

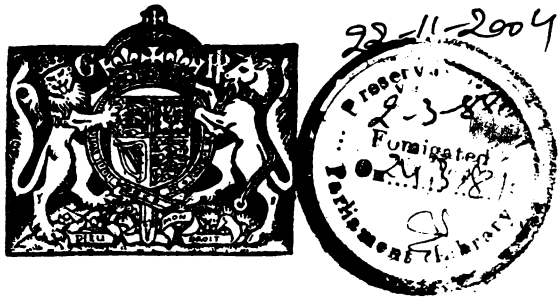
Thursday, 6th March, 1930

THE
COUNCIL OF STATE DEBATES

VOLUME I, 1930

(17th February to 3rd April, 1930.)

EIGHTH SESSION
OF THE
SECOND COUNCIL OF STATE, 1930



CALCUTTA: GOVERNMENT OF INDIA
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COUNCIL OF STATE.

Thursday, 6th March, 1930.

The Council met in the Council Chamber of the Council House at Eleven of the Clock, the Honourable the President in the Chair.

MEMBER SWORN :

The Honourable Rao Bahadur D. Laxminarayan Pulaya (Central Provinces : General).

QUESTIONS AND ANSWERS.

• SLUMP IN GOVERNMENT SECURITIES.

59. THE HONOURABLE MR. SURPUT SING : Will Government be pleased to state :

- (a) whether there is a great slump at present in the transaction of all kinds of Government securities ?
- (b) whether these securities have decreased in value by 15 to 20 per cent. ?
- (c) if the answer is in the affirmative, what steps Government propose to take to safeguard the interests of investors in those Government securities ?

THE HONOURABLE SIR ARTHUR MCWATTERS : The Honourable Member is referred to paragraphs 104. to 108 of the Budget speech of the Honourable the Finance Member, in which the reasons for the fall in the prices of Government securities are examined.

REMOVAL OF THE OFFICE OF THE COMMERCIAL MANAGER, EAST INDIAN RAILWAY, FROM CAWNPORE, ETC.

60. THE HONOURABLE MR. SURPUT SING : With regard to question No. 30 asked by me on the 19th February, 1930, will Government be pleased to state :

- (a) whether a Commercial Manager's Office of the East Indian Railway was once located at Cawnpore ?
- (b) if the answer to (a) is in the affirmative—
 - (i) what the total strength of that office was ?
 - (ii) what led to the removal of that office from Cawnpore ?
- (c) whether a complete office of a District Traffic Superintendent of the East Indian Railway has been in existence at Allahabad for the last 40 years or so ?

THE HONOURABLE MR. J. A. WOODHEAD : The information asked for is being obtained from the Agent of the East Indian Railway, and I will communicate it to the Honourable Member.

PRINTING WORK DONE FOR GOVERNMENT BY PRIVATE FIRMS OR PRESSES.

61. THE HONOURABLE MR. SURPUT SING: Will Government be pleased to state:

- (a) which of the seven firms and presses mentioned in the answer to question No. 29(b) asked by me on the 19th February, 1930 are purely European, Anglo-Indian and Indian owned?
- (b) which firm or press got which specific amount?

THE HONOURABLE MR. J. A. WOODHEAD: (a) Government are not in possession of the information asked for.

(b) The following amounts were paid during 1928-29 to the Presses noted below:

	Rs.
(1) The Times of India Press	1,52,000
(2) British India Press	2,000
(3) Liddell's Press	300
(4) Claridge & Co.	200
(5) Hindustan Times Press	50

Orders were also placed with the Calcutta Chromotype Company to the value of Rs. 2,500 and with the Calcutta Printing and Publicity Company to the value of Rs. 2,000 and it is expected that payment will be made during 1929-30.

LEASE TO THE CALCUTTA TURF CLUB OF A PORTION OF THE MAIDAN IN CALCUTTA.

62. THE HONOURABLE MR. SURPUT SING: With regard to question No. 45 asked by me on the 19th February, 1930, will Government be pleased to state:

- (a) what led Government to grant the portion of the Maidan to the Calcutta Turf Club to be used as a race course free of any rent?
- (b) what special consideration led to the granting of a lease to the Club in 1907?
- (c) the terms of the lease of 1907 together with the details of the correspondence between the lessor and the lessee which led to the granting of that lease?
- (d) whether that lease has been registered?

THE HONOURABLE MR. H. G. HAIG: (a) The Government of India have not been able to trace the records of the grant of the original license to the Calcutta Turf Club.

(b) As already explained in the statement appended to the answer given by His Excellency the Commander-in-Chief on the 19th February, the lease was granted to place the title of the Club, which had been in occupation of the land for approximately half a century, on a proper footing so that it could make improvements for the better accommodation of the public attending the races.

(c) I will send the Honourable Member a copy of the lease. There was no direct correspondence between the Government of India and the lessee. The proposal for the grant of a lease was recommended by the Local Government.

(d) Yes.

GENERAL DISCUSSION OF THE GENERAL BUDGET.

THE HONOURABLE THE PRESIDENT : The Council will now proceed to the general discussion of the Budget, Part II.

THE HONOURABLE MR. P. C. DESIKA CHARI (Burma : General) : Sir, we are grateful to the Honourable the Finance Member for the vivid and full picture of the real financial situation in India, after a very close scrutiny and examination and skilful diagnosis of the real situation. I think the Finance Member by his able analysis and lucid explanation has taken the Legislature fully into his confidence and, so to speak, placed his cards on the table candidly. One cannot but be struck with the remarkable skill with which he disarms suspicion and misunderstanding, which has made it rather difficult for his critics to properly criticise him very adversely, inasmuch as he has anticipated criticisms and has answered them in advance. It has fallen to the lot of the present Finance Member to meet with rare courage a very difficult situation. He had to propose and he has proposed very drastic measures. On the other hand the position of the representatives of the people in the Legislature is also difficult indeed. On the one side we find many of the representatives impressed by the full statement and by the vivid picture of the real financial situation. They are impressed with the necessity for consenting to additional, not to say a large measure of, taxation to provide for the necessary gap between revenue and expenditure. On the other side, they have the cheerless prospect of meeting the electorate soon after, an electorate which will not readily forgive them for consenting to this heavy taxation—a taxation which will add considerably to the already heavy burden of taxation, reaching almost to breaking point. That is the situation which the elected Members will have to face. But the real position as disclosed in the Budget speech of the Honourable the Finance Member in the other place and in the speech of the Honourable the Finance Secretary here shows that we have to face the situation irrespective of consequences. It is patent that in spite of all attempts to reduce the gap between revenue and expenditure, even after taking into account receipts from German reparations and after using up the revenue reserves, we find that there is a wide gap. That gap must be filled if healthy conditions in the financial position of the country are to be restored. The normal growth of revenue has come to a standstill and we are told and I believe that there are no hopeful signs of a possible retrenchment in expenditure, and so it is not possible, circumstanced as we are, to arrest the growth of expenditure. We are also told that even after a careful scrutiny we cannot count on being able to find a substantial margin of reduction in the cost of administration of the Central Government on the Civil side. We cannot really blame the Finance Member if he cannot effect retrenchment on the military side, knowing as we do that the extravagant military expenditure is under the protecting wings of Whitehall. It is regarded as sacrosanct and except in matters of detail to a very limited extent the Finance Member cannot touch this huge military expenditure. But we cannot refrain from making our own remarks as regards the extravagance of the military expenditure even though the Government of India as at present circumstanced cannot help us very much in the matter. We hope that the Finance Member and the Government of India will transmit our message to the people responsible, to the military authorities at Whitehall, to impress upon them that in the interests of mutual co-operation, in the spirit of co-operation which is necessary between England and India, it is necessary that the British authorities should strike a note of response in acceding to the reasonable demands of the representatives of the people. The

[Mr. P. C. Desika Chari.]

Army in India is really an army of occupation and it is in no sense a national militia. It is maintained very largely in Imperial interests and it is more or less the watch-dog of the Empire ; and we find that it is not possible to have any effect on the military policy, particularly in the matter of bringing about reasonable retrenchment. We find the unanimous and modest recommendations of the Skeen Committee in the matter of officering of the Indian Army have been turned down. We have been repeatedly urging that if in the matter of Indianisation of the Army they cannot accede to our proposals they can at least Indianise the rank and file of the Army and thereby give us a considerable decrease in the military expenditure. It is well known that the cost of a British soldier is as much as five or six times that of an Indian sepoy, and in the matter of fighting efficiency the Indian sepoy is, it has been demonstrated, as good as the British soldier. I would put it at that ; and the loyalty of the Indian sepoy is beyond reproach. It would go a long way in reducing the expenditure if the whole of the rank and file in the Army is Indianised as a first step or at any rate a large section of the European soldiery is replaced by Indian sepoys. It is well known that the military expenditure incurred in India is out of all proportion to the real needs of the country or the resources available.

I now come to the question of the proposed burdens. We find that the most important proposal relates to the cotton duties. In view of the revenue position, the increase from 11 to 15 per cent. is perfectly justified. The average consumer finds consolation in the fact that while shouldering the burdens for the purposes of revenue he provides a much needed protection to a very great national industry. Coming next to the proposal to add 5 per cent. protective duty, the position becomes rather difficult, and it is very complicated by the introduction of the principle of preference in favour of British goods. It must be frankly admitted that to the average consumer of cotton goods this additional duty will certainly be a severe strain. It is also patent that unless immediate emergency measures are taken the great textile industry of Bombay would be in great peril. There is this paramount necessity for giving protection to this industry and India must perforce submit to this additional burden to save this industry. Coming to the question of British preference, various considerations are involved. Analysing the position we find this measure is intended only for a limited period of three years. It is regarded as a temporary measure to give a temporary shelter to this industry which for various reasons stands in need of protection. The real competitor for the class of goods which are produced by the Bombay mills—and in fact by all the indigenous mills—is Japan, and dumping has been going on which threatens to destroy our national industry altogether. The production in India of the class of goods which the United Kingdom has been selling us is very small indeed and it is true that for some years the national mill industry cannot produce the class of goods which the United Kingdom has been sending us. And we are also told that the Government of India is prepared to advocate this protective duty only in case the Legislature is prepared to exempt British goods from the operation of this protective duty. We are frankly told that the Legislature is not asked to accept this proposal and it is necessary that we should make it plain that in accepting this position which necessarily involves preference to the textile industry of the United Kingdom we are not accepting Imperial Preference as a policy. I do not say that there can be no objection to preference as preference, nor do I say that preference as preference is desirable. The question of the objection to or desirability of preference

depends upon numerous other factors which need not be gone into. We are merely concerned with taking an emergency step in a particular manner without committing ourselves to the policy of preference, in this matter there is recognition once again of this principle of fiscal autonomy for the Government of India acting in conjunction with the Legislature. Unless the Legislature is prepared to extend the protection on the lines indicated by the Government of India, there cannot be protection accorded because the fiscal autonomy principle depends on the concurrence of the Government of India with the Legislature. And seeing that the interests of the consumer and of the producer are reconciled in accepting for the present this principle of protection excluding the prohibitive duty on British manufactured goods, I think the Legislature would be well advised to accede to this proposal as a purely emergency measure without considering the implications or the desirability of Imperial Preference as a policy which can be considered at a later date when a suitable opportunity occurs. Of course, Imperial Preference as a policy has not so far been accepted by the self-governing Dominions and when the time comes for a consideration of this question of Imperial Preference the various factors which have to be taken into account may be considered and if it suits the economic conditions of India, it can then be acceded to or rejected when the proposal is brought forward then. For the present we are only concerned with the appeal made by His Majesty's Government. There is no question of dictation from Whitehall. In other words, there is a friendly gesture and a friendly response from the representatives of India in the Legislatures will, I think, be greatly appreciated by the British public. In view of our present position and of the wider national interests it is desirable that we should approach the British public in a very friendly spirit and we must be careful to cultivate that spirit of harmony and friendship which is so essential for our constitutional evolution. I think public opinion in England is genuinely alarmed at the prospect of autonomous India doing injury to their commercial interests. Whether there is a justification or not, the fear is there and it is necessary for the representatives of the people here to reassure the British public that autonomous India is not likely to do any serious injury to British interests and would not take measures to injure British interests unless such measures were essential for India's own development. On grounds of expediency therefore and with a view to strike a responsive note in that spirit of co-operation I am in favour of accepting this proposal without accepting the principle involved. I am also convinced that this protective duty would be of great help to the handloom industry.

Coming now to the question of the duty on kerosene oil, the proposed duty I am afraid will hit the smaller companies. I believe there will not be room for genuine complaint on the part of the bigger companies, but really the smaller companies have just cause to complain that this duty is likely to hamper development. But I am sure this rise in the duty will not enhance the price to the consumer in India and as a revenue duty this has to be submitted to. I welcome the duty on sugar which will not seriously affect the consumer. As a measure of protection to the indigenous sugar industry, this burden will be cheerfully accepted. I am gratified to find a provision for 10 lakhs for the encouragement of sugar research and sugar production and I would ask the Honourable the Finance Member to continue this grant in years to come and I hope and believe that it may be possible to continue this grant.

Coming to the proposed duty on silver, I believe it is a step in the right direction, having regard to the position of silver as a store of value in India and having regard to the position of the Government of India in the silver

[Mr. P. C. Desika Chari:]

market. I believe there will be a surplus as a result of these various proposals and I hope that when the surpluses are realised the Finance Member will not forget his promise to the provinces in the event of surpluses by the imposition of silver duty.

Then, we come to the proposal to increase by one pie the super-tax and tax on incomes as low as Rs. 15,000 and upwards. No doubt according to the recognised canons of taxation whenever there is indirect taxation there must be some direct taxation also and this extra income-tax may be justified on this ground. But I am not impressed by the statement of the Finance Member that it is necessary to have a margin of safety. I do not know if it justifies the levy of taxation to have a surplus Budget. It is true that the proceeds of this extra taxation on incomes is likely to be just as large as the estimated surplus. I would suggest that, having regard to the large increase in taxation and having regard to the incidence of indirect taxation pressing heavily upon commerce and industry, the Honourable Member will do well to give up this proposal as regards the taxation on incomes.

Then we come to the reduction in the export duty on rice. Representing as I do the constituency of Burma, I feel gratified that after all these years of agitation the just claims of Burma have been recognised to some extent at least, and though it is a tardy recognition and though full justice has not been done, I congratulate the Finance Member on doing some little measure of justice to this province which is not adequately represented in the Central Legislature. But I cannot help thinking that this export duty on rice is really falling upon the producer and the producer in Burma is not in a position to shift on the burden of this duty to the foreign buyer. If he has to continue this taxation to produce a surplus Budget, I would request him to be just to Burma and reduce to half at least this export duty on rice if the financial condition does not justify the removal of this duty altogether. In this connection I would point out that an estimated sum of Rs. 35 lakhs is expected from the present duty on kerosene and this will come mainly from Burma and it is in the fitness of things that at least an additional Rs. 30 lakhs be provided for reducing the export duty on rice especially in view of the fact that Burma, circumstanced as she is, is forced to accept these protective duties in which no advantage is likely to accrue to her directly and this heavy taxation will be felt all over Burma. I believe that greater justice should be done to the peasant of Burma who is in a very sorry plight owing to the low level of the prices of paddy.

I would like to touch on one or two other points.

THE HONOURABLE SIR SANKARAN NAIR (Madras : Non-Muhamadan) : Is there any time-limit, Sir ?

THE HONOURABLE THE PRESIDENT : I am perhaps not altogether surprised that that question has been put to me. The answer is that hitherto I have never found occasion to exercise the powers vested in me under Standing Order 70 to fix a time-limit for speeches because I have felt that I can always rely upon Honourable Members being reasonable in their demands upon the time of the Council. I hope I shall still be able to place that same reliance on their reasonableness. The Honourable Member has already spoken for nearly half an hour. If he bears in mind that at the outside five hours are at the disposal of the Council for the discussion of this Budget, I think he will perhaps realise that he has taken more than his fair share of the time.

THE HONOURABLE MR. P. C. DESIKA CHARI: I shall just finish, Sir. I very much regret that the Finance Member has not been able to follow the wise policy in the matter of avoiding borrowings abroad. In this connection I would like to know whether the sterling loan of Rs. 12 lakhs floated in England was an absolute necessity and, if so, whether it could not have been floated in India. I have always thought that our debt position is very satisfactory as our deadweight debt bears only a small proportion to our productive debt and I have always believed that in the scheme of debt redemption adopted in 1925 for the five years from 1925-26 to 1929-30, the provision has been unduly large and the interests of the present generation have been sacrificed to the interests of the future generation. I hope that the Honourable the Finance Member will be able equitably to adjust the incidence of this burden between the present generation and the future generation. We are assured that this question will be re-examined concurrently with the review of the Railway Convention.

I do not propose to take more of the time of the Council and I bring my remarks to a close.

