

Friday, 28th February, 1936

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COUNCIL OF STATE.

Friday, 28th February, 1936.

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

QUESTIONS AND ANSWERS.

CONSTRUCTION OF THE NEW HOWRAH BRIDGE.

41. THE HONOURABLE MR. V. V. KALIKAR: (a) Did a deputation of some members of the Legislative Assembly wait upon the Honourable the Commerce Member and the Honourable the Member for Industries and Labour regarding the question of the new Howrah Bridge contract? If so, when?

(b) Has apprehension been expressed in certain quarters that the contract for the construction of the bridge might be placed outside India to a non-Indian tenderer?

(c) Who is the final authority in placing the contract with a tenderer?

(d) Do Government propose to take steps to ensure the placing of the contract in India with an Indian tenderer? If so, what steps? If not, why not?

THE HONOURABLE MR. T. A. STEWART: (a) Yes. On the 15th February, 1936.

(b) Yes.

(c) The Howrah Bridge Commissioners, subject to the approval of the Local Government.

(d) No. For the reason I have just stated the matter is not within the competence of the Government of India.

TOTAL NUMBER OF OFFICERS IN THE SUPERIOR SERVICE OF THE MEDICAL DEPARTMENT OF STATE-MANAGED RAILWAYS.

42. THE HONOURABLE RAJA GHAZANFAR ALI KHAN: Will Government be pleased to state the total number of superior officers in the Medical Department of State-managed Railways? How many of these are (a) Europeans, (b) Anglo-Indians, (c) Hindus, (d) Sikhs, and (e) Muslims?

THE HONOURABLE SIR GUTHRIE RUSSELL: The total number of officers in the superior service of the Medical Department on the State-managed Railways including one Malariologist is 41.

They are as follows :

Europeans	13
Anglo-Indians	3
Hindus	17
Sikhs	3
Muslims	4
Indian Christians	1

THE HONOURABLE MR. SATYENDRA CHANDRA GHOSH MAULIK : Will the Government be pleased to state the number of Chief Medical Officers on State-managed Railways ?

THE HONOURABLE SIR GUTHRIE RUSSELL : As there are five State-managed Railways, there must be five Chief Medical Officers.

THE HONOURABLE MR. SATYENDRA CHANDRA GHOSH MAULIK : How many of them are Hindus and how many Muhammadans ?

THE HONOURABLE SIR GUTHRIE RUSSELL : There is one Muhammadan, I think, and there is also one Hindu.

PRESENTATION OF THE GENERAL BUDGET FOR 1936-37.

THE HONOURABLE MR. A. J. RAISMAN (Government of India : Nominated Official) : Sir, I rise to present the statement of estimated expenditure and revenue of the Governor General in Council for the year 1936-37 in respect of subjects other than " Railways ".

2. The broad picture from the background of which these figures of public finance stand out is one of a continuance of modest and unspectacular, but none the less persistent, recovery from the depths of the catastrophic depression into which India, in common with the rest of the world, was precipitated barely five years ago. Since then, despite the proofs of its extraordinary power of resistance to economic stress which India has provided, we have hardly ventured to count with confidence on any improvement which was not actually in sight, or to reckon any ground as reconquered until we were actually setting our feet upon it. It is only necessary to look round the world as it is today, and particularly at the present plight of many countries less fortunately situated than India, to realize the justification for this attitude of caution.

3. This in brief is what has happened in regard to the estimates for 1934-35, and as we shall see later, for the current year. When Mr. Tallents presented the estimates in this House a year ago, it was anticipated that the year 1934-35 would end with a surplus of Rs. 3,27 lakhs. The final accounts actually disclosed a surplus of Rs. 4,95 lakhs, or Rs. 1,68 lakhs more than we had dared to hope. The main contributing cause was an excess over the revised forecast of Rs. 1½ crores under Customs and Excise, due to an unexpectedly large volume of trade in the closing months of the year.

