THE

COUNCIL OF STATE DEBATES

VOLUME I, 1933

(16th February to 15th April, 1933)

FIFTH SESSION

OF THE

THIRD COUNCIL OF STATE, 1933

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COUNCIL OF STATE.

Tuesday, 28th February, 1933.

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

MEMBER SWORN:

The Honourable Mr. Marmaduke Robert Coburn, O.B.E. (Government of India : Nominated Official).

THE HONOURABLE THE PRESIDENT: As the Governor General has fixed Five O'Clock for the presentation of the General Budget, I shall postpone the answering of questions till the next regular meeting.

OTTAWA TRADE AGREEMENT RULES, 1932, LAID ON THE TABLE.

THE HONOURABLE MR. J. C. B. DRAKE (Commerce Secretary): I lay on the table a copy of the Ottawa Trade Agreement Rules, 1932, with reference to the statement made in reply to the Honourable Rai Bahadur Lala Ram Saran Das's enquiry on the 19th December, 1932, during the discussion of the Indian Tariff (Ottawa Trade Agreement) Amendment Bill.

Notification by the Department of Commerce (Tariffs), dated New Delhi, the 24th December, 1932.

No. 780-T. (11)—In exercise of the powers conferred by sub-section 3B of section 3 of the Indian Tariff Act, 1894 (VIII of 1894), and by section 22 of the General Clauses 189, 1897 (X of 1897), the Governor General in Council is pleased to make the following Rules :—

RULES.

1. These Rules may be called the Ottawa Trade Agreement Rules, 1932.

Short title.

2. These Rules apply to goods consigned from the following countries, namely :—

Application.

(a) The United Kingdom of Great Britain and Northern Ireland, and

(b) The Colonies, British Protectorates, and territories under the British Mandate specified in the First Schedule

3. In these Rules—

Definitions.

(a) "Act" means the Indian Tariff Act, 1894;

(b) "United Kingdom" means the United Kingdom of Great Britain and Northern Ireland;

(c) "British Colony" means any country specified in the First Schedule;

(d) "expenditure on material" means the cost to the manufacturer of the material at the factory or works, including containers but excluding Royalties; and

(e) "factory or works cost" means the cost of production to the manufacturer at the factory or works and shall include the value of containers and other forms of interior packing ordinarily sold with the article when it is sold retail, but shall not include the manufacturer's or exporter's profit or the cost of exterior packing, carriage to port and other charges incidental to the export of the article subsequent to its manufacture:

Conditions for admission at preferential rates.

4. No article shall be deemed to be the produce or manufacture of any country to which these Rules apply unless the Customs Collector is satisfied that it has been consigned from such country, and—

(a) where the article is unmanufactured, that it has been grown or produced in such country, and

(b) where the article is manufactured,—

(i) that it has been wholly manufactured in such country from material produced in such country, or

(ii) that it has been wholly manufactured in such country from unmanufactured materials, or

(iii) that it has been partially manufactured in such country and the final process of manufacture has been performed in such country and that the expenditure on material produced and labour performed in such country in the manufacture of the article is not less than one quarter of the factory or works cost of the article in its finished state:

Provided that where the goods were consigned from a British Colony the material produced and labour performed in any other British Colony may be reckoned as though it were material produced or labour performed in the Colony from which the goods are consigned.

Customs House procedure for goods entered for home consumption.

5. If the owner of any goods entered for home consumption claims that they are chargeable with a preferential rate of duty, but is unable at the time of entry to satisfy the Customs Collector that the goods fulfil the conditions laid down in Rule 4, the Customs Collector—

(i) shall levy and collect the duty at the standard rate, and, if at any time within a period of three months from the date of payment of duty at the standard rate he receives an application in this behalf from the owner of the goods and is duly satisfied that the goods are entitled to entry at the preferential rate, shall make a refund to the owner of the extra duty levied; or

(ii) may, in his discretion, levy and collect the duty provisionally at the preferential rate, subject to the execution by the owner of the goods of a bond in one of the forms prescribed in the Second Schedule binding himself to pay the balance of the duty.

Customs House procedure for goods entered for warehousing.

6. (1) If the owner of any goods entered for warehousing claims that they are chargeable with a preferential rate of duty, but is unable at the time of entry to satisfy the Customs Collector that the goods fulfil the conditions laid down in Rule 4, the Customs Collector shall assess duty at the standard rates.

(2) If the Customs Collector is satisfied before the goods are removed from the warehouse that they are chargeable with a preferential rate of duty, he shall re-assess them accordingly at the time of such removal.

(3) If the goods are removed from the warehouse without the Customs Collector being so satisfied, they may be dealt with in the manner prescribed in Rule 5.

Power to levy unpaid balances as duty short-levied.

7. Where any payment of duty due under a bond has not been made in accordance therewith, and upon demand being made, the Customs Collector may, in his discretion and without prejudice to his power to enforce the bond, recover the amount due at any time as if it were duty short-levied within the meaning of section 39 of the Sea Customs Act.

FIRST SCHEDULE.

[*See Rules 2 (b) and 3 (c).*]

LIST OF BRITISH COLONIES.

East Africa.

1. Kenya, Uganda Protectorate, and the Mandated Territory of Tanganyika.
2. Northern Rhodesia.
3. Nyasaland Protectorate.
4. Somaliland Protectorate.
5. Zanzibar Protectorate.

South Africa (including St. Helena).

6. Basutoland.
7. Bechuanaland Protectorate.
8. Swaziland.
9. St. Helena.

West Africa.

10. Gambia.
11. Gold Coast.
12. Togoland under British Mandate.
13. Nigeria.
14. The Cameroons under British Mandate.
15. Sierra Leone.

Eastern and Far Eastern.

16. Ceylon.
17. Hong Kong.
18. Federated Malay States.
19. Unfederated Malay States, *i.e.*, Johore, Kedah, Kelantan, Perlis and Trengganu.
20. Mauritius.
21. North Borneo.
22. Sarawak.
23. Seychelles.
24. Straits Settlements.

Mediterranean.

25. Cyprus.
26. Gibraltar.
27. Malta.

Pacific.

28. British Solomon Islands Protectorate.
29. Fiji.
30. Gilbert and Ellice Islands.
31. Tonga.
32. New Hebrides (Condominium).

LIST OF BRITISH COLONIES—*contd.*

West Indian (including the Falkland Islands).

