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7th March, 1916

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

LAWS AND REGULATIONS

Vol. LIV

March 1916

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[*Sir C. Sankaran Nair; Mr. Rama Rayanigar; [7TH MARCH, 1916.]*
Sir Reginald Craddock.]

and in which the medium of instruction in most subjects from the third standard upwards is English. The Government of India have no information as to whether a similar arrangement is adopted in any girls' schools in other Provinces, but can make inquiries if the Hon'ble Member so desires. As regards boys, the medium of instruction in forms in other Provinces below those corresponding with the fourth form in Madras is not necessarily the vernacular. A description of the present state of affairs is to be found in the diagram facing page 71 of 'The Progress of Education in India, 1907-12,' being the sixth quinquennial review.

It is not the intention of Government to issue any such general instructions as are suggested, but as explained in this Council on the 17th March, 1915, it is proposed, after the war, to make a reference on the subject of vernacular as the medium of instruction—a course to which the Hon'ble questioner agreed. In the meantime, Local Governments are being addressed on the subject of female education generally."

The Hon'ble Mr. Rama Rayanigar asked:—

2. "(a) Is it a fact—

- (i) that there is only one representative on this Council for both Zemindars and Giroyty landholders of the Madras Presidency; and
- (ii) that the Zemindars owning permanently settled estates and the Giroyty landholders holding temporarily settled lands have separate and often conflicting interests?

(b) If so, has the attention of the Government of India been drawn to the existence of such separate and conflicting interests?

(c) If the answer to (b) is in the affirmative, do the Government of India propose to consider the question of securing the separate representation on this Council of these two different interests either—

- (i) by the creation of an additional Membership for a representative from the Madras Presidency, or
- (ii) by providing that one of the two Members of this Council representing the non-official Additional Members of the Madras Legislative Council shall be a person having substantial interest in temporarily settled lands?

(d) If the answer to (b) is in the negative, do the Government of India propose to address the Madras Government on the subject?"

The Hon'ble Sir Reginald Craddock replied:—

"It is the case that only one Member of the Imperial Legislative Council is elected by the landholders in the Presidency of Madras, the same being true of landholders, as such, in Bombay, Bengal, the United Provinces, Bihar and Orissa and the Central Provinces. It is also the case that for the election of Members to the Provincial Legislative Council by the landlord class, there are two electorates, namely those of Zemindars, and landholders other than Zemindars, respectively. When the Council Regulations were under discussion in 1909, the Madras Landholders Association, among others, represented that the interests of landholders as a class in Madras were not identical, and hence the two electorates for the Provincial Council. At that time, however, it was the opinion of the Local Government that for the Imperial Council one electorate would suffice. The Hon'ble Member apparently desires in one way or another to secure two representatives in the Imperial Council for the landholding classes in Madras, presumably with two electorates, but constituted as the Council now is, neither of his suggested expedients is consistent with its general scheme, and, as at present advised, the Government of India do not propose to move in the matter."

Separate representation on the Imperial Legislative Council of Zemindars and Giroyty landholders of the Madras Presidency.

[7TH MARCH, 1916.] [Mr. Rama Rayanigar; Sir Reginald Craddock; Maharaja Sir Manindra Chandra Nandy; Sir C. Sankaran Nair; Mr. C. H. A. Hill.]

The Hon'ble Mr. Rama Rayanigar asked:—

3. “(a) Do the Government of India propose to consider the desirability of introducing an increased scale of salaries for Sub-Judges, District Munsiffs and clerks of the Registration Department in the Madras Presidency ?

(b) Have the Government of India received any communication on the subject from the Madras Government? If so, do the Government of India propose to pass early orders in the matter ?”

Salaries of
the Provincial
Services and
the Regis-
tration De-
partment
Madras.

The Hon'ble Sir Reginald Craddock replied:—

“The Secretary of State last year sanctioned a scheme including a substantial enhancement of the rates of pay of the clerical establishment in Registration offices in the Madras Presidency. The introduction of the scheme depends, however, on the ability of the Local Government to finance it.

The Government of India have not received any proposals from the Government of Madras for raising the emoluments of Subordinate Judges or District Munsiffs in the Presidency.”

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

4. “Will the Government be pleased to lay on the table the report of the Simla Improvement Committee which sat under the presidency of Mr. L. Porter, <sup>Simla Im-
provement
Committee</sup> C.S.I., C.I.E., late Secretary to the Government of India in the Education Department?”

The Hon'ble Sir C. Sankaran Nair replied:—

“The report of the Simla Improvement Committee, 1914, is still under consideration, and cannot therefore be published at present.”

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

5. “Will the Government be pleased to state the total number of officers recruited for the Imperial Archaeological Department since the creation of the <sup>Recruitment
of officers
for the
Imperial
Archaeolog-
ical Depart-
ment.</sup> Department by Lord Curzon ?”

The Hon'ble Sir C. Sankaran Nair replied:—

“The total number of officers recruited for the Imperial Archaeological Department in India and in England since the beginning of the year 1902 is 20, of whom, 13 are at present in the Department. A list* of the officers recruited is placed on the table.”

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

6. “Will the Government be pleased to state the amount of the total <sup>Annual re-
curring
charges for
the estab-
lishment
of officers of
the Imperial
Agricultural
Department.</sup> annual recurring charges for the establishment of officers of the Imperial Agricultural Department, including the appointment of Agricultural Adviser to the Government of India ?”

The Hon'ble Mr. C. H. A. Hill replied:—

“I lay on the table a statement† which will, if his question has been correctly understood, give the information desired by the Hon'ble Member.”

* *Vide Appendix A.*

† *Vide Appendix B.*

[Sir Fazulbhoy Currimbhoy; Mr. C. E. Low; [7TH MARCH, 1916.]
Sir Reginald Craddock; His Excellency the Commander-in-Chief.]

The Hon'ble Sir Fazulbhoy Currimbhoy asked :—

7. “(a) Is it a fact that Trade Commissioners from the British Colonies visit the different countries of the world from time to time for the ascertainment of the possible lines of development of the Colonial export trade?

(b) Is such a Commission now in India examining the strength of the market in the interests of Canada?

(c) Have Government considered the advisability of sending round similar missions for the purpose of studying the foreign market for Indian commodities?

(d) If the answer to (c) is in the negative, do Government propose to make an attempt now in the abnormal conditions consequent upon the war?”

Devalop-
ment of
Indian
trade.

The Hon'ble Mr. C. E. Low replied :—

“(a) Several British Colonies possess Trade Commissioners or Trade Correspondents in various countries, and the Government of India believe it to be a fact that Trade Representatives are also occasionally sent on special missions of the kind indicated in the question.

(b) The Government of India understand that this is so.

With regard to (c) and (d), the Government of India appointed an Indian Trade Commissioner in London temporarily for a few months last year, and the question of making a permanent appointment is under consideration. They have also had under consideration, from time to time, the question of establishing Trade Agents abroad, but it is not possible to indicate at present whether any action in this direction can suitably be taken.”

The Hon'ble Sir Fazulbhoy Currimbhoy asked :—

8. “(a) Were Advisory Committees of Hindus and Mohammedans formed during 1914 in the Punjab, the United Provinces and other Provinces for the prevention of Hindu-Moslem riots?

(b) If so, have the Government of India received any reports about their working?

(c) If the answer to (b) is in the negative, do the Government of India propose to ask the Provincial Governments concerned to submit detailed reports on the working of the Committees?”

Advisory
Committees
of Hindus
and Mo-
hamme-
dans for
the pre-
vention
of Hindo-
Moslem
riots.

The Hon'ble Sir Reginald Craddock replied :—

“I would refer the Hon'ble Member to the Home Department Communiqué of the 10th December, 1915, which described the action taken and the conclusions arrived at as the result of his Resolution on the subject of Conciliation Boards. The correspondence with Local Governments gave instances of a few Advisory Committees appointed in 1914, and briefly indicated the results achieved. These were not so encouraging as to make it expedient to call for further detailed reports upon the subject, and it is therefore not proposed to take any further action in the matter.”

THE FOREIGNERS (TRIAL BY COURT-MARTIAL) BILL.

His Excellency the Commander-in-Chief:—“Sir, I beg to move for leave to introduce a Bill to provide for the trial, by court-martial, of foreigners for offences against the Defence of India Rules. In doing so, it is hardly necessary for me to point out that it is essential, in time of war, to deal speedily and summarily with offences committed by foreigners against the

[7TH MARCH, 1916.] [His Excellency the Commander-in-Chief; The Vice-President; Sir William Meyer.]

State, more especially with acts of espionage, and the collection and communication of intelligence likely to be of use to the enemy. It was with this object that an Ordinance was recently made providing for the trial by court-martial of any person other than a subject of His Majesty accused of offences against the Defence of India Rules. This Ordinance, like other Ordinances, is limited in duration to a period of six months, but the provisions contained in it will obviously be required until the end of the war. It is accordingly proposed to convert the Ordinance into an Act, and the present Bill is designed to give effect to this proposal."

The motion was put and agreed to.

His Excellency the Commander-in-Chief :—"Sir, I beg to introduce the Bill, and to move you to suspend the Rules of Business to admit of the Bill being taken into consideration."

The Hon'ble the Vice-President :—"I suspend the Rules of Business."

His Excellency the Commander-in-Chief :—"Sir, I move that the Bill be taken into consideration."

The motion was put and agreed to.

His Excellency the Commander-in-Chief :—"Sir, I move that the Bill be passed."

The motion was put and agreed to.

THE INDIAN TARIFF (AMENDMENT) BILL.

The Hon'ble Sir William Meyer :—"Sir, I beg to present the Report of the Select Committee on the Bill to amend the Indian Tariff Act, 1894, and for other purposes. The Report is now in the hands of Members, and I need only emphasize one little point, and that is, a slight amendment we have made in Schedule III.—Export Tariff.

"As I explained in my speech introducing the Financial Statement, we proposed to provide for a special rate on jute 'rejections' lower than the ordinary rate. After conferring with representatives of the Jute Trade, and having had the benefit of the attendance of Mr. Birkmyre as an expert witness before the Select Committee, we are led to the conclusion that the 'rejections' form really a very small portion of the raw jute articles that will pass through the customs; that it would be difficult to distinguish in regard to them in many cases; and that, on the whole, it would be better not to put rejections in a separate category. Fiscally, this will be somewhat to the good, since 'rejections' will now be taxed at the rate for jute of other descriptions, *i.e.*, other descriptions than cuttings.

"There were other points on which there was some discussion in the Select Committee. The Hon'ble Sir Ibrahim Rahimtools proposed that there should be a 6 per cent duty on piece-goods; that suggestion did not commend itself to the Committee as a whole, for the reasons stated in paragraph 2 of the Committee's Report. Similarly, a proposal made by the Hon'ble Mr. Stewart in respect of free railway material which had been ordered prior to the date from which this legislation is to come into force, and some suggestions he put to us that the Tea trade was not in a condition to justify the imposition of an export duty, were not accepted by the Committee as a whole. They are referred to in paragraphs 3 and 5 of the Report.

[Sir William Meyer.] [7TH MARCH, 1916.]

"I should like here to take the opportunity of emphasizing a matter which I thought I had made clear previously in my speech introducing the Bill, but which I see is still a subject of misapprehension, judging, for instance, from a telegraphic communication I have received from the South Indian Chamber of Commerce. Well, to take existing conditions, our general tariff is 5 per cent. and this is 5 per cent. *ad valorem*. Obviously, in the case of a great number of articles which are subject to fluctuations of price, it is alike to the convenience of Government and of trade to have a *valor*, the amount on which duty would be paid, definitely fixed from time to time. Otherwise, you would have constant 'value' examinations in the customs, and probably the anomaly, every now and then, of different valuations at different ports. So when the Import Tariff Schedule of 1894 was framed, in the case of a great many articles, our predecessors put down a specific tariff valuation on which the customs officers were to act. It is perfectly clear, however, that such a tariff valuation must, from time to time, be revised with the course of prices. If prices were to rise materially, the existing tariff valuations would be unfair to the Government as representing the community as a whole; if they were to fall, the tariff valuations would be unfair to those who have to pay the tax. Consequently, these tariff valuations come under reconsideration every year and fresh valuations are issued, the Government of India having power to do this under section 22 of the Sea Customs Act, which runs as follows:—

'The Governor General in Council may, from time to time, by notification in the Gazette of India, fix, for the purpose of levying duties, tariff values of any goods exported or imported by sea on which customs duties are by law imposed, and alter any such values fixed by any Tariff Act for the time being in force.'

"The result is that all these tariff valuations that were inserted in the existing Act are now ancient history; they are of no practical value whatever, and have been superseded by other more recent valuations. When we framed the present Bill, it seemed to us that there was no use in stultifying the Government and the Legislature by putting down these ephemeral tariff valuations in the Schedule of the Bill. We shall leave them to be fixed as before, year by year, under the authority of the Governor General in Council, but subject of course to the general enactment of the law that the duty levied must represent 7½ per cent. *ad valorem*, or 2½ per cent. *ad valorem*, or whatever the *ad valorem* rate may be. It is merely a procedure by which, for the benefit alike of the trade and of the Customs authorities, the Government translates, from time to time, into actual terms what the value is on which the duty shall be levied. The clause in the Bill—sub-clause (2) of clause 3—which governs the procedure is as follows:—

'The Governor General in Council may, by notification in the Gazette of India, fix, for the purpose of levying the said duties, tariff values of any articles enumerated, either specifically or under general headings, in the said Schedules as chargeable with duty *ad valorem*, and may alter any tariff values for the time being in force.'

And sub-clause (3) says:—

'Different tariff values may be fixed for different classes or descriptions of the same article.'

"As I explained in my speech introducing the Bill, we propose, as soon as possible after the Bill has become law, to publish under clause 3 (2) a Schedule in an alphabetical form for the convenience of the trade and of the Customs authorities, showing the tariff valuations as they were fixed at the last revision in December, 1916, for those articles in respect of which it has been considered necessary to fix such values, and these will remain in force till the next revision. I trust I have now made it quite clear that the South Indian Chamber of Commerce are under a misapprehension when they talk of 'the abolition of tariff values and of the introduction of an *ad valorem* duty all round.' The duty has always been an *ad valorem* duty in these cases, and remains an *ad valorem* duty. But for the sake of convenience the *valor*, the value, is fixed for specified periods and then revised, and this will remain the case still.

[7TH MARCH, 1916.] [*Sir William Meyer; The Vice-President; Sir Gangadhar Chitnavis.*]

"There is one more point I may notice here because it has not been the subject of any amendment, and that is our $7\frac{1}{2}$ per cent. duty on pearls. We have received representations from Bombay stating that this will be a great hardship, in view of the fact that the bulk of the pearls are imported into India from the Persian Gulf and are then re-exported. India is thus a sort of middle-man in this business, and those who object to the duty say that, by putting such a large import duty on pearls, we shall kill the trade, which will go elsewhere. Well, the Sea Customs Act provides, ordinarily, that where an article is imported and then re-exported within a definite period, $7\frac{1}{2}$ ths of the import duty will be refunded as a drawback. The article has, however, to be identifiable. Some of the authorities we have consulted say that the pearls will, generally speaking, be identifiable; others are rather doubtful on the subject. We are not therefore in a position to come to a definite decision in this matter. We propose, consequently, to keep the provision of the Schedule relating to pearls, but to prosecute our inquiries further. If we find that there would be difficulty in identifying the pearls, or that for any other reason the duty we propose will have a really prejudicial effect on the pearl trade, an effect which we have no desire whatever to bring about, why then, we shall act under section 23 of the Sea Customs Act and exempt them from duty or give them certain concessions. Sir, I now beg to move you to suspend the Rules of Business to admit of the Report of the Select Committee being taken into consideration."

The Hon'ble the Vice-President :— "I suspend the Rules of Business."

The Hon'ble Sir William Meyer :— "I now move that the Report of the Select Committee be taken into consideration."

The Hon'ble Sir Gangadhar Chitnavis :— "Sir, the Bill before us will command general approval, although the reason why it has been undertaken is regrettable. The deficit in our finances must be disquieting, especially because the Hon'ble the Finance Member thinks it is not likely to disappear for some time. Let us hope this fear is unfounded. The elasticity of the Indian revenue has always been a matter of surprise and satisfaction both here and in England, and there is much to be said for the view that its normal expansion in times of peace will be sufficient to cover all our liabilities. This optimism is further justified by the fact that a close scrutiny of our public expenditure would reveal items about the paramount urgency of which opinion might well be divided. In difficult times like these, large expenditure on unproductive construction work would appear questionable. The explanation does not appeal to me as conclusive. But a debate on the subject might embarrass Government, and there is no disposition in any quarter to do this. We therefore loyally accept the assurance that additional taxation has become necessary, and support the present scheme of such taxation with the greater alacrity in that it is based upon an equitable principle of distribution. And more than that: it is to some extent a sign that Government is more in touch with popular opinion. The revision of the tariff has all along been demanded by us, Indians, irrespective of the question whether or not such revision is necessary in the exigencies of our public finance. The fact that it has now become necessary is an additional point in its favour. But the exclusion of imported cotton piece-goods from the revised tariff must be viewed with keen disappointment. It is some comfort to be assured that this Government has tried to do us justice in this matter; it is likewise a hopeful sign that, on conclusion of peace, the whole question of the cotton duties and the countervailing excise duty will be carefully considered, along with the adumbrated scheme of an Imperial Federation founded upon inter-Imperial preference. We look to the Government of India to show itself as the watchful and earnest guardian of our interests in the framing of this scheme. When

[*Sir Gangadhar Chitnavis; Sir Fazulbhoy Currimbhoy.*] [7TH MARCH, 1916.]

I moved, in 1913, my Resolution about Preferential Tariffs, I had hardly expected that the suggestion would materialise so soon; but this war has proved a powerful solvent of old ideas, and new economic theories have forced themselves into public attention. It is natural that a Customs Union among the different units of the British Empire is already in view. Let us earnestly hope its inauguration will be marked at least by the repeal of the unjust cotton excise duty and a reasonable advance in our import duties upon cotton manufactures. From what we know of the present Viceroy and his Government, we have every confidence that they are doing their duty in imposing the new taxation under inevitable circumstances. I, therefore, beg to support the Bill, subject to such remarks as I may perhaps make in support of the amendments proposed by some of my friends."

The Hon'ble Sir Fazulbhoy Currimbhoy :—"Sir, the uncertainties of the situation both military and financial, if nothing else, force our assent to the Bill. In the crisis before us one cannot be sure of the future, and the accuracy of the Budget estimates is more or less a matter of chance. If the military necessities of the Indian Empire do not call for sudden extraordinary expenditure in the course of the next year, the actual expenditure will not probably exceed the estimated expenditure. But if extraordinary expenditure becomes necessary, the actual may far exceed the estimate. On the revenue side also the same element of uncertainty exists. So much depends upon the monsoon and the free and unrestricted movements of trade and commerce. Even the revenue from the customs duties and the export duties depend upon an adequate supply of tonnage, a factor always uncertain in war times, has become especially so in consequence of the new methods of warfare adopted by the enemy and the gradual extension of military operations over whole Continents. Precision in calculation of our future expenditure in these circumstances cannot be counted upon. Our reserves, both here and in England, must be maintained in their entirety, and any temporary depletion must be made good at the earliest opportunity. With all the prudent management of our finances, for which the Hon'ble Sir William Meyer deserves all credit, we have still temporary sterling liabilities on account of the Secretary of State's borrowings. And the sterling exchange may have for us surprises in the future; no one can be sure when, how long, and to what extent the expedient of the sale of reverse bills may have to be resorted to. These operations, as can well be realised, however sufficient as provisional arrangements, help to add to our financial liabilities after the war. A careful survey of the whole position will thus reveal the fact that the ordinary resources of this Government may prove inadequate for our needs. However loath, therefore, I may be ordinarily to support additions to our taxes, especially when they are expected to result in a fairly big surplus, I fully believe they have become necessary, even though I hold that our commercial prosperity at the end of the war will substantially increase our revenue in more directions than one. There may not after all be a surplus; the yield from the proposed taxes may fall short of the estimate; at the close of the next year, instead of having a large surplus to dispose of, we may have to face a deficit. With restricted scope for loan operations in India, and the London market practically cut off for sometime to come, it would not therefore be just to fret at fresh taxation.