4. Honourable Members will perhaps recall that it was finally agreed, in the course of last year's Budget proceedings, that after certain other non-recurring objects had been provided for, the whole of the unallocated surplus of the year 1934-35 should constitute a Fund for the Economic Development and Improvement of Rural Areas. The amount of this unallocated surplus was then expected to be about Rs. 1,13 lakhs, but as a consequence of the

improved results which I have just mentioned, the figure now turns out to be Rs. 2,81 lakhs, the whole of which is therefore transferred to the Rural Development Fund. In September last a paper was circulated showing that out of this fund Government had allocated Rs. 15 lakhs for the improvement of the Co-operative Movement and Rs. 92½ lakhs for grants to the Provinces on schemes approved by the Government of India. The balance in the fund therefore stands at Rs. 1,73½ lakhs, and before proceeding further, I shall now explain to the House the way in which it is contemplated that this sum should be utilized.

5. In the first place, it is proposed to make four grants for objects directly connected with the economic improvement of rural conditions and the amelioration of village life. These are :

(1) A grant of Rs. 30 lakhs for Agricultural Research. Of this Rs. 10 lakhs represents the amount still due to the Imperial Council of Agricultural Research of the block grant of Rs. 25 lakhs originally promised to it when it was established. The remaining Rs. 20 lakhs will be used to finance urgent schemes including sugar cane research, and investigations into the dairying side of animal husbandry.

(2) A grant of Rs. 10 lakhs to the Indian Research Fund Association, the amount to be devoted mainly to schemes connected with the prevention or cure of malaria, which is such a blight on the health of India's rural population.

(3) A grant of Rs. 5 lakhs for the benefit of cottage and small scale woollen industries. As was recently announced, the Government of India were not satisfied that a case for protection of the woollen industry had been established, and indeed an important section of the industry made no attempt to present its case. But Government agree with the view of the Tariff Board that the cottage and small scale industry could derive great benefit from technical advice and assistance in marketing arrangements, and they propose to provide Rs. 5 lakhs to be spread over 5 years for this purpose. The schemes financed from this grant will be in the hands of the provincial Departments of Industries.

(4) A grant of Rs. 20 lakhs to the Fund for capital expenditure on the development of broadcasting. The value of this medium for instruction on agriculture, sanitation and other matters of prime concern to the villages is now generally recognized, and this additional grant will assist the further development which is necessary in order to make these advantages more widespread than at present.

6. When these grants have been made there will remain in the Fund Rs. 1,08½ lakhs, most of which will probably be allocated to the Provinces, in the same way as the previous Rs. 92½ lakhs, for expenditure on schemes to be approved by the Government of India. Honourable Members have, I think already been furnished with a description of the schemes which have hitherto been approved. The Government of India are now awaiting further detailed information of the actual progress of these schemes, which they expect to receive very shortly. It will then be possible to review the position and see what modifications are desirable in the conditions of the grants. While the Provincial Governments are of course much more closely in touch with local conditions, the Government of India realize their responsibility for seeing that the money is spent in the most useful and effective way. I may add, Sir, that they intend to keep the legislature fully informed of their decisions and of the manner in which they intend to proceed.

[Mr. A. J. Raisman.]

7. The total of the sums which are thus to be devoted to various forms of rural amelioration is, I suggest, an impressive amount when viewed in relation to the resources of India, and I have no doubt that Honourable Members of this House will agree as to the desirability of spending money on these objects. The field for effort is of course tremendous, but we may reasonably hope that the activities directly financed will in turn provide a stimulus which will result in an ever widening circle of benefit to the villager.

8. That finishes what I have to say about the year 1934-35. I turn now to the figures of the current year 1935-36. Here too the revised forecast shows a surplus of Rs. 2,42 lakhs instead of Rs. 6 lakhs which we anticipated a year ago. Whereas in the Budget we estimated a Revenue of 82·99 crores and an Expenditure of 82·93 crores, we now expect that the Revenue will amount to 86·52 crores and the Expenditure to 84·10 crores. I will now indicate the main causes of these variations.