THE HONOURABLE SIR MANECKJI DADABHOY (Central Provinces : Nominated Non-Official): Sir, there is no gainsaying that this year's Budget is of supreme administrative, political and economic importance. There is no doubt that it is one of the gloomiest Budgets that has been presented for many years in the Legislature. But I know that this Council will deeply sympathise with the Honourable the Finance Member in his present predicament. No doubt, this Budget is of an extremely disconcerting and distressing character. But, on the other hand, it will be acknowledged that the present financial position of the country is not of the Finance Member's own making and that we the Members of the Indian Legislature are primarily responsible for the present position of our finances. During the last ten years, since the establishment of the reformed Councils, with one voice Members here as well as in the other House have been echoing and insisting on the improvement of the different services and on the general amelioration and progress in this country, and if we ask for that volume and measure of improvement, it is only right and proper that we should be prepared to pay for it. This year's Budget has provided a programme of taxation to the extent of nearly 5 crores and in a very lucid speech the Finance Member has explained the exact position. He has pointed out that we have to fill up the gap, and the gap which we have now to fill up is one which all the Honourable Members are fully aware of. It is the gap created by the wiping out of the provincial contributions. At the time, over three years ago, when our provincial contributions were finally wiped out, I sounded a note of warning in this Council that in our enthusiasm for helping the provinces, we were somewhat hastily adopting a step which we might hereafter have to regret and that we might have also to pay heavily for it. It is that gap which we have now to fill and I am not a bit surprised that the Honourable the Finance Member should go in for a scheme of taxation to fill up that gap. His predecessor was fortunately very optimistic about the elasticity and the normal expansion of our revenues. Sir George Schuster differs from his predecessor, as I can see from his Budget speech. He does not believe in the normal expansion of our revenues and he thinks that it is much better to be on the safe side by providing a sufficient margin of safety for the purposes of meeting and adjusting expenditure and revenues. Probably, Sir George Schuster is right, but I will not say that Sir Basil Blackett was wrong. He at that time believed—he had some good years and he believed—that our good fortune in the matter of revenues

[Sir Maneckji Dadabhoy.]

was to continue and that normal expansion of revenues would enable us to tide over our difficulties. Another matter of regret is that we have now to deal with a heavy series of taxation. Nobody ever likes taxation of any character. We all dislike it. But the Government of India has to be carried on in this country and money has to be found. What are the different sources which could be safely tapped is another question. My own idea is—I refer to it again on this occasion—that the Indian Legislature made the biggest blunder when out of sickly sentimentality it sacrificed its salt revenue. All our trouble was due to the reduction of salt duty from Rs. 2-8-0 a maund to Rs. 1-4-0 a maund, which incidence of taxation did not trouble anybody and made no difference in the scale of living. Purely for sentimental reasons that taxation was lowered. If it had not been lowered we would have had no necessity to impose these additional taxes; even now by again raising the salt tax by one rupee and four annas a maund we could get a clear seven crores of rupees.

Sir, I shall now proceed to examine some of the propositions for new taxation which the Honourable the Finance Minister has recommended. I must say that he has been extremely cautious and the guiding principles which he has placed before himself are entitled to our greatest respect. He has clearly stated to us that he will admit no expenditure which is not essential or of a productive character and if he has to go in for any new expenditure he will see that it is counterbalanced by corresponding economies. If this principle is borne in mind and adopted religiously I do not think any Member in this House will have any reason to quarrel with it. Though it is very unfortunate that in the second year of office he should be placed in such a position of financial perplexity, we still hope that with reasonable and cautious management of our finances with proper economies duly and rigorously enforced and practised, we shall be in a position to tide over this great financial trouble. Sir, I am very grateful to him and to the Government of India for recognising one of the greatest needs of this country at this stage, and that is the desperate position of the mill industry of Bombay. In the new scheme of taxation the Government of India have decided to raise the general revenue duty from 11 to 15 per cent. and at the same time a special protective duty has been promised and proposed if the Indian Legislature is pleased to accept it. Two years ago I should never have dreamt that the Government of India would have acquiesced in a fiscal proposition of this character. But two great men at the helm of affairs who have the deepest sympathy for India, Lord Irwin and Sir George Schuster, have in combination succeeded in prevailing upon His Majesty's Government and of convincing them of the essential and emergent necessity of this protective duty and of the fact that they who are responsible for the good government of India are bound to see that the interests of India are scrupulously safeguarded. This duty is divided into two categories. So far as the increase in the revenue duty is concerned, it is required for purely revenue purposes, though it will also tend to help the industry to a certain extent. As Honourable Members are aware, the essential principle of our tariff system is that all tariffs are regulated primarily for revenue purposes. It was with that object in 1922 that a general increase was effected in this duty from 11 to 15 per cent. Unfortunately, on account of the past history of the cotton industry that 11 per cent. duty was allowed to remain on piece-goods which were excluded from the general category of 15 per cent. Since then the duty on cotton piece-goods has stood below the level of the general revenue tariff. At last the Government of India have

perceived not only the necessity but the justice of raising this duty, for which the country is extremely grateful. As regards the 5 per cent. protective duty, I am glad that the Government of India have decided to put it against all countries except Great Britain. In this decision they have my hearty concurrence. I am not going to sit on the fence, as has been done in the other House, and not say anything about this duty. I warmly thank the Honourable the Finance Member for the justice which has prompted him to take this action, and I am sure he shall have the whole-hearted co-operation of this Council. Another reason, and a very sound reason, why Great Britain has been excluded from this will be readily understood by men who are engaged in the industry. British goods really do not come into general competition with Indian goods at all. The British manufactures are generally of a superior class, and the Indian industry—I am not talking of a few mills, but of the textile industry as a whole—does not really compete with the British product. Our biggest competitor is Japan. Following Japan, Italy has been making rapid progress in putting its goods in the Indian markets. China has been dormant for the last two years on account of internal troubles, but in China alone there are now 45 mills owned by Japanese and there are more and more mills coming into existence in China, and as soon as China gets out of the wood she is going to be one of our biggest competitors so far as our coarser goods are concerned. It is therefore only right and proper that the Government of India should think of putting up this special duty of 5 per cent. as an emergency measure for the protection of the indigenous industry. In doing so they are equally right in excluding Great Britain. I need not dwell at length on this occasion on the political aspect of this question. Sir George Schuster in his admirable style has dealt with it and has put the proposition before us in clear and unambiguous language. He has placed all his cards before this House. He has concealed nothing. He has been absolutely frank, not only in the preparation of his Budget but in unfolding that Budget in the Indian Legislature. He has made a full disclosure of the present and future policy of Government and the steps which they propose to take, and we admire him for the candour which has marked his policy on the present occasion. I think, Sir, from the political aspect too, it is only right and proper that we should impose this extra 5 per cent. special duty not irrespective of the country of origin. I think we have done well in showing our friendship and in proving that our clearest intention is to co-operate with Great Britain in a matter like this where really our financial interests are not seriously affected, and that we propose to stand by Great Britain in its present industrial crisis.

Sir, in the short time which is at my disposal I am unable to review all the measures of taxation. My friend the Honourable Mr. Harper who possesses an intimate knowledge of Burma and this kerosene industry will be in a position to enlighten the Council with regard to that measure of taxation. But it appears to my mind that that piece of taxation is not in the interests of the consumer in this country. I cannot further understand why a free gift of several lakhs of rupees should be made to foreign oil industries as against our local and indigenous industry which needs protection and support. Sir, as regards the silver duty, nobody will be surprised that it has been imposed. It has been necessitated by the substantial fall in the price of silver and also for administrative exigencies. Every country in the world is now demonetising silver. China is about also to enter upon a policy of demonetisation of silver and is going on a gold standard policy. It is not therefore surprising that this duty has been re-imposed. It existed formerly. It was removed at the instance of, or rather on account of the clamour created by, Bombay commercial men who stated that they were prevented from competing

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in the silver market owing to the existence of an obstacle to the establishment of a world market for silver in Bombay. I have no time to refer to the past history and the circumstances under which that duty was abolished. But I can only say that this duty will not only give a good slice of revenue to the Government of India but it will raise the savings of the poor people invested in trinkets and jewellery to a considerable value and put them financially in a sounder position. Sir, as regards income-tax, I beg to differ very strongly from my Honourable friend the Finance Member, not that as a small capitalist I loath that tax ; very far from it. I would welcome it if I found that the tax was right and just and I would not oppose it. I oppose on this occasion the increase for various significant reasons, and I do not think that even my Honourable friend the Finance Member can question those reasons. Firstly, what is happening now ? One important underlying principle of this Budget is the industrialisation of India. He is anxious that the economic prosperity of this country should be restored. He is zealous that India should hold its own against the competing nations of the world and with that object he is now putting an additional two-fold duty on cotton piece-goods. Are you not, I respectfully ask you, Sir, making your Budget somewhat inconsistent by levying at this particular juncture a duty, small as it is, on income-tax and super-tax ? What will be the result ? From an economic point of view, Sir, liquid capital is now very urgently needed in this country. Liquid capital is the source of the strength of any nation. Without liquid capital no scheme of industrialisation is possible ; and to-day by putting this small duty, as it is, which is supposed to give you Rs. 56 lakhs, you are taking away from the pockets of the capitalists at this present juncture the only available means of industrialisation and preventing them, by the enhancement of this duty, from financing schemes of industrialisation. Sir, further, all the countries of the world since the war are reducing and have been reducing the incidence of income-tax and super-tax. This super-tax was introduced as a war measure. It was after the war that taxes were increased very considerably and to-day, when all the other countries are trying to make this duty less oppressive, so that the industries of the world may be promoted, you are, Sir, asking that this duty should be enhanced. I shall not speak about the oppressive character of the super-tax, which practically means to-day 7 annas in the rupee over a certain income. My Honourable friend is going to add a further pie to that seven annas. It looks very small, but I tell you that from an economic point of view it is going to retard the progress which no other person than the Honourable the Finance Member has sincerely at heart.

Sir, I would like to say a word or two about the bank rate. I may be allowed to express an opinion on the abnormal and somewhat stiff advance in the bank rate this busy season. The bank rate was increased early in October from 5 to 6 per cent. and within a fortnight it was raised to 7 per cent. and since the middle of October it has continued to stay at that level. Last year I took the Finance Member somewhat severely to task for having raised the bank rate to 8 per cent., but I must confess in fairness to him that the raising of the rate this year was fully justified at an early period of the trade season and was in the interest of the country. From 1928 up to very recently unrestrained and feverish speculation in America supported by a policy of arrant inflation created a situation of international danger which has since brought about its retribution and punishment with the demoralization of trade and the usual dislocation and ruin of all business. In normal times America supplied funds both to London and the monetary markets of Europe, which had been previously a significant post-war feature of American finance,

but about September last year the Stock Exchange fever and unmeasured speculation brought disaster to that country. Rates of interest on brokers' loans soared so unusually high that the financial position altogether got quite out of control. Many financial institutions, many companies and even individuals who attempted to get rich quick and build up colossal fortunes in a short time from the abnormal call rates which at times even reached to 15 per cent. have come to grief. Trade bills at bank rate were simply a drug on the market and the Federal Reserve Bank completely lost its power of usefulness and control. The result was that the internal wealth became scarce and funds were attracted from London and other European countries and even to a considerable extent from India. This state of affairs forced the sterling below the lower gold point and it became a remunerative proposition to export gold to the United States. The Bank of England to protect itself was compelled to take drastic measures and to raise its bank rate of discount and London's financial difficulties were reflected in the rupee exchange. In order to protect our currency and to raise the Indian credit position, the Imperial Bank of India was compelled to raise our rate to 7 per cent. though the money market was comparatively easy in the commercial centres of Bombay and Calcutta. It might be said with some reason that it was not the real bank rate, not the reflection of the actual monetary situation in the country. It is true the raising of the rate inflicted some hardship on the struggling industries of India and in financing our cotton, jute and grain trade, but there is no doubt that our policy of enhancement of interest was very effective and substantially collapsed the New York market, which resulted in colossal forced liquidation there. We had the satisfaction to find an immediate improvement in sterling exchange in relation to the dollar. The rupee, however, unfortunately remained weak as our normal export season was at its height and the Imperial Bank of India has not yet seen its way to recommending a reduction in the bank rate which still remains at 7 per cent. If we take into consideration many important factors which always regulate and control the move-

12 Noon. ment of currency in India, namely, the Government's statutory obligations to maintain the ratio within comparatively narrow limits, the divorce control of currency and credit and plenary powers and authority of Government to force the bank rate to any figure considered necessary by contraction of currency and otherwise and the obligation of the Imperial Bank of India under existing financial arrangements to keep a close and active co-operation with Government, I feel certain that the wisdom of the Bank's action though somewhat unpleasant will be readily acknowledged by the commercial communities in India. The panacea for the removal of these anomalies can only be found in the early establishment of a Reserve Bank or the conversion of the Imperial Bank of India into a Reserve or Central Bank.

I shall not detain the Council any further in view of the decision of our Honourable President. I am sorry there are many important points on which I should have liked to address the Council, but I can assure the Honourable Member that, though we may disapprove of certain schemes of taxation which he has laid before the country, we are all unitedly in favour of helping Government to tide over this trouble which, as I have already pointed out, is not of the seeking of the Finance Member. I only hope that he will reconsider the situation and that he will not ask this Council to vote for a surplus Budget. One important canon of taxation is that in difficult times when you want money you are only entitled to tax people to the limit of the actual sum required. There is no justification for keeping any surplus and I therefore request him to reconsider the whole situation from the standpoint not

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only of the producer and the consumer but from the various other aspects of the question.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS (Punjab : Non-Muhammadan): Sir, I thank the Finance Member, the Honourable Sir George Schuster, for his vivid picture of the financial position of India. The Budget presented to us has some disappointing features. India during the last few years has been the victim of trade and industrial depression, successive failures of crops, floods, locusts, and a high bank rate. But, notwithstanding all these facts, new taxation has been proposed on the people who are getting poorer every year. The additional taxation is estimated to yield about $4\frac{1}{2}$ crores. To me, Sir, this taxation seems greatly under-estimated. Why I say so, Sir, is that according to my calculations the difference between the estimated income by fresh taxation is nearer 7 crores than 5 crores or $4\frac{1}{2}$ crores. Sir, the amount of sugar imported in the year 1926-27 was $8\frac{1}{2}$ lakhs of tons. In 1927-28 it was $7\frac{1}{2}$ lakhs of tons. In 1928-29 it was $8\frac{1}{2}$ lakhs of tons and I believe that in 1929-30 it will be about nine lakhs of tons, because in the past nine months the import has been seven lakhs of tons. In case, Sir, we take even an average of $8\frac{1}{2}$ lakhs of tons or say even 8 lakhs of tons, which, according to the new taxation of Rs. 30 per ton, will bring in $2\frac{1}{2}$ crores of revenue as compared to 1.80 crores which shows a difference of 70 lakhs. As regards silver, Sir, we find that in 1926-27 the import was 124 million ounces. In 1927-28 the import was 93 million ounces. In 1928-29 it was 86 million ounces. Even, Sir, taking 60 million ounces in the coming year, the duty on it at four annas an ounce will amount to a crore and a half of rupees against one crore estimated—a difference of 50 lakhs in this, Sir. As regards piece-goods, according to the estimate of 1930-31, the yield from fresh taxation will be $2\frac{1}{2}$ crores. And, Sir, even in case we take 2 crores there is a difference of 75 lakhs. So, Sir, I am rather convinced from these facts that the estimate of yield from fresh taxation is nearly 7 crores instead of $4\frac{1}{2}$ crores. I have given these figures to enable the Finance Member to correct me in case I am wrong in my assumption. For four successive years, Sir, we had a deficit of 16 crores, of which $7\frac{1}{2}$ crores, being the revenue deficit on postal certificates, has been converted into a permanent loan. To this in case we add the German reparations amount, it leaves a deficit of about 4 crores to be made up by fresh taxation. What a tragedy of fate that instead of the surplus which was promised by Government to those who voted for the 1s. 6d. ratio, there is a sure need for fresh taxation. To keep up this artificial ratio of exchange has resulted in India frittering away 140 crores of its gold. The new taxation requires $4\frac{1}{2}$ crores, and the estimate, as I put it down, is 7 crores, so I think in case my figures are correct, fresh taxation to the amount of the difference will be reduced. No nation-building schemes have been taken in hand with this money but only the finances of the Government are to be reinforced and put on a solvent basis; that to me seems the object in using this fresh taxation.

As regards Imperial Preference, I simply want to say, Sir, that this preference can be accepted only under special circumstances. This is the second occasion on which India has given preference to England. On the first occasion it gave preference to England in the matter of steel and iron. Now it is giving preference to England in the matter of cotton goods. This should not mean that India has agreed to Imperial Preference in principle. It has been the practice in the British Empire to give to each self-governing unit fiscal

autonomy. The British Cabinet has now agreed that India possesses fiscal autonomy. India should therefore be free to shape her tariff policy in any way she likes. India ought to agree at the present juncture to give to England preference in the matter of steel, iron and cotton only because there is at present serious unemployment in England and India considered it her duty to come to the help of England; but it should be purely on a voluntary basis. When, Sir, the policy of Imperial Preference has been introduced, I would like that the United Kingdom should reciprocate in giving Indian wheat, Indian cotton and Indian linseed a preference over the produce which is imported from other countries which do not form the Dominions of the Empire. Then, Sir, it will be a thing for India to rejoice in and be grateful for. But what do we find? The prices of our produce have fallen very heavily. *Kapas* has now come down to Rs. 5-4-0 a maund and wheat at the end of the season is selling at a much lower price than that at which it was selling when the crop was being put on the market. The price of wheat now ranges between Rs. 3-8-0 and 3-10-0 a maund. Argentine wheat and wheat from other countries is pouring into England and owing to the 12½ per cent. difference forced on us in the exchange ratio by this artificial 1s. 6d. basis, India has been put in a very weak position as regards its competition with the all-world markets in the matter of her produce. I think, Sir, that we should aim at removing the root of the evil and bring down the exchange to 1s. 4d. by which India would, I think, prosper.

