

"94. Before the war broke out, we also had under our consideration certain questions connected with the paper currency, the two most important being, perhaps, first, a radical improvement in the form and design of our currency notes—a matter which we have now had to set aside for a time owing to the crisis; and, second, the adoption of measures to facilitate the encashment of notes and so extend their use. As regards this latter question, the war crisis, instead of being a stumbling block, appears to be likely to hasten a solution. In the period of general apprehension and incipient panic which immediately followed the outbreak of war, we regarded it as our foremost duty to secure the unimpeded encashment of our notes in every practicable way; and I think we have had our reward in the confidence which this policy has gained for us. It will be our object, as far as is feasible, to maintain, as a permanent measure, the facilities which we have granted in this period of emergency, and gradually to improve and develop our administrative arrangements with this end in view.

"95. As regards gold, our existing stock has naturally, in the conditions of the present year, not been augmented to any material extent from outside, and the net private imports of sovereigns and half-sovereigns in the present year are, so far, but little in excess of £ $\frac{1}{4}$ million. As, however, I have already stated, we now hold in India a large stock, namely £10 million, which we are in a position to use for the support of exchange, should circumstances at any time require this.

"There has also of course been no further rupee coinage, and the growth of the Gold Standard Reserve has thus been limited to the amounts obtained as interest on the invested portion. On the other hand, the value of the securities held in the Reserve has been written down with reference to the market prices ruling at the beginning of January. The total amount at credit, in England and India combined, thus stood on the 31st January last at £25·6 million. The sale of sterling bills to the extent of about £8 $\frac{1}{2}$ million has of course implied a transfer of that amount from the Reserve in England to that in India. But the Home balance, which amounts, at the present valuation, to about £13 million of gold and sterling securities, is still strong, and can be supplemented, if occasion requires, by the shipment of our gold from India. Meanwhile exchange has gone above par, and for several weeks past the demand for reverse drafts has wholly ceased.

Public Debt of India.

"96. I should like, in drawing to the conclusion of this speech, to add a few words on the question of India's financial preparedness for war. I said at the outset that our system here has been subjected to a supreme test. If we win our way through

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this crisis without drawing upon other resources and other credit than our own, our success will be due to the wise dispositions and the financial self-denial in the past which have built up for India a position of quite exceptional strength. With our restricted money markets here, we stand in need of exceptionally large liquid resources immediately available, and these we possess in our Treasury balances, our Paper Currency Reserve, and our Gold Standard Reserve, the combined efficiency of which is much enhanced by the elasticity of our system, under which, in periods of emergency, one reserve can freely assist another. But more important still is the credit which India has established, through good and evil times alike, by restricting her outlay to her available means, and so avoiding the accumulation of wasteful debt. Almost the whole of her debt today represents productive outlay, normally yielding a return far in excess of the interest which she has to pay on the amount borrowed; sufficient indeed to cover also the interest on the small margin of debt which can be described as unproductive, and still to leave an ample margin. She is thus entirely exempt from the dead weight of interest charges which hamper the finances of most Western countries, and will hamper them to a vastly increased extent by the time this war is finished.

"97. The subject was discussed by my predecessor in introducing his Financial Statement for 1909-10. In present circumstances it possesses, I think, a special interest and relevance, and I have thought it worth while to bring up-to-date and present again the figures which he then gave:—

[In millions of £]

| | Ordinary debt. | PRODUCTIVE PUBLIC WORKS DEBT. | | | Grand total of debt (columns 1 and 4.) |
|----------------|----------------|-------------------------------|-------------|--------|--|
| | | Railways. | Irrigation. | TOTAL. | |
| | 1 | 2 | 3 | 4 | 5 |
| On 31st March— | | | | | |
| 1888 . . . | 78·0 | 59·2 | 17·3 | 76·5 | 149·5 |
| 1893 . . . | 85·0 | 91·0 | 19·3 | 110·3 | 175·3 |
| 1898 . . . | 70·0 | 106·0 | 21·7 | 127·7 | 197·7 |
| 1903 . . . | 59·1 | 128·1 | 24·8 | 152·9 | 212·0 |
| 1908 . . . | 87·4 | 177·7 | 29·9 | 207·6 | 245·0 |
| 1913 . . . | 25·0 | 211·8 | 37·6 | 249·4 | 274·4 |
| 1914 . . . | 12·8 | 222·0 | 39·4 | 261·4 | 274·2* |

"I may explain that for the purpose of these figures rupees have been uniformly converted into pounds sterling at the rate of R15 to the pound.†

"98. It will be seen that out of a total debt of £274 million at the end of March last, only about £13 million represented ordinary or unproductive debt. The annual interest on the latter was £ $\frac{3}{4}$ million only, and on the productive debt about £ $3\frac{1}{4}$ million, so that our total interest charges amounted to some £ $9\frac{1}{4}$ million. Railways and Irrigation works in the same year (1913-14) yielded us a return of £ $15\frac{1}{4}$ million. Thus we still had left some £6 million of clear revenue from our great capital undertakings, after meeting the interest charges on our entire public debt.

