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COUNCIL OF STATE.

Tuesday, 11th 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.

MEMBERS SWORN :

The Honourable Raja Bijoy Sing Dudhoria (Bengal : Nominated Non-Official);

The Honourable Khan Bahadur Shah Muhammad Yahya (Bihar and Orissa : Muhammadan).

RESOLUTION *RE* SLUMP IN GOVERNMENT SECURITIES.

THE HONOURABLE MR. SURPUT SING (Bihar and Orissa : Non-Muhammadan) : Sir, the Resolution that stands in my name and which I beg to move is as follows :

"This Council recommends to the Governor General in Council to take measures to prevent any further slump in Government securities."

I need hardly hold up to the House the picture of the abnormal depression of Government securities in general that has of late overtaken them. My object in bringing this Resolution is to attract the pointed attention of the Government to a serious problem that is interfering with the country's credit and finances at the present moment. In point of fact, this question is even more important than the political issues, inasmuch as the way in which this question is handled now will bear largely upon the prosperity or adversity of the country in the coming fateful years. But great is my diffidence to enter into a treatment of the subject in the presence of the industrial magnates, financiers and economists that are adorning this House this morning.

Before I proceed, I must express my unfeigned regret at the unsatisfactory reply that I obtained to my question on this important subject from the Government on the floor of this House on the 6th March last. Honourable Members will join me if I say that the causes indicated by the Finance Member for the slump in securities in his Budget speech are quite beside the point.

I shall now turn to the history of how that problem has arisen. A succession of adverse circumstances has brought about this present depression, the first in point of time and the important among which was the action of the Indian Government in placing upon the Indian market year by year more and more attractive loans. Evil days for the old class Rupee securities commenced in full force when the Government in their extreme anxiety to meet emergent necessities of the Great War floated new schemes of loans with exceedingly attractive terms. During the War, as we all know, the details of all our loans were dictated to a large extent by the loan policy of the Home Government.

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The issue of short-dated loans at higher rates of interest in a country like India was by itself enough to affect detrimentally our securities. This was undoubtedly a sound view which has lost none of its force in the light of subsequent events. For, reviewing the prospects of exclusive rupee borrowing, Sir William Meyer, the then Finance Member, observed in 1916 thus :

> "The position of 3½ per cent. paper is a very relevant factor in this connection. I referred last year with legitimate satisfaction to the strength of that paper, but since then it has fallen greatly. That is of course a very serious matter for the holders of the Government paper and various suggestions have been made that we should assist them by the conversion of the whole of our 3½% debt, which at present stands at about £92 millions into 4% security. * * * * On the other hand, the Government cannot look with indifference on a large depreciation of the price of the premier security of India or ignore the grave difficulties which such depreciation, if unremedied, will place in the way of their own future borrowings."

But conditions became worse in years after on account of the tactless handling of the situation by the Government. As a result, not only did a great depreciation ensue in the value of the old securities, but also all transactions in them had to remain suspended for some time. The traditional inviolability of the Indian securities was gone, as evidently the public had lost confidence in them. The slump that thus overtook the old securities was dismal. It was for a time momentarily tided over when the Government proposed to accept them in conversion of fresh loans. But further loans with still more attractive terms in years after the termination of the War were calculated to give the rudest shock to the old class of securities. In their utter financial desperation the Government was going in for loans after loans, short term and long term, all these years both at home and abroad without caring to see what fate befell the old securities or what happened to their investors.

The result of such short-sighted policy was that in the process of time, with the launching of new loan schemes, the value of the old securities went down and down causing serious misgivings. In fact, what was a new security in 1915 became an old one in 1917, and what a new one in 1917 became an old one in 1918, when another fresh loan scheme with fresh alluring terms was ushered in. In this way the gradual falling off of one security after another has gone on during the last fifteen years or so. Realising the gravity of the situation so far back as 1920, Sir Malcolm Hailey, the then Finance Member, impressed upon the Council the urgency of reducing "our floating debt to more manageable proportions." But the subsequent conduct of the Government in this matter went against this assurance because the Government floated fresh loans to take advantage of conditions after the war boom. The post-war loan projects, attractive as they were, were largely subscribed, because when the war boom was over after the people had grown wiser by their fruitless speculations, they realised they had no other alternative but to clutch at the new loans for their future investments. But every new loan floated entailed within a short time heavy loss upon the subscribers notwithstanding Government's promises of support to the market and notwithstanding prior attractive rates of interest. We know also that even the 6 per cent. short-dated Bonds fell at a discount soon after their issue. I have only to refer to the charts given in the last year's and this year's Budget speeches to afford the House just an idea of what I mean—as to how, for instance, the old 3½ per cent. securities are at the present moment steadily going back to a down grade level in favour of the 5 per cent. income-tax free 1945-55 bonds. The reason is that as these loans with a higher rate of interest are naturally favoured, those other loans with lower rates have come into disrepute.

I shall next enumerate some of the causes which have indirectly contributed to the deterioration of our security-market. For my purposes I shall take the year 1919 as I have got facts and figures for that period. India's net exports for 1919 were no less than Rs. 125 crores which, at the 1919 average rates of exchange, might be calculated at 125 millions sterling. Deducting 30 millions sterling for Home charges, there was owing to India fully 95 millions sterling. England was then confronted with the problem of vast shipments of gold to India. The London money market considered this as a catastrophe, and it was to prevent this misfortune that the sale of Reverse Councils, by which India's export charges were remitted, went up abnormally high in 1920-21. Reverse Councils kept the exchange at a high rate and gave a direct stimulus to imports. India was by this process drained of a vast amount of her war profits. This was not an imaginary grievance, for a well-known English writer has admitted that but for England's Reverse Councils liquidating India's resources in London " the drain on England's gold and money power would be too enormous to bear ". Besides this, India had to subscribe heavily to the loans raised in England about that time and to invest large sums in the British Treasury Bills out of her paper currency. Again numerous restraints were imposed on India's trade, which prevented her from making the best use of the phenomenal rise in prices all over the world after the Great War. It is impossible to make an accurate calculation as to how much India lost on account of these circumstances, but a reputed Indian economist on a moderate calculation estimates the figures at Rs. 180 crores. All this was calculated to hit the Indian money market to the prejudice of our securities.