33. Bahamas.
34. Barbados.
35. Bermuda.
36. British Guiana.
37. British Honduras.
38. Jamaica.
39. Cayman Islands.
40. Turks and Caicos Islands.
41. Leeward Islands, *i.e.*, Antigua, Dominica, Montserrat, St. Christopher-Nevis and the Virgin Islands.
42. Trinidad and Tobago.
43. Windward Islands, *i.e.*, Grenada, St. Lucia and St. Vincent.
44. Falkland Islands.

SECOND SCHEDULE.

[*See Rule* 5(*ii*).]

FORM A.

KNOW ALL MEN by these presents that I/we of and of am/are held and firmly bound unto the Right Honourable the Secretary of State for India in Council in the sum of Rs. to be paid to the said Secretary of State in Council, his successors or assigns for which payment, well and truly to be made I/we bind myself/ourselves and each of us my/our and each of our heirs and legal representatives firmly by these presents sealed with my/our respective seals, dated this..................day of..................19. . .

WHEREAS I am/we are the importer(s) of the goods named below which to the best of my/our belief fulfil the conditions laid down by the rules made under sub-section 3B of section 3 of the Indian Tariff Act, 1894 for determining their eligibility to a preferential rate of duty under Part VIII or Part IX of the Second Schedule to that Act AND WHEREAS I/we have not been able to produce at the time of making entry of such goods at the Custom House evidence to satisfy the Customs Collector that those conditions are fulfilled AND WHEREAS the Customs Collector has agreed provisionally to accept duty at the preferential rate pending the production of such evidence and I/we have agreed that if such evidence is not presented to the Customs Collector within three months of the date of this bond or being so presented is not accepted by him as satisfactory I/we will pay to the Customs Collector on demand the difference between the duty paid at the preferential rate and the duty leviable at the standard rate on the said goods NOW the condition of this bond is such that if the necessary evidence as aforesaid shall be produced to the Customs Collector within the said period and he shall accept such evidence as satisfactory or if I/we shall pay on demand the difference between the duty paid at the preferential rate and the duty leviable at the standard rate on the said goods, then the above written bond shall be void, otherwise the same shall be and remain in full force and virtue.

Signed, sealed and delivered by the abovenamed in the presence of—

FORM B.

KNOW ALL MEN by these presents that I/we of and of am/are held and firmly bound unto the Right Honourable the Secretary of State for India in Council in the sum of Rs. to be paid to the said Secretary of State in Council his successors or assigns for which payment well and truly to be made I/we bind myself/ourselves and each of us my/our and each of our heirs and legal representatives firmly by these presents sealed with my/our respective seals, dated this..................day of..................19. . .

WHEREAS I am/we are a regular importer(s) of goods which fulfil the conditions laid down by the rules made under sub-section (3B) of section 3 of the Indian Tariff Act, 1894 for determining their eligibility to preferential rates of duty under Part VIII or Part IX of the Second Schedule to that Act AND WHEREAS it is likely that from time to time I/we may not be able to produce at the time of making entry of goods at the Customs House evidence to satisfy the Customs Collector that those conditions are fulfilled and that the goods, particulars of which are contained in the bill of entry, are assessable to customs duty at the preferential rate AND WHEREAS the Customs Collector at........................... has agreed that if, having regard to the nature or particulars of such goods as detailed in such bill of entry, he is of opinion that it is likely that the necessary evidence is capable of being produced to satisfy him that the goods are entitled to be assessed for customs duty at the preferential rate he will provisionally accept duty on such goods at the preferential rate pending the production by me/us of the necessary evidence, and I/we have undertaken that in every such case I/we will within three months from the date of making entry of such goods present such evidence to the Customs Collector and that if such evidence is not in every case presented within the period aforesaid or if being presented it is not accepted by the Customs Collector I/we will forthwith on demand pay to the Customs Collector the difference between the duty paid on such goods at the preferential rate and the duty leviable at the standard rate AND WHEREAS it has been further agreed with the Customs Collector that the security given by these presents shall cover a total sum representing the difference between such rates of duty of Rs. X/2 and that if and whenever the total unadjusted claims by the Customs Collector against me/us in respect of such unpaid duty shall amount to more than Rs. X/2 the Customs Collector may refuse to consider the possibility of evidence being procurable though not available at the time of making entry of any further goods unless I/we shall offer to the Customs Collector and he shall be willing to accept a further bond in similar terms hereto for such amount as the Customs Collector shall decide NOW the condition of the above written bond or obligation is such that if the necessary evidence as aforesaid shall be produced to the Customs Collector within three months from the respective dates of making the entry from time to time of any such goods and the Customs Collector shall accept such evidence or if the difference between the duty paid on any such goods at the preferential rate and the duty leviable at the standard rate shall from time to time be paid by me/us on the demand of the Customs Collector then the above written bond or obligation shall be void; otherwise the same shall be and remain in full force and virtue.

Signed, sealed and delivered by the abovenamed in the presence of—

J. C. B. DRAKE,
Secy. to the Govt. of India.

Notification by the Department of Commerce (Tariffs), dated New Delhi, the 21st January 1933.

No. 20-T. (3)/33.—In exercise of the powers conferred by sub-section (3B) of section 3 of the Indian Tariff Act, 1894 (VIII of 1894), the Governor General in Council is pleased to direct that the following amendments shall be made in the Ottawa Trade Agreement Rules, 1932, namely :—

In the Second Schedule to the said rules—

(1) After form A, the following form shall be inserted, namely :—

"FORM AA.

KNOW ALL MEN by these presents we of and of (hereinafter referred to as "the Importers") and we (Indenting House or Bankers) of (hereinafter referred to as "the Sureties") are held and firmly bound unto the Right Honourable the Secretary of State for India in Council in the sum of Rs. to be paid to the said Secretary of State in Council, his successors or assigns for which payment well and truly to be made we hereby jointly and severally bind ourselves and each of us and each of our heirs and legal representatives firmly by these presents sealed with our respective seals, dated this..............day of..............19 .