As regards the silver duty, I must say that it will only have a temporary effect in raising the price of silver. In India, and particularly in the Punjab, the masses accumulate their wealth in silver ornaments

THE HONOURABLE SARDAR BAHADUR SHIVDEV SINGH UBEROI (Punjab Sikh) : Have they any wealth to accumulate? The masses are living from hand to mouth.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : My friend asks me a question whether they have any wealth to accumulate. I quite agree with him, and I have in the beginning of my speech observed that India is getting poorer every day. I do not deny that fact, but I say this, that in the case of a small proportion of the people who can accumulate their wealth in the Punjab, the shape of that accumulation of wealth is mostly in silver ornaments. By one stroke of legislation silver has been forced to depreciate heavily and now, unfortunately, it has touched a point which it has not touched before. My Honourable friend Sardar Bahadur Shivdev Singh Uberoi also says, when the country has suffered the bitterest experience and is being impoverished by this exchange ratio, Government have after all wakened from their sound sleep and tried to help the poor people who did heavily suffer from the silver reserves in the shape of ornaments. But, Sir, we will at the end of the year see how far this duty will really affect the poor people. I understand that this fresh taxation of four annas an ounce on silver will also apply to imported silver articles and silver ware. In case that is not done, it will put our silversmiths in an awkward position and instead of encouraging the silver industry in India, Government will be discouraging it.

Now I come to the military expenditure. The Indian Retrenchment Committee recommended that the military expenditure ought to be brought down to Rs. 50 crores. This year we have been told that a reduction of about Rs. 80 lakhs has been effected in the military expenditure and that this reduction or that this arrangement will run till 1931-32. I cannot understand, Sir, how a reduction of Rs. 80 lakhs has been effected. I would like

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the Honourable the Finance Member to explain how he works out this reduction. To me, Sir, it seems that simply the gain owing to the exchange ratio being 1s. 6d., on all the stores purchased in England amounts to $12\frac{1}{2}$ per cent. I find in the figures given to us that the total stores purchased in England and the total expenditure incurred in England for the Army amount to about Rs. 13.45 lakhs. If we deduct on this item $12\frac{1}{2}$ per cent. it amounts to over a crore and a half of rupees. In addition to this, Sir, the price of foodstuffs and other commodities has also gone down in India, and so the purchase of foodstuffs for the Army must have gone down also simultaneously. If we take these two items together, the automatic reduction in the expenditure on the Army ought to be more than two crores of rupees, and instead of saving two crores only Rs. 80 lakhs have been taken into account. According to the present arrangement this new principle is to extend over three years. In case we take a gradual reduction of even a crore of rupees a year, even then, Sir, the average for three years will be much less than 54.20 lakhs a year. I shall be obliged if the Finance Member or His Excellency the Commander-in-Chief would throw some light on this point. Now, Sir, when such heavy expenditure which amounts to more than 50 per cent. of the total revenues of India is being spent upon the Army, what is India or the Indian youth gaining in the way of the Territorial Force, Rifle Clubs, Cadet Corps, and so on? When I see the figures of expenditure in other countries in those directions, I would ask His Excellency the Commander-in-Chief to be more sympathetic towards Indian aspirations towards military training. In New Zealand, Sir, in the year 1928 in the Territorial Force there were 805 officers and 20,140 other ranks; in the cadets on the 31st March, 1928, there were 525 officers and 33,939 other ranks. All the male inhabitants of New Zealand who have resided there for six months and are British subjects are liable to be trained as follows. In the senior cadets from 14 years of age, or from the date of leaving school if later, to 18 years of age; for the Territorial Force from 18 to 25 years of age. In New Zealand there are 156 Rifle Clubs with 4,360 members. Expenditure there on the training of the Territorial Force amounts to £16,000 or £17,000 annually and on Rifle Clubs from £2,000 to £3,000. In Australia, Sir, on the universal military training which was inaugurated there by the late Lord Kitchener the expenditure now amounts to £135,000, that is, Rs. 20,25,000; and on Rifle Clubs to about £50,000, that is, seven and a half lakhs of rupees. In Canada the figures are, on cadets 15 lakhs; on non-permanent active militia and Territorial Forces Rs. 69,45,000. In the non-permanent militia and Territorial Forces in Canada there are 9,424 officers and 1,15,455 other ranks. Besides these there are junior and senior cadets who receive training. In Australia, Sir, the total number of citizens in the Territorial Force and under training in 1928 was 85,612; senior cadets under training in 1928 numbered 14,980. On the 30th June, 1928, there were 1,137 Rifle Clubs with a membership of 40,187 and there were miniature Rifle Clubs with 2,740 members. I do not want to take up much time of the Council with these figures, because I know that His Excellency the Commander-in-Chief is more conversant with those figures than I am. But still I give these figures to give His Excellency an idea of how slow and snail-like progress we are making in this direction.

Then, Sir, from the paper before us we find that the Army Department has got several manufacturing departments—a metal and steel factory at Ishapore, a rifle factory at Ishapore, a gun and shell factory at Cossipore, an ammunition factory at Kirkee, a gun carriage factory at Jubbulpore, a harness and saddlery factory at Cawnpore, a cordite factory at Aruvankadu, clothing

factories at Shahjahanpur and Madras. a filter factory at Rawalpindi, 23 dairy farms, 45 grass farms, bakeries, butcheries and manufacturing medical stores departments at Madras and Bombay. Out of all these different factories only the medical stores departments are making a profit, the rest are all running at a loss. I would, therefore, beg His Excellency, when presenting the papers to the Legislature in future, to be so kind as to give us commercial accounts and profit and loss statements for each of these factories. All the factories should be run in such a way as to show a profit. Indians should be trained in those factories and technical scholarships should be given by the civil authorities to suitable Indian students who should be given training in these Government factories.

Now, Sir, I will turn to the North-West Frontier Province. We find that the total expenditure on the administration of that Province is Rs. 3,79,40,000, while the income is Rs. 91,29,000; so the net deficit is Rs. 2,88,11,000. If we make a deduction for the South Waziristan Scouts, the Tochi Scouts, the Kurram Militia Levies, the Chitral Scouts and other watch and ward, which amounts to Rs. 1,45,15,000, then the real deficit will be Rs. 1,42,96,000. Something should be done to develop the revenues of this province, for unless that is done and the province stands on its own feet financially the new Reforms cannot be applied to the province.

Now, Sir, I come to the sugar duties. These duties have been consistently and successively asked for by the people of India for several years past. Our sugar-cane industry has suffered from the lack of increase in this duty for many years. All our representations have failed in the past, but now I am glad that the Government has moved in the right direction and I hope that by this step the Indian sugar industry will revive and perhaps thrive.

It is a pity that I find no further taxation on the export of petrol. Petrol, Sir, sells in India at a much higher rate than it sells in England. I mean that the Burma Oil Company's petrol, which is produced in Burma, is sold at a cheaper rate in London than it is in Delhi. This is very surprising, and I consider that if an increased duty had been imposed on petrol it would not have been felt by India and it would have brought in some revenue.

I quite agree with all the remarks which my friend Sir Maneckji Dadabhoy has made as regards the new income-tax and the bank rate. I do not want to take up the time of the Council on that point, because he has explained it fully. I hope the Honourable the Finance Member will consider the advisability of withdrawing the extra income-tax and will see his way to reduce the taxation by at least two crores.

THE HONOURABLE SIR ARTHUR FROOM (Bombay Chamber of Commerce): Sir, the final accounts of the financial year 1928-29, which show the entire disappearance of the balance of Rs. 74 lakhs standing to the credit of the Revenue Reserve Fund and leave an uncovered deficit of Rs. 32 lakhs, must have been a keen disappointment to the Honourable Sir George Schuster, although the Budget estimates for that year were not of his making. The current year 1929-30, I am afraid, has brought but poor consolation to the Honourable the Finance Member seeing that the original deficit of Rs. 90 lakhs has been increased in the revised estimates to Rs. 156 lakhs. There is a bright spot, however, in the 1929-30 figures in that an unexpected windfall from the German Liquidation Account is expected to exactly offset the deficit and the current year is expected to close with Expenditure and Revenue evenly balanced. It is marvellous how some unforeseen windfall from time to time materialises to assist Government's revenues and I could wish that one's personal budget were similarly blessed at stated intervals.

[Sir Arthur Froom.]

Turning for a brief moment to the proposals of the Finance Member for 1930-31, it will be seen that, if the suggestions are adopted, it is anticipated that the current year's revenues will be benefited to the extent of Rs. 35 lakhs so that, taking the years 1928-29 and 1929-30 together, the uncovered deficit of Rs. 32 lakhs in the former year is wiped out and we start 1930-31 with a clean sheet.

I now come to the Budget estimates for 1930-31 and, although the figures are to be deplored, I greatly admire the clear and explicit manner in which the Honourable the Finance Member explains how he arrives at the gap of Rs. 552 lakhs when comparing the position in which he finds himself to-day with that provided for in the Budget for the current year. I also congratulate the Finance Member in meeting the essential additions for new services and demands, amounting to Rs. 146 lakhs, with an economy in the civil estimates of Rs. 62 lakhs and a reduction of Rs. 80 lakhs in the military expenditure, thus reducing the gap from Rs. 552 lakhs to Rs. 410 lakhs. No one, I think, will cavil at the relief of Rs. 30 lakhs afforded to the Burma rice trade, bringing the extra amount to be found in the 1930-31 Budget to Rs. 440 lakhs.

Now, Sir, I entirely agree with the Honourable Sir George Schuster's view that this year of all years we cannot go forward with a deficit Budget. It is obvious that at no very distant date there will be constitutional changes in India with an increasing demand from the Provinces for more money and it would be not only wrong but negligent of the Central Government, as it would be wrong and negligent of the Central Legislature, to proffer an unbalanced Budget as a christening present to any new born Constitution.

This being so, we must examine the Finance Member's proposals. It is obvious that he cannot extract anything more out of the military expenditure than the Rs. 80 lakhs he has budgeted for. It is the fashion, in and out of season, to declaim against the military expenditure and to demand a reduction. There is nothing more I would like to see myself than a further saving under this head, but I am doubtful whether it would be wise or practicable at the present juncture. I am inclined to think that the demand for reduced military expenditure is the outcome of peace on our frontiers for a considerable period of years which has lulled many into a state of fancied security from which they would be rudely awakened were the ever-watchful forces on the frontier to be reduced. Then there are the internal security troops,—whose pay would appear to be more rightly chargeable to Provincial Civil funds,—is it suggested that now is the time to reduce these when seditious preachings and Communist propaganda are rife throughout the country? I think we must accept the Army Department's announcement of the minimum number of troops which are necessary for the prevention of external and internal aggression, always remembering that it is more economic to ensure peace than to run the risk of war or uprisings.

As regards other heads of expenditure, the Finance Member has announced the appointment of a special officer to examine in detail where further economy can be effected and I think we should leave it at that, bearing in mind, as my Honourable friend Sir Maneckji Dadabhoy has pointed out, that the acceptance of continual representations for improvement in the pay and conditions of service in the many departments under the control of the Central Government results in a bill of considerable magnitude which has to be faced.

Turning to the proposals of the Finance Member for increased taxation, it is difficult to pick a quarrel with any of them. Doubtless we shall hear something from Burma on the proposed increased excise and import duty on kerosene, in spite of the plum received by that province in the shape of a present of Rs. 30 lakhs off the export duty on rice. The existing prices of sugar and silver are abnormally low compared with those ruling for many years past and the proposed duty on both these commodities, in my opinion, will not inflict a hardship on anyone. In fact, should the price of sugar rise, there should be advantage accruing to the indigenous sugar industry which has fallen on evil times and has been in a bad way for many a long day.

I am sorry that the Finance Member has thought fit to attack income-tax and super-tax,—there is nothing personal in this as the end of my speech will show,—not so much on account of any great hardship involved in the increase of one pie, but on principle. Income and super-tax should be reserved for any grave emergency and the existing rate would have been better left untouched. The example of Great Britain, where the high rate of this form of taxation is largely responsible for unemployment and industrial distress, had best be looked upon as a warning rather than as a pattern to follow. I notice in his speech the Honourable Sir George Schuster has laid some stress on the increase of one pie being applied to *personal* incomes of Rs. 15,000 and upwards, but I take it that it is intended that the proposed one anna seven pies rate should be applied to the profits of companies irrespective of what proportion of the profits is distributed by means of dividends or placed to reserve. It is gratifying to note that next year, 1931-32, it is hoped that the principle of allowing business losses in any one year to be carried forward to the next year will be introduced; also that the present double super-tax on companies in genuine cases will be removed. I should have liked some announcement from the Honourable the Finance Member as regards the company super-tax which I am informed represents no less than 280 to 285 lakhs of the 506 lakhs shown in the Budget figures under the heading of super-tax. In the past the Honourable Sir George Schuster's predecessor announced he would give the earliest consideration to the removal of this imposition which to-day represents close upon three crores of taxation on industrial development, at a time when industries in this country are in a far from satisfactory condition. Honourable Members of this Council must be aware that a similar tax was imposed in England shortly after the war but a recognition of its adverse influence on the economic condition of the country led to its speedy withdrawal. I venture to think that an increased rate in the salt tax would prove economically less detrimental to India than the continuance of this tax on industrial development.

Sir, as the representative here of the Bombay Chamber of Commerce and as a Bombay man, I am sure that no Member of this Council will expect me to take any other view of the Honourable Finance Member's proposals for an increase in the import duty on piece-goods but one of strong support. A clear case has been made out for both the revenue duty and the protective duty, and since the revenue duty assists protection and the protective duty assists revenue, what a happy combination of interests is provided for in Sir George Schuster's suggestions. Be that as it may, I take it that no Honourable Member of this Council will deny that the Bombay mill industry is in a parlous state nor will it be refuted that the utter collapse of the industry would be catastrophic not only for Bombay but also in its repercussions throughout India. Now is not the time to enquire why the patient is sick but it is necessary to act quickly to save him and during the three year period of a protective

[Sir Arthur Froom.]

5 per cent. tonic the patient, it is hoped, will either acquire sufficient stamina as to warrant the tonic being discontinued or will show unmistakably that, while he is making a brave struggle to recover, it is necessary and not unreasonable for the somewhat expensive medicine to be continued.

Criticism will no doubt be made against the preference shown to the United Kingdom in the protective duty. I would remind such critics, however, that it is a Labour Government which has fought for such exemption and not a capitalistic Conservative Government and I would advise them to accept the situation as it presents itself in no niggardly or carping spirit, remembering that nowadays Manchester competes but little with the Indian mills and what little competition there is should be covered by the increase of 4 per cent. provided for in the revenue duty.

I now come to "Ways and Means" and have read with considerable interest the remarks of the Honourable the Finance Member on this portion of the Budget which always commands my close attention. Sir George Schuster's exposition of his capital requirements, sterling borrowings, and currency operations, is so complete that I have no remarks to offer beyond expressing my full agreement with his policy in curtailing, as far as possible, capital expenditure in view of the existing conditions of the world's money market. It is gratifying to learn that the loan requirements in 1930-31 are expected to be satisfied with 23½ crores, of which about 7½ crores only will be new money.

Sir, I have been a Member of the Council of State since its inauguration in 1921 and I was present when the first Finance Bill under the Montagu-Chelmsford Reforms was brought before the Council in the month of March of that year. In 1922 the privilege of a general discussion of the Budget was introduced in our Chamber and I had the honour then of taking part in the debate and have done so each successive year, with the exception of last year when I was touring India under the guidance of my Honourable friend, Sir Sankaran Nair. This, however, is the last occasion on which I shall enjoy the privilege of discussing India's Budget in this Council, as, after the close of the present Sessions, and after 35 years' work in India, I propose to settle down in England. Perhaps, Sir, as one of the oldest Members of this House, or at any rate as one of its original Members, I might be permitted to utter one word of warning, one word of advice, before I make my final bow. The future prosperity and well-being of India lies mainly in her credit in the world's financial circles. That credit, which for many decades has stood high, has recently received a severe shaking. Wild words, such as repudiation of debt, non-payment of taxes, have recently been given voice to. A feeling of insecurity has arisen and money, which has hitherto been invested in India's funds, has been pouring out of the country. It is up to the Honourable Members of this Council, it is the duty of every right-minded patriotic Indian, to see that this state of things does not continue. The separation of India from the British Empire is an impracticable demand at any rate for very many years to come, if ever, and those who shout for it under the name of patriotism are no real patriots but are merely rocking the solid foundations on which India has rested for many a long year. We must all of us, Indians and Britishers alike, take every step we can to counteract this revolutionary ripple which is disturbing the placid calm of this great country. It is not yet too late, but once India's credit is shaken to its foundations, her economical and industrial collapse will surely follow.