Then as it cannot be challenged for a moment that existing industries and trade were to a large extent in the hands of the British people, the result was that India had to make heavy payments as interest on overseas capital. It is not possible to ascertain the exact amount of foreign capital invested in this country, but one might assert with some degree of certainty that it would not be less than £600 millions, and the amount of interest realised would not be less than 50 crores annually. Then indirectly the ruin of India's shipbuilding industry had been a cause of no little financial loss to her, for the freight bills due from this country must amount to Rs. 40 crores annually. Then again this country had to pay annually about Rs. 25 crores as profits of foreign business and professional men and on the savings of the European public servants. In short, the financial situation of India in 1919-20 in reference to England was something like this : The trade balance in favour of India was at Rs. 150 crores against which the claims upon India aggregated Rs. 180 crores. India was therefore a debtor to England to the extent of Rs. 30 crores in that year, and such, if not more, has been the figure of India's extent of obligation to the parent country ever since, year by year.

Next to that I shall attempt to show how the Indian currency has been managed in the interests of the London money market to the great prejudice of our credit and securities. The original object of the weekly sales of Council Drafts was the provision in law of the sums necessary to enable the Secretary of State to meet the Home charges on the best possible terms for India. I may here say in passing that India is perhaps the only country, among the great trading countries of the world, in which the Government exercises direct control over currency in general and over the note issue in particular. The banking and currency reserves of the country are thus separated to its great prejudice. However, in course of time, for obvious reasons, the Government also took upon itself the responsibility of financing commerce. It is well known that Council Bills and Telegraphic Transfers were sold in unlimited quantity, frequently at rates well below the gold import point. The Secretary of State was in the

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position of a monopolist with reference to the Council Bills for which there was a large demand, yet he sacrificed India's interest by accepting for years almost any price that the British public cared to offer him. Despite the undertaking given by Sir Malcolm Hailey to the Legislative Assembly on 24th January, 1922, in the following terms :

"I can give the Assembly this much guarantee, at all events, that we should not reopen the sale of Reverse Councils in order to maintain exchange or to raise exchange in the manner suggested, without first coming to this Assembly."

We know that in fact the sale of Council Bills had been managed in such a way as to remove as much money as possible for the use of the London money market and at the same time to obstruct the establishment of a gold currency in India. The policy of the India Office had been to check the flow of gold to India. Again by transferring large funds from India to London, the India Office had given accommodation to financiers connected with it at a very low rate of interest. Next the hoarding of a huge balance in England for the interest of the London money market, whilst the Indian tax-payer was groaning under over-taxation, was the common feature of the Imperial fiscal policy. In fact so reckless had been the management of Indian finance by the India Office that borrowings at higher rates of interest and lending them at lower rates had been almost simultaneously practised. Large borrowings had been made in spite of huge cash balances at the disposal of the Secretary of State for the so-called upkeep of India's credit. To this was united the selfish commercial policy of England to repress the export of Indian manufactures to Europe by means of prohibitive duties and to encourage the import of British goods to India by almost nominal duties. How to facilitate British imports into India by the reduction of import duties the British merchants have controlled the Indian tariff policy to their advantage is too well known. Indian revenues have again and again been sacrificed at the behests of the British merchants and their mouth-piece the British Parliament, and, as a matter of fact, such was their insistence in the matter that in 1882 all import duties were abolished except on salt and liquor. This omission of customs duty, which was a good source of revenue, forced the Government of India to an increase of the land tax to the great impoverishment of the people.

The ill-advised and ill-timed Contraction of Currency was another indirect blow to our securities. Raising of exchange has been accomplished by preventing the expansion of currency to the extent normally required by India for her average expansion. The Government in maintaining the exchange at 1*s*. 6*d*. have been evidently wasting the existing amount of our gold reserves. Government have been freely converting Reverse Councils. The amount of gold that Government have in the Gold Standard Reserve is £40 millions invested in British Treasury Bills and other sterling securities and about £20 millions in the Paper Currency Reserve. But having regard to the unstable conditions prevailing at present it will not be surprising if either the whole or a substantial portion of that reserve is used up in the attempt to stabilise exchange at 1*s*. 6*d*.

I think the Government having come to the end of the resources by their continued policy of indulging in costly railway, military, public works and town-building projects have floated further loans in England for the payment of further Reverse Councils. But we must not shut our eyes to the fact that every new loan that is incurred by the Government even for the most necessary and emergent purpose means a further interest charge, and a further interest charge means an additional burden on the tax-payer.

We have also to take into account the heavy loss that has been sustained by the Indian masses in transactions of silver as that too well accounts for the depreciation of Indian securities. Between 1836—1925 India imported silver to the extent of 3,326 million ounces at a value of about Rs. 913 crores, but on account of the manipulation of exchange the value of silver came down to 57 per cent. per 100 tolas. Consequently the price of the total quantity in India fell to an alarming point. The silver is mostly in the hands of the masses as they must invest in some precious metal ; for want of gold it is silver. But the people have suffered a loss of about Rs. 400 crores in their silver assets only. Then again the masses have to suffer to the extent of Rs. 10 crores annually inasmuch as the value of crops is computed at the gold prices prevailing in the world. It is not surprising therefore that all these factors have led to a stringency of the Indian money market involving abnormal depreciation of trade in recent years.