WHEREAS we the importers are the importers of the goods named below and we the sureties have been concerned in the purchase by the importers of the said goods (are the Bankers of the Importers) AND WHEREAS to the best of the knowledge and belief of us the Importers and of us the Sureties the said goods fulfil the conditions laid down by the rules made under sub-section 3B of section 3 of the Indian Tariff Act, 1894 for determining their eligibility to a preferential rate of duty under Part VIII or Part IX of the Second Schedule to that Act AND WHEREAS the Importers have not been able to produce at the time of making entry of such goods at the Custom House evidence to satisfy the Customs Collector that those conditions are fulfilled AND WHEREAS the Customs Collector has agreed provisionally to accept duty at the preferential rate pending the production of such evidence and the Importers have agreed that if such evidence is not presented to the Customs Collector within three months of the date of this bond or being so presented is not accepted by him as satisfactory they the Importers will pay to the Customs Collector on demand the difference between the duty paid at the preferential rate and the duty leviable at the standard rate on the said goods NOW the condition of this bond is such that if the necessary evidence as aforesaid shall be produced to the Customs Collector within the said period and he shall accept such evidence satisfactory or if the Importers or failing them the Sureties shall pay on demand the difference between the duty paid at the preferential rate and the duty leviable at the standard rate on the said goods, then the above written bond shall be void, otherwise the same shall be and remain in full force and virtue.

Signed, sealed and delivered by the abovenamed in the presence of....................."

(2) In form B, the sign "X"/2, wherever it occurs, shall be omitted.

J. C. B. DRAKE,
Secy. to the Govt. of India.

No. 20-T. (3)/33.

A copy of the above notification is forwarded to all Local Governments and Administrations and the Political Officers and to all Departments of the Government of India, to the Private Secretary to His Excellency the Viceroy and to the Military Secretary to His Excellency the Viceroy.

A copy is also forwarded to all Collectors of Customs (with reference to his letter No. 660, dated the 6th January 1933), the Principal Collector of Customs, Colombo, the Collector of Salt Revenue, Bombay, the Accountants General, Madras, Bombay, Bengal and Burma; the Audit Officer, Lloyd Barrage and Canals Construction, Karachi, the Accountant General, Central Revenues, Delhi, the Director General of Commercial Intelligence and Statistics, the Secretary, Tariff Board, the High Commissioner for India, London, the Indian Trade Commissioner, London, the Director, Federation of British Industries, London, the Indian Government Trade Commissioner, Hamburg, Germany, His Majesty's Trade Commissioner in India, all Chambers of Commerce and Associations, the Canadian Government Trade Commissioner in India, the American Trade Commissioner, Calcutta; the Chief Customs Officer, Port Okha (Kathiawar); and to the Central Board of Revenue.

By order, etc.,

LADLI PERSHAD,
Asstt. Secy. to the Govt. of India.

( ) To Collector of Customs, Calcutta, only.

CENTRAL BOARD OF REVENUE.

New Delhi, the 20th December, 1932.

Press Communiqué.

As soon as the Indian Tariff (Ottawa Trade Agreement) Amendment Bill, which has passed both Houses of the Legislature, becomes law and rules have been issued under new sub-section (3B) of section 3 of the Indian Tariff Act, 1894, the Central Board of Revenue intends to instruct Collectors of Customs that the evidence ordinarily to be required in order to satisfy them that goods named in Part VIII or Part IX of the Second Schedule to that Act are entitled to admission at the preferential rate of duty shall be the production of a certificate in Form A appended, signed by the supplier or manufacturer of the goods.

2. At the same time, Collectors of Customs will be instructed that, in lieu of the form of certificate of origin for iron and steel goods of British manufacture at present prescribed, galvanised sheets of such manufacture should in future be covered by a certificate in Form B appended, signed by the supplier or manufacturer of the goods.

C. No. 603-Cus.-II/32.

Copy forwarded to—

All Collectors of Customs.

The Accountants General, Bengal, Bombay, Madras and Burma, the Accountant General, Central Revenues, and the Audit Officer, Lloyd Barrage and Canals Construction, Karachi.

The Commerce Department.

The Director-General of Commercial Intelligence and Statistics, for publication in the *Indian Trade Journal.*

The Secretary, Tariff Board.

The Indian Trade Commissioner, London.

The Indian Government Trade Commissioner, Neuer Jungfernstieg, No. 9, Hamburg, Germany.

The Canadian Government Trade Commissioner, Calcutta.

The American Trade Commissioner, Calcutta.

The British Trade Commissioners in India, Calcutta and Bombay.

The Director, Federation of British Industries, London.

The Hon'ble the Agent to the Governor General in the States of Western India.

The Resident at Baroda.

The Agent to the Governor General, Madras States.

The Chief Customs Officer, Port Okha (Kathiawar).

The Principal Collector of Customs, Colombo.

(Sd.) W. A. ROSE,
for Secretary, Central Board of Revenue.

FORM A.

Form of combined certificate of value and origin to be written, typed or printed on invoices of goods for which entry into India is claimed at preferential rates of duty laid down in Parts VIII and IX of Schedule II to the Indian Finance Act, 1894.

(NOTE.—In this form, "United Kingdom" and "British Colony" have the meanings defined in the Ottawa Trade Agreement Rules, 1932.)

I (1) of (2) of (3) Manufacturer/Supplier of the articles enumerated in this invoice hereby declare that I [(4) have the authority to make and sign this certificate on behalf of the aforesaid Manufacturer/Supplier and that I] have the means of knowing and do hereby certify as follows :—

Value.

1. That this invoice is in all respects correct and contains a true and full statement of the price actually paid or to be paid for the said goods, and the actual quantity thereof.

2. That no different invoice of the goods mentioned in the said invoice has been or will be furnished to anyone; and that no arrangements or understanding affecting the purchase price of the said goods has been or will be made or entered into between the said exporter and purchaser, or by anyone on behalf of either of them either by way of discount, rebate, compensation or in any manner whatever other than as fully shown on this invoice, or as follows (5).................

Origin.

3. That every article mentioned in the said invoice has been either *wholly grown or produced* or *wholly or partially manufactured* in (6).......................

4. As regards those articles wholly manufactured in (6)..........................that all manufacturing processes, if any, involved in making the articles from unmanufactured raw materials have been performed in that country.

5. As regards those articles only partially manufactured in (6)........................

(*a*) That the final process of manufacture of each and every article has been performed in that country;

(*b*) That the expenditure on material produced in (7)......................and labour performed in (7)............................, calculated subject to the qualifications hereunder, in each and every article is not less than one-quarter of the factory or works cost of the article in its finished state; and

(*c*) That in the calculation of such proportion of produce or labour of (7)..............., none of the following items has been included or considered, *viz.* :—

Manufacturer's profit or remuneration of any trader, agent, broker, or other person dealing in the articles in their finished condition; royalties; cost of outside packages or any cost of packing the goods thereinto; any cost of conveying, insuring or shipping the goods subsequent to their manufacture.