THE HONOURABLE NAWAB SIR MUHAMMAD MUZAMMIL-ULLAH KHAN (United Provinces West : Muhammadan) : Sir, with your permission I rise with a feeling of hesitation and nervousness, because I have never been educated in English. I am sure that my speech will be full of mistakes. It is not creditable to me to speak in such a language in this Honourable House in addressing so learned an audience. But anyhow I have to speak English because if I do not speak in English many of my Honourable friends will not understand me and the reporters will also boycott me if I speak in my mother tongue. Sir, my hesitation is also due to the feeling that I have to congratulate the Honourable the Finance Member and his able and experienced lieutenant, my old friend, the Finance Secretary, on their trying to meet a deficit Budget in this trying time. Sir, I will not attack the Army Headquarters and will not ask the gallant Chief here to reduce his Budget because the Army is the only thing which can keep order and peace in the country and the present moment, as my other Honourable friends have said, is not suitable for reducing expenditure. I will say only a word to him and to the Honourable the Finance Member, that whilst they have chosen to reduce their Army Budget by Rs. 80 lakhs, can they not make some more reduction in it, say of 20 lakhs, to bring the amount of reduction to a round figure one crore ? The reduction, however, should be consistent with the efficiency of the Army, and follow the example of the Home Government who by their reducing their national pride, the Navy, have set an example to the whole world. Sir, I will not follow the bad example of the old story which runs as follows. There was a King who was advised by his *pir* (priest) to dismiss all his army and thus save so much expenditure. The saving was to be spent in engaging some more Maulvis and priests who would pray to God Almighty for the safety of his kingdom. The poor King acted accordingly. He accepted this advice and made a considerable reduction in the army. The enemy who was just on the frontier learnt of this and he began to invade the country. The news reached the King and he asked his priest's advice. He said, "Very well, we all will assemble and offer prayers for the safety of your kingdom and for the destruction of the invading army." The priests gathered and began to offer their prayers while the enemy was invading the country. When the enemy reached the door of the city, the King knelt before the priest and asked him what could be done. He said, "Never mind if the enemy is entering the capital from one door, you walk out through the other"... "*Tumhara mulk gaya, uska iman gaya*" ("You lost your kingdom and he lost his faith"). So, Sir, I will not advise the gallant Chief to follow the story. I will only advise him that the order of the day is economy—all-round economy—and if they can show any economy in their Budget, it would be very acceptable.

There is another very mild and humble assault on the peaceful fortress of our Finance Member's Budget, and it is this that among other taxes about which I am not in a position to speak, they have imposed a further increase in the income-tax. This is the time of Bolshevism. The capitalists are attacked all round. Perhaps our friends of the Finance Department thought that these poor capitalists will not be supported by anybody. No paper, no public oratory will support them. Bolsheviks attack them as the enemies of the world.

THE HONOURABLE SARDAR BAHADUR SHIVDEV SINGH UBEROI : May India be saved from Bolsheviks and Communists !

THE HONOURABLE NAWAB SIR MUHAMMAD MUZAMMIL-ULLAH KHAN : Our friends are no better. But we do not want to be killed by the

[Nawab Sir Muhammad Muzammil-Ullah Khan.]

sweet poison and blunt knife of our friends, but we prefer the sharp sabre of our foes. A wise man has truly said, "Save us from our friends". You can have hundreds of ways of reducing the expenditure. You have got hundreds of ways of imposing other taxes to meet your deficit, but pray do not touch your friends, do not touch the people who are already suffering from the jealousy of the people who are not capitalists. The trade of the country is to-day going down. The Income-tax Department will be able to give accurate evidence of this, because every year the income of the Income-tax Department is decreasing because trade is in great danger and at this critical hour to impose an addition to the tax does not look nice but it looks very very unfair and unjust. One more word. I as the Musalman and worker in the cause of education for more than 45 years and as the late Vice-Chancellor of the Aligarh University, as the Honourable the Leader of the House knows very well, have to thank the Finance Department for having made a grant of Rs. 5 lakhs to the Muslim University. Sir, it is a saying "*Bad az sari man kun fayakun shud, shuda bashad*", which means that "After my death, let happen whatever may". I was in great need of the money then. My University was the only institution in the whole of India which was not shaken even by a hair's breadth during the non-co-operation days and during the days of the black flags. We were in great need and not a single pice was given to us. Last year, I was very very surprised to hear from the generous lips of the Honourable the Finance Member that because the Muslim University was in the period of new organisation so the grant was deferred. Sir, the organisation period was the most suitable time for help. But you deferred your help when we were making our organisation, and now you think it is organised, and so you are giving the money. Well, better late than never, but there is another word to submit and it is this that there is a saying "*Neki kun dar chab andaz*?" ("Do good and throw it in a well"). Do charity and forget it. There is a saying in the Koran "*La tubtilu sadaqatekum bil mannu wal aza*" ("Do not destroy your charity by expecting gratification or threatening beggars"). You have imposed humiliating conditions on the Muslim and Hindu Universities by giving Rs. 5 lakhs and promising more money; you have put on their heads certain conditions which are humiliating. If you do not trust them, do not give them a pice. If you do not trust them, please take back your magna charta from them. You are imposing such humiliating conditions by stipulating that one of the officers of Government will go there to look after their finances, and so on. Anyhow, we are needy and we have to accept your conditions and your money, but not with feelings of pleasure or thankfulness but with feelings of necessity, because "necessity is the mother of invention".

With these few words, Sir, I congratulate you in your great undertakings to meet the deficit in the Budget. I can assure you that there are other people who also know something of finances. When distinguished persons like my Honourable friends, Sir Arthur Froom, Sir Maneckji Dadabhoi and the Honourable Rai Bahadur Lala Ram Saran Das say something in criticism of your Budget they are worth listening to. I do not think that Members of this Chamber can say anything to impress you any more than what has been said in the other House. The only difference is that they are there apt to say things more strongly while we only submit our humble opinion here in this House. At the end I will only say that "*Man nagoyam ke in makun an kun. Maslehat been kar asan kun*" ("I do not say do this and do not do that; I only say seek an easy way and do it with ease").

THE HONOURABLE SIR JAHANGIR COOVERJEE COYAJEE (Bengal : Nominated Official) : Sir, I venture to suggest that the financial conditions and difficulties before us are best envisaged in the light of a review however brief of the financial tendencies of the day. There has been a remarkable parallelism indeed in the financial histories of the advanced countries of the world since the war. Up to the year 1924-25 budgetary deficits and heavy taxation were universally the order of the day. After that year 1924-25 there have been great financial improvements and the installation of new financial machinery in every country, and in this process of economic progress and reform India has borne a leading part. Since the last year or so, however, the world in general, and India in particular, have entered on another financial phase ; that is the phase of the adaptation of the new financial machinery and arrangements to the slower economic tempo of the day. The newly formed mechanism is being tested and overhauled in various places in view of the great financial strain of the last two years. Many countries have witnessed economic troubles, reduction of production and demand, and banking crises ; and the year 1928-29 will long be remembered as the *annus mirabilis* of the present decade in the region of finance.

This might give a clue to the true cause of our present financial difficulties. In India we find that on this topic public opinion is divided sharply into two schools of thought. One school summarily attempts to make the ratio and currency policy responsible for all the multifarious troubles of the day ; the other emphasises, in the main, the operation of economic depression abroad, the fall in production and the gradual slowing down of the economic rhythm. Now, how shall we decide between these two opposite contentions ? I submit that in a case like this, where doctors disagree, we should be guided in our decision principally by the statistics of trade and finance. And fortunately in this case the various lines of statistics are convergent and unanimous, and speak with no faltering voice. Right up to the year 1928, that is, full four years after the advent of the new ratio, our financial position showed a remarkable progress, and we went on remitting contributions and taxes. In the second place, our main exports—competitive exports be it noted—made one record after another. I would point to the figures of exports of oil-seeds, tea, hides and skins, and indeed of piece-goods. In the third place, there is the evidence of the financial figures for railway management. If the ratio and the currency policy were the sources of trouble, it is unthinkable that for full four years an ill-adjusted and ruinous ratio permitted and even promoted a notable growth of prosperity on all these lines. On the other hand, Sir, let me emphasise the fact that the year 1928-29—the very year which witnessed financial trouble and capital shortage abroad—was also the beginning of our present financial and other difficulties. In fact, Sir, that year forms the dividing line, a sort of economic watershed, between the fat and the lean years. That consideration by itself can be claimed to be decisive in pointing to the true casual sequence as regards the present troubles both in India and abroad. It has often been repeated by former Finance Members that an Indian budget is but a gamble in rain. I would submit, however, that that was only a great half-truth, and with the growing solidarity of the world, the general trade cycle and foreign economic conditions are as important for Indian finance as the amount of the rainfall and the conditions of the harvests.

When appraising the merits of the new taxation we shall be less than just if we neglect two important aspects of it—its possible effects on industrial and agricultural development, and its bearings with reference to the past as

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well as the future of our provincial finance. To an important extent, indeed, it may be designated as *vicarious* taxation. As early as 1925 Sir Basil Blackett observed that "the provinces were the one claimant whose claim for financial assistance must by common consent come first". He made a heroic effort to meet the claim fully. But even heroic and successful efforts bring about some measure of exhaustion; and last year the Honourable the Finance Member pointed to the necessity of finding new sources of revenue in order to fill the gap. This year he has taken a new step forward in the development and progress of our provincial finance, and it is contemplated that some of the surplus from the silver duty is to go to assist the nation-building services in the provinces. Thus the new taxation is not merely meant to solve the financial difficulties of the day but to assist in the ultimate solution of the long-standing problem of provincial finance. We are not dealing here with a scheme of hand-to-mouth finance, but with an integral portion of a well-developed plan which will terminate the long struggle for financial resources between the Central and Provincial Governments. It is very likely that these troubles of ours will be remedied on the same lines as in South Africa, partly by increased provincial taxation and partly by subsidies like the present from the Central Government.

The protection granted to the textile industry had of course to be adapted to the special difficulties under which it laboured. The main difficulties consisted of the general depression and, for the rest of the superior organization of as well as the unfair competition from certain foreign countries. Under those circumstances the case for the imposition of differential duties is unanswerable, whether we have regard to practical expediency or to theoretical considerations. To have inaugurated a heavy all-round system of protection would have only added needlessly to the burden on the consumer and would have also been equivalent to breaking with our sound basic principle of discriminating protection. It is obvious that judicious protection should be proportioned to the amount of the danger, and should be directed against the quarter from which that danger menaces. Any demand for an all-round and equal increase of protection, irrespective of the range, course, and intensity of the competition argues only a doctrinaire mentality. A student of economics is bound to protest against the attempts to confuse differential duties with Imperial Preference. Indeed such confusion is based on the common fallacy called *ignoratio elenchi*. While all Imperial Preference, of course, implies the use of differential duties, it does not follow that all use of differential duties has the character of or amounts to Imperial Preference. For in any policy of Imperial Preference the ruling motive and main object is to benefit the mother country, while the policy of differential duties is most often the outcome of a regard for local contingencies, conditions and necessities. It is significant and surprising that at present all effort here is concentrated on discussing this preliminary issue rather than on arrangements for making the best use of that timely and large measure of protection which has been given.

The topic of an import duty on silver engaged the attention of the Indian Legislature in the years 1921-22. But in the last decade the character of the silver problem has been radically transformed, and many arguments which were then urged against the duty have lost their force. A great many factors have caused the present heavy decline in the price of silver, and under their inexorable action a further great fall is imminent. In fact the seventies of

the last century saw the first rush towards demonetisation of silver, and the second decade of the present century is seeing a second rush. While the former took place in Europe, in this second rush even the countries of Asia have been participating. Persia has been recently taking steps to go over to the gold standard and has diminished drastically her demand for silver. The currency arrangements of China too are in the melting pot, and it is significant that the President of the Commission which is sitting for their reform is the greatest living advocate of the gold exchange standard. Under such circumstances the choice for this country lies between two courses. The first, and far the preferable one, is to restrict our imports of a rapidly depreciating metal, gradually but continuously, and to sell our stocks of silver while yet there is time. This is the only way to cut our losses. The other course is that of becoming the dumping ground of the white metal and facing the great and inevitable loss of value ultimately. Thus there is a strong case for a pretty heavy duty on silver, both on the ground of finance and of checking the untrained entry of the depreciating and doomed metal into the country.

As to the income-tax measure, capital might be more far-sighted than to object to the imposition of an additional pie in the shape of income-tax when the poor man is called on to pay a 20 per cent. duty on his very clothing in the interests of industrialism.

Coming to military expenditure, the trouble in this region of finance is that it is just here that we cannot cut our coat exactly according to our own cloth, or even according to our own ideas and tastes. Very recently, copious references have been made to the Inchcape Report and to the proposals contained in it, and the fall in the prices of raw materials and food have been emphasised. That is, however, one aspect of the matter. There is, however, another aspect. Mechanisation and re-equipment are particularly costly affairs, and the history of military expenditure in all countries in the last decade shows a great rise. Nevertheless, it is our duty to our country to explore all possible avenues of economy here. Last year a very promising avenue of this character was discovered when by an arrangement or contract between the Finance Department and the Army the discovery of economies in expenditure was made a sort of condition precedent of any further progress in the modernisation and re-equipment of the Army. What is aimed at by that measure is the whole-hearted co-operation and interest between the Army authorities and the Finance Department. A sort of race has been organised between the progress of military economies on the one hand and that of military equipment on the other, and even during the short period that has elapsed we have a certain realised balance on the side of economies. This reduction of military expenditure by 80 lakhs is a matter for congratulation; it is to continue for the next three years, and there is also the assurance of further substantial instalments of reduction following. This reduction, though some have called it small, is the more welcome when we consider the progress of military and naval expenditure in other countries, where the hopes of any diminution of that burden are bound up with the ultimate success of prolonged conferences and doubtful international disputations.

In concluding my remarks, I might be permitted to say a word on the borrowing policy of the day. The critics of the new sterling loan have failed to take full account of some important factors and elements of the existing financial situation. In the first place, it is forgotten when discussing the terms of the loan that the financial strain of the last two years has by no means absolutely become a matter of the past. Indeed, Professor Gustav Cassel—an authority second to none in the present economic world—has just reminded

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us that "scarcity of capital is the principal feature of the present situation". While thus, on the one hand the supply of capital in Europe in general and in London in particular is short, the demand for capital in London is growing with the new policy of increased banking support for industries in the United Kingdom and the numerous and large calls which it entails. It was at such a moment of great scarcity of capital in Europe that we had to draw on the London market for new supplies. And let the critics also consider, Sir, the influence of the vigorous propaganda which aimed at nothing less than the decline and fall of the public credit of this great country. These local propagandists found welcome allies in the person of some doubting Thomases in England itself, and between them these two sets of men did their best to bolt and bar the doors of foreign credit of India. Under such circumstances nothing less was needed than a spectacular triumph for Indian credit; and the seven times oversubscribed loan is the emphatic reply given at once by London financiers and by the Honourable the Finance Member to the propagandists alike of Lahore and of London. And we must remember, Sir, that the situation was a somewhat grave one, and had the London loan failed an unprecedented blow would have been struck at Indian Finance. The possibility of an American loan had been put forward, as I well know; but if we had failed at this juncture in London, we might have scanned the world in vain from China to Peru for financial help on even tolerable terms. Under such circumstances, we may take it that it was a master stroke to get from London not only the much-needed loan but both an ovation for Indian credit as well as a sore disappointment for its enemies; and this was done at the minimum price too. For though the rate is high, yet, as has been well put, the loan is for such a short period that it amounts only to an issue of long-dated bonds and hence will cause no depreciation of our gilt-edged securities. In view of such a very advantageous position having been secured and having won all along the line, we cannot criticise the terms and rate offered, for even our critics admit that the market had already assumed a rate higher than 6 per cent. as a necessary one. Sir, a discussion on sterling loans is hardly the place for classical quotations. But in this case I am tempted to make a reference to a well-known couplet:

"One shade the more, one ray the less,
Had half undone her loveliness".

These lines can be easily adapted to the circumstances of the present loan:

"For even half a per cent. less
Had quite undone its usefulness".

The Council then adjourned for Lunch till Half Past Two of the Clock.

The Council re-assembled after Lunch at Half Past Two of the Clock, the Honourable the President in the Chair.

THE HONOURABLE MR. SURPUT SING (Bihar and Orissa: Non-Muhammadan): Sir, as a new member of this Council, I naturally feel somewhat diffident to open my lips on an important subject like a general discussion of the Budget. Besides, the time allowed even for a cursory study of this difficult subject has been much too inadequate to enable me to do any

justice to it. But conscious as I am of my own deficiencies, I shall content myself only with a few observations by way of criticisms and suggestions on some of the salient points. But, before I do so, I cannot but be thankful to the Honourable the Finance Member for his straightforward and courageous presentation of the Budget. My thanks are also due to my esteemed friend, the Honourable the Financial Secretary, for his illuminating key to the Honourable Member's speech, as but for that, I would have been lost in a wilderness of facts and figures. But what I fail to do is to accord a fitting reception to the Budget itself, because it has come with a host of taxation proposals on the already over-taxed people.

Despite the ample apologies of the Honourable the Finance Member for a deficit Budget, I cannot help saying that there has been a lack of initiative, boldness and resourcefulness on his part in meeting the situation. Failure of rains in some places, flood conditions and political uncertainties in others, might have somewhat affected the revenue, but they have not really been of such an extent in the past year as to call for such a gloomy picture. Causes other than those are also accountable. Again, disastrous stock exchange speculations in the United States having indirect effect on Indian finances was too far-fetched an idea. In fact, for want of details, I cannot subscribe to that view. Again, while I deeply regret the fact that the fall in exports is about twice that in imports, I cannot think that the Honourable the Finance Member, whose reputation as a sound financier had preceded him to this country, could not have effected, if he had really chosen to do so, an improvement in those figures. India has admittedly the monopoly of the production of tea and jute and of the export of hides and skins. A reasonable increase of duty under these heads would have fetched a decent income under the head of exports. Similarly, a good amount of relief on imports could have been obtained had the duty on glassware, toys and requisites for games and sports, tobacco and liquors, which are all more or less articles of luxury, been enhanced to some little extent as well. Such a step would have been reciprocal in effect as it would have affected the producer and the consumer, both here and abroad, and no charge of injustice would have been raised against the policy. In fact, such a taxation would have been a step forward in financial equilibrium. Delighted as I am in the present state of stress and strain to hear about windfalls and forecasts, I should submit that it is not always advisable to rely upon windfalls and forecasts, as they not unoften belie expectations. To come to a significant instance, as was expected, the year 1928-29 did not close with a surplus of 30 lakhs but with a deficit of 156 lakhs. As a result, not only the Revenue Reserve Fund previously standing at Rs. 74 lakhs did not receive an increase of Rs. 30 lakhs as anticipated on account of 1928-29, but it was swallowed up in its entirety to meet the deficit of the year and thus the Revenue Reserve Fund stood at a deficit of 32 lakhs. Thus, although the Honourable the Finance Member fondly hoped that he would get through 1929-30 with the resources of that Fund, the Reserve Fund itself had to be used up twelve months in advance.