In the current year's Budget there is a proposal for a loan of 23 crores of rupees to convert mainly 1930 Bonds for Rs. 16 crores and to have 7 crores of new money. This is the newest loan programme of the Government. Last year, when a similar loan was floated, all manner of promises and hopes were held out for its stability and prospects but nothing of the kind has so far happened. Securities fell headlong and neither the Government nor the Imperial Bank would support them. On the other hand, within a month of the flotation of the new loan, Government started Treasury Bills. These Treasury Bills have been sold by Government in utter disregard of the money conditions in the market and at rates quite unwarranted. With the continuous pressure of the Treasury Bills at rates which cannot be competed with, all markets have been denuded of surplus cash. Thus banks and industries are starved of their legitimate resources and securities being disproportionately poor in yield against Treasury Bills at 6½ per cent. must dwindle and lose their character as the finest investment and indirectly reflect upon the credit of the Government and the country.

In my opinion—and I have reasons to believe that my opinion is shared by many people—the continuance of the existing state of the Government loans will ultimately prove ruinous to the general tax-payer. The failure to raise money will leave to Government the only alternative of fresh taxation. It will thus be no gain to the general tax-payer if the Government is suffered to remain indifferent any longer in the matter of the depreciation of securities. Reduction of wealth is sure to affect production.

I have placed before the House some of the causes, direct and indirect, near and remote, that have contributed to the depreciation of our securities. It is not one cause, not a couple of causes, nothing strictly local, but a number of causes, single and combined, local and foreign, that has brought us to this situation. As I have pointed out, there is much in the Indian Government's policy of Exchange and Currency and much in the policy of the Home Government in their manipulation of Reverse Councils and Treasury Bills which have indirectly affected our securities. We know where our shoe pinches, but we are helpless. But our helplessness has hit us hard financially both in foreign and domestic markets. Money stringency has brought on trade depression everywhere. The result has been that quite a large number of investors have had to suspend all their monetary activities to their great prejudice and disappointment. What will really improve the situation, I submit, is that the Government should now set about restricting its borrowings, whether at Home or abroad. They should pause before putting further loans on the market either here or abroad in order to feed railway, military or public works projects.

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They should also delimit their commitments here and abroad in the sole interests of the country. They should cry a halt now and let the country have some respite with regard to its borrowings in order to afford it some time to recover its financial stability and tide over the abnormal stringency. And last but not least, Government should allow India to set her own house in order. I may say that the Indian investors may reasonably claim justice, especially when the necessities of expediency coincide with the dictates of justice. Unless steps are boldly taken I am sure that the country will be doomed and the condition of all investors will be in a more miserable plight in years to come.

With these words, Sir, I beg to move my Resolution.

THE HONOURABLE SIR JAHANGIR COOVERJEE COYAJEE (Bengal: Nominated Official): Sir, I beg to move the amendment standing in my name:

"That for the words 'to take measures to prevent any further slump in Government securities' the following words be substituted, namely,

'that in shaping their financial policy they should give due weight to the importance of keeping the credit of the Government of India on a high level and of maintaining stability in the market for Government securities'."

Sir, the first and obvious duty of any Member moving an amendment is of course to explain the necessity and object of his amendment. While recognising fully the excellent intentions and aims of my Honourable friend Mr. Surput Sing, it seemed to me desirable to bring out the limitations as well as the potentialities of Government action in the direction indicated by him. It is all very well to issue general instructions to Government to prevent any further fall in the value of its securities. But my Honourable friend must be fully aware that among the factors which have been depressing the securities in our day there are very many which are quite out of the control of the Government. It also seems to me necessary to emphasise the most fundamental and important method and line of policy open to any Government for the stabilisation of the prices of its securities. That method consists of keeping its public credit upon a high level. Further it seemed necessary to observe the true perspective in the description of the economic phenomena referred to in the original motion.

Sir, a study of the course of the price fluctuations of our Government securities throws important light upon the general factors influencing these fluctuations. We find an interesting correlation between the movements of Government securities in India and in the United Kingdom, and that fact deserves to be carefully emphasised. Beginning with the year 1921 the securities of both Governments rose in price until the year 1927-28. But it is noteworthy that the rise in the value of the securities of the Government of India was far the greater. This was due to quite a number of factors. The greater progress made by India in the matter of debt redemption was one such factor. This had undoubtedly the effect of raising the public credit of our country. Another important influence consisted of the "abnormal abstention from borrowing", as the Honourable the Finance Member has put it, for some years. A third favourable element is the growth of productive assets in the hands of the State while the budgetary surpluses constitute a fourth. But the exceptional rise of prices of securities due to the special financial efforts which were possible in the abnormally favourable years before 1927-28 could not be expected to be permanent. It is not possible to keep the course of the prices of securities always rising, and it has also to be noted that it was the exceptionally high course of the prices of securities in the quinquennium before 1927-28 which magnifies in the public eye their present decline. The applicability, indeed, of the term "slump" depends upon the length of the period which we are envisaging. Even at the present day the price of our 5 per cent. tax-free loan of 1945-55 is higher than it was up to the very prosperous year 1925. Indeed, Sir, as recently as last year a distinguished business man and publicist, speaking in another place, found it even necessary to explain away what he regarded as the very high prices of Government securities. He noted that the $3\frac{1}{2}$ per cent. securities had risen then to 72 and then observed:

> "What is the explanation of this? Why is it that securities in the boom period were quoted at a much lower figure than at present which is a period of depression?"

He went on to add that:

> "the explanation was very simple. In those days people had confidence in industries."

What *I* mean to point out is that barely a year ago leading business men were engaged in finding explanations—not for any slump in securities, but for their extraordinary rise; and I would also point out that there has been no material change in our financial policy since the year 1927-28 when the price of securities was at its highest. It is no use denying the recent fall in securities, but neither does it serve any useful purpose either to magnify it unduly or to attribute it to the wrong cause.