"Now the necessity of additional taxation premised, Government arrangements must appear well devised to every dispassionate critic. It is clear Government have done their best under His Excellency's noble initiative. The taxation proceeds upon the most enlightened principles of distribution, and the Tariff Bill must appeal to all as reasonable. It is, in the first place, welcome as a concession to public opinion. There has been for some time past a growing desire in the country for a heavy tariff. Indian public opinion is now, to all intents and purposes, unanimous about its urgency. But a scrutiny into its merits is unnecessary. It is obvious that, when additional taxation has been forced upon us, considerations of policy at least would justify its adoption. I do not, however, think the tariff proposed is after all so heavy. But be that as it

[7TH MARCH, 1916.] [*Sir Fazulbhoy Currimbhoy.*]

may, the Bill means a welcome departure in our fiscal policy. The next agreeable feature of the Bill is that the taxes have been so adjusted as to secure the largest portion of the revenue from the rich, just the classes of men who are able to bear the strain, and who owe all their wealth to the security, both inland and oversea, ensured by the British Government and to the facilities of international commerce provided by our connection with that Government. It is certainly not my contention, neither is it the Hon'ble Finance Minister's contention, that improvements as regards details are not conceivable. The Hon'ble Sir William Meyer himself admits that an enhancement in the import duties upon cotton goods simultaneously with the abolition of the countervailing excise duty would have been just and would have been acceptable to Government. But in view of his explanation on the point, criticism would not further our cause. On the contrary, it might do us harm, as pointed out by His Majesty's Government. Hon'ble Members will note that the abolition of the excise duty is by far the more important of the two questions, and so long as that is not secured, we cannot gain our point. So far as the principle and the special needs of the Indian cotton industry are concerned, it is a comparatively minor matter whether the import duties upon cotton goods are raised by a few points or not. It has been felt now for decades, both by officials and the Indian public, that duties upon imported cotton goods are required for purposes of revenue, and quite naturally. The value of our annual cotton imports is enormous. These should therefore be one of the most productive sources of our revenue. But this source, so far, has not been, and could not be, utilised on account of this countervailing excise duty. Already the excise duty is a clog to the industry, and even a slight increase in it would prove positively injurious. As matters stand at present, however, the two duties go together, an enhancement in the customs duty being countervailed by a similar enhancement in the excise duty. The great point accordingly is, the excise duty must go on principle. And once we succeed in getting this abolished, we shall have made a substantial advance in the matter of fiscal freedom which we all so desire. We feel encouraged that the Government of India is with us in this matter, and is fighting our cause with all the weight of its position and authority. I would not embarrass such a powerful and earnest champion with ill-timed controversy over this question. Government has the moral support of the whole country. Our Congresses and Industrial Conferences have repeatedly demanded the abolition of this excise duty. Non-official Members of this Council have before now echoed the feeling of the country. When the war ceases there will be no lack of opportunity to express once again our united opinion on the subject, should such an expression of opinion be found necessary. I accordingly hold that no good purpose will be served by agitating the point now.

"Sir, it would have been well, it would certainly have been more consonant with public feeling, if in the Schedule to the Bill the duty upon salt had not been increased, and the estimated revenue from the additional duty had been raised from some other source, say jute. But, on a careful consideration of all the circumstances, I do not press for a readjustment. I cannot ignore the fact that Government themselves do not favour an increase in the salt tax. Their policy has been to reduce it on every accession of prosperity. There is a consensus of official opinion that the salt tax should be held back as a sort of reserve to be used only when other resources fail. The traditions of this Government are against an increase in this tax because, as the Hon'ble Sir William Meyer puts it, it hits the poor consumer. It is only fair, therefore, to assume that Government in this matter have yielded to pressure. But as it is, the additional 4 annas per maund may not prove very oppressive. I would, however, appeal to Government to repeal it at the earliest opportunity, and, until that consummation takes place, to see that even in the case of future necessity there is no further loading, and the necessary additional income is got by increasing the export duty upon raw jute and jute manufactures. The Hon'ble Sir William Meyer has referred to the expert opinion that jute exports can very well bear heavy export duties. A heavier export duty on jute would thus have been justifiable even in this Bill, but the cautious advance made by

[Sir Fazulbhoy Currimbhoy; Mr. Dadabhoy.] [7TH MARCH, 1916.]

Government in this direction is perhaps the most advisable. This is an altogether new tax in India, and a stiffer tariff in the beginning might have been productive of unnecessary clamour. It is prudent to watch developments.

"Sir, I must here point out that this Tariff Bill will operate harshly upon the Indian pearl trade unless supplemented by a Government notification, under section 23 of the existing Indian Tariff Act, exempting from duty the pearls imported into Bombay from the Persian Gulf. The imports mostly come for assortment and expert treatment by the Indian traders and artisans, and fully 75 per cent of the pearls are re-exported oversea. Bombay has so far been the distributing centre of the pearl trade of the world. The volume of business done is something enormous. About two crores worth of pearls are imported annually into India, while the exports are valued at three and half crores, the difference in value being due to increase in value of the re-exports after being cleaned, refined, subjected to difficult chemical processes, drilled, sorted and strung, as also to some extent to outgoings from old stock. The business gives employment to hundreds of skilled workmen and traders; but the whole trade will be diverted from India if the pearls are not exempted from the new duty. Continental firms, it is well to bear in mind, are watchful, but up to now have failed to wrest the trade from us. If, however, this 7½ per cent duty is maintained, it will have the sure effect of discouraging imports into India. This contingency will spell disaster to the Indian industry and ruin to a numerous body of traders and skilled workmen. The danger is so great, that the Indian Merchants' Chamber and Bureau has wired earnest representations to you, Sir, and to me. It may be urged that a drawback could be claimed under section 43 of the Indian Tariff Act, upon pearls re-exported from Bombay. Section 43 no doubt provides for the grant of a drawback upon re-exports, but that only in the case of goods 'capable of being identified.' Now, pearls are notoriously incapable of easy identification, especially because they are imported in mixed bulk. And it was because of this difficulty that Government have all along exempted them from duty. Unless similar exemption is allowed on the present occasion also, and a notification under section 23 issued by His Excellency in Council exempting pearls from customs duty under the Bill, the greatest injustice will be done to a large body of useful and law-abiding citizens who bring prosperity to the country by their industry and skill. I am glad that the Hon'ble the Finance Minister has given his assurance that he is going to inquire into the matter, and if it is found that it will ruin the trade, he will exempt it.

"In conclusion, I beg to accord my warm support to the Bill under discussion, and, in doing so, I must especially thank the Hon'ble Finance Minister for accepting the suggestion of the Indian Merchants' Chamber and Bureau, submitted through you, Sir, and increasing the customs duty upon gold and silver thread and other silver manufactures imported into India from foreign countries. The conditions of competition have now been equalised for the Indian silvermiths."

The Hon'ble Mr. Dadabhoy:—"Sir, I welcome this Bill, not so much for the revenue the alterations in rates provided in it will yield, but for the evidence it contains of a decided and, I hope and trust, a permanent change in the fiscal policy of this Government. The present scheme of taxation, thanks to the sympathetic initiative of the Hon'ble Finance Minister, is in agreement with the oft repeated suggestions of the people. Public opinion in India has all along demanded that Government should have a heavy tariff, not only for purposes of revenue, but also for the protection it is likely to afford to our industries. With years the feeling has gained in strength and persistency until we have reached a stage when opinion has become practically unanimous. But so long this Government could not accede to our request, however anxious they may have been to take the suggested departure. This war, however, has facilitated the adoption of the desired policy, and now that Government has launched this new scheme, it is only to be expected that the action should meet with general and cordial approval. The Indian public will only look

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forward with hope to the maintenance of the increased scale of import duties for a sufficiently long time. Should the Hon'ble Sir William Meyer's estimate of our future liabilities prove correct, all the additional revenue required may be easily had by judicious handling of the tariff. We should be ready to support Government if after a few years the duties now imposed have to be further enhanced.

"Sir, it may be argued that even a protective tariff has its disadvantages, and under prolonged strain its utility might become obscured and the general public might become restive; but, thanks again to the judgment the Hon'ble Sir William Meyer has brought to bear upon it, the whole arrangement is so carefully planned, that the masses will not feel the weight of the imposts so much as the rich. Barring two items, salt and sugar, the articles heavily taxed are exactly those which are used most by the better classes,—people whose patriotism and broader outlook will prove a powerful corrective of any feeling of impatience at the duties. About salt, I shall have to speak more fully later on in connection with the amendment relating to the additional tax upon it standing in my name. Sugar is undoubtedly one of the principal articles of food in India, and the increased duty upon it might at first sight appear onerous to the masses. But, in addition to the reasons given by the Hon'ble Sir William Meyer in support of the tax, Hon'ble Members will be pleased to consider that locally produced raw sugar or *gur* forms the chief article of consumption among the common people. These do not ordinarily use the imported refined sugar, and, except for use in moderate quantity on ceremonial occasions, that is seldom purchased by the simple villager. Indeed, whole villages would be found without a stock of it even in pre-war days when cheap beet-sugar ruled the market. It is true, inflation in the price of the imported article in consequence of the customs duty will have its effect upon the local stuff, but the rise in the price of this last article is bound to be small. This slight rise the people should not object to pay, especially at this juncture. This is a war towards the cost of which the rich and the poor alike must contribute, and when the rich cheerfully accept the higher taxes, the poor have no just cause for complaint for the slightly increased demand upon their purse. Besides, the country has all through the past quarter of a century and more demanded that some sort of protection should be ensured to the local manufacture, the development of which will contribute to rural prosperity in many parts; and when the much-needed protection is afforded by Government in the shape of heavy duties upon imported sugar, it is not for us to turn round and grumble at a slight rise in prices.

"In the debate on this Bill the main points which call for serious comment are (1) the retention of the countervailing excise duty upon Indian cotton, (2) the omission to levy the higher scale of customs duties upon our cotton imports, and (3) the exclusion of raw cotton from the new scheme of export duties. With regard to the first two points, the Hon'ble Finance Member has offered an explanation about the sufficiency of which difference of opinion is permissible. Clearly Government is in no doubt about the iniquity of the excise duty. Even five years ago when I moved in Council a Resolution for its abolition, indications were not wanting that Government was sympathetic, and now official opinion appears to coincide with the popular view that this duty must be abolished on principle, apart from any consideration of its economic effect upon the local cotton industry. In a general revision of the tariff it was to be expected that this would be done. It would have been well if the duty had been abolished. The action of His Majesty's Government in preventing the abolition must be viewed with keen disappointment throughout the country. The inclusion of imported cotton piece-goods among the articles liable to pay the enhanced duties, again, would have secured to Government universal support from the people, and this at a crisis when popular good-will is of the last importance. Here, too, the policy pursued by the Imperial Government must be characterised as narrow and shortsighted. But agitation on these points would embarrass Government, and that would not be right. It might also, to some extent, injure our cause.

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We must live in hopes that a decision in conformity with Indian opinion and Indian sentiment will be come to after the war. It is something to know that this Government is doing its best to secure justice to India. With such powerful support the wishes of 300 millions of people cannot be disregarded by His Majesty's Government.

"With regard to raw cotton, the case is slightly more complicated. The Hon'ble Finance Member has drawn our attention to the fact that the market for Indian cotton has steadied in the current year in consequence principally of heavy purchases by Japan, one of His Majesty's Allies. Over and above the consideration of the possible economic effects of an export duty upon cotton, diplomatic considerations must have induced Government to forego that duty for the present. It would be unjust to criticise Government action without knowing all the facts. In this matter, too, let us hope some satisfactory arrangement will be made on the termination of war.

"It may therefore be broadly stated that this Bill deserves the cordial support of this Council, barring the slight modification suggested in the amendments I propose to move. The whole scheme is fair, equitable and well thought out. In principle it is right. The details also have generally been settled with care and judgment. I accordingly cordially support the Bill, with the exception of two particulars in regard to which I shall move amendments."

The Hon'ble Khan Bahadur Mian Muhammad Shafi:—

"Sir, I have great pleasure in giving my support to the Indian Tariff Bill, not only because, in the existing abnormal conditions, the Government is perfectly justified in proposing the additional taxation embodied therein, but also because, while opening up fresh and perfectly legitimate sources of income to the Indian Exchequer, it is calculated to afford protection to some of our indigenous industries, and to promote the cause of temperance. Sir, to my mind one of the most pleasing features of the Bill is to be found in the list of import duties it is proposed to levy on articles, which hitherto have found a place in the free list, and in the enhancement of the import duties proposed in connection with other articles. The hard logic of resultant facts is bringing home even to confirmed advocates of free trade in Manchester that an indiscriminate application of the doctrine of free trade, irrespective of circumstances, to all commodities and to all countries, is calculated to result not only in material injury in certain respects, but also to mischief in others. It seems to me that the proposed enactment, in curtailing the free list and in proposing an enhancement of duty on others, is taking a step in the right direction. Coming as I do from an agricultural Province, and being myself a member of an agricultural tribe, I welcome the enhanced tax proposed to be levied on sugar and on tobacco as calculated to protect our indigenous sugar and tobacco industries. So far as the list of other articles is concerned, I entirely agree with my Hon'ble friend Mr. Dadabhoj, that the Government of India have framed this list with a great deal of discrimination, and that no serious objection can be taken to any part of it, except to one important omission. That omission has been referred to by almost every speaker who has preceded me, and I entirely endorse the remarks made by them regarding the unfortunate omission of cotton goods from the list of articles upon which import duty is proposed to be levied. At the same time, I recognise that the Government of India are in entire sympathy, as was apparent from the speech of the Hon'ble the Finance Member when introducing the Financial Statement, with the wishes and feelings of the people of this country in regard to this important matter. I am authorised by the Council of the Punjab Provincial Moslem League to offer their thanks to the Government of India for their advocacy of the claims of India for greater fiscal freedom in connection with this particular question. It is unfortunate that His Majesty's Government have decided to negative the proposal put forward by our Government. Let us hope that, when after the termination of the war, this question comes under review, the Government of India will obtain greater liberty, greater freedom

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in this particular respect, if not with reference to cotton goods produced within the Empire, most certainly with reference to cotton goods which are imported into India from countries lying outside the limits of the British Empire. Sir, I regard the increase in the salt tax, unfortunate and unwelcome though it is to a very large number of the people of this country, as a war tax pure and simple, and as such I am sure that the people of this country will give it their willing acquiescence. At the same time, I cannot help expressing the wish that, while so far as the proposed enhancement in the salt tax is concerned, the time may come, soon after the termination of the war, when the *status quo ante* will be reverted to; I trust that the rest of the Indian Tariff Bill, which it is now proposed to pass into law, will find a prominent place in the Statute-book of this country. With these few words, I cordially support the Bill."

The Hon'ble Maharaja Sir Manindra Chandra Nandy of Kasimbazar :—"Sir, I cordially support this Bill to amend the Indian Tariff Act. We all fully recognise that an enhancement of taxation has become inevitable on account of the enormous expenditure which is being incurred from day to day on account of the war, which is severely taxing the resources of the Empire. The only observation I should like to make is, as regards the raising of the salt duty from Re. 1 to Re. 1-4 per maund. As the Hon'ble the Finance Member pointed out in his statement made in this Council on the 1st instant, the 'enhancement of the salt tax has always been looked on as a reserve to be utilised when war or other financial calamities should come upon us.' We are in the midst of such a calamity, and, though we may not be quite justified in opposing the raising of the salt tax, I think the Council and the country are entitled to an assurance that there will be no further enhancement of the salt tax in future years, and that, at the earliest opportunity possible, the duty on salt will again be reduced to Re. 1 per maund."

The Hon'ble Mr. Rama Rayanagar :—"Sir, the Tariff Bill demonstrates forcibly the anxiety of Government to find money, not only for war deficiency, but also for employment on the improvement of the people. The Bill is welcome in that the duties proposed have the general approval of the people. If we have to faithfully represent popular views, we cannot but accord our support to the Bill. There are, however, a few particulars in which improvement is both desirable and possible. As the Hon'ble Finance Member himself suggests, the exclusion of the imported cotton piece-goods from the revised tariff is a patent injustice to India. But the official explanation, for which we must thank Sir William Meyer, will have made it clear to the public that the course has been adopted by Government with the sole object of preventing a greater injustice to the country. Evidently sanction to an enhanced import duty could only be secured on condition that a corresponding excise duty should be imposed upon cotton goods manufactured in the country. This last contingency would certainly have proved a greater evil. We wish the efforts of Government had been successful; but now that they have not been, we can only support Government in renewed efforts after the war is over; and we hope that in any fiscal re-adjustment on that occasion, the unjust excise duty should be abolished, apart from the question whether the import duties are altered or not. We attach great importance to the abolition of the excise duty."

"Sir, the exclusion from the Tariff Schedule of the machinery imported for agricultural and industrial development of the country is desirable on principle. I raised this question in Select Committee, but when the Hon'ble Member in charge of the Bill reminded me of the special needs of Government during the war, and pointed out the inconvenience which the exclusion would involve, I did not press the point. I hope, however, that when Government reconsiders this question after the war, this exclusion will receive sympathetic consideration."

"With these observations, I support the Bill."

[*Mr. Madhu Sudan Dass.*] [7TH MARCH, 1916.]

The Hon'ble Mr. Madhu Sudan Dass :—“The Tariff Bill is intimately associated with the Budget which was presented to this Council the other day. It no doubt shows a change in the fiscal policy of Government. The Hon'ble Members who have spoken and preceded me have referred to the excise duty on cotton and the import duty on piece-goods. When the Hon'ble Finance Member introduced the Budget, he delivered a message to this Council from His Majesty's Government, and that message was, that a controversial question like this should be avoided at this time. It was a message of peace, and at the same time this message of peace was accompanied by an assurance that when the time comes there will be re-adjustment of the relations between India and England, a re-adjustment when India will have her proper status in the British Empire determined and defined. With that assurance, Sir, I feel it my duty to avoid making any remarks, either with regard to the provisions in the Budget, or the Tariff Bill which may be misunderstood in other parts of the British Empire. This is not the time to say anything which may be construed as proceeding from a spirit of retaliation and retribution. His Majesty's Government promise and give an assurance that the day of reckoning will come when peace returns to the Empire. It is not the time to talk of retaliation or retribution when the house is on fire; that is not the time to discuss as to who contributed most towards the construction of the house, and what amount of labour should be undertaken by this person and that person, all of whom are inmates of the house. It is our duty to do all that we can do to show that we are loyal subjects of the Empire, that we are interested in upholding the dignity, the prestige and the honour of the Empire and of our King-Emperor.

“The Hon'ble Finance Member was pleased, in the concluding paragraph of his budget speech, to refer to some words in a Resolution which was passed unanimously in this Council. Though I was originally responsible for those words, those words represent the feeling of the whole country to-day as they did when I moved that Resolution.

“Sir, our duty as Indians, as to what we have been able to do, is not to be discussed now. All that we can say is, that the Hon'ble Finance Member speaks of the salt tax as a reserve to be drawn upon in times of need and necessity. I should go further, and say that the life-blood of the whole nation is a reserve upon which the King-Emperor has a right to draw when the interests of the Empire are in peril. And what can the poor man in India, who has no control over the Military Department and who does not control the war at the present day raging over the whole world do? next to giving his life blood in the battle-field, what can he do better than gladly accept a taxation on one of the necessary articles of daily life?

“I am glad that the salt tax has been introduced. I do not say that the salt tax is ever a desirable tax; I do not for a moment maintain that there is any justification for the salt tax. On the contrary, the salt tax in India has always been considered as a blot on the fiscal policy of the Government of India. But the salt tax has one redeeming feature viewed from the war standpoint; it has a feature which certainly is not to be found in any other tax. The salt tax will affect every Indian, so that by accepting the tax the poorest Indian, the youngest child, the oldest man contributes to the exchequer of India to make up the deficit that has been created by the emergencies of the war, and we have the satisfaction of saying—India will have the satisfaction of proclaiming—that she is not wanting in her duty to her King-Emperor. Once more I refer to the words of the Hon'ble Finance Member that the salt tax is a reserve. Yes, let this be considered as a precedent, let the present occasion be a precedent for the future, that only when the interests of the Empire are in peril let this reserve be drawn upon, but not for other purposes. Salt is not a luxury. There is a craving for it in human nature, I should say in nature. Even wild animals lick saline dust. It is not like other luxuries, for instance tobacco or wine. There is no danger of a man indulging to excess in salt, or getting drunk; it does not lead to any vicious habits; a Maharaja with his huge income does not eat one maund of salt and the poor beggar two pice worth of salt. The enormity of the taxation lies in this fact, that nature has implanted a craving for salt in man. In India, where saline earth is to be found, the Indian is

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tempted by the very soil of the country where he was born. The country which he worships as his motherland tempts him. And what is the result? Being a poor man unable to buy salt, if he takes a little saline dust, he is sent to prison for three months or six months, and the man who sends him to prison gets a reward; whereas if a cow were impelled by hunger to trespass on a farm the cow is only taken into the pound and not sent to jail. Ilcre the enormity of the tax. I do sincerely hope that, when peace returns, this blot on the fiscal policy of the British Government of India will be removed.

"For a small man like me to compliment the Finance Member on the carefulness with which he has prepared the Budget would perhaps be impertinent, but I do feel it all the same because in amending the Tariff Act there was danger of putting too much taxation in the shape of export duty. If that were so after the war people might have said the contributions that India made towards the war fund came from foreigners who paid the export duty. There has been a very reasonable, cautious and careful adjustment which at least secures to India the judgment of the world that, poor country as she is, poor as Indians are, they have not been lacking in their duty to support the honour and prestige and dignity of the Empire. We have done all that we could do. We have proved in the battlefields of Europe that the blood of a British subject, whether he comes from Canada or from India, has the same colour. We have proved that the heart which responds to the tune of the National Anthem is the same whether it is in the breast of an Indian or an Englishman. Let us wait for the day when peace is restored to the Empire, when the day of re-adjustment comes, and let it not be said then, let not any opportunity be given to any man to say then that in the days of trouble India was weighed in the balance and found wanting.