Then I feel jubilant over the unexpected announcement that after so many years of the Treaty of Versailles, not an insignificant amount, but so much as Rs. 156 lakhs have been placed at our country's disposal, in this state of financial stringency, from the German Liquidation Account. It affords me no less relief to find that an income of 30 lakhs is expected as the result of certain judgments of the Privy Council on Taxes on Incomes. Again, while I participate in the apprehension of the Honourable the Finance Member about the possible effects of coming political troubles, I cannot help contemplating that had the Government in their extreme wisdom made themselves

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amenable to repeated and reasonable popular demands, the threatening political situation could have been timely and tactfully tided over. I would repeat therefore that a far-seeing adjustment of the sources of revenue at the present juncture without levying any burden of taxation on the people would have much ameliorated the present depressing and disquieting situation.

I cannot let go this opportunity without expressing my gratification that one of the crying needs of the country, I mean the need of good roads throughout the country, is going to be attended to by the Roads Development Department shortly. Road development has been long overdue. Then again, development of roads may enable the Government to suspend some of its railway projects for some time to come in the interest of the country's credit.

The fall of revenue in Railways and in Posts and Telegraphs in such a vast and growing country with such immense possibilities is as much a matter of disappointment as it is of concern to us. It will not be feasible within the short space of time allotted to me to suggest the remedies for improving all such income. But I must say that if the Post and Telegraph Department had boldly adopted some schemes that would appeal to popular imagination, some change for the better in the present straining conditions could surely have been effected. By way of suggestion, I say that if a *four-in-the-rupee* telegram system had been reverted to, the cheapness of the proposed system would, I feel sure, have appealed to all business people, as a means of expediting their business transactions and contributed largely to the growth of the revenue. Similarly, if in compliance with the insistent popular demand the quarter-anna postage only had been restored, the yield from that head would have also shown a substantial improvement. The Government should not forget that correspondence has an educative effect of its own, and anything that is conducive to education among the masses should be placed within their easy reach. In my opinion the point of "vanishing return" has been reached so far as the revenue from Indian postage and stamps is concerned. An earnest endeavour ought to be made by the enhancement of rates to equalise the expenditure of the Indo-European Telegraph Department with its income.

The Honourable the Finance Member has dwelt on the normal increments in rates of pay for the existing staff of the Government with the adoption of the time-scale basis. I do not of course demur to the small increase of pay granted, but I feel that I must invite the pointed attention of the Government to the general and indelible impression in the public mind about the spread of corruption in the Civil, Criminal, Police and Revenue Departments of Government. The Government is better aware of this growing evil than the outside public and I urge on them not to play a hide and seek policy any longer in the matter, but to take bold and drastic measures to eradicate the evil from the country in the fair name of the Government and in justification of the increments granted.

So far as the Census operations go, they are in the vital interests of the people. But I must sound a note of warning to the Government so that these operations in different provinces may not be entrusted to honorary subordinate agencies to place an additional lever in their hands and that of the Police for purposes of oppression of and extortion from the poor and uneducated masses.

As regards administrative expenditure, I admit that there is a popular outcry for further retrenchment and economy, while at the same time there

is a persistent demand for increased expenditure under certain heads, especially in connection with the nation-building departments. But I am not convinced that there is any pressing demand for any increase in the case of the over-pampered Police. I am not prepared to show any consideration to the Police unless they can by their tact and ability, honesty and straightforward conduct, convert themselves into a popular institution in the country. Again, I may be allowed to echo here the popular insistence for a large provision for mass primary education and technical education all over the country. I believe we have had too much of the theoretical University education and that the present educational policy needs to be thoroughly overhauled in the interests of the teeming millions. But what I feel yet is that measures for general national amelioration have not been quite bountifully provided in the Budget.

What benefits might result from the present Labour Commission and the Banking Enquiry Committee is yet in the lap of the gods, but when the Commission has already been appointed and has been undertaking investigations and when the Banking Enquiry, about which the Government and Commerce are so very sanguine, is being pursued, I have no other option but to endorse the grants under those heads, although it is too premature yet to accept any optimistic views such as those held out to us by the Honourable the Finance Member.

I doubt whether I can approve of the grant under Civil Aviation at such a time of financial stringency. This item of luxury—I cannot call it a necessity in the national life—could have easily waited for a year of bright finances. Again I fail to understand how in the interests of international obligations the Honourable the Finance Member throws the liability upon the Indian Exchequer. Equity and policy would demand that such obligations should be shared by the parent country as well. For a like reason, I would say that England should share the expenses for Aden and for the Muskat subsidy. Again, since the existence of the League of Nations, our Exchequer has got to contribute annually about 1500 thousand gold francs and spend on the aggregate an equally large amount on the different delegations to that body from India. While I do not grudge the contributions, which are as regards the amount third or fourth in the list of contributing States, what I must place on record is that the popular outcry to employ a number of our Indian youth on the establishment of the League and to make the delegations more popular and representative in character has so far borne no fruit.

Too much of attention is evident for the Andamans and the North-West Frontier Province. As regards the Andamans, I should have felt happy had I been assured that the expenditure were really called for by the local needs of the island and that it would be subjected to popular scrutiny. While I do not grudge to my Honourable friends of the North-West Frontier Province the grants allotted to their province, I must say that it is unfair and unjust that such a small province as that should be allowed three crores of expenditure as against receipts of less than three-quarters of a crore, while the big province of Bihar and Orissa is being neglected and the big Presidency of Bengal, which yields a clear revenue of 35 crores, should have to rest satisfied only with 11 crores for all her expenses. I need hardly point out to the House that the unfair and inequitable position in which Bengal has been placed by the Meston Award for the last nine years is mostly responsible for the soreness and dissatisfaction of the people towards the Reforms. I fondly hope that in future the Government of India will be pleased to show the same degree of paternal solicitude for the other Indian provinces in their charge when in the grip of floods as

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they have been doing towards the North-West Frontier Province, in particular in the Budget before us.

While coming to the Military Budget, I am thankful for such small mercies as a reduction of 80 lakhs somewhere in the over-bloated military expenditure. But what I fail to account for is that while the Army is being re-equipped with modern appliances; while mechanisation of transport is being introduced all round; while the Air Force of a few squadrons is being added to the existing strength; while anti-aircraft and anti-gas operations are being undertaken and everything about the Army is being modernised, and especially when there are no active operations going on anywhere, I only wonder why the total strength of the forces is yet kept at its old level. Might I not reasonably expect that improved quality should now gradually take the place of quantity and a substantial reduction of the units should be effected? Again now that the old policy that the Army was for the maintenance of British supremacy and domination is giving way to a policy of confidence and trust, it is incumbent upon the military authorities to throw open the ranks of the Army freely to all Indians, in order to stimulate their martial and patriotic spirit, which decades of neglect and discouragement have depressed, as well as to afford employment to the growing numbers of our educated unemployed youths. Distrust must now give place to confidence and I feel sure, as already experienced in other spheres of service, confidence will beget confidence. Supporting as I do the grant to the Territorial Force scheme, I must impress upon Government the necessity for getting up a Militia composed of the children of the soil to stand by the country in her hour of need. Next to this I would request the Government to provide for the military education of our youths in their educational institutions. The Government of India, which provides finances for the Universities, can easily call upon them to submit their alumni to a military education as a condition precedent to future grants. But what I would urge upon the Government is not to employ too severe a test, no impossible conditions, at the outset for such a training. This is how we can enlist and quicken the sympathy of the youth of the country towards the Government. I may remind the House that the newly created Nagpur University has adopted military study in the B. A. course. I should fondly desire that other Universities will follow suit. I would also ask His Excellency the Commander-in-Chief to place before the House the final adjustment and reconciliation of war accounts.

The Honourable the Finance Member has laid himself open to severe indictment by his avowed fiscal policy of Imperial Preference as disclosed by his policy in the matter of taxation of textiles. But the exemption made in favour of the British textiles from the enhanced protective import duty while on the one hand affording no practical relief to the Indian manufacturer will levy an additional burden on the foreign competitors of England solely in the interests of Lancashire. The Honourable the Finance Member conveniently forgets that no country in the Commonwealth has accepted Imperial Preference and therefore he should have been guided in his tariff policy by the fiscal and economic interests of the country itself and not of the Empire. The trade depression, on which the Honourable the Finance Member has laid so much stress, is not to my mind attributable solely to the causes indicated by him. A good deal of the present gloomy outlook in that respect is due to the sinister fiscal policy of his predecessor in office, primarily with regard to Exchange and Currency in the teeth of violent opposition from the country, but to which policy I must own to my infinite shame and regret some of our distinguished

countrymen were parties. However much may be the emphasis with which British statesmen and British financiers maintain that our trade depression is in common with world conditions and due to causes natural and political, I cannot brush away from my mind the deep conviction that the selfish and arbitrary policy of the late Finance Member of the Government of India with regard to the country's Exchange and Currency policy has brought the whole country to the verge of ruin and bankruptcy. If the Government yet means well to the country and wants the outlook to brighten up, the Honourable the Finance Member must revise the present rate of Exchange and stabilize the Currency on the gold basis in the light of past experience solely in the interests of the country. That will be a bold step no doubt, but that will mean no camouflage. What I would next urge on the Government is to cry a halt in the matter of floating further loans at home and abroad for some time to come for the purposes of feeding railway and military projects. Our credit as a debtor country in the money markets of the world has been jeopardised not so much by reason of our natural and political causes as the Government would have us to believe, but greatly by reason of our Government's unsound and mischievous financial policy.

I would further submit that the Government should not add to our commitments but revise those already existing and terminate some of them if that is possible.

I support the duty on sugar because it indirectly promises to stimulate our dying indigenous industry and I should not have criticised the duty on textiles had the enhanced duty been imposed without any discrimination. The increase in income-tax and super-tax is expected to bring in an income of only 70 lakhs more this year. I think that in these days of uncommon depression in trade and industry—especially when the coming year too is not regarded with any degree of optimism—the Honourable the Finance Member should have left out those sources with a view to enlist the sympathy at least of those whose sympathy counts so much in his fiscal policy and who are already contributing quite a good lot under those heads. Any taxation that is kept up in the face of difficulties and misfortunes in a period of admitted excessive depression is evidently a matter which requires justification. As regards the duty on silver, I am not sure whether such a duty would have the desired effect on the silver market in the country as we had never been taken into confidence by the Government as to the exact value of the silver in the Paper Currency and the losses sustained under that head up to date in their sales. I was very much struck by the outburst of the Honourable the Finance Member about the Indian masses. The fault is not entirely that of the masses because they must make their investments in some precious metal—in this instance it is silver for want of gold. Thus the rebuke of the Honourable the Finance Member to the Indian masses is not justified. It is evident that his outburst is only an endeavour on his part to escape the scathing criticisms of some Members directed against his silver policy on the floor of the Assembly on the 4th February, 1930. Silver, I may say, will come out of hoarding as soon as the gold standard is substituted and I fully believe that this uncertain condition of the silver market and the rupee value will continue to trouble us so long as the currency is not stabilised by a gold standard.

Next I would respectfully submit to the Government that now that mints of money have already been expended in the teeth of violent popular protests and at the sacrifice of many national projects on the construction of New Delhi, and now that all the schemes are well-nigh completed, it is time to pause in that direction, especially in view of the fact that the expenditure has exceeded

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by more than 600 per cent. the original estimate. The items of expenditure under this head should be materially reduced as years roll on and the upkeep of the maintenance establishment should be reduced to a bare minimum. But the piles of unhewn stones and stacks of bricks and timber all round are calculated to dispel that fond hope from my mind.

Lastly, I would with all humility urge upon the Government to put high in their programme the urgency for a speedy Indianisation of all the services and the ample feeding of all nation-building departments as a panacea for all our evils, social, political and financial.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : Sir, it is by no means the first time and I am quite convinced that it will not be the last time when we shall hear violent attacks made at the figure at which the Military Budget stands. As far as I can gather, those attacks have been nearly always based on the fact that in the Report of the Inchcape Committee a certain figure was mentioned :—the figure of 50 crores ; but people who have attacked the figure of the Military Budget because it exceeds 50 crores cannot, I think, have really read the Report carefully or realised what the Inchcape Committee meant when they quoted that particular figure. I have myself on more than one occasion endeavoured to point out what the Inchcape Committee then meant, but I am sorry to say that what I have said has never had the slightest effect. It has now again been referred to as a definite fact that the Inchcape Committee recommended that army expenditure should not exceed 50 crores. What actually happened—I will repeat again—was this. When the Inchcape Committee sat and made their recommendations, the Army Budget figure stood at 57·75 crores. The Committee recommended that the estimates for that year should be reduced to 57 crores. They went on to make the statement :

“ We do not, however, consider that the Government of India should be satisfied with a military budget of 57 crores and we recommend that a close watch be kept on the details of military expenditure with the object of bringing about a progressive reduction in the future...”

These are the words that I should particularly like to emphasise—

“ Should a further fall in prices take place, we consider that it may be possible ”—again I would like to emphasise the words :

“ after a few years to reduce the military budget to a sum not exceeding 50 crores, although the Commander-in-Chief does not subscribe to this opinion.”

The Commander-in-Chief, I need hardly mention, was the late Lord Rawlinson. Now, Sir, since those days it was decided to commercialise the army, and among other things, the Army Budget had to undertake expenditure of 45·64 lakhs for items which previously had been charged to other Departments, such as 32·45 lakhs customs duty, and 13 lakhs for printing, stationery, etc. Those, I say, were charges which we had not met from the Army Budget in days gone by. Since the recommendations were made by the Inchcape Committee, these items are charged to the Army Budget and, as you see, they come to 45·64 lakhs. In addition to that I might mention that out of the Army Budget certain very considerable sums are returned to Government. From the Army Budget a sum of one crore is returned in the shape of customs duty, income-tax on officers' pay and other central taxes. In addition to that, there is a further sum of 180 lakhs which is debited to the Army Budget for services rendered by other departments, such as railway transport charges, posts

and telegraphs, etc. I think those figures alone will show that the Army has to meet comparatively very large charges which in previous years were not met from our Army Budget. Now, Sir, the point I want to emphasise from that part of the recommendation of the Inchcape Committee is "*if prices fall*". I have got the figures here of the prices in the year 1923-24 onwards. These are the prices of the chief items necessary for the feeding of men and animals; such things as wheat, ghee, barley and gram and also our stores generally. I find in the year 1923-24 the figure for those was 1.35 crores. In 1928-29 it was 1.718 crores. That you will see is a considerable increase on 1923-24. In 1929-30 it was 1.68 crores, a fall from 1.718 of the previous year. The actual fall you will see is not very great. But what I really want you to keep in mind is this—and I cannot help thinking that the Inchcape Committee themselves never realised—that the total sum which we expend over supplies and stores of all sorts is about 10 crores only. It must obviously have been utterly impossible to hope to save 7 crores within that figure and yet that was the recommendation of the Committee—that should prices fall, the Army Budget could be reduced by 7 crores. The whole figure available for reduction was only 10 crores, and that is a point I cannot think they ever recognised when making such a recommendation, which would amount to meaning that all stores, grain, etc., must be presented to us, or perhaps be paid for by some other Department !! It must obviously be impossible to save those very large sums out of 10 crores which alone is spent on stores.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : What about the saving in the exchange ratio, Sir ?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : Does that effect the question of prices ?

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Yes ; the purchase of stores in England.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : That is included in the total figure, and on that we have gone down this year slightly from 1.71 to 1.68. In spite of that, Sir, in spite of the extra charges we have had to meet, and in spite of there being no real reduction in charges for supplies, our expenditure has been progressively reduced from 65.26 at which it stood in 1923 to 54.35 now, and the Honourable the Finance Member told us the other day that it is quite certain that there will be a very substantial reduction at the end of the stabilised period. I have no doubt about that whatever—I shall not be here when that time comes—but speaking as Commander-in-Chief I can assure you that we have made arrangements within our Army Budget so far as we can look forward, to the certainty that there will be a considerable reduction over the present figure. What I think you might perhaps bear in mind—and I can say with absolute truth—is that when the time comes, in fact even at

the present time the Army in India is in a more efficient state
3 P.M. for mobilisation than I believe it has ever been in before.

We have during this period made provision for re-equipment necessitated by the Inchcape recommendation, the growth of mechanisation and the replacement of obsolete aircraft. As a result we certainly shall be able to mobilise much more readily than we were able to do in days gone by. As some of the commercial Members are probably aware, we have a scheme for subsidising motor transport which up to now has not met with any great success, but lately it has met with rather more response, and we hope that the time will come, when it will meet with real success when we should be able to reduce

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our standing charges by reducing our own transport. I dare say Lala Ram Saran Das knows all about the terms. The terms, I think, are very liberal. We pay the whole of the import duty on imported motors that come up to our specifications and in the first three years we return 25 per cent. of the value of the vehicles, whatever it may be. I am hoping that as time goes on we shall get a considerable reply to the terms offered.