Dated at............................this.......................day of.......................193 .

Witness..............................Signature....................................

FORM OF INVOICE.

Marks and numbers.	Description of goods.	Quantity.	Selling price to purchaser.	
			At.	Amount.

(1) Here insert Manager, Chief Clerk, or as the case may be.
(2) Here insert name of firm or company.
(3) Here insert name of city or country.
(4) The words in square brackets should be omitted where the manufacturer or supplier himself signs the certificate.
(5) Here insert particulars of any special arrangement.
(6) Insert " the United Kingdom " or name of British Colony.
(7) Insert either " the United Kingdom " or " any British Colony ".

FORM B.

Form of combined certificate of value and origin to be written, typed or printed on invoices of galvanized iron or steel sheets of British manufacture for which entry into British India is claimed at a differential rate of duty.

I (1) of (2) of (3) Manufacturer/Supplier of the articles enumerated in this invoice hereby declare that I [(4) have the authority to make and sign this certificate on behalf of the aforesaid Manufacturer/Supplier and that I] have the means of knowing and do hereby certify as follows :—

Value.

1. That this invoice is in all respects correct and contains a true and full statement of the price actually paid or to be paid for the said goods, and the actual quantity thereof.

2. That no different invoice of the goods mentioned in the said invoice has been or will be furnished to anyone; and that no arrangements or understanding affecting the purchase price of the said goods has been or will be made or entered into between the said exporter and purchaser, or by anyone on behalf of either of them either by way of discount, rebate, compensation or in any manner whatever other than as fully shown on this invoice, or as follows (5)..............…

Origin.

3. That the galvanized sheets included in this invoice have been manufactured in the United Kingdom of Great Britain and Northern Ireland from sheet bar—

(i) made in India, or

(ii) not made in India, (6).

and that no process of manufacture later than the making of the sheet bar has been carried out elsewhere than in the said United Kingdom.

Dated at..............................this........................day of.......................193 .

Witness................................Signature......................................

Countersigned,

....

Indian Trade Commissioner,
London.

FORM OF INVOICE.

Marks and numbers.	Description of goods.	Quantity.	Selling price to purchaser	
			At.	Amount.

(1) Here insert Manager, Chief Clerk, or as the case may be.

(2) Here insert name of firm or company.

(3) Here insert name of city or country.

(4) The words in square brackets should be omitted where the manufacturer or supplier himself signs the certificate.

(5) Here insert particulars of any special arrangement.

(6) Strike out entry (i) or (ii) as the case may be.

PRESENTATION OF THE GENERAL BUDGET FOR 1933-34.

THE HONOURABLE MR. J. B. TAYLOR (Finance Secretary): Sir, I rise to present the Statement of estimated expenditure and revenue of the Governor General in Council for the year 1933-34 in respect of subjects other than Railways.

2. In this Budget we can face the people of India with the consciousness of a difficult situation squarely met. When the Honourable Mr. Brayne rose in this House 12 months ago to present the Budget for 1932-33, the difficulties which he indicated could without exaggeration be described as appalling. The previous year had closed with a deficit of 11¾ crores and for 1932-33 he anticipated that the deficit would reach 13·6 crores. The economic fabric of the country had suffered a shock of unparalleled magnitude owing to the collapse of commodity prices and there was no real indication or even any prospect of their recovery within any period which could be forecasted. An emergency budget with drastic measures of retrenchment has been placed before the Legislature some months before, but even in that short time it appeared as if the calculations on which it was based were to be falsified by the continued deterioration in the international situation.

3. Today, though it would be rash to predict any improvement in the international position, though commodity prices are lower even than they were 12 months ago, the Government of India are in the fortunate position of being able to put before this House their revised estimates for the current year, which show that the surplus of 2,15 lakhs which was budgeted for has been most accurately fulfilled: the actual surplus which we hope to have at the end of the year on our latest estimates being 2,17 lakhs. As I shall show later, this does not mean that every one of our estimates hit the mark so accurately; the total is the result of various opposing factors, some of which represent windfalls which we cannot expect to have repeated next year.

4. I shall now extract from the published statements the salient figures showing how this result was reached. I might first mention that, when we finally compiled the accounts for 1931-32 the results were nearly 2 crores better than were anticipated in the Budget speech, and the accounts for the year showed a deficit of 11¾ crores as against the estimate of 13·6 crores.

5. As regards our revenue during the current year, the revised estimates of our most important receipt, that of customs, corresponded almost exactly with the budget estimate. In the Budget we had taken a figure of 52,31 lakhs, and so far as we can see we will realise 52,29 lakhs. Here again increases in some of our estimates balanced decreases in others. The largest increase was under cotton piecegoods where we estimated that we would receive 3·79 lakhs and actually received 6·40. Against this we had a falling off in the receipts from sugar; we received 7·1 crores as compared with our estimate of 8·9. The import duty on silver and on motor cars and cycles, liquors and tobacco also failed to reach our expectations.

6. As regards cotton piecegoods, I think that we must consider the large imports during the past year as somewhat abnormal. To a certain extent the waning of the boycott movement contributed to the improvement and this is shown by the fact that British goods also shared in the recovery. The most important factor was, however, undoubtedly the stimulus to Japanese imports afforded by the depreciation of the *yen*.

7. In this connection, interesting statistics have been prepared by Dr Meek, the Director General of Commercial Intelligence, regarding the

imports of piecegoods and other necessaries. These statistics are being published with the documents connected with the Budget, and I would invite the particular attention of this House to them. They show that the standard of living of the masses is being maintained in a most remarkable manner in spite of the fall in the prices of their own produce. It seems impossible to resist the conclusion that this remarkable maintenance of consumption power by the people of India is due primarily to exports of gold—an important question which I shall discuss later. In any case, it has helped to maintain our customs receipts in a most satisfactory manner.

8. I now turn to the other items in our revenue. In our estimate of income-tax we slightly overshot the mark, budgetting for 18,73 lakhs, and receiving according to our latest estimates 17,70; salt gave us 10,38 lakhs as compared with our estimate of 9,43, though here it is to be noted that the receipts were enhanced to a greater extent than we anticipated by the extension of the salt credit system which was one of the features of our emergency budget of September, 1931 and which produced a special addition to our Budget during the current year of 150 lakhs. The other items of revenue call for no special comments, the net result being that we expect to realise 127·13 crores as against a budget estimate of 129·96—a drop of 2,83 lakhs.