"With these remarks, I support the Bill."

The Hon'ble Rai Sitanath Ray Bahadur:—"Sir, considering the exigencies of the situation and the tremendous sacrifices the present war has entailed upon the British nation, I must say that the several schemes of taxation, formulated for meeting the deficit, are wise, modest and equitable, and that the burdens of taxation have been equally distributed among all classes of people, and as such, coming here as the representative of the Indian mercantile community, I beg to give my humble support to the Tariff Bill, and to add that we, one and all, cheerfully submit to the additional taxes that are going to be imposed. But I must say that, though the Income-tax has been more than doubled in the case of higher incomes, this is hardly the time to murmur and grumble against it, more especially when we see that, even in the case of salt, a prime necessity of life, a slight increase has been made. But I do assure the Council that the increase is so slight that it will not have any effect in raising the price of salt, at least to an appreciable degree.

"With these few words, I beg to give my humble support to the Tariff Bill."

The Hon'ble Sir William Meyer:—"On behalf of Government I greatly appreciate the way in which our tariff proposals, which I need not say caused us great trouble and anxiety, have been received by this Council. Here is a Bill of an elaborate character involving, so far as its Schedules are concerned, material alterations in the taxation of the country, which has been received with general approbation. I need not therefore detain the Council with a further speech. There are certain points in connection with which I might have spoken, but they will come in on subsequent amendments.

"I will only say this that I fully agree with what has been said by my friend the Hon'ble Sir Fazulbhoy Currimbhoy and other members, on the question of the cotton import duties. These members, some of them of long experience in the Council, have recognised what the Government of India would have liked to do had they had a free hand. They have also recognised

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that His Majesty's Government having had to take, as I said in my Budget speech, a wider view, having taken the interests of the whole Empire into consideration, have come to a different decision. His Majesty's Government have, on this subject, sent to us what my friend the Hon'ble Mr. Das aptly called a message of peace; and also, as regards the future, a message of hope. I would earnestly appeal to the Hon'ble Member who proposes to move an amendment on this subject to consider whether, by moving that amendment, by entering into a discussion which may provoke criticisms of His Majesty's Government, which later on those who utter them might regret, he will not be doing more harm than good, whether such a course may not be against the interests of India as affecting the future settlement which will have to be entered into not in any spirit of abstract principle or ruthless bargaining on the one side or the other, but rather as a question which deals, as His Majesty's Government have put it, with the fiscal relationships of all parts of the Empire as between one another and the rest of the world—a question which must therefore, if it is to come to a successful issue, be dealt with by all sides in a spirit of conciliation and of practical give and take. Therefore, Sir, I would ask my Hon'ble friend, who has a certain amendment on the Agenda on the subject of the cotton duties, to consider carefully whether it is expedient at present to press it.

"I conclude, Sir, by once more moving that the Report of the Select Committee be now taken into formal consideration."

The motion was put and agreed to.

The Hon'ble Mr. Dadabhoy:—"Sir, the amendment which stands in my name and which I now beg to move suggests that Government should dispense with the proposed addition of 4 annas per maund to the existing tax upon salt of Re. 1 per maund. I have been anticipated to some extent by some of the previous speakers, but I propose to put my case before the Council in a different shape. I do not agree with some of the remarks which fell from the Hon'ble Mr. Dass on the subject. It will at once be seen that this recommendation forms part of a scheme of readjustment of the tariff duties which has for its central object the relief of the poor masses at the expense, not of individuals, but of big companies and merchants in the first instance, and ultimately of the foreign purchasers of jute, raw and manufactured. Had the present amendment stood alone, without any practical suggestion as to how the loss in prospective revenue consequent upon the elimination of the additional salt tax could be made up, it might perhaps be contended that I could not claim a sympathetic hearing either at the hands of Government or of this Council in the difficult and anxious times through which we are passing. But fully alive as I am to the needs of the situation, I supplement the present recommendation by another which ought to dispel all fear of loss of revenue. Of that, however, later on.

"Now, about the form of the amendment. It will be noticed that the addition to the tax is proposed to be made by executive order, as it is open to Government to do. Under the rules, the excise duty upon salt manufactured in India can be altered by an Order in Council, and that procedure has been followed on the present occasion. The proposal about the abandonment of the additional tax, therefore, to be effective must be discussed in the course of the debate on the Tariff Bill. I have accordingly taken advantage of the fact that imported salt forms a dutiable article in that Bill to raise the whole issue by suggesting that duty at the rate of Re. 1 be levied upon that salt, i.e., at the same rate at which salt manufactured in India is taxed. If this amendment is carried, the excise duty upon indigenous salt will perchance remain unchanged at Re. 1 per maund.

"Sir, from the observations I have made in lending my support to the Bill, it will have become abundantly clear that the proposed financial arrangements of the Government generally have my wholehearted approval. I may also say at once that, even in this matter of the additional salt tax, Government have evinced great moderation. But one of the points I beg to emphasize

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before the Council is, that the salt tax should be a sort of reserve with us to be drawn upon only in case of extreme necessity, after all the other productive sources of revenue have been fully utilised and exhausted. Mr. Baker, Finance Minister in 1905, justified his action in reducing the salt duty, *inter alia*, thus:—

‘The feature which specially commends itself to me in the reduction of the duty is the large and valuable financial reserve which it lays by for a lean year.’

“Then there is the consideration that the salt tax weighs upon the poor. All classes have to pay this tax, it is true, but the major portion of the revenue from it is contributed by the poorest sections of the community by reason of their numerical preponderance. That is a proposition which does not require elaborate elucidation. I will only cite the authority of Lord Curzon in my support. In 1905, in justification of the partial remission of the duty upon salt, he observed—

‘What is the tax that touches all classes down to the humblest? It is the salt tax.’

“Again, after referring to the principle that surpluses should be utilised to afford relief to the people, he remarked—

‘And who are the people of whom I speak? They are the patient, humble millions, toiling at the well and at the plough, knowing little of budget, but very painfully aware of the narrow margin between sufficiency and indigence. It is to them that my heart goes out. They are the real backbone of our economic prosperity. They give us nearly 20 millions sterling per annum in Land-revenue alone, or about one-fourth of our entire receipts.’

“Now putting the two extracts together, we get to the fact that, in Lord Curzon’s authoritative opinion, the remission of the salt tax meant relief to the masses. The converse is likewise true, and the fact should be frankly acknowledged that any addition to the salt tax *pro tanto* presses upon the masses. This is a matter of arithmetical proof. As Finance Minister Mr. Baker pointed out in 1905, every reduction in duty up to that year had been followed by increased consumption, and every enhancement in duty had checked the rate of increase in consumption. The movements of trade in the subsequent period confirm the truth of the assertion. Unless an additional duty of eight annas was felt by the people, it would not have had in the past a restrictive effect upon the annual normal advance in consumption. In 1889, the salt tax was enhanced by 8 annas a maund. The rate of increase in consumption during the following quinquennium immediately fell from 668,000 maunds a year in the previous period to 272,600 maunds a year. On the other hand, the salt duty was reduced once in 1903 and again in 1905, and in the Financial Statement of 1907 the effects of the successive reductions were described in the following luminous language:—

‘Under salt, we had made what seemed to be a liberal allowance for the probable increase of consumption due to the reduction of the duty last March. The results have, however, surpassed our anticipations. By the end of February the issues of salt had exceeded those of the corresponding period of the previous year by 14,83,000 maunds, and we now expect that this figure will have risen to 16 lakhs of maunds by the end of the year. This advance follows on a very large increase of 17,88,000 maunds which occurred in 1904-1905, by which time the first reduction of duty made in 1903 had come into full effect.’

“If past experience and the history of the several changes in the salt tax be any guide to the future, it may be asserted that an additional duty of 4 annas a maund will in the same way proportionately affect consumption. And that contingency would react upon the revenue, and it may be that the actual realisation will fall short of the Budget estimate. But that is the third point which demands the attention of this Council. And all the three points together warrant the conclusion that it will be more politic to leave salt untouched for the present. When I come to deal with the second amendment, I shall be able to satisfy Hon’ble Members that we have not exhausted the other sources of revenue. The estimated revenue of £600,000 can be raised in other ways which, while sparing the masses, will not cripple the economic resources of the country. But I cannot dilate upon this aspect of the question now.

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“Sir, it is only fair that I should mention two other points which must be considered by the Council in this connection, and they follow opposite lines of thought. The one is founded upon sympathy with the masses, and the other derives its force from an impatience at the immunity enjoyed by them from the general scheme of contribution towards the cost of the war. It is argued that the pressure of the abnormal financial conditions due to the war may compel us to impose upon salt even a higher duty. When that contingency comes the rise in price will be so sharp as to be distressing to the poor. It is far better therefore that the enhancement should be gradual, and in this view of the case the additional duty of 4 annas is right. Sir, I concede there is apparently something to be said for this contention. I will not say that the contingency is hypothetical. But, assuming for argument's sake that it is imminent, I submit that, in the interest of the ignorant millions, frequent or even successive alterations in salt duty must be discouraged. Such changes only introduce some uncertainty in the market, render a stable basis of calculation difficult, and help the middleman to fill his pocket at the expense of the poor customer. The theory of gradual enhancement does not hold good in salt duty. There is always considerable speculation in the market, and the real effect of taxation upon prices is, for some time at least, obscured by the operations of bulls. The Hon'ble Finance Member has himself referred to the speculative clearances of salt in expectation of this enhancement in duty. It is a matter of common knowledge that, for every slight rise in duty, the price of salt goes up out of all proportion to the additional tax. Only a few weeks ago, at important centres the price of salt became double of what it was before. The imports have doubtless been less for some time; but making allowance for all factors, it is difficult to believe that the inflation in prices was right. Far better, therefore, that the duty which is found absolutely necessary should be levied all at once than that successive additions should be made to the existing duty. This last course will only lead to large accumulations in the hands of the speculators which can never be advantageous to the poor. When stocks are held up prices naturally rise.

“But however divided opinion may be on the question of the relative merits of gradual enhancement and sharp enhancements, I would claim earnest consideration of the question of the suitability of the salt tax in the light of the principle I have submitted to the Council, that this tax should be treated as a reserve to be utilised in the *last resort*. Judged in that way the time for enhancement has not come. We have certainly not exhausted our other sources of revenue. I would therefore ask Hon'ble Members to decide that the proposed enhanced duty should be abandoned, let it be on the understanding that I undertake to show in connection with the second amendment that the revenue can be raised in other ways.

“The other points, namely, that the poor must contribute to the State Fund along with the rich at this time, hardly needs elaboration. Were it a fact that the agriculturists do not pay towards the cost of administration, including defence, anything except the Land-revenue, even then they would be entitled to consideration, because the Land-revenue alone accounts for one quarter of our revenue. But it is not a fact that other taxes besides the salt tax do not touch them. These people at least contribute to the revenue from the customs duties. The bulk of the excise revenue and of the revenue from stamps is realised from them, and they contribute a substantial portion of the railway revenue.

“Sir, I have one other submission to make before I place this amendment formally before the Council. With all the additional taxation provided in the Income-tax Bill, and the Indian Tariff Bill as also by executive order, the Hon'ble Finance Member expects to close next year with a surplus of £1 million. And this figure greatly exceeds the expected revenue from this tax of 0-4-0 annas a maund upon salt. What is the difficulty then of dispensing with this tax? Without it there will still be a surplus of £400,000. The additional salt tax is wanted only to swell the surplus, and that is a principle of taxation to which few will be found to subscribe. Taxation with a view to provide a surplus is in itself a policy of doubtful wisdom, and when

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the article selected for such taxation is a commodity of prime necessity like salt, it becomes indefensible. I accordingly move:—

‘That in column 4 headed ‘Rate of duty’ against item 39, Part II, new Schedule II, for the existing entry against that item, the figures ‘1-0’ shall be substituted.’

The Hon’ble Sir Gangadhar Chitnavis:—“Sir, the amendment has my support. The Hon’ble Mover represents, to a large extent, the popular view, and there is much to be said in its favour. I do not think the extra 4 annas a maund will force up prices abnormally high. The Hon’ble Mr. Dadabhoj, too, does not justify the proposed change on that ground. He has said in the speech he made this morning that where the rich have cheerfully accepted their responsibilities, the poor should not grumble if there is a slight increase in the poor man’s burden. But sufficiency of salt being one of the principal conditions of healthy existence both for men and cattle, too great care cannot be taken to see that the duty upon it is not raised without the gravest necessity; in other words, salt should be taxed in the last resort. This contingency, in the opinion of some people, has not arisen. There are still other sources of revenue not fully used up. I would, therefore, request Government to consider if this tax could be withheld, and the loss of revenue that may be caused by accepting this amendment might be made good by raising the tax on some other commodities.”

The Hon’ble Sir Ibrahim Rahimtoola:—“Sir, I am entirely in favour of retaining the salt tax at the present figure of Re. 1 per maund, and I have given notice of a Budget Resolution to that effect. I did not anticipate that the question of the salt tax would be raised in connection with the Tariff Bill.

“The increase in the rate of the salt tax is made under the Salt Act, which gives Government discretionary powers to regulate it up to a maximum of, I think, three-and-a-half rupees. I therefore thought that, as no legislation was necessary for the increase of that tax, the proper procedure would be to move a Budget Resolution on the subject. And, Sir, that would have facilitated matters. We would have known by that time whether the Tariff Act was passed in its entirety with or without any modifications and whether the Income-tax Act also was passed. We would have then known what the state of the Budget Estimates for the ensuing year would have been, and it would have helped us to consider the question of salt taxation on its own merits after fixing up all other items. However, as the subject has been, raised on the present occasion, I do not wish to dilate upon these matters, as the whole scheme of increased taxation will have to be considered. I will confine myself on the present occasion by saying that I am in favour of retaining the salt tax at Re. 1 per maund, and I beg to submit that there are very strong reasons in favour of it. But, with your permission, Sir, I will raise that question when dealing with my amendment, and when speaking on the Income-tax Bill. At present all I wish to say is, that I am in favour of retaining the salt tax at Re. 1.”

The Hon’ble Pandit Madan Mohan Malaviya:—“Mr. Vice-President, I give my hearty support to the amendment which is before the Council. It seems such a pity that a Budget which is marked with so much sanity and considerateness, as the present Budget is, should have one feature in it which is exposed to serious attack. I do not know that there have been many Budgets which have been received with so much general satisfaction as the Budget which Sir William Meyer has presented to this Council. That seems to me an extra reason why the amendment should be pressed on the attention of the Government. I do not wish to cover the same ground which has been traversed by my friend Mr. Dadabhoj. I think two points are clear. In the first instance, there are other articles upon which a duty can be imposed more justifiably than upon salt. In the second place, as it is after all a surplus which is being provided for, the surplus might be a little less than

[*Pandit Madan Mohan Malaviya; Sir William Meyer.*] [7TH MARCH, 1916.]

what is provided for in the Budget. On both these grounds, I beg Government to take the matter seriously into consideration. There can be no dispute that the amount by which it is proposed to increase the salt duty is moderate. It has been fixed very considerably, and for that the Finance Member and the Government of India are entitled to our gratitude. But what I submit, and several other members have submitted, is that there is not such a clear need for putting this extra burden upon the poor, and that therefore the matter might well be reconsidered. This is hardly the time, speaking on an amendment to this Bill, to go into the general question of whether the amount that has been budgeted for was actually necessary, whether by further curtailment, by a further general retrenchment of expenditure, the amount could not have been reduced; but taking it as settled that this amount must be found, we are entitled to say that, as there are other articles upon which the duty might more reasonably be increased, and other ways in which the amount needed may be found, the duty on salt should not be increased. I hope the Government will take this matter into serious consideration, and not throw out the amendments as they are generally thrown out merely because the thing has once been settled."

The Hon'ble Sir William Meyer :—"Sir, I have greatly admired the ingenuity by which Mr. Dadabhoy has succeeded in getting the salt duty within the scope of the present discussion. There is, however, one little development which, with all my friend's ingenuity, he has not perhaps quite appreciated, or the Council either. The Schedule, as it stands, says that imported salt shall be subject to the same rate of duty as is imposed by executive order of the Governor General in Council on salt which is produced in India. Well, we have already issued a notification that salt produced in India is to be taxed at Rs. 1-4 per maund. Mr. Dadabhoy now proposes that, in this Schedule to the Tariff Bill, we should limit the rate of duty on imported salt to Re. 1 a maund, and therefore he is giving a preference, I am sure not deliberately, to the imported article. That of course is a debating rather than a practical point, for I have no doubt Mr. Dadabhoy would argue that, if his proposal were carried, the Government would be necessarily led to amend the excise rate also: but I mention it as an instance of what may happen if you do not very carefully consider amendments which you have to suggest, and if you do not consider their eventual as well as their immediate effects.

"I have shown in my speech on the Financial Statement that the taxation of salt is not a matter which the Government of India have taken up lightly or inadvertently; that it was only after careful consideration that we made the small rise which, some Hon'ble Members have admitted, will not in itself affect prices much; and, even so, that the taxation will be lower now than it was nine years ago in a period of peace, and far lower than it was in the time of Lord Curzon, from whom Mr. Dadabhoy has quoted. I must remind the Council that, at the commencement of Lord Curzon's Viceroyalty, the salt duty stood at Rs. 2½ per maund. It was reduced to Re. 2 in 1903, and to Rs. 1½ in 1905, shortly before Lord Curzon left office. The reduction to Re. 1 took place later. It has been admitted by the Mover of the amendment that one object of these successive reductions of salt tax—he quoted one of my predecessors, Sir E. Baker, to that effect—was to provide a financial reserve against lean years. I gather, however, that he thinks that the years are not yet sufficiently lean to justify our drawing upon this reserve. Well, if so, he is very hard to please. We had a big deficit in 1914-15; we have another big deficit this year though, thanks to the exemplary conduct of our railways, it is not so large as was originally anticipated; and we have a still larger deficit to face in 1916-17. We have got, besides that, a load of temporary debt which we incurred rather than impose taxation before we felt actually obliged to. Well, I say a position like this is emphatically a position in which we are entitled to draw on our salt reserve, and so far from the drawing being unjustifiable, I can claim some credit to the Government in that they have taken so little from salt. The Hon'ble Mover quoted statements by predecessors of mine as

[7TH MARCH, 1916.] [*Sir William Meyer.*]

to the immediate effect of the reduction of salt duty on prices, and he argued therefore that there will be a counter-effect through an enhancement. Certainly, after the reductions from Rs. $2\frac{1}{2}$ to 2 and Rs. 2 to $1\frac{1}{2}$, the Government of India had evidence that these reductions of duty were materially affecting both prices and consumption. But now let me quote what was said by my predecessor in respect of the year 1908-09, shortly after the salt duty had been reduced to its existing pitch of Re. 1. In introducing the Financial Statement for 1909-10, and in dealing with the Revised Estimate for 1908-09, Sir Guy Fleetwood Wilson had to comment on the salt revenue, which was considerably less than had been anticipated in the Budget, and he said :—

'Ever since the recent series of reductions in duty began six years ago, there has been a steady annual increase in consumption. A point, however, seems now to have been reached at which the purchasing power of the people is affected much more by agricultural conditions than by the purely nominal rate of duty.'

I think that this applies still ; that prices and consumption are affected much more by other circumstances than by the small rise which the duty itself brings about. For example, Mr. Dadabhoy talked of the large increase, recently, in the price of imported salt. That is purely due to considerations of freight—that is special conditions caused by the war ; and any increase which is contingent on the rate of duty will be trivial compared with what may be brought about by the dislocation of freight. I am happy to believe, however, that the supply of imported salt will presently resume its normal proportions. I may remind the Council, Sir, that, as 'every cloud has a silver lining,' I believe that the rise in the price of Liverpool salt has materially enhanced the demand for Madras salt, and probably for Northern India salt also. Mr. Dadabhoy, in dealing with the financial aspect, has two strings to his bow. I will refer in general terms, as he has himself done, to the amendment which he is going to move as to jute, and by which he offers to supply the Government with the revenue that they would lose under his present proposal. We shall come to that amendment in due course ; but it is only fair to the Council that I should say now that we have considered the matter, and we think that by imposing export duties, amounting approximately to 5 per cent on the jute trade, we are doing as much as we can reasonably do. That if we were to double the duties, as Mr. Dadabhoy proposes, we should diminish the volume of trade to an extent which would inevitably hurt the producers, the Bengal ryots.