Well, Sir, after talking about the reductions which we have made out here, I think it may interest the House to hear the figures of military expenditure in other countries. I will give you the figures of other countries as they stood in 1925 and the latest figures we have in 1929. In 1925 (all are in million pounds) in 1925 the French figure was 34·4; in 1929 it is 64·5. In 1925 the German figure was 28; in 1929 it is 34. In 1925 the Russian figure was 41·7; in 1929 it stands at 84. In 1925 the United States had a military figure of 52·1; in 1929 they had a figure of 59·3. In Italy in 1925 the figure was 21·5; in 1929 it is 28·5. I might mention in addition to that the Air Force expenditure in Italy has risen from 1·9 to 7·6 while the naval expenditure has risen from 6·1 to 13·3. As against these figures all showing increased expenditure I might mention that the expenditure for Great Britain has fallen from 51, at which it stood in 1925, to 40 at which it stands this year. I think, Sir, it can hardly be necessary, after quoting these figures, for me to explain any further in saying to the House, as I do in all honesty, that we are, I think, the only nation who have really made a definite effort to reduce our expenditure and we have reduced it. As I have said we hope to reduce it still further when the present terms of contract cease.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Can I ask Your Excellency whether these percentages are revenue percentages or so much of the total revenues of the various countries.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : No. These are the total expenses of the various countries.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Can I ask the percentage they bear to the revenues ?—because then we should be able to compare.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : I am afraid I have not got that information by me. Well, Sir, in addition to what I have said about military expenditure, there is only one other point upon which I will touch, with reference to a remark made by my friend, Mr. Chari. Mr. Chari mentioned the fact, when talking about what is known as the Skeen Committee's Report, I think he used the words "they had been unanimously turned down." By "unanimously" I gather that he meant to say, that they (the Committee recommendations) had been altogether turned down. Well, Sir, I cannot allow a remark like that to go by unchallenged because it really is the reverse of what has happened. I may say that with two exceptions the Government of India accepted the recommendations made by the Skeen Committee. We at once agreed to increase the number of cadets for Sandhurst in accordance with the recommendations made by the Committee. We opened the Air Force College at Cranwell and we opened the R. M. A., Woolwich, for Artillery and Royal Engineer officers. This we have done, and I think in numbers to which we had agreed. There were several other items which we also accepted. The only two points which I think we did not accept were (1) the recommendation

for Sandhurst to be established in India by the year 1933. But we are only in 1930 now ; so even had we accepted that recommendation there and then, you will see that the college itself was not proposed to be started till 1933. (2) The other recommendation which we did not accept was the abolition of the system of what is known as the 8-unit scheme or the scheme for the Indianisation of 8 units. As regards the former, we stated that we did not feel confident that the number of cadets coming forward for Sandhurst could be relied upon as being sufficient in quality and quantity to justify us in undertaking the very heavy expenditure which would necessarily be involved in starting a college out here with possibly a very small number of boys and a very large staff which would be necessary for the purpose, as long as Sandhurst could take and would take, the larger proportion of our boys than they had done heretofore ; and realising the excellent education there, we felt that our boys from here would receive the best education possible while at Sandhurst. The other point which certainly did affect us very much was the expenditure there. I think you all probably know that I am a very old Indian soldier and I believe there is no one here who has a great sympathy with or more real affection for my Indian comrades than I have—men to whom I am devoted for I well know their loyalty and courage. I say that in no boasting spirit, but simply because I have been very intimately associated with the Indian soldier for the last 45 years and it has been a source of real grief to me when any of my Indian officers have come to me and complained that the expenditure involved in sending a boy to Sandhurst has made it almost impossible to do so. In the necessity of rectifying this the Government entirely agreed and as a result we decided, that in the case of any boys going to Sandhurst, the parents of those boys should receive a cash grant and equipment, amounting to what we consider the difference between the cost of education in this country and the education at Sandhurst. That has been done in all cases, and we feel that having done that, we have to a great extent met one of the very strong points put forward by the Committee to start an Indian Sandhurst. The other point which I say we did not accept was the abolition of what is known as the 8-unit scheme. That scheme, as you all know, was started by my very distinguished predecessor. He, I think, had been pressed time after time to give a date when he could say that Indianisation could be effected. His reply was, that as long as the young boys coming out from Sandhurst were scattered all over the Indian Army, it must be impossible for very many years to come to judge as to their complete efficiency. But if we got particular units which would be officered entirely by these young Sandhurst boys who would rise in rank *pari passu* with British boys of their own standing—then when the time came for these to exercise the command, we should definitely be able to say whether Indianisation was a success or not. It was for that reason that we decided that we must give a fair trial to the system which had been in force for only a very few years and which had received the approval of His Majesty's Government.

I will not keep the House longer, Sir. I know there are many here who wish to speak and our time is limited.

THE HONOURABLE MR. K. B. HARPER (Burma Chamber of Commerce) : Sir, I should like first to congratulate the Honourable the Financial Secretary on the masterly manner in which he presented the Budget to us in this House. A more lucid statement of an intricate subject I think it would be difficult to imagine and the facility with which he delivered it, without note or reference, gave an added interest to it for us who had the pleasure of hearing it. My Honourable friend, Sir Arthur Froom, has particularly asked me to associate him with these remarks and also joins me in expressing the pleasure which I

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am sure we all feel at seeing Sir Arthur McWatters once again in his seat as Financial Secretary.

Last year, when the Honourable the Finance Member presented his Budget in the other House, he gave us a very clear warning that if he considered that the financial situation demanded it, he would not hesitate to propose the imposition of new taxation. To that extent, therefore, the heavy demands which are now being made on us have come in no way as a surprise. As for the justification he gives us for finding such a large sum as 510 lakhs—it is difficult to find fault with his case. The Army expenditure position which His Excellency has just put before us so clearly and the obviously sincere attempts which the Army and the Finance Departments are making to meet the wishes of the Legislature are, I think, matters for very warm congratulation. The appointment of a Retrenchment Officer is practical evidence of the Finance Member's attention to this important side of his duties, but I think that we can hardly expect any permanent retrenchment to come from this appointment until at any rate the form and functions of the Central Government under the new constitution are known to us. What I confess impresses me most in the justification the Honourable the Finance Member puts forward for his new proposals is his argument that it is of vital importance that at this stage nothing should be done which would upset India's credit, and that India's credit should be enabled to recover from the blow which some of her own nationals have contrived to inflict on it and that she should enter the next stage in her political advancement with her credit, as the Honourable the Finance Member puts it, above suspicion. If only for this reason, we must, I think, applaud his determination to find whatever finance is necessary to put us on to this most desirable basis. At the same time, while the tax-payer will no doubt with his usual grace submit to do his considerable bit towards this end, the commercial community expects that if any further attacks are made on the prestige and credit of India, the Government will not hesitate to grasp the nettle.

Now, Sir, to turn to the taxation proposals themselves, I should like first to welcome on behalf of my constituency, the Burma Chamber of Commerce, the proposed 25 per cent. reduction in the export duty on rice. My Honourable friend Sir Arthur Froom has called it a plum. I prefer the Finance Member's own wording, an act of justice and a step in the right direction. Honourable Members may be aware that there is at present an embargo on the import of Burma rice into Japan, Formosa and Korea which has been in existence all through 1929 and which has been renewed to the end of 1930. Our belief in Burma—I should like either confirmation of this or satisfaction that it is not so—is that this embargo was put on by Japan in direct retaliation for the recent import duty on cotton yarn into India. We have gained from that and other measures the impression that Burma's interests are not so well cared for as we should like at this distance from Rangoon. For that reason I heartily thank the Honourable the Finance Member for this step in the right direction and hope that further steps towards the complete removal of the duty will be taken as soon as the position permits it.

Then, Sir, I come to the cotton duties. Burma having no cotton milling industry is concerned in the cotton duties merely as an importer and consumer. Burma has a considerable trade in cotton piece-goods and her imports come roughly in the following proportions: 50 per cent. from the United Kingdom, 25 per cent. from Japan, 12½ per cent. from other foreign countries and 12½

per cent. from India. Although, as my Honourable friend Sir Maneckji Dadabhoy pointed out, a great deal of the imports from the United Kingdom is of a quality which has no other competition, there is still a considerable volume of other qualities which compete with imports from Bombay. The result must be that Burma prices will be increased and perhaps that there will be a certain amount of reduction in trade. Ordinarily, therefore, it would hardly be surprising if it were the wish of my constituency that I should voice some measure of protest against these duties. I have however been in telegraphic communication with them and they have instructed me to inform the Council that they are so much impressed by the opportunity which the preferential proposals give to the country to show what the Honourable the Finance Member describes as a gesture of friendship that they do not wish me to offer any opposition to either of the cotton duty proposals. (Hear, hear.)

Then, Sir, I come to the kerosene duties. My Honourable friend Sir Maneckji Dadabhoy has invited me to enlighten the House on the subject of the kerosene duties. Now, Sir, I feel that enlightenment is due to the House not from me but from the Government, from the Finance Member, for although these proposals seem to be entirely inconsistent with the protectionist policy of the Government and with the declared objects of the Budget proposals themselves, there is in the Budget speech no word of explanation or justification of what amounts to a radical change of policy. What do these proposals amount to? They first of all ask for an increased revenue of 35 lakhs. This increased revenue is to come from an increase in the excise duty which is to give 50 lakhs and a reduction in the import duty which is to give away 15 lakhs, the net result being a reduction in the present margin of protection afforded to the indigenous industry by one-half. Now, Sir, I find it difficult to see the justification for these proposals. If it is merely a question of finding 35 lakhs of revenue that would quite well have been found by increasing both the excise duty and the import duty by an equivalent small amount. That apparently is not the only object, for the margin of protection is reduced. If it were merely a question of finding 35 lakhs and reducing the protection, that could have been done by increasing the excise duty only. But that is not the proposal. The proposal is to increase the excise duty and also to reduce the import duty—to take 50 lakhs from the indigenous producers and give 15 of them away outside India. The reason given for this is that the proposals are so framed as to ensure in the first place that kerosene prices are not raised, and in the second place that the indigenous industry, especially the smaller companies, is not hit too hard all at once. The proposals are indicated to be only the first step towards what one must assume to be the complete abolition of protection. Well, as regards the first object, to ensure that kerosene prices are not increased, if the Honourable the Finance Member's meaning is that he has so framed his proposals that the price cannot be increased, it means that he has delivered a direct attack on the indigenous industry. In this proposal he has done what has been done in no other proposal in the Budget. He has attacked an indigenous industry, whereas all the other proposals are designed to help indigenous industry. But it is an elementary truth that the price of any commodity is determined by the largest marketing interest in that commodity, and the largest marketing interest in the case of kerosene is the indigenous companies. Their prices to-day are, as they have been always, below the current market rate which importers from outside could get for their oil in any other market. If therefore the indigenous companies do decide to increase their prices I cannot conceive it likely that the importing companies would not be prepared to bring their prices up to the same level. As regards the second object—to avoid hitting the smaller indigenous companies too hard

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all at once—the Honourable the Finance Member is quite wrong in suggesting that the smaller companies will not be unduly hit if it is agreed to accept Government's suggestion that the price of kerosene should not be raised. One cannot help feeling that in this matter Government have let their better judgment become blinded by the relative success of the premier indigenous company, and if I refrain from telling the House of the many ways in which that company deserves well of the country it is only because I am a member of that company myself and I do not want the House to think that it is on behalf of that company particularly that I am talking. Government at any rate should not need to be told the history of the oil industry in India for all these years. But I do emphatically tell the House that the taxation proposals which are now made will unduly hit the smaller companies even with prices for oil products as they are at their present level. The oil market is a world's market. Contrary to ordinary belief, if one is to believe all one hears, there is no such thing as a monopoly in the oil world, and there is no security that the present level of prices will not be forced on to a still lower level by world conditions or on account of competition. In fact at the present moment the indications are rather to the contrary. (*An Honourable Member* : “ Excepting petrol.”) The Honourable Member says, excepting petrol. Sir, in the course of his speech he mentioned something about putting an export duty on petrol. His argument was, I think, that the price of petrol in London is lower than it is in India. As a matter of fact when you deduct the Government tax on petrol the net price is no lower in London than the net price here. It may be of interest while I am on this point to inform the House that for every tin of petrol which they buy for their motor cars they are giving 15 annas of the price to Government. If, Sir, by any chance it does come about that the prices of oil products in the world and therefore in India are further reduced, the reduction of the protection hitherto afforded to the indigenous industry may well result in some of the smaller companies going completely out of business. I assure the House that this is no fancy picture. Sir, we shall presumably have an opportunity later to discuss the actual merits of this tax, but I would ask the Honourable the Finance Member now if he would explain to us why it has been decided to alter a policy which has existed in India for 25 years. There is no mention of this point in his speech and it is one which the indigenous companies naturally wish to know and feel that they are entitled to know. I have three questions to ask the Honourable the Finance Member. The first question I would ask him is, what are the Government's reasons for this proposal? The second question is on what grounds do they justify it, and the third is, what is the exact significance of the words “ the first step ”? Will Government inform this House for the benefit of those outside whether it is the aim and intention of Government to remove the present protection altogether? I look confidently for a reply on this point from the Honourable the Finance Member, and it is in no carping spirit that I ask for it; it is a very important point for the indigenous companies to know. They feel they must know how they stand as regards the future and a statement from the Honourable the Finance Member on this point will be warmly welcomed by them.

THE HONOURABLE SIR SANKARAN NAIR (Madras: Non-Muham-madan): Sir, I propose to make only a very few remarks. Let me say at once that I would like to associate myself with Mr. Harper in all that he has said about the Budget speech. I shall not enter into any detailed criticism of the review of the financial situation by the Honourable the Finance Member. I do not want also to enter into the other questions which have been raised

by the other Members as to the possibility or the necessity of the reduction of expenditure in the civil departments, nor do I like to say anything at present about the reduction in military expenditure. But that is not because I think there is no room for reduction in the civil departments; I think there is ample room. And it is not because I think there is no room for reduction in military expenditure; because there is ample room. His Excellency has replied to the arguments which have been based upon the Report of the Inchcape Committee. But my reasons for reduction in the military expenditure rest on far different grounds. I had an opportunity of stating them and I have stated them. The real reason for my not referring to the reduction of expenditure either in the civil departments or in the military departments is this, that constitutional changes are now under consideration and if any responsibility is introduced into the Central Government, the whole question of expenditure will have to be reviewed. Civil departments are not going to be left in the condition in which they now are; and the expenditure in the military departments either is not going to be left in its present state. The question both of civil expenditure and military expenditure will have to be gone into and it is therefore desirable that those questions should be considered by the new Legislative Assembly under the reformed constitution and by an Executive Council which will be more amenable to the control of the Legislative Assembly. There is no use therefore in our going into those questions now. The decisions of the present Executive Government cannot be final. They would not be accepted, nor will the decisions of the Legislative Assembly or of this Council be paid much attention to by the new reformed Councils. I therefore leave them alone. Leaving them alone, it necessarily follows that I am bound to accept what the Finance Member says about the necessity for new taxation. Without new taxation we cannot balance the Budget. I accept therefore the necessity for new taxation under these conditions. Nevertheless, though I accept the necessity for new taxation, I cannot help deploring that necessity, because we know now practically the youth of the country, Hindu and Muhammadan—I do not speak of Anglo-Indians or Indian Christians—Hindu and Muhammadan boys are revolutionary in spirit. The women of the country so far as those who take any interest in these matters are concerned, they are all—Hindu and Muhammadan—anti-Government. In those circumstances it is very deplorable that new taxation has to be imposed. Then, if my view of the political situation is right, of all the proposals for taxation put forward by the Finance Member I am bound to accept the income-tax as the true and real and proper tax, because, as my friend Sir Maneckji Dadabhoy has stated, it means putting your hands into the pockets of the capitalists; it should be done. You must put your hands into the pockets of the capitalists if you want taxation for this purpose. I am only sorry that the Finance Member does not put his hands in deeper. Instead of imposing any taxation which would affect the poor, I am sorry he has not put his hands deeper into the pockets of my friends Sir Maneckji Dadabhoy and Sir Arthur Froom and the classes they represent. These are not the days when you can give a stick to my friend Mr. Gandhi and his friends to beat the Government. What is the present situation? We hear that there is an ultimatum presented to the Government, an ultimatum to the effect that the salt tax must go. Yet in the face of that, we have our friends Sir Maneckji Dadabhoy and Sir Arthur Froom asking for an imposition of a higher salt tax. What again is the other demand? That land revenue

THE HONOURABLE SIR ARTHUR FROOM: I do not pay any attention to the ultimatum.

THE HONOURABLE SIR SANKARAN NAIR : But the Government have to. Then, the other demand is that land revenue should be reduced by 50 per cent. Of course my friend does not pay any attention to that. The majority of the people in the country do sympathise with the demand that there must be a reduction of salt tax and land revenue. My two friends do not feel at all the salt tax, but then the masses do ; the same is the case with land revenue. Under those conditions it is deplorable that any new taxation has to be imposed.