Sir, a general review of the various factors bearing upon the prices of public securities might be undertaken here with advantage in order to make the problem before us clear. The first factor to be considered is that of public credit, and as regards this we have already noted how the institution of our Debt Redemption Scheme as well as the growth of productive assets constituted important causes of the very great rise of prices of our securities since 1924-25. Unfortunately a deliberate and determined attempt has been recently made by a political party in India to damage the public credit of this country; and that attempt has been so far successful as to raise the rate of interest which India has had to pay for the new sterling loan. Indeed, but for the skill shown in making it a loan of short maturity there might have been very serious effects on the prices of other gilt-edged securities. In these days of growing mobility of capital the effect upon investors even of the constant talk about repudiation of debt cannot be ignored; and a very substantial portion of the blame for the drop in the prices of securities must be laid at the door of such propagandists.

Another important influence acting upon the price of Government securities is that of the shortage of capital, and such influence is exerted through the discount rate. That eminent economist, Dr. Gustav Cassel, has justly emphasised the fact that a considerable shortage of capital is at the bottom of the great financial troubles of America and of the world in the past year or two. I would invite a reference to the history of bank rates abroad during the past decade, and anyone who undertakes such a scrutiny cannot mistake the tendency to a general increase. The immediate effect of this great and general scarcity of capital is to cause a widespread rise of bank rates; and a corollary of this latter is the fall in price of gilt-edged securities among others. This effect of the shortage has been aggravated in the case of India by the recent large export of capital from this country. On this topic there has been agreement between the official and non-official accounts, and it is certain that crores on crores of rupees have been and are being sent abroad for investment. It is very significant, too, that the prices of our securities were at their highest

[Sir Jahangir Cooverjee Coyajee.]

in 1927-28 and that they fell soon after. For I have already emphasised the fact that since that year there has been a financial and commercial disturbance all over the world and in almost all economic aspects.

In the third place, Sir, it is necessary to emphasise the importance of the proper control of expenditure on State enterprises like the Railways. In this respect the State competes no doubt with private industry for new available capital and in times of shortage of capital it should reduce its demand. We note here that it is the shortage of supplies of capital which is to be emphasised and not that of money as such, of which so much has been made.

In India, however, there is an important section of opinion which attributes the fall in price of securities solely or mainly to contraction of currency. I might be permitted, Sir, to point out some considerations which might show the inadequacy of this view. If indeed inflation and a copious supply of money are able to keep up the prices of public securities, how is the fact to be accounted for that the year 1920-21 which saw the maximum inflation of Indian currency also witnessed the lowest prices of Government securities? That year, which was indeed the inflationist's paradise (I mean the *local* inflationist's paradise), was absolutely the low water-mark for Government securities. So low had the value of these securities sunk then, that two Committees were appointed—at Calcutta and Bombay—to suggest special measures for the rehabilitation of Government securities, while this Council passed a Resolution on the 23rd February, 1921, recommending the Governor General in Council to ensure the early rehabilitation of those securities. It is indeed a striking example of the fact that a plethora of money is powerless to maintain the prices of such securities. There is another consideration which also shows that contraction of currency has little to do with our problem. For in spite of the contraction the call money has in general ruled low, and still the value of securities does not rise. This again reinforces my contention that the fundamental factor in our problem is not the shortage of money but shortage of capital.

Let us now examine a few of the suggestions which have been made by critics of the inflationist school. Suppose we followed their advice "to expand the currency by the purchase of rupee securities". What would be the consequences? Why, Sir, there would be only a very temporary rise in the price of the rupee securities. For the price of the Government's *sterling* securities would remain unchanged, and Indians, who might otherwise have been investors in Government's rupee securities, would send their funds to the United Kingdom to buy up the sterling securities by preference. In ifact, we would be encouraging and stimulating that export of capital which is our chief trouble. And the last state of our securities would be worse than the present one.

Having thus reviewed the adverse factors to which we owe the fall in the security prices in India since 1927-28, let us see how far it is in the power of the Government to bring about the desired stabilisation, and how far that power has been utilised. Coming first to consider the most important factor in keeping up public credit—which consists of the provision for debt redemption—it is satisfactory to note that, in spite of considerable financial difficulties, there has been no raid on our Sinking Fund, and that the provision for reduction of debt has been left substantially untouched. And this although there was no lack of even classical precedents for such raids. Indeed, one of the Chancellors of Exchequer of England went so far as to observe that "Sinking Funds were made to be raided". But in this matter so vital for our public credit, the Honourable the Finance Member has been steadfast and strong, and let us hope he will have his reward. As regards the second factor, that of capital expenditure on State enterprises, he has from the first aimed at getting it under control. We note further that the new loan programme is a comparatively small and moderate one.

I might be permitted here to make a few remarks on some of the contentions of my friend the Honourable Mr. Surput Sing. Great emphasis has been laid on the issue of floating loans. But if we take the total of long period and short period loans together, that total has been much smaller in this quinquennium than in earlier days. As regards his suggestion about conversion, I might observe that if it is to be made at strictly economic and market rates, the owners of the present securities will hardly gain anything. On the other hand, it cannot be suggested seriously that conversion should be made at such rates as would make a present of public money to the owners of securities.

Sir, I am confident that this Council will note the importance of these considerations in appraising the merits of the policy of the Government so far as it can affect the prices of its securities. It need hardly be reminded that for facts like the general shortage of capital, the rise of bank rates abroad and the prevalence of a propaganda hostile to our national credit, the Government is in no way responsible.

In conclusion, Sir, I submit that this Council will do well to follow the precedent set by its own Resolution of the 23rd February, 1921, in which it emphasised the fundamental importance of following the true policy regarding the public debt and public credit. (Applause.)