9. As regards expenditure, the estimated result for the year is 124·96 crores as compared with a budget of 127·81, a saving of 2·85 crores. I propose to deal with expenditure under four heads: first, civil; second, defence; third, commercial departments; and fourth, general financial heads such as service of debt, currency and exchange.

10. On civil heads we budgeted for an expenditure of 20,65 lakhs, and our revised estimates show that that figure will be almost exactly realised. The revised estimate is 20,89 lakhs, showing an apparent increase of 24 lakhs. 61 lakhs of this may, however, be regarded as either technical expenditure which involves no loss to Government or expenditure which is definitely non-recurring. Among the technical excesses I would quote for instance 16 lakhs for extra payments under opium, the yield of the crop being unexpectedly high: the opium has of course to be purchased from the cultivators but the cost will all be subsequently recovered. Among the non-recurring items I would include the increased charges for pensions due to the continuation of retrenchment and for the commutation of pensions; these items amounted to 13 lakhs. Taking all the items together, we calculate that in our ordinary working costs we will have achieved during the year economies of 41 lakhs more than we anticipated. Here it might be convenient to make a comparison with the recommendations of the four civil retrenchment sub-committees. They recommended retrenchments in expenditure totalling 499 lakhs; against this in the last Budget Government announced that they had achieved economies of 433 lakhs; this we have now raised to 474 or nearly 95 per cent. of the amount recommended by the committees.

11. Next year we hope to do even better. The estimates for civil expenditure in 1933-34 are 20,53 lakhs as compared with the revised estimate of 20,89 lakhs for the current year, that is to say, a reduction of 36 lakhs. This economy is being effected even after making allowance for the reduction of the cut in pay to 5 per cent. which will involve an extra charge of 27 lakhs on the civil side, and the normal increments in time-scale pay which we calculate will amount to approximately 16 lakhs. In addition, there are various other items of new unavoidable expenditure which will amount to 14

[Mr. J. B. Taylor.]

lakhs. As these three factors account for 57 lakhs, it will be seen that the reduction which we hope to effect in our normal expenditure next year is no less than 93 lakhs. I am giving these counterbalancing items in addition to the net result because though naturally it is only the net result—the economy of 36 lakhs,—which Members of this House will look to, it is important to show how continuous and unrelenting must be the scrutiny of existing expenditure if the burden on the taxpayer is not to grow because of the inclusion of unavoidable new items.

12. As regards the Defence budget, the retrenchment has been even more drastic. In the current year after allowing for the full effects of the 10 per cent. cut in pay, the net budgetary allotment was 46·74 crores. For 1933-34, in spite of the partial restoration of the cut which involves an additional expenditure of 52½ lakhs, the net provision is 46·20 crores, that is to say, a further net reduction of 54 lakhs. It is true that the army has to a certain extent benefited by the fall in the prices of commodities, but the difference made in their budget between 1928-29 and now on this account is only approximately 1 crore, and the Army budget has been reduced in the last three years from 55·10 crores to 46·20 crores, that is to say, by nearly 9 crores. This has been due to the pursuit of a policy of drastic economy by the army authorities and it is obvious that curtailment on this scale must have involved a very considerable retrenchment and paring down of the margin of safety which could only be justified on account of overwhelming financial necessity.

13. As regards the commercial departments, I have little comment to make. The Honourable Sir Guthrie Russell presented the House with the picture of the railways some days ago, and though I agree with him that the position in our railways compared favourably with that in other countries, there can be no prospect of material relief until trade improves. The same may be said of posts and telegraphs where, after allowing for the extra 27½ lakhs on account of the reduction in the cut in pay and 15 lakhs on account of increments, and setting off against this economies of 25 lakhs which we hope to achieve in other directions, the net loss next year will we estimate be 57 lakhs as compared with 48 lakhs this year.

14. I now turn to the finance heads, that is to say, the administration of debt, currency and exchange, and here I am glad to say that the picture is decidedly more cheerful. Members of this House need not be reminded of the sensational improvement in our position since we jointly with England unpegged gold in September, 1931, and allowed it to soar untrammelled. Exchange was very steady throughout the year, and from the middle of August we have been able to effect large purchases of sterling, which we estimate for the year at nearly £40 millions, at an average rate of 1*s*. 6-5/32*d*. As we budgeted for a rate of 1*s*. 6*d*., this has given us a profit of 30 lakhs. But that is by no means the whole story. Our requirements for the year were £24 millions, so that the balance of approximately £15½ millions has been available for strengthening our currency reserves. In addition, we hope to close the year with a balance in London of £13,400,000 as compared with £15,800,000 last year. In 1933-34 we have estimated for a reduction of the closing balance to £4,920,000 on the 31st March, 1934. On the assumption that we float a sterling loan for £6 millions in 1933-34, this means that the sterling which we will have to purchase next year will be £21 million only as compared with our

actual purchases in the current year of £40 millions. If there is any surplus, we will probably find it best to devote it, as in this year, to a further strengthening of our sterling currency reserves.

15. The strength of exchange is primarily due to one cause—the large exports of gold. In the fifteen months between September, 1931 and December, 1932 India, on balance, exported gold of the value of 107·08 crores. In his Budget speech the Honourable Finance Member has analysed the various aspects of this phenomenon which has amazed and confuted those western critics with whom it had become an article of their monetary creed that India was and would always remain a sink of the precious metals. I propose now to deal only with two of the more important criticisms which have been made against Government, which I consider to be primarily due to a misunderstanding of the essence of the problem. In the first place, our critics say that by allowing our gold to go in this unfettered manner we are dangerously depleting the reserves of the country.

