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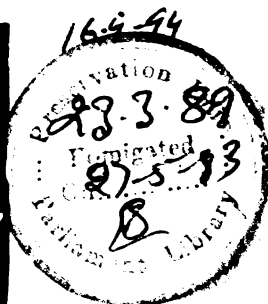
THE
LEGISLATIVE ASSEMBLY DEBATES
(Official Report)

Volume II, 1931

(19th February to 11th March, 1931)

FIRST SESSION
OF THE
FOURTH LEGISLATIVE ASSEMBLY,
1931

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1931

Legislative Assembly.

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LEGISLATIVE ASSEMBLY.

Saturday, 28th February, 1931.

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

MEMBER SWORN:

Khan Bahadur Makhdum Syed Rajan Baksh Shah, M.L.A. (South-West Punjab: Muhammadan).

THE BUDGET FOR 1931-32.

INTRODUCTORY.

The Honourable Sir George Schuster (Finance Member): Sir, another year has passed and we meet once more in this Chamber to take stock of the business side of Government.

I think I may feel assurance that all Members of this Assembly, in whatever quarter of the House they sit, will agree with me at least in one thing, and that is that we meet in circumstances of great difficulty, and that the responsibility of which I have to render account tonight is a heavy and perplexing one.

2. If I can secure agreement from all sides on this point, perhaps it is not too much to hope that Honourable Members will carry their sympathy a stage further and approach the consideration of the problems and proposals which I shall explain tonight, in a spirit which recognises that the difficulties are mainly inherent in the present situation in India and that they require a common effort for their solution. Let me explain what I mean by this.

3. So far as economic factors alone are concerned, our problem is one which the whole world has to face, and in fact, our situation in India is, in that respect, easier and more straightforward than that of most other countries. But in India we have this added complication—that we are passing through a period of great political stress and strain, and stand on the eve of a fundamental change in the system of Government. This complicates the situation in many ways, and the one difficulty reacts on the other. For, on the one hand, the economic situation could be more easily dealt with if we stood on more stable political ground, while, on the other hand, the political changes could be more easily effected if the country were not in the midst of these economic difficulties. There is an old English saying: "Don't change horses in the middle of the stream". India today has to consider a change in political horses just when she is crossing a stream of economic difficulties which is sweeping down in dangerous flood upon her. If the operation of changing horses is to be accomplished without disaster to India, then all who are engaged in it must work in co-ordinated co-operation.

[Sir George Schuster.]

4. As a preface to my business statement, I will say this. Times are bad. We all know that. But there are two thoughts which we should not forget. The first is that India is not alone in this economic adversity. It is a condition through which the whole world is passing, and I am convinced that the state of many countries is, beyond all comparison, worse than that of India.

The second is that the country has been through such times before. Economic life, at least in the modern world, moves in cycles, or with ebb and flow. We are on the ebb now, but it is a safe prophecy that the tide will turn.

5. It is important to remember these things, not as affording any justification for thoughtless optimism or for lack of determination in dealing with the present problems, but in order to preserve a sense of proportion both as regards those problems and the remedies. So far as India is concerned, the fundamental position is still sound. The time has not yet come for panic measures or desperate experiments which might land us in unknown complications or endanger the efficiency of the whole machinery of Government. What we need rather is to give unremitting care to details, to stick to principles of sound finance, to work hard, keep our heads, and pull together. Above all, it is necessary to be sound in our finance. There must be no doubts about our determination in this at the present critical time.

6. *Economic review.*—I must now turn to my main task tonight. For the purpose of the review and the forecast which are necessary, our Government finances are in this period so affected by surrounding conditions that, in order to judge the present position and to forecast the future, a very careful study of those conditions is necessary. In order to assist Honourable Members and the public, on whose proper understanding of the position we so much depend, I have had prepared an economic review of the main items of trade for the past calendar year. This has been done by Dr. Meek, the Director-General of Commercial Intelligence and Statistics, and will be distributed at once with the usual financial papers. This step represents an effort to provide information in more up-to-date form than is available from the usual annual trade review—which normally appears rather too late after the event to be of full value.

7. It would be impossible for me tonight to attempt anything like an exhaustive account of the situation and I shall content myself with referring to certain main features and stating certain broad conclusions.

8. *Trade depression and fall in prices.*—So far as concerns those conditions which normally affect our Indian estimates, there is nothing adverse of which to complain. Crops during the agricultural season 1929-30 were fairly good and the monsoon of 1930 was generally normal, producing, on the whole, satisfactory results. On the other hand, the year which we are just completing has witnessed one of the worst industrial and trade depressions in history. The downward trend of the trade movement started in October, 1929, after the Wall Street collapse in America and from there the movement spread to other countries all the world over. The depression deepened at an accelerated rate in 1930, and conditions became progressively worse as the year advanced. As a result of the fall in prices and the trade depression, practically all classes in all countries

are suffering from a lack of purchasing power. It is too early yet to say whether the bottom of this movement has been reached, but in considering prospects for next year, I think it is necessary to reckon that, as regards prices and the general volume of commercial activity throughout the world, recovery will be slow.

9. The fall in prices has affected most severely those countries whose economic activity is mainly directed to the production of primary agricultural products. This is brought out most clearly from the index numbers of wholesale prices in various countries, for, in India, the fall in the Calcutta wholesale prices index corresponds very closely with the falls in countries like Australia and Japan, and is heavier than the fall in the wholesale figures for the United States or the United Kingdom. The same point is seen by comparing falls in the prices of articles which India exports with the fall in the prices of those articles which she imports. The fall in the former between September, 1929 and December, 1930, was 36 per cent., and the fall in the latter 16 per cent. India may therefore perhaps be said to be going through the worst time now. She has felt the severity of the fall in the case of what she has to sell, but has not obtained a corresponding advantage of the fall in prices of what she has to buy.

10. *Political situation.*—Apart from the effects of the economic crisis, the situation in India has been aggravated by special factors which are only too familiar—internal disturbances and the uncertainty caused by the prospects of fundamental constitutional changes.

11. Now, judging from questions which have been asked in this Assembly and discussions in the press, a good deal of interest has been taken in the question as to how much of the present economic depression in India is due principally to world causes, and how much to political disturbances in India and to certain special features of the civil disobedience movement. If discussion on this subject is to be used as a basis for a campaign of recrimination, that is a purpose to which I do not intend to lend myself tonight, but there is some practical importance in making an objective study of the situation in order to form an opinion as to the extent of improvement for which we may hope if normal internal conditions and confidence in the future can be restored.

The facts recorded in the Report which I am circulating, will enable Honourable Members to form an opinion on certain aspects of this question. If I were to endeavour to answer it shortly, I should summarise my views as follows.

12. So far as the total volume of India's external trade is concerned, the main course of events has been determined by world economic conditions. Exports have kept up well in volume, and the total imports have not declined to a degree appreciably out of proportion to the drop in the value of the exports. On the other hand, certain classes of imports have shown major variations from the normal—notably cigarettes and cotton piece-goods, but, as to the latter, it is necessary to remember that a part of the variation might have been expected as a result of the higher import duties imposed last year.

13. On the other hand, although the course of external trade may have been mainly governed by economic causes, internal trade has suffered disastrously as a result of political disturbances. Unnecessary losses to private traders must have been very great, while enormous

[Sir George Schuster.]

sums of money must have been diverted from productive purposes. This kind of effect is seen in Provincial budgets, but there must be much more which does not appear in any public accounts.

14. Lastly, and above all, the most damaging effects have been caused in what I may describe as the region of Finance. The implications of the movement have weakened confidence in India as a field for investment both at home and abroad, and this has led to a decline in the price of Indian securities, both Government and private, to a lack of credit for traders and of capital for new enterprise, and to a steady export of capital from the country. This has meant increased expenditure on loans for Government and has forced Government to take measures to protect the position which have resulted in high money rates, with a consequent increase in the difficulties of traders in these very difficult times. With these particular points I shall have to deal more fully later.

15. I have stated the case in the preceding sentences with studied moderation, but I must guard against that moderation being misunderstood. The country has, it is true, survived the past year without irreparable disaster. But the reserves and credit of all—individuals and public authorities alike—have been seriously weakened, and any continuance of internal disorders is a matter which all who have the true interests of India at heart must view with the gravest possible concern. It might, in fact, mean that India, on the day when she should be inaugurating her new constitution with bright hopes of success, would find herself, instead, struggling desperately for mere existence in a morass of economic troubles.

This is the general picture which I would give.

16. *External trade.*—As regards external trade there are some features which deserve special comment.

The visible balance of trade in favour of India (including private imports of treasure) for the first 9 months of the current financial year was 34.43 crores comparing with 41.62 crores for 1929, 39.76 crores for 1928, and 33.07 crores in 1927. The balance was therefore not strikingly worse than the average of the last few years and was actually better than in 1927.

As against this, of course, the value of trade has declined enormously—exports of merchandise for the 9 months being down by 61 crores, as compared with last year, and imports by 56 crores.

17. But, in forming a view of the state of Indian trade, it is necessary to consider the volume as well as the values. If we compare the results for the calendar year 1930 with the calendar year 1929 and reduce them to a common basis as regards price, we find that the volume of exports declined by less than $\frac{1}{2}$ per cent. (to be exact .4 per cent.), while the volume of imports declined by just under 18 per cent. This greater decline in the volume of imports was natural. The country pays for its imports with its exports and since, as already pointed out, the price of the goods India exports fell much more than the price of goods which she normally imports, the same volume of the former could only buy a smaller quantity of the latter.

It is, I think, worthy of special comment that, in these times of bad world conditions and of general over-production of the agricultural commodities on which India relies, she has been able to maintain the volume of her exports. It is a sign of general health in the economic condition which, in spite of the diminished prices received, must, on an impartial view, be regarded as satisfactory.

18. As regards the export trade, the main facts to note are the large decline, both in quantity and value, of jute exports, and the satisfactory position, at least as regards quantities of exports, shown for Indian cotton. Exports of raw jute, on the nine months to date, show a fall of nearly 12 crores—a decline in value of 54 per cent. and in quantity of 29 per cent. Cotton exports for the nine months are up to last year's level, but show a decline in value of 24 per cent. I should like to say something about cotton, for, although the present price is so unsatisfactory, this is an item which has certain very encouraging features for India's future, while there are important economic lessons to be learnt in this particular case. There is no doubt that Indian cotton is steadily gaining ground in the world's markets. For 1930 the total exports were 727,000 tons as against 702,000 in 1929. This increase is extremely satisfactory in times, like the present, of diminished consumption throughout the world. Many manufacturers, especially in Lancashire, are now adapting their mills so as to substitute Indian for American cotton. The new Lancashire combine—the Lancashire Cotton Corporation—whose mills a year or two ago only took about 10,000 bales a year of Indian cotton, hope shortly to be taking upto 4,000 bales a week and eventually more than double this quantity. But the strength of the Indian cotton position depends on its price. It is being bought because it is cheaper than American cotton. If the relative price of Indian cotton is forced up, the advantage will disappear, and the tendency which is now going on for a change-over to Indian cotton will be stopped. I mention this because there have been frequent demands that Government should intervene to support the price of Indian cotton. We could not accede to these demands because we felt that experience proved that all such attempts made in other countries to interfere with normal economic forces had ended disastrously. But it might have had an added evil effect in the case of Indian cotton, because if special efforts had succeeded temporarily in putting Indian cotton up to an artificially high level, they would just have defeated that tendency—so favourable, in the long run, to India—of which I have been speaking, and checked the establishment of a permanent new market for Indian cotton.