"Then the Hon'ble Member says, 'Oh, but apart from that you have too much money ; you have a surplus of a million pounds, you should have less ; you can do with £400,000.' I can only say, as responsible for the finances of India, that I could not possibly agree to such a proposal at a time like this, when we are subject to all sorts of unforeseen contingencies. We have to grope very much in the dark in some cases as regards our estimates. As the Hon'ble Sir Fazulbhoy Currimbhoy put it very well a little time ago, you cannot have precision in circumstances in which ordinary data do not apply. Take the current year, for instance, we had a large increase in military expenditure which had to be accepted as a matter of necessity. Latterly, railway receipts rose to an extent that no reasonable person could have predicted beforehand ; if anybody had said a year ago that railway receipts would have reached their present figure, he would have been laughed at. We have had then, to provide for an increase in military charges which has been more than counterbalanced by railway receipts. But supposing it had not been so, supposing that against the increase in military charges, railway receipts had only come to very much what we expected in the Budget—well, we should then have had a deficit of about 4 millions this year. In the year for which we are legislating, 1916-17, we don't know what a day may bring forth ; we may have to make further provision for military charges—circumstances may easily occur in which we may have to add to them ; and on the other side, railways may not prove so successful from a financial point of view ; also as the Hon'ble Sir Fazulbhoy Currimbhoy indicated, our Customs revenue may fall to a larger extent than we have anticipated, and there is the question of the monsoon. We have anticipated a normal South-west monsoon : we hope that it may be so—may, that it may be abundant ; but it may be that it will be unsatisfactory.

[Sir P. V. Meyer; Mr. C. Vijiaramgavachariar: [7th March, 1916.]
Khan Bahadur Mian Muhammad Shaf.]

With all these contingencies before us, with no possibility of borrowing from home, and with a large load of temporary debt hanging over us, we should not be doing our duty to the country if we were to say that we can sail safely through with an estimated surplus of only £400,000.

"For these reasons, Sir, I am unable to accept the amendment."

The Hon'ble Mr. C. Vijiaramgavachariar :—"Sir, it seems to me that this amendment relating to the duty on imported salt can be separated from the question relating to the increased tax upon salt manufactured in this country. The rate of duty on the former is as follows—'the rate at which excise duty is for the time being leviable on salt manufactured in the place where the import takes place'. Under section 7 of the Act the Governor General in Council is empowered to impose an excise duty not exceeding Rs. 3 per maund. Under that section a notification was issued on the 1st of this month increasing the duty by 4 annas per maund, and the Tariff Act says—and the present Bill retains this provision—that there being this automatic relation between excise duty and the duty on imported salt, the latter duty is also increased to the same extent. If the amendment is accepted, it puts an end to this relation. The amendment urges that in column 4 headed 'Rate of duty' against item 39, Part II, new Schedule II, for the existing entry against that item the figures '10' shall be substituted. It does not in the least affect the notification issued by the Government of India on the 1st of March this year. If we accept the amendment, we get rid of the entry which establishes a relation between the two kinds of duties. I believe to that extent this is a mischievous fiscal principle, namely, that the duty on imported salt should be the same as the duty on salt manufactured in India. If we get rid of this mischievous principle, I do not see that any serious consequences will follow, that Government revenue will lose or that the amendment will produce the disastrous consequences which the Hon'ble the Finance Member has humorously pointed out. Without going into the question whether Re. 1 or Rs. 1-4 is a fair tax, or into the general question of the expediency of an increased duty on salt manufactured in this country, I feel I am in a position to support this amendment because it virtually and by necessary implication, gets rid of a vicious fiscal principle."

The Hon'ble Khan Bahadur Mian Muhammad Shaf :—"Sir, I would appeal to my Hon'ble Friend Mr. Dadabhoy to withdraw the amendment which is now before the Council. My reason for making that appeal to him is this—that if the figures which he suggests should be substituted for the words which find place in the fourth column as against this particular head, the result will be that, supposing after the termination of the war the Government of India is in a position to reduce the salt tax to a figure below Re. 1, then in that case a further amendment to this Indian Tariff Act will have to be introduced in this Council in order to set matters right. Now, whereas such an amendment as regards salt manufactured in this country can be brought about by merely an Order in Council, to give this Council the trouble of introducing an amending Act such a short time as one or two years after the passing of the present Act, would be opposed to all notions of sound legislation.

"So far as the views of the Hon'ble Mr. Achariar are concerned, I do not propose to discuss them at all. The object which my friend Mr. Dadabhoy has in view has my hearty support, but I think it can be achieved in a much better way, as suggested by the Hon'ble Sir Ibrahim Rahimtoola, in the form of a Resolution in connection with the Budget. The method adopted by Mr. Dadabhoy will result in two things: first, it will reduce the duty on imported salt unnecessarily, and, in the second place, it will necessitate a further amendment of the Indian Tariff Act if, after the termination of the war, the Government is in a position to reduce the salt tax by means of an Order in Council. Under these circumstances, I think that the view taken by Sir Ibrahim Rahimtoola is really the better of the two."

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[*Mr. Dadabhaiy.*]

The Hon'ble Mr. Dadabhaiy:—"Sir, I am afraid I cannot add very much to what I have already said on this very important subject. The Hon'ble Finance Minister has rightly taken exception to the form of my amendment; but I think that to a certain extent the explanation which I propose to offer has been partly given by my friend the Hon'ble Mr. Acharia. It was my great desire that a full discussion on this very important subject should take place, and that the Government should be in possession of the opinions of the non-official Members of this Council regarding it. There was no other way of forcing this discussion in the debate on the Tariff Bill, except by putting my amendment in the form in which I have presented it. I am of opinion, and the Council will agree with me, that as these Bills were brought up for final discussion, if any practical or useful result was to follow, it was necessary that this discussion should take place before the Bills became the law of the land. The discussion on this subject on the 9th instant would have been only of an academical character, and would not have helped either the non-official Members or the Government in any way. It was for this reason, and in order to get a hearing in time, that I drafted my amendment in this manner, perfectly confident that if Government removed the extra duty on imported salt, they would necessarily have to reduce the duty on Indian salt. It would have been an inconsistent position for Government to take up to continue the duty on Indian salt and to throw up the duty on imported salt. Swayed by this consideration I framed my amendment in its present form, and there was no desire, as suggested by the Hon'ble Finance Minister, to put imported salt on a footing of advantage.

"Now, Sir, as regards the merit of my amendment, I must say that I heard with the greatest interest and with very great respect what has fallen from the Hon'ble Finance Minister, but I must say that I am not able to agree with him in the conclusions he has drawn. His justification, Sir, for the imposition of this tax is this, that he had last year big deficits in the anticipated revenue. It has been further contended that the duty, though increased, now stands lower than it was nine years ago. Is that any answer to the principle of the tax? I have pointed out that, according to the deliberate pronouncements made by this Government from time to time, it is settled that this tax is to be kept as a reserve in case of urgent necessity. I am afraid the Hon'ble Finance Minister has taken a very pessimistic view of our financial position. I believe that at the end of the year there will not be any deficit; but I expect, on account of all these taxes, there will be a large surplus. I am sure the Hon'ble Finance Minister does not want this Council to believe that in having this taxation and in estimating this Budget, the exact revenue that would be yielded by this additional taxation has been counted upon. I have been in this Council for some years, and if my knowledge counts for anything, I have found that in all Budgets, in estimating the revenue, the Government allow a margin of ten per cent., and I have no doubt that if that margin is taken into consideration, the revenue which would be obtained from the general increase of taxation would be very considerable.

"The Hon'ble Finance Member has very rightly referred to one subject on which I am entirely in agreement with him. He has stated that we are unaware to what extent our military expenditure is likely to increase. I quite see the force and the wisdom of this remark. I well believe it is possible that developments on the frontier or other affairs might lead us into extra expenditure; but it would have been better if the Hon'ble Finance Minister had taken the Council into his confidence, and had made it clear in his opening statement, that he required this money for future expenditure in connection with our frontier and other difficulties.

"Sir, at this stage it would not be possible for me to go into the other Resolutions. I have placed a constructive scheme before Government. I do not ask that our revenue should be lost in any way. I freely acknowledge, and I am fully conscious of, the fact that we are at present in a state of crisis. Everything in our power should be done to husband our resources and to collect the available revenue; and we must be prepared for any emergency

that may arise. But, by a little more care we could have readjusted our taxation in such a manner that it would have yielded the revenue which the Government wants without in the least causing any difficulty, oppression or inconvenience to the masses.

“Sir, I know the fate of my amendment: it will be lost. But my chief object in bringing it forward was, that my Hon’ble friend the Finance Minister should not be tempted next year to put a further additional duty on salt; that he should be aware of, and he should know, the opinions of the country and of the Non-official Members of this Council in this matter. I think it our duty to help Government in every possible manner; we are pledged to support the Government. The whole country wants that our enemies should be crushed, and that all possible sacrifices should be made by us. We are prepared for sacrifices; we do not wish to cause any embarrassment to Government by showing to the foreign public that officials and non-officials to-day are divided on any important matter. From these considerations, I withdraw my amendment; but I hope that the Hon’ble Finance Minister will be pleased to bear in mind that behind this amendment there is a large volume of public opinion which considers that this tax is obnoxious and entirely unjustifiable.

“With these few words, I will ask you, Sir, to give me permission to withdraw my amendment.”

The amendment was, by permission, withdrawn.

The Hon’ble Sir Ibrahim Rahimtoola:—“Sir, I beg to move—

‘That in column 4 headed ‘Rate of duty,’ against item 51, Textile Fabrics, Part II, new Schedule II, for the figures and words ‘ $3\frac{1}{2}$ per cent’ the figures and words ‘6 per cent’ shall be substituted.’

“In moving this amendment I take due note of the appeal which the Hon’ble Finance Member has made to me not to press it. I would have willingly acceded to that appeal were it not for the fact that I am placing this amendment before the Council with more than one object. The principal object with which I wish to place this amendment before the meeting, is to give expression to the views I hold in regard to the scheme of additional taxation which is under the consideration of this Council, and I cannot very well therefore accept the appeal and not place my amendment before the meeting. The other object with which I wanted to place this amendment before the meeting, was in connection with the pathetic admission of helplessness which is contained in the Finance Minister’s lucid and eloquent Financial Statement, and with which I entirely sympathize, particularly so, as the position is that the Government of India have the advantage of representation and hearing before a final decision is reached by the Secretary of State, while we, the Non-official Members, have to submit to the decisions in some cases arrived at by the Government of India on our Resolutions without knowing our reasons. Sir, in view of our own helplessness, you can appreciate that we cordially sympathize with the helplessness of the Government of India in this particular respect.

“I wanted also to add that we gratefully acknowledge the service which the Government of India has done to the people of this country in correctly representing the views of the public before the Secretary of State in this matter, and I hope that in future they will continue to reflect the public opinion in India and press to the notice of the Secretary of State the strong views and convictions held by the people of this country in fiscal and in economic matters. Sir, in view of the appeal made, I will largely modify the remarks I intended to make in connection with this aspect of the question. I recognise the desirability of not raising any acrimonious or contentious discussion on the attitude adopted in regard to the cotton excise duties by the Secretary of State. If I have another opportunity, I will reserve my remarks for that occasion.

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"The reason why I have brought forward this amendment is to provide the necessary additional revenue for the purpose of bringing about an equilibrium in the Budget estimates for the ensuing year. The estimated deficit is £2,600,000. The estimated revenue from the amendment of the Tariff Act will bring in £2,100,000, so that there will still remain a deficiency of £500,000 between the estimated deficit and the additional revenue obtained under the Tariff Act. As I said, my second object in bringing forward this amendment was to provide the necessary additional revenue of over £500,000 which will be secured if my amendment is carried, and in that way our expenditure and our revenue will equilibrate. I do so for this reason. I wish to submit that, having secured an equilibrium in our finances, there is no justification for either the amendment of the Income-tax Act or the increase of the salt tax. If you secure, as I want the Government to secure, by my amendment, the additional revenue of £500,000, bringing the total revenue up to the total estimated expenditure, we will have a Budget with practically the same amount of revenue and the same amount of expenditure, and the case for further taxation in regard to income-tax and salt duty would then, in my opinion, not stand. Sir, I do not propose to deal with that question on the present occasion, but I will reserve my remarks in opposing the principle of the Income-tax Bill, and I will then try to explain why I feel that the Budget estimates, where expenditure and income equilibrate, or even where, if my amendment is defeated, after I have offered the additional revenue it would be best in the interests of Government as well as the country, to have a deficit Budget of £500,000. The responsibility for the deficit will be theirs if they reject my amendment, because I am providing by this amendment the additional revenue which they require from a source, be it remembered, in regard to which the Government of India are themselves agreed, and in regard to which there is practically a unanimous feeling in the country. So that the position that arises is this. The Government of India come to this Council and announce that their Budget estimates show that during the next year there will be a deficiency of £2,600,000; their revenue proposal in regard to the Tariff Bill will bring in a revenue of £2,100,000, and they therefore want £500,000 more to make up the deficit and a million more for the surplus. It is for that reason that they want an increase in the income-tax and an increase in the salt tax. Sir, I beg to submit that we, the Non-official Members are quite willing to agree to provide the necessary funds by additional taxation to the extent of your estimated deficit, that is £2,600,000, and that the difference between the estimated deficit and the revenue under the Tariff Bill can easily be made up by increasing the duty on textile fabrics imported into India, both from Great Britain and Japan by the same standard of increase to which every other commodity is going to be subjected. If that is conceded, then there is an equilibrium between revenue and expenditure, and no case remains for an income-tax increase or for the salt tax increase except to provide a surplus. As I said, I do not wish to go into that question on the present occasion; I will deal with it in opposing the Income-tax Bill. My present object is to offer to Government in the shape of this duty—a duty which, as I have already stated, is favoured by the Government of India and is acceptable to the country—additional revenue from that source. Sir, it appears to me that it is rather hard that when the Government of India want the revenue, when the country is willing to agree to give them that additional revenue from a source which is agreeable to themselves, that they should be debarred from doing so and in that way necessitate the proposal for the increased salt tax. I should like to point out that the refusal of the Secretary of State to allow us to get £500,000 from this source is really responsible for the increase in the salt tax against which so much feeling has already been expressed in this Council. The revenue from the increase in the salt tax is £600,000, while from this source anything between £500,000 and £550,000 may well be expected: so that this refusal is tantamount to ordering an imposition of an additional 25 per cent on the salt tax, a thing which I do not think, can, in my opinion, be justified. Sir, I am restraining myself considerably in view of the appeal made to me, but if for any reason the standard

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of increased taxation is applied to textile fabrics—that is to say, under the present standard of import duties we are levying a 5 per cent *ad valorem* duty on imported goods while textile fabrics pay only $3\frac{1}{2}$ per cent—if the standard is going to be increased and we are to have an all-round increase of $2\frac{1}{2}$ per cent in the standard, raising it from 5 to $7\frac{1}{2}$ per cent, all I want is that the same standard should be applied to textile fabrics. Under a standard of 5 per cent the rate of duty for textile fabrics is $3\frac{1}{2}$ per cent I therefore say that, when the standard is raised to $7\frac{1}{2}$ per cent, the rate of duty on textile fabrics should be raised to 6 per cent, that is a general rise of $2\frac{1}{2}$ per cent all round.

“ Then, Sir, be it remembered that this increased taxation is for revenue purposes. Under ordinary conditions there would have been hardly any justification for increased taxation. Under present conditions India, along with other component parts of the British Empire, has suffered and is suffering in consequence of the war, and it is because of war conditions that justification is found for increased taxation for purely revenue purposes, to make up a deficit in our expenditure. Surely, Sir, that was one reason why, under present conditions, with a Coalition Ministry and a Secretary of State, the son of the champion tariff reformer, we might have been allowed to arrange our revenues in accordance with the sentiments of the Government of India and the sentiments of the people of the country. We are asked to await the readjustment that will take place after the war in regard to our fiscal matters. Sir, hope is eternal and we live in hope, but I do trust—I am not dealing in detail with the reasons that have been advanced—that the Government of India will forcibly bring to the notice of the Secretary of State that the feeling in the country is strong and insistent in favour of fiscal freedom, and that they will not be satisfied by any reasons of the kind that have been advanced now and in the past ; that they desire that India shall economically rise and be free to levy taxation in directions most suitable to themselves, to their views and to their sentiments.

“ Sir, I trust that my amendment will be accepted, and that we will have a Budget in which the revenue will balance the expenditure, and there will be no additional taxation on incomes or salt. For these reasons, Sir, I will put my amendment to the Council, in the hope that the financial re-arrangement that will be ultimately adopted by the Government of India will be such as to be acceptable to the people of this country. I may, in conclusion, say that if for any reason it is impossible for the Government of India to accept the amendment, I should very much like them to consider an export duty on raw cotton in order to give them sufficient to make up the deficit, on condition that there shall be no increase in either the income-tax or in the salt tax.

“ With these remarks, I beg to place my amendment before the Council.”

The Hon'ble Pandit Madan Mohan Malaviya :—“ I support the amendment which has been moved by my Hon'ble friend Sir Ibrahim Rahimtoola. I know very well that with the expression of opinion which we have before us of the Hon'ble the Finance Member of the Government of India, there is absolutely no chance of this amendment being accepted by this Council as it is constituted. And yet if I think it my duty to join with my friend in supporting it, it is only to record a protest, a respectful but firm protest, against the action of His Majesty's Government in this matter.

“ Sir, we fully realise the position of the Government of India. We feel grateful to them for having placed our view of the matter fully and clearly before His Majesty's Government ; but we wish that His Majesty's Ministers, the Secretary of State for India and others who might have advised him in this matter, realised how their refusal to permit the Government of India to make a material increase in the cotton import duties is regarded in India. They have done so on the ground that, in their opinion, the raising of this question at the present time would provoke a revival of controversies at a time when they

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specially desired to avoid them, and that this might prejudice the ultimate settlement of the larger issues raised by the war. But if, Sir, this gives us an idea of the way in which the settlement of those larger questions after the war is to be made, I must say that I do not feel happy or hopeful. Here is the present crisis, when in order to meet the new demands which have to be met owing to the conditions generated by the war, the Government of India have to resort to additional taxation. They have to resort to taxation not in one direction but in various directions, to taxation from top to bottom; to taxation which, it may be said with perfect truth, does not leave one single man untouched in this country. If at such a juncture, the Government of India made an appeal to the Government in England to allow them to increase the import duty on cotton goods, as the import duty on numerous other articles was being increased, there could not be a more reasonable, a more just, request made to them. And what is the reason for which this request has not been granted? Because, say they, there is likely to be a controversy over it, but a controversy is not avoided by refusing a reasonable request. It would have been avoided to a far greater extent if His Majesty's Ministers had recognised that this was just the time when, in view of the very stringent circumstances in which we were placed, in which we were driven to resort to taxation of numerous other articles, they should in fairness have allowed us to increase the duty on cotton goods.

"It has been said, Sir, that after the war, the question of an Inter-Imperial trade is to be taken up, and in that connection one of the speakers, the Hon'ble Sir Gangadhar Chitnavis, referred to the question of 'preferential tariffs'. Might I warn my friends that they should be under no delusion in that connection? That they should clearly realise what that might mean? I will refer them to what was said in one of the Preferential Tariff Reform League pamphlets a few years ago on this subject. I quote from an article in the 'Indian Year Book,' in which it is stated:—

'Some idea of the direction in which a scheme of Inter-Imperial Preferential Trade would tend, so far as India is concerned, may be gathered from the following extract from the Official Handbook of the Tariff Reform League:—

'Preference would mean to India that the United Kingdom and the Colonies would give freer entry to Indian tea, coffee, sugar, wheat and all Indian staple products; and it would mean to us that the Indian import duty on a large number of British manufactures would be either abolished or reduced.'

That shows that that is one of the directions in which the ultimate settlement may come about. But I do not want to allow my judgment on the question before us to be affected too much by a consideration of what may possibly happen, because nobody can feel certain what will happen. I wish, however, to say that His Majesty's Ministers in England would have inspired greater hope and confidence in the minds of Indians regarding the character of the ultimate settlement of the larger issues after the war, if in a matter in which the Government of India, supported by the Indian public, have for the last 30 or 40 years asked for freedom of action, they had allowed them that freedom, allowed them to increase the import duty on cotton goods, when they felt it their duty to increase them. It is not, Sir, they who send manufactured cotton goods to India who would have had to bear the burden of the increased duty. It is the people of India, the consumers, who would have had to bear it, to pay a larger price for the articles on which the duty were levied. But they would not be the poorest of the poor, but the richer classes who consume the finer imported fabrics. From every point of view, therefore, His Majesty's Ministers should have allowed the Government of India, who are in possession of all the facts of the case, who are in possession of the opinion of the public of India, to increase the import duty on cotton goods when they considered it to be just and equitable in the circumstances of the case to do so, and we cannot too strongly protest against their refusal to do so.

"With these remarks, I support the amendment proposed by my Hon'ble friend opposite."

[Sir William Meyer; Sir Ibrahim Rahimtoola.] [7TH MARCH, 1916.]