9. On the revenue side the total excess is Rs. 3,53 lakhs, of which the main component is Rs. 1,85 lakhs of additional revenue from the import duty on sugar. The estimation of the revenue from imports of sugar has always been a matter of extreme difficulty, liable to be grossly falsified by the results and to produce fluctuations which may be a source of serious embarrassment in a budget of the total dimensions of the Indian budget. When your total revenue is in the neighbourhood of Rs. 80 crores and you have a single item which is liable to fall short of your expectations by as much as 3·16 crores, as happened so recently as 1931-32, it behoves you to treat that item with the utmost caution. It may be thought that it is a comparatively simple matter to subtract from India's total consumption of white sugar the total Indian production, and thus arrive at the margin available for imports. But that would merely mean subtracting one variable and unknown quantity from another. We have never known the exact dimensions of India's total consumption—or only have an approximate idea. Similarly while we know pretty well the capacity for factory production of sugar in India we have no accurate means of estimating how much is produced otherwise than in factories, that is in Khandasari. On the facts as we now see them we consider that there must have been a sudden rise in total consumption, and that while factory output is exceeding our expectations as proved by the excise figures, Khandasari production has declined. The result is that imports have been maintaining themselves at a figure only slightly lower than that of last year, although the imports in January of this year show a marked decline and are only two-thirds those of January 1935.

10. Besides the import duty on sugar we anticipate excesses in various other Customs heads and also from the excises on sugar and matches. A notable feature is a large drop in the receipts from cotton fabrics of British manufacture but this is more than made up by the duty on non-British imports, mostly of course from Japan, which did not fill up its quota last year and has been making up leeway. We also hope to realize Rs. 40 lakhs more than our original estimate on Income-tax, another index of trade recovery.

11. Further pointers of the same kind are first the greater absorption of small coin, which is likely to produce a surplus of Rs. 16 lakhs under the heading Mint and secondly an improvement of Rs. 19 lakhs under Posts and Telegraphs. This improvement is due in the main to increased sales of stamps and additional receipts from trunk telephone calls, as well as to lower rates of interest. We budgetted for a deficit of Rs. 13 lakhs, but now expect instead a surplus of Rs. 6 lakhs.

12. I said just now that the revised forecast of expenditure in the current year was 84·10 crores against the original estimate of 82·93 crores, an increase of Rs. 117 lakhs. The main causes are the following :

- (i) *Extraordinary payments*.—Here Rs. 41½ lakhs represents the expenditure which is expected to be incurred from civil funds in connection with the Quetta earthquake. This covers all the special arrangements for extra police, public health, the protection of property in the ruined city and the labour and plant required for salvage and site clearance operations. It also includes a contribution of Rs. 10 lakhs to H. E. the Viceroy's Quetta Earthquake Relief Fund, and provision for assistance to the rural population to repair their irrigation channels.
- (ii) *Interest*.—Here a number of different factors are likely to result in a net charge of Rs. 10·63 crores against Rs. 10·39 crores originally estimated, i.e., a worsening of Rs. 24 lakhs.
- (iii) *Currency and Mint*.—The increase of Rs. 10 lakhs, due to a larger demand for currency notes and small coin, is outweighed by the revenue increase which I just mentioned.
- (iv) *Miscellaneous adjustments*.—The increase is due mainly to the additional payments which will have to be made to the jute growing provinces because of the extra yield of the jute export duty, of which they receive half.

13. I shall now explain to the House how it is proposed that the surplus of Rs. 2,42 lakhs, with which the current year is expected to close, should be dealt with. In the first place we propose to allot Rs. 45 lakhs to a special fund for assisting the two new provinces of Sind and Orissa to meet the initial expenditure which they have to incur on providing themselves with the necessary official buildings. It was originally contemplated that the amounts should be advanced and that interest should be charged on the loans until they were repaid. But to do this would be to treat them less favourably than the existing provinces, which started off on their careers with an equipment unencumbered by such debt. Moreover an initial handicap of this kind would have to be taken into account when the subventions which these provinces are to receive are being assessed, and assistance would have to be given to meet it, an unnecessary complication of a simple issue. Of the amount of Rs. 45 lakhs, to which the Government of India's contribution will be strictly limited, Rs. 17½ lakhs will be given to Sind, which already has a considerable number of the necessary buildings, and Rs. 27½ lakhs to Orissa, which starts off with a lesser equipment.