19. These are some of the points which, I think, are worthy of notice. If there are any favourable features or if the evidence shows that the underlying position is healthy, these things do not of course counteract the immediate effects of the great drop in the value of trade and the consequent serious direct loss to Government revenues from customs duties or the indirect loss through lower trading profits.

20. *Revised estimates for 1930-31.*—The figures which have already been before the House in connection with the Railway estimates, have shown with unpleasant clarity the scale of deterioration which has to be faced. These Railway results have not, of course, as yet (owing to the method of calculating the Railway contribution) affected our normal revenue, though they have had a serious effect on our ways and means

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position, and they have raised a danger signal for revenue also in the future.

21. Apart from this, I shall only refer now to the most important features in the results for the current year, for the details of the revised estimates are shown in the Financial Secretary's Explanatory Memorandum which will soon be in the hands of Honourable Members along with the other budget papers. I expect that we shall lose as much as 94 crores under Customs, of which cotton piece-goods and jute contribute 3.45 lakhs and 85 lakhs, respectively. To the extent that duties are specific, we are hit by the reduction in the volume of imports and exports. To the extent that the duties are *ad valorem*, revenue automatically falls even if the volume of imports is maintained at the former level. Under Taxes on Income, I expect that we shall lose 2.20 crores notwithstanding the fact that the assessments have reference to the incomes of the previous year. The revenues of the Indian Posts and Telegraphs Department have also been seriously affected by the prevailing conditions and the working of the Department is expected now to result in a loss of no less than 1.36 lakhs against 48 lakhs anticipated a year ago. The deterioration on the Finance headings is in a large measure due to the ways and means operations of Government which I shall deal with later. The main items of deterioration as compared with the budget may now briefly be summarised as follows :

Lakhs.

Important revenue heads, viz., Customs, Taxes on Income, Salt and Opium (net)	12.10
Posts and Telegraphs (including the Indo-European Telegraph Department)	89
Finance headings, viz., Debt Services, Currency and Mint.	1.38
Other heads	5
Total	14.42

As the final budget estimates showed a surplus of 86 lakhs, the revised estimates work up to a deficit of 13.56 crores.

PROSPECTS FOR THE YEAR 1931-32.

22. *General considerations.*—I can now turn to the estimates for 1931-32. In making these, I have been influenced by the following considerations. So far as concerns the special disturbances as affecting economic activity in India, we may at least hope that these will not be aggravated during the coming year, and that their effect will gradually diminish. On the other hand, so far as general conditions are concerned, although I believe that a return to peace and co-operation in India might have a direct influence on a world recovery, nevertheless, it would be prudent to reckon that as regards the general level of prices, and as regards the general volume of commercial activity throughout the world, recovery will be slow. There is a mass of wreckage to be cleared away, and although there are signs that we have reached the limit of the ebb, nevertheless, some time must elapse before the tide sets strongly towards a permanent recovery in world conditions. On these grounds I think it necessary to be cautious in the revenue estimates for next year. And I

would at this point emphasise that a very special duty rests on those of us who are responsible for handling public affairs in this transitional stage and on the eve of constitutional changes. That duty is to face and overcome present difficulties with present measures, and not to leave an unsound position with hidden weaknesses to our successors.

At the same time, we must not go too far in our pessimism. For, a policy which magnifies unduly the burden to be put upon the tax-payer of today, may defeat its own object by placing upon the commercial life of the country a load which would itself retard recovery.

23. Keeping these counterbalancing considerations in mind, I have framed the revenue estimates on a basis which is cautious so far as world conditions are concerned, but which otherwise assumes fairly normal conditions in India.

24. I must now turn to the problem of balancing the budget, and endeavour to show in broad outline the component elements of that problem. The best way in which to do this is to take, as a basis for comparison, the budget figures for the current year and show how our prospects for next year have deteriorated. In this way I can make clear what is the gap which we have to fill—a gap which can only be filled by making, on the one hand, cuts in expenditure and, on the other, providing new sources of revenue.

The position from which I have to start presents itself as follows.

25. *Tax revenue*.—I calculate that we must face a fall in tax revenue, as compared with the current budget estimates, of no less than 13·16 crores. In order to make clear the main features, I need only now refer specially to the large heads of Customs and Taxes on Income.

For Customs I estimate total receipts of 46·64 crores, which is 8 crores worse than the budget estimates for the current year, but 1½ crores better than what we now expect to realise this year. It would certainly not be safe to count on getting more than this, having regard to the low level of prices and the diminished purchasing power of India.

For Taxes on Income I estimate receipts of 13·50 crores which is 4½ crores worse than the current budget and 2·30 crores worse than what we expect to realise this year. Under this heading, of course, an improvement in internal conditions next year will not help us, for next year's income-tax assessments will be based on the current year's results, and so we shall suffer from the bad conditions through which we are now passing.

These two heads alone account for a deterioration of 12½ crores. Apart from this, there will be the normal drop in opium revenue, due to our policy of reducing exports, and other minor deteriorations which make up the figure of 13·16 crores which I have given as total loss on tax revenue as compared with the current budget estimates.

26. *Commercial undertakings*.—I come next to the prospects for the great commercial undertakings—Posts and Telegraphs and Railways.

As regards Posts and Telegraphs, business is badly affected by the current depression, and we must face a net deficit of 1·41 crores in the Indian Posts and Telegraphs Department, or, adding capital expenditure charged to revenue, of 1·52 crores. The budget estimate for the current

[Sir George Schuster.]

year was bad enough, but the revised estimate under the head as a whole is 80 lakhs worse than that.

As to Railways, I need not say very much. Honourable Members already know the results from the Railway budget. Here, as I have also noted in the case of the current year, owing to the way in which the "Railway contribution" is calculated, our own budgetary estimates are not yet seriously affected. But that does not mitigate the serious nature of the underlying position, and I must here sound a serious note of warning. We are living on our Reserves now and this process cannot be indefinitely continued. If there is no improvement in sight by the end of next year, the whole position will have to be reconsidered. I will say no more on that subject at this stage. The actual Railway contribution is estimated at 5.36 crores instead of 5.74 crores in the current budget, so that here we have a deterioration of 38 lakhs.

Taking these figures together with those for Posts and Telegraphs, the total deterioration on our main commercial undertakings is 1,18 lakhs.

27. *Finance*.—Next we must consider the general Finance headings, Interest receipts, Currency and Mint receipts, Interest on Debt and the Reduction and Avoidance of Debt provision. It is right, for a proper understanding of the position, that these should be considered together.

These headings have a most important bearing on the financial results this year, and I shall deal with them more fully when reviewing our general financial policy later in my speech. For the present, I merely wish to state the actual facts. Our position has been adversely affected under these headings in three ways:

First and mainly, there is a loss of profit to the Government from currency, partly owing to the decreased volume of currency in circulation, which is a necessary result of the general fall in prices and the decreased commercial activity, and partly owing to lower rates of interest on the Gold Standard Reserve. The former, under the headings Currency and Mint, accounts for a net deterioration of 2,27 lakhs, and the latter, under the heading Interest receipts, for a deterioration of 54 lakhs.

Secondly, there are higher charges on Interest on Ordinary Debt due to increased rates of interest payable on new loans and to the borrowing necessary for covering the deficit in the current year. Under this head, however, the net deterioration is only 1 lakh, because we have revised the basis on which interest charges are made to the Commercial Departments. This revision—which has already been explained by my Honourable Colleague, Sir George Rainy, in introducing the Railway budget,—has done no more than to put upon the commercial undertakings the full cost of the Government loans from which they benefited. The previous method of calculation meant that general revenues were actually losing interest on a part of the loans made to Commercial Departments.

Thirdly, there is an increased charge, under the heading Interest on Other Obligations, of 16. This increase is accounted for by the larger liability for bonus on cash certificates, which is 22 lakhs higher this year. Apart from this, the total balance of funds held by Government is reduced—mainly owing to the reduction in the Railway Reserve Fund balance.

Lastly, there is the automatic increase, in the provision for Reduction and Avoidance of Debt, of 78 lakhs. This is a heavy item, but at this stage in India's constitutional development, when the outside world is watching closely the effect of the coming constitutional changes on India's financial stability, I am sure that all Honourable Members will agree that it would be fatal to make any diminution in this provision.

28. To sum up—the total deterioration under the Finance headings is 3,76 lakhs, of which 2,81 represents the diminution of profits from currency, mainly due to the decreased volume of currency in circulation, and 95 increased net charges for debt, of which no less than 78 is due to the automatic increase in the Reduction and Avoidance of Debt provision.

29. We can now survey the whole of the picture of which I have thus presented the main features. Comparing the forecast for next year with the current budget, we lose—

13.16 crores in Tax revenue,

1.18 crores on Commercial Departments, and we are worse off by

3.76 crores on general Finance headings. This means a total deterioration of 18.10 crores as compared with the budget estimates for the current year. As those estimates provided for a surplus of 86 lakhs, the net deficit, on the basis of the current year's figures for all the other items, would be 17.24 crores. This is the gap which we have to fill either by cutting down expenditure or finding new sources of revenue. To this task I must now turn.