16. I would first point out that the volume of our exports is somewhat exaggerated by the fact that they are generally quoted in terms of value and not in weight. The price of gold in terms of rupees has varied widely in the past 20 years, so that calculations based on price are misleading. Many of our critics forget that the gold which has been exported in the last 18 months has been sold at a profit of between 25 and 30 per cent. If I take the figures in ounces, the strength of India's position becomes extraordinarily striking. The weight in ounces of our net exports from September, 1931 to December, 1932, is 14,110,000 ; the net imports from April, 1926, up to the date when exports began on a large scale is no less than 15,120,000 ; that is to say, that in spite of all that we have exported, we are still only back where we were in June, 1926 ; and if we go back to April, 1922, we find that in those four years India's net imports amounted to 28,279,000 ounces, in other words, we could export twice as much as we have already exported and still be where we were eleven years ago. If we go still further back, though the figures can only be regarded as very approximate, certain statisticians have calculated that India up to the end of the war had amassed a stock of more than a 100,000,000 ounces of which 50 had been imported since 1900, that is to say, that at present prices there should be still about a 1,000 crores worth of gold in India. However that may be, and I do not wish to attach importance to these early estimates it is obvious that the exports so far have only scratched the surface of the gold mine.

17. The next criticism that is made is that we should in some way or other have contrived to secure this gold for the Indian currency reserves with a view to rendering possible the creation of a reserve bank at an early date. Here again there is a great deal of misunderstanding. In his Budget speech the Honourable Finance Member has conclusively proved a fact that is obvious when explained, that is to say, that it would have been impossible for us to have acquired more gold than we have at present secured sterling, unless we were prepared either to attract it by maintaining artificially high rates of money, or to grab it by placing an embargo on its export and thus compelling the holders to sell it to us at less than the world price. We were not prepared to consider either of these courses, so that under open market conditions it is obvious that we could not get more gold than we have bought sterling. During the period in question we have built up our reserves to the extent of £30 million sterling, so that the question narrows down to a clear and definite issue : would it have been better for us to have bought gold to this amount instead of buying sterling ? I will first of all deal with the criticism that the retention

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of this gold would have helped towards the creation of a reserve bank to a greater extent than acquisition of sterling. Here we are on quite clear ground and can say definitely that this is a mistake. Though there was much dispute five years ago as to the directorate of the proposed reserve bank, there was fairly general agreement as to the composition of the reserves, as embodied in the Reserve Bank Bill in the final form in which it was presented in January, 1928. The stipulations were, first, that before Government handed over the responsibility for the currency to the new institution the total amount of gold coin and bullion and securities should not be less than one-half of the whole amount transferred; second, that the amount of gold coin and gold bullion should not at any time be less than 30 crores of rupees in value; third, that it should not be less than one-fifth of the total amount of the reserve after the end of the fifth year; and fourth, that 17/20ths of the actual gold should be held in India. How does our position compare with this? Our liabilities on the 31st January of this year on the basis of the calculations of the Reserve Bank Bill would be 214 crores—174 for outstanding notes and 40 for the rupee redemption fund. One-fifth of this is 43 crores. We actually have gold to the amount of 44·36 crores of which all except 3 crores is held in India. We are thus not only 14 crores in advance of our initial requirement of 30 crores, but 1 crore in advance of the amount which we are expected to reach after five years. On the other hand, as regards external securities, we require 63 crores, and at present we only have 35. It is therefore obvious that it is our external securities which require building up rather than our gold. We are ahead of our programme as regards gold, but as regards securities we still have a leeway of approximately 28 crores to make up.

18. I wish to make it quite clear that here I am merely answering the particular criticism that our policy is not that which is best directed to the early creation of a reserve bank, in order to show that we are following strictly the lines laid down by common consent, and the scheme which still holds the field to meet that object. With the separation of gold from sterling and the rupee, however, it is obvious that entirely new problems have been created which must be judged in the circumstances as they arise, and that though we are at present following the programme laid down for us, we are in no way committing ourselves blindly for the future should it seem to require modification in the interests of the country; that is to say, though for the present it seems to us not only to suit our programme but to be in the interests of the country to buy securities, rather than gold, we are not committing ourselves in any way to go on doing so indefinitely.

19. With this caution I would now like to take the House further afield and to survey the international aspect of the problem. Here there can be no doubt whatever that our policy is in the best interests of the economic reconstruction of the world as a whole. In fact, in the complete absence of any approach to any alternative system which would replace gold as the basis of the world's currency systems, I might go further and say that Indian gold exports are the only promising feature in the situation. So long as gold forms the international medium of currency, so long must prices in the long run depend on the amount of it available for currency purposes, and though the gold which we are sending abroad is being at present, as we think, uselessly bottled up elsewhere, India is taking her profit on it and turning that profit to good uses, and later on the force of circumstances will inevitably compel those who are now hoarding it to release it. When they do I trust that India will have sufficient commonsense to insist that the price which she pays to

take it back if she does want it back is a price much more in accordance with its secular value and not the fancy level to which a panic-stricken world has now pushed it. When the time comes for the release of the world's hoarded gold stocks, as come sooner or later it must, India, as one of the largest exporters of raw materials, will benefit beyond all reckoning by the increased world purchasing power which she is now creating.

20. Apart also from the international benefits which are not yet apparent, India itself in the meantime is benefitting directly by these sales. As I pointed out earlier in my speech, it has enabled the country to continue its consumption of the primary necessities of a decent life practically unabated while other countries have had to tighten their belts and do without.

21. In addition, the funds so released have contributed to what I may describe without exaggeration as a complete transformation of India's credit position. Eighteen months ago our 3½ per cent. paper stood at 53; now it is about 83; our sterling 3½ per cents. stood at 46, they are now 89. The bank rate was then 8 per cent., it is now 3½. Our securities now stand higher than those of any important country except the United Kingdom and the United States of America. The continuous and rapid improvement in our credit enabled us to float one sterling and four rupee loans. The rupee loan which we issued in May gave a yield to the investor of 5⅞ per cent.; the 4 per cent. 10-year bonds which we issued in January at a price of 98 gave a yield of less than 4¼ per cent. Twelve months ago it would have been unthinkable for us to have floated a loan with a maturity of more than a few years; we are now concluding a successful re-issue of the 1960-70 4 per cent. loan giving a gross yield of approximately 4⅓ per cent. In the last Budget we anticipated that we might be able to reduce the treasury bills held by the public to the extent of approximately 7½ crores; in reality we have reduced them by 19½. We have also reduced the treasury bills in the currency reserve by 14⅓ crores and replaced them by sterling securities. We estimated that we could discharge 26½ crores of public debt during the year; we have actually discharged more than 80. This means that, taking maturing loans, treasury bills and ways and means advances from the Imperial Bank together, during the year we have disposed of immediate liabilities to the extent of more than 123 crores. In addition, we have been able to cheapen money rates by progressive reductions in the yield of our treasury bills. Twelve months ago we were paying nearly 7 per cent.; now we are paying less than 2. The yield of our post office cash certificates has been progressively reduced from 6 per cent. to 4½ per cent., and we have realised 14,35 lakhs from cash certificates and deposits in post office savings banks as compared with the budget anticipation of 7 crores and an average of less than 5½ crores for the five years 1926 to 1931.