THE HONOURABLE SIR MANECKJI DADABHOY (Central Provinces: Nominated Non-Official): Sir, my apology for intervening in this debate at this stage is that I had set the ball rolling in this Council by moving a similar Resolution in the year 1921. Since then much has been said and done in this connection. Several Finance Members from time to time have in clearest language propounded the policy of Government with reference to the State's financial necessities as well as to matters generally affecting and regulating that policy. Our friend the Honourable the Mover of this Resolution has, in my opinion, rendered a public service by bringing forward this Resolution again before this Council. But unfortunately he has mixed up so many financial questions which really do not affect the main issue of his Resolution, and while his long speech has dealt with several subjects which may have a bearing on the subject, yet they have absolutely no relation whatever to that policy from any point of view. I have followed his interesting speech with great attention and I have also at the same time followed the very learned and—I would call it—scholarly or academic discussion or dissertation on the subject from my friend Sir Jahangir Coyajee, but I propose to deal with this great question from the point of view of a practical financier. So far as I have been able to understand the speech of the Honourable the Mover of this Resolution, if I divest his speech of the other extraneous circumstances to which he has referred, his main charge against Government is of a three-fold character. The first charge is regarding the indiscriminate borrowings of the Government of India; the second charge is that they are borrowing for the benefit of Great Britain; the third charge is the heavy rates of interest paid, and, fourthly, the absolute necessity

[Sir Maneckji Dadabhoy.]

for long term loans and his sweeping condemnation of short loans floated by Government. I believe I have correctly understood all the main points of my Honourable friend's arguments.

Now, Sir, as regards the borrowing policy of Government, so much has been said and every Finance Member has every year spoken about it that I shall not trouble the Council except with a few remarks. The borrowing policy of Government, it must be distinctly understood, cannot be an inflexible or invariable one. It cannot out of necessity be one which should always be regularly and religiously followed. The borrowing policy every year is actuated by a variety of factors. It is the Government's requirements. The first cardinal rule in the matter of the borrowing policy is the extent and volume of financial requirements for that particular year and how those requirements are to be met. Now, Sir, as Honourable Members of this Council are fully aware, in the past and especially since the war, our borrowings have been mainly for meeting the capital expenditure programme. And that capital expenditure programme I may say mainly refers to railways and to irrigation. Secondly, the borrowing is necessitated by the earlier loans maturing and the Government has to find money for the liquidation of those loans. So every year the circumstances vary. One year's circumstances are no guide for another year. It really depends on the monetary situation not alone in India but in the whole world. In laying the blame entirely at the door of the Government of India my Honourable friend has overlooked the fact that this phenomenon has not been restricted to India alone. The same situation has prevailed in all the European countries and even in America. I was sorry to see that no allusion was made to that in the able speech of my Honourable friend. Take, for instance, Germany. You are all aware of the history of the German mark, and you are aware of the history of the French franc. You are aware of the circumstances under which both France and Italy stabilised their currency after the war. This is not therefore a feature peculiar to this country only; it is a feature which has been common to all the European countries of the world as well as to the big Eastern countries like Japan and China and others. Now, Sir, as regards the borrowing policy. I think I must say that the borrowing policy of the Government of India has been a very wise one. They have every time endeavoured to get money as far as possible by raising a rupee loan, but when they have found that circumstances in this country are such that a rupee loan is not possible, then they out of necessity have had to go to Great Britain to obtain a loan. I have steadily followed the financial policy in the matter of our borrowings for the last few years with considerable interest, and I do honestly state before this Council that there is absolutely no ground for finding any complaint with the borrowing policy of the Government. Of course I admit that the Government have had to pay at times a high rate of interest. When the 7 per cent. sterling loan was floated in England two years ago there was a great hue and cry in this country that the Government had floated that loan in the interests of Great Britain. Again, in the last loan floated only two months ago they have had to pay practically 6½ per cent. and will have to pay 7 per cent. if it is continued for an additional year. That is very significant. But there is an explanation for it and I do not think my friend is justified in stating that this was floated for *the purpose* of enriching Great Britain. I will just briefly examine the special features of that last loan floated in the month of January in England. It is a short term loan of two years with the option of extending for a further period of one year. It is to be repaid at 101 in two or three years' time. The loan bears interest at 6 per cent. actually yielding the holder 6½ per cent. If it is extended for a further year it will give a dividend of 7 per cent. Now what were the circumstances immediately preceding that loan ? My friend has conveniently forgotten to say that the Government had to find money in England on account of certain currency and exchange difficulties and it was thought more prudent and reasonable to borrow money in England than to remit money from India. And what were the further exceptional circumstances ? At the Lahore Congress, which my friend has apparently forgotten, the President announced and the whole Congress concurred that there should be a repudiation of India's debts contracted by the present Government. That was the position when this high rate of interest was offered. Had it not been for the timely letter and warning which the Secretary of State for India published, the position would have been critical and probably India would have lost its credit in the money markets of the world. Fortunately, Sir Arthur Hirtzel took the opportunity of announcing to a correspondent an important fact by publication in newspapers. He said :

"The Secretary of State cannot undertake to deal with hypothetical contingencies, but at the same time, in view of the tenour of your letter, I am directed by him to say that His Majesty's present Government has no intention of allowing the state of things to arise in India in which the repudiation of debt could become a practial possibility, and that it is inconceivable to him that in dealing with any scheme of constitutional change in India Parliament could fail to provide for safeguards, should they be needed, against any breach of the conditions under which these loans have been issued."

This announcement was a God-send one. What was the result ? The result was that within a fortnight of that statement appearing in the Press, the loan was taken up in England and was subscribed seven times over, and it saved the credit of India. My friend ascribes this sort of policy, a proper and wise policy, to the desire to enrich Great Britain at the expense of India. Now there is absolutely no logic and sense in my humble opinion in an argument of this kind. It is prejudicial to the interests of this country. Fortunately for my purpose, the Honourable the Mover referred to a very important fact in his speech. He said in the last 20 years there have been—he gave the figures—934 crores worth of treasure imported into India. But where is all that money ? Why are we not instead of burying that money, investing it in Government securities ? It would immediately bring down the rate of interest. It would make money available in this country and it would solve all the financial difficulties of the Government of India.