30. *Military expenditure*.—I propose to deal first with military expenditure—and here I am glad to say that we can put forward a substantial reduction of no less than 1,70 lakhs, bringing the figure (exclusive of the Territorial Force grant) to 52½ crores. I do not think I need repeat the detailed explanations of the arrangement affecting the Army budget which I gave in my budget speeches of the last two years. But I must explain how it is possible to make this cut. The original plan was based on a stabilised budget of 55 crores for four years from 1928 to 1932 and this was the figure included for 1928-29 and 1929-30. In my last budget speech I explained that we had arranged to lengthen the period by one year and reduce the average amount for the remaining period to 54.20 crores. We propose to repeat the same process this year, thus spreading the re-equipment programme over one additional year, so that instead of allowing for a budget stabilised at 54.20 crores for the next two years with a reduced figure thereafter, we shall have a basic figure of 53.63 crores for three years. On top of this, by taking advantage of reduced costs of various articles and savings effected by the military authorities by their economy campaign, and also by postponing part of the ordinary military engineering services, further cuts of no less than 1,13 lakhs have been made. I wish, however, to make

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it clear that the possibility of this economy depends partly on special savings and partly on the continuance of low prices for grain and other stores, so that it may not be possible to repeat it. This is an exceptional cut made in exceptional circumstances to meet the present emergency, and it means a retardation in the programme of re-equipment which the military authorities could not, acting purely on military considerations, have recommended. But they have proposed this special cut in order to help out the general situation, and I wish to take this occasion to express my appreciation of the way in which they have helped to reduce expenditure this year. I am afraid that many desirable projects for improving barracks and providing other amenities for the troops have had to be postponed, and in many cases officers who, according to the stabilised budget arrangement, had been led to expect that savings would be available for such projects have had to be disappointed.

The position has, however, been accepted, and I think it right that this House should know that a whole-hearted and substantial effort has been made by all the officers concerned to help in meeting the present financial situation.

A further small saving has been provided for in the Territorial Force grant, bringing the total military saving to 1,75 lakhs.

31. *Civil expenditure.*—This heading raises the whole question of retrenchment on which Honourable Members are doubtless expecting me to say a good deal today. I shall not shirk the task. I propose to divide it into two parts, first, dealing with what I will describe as immediate practical measures designed primarily to meet next year's difficulties, and secondly, discussing the possibility of a more far-sighted and considered policy for permanently reducing the general standard of Government expenditure. The distinction is perhaps not logically exact, because several of the emergency measures may have a permanent effect—but it is a useful distinction for my present purpose.

To put the same idea in another way, there are two questions before us: "What cuts can we make in next year's budget?" and "What steps can we take to hammer out a policy of retrenchment which will have a lasting effect?"

32. *Cuts made in the budget.*—I will start with the former and thus complete the budget picture. In considering this question, I must ask Honourable Members at the outset to appreciate the limitations and difficulties besetting the task. Although the Civil expenditure of the Government reaches apparently a large figure, the headings of normal administrative expenditure, which alone offer a straightforward task, are really confined to those shown in the accounts as Civil Administration and Civil Works, together accounting for about 16 crores. Even in this reduced total, when one gets down to the actual task, the scope for action is further limited. Thus, about 3 crores out of this total represents expenditure on the North-West Frontier Province, and here, at the present moment, instead of finding a margin for economics, I am faced with new and irresistible demands for new expenditure. I say irresistible, for how can we resist the claim that in this centrally administered area the standard of services, education, health, etc., should be brought up to that of the adjoining and similar districts of the Punjab? The most I can say in the

face of such demands is that, in present financial conditions, we must advance slowly. But it has to be an advance. Then again, there are headings like Audit on which we spend over a crore, where the needs mainly depend on what the Provincial Governments require, while there are others where expenditure represents fixed liabilities. In the case of others again, fixed and increasing commitments have been recently undertaken as part of policies approved by this Assembly. I refer to such items as Agricultural Research grants, grants to the Aligarh and Benares Universities, and the development of civil aviation.

33. Apart from this, I would ask Honourable Members to appreciate the special work which is now falling on all Departments of the Central Government in connection with the constitutional Reforms. Special studies and enquiries are necessary in all directions, and this work is super-imposed on that of current administration, which in itself has been greatly increased owing to the demands made on the time of officials by this Assembly.

34. I have dealt so far with the general head of Civil Administration. There is one other main head where we have power to control expenditure and that is Civil Works. But here again our powers are limited. There is, first, the fixed burden of normal maintenance and repair charges, which can hardly be reduced, and to this must be added the cost of works actually in progress. These works cannot be stopped without involving real waste of public money.

35. It is necessary that these facts should be appreciated, though it is not for me to exaggerate the difficulties, and I shall welcome any support which I can get from Honourable Members in pressing for economies which do not endanger efficiency at vital points.

36. In any case, in spite of all the difficulties, we have made a great effort to restrict expenditure with results that are really substantial. In this we have of course had the advantage of the enquiry by the officer appointed last year to examine the course of expenditure, as to whose Report I shall have more to say later.

37. In the first place, on departmental expenditure we have made special cuts in the provision for contingencies and in the scale of certain allowances. These amount to 26 lakhs—an important percentage on the grants concerned. It is by the cut on contingencies that we hope mainly to check all minor extrayagances and leakages. Then we have drastically curtailed expenditure on works for Frontier Watch and Ward to the extent of 22 lakhs and on other special grants to the extent of about 14 lakhs. As regards Civil Works, by refusing all new major works, by slowing up expenditure on works in progress, and by severely reducing the grant for minor works, we have made a saving of 33 lakhs as compared with the current year's grant.

In this way we have made special economies of about 95 lakhs, and to this may be added the automatic decrease—owing to smaller revenue receipts—in the Road Fund grant of 7 lakhs, which brings the total economy as compared with last year on this head to 1,02 lakhs.

38. Apart from these definite economies, other adjustments show a decrease of 24—bringing the total reductions up to 1,26 lakhs after allowing for several items of new expenditure in the North-West Frontier Province. Against this there must be put certain unavoidable increases and new demands which I reserve for special mention, although they are of a

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fairly normal nature. There is, first of all, the automatic growth in the pay-bill owing to the operation of the time-scale system which involves us in an extra charge of about 23 lakhs. Further, in spite of the present hard times, we have decided to include a provision of about 2½ lakhs as part of our programme for improving statistical records bearing on the economic condition of the country, while the grant to the Aligarh University will also go up by 3 lakhs. These items totalling about 29 lakhs reduce the net saving to 97 lakhs.

39. This figure of 97 lakhs may be fairly said to represent the economy in normal Civil expenditure this year; but I have still to mention two very heavy non-recurring items, which would have had to be dealt with differently if I had not been able to balance them by a wind-fall on the receipt side which I must now explain. The two items of expenditure to which I refer are 34 lakhs for the census and 19 lakhs for abnormal capital expenditure (mainly for new aeroplanes and ground works) in connection with the plan for a State Air Service and the general development of civil aviation. The census is of course unavoidable, while, as to civil aviation, it is necessary to carry on with this expenditure unless we are deliberately to abandon the policy which has already been accepted by this House.

40. *A wind-fall.*—The special wind-fall to which I have referred is a sum of about 54 lakhs net to be realised from the sale of the Indo-European Telegraph undertaking.

In the course of this year the negotiations regarding the disposal of the Indo-European Telegraph Department have been concluded. For some time past, this Department has been running at an increasing loss, partly, owing to wireless competition and partly as a result of the general trade conditions. Difficulties have also been experienced in administering this Department most of whose operations were conducted in Persian territory, and of late the Persian Government have been pressing for the transfer of control of Persia's internal telegraph system to Persian hands, a demand with which we had naturally considerable sympathy. Under the settlement now reached, it will be possible to satisfy Persia's national wishes in this respect by transferring the Persian Section of the Department to Persia, while, in consideration of our agreeing to release the Communications Company from an old agreement regarding the apportionment of the receipts, India receives a cash payment of £450,000 from that Company and also transfers the liability for maintaining and working the unremunerative Persian Gulf Section to the Company. After allowing for compensatory payments to the staff discharged and for various other adjustments, we shall realise a net sum of about 54 lakhs.

41. As the assets thus disposed of were originally paid for out of revenue, it is quite proper that the connected credit should be taken to revenue and, as I have said, I regard it as specially balancing, and in a sense justifying, the heavy non-recurring expenditure on census and civil aviation which unfortunately falls on next year.

42. *Gap to be filled.*—As the receipt is 54 lakhs and the provision for these two items is 53, that gives me 1 lakh in hand to be added to the net saving of 97. Adding the resulting figure of 98 lakhs to the saving of 1.75 lakhs on the Military budget, we have a total of 2.73 lakhs to put against the deficit of 17.24 crores with which I started.

This therefore reduces the gap to 14·51 crores, and this is the sum for which we must provide by new taxation.

43. *Retrenchment Committee*.—But, before I explain my proposals for taxation, I must deal with the second aspect of retrenchment to which I have referred.

I hope that I have said enough to demonstrate that we have made a great effort this year to cut expenditure. But in times like these, when we are asking the House to impose upon the country a heavy burden of new taxation, I recognise that Honourable Members may legitimately demand some means of satisfying themselves as to the possibility of still further and more permanent economies in expenditure. Speaking as Finance Member, I should welcome such a demand. We therefore propose that, if it should be the desire of this Assembly, there should be constituted a Retrenchment Committee consisting of five non-official members to be elected by the Assembly and two officials to be nominated by His Excellency the Governor General, one of whom would be a representative of the Finance Department.

44. I wish to say something more than the mere announcement of this intention. Last year, when motions for general percentage cuts on all grants were moved by my Honourable friend, Sir Hari Singh Gour, I emphasised to the House the danger of indiscriminate "axing". I think all of us have seen examples of this. In normal times expenditure inevitably grows from year to year. Then, for some reason or other—generally an economic crisis with a sudden drop in revenue—the burden becomes too heavy to be borne and there is a sudden demand for retrenchment. In such cases of emergency, the axe is often wielded with a view rather to immediate than to ultimate results. Indiscriminate cuts are made regardless of their effects—officials are discharged, and thereby additional pension charges are prematurely incurred—and then, when the sudden feeling of enthusiasm has calmed down, and the crisis is past, it is found that essentials as well as non-essentials have been cut away. New men are engaged, their salaries added to the extra pension charges of "axed" officials, and in the end net result may prove, in many cases at least, to have been false economy. With these considerations in mind, I resisted last year the demand for indiscriminate cuts. I promised, on the other hand, that a careful analysis of the growth of expenditure in the preceding five years should be prepared and laid before the House. I wanted Honourable Members to see exactly where and why expenditure had been increased, so that they might launch a well-directed, and not an indiscriminate, attack on the position. This analysis will now be available for them in the form of a very full Report by the officer whom we specially appointed for this duty. His Report will show exactly why, how, and where expenditure has grown, and indicate the main fields to which the search for economies can be most usefully directed. The Retrenchment Committee will thus be able to start work with the assistance of much valuable material with all the preliminaries for their work carefully prepared.

45. *Mr. Jukes' Report*.—I must here make a digression to explain that, owing to circumstances beyond our control, there has been a delay, which I regret, in completing this Report. Mr. Jukes—the officer appointed—after presenting an *Interim Report* which was laid on the table during the

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last Simla session, had to be taken away from his work from the end of September till the middle of February in order to act either as Finance Member or as Financial Secretary in the absence, on duty in London, of Sir Arthur McWatters and myself. I had hoped that in the past two weeks he would have completed his Report for the press so that it might be available on the presentation of my budget. Unfortunately, he has been seriously ill and the work has been delayed. But I hope that the Report will be before Honourable Members in good time before the end of this session.