The Hon'ble Sir William Meyer :—"Sir, I had hoped that after what I said a little time ago, the Hon'ble Sir Ibrahim Rahimtoola would consent to drop this amendment. My appeal has been ineffective, as he has thought it his duty to press it, principally as I gather, in order that he may air his objections to paying increased income-tax, objections which might have been more suitable on another occasion. I have however nothing to complain of in the tone of his speech, or in that of my Hon'ble friend Pandit Madan Mohan Malaviya. But the matter is a practical matter. The Council know that the Government of India would have been glad had they been able to increase the import duty on cotton goods; but His Majesty's Government, for reasons of Imperial policy, have said it is not desirable to do this at present. Obviously, however much the Hon'ble Sir Ibrahim Rahimtoola may object to it, we in India are, in political and Imperial matters, subordinate to His Majesty's Government at home. We must look at facts as they are, not as he might wish them to be. We cannot, therefore, accept an amendment which involves practically going against the views expressed by His Majesty's Government. We cannot possibly do that. Supposing even a state of things in which the official majority might become inoperative, and such an amendment could be got through; what would happen? We should have to drop the Bill altogether, because the Secretary of State would certainly veto a Bill which contained a provision of this sort. So that the proposal is not really practical.

"The Hon'ble Sir Ibrahim Rahimtoola says that his object in moving this amendment is to get sufficient money just to meet the deficit, and therefore to drop the salt tax, and above all the income-tax. Well, in the first place, I do not accept the statement. But supposing we had had our way in this matter, suppose we had been able to increase the duty on imported cotton goods, I deny that we should necessarily have raised a full £2,600,000 from the customs instead of £2,100,000. We should have had to consider other matters. I will say this, that the Government of India would certainly not have been a party, at a time when increased taxation was necessary, to leaving the well-to-do alone in the matter of income-tax. Whatever had happened we should have put on the tax there.

"Then I must protest against the implication that it is His Majesty's Government that is specifically responsible for the increase in the salt tax. As I said when replying to another amendment just now, we considered it only safe that we should have a fairly large surplus for the current year, and towards that the increase in the salt tax is contributive. It is not right that the Council should assume that if we had been able to tax cotton goods somewhat more, the salt tax would necessarily have remained as it was before. I cannot argue upon hypotheticals; the Council won't expect me to do so. But I do protest against the unfairness of branding His Majesty's Government, so to speak, as being specifically responsible for the increase in the duty on salt. I trust that now the Hon'ble Sir Ibrahim Rahimtoola will withdraw his amendment, but if not, I must ask the Council to reject it."

The Hon'ble Sir Ibrahim Rahimtoola :—"Sir, I will be very brief in replying to the debate on the question of this amendment. There is one particular point to which I crave your leave to refer, and that is in regard to the reply given to the statement made by me that but for this refusal to allow additional taxation on textile fabrics the salt tax would not have been necessary. Sir, the scheme of additional taxation in the Financial Statement so lucidly expounded to us, as I said before, by the Hon'ble Sir William Meyer is that there is an Imperial deficit of £2,600,000, and that the additional revenue proposed to be recovered is £3,600,000, leaving a surplus of £1,000,000. Does it not stand to reason, in view of these facts, that if you had from £500,000 to £600,000 of additional revenue from the increased taxation on cotton fabrics, you would have a corresponding reduction in other directions? Does it not follow, in view of the opinion held by the Hon'ble the Finance Minister that the well-to-do should be taxed and the income-tax should there-

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fore remain, that the necessary and logical conclusion would be that, if you could have secured an additional 5 or 6 hundred thousand pounds from cotton fabrics, you would not have increased the tax on salt? I think that the connection is so apparent that it cannot be disputed. Even assuming that a case exists—which I think does not—for getting a surplus in a year like this by additional taxation, here you have from 5 to 6 hundred thousand pounds to be obtained from this additional duty; and surely with the great sympathy which the Hon'ble Sir William Meyer really has for the poor, the tax on salt would have been knocked on the head. Therefore, by refusing to sanction this as represented by the Government of India, the increase of salt tax has become essential and necessary, and therefore, in spite of what the Finance Minister has said, I remain unconvinced and attribute this increased taxation to the refusal of His Majesty's Government. Sir, I know that the Government of India are subordinate to His Majesty's Government. It is no new thing; the Non-official Members have been constantly and repeatedly told that, though they call themselves the Government of India, they are, in reality, the agents of the Secretary of State, and that as such they have got to carry out the orders and the mandates of the Secretary of State. That is, it will be conceded, for a country of the dimensions and importance of India, a very humiliating position; and if we, the Non-official Members, have been and are in season and out of season pressing this point, it is in the firm conviction that our considered views will have ultimately the desired effect of having the Government of India, being really the Government of India, co-operating with us the Non-official Members and justifying each measure in answer to our criticism and not sheltering themselves behind the orders of the Secretary of State. Sir, that is a consummation pre-eminently to be desired, and I may assure you, Sir, that we, the Non-official Members, will keep on pressing the point to give more powers to the Government of India in order that the administration may be carried on in co-operation between the officials and the people of this country. If this subject comes on repeatedly before this Council for consideration, it will be excused because we mean to bring it constantly and repeatedly before this Council. Sir, I have given an opportunity to Government to get the additional £500,000 they need to make up the deficit. If they will not have it, if they will not have Mr. Dadabhoy's amendment for additional jute duty, if they do not want additional revenue from the sources we indicate and which we are prepared to pay, I hope that they will, when I oppose the income-tax increase and the salt tax increase, give me sympathetic hearing and agree, for reasons which I propose to advance, that no case exists for any increase in these directions. At all events, if there is a case, the Government of India are themselves responsible in refusing to take the £500,000 which we are ready and willing to offer to them to make up the deficit. For these reasons, Sir, I will not withdraw my amendment; I will let it be defeated, because I wish to show, and I hold, that the responsibility of rejecting it is the official majority."

The amendment was put and negatived.

The Hon'ble Pandit Madan Mohan Malaviya:—"Sir, in view of the discussion on the previous amendment, I beg leave to withdraw the amendment that stands in my name, namely:—

"That in column 4 headed 'Rate of duty' against item 51, Part II, new Schedule II, for the figures and words '3½ per cent,' the figures and words '7½ per cent.' shall be substituted."

The amendment was, by permission, withdrawn.

The Hon'ble Mr. Dadabhoy:—"Sir, it is unnecessary for me to press this amendment now. I may say that I particularly selected jute as I got the cue from the able speech delivered by the Hon'ble Mr. Stewart, as President of the Bengal Chamber of Commerce on 29th February last, when referring to the expected export duty, he pointed out that the 'proposed tax as a means of raising revenue, is not at all an unattractive proposition.' But as

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my amendment about the reduction of salt duty has been withdrawn, I now formally withdraw this amendment also namely:—

‘That in column 4 headed “Rate of duty” against items 1 and 2, new Schedule III, the following amendments shall be made, namely:—

1-4	shall be substituted for	0-10
4-8	“	“	“	“	.	2-4
20-0	“	“	“	“	.	10-0
32-0	“	“	“	“	.	16-0

The amendment was, by permission, withdrawn.

The Hon'ble Pandit Madan Mohan Malaviya:—“Sir, I beg to move—

‘That in new Schedule III, after item 3, the following item shall be inserted:—

‘3A Wheat 1 Indian maund of 52½ lbs. avoidupois weight 0 4’.

I see from the figures mentioned by the Hon'ble the Finance Member in his speech, that last year a profit of about 22 lakhs was made on the transactions on wheat. The proposal which I put forward would bring in about 39 lakhs at export duty. If it were not for the fact that a profit of £150,000 was made last year, and as I understand from the speech of the Hon'ble Finance Member, that it is proposed to keep up the same arrangements this year, I would not have proposed an export duty on wheat at this time. If the wheat scheme is to continue, then I submit it would be a better policy to impose an export duty on wheat. We have an export duty on rice, and it is desirable that we should have an export duty on wheat for two reasons, firstly, because it will bring us a fair amount of revenue which we need, and secondly, because it will help somewhat to keep down the price of wheat in the country. In the speech of the Finance Member we are reminded in many places that it was largely in the interests of the Indian consumer that the wheat scheme was taken up and is to be continued. My proposal will work towards the same end. Of course, we do not want any wheat of ours to go to the enemy; we want it to go to the United Kingdom, and to those whom the Government of His Majesty wish to help; we want that policy also to be kept up; but if that policy is kept up, and if about 22 lakhs or so is to be made as profits of that policy, it seems to me that the Government might well recognise the propriety of putting an export duty of 4 annas a maund on wheat. With these remarks, I leave the amendment in the hands of the Council.”

The Hon'ble Mr. Low:—“Sir, I regret that I must oppose this amendment. The Hon'ble Pandit Madan Mohan Malaviya has stated that, in his opinion, an export tax is preferable in its operation to the wheat scheme. I trust I correctly understood him in his statement, for it filled me with a certain amount of surprise. It was explained by you, Sir, in your place in this Council about a year ago, under what circumstances the Government of India found it necessary to undertake the conduct of the wheat scheme.”

The Hon'ble Pandit Madan Mohan Malaviya:—“May I interrupt my friend for a minute? I do not wish that any arrangements under which our wheat is supplied to His Majesty's Government, and at their wishes to other countries, should be altered. I do not in the least desire that it should be left to anybody and everybody to export wheat wherever he liked. I only wish that an export duty should be imposed on wheat without prejudice to the present arrangements. My suggestion does not go against them; it seeks to impose an export duty on wheat without discontinuing the present arrangements for regulating its supply to selected places and peoples.”

The Hon'ble Mr. Low:—“I fully understand the suggestion which underlies the Hon'ble Member's amendment, and I defend the position on that basis. We have first of all to consider what will be the incidence of the proposed tax from the point of view of the person who, I shall presently show, will really be affected, namely, the producer. Without entering into

[7TH MARCH, 1916.] [*Mr. Low.*]

any such vexed questions as to what is a fair price for the producer to expect, I do not think anybody will quarrel with me if I take as an assumption the price of wheat at Rs 8 a maund at an up-country, Punjab, wheat market like Lyallpur. The Hon'ble Member's proposed tax of 4 annas on the maund on that amount would come, if I am correct, to something like 7 per cent. Now, that is from some points of view a heavy tax, and from another and perhaps more important point of view, as I shall explain later, by no means heavy enough to accomplish what the Hon'ble Member has in mind. I have said that the producer in this country is the man who will have to pay that tax. I do not think I need labour the point at any great length. All over the world, large wheat-producing countries like Australia, Argentine, the States, Canada, and, in ordinary times of peace, Russia, grow enormous areas of wheat, mostly or very largely in some cases with a view to export. Their financial and transport arrangements are highly organised, far more highly organised than in this country; freights for many of them are a good deal less, and in the case of Canada at any rate, if not in other countries, the quality of wheat is superior to that grown in India.

"The Indian producer is, therefore, competing against these people for the sale of his wheat, and if we super-impose a tax, that is a tax of 7 per cent., it is quite obvious that the deficiency will have to be met by him. Other people will continue to charge their present prices for the wheat that they send to England; India will be able to charge no more for her wheat; the Indian producer will therefore receive so much less, *viz.*, 7 per cent. It is not an uncommon result of such a discouragement, in fact a result which may be predicted in this case with some degree of confidence, to find a reduction in the wheat area in India. I do not say a large reduction but some reduction; I don't think that is a prospect which the Hon'ble Member would care to contemplate, and I don't think that his proposal to protect what I may call the wheat-eating industry at the expense of the wheat-producing industry would be attained, and the figures for wheat cultivation after the lapse of say 5 to 10 years would exhibit a reduction which would not be to his satisfaction. During the last 18 months especially, the Government of India have tried to strike a fair and just balance between the claims of the producer and the claims of the consumer; and I think the Hon'ble Member will admit that the Government of India will not show any reluctance in making this attempt or being deterred by the magnitude of the schemes or the complications involved in doing their best to this end when they think it really necessary. The really high prices at this time last year compelled the Government of India to step in; the Hon'ble Member asks us in future, whether wheat prices are high or low, to fine the producer 7 per cent. at the expense of the consumer. I think it will be admitted that the proposal is scarcely a fair one. I said at the beginning of my speech that the Hon'ble Member's proposed tax was in some points of view too low. I ask you to consider the position that would arise with the really high prices in England which have been from time to time in force during the past year. Prices have been as high—I am speaking from memory—as 67 to 68 shillings a quarter; a 7 per cent tax on this would be absolutely ineffective; it would require a tax of many times 4 annas to have the influence which the Hon'ble Member no doubt desires. I admit of course that his proposal pre-supposes the maintenance of existing safeguards in respect of restriction of exports and their control and direction, but we have really to rely on the restriction of export against high prices; in the case of medium and low prices the sole effect of this duty would be as I say to inflict an unfair fine on the producer. The only means of dealing with the situation by means of an export tax would be to have the export tax a sliding one, either on the difference between Indian and English prices or on Indian and on English prices. Sufficient reasons were given in your speech last year, Sir, to show the impossibility of this from the disturbance of trade that would result, and the undoubtedly complications and the upsetting of the market. The Hon'ble Member has, I think, alluded to the tax on rice, or if he has not he will correct me; at any rate some Hon'ble Members have done so during this morning's discussion. I will explain the position in regard to the export duty on rice. It was imposed at a time when the Government of India were under the fond impression that India had a monopoly of the export of rice; this we now

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know is very far from being the case; however, the tax remains and owing to the fact among others that rice is a much more widely grown crop than wheat, and that a larger proportion of it is consumed in the country, not very much harm has resulted from it; for that reason the Government of India have decided to let sleeping dogs lie, and have not touched it. We don't, however, want to embark on a fresh experiment of the same sort in regard to wheat. We have had sufficient experience of the wheat trade during the past year to be quite certain that the result will be undesirable from the point of view of the Indian producer, and unsatisfactory from the point of view of the Indian consumer. For these reasons, Sir, I must ask the Council to reject the amendment."

The Hon'ble Pandit Madan Mohan Malaviya :—“Sir, I desire to point out a certain inconsistency in the attitude of the Government of India on this question. I find that grain and pulse imported into the country has to pay a duty of $2\frac{1}{2}$ per cent *ad valorem*. In the speech of the Hon'ble the Finance Member introducing the Financial Statement, he said:—‘While taxing grain and pulse at $2\frac{1}{2}$ per cent in ordinary circumstances, the Government will be prepared, when necessary, to consider the question of exempting them by executive order in famine years.’ I find from the Schedule at page 10 that flour imported into the country is liable to a duty of $7\frac{1}{2}$ per cent *ad valorem*. If a duty of $7\frac{1}{2}$ per cent is levied on flour and of $2\frac{1}{2}$ per cent on grain and pulse which are imported into the country, is it very unreasonable to suggest that there should be a duty of 4 annas a maund on wheat which is exported out of the country? Government knows and the Council knows that wheat is the staple food of a large portion of the people, and that the rise in the price of wheat has been a source of real hardship to the great bulk of them; the price of wheat in India has gone up by leaps and bounds. But there has not been anything like a corresponding rise in the incomes of the people. In other countries to which our wheat is exported, the average annual income per head of the population is several times greater than the average annual income of the Indian people. Therefore the great bulk of the consumers in India are put to a great disadvantage in wheat being allowed to be exported free of any duty. I readily concede that if my proposal were accepted, it would impose a certain amount of restriction on the profits which the producer at present earns. I put forward the proposal with that result clearly before my mind's eye. And I am supported in doing so by the Government of India. There are several passages in the speech of the Hon'ble Finance Member in which he has been good enough to say that the wheat arrangement has been kept up in the interest of the consumer, and I think, Sir, that that is the right policy to adopt. In no country can the Government allow any one section of the community to derive unreasonably large profits at the expense of the other sections of the community, particularly where food-stuffs are concerned. For these reasons, I wish the Government would accept my proposal. But I see clearly, that it will not be passed to-day. I beg the Hon'ble Finance Member and the Government of India, however, to take this proposal into consideration, and, if possible, to accept it, when they are framing their Budget next year. I recognise that from one point of view, this is not perhaps the right time to press the proposal. I will not, therefore, press it at present; but I do ask the Government to take the matter into consideration next year, and to take up a position which would be both consistent and reasonable and which would commend itself to the general consumer of wheat in India. I do not press the amendment.”

The amendment was, by permission, withdrawn.

The Hon'ble Sir William Meyer :—“I now move, Sir, that the Bill be passed with the slight amendment introduced in it by the Select Committee.

“I think I may congratulate the Government and the Council on the business-like way in which the Bill has been dealt with here, and on the fact that we have been able to carry this very urgent measure into law. We have been able to do so in a reasonably short time, and at the same time have elicited all

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reasonable objections. I may also, as I said before, congratulate the Council on the ready acquiescence that the Schedules have received.

"I now move that the Bill be passed as amended by the Select Committee."

The motion was put and agreed to.

The Council here adjourned for Lunch.

THE INDIAN INCOME TAX (AMENDMENT) BILL.

The Hon'ble Sir William Meyer:—"Sir, I beg to present the Report of the Select Committee on the Bill further to amend the Indian Income-tax Act, 1886.

"The Report is in the hands of the members. We have made one or two small alterations in drafting to make things more clear, and Sir G. M. Chitnavis has pointed out that in Select Committee he raised the point that the minimum assessable income should be raised from Rs. 1,000 to Rs. 1,200, but the Committee thought this was out of place in view of the financial difficulties of Government. This is a time for increasing taxation, and not for dispensing with taxes, or portions of taxes, already levied.

"I now move, Sir, that you will be pleased to suspend the Rules of Business to admit the report of the Select Committee being taken into consideration."

The Hon'ble the Vice-President:—"I suspend the Rules of Business."

The Hon'ble Sir William Meyer:—"I now move that the Report of the Select Committee be taken into consideration. I need not say more on the merits of the Bill than what I have already said in my speech introducing the Financial Statement and in that introducing the Bill itself."

The Hon'ble Sir Gangadhar Chitnavis:—"Sir, I beg to support the Income-tax Bill. The only points on which I need address the Council are three. In the first place, it is necessary that it should be made clear that the scheme of enhanced taxation which the Bill embodies is accepted by the country as a war measure. Such taxation cannot be tolerated on restoration of normal conditions. It should, therefore, be distinctly understood that I support it only as a temporary arrangement for strengthening the hands of Government during the war. In the next place, I think the assessable minimum should be raised from Rs. 1,000 to Rs. 1,200, in view of the large increase of a permanent nature in the cost of living. It is reasonable that some consideration should be shown to the poorer middle classes with fixed incomes which have deteriorated in value through the abnormal rise in prices. I suggested the amendment in Select Committee, but for reasons which appeared to me reasonable, it could not be incorporated in the Bill. I hope, however, Government will consider the point after the war is over and the financial condition improves. Lastly, in order that the higher rates do not press heavily upon the poorer holders of securities, it is absolutely necessary that the procedure for claiming a refund should be simplified, and I hope that this will be done by the rules framed in accordance with the rule-making power that has been provided in the Act."

The Hon'ble Sir Ibrahim Rahimtoola:—"Sir, as I indicated in the course of the previous debates to-day, I rise to oppose the increase in the income-tax proposed by this Bill. I beg to submit that there is no case for any increase in the income-tax at present. I do not wish, Sir, to be misunderstood. I am not opposed in principle to the increase in the income-tax or in the salt tax if there was justification for it. My submission on the present occasion is, that no justification has been made

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out for either increasing the income-tax or raising the salt tax. In dealing with this point, I will have to go a little exhaustively into the financial position of the Government of India. Looking at it as a whole, it appears to me that the salt tax has been levied, as I have already contended, to make up the deficiency in the Tariff Bill due to exempting cotton piece-goods from the necessary increase of 2½ per cent. I now contend that the increase in the income-tax, which represents a revenue of £900,000, is to provide Government with a surplus, which is estimated at a million pounds. I therefore oppose the increase in the income-tax, primarily on the ground that it is proposed to be levied for the purpose of giving Government a surplus. Now, Sir, in connection with that, my submission is that at a time like the present when the country has suffered so much in various directions in consequence of the war, the requirements of Government in the shape of additional taxation should be confined to the actual expenditure estimated by them, and that anything beyond an equilibrium between revenue and expenditure ought not to be sanctioned. To levy, at a time like this, additional taxation for the purpose of providing a surplus appears to me to be totally indefensible. I will deal with the reasons which the Hon'ble Finance Member gave in support of wanting a surplus, after I have pointed out why, in the first instance, I think that the strength of the financial position of the Government of India is so great that no justification can be satisfactorily proved in favour of taxing even the so-called well-to-do people in India with this £900,000 in the shape of additional taxation. Sir, with your permission, I may refer once more very briefly to the broad results of the Financial Statement. The deficit is £2,600,000. The revenue from the Tariff Act which we have passed is £2,100,000; the additional revenue of £500,000 which I wish to give them has been refused. When an equilibrium could have been obtained by means of one form of taxation and one alone, it has been declined. Therefore, I submit that Government will have to be content with opening the new Budget with a deficit of £500,000 for which they are themselves responsible, and not levy any additional taxation in the form of income-tax or salt tax. I may incidentally mention, in answer to the point that it is the well-to-do that will have to pay the tax, that I am opposing, not only the increased taxation against the well-to-do, but also against the poor in the shape of the salt tax—I am opposing both.

“Now, Sir, assuming, for argument's sake, that my view prevails, and that the Budget in which I wanted to have an equilibrium is allowed to open with a deficit of £500,000, what will be the net result?