Now another point which has been raised by my Honourable friend in this connection is this. He asked why does not the Government of India restrict its borrowings ? The Government of India does to a certain extent restrict its borrowings. The reason why securities went up in 1927-28 was because the capital programme was met from our reserves and not by fresh borrowings. It is only natural when you go in for fresh borrowings that the rate of interest must rise. But when you have money to meet your capital programme the rate of interest will not increase. Further, in this connection you have also to bear in mind that the old loans are maturing and we have to meet those loans as they mature from time to time and we have to find new money. Even this year what is the borrowing programme ? We are only going to borrow 7 crores of new money. The rest is all required for conversion purposes, for payment of an earlier loan which becomes due ; and therefore it is not a practicable proposition for the Government of India to restrict their borrowing policy. As I said, it must come according to the exigencies of the time.

12 Noon.

[Sir Maneckji Dadabhoy.]

One great thing in these matters is the financial credit. The financial prosperity of every country in the world must depend on the maintenance of its external credit and that financial credit has its solid foundation on nothing else but a determination to meet one's national obligations and all contractual obligations. Repudiation is a foolish talk. Things like that will destroy the credit of this country. India stands to-day eminently high in the borrowing markets of London. It stands, as the Finance Member last year remarked, in a privileged position in the monetary markets of London on account of its solidarity. We do not want to follow the case of Russia. What is happening in Russia to-day ? They want money ; nobody would give it to them. I will just read to you a passage, a very interesting passage, from the latest book, " The Riddle of Russia ", written by one of the most eminent of Englishmen, Mr. Ashmead-Bartlett. Referring to this—it is very pertinent to this policy—he says :

" Litvinov, like all other Russian leaders, was obsessed with the desire for a renewal of relations with England and the United States. It appears that the first half of his wish is now likely to be fulfilled. He was also very keen on attracting foreign capital to Russia, but he would never admit that some settlement of the old debt must be a *condition precedent* to any fresh deal."

Russia had after the war repudiated her national debt.

"The Bolshevists have a curious psychology. They cannot understand why foreign countries are not anxious to lend them money, or why they regard a liquidation of the old debt as an essential earnest of good faith. They invariably reply : 'We have nothing to do with the old debt. It was a Tzarist obligation. We have done away with the Tzar. But as an act of grace, if you lend us money we might be prepared to come to some arrangement for a part payment, say up to twenty per cent '."

This sort of mentality has been the ruin, the financial ruin of Russia and it is a practical illustration which this Council has before itself. Yet the irresponsible leaders of the Congress are asking this country to adopt a policy of wholesale repudiation as if that policy is going to help this country.

Sir, I will not detain the Council much longer. I have only dealt with some of the practical features as the time at my disposal does not permit me to deal with many important matters to which my Honourable friend the Mover of the Resolution has referred. But I would recommend to the Council to adopt Sir Jahangir Coyajee's amendment and I would also appeal to my Honourable friend the Mover to adopt Sir Jahangir Coyajee's amendment as the best, the safest and the easiest solution of a grave financial problem. Even that amendment is superfluous because the Government of India have been scrupulously following that policy all these years ; but as this matter has been brought to the notice of this Council, I trust the amendment of Sir Jahangir Coyajee, which to my mind appears to be the safest solution of this question, will be accepted. (Applause.)

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS (Punjab : Non-Muhammadan) : Sir, being a layman and not an economist, I should like to make a few observations on the Resolution in its amended form. It is a fact that Government securities have been constantly going down in value. Although stability was promised to us by the Government, so far Government have not succeeded in this object. In my view, Sir,—and it is also the view of our Council economist, the Honourable Sir Jahangir Coyajee,—the reason for the fall in the price of securities is the lack of capital, as money cannot be had at a cheap rate of interest. I should like the Honourable the Finance Secretary to explain what was the object of the Government in forcing up the bank rate some time back. Whenever the bank rate is raised, naturally the securities do fall. Sir, the sale of Reverse Councils, Treasury Bills, the contraction of currency, the exchange and currency policy, forcing up the bank rate and the postal cash certificates and unemployment have been instrumental in bringing down the securities. The rate offered to the public by Treasury Bills and by postal cash certificates being higher than the ordinary rate of interest on other securities, naturally brings down the value of such securities. As far as the effect of the hostile propaganda in the form of repudiation of debts is concerned, I do not attach much value to it. After all the position of a sound firm or of a sound Government cannot be affected by stray rumours. The world and the people realise what the position of the Government is and a resolution simply repudiating the national debt by a political body of extreme views cannot be of much practical value to the investing public. The recent Government loan having been subscribed seven times over is a proof of it. The Honourable Sir Jahangir Coyajee has also referred to the export of capital as being one of the causes in this connection. I had a talk on this subject with some Indian financiers of late. One of them, who has got very big investments in foreign countries, said that when the financial, currency and exchange policy of the Government of India was unfavourable as it is now he had no other alternative but to go and invest his money outside India. A similar opinion was expressed by another banker who told me that certain legislative enactments and executive measures stood in the way of legitimate banking. He cited the Land Alienation Acts, Regulation of Accounts and the Money-lenders Acts and many other similar measures which have resulted in forcing down the securities and increasing the bank rate. As regards import into the country of 934 crores worth of silver, I can say that those who imported that silver during the last few years.....(*The Honourable Sir Maneckji Dadabhoy*: "Treasure, not silver ")..... must have realised that that treasure had not given them a good return. I would request the Government to see that stability is established in the prices of Government securities. The people who invested their money in silver have lost about 50 per cent. and the people who invested their money in Government securities some time back have also lost about 40 per cent. That should not be the condition of the Government securities, the so-called gilt-edged securities. The people in rural areas who are not economists and who do not understand the financial policy of Government consider that investments in these days are not safe. When they are not safe in Government paper they are safe nowhere. This is the reason, Sir, why the people refrain from investing money to the same extent in Government Securities as they were investing them before. Also there is another cause, *i.e.*, India is getting poorer every year and the money at the disposal of trade and finance is getting less. International control of the purchase and sale of silver may be probably helpful.