46. The primary task of the Retrenchment Committee will be to investigate possibilities of retrenchment in the Civil expenditure of Government as examined in this Report. But this work must be co-ordinated with other steps in a comprehensive plan. Retrenchment in its fullest sense involves a wide range of subjects, some technical and others which now form part of the whole constitutional issue which is before us. For such subjects, in certain cases, other agencies must be employed, and with these the work of the special Committee of this House, if appointed, must be co-ordinated.

47. *Commercial Departments.*—Let me deal first with the Commercial Departments.

As regards the Posts and Telegraphs, Honourable Members are aware that a special Committee, to be presided over by a distinguished Member of this House, has just been appointed to examine the working of the system of commercial accounts for that Department. This Committee will throw light on an important question which exercises the minds of Honourable Members, viz., whether the account figures as now shown present a fair picture of the commercial working of the service. When that Committee has reported, the way will be open for Government to explore means and methods by which this Department may, most effectively and rapidly, but without detriment to its efficiency, be placed on a sound commercial basis and made to cease its drain on general revenues. If, after that, the Assembly consider it desirable that a further search for economy should be pursued, Government will consult with them as to the best way of giving effect to this.

Turning to the Railways, my Honourable Colleague, Sir George Rainy, has dealt with the question of economy in Railway administration and informed the House of the steps already being taken. He has also indicated that if the Railway results were to continue in such a way as to threaten the financial fabric of the Government of India, then it might be necessary to make a thorough enquiry into the possibilities of improving the position, and that a special technical Committee would be required for such work.

48. *North-West Frontier Province.*—Then there is another form of special enquiry to which I must refer, namely, expenditure in the North-West Frontier Province. I have already spoken of the inevitable growth of expenditure on beneficial services in this Province. But, as regards Frontier Defence, we have recognised that the search for economy must be rigorously taken up, and the Government of India have decided that the time has come to review the whole policy and to consider whether there is any chance of saving money by a better co-ordination of irregular troops, the

Regular Army, and the Air Force. A special Committee has been appointed to investigate this matter, and their Report should be available in a few weeks.

49. *Military expenditure.*—Apart from this, I must also mention the whole field of military expenditure. Here, obviously, no substantial economies would be possible without changes in the composition and strength of the forces in India, which would raise issues, military and constitutional, of vital importance. The study of this subject cannot be undertaken independently of the constitutional issue. It is a subject which has already received special consideration at the Round Table Conference, and I would refer Honourable Members to the Report of the Defence Sub-Committee of that Conference.

50. *Pay and conditions of service.*—Lastly, I come to a very important question, one which, in fact, pervades all the others, the question of pay and conditions of service. A good deal has been said and written on this subject lately, and attention has been directed to reductions in the pay of Government servants which have recently been effected in other countries. The subject has also been ventilated in the discussion on the Railway budget, so that, to that extent, I am not treading on new ground in this House. It is an extremely difficult subject and one on which clear thinking is essential.

51. Let me say something first as to its scope and significance in India. It is often brought as a charge against British administration that India, a poor country, has been burdened with a heavy load of pay for costly officials at the top, specially British officials, and that the money required for education and other beneficial services cannot be available until this burden is drastically reduced. If the matter is to be discussed on these lines, it is essential to be clear as to the facts.

I am not going to attempt tonight to deal in detail with the charge that the administrative machine in India is unduly costly. That would require elaborate comparison with other countries and a mass of figures with which I do not wish to burden my speech tonight. But perhaps at this point, I, as one who brings an outside vision to bear on this subject, may be allowed to express the view that no country has ever had more devoted and self-sacrificing work, or, to descend to material grounds, better value for her money, than India has had from her Civil Services. Their standards of work among the people, started in days when justice was not so well understood as now, have been unique, and have set an example to the whole world. I believe that Honourable Members, whatever they may think of our shortcomings on these front benches as official members of this Government, will agree with me on the work done throughout the country. Moreover, if Honourable Members will trouble to compare figures for other countries, they will, I think, convince themselves that the administration of India has hitherto been carried out, on the whole, at a very low cost. But, as I have said, I cannot deal with this relative aspect of the question fully now. It might with advantage be studied by the proposed Retrenchment Committee.

52. What, however, may impress Honourable Members more directly is an examination of the actual facts of the case in India, for the purpose of demonstrating the scope of any saving which might be accomplished.

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In order to make the position clear, I have compiled certain figures which are of great significance. The figures are taken from the 1928-29 accounts, being the latest actual figures available when I made the calculation.

Taking the Civil Departments (exclusive of the Railways), the total pay of all the officials of Government, British and Indian, high-paid and low-paid, Central and Provincial, amounts to just under 57 crores. Of this sum, the Central Government's share is about 16 crores, and the Provincial Governments' about 41 crores. This total is distributed between gazetted officers on the one side and what are called 'establishments' on the other. The term 'establishment', as Honourable Members are aware, covers all the clerical and lower-paid staff. Roughly speaking, with a few exceptional cases, it may be said that this part of the staff includes posts with pay ranging to a maximum of about Rs. 500 per month. I may add incidentally that it also includes all the police, and the irregular levies employed in frontier defence, to which special considerations apply.

Taking these two classes, the total cost of establishments amounts to 41 crores, and of officers, British and Indian, Central and Provincial, all together, and including all leave pay, amounts to 16 crores, of which the Central Government's share is just under 4 crores and the Provincial Governments' just over 12. Incidentally, I may mention that out of this total the cost of British officers amounts only to about 6½ crores.

Now, if the total pay of officers, British and Indian, Central and Provincial combined, amounts to only 16 crores, it is clear that no practicable cut in this figure could produce a revolutionary change. If all salaries were cut by 10 per cent, the total saving for the whole of India would only be 1,60 lakhs of which the Central Government would get about 38 lakhs and the Provincial Governments about 1,22 lakhs, or not more than about 14 lakhs each. Even if this cut were multiplied to impossible percentages, it would not produce an effect which could really affect the fundamental financial problem, and it is clear that, if effects which are even worth considering are to be produced, drastic reductions right down to the very lowest ranks would be necessary. This would be a very difficult task for any Government to face and one which might produce hard results for the lower-paid men. It is clearly not a case for hasty action.

53. Having thus done something to demonstrate the scope of the problem, it is next necessary to clear our minds as to the nature of action contemplated.

A very clear distinction must be made between a review of conditions for future entrants and an alteration in the position of serving officials.

54. In the latter case too, a distinction must be drawn between cuts, on the one hand, in allowances or in portions of pay which, according to the terms of service, are variable, and, on the other hand, alterations in basic and fixed rights. Action of the former kind is easy, and when comparisons are made with other countries, I must point out that, in several cases at least, the action taken has been of this kind. We also, so far as variable allowances, are concerned, are taking action, as I have already explained.

55. On the other hand, an alteration in the basic and fixed rights of serving officials is a step of an extremely grave nature. Even apart from

the constitutional rights of certain classes of officers, it would be, in a sense, a breach of contract, cutting at the roots of confidence in the good faith of Government, and likely to create a feeling of uncertainty in the public service which would be particularly detrimental at the present period of constitutional transition.

56. Apart from these considerations, there are others which stand in the way of hasty action by the Central Government.

The Central Government cannot take action alone. Quite apart from the constitutional responsibilities of the Secretary of State, it is also necessary to discuss the matter with the Provinces, for there must be uniformity of policy between the Central and Provincial Governments. Unless this is achieved, it is inevitable that great and justifiable discontent would be caused among the officials affected.

Again, it must be remembered that the future of the services—especially the All-India Services—is a matter of constitutional importance. It has already been considered by a special Sub-Committee of the Round Table Conference, and its consideration must be continued as part of the constitutional discussions.

57. I do not wish anything that I have said to be interpreted as meaning that we do not recognise that, in a case of national emergency, some sacrifice may be demanded from all concerned. We are also impressed by the fact that, at the present time, the prospects, on the one hand, of lower price levels and lower revenue, and, on the other, of the needs of an increasing number of officials under the new constitution, demand that policy on this question should be reconsidered with far-sighted vision.

58. For both of these reasons, some action is now called for, and what we propose is as follows :-

First, so far as concerns a sacrifice to meet the present emergency, we consider that this can be most fairly put upon all classes in the form of an increase in the income-tax—a measure which will not select the particular class of Government officials for bearing a special burden. When I come to my proposals under this heading, it will be clear to all that they do involve a sacrifice from all members of Government services, the severity of which I deplore, but which has been regulated as far as possible in proportion to their ability to make it.

Secondly, as regards measures for the future, it has been decided to hold a Conference on this subject in Simla, as early as possible after the Delhi session, with representatives of all the Provincial Governments, at which the possibility of revising the terms of service for new entrants into the services will be explored. The field for discussion at this Conference will of necessity be governed by the constitutional aspects of the question to which I have already referred.

59. The account which I have given of these matters shows, I think, clearly the general framework of the wider enquiries into which the work of a Retrenchment Committee of this Legislature—if this is appointed—will have to be fitted. Their recommendations will, in fact, have to be brought into relation with wider issues. But this will increase, rather than diminish, their importance.

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PROPOSALS FOR NEW TAXATION.

60. *General plan.*—I must now turn to my proposals for new taxation. In devising a plan to deal with the present situation, it is necessary, in the first place, to make some estimate of its nature. Can we say—It is a temporary emergency for which it will suffice to devise temporary expedients? Or is there a need for the permanent addition of new weapons to our armoury of taxation? The truth, I think, lies between these two views. On the one hand, one may say that, to a great extent, the situation is essentially abnormal and that, given a return to normal conditions, Central revenues, on the existing basis of taxation, might be adequate for the purposes of Central Government expenditure. On the other hand, we are not concerned merely with Central Government needs, and behind our own temporary emergency, there lies a permanent need for more resources for the reinforcement of the Provincial Governments' finances.

Therefore, of the new taxation proposed this year, my view is that some at least will be permanently needed, or at least cannot be abolished unless substitutes are found. This general idea will be found to underlie my proposals.

My plan for new taxation is all confined under the heads of Customs and Taxes on Income, for these are the only two sources ready to our hand for providing sums of the magnitude now required.