14. This leaves a balance of Rs. 197 lakhs available from the anticipated surplus of the current year. Before explaining how we propose to use this balance I must ask the House to look forward a little into the future and to visualize the situation with which the Government of India will be faced in the first year or two following the establishment of provincial autonomy, which we may assume will begin in April, 1937. In the first place, Burma will be separated, and the separation will leave us Rs. 2½ crores worse off than we are now. In the second place, a beginning will have to be made of those financial adjustments between the Centre and the provinces which the new Constitution entails. We cannot of course at this stage attempt to predict the results of Sir Otto Niemeyer's inquiry, but it would not be prudent to assume that any lesser sum than Rs. 2 crores will be necessitated by the initial adjustments. Of this worsening of at least Rs. 4½ crores we may perhaps, in a spirit of reasonable optimism, reckon that a continuance of the

[Mr. A. J. Raisman.]

present improvements in revenue, together with some reduction in interest charges will in the course of the next two years make good to us the greater part if not the whole. Thus on the basis of the existing level of taxation, and of the present rate of improvement of revenues, the income and expenditure of 1937-38 would roughly balance. But there is another factor in the situation of which Honourable Members will become aware when I have explained our proposals for the coming year—a factor which will have the effect of postponing by one year the date by which we may expect that our revenues will have grown to the figure which is adequate to meet the charges involved by the coming into effect of provincial autonomy. So in order to enable ourselves to shoulder the new load from the start without incurring a deficit we propose that this balance of Rs. 1,97 lakhs should be transferred to a Revenue Reserve Fund, which will be available to tide us over the difficulties of the first year of the new regime. Thereafter we think it justifiable to hope that the continuance of present tendencies will place in the hands of the Government of India resources adequate to enable it to fulfil in reasonable measure the obligations which may be imposed on it at that stage of the new constitution.

15. I come now to the estimates of revenue and expenditure for the coming year 1936-37. We have budgetted for a total revenue, excluding railways, of course, of 87·35 crores, or Rs. 83 lakhs more than our revised estimate for the current year. Of this 54·82 crores represent the estimated customs and excise receipts, which allow for a decrease of Rs. 1,60 lakhs on imports of sugar and an increase of Rs. 1,71 lakhs on other items. I have already explained to the House the position regarding sugar. Slowly but surely—and at times not very slowly either—indigenous production, under the stimulus of the protective duty, has expanded its market and ousted the imports from abroad, and all competent observers are agreed that the day is now rapidly approaching when India will be completely self-supporting. In these circumstances, when the end is virtually in sight, and the only room for argument is whether it will come to-morrow or the day after, what reliance can we place on imported sugar as a source of revenue? In each of the last two years it has exceeded our expectations, and this time it may well elude us again but on the other side. We have taken a figure of Rs. 2 crores, which in the circumstances of the present moment is if anything an optimistic figure. From the excise on indigenous production we look for Rs. 1,96 lakhs, an increase of about 15 per cent. over our revised estimate for the current year.

16. The only other revenue items which I would mention are Income-tax and Currency receipts. Under the former we are reckoning on the more favourable condition of trade to yield us 17·60 crores or Rs. 80 lakhs more than the revised estimate of the current year. Under Currency receipts the estimate of Rs. 81 lakhs includes Rs. 65 lakhs as the Government of India's share of the profits from a full year's working of the Reserve Bank.

17. The total expenditure for 1936-37 we have placed at 85·30 crores. This is Rs. 1,20 lakhs higher than the revised estimate for the current year. The notable features are a decrease under Interest and increases under Miscellaneous Adjustments, Civil Administration and Defence. The increase under Civil Works is due largely to the increased payments to the Road Fund consequent on the increased yield of the duty on motor spirit.