22. For next year our capital programme has been framed on cautious lines. The railway capital outlay we are putting at 3,30 lakhs as compared with the budget estimate of 4,15 lakhs and a revised estimate of 81 lakhs for the current year. The loans to Provincial Governments we are putting at 4,24 lakhs. On this basis we should be able to effect a further reduction of 8 crores in our outstanding treasury bills and still have approximately 17 crores available to meet our maturing loan liabilities. We have framed our estimate for the receipts from post office cash certificates and savings bank deposits on conservative lines, budgetting for 840 lakhs as against the final estimate of 14,35 in the current year. We have done this because of the reduction of the yield to 4½ per cent., but the investment habit in the country is now developing to such an extent that it is quite possible that this estimate

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may be substantially exceeded. Against these resources our actual maturing liabilities are not large. As regards our rupee loans we shall have to meet that portion of the 1929-47, 1933 and 1933-36 loans which remain unconverted after the closing of the present conversion issue. The final figures of that issue are not yet available, but those which have already come in show that we shall convert more than 32 crores. On that assumption we shall require to raise less than 2 crores to meet the balance. As regards sterling, we should require to raise 8 crores in London to pay off the balance of the 6 per cent. loan which we have the option of repaying in June. These figures of course are merely to illustrate our position; they do not indicate our policy. We shall buy as much sterling as we can and fund as many of our loans as we can and use the proceeds to strengthen our reserves and our credit position generally.

23. We can now complete the picture of next year's Budget. As you will have gathered, we propose no material alterations in taxation. As regards customs, we have carefully considered, particularly with regard to the so-called luxury taxes, whether the point of diminishing returns has been reached, but we are satisfied that there is no class of ordinary imports where a reduction in the duty would increase the demand to such an extent as to produce an increase of revenue. We also regret that we are unable to make any alleviations in the emergency taxes on income. All we can say is that they will be removed as soon as possible, and that until they are removed all possible steps will be taken to curtail expenditure. Two minor alterations are being effected in the tariff, with regard to import duties on boots and shoes and artificial silk goods, with which I need not detain the House. We are also re-imposing the stamp duty on cheques with effect from the 1st July, 1933. The legislation will be central but the proceeds will be divided among the provinces as was the case before the tax was removed in July, 1927. The net result of these various adjustments is that we anticipate a revenue surplus of 42 lakhs as compared with an estimated surplus of 217 in the current year. This is undoubtedly small in view of the uncertainty of world conditions and prices, but it is based on the expectation of a continuance of present conditions without any improvement, and we do not consider that this is unduly optimistic.

24. I may summarise the position as follows:

	Lakhs.	
Revenue.	Better.	Worse.
Customs.—Reduction allowed for in imports of sugar and cotton piecegoods		104
Income-tax.—Increase due to removal of exemption from surcharge of Government servants .	53	
Salt.—Reduction mainly due to temporary decrease in receipts on the termination of the credit system		163
Opium better	25	
Finance heads including temporary loss on account of funding of treasury bills at a lower rate of interest into loans at a somewhat higher rate		15
Commercial departments worse		11
Miscellaneous.—Reduction due to no provision for gain by exchange		45
(I might explain that this item is based on the assumption that all remittances will be effected at 1*s.* 6*d.* If we can secure better rates, we will regard the gain as a windfall.)		

	Lakhs.	
Expenditure.	Better.	Worse.
Net reduction under civil and military heads, in spite of the partial restoration of pay .	85	
Total betterness . .	163	
Total worseness . .		338
Net deterioration . .	175	

Net effect 42 lakhs surplus compared with 217 this year.

25. There is one feature in the Budget in which Members of this House have already shown an active interest. I refer, Sir, to the partial restoration of the cut in pay.

26. First let us examine its financial effects. We have already seen the effect on the railways in the Railway Budget. As regards the other Central Government civil services including the posts and telegraphs department, a restoration of the full cut in pay for 12 months would have cost 122 lakhs, and for the army 114 lakhs. As, however, March pay is paid on the 1st of April and as the 10 per cent. cut continues to apply to all pay earned up to March, 31, 1933, the recent decision of Government affects only 11 months pay in the next Budget and not 12. A 5 per cent. reduction for 11 months therefore means 55 lakhs on the civil side and 52½ lakhs on the army—a total of 108 lakhs. As against this the central budget will recover, as the result of the withdrawal of the exemption from income-tax surcharges and the tax on incomes below Rs. 2,000 from Government officials, a net increase in income-tax receipts of 53 lakhs. The net cost of the proposal to the Central Government is thus 55 lakhs.

27. This is not the whole picture. The income-tax made recoverable from railway officers by the present decision amounts to 14 lakhs. When we extended the full 10 per cent. cut to the railways we made the railway administration pay us this amount though it was not levying it from its officers, on the ground that, as they were a separate commercial department, there was no reason why we should in effect pay our income-tax to them. As this amount is now being raised from railway officers, it is obvious that it is now something which we are getting which we were not getting before, so that from the point of view of the taxpayer, taking the railway budget and the Government budget together, the net cost of the proposal to the Central Government is reduced to 41 lakhs.

28. There is, however, a set off which in certain circumstances we may have to make. When we made the cut last year and exempted Government officers from the surcharges on income-tax, one result was that Provincial Governments profited at the expense of the Central Government in respect of the income-tax which would have accrued to us if it had been levied from their officers. Now that this income-tax exemption has been removed, the proceeds accrue to us and this clearly is as it ought to be. It would be a most dangerous precedent to admit that the Central Government might have to give up the proceeds of taxation on the ground that they were borne by officers serving under Provincial Governments. At the same time, both the cut and the exemption from taxation were definite emergency measures, and it could be argued that so long as the cut persists even in part so long we must admit that this exceptional emergency continues, and that looking at the sequence of events Provincial Governments can be sympathised with if they ask that a certain amount of this should be returned to them. We estimate that the

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total amount involved will be about 36 lakhs. The Government of India desire to meet these considerations so far as they can and it has therefore been decided that if the financial results for this year make it possible proposals will be placed before the Legislature in due course to make special grants to those Provincial Governments which satisfy us that they are in unavoidable deficit, to compensate them for the emergency income-tax increases now to be levied for the first time on the salaries of such of their officers as are still subjected to a cut in pay. If therefore our budget estimates are realised, we hope to be in a position to make grants towards this object.