61. *Customs.*—I will deal first with Customs. My proposals fall into two distinct classes. I have first singled out a number of items on which it has seemed that the substantive rates can fairly be changed, and secondly, I am proposing a schedule of surcharges on other items. This distinction no doubt conveys a certain implication that the surcharges may possibly be less permanent than the other changes, but I do not wish to make too much of this. Future policy must inevitably depend on the revenue needs of the future. The heads in respect of which I propose alterations of the substantive tariff itself, are liquors, sugar, silver bullion, betel-nuts, spices and exposed cinematograph films. The *liquor duties* are to be enhanced appreciably; the duty on beer and the like is at present undoubtedly low relatively to those on other alcoholic beverages and will be raised by about 66 per cent. above the present level, while those on wines and spirits (except denatured spirit and spirit used in drugs and medicines) will be raised by between 30 and 40 per cent. As regards sugar, this is a special case which I must deal with separately. The duty on silver bullion I propose to increase from 4 to 6 annas per ounce. I must reserve for a later stage of my speech my remarks on our general policy as to our silver holdings. The other items mentioned will be transferred from the general rate of duty (now 15 per cent. *ad valorem*) to the "luxury" rate at 30 per cent.

62. Of the surcharges I shall not attempt in the time now at my disposal to speak in detail; we have at a stroke added to the 10 per cent. schedule a surcharge of 2½ per cent. to the general or 15 per cent. schedule one of 5 per cent., and to the "luxury" or 30 per cent. schedule one of 10 per cent. By far the most important of these surcharges is that of 5 per cent. on the general revenue schedule of 15 per cent., and connected with this, I must mention a feature of particular importance. We propose for this purpose to treat the basic duty of 15 per cent. on cotton piece-goods on

the same lines as the general 15 per cent. schedule and to place the surcharge of 5 per cent. on these goods also. The surcharge on the 15 per cent. schedule is expected to yield 90 lakhs for cotton piece-goods and 2,63 lakhs for other goods.

63. Coming now to the schedule of non-protective special duties, here we have made additions appropriate to the general scheme, and I need only mention specially the surcharges that I propose to levy upon kerosene and motor spirit. Both customs and excise duty on kerosene are to be raised by 9 pies per gallon, while motor spirit is to bear a surcharge of 2 annas per gallon.

64. *Sugar*.—Finally, I must explain my proposals as regards sugar. The case of sugar is a special one. I have included it in the list of items on which the basic rate is to be charged, but, in a sense, our proposal is actually in the nature of a surcharge. The position is special, because, while I am now proposing an increase in the duty for revenue purposes, we had received, just when my budget proposals were on the point of completion, the recommendations of the Tariff Board for the protection of sugar. Although I, as Finance Member, in bringing forward a Finance Bill, must look at the matter entirely as a revenue question, nevertheless, it would obviously be absurd for us to pretend that, with the Tariff Board's proposals in our hands, we can consider revenue measures with no reference in our minds to the plan for protection on which the Government will have to take a decision at an early date. At the same time, sugar duties cannot be permanently adopted as protective measures until they have been carefully examined by the Government and discussed, as protective measures, by the Legislature. My budget proposals must therefore be regarded purely as revenue measures which are, however, provisional in the sense that they may shortly have to take on a permanent protective aspect.

65. The Tariff Board's Report will. I understand, be almost immediately available to Honourable Members. In the meanwhile, I must explain what are their recommendations as regards sugar duties. Summarised, the Board's recommendations are:

- (1) A basic duty of Rs. 6-4-0 per cwt. on all classes of sugar, including sugar candy, to be imposed for 15 years.
- (2) An additional duty of Re. 1 per cwt. on all classes of sugar to be imposed for the first 7 years.
- (3) Power to be taken to add 8 annas per cwt. to the duty at any time if the landed price of sugar at Calcutta *ex-duty* falls below Rs. 4 per maund.
- (4) No protective duty on molasses.

66. Comparing these proposals with the present rates of duty, the position is as follows:

Leaving out of consideration, for the moment, the lower grades which are of minor importance, the Government would, if they adopted the Tariff Board's recommendation, have to raise the duty on sugar of 23 D. S. and over from its present rate of Rs. 6 per cwt. to Rs. 7-4-0, *i.e.*, to impose an additional duty of Re. 1-4-0 per cwt., while they would further

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have power to add an additional 8 annas per cwt., to the duty if the landed price at Calcutta falls below Rs. 4 per maund. I may say that at present the price is hovering just about this level.

67. So much for the Tariff Board's plan. My own proposals for revenue purposes had been very close to this, for I had actually contemplated an extra duty round about Re. 1 to Re. 1-8-0 per cwt. What I have now included is an increase of Re. 1-4-0 per cwt. on all grades of sugar. This, as I have said, must be regarded purely as a revenue measure pending consideration of the Tariff Board's recommendations. But Honourable Members will see that it is not inconsistent with those recommendations.

68. The combined effect of all these proposals as regards Customs duties will be to produce an additional revenue next year of 9.32 crores. We shall also obtain about 50 lakhs more from the increased import duties on galvanized pipes and sheets which the House discussed on 28th January last. This will raise the additional yield to 9.82 crores.

Incidentally, the new duties, which will operate from 1st March, and the increased duties on galvanized pipes and sheets, which came into force on 30th December, will add to our revenue for the current year a sum estimated at 88 lakhs, thus reducing the current year's deficit to 12.68 crores.

69. *Taxes on Income*.—I must now deal with Taxes on Income—the other head on which I must mainly rely for help to fill in the gap.

My proposals as to *income-tax* are as follows. The taxable minimum income for income-tax—Rs. 2,000—will not be lowered. The rate of tax on the lowest zone, up to Rs. 4,999 will be raised by 4 pies. The rates on higher grades up to Rs. 39,999 will be raised in some cases by 5 pies, in some cases by 6 pies, and in the highest of these grades by 7 pies. At present the highest rate is reached at Rs. 40,000. It is now 19 pies. I propose a rate of 25 pies on incomes from Rs. 40,000 to Rs. 99,999, and a maximum rate of 26 pies on incomes of Rs. 1 lakh and over. The estimated yield of these increases is 5.07 lakhs gross or, deducting 53 lakhs on account of increased refunds, 4.54 lakhs net.

70. In addition to this, I propose certain changes as regards *super-tax*. At present all assesseees except Hindu undivided families are allowed a deduction of Rs. 50,000 in computing the income liable to super-tax. This will be lowered to Rs. 30,000 except for Hindu un-divided families and Companies, which will be allowed, as at present, a deduction of Rs. 75,000 and Rs. 50,000 respectively.

In the new zone, Rs. 30,001 to Rs. 50,000 the super-tax rate will be 9 pies. Above Rs. 50,000 the graduated scales will be increased by 2 pies throughout. The flat rate for Companies will be 1 anna as at present. These changes will yield, it is estimated, 46 lakhs. Thus the total estimated additional net revenue from Taxes on Income will be 5 crores.

71. In the Explanatory Memorandum will be found a statement which shows exactly how these proposals will affect income-tax payers at various levels of increase. Briefly, they will add an extra charge of about 2 to 5 per cent. on all incomes. The rates of additional tax have been so

adjusted as to produce, in the final result, an evenly graduated scale of burden increasing as the income increases, and this object must be borne in mind in interpreting our proposals.

72. *Final surplus*.—The total yield from the proposed changes in Customs duties and Taxes on Income thus amounts to 14·82 crores, as against which the gap to be filled is 14·51 crores, so that I am left with a small surplus of 31 lakhs.

73. *Possibility of grants for Sugar and Jute*.—From this balance I wish to preserve the possibility of making certain grants for beneficial purposes.

It is particularly the desire of the Government to support schemes for the encouragement of the sugar industry, and there are certain schemes which may shortly be put before us by the Imperial Council of Agricultural Research which may require a provision of 5 to 10 lakhs next year.

Then again, there is the question of the establishment of a Central Committee for Jute, which Government also are most anxious to promote. This matter is now under discussion between the Government of Bengal and the various jute interests in Calcutta. The financial basis of the plan would be that Government should make some reduction in the rate of the jute export duty, and legislate for a corresponding amount to be levied as a cess for financing the Jute Committee. The total sum contemplated as required for this is estimated at about 5 lakhs annually, and in order to enable the Committee to undertake useful work from the outset, the Government would be prepared to make a proportionate grant at this rate as soon as it is actually needed—pending the passage of the necessary legislation for the imposition of the cess. I mention this point in order to make it clear that the Government of India are anxious to see this Committee established as quickly as possible. It is for the various jute interests concerned to agree to the scheme which has already been worked out, and Government stand ready at any time to help financially.

74. In the case of both these possible demands, it would be necessary for us to ask the Assembly to approve supplementary grants. It has not been possible to include provision in the budget, because the demands are not yet before us.

75. *Need for averting another deficit*.—While mentioning the possibility of supplementary demands for moderate sums under these heads, I must also make clear that it will be necessary to maintain a very close financial control throughout the year. Our estimates are framed on sound and reasonable lines, but if internal disturbances continue, they are of course liable to be upset. Expenditure and revenue returns will have to be carefully watched, and, if conditions show signs of deterioration, it may be necessary to take *interim* measures to counteract that. It is vitally important to the financial stability of the country that we should not find ourselves at the end of another year with a large realised deficit.

76. *Plan of new taxation*.—That concludes my account of the measures for balancing the budget, but before I turn to explain our borrowing programme and the ways and means position, I wish to make certain general observations on the whole plan of new taxation.

77. *Customs*.—As regards the customs proposals, I trust that these will, on the whole, receive commendation from this House. They involve, of course, a substantial addition to the cost payable by consumers; but as against this, I would point out that prices are low and that it is just for this

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very reason that additional percentages in our duties are necessary. Although the rates are enhanced, we shall not in fact be raising more in this form of taxes than was to be expected as the yield from Customs at the old rates in a normal year, while, as far as Indian industry is concerned, the general effect of the new duties should be beneficial.

78. *Silver*.—It is necessary for me to make special reference to the proposed increase in the tax on silver because this has a general bearing on the whole question of our policy in relation to silver and its effect on the world position.

79. The increase of 2 annas an ounce which we are proposing is estimated to produce 75 lakhs from the import duty and 7 lakhs from the excise or 82 lakhs in all. In itself it is a clearly justifiable form of raising revenue as part of the general plan designed to meet the situation which confronts us this year. The only possible objection to it might be based on broader grounds, that is to say, on a fear that it might tend to check consumption of silver in India and thus further weaken the price of silver to the disadvantage not only of India but of the whole world. We have given the fullest weight to this consideration, but with the very moderate increase in the duty which we now propose, we do not think that the fear is justified. Similar apprehensions were expressed in certain quarters last year when we imposed the duty of 4 annas. But although this weakened the price for a few days, the market almost immediately recovered, and in spite of the duty and of the great decline of India's purchasing power, the consumption of silver in the current year is keeping up to the normal level. In fact, we anticipate a consumption, taking all sources of supply into account, of between 100 and 110 million ounces.