"99. These figures refer, of course, only to our permanent or funded debt. We have also a certain amount of unfunded debt and other floating liabilities representing savings banks deposits, deposits of State provident funds, balances of local bodies, and so forth, which amounted at the end of 1913-14, to about £ $33\frac{1}{2}$ million. On the

* The reduction of total debt here shown is due to the discharge of debt (India bonds and debentures of purchased railways) exceeding the rupee loan of the year (£3 million). There was no issue of India stock in 1913-14.

† I mention this, as, in the Finance and Revenue Statistics of British India, the compiler, prior to the year 1899-1900, obtained his sterling figures by conversion of rupees at the rate of R10 to the pound, and thus introduced some superficially confusing results.

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other hand, we had due to us on the same date a considerable body of loans given to agriculturists, local bodies, etc., which at the end of 1918-14 aggregated £12 $\frac{3}{4}$ million. Our indebtedness outside our regular loans was thus represented by a net figure of £20 $\frac{1}{2}$ million—a sum which may properly be included in the reckoning, but does not materially affect the broad results already brought out.

“100. This then represents the position which India's debt account had attained at the moment when normal conditions were interrupted by the outbreak of war. It is because this position was so strong that we can view without undue disquiet some considerable temporary addition to our debt. It has also to be remembered that, in so far as the borrowings of the war period have been necessitated by the repayment of our savings banks depositors, they represent a discharge of unfunded debt, and these two sets of transactions, namely the drain on the savings banks and the corresponding borrowings, leave our debt position unaltered.

“101. While, however, our general position is one on which we may congratulate, I will not say ourselves, but at any rate our predecessors, we must be careful not to allow it to be impaired too readily even by an extraordinary emergency such as this. For this reason, we have had, reluctantly, to reduce to some extent the provision for material and social development on which, in a succession of prosperous years, India has grown accustomed to rely. We have not proposed additional taxation to make good deficits which, we hope, will prove to be temporary only. But, as I have already said, we should not hesitate to do so, if it appeared later that our permanent revenue position was seriously threatened. We must also remember that when the war is ended some of its effects may endure for some time to come, and in particular, that we shall then have to face the question of dealing with the temporary debt which we are now accumulating.

“102. In conclusion, I must express my acknowledgments to the officers of the Finance Department for the way in which they have dealt, in their various spheres, with a set of new and difficult conditions, which in many cases have added materially to their work and anxieties. I am deeply indebted to their loyal and efficient aid.”

DELHI LAWS BILL.

The Hon'ble Sir Ali Imam :—“ My Lord, a recent notification of the Government of India has transferred, with effect from the 1st April, 1915, a strip of territory situated on the eastern bank of the Jumna from the United Provinces of Agra and Oudh to the Province of Delhi. The transfer has been dictated by considerations of health, expansion and other interests attaching to the surroundings of the new capital. It has also been considered desirable and convenient to vest the control of the river channel in a single authority. The measure has received the approval of the Secretary of State and the Local Government of the United Provinces has agreed to the transfer of this territory. The bringing in of this strip of land under the administration of the Chief Commissioner of Delhi is calculated to benefit the old and the new cities of Delhi. The object of the Bill that I move for leave to introduce is only to declare the enactments by which the added territory will be governed. With some slight reservations the law in force in the Province of Delhi will be applied to the territory now added to that Province. The exceptions are set forth in Schedule II attached to the Bill. On the other hand, the enactments as prescribed in Schedule III, which are already in force in the area in question, are allowed to continue to be in force as before. They relate mainly to land and have been left uninterfered with to avoid disturbance of the local agrarian incidents and conditions. My Lord, the Bill is a formal and non-contentious one, and I move for leave to introduce it.”

The motion was put and agreed to.

The Hon'ble Sir Ali Imam then introduced the Bill and moved that the Bill, together with the Statement of Objects and Reasons relating thereto, be published in English in the Gazette of India, and in the United Provinces of Agra and Oudh Government Gazette in English and in such other languages as the Local Government thinks fit.

The motion was put and agreed to.

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[*Sir Reginald Craddock.*]**FOREIGNERS (AMENDMENT) BILL.**

The Hon'ble Sir Reginald Craddock presented the Report of the Select Committee on the Bill to amend the Foreigners Act, 1864.

The Council adjourned to Monday, the 8th March, 1915.

W. H. VINCENT,
Secretary to the Government of India,
Legislative Department.

DELHI :
The 5th March, 1915.