“Is the financial position of the Government of India sufficiently strong to justify having a Budget of that description? In this connection you will permit me, Sir, to trouble the Council with a few statistics. Our invariable experience has been that on most occasions the actuals show better results than those anticipated at the time of framing the Budget. Every Finance Minister will naturally exercise caution in framing his estimates. That is a procedure which I do not want to contest. In the Financial Statement which was placed before us on the 1st, the Hon'ble Member has said in more than one place that estimates have been framed with a great deal of caution. I recognise the soundness of this, and I hold that the principle of caution in underestimating, however slightly, your revenue and overestimating, however slightly again, your expenditure, has led in the past in most cases to results of better surpluses than were provided for, or surpluses where small deficits had been anticipated. If the same experience works out for the ensuing year, then even a deficit of £500,000 may reasonably be expected to turn into a surplus, however small it may be, because after all the deficit is only £500,000 in a Budget representing 86 millions.

“Sir, I have compared the estimates with the actuals from 1907-08. In that year the estimated surplus was over £700,000, while the actual was £300,000, which was less. In 1905-09, the surplus estimated was £571,000 and the deficit was £3,787,000. This is the one year during the last 11 years during which there has been a deficit, and it immediately led to increased taxation. Sir, I will deal later on with the point as to the policy of having recourse to increased taxation immediately a deficit is noticed,

while, when surpluses are found, on only a very few occasions decrease of taxation has been allowed. In 1909-10, the estimated surplus was £230,000, the actual surplus was £606,000 ; in 1910-11, the estimated surplus was £400,000 and the actual surplus was £4 millions. I am giving round figures. In 1911-12, the estimated surplus was £800,000, the actual surplus was £4 millions ; in 1912-13, the estimated surplus was £1,500,000, the actual surplus was £3,100,000 ; in 1913-14, the surplus estimated was £1,400,000 and the actual surplus was £2,400,000 ; in 1914-15, which represented 8 months of war, the estimated surplus was £1,256,000 and the deficit was £2,785,000. That was because war supervened and converted the surplus into a deficit. In the current year, which is the year when Budget estimates were framed at a time when war was on, and in anticipation of the war lasting throughout the year, the deficit estimated was £2,900,000 and the actual deficit was £2,100,000, showing a difference to the good of over £800,000. If you take even the year in which the conditions of war were present, and estimates were framed in consideration of that contingency, the results are over £800,000 better than anticipated. Surely, Sir, if that is so, we may reasonably expect, now that the present Budget has been framed with even greater caution and in full view of the present circumstances of the war, that that caution will lead to better results than those provided for in the Budget. If they prove to be better only to the extent of £500,000, then there will be an equilibrium, and I beg to submit that there is no case for additional taxation, either income-tax or salt tax.

"Let us consider another aspect of the question. What has been the net result of the financial policy adopted by the Government of India during the last 11 years for which figures are available in the Statistical Abstract relating to British India published in England. The figures given are from 1903-04."

The Hon'ble Mr. Brunyate :—"Page?"

The Hon'ble Sir Ibrahim Rahimtoola :—"Page 47." In the year 1903-04, the surplus is nearly £3 millions. In the next year the surplus is £3,500,000 ; in 1905-06, £2,100,000 ; in 1906-07, £1,500,000, in the next year, £306,000 ; in 1908-09, in which, as I have already stated, there was a deficit of £3,737,000. In 1909-10, there was a surplus of £600,000 ; in 1910-11 of £4 millions ; in the next year £4 millions again ; in the following year £3,100,000, and in 1913-14, for which figures are available in this statement, it was £2,300,000.

"Sir, taking the total of all these figures during the last 11 years, the Government of India have taken from the tax-payers £20,000,000 in the form of taxation more than what was required for the purposes of the administration. Taking the total of these 11 years, the net result is, that you have taken from the tax-payers £24 millions surplus minus £4 millions deficit, leaving a net balance of £20 millions in excess of the revenue requirements of the Government of India. Where has this money gone? This money has been utilised for the purpose of capital expenditure.

"Sir, I understand that the policy which has been followed, and to which I have referred on previous occasions in this Council, has been that these surpluses should be lent to—I will not say used for—capital expenditure. I maintain that these surpluses of revenue were lent to capital and utilised as capital expenditure. I contended before, and if my contention had been allowed, we would have had a separate statement showing the total amount of money obtained from revenue in excess of our revenue requirements and lent to capital, and the sum drawn from capital to meet revenue deficits. There is nothing unreasonable in expecting that a portion of these loans should be repaid when necessary. Such a system would ensure a state of uniformity in taxation and thus avoid being obliged to increase or decrease taxation unless there were recurring surpluses or deficits.

"Sir, if this system had been adopted, and if the present had not been a time of war, I would have contended that the whole deficit should be obtained

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as a refund from capital to which our surpluses to the extent of 20 millions have been devoted during the last 11 years. As it is war-time, I have supported Government in their proposals for additional taxation to the tune of £2,600,000, which fully covers the deficit which they estimate. I submit, however, that in view of the fact that during the last 11 years we have lent as much as twenty million pounds out of our surpluses to capital, no further increased taxation should be levied. My case, therefore, Sir, becomes overwhelmingly strong when I stand up here and contend that no increased taxation should be allowed in the shape of income-tax and salt tax, but that Government should be content with the money they have obtained under the Tariff Act.

"Sir, there is one more point in connection with this which I should like to make. There was one year of deficit during the 11 years I have quoted. Immediately thereupon, the Government of India resorted to increased taxation. Extra taxation was levied, and it was proved afterwards that there had been no justification for that extra taxation. Our subsequent revenue and expenditure showed that Government could well have done without extra taxation. But even then, that taxation was not remitted but kept on. As I have already stated under ordinary circumstances, I would have contended that Government should obtain a refund from reproductive capital works to which we have lent at least twenty million pounds during the last 11 years out of our surplus revenues, and that no recourse to additional taxation should be made. I beg to repeat that in view of these facts the case against increasing taxation to obtain a surplus is overwhelmingly strong.

"Then, Sir, I may be asked whether, even if the position I have taken up is accepted, it is possible to borrow the required sum of money. I recognise the difficulties that face Government in the matter of borrowing; but if the lucid statement which the Hon'ble the Finance Member has given us is carefully studied, we have reasonable grounds for believing that the appeal to the Indian money-market for the requirements of Government will be met. I say so because I think that the Hon'ble Member has very carefully decided upon a line of procedure which appears to me very wise. I am referring to his proposal of offering to convert an amount of 3½ per cent. promissory loan notes equal to the amount of tender which an investor may make. I understand from this statement that terms will be offered which will be reasonably inviting; and if that is so, there are reasonable prospects of his succeeding in getting not only the minimum of four millions which he estimates, but also a substantial part, if not the whole, of another four millions which he wants.

"Now, Sir, I appeal to the Government of India—after all we Non-official Members can only plead and appeal—I appeal to the Government of India that, in view of the financial strength of the Government of India which I am going to refer to briefly later on, recourse to additional taxation for the purposes of what I will call a small deficit, if the salt tax is also disallowed, and obtaining a surplus should not be persisted in. In dealing with the financial strength of the Government of India, I will try to point out what are the alternatives which may be relied upon to meet the contingencies—the probable contingencies for which this additional taxation is proposed. Now, Sir, with due deference, I will venture to submit that the principle of levying additional taxation for the purpose of getting a surplus is wrong. Assuming that the actuals turn out as anticipated, both in regard to revenue and expenditure, and that at the end of the year there is a deficit, the Council will then be in a better position to know whether further additional taxation is necessary. If it proves necessary, I will willingly give my support to it. You will observe, Sir, that in submitting this point I am not raising any question as regards the amount of expenditure which Government have thought proper to provide for. At a time like this I do not wish to raise any question as regards the items of expenditure that have been provided for in the Budget. We want to support the Government, and not indulge in any adverse criticism in regard to the requirements which they regard, so far as expenditure is concerned, to be necessary. At the same time you will note that we reserve to ourselves the

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power of criticism, and that is after all the only power we have of examining the adjustments which are taking place at present between Great Britain and India in the matter of military expenditure. At present we wish to give *carte blanche* to the Government of India to do what they may deem proper, but we should not be construed to have consented to waive our right to offer helpful criticism, when the appropriate opportunity arises, in examining the basis and the principles on which these adjustments may have taken place. Sir, referring to the financial position again and the strength of the Government of India, I will deal firstly with the closing balance. According to the Budget we have a closing balance of over 17 millions. I understand from the Financial Statement that a balance of 16 millions is required for working expenses. The excess over the 16 millions is 1,400,000, sufficient to meet the decrease in taxation which I am advocating, 1 million for surplus and £500,000 for deficit. It makes a difference of £100,000, but I do not wish to take up the time of the Council in dealing with that. When we consider in public bodies the question of Ways and Means we have in each public body a suitable amount of working balance, closing and opening balances as they are called in the Budget, but in reality they are working balances; and every public body, including Government, requires for the purposes of unforeseen contingencies and for liquidating the expenditure during the time revenue is coming in to have a suitable working balance. Our surplus balance would be 16 millions if my proposal was accepted; and I venture to ask the Hon'ble Finance Member whether that is not a sufficient shield against unforeseen contingencies. Surely, Sir, when you have a balance of 16 million pounds to fall back upon, when you have the probability of floating a rupee loan for 8 million pounds, against an estimated deficit of only £500,000, may I ask whether there is any reason to apprehend that, in spite of unforeseen contingencies against which a provision of a million pounds is now being made, the closing balance in itself is not sufficient to reassure Government of not having to face any financial embarrassment whatsoever. Let us examine in another way the strength of the finances. The financial condition of this country is also proved by another factor. We have our capital debt at about 280 millions, out of which only £12,800,000 is unproductive, and the rest of our debt is productive debt. We had in 1888 an unproductive debt of 73 millions. We have worked it off to 12 millions and odd, that is to say, in about 25 or 26 years, we have worked off our unproductive debt by nearly 60 million pounds. Surely that is also a source of great additional strength to the financial position of Government, not justifying, I venture to submit, the taxation of the people at times like these, when every one has suffered in one way or another for the purposes of providing a surplus. Then, Sir, there is the fourth safeguard, which would also protect in case of emergency. We have the Gold Standard Reserve. This reserve was started in the year 1904, and we have worked it up recently to 26 millions. At a time of emergency the Government of India themselves withdrew 7 millions for the purposes of Government, and in the interests of the public I gratefully acknowledge that this was done in the best interests of the public, but that they have been able to withdraw as much as 7 millions out of the Gold Standard Reserve shows that it is possible, without embarrassment, to go to that extent of withdrawals from the same. Out of these 7 million pounds withdrawn, 3 million pounds have been repaid, and the present over-draft amounts to 4 million pounds. If we succeed in floating a loan of an additional 4 million pounds that money is ear-marked to be repaid to the Gold Standard Reserve. Even assuming that every item I have placed before the Council goes wrong and fails to fulfil expectations, even then you have a margin of 3 million pounds in the Gold Standard Reserve which you once withdrew and repaid to meet any unforeseen contingencies of the kind for which you propose to impose this additional taxation. Looking at all these points put together, am I wrong in appealing to the good sense of the Government of India not to impose upon the people additional taxation for obtaining a surplus and meeting a small deficit. Sir, I appeal again as I said against any further increased taxation. Not that I am against the principle of increasing income-tax or salt-tax, but that the

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circumstances of the case warrant caution and care, and additional burdens on the people should be imposed only to the extent which is imperatively necessary. I beg to submit that no case can be made out for additional taxation for the purposes of a surplus as imperatively necessary. Unless such a case is made out, which I beg to submit has not yet been made out, there is no case for additional taxation in these two directions.

"Sir, I have shown that in making Budget estimates care is usually taken to work out by past experience the various sources of revenue and the various items of expenditure. At the same time, when unforeseen contingencies have to be provided for, other factors are examined to ascertain whether they can be relied upon to meet them.

"Sir, I have tried to show that we have (1) in the Gold Standard Reserve, (2) in the insignificant amount of our unproductive debt, (3) in our surplus cash balances, and (4) in the cautious estimates of our revenue and expenditure, a sufficient margin for any unforeseen charges which may have to be met. I submit that there is clearly no case for additional taxation for such a purpose. There is one point to which I will briefly refer, and that is, the view that has been expressed that India is lightly taxed; that in view of the increased burdens which Great Britain is bearing, India ought also to bear additional burdens. As a wise financier, my Hon'ble Friend, Sir William Meyer, is utilising that sentiment, and he has seen that the Council has supported him in the Tariff Bill practically unanimously. In this connection, it is necessary to examine what is the economic condition of England as compared with that of India, and what is the estimated income per head of population per annum in England as against that of India; what, again, is the proportion of taxation per head of population in England in relation to the total income as against the same conditions in India? If I were allowed, I would have gone exhaustively into this question. I will briefly state to the Council what is the result of working out the figures from the available statistics, and I will mention them for what they may be worth. The British population is 45 millions in 1913-14, the total revenue was 200 millions. This works out per head of population at £4-8 or Rs. 66. The income per unit of population in England is calculated at from £47 to £66; if we work it on the maximum of Rs. 1,000 per annum, it gives a percentage of taxation of 6½ per cent. Assuming that, in consequence of the war, it is recently increased by 25 per cent, it would work out to a little over 8 per cent. of their total income. In India, our revenue is 80 millions, excluding an estimate of 6 millions possibly drawn from Native States. This works out to Rs. 5 per head on 240 millions of the population of British India. Now, putting it in that way, it does appear that in England the people pay per head as much as Rs. 80 in the shape of taxation, whereas we, in India, pay only Rs. 5; there is a world of difference between Rs. 5 and Rs. 80. But let me put it in another way. We have an income estimated at Rs. 30 per head and Rs. 5 is one-sixth, or over 16 per cent, so that we, in India, are paying nearly double the rate of taxation in relation to our income than is paid by the people in Great Britain in spite of the war. Assuming that the national income in Great Britain is only the minimum estimate of £47 or Rs. 700 per annum, the rate of taxation works out at about 11 per cent. against India's over 16 per cent. Let me put the case in another way. Out of a minimum income of Rs. 700 per head, each individual pays on average Rs. 80 in the shape of taxation. This leaves a balance of Rs. 620 per head of population per annum for all other purposes. In India, out of the national income estimated at Rs. 30, Rs. 5 go towards meeting taxation, while only Rs. 25 per head of population per annum are left for all other purposes. It cannot for a moment be contended that India is lightly taxed. No comparison between taxation in England and India can be made, unless the relative economic condition of each country is taken into consideration. We are prepared to meet additional taxation to provide the revenue needed for the purpose of meeting such expenditure as the Government have themselves estimated. It appears to me that our attitude in regard to these matters ought to satisfy Government that we wish to co-operate with and meet them in this crisis to the utmost of our power, but

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when it comes to the point of taxing our constituents, the people of this country, in the shape of an income-tax in order that a surplus may be provided, I submit that that is going too far. I have already dealt with the reasons advanced in favour of this, I daresay that many things may happen in the meantime, but surely that is not a contingency that has not always been present; that is a contingency that ought to be met. As I have said we have ample resources; are the Government going to get into financial difficulties and embarrassments for want of this surplus of a £1,000,000? I appeal to the Government, and I appeal with all the force at my command, there is no case for additional taxation in order to find a surplus; all the factors which I have taken a considerable time to explain to the Council lead me to that conclusion. In meeting the Government to the extent of the additional expenditure which they have provided in the Budget we are co-operating with them to the utmost that we can reasonably be expected to do. I trust that my appeal will prevail, and that the country will not be asked to contribute additional taxation to that extent. One word more, Sir, and I have done; to put the case conversely; assuming that the whole scheme is carried through, and that at the end of next year the Government find they have a surplus of 3 to 4 millions instead of one million, does the Hon'ble Member give us this guarantee that he will come forward and remit both the income-tax and the salt tax? It appears to me that in these matters we have got to proceed on the facts and information that are before us, and, having regard to all the facts and information that has been disclosed, I submit that there is not an iota of a case in favour of putting on additional taxation on the people of this country at a time like this, to secure to Government a surplus of 1 million pounds. For these reasons, Sir, I am opposed to the Bill."

The Hon'ble Mr. Dadabhoy :—"Sir, were it not for the present exceptional circumstances, pointed out by the Hon'ble Finance Minister, I would have hesitated to accord my support to any scheme of fresh taxation. I am not in favour of additions to our taxes. But the war is responsible for a situation abnormal in the extreme and beset with difficulties of an uncertain nature. We have to yield to pressure. We Members of this Council have made it clear before now that we would be prepared to support Government in any proposal to levy imposts for the successful prosecution of this war. I for one stick to that loyal resolution, and I cheerfully support this Bill with this reservation, that the scheme of taxation it legalises should be overhauled on the complete rehabilitation of our finances. I do not lose sight of the fact that, according to the Hon'ble Finance Member's calculation, our revenues stand in danger of a permanent diminution, while our liabilities will grow in volume after the war, and that therefore permanent sources of additional revenue must be found. But I believe the Hon'ble Sir William Meyer is over-cautious. I look with confident hope to the future, and I am almost sure, after the conclusion of the war, there will be such a rebound in our finances as will render the present additional taxation superfluous. Unless heavy and extraordinary charges are debited to India as a result of the war, any possible inflation in our annual expenditure will be more than balanced by a normal increase in our existing revenue, and these additional supports will not be needed. It is also a question how far a portion of our Budget provision is unavoidable. But this is not the time for comment. The hands of Government must in no way be weakened. The Bill must be supported. Large as the increase in the income-tax is, it gives me great pleasure to support the scheme, in that the principle of a graduated scale of taxation has been finally adopted. Hon'ble Members will remember that, in 1910, in connection with my Resolution in Council for raising the assessable minimum, I strongly advocated that the tax should be levied on a graduated scale. I am glad Government has at last seen the justice of the plea, and a generous effort has been made in the Bill before us to secure an equitable distribution of the tax. This is undoubtedly right. Difference of opinion may indeed exist both about the maximum rate levied and about the minimum income assessable to that rate. But in view of the gravity of the situation, I do not quarrel about these

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particulars. We ought to bear carefully in mind that in England the rate is very much higher, and there is every prospect of its going up higher still. There is thus no just ground for complaint on the score of the maximum rate in the Bill. It is only fair that we all should liberally contribute to the public finances; and it is likewise fair that the rich should pay proportionately more than their less favoured countrymen.

“ Sir, my chief complaint about this whole business of additional taxation, however, is that it has been necessitated, to a large extent at any rate, to the wanton surrender by us of the major portion of our opium revenue. Had that productive source remained intact, we could have borne even the present financial strain without difficulty, and without burdening the country with any additional tax. It is doubtful if China has been freed from the evil habit in consequence of our forbearance, but we have for a certainty lost the bulk of the large and special revenue. That is a point on which the people might well feel sore.

“ One word more with reference to what has fallen from Sir Ibrahim Rahimtoola. My Hon’ble friend has referred to £20 millions recovered from the people during the last eleven years and spent on capital expenditure. But he fully knows that a large portion of our capital expenditure is of a productive nature and brings in a large revenue to Government, which in a manner helps to diminish the burdens of the people. Consequently the figures which he has quoted are not so appalling as they seem to be.

“ With these words, Sir, I support the Bill.”

The Hon’ble Pandit Madan Mohan Malaviya :—“ Sir, with the remarks which Sir Ibrahim Rahimtoola has made regarding the general position of our finances, I cordially agree. I think, Sir, with due deference to the Government of India, that our finances have not been as economically and carefully administered as they should have been, and I think it also my duty to say that, while we recognise and feel grateful for the retrenchments which the Hon’ble the Finance Member has brought about, I feel strongly, and there are many others who feel with me, that there is much greater room for improvement by retrenchment. I suggest, and I hope the suggestion will be carried out, that there should be a Committee of non-official and official Members of this Council appointed to scrutinise the expenditure. If this is done, I expect that we shall be able to effect a much larger reduction in expenditure than has been brought about by official scrutiny alone. It is only fair that Non-official Members, who are asked to co-operate with Government by giving their support to the proposals for additional taxation, should be given an opportunity also to point out where reduction is possible. I will not go into the figures which my friend has put before the Council in such abundance. I will not go into all those figures, I think there is enough in his speech, even if some of the figures may not be quite correct, to awaken us to a sense of the importance of having a closer scrutiny made of the expenditure side of our Budget.