THE HONOURABLE SIR ARTHUR McWATTERS (Finance Secretary): Sir, I think it would be convenient for the House if at this stage I rose to indicate to the House the attitude of Government towards the Resolution and the amendment. I should like to say, in the first place, that I have very cordially welcomed the Honourable Mover's Resolution, not only because it raises a subject of great importance and at the present moment extremely opportune, but also because it has given us an opportunity of hearing several extremely interesting speeches, particularly that of my Honourable friend, Sir Maneckji Dadabhoy and my Honourable friend, Sir Jahangir Coyajee; and also I welcome it more particularly because it gives us an opportunity to bring into prominence certain important principles which arise in connection with the

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present Budget and therefore are very much before the Legislature at this moment.

Now, Sir, so far as I understand the intention which lies behind the Honourable Mover's Resolution, I have nothing whatever to say against it. The Honourable Mover, like all of us, desires that we should secure our Government securities from depreciation. And if I prefer the amendment of my Honourable friend it is solely because I consider that the Resolution as worded is likely to give a misleading impression. I think that it might be misleading to the public because it lays emphasis too much on measures rather than on the general direction of financial policy. I think it might lead people to suppose that there is some short cut towards stabilising and improving your securities. Whereas there is no short cut. It is a road that " winds up-hill all the way,"—my Honourable friend, Sir Jahangir Coyajee likes a quotation. And I think that it is because the amendment lays the right emphasis on the matter that I prefer it. The amendment emphasises that it is a question of the direction of financial policy, not a question of measures. It emphasises that it is a question of credit, of creating confidence both in India and outside. And therefore I consider the House would be well advised to accept this amendment.

The Honourable the Mover complained of an answer which I gave in the House the other day referring him to a certain passage in the Honourable the Finance Member's speech on this subject and he said that it was off the point. There, Sir, I entirely disagree with him. I agree that the Honourable the Finance Member did not go over past history, but he was dealing with the matter as Sir Maneckji Dadabhoy did this morning as a practical question of the present day and I think that if the Honourable Member had studied the paragraph a little more closely he would have avoided one or two mistakes; also, if I may say so, if my Honourable friend, Lala Ram Saran Das, had studied that paragraph, he would have avoided one mistake. He said that Government securities had continuously depreciated. The Honourable the Finance Member gave figures from the year 1923 to February, 1930 of two representative Indian loans—the 3½ per cent. paper, that is non-terminable, in which there are 120 crores outstanding, and the 1945-55 income-tax free loan, which is the most important of our terminable loans, of which there are nearly 60 crores outstanding. Now, Sir, it is perfectly true that from the year 1927 to the present time, there has been a depreciation in the 1945-55 loan of 7 points—from 107·2 down to 100. But if we take the figure for 1923, we find that the loan was standing at Rs. 89·8. In other words, comparing the 1923 and 1930 figures, there has on the whole been an appreciation of Rs. 10-8-0 up to the present. And it is the same with the 3½ per cent. The difference in percentages between 1923 and the present day is much the same.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: What about the 3 per cent.?

THE HONOURABLE SIR ARTHUR McWATTERS: I have not got the figures of the 3 per cent. with me, but I expect it shows a similar curve.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: It is practically unsaleable at the present day.

THE HONOURABLE SIR ARTHUR McWATTERS: It is a much smaller loan than the 3½ per cent. and has a more restricted market. Well, Sir, the

Honourable the Finance Member went on to show the main reason why the peak which was reached in 1927 was a peak which could not be maintained. Looking back on it now it is clear that the effect of the very large capital programme which had been embarked on, particularly for Railways, must have been such as to bring the rate down from a rate which after all was considerably under 5 per cent.—it was a rate of interest which I believe was slightly better than that which the United Kingdom were giving at the same moment and it was a rate which it was almost impossible to maintain. But what we look forward to and what we hope is not a spectacular rise but a steady appreciation, and that I maintain is far healthier than a sudden jump to a point which you can hardly hope to hold permanently.

Now, Sir, I do not propose to follow the Honourable Mover of this Resolution into his general criticism of Government's financial policy dating back for many years including Reverse Councils, and so on. But I do want to call attention to certain very practical points. One which was emphasised by the Mover of the amendment is the limitations which are imposed by facts upon Government in this matter. There is one field, the financial field, in which the Government have control—the whole of the budgetary field. Now, so far as the Government can and should produce a balanced budget, enforce economy, restrict their capital borrowing within the limits of their credit, Government can exercise an influence on its own securities. In other words, it rests with it, so far as the Budget is concerned, both the revenue Budget and the capital programme, it rests with it to ensure that there is no depreciation of its credit. I maintain that in the Budget which is now before the country, Government have done their best to ensure all these points. In the first place, as regards expenditure, we have honestly tried to exclude from the Budget any expenditure of a non-essential or unproductive kind. And even in the case of essential and productive expenditure, we have tried to make corresponding economies even before we admitted these items into the Budget. In the second place, as regards our capital expenditure, we have put on the brake very strongly over railway expenditure. It was, I think, extremely useful and necessary in past years to spend very large sums on the rehabilitation of the Railways after the War, but the time has now come, I think, when we are entitled to look for some results from the heavy expenditure which we have incurred, and we are entitled to go a little slower although we have provided a fairly substantial sum.

And this brings me on to the point in the speech of the Honourable Mover in which he suggested that we should have no borrowings at all. There I entirely disagree with him. I think that it will be fatal to the country to take up the line that because things are difficult, therefore we will not borrow even for productive and useful purposes. The policy of the Government of India has always been extremely conservative, but they have not hesitated to borrow and to build up by means of borrowing the very strong and substantial assets which they hold in Railways, Irrigation works, and so on. It will be a fatal policy to say that because times are difficult, therefore we will do nothing. At the same time, I entirely agree with the Mover that we should not strain our credit and that we should restrict our borrowings well within the limits of our credit. I maintain that in the loan which we are proposing this year, which includes only 7·4 crores of new money, we are not overstraining our credit. We have of course also to meet the bonds which are maturing this year, but after all, that is money which is coming back to the market.