Then, I shall confine myself to the customs duty. The Finance Member proposes to raise the customs duty from 11 to 15 per cent. We are assured that this is required in the interests of revenue, though it may serve also as a protection to the mill industry. There is an end of it. We have to accept it. If it is in the interests of revenue that the tax has to be imposed, there is nothing to be said against it. Then comes the more debatable question of further increase. What about the further increase of 5 per cent. with preference in favour of Great Britain ? If there had been no further taxation, there would have been no complaint on the part of the classes which I represent. If there had been taxation all round, raising it to 19 per cent., if the Government had satisfied themselves that that was necessary in the interests of the mill industry, then I would have agreed. But then the more doubtful question is, can you show any preference in favour of England in that respect ? In that matter I agree with my friend Lala Ram Saran Das that without an equivalent by Great Britain in favour of India we should not agree to it. If there is an equivalent, it is a different matter and Imperial Preference can be accepted. Otherwise why should India lose its legitimate customs duties which it is entitled to recover from the English goods that are imported into the country if there is taxation all round ? Why should the masses of the country be compelled to pay a higher price for goods which they might get from other countries at a cheaper rate in order to benefit the English workman ? Why should the mill-owners themselves suffer ? They may not suffer now. There may be no competition now, as my friend Sir Maneckji Dadabhoy has said. But with this preference in favour of England they will not be able to manufacture those goods for which there is preference. It is suggested here that as a gesture it will have beneficial effects in the coming Round Table Conference in London. The real gesture on the part of England would be some compensation to India, an equivalent for the preference which we show to England. Why do not our Government insist on it ? The Finance Member's speech, lucid, clear, in all other respects, if he would allow me to say so, becomes a little hazy when he comes to this question, for the simple reason that this Government do not want it. They did not want it but they put it forward because they were forced to put it forward by the Cabinet in England. The Honourable Member says that the final decision is left to the Government of India—I have been long enough in the Government of India to understand what that means. I feel little doubt myself that the India Government did not want it. I feel little doubt further that the Secretary of State does not want it because under the Government of India Act the responsibility is his. All the revenues of India are vested in him. It is he who has to advise the Government of India in this respect. But we see he is out of the picture altogether. He does not do this for the simple reason I presume that he does not like it. The Secretary of State goes to the Cabinet there and tells them : " Well, I do not take the responsibility. You had better negotiate with the Government of India yourselves." And the communication goes to the Government

of India. Of course, the Cabinet cannot do anything else. They have got the unemployment question to deal with. They have got the Lancashire interest to tackle. They have a growing party—the Empire Trade Party. They cannot do anything else. Therefore, they tell the Government of India what in their opinion should be done. They agree among themselves to submit it to the Legislative Assembly. What Legislative Assembly? The fighting element has gone out of it. They know what is going to be the result. They know that the Bombay millowners' interests will prevail over the national interests. We find that in this Council.

THE HONOURABLE SIR MANECKJI DADABHOY: Are the national interests anything more than the millowners' interests?

THE HONOURABLE SIR SANKARAN NAIR: Certainly.

THE HONOURABLE SIR MANECKJI DADABHOY: No.

THE HONOURABLE SIR SANKARAN NAIR: Now, that being the case, the millowners' interests will in all probability prevail in the Legislative Assembly. I do not say that it is in that hope that it is left to the Legislative Assembly. But if four months ago, before December, this question had to be discussed, I doubt very much whether the Government of India would have left it to the Assembly. Well, I do not wish to take any more time. I only wanted to make this emphatic protest against any Imperial Preference being shown to England without an equivalent. The question should have been investigated by a Committee enjoying the confidence of the people of the country and the Legislative Assembly, and if they had reported in favour of Imperial Preference, then we may accept it, because I have no doubt they would report in favour of Imperial Preference only if India would not be a loser by it. But as long ago as the time of Lord Curzon the Government of India pronounced against Imperial Preference. I am not aware that the Government of India has changed that opinion now. The proposal is a half-hearted one. Over and over again throughout the Finance Member's speech he sought to make it clear—not in one place but in three or four places—that for revenue purposes they want only that tax to be raised from 11 to 15 per cent. The addition is simply to compensate England for the loss of the money which they might sustain by raising from 11 to 15. The *Financial News* says that England more than compensates herself by this 5 per cent. duty with Imperial Preference. For these reasons, Sir, I have to enter my emphatic protest against it. I do not wish to say anything about the specific proposals. The time for those will come if I want to say anything when the Bills are before us.

THE HONOURABLE MR. J. H. FYFE (Bengal Chamber of Commerce): Sir, the Budget as a whole is so admirably conceived and is so reasonable in its incidence that it is all the more remarkable that the proposed increase in the kerosene excise duty should have been dismissed in the Finance Member's speech in such a few words as if indeed the proposal was so reasonable and self-evident that it required no justification. Apart altogether from the departure from the principle of the protection of indigenous industries which has been accepted and applied even in the present Budget—as in the proposed cotton import and sugar import duties—and which has been so convincingly and modestly stated by the Honourable Mr. Harper, I should like to emphasise that there are struggling oil industries in India which even on the present scale of protection are hard put to it to make both ends meet.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: May I ask what is the dividend of the Burma Oil Company?

THE HONOURABLE MR. J. H. FYFE: I do not think the dividend of the Burma Oil Company comes into the question at all. I am talking about the struggling oil industries of India, not of the Burma Oil Company which is not the subject in question. The Finance Member appears to be unduly impressed by the success of the leading indigenous company, the Burma Oil Company, but one swallow does not make a summer and in the oil industry there are few prizes and many blanks. The proposals are not only inconsistent but seem to be unnecessary for revenue purposes since these could equally have been met by a small equivalent increase in both the import and excise duties or even by maintaining the present import duties and making a small increase in the excise duty. The grounds on which the Finance Member considers that his proposal will involve no increase in kerosene prices to consumers are not obvious. Kerosene produced in India dictates the price at which imported oil is sold and it is only reasonable to expect that if the Budget proposals go through and the price of indigenous oil is raised to make up for the proposed increase in the excise duty, imported oil prices will be increased accordingly and the consumer will have to pay. I submit, Sir, in conclusion that the House is entitled to a definite statement of Government's reasons and their justification before the present proposals as regards the kerosene duty are accepted. Otherwise, Sir, on behalf of the Bengal Chamber, I have no criticism to offer on the Budget proposals, which I think are very reasonable and quite justified.

THE HONOURABLE SARDAR BAHADUR SHIVDEV SINGH UBEROI: I thank you, Sir, for permitting me to make a few observations of a general character about the Budget. When I consider the position of the Honourable the Finance Member who has been called upon by his duty to fill up the financial gaps which are in no way very small and for the creation of which he is not responsible, I feel sincere sympathy for him. I also have a word of admiration for him for the frankness and courage which he has shown in giving a true picture of the finances of India. But, at the same time, when I find that he has been placed in such a position as to recommend further taxation to meet the deficit and that his duty has compelled him to make such proposals, I feel that I owe it to my country and to my electorate, upon whom the burden of the increase in taxation would eventually fall, to make a few observations as regards the proposals made in the Budget. The Honourable the Finance Member has been frank enough to admit that these proposals will be subjected to the most searching scrutiny and the question will be asked on all sides as to whether there is any justification for imposing so heavy an additional burden of taxation. I think he is quite correct in his forecast of the criticism to which this Budget will be subjected, and I think he is quite right also in making the remark that his proposals include a heavy additional burden of taxation. I wish to draw the attention of the Honourable Members to another passage which appears in his Budget speech that the finances of India are suffering from the general wave of depression. The question arises, Sir, how far this deficit is to be met by further taxation upon the people and how far the Honourable the Finance Member has the interest of India as a whole in view when he makes suggestions for an increase in the taxes. I need not repeat the fact that it is patent that India is one of the poorest countries of the world and that she is heavily taxed in many ways, and it is a question for very serious consideration how far India can bear another burden of taxes. Whenever such

circumstances do occur in the finances of a country or of individuals, there are only two ways of meeting them. One is by trying to increase the means of revenue and the other is by effecting possible retrenchment in the expenses. I admit that the Honourable the Finance Member has said in very clear terms that he has tried his best to find out if he can effect any retrenchment in any of the Departments of the Government of India, but has failed. He has given reasons for it. He is giving a ray of hope also. He has appointed an officer who will scrutinise the expenses of the Departments and will try to find out if any retrenchment can possibly be effected. I quite agree with the remarks which have fallen from the lips of my Honourable friend Sir Sankaran Nair that the whole administration of India is being run at top-heavy expenditure. Of course the Military Department has been made the target for many years because it is the biggest and the largest Department which comes before one's eye. I also cannot resist referring to that Department and the expensive way in which it is being run. His Excellency the Field Marshal has obliged the House by giving interesting figures showing the expenditure on military and defence in other European countries. We would have been much more obliged to His Excellency had he given the revenues of those countries so that we would have been able to find out how the ratio of expenditure in India to its revenues stands in comparison with the ratio of the expenditure of those countries to their revenues. I believe that His Excellency has passed all his life in India, he loves India and Indians look upon him with respect and affection. He would have certainly, in his time of command of the whole of the Indian forces, tried his utmost to effect retrenchments in the Military Budget. He has tried to show to the House that the recommendations of the Inchcape Committee were impossible of being adopted. I do not claim, Sir, to have any expert knowledge in scrutinising the expenditure on the military. But we have to rely upon the reports of those experts who have been appointed from time to time and in whom the Government or the Royal authority who appoints them has got faith and believe in their expert knowledge to tackle those special subjects. That Committee, Sir, has said in clear terms in the year 1922-23 that the military expenditure after a few years should be brought down to a sum not exceeding Rs. 50 crores. Seven years, Sir, have passed since then and we do not see the figure in the Budget to be anything like Rs. 50 crores. The Honourable the Finance Member has reduced the expenditure of the Military Department by Rs. 80 lakhs this year and he has tried to show that he has taken a very keen interest in the retrenchment of Army expenditure as he had promised last year. He is quite correct. But the question is, how far this reduction of 80 lakhs and the increase of the period from 2 to 3 years for the continuance of the Military Budget at the figure of Rs. 54.20 lakhs will serve as a real reduction in the expenditure of the military, because, I understand that in the next two years, i.e., at the end of the year 1932, there would have been some substantial fall in the Military Budget, but by this arrangement, Sir, we cannot expect any substantial fall till the end of 1933.

As regards the general aspect of the Army, Sir, I wish to make very respectfully the suggestion to His Excellency the Field Marshal, 4 P.M. and to the Government through him, that Indianisation of the Army is one way by which the expenditure of the Army can be reduced. This question of the Army, Sir, is affecting India adversely both economically and politically—economically because it absorbs 50 per cent. of the whole revenue of India, and politically because we are told that India is not fit to have full representative Government because it is not fit to defend itself.

[Sardar Bahadur Shivdev Singh Uberoi.]

But how can India become able to defend herself and so deserve full responsible government unless facilities are granted to Indians to show their ability in the military line. Another thing is that if His Excellency would compare the expenses of the British units with those of Indian units he would come to the irresistible conclusion that the cost of the British unit is four or five times higher than the cost of the Indian unit, and the best way of reducing the cost of the Army is to increase the Indian units and reduce the British units. When I say this I am fully conscious of the responsibility of the remarks which have just fallen from the lips of my Honourable friend Sir Arthur Froom. I hold the same view as he does with regard to the independence of India. What he said was, was it expedient that one should dare suggest at this moment to the military authorities to reduce the military strength in India? I quite agree with that view. The times are such that the responsibility of the military in regard to the gravity of the situation in India is very great. But what I beg to submit is, give India its due; make it an equal partner in the Commonwealth of the Empire: place your trust in the Indian Army and I can assure you that that trust will not be misplaced. You will find the Indian sepoy and the Indian officer as loyal to the salt for the defence of his country and King as the member of any other nationality. What I mean to suggest is that one way of reducing substantially the expenditure of the Indian Army is to increase the number of Indian units and to mobilise again all those soldiers who were demobilised at the conclusion of the war. That would serve another very useful purpose. Those ex-soldiers would come into Government service again and would serve the King and country as loyally as they have done in the past.

Having said so much about the Army, I now turn my attention to the increase in the taxes on income. One of my friends on the left has objected to the increase in this tax, and my Honourable friend on the right has supported the increase proposed in the Budget. The Honourable the Finance Member has appealed to us to examine his Budget dispassionately and judiciously. I can assure him that I have given my dispassionate and judicious thought to it. The burden of this tax on incomes would fall on the rich, and the poor would not be touched. Yet I venture to say that nowadays, owing to the circumstances prevailing in the country, the condition of Princes and peasants in the way of comparative incomes and expenses does not vary very much. Everybody is so hard put to it to meet his expenses that he will feel the pinch of any further burden thrown upon him to be paid out of his existing income. The income-tax law in this country when compared with the income-tax law in other countries has very many grave disparities. Many attempts have been made to bring our law into line with the English law of income-tax. There is one redeeming feature in the speech of the Honourable the Finance Member in regard to this matter where he says that if the finances of the country allow of some modification in the income-tax law he would see about modifying the law to the extent of allowing the setting up of the losses of the previous year against the income of the next year. That is one of the disparities which he has publicly recognised to exist between the law in this country and in England. That is well and good. I am sure the country will welcome that reform with great pleasure. But then, Sir, the question arises, what will be the finances of the country next year? Will the Honourable the Finance Member find himself in a position to bring forward that reform in the law? Apart from that, there are many other disparities which need to be removed. For this reason, Sir, I would not like

to give my whole-hearted support to this measure. Apart from this, I would like to submit to Honourable Members that the income-tax was first raised as a war measure. (*An Honourable Member*: "You mean super-tax".) No, the first income-tax was raised—I speak subject to correction—when the first Kabul War was on. Super-tax of course was imposed as a war measure during the last Great War, and now the super-tax has also become permanent on the Statute-book of India. Of course this is very bitterly felt by those who pay income-tax, and it is a fact that an increase in the tax is not welcomed by anybody. Good reason requires that if there is additional taxation there must be some additional benefit to the people. In the present Budget, with the exception of two or three items which I would welcome, such as the grant of 5 lakhs to the Muslim University of Aligarh, 10 lakhs for the development of the sugar industry and research in sugar and 10 lakhs for agricultural research—these are the only few items which I can find which are really beneficial to the people. On the other hand the increase in taxes proposed amounts to about 5 crores. So on this ground I do not support the increase in the income-tax.

I now come to the increase in the customs duty on piece-goods and the further duty of 5 per cent. on cotton goods. Of course it is said that this has been done for two purposes, and I quite admit that. Firstly, it is for increasing the revenue, and secondly, for giving protection to the mill industry of Bombay. Of course I am not interested in the mill industry and I cannot say how far it will afford protection. It is for the millowners to find out how far the industry would be protected. But, Sir, speaking on behalf of the masses who have to purchase cloth for covering their bodies, I say that this additional tax of 9 per cent. would certainly increase the price of cloth in the country by that proportion, and that would certainly be felt by the consumers at large. Then, there is another principle involved in this, and that is Imperial Preference. I for one, Sir, who am very keen on having friendly relations between England and India, would not perhaps very much object to this, but this is a principle which of course interferes very much with free trade policy. One can rightly ask why a country should be placed in a better position than others. I think if the destinies of India and England are to remain together in future, there will not be much harm in showing a friendly gesture, as it has been put by the Honourable the Finance Member; but the question is, how far this would go in the matter of friendly relations with England. If, as has been suggested to us, Sir, they are going to respond and this would help the industry in Lancashire—fortunately now the Government is a Labour Government—and they would benefit India, I will not object to it temporarily for three years; but I would not agree to it on principle at all.

Lastly, Sir, I shall close my remarks by saying that although the Honourable the Finance Member had to fill the gap and he has tried his utmost, I hold the very strong view that this is not an opportune time for any increase in the taxation of India. It would certainly give a very strong handle to those bitter critics of the British Government, who in season and out of season calumniate it and try to impress on the masses the bad features of it. I say at this moment that it is the duty of every well-wisher of India to counteract those effects and as far as it lies in his power to checkmate it and he should not spare himself in this.

With these remarks, Sir, I resume my seat and thank you.

THE HONOURABLE SIR GEORGE SCHUSTER (Finance Member): Sir, I should like at the outset to express my great appreciation of the general tone

[Sir George Schuster.]

of this debate. It has been, in a difficult time, very helpful and encouraging to myself ; and in expressing my gratitude to this House, I should like to include some expression of regret that this will be the last time that I shall have the pleasure of addressing this House with the present Honourable the Leader of the House sitting where he is. It is a matter of great regret to me, Sir, that this is the last occasion on which I should be sitting side by side with him on these Benches. I might perhaps also be allowed to take this occasion to say how much I regret this is the last occasion on which I shall have the pleasure of hearing my Honourable friend Sir Arthur Froom in these debates. His speech was particularly encouraging and I think a lucid and clear treatment of the financial position. I also might add again one further personal remark and that is my own regret that my Honourable friend Sir Dinshaw Wacha, whose contributions to these financial debates have always been of such vigorous and spirited character, that he for reasons of ill-health could not be present to-day. (Applause.)