“ Sir, there is not the least doubt in my mind that for many years past taxation has been maintained at a high level, at a higher level than it should have been—and there is not the least doubt, too, in my mind that there is room for much retrenchment which ought to be brought about. With those contentions of my Hon’ble friend I entirely agree, but when we come to deal with the situation we find ourselves in, I feel that I cannot entirely support him. I agree that if a larger retrenchment had been taken up in right earnest, it would not probably have been necessary to put on all the additional taxation which has been put on or proposed; if the arguments of my friend are sound, as I have no doubt to a great extent they are, I would join with him in urging that some of the taxes proposed should be avoided; but I would wish that these taxes should be those that fall on the poorer classes of the community rather than that the proposal to increase the tax on higher incomes should be abandoned. I am not among those who would

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vote for additional taxation merely because the tax proposed happens to be one which I regard as equitable in principle. It is perfectly reasonable to urge that, if as the result of a closer inquiry, the Government are convinced that they do not require all the revenue they have budgetted for, they should have the fairness and courage to agree to the proposal that a proportionate share of the proposed taxation shall be abandoned. But I do not expect, from my knowledge and experience of this Council and of the ways of the Government of India, that at this juncture, after the proposals have been carefully considered by the Hon'ble the Finance Member in his Department, when the Budget Statement has been laid before the Council there is going to be in the immediate present any such re-examination of the financial position as would compel the Government of India to the conclusion that they should not ask for a portion of the revenue that they have asked for. And if the amount budgetted for is the amount on which the Government of India have set their heart, if that is the amount which they must have in hand in order that the Finance Member and the Government should feel secure that during the next twelve months the finances of the Empire will not go seriously wrong, and that there would be no financial embarrassment, then I submit that the proposal for raising the income-tax, being by its nature eminently equitable and just ought to be supported.

"I think, Sir, that while there is a good deal in the proposals for new taxation which deserves commendation, that while the proposals for additional taxation generally are equitable and sound and show a great deal of considerateness on the part of the Finance Member and his Colleagues, there is no proposal which is so eminently equitable as the proposal to introduce a graduated income-tax. It is but a truism that those who receive the greatest favours from, or derive the greatest benefits under, a Government ought to contribute most largely, proportionally to their means, to the support of that Government. The Government have added to the burden of the humblest of the humble, the poorest of the poor, in enhancing the salt tax; the new or increased import duties are also nothing but an additional burden upon the general taxpayer; they will not be paid by those who manufacture the articles taxed but by those who consume them. All these are general indirect taxes. The only one direct tax is the tax on incomes. Now the Government have, with great considerateness, left alone the existing rate of income-tax where it is so far as incomes up to Rs. 5,000 are concerned. They have put on the increased rate only upon those who have incomes going above Rs. 5,000. I think that is eminently fair and reasonable. The poorer section of the community ought to be exempted from paying this tax. Those that are able to pay should be required to contribute in a manner fairly commensurate with their incomes. I may say, if I may be excused for saying it, that I have always felt a special satisfaction in contributing the income-tax to the coffers of Government. I have felt that that was a contribution which I was consciously making towards the administration under which I live and benefit, and I feel that that ought to be the feeling of every one who benefits by the system of administration under which he lives. It is true, no doubt, that there are many of us who would like not to have to pay any tax; it is true also that if all taxes could be avoided, it would be a very happy state of things. But that is not to be; and as all taxes cannot be abolished, when the happy time should come when some taxes can be remitted, I would ask the Government and the Council, to think of remitting taxation which presses upon the poor, rather than of altering the proposals for a graduated income-tax which will press upon those who, thanks to the blessings which they enjoy, are well able to meet it. That being my view of the situation, I think that the present Bill ought not to be opposed. As I have said before, I join with my friend Sir Ibrahim Rahimtoola in earnestly pressing for, earnestly praying for, such a general overhauling of our expenditure side of the Budget as will enable the Government and the public to say where reduction should be made, and when that has been done, and the time arrives for remission of taxation, I would wish those taxes to be removed in the first instance which press upon the poor.

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" I apprehend, however, that we are in for all this additional taxation for a long time. I cannot look forward with any hope to the time when these additional taxes will be taken off. That is not in the history of the Government of India, ordinarily speaking. We no doubt had a remission of taxation eight or nine years ago. But I do not look forward with any hope that we shall have much of a remission of taxation again in the near future. I hope, however, that these additional revenues which are being obtained should not—I speak with respect, but I speak with deliberation—should not lead to a further extravagance in expenditure being indulged in in the years that are to come. There are many temptations, there are many directions in which an increase of expenditure will be asked for. There are directions in which, I fear, even an unjust pressure will be brought to bear upon the Government of India to meet expenditure which it ought not rightly to bear. I am sorry to say that I notice one such instance in the present Budget. The Government of India have fought valiantly (and they deserve our thanks for having so fought) against sea transport charges being debited to India in the past and the present year. Every one understands that since the war began we have not incurred those charges for transporting troops; that we have not received the services for which those charges have been levied upon us. And yet the powers that be in England have ruled that we must be debited with those charges because, forsooth though we did not as a matter of fact incur them, we would have incurred them but for the war! and because if those charges were not debited to us we should be making a profit out of the war! I submit that is not a fair way of looking at the matter. If charges have not been incurred, there can be no justification for saddling India with those charges. I cannot think of any possible answer to that. I can well understand our being asked to make a humble contribution, however humble it may be, to the war fund; I can well understand our making spontaneously a humble offering to support the Government, as we have done in other ways, but I cannot see the justice of India being saddled with charges that she has never incurred, or which have never been incurred for her. I mention this as one instance of the danger to which we shall be exposed in a greater measure when there will be a surplus revenue in the hands of Government, because of the additional taxation, as I feel sure with Sir Ibrahim there will be at the end of 12 months, of that surplus being utilised for meeting charges which are either unjust or exorbitant.

" I also think that there is great force in the contention of my friend the Hon'ble Sir Ibrahim Rahimtulla against a resort to additional taxation to provide a surplus. If this taxation were being imposed to meet the wants of the people for greater education, to provide for more sanitation, to provide for the development of indigenous industries, to provide for developing the resources of the country, the case would stand on a very different footing. We might well then, deliberately, knowingly, with our eyes open, agree to additional taxation in order that additional revenues might be raised to promote national efficiency and thereby national wealth, to bring the people up to a level of civilization and prosperity with other parts of the British Empire, but it is a very different matter when additional revenue is being raised in order merely to provide a surplus, which my friend has shown (and there is great force in what he has said) may not really be required. Taking however the whole situation into consideration, and having a feeling of hopelessness that the decision which the Government have arrived at will not now be altered or modified, I think that the proposals which are now before the Council regarding the higher income-tax ought not to be disturbed. I hope that when the time comes for remitting taxation, other taxes may be remitted, but that this tax will stand, and this for two reasons: first of all because it is an eminently equitable tax; its burden falling upon those who are best able to bear it; secondly, because this tax will probably lead some of us who will have to pay it to look a little more closely into the expenditure side of our finances. I hope it may induce some of us to seriously think whether it is not possible to have the administration carried on much cheaper, more economical lines without sacrificing efficiency; and if this

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hope should be realised, that additional interest taken in our financial administration will, I expect, more than repay us for the loss of income we shall sustain and the hardship that some of us feel in submitting to the increased tax.

"With these remarks, Sir, I strongly support the motion which has been made by the Hon'ble Finance Minister."

The Hon'ble Khan Bahadur Mian Muhammad Shafi:—

"Sir, in view of the abnormal conditions created by the world-war, I give my willing acquiescence to the imposition of an additional income-tax as proposed in this enactment, particularly because the extraordinary expenditure which the Government has to meet, is proposed to be met in a manner calculated to produce a minimum of hardship. As the Hon'ble Finance Minister explained to us in his admirable speech introducing the annual Financial Statement, the persons who, under the existing law, are exempt from payment of these taxes and those whose incomes amount to Rs. 4,999 will in no way be affected by the proposed measure. And of the 37,000 persons who will have to pay enhanced taxation, only some 3,500 persons will pay the highest rate proposed in this Bill. It is quite true, as was observed by my friend Sir Ibrahim Rahimtoola, that these well-to-do classes contribute very largely in various ways towards our public exchequer. But I, for one, feel certain that this class of persons will recognise that those who benefit most under the protecting aegis of the greatest Empire known to history ought to contribute most in times of special crisis, such as the one with which we are faced to-day. Sir, I should have been perhaps the first person to subscribe to every word of what my friend the Hon'ble Sir Ibrahim Rahimtoola has said if the question of increased taxation, as he called it, for a surplus had arisen under normal conditions: but in view of the extraordinary circumstances created by this war, and in view of the possibility of all sorts of contingencies which may arise during the forthcoming year—or as the Hon'ble Finance Minister said in view of the contingency that this war may last for another year or more—we ought to be prepared to support the Government in imposing an additional tax, the incidence of which will fall only on those classes who can afford to pay and ought not to grudge these £900,000 which the Government seeks to derive from the Income-tax Bill.

"Sir, since the introduction of the Bill into this Council, I have had opportunities of discussing its provisions with some of the leaders of public opinion belonging to various communities in the Capital of the Province which I have the honour to represent. The provisions of the Bill have further been discussed at a meeting of the Punjab Muslim League held on Sunday last. They all recognise that, under existing circumstances, the imposition of an additional income-tax is unavoidable as a war measure, and it is as such that they are all willing to give it their support. We all hope that, when the extraordinary circumstances which have necessitated the imposition of this tax have ceased to exist, this enactment will be expunged from our Statute-book and the *status quo ante* will be restored. Sir, it is in this spirit, and in this spirit alone, that we agree to the imposition of this additional income-tax."

The Hon'ble Mr. Rama Rayanagar:—"Sir, I support the Bill.

The Hon'ble the Finance Member has given us as one of his reasons for adding to the permanent resources of Government that, after the war, further funds will have to be provided for such beneficent purposes as the improvement of education and sanitation. Thus the legislation, while providing for the war contingency, contemplates to make permanent provision for some of the most pressing needs of the country. The legislation therefore is desirable. It is true that the Bill legislates for enhanced taxation, payable by the few. But the few who have to pay the increased tax are the wealthy few, hitherto but slightly touched by taxation. The general scheme of the Bill is so good that one cannot but support its adoption. The Bill is an improvement over the existing law, inasmuch as it gives support in a more marked degree to the principle of graduation in rates and that that principle is applied with

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judgment in working out the details. However, another principle, equally important and equitable, the principle of abatement, is ignored in this Bill. Some time back I gave notice of a Resolution recommending the principle of abatement, but, unfortunately, I could not move the Resolution. This principle has been accepted in most civilised countries, and there is no reason why it should not be introduced into the Indian law of income-tax. In all classifications of assessable income allowance should be made for the cost of maintenance, not only of the assessees but also of their dependents. I hope, after the war is over, Government will be pleased to give due effect to this salutary principle in the law.

“Sir, I have one more observation to make and that is, that when occasion arises for the application of the extra funds, which increased taxation brings in, Government should consider the claims for support of agriculture and industries, especially village industries, along with the claims of education and sanitation. The improvement of the material condition of the people is as important as the improvement of education and sanitation. Money spent on agriculture and industries is money well spent. When the people are materially better off they will themselves spend more on education and sanitation.”

The Hon'ble Rai Sita Nath Ray Bahadur:—“Sir, as observed before, in the present state of the Empire, when it is involved in the greatest war known to history, and when the English people have cheerfully come forward to make the greatest possible sacrifices, it is only fair, just and equitable that India, while protected by the powerful Navy and Army of England and thus enjoying the security of life and property unmolested, should also cheerfully submit to the schemes of taxation, based on incomes the incidence of which will fall heavily on the higher classes of people, i.e., people who are able to pay. I am indeed glad that the tax, while not touching all incomes below one thousand, is going to be levied on a graduated scale, the incidence of which will no doubt fall on the higher and richer classes. But while we cheerfully submit to this tax, we fervently pray that when the necessity for this additional income-tax would cease to exist, on the conclusion of peace, the additional tax will be removed and not made a source of permanent revenue. It is not a light matter that a man should be suddenly called upon to pay a tax which is two and a half times higher than what it was before.

“With these few words, I beg to support the Bill.”

The Hon'ble Rai Ghanasyam Barua Bahadur:—“Sir, I think that of the two Bills which are before us to-day, this is the one which we should consider the least open to objection, as it deals with a very reasonable form of taxation, and the distribution has been carefully and equitably made. Considering the gravity of the situation, the need for additional taxation as the Hon'ble the Finance Minister has so clearly explained to us, and the very cautious and considerate way in which he has imposed the taxes, it would have been much better if we could have seen our way to pass both these Bills without much discussion. I wish we could do so. Unfortunately, we have launched into a great deal of discussion, some portion of which it would have been much wiser, I think, not to have gone into at all, as advised by His Majesty's Government and the Hon'ble the Finance Minister. I am, however, happy to see that both the Bills have received almost unanimous support, the support that they deserved, and I hope the whole country will be prepared to gladly bear the additional burden owing to the peculiar circumstances that have necessitated it. In a situation like this, I think that, instead of insisting upon the Hon'ble the Finance Member doing without additional taxation or of finding fault with him for budgeting for a surplus of one million, it would have been more reasonable to ask him simply to be cautious in spending the amount and keeping it in hand as a reserve only for particular contingencies that may arise. In a time like this, I think nobody would call it unfair or unwise for a

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Finance Minister to so strengthen his hands as to be able to have something in hand for any urgent call to which he might at any moment be exposed. We see that the frontier troubles going on with more or less continuity, and the call upon us in connection with the eastern theatre of the war may be more urgent at any time. Besides, there may be other deficits, e.g., the railway traffic may suddenly receive a check. It is no wonder if considerations like these induce one to keep some extra money by, and we should consider it only a matter of ordinary prudence for a wise Finance Minister to keep such a margin in hand. In the peculiar circumstances of the case we might have satisfied ourselves by saying simply that the resources should be well husbanded, that where one pice would suffice two should not be spent, and that where a rupee could be saved it should be saved; and the great care which has been continually exercised by the Finance Minister in presenting the Financial Statement every year should lead us to depend very much on him for that. On all these considerations, I think we should have been much wiser in not drifting into the long and somewhat unfortunate and unpleasant discussions that have taken place to-day.

"It should have been enough for us to say that we accept the Bills as a war measure, but that if it so happens that we do not want the surplus for the purposes of the war, we shall ask him to spend it for purposes which will benefit the people from whom it has been obtained. We might ask him then to see that the proceeds of the salt tax and the income-tax go to the relief of the poor, in the improvement of education and sanitation and so forth. The war will not go on for ever; it will come to an end sooner or later. Then will be the time to press on the Government to reduce all extra taxation which the conditions of war have brought upon us. Why not let the Bills be passed without protest and depend upon the Finance Minister's calculations for the present? This is really not the time for quarrel or controversy but for smooth and united work. Since the outbreak of the war Bills to the extent of hundreds of millions have been passed in the Houses of Parliament in England, and the people of the United Kingdom have submitted without a murmur. In consideration of the part that we are bound to take in this world-wide war, and in consideration of the promise and pledge that we have already made to this effect, I think in these small matters we should have been able to do without controversy and let the Bills be passed at once, especially after what the Finance Minister said. As soon as the war is over we shall have time to readjust the accounts and ask him to reconsider these measures in more detail. I hope the Council will see the advisability of not lengthening discussions any further. I beg to give full support to the Bill."

The Hon'ble Mr. Madhu Sudan Das :—"Sir, judging from the speeches that have been made on this Bill, we are all agreed that there should be no attempt on the part of anybody to oppose the new taxation which has been necessitated by the war. But while there is a positive and marked reluctance to withhold any money which Government wants to meet the emergencies of the occasion, some Hon'ble Members have thought it fit—or rather, I should say, have considered this a proper and fitting occasion—to refer to what they would like to describe as erroneous administration in the past. If we once admit that there is need for extra taxation necessitated by the emergencies of the present moment, and that we should not withhold our acquiescence in it, I do fail to understand what good can be derived from going to the past or criticising the administration of the past. It may be that millions might have accumulated in the shape of surplus. It is true perhaps that the actual surpluses have exceeded the anticipated surpluses. But Hon'ble Members should not lose sight of the fact that these surpluses have been spent as capital outlay, which means, all those comforts, facilities and conveniences of civilised life, without which we should not have been proud as subjects of the British Empire, which we are to-day. The very fact that the actual surpluses have exceeded the estimated surpluses proves that at any rate the Government of India has not been playing

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ducks and drakes with the money, but that great care has been taken in its expenditure. It may be that a closer scrutiny into the finances might have swelled the actual surplus a little more, but those are things of the past and my outlook is of the future. For the present, I am content to bear the burden that is put on my back and shoulder, but I look forward to a brighter future. That should be and is my position at any rate. And if the English nation, if the Government of India, if the Secretary of State or the India Office, if any of these do not do their duty, well, that will not be our fault. The war has awakened the world's conscience; the war has opened the eyes of all nations. Our conduct therefore will be judged by the verdict of the world and by the impartial verdict of history.

"With these words, Sir, I give my entire and whole-hearted support to the Bill."

The Hon'ble Sir William Meyer:—"Sir, I am very glad to find that there is such unanimous support of the Bill in the Council—such almost unanimous support of the Bill, I should say—such almost unanimous recognition of the justification for the Government proposals. The only discordant note has been struck by the Hon'ble Sir Ibrahim Rahimtoola, and I cannot pass over some misleading statements that he made.

"In the first place, in dealing with the financial expedients which we might employ to avert having to raise income-tax, he spoke of our having a reserve in the shape of our balances, which normally amount to sixteen odd millions. Well, anyone might suppose that the balance in question lay always handy, that it was a balance such as a private individual keeps at his bank and could draw upon easily at any time. Of course it is nothing of the sort. The balances of the Government of India—normally 4 millions in London and 12 millions in India itself—are scattered all over the country. They are the joint products of the balances of every tahsil and district treasury. Portions of them are held at the Presidency Banks at Bombay, Calcutta and Madras, where they are useful for trade, and so on. They are really till-money to finance the requirements of a sub-continent. When then we say that our cash balance is for instance £16½ millions, it does not follow that that those 16½ millions can be used. There is only a very small portion—in India practically the amount that we hold from time to time in our reserve treasuries—that can be promptly used; and I can assure the Council that there have been moments in this last year in which I have been rather anxious about the state of our cash balances; and have had to meditate—what I should have done with the greatest reluctance—withdrawing more money from the Presidency Banks.

"Then, the next misleading statement was that during a certain number of years—since 1903, I think, the Hon'ble Sir Ibrahim Rahimtoola said—some 20 million pounds had been paid by the taxpayer towards capital expenditure. Well, I call that statement misleading because they were not really paid by the taxpayer in the sense in which one ordinarily understands the word. Several millions of that money came from the opium revenue from huge sums that were paid during the last years of our opium trade with China by persons anxious to pass on opium at heavy cost to the Chinese. Those millions were not paid by the taxpayer in India. Then there is the money derived from the commercial undertakings of the Government. Take the railways. During the last few years the railway receipts have been rather in excess of our eventual surpluses. I would like to read the figures for the last few years. In 1912-13, the net profit from railways, after meeting interest charges, was about £4,800,000. The actual surplus was £3,100,000. In 1913-14, railways produced about £5,000,000, but the actual surplus was only £2,300,000. In 1914-15, railways produced £2,150,000, nevertheless there was a total deficit of £1,800,000.

"In the current year we now estimate for a railway profit of £3,800,000; nevertheless the final, general, deficit is £2,000,000. In the Budget, again, we have with the fresh taxes proposed, a surplus of £1,000,000, but this is after reckoning £2,500,000 of railway profits. It must also be remembered that the

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Government get a good deal from opium and forests, in like manner. Well, it is not fair, it is very unfair to talk about receipts derived in that way as being derived from taxes. They represent voluntary disbursement from those who pay them, and when they are put into capital expenditure, it has been an excellent result for the taxpayer. If, for instance, Hon'ble Members will refresh their memory by turning to the last section of my Budget speech of last year dealing with the public debt in India, they will find that, partly through the reduction of our unproductive debt by the application of past surpluses we now derive some £6,000,000 of clear revenue from our great capital undertakings. Those transactions I say give you a net profit of £6,000,000 after providing for interest; and let me remind Sir Ibrahim Rahimtoola that the strong position of India which he speaks of is owing to the self-denial of our predecessors who went on through difficult periods in which there were deficits, went on paying the money and left us in this strong position in which we now are. But this does not warrant us in dissipating the capital that our predecessors obtained for us and proceeding to budget for deficits. Sir Ibrahim Rahimtoola also referred to the fact that the actual surplus of the year is generally materially in excess of the amount budgetted for. Well, it is a particularly difficult task to budget for India, which is a sub-continent. My predecessor referred to the Indian Budget, in a now classic phrase, as a gamble on rains. I should say now that it is in even greater measure a gamble in railways. Our figures may be materially altered—generally to the good, sometimes unhappily to the bad—by the character of our railway receipts. Of course, we do our best in calculating what our railway receipts will be; we consult our railway experts and so on; but we are all out sometimes. Now considering the vast scope of our railway system, the number of factors involved, and the extent to which a small percentage of difference in profit or loss will affect the railway Budget, I do not take any discredit for the fact that railways have, generally speaking, done better than was expected; though sometimes, on the other hand, they do not do so well. In 1908-09, for instance, the then Finance Member estimated for a surplus of £570,000, but got a deficit of £3,700,000, partly through agricultural distress, but very largely through a falling off in railway earnings. Similarly, in the previous year (1907-08) the surplus, as Sir Ibrahim Rahimtoola quite candidly admitted, was less than was anticipated in the Budget. Well, there being this risk, generally, of the Budget figures not working out as we anticipate, it is far better to be on the right side than on the wrong. This year, for instance, as I have already said, I was really anxious till the railways came to the rescue. If the railways had not, to the surprise of everybody, of the experts themselves, produced very much more than we had any right to anticipate, instead of the deficit this year being a million less than estimated, it would have been probably a million more. Well, I am not going to run any such risk next year; we cannot afford it. I think Sir Ibrahim Rahimtoola has had his eyes so fixed on Great Britain and the shortcomings of the Government there, as he puts it, that he has rather forgotten what the financial circumstances of India are. The Chancellor of the Exchequer at home can cut things rather fine, because he can, if things go wrong, if there is a deficit instead of a surplus, raise money by exchequer bills; and then he can, when Parliament meets, also vary taxes, and raise money in that way. In India, supposing a state of things was brought about—by a trade crisis, we will say—in which the Government of India was losing money hard, we should certainly not be able to get money from the Presidency Banks or the money-market generally. At present, again, we have not the further resource of raising money at home; nor is anybody who is really acquainted with the circumstances of the people of India anxious to subject them to perpetual alterations of taxation. There is nothing so much disliked in this country as uncertainty; we know it from the salt tax. Rumour said last year that the salt tax was about to be increased. There were unfounded and exaggerated rumours this year as to the extent to which we proposed to increase the tax, and speculators sent the price up. We do not want that state of things; we do not want people apprehensive lest a turn of the tide should impose some further taxation. We want, in imposing taxation, to do it in a definite and sound way so as to give us adequate resources.