India's consumption should not therefore this year be seriously affected by the increased duty, while, as regards helping to maintain the price of silver, we are prepared to consider action in other ways.

80. *Steps to maintain price of silver*.—I announced in my budget speech last year that the Government of India would be prepared to co-operate with other silver interests if any practical scheme could be devised for controlling the production of new silver and the sale of new and existing stocks. Unfortunately, the only response to my offer has been on the lines indicated in certain utterances which have appeared in the press by representatives of the main producing interests in America. In general, these gentlemen propose that their own production of new silver should remain unrestricted, but that Governments and others who hold large stocks of silver should refrain from realising their holdings, and leave the world's markets free for the new production. Now, whatever criticisms non-official Members in this House may have made in the past on our policy of selling silver, I am sure that they would not expect the Government of India to part with the country's rights by acceding to any such one-sided arrangement.

81. The demand that the Government of India should refrain from selling is, indeed, an astonishing proposition when the facts are studied. For, in fact, the whole world depends on India as a consumer. In the five years ending March 31, 1930, India absorbed about 540 million ounces of silver or 108 million ounces per annum. According to present indications, her absorption, even in the current year, will be up to this average, so that

the total absorption in 6 years will be about 650 million ounces. As against this, the Government of India have sold out of their own holdings a total of only about 90 million ounces since 1926. Yet it is suggested that even this moderate realisation is to stop, and that India is to stand aside and keep her own home market free to absorb the production from the mines of Mexico and the United States. This is clearly an unacceptable idea, and however anxious we may be—as indeed we are—to help, we must, as a condition of co-operation, secure fair consideration of India's interests. In the meanwhile, we must retain a free hand.

82. We must also ask ourselves whether co-operation is likely to lead to the desired result. The more I study the matter the more convinced I am that the fall in the price of silver is part of a much wider movement, and the more doubtful I become whether silver can be dealt with successfully in isolation. The fall in silver prices, in fact, has not really been out of relation to that in the case of other metals. Taking the price of silver, tin, lead, spelter and copper on March 31, 1926, and treating these prices as 100, the figures for the various metals at the end of January 1931 were 46·3 for silver, 41·4 for tin, 44·8 for lead, 38·1 for spelter and 78·1 for copper. Therefore, with the sole exception of copper, all these metals had fallen more than silver. Without going into further details, these facts alone indicate that, although a fall in silver prices may have wider results—owing to its currency uses—than a fall in the prices of other metals, nevertheless, the *causes* of that fall may be the same. Any action which does not touch the *causes* of the disease is hardly likely to provide a sound remedy. The conclusion to which this leads me is that, if there is to be an international Conference of any kind for dealing with silver, it would be of far greater value to the world if it could also deal with all those other factors in the present world situation which might be affected by international co-operation. I believe that such international co-operation is needed, and that India can play a very important part in it. But the development of this idea would take me into a wider sphere than I can traverse to-night. I hope to find other occasions for its discussion.

83. *Taxes on Income.*—As to the income-tax proposals, I wish to make clear that we regard these very specially as measures designed to meet the present emergency, but not necessarily permanently required. Certain features, indeed, may be permanently retained, such as the adjustments in the grading of income-tax, and the reduction of the super-tax level, but, in the main, I would ask that these proposals should be regarded as a temporary measure, a provisional defence thrown up to meet the present need, behind which the situation can be studied and more permanently consolidated. We want during the next year to consider, first, whether we have to face a permanent reduction in our general revenues due to a permanent lowering in prices all round, and whether, as a result of this, there is any means for permanently reducing the cost of Government; secondly, how our plans for distribution of revenue to Provincial Governments under the new constitution can be fairly adjusted; thirdly, whether any alternative methods of raising revenue can be devised which will be less hampering to the economic life of the country. These are some of the main questions which have to be studied before it can be said that taxes on income must be retained at these rates.

84. In the meanwhile, the proposals represent, as I have already stated, a sacrifice to be imposed, in order to meet the present emergency, on all the monied classes of the country, and falling especially with unerring aim

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and full weight on the whole class of Government officials. So far as these officials are concerned, the increased levy operates as a cut in salaries. I do not, however, attempt to conceal the fact that, by achieving such a purpose in this way, the Central Government is in a sense benefiting at the expense of the Provincial Governments, and, for this reason, our earnest attention will be required during the forthcoming year to devise measures for some other means of adjusting the position.

85. I must, at this stage, mention two other measures as regards income-tax which are under consideration by Government.

86. *Carry-forward of business losses.*—In the first place, there is the question of allowing assesseees to set off against business profits losses incurred in preceding years. I explained in my last budget speech that, if the revenue position made it possible, it was our intention to make a start in the introduction of such a provision—but that we had to be guided not so much by considerations of principle as by the practical conditions as regards revenue. It would mean a substantial loss of revenue, and the question for us is whether the country can afford it. Unfortunately, we cannot at present rely on having any margin for sacrifice, while there are certain practical considerations affecting the immediate introduction of such a measure which have special force just now. If the principle were to be introduced next year by allowing losses incurred on the current year's assessments to be carried forward, we should be starting at a very bad moment, for there must have been an exceptional number of cases of trading at a loss this year. At the same time, it is probable that no immediate benefit would be felt by those concerned. Assessments for the current year are based on results of 1929-30. Assesseees who incurred a loss during that year are not very likely to have made any profit during 1930-31, so that they would have no margin from which to obtain relief on next year's assessment. On the other hand, looking further to the future, if the principle of carrying forward losses were gradually extended up to 3 or 6 years starting with 1929-30, we should be imposing a heavy burden to be made up whenever a recovery in trading conditions takes place. That would be severely felt in the early years of the new constitution and would affect the amount which can be spared from Central revenues for the relief of the Provinces. Honourable Members will, I feel sure, appreciate our reluctance to impose such a burden on the future constitution, even if we could afford the immediate loss which, according to present estimates, we cannot do.

87. In these circumstances, we feel that there are two conditions which must be satisfied before we can take action; first, the revenue position must show signs of improvement, and secondly, we must be assured that public opinion, after fully appreciating all the implications, is definitely in favour of such action. As regards the second of these conditions, I shall be glad if Honourable Members would take occasion to express their views on this matter in the course of debate.

88. *Taxation of foreign incomes.*—The second point on which I wish to speak is this. It has for some time been apparent that there is a serious lacuna in the existing provisions for taxing income from foreign investments. In fact, our law affords a direct incentive to investors to place their money in foreign securities for the sake of avoiding income-tax.

89. I need not now go into any detailed explanation of the position—which is, indeed, well known—I will only say that we intend to introduce legislation this session for the taxation of income from foreign investments on the lines of the law now prevailing in the United Kingdom. This legislation, if passed, may bring in some additional revenue, but I have not made any allowance for this in the budget estimates. Our primary purpose will be to remove an incentive towards the export of capital which is extremely detrimental to Indian interests.

WAYS AND MEANS.

90. *Summary.*—I will now turn to a review of the ways and means position for the current year and the next, which I may preface with a summary in the usual form:

		(In crores of rupees.)	
		Revised, 1930-31.	Budget, 1931-32.
<i>Liabilities.</i>			
Railway capital outlay (construction)		14.50	11.45
Other capital outlay		3.53	1.93
Provincial drawings		11.50	9.50
Discharge of permanent debt (net)		18.88	29.54
Discharge of India Sterling Bills		8.00	..
Contraction against rupee securities		28.92	..
Other transactions		76	—18
		<hr/> 86.09	<hr/> 52.24
<i>Resources.</i>			
Revenue surplus		—12.68	.31
Rupee loan (net)		29.71	15.00
Sterling loan (net)		35.64	24.76
Treasury bills with public		8.96	..
Loan from Imperial Bank		5.40	—5.40
Post Office cash certificates and savings bank		2.46	4.06
Other unfunded debt		2.46	5.64
Appropriation for reduction, etc., of debt		5.00	6.17
Depreciation and Reserve Funds		—5.92	.98
Reduction of cash balances		15.06	.72
		<hr/> 86.09	<hr/> 52.24

91. *Current year.*—In the budget for 1930-31, I estimated that a loan of 23½ crores in India, together with borrowings in London to the extent of £6 millions would enable Government not only to meet the excess of disbursements over receipts but also to reduce the amount of treasury bills outstanding in India by 4 crores. The position now is that in spite of a loan of 29.71 crores in India and sterling borrowing amounting to £31 millions (details of which I shall explain later), it is estimated that the amount of treasury bills outstanding with the public in India at the end

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of the year will be 45 crores, i.e., 25 crores in excess of the amount shown in the budget. The total real deterioration is therefore nearly 64½ crores. The main reasons for this exceptionally large deterioration are :

First, the increased demands for finance made on the Government in their capacity as bankers for the Provincial Governments and the Railways.

Secondly, diminished receipts from Savings Bank deposits and Post Office Cash Certificates.

Thirdly, the deficit on the Central Government budget.

And, lastly, the effects of the withdrawal of redundant currency from circulation by contraction.

I will explain these factors more fully.

92. *Demands on the Government as bankers for the Provinces and the Railways.*—The Government of India are bankers and financiers to the Provincial Governments and the Railways, and this capacity involves a large additional strain on the Government resources in times of stress. Owing to the unfavourable economic situation and the political disturbances, *Provincial Governments* have to face a serious diminution in revenues and the probability of considerable additional expenditure on the relief of agricultural distress. It is anticipated that their requirements will exceed by 3½ crores the budget estimate of about 8 crores. As the House knows, the finances of the *Railways* have been more seriously affected. They will draw 9.65 crores more than was anticipated.

93. *Post office Cash Certificates and Savings Bank deposits.*—The receipts from these sources have also been seriously affected by general conditions. Since the 15th September, when the yield on Post Office Cash Certificates was increased to 6 per cent., sales have shown a welcome increase, but encashments are still heavy and withdrawals of Savings Bank deposits, which have been considerable in past months, still continue. It is therefore anticipated that receipts from these two sources will be 3.74 crores less than the budget estimate.

94. *Budget deficit.*—As I have already explained, the estimated deficit of 12.68 crores will remain uncovered and will be an addition to the unproductive debt. As the budget provided for a surplus of 86 lakhs, the total worsening in the ways and means position on this account comes to 13.54 crores.