Sir, in dealing with the impression which this debate has left upon my mind I think I may claim that the general sense of this House is that the case which I have made for my proposals has been made out. Even my Honourable friend Sir Sankaran Nair does not go further than to deplore their necessity. He admits the necessity, although he deplores it. I fully sympathise with the sentiment which was expressed in the opening speech of the debate by my Honourable friend Mr. Desika Chari, *i.e.*, the difficulty in which Members who have to go before their constituencies find themselves placed in having to support proposals which do involve a substantial increase of taxation. Any increase in taxation is of course regarded as a bad thing in itself and it will, I know, evoke criticism generally from the public outside. But I do think that in the present case, if we look at the actual taxes which are proposed, we may claim that there is no serious burden imposed on any particular class by any of these proposals. I ventured to state in introducing my Budget in the Assembly that in connection with all these taxes it could be claimed that there were some indirect advantages. I made perhaps one exception and that brings me to one of the chief criticisms which has been made in debate today, the criticism of the income-tax proposals. I think the best answer to that criticism has been given by my Honourable friend Sir Sankaran Nair. He in fact expressed very largely what had been my own views in dealing with the matter. I felt to come forward with a large programme of taxation and to include no form of direct taxation, no tax, which directly hit the people of our own class who are making these proposals, would be something which we could not justify either to our own conscience or according to principles of sound finance. I recognise all the objections to an increase in the income-tax, but I would ask Honourable Members to consider whether those objections in the form of impediments to industrial development do really apply to these very modest proposals. After all one pie represents only a shade above one half per cent., only a shade above one penny in the pound. It surely is not a burden which deserves the serious criticism which has been directed to it today. It is, I think, a balancing factor in our proposals, and taking the whole scheme of taxation together, I feel it would have been entirely ill-balanced and incomplete if it did not include this particular element.

Then I come next to the other tax against which criticism has been particularly directed, our proposals in regard to the duties on kerosene. On those proposals we have had a very clear, and I must say, a very moderately expressed criticism from my Honourable friend Mr. Harper, supported with vigour

and eloquence by the Honourable Mr. Fyfe. My friend Mr. Harper has asked three questions, why this alteration of policy, what are the reasons for the proposal and what is the significance of the words "as a first step". I think perhaps the two first questions which I have read can be dealt with together. The reasons for the proposals were purely and simply the desire to tap what seemed to us to be a justifiable source of revenue. The particular feature to which he has directed his attention is what appears to be an inconsistency—the reduction of the import duty at the same time as we are looking for more revenue by an increase in the excise duty. The sole object of that feature was that the effect might not be produced of increasing the burden on the poorer classes of the country. We felt that kerosene was one of the articles in which the very poor classes of the country are interested. We felt that it is a legitimate source of taxation, but we also felt that if our action was merely confined to an increase in the excise duty, there might be some justification for an increase in prices. If, however, at the same time, we reduced the import duty, it seemed to us that the justification for an increase in price would disappear and the probability that an increase in price could be made would also become very much less. The subject is a highly technical one and I do not claim to be an expert on the organisation of the oil interests in the world, or the particular relations between local prices for yellow kerosene and the world market for white kerosene, or to what extent the margin between the two prices of the commodities can be approximated without bringing about a substitution of the one for the other. There are very many complicated issues involved in this on which my Honourable friend Mr. Harper can speak with very much more authority than I can. Nor do I think this is an occasion in which to attempt to go into these details, because the proper occasion for doing so would be on the Finance Bill. I think I have explained what was in our minds in making these proposals and it remains for me to deal with Mr. Harper's third question,—what is the precise significance of those words which we use—"as a first step". The significance is this. We are proposing changes in the duties which mean in effect a reduction in the effective protection which the oil industry has from a level of about 19 per cent. to a level of about $9\frac{1}{2}$ per cent. That we recognise is a big reduction and may have an effect on the indigenous industry. We want to see what the result of that change is, and if the experience gained is such that we feel that it would not be possible to bring the margin of protection down to a lower level without dealing a serious and damaging blow to the indigenous industry, then I take it—I do not wish to commit my successors for all time—but I take it that the policy of Government would be to hold their hands and not carry the reduction of the effective protection any further. We have taken a first step—or rather we have proposed a first step and, if it is taken, we want to see what the result will be. I think at least that clearly explains what has been in the minds of the Government in this matter.

Now, Sir, apart from those two particular taxes and apart from the particular proposals in relation to the cotton duties, I think I can claim that there has not been much criticism of the actual taxation proposals. Perhaps I might now say a few words on the subject of the cotton duties. I do not wish to speak at length on that subject because again there will be another and more proper occasion for me to deal with it. But some remarks which fell from my Honourable friend Sir Sankaran Nair have made me feel that it is necessary to make some statement in reply. I think my Honourable friend was distinctly under a misapprehension and was distinctly unfair when he said that he read into my remarks the implication that the Government of India did not want these proposals and were half-hearted about them. I think he was still more

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unfair when he said that if the fighting element had not gone out of the Assembly we should never have brought these proposals forward. Now, Sir, speaking on behalf of the Government of India, I can say this ; that nothing causes us more regret in the present circumstances than that we should be putting these proposals forward at a time when it can be said that the Legislative Assembly is not properly representative of opinion in India. We should have far preferred it if the House had been a full one and the matter could have been fully and fairly debated with all parties represented. But it is not our fault that we are faced with the present conditions, and as a matter of fact before the Bill which we propose to introduce reaches its final stages all the by-elections will be completed and we may presume that we shall have a pretty full Assembly. Then again, Sir, on the point that the Government of India do not want these proposals and are half-hearted in the matter. The Government of India, who are entirely free agents in this matter—and I do want to emphasise that because in practice this fiscal autonomy convention is a reality—the Government, who are entirely free agents in this matter, have put this proposal forward on its merits because they think on its merits it is the best way of dealing with the situation. I want to explain how the particular proposal arose. We had given long and anxious thought to this question of the cotton mill position. We came to the conclusion that taking into account the revenue position on the one side and the position of the Bombay industry on the other, there was a clear case for a general all-round increase in the duty to 15 per cent. You can call it increasing the revenue duty but of course we were very largely influenced by the protective effect of that duty. That was our first decision, and it was a very substantial decision, and I should like at this point to express my gratitude to my Honourable friend, Sir Maneckji Dadabhoy, for having pointed out what a very long step that was for the Government of India to take. He knows very well the past history in this matter and he knows how difficult it was for us to go as far as this. Now, I think it is a very unfortunate thing that, because there is this further proposal under discussion, attention is rather being diverted from the very substantial step which the mere increase of all-round revenue duty to 15 per cent. itself made. That really is the main framework of our proposal, and that does give a very substantial measure of protection to the Indian industry. Now, anyone who studies the figures and who sees how the Indian mill industries developed—and I have been going recently into the economic development of India in various fields—anyone who studies these figures will find that the development of the cotton mill industry in India is the one really satisfactory feature of Indian economic life. It shows a steady progression during the last 30 years which is not paralleled in any other field of Indian economic life. Now, the whole of this development has been carried out in competition with the Lancashire industry, and the greater part of it with a far smaller measure of protection than even the present 11 per cent. duty, because it is only recently that the excise duties were removed. I think that the figures show that between India and Lancashire, 11 per cent. has been an effective measure of protection and has led the Indian industry to develop as fast as it is healthy for it to grow. On top of that we are going to increase that margin to 15 per cent., and I am perfectly certain that a 15 per cent. margin, taking into account all the conditions of the local market for cotton and the local market for goods, is quite sufficient to enable the Indian industry to develop as a competitor with Lancashire. To give more would be distinctly unhealthy. It would be making the task too easy for the Indian manufacturer. It would not stimulate him to those methods of efficiency which in justice to the consumers of the country

it is necessary that he should adopt. Therefore, on all these grounds, we felt that taking a broad view of the permanent situation, a 15 per cent. revenue duty was all that could fairly be imposed. I would remind Honourable Members that that represents the maximum that was ever recommended by the Tariff Board inquiry or by any section of it, and that in making that recommendation they only justified going so far on the ground of the unfair labour conditions which existed in Japan. They only recommended a 15 per cent. duty to remain in force for three years until the labour conditions in Japan had been modified. But that 15 per cent. was not regarded as sufficient for dealing with the particular position which exists in Bombay, and after our own careful examination of the subject we did come to the conclusion that conditions in Bombay had during the past two years, very largely owing to labour troubles, got so bad that with a mere increase of the duty to 15 per cent. it was not likely—or at any rate the chances were very poor—that the Bombay industry would be able to keep its head above water. Now, the reason for that is that in what I might describe as the bread and butter part of the Bombay business, plain grey shirtings and light sheetings, the competition from Japan had become particularly acute and Japan had taken advantage of Bombay labour troubles—when I say so, I do not mean to suggest that there was anything unfair about it; it was mere efficiency on the part of the Japanese—they had taken that opportunity to cut right in into the Indian market, and we felt that a mere increase in the revenue duty of 4 per cent. would not give that measure of protection which was necessary to enable Bombay to pull itself together and put its house in order. Once Bombay has put its house in order, our present view is that 15 per cent. duty ought to answer for the purpose, but we felt that there was some case for erecting a temporary shelter during which Bombay could re-organise itself financially and technically. Therefore, we were considering some temporary measure of protection, as an addition to the general increase of the *ad valorem* duty to 15 per cent. It was at that stage that there was addressed to us this communication from the Cabinet. We felt then that we were forced to look upon the matter from a different point of view, and we came to the conclusion that if we put on first of all a minimum duty of $3\frac{1}{2}$ annas a pound on plain grey goods, which was the main bread and butter business that we had in view, and if on top of that we put a special protective duty of 5 per cent., that would give Bombay the measure of protection that they wanted. But if those special protective duties were made general, they would increase the price of a vast range of goods in which Bombay at the moment is not interested at all. If you take, for example, the whole class of bleached goods, in which hardly a yard is made in Bombay, an extra 5 per cent. duty on this would have meant 5 per cent. more to the consumer without having any effect at all on the immediate particular object that we had in view. Therefore we felt that it was only if the scope of the duty was limited that we would be justified in putting on a special extra protective duty of 5 per cent. In fact, we wanted, as my Honourable friend Sir Jahangir Coyajee has pointed out, a differential duty. When we come to consider in what way you could differentiate, it is difficult to draw the line. There is one line which could easily be drawn, namely, the line that has been drawn, by treating plain grey goods as distinct from the rest of the trade. But if that is not quite enough, and if you then try to go further and make a differentiation, it is extremely difficult. But as a rough and ready differentiation, it is quite clear that if you exclude British goods, you do exclude just that class of goods which is coming in now and is not in direct competition with Bombay. For this reason, quite apart from any special desire to make a friendly gesture to the British Government at the present stage, the proposal

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to put on a special differential duty against non-British goods would, in our opinion, have exactly fitted in with the needs of the situation. That explains why we have put up these proposals. We put them upon their merits. We want the Assembly to decide about them. We should like a representative Assembly to discuss the whole matter. We do not want to impose upon Indian opinion in this matter, but we do think that it is in the interests of India that this particular issue should be fairly and squarely faced. We have put up a proposal which we think is the best thing for Bombay and the best measure in all the circumstances having regard both to economic and political considerations.

Apart from that, I have to deal with the general criticism that perhaps I am asking for more revenue than is required. My Honourable friend Rai Bahadur Lala Ram Saran Das in particular queried some of my estimates. I assure him that the estimates were prepared with great care and that I am not prepared to revise them. I think perhaps that he is under a slight misapprehension in making his calculations. He has, for example, in regard to sugar reckoned upon an import of 800,000 tons, and he has stated that if you put on an extra Rs. $1\frac{1}{2}$ a cwt. on that, you at once get a yield of $2\frac{1}{2}$ crores. But we have to remember this, that imports of sugar during the current year have been exceptionally high. We are going to have a record figure of imports this year. That is because prices have been very low. If we can put on this duty it must have some effect on the tonnage which we import. If you consider what increased yield you are going to get from the tax, you have got to take into account the fact that first of all the total on which you calculate your return will be reduced and consequently in comparing it with your own Budget estimates, you have got to reckon on losing a part of the tonnage. Suppose the total is going to be reduced by 50,000 tons. With that you lose for the purposes of your calculation the whole of the original duty. You have to take the extra duty on the total tonnage and deduct from that the whole duty on the tonnage which you are going to lose. That is why his figure of $2\frac{1}{2}$ crores does not represent what we think it is fair to take as additional yield. I am quite prepared to admit that as regards the silver duty what we have taken is a very conservative estimate, but I would also point out that in the case of all other estimates we have been budgeting as though conditions were going to be normal. I think that, if one was running an ordinary business, one would say, in regard to the year which is before us, that we ought to take into account at least a chance that conditions as regards trade may not be quite normal, and I certainly feel it necessary to have a margin of safety in all our estimates. I therefore am not prepared to accept the view that our figures for the increased yield of our new taxes are over-estimated.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: Just a matter of explanation, Sir. What is the reason which the Honourable Finance Member has given....

THE HONOURABLE THE PRESIDENT: The Honourable Member had better reserve his remarks for the Finance Bill.

THE HONOURABLE SIR GEORGE SCHUSTER: Then, Sir, on the general question as to whether we are asking for a greater measure of revenue than that which on sound principles of finance is desirable to ask, it is true that I have shown a surplus in my Budget. But there I want to call special attention to the particular purposes for which we felt justified in introducing this

tax on silver. I made it quite clear that we do regard this tax as justifiable for a special purpose. It is introduced with the definite idea of giving us revenue which will be available for distribution to the provinces to help them with their nation-building services. In the meanwhile and for the forthcoming year I say quite definitely and positively that we want a margin of revenue. A margin of 70 lakhs on a Budget of about 140 crores, a margin of about half per cent. in a country like India, is certainly not excessive; and on principles of sound finance I could not agree to any reduction on the ground that we have shown that surplus. Again I say we are facing times when we have certain risks before us and it is most desirable that we should have a slight margin in hand. Sir, on general grounds it has also been said that among all the purposes for which the new revenue is required, there is very little sign of its being devoted to nation-building services. I agree that if you look at the Central Government's Budget, the votes for purposes which can be directly represented in that way are comparatively small, but that is because the scope of activity for the Central Government in these matters is very limited. The main purpose of this Budget is to provide us with a sound foundation; we want to solidify our financial foundation now, and from that sound foundation to be in a position, when the new reforms are introduced, to make special contributions to the provinces to enable them to carry out those nation-building services. That is the main purpose and again I say that this is the time to do it, and if we let the situation drift now, then I think we will be running into great dangers both as regards the credit of the country outside and as regards our power to take advantage of the Reforms when they come on the other. In the meanwhile I would call attention to this, that in our proposals as they stand, there are substantial signs of an effort at attacking a constructive economic policy. We have our cotton proposals; we have our sugar proposals; we have included proposals for the appointment of Trade Commissioners abroad; we have included proposals for the better provision of economic statistics; and last and not least I would mention the proposal in connection with the Banking Enquiry. I do think that I am entitled to regard that as something which will have a far-reaching effect on the conditions of this country. If there is one thing which is required more than any other, it is that we should provide a scheme for credit facilities which will enable the poor agriculturists of this country to retain a larger share of their own production than they do at present. At the present moment the world is in a great difficulty, a great difficulty of over-production. The foreign markets are failing us. Prices of our main products, such as rice, cotton, wheat and oil-seeds, are falling everywhere. But we have a huge unsatisfied market within our own boundaries; we have the huge market of the Indian population and there can be no doubt that the standard of living for the population of India is lower than it ought to be. If you can put the people of India into the position of being able to afford to retain a bigger share of what they produce themselves, then you will be starting India on the upward grade; and one of the best ways, the most effective ways, of doing that, is to be able to reduce the rate of interest which the ordinary agricultural cultivator has to pay on his own indebtedness. It is for that reason that I regard the Banking Enquiry as a step which may have a vast significance in the economic development of India.

Sir, I have no more to say. I should have liked to dwell at some length on the question of retrenchment, but on that I have been helped out by what has fallen from my Honourable friend Sir Sankaran Nair. He has put the case quite clearly by saying that so far as retrenchment on a large scale is concerned we cannot really do anything pending the constitutional reforms. As

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regards retrenchment in detail, that is being actively pursued in my Department and the appointment of a special officer will carry the pursuit of that enquiry further. I am hopeful of certain results in that direction, but as I have made clear in my Budget speech, the chances of large economies, unless you can make large changes in policy, are not very great. But the work has to be done in order really to avoid increases of expenditure. I can promise this House, as I have promised the Legislative Assembly, that efforts towards economy and towards the elimination of waste will be relentlessly pursued in my Department, and having said that, Sir, I think I have given a full account of the duties which fall upon my shoulders. (Applause.)

STATEMENT OF BUSINESS.

THE HONOURABLE KHAN BAHADUR SIR MUHAMMAD HABIBULLAH (Leader of the House): Sir, with your permission I desire to make a statement regarding the probable course of business for the next week. On Monday, the 10th, the Council will meet to transact Government business when a Resolution will be moved regarding the Recommendation of the International Labour Conference on the subject of prevention of industrial accidents. Thereafter motions will be made to take into consideration and to pass the two Income-tax (Amendment) Bills as passed by the Legislative Assembly, copies of which were laid on the table on the 17th and 24th February. A motion will also be made for leave to introduce a Bill to amend the Transfer of Property (Amendment) Supplementary Act, 1929. The Honourable Mr. Shillidy will then make a motion for the election of three Members of this House to serve on the Standing Committee for Roads. Tuesday, the 11th, will be devoted to non-official business. The Council will again meet on the 12th to transact Government business when motions will be made to take into consideration and to pass the Cantonments (House-Accommodation Amendment) Bill and the Insolvency Law (Amendment) Bill as passed by the Legislative Assembly, copies of which were laid on the table on the 28th February. Thereafter the House will be asked to take into consideration and to pass the Transfer of Property (Amendment) Supplementary Bill if leave be given to introduce the Bill on the 10th. Thursday, the 13th, was allotted for non-official business, but so far no notice of any business, which can be put down for that date, has been received.

The Council then adjourned till Eleven of the Clock on Monday, the 10th March, 1930.