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"Sir Ibrahim Rahimtoola says that every time there is a deficit the Government of India imposes fresh taxes. Well, I do not admit that this is so at all. There was a deficit in 1907-08 which was passed by. In 1908-09, there was a further big deficit of nearly 4 millions, and next year my predecessor imposed fresh taxes to the amount of a million. Why did he do this? He did not do it merely with reference to the deficit, but with reference to the probable disappearance of the opium revenue, which has disappeared since; and as I told Council last year, the equivalent of the taxes then imposed, £1 million, has been subsequently allotted to education and sanitation. Well, what does the present Government do? There was a big deficit in 1913-14 attendant on the war. There would be another big deficit in the current year, as we know. So long as we thought we could get on without fresh taxation we did not tax; we resorted to all sorts of expedients which would not have been desirable except in very special circumstances, borrowing from the Gold Standard Reserve and so on. But now that we have come to the third year of deficit, and there is the prospect that the war may go on for a long time yet, and that we shall later have to reconsider our scale of expenditure probably, it would be absolutely immoral to go on estimating for deficits. Sir Ibrahim Rahimtoola propounds a little Budget in which we shall have to scrap the salt tax and the income-tax and have a deficit of £1,00,000 which is to be covered by the grace of God, I suppose. Anyhow, he hopes that things will be better than they are to-day; if they are worse then make a raid on the Gold Standard Reserve, or meet them from the cash balances, or from this or from that. I regard that as absolutely immoral finance. The Government proposes taxation so as to give, I won't say a surplus, because that suggests a normal state of things, but an adequate margin to meet a state of affairs which may be very materially worse than is anticipated at present. It may of course be better, I hope it will be. I shall be very glad if that is so. Then I am asked what I shall do if there is a larger surplus than we anticipate. There is a very easy answer to that; we have still got very heavy temporary debt which we ought to discharge as soon as possible; we have still £1,00,000 due to the Gold Standard Reserve, and £6,500,000 due on the India Bills. If our loan operations are successful, we may get some money to pay towards reimbursing the Gold Standard Reserve, but we have still the India Bills.

"Then I have been asked what I shall do later on if peace and prosperity return and we find ourselves in an era of surpluses. I can give no pledge as to the repeal of any particular tax now imposed; when we are nearer to prosperity we shall have to consider the matter. My own personal view—I am here in sympathy with the Hon'ble Pandit—is that when we come to consider the remission of taxation generally, the taxes to be first considered are those which specially affect the poor, and I say this that when we come nearer to prosperity if I am still in office—or if I have gone I can say the same of my successor—Government will take into consideration how far the taxes which have been imposed in times of adversity need to be continued, and if remissions are thought desirable, what particular form those remissions should take.

"Lastly, I am surprised that, seeing that the Hon'ble Sir Ibrahim Rahimtoola recommended that we should budget for equilibrium or even a small deficit, he did not think less money should be obtained from Customs, and I am surprised that he should have exposed himself to misconstruction—for misconstruction I am sure it would be—by opposing a tax specially designed to make wealthy people like himself contribute to the public purse; I should have thought that in his place it would have been more altruistic to vote for the income-tax and propose a reduction of the Customs.

"With these remarks, Sir, I move that the Report of the Select Committee be taken into detailed consideration."

The motion was put and agreed to.

The Hon'ble Mr. C. Vijiaraghavachariar:—"Sir, in section 5 of the Income-tax Act there are about ten cases of exemptions from the

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tax ; these provisions are repeated in the Bill. I propose that sub-section (d) be omitted. I shall read it, it runs as follows :—

' Any profits of a shipping company incorporated or registered out of British India and having its principal place of business out of India and its ships ordinarily engaged in seagoing traffic out of Indian waters.

" This is the clause of which my amendment asks the repeal or deletion ; it is not capable of much argument either way ; you have to look at the principle, if any, of the exemption. I looked at the Proceedings relating to the passing of this Act in 1886. I did not find any cogent reason why this exemption was introduced in the provisions of the Act of 1886. The Bill which became the Act of 1886 did not contain this exemption, but after it was referred to Select Committee, the Hon'ble Mr. Steel seems to have raised an objection on the ground that this Act would annoy the shipping agents, and it was also vaguely feared that Collectors would go to ships and ask for various particulars, etc., then the exemption was introduced. It was also said that much money did not come in from this source under the law prior to the Act of 1886. Why this was so, whether because it was not available or whether evidence could not be reached, I was unable to gather from the Proceedings. Whatever it may have been, the hope was held out that the point was capable of revision at subsequent times. Now thirty years have passed since the Act was passed ; at that time the great carrying country of the world was England ; there has since then been a considerable change in the commercial and carrying capacities of the world, and I see no reason why this exemption should be retained any further.

" With these remarks, Sir, I beg to move the amendment that stands in my name—

' That for clause 3 of the Indian Income-tax Amendment Bill the following shall be substituted, namely :—

* 3. In section 5 of the said Act the following amendments shall be made, namely—

- (a) clause (d) shall be omitted, and
- (b) in clause (i), after the word 'any' the words 'company or' shall be inserted.'

The Hon'ble Sir William Meyer :—" Sir, as I explained in my speech introducing the Financial Statement, there are a variety of matters in which the existing enactments will require revision sooner or later. We did not propose to complicate this question of additional taxation by going into all these matters ; that would have taken a long time and the Council will readily imagine that we were pressed with Budget work and with the special anxieties that war brings about.

" As regards this amendment, I have looked up the point and have communicated privately with the Hon'ble Member. I find that, in 1886, the then Finance Member and the Select Committee thought that the tax on shipping would have been very difficult to collect. It would have been impossible owing to vessels going from country to country, and the cargoes being transferred from vessel to vessel, to estimate the profits derived from Indian trade separately. Similarly, it would have been impossible to estimate the profits of the ships for the period that they were in Indian waters. It was said, too, that the shipping trade at that time—this would not apply now—was in very low water. In 1912, before I assumed office, various suggestions had been made in respect of the amendment of the Income-tax Act that require consideration, and revision of this sub-section was one of them. So if my Hon'ble friend will take it from me that when a fitting opportunity offers for a general revision of the Act, quite apart from the present emergency taxation, this question will be fully considered. I hope he will be satisfied and will withdraw his motion."

The Hon'ble Mr. C. Vijiareghavachariar :—" The Hon'ble Member will perhaps permit me to say that this point required no serious investigation ; at the same time as he tells me that the matter will be looked into, I beg to withdraw my amendment."

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The amendment was, by permission, withdrawn.

The Hon'ble Pandit Madan Mohan Malaviya :—“Sir, I beg to move—

‘That in clause (a), Part I, column 2, of the second Schedule set out in clause 8 of the Bill, for the figure “1,000,” the figure “1,200” and for the figures “83-5-4” the figure “100” shall be substituted.’

“The reason for this amendment is very simple and very obvious. The Government have very considerably exempted incomes up to Rs. 1,000 from taxation. We feel grateful for it, but prices have risen and living has become more costly, and the great bulk of the middle class find it more and more difficult to make the two ends meet. I therefore propose that the exemption should be raised to Rs. 1,200. It will not cost the Government an excessively large amount. I have looked up the figures for 1911-12—figures for later years not being available to me. They show that in that year the number of persons who paid income-tax on incomes ranging from Rs. 1,000 to Rs. 1,250 was 98,716. That was the number of persons assessed on incomes between Rs. 1,000 and 1,250; but the total sum raised from them amounted to Rs. 18,31,213 only. So, that when nearly a lakh of persons were assessed and put through all the difficulties and hardships to which income-tax assessments expose the middle class people, the total sum realised by Government was only Rs. 18,31,213. I submit, Sir, that in view of the great increase of taxation in recent years and of the proposals for additional taxation which have been before the Council during the last few days, the Government are in a position to renit Rs. 19 lakhs and to bring relief to a large body of middle class people throughout the country. If the Government will be pleased to give up Rs. 19 lakhs they will afford relief which will be substantial to a large number of men, and the finances will not much suffer.

“It may be said that it is rather strange that when Government are resorting to fresh taxation in order to raise more revenue, I should come forward with a proposal to reduce or to give up a part of the existing revenue; but I submit, Sir, that the very fact that fresh taxation is being put on, and that a large sum is being raised thereby, affords justification for the view which I am submitting to the Council. The salt tax is a tax which everybody among the middle class will pay; the import duties will also add to the burden of the general middle class people. For these reasons, I hope that my proposal will commend itself to the Hon'ble Finance Member, whose sympathy with the general middle class people and the poor is very well-known, and I do hope that the Government will see their way to accept it.”

The Hon'ble Sir William Meyer :—“I regard the proposal of the Hon'ble Pandit with a good deal of personal sympathy. In fact, if I may make a confidence to the Council, one of my day-dreams when I was first taking up the post I now hold was that I hoped to be able, before my term of office was over, to enlarge the sphere of exemptions from income-tax. But fate has willed it otherwise, and instead of the peace and prosperity that marked my predecessor's regime I have fallen into an era—a *Kali-yuga*—of war and troubles. As matters stand at present, I am afraid I cannot accept the amendment. It would involve a considerable amount of money—£140,000 according to the rough calculations I have made. But there is a more important principle involved. This tax has been borne for 80 years. I do not think it would be right, at a time when we are asking a number of people to bear enhanced taxation in one way and another, that we should start remitting a tax which has been so sanctified by custom. It would be really inconsistent. I must therefore oppose the amendment; but I can assure the Hon'ble Mover that if a time should come at which I shall be in the happy position of considering remissions of taxation instead of impositions of taxation, this will be one of the first things that I shall then consider.”

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The Hon'ble Pandit Madan Mohan Malaviya:—"I know that when my Hon'ble friend has decided a question, his decision must be final, and so I must bow to it, though I feel that, with his sympathy with the proposal, he could have easily spared 19 lakhs when he is raising an additional revenue of 3 millions. I do not wish to take up the time of the Council any more. I thank my Hon'ble friend for the assurance he has given, and trust that, in the not distant future, this proposal will be actually carried out. I do not press my motion."

The amendment was, by permission, withdrawn.

The Hon'ble Pandit Madan Mohan Malaviya:—"The other amendments were consequential, and they will not be moved, namely:—

'That in the table in Part II, column 2 of the Second Schedule—

(a) entry 1 shall be omitted, and

(b) for the figures "1,000" in entry 2 the figures "1,200" shall be substituted.

'That in the table in Part III, column 2 of the same Schedule—

(a) entry 1 shall be omitted, and

(b) for the figures "1,000" in entry 2 the figures "1,200" shall be substituted.

'That in clause (a), Part IV, column 2 of the same Schedule—

(a) the words and figures "not less than Rs. 1,000 but less than Rs. 1,250 the tax shall be Rs. 20" shall be omitted, and

(b) for the figures "1,250" were they occur for the second time the figures "1,200" shall be substituted."

The amendments were, by permission, withdrawn.

The Hon'ble Mr. C. Vijiaraghavachariar:—"Sir, I beg to move—

'That in clause (a), Part III, column 1, of the Secord Schedule set out in clause 8 of the Bill, the words 'by draft on any place in British India' shall be omitted.'

"This amendment needs some explanation. A distinguished friend of mine asked me, as soon as I came here this morning, what I meant by this amendment. I owe it to the courtesy of the Hon'ble Finance Minister if I proceed to give that explanation. I sent out the amendment partly in ignorance and partly from suspicion; but in the light of the lessons which I have derived this morning, I don't believe that my amendment is altogether out of order.

"Hon'ble Members will remember that our Income-tax Act is constructed very much on the lines of the English Income-tax Acts, that is to say, incomes are doubly immune from income-tax, firstly, if any income comes within one of the ten exemptions mentioned in section 6, the proprietor of that income pays no income-tax. That I shall call positive immunity, but it does not follow from this that incomes which do not come into the list of exemptions necessarily pay income-tax. Section 4 creates liability to income-tax only those incomes which can be traced to the sources mentioned in Schedule II, so that a man may negatively escape income-tax if his income is not traced to the sources mentioned in Schedule II. As far as I understand the English Acts, they are also constructed on the same principle, and I believe that once upon a time a judicial decision was reached wherein it was held that the owner of a property which did not come under any one of the items mentioned in the English Schedules, A. B. C. D. and E., was not liable to pay income-tax notwithstanding that that property did not come within the list of exempted properties. My amendment relates to this aspect of the law. My suspicion is that certain proprietors of incomes, by reason of the words which I wish to delete, escape the payment of income-tax altogether. My amendment relates to the following clause—It is repeated in the present Bill—Part III, clause (a), i.e., interest on, 'promissory notes, debentures, stock or other securities of the Government of

[*Mr. C. Vijayaraghavachariar; Sir William Meyer.* [7TH MARCH, 1916.]

India (including securities of the Government of India whereon interest is payable out of British India *by draft on any place in British India*). I propose to omit the words 'by draft on any place in British India'. I could not understand why liability to income-tax was restricted to this particular form of payment. I strongly suspected, as I said when I sent in my notice of amendment, that under this qualification the holders of our Sterling loans escaped income-tax altogether. I need not remind the Hon'ble Council that the income-tax under our Act, as in England, is collected in two ways. One is before the income reaches the owner, by the method of what is called catching it at the source as in the case of Government promissory notes, where when the interest is paid the income-tax is deducted and then the balance is sent to the proprietor. Of course, if we are not liable to pay income-tax at all, we must apply afterwards for a rebate but in any case, whether the holder of a security is liable or not liable on account of the minimum income from all sources being below Rs. 1,000 a year, if he is not liable to pay income-tax, the tax is yet deducted from the interest on the security and later on he is entitled to apply and get a refund. But in all these cases the income-tax is taken at the source and not collected afterwards from the owner of the income by proof as to what he has obtained. Now, in this particular case there is this difference between the holders of rupee securities and the holders of sterling securities as a class. The holders of our Sterling securities, unlike the holders of the rupee securities, escape paying income-tax altogether. They are not caught at the source on account of the existing wording of the clause in question, and as they are beyond the jurisdiction of the Government of India, they altogether escape as the second method of assessing and collecting the tax is not available in their case. I therefore beg that these words should be omitted in order to bring that large class into the scope of our Income-tax Act."

The Hon'ble Sir William Meyer:—"I understand, and in a way sympathise, with the Hon'ble Member's desire to get more money for us, but I am afraid that his proposal is not feasible. In the first place, he says that holders of Sterling securities escape the income-tax. They escape our income-tax because they are not liable to it, but they pay at the source in London to the British income-tax. Now Sterling securities have been ruled by the Law Officers of the Crown (and that necessitated an amendment to the Trust Act the other day) to be technically not Indian securities, that is not securities of the Government of India; they are securities issued in London by the Secretary of State for India. So that they are not taxable as securities under the Act, but only in the event of the proceeds being remitted out here, in which case they are taxable under section 3 (5) as incomes or profits accruing or received in British India. But as my Hon'ble friend came and spoke to me on this matter yesterday, I put it to him that, even if we had the power—which we have not—of taxing these Sterling securities, it would be very inexpedient to do so. The interest on our internal loan we can tax as we think fit, but we do not borrow in London for the mere pleasure of it. We borrow because we need the money, and the money is found for us by people who have often no connection with India and no desire to come to India, but just put their money into Indian investments as they might into Japanese or Australian, as a little investment. These people already pay a heavy tax to the British Government on what they get from our Sterling securities or other sterling securities which they hold. If we saddle them with a local income-tax as well, the result will be that our loans will fail; either we shall not be able to borrow, or we shall have to raise our rates and lose much more than we gain by this relatively small amount which my Hon'ble friend would like to rope in. All countries recognise the difference (Japan especially) between an internal and external debt. On your external debt you have got to treat your creditors lightly, because otherwise they will prefer to lend to somebody else."

"I may finally observe that, apart from that, a question has been raised—and I think it will have to be considered in connection with the readjustment of the fiscal relations between the component parts of the Empire

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which His Majesty's Government has indicated—the question of the double income-tax, as to whether it is right and expedient that profits which people have made in (say) Australia or India or Canada, which are subject to income-tax by the Governments of those countries should be taxed again in London. We should certainly weaken our case, if we were—assuming even that we had the power to do so—to start the policy of double grab and say we are going to dip our hands into pockets which have already been mulcted by the British Exchequer. For these reasons, Sir I am quite unable to accept my Hon'ble friend's amendment."

The Hon'ble Mr. C. Vijiaraghavachariar:—"Sir, I fear that it would be very bold and perhaps impertinent of me, just a pupil who received his lessons to-day and yesterday, if I attempt to traverse the arguments of the Hon'ble the able Finance Minister, but it does strike me that, if, as his pupil, I cannot venture to criticise him, I may yet ask him some questions. It is, I believe, open to a pupil to ask questions of his teacher. So I do desire to ask him some questions. If double income-tax is paid as regards certain incomes, both in England and in the Colonies, may I know why, till a final Imperial settlement is reached, double income-tax should not be paid, both as regards India and England? And this is my question No. 1.

"But if there should be no double income-tax, why should not England be the loser? The money lent is ours; why should we lose the income-tax? It is only by a strange fiction that these Sterling securities are called securities of the Secretary of State. This fiction rests on an old remnant of, I should say, superstition of the old John Company whose principal place of business was in London. What business has the Secretary of State to call himself the 'Government of India'? The Government of India is here; and the Secretary of State for India is our agent for this purpose. Instead of calling those securities securities of the Secretary of State, may we not more accurately call them securities of Government of India from whom the money comes? And instead of enfacing interest as payable at Whitehall, why not enface them as payable in Delhi and add to the prestige of new Delhi? That is my question No. 2.

"May I ask how long is this artificial distinction between rupee loan and Sterling loan to be kept up? By the change of currency laws in India we have dethroned the rupee from its ancient position, and it is fast becoming a mere token coin. I cannot understand then why any distinction is still kept up any further between rupee loan and Sterling loan. Are the two classes of loans necessary? Cannot all be Sterling loans now? Is the artificial distinction between the two sets of loans and securities desirable? That is my question No. 3.

"Now it is said, the Hon'ble Finance Minister has said so, that if we insist upon income-tax as regards holders of Sterling securities, our loans in future would fail. Would it be altogether a disadvantage? If loans in the foreign markets are not available for us on fair terms, may we not then learn, more and more with the co-operation of the people of India, and not as now with the help of foreign investors, how to adjust our own domestic affairs and to get our loans in India itself on such terms as may be possible? And would not this course be a great national advantage in every interest? I simply ask this question. That is my question No. 4.

"I would also ask you to give me an answer to one more question and I shall sit down, and that question is this:—Is not the present policy holding out a premium to moneyed people to invest their money in Sterling loans instead of rupee loans? If Sterling security holders are immune from the Indian income-tax, if investors in this country can easily obtain Sterling securities, directly or by transfers, would they think of rupee loans with the invidious liability to pay income-tax on the interest? Is not this a very unsound fiscal policy? And is it not holding out a premium in favour of Sterling loans and make savings in this country shy of investment in rupee securities?

[*C. Vijiaramgavachariar; Sir William Meyer.*] [7TH MARCH, 1916.]

“ Those are the questions I would put and if the Hon’ble the Finance Minister will kindly answer them satisfactorily, I will certainly withdraw the amendment, otherwise I fear I must press it.”

The Hon’ble Sir William Meyer—“ It is getting late and I should prefer the alternative of voting on the amendment at once to answering the questions.”

The amendment was put and negatived.

The Hon’ble Sir William Meyer—“ I now move that the Bill, as amended by the Select Committee, be passed.”

The motion was put and agreed to.

The Council adjourned to Thursday, the 9th March, 1916:

A. P. MUDDIMAN,

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

DELHI;

The 17th March, 1916.