18. Under Interest the figure is 9·20 crores, a reduction of nearly Rs. 1½ crores on the revised figure for 1935-36. The reason is that we shall be getting

the full benefit of the conversion operations of the current year, while at the same time we hope to repay £16·8 millions of 5½ per cent. Sterling Stock which matures next year without floating a fresh loan. Actually the improvement is over Rs. 2 crores, but owing to a change in the method of accounting relating to the Indian Military Service and Indian Civil Service Family Pension Funds Rs. 62 lakhs, representing the interest on the balances in those funds, has for the first time been charged under this head. I may add that the same change results in reductions totalling Rs. 54 lakhs under the headings of Military and Civil Pensions.

19. The increase under Miscellaneous Adjustments is due to the provision of Rs. 1,58 lakhs for subventions to Sind and Orissa, Rs. 1,08 lakhs for Sind and Rs. 50 lakhs for Orissa. As Honourable Members are by this time aware it has been decided that these two provinces shall come into being on April 1st, 1936, before the inception of Provincial Autonomy. It has been recognized that for some years subventions to these provinces will be inevitable, and the definitive size of those subventions will be determined by His Majesty in Council after Sir Otto Niemeyer's report has been taken into consideration. The present subventions are purely provisional in their nature and are in no sense intended to prejudice the issue. They are merely intended to provide the provinces with small opening balances and enable them to carry on for the first year without incurring a deficit.

20. Of the increase of Rs. 64 lakhs under Civil Administration Rs. 11 lakhs is accounted for by the fact that during the current year the cut in pay was still operative on one out of the twelve monthly pay days. Then there are Rs. 18 lakhs for two public health schemes in Delhi. One relates to the method of dealing with the refuse of Delhi, a matter which, as Honourable Members are aware, has provoked strong criticism. A provision of Rs. 13 lakhs has been made for this. The other Rs. 5 lakhs is to permit of a start being made with a scheme for dealing with the sewage, the existing system having been found to be inadequate and defective. The progress of the development of Broadcasting will require a further Rs. 4 lakhs, and under Civil Aviation, where increased maintenance charges follow on the capital programme, we have provided an additional Rs. 5 lakhs.

21. The Defence Budget stands at 45·45 crores, but this includes Rs. 60 lakhs for reconstruction at Quetta and Military stores consumed as a result of the earthquake. The remaining figure of 44·85 crores would seem to compare favourably with the present year's figure, but this is partly due to the change in the method of accounting for the Indian Military Service Family Pension Fund. The correctly comparable figures show that there will be an increase of Rs. 21 lakhs, of which Rs. 5 lakhs is due to the restoration of the remaining half of the cut in pay of British soldiers. The remainder of the increase is more than accounted for by an increased provision of Rs. 20 lakhs for ordnance stores. Honourable Members will recollect that it has been repeatedly pointed out in recent years that the present budget figures cannot be taken as representing permanently the normal level of Defence expenditure. There have in the past been surplus stocks of ordnance stores which are now almost exhausted, and the cost of replacement means an inevitable increase.

22. Besides the provision of Rs. 60 lakhs relating to Quetta in the Defence Budget, there is a provision of Rs. 40 lakhs on the Civil side under the head "Extraordinary Payments". Of this Rs. 12 lakhs is for the continuance of special establishments and site clearance operations and Rs. 28 lakhs for reconstruction. I may mention here that during the current year we estimate that we shall have spent Rs. 41½ lakhs from Civil funds, and Rs. 36 lakhs

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from Army funds on relief, temporary housing and salvage and on the beginning of clearance operations. By the time we have finished clearance and are ready to begin reconstruction we shall have spent nearly a crore. The cost of the reconstruction, both Civil and military, is at present, estimated at something over Rs. 7 crores, but as the work will take 7 or 8 years to carry out, the incidence of expenditure is unlikely to be more than a crore in any single year. That in fact is the rate at which it is contemplated that the programme of reconstruction will proceed.

23. In view of the criticism which has already been made of the method of financing the reconstruction of Quetta from revenue, the Honourable the Finance Member is explaining in another place the principles on which this policy is based. I will here only indicate briefly the main reasons for such a course.

(1) The work will not be productive of any receipts from which the interest and amortization charges of a loan could be met.

(2) We have in recent years made a reduced provision of only Rs. 3 crores for the reduction and avoidance of debt. We cannot now hope for an early resumption of the contributions from Railways to general revenues, which would have enabled us to bring the Sinking Fund provision nearer to its former level. We should therefore avoid an increase in the unproductive debt.