29. Before leaving this part of the question I would like to point out that the principal benefit of this partial restoration will be felt in the lower grades. Officers on the highest rates of pay benefit hardly at all from the present proposal; in general it may be held that for officers earning Rs. 1,500 a month and over the surcharges mean a reduction of from 2½ to nearly 4½ per cent.

30. I have now explained to the House the effects of this partial restoration on Government's finances and on the officers themselves. I shall now proceed to explain our reasons for acting as we did. The whole question is being thoroughly examined in the speech of the Honourable Finance Member in the other House, and here I merely wish to state what we consider the root of the matter. The essential point is that when a general reduction of salaries was introduced as part of the emergency financial plan in September, 1931, its only justification was the existence of an exceptional emergency of extreme gravity; the step was one which could only have been contemplated after the effects of all other measures had been exhausted. It was, as you will remember, a time when the British Government and we were faced with the momentous decision whether we could any longer adhere to a fixed gold standard, and it was obvious that taxation and retrenchment alone would not tide over the crisis. In a storm something has to be jettisoned to save the whole, and we were faced with the unpleasant task of deciding what it was to be. In face of a similar predicament some countries repudiated their debts either openly by a moratorium or indirectly by refusing to send the proceeds to the investors abroad. We refused to contemplate any measures of this sort, and I think that everybody will admit that we were right in doing so. But the fact that in preference to undertaking such measures of direct or indirect repudiation we decided that we could rely on the loyalty of our Government servants and call on them temporarily to forego rights which really fall in the same class as the obligations which I have just mentioned, does not mean that we under-estimated the gravity of the step which we were taking and still less that we were admitting as a principle that the pay of Government servants was optional expenditure which could be raised or lowered each year in the same way as taxation. That the position of Government may be quite clear in this matter I venture to repeat what the Honourable Finance Member said when introducing the original proposals in September, 1931. The first condition was that

> "the cut should be of a temporary nature not extending beyond the needs of the present exceptional emergency. Its justification is in the need for common sacrifice in a national emergency";

and, then

> "it is perhaps forecasting events too much to say in what order restoration should be made, but there are certain principles which we consider must be observed. Relief must come first in restoring the emergency cuts in pay, and secondly in taking off the surcharges on income-tax now to be imposed".

31. I have now placed before the House the main features of the Budget, and though it is not altogether a pleasant Budget, it seems impossible for the

Finance Department of this or any other government to be pleasant if it is to be honest in the world of today. Though I am confident that eventually the commonsense of the world will find a way out of the present difficulties, and though I feel that the troubles from which we are suffering can be regarded more truly as the growing pains of a new order of things than the agony of a dying civilization, we have to be practical, and the only practical course is to avoid easy optimism and to be prepared for a continuance of present conditions for some time longer still. On the other hand, there are strong reasons for optimism as to the eventual outcome, India's power of resistance to the world depression has been extraordinary, and even more encouraging has been the strong commonsense of the Indian people in overcoming a fetish worship of gold and turning their gold reserves to profit when they were most needed. In this respect India has proved itself to be in advance of many countries which pride themselves on the modernity of their outlook. I am also convinced that when the tide turns, as turn it must, India's position is so inherently sound that she will be among the first to profit by it. Above all, we have the satisfaction of being able to present you with what is almost unique in the world today—an honestly balanced budget and one which looks like staying balanced. (Applause.)

NOMINATIONS FOR ELECTION TO THE STANDING COMMITTEE FOR ROADS.

THE HONOURABLE THE PRESIDENT: I have to announce that the following Honourable Members have been nominated for election to the Standing Committee for Roads:

The Honourable Diwan Bahadur G. Narayanaswami Chetti.

The Honourable Mr. Vinayak Vithal Kalikar.

The Honourable Sardar Buta Singh.

The Honourable Khan Bahadur Syed Abdul Hafeez.

The Honourable Rai Bahadur Promode Chandra Dutt.

The Honourable Mr. E. Miller.

The Honourable Mr. H. M. Mehta.

The Honourable Mr. Mahmood Suhrawardy.

The Honourable Mr. Satyendra Chandra Ghosh Maulik.

The Honourable Khan Bahadur Hafiz Muhammad Halim.

There are 10 candidates for three seats. I shall announce later on the date on which election will take place in respect of this Committee.

NOMINATIONS FOR ELECTION TO THE CENTRAL ADVISORY COUNCIL FOR RAILWAYS.

THE HONOURABLE THE PRESIDENT: I have to announce that the following Honourable Members have been nominated for election to the Central Advisory Council for Railways:

The Honourable Khan Bahadur Syed Abdul Hafeez.

The Honourable Rai Bahadur Lala Jagdish Prasad.

[Mr. President.]

The Honourable Rai Bahadur Lala Mathura Prasad Mehrotra.

The Honourable Mr. Hossain Imam.

The Honourable Diwan Bahadur G. Narayanaswami Chetti.

The Honourable Mr. H. M. Mehta.

The Honourable Mr. Mahmood Suhrawardy.

The Honourable Raja Charanjit Singh.

The Honourable Mr. Satyendra Chandra Ghosh Maulik.

The Honourable Nawab Sahibzada Sir Syed Mohamad Mehr Shah.

There are 10 candidates for six seats. I shall announce later on the date on which election will take place.

STATEMENT OF BUSINESS.

THE HONOURABLE THE PRESIDENT: Is the Honourable the Leader of the House in a position to make a statement regarding the course of public business?

THE HONOURABLE KHAN BAHADUR MIAN SIR FAZL-I-HUSAIN (Leader of the House): There will be no business, Sir, between now and Saturday next which as Honourable Members are aware has been fixed for the general discussion of the budget.

THE HONOURABLE THE PRESIDENT: Before I adjourn the Council, I wish to remind Honourable Members that a group photograph will be taken on the 4th March, 1933, at 10-45 A.M.

The Council then adjourned till Eleven of the Clock on Saturday, the 4th March, 1933.