95. *Contraction.*—Lastly, I come to the operations of Government as currency authority which have inevitably had an effect of great magnitude on the ways and means position this year. In my last budget speech I explained how falling prices and trade depression necessitate contraction of the currency, and how in India, where Government are the currency authority, such contraction adversely affects the ways and means position. The universal fall in prices which began in 1929 has continued throughout the year. The ebb in the world trade has been exceptionally large, while, in India, political disturbances have led to further restriction of commercial activity. Government have, therefore, as part of their normal duties as currency authority, been obliged to continue the withdrawal of redundant currency from circulation, and between 1st April and 7th

February have effected a contraction of about 36½ crores. The return of silver rupees from circulation amounting to about 17½ crores has counter-balanced to a large extent the contraction against securities and gold, the net result being that the note issue on 7th February amounted to 159 crores as against 177 crores on 1st April.

96. It is of course only the contraction against rupee securities which affects the ways and means position, and this is seen in the substitution of treasury bills issued to the public for treasury bills issued to the Paper Currency Reserve, or, in other words, the substitution of interest-bearing obligations to the public for obligations in the form of currency notes. The contraction against rupee securities during the current year has amounted to 29 crores and contraction of 5 crores not provided for in the estimates was effected in March 1930. The resources of Government have, therefore, been depleted by 34 crores on this account. In this connection, it is worth noting that the increase in the estimated amount of treasury bills outstanding with the public at the end of the year is 9 crores less than the amount of the deterioration in the ways and means position due to contraction.

97. The four headings which I have now explained account for practically the entire deterioration of 64½ crores with which I started.

98. *Next year.*—The ways and means programme for next year is necessarily tentative and subject to modification in the light of the actual circumstances which may arise. As the House knows, the Railway capital expenditure has again been drastically reduced, the provision for 1931-32 being 11.45 crores compared with 16.75 crores in the current year. As regards the Provinces, their borrowing programme has also been rigidly controlled so far as new works are concerned, but, in present circumstances, they have certain unavoidable financial requirements. Provision for their demands has, however, been reduced from 11½ crores anticipated this year to 9½ crores. With this reduced provision for Railway capital expenditure and for the Provinces, I estimate that the total amount of new money required will be 7½ crores only. Assuming that all this new money required is raised in India, and that 7½ crores of 6 per cent. 1931 Rupee bonds are converted, a total loan of 15 crores only would be required. So far as sterling operations are concerned, I assume that the £15 millions outstanding from the 5½ per cent. 1932 loan maturing in January 1932 will be converted. Given normal conditions as regards borrowing and remittance from India, no further sterling loans will be required. But this, of course, will be dependent on the conditions to which I have referred.

99. The estimate which I have just given for the borrowing required in India, assumes that the amount of treasury bills outstanding at the end of the year will be the same as at the beginning, *viz.*, 45 crores. I hope, however, that conditions will be sufficiently favourable to enable Government to fund a portion of this floating debt, and as far as I can see at present, there should be no difficulty in accomplishing this without disturbing the market for Government securities.

100. *Home charges.*—In my general review of the financial position to which I shall shortly turn, I shall have to refer to the fact that a substantial export of capital has characterised the period through which we are now passing. This export, occurring at a time when normal

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trade is depressed, has seriously curtailed the ability of the Government to make remittances through the market and funds have been obtained in London mainly by sterling borrowing. £19 millions were obtained by the issue of 6 per cent. sterling bonds in May and October, while the recent issue of 5½ per cent. sterling bonds will provide £7·8 millions during the current year, the last instalment of the subscriptions on this loan being payable only in April. In addition, £6 millions were borrowed from the Imperial Bank of India in instalments in July and August and repayable between January and April. Instalments of £3 millions from this loan falling due in January and February were renewed for three months, but the remaining instalments will be repaid from the proceeds of the 5½ per cent. sterling bond issue, the net result being that £4 millions of the loan will be outstanding at the end of the year. On the other hand, £6 million India bills falling due in December were repaid. The net sterling borrowings during the year will, therefore, have been nearly £25 millions. This amount, together with the purchases of sterling already made, *viz.*, £5,395,000, will enable the Secretary of State to close the year with a balance of £4·8 millions. For next year, assuming that £15 millions outstanding on account of the 5½ per cent. 1932 loan are converted directly or indirectly, I estimate that the net requirements of the Home Treasury will be £33½ millions inclusive of £2·4 millions for Railway capital expenditure. With a reversion to normal conditions in the political sphere, and a restoration of confidence in the future stability of India under the new constitution, there should be no difficulty in obtaining this sum by remittance through the market. The future in this respect lies really in the hands of responsible Indian leaders.

REVIEW OF CURRENCY POLICY.

101. Before leaving this subject, I feel it necessary to put before the public a general review of the Government's currency policy, and its effects on the financial situation.

102. Much misapprehension exists in the public mind on these questions. The main charges which are made against the Government are that their currency policy has, first, by excessive contraction created a shortage of currency in the country producing a fall in prices; secondly, resulted in the Government incurring a heavy floating debt with serious loss to revenue; thirdly, increased the difficulties of the business world by the artificial creation of dear money; and fourthly, reacted on the credit of India and led to costly sterling borrowing.

103. *Contraction justified.*—I wish to deal with all these charges and to explain in very elementary terms (for which those who are experts on this subject must excuse me) the manner in which our duties as currency authority have unavoidably reacted unfavourably on our financial position. I will take them in order beginning with the charge of contraction. Here I must at the outset, emphasise two points:

First, that the reduction in the volume of currency in circulation is by no means excessive, having regard to the fall in prices and the diminished money value of business transactions.

Secondly, that India plays a minor part in the world action affecting prices. India is not a large enough factor to be able to

take the lead in international economics, and the level of prices in India for all commodities which are handled in international trade must follow world prices. Our contraction, therefore, has been a necessary consequence of, or sequel to, the fall in world prices. It cannot be regarded as a *cause* of that fall. If we failed to regulate our currency policy in such a way as to keep internal prices in India on a parity with world prices, it would mean the establishment of an inflationary position in India, which would upset the balance of trade by encouraging imports and discouraging exports, and lead inevitably to a loss of India's gold reserves. This is elementary.

104. Now, as to the extent of our contraction, I believe that an impartial observer, far from saying that this has been excessive, would be more likely to take the contrary view and criticise Government as currency authority for not having contracted currency sufficiently. It is not easy to prove this assertion by precise figures because so many factors have to be taken into account, but the following calculations bring out the main consideration and afford striking general support to the thesis which I have stated.

105. According to the evidence tendered to the Currency Commission, the amount of rupee coin outstanding on the 1st April 1926 was 350—400 crores of which 77 crores were held in the Paper Currency Reserve, while the note issue on that date amounted to 193 crores. The total amount of currency in circulation at that time therefore, taking notes and silver currency together, was somewhere between 466 and 516 crores. Between 1st April 1926 and 31st December, 1930, the return of rupees from circulation amounted to about 64 crores, while the note issue on the latter date was 161 crores, so that the total amount of currency in circulation was about 370 to 420 crores. That is to say, since April 1926, there was a reduction of 18 to 20 per cent. In the same period the Calcutta index number of wholesale prices fell 31.5 per cent., that is to say, from an average of 148 in 1926 to 101 in December 1930. The percentage reduction in the amount of currency in circulation is therefore small in comparison with the percentage reduction in prices.

106. This, then, is my answer to the first charge:

The contraction effected by the Government has been an essential sequel to the fall in world prices, and it has not been carried to an excessive extent.

107. *Deterioration in financial returns inevitable.*—I now come to the second charge. This is no more than a complaint about what in fact is an inescapable result. For it is unavoidable that contraction of currency should have an adverse effect on Government finances when the Government are the currency authority. The Government, by putting into circulation coin or notes, make thereby a profit. For they have the use of, or get the credit for, currency which cost them much less than the face value of the currency produced, and are able to save or earn interest on this money. The Government thus get the benefit, in the case of coin, of the difference between its face value and its bullion value, and, in the case of currency notes, of the currency value less the cost of printing the notes. To the extent that currency has to be contracted, the Government inevitably lose this benefit. Thus they suffer not an absolute loss, but a diminution in the profit which they would otherwise make as currency authority if more notes and silver currency were in

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circulation. The effect is seen in the form of, on the one hand, a drop in the amount of treasury bills held in the Currency Reserve, the discount on which comes back to the Government as currency profits and on the other hand, an increase in the treasury bills held by the public, on which, of course, the discount goes to the public. My answer to the second charge therefore is this—*The deterioration in the Government's financial returns is inevitable if the volume of currency in circulation has to be reduced.* It is no use blaming the Government for what is called their "ruinous policy." Government have no choice in the matter if they are to perform their first duty as currency authority—the duty of maintaining stability of the currency.

108. *Policy of dear money forced on Government.*—I now come to the third charge. As to this I venture to assert that the following is a true appreciation of the position. While contraction of currency has been the normal sequel to the fall in world prices, there would have been no necessity for maintaining rates of interest in the money market at such a high level if there had not been present other reasons of a nature special to India. I must say something of these special reasons. The disturbance created by the civil disobedience movement, combined with the general uncertainty as to the political future of India and the effect of constitutional changes, has created a general feeling of nervousness among Indian investors and caused a considerable flow of capital from India. It is impossible to obtain even approximate figures of amount of capital exported, but an examination of the trade figures and the Government remittances gives some idea of its magnitude. The visible balance of trade in favour of India for the nine months April to December 1930 was 34.43 crores as compared with 41.62 crores in 1929 and 39.76 crores in 1928. This figure is, in all the circumstances and having regard to the abnormal fall in the world prices for India's exports, remarkably favourable. On the basis of this balance of trade, it would have been legitimate to expect that, even in this bad year, Government would have been able to effect large remittances to London; but the actual facts are that during the last three months, Government have had to make considerable sales of sterling to meet demands for private remittance and these sales have practically balanced purchases made earlier in the year. This phenomenon must be ascribed almost entirely to export of capital, partly movement of real investment money and partly speculative remittance due to apprehensions regarding the financial stability of India. Now, this is a process which the Government of India, both in order to maintain stability of currency and in the general interests of India, are bound to fight. And this they have done. In order to check this export of capital and attract money to India for investment, they have taken the measures which the currency authority of every country is bound to take in similar circumstances in order to maintain the value of the currency; that is to say, measures designed, on the one hand, to make it difficult to obtain rupees for conversion into foreign currency, and on the other, to make it attractive for foreign funds to seek employment in India. With this object Government have had to maintain interest rates at a higher level than would otherwise have been necessary, and have had to draw surplus funds off the market by issue of treasury bills at expensive rates. This policy has, of course, inevitably, not only had an adverse effect on Government finances but has also reacted unfavourably on private traders;

but it has been forced on the Government by those private interests who, for various reasons—nervousness as to India's future, or the desire for speculative gain,—are sending money out of the country.