(3) If we borrowed to pay for Quetta, the full burden of the additional load would fall on the years which follow the completion of the work. Those will be the years in which the Centre will be due to be distributing a portion of its income-tax receipts to the provinces, and we should do nothing to increase the financial difficulties of that stage, or to diminish the amount ultimately available for the provinces.

24. Under Posts and Telegraphs we are counting on a continuance of the improvement, and a revenue of Rs. 38 lakhs higher than our revised estimate for 1935-36. We have put the gross receipts at 11·88 crores and working expenses at 10·93 crores, so that the figure for net receipts is Rs. 95 lakhs. Against this the interest charges are Rs. 80 lakhs, so that we estimate a net surplus of Rs. 15 lakhs. The expenditure includes an enhanced provision of Rs. 2 lakhs for providing improved postal facilities in rural areas. I may add that it has been decided that the depreciation fund should henceforth be replaced by a fund for renewals and minor improvements. This will take over the existing depreciation fund of Rs. 3,17 lakhs. The annual contributions will be fixed for periods of five years, and for the first five years it has been calculated that Rs. 25 lakhs will be an appropriate figure. This compares with Rs. 29 lakhs provided last year for the depreciation fund.

25. I may now summarize the estimates for 1936-37 as follows:—

	Crores.
Revenue	87·35
Expenditure	85·30
	<hr/>
Surplus	2·05

This then is the margin which we consider to be fairly available for reduction of taxation, and I shall now state what the proposals are.

26. In the first place we propose to go as far as this surplus permits towards meeting the claim for the abolition of the emergency taxes upon income. The complete removal of the present surcharge of one-sixth on income-tax

and super tax would cost Rs. 2,76 lakhs per annum, while the abolition of the tax on incomes between Rs. 1,000 and Rs. 2,000, which ranks with the surcharge as an emergency impost, would cost a further Rs. 47 lakhs.—Rs. 3,23 lakhs in all. We cannot therefore remit the whole of this taxation. What we propose is to abolish entirely the tax on lower incomes and to reduce by half the present surcharge, which will therefore be one-twelfth instead of one-sixth. The cost of the proposed reductions is Rs. 1,85 lakhs, and this leaves us with only Rs. 20 lakhs of the surplus for 1936-37 of which it may be said that Rs. 15 lakhs consists of the estimated surplus under Posts and Telegraphs.

27. In the second place, therefore, we propose to make a concession in postal rates which is modest in cost but which we believe will be very widely appreciated we propose to increase the weight of the one anna letter from a half to one tola, and to charge an additional half anna for every additional tola. This will cost Rs. 13 lakhs a year, and will therefore dispose of nearly the whole of the estimated surplus of Rs. 15 lakhs on the Posts and Telegraphs budget.

28. That, Sir, brings me to the end of my speech. In these proposals the prime necessity of maintaining India's credit and husbanding her resources to meet the demands of a new regime have been kept in view. Subject to this guiding consideration, they give such relief as is possible from the burden of direct taxation, while from the fortunate accrual of an unforeseen excess a further measure of benefits is distributed to the millions who dwell in the villages of India. (Applause.)

STATEMENT OF BUSINESS.

THE HONOURABLE KUNWAR SIR JAGDISH PRASAD (Leader of the House): Sir, during the next week the Council will sit only on Friday, the 6th March, on which date, as Honourable Members are aware, there will be the general discussion of the Budget.

THE HONOURABLE THE PRESIDENT: Honourable Members, before I adjourn the Council to the 6th March, I wish to point out that on that day the general discussion of the Budget will take place. As a rule there are many speakers on that day and I have therefore decided to convene the Council at 10-30 A. M. instead of the usual time 11 A.M. I also wish to point out that this will necessitate a slight modification in the time of the taking of the group photograph and I trust Honourable Members will be present for the group photograph punctually at 10-15 A.M. on that day. The Council will now adjourn.

The Council then adjourned till Half Past Ten of the Clock on Friday, the 6th March, 1936.