That, Sir, covers the main field in which the Government has control. I should like at this point to refer to one matter which may be of some interest

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to Honourable Members, and that is, the special means which we adopt for keeping up the value of certain of our securities. Honourable Members may know that connected with every one of our recent 5% long term loans—the 1929-47 loan, the 1945-55 income-tax free loan, and last year's loan of 1939-44—we have established sinking funds, that is to say, we set aside every year 1½ per cent. of the value of the loan outstanding in the form of a fund. That fund is utilised in the course of the year for buying up securities if the price drops below the issue price. At the end of the year, if that fund has not been used up, it is invested and we have at the present moment investments of nearly 7 crores in those three sinking funds, and at the end of the next year, including the provision we are making in the Budget, we should have over 8 crores. That, I think, should reassure Honourable Members who may feel any doubt about the ability of those long-term loans to maintain their price. Incidentally, last year's loan has also a special feature which enables it to be accepted for subscription to future long term loans at its issue price. Therefore, I do not think that there need be much anxiety about that loan falling below the issue price.

In addition to these three loans which now aggregate a total of 110 crores, there are 98 crores of short-term bonds which will mature fairly soon and these are naturally kept up to their present value by the fact that they will shortly be redeemed. Therefore, for over 200 crores of our Indian securities, we have a system in force already which should prove adequate to keep them from serious depreciation. But the main means of securing that our loans will not depreciate is of course the establishment of our credit by a sound financial policy, and though it would be foolish to draw any inferences from market quotations and operations of a few days only, it is nevertheless noticeable that even since the publication of the Budget there has been some appreciation in Government securities. The 3½ per cent. loan which was standing on the 20th February at Rs. 64-1-0 is now nearly at 66. This shows what business men and the Stock Exchange think of the Budget.

That is one field in which Government has power to influence its credit. But there is another wide field, financial too, in which they have not the same power, and that is the field governed by international monetary conditions. We are not arbiters of our own fate there. We are to a great extent carried along by the current of things outside and it is impossible that India, situated as she is, should be able to stand outside the course of world events. As a matter of fact, the Honourable Sir Jahangir Coyajee has said that you find the same sort of results in connection with Government securities appearing everywhere. The 3½ per cent. British loan in 1927 was also standing at 77 but it is now down to 72½. The whole world is striving against conditions very much the same. We are in a period of falling prices, currency is coming back to us, and it is natural that the Government of India, which unfortunately has to exercise the double role not only of Government but of currency authority and is also the biggest remitter in the market and therefore is responsible not only for the maintenance of the statutory exchange but of sending to England the requirements for our sterling expenditure—it is natural that Government has at times to take action which must appear to the public to be detrimental to its own securities and that is really the answer to my Honourable friend Rai Bahadur Lala Ram Saran Das's question why the bank rate was raised at a time when money was quite cheap in the local market. It is essential for us as currency authority and with our obligations for remittances to the Secretary of State at times to take such action as the Honourable Sir Maneckji Dadabhoy recognised very handsomely in his Budget speech.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: The impression among the public is that the rate was forced to keep up the 1*s*. 6*d*. artificial exchange ratio.

THE HONOURABLE SIR ARTHUR McWATTERS: I will not enter into controversy over the ratio to-day because I maintain that this Resolution is a non-controversial one altogether. I am merely pointing out the limits of Government's power to take action.

Now, there is a third field in which Government's power is still more limited, and that is of course the political. In this House it is quite unnecessary for me to say anything about the absurd policy of unconstitutional action and the repudiation of debts. Every Member of this House discountenances such action. But the fact remains that the announcement of that policy has had an immediate and very detrimental effect. It had an immediate effect upon our credit in London, as the Honourable Sir Maneckji Dadabhoy pointed out.

THE HONOURABLE MR. G. S. KHAPARDE (Berar Representative): This policy was first announced in the Congress at Gaya years ago. It was only repeated this time.

THE HONOURABLE SIR ARTHUR McWATTERS: It has attracted very much more attention now than it did before. It has been taken seriously, coming in connection, as it does, with other important constitutional developments. The result has been that there is a disparity now between the value of Government sterling securities and rupee securities. That is an embarrassing position because it encourages capital to leave India.

That, Sir, is all I have to say. Holding the views I do, it is clear that I obviously must prefer the amendment to the Resolution, because the amendment recognizes the real position. It emphasises that it is a question of continuity of financial policy and that it is a question of maintaining credit. Sir, I accept the amendment.

THE HONOURABLE MR. SURPUT SING: Sir, I am glad that the Honourable the Finance Secretary should on behalf of the Government have entertained and welcomed the necessity of the Resolution, though in another form. Although my object cannot be entirely fulfilled, on taking the sense of the House I beg to accept the amendment which will help my object to some extent.

THE HONOURABLE THE PRESIDENT: The original question was:

"That the following Resolution be adopted:

'This Council recommends to the Governor General in Council to take measures to prevent any further slump in Government securities'."

Since which an amendment has been moved:

"That for the words 'to take measures to prevent any further slump in Government securities' the following words be substituted, namely:

'that in shaping their financial policy they should give due weight to the importance of keeping the credit of the Government of India on a high level and of maintaining stability in the market for Government securities'."

The question I have to put is that that amendment be made.

The motion was adopted.

THE HONOURABLE THE PRESIDENT: The question then is:

"That the Resolution, as amended, be adopted."

The motion was adopted.

The Honourable the President then called the Honourable Sir Pheroze Sethna, in whose name the next Resolution* stood, but the Honourable Member was not present.

The Council then adjourned till Eleven of the Clock on Wednesday, the 12th March, 1930.

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*"This Council recommends to the Governor General in Council that if the work of mural decorations already done by Indian artists and present students of Indian Art Schools in the Secretariat building at New Delhi is satisfactory, then their services be availed of for additional work of the same kind not only in the Secretariat but also in other public buildings in New Delhi and likewise in India House now approaching completion in London."