109. *Cost of borrowing governed by political factors.*—This brings me lastly to the fourth charge which is closely connected with that which I have just discussed—the charge that this policy has depreciated India's credit and led to costly borrowing—particularly sterling borrowing. It is, of course, true, as a general proposition, that high rates in the money market have a tendency to depress the price of Government securities. But this is no more than a general tendency, and in the case of India, high rates for short money this year have certainly not been a major factor in the security market. Though money rates in India have been high in relation to the rest of the world, they have been no more than normal for the busy season in India. The experience of recent years shows clearly that, with an effective bank rate of 7 per cent., the long term Government securities may quite well be selling on a $4\frac{1}{2}$ per cent. basis. Money has only been tight for short periods this year, and we must look elsewhere for the main cause of the decline in Indian securities. Their prices have, in fact, been governed almost entirely by political factors. It is of course inevitable that, with great but uncertain constitutional changes hanging over the whole position, the price of securities should fall. Rupee securities in India must, in the main, move in relation to London prices, and the London business world dislikes uncertainty above all things. It need not necessarily mean distrust in those who may be responsible for working the new constitution, but rather a fear of the unknown and a feeling that the new machine must prove itself. On top of this, however, the effect of uncertainty has been enormously increased by some of the aspects of the civil disobedience movement. I do not wish to dwell on these matters to-night, nor do I share the general lack of confidence in the future, but it is perhaps not unreasonable to ask those who resent it to realise that the changes now under discussion are sudden and vital and that the outside world must get accustomed to new ideas, and, in the meanwhile, demand some proof or guarantee for the new order.

110. *Safeguards.*—If, for these reasons, safeguards are proposed, their object is the maintenance of confidence and credit until the new order has proved its stability. In these circumstances, the best service that representative Indians can render to their country is to convince the world that safeguards will never have to be called into play, and this they can best do by joining us in a common effort to work out means both for solving the problems of the immediate future and for effecting, without shock or weakening, the coming change in the foundations on which the whole structure of Government depends.

111. In the meanwhile, we who bear the present responsibility can do no more than carry out our task with honest purpose and fixed determination. If that common effort to which I have just referred could be made, many of India's present difficulties would disappear. I believe that, if we could restore trust in the future, investors would regain confidence, the movement of capital would stop, further borrowings in London would become unnecessary, securities would rise, and India could enjoy, with the rest of the world, that help which cheap money can give to commerce and industry. All this lies rather in Indian hands than in ours.

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112. *The ratio question.*—At this point there will, of course, occur to many the well-known argument that it is only because the Government are maintaining the so-called “unnatural ratio” of 1s. 6d. that all these difficulties are being felt. I have no time to enter fully to-night into that old controversy; but there are some points which I must emphasise.

113. Every single one of the steps which we have had to take this year in the way of contraction of currency to meet the fall in world prices would have been equally necessary in order to maintain stability of exchange, whatever the level at which the ratio had been fixed. If the rupee had been stabilised at 1s. 4d. in 1926, the present fall in world prices would have been felt in India with exactly the same severity, and similar contraction of currency would have been necessary. Those who, in order to avoid such steps, and to meet present difficulties, are pressing for a change in the rupee ratio, are really asking (although they do not always realise it) not for a mere change from 1s. 6d. to 1s. 4d. but for a completely unstable currency as opposed to a currency stabilised in relation to gold.

114. Whether, if exchange had in the past been stabilised at 1s. 4d., the speculation and the export of capital to which I have referred would have been any less, is a question which I must leave to others to argue.

It is a barren speculation, for we are not concerned with what “might have been,” but with the practical question: “What ought we to do now?”

115. On the answer to that question I can feel no shadow of doubt. I can imagine no course more fatal to India's financial well-being than to make a change in the currency system now. To those who urge this course I would say—Realise what you are doing. There is no question now of choosing between 1s. 6d. and 1s. 4d. It is a choice between a stable currency and complete instability. If once the country, having adopted stability and accepted a statutory obligation, repudiates that obligation in order to meet difficulties of the moment, what confidence can any one have in the future that such a step will not be taken again? You could not thereafter maintain stability. Do the Indian public really want a completely unstable currency? I am certain they do not. I am certain that, if that choice was made clear to them, they would reject it, and I am certain that they would be right in doing so. In any case, it would be madness to risk a change amidst all the present uncertainties, when the old foundations on which the present India has been built up are to be withdrawn, and when the economic crisis is unsettling the whole world. It would be nothing less than a breaking away of the ship from its anchorage and letting it drift all unprepared into the storm. In saying all this, I am only repeating what I have often said before. I repeat it because the new circumstances have not lessened our duty to defend the position in India's interests. They have rather made it stronger. That defence must be continued; but if we could achieve that common effort of which I have spoken, it would be possible to divert the energy and resources which must now be expended in mere defence, into a constructive programme for the benefit of trade and of the economic life of the country which so badly needs it.

CONCLUSION.

116. I fear that I have detained Honourable Members very long in giving this review of the present position and my proposals for the future.

In conclusion, I would wish shortly to summarise the position as I see it and to consider how we stand and where we are going.

117. Confronted with a large deficit, we have made proposals which are, I venture to claim, adequate to meet the present situation, and which, while fairly distributing the burden which it is necessary to impose, may have some results not unpropitious for the development of Indian industry. But the work must not stop there nor can we rest satisfied that permanent provision has been made for the future. The present situation must, as I have already said, be kept under close control during the year, while, as to the future, that demands not merely that we should balance the Central Budget, but that we should provide a margin for distribution to the new Provincial Governments. Even if we have met the needs for the moment, there lies before us a mass of questions needing early investigation and action. The main task falls under three heads—the development of new sources of revenue, the reduction of expenditure wherever waste can be eliminated, and the formulation of a constructive policy to help the economic productivity of the country.

118. As an example of new sources of revenue which demand special study, I would specially refer to the consumption of tobacco, the consumption of matches, and possibly also death duties. If we examine the fiscal systems of European countries, we find that, in almost all cases, great reliance is placed on these sources of revenue. In India, however, they play practically no part.

119. As regards tobacco, I may take this opportunity of expressing my appreciation of a very valuable Memorandum which I have received from the Chairman of the Bengal National Chamber of Commerce, containing a study of the operation of a tobacco monopoly in other countries and suggesting the introduction of such a system in India. This is a matter which has often been considered, but never, I think, pursued to the end, and we are now consulting Provincial Governments, as to setting up a special Committee to study the question this year.

120. Then as regards matches. The question of imposing an excise duty on matches is also no new one. But, for various reasons, until there can be established some form of economic union between British India and the Indian States, providing for joint action on such matters, this source cannot be developed to produce important sums of revenue. The possibility for such joint action will, I hope, be provided under the Federal constitution for India which has now come within the horizon of practical politics. Pending the achievement of this, we are studying the practical possibilities.

121. I have mentioned these two cases in order to show that we are actively studying possibilities on the first of the three main heads of action—the development of new sources of revenue.

122. As to the second—the reduction of the scale of expenditure,—I have already explained what is to be done—the appointment of a Retrenchment Committee for the Central Government—the appointment of a special Committee for Posts and Telegraphs—the action contemplated by the Railways—the holding of a Conference with Provincial representatives to consider the question of future rates of pay—and, combined with all these, the continuance of the constitutional discussions.

[Sir George Schuster.]

123. As to the third heading—a constructive policy to help the economic development of the country,—this is so wide a subject that it is more difficult to define exact proposals. At the moment, and for the sake of attaining immediate results, world conditions are of such dominating importance, that some kind of international action seems necessary. I have already made some reference to this possibility in dealing with silver. I believe that India could play an important part in such international action. If we turn from that to consider our domestic possibilities, the greater part of the field of action lies with the Provincial Governments, but I myself hope that the Banking Enquiry Committee, whose Report should now shortly be available, may open up for us in the Central Government some lines of action. Connected with the subjects with which the Banking Committee are concerned, are two which have always seemed to me to be of dominating importance for India—the proper organisation of the marketing of Indian agricultural produce and the development of the co-operative movement. I can merely mention these—there is no time now to develop all that is to be said about them. Apart from the Banking Committee's recommendations, there are several matters now before us—the Tariff Board's Report on Sugar, the creation of a Central Jute Committee, and the Tariff Board's Report on Salt, while Honourable Members are also aware that we have been studying the question of setting up an organisation for the better study of economic questions. As to this, we hope to receive Sir Arthur Salter's Report in the course of the next few weeks, and to publish it immediately.

124. All these measures represent small parts in the task which lies before India in this matter. We in the present Government appreciate the task, but I would ask the public also to appreciate our special difficulties at the present juncture. We are in a sense in the position of managers of a business, for which a change of management is under discussion. On the one hand, whatever steps we take now will affect the position of our successors; on the other hand, the value of the steps which we may take depends on how far our successors will be guided by those principles on the maintenance of which the success of any policy depends.

The transfer of management cannot be immediately effected, and upon us rests the responsibility of carrying on during the period of preparation for such transfer.

125. In such circumstances, in the case of a business, if I may continue that analogy, the parties concerned, if they were upright and sensible men, would surely say: "We must co-operate during the period of preparation."

I can hardly imagine that, in such circumstances, the new proprietors would say: "Those whom we are succeeding are our enemies. We will try to trip them up at every turn and make their conduct of the business a failure."

126. Such co-operation is particularly necessary just now, for the business which is to be transferred is having to face very adverse world conditions and to go through very difficult times. Moreover, the very anticipation of the transfer is affecting its credit; because the world has not

yet had the opportunity to gain confidence in the new managers. The simile which I have used gives, I think, not an untrue picture of the present position, and I hope that my words may cause the public and particularly the leaders of commercial opinion in this country, to ponder on what it means to all of them.

127. Speaking for myself, my main pre-occupation is to run the business well while I am responsible for it, and to hand it over in sound condition with no hidden weaknesses and with credit unimpaired. But that is merely the negative or defensive side of policy. The active and constructive side—the preparation for future development—must also be considered. Perhaps Honourable Members, truly interpreting these remarks which I have made, will be able, in the course of the debate, to suggest means and methods for that co-operation on which, in the conditions which now surround us, the welfare of India, for all the future which we can foresee, may possibly depend.

128. Sir, I have done. I will not attempt any rhetorical peroration, but merely say this. I have tried, in these proposals, to measure the needs fairly and to meet them fully, guided above all things by the purpose of handing over a sound business to my successor. (Applause.)

THE INDIAN FINANCE BILL.

The Honourable Sir George Schuster (Finance Member): Sir, I move for leave to introduce the Indian Finance Bill, 1931.

The motion was adopted.

The Honourable Sir George Schuster: Sir, I introduce the Bill.

The Assembly then adjourned till Eleven of the Clock on Monday, the 2nd